

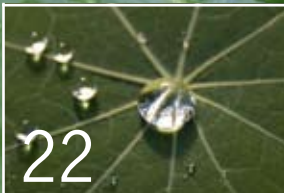


09

**BUTWAL POWER
COMPANY LIMITED**

Annual Report 2009

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ABBREVIATIONS

AGM	Annual General Meeting
BPC	Butwal Power Company Limited
BPCH	BPC Hydroconsult
BPCSL	BPC Services Ltd.
CEO	Chief Executive Officer
DGM	Deputy General Manager
EDC	Electricity Distribution Centre
EIA	Environment Impact Assessment
FY	Fiscal Year
GoN	Government of Nepal
GWh	Gigawatt Hour
HPL	Himal Power Limited
ICAN	Institute of Chartered Accountants of Nepal
IEE	Initial Environmental Examination
JDMP	Jhimruk Downstream Mitigation Project
JIDCO	Jhimruk Industrial Development Company
KHL	Khudi Hydropower Limited
kV	Kilovolt
kVA	Kilo volt-ampere
LEDCO	Lamjung Electricity Development Company Ltd.
MW	Megawatt
NEA	Nepal Electricity Authority
NEPSE	Nepal Stock Exchange
NHE	Nepal Hydro & Electric Ltd
NHL	Nyadi Hydropower Ltd
NRS.	Nepalese Rupees
REEP	Rural Electrification Expansion Programme
REGDAN	Rural Electrification Global Development Alliance Nepal
UO	User Organization
VDC	Village Development Committee
SPRN	Sustainable Poverty Reduction in Nepal

This report covers data and activities for businesses that are both owned and operated during FY 2065/66. In some cases, events and activities in FY 2066/67 are included where they help to provide a complete picture of performance.

2008 Highlights

Operating Income
Rs.466.95m

Highest revenue from
Engineering Business
Rs. 28.11m

Earning Per Share
Rs.34.75

Year End Share Price
Rs.1,270

Increased Share Investment in
HPL (60 MW Khimti HP) to
16.88%

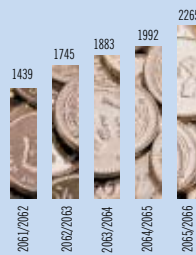
30MW
Kabeli-A HP Under BOOT
Project from GoN

BPA Award
2008 by ICAN

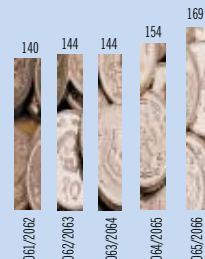
Merit Award
2008 by SAFA in
Manufacturing Sector



Total Income (in NRs mill)

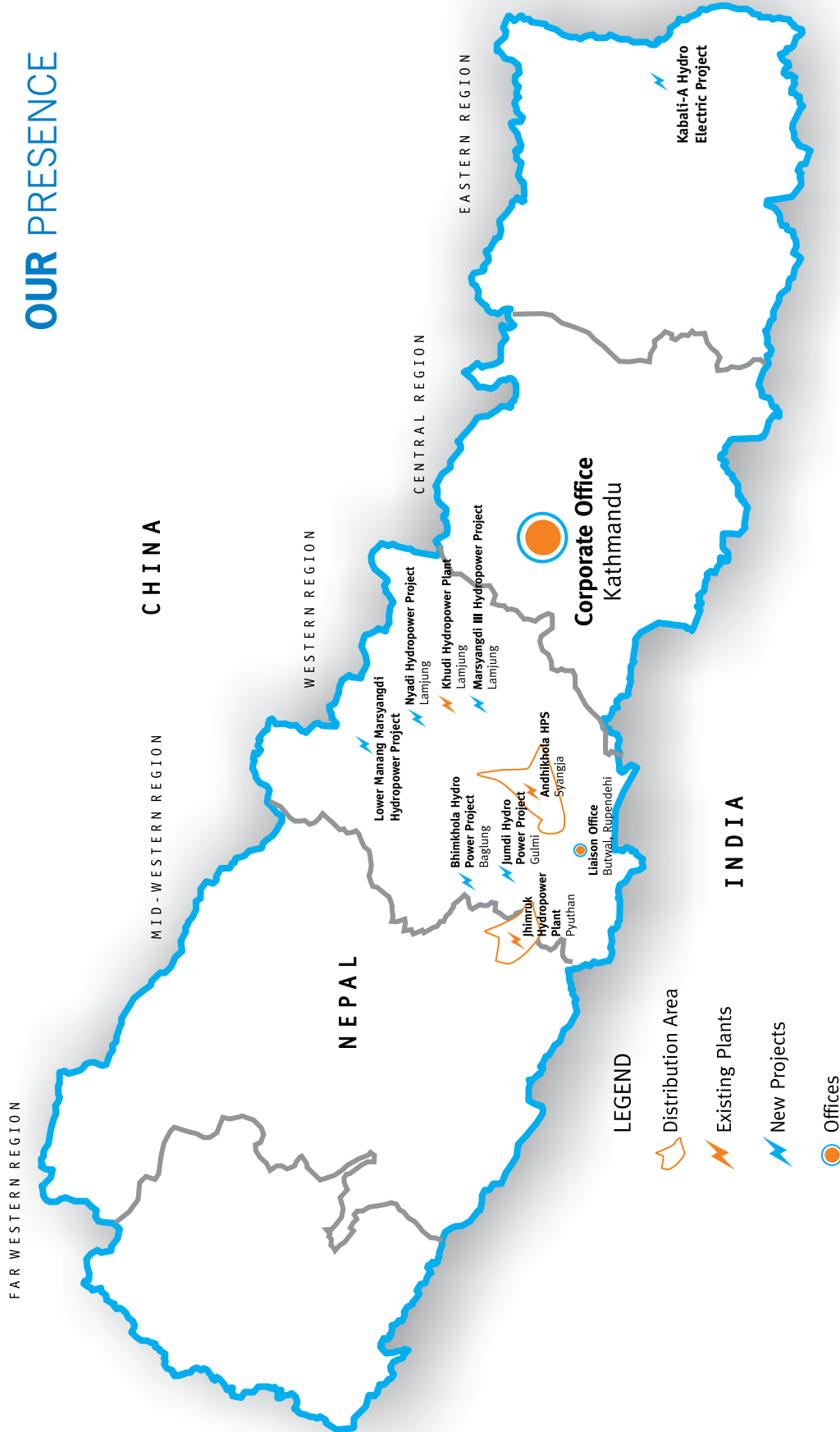


Total Assets (in NRs mill)



Book Value per Share (in NRs)

OUR PRESENCE



VISION

To be a leading enterprise in the power sector with excellence in providing innovative and quality products and services to meet the growing demand for efficient and clean energy.

MISSION

- To be a competitive hydropower developer and an electric utility.
- To provide innovative engineering solutions and management services
- To be committed to protect the environment
- To practice corporate social responsibility by serving the communities where we do business
- To provide a safe, healthy and fulfilling work environment for our employees
- To maximise value for all stakeholders

CORPORATE PROFILE

Butwal Power Company Ltd. (BPC) is a pioneer in hydropower development in Nepal. After privatisation in 2003, BPC's principal shareholders are Shangri-la Energy Ltd., Interkraft Norway, United Mission to Nepal, Nepal Electricity Authority (NEA) and Government of Nepal (GoN).

Since its establishment in 1966, BPC has developed its competence in various facets of the hydropower industry, including engineering, construction, operation, maintenance, and the manufacture of hydro-mechanical equipment.

BPC owns and operates the 12-MW Jhimruk hydropower plant (HP), 5.1-MW Andhi Khola HP and through a special-purpose company, 4 MW-Khudi Hydropower Plant.

In addition to supply of electricity to the national grid, around 31,500 households are supplied electricity through its distribution network. BPC also provides engineering and consultancy services through its consultancy business unit BPC Hydroconsult. It owns shares in Himal Power Limited, which owns and operates the 60-MW Khimti I HP.



Integrated Quality and Environmental Policy

We at BPC are committed to providing quality and competitive products and services to satisfy customers' needs and conducting business in an environmentally and socially responsible manner, through:

- ▶ Continual improvement of integrated quality and environmental management system and business processes.
- ▶ Conservation and optimization in use of key resources, minimizing impact on the environment, and prevention of pollution.
- ▶ Committed to meet customers, statutory and regulatory requirements.
- ▶ Motivated work force trained for effective management of business processes and systems.
- ▶ Effective communication of policy requirements with both internal and external parties.



CORPORATE INFORMATION

Name:	Butwal Power Company Limited
Registration No.:	Pa. Li. No. 3-049/50
Date incorporation:	29 December 1965 (2022/09/14 BS)
Date converted into Public Ltd.:	17 February 1993 (2049/11/06 BS)
Date privatised:	29 January 2003 (2059/10/15 BS)
Registered / Corporate office:	Gangadevi Marga - 313, Buddha Nagar, Kathmandu, Nepal
PAN /VAT No:	500047963
Bankers:	Himalayan Bank Ltd., Nepal Investment Bank Ltd. Sunrise Bank Ltd. Bank of Asia Nepal Ltd..
Statutory auditor:	Sundar & Co., Pulchowk, Lalitpur, 20/8, Gha, Nepal
Internal auditor:	BRS Neupane & Co. Sama Marg, 308-14, Naxal Kathmandu, Nepal
Stock exchange Listing:	Nepal Stock Exchange (NEPSE), as BPCL

SHAREHOLDER INFORMATION

Annual General Meeting

The 16th Annual General Meeting was held on 4th January 2009 (20 Poush 2065) at BPC Corporate Office, Kathmandu.

The 17th Annual General Meeting will be held on:

Date: 8 January 2010 (24 Poush 2066)

Time: 11:00 AM

Venue: BPC Corporate Office

Fiscal Year

In line with the practice followed by the Government of Nepal, the fiscal year is spread from Shrawan to Ashad as per Bikram Sambat Calendar (starting from 1st Shrawan ending to Ashadh end of the following year i.e. starting from 16 July ending to 15 July of the following year as per the Gregorian Calendar)

Stock Listing

BPC is listed on Nepal Stock Exchange and its ordinary shares are traded under the code "BPCL".

Share Registrar

NIDC Capital Markets Ltd.

Kamal Pokhari, Kathmandu

Phone No.: 977-01-4421652, 4423219,

Fax No.: 977-01-4423401

Email: ncml@ncml.wlink.com.np

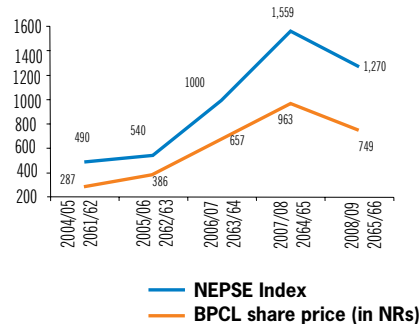
URL: www.ncml.com.np

Trading Information

The major highlights of BPC's share transactions during the FY 2065/66 are as follows:

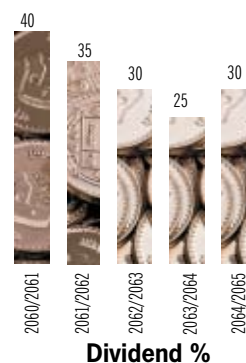
High price	1,570
Low price	882
Closing price	1,270
Total market transaction days	234
Total BPC transaction days	87
Volume of shares transacted	149,689
Turnover (Amount of trading)	172,560,116

Fiscal year	NEPSE index	Stock price (in NRs.)	No. of shares	Market capitalisation (in NRs. billion)
2061/62	287	490	8,390,577	4.11
2062/63	386	540	8,390,577	4.53
2063/64	657	1,000	8,390,577	8.39
2064/65	963	1,559	8,390,577	13.08
2065/66	749	1,270	8,390,577	10.66



Dividend Distribution

The five year dividend patterns are as follows.



Shareholding

Share Ownership Structure at the End of the Fiscal Year:

Name of shareholders	Ownership (%)	Shares subscribed (no.)
Shangri-La Energy Limited	68.95	5,785,463
General public / individuals	10.00	839207
Government of Nepal	9.09	762,755
Interkraft Nepal AS	6.05	507,469
United Mission to Nepal	2.79	234,211
Employees	2.00	167,811
Nepal Electricity Authority	1.06	88,619
Nepal Industrial Development Corporation	0.06	5,042
Total	100	8,390,577

Distribution of Shareholding

as on 31st Ashadh, 2066 (15 July 2009)

Number of Shares	Number of Shareholders	Number of Shares held	% Shareholders	% Shareholding
Up to 500	418	64298	53.1	0.8
501-1000	244	150828	31.0	1.8
1001-5000	66	181106	8.4	2.2
Above 5000	59	7994345	7.5	95.3
Total	787	8390577	100	100

(Note: the par value of share is Rs.100)

Communication with Shareholders

BPC is committed to providing accurate information to its shareholders timely through various means such as its website, press releases, and publications of financial statements. It publishes newsletter, quarterly financial statements, and other significant information on its website, www.bpc.com.np. To ensure that the stakeholders without access to the electronic media are equally informed, BPC publishes its quarterly financial statements in both a Nepali and an English national daily newspaper. In addition, BPC's Corporate Affairs Division maintains regular contact with the media and disseminates relevant information.

BOARD OF DIRECTORS' REPORT TO THE SHAREHOLDERS

AT THE 17TH ANNUAL
GENERAL MEETING



Dear Shareholders,

The world economy, which saw a meltdown last year, is striving hard, with the active interventions of governments, to return to normalcy. Recent months have shown signs that a reasonable stabilization and even slight upsurge has been reached. In addition to world economics, climate change and corrective actions to combat it are major concerns of all developed and developing countries.

Though, Nepal's economy is not yet much affected from the global economy meltdown, the internal political instability and an energy crisis has exacerbated the decline of national economy. Record low river flow in the dry season and delayed and light monsoon rains made it difficult to the hydroelectricity generation companies in Nepal for maintaining their generation commensurate with the installed capacity of their power plants.

The vision and strategic business interest of BPC is fully aligned with meeting the growing demand for clean energy. We hope that you will be very proud to be associated with a clean energy initiative by investing in BPC. We are indeed grateful for your investment.

Despite numerous external challenges and unfavorable winter and pre-summer, the fiscal year (FY) 2065/66 was a successful year for BPC. The business units performed satisfactorily and we stand firmly on a path of growth.

The Board is pleased to report on the highlights of company's performance in the FY 2065/66. The financial highlights are as illustrated below.

PARTICULARS	FY 2065/66 NRs. IN '000	FY 2064/65 NRs. IN '000	% CHANGE
Income from the sale of electricity in bulk	375,103	372,522	0.70
Income from the retail sale of electricity and services	63,737	55,317	15.22
Income from engineering and consultancy services	28,108	18,894	48.77
Total operating income	466,948	446,732	4.52
Total operating expenses	156,148	147,685	5.73
Gross operating profit	310,800	299,046	3.93
Other income	160,034	199,007	-19.62
Administrative and other expenses	157,336	125,270	25.60
Net profit before appropriation	291,592	353,879	-17.60
Earnings per share in NRs.	34.75	42.18	-17.60
Net worth in million NRs.	1,417	1,294	9.50

Performance review

The performance of the business units in the FY 2065/66 was as follows:

Generation business

Both Jhimruk and Andhikhola Power Plants operated efficiently despite the hydrological challenges and generated altogether 101.2 GWh.

The energy generated from 5.1 MW Andhikhola Power Plant was 36.67 GWh with plant factor of 82.08%, which is 8.78% lower than last year's generation of 40.20 GWh.

From Left to Right

Santosh Kumar Pradhan
Director

Bijay Bahadur Shrestha
Director

Murari Prasad Sharma
Company Secretary

Anup Kumar Upadhyay
Director

Pradeep Kumar Shrestha
Director

Rajib Rajbhandari
Director

Gyanendra Lal Pradhan
Director

Ratna Sansar Shrestha
Director, FCA

Bijaya Krishna Shrestha
Director

Padma Jyoti
Chairman

BPC's distribution business spread to four districts, Syangja, Palpa, Pyuthan and Arghakhanchi, continued to expand its distribution network and consumer base under the Rural Electrification Expansion Project.

The energy generated from 12MW Jhimruk Power Plant was 64.54 GWh with a plant factor of 61.4%, which is 3.95% lower than last year's generation of 67.19 GWh.

Reduction in electricity generation was due to decreased water flow in the dry months. The river water flow during the year has been lowest in the decade during dry months particularly in the months, Chaitra and Baisakh. The generation from the power plants when water flow was not abnormally low was satisfactory.

Distribution business

BPC's distribution business spread to four districts, Syangja, Palpa, Pyuthan and Arghakhanchi, continued to expand its distribution network and consumer base under the Rural Electrification Expansion Project. Over the year, 2653 consumers were added and 2305 consumers were converted from cutout category to the metered category.

BPC sold 13.35 GWh, energy to its consumers with an increase of 3.7% against the sale of last year's 12.95 GWh. AT&C loss was contained at 15.9%.

The reliability of the distribution system was maintained at 97%. BPC's distribution business, which started to cover rural areas in 1990 AD is focused on reducing losses, enhancing system reliability and achieving breakeven.

Engineering business

BPC's engineering business bettered its performance, earning Rs. 28.11 million against Rs. 18.90 million last year, and doubled employee productivity from Rs.160,864 per employee last year to Rs. 314,182 this year.

BPC completed six contracts successfully and acquired six more. It currently has eight contracts in hand and is considering projects in Bhutan and South Africa.

Business restructuring

While BPC pursues generation & distribution of electricity, and engineering & consulting businesses, there is high potential for rapid growth of electricity generation and engineering & consulting businesses. The generation expansion has made headway through establishment of special purpose vehicles for the development of projects. BPC has decided to restructure its engineering and consulting business. To this effect, BPC acquired Hydro Consult Pvt. Ltd and merged its engineering and consulting business with it. BPC currently holds 75% of the shares in the restructured company and the holding will eventually increase to 80%. The company will be christened BPC Hydro Consult Ltd with the due approval of the Company Registrar's Office. This initiative will facilitate business expansion and capacity-building through strategic partnerships with multinational companies and grasping the growing global market.

Board of Directors and Committees

There were some changes in representation in the Board. The tenure of Mr. Santosh Kumar Pradhan, the Director representing Public Shareholders, ended on 17 June 2009. Mr. Pradhan was reappointed to fill the vacancy until the 17th annual general meeting date. The resignation of Alternate Director Dr. K.B. Rokaya from Interkraft Nepal AS (IKN) was informed to the Board on 14 May 2009. IKN has not yet nominated any Alternate

Director. We would like to extend our sincere thanks to both Dr. Rokaya and Mr. Pradhan for their invaluable contributions to BPC during their tenure.

The Audit Committee played an important role in strengthening the financial governance in the Company. The Budget Committee assisted the Board by reviewing, monitoring and controlling the budget.

Corporate Governance

BPC follows prudent corporate governance practices, including the disclosure of related party transactions and other relevant information in its Corporate Governance Report. In addition, the structures of the Board, the Audit and Budget Committees, the functions of these Committees, the credentials of Board and Committee members and the fees and allowance paid in the FY 2065/66 are all laid out in the Corporate Governance Report.

Management

BPC is managed by a strong team of professionals led by CEO, Mr. Ranjan Lohar.

There were 315 employees, 285 male and 30 female, at the end of the FY 2065/66. The management expenses incurred in FY 2065/66 totaled NRs. 64,159,223, which is 19.9% higher than the last FY. The main reasons for the increase were business expansion and the raise in salaries necessitated by inflation in the country.

List of top management and senior executives is included in the Corporate Governance Report.

Subsidiaries and Associates

The performance of the subsidiary and associated companies in the FY 2065/66 was as highlighted below:

Himal Power Limited (HPL)

BPC added to its 14.9% shareholding in HPL, which owns and operates the 60-MW Khimti I Hydropower Plant, when it purchased an additional 348,168 shares from GE Energy, Norway, and Alstom (Norway) As, Norway, bringing its total shareholding to 16.88%. HPL registered a net profit of NRs. 1,580,513,545 in the FY 2065/66.

BPC Services Ltd. (BPCSL)

BPCSL continued to provide its operation and maintenance services to Khudi Hydropower Plant. BPCSL recorded a turnover of NRs. 7.022 million and a net profit of NRs. 1,384,564 in the FY 2065/66..

Nepal Hydro & Electric Ltd. (NHE)

NHE, the only hydro-mechanical and electro-mechanical equipment manufacturer in the country, recorded a turnover of NRs. 314 million* and registered a net loss of NRs. 14,168,309* in the FY 2065/66. The loss was due to the NRs. 14,811,036* loss recorded by its joint venture CWE-NHE JV. NHE is expanding its market in both Nepal and Bhutan after the success of hydro turbine runner repair works of Chuka Power Plant. NHE recently bagged several World Bank-funded projects.

Khudi Hydropower Ltd. (KHL)

KHL, which owns and operates the 4-MW Khudi Hydropower Plant, sold NRs. 43.273

BPC follows prudent corporate governance practices, including the disclosure of related party transactions and other relevant information in its Corporate Governance Report.

* Provisional

NHL, a special purpose company established to develop the 20-MW Nyadi Hydropower Project (NHP) is in the advanced stage of pre-construction activities.

million* worth of electricity in the FY 2065/66 but reported a loss of NRs. 36,438,442 * because, flooding forced KHL to completely shut its plant from 11 Bhadra, 2065, to 15 Magh, 2065. The flood submerged the powerhouse equipments and severely damaged the penstock pipe, anchor blocks and other parts of the infrastructure. The plant is in continuous operation since put back in operation and is generating satisfactorily based on the water flow in the river.

Nyadi Hydropower Limited (NHL)

NHL, a special purpose company established to develop the 20-MW Nyadi Hydropower Project (NHP) is in the advanced stage of pre-construction activities, which include a hydraulic model study and preparing a detailed design. As of the writing of this report, BPC has invested NRs. 39.60 million in NHL as an equity investment. Once NHL signs the power purchase agreement (PPA) with Nepal Electricity Authority (NEA) and receives the construction license of the project from the Department of Electricity Development (DoED), construction of the project will begin.

Hydro Lab Pvt. Ltd. (HLPL)

HLPL provided specialized research and consulting services in hydraulics and sediment analysis to various projects, including model study of headworks and allied areas. HLPL's turnover was NRs 11.72 million* in the FY 2065/66 and it recorded a net profit of NRs. 5,092,128*.

Jhimruk Industrial Development Center Pvt. Ltd. (JIDCO)

JIDCO, a corporate social responsibility

initiative of BPC, continued to provide trainings in various skills and enterprise development. JIDCO's turnover was NRs. 2.123 million in the FY 2065/66 and it reported a loss of NRs. 578,705.

Keton Hydropower Ltd. (KEHL)

KEHL, a special purpose company established to develop the 42-MW Marsyangdi-III Hydropower Project, has completed a feasibility study and is carrying out an environment impact assessment (EIA) study. Since the study revealed that it is not attractive to develop the project on the run-of-river model, KEHL has started a preliminary study to evaluate the project viability as a reservoir-type daily peaking project. BPC has invested NRs. 14.4 million in KEHL as an equity investment. Appropriate decision will be made on the project once findings are available.

Projects under development

9.4 MW Andhikhola Upgrading Project (AUP)

The AUP, which is located at Galyang, Syangja, is well underway. A memorandum of understanding for inter connection has been signed with the NEA. PPA negotiations with the NEA have been completed and signing thereof has been expected to be held by December 2009. The GoN has approved its initial environmental examination (IEE) report and the project has applied for a generation license at the DoED. Discussions with a consortium of local banks are in progress and International Financial Corporation (IFC) has agreed to provide half of the total debt financing of the project.

* Provisional

9 MW Bhimkhola Hydropower Project (BHP)

The BHP is located at Bhingithe, Baglung. The feasibility study of the project has been completed and discussions with the NEA about PPA are underway. Since NEA did not approve the proposed power evacuation option first proposed, an alternative proposal has been submitted. The IEE of the project has been approved by the GoN.

30 MW Kabeli -A Hydroelectric Project (KHP)

The GoN recently awarded KHP, which is located in Panchthar District, to BPC in a joint venture (JV) with Shangri La Energy Limited, SCP Hydro International Inc., Asia Pacific Power Tech Ltd., and KHL. The project will be developed on build, own, operate and transfer (BOOT) basis with the arrangement of 20% equity contribution from the JV parties, 40% debt financing from local banks and remaining 40% debt financing from the World Bank funded Power Development Fund. Of the total equity portion of the project, BPC will have 54% equity holding.

93 MW Lower Manang Marshyangdi Hydropower Project (LMMHP)

BPC received a production survey license for the LMMHP, which is located at the southern part of Manang District. The feasibility study and field investigation works have now started.

Business Environment

The GoN has declared its aim to generate 25,000 MW in 20 years and to achieve full electrification of the entire country within a couple of years. The business environment

and investment climate in the country, however, are not congenial to support such an ambitious goal though efforts are being made to improve the situation.

The improvements in the existing policies and legal instruments, faster bureaucratic processes, more reliable interconnection facilities for the transmission of electricity, more cooperative local people and labor, a revised tariff rate and a facilitative government are the key factors expected to be in place in the days ahead. Initiatives are being taken jointly by Federation of Nepalese Chamber of Commerce and Industry (FNCCI) and the Independent Power Producers' Association, Nepal (IPPAN) to improve Nepal's business environment and investment climate. BPC is an active participant in these development initiatives.

Health, Safety and Environment (HSE)

HSE are the priority area for BPC. BPC's endeavors towards its employees are always directed to providing fulfilling work environment within the Company. BPC succeeded to minimize the accident by 50% in FY 2065/66 with the only three minor injuries.

BPC has adopted an Integrated Quality and Environmental Policy. The business units have carried out the business activities in an environmental friendly manner. BPC celebrated the World Environment Day, 2009 by cleaning of Dhobi Khola bank in Kathmandu in association with the locals, and did tree plantation at Butwal Office.

BPC has adopted an Integrated Quality and Environmental Policy. The business units have carried out the business activities in an environmental friendly manner.

Industrial Associations and Employee Relations

BPC is associated with the FNCCI and the IPPAN.

BPC focuses on maintaining good relations between the management and the employees. It emphasizes on trained and dedicated human resources to meet the existing need and future growth of the Company. Several trainings were provided to the employees for their increased work efficiency.

BPC also gives priority for retaining the professionals in the Company.

The mechanism for addressing the issues, grievances and concerns of the employees has been further strengthened by appointing an employee relation officer. By this initiative, the communication efficiency between the employees and the management is expected to further improve.

Risk Management

Risk management is an integral part of business operations. A well laid preventive maintenance plan is in place to minimize the breakdown of the plant equipments. Special emphasis is given to mitigate the breakdown of major equipment and the resultant forced outages at Andhikhola Power Plant and to address the erosion of turbine parts at Jhimruk Power Plant. Sufficient quantities of spare parts are kept ready at all times at both plants. With the upgradation of Andhikhola Power Plant, the number of breakdowns of major equipment and force outage will significantly reduce.

BPC carries out timely repair and maintenance of its distribution lines for ensuring the reliability of its distribution system.

BPC's assets and risks are safeguarded with adequate insurance coverage.

Internal Control

BBPC has implemented an Integrated Quality and Environmental Management System. The internal rules, regulations and instructions are defined in line with the nature of business processes and need.

In addition, internal audits are being carried out periodically by the independent auditor for the risk management of the company's assets, financial and accounting procedures and controls. The recommendations of the internal auditor and the decisions of the Audit Committee are implemented within due time.

Statutory Audit

M/s Sundar & Co. audited BPC's books of accounts in the FY 2065/66. The auditor has issued an unqualified report on financial statement of the company.

Shareholders' Suggestions

Suggestions from Shareholders are taken in the right earnest and all possible efforts are put in to implement them, on their merits.

Transactions with Subsidiaries

All major transactions, which BPC undertook with its subsidiaries and associated companies, are disclosed in its financial statements for the FY 2065/66.

Dividend

The Board has recommended a dividend of 20% of the paid-up capital and bonus shares of 10% from the net profit for the FY 2065/066. The applicable tax towards the bonus shares shall be deducted from the cash dividend. The proposed dividend is based on the dividend policy of maintaining steady return to the Shareholders.

“The vision and strategic business interest of BPC is fully aligned with meeting the growing demand for clean energy. We hope that you will be very proud to be associated with a clean energy initiative by investing in BPC. We are indeed grateful for your investment.”

— Padma Jyoti, Chairman



The Year ahead

In the FY 2066/67, the priorities are to develop the projects-in-hand and to expand and expedite its engineering business through its subsidiary, Hydro Consult Pvt. Ltd.

Construction of the Andhikhola Upgrading Project and the Nyadi Hydropower Project (20MW) are expected to begin and the feasibility studies of Bhim Khola Hydropower Project and Marshyangdi III Hydropower Project will be revised and improved. Feasibility studies of the Lower Manang Marsyangdi Hydropower Project and the Kabeli-A Hydroelectric Project will be taken up expeditiously. BPC intends to add 2400 new consumers to its distribution network under the Rural Electrification Expansion Program (REEP).

Closing Remarks

We thank the members of the Board Committees, Management Team and all staff for their dedication and contribution towards the progress of BPC.

We are grateful to the Government of Nepal, Nepal Electricity Authority, the Ministry of Foreign Affairs-Norway, USAID and other donor agencies, clients, contractors, vendors, suppliers, associate organizations, bankers, auditors and others institutions and individuals who have contributed directly or indirectly towards the betterment of the company in the FY 2065/66.

We would also like to thank the Shareholders for their confidence in us.

Thanking you

On behalf of the Board of Directors

A handwritten signature in blue ink, consisting of several overlapping loops and a final stroke that ends in a small hook.

Padma Jyoti
Chairman
January 8, 2010

CEO'S PERSPECTIVE

2008-09 was a tough year for business sector. While the infrastructure sector has slumped down world over, caused by economic slowdown, the hydropower industry in Nepal suffered on account of low discharge in the rivers on operational, and slow growth in project development because of political instability, increased local expectations; law and order situation, and awaited policy, legal and institutional reforms in energy sector. Financing so far has not been a constraint as no large project has come to that stage of development, but soon the effect of economic slowdown will be eminent as they near financial closure.

The under priced bulk power tariff and the techno-economic feasibility of the projects have taken the potential and advanced hydropower projects back to drawing boards and pushed back the hydropower sector development. The expected accelerated infrastructure development on the sidelines of the mammoth hydropower development targets by the government, though did not go under implementation yet, but the respite is that it has drawn the attention of authorities towards Transmission Network strengthening and expansion.

Though, 72 MW was added to the Integrated Nepal System during the year, it cannot address the widening demand-supply gap which is adversely affecting the national economy. The economic growth rate has declined to 3.8% from 5.3% of last year and inflation continues over double digits adding to the worries of hydropower developers. In this tough environment, we maintained our revenues at NRs 466.95 million and operating profit at NRs 310.8 million. The credit for the operational excellence and achievement goes to "Team BPC". We not only maintained our income from operations but are prepared for future growth. We increased our stake in HPL to 16.88 % in line with our strategic investment plan.

2009-10 is expected to be tougher. In the difficult scenario, we have set stiff targets for reduction of operating expenses and increase revenue from operations. The projects in pipeline will go under implementation and we hope that environment will be conducive for speedy implementation.

As demand continues to increase within, and in the neighboring country, which depend largely on thermal power plants, nuclear energy together with renewable energy is sought as alternate sources of energy. Timely establishment of a regional grid in South Asia is the option and ardent need which not only will complement the regional countries in terms of managing energy deficit but cross subsidize Nepal's energy sector through power trading, CDM earnings and grant funds from the developed countries which contribute to high level carbon emission. This could however be achieved only through government to government initiative and agreements and support of multilateral agencies like World Bank. We believe that government is considering this positively and will soon be the strategic direction for economic development of the country. The larger projects we are pursuing are aligned towards this strategic direction.

Engineering & Consulting business is the emerging business area and we have restructured our business vertical to capitalize on this business potential. The energized professional & experienced team is fully charged to take up the challenge and establish BPC Hydroconsult as premier engineering & consulting company in the region.

Our people are the key to BPC's success and operational excellence. The Code of Business Conduct, core values and our commitment to serve the community where we do business, supports our rich culture of mutual respect and keeps 'Team BPC' at its best.

Looking ahead, we remain committed to growth and strive to implement the projects in the challenging environment and excel in business operations, increasing value for all stakeholders.



Ranjan Lohar
Chief Executive Officer



“In the current climate combat, our vision for development of clean energy is more relevant. The strategic partnership which we started last year is progressing well. We are prepared for taking up number of larger projects.”

BPC'S CONTRIBUTIONS TO THE NATIONAL ECONOMY

- **Contributes about 6% in the total energy generated from hydropower with 3.3% share in the hydroelectricity installed capacity of the country.**

- **Supplies electricity to about 31,000 consumers in the hilly districts of Syangja, Palpa, Pyuthan and Arghakhachi.**

- **Provides employment opportunity to more than 300 people directly and is increasing its span through the company's subsidiaries and associates companies.**

- **Contributes more than NRs 30 million each year as royalties and taxes to the government exchequer.**

- **Conducts various skill and enterprise development programs in the project areas, uplifting the local's capability and hence the national economy.**



SENIOR EXECUTIVES

Standing from
left to right

Kabindra Sharma
Sr. Manager,
Facility Management

Ujjwal Sundas
Sr. Manager,
Human Resource

Prakash Kumar Shrestha
Chief Manager,
Generation

Sitting from
left to right

Manohar Shrestha
Vice President,
Engineering

Devi Prasad Dahal
Vice President,
Corporate Support

Ram Bhakta Karki
Vice President,
Operations



Bharat Raj Pandey
Sr. Manager,
Engineering

Rita Chitrakar
Sr. Manager,
Engineering

Ratna Shakya
Chief Manager,
Finance

Gopal Chandra Joshi
Chief Manager,
Distribution

Guru Prasad Adhikari
Sr. Manager,
Engineering



CORPORATE GOVERNANCE REPORT

BPC is committed to upholding the highest standards of corporate governance in all its activities and business processes. Our business dealings are transparent and we place great emphasis on our core values and on maximizing returns on the investments of our shareholders.

To ensure that our business operations add value to our shareholders, we review our governance practices periodically and strengthen them as required.

Shares and Shareholders' Relation

Share Ownership Structure

The share ownership structure is as illustrated below.

NAME OF SHAREHOLDER	OWNERSHIP (%)	NO. OF SHARES
Shangri-La Energy Limited	68.95	5,785,463
General public / individuals	10.00	839,207
Government of Nepal	9.09	762,755
Interkraft Nepal AS	6.05	507,469
United Mission to Nepal	2.79	234,211
Employees	2.00	167,811
Nepal Electricity Authority	1.06	88,619
Nepal Industrial Development Corporation	0.06	5,042
Total	100	8,390,577

Shareholders' Meeting and Communication

Shareholders are informed about the business status and progress of the company through letters, e-news, national daily newspapers and the company website.

BPC's 16th AGM of Shareholders was held on 4 January, 2009 (20 Poush, 2065) at 1:00 P.M. at head office premises in Kathmandu.

BPC gives utmost value to the suggestions put forwarded by the Shareholders. The suggestions of the Shareholders are implemented on merits in the business interest of the company.

Dividend Distribution

After approval by AGM and consent of the Ministry of Finance as per the Section 182 (2) of the Company Act, the dividend distribution begins.

BPC distributes the dividend directly to the institutional shareholders. The distribution of dividend to the public shareholders has been arranged through NIDC Capital Markets Ltd., the Share Registrar.

The dividend declared in the last fiscal years has been distributed to the shareholders except few shareholders who have not yet collected the dividend. They have been again requested to collect the dividend amount from the Share Registrar through a public notice in a national daily newspaper and through letters to their addresses available with the company.

The Share Registrar and the Head-Corporate Affairs serve as contact point for shareholders who have suggestions or queries.

Board of Directors and Board Committees

Board Composition

The Articles of Association of the company provisions eight members of Board and representation of Shareholders in the Board based on the shareholding structure. The existing members of the Board are as follows.

Name	Position	Organization	Period
Mr. Padma Jyoti	Chairman	SEL	29 January 2003 - present
Mr. Pradeep Kumar Shrestha	Director	SEL	29 January 2003 - present
Mr. Gyanendra Lal Pradhan	Director	SEL	29 January 2003 - present
Mr. Bijay Bahadur Shrestha	Director	SEL	3 May 2007 - present
Mr. Ratna Sansar Shrestha, FCA	Director	IKN	6 February 2003 - present
Mr. Anup Kumar Upadhyay	Director	GoN, UMN, NEA & NIDC	17 May 2005 - present
Mr. Santosh Kumar Pradhan	Director	General Public	14 January 2007 - present
Mr. Bijaya Krishna Shrestha	Alt. Director	SEL	3 May 2007 - present
Mr. Rajib Rajbhandari	Alt. Director	SEL	4 June 2008 - present
Mr. Murali Prasad Sharma	Company Secretary	-	24 June 1994 - present

Note:

- Mr. Ratna Sansar Shrestha, FCA, represented UMN, as Director from September 2001 to 28 January, 2003.
- Mr. Rajib Raj Bhandari, represented SEL, as Director from 29 January, 2003 to 3 May, 2007.
- Mr. Bijay Bahadur Shrestha, represented SEL, as Alt. Director from 13 April, 2003, to 2 May, 2007.
- IKN has not nominated a replacement for Dr. K.B. Rokaya, whose resignation from IKN was notified to the Board on 14 May 2009.
- Mr. Santosh Kumar Pradhan, representing public shareholders, completed his tenure as Director on 17th June 2009 and was reappointed by the Board on 10 July 2009 to serve until the 17th AGM.
- The position of Independent Director is vacant as no suitable candidate has been found yet.

Functions of the Board

In line with the global standards of corporate governance, the role of the Board is distinct from that of the management.

The company is managed by its executives under the direction and leadership of the CEO and the oversight of the board. The board reviews and discusses the performance of the company, its future plans, major business strategies and other pertinent issues.

It also assumes responsibility for the overall direction and supervision of company affairs. All directors have a duty to act in good faith in the best interests of the company and are aware of their individual and collective responsibilities towards the Shareholders.

In addition, the board has the following specific functions:

- To review, monitor and approve major financial and corporate strategies
- To ensure that there is a framework for risk assessment and management
- To provide advice for the development of a top management team
- To ensure that mechanisms are in place for maintaining the integrity of the business
- To review, monitor and approve financial results and new business investments
- To comply with legal requirements
- To comply with a code of business conduct

- To delegate appropriate authority to the top management team so that it can manage business operations effectively and efficiently

Board Meetings

Board meetings are held at regular intervals according to a predetermined annual meeting schedule.

The agenda and other relevant documents and information needed are circulated to the directors well ahead of meeting so that all are well-prepared to participate actively in discussions before arriving at resolutions.

Nine Board meetings were held in the FY 2065/66. The longest gap between any two meetings was 68 days and the least, 11 days. The attendance in the Board meetings was as follows:

Board Member	Meetings attended
Mr. Padma Jyoti	9
Mr. Pradeep Kumar Shrestha	6
Mr. Gyanendra Lal Pradhan	7
Mr. Bijay Bahadur Shrestha	7
Mr. Ratna Sansar Shrestha, FCA	8
Mr. Anup Kumar Upadhyay	8
Mr. Santosh Kumar Pradhan	5
Mr. Bijaya Krishna Shrestha	8
Dr. K. B. Rokaya	2
Mr. Rajib Rajbhandari	8

Fees and Allowances of Directors

The structure of the meeting fee and allowance of the Directors are as follows:

Particular	Position	Amount in Rs.
Meeting Fee (For Board and Board Committee)	Chairman	3000 per meeting
	Director	3000 per meeting
Transportation and Telephone Allowance	Chairman	5000 per month
	Director	3500 per month

The members of the Board and Board Committees have been paid Rs. 498,000 as meeting fee and allowance in the FY 2065/66.

Audit Committee

A three-member Audit Committee was set up on 29 November, 2005 (14 Mangsir, 2062).

Name	Position
Mr. Ratna Sansar Shrestha, FCA	Chairman
Mr. Pradeep Kumar Shrestha	Member
Mr. Bijay Bahadur Shrestha	Member

The Audit Committee members have a good knowledge of finance, accounts and company law. CEO, VP-Corporate Support & Chief Manager Finance attends to the Audit Committee meetings. Manager-Legal acts as secretary of the Audit Committee.

As prescribed by the Section 165 of Companies Act, 2063, the committee is responsible for the following duties:

1. To review financial statements and internal control and risk management systems;
2. To supervise and review internal auditing;
3. To prepare a policy for the appointment of an internal auditor following the guidelines of the code of conduct, standards and directives issued by the Institute of Chartered Accountants of Nepal
4. To recommend the name of an auditor, remuneration and other terms and conditions of appointment to the AGM for ratification;
5. To monitor and supervise the auditor and evaluate whether he has followed the code of conduct, standards and directives or not;
6. To prepare and implement the company's accounting policy and

7. To perform any other tasks regarding accounting, financial statements or auditing as assigned by the board of directors.

There were altogether three meeting held during the fiscal year. The attendance of the Committee members was as follows:

Name	Position	Meetings attended
Mr. Ratna Sansar Shrestha	Chairman	3
Mr. Pradeep Kumar Shrestha	Member	2
Mr. Bijay Bahadur Shrestha	Member	3

Budget Committee

The Budget committee was set up on 20 March, 2006 (7 Chaitra, 2064). The committee consists of two directors of the Company.

Name	Position
Mr. Padma Jyoti	Chairman
Mr. Gyanendra Lal Pradhan	Member

CEO and Vice Presidents attend the Budget Committee meetings. Chief Manger-Finance acts as secretary of the Budget Committee.

The responsibilities of the Budget Committee are:

1. To monitor and control the budget;
2. To scrutinize the budget proposed by the management
3. To recommendation to the board to approve the budget.

The Committee members meet twice in a year. The attendance was as follows:

Name	Position	Meetings attended
Mr. Padma Jyoti	Chairman	2
Mr. Gyanendra Lal Pradhan	Member	2

Remuneration Committee

Remuneration committee is constituted as and when required to review the compensation packages of the top management. There being no revision of compensation package of top management, the Board did not constitute the Remuneration Committee in FY 2065/66.

BRIEF RESUMES AND DISCLOSURES



Padma Jyoti, 63

Chairman

Bachelor's in Mechanical Engineering from IIT, Kanpur, India. MBA from Sloan School of Management, Massachusetts Institute of Technology, USA. Mr. Jyoti is a leading industrialist who has been managing various industries in Nepal for the last 38 years.

Mr. Padma Jyoti is involved in the industries listed below. He does not hold any shares in BPC.

- Chairman, Bhajuratna & Co. Pvt. Ltd.
- Chairman, Bhajuratna Eng. & Sales Ltd.
- Chairman, Bhajuratna Finance and Saving Co. Ltd.
- Chairman, Himal & Co. Pvt. Ltd.
- Chairman, Himal Iron Steel Pvt. Ltd.
- Chairman, Himal Oxygen Pvt. Ltd.
- Chairman, Himal Wires Pvt. Ltd.
- Chairman, Jyoti & Co. Pvt. Ltd.
- Chairman, Jyoti Yarns Processing Pvt. Ltd.
- Chairman, Syakar Company Ltd.
- Chairman, Syamukapu & Co. Pvt. Ltd.
- Director, Sagarmatha Insurance Co. Ltd.
- Director, Shangri-La Energy Limited
- Honourable Member, Constituent Assembly
- President, National Business Initiatives

Pradeep Kumar Shrestha, 49

Member

MBA from Tribhuvan University, Kathmandu, Nepal. Mr. Shrestha has been actively involved in management in the industry and commerce sectors for more than 25 years.

Mr. Pradeep Kumar Shrestha is involved in the industries listed below. He does not hold any shares in BPC.

- Chairman, Nepal Srijanshil Samooaha
- Managing Director, Nepal Bitumen & Barrel Udyog Ltd.
- Managing Director, Panchakanaya Group of Industries
- Director, Shangri-La Energy Limited
- Assistant Governor, Nepal Rotary
- Honorary Consul, the Republic of South Africa
- Member, Academic Assembly-NAST
- Chairman, Scenic Developers Pvt. Ltd.

Gyanendra Lal Pradhan, 49

Member

Bachelor's in Electrical Engineering from MACT, Bhopal, India. Mr. Pradhan has been involved in management in the industry, business and social sectors for 20 years. He also has experience in the construction of hydropower projects, the transmission and distribution of electricity, and the execution of energy audits.

Mr. Gyanendra Lal Pradhan is involved in the industries listed below. He does not hold any shares in BPC.

- Chairman, Megha International P. Ltd.
- Managing Director, Blue Spring Villa
- Managing Director, Shangri-la Impex
- Managing Director, Trishakti Cable Industries P. Ltd.
- Managing Director, Shangri-La Developers P. Ltd.
- Managing Director, Trishakti Wire Industries P. Ltd.
- Director, Scenic Developers Pvt. Ltd.
- Director, East Nepal Developers Endeavor Pvt. Ltd.
- Director, Manang Trade Link
- Director, Shangri-la Energy Ltd.
- Patron & Chief Strategist, Hydro-Solutions Ltd
- Executive Member, Nepal China Chamber of Commerce
- Executive Member and Coordinator of Hydropower Dev. Forum, FNCCI
- Executive Member, Independent Power Producer Association of Nepal
- Executive Member, Nepal India Chamber of Commerce.
- Executive Member, Nepal Germany Chamber of Commerce

Bijay Bahadur Shrestha, 53

Member

MBA from the Faculty of Management Studies, University of Delhi

Mr. Shrestha has 25 years of experience in the export sector and more than 10 years of experience in the capital market, banking, financial and insurance sectors.

Mr. Bijay Bahadur Shrestha is involved in the industries listed below. He holds 3700 shares in BPC.

- Director, Himalayan Bank Ltd
- Director, Shangri-La Energy Limited.
- Director, Soaltee Hotel Ltd.
- Director, United Insurance Ltd
- Central Executive Member, FNCCI
- Treasurer, Royal Nepal Golf Club

Ratna Sansar Shrestha, FCA, 57

Member,

CPA from Massachusetts, USA Master's of Commerce and Bachelor's of Law. Mr. Shrestha is a fellow of the Institute of Chartered Accountants of Nepal and a corporate lawyer accredited by the Nepal Bar Council. He is actively involved in the clean energy sector for over two decades.

Mr. Ratna Sansar Shrestha is involved in the institutions listed below. He holds 500 shares in the BPC

- Member, Water Supply Tariff Fixation Commission
- Member, Board of Director, Everest Bank Ltd.

OF THE BOARD MEMBERS



Anup Kumar Upadhyay, 44

Member

M.Sc. in Electrical Network and Systems from the Georgian Technical University, Republic of Georgia

Mr. Upadhyay is the joint secretary of the Ministry of Energy and has more than two decades of experience in the power sector of Nepal.



Santosh Kumar Pradhan, 59

Member

M.Sc. in Electrical Engineering from Moscow Power Engineering Institute, Russia. Mr. Pradhan has more than 30 years of experience in the planning, design and execution of distribution, transmission and generation projects.

Mr. Santosh Kumar Pradhan is involved in the industries listed below. He holds 9870 shares in BPC.

- Director, Nepal Bitumen and Barrel Udyog Ltd.
- Chief Executive, East Nepal Development Endeavour Pvt. Ltd. experience in the planning, design and execution of distribution, transmission and generation projects.



Bijaya Krishna Shrestha, 61

Alternate Member

Electrical engineer with an MBA from Southern Illinois University, USA

Mr. Shrestha has more than 30 years of experience in the banking, insurance, computer, energy and electronics sectors.

Mr. Bijaya Krishna Shrestha is involved in the industries listed below. He holds 100 shares in BPC.

- Electrical engineer with an MBA from Southern Illinois University, USA
- Mr. Shrestha has more than 30 years of experience in the banking, insurance, computer, energy and electronics sectors.



Rajib Rajbhandari, 52

Alternate member

B. Com. (Honours) from Bombay University.

Mr. Rajbhandari has more than 20 years of experience in the industry and commerce sectors.

Mr. Rajib Rajbhandari is involved in the industries listed below. He holds 34,640 shares in BPC.

- Director, Ace Development Bank Limited
- Director, Himal Media Pvt. Ltd.
- Director, Hits Nepal Pvt. Ltd.
- Director, Malpi International School
- Director, Mercantile Investment Pvt. Ltd.
- Director, Pumori Agro Forestry Industries Pvt. Ltd.
- Director, R.R.B. Investment Pvt. Ltd.
- Director, Serving Minds Pvt. Ltd
- Director, Shangri-La Energy Limited

Transparency and Disclosures

BPC believes in transparency of its business operations and makes disclosures as required.

The disclosure on related-party transactions, contingent liabilities and other relevant information are made in the notes to the financial statements.

In 2008, BPC won ICAN's "Best-Presented Accounts Award, 2008 for the fourth time in a row. It also won South Asian Federation of Accountants, Merit Award, 2008 for presentation of its financial statements and annual report. These accolades testify BPC's commitment to transparency.

Reporting to Regulators

The statutory reports in line with the reporting requirements prescribed by the prevalent laws have been submitted to the Securities Board of Nepal, Nepal Stock Exchange Limited, the Company Registrar's Office, the Large Tax Payers' Office and the Department of Electricity Development within due dates.

Risk Management

BPC gives priority in identification and mitigation of risks associated with business operations and new initiatives in order to ensure stability and continued growth. Its assets are adequately insured.

Internal Control and Accountability

The company believes that internal controls assists management in carrying out their fiduciary duties and operating responsibilities.

The company's internal audit function are being carried out independently on quarterly basis for ensuring the effectiveness and efficiency of operations, reliability of financial reporting and compliance with applicable laws and regulations. It also appraises the systems processes and the risk associated on these. The internal audit reports are

reviewed by the Audit Committee and discussion with management for taking corrective and improvement measures.

The company's statutory auditor examines the financial statements in line with the Nepal Accounting Standard and Auditing Standards in order to determine whether the financial statements are in accordance with the Company Act and other rules and regulations.

According to the Internal and External audit reports there were no material breakdowns of internal controls and these controls are adequate so that the financial records can be relied on for preparing the financial statements and maintaining accountability for assets and liabilities.

Management

Business operations and management of the company is managed by management team. BPC has a strong team of management under the leadership of Mr. Ranjan Lohar, the CEO.

The management performed satisfactorily during the FY 2065/66 as per the vision, mission, and values of the Company under the strategic guidance of the Board of Directors.

Code of Business Conduct

We have a well-defined code of business conduct (CBC). The company's commitment to adherence to this code is reiterated below.

- BPC-CBC applies to everyone at BPC, regardless of his or her individual role or position.
- Each Employee is expected to behave according to the principles contained in the CBC.
- BPC promotes and supports the BPC-CBC in its day-to-day business activities.
- BPC encourages recommendations and suggestion about the application of its code as appropriate.

The BPC's representation in its subsidiaries and associate companies

BPC has strategic investments in several companies. The representation of BPC in the Board of its subsidiary and associate companies is decided by the Board. The current shareholding and representation are as below:

Company	BPC Share Holding in %	Name	Position in board
BPC Services Ltd.	100%	Mr. R.B. Karki Mr. Ranjan Lohar Mr. Manohar Shrestha Mr. Prakash Shrestha	Chairman Member Alt. Member Member and CEO
Himal Power Limited	16.88%	Mr. Rajib Rajbhandari Mr. Bijaya Krishna Shrestha	Member Alt. Member
Hydro Consult Pvt. Ltd.	75%	Mr. Ranjan Lohar Mr. R.B. Karki Mr. Devi Prasad Dahal	Chairman Member Member
Hydro Lab Pvt. Ltd.	20%	Mr. R.B. Karki	Member
Jhimruk Industrial Development Centre (P) Ltd.	24%	Mr. R.B. Karki Mr. Prakash Shrestha	Member Member
Jumdi Hydropower Pvt. Ltd.	19%	Mr. Manohar Shrestha	Member
Keton Hydro-Power Limited	90%	Mr. Ranjan Lohar Mr. R.B. Karki	Chairman Member
Khudi Hydro-Power Ltd.	60%	Mr. Gyanendra Lal Pradhan Mr. Bijay Bahadur Shrestha Mr. Bijaya Krishna Shrestha Mr. Ranjan Lohar	Chairman Member Member Alt. Member
Nepal Hydro & Electric Pvt. Ltd.	51.3%	Mr. Gyanendra Lal Pradhan. Mr. Ranjan Lohar	Chairman Member
Nyadi Hydro-Power Limited	97.2%	Mr. Padma Jyoti Mr. Gyanendra Lal Pradhan Mr. Bijaya Krishna Shrestha	Chairman Member Member

Management Team

The overall company management is led by the CEO and functionally by the vice presidents. The Strategic Business Units are headed by the Senior Executives/Managers/ Project Managers. The name and designation of Sr. Executives are as below:

S No.	Name	Designation
1	Mr. Ranjan Lohar	CEO
2	Mr. Ram Bhakta Karki	VP-Operations
3	Mr. Vinay Bhandari	VP- Business Development
4	Mr. Devi Prasad Dahal	VP-Corporate Management
5	Mr. Manohar Shrestha	VP-Engineering
6	Mr. Ratna Shakya	Chief Manager- Finance
7	Mr. Prakash Kumar Shrestha	Chief Manager- Generation
8	Mr. Gopal Chandra Joshi	Chief Manager-Distribution
9	Mr. Ujjwal Sundas	Sr. Manager- Human Resource
10	Mr. Bharat Raj Panday	Sr. Manager- Engineering
11	Mrs. Rita Chitrakar	Sr. Manager- Engineering
12	Mr. Guru Prasad Adhikari	Sr. Manager - Engineering
13	Mr. Bishnu Prasad Shrestha	Sr. Manager - Corporate Affairs
14	Mr. Kabindra Sharma	Sr. Manager- Facility Management



MANAGEMENT DISCUSSION AND ANALYSIS

A. FINANCIAL PERFORMANCE

Financial highlights

BPC's total operating income in the fiscal year (FY) 2065/66 was NRs. 466.95 million, an increase of 4.53% over the previous year.

Revenue increased by 0.69%, 15.22% and 48.77% in generation, distribution and engineering consultancy business respectively.

Total operating expenses increased by 5.73%, administrative expenses by 19.9%, provision for loss in investment by 212.87% and interest on loans by 9.21%.

Income from interest decreased by 31.66% and foreign currency exchange gain increased by 69.12% as comparison to previous year. This FY the dividend income has decreased to 104.84 million from 156.89 million.

The net profit declined slightly to NRs. 291.59 million from NRs. 353.88 million.

Assets and investments

BPC added NRs. 102.15 million in capital investments this year, including equipment and furniture worth NRs. 12.19 million; vehicles worth NRs. 17.90 million; and power plant equipment and transmission and distribution lines worth NRs. 72.05 million. The percentage increase in additional capitlization was 163%, with power plant equipment, transmission and distribution lines increasing six-fold.

BPC invested an additional NRs. 164.31 million in Himal Power Ltd. and NRs. 26.35 million in Nyadi Hydropower Ltd. this year, as well as investing NRs. 14.40 million in Keton Hydropower Co. Ltd. and NRs. 0.6 million in ordinary and preference shares of Jumdi Hydropower Co. Ltd. Total investments in the FY 2065/66 amounted to NRs. 683.55 million, which is increase of 43.02%.

Taxable income

Out of its total taxable income of NRs. 52.12 million, BPC paid NRs.12.25 million as corporate tax. According to the Electricity Act 2049, income tax on the sale of electricity generated by Jhimruk HP is exempted up to end of Shrawan 2066. BPC paid NRs. 3.14 million in income tax on electricity generated from Andhikhola power plant and NRs. 9.11 million on income from engineering and other sources.

Value additions

BPC contributed the following amounts to government revenue.

Figures in million NRs.

Value additions	FY 2065/66	FY 2064/65
Corporate taxes	12.25	9.4
Royalties	24.7	24.83
Employee taxes	9.11	7.24
TDS	3.47	2.25
Value added taxes	5.32	1.86
Dividend taxes	5.03	5.93
Staff bonuses	9.66	9.50

Sector performance

BPC's financial performance is based on its activities in generating and distributing electricity, providing engineering consultancy services, and running its corporate office. By sector, the performance is as follows.

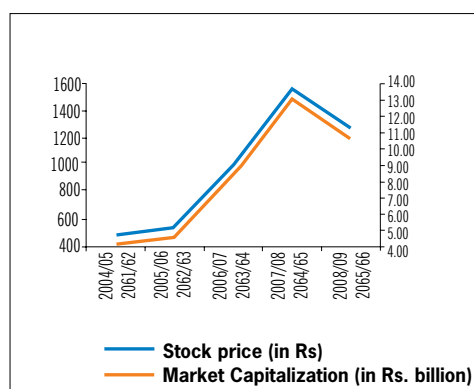
Figures in thousand NRs.

Particulars	Total	Generation	Distribution	Engineering	Corporate
Income	466,948	375,103	63,737	28,108	0
Expenditure	156,148	88,491	48,700	18,957	0
Income from operation	310,800	286,612	15,037	9,151	0
Other income	160,032	1,813	6,261	116	151,842
Other expenses	157,334	47,834	19,292	2,332	87,877
Net Income	313,498	240,591	2,007	6,935	63,965

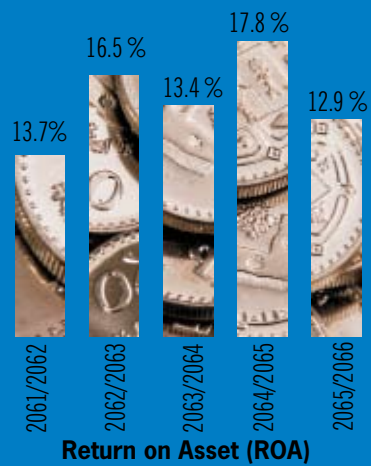
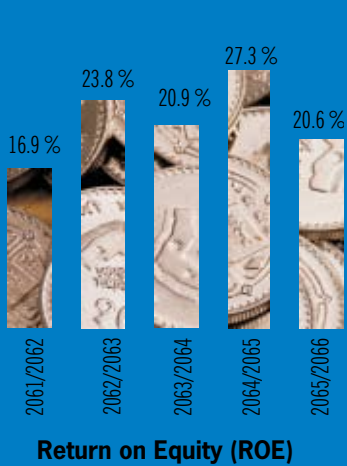
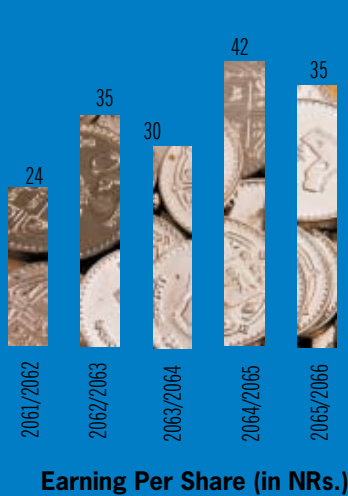
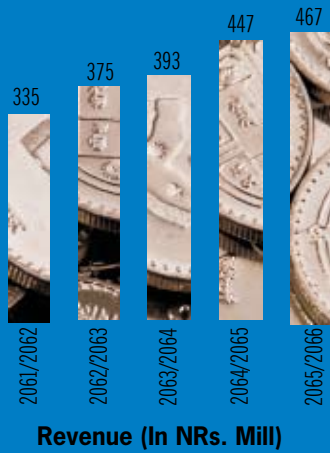
Market capitalisation

At the end of the FY 2008/09 BPC's share price stood at NRs. 1,270 per share and its market capitalisation at NRs. 10.66 billion, the largest of all the companies in the hydropower category at the NEPSE and seventh of all companies listed.

Market Capitalisation	Million NRs.
All listed companies	512,939.07
All hydropower companies	20,769.65
BPCL	10,656.03



Five Years Financial Highlights



Five Years Balance Sheet

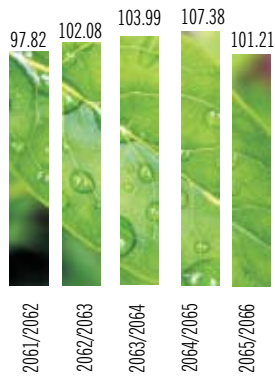
in thousand NRs.

Particulars	2061/62 2004/2005	2062/63 2005/2006	2063/64 2006/2007	2064/65 2007/2008	2065/66 2008/2009
ASSETS & PROPERTY:					
Fixed Assets	714,016	743,605	743,893	725,742	765,339
Land	13,674	60,372	60,408	60,408	64,305
Office Building & Quarters	18,717	30,710	33,629	33,502	32,976
Access Road	3,475	3,245	3,014	2,784	2,554
Suspension Bridge	2,293	2,141	1,989	1,837	1,685
Power Plant & Machinery	387,809	368,596	340,697	314,043	287,502
Switching Station					20,734
Transmission & Distribution Line	267,853	254,182	276,756	267,466	294,953
Office Equipments	15,923	19,565	22,700	25,695	28,870
Furnitures	498	1,305	1,461	1,645	2,078
Vehicles	3,774	3,489	3,239	18,362	29,682
Capital Work in Progress	318	18,576	1,111	7,247	7,406
Investment in Shares	381,505	434,481	465,705	477,858	683,550
Current Assets, Loan & Advance	335,582	543,416	670,674	776,080	802,170
Stock	48,038	57,623	58,896	74,647	92,723
Current Work in Progress	9,477	19,394	23,258	29,944	35,749
Debtors & Receivable	42,921	35,512	58,918	88,407	171,359
Cash & Bank Balance	172,240	364,373	457,035	412,635	291,687
Advance & Deposit	62,906	66,514	72,567	170,447	210,652
Deferred Revenue Expenditure	7,817	4,369	888	4,765	5,735
Total	1,439,238	1,744,447	1,882,271	1,991,692	2,264,200
CAPITAL & LIABILITIES:					
Equity	839,058	839,058	839,058	839,058	839,058
Reserve & Surplus	541,470	461,510	455,805	556,762	707,210
General Reserve	148,700	148,700	148,700	148,700	148,700
Retained Earnings	311,343	222,131	222,805	306,397	429,502
Grant Aid in Reserve	81,427	90,679	84,300	101,665	129,008
Current Liabilities	58,218	440,410	568,510	570,323	651,272
Bank Loans/ Over Draft	-	-	89,947	183,956	181,023
Creditors & Payables	56,364	438,803	447,705	356,934	434,050
Advance & Deposit	1,854	1,607	30,858	29,433	36,199
Provisions	492	3,469	18,898	25,549	66,660
Provision for Corporate Tax	492	3,469	9,619	9,401	12,247
Corporate Tax for 2060/61 (under Appeal)	-	-	-	-	16,774
Provision of Loss in Investment			9,279	16,148	37,639
Total	1,439,238	1,744,447	1,882,271	1,991,692	2,264,200

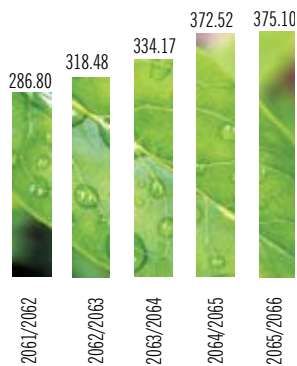
Five Years Profit and Loss Account

in thousand NRs.

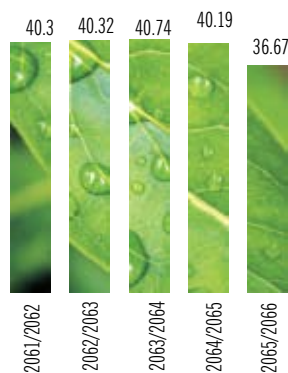
Particulars	2061/62	2062/63	2063/64	2064/65	2065/66
	2004/2005	2005/2006	2006/2007	2007/2008	2008/2009
INCOME					
Operating Income					
Electricity Sale to NEA	286,795	318,483	334,166	372,521	375,103
Electricity Sale to Consumers	36,339	39,936	45,603	49,166	55,697
Electricity Services	3,529	5,353	3,634	6,151	8,040
Consultancy Services	8,831	11,498	9,535	18,894	28,108
Total Operating Income	335,494	375,270	392,938	446,732	466,948
Income from Other Sources					
Interest Income	8,455	13,639	15,365	16,495	11,272
Foreign Currency Exchange Gain (Loss)	(10,222)	7,483	(25,740)	18,217	30,809
Dividend Income	40,005	88,036	97,982	156,894	104,843
Gain (Loss) on Sale of Assets & Scrap Material	371	(6,090)	-	143	608
Depreciation Being Revenue Portion of Grant Aid	6,536	6,833	6,964	5,276	5,866
Financial Support for Training & Technology Transfer	13,418	-	371	(2,544)	(1,901)
Others	1,655	918	1,461	1,983	6,637
Total Non- Operating Income	60,218	110,819	96,403	196,464	158,134
Total Income	395,712	486,089	489,341	643,196	625,082
EXPENDITURE					
Generation Expenses	59,600	57,715	74,565	82,514	88,491
Distribution Expenses	30,296	31,054	33,303	48,428	48,700
Consultancy Services	14,903	13,692	8,774	16,743	18,957
Administrative Expenses	41,201	34,990	37,645	53,509	64,159
Provision of Loss in Investment	-	-	9,479	6,869	21,491
Interest Expense	-	-	5,266	7,246	7,913
Depreciation	47,413	49,959	51,924	55,103	61,873
Staff Bonus	4,046	6,791	5,926	9,504	9,659
Total Expenditure	197,459	194,201	226,882	279,916	321,243
Net Profit Before Tax	198,253	291,888	262,459	363,280	303,839
Income Tax Provision	492	3,469	9,619	9,401	12,247
Net Profit After Tax	197,761	288,419	252,840	353,879	291,592
Retained Earnings b/f	281,346	185,484	222,131	222,805	306,397
Prior Year's Adjustment	47	(55)	(531)	(18,570)	(676)
Dividend of 2057/58 Paid	-	-	(41,871)	-	-
Dividend Paid	(293,670)	(251,717)	(209,764)	(251,717)	(167,811)
Balance transferred to B/S	185,484	222,131	222,805	306,397	429,502



Generation (in GWh)



Generation Business Sales Revenue (in NRs. mill)



Andhi Khola Power Plant Generation (in GWh)

GENERATION BUSINESS

Generation business, a main revenue stream of the company, has been operating 5.1 MW Andhikhola and the 12 MW Jhimruk power plants. During the fiscal year 2065/66, the total generation was 101.21 GWh with an average yearly plant factor of 67.57%. About 82.29% of total energy generated supplied to NEA and 15.71% to BPC distribution.

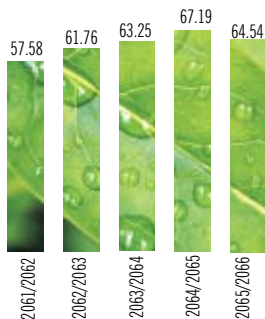
Andhikhola HP

Andhikhola HP generated 36.67 GWh, 8.78% less than last year, with a plant factor of 82.08%. The decline in energy generated was due to a major breakdown of the generating unit and low river discharge in the months of Chaitra and Baishakh. Out of its total generation, 64.96% was sold to the NEA and 36.22% was distributed to its network. As was true last year, the plant was unable to supply the contracted amount of energy to the NEA, 30 GWh, because local distribution expanded and river flow was low.

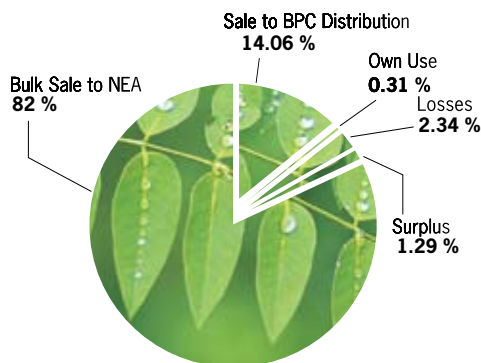
As in the past, the greatly deteriorated and aged equipment and the weak 33-kV grid connections worked against maximising energy generation, as did frequent breakdowns of major equipment. In the FY 2065/66, the major maintenance works were the repair of the damaged stator and field windings of the generators, a damaged runner, the main inlet valve, and the deflector and buckets of the turbine. Both the plant and the transmission received routine maintenance checks designed to minimise potential breakdowns.

Jhimruk HP

Jhimruk HP generated 64.54 GWh with a plant factor of 61.4%, a decrease of 3.95 % over last year. The lack of winter rain and low river discharge in the months of Chaitra and Baishakh were responsible for the decrease in generation. Out of the total generation, 91.68% was sold to the NEA and 4.06% sold to the BPC's distribution network. The excess energy of 1.31 GWh not contracted to the NEA was also supplied to NEA.



**Jhimruk Power Plant
Generation (in GWh)**



Generation 101.2

The high silt content in the Jhimruk River during the monsoon season was main reason for the severe erosion of the parts of its turbine, all of which were overhauled, including runners, guide vanes, side covers, sealing rings, and shaft seals. The main inlet valves were also overhauled. Routine maintenance was carried out on schedule. Seven irrigation canals in the downstream of the Jhimruk dam were rehabilitated under the Jhimruk Downstream Mitigation Project (JDMP) in order to optimise irrigation water. Needful river training works designed to protect the project area and farmland were completed.

Improvements

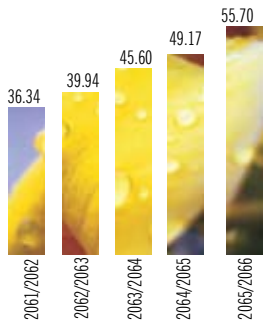
The initiatives taken are : the establishment of an online sediment monitoring system and the installation of a debris removal mechanism in the fine trash rack. The BPC also began upgrading the transforming for supplying power to Argakhachi District from 3 to 6/8-MVA transformers; the improvement will be completed next year. The 132-kV SF₆ circuit breaker was retrofitted and Closed Circuit Television (CCTV) was installed in various places in both Andhikhola and Jhimruk to improve security.

Future plans

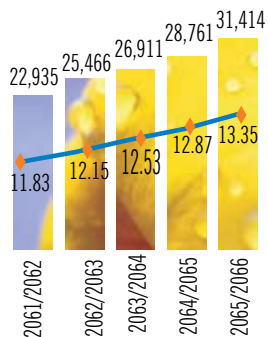
We plan to generate 71.422 GWh at Jhimruk HP during the year. Andhikhola HP will be upgraded form 15 Baisakh 2067 so that it can generate 32.924 GWh and BPC is trying with the NEA to purchase this extra energy.

The eroded turbine parts of both plants will be overhauled and repaired. Jhimruk HP will be maintained in Jestha and Bhadra.

The installation of the debris removal mechanism and the establishment of the online sediment monitoring system at Jhimruk will be completed, as the upgrading of the 3-MVA transformer. Mitigation and river training works in the downstream of the Jhimruk dam to improve irrigation will be continued.

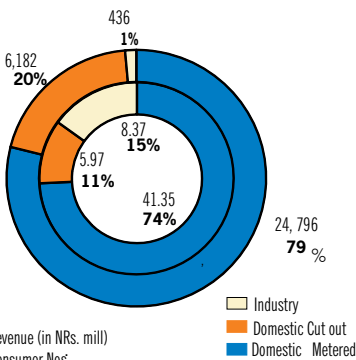


Distribution Sales Revenue
(in NRs. mill)



■ No. of Consumers — Sales, GWh

Distribution Sales and Consumers Growth



Inner Circle: Revenue (in NRs. mill)
Outer Circle: Consumer Nos

Consumers and Revenue Mix

DISTRIBUTION BUSINESS

During this fiscal year, the energy input was 15.91 GWh, an increase of about 4%, than last year. The increase last year, however, was, at 6% greater. The expected growth was not seen because Galyang electricity distribution centre (EDC) experienced load shedding during peak hours. Of this amount, 13.35 GWh, which is 3.7% more than last year, was sold; 2.49 GWh transmission and distribution was lost and 0.066 GWh was consumed at staff quarters and distribution offices.

Out of the 13.35 GWh sold to retail customers, 70% was sold to metered consumers, 17% to un-metered (cutout) consumers, and 13% to industrial consumers . Compared to last year, more energy was sold to metered consumers and less to cutouts.

The total revenue collected was NRs. 55.7 million, an increase of 13%. Out that, 15% was collected from industry, 74% from metered consumers, and 11% from un-metered consumers.

By the end of the FY 2065/66, a total of 31,414 customers in four districts, an increase of 9%, were connected to BPC's distribution network.

The system was expanded to accommodate increase in both the number of consumers and their demand. About 17 km of transmission lines were replaced with a higher capacity .

BPC expanded its network into new areas, both within the village development committees (VDCs) it already serves as well as into four new VDCs, Banethok Deurali, Dhungegadi, Hansapur and Dhakabang. Four new transformers were added to the system, increasing its installed capacity from 6,550 kVA to 6,725 kVA. Twenty-three kilometers of 33-kV line and 230 km (ckt-km) of low voltage line was installed.



Consumers

BPC classifies its consumers as industrial and domestic and further subdivides domestic consumers as metered and un-metered (cutout).

Out of total consumers, 79% are metered, 20% cutout and 1% industrial. Over the year, a total of 2,603 domestic consumers and 50 industrial consumers were connected. BPC also managed to convert 2,305 un-metered consumers into metered consumers.

Customer care

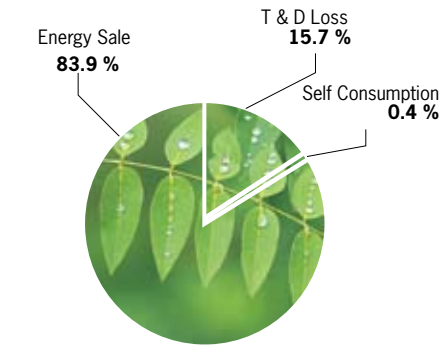
BPC's distribution wing is committed towards delivering quality, reliable services to its customers. It regularly collects feedback and responds to grievances at an average rate of 20 hours after a complaint is received, a rate at par with last year's performance.

In addition, more user organisations (UOs) were formed this year. Darimchaur EDC, which is in its second year of UO establishment, added six, taking its total count to 19. Galyang EDC added one to make 70. The total number of UOs is now 89. To build capacity, users of Darimchour EDC participated in a week-long training.

Future plans

Under the five-year Rural Electrification Expansion Program (REEP), on its third year of implementation, BPC has planned both construction and upgrading activities, including the construction and commissioning of a 33/11kV, 3MVA substation at Mirdi, Syangja, and the upgrading of the 33-kV Syangja feeder.

BPC plans to add 2,416 new consumers by constructing 27 km - 33 kV line and 208 km of low-voltage line.



Energy Sales-Losses
Total Energy Purchase - 15.91 GWh



ENGINEERING AND CONSULTANCY BUSINESS

BPC Hydroconsult

Engineering and Consultancy Business

BPC Hydroconsult (BPCH) provides engineering and environmental consulting services in the hydropower sector. BPCH's capabilities in the hydropower sector include conducting feasibility studies, making detailed designs, and managing HPs, but it also has experience in tunneling, irrigation, water supply, roads, bridges and rural electrification.

BPCH has a qualified team to carry out environmental and socio-economic impact studies and has established a effective system of design and quality control procedures to ensure that adverse impacts are minimised. To strengthen its consulting services, BPCH also focuses on training its human resources as well as on research and development.

BPC's engineering and consultancy business saw a significant financial achievement this fiscal year. External services increased by 48.77%, from NRs. 18.89 million to 28.11 million in and direct expenses increased by 13.22%, from NRs. 16.74 million to 18.96 million.

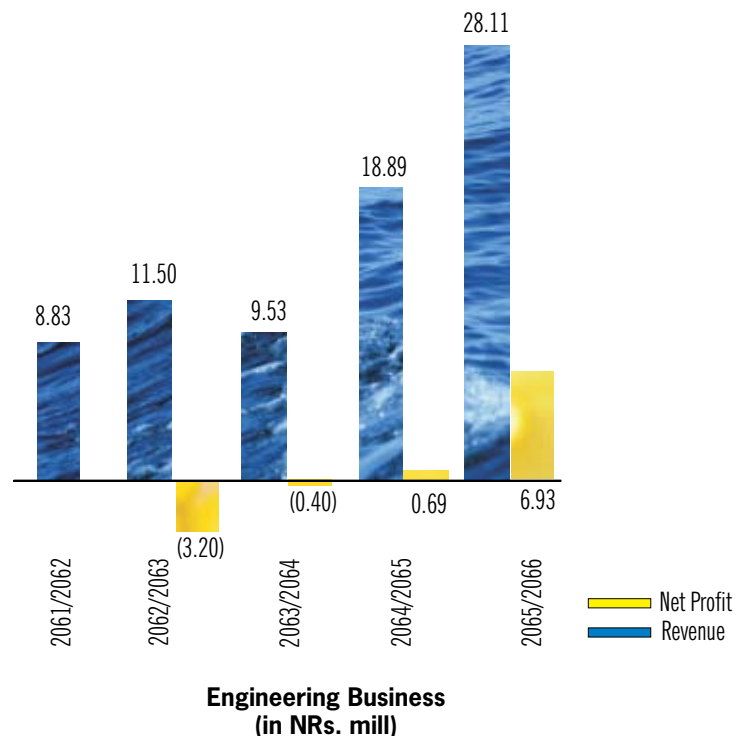
Employee productivity also saw a increase, jumping by 96% from NRs 0.16 million last year to 0.31 million this year.

The major projects in progress are preparing a detailed design for the 20-MW Nyadi HP, and conducting a feasibility study for the 42-MW Marsyangdi III. It is also reviewing the design and supervising the construction of the 4.2-MW Tadi small HP, and conducting both a feasibility study and an initial environmental examination (IEE) of the 9-MW Bhim Khola, the JDMP, and the REEP and an IEE study of the 9.4-MW Andhikhola HP.

BPCH is also continuing to try to extend its service abroad, and recently pre-qualified to submit an international bid for the construction of the Gura HP in Kenya, Africa. It also signed a tripartite agreement with BPC and BPR Canada to prepare a detailed design for and to supervise the construction of the 20-MW Nyadi HP.

Forty-six capable and experienced personnel with different professional portfolios, including civil, hydrology, hydraulic, water resources, hydropower, mechanical, and electrical engineers; engineering geologists; and environmentalists, work at BPCH.

At the beginning of the FY 2065/66, BPCH had eight contracts in hand. Six new contracts were signed and six contracts seen to completion. At the end of the fiscal year, too, BPCH had eight contracts in hand. They are worth NRs. 242.858 million.





BUSINESS DEVELOPMENT

BPC and its subsidiaries are developing a number of HPs, some of which have reached the stage of signing a PPA with the NEA. BPC aims to develop medium and large HPs with capacities starting at 10 MW in order to expand its generation business. To meet the terms of its growth plan, BPC is also looking at acquiring new HPs, some through application to the DoED and some through competitive bidding. It is also trying to acquire projects from other independent power producers who have acquired survey licenses for projects and are seeking partners to develop them.

BPC is exploring alternative markets for the sale of the power generated by its new projects and any surplus beyond its new contracts and the demands of its distribution networks. It is preparing itself to expand its distribution business after the new Electricity Act is promulgated.

BPC has started discussions with various international financial institutions for loans to develop planned HPs.

PROJECTS IN PROGRESS

Kabeli A HP

A joint venture of BPC, the primary partner, and Shangrila Energy (Nepal), SCP Hydro Inc. (Canada), Asia Pacific Tech. Co. Ltd (China) and Khudi Hydropower Ltd was chosen to construct the 30-MW Kabeli-A HP in Taplejung and Panchthar districts. The project is to be developed under BOOT (build, own, operate and transfer) model and will be partially financed through the Power Development Fund of the World Bank. A PPA will be signed between the GoN and the project company, whose proposed name is Kabeli Energy Ltd., by December 2009.

Nyadi HP

The 20-MW Nyadi HP is being developed by Nyadi Hydropower Ltd., a special-purpose project company with BPC as its major shareholder. BPC revised the draft feasibility study report and submitted to the final version to the DoED. A Canadian consultant (BPR Energie Inc.) working as a sub-consultant of BPC will prepare a specification of electromechanical parts and review the detailed civil and hydromechanical designs prepared by a local consultant. A detailed design and a hydraulic model are being prepared, skill development and awareness programmes have been conducted, and three kilometers of the route for an access road has been cleared. 52 ropani of land has been purchased for an access road.

Andhi Khola Upgrading Project

The existing 5.1-MW Andhi Khola HP will be upgraded to 9.4 MW. The GoN has approved the IEE and an interconnection agreement has been signed with the NEA. A detailed design is being prepared and PPA negotiations are in progress and due to conclude in December 2009. Land purchase and tendering are also being carried out and contracts are under finalization. The consortium of banks that will provide financing have been finalised and discussions about the terms and conditions of the loans are under way. A letter of mandate has been signed with an international finance corporation (IFC), which has, for its part, completed its due diligence.

Bhim Khola HP

The feasibility study for the 9-MW Bhim Khola HP is complete, the IEE approved by the GoN, and PPA discussions with the NEA underway. Because the power evacuation option BPC's proposal was not accepted by the NEA, it has re-submitted the proposal with an alternative.



Marsyangdi III HP

The 42-MW Marsyangdi III HP is being developed by Keton Hydropower Ltd., in which BPC has a 90% share. The feasibility study and an application to extend the survey license period have been submitted to the DoED. Since the NEA's prevailing tariff for run-of-river HPs is not very attractive, a detailed study of the possibility of creating a reservoir is being carried out. Preliminary investigations indicate that the capacity and energy generation of the project may be better if there is a reservoir.

Lower Manang Marsyangdi HP

BPC has received a production survey license for the 93-MW Lower Manang Marsyangdi HP located in southern Manang District along the road being constructed to Chame, the district headquarters. The project site will be accessible by a motorable road within two years. Feasibility study and field investigation have begun. The project will be ready for construction in two years. Power will be transmitted along the line the NEA plans to build in the Marsyangdi corridor.





HEALTH SAFETY AND ENVIRONMENT

Compliance to Integrated Quality and Environment Policy is placed high and fully adhered to. The Company has also developed an Emergency Preparedness Plan to minimize and control the risks associated with it.; the organization has also undertaken various insurance policies to insure its property and plants. Various Safety equipments like, fire extinguishers, alarms systems, emergency exits are well in placed in the company.

Human Resource is the most valuable asset of the Company. A medical insurance and Group Personal Accident Insurance are being made available to the entire staff of the Company. BPC is increasingly being concerned with achieving and demonstrating sound occupational health and safety performance by controlling the associated risks. The Company has made a stringent plan of developing a complete health profile of all staffs to collect the baseline data and to analyze the basic health conditions of the employees. The Company is fully committed to mitigate, minimize and control its environmental impacts and risk associated with occupation and health.

The Company is planning to be certified against OHSAS 18001:2007. OHSAS 18001 is an international occupational health and safety management system specification. OHSAS helps in a variety of respects viz minimise risk to employees, improve an existing occupational health and safety management system, demonstrate diligence, and gain assurance. Three minor injuries have been recorded during the year which is 50% less than previous year.

AWARDS AND RECOGNITION

SAFA Merit Recognition

BPC has received an award of merit in the manufacturing sector by the South Asian Federation of Accountants (SAFA) at a ceremony organised on 5 November, 2009, at the Bangabandhu International Conference Hall in Dhaka, Bangladesh. SAFA's awards are conferred on the basis of evaluations carried out by SAFA's Committee for Improvement in Transparency, Accountability & Governance of the published annual reports of South Asian entries.

Best-Presented Accounts Award

The Institute of Chartered Accountants of Nepal awarded BPC its "Best-Presented Accounts Award, 2008" in the manufacturing sector for excellence in the presentation of its financial statements and annual report.





CORPORATE SOCIAL RESPONSIBILITY



We at BPC are and always have been committed to doing business responsibly and to conducting ourselves in ways that earn the trust and respect of our consumers, employees, beneficiary communities, partners and stakeholders. We are dedicated to serve the interests of the environment.

To strengthen the capacity of existing industries and UOs, trainings with titles such as “Micro Finance Creation Training,” “Feed Formulation Training,” and “Awareness on Electrical Safety, End Use and Enterprise Development Trainings” were conducted.

Activities carried out by Andhikhola Centre:

- Various river training works to reduce the risk of landslides
- Constructed and graveled about 400 meter road along with drainage
- Installed an irrigation pump at the headworks to irrigate about 100 ropanis of farmer's land
- Black-topped 700 m of road from main office to lower Galyang Bazaar
- Installed street lights from powerhouse to lower Galyang Bazaar including Main Galyang Bazaar area and to Lalyang Bazaar



BPC has been continuously releasing water for irrigation purpose and plans to release additional water after up-gradation of the project.

Activities carried out by Jhimruk Centre under JDMP Program:

- Upgraded seven irrigation canals-Ladam, Baraula-Jadi, Ghuibang-Gotibang, Upallo Jhibang, Kairan, Dhundi, and Dhairebagar
- Provided trainings to 11 Irrigation UOs and conducted exposure visits
- Conducted five crop diversification workshops and established three crop diversification demonstration plots
- Established vegetable nurseries and encouraged the production of off-season vegetables



- Conducted trainings in income-generating enterprises, including beekeeping, tailoring, fish farming, and weaving bamboo stools
- Conducted tailoring, beauty parlor, dried fruit candy, and pickle-making trainings for women
- Conducted non-formal education class
- Performed street dramas and videos about health and sanitation in seven places.
- Completed drinking water supply projects in Dhundi and Gothibang VDCs and water supply rehabilitation projects in Kairan, Udika and Jorte VDCs
- Conducted a water supply repair and maintenance training for 25 user committee members.

BPC conducted a plantation and clean-up programme in Dhobikhola corridor on World Environment Day 2009.



Skill Training for Local People in Nyadi Hydropower Project:

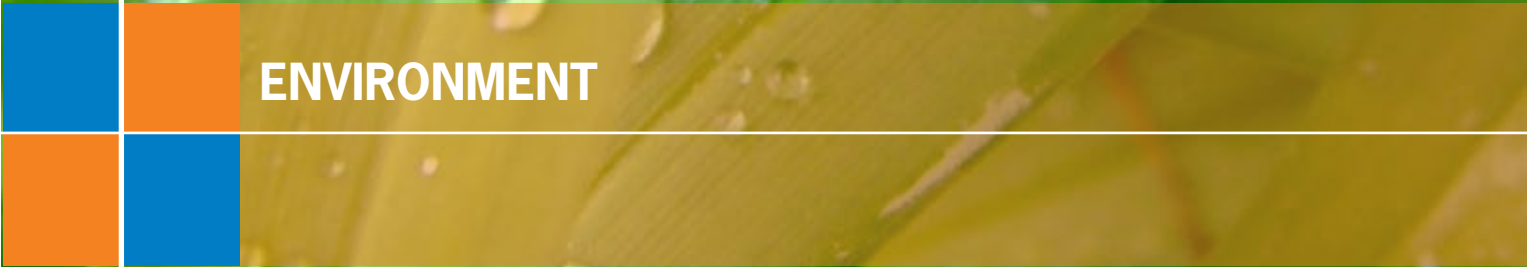
As per the CSR Plan, Vocational Training (Skill training) was provided to the local people in Nyadi Project Area in two phases. Altogether 55 participants were trained in different sectors such as Electrical, Mason, Mechanical, Plumbing and Scaffolding works. The training was imported through professional trainers.

Pro-Poor Hydropower Project (PPHP) Program:

Nyadi Hydropower Limited has signed a Working Agreement with People, Energy and Environment Development Association (PEEDA) to implement PPHP program in Nyadi Project area as a CSR plan. PPHP program aims to use the labour-for-shares model to facilitate poor people around project area in earning 3% of share-ownership of Nyadi Hydropower Limited (NHL). PEEDA has received a funding for PPHP in Nyadi from the Norwegian Embassy for one and half years.



ENVIRONMENT





BPC works to promote green energy and sustainable development and has implemented various programmes to mitigate the adverse impacts and to enhance the benefits of its projects.

Adopting an environmentally-friendly approach, BPC minimises adverse environmental impacts in all stages of project development, from identification to operation. As a developer and consultant, it carried out several IEEs and environmental impact assessments (EIA).

BPC has continued implementing its two main environmental mitigation programmes, the JDMP and the REEP in order to mitigate adverse environmental impacts and promote the socio-economic upliftment of the Jhimruk and Andhi Khola communities respectively.

In addition to continuing to increase vegetative cover through plantation, BPC has carried out trainings in environmental awareness and conservation. Socio-economic conditions got a boost through trainings in skill enhancement, rural electrification, improvements in aquaculture, and support for irrigation. The implementation of BPC's standard waste management procedure has helped local communities to manage their waste, and in consequence, to improve health and sanitation.

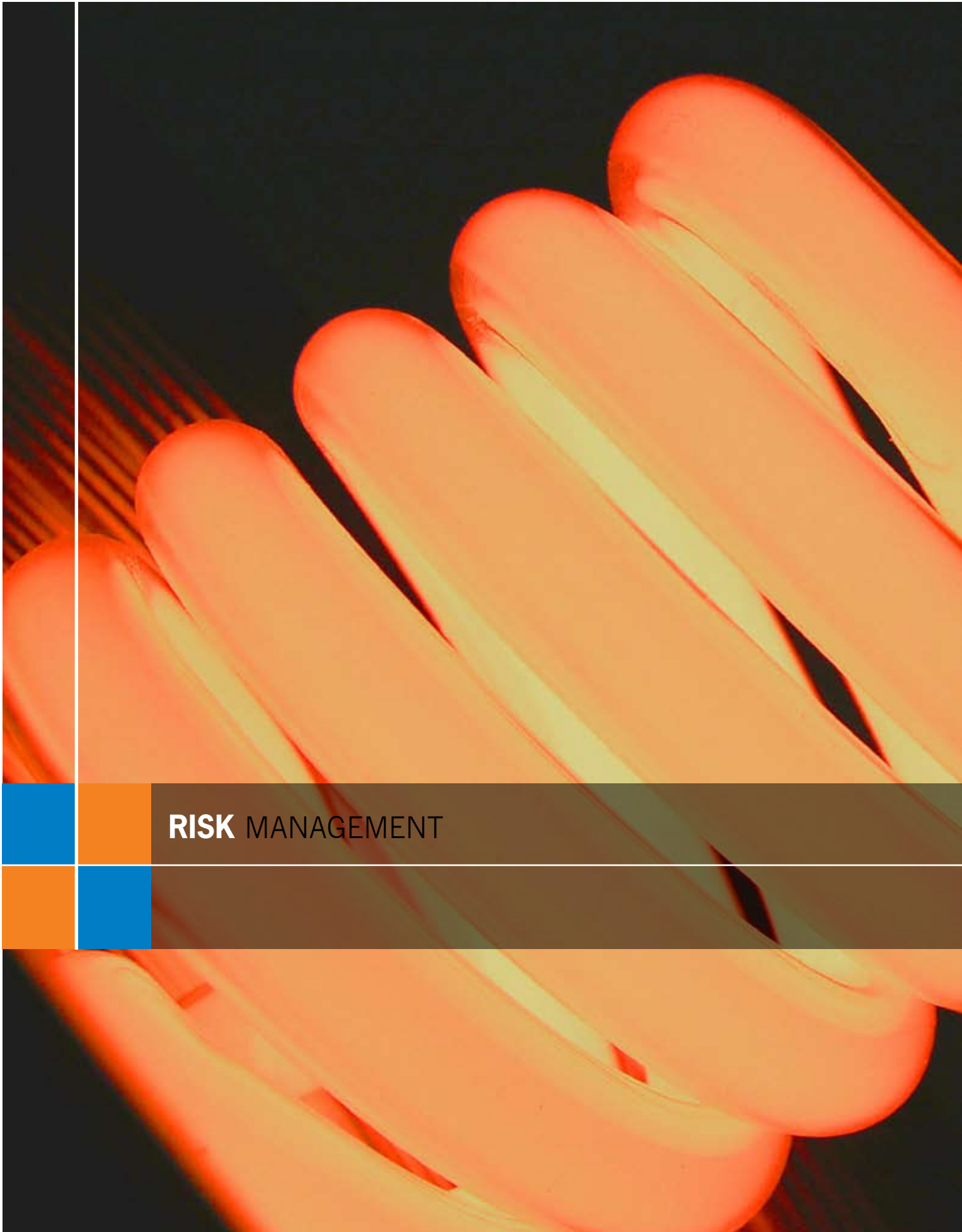
BPC is a partner institution in the implementation of the four-year (2009 – 2012) Sustainable Poverty Reduction in Nepal (SPRN) project funded by Norway and its Andhi Khola and Jhimruk HPs are among the pilot sites the project has selected to conduct studies of river ecology and biodiversity. SPRN involves several national and international institutions with capacity and desire to improve the livelihoods of people in Nepal's hills and to

contribute to the sustainable development of fish farming and hydropower development using a resource.

BPC plans to use unexploited sections of its project areas to implement sustainable agriculture- and forest-based enterprises. This programme is only in the proposal stage at present but will be put into action once the feasibility of various enterprises is completed. The initiative will make HPs more sustainable as well as improve the socio-economic conditions of project communities. Plantation helps absorb carbon from the atmosphere, they will tackle the problem of global warming.

BPC marked the 2009 World Environment Day by organising various programmes to get local communities to participate in the global effort, designated by the slogan "Your planet needs you!! Unite to combat climate change." Programmes included an environmental awareness quiz competition, an essay-writing competition on the theme the "Present Global Environmental Crisis," and a community clean-up the banks of the Dhobi Khola in Buddhanagar. BPC declared itself plastic bag -and incandescent bulb-free zone on the occasion and devised a policy get others to make the same renouncements.





RISK MANAGEMENT



Because it cares about more than just its own wellbeing, BPC manages the risks associated with accidents and environmental hazards, adverse publicity, losses in efficiency and productivity, and declines in its market share.

Existing business sectors

Generation

Since worn-out electro-mechanical equipment and weak grid connections hinder the smooth operation of power plant, BPC has trained its in-house operation and maintenance team well, performs regular checks and always has sufficient spare parts available. This is especially important as the rapid erosion associated with the high sediment load in Nepal's rivers quickly reduces turbine efficiency and thereby decrease electricity generation. As a result of its preparation, BPC has kept the time spent on major overhauls to a minimum and reduced the incidence of breakdowns.

Distribution

BPC's distribution business faces the challenges associated with managing an ageing infrastructure, including an increase in the need for maintenance and capital reinvestments. It undertakes maintenance activities which can prevent the degradation of distribution system components, and, if no remedy is possible, replaces the parts. Although low population densities in rural areas and low retail tariffs often render electricity distribution a loss-making business, BPC has continued to expand this service since the year 2047 in order to meet high public demand.

Engineering consultancy

Since the high turnover rate of hydropower professionals in the local as well as in the global market threatens the stability of a business, BPC has worked hard to retain its expert and talented staff. Although job-hopping is on the rise and highly qualified and trained engineers often move abroad, BPC periodically adopts and implements various strategies and policies to retain its human resources. It has done its best to reduce the negative impacts on consultancy, including political instability, economic crisis, bureaucracy, unfair market competition and the

deficiency of experienced professional experts in the local market.

Business Development

HPs are financially viable, even quite profitable.

Their payback periods are typically between 5 to 10 years after full generation, an impressive figure is given on the basis of the initial capital investment.

Hydroelectric power is very attractive as a clean, affordable and reliable power source in demand. Some HPs have encountered controversy because of their adverse environmental impact and safety risks. In particular, the construction of huge dams submerges the surrounding ecosystem and forces locals to resettle.

The huge initial capital required to develop hydropower is a hurdle, as are bank restrictions calling for single-borrow obligors and single-sector loans. The lack of long-term lending agencies is another constraint.

Unforeseen geological and hydrological events, fluctuations in the cost of construction materials, and non-negotiable PPAs are other significant challenges.

Financial

Foreign currency exchange rates pose a risk particularly when the Nepali rupee is weak and importing goods becomes very costly. Another risk BPC faces in a market risk as the PPAs for its existing plants are limited and it may not find new purchasers when they expire. Losses in its investments also take their toll on profitability. Delays in signing PPAs and local political problems can put the construction of new power plants in jeopardy and lead to cost overruns. Another hurdle is prolonged disputes with the GoN over tax settlements.





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09

**BUTWAL POWER
COMPANY LIMITED**

FINANCIAL STATEMENTS 2009

Sundar & Co.

Chartered Accountants

Pulchowk (Machagaa),
Lalitpur 20/8 Gha
PO Box: 3102, Kathmandu, Nepal

Phone No. (977-1) 5521804/5529942
Fax: 977-1-5524804
E-mail: sundar@amit.wlink.com.np

AUDITOR'S REPORT TO THE SHAREHOLDERS OF BUTWAL POWER COMPANY LTD.

1. We have audited the accompanying Balance Sheet of Butwal Power Company Limited as of Ashadh 31, 2066 (July 15, 2009) and the related Profit and Loss Account and Cash Flow Statement for the year then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audit.
2. We conducted our audit in accordance with the generally accepted auditing standards in Nepal. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. 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 management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.
3. On examination of the financial statements as aforesaid, we report that:
 - a) We have obtained all information and explanations, which to the best of our knowledge and belief were necessary for the purpose of our examination.
 - b) In our opinion, proper books of account as required by law have been kept by the Company, in so far as appears from our examination of those books of account and the financial statements dealt with by this report are in agreement with the books of accounts.
 - c) In our opinion and to the best of our information and according to the explanations given to us, the Board of Directors, the representative, or any employee of the Company has not acted deliberately in contrary to the provisions of the law relating to accounts nor caused any direct loss or damage to the Company.
 - d) In our opinion and to the best of our information and according to the explanations given to us, the said financial statements referred to above, read together with the notes attached thereon give a true and fair view:
 - i. In the case of the Balance Sheet, of the state of affairs of the Company as on Ashadh 31, 2066 (July 15, 2009) and
 - ii. In the case of the Profit and Loss Account and the Cash Flow Statement, the profit of the Company and its cash flow for the year ended on that date.


Sundar Man Shrestha, FCA
Senior Partner
For, Sundar & Co.
Chartered Accountants



Date: November 30, 2009
Mangsir 15, 2066

BALANCE SHEET

As on 31 Ashadh 2066 (15 July 2009)

Particulars	Schedule	F.Y. 2065/66 Rs.	F.Y. 2064/65 Rs.
I SOURCES OF FUND			
1 Shareholder's Fund			
Share Capital	1	839,057,700	839,057,700
Reserve & Surplus	2	578,201,586	455,096,794
Total Shareholder's Fund		1,417,259,286	1,294,154,494
2 Other Funds			
Grant Aid in Reserve	3	129,007,531	101,665,425
Total Other Funds		129,007,531	101,665,425
TOTAL		1,546,266,817	1,395,819,920
II APPLICATION OF FUND			
1 Fixed Assets	4		
Gross Block		1,399,450,313	1,302,313,847
Less: Depreciation		634,110,823	576,571,468
Net Block		765,339,490	725,742,379
2 Capital Work in Progress	5	7,405,624	7,247,290
3 Investment in Share	6	683,549,761	477,857,609
4 Current Assets:			
Stocks	7	92,723,110	74,646,551
Debtors & Accounts Receivable	8	171,359,374	88,407,172
Cash in hand and at Bank	9	291,687,158	412,634,609
Current Work in Progress	10	35,748,997	29,943,848
Advance & Deposit Paid	11	210,651,487	170,447,176
Total Current Assets		802,170,127	776,079,357
5 Less: Current Liabilities			
Bank Loans		181,023,309	183,955,841
Creditors & Accounts Payable	12	434,050,026	356,933,880
Advance & Deposit Received	13	36,199,802	29,433,230
Provisions	14	66,660,049	25,548,342
Total Current Liabilities		717,933,186	595,871,293
Net Current Assets		84,236,941	180,208,064
6 Deferred Revenue Expenditure		5,735,001	4,764,578
TOTAL		1,546,266,817	1,395,819,920

Schedule 1 to 14 form an integral part of this financial statement.

Padma Jyoti
Chairman

Pradeep Kumar Shrestha
Director

Gyanendra Lal Pradhan
Director

Bijay Bahadur Shrestha
Director

Ratna Sansar Shrestha
Director

Anup Kumar Upadhyay
Director

Santosh Kumar Pradhan
Director

Ranjan Lohar
Chief Executive Officer

Ratna Shakya
Chief Manager, Finance

As per our report of even date

Sundar Man Shrestha
For Sundar & Company
Chartered Accountants

PROFIT AND LOSS ACCOUNT

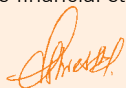
For the year ended Ashadh 31, 2066 (15 July, 2009)

Particulars	Schedule	F.Y. 2065/66 Rs.	F.Y. 2064/65 Rs.
OPERATING INCOME			
Electricity Sale to NEA		375,103,078	372,521,461
Electricity Sale to Consumers	15	55,697,120	49,166,032
Electricity Services	16	8,040,142	6,150,567
Consultancy Services	17	28,108,227	18,893,719
Total Operating Income		466,948,566	446,731,779
OPERATING EXPENSES			
Generation Expenses	18	88,491,333	82,514,398
Distribution Expenses	19	48,699,815	48,427,976
Consultancy Services	20	18,957,079	16,743,019
Total Operating Expenses		156,148,227	147,685,393
GROSS OPERATING PROFIT		310,800,339	299,046,386
ADMINISTRATIVE AND OTHER EXPENSES			
Administrative Expenses	21	64,159,223	53,508,586
Depreciation	4	61,872,552	55,102,939
Provision of Loss in Investment	22	21,491,294	6,868,973
Training & Technology Transfer Expense	23	1,900,554	2,543,678
Interest on Loan		7,912,682	7,245,699
Total Administrative and Other Expenses		157,336,305	125,269,875
INCOME FROM OTHER SOURCES			
Interest Income		11,272,109	16,495,059
Other Income	24	6,636,093	1,981,773
Depreciation Being Revenue Portion of Grant Aid		5,866,305	5,276,103
Dividend Income		104,842,701	156,894,170
Foreign Currency Exchange Gain		30,809,400	18,217,263
Gain on Sale of Assets & Scrap Materials	25	607,739	142,834
Total Income From Other Sources		160,034,347	199,007,201
PROFIT (LOSS) BEFORE BONUS & TAX		313,498,381	372,783,712
Employees's Bonus		9,659,329	9,503,641
Provision for Corporate Tax		12,246,889	9,400,691
NET PROFIT (LOSS) BEFORE APPROPRIATION		291,592,163	353,879,380
Profit and Loss Appropriation Account:			
Last years balance		306,396,794	222,805,066
Profit for this fiscal year		291,592,163	353,879,380
Total		597,988,957	576,684,446
Less: Proposed Dividend		(167,811,540)	(251,717,310)
Total Dividend		(167,811,540)	(251,717,310)
Prior years adjustment		(675,831)	(18,570,341)
Balance Transferred to Balance Sheet		429,501,586	306,396,794

Significant Accounting Policies & Notes on Accounts 26
Schedule 15 to 26 form an integral part of this financial statement.



Padma Jyoti
Chairman



Pradeep Kumar Shrestha
Director



Gyanendra Lal Pradhan
Director



Bijay Bahadur Shrestha
Director



Ratna Sansar Shrestha
Director



Anup Kumar Upadhyay
Director



Santosh Kumar Pradhan
Director

As per our report of even date



Ranjan Lohar
Chief Executive Officer



Ratna Shakya
Chief Manager, Finance



Sundar Man Shrestha
For Sundar & Company
Chartered Accountants

STATEMENT OF CHANGES IN EQUITY

For the year ended Ashadh 31, 2066 (15 July, 2009)

Particulars	Share Capital	General Reserve	Retained Earnings	Total
Last year's balance	839,057,700	148,700,000	306,396,794	1,294,154,494
Proposed dividend for the year			(167,811,540)	(167,811,540)
Profit for the year			291,592,163	291,592,163
Prior year's depreciation adjustment			36,423	36,423
Prior year's tax adjustment			(712,254)	(712,254)
Balance as on 31st Ashadh, 2066	839,057,700	148,700,000	429,501,586	1,417,259,286

Note: 10% Bonus share has been proposed which shall be capitalized from the retained earnings after the approval of Annual General Meeting.

STATEMENT OF CASH FLOW

For the year ended Ashadh 31, 2066 (15 July, 2009)

Particulars	F.Y. 2065/66	F.Y. 2064/65
Cash Flow from Operating Activities:		
Profit (Loss) Before Appropriation	291,592,163	353,879,380
Adjustments		
Ordinary Depreciation	51,673,049	35,443,163
Depreciation Charged to Grant Aid in Reserve	5,866,305	5,276,103
Increase (Decrease) in Tax Provision	2,846,198	(218,090)
Increase (Decrease) in Bonus Provision	155,688	3,577,308
Foreign Currency Exchange Loss/(Gain)	(30,809,400)	(18,217,263)
Dividend Income	(104,842,701)	(156,894,170)
Increase (Decrease) in Loss in Investment Provision	21,491,294	6,868,973
Loss (Gain) on Sale of Assets/Stock Materials	(607,739)	(142,834)
Operating Profit Before Working Capital Changes	237,364,857	229,572,570
Decrease (Increase) in Debtors & Accounts Receivable	(82,952,202)	(29,490,032)
Decrease (Increase) in Stocks	(18,076,559)	(15,750,219)
Decrease (Increase) in Current WIP	(5,805,149)	(6,685,995)
Decrease (Increase) in Advance & Deposit Paid	(53,272,709)	(105,165,259)
Increase (Decrease) in Tax Provision for 2060/61	16,774,216	-
Increase (Decrease) in Creditors & Accounts Payable	76,960,458	(94,348,526)
Increase (Decrease) in Advance & Deposit Received	6,766,571	(1,425,111)
Advance Tax Paid	13,068,398	7,284,775
Increase (Decrease) in Retained Earning for Tax Adjustment	(675,831)	(18,570,341)
Foreign Currency Exchange (Loss)/Gain	30,809,400	18,217,263
Net Cash Flow From Operating Activities (A)	220,961,451	(16,360,876)
Cash Flow From Investing Activities:		
Gain/(Loss) on Sale of Assets/Stock Materials	607,739	142,834
Decrease (Increase) in Deferred Revenue Expenditure	(970,423)	(3,876,513)
Decrease (Increase) in Land, Building & Office Assets	(26,350,379)	(13,757,551)
Decrease (Increase) in Andhikhola Hydro Power Plant & Property	(47,181,578)	(5,785,395)
Decrease (Increase) in Jhimruk Hydro Power Plant & Property	(23,604,509)	(3,025,373)
Decrease (Increase) in Investment in Share	(205,692,152)	(12,152,500)
Decrease (Increase) in Capital Work-in-Progress	(158,333)	(6,136,876)
Net Cash Flow From Investment Activities (B)	(303,349,636)	(44,591,375)
Cash Flow From Financing Activities:		
Increase (Decrease) in Grant Aid in Reserve	27,342,106	17,365,698
Dividend Income	104,842,701	156,894,170
Proposed Dividend for the year	(167,811,540)	(251,717,310)
Net Cash Flow From Financing Activities (C)	(35,626,734)	(77,457,442)
Net Change in Cash & Cash Equivalents (A+B+C)	(118,014,919)	(138,409,693)
Opening Cash & Bank Balance	228,678,768	367,088,461
Closing Cash & Bank Balance	110,663,849	228,678,768
Change in Cash & Bank Balance	(118,014,919)	(138,409,693)

Schedules to the Balance Sheet & Profit and Loss Account Fiscal Year 2065/66 (2008/2009)

Share Capital

Schedule No. 1

Particulars	F.Y. 2065/66	F.Y. 2064/65
Authorised Capital:		
15000000 Shares of Rs.100/- each	1,500,000,000	1,500,000,000
Issued Capital		
14000000 Shares of Rs.100/- each	1,400,000,000	1,400,000,000
Paid up Capital:		
Shares at face value of Rs. 100/- each		
Government of Nepal	76,275,500	76,275,500
Shangri-La Energy Ltd.	578,546,300	578,546,300
Interkraft Nepal A.S., Norway	50,746,900	50,746,900
United Mission to Nepal	23,421,100	23,421,100
Nepal Electricity Authority	8,861,900	8,861,900
Nepal Industrial Development Corporation	504,200	504,200
Employees	16,781,100	16,781,100
General Public	83,905,700	83,905,700
Purna Prasad Adhikari	5,000	5,000
Baram Pradhan	5,000	5,000
Suman Basnet	5,000	5,000
Total	839,057,700	839,057,700

Reserve and Surplus

Schedule No. 2

Particulars	F.Y. 2065/66	F.Y. 2064/65
General Reserve	148,700,000	148,700,000
Retained Earnings	429,501,586	306,396,794
Total	578,201,586	455,096,794

Grant Aid in Reserve

Schedule No. 3

Particulars	F.Y. 2065/66	F.Y. 2064/65
NORAD Grant for JHEREP II A - R.E.	18,087,552	18,949,713
UMN PCS Assistance for Rural Electrification	29,870,175	31,464,694
USAID Grant for Rural Electrification	19,810,595	21,199,468
USAID Support for REGDAN	16,896,374	17,635,956
JRP Grant for Enhancement of Power Plant	9,238,862	9,977,881
NMFA Support for REEP	27,046,025	-
KADOORI VDC	694,582	725,225
Udaypurkot VDC	391,475	408,743
Dhungegadhi VDC	953,451	547,760
Hansapur VDC	999,545	503,992
Dhakabang VDC	241,346	251,992
Bhingree VDC	218,241	-
Markabang VDC	72,575	-
Dharampani VDC	625,968	-
Akladi VDC	1,202,697	-
Kalikai VDC	711,400	-
Banethok Deurali VDC	588,238	-
Sorek VDC	283,776	-
Tindobate VDC	193,960	-
Sekham VDC	378,573	-
Darchha VDC	327,489	-
Rampur VDC	174,631	-
Total	129,007,531	101,665,425

Fixed Asset & Depreciation

Schedule No. 4

Particulars	GROSS BLOCK			DEPRECIATION				NET BLOCK		
	As at 31st Ashadh, 2065	Addition during the Year	Adjustment during the Year	As at 31st Ashadh, 2066	As at 31st Ashadh, 2065	Adjustment during the Year	Provided during this Year	As at 31st Ashadh, 2066	As 31st Ashadh, 2066	As 31st Ashadh, 2065
Group A : Property and Power Plant:										
i : BPC Funded Asset										
Land	60,408,037	3,896,892		64,304,929				-	64,304,929	60,408,037
Access Road	5,760,000			5,760,000	2,976,000		230,400	3,206,400	2,553,600	2,784,000
Suspension Bridge	3,800,000			3,800,000	1,963,333		152,000	2,115,333	1,684,667	1,836,667
Guesthouse,Stores,Offices,Quarters	48,791,385	1,476,754		50,268,140	15,288,952		2,002,835	17,291,787	32,976,352	33,502,433
Power Plant Electro-Mechanical Equipment	335,639,421		(454,001)	335,185,420	172,113,505	(454,001)	13,430,388	185,089,892	150,095,528	163,525,916
Power Plant Civil Works	318,160,000	120,185		318,280,185	175,397,237		12,727,987	188,125,224	130,154,960	142,762,763
Switching Station		11,272,319		11,272,319	0		150,298	150,298	11,122,021	0
Transmission Line	169,065,935	4,995,371		174,061,307	93,472,311		6,837,605	100,309,916	73,751,391	75,593,624
Distribution Line	149,838,912	10,792,813		160,631,725	44,106,903		6,136,751	50,243,654	110,388,071	105,732,009
Sub - Total i	1,091,463,691	32,554,335	(454,001)	1,123,564,025	505,318,242	(454,001)	41,668,264	546,532,505	577,031,520	586,145,450
ii : Grant Aided Asset										
Transmission Line	9,841,154	4,123,974		13,965,128	2,731,316		448,241	3,179,557	10,785,571	7,109,839
Distribution Line	105,556,676	25,631,398		131,188,074	28,052,463		4,562,591	32,615,054	98,573,020	77,504,213
Power Plant Electro-Mechanical Equipment	12,574,320			12,574,320	4,820,351		502,973	5,323,324	7,250,996	7,753,969
Switching Station		9,741,564		9,741,564			129,888	129,888	9,611,676	0
Transmission Sub-station	1,760,314			1,760,314	234,710		70,413	305,123	1,455,191	1,525,604
Sub - Total ii	129,732,464	39,496,935	-	169,229,400	35,838,840	-	5,714,106	41,552,946	127,676,454	93,893,625
Total A (i+ii)	1,221,196,156	72,051,270	(454,001)	1,292,793,425	541,157,081	(454,001)	47,382,370	588,085,451	704,707,974	680,039,074
Group B: Office Equipment & Furniture										
i : BPC Funded Asset										
Computer & Accessories	14,198,599	4,400,852	(491,005)	18,108,446	6,890,338	(384,205)	2,604,415	9,110,547	8,997,899	7,308,261
Furniture & Fixture	2,765,494	1,149,702	(231,703)	3,683,493	1,120,093	(160,447)	645,621	1,605,267	2,078,226	1,645,401
Office Equipment	16,437,561	4,247,964	(987,671)	19,697,854	8,083,065	(763,531)	2,766,830	10,086,364	9,611,490	8,354,496
Sub - Total i	33,401,654	9,798,518	(1,710,378)	41,489,793	16,093,496	(1,308,183)	6,016,865	20,802,178	20,687,615	17,308,158
ii : Grant Aided Asset										
Office Equipment	1,574,260			1,574,260	965,464		152,199	1,117,663	456,597	608,796
Sub - Total ii	1,574,260	-	-	1,574,260	965,464	-	152,199	1,117,663	456,597	608,796
Total B (i+ii)	34,975,913	9,798,518	(1,710,378)	43,064,052	17,058,960	(1,308,183)	6,169,064	21,919,841	21,144,211	17,916,953
Group C: Vehicle										
Vehicles	29,771,805	17,904,380	(2,275,073)	45,401,112	11,409,868	(2,094,918)	6,403,730	15,718,681	29,682,432	18,361,937
Group D: Workshop Plant and Equipment										
Workshop Plant & Equipment	10,867,206	2,023,318	(251,600)	12,638,924	4,667,480	(154,797)	1,056,249	5,568,933	7,069,991	6,199,725
Construction Equipment	50,000			50,000	43,866		920	44,786	5,214	6,134
Distribution Networks	1,298,072	70,343		1,368,415	780,720		86,857	867,577	500,838	517,352
Total D	12,215,278	2,093,660	(251,600)	14,057,339	5,492,066	(154,797)	1,144,026	6,481,296	7,576,043	6,723,212
Group E: Intangible Assets										
Computer Software	4,154,695	300,990	(321,300)	4,134,385	1,453,493	(321,300)	773,362	1,905,555	2,228,830	2,701,202
Grand Total (A + B + C + D + E)	1,302,313,847	102,148,818	(5,012,352)	1,399,450,313	576,571,468	(4,333,198)	61,872,552	634,110,823	765,339,490	725,742,379
Total Asset BPC Funded	1,171,007,123	62,651,883	(5,012,352)	1,228,646,654	539,767,165	(4,333,198)	56,006,247	591,440,214	637,206,440	631,239,959
Total Asset Grant Aided	131,306,724	39,496,935	-	170,803,659	36,804,304	-	5,866,305	42,670,609	128,133,050	94,502,420

Capital Work in Progress

Schedule No. 5

Particulars	F.Y. 2065/66	F.Y. 2064/65
Rural Electrification on MFA Grant (REEP)	5,610,030	6,205,004
Galyang-Syangja Line Upgrading	48,718	48,718
Online Sediment Monitoring System H/W	1,746,876	
Transmission Line	-	942,473
Distribution works at Bangesal	-	51,096
Total	7,405,624	7,247,290

Investment in Shares (unlisted companies)

Schedule No. 6

Particulars	F.Y. 2065/66	F.Y. 2064/65
Shares are at face value on cost basis		
Himal Power Limited	434,931,461	270,625,109
Nepal Hydro & Electric Ltd.	71,580,000	71,580,000
Jhimruk Industrial Dev. Center (P) Ltd	4,500,000	4,500,000
Hydro Lab (P) Ltd	1,000,000	1,000,000
Khudi Hydropower Limited	50,400,000	50,400,000
Khudi Hydropower Limited (Preference Share)	57,600,000	57,600,000
BPC Services Limited	10,000,000	10,000,000
Nyadi Hydropower Limited	38,498,800	12,152,500
Keton Hydropower Co. Limited	14,400,000	-
Jumdi Hydropower Co. Limited	639,500	
Total	683,549,761	477,857,609

Stocks

Schedule No. 7

Particulars	F.Y. 2065/66	F.Y. 2064/65
General Stock/Office Supplies/Consumer Service Item	10,130,693	5,122,650
Stock of Electric Goods	5,698,551	4,579,933
Power Plant Simulator/Power House Equipment	35,512,905	31,529,181
T/L & D/L stock	39,249,932	24,361,786
Steel Stock	354,850	399,553
GI Fittings	110,837	84,248
Fuel/Lubricants	94,245	204,133
Vehicle Spareparts	180,243	225,521
Medical Stock	36,732	46,260
Stock at Site	479,641	930,280
Power House Equipment (JRP Grant)	874,481	7,163,005
Total	92,723,110	74,646,551

Debtors & Accounts Receivable

Schedule No. 8

Particulars	F.Y. 2065/66	F.Y. 2064/65
Sundry Debtors	2,678,424	2,867,790
Nepal Electricity Authority	51,479,653	41,216,897
Local Consumers	4,280,619	4,117,815
Other Receivables	506,319	1,252,578
Accrued Interest	342,137	514,193
Retention Receivable	30,000	30,000
Bank Guarantee Margin	3,155,500	3,155,500
Receivable from USAID	2,143,732	2,302,699
REGDAN VAT Receivables	1,040,185	1,040,185
Sulav Co-operative Society Limited	639,500	-
Norwegian Embassy	3,669,706	-
Dhunggegadhi VDC	287,238	427,248
Hanspur VDC	386,214	399,329
Markabang VDC	53,107	-
Dharampani VDC	377,368	-
Dividend Receivable from HPL	78,255,532	-
Subsidiaries and Joint Ventures:		
Khudi Hydropower Limited	10,804,434	3,214,621
BPC Services Limited	4,415,532	3,917,566
Jhimruk Industrial Dev. Center (P) Limited	-	24,674
Nyadi Hydropower Limited	3,380,825	16,690,665
Keton Hydropower Limited	1,053,751	1,287,787
BPC - SILT Joint Venture	848,906	2,249,522
BPC - HES - WRC Joint Venture	1,530,691	3,698,103
Total	171,359,374	88,407,172

Cash in hand and at Bank

Schedule No. 9

Particulars	F.Y. 2065/66	F.Y. 2064/65
Office Cash	568,726	276,766
Current Bank A/c	4,996,834	5,962,192
Foreign Currency A/c	174,528,306	8,819,935
Call/Time/Fixed Deposit	32,634,868	35,982,437
Cheques in hand	46,500	-
Fixed/Time/ Deposit : Foreign Currency (US\$)	78,911,924	361,593,279
Total	291,687,158	412,634,609

Current Work In Progress: Engineering & Consultancy

Schedule No. 10

Particulars	F.Y. 2065/66	F.Y. 2064/65
A. Ongoing WIP:		
BPC Distribution Expansion	830,689	830,689
Andhikhola Upgrading	16,896,411	15,751,403
Screening & Ranking Projects	1,383,942	1,383,401
Demand Side Managemet Study	782,047	782,047
Bhim Khola SHP	5,850,388	3,596,954
KABELI - A Project	7,374,194	3,317,734
Nyadi Hydropower Project	1,513,107	
Tadi Khola HP	302,966	
Sustainable Land use and Agro Ent.	29,666	
Lower Manang Marshyangdi HEP	287,350	
Due Deligence - Lower Khare	211,628	
Due Deligence - Super Madi	12,350	
Dordi I - Due Delligence	188,090	
Karnali Due Delligence	36,168	
Jumdi Khola Small Hydropower	-	1,278,076
Sub Total	35,698,997	26,940,304
B. Discontinued WIP:		
Upper Tamakoshi Reports (PMD)	50,000	50,000
Khimti-II Feasibility Study	-	678,411
Chaku HP Detailed Design	-	673,996
Chaku Contract Document	-	145,123
Dordi Hydropower Project	-	34,364
Piluwa Khola HP	-	90,637
Rigdi Khola Hydropower	-	850,459
Thopal Khola HP	-	413,339
33kV Jhimruk Galyang Line Operation	-	33,949
Preliminary Study of Alternative Layout Study and Field Investigation	-	33,267
Sub Total	50,000	3,003,545
Total	35,748,997	29,943,848

Advance & Deposit Paid

Schedule No. 11

Particulars	F.Y. 2065/66	F.Y. 2064/65
Advance Income Tax	13,363,907	26,432,305
Loan & Advance to Staff	383,246	384,085
Gratuity Fund Deposit in CIT	55,805,121	38,206,698
Telephone & Deposits etc.	6,819,331	4,814,331
Various Advances	21,395,551	15,096,258
Prepaid Expenses	216,178	-
Advance in Associate Companies (NHE)	2,390,000	-
Investment in Project Development (Kirne HP)	4,583,838	-
NMFA Advances	3,583,168	4,442,348
L/C Related Expenses	118,237	1,760,775
Deposit against Tax Administrative Review	101,992,910	79,302,200
REGDAN Advances	-	8,176
Total	210,651,487	170,447,176

Creditors & Accounts Payable

Schedule No. 12

Particulars	F.Y. 2065/66	F.Y. 2064/65
Sundry Creditors	14,505,622	20,796,149
Gratuity Fund Payable	63,164,621	54,836,238
Bonus Payable	9,659,329	9,503,641
Community Development Fund Payable	4,074	54,074
Loyalty Bonus Fund	384,000	192,000
Retention Payable	2,474,421	1,005,721
Audit Fee Payable with VAT	236,775	208,525
Royalty Payable	1,426,348	1,355,185
TDS Payable	1,941,701	2,604,406
Dividend Payable	167,927,135	251,882,257
VAT Payable	1,622,771	1,630,624
Share Purchase Price Payable (HPL)	144,882,920	-
Share Purchase Price Payable (Keton HP)	1,400,000	-
Employees Accounts Payable	1,337,216	2,183,018
Capital Gain Tax Payable	19,423,432	-
Nepal Telecommunication Corporation	59,709	116,536
PF Clearing A/C	-	14,522
Welfare Clearing A/C	52,512	1,432,990
Provision of Expenses	8,317	133,893
REGDAN Payables	-	1,840,028
Stale Cheque	-	3,794
CIT Clearing A/C	-	46,612
Subsidiary:		
Nepal Hydro & Electric Limited	3,539,123	7,093,669
Total	434,050,026	356,933,880

Advance & Deposit Received

Schedule No. 13

Particulars	F.Y. 2065/66	F.Y. 2064/65
Customer Deposit	27,650	29,650
Security Deposit	354,072	83,183
Advance Received From NMFA	29,958,439	28,574,064
Advance Received From Anandhishakti Bidhyut Bikash	2,007,000	-
Advanced Received	-	19,645
Advance Received from DDC and VDC	3,852,641	-
Norwegian Embassy (TTT Grant)	-	726,689
Total	36,199,802	29,433,230

Provisions

Schedule No. 14

Particulars	F.Y. 2065/66	F.Y. 2064/65
Corporate Tax for the year	12,246,889	9,400,691
Corporate Tax for 2060/61 (under Appeal)	16,774,216	-
Provision of Loss in Investment	37,638,944	16,147,651
Total	66,660,049	25,548,342

Electricity Sale to Consumers

Schedule No. 15

Particulars	F.Y. 2065/66	F.Y. 2064/65
Metered Consumers	36,272,564	29,712,316
Unmetered Consumers	1,369,975	2,582,500
Industrial Consumers etc.	7,107,709	6,382,047
User's Organization	10,946,871	10,489,170
Total	55,697,120	49,166,032

Electricity Services - Income

Schedule No. 16

Particulars	F.Y. 2065/66	F.Y. 2064/65
Fee and Charges	1,231,869	1,186,046
Sale of Meter/Cutout & Accessories	6,808,273	4,964,520
Sub-Total	8,040,142	6,150,567

Consultancy Services - Income

Schedule No. 17

Particulars	F.Y. 2065/66	F.Y. 2064/65
Cast Net Fish Monitoring	1,683,523	2,170,498
Khudi Detail Design & Support	142,750	954,879
Upper Mai Khola HP	1,968,672	3,269,664
Jumdi Khola Small Hydro	18,000	12,500
BPC-HES-WRC Joint Venture	95,876	225,111
Nyadi Hydropower Project	9,286,424	6,815,724
Pre-Feasibility Study of Balephi HP	370,354	2,098,673
Design & Construction Supervision of Khudi HP	4,561,713	-
FS & ESIA of Tamakoshi 2 & 3 HP	841,438	-
FS & EIA of Marsyandi III HP	8,538,054	-
Engineering Minor Task	68,150	-
Tadi Khola HP - Design review works	74,010	-
Khimti Additional Water Resource	459,263	-
Tamakoshi 2 & 3 Concept Study	-	837,850
Review of FS of Lower Modi HP	-	438,255
Operational FS of VDC's in HPL areas	-	668,390
Field Visit to Kali Gandaki Gorge HP	-	397,390
KHL-Design Review	-	1,004,786
Total	28,108,227	18,893,719

Generation Expenses

Schedule No. 18

Particulars	F.Y. 2065/66	F.Y. 2064/65
Electricity Purchase	6,444,610	2,968,709
Staff Cost	30,814,462	31,340,768
Office Overhead	4,685,871	5,107,738
Vehicle Operation & Maintenance	1,117,804	665,892
Environment, Community & Mitigation	1,779,843	840,342
Mitigation (JDMP)	2,148,972	879,210
Power Plant Operation & Insurance	7,500,296	5,266,831
Power Plant Maintenance	8,858,362	12,286,353
Deferred Expense - Mitigation Works	4,072,918	2,341,804
Royalty	20,059,435	20,685,386
Transmission Line Repair & Maintenance	682,331	131,365
Expenses Written Off	326,430	-
Total	88,491,333	82,514,398

Distribution Expenses

Schedule No. 19

Particulars	F.Y. 2065/66	F.Y. 2064/65
Staff Cost	22,862,195	25,492,106
Office Overhead	3,088,839	3,394,193
Vehicle Operation & Maintenance	1,657,023	1,422,285
T/L Maintenance	101,280	84,102
D/L Network Operation	11,510,034	10,766,434
D/L Network Repair & Maintenance	2,763,566	2,958,152
Subsidy on sales of meter	1,628,775	-
Royalty	4,642,931	4,147,841
Expenses Written Off	445,172	162,862
Total	48,699,815	48,427,976

Consultancy Services: Expenses

Schedule No. 20

Particulars	F.Y. 2065/66	F.Y. 2064/65
Cast Net Fish Monitoring	699,854	1,195,325
Khare Khola SHP	91,161	8,814
Khudi Detail Design & Support	89,043	609,316
Various Consultancy	42,511	4,419
ISO Related Activities	321,981	269,082
Engineering Overhead	7,573,110	7,230,021
Rupa Begnas Pump Storage	-	330,433
Nyadi Hydropower Project	3,323,265	1,536,306
Serpu Daha- Sani Bheri Nadi Pumped Storage	-	293,135
Upper Mai Khola HP	755,940	2,659,119
Tamakoshi 2 & 3 Concept Study	-	267,507
Review of FS of Lower Modi HP	-	243,133
Operational FS of VDC's in HPL areas	-	151,755
Field Visit to Kali Gandaki Gorge HP	-	203,172
Construction Mgmt & Supervision of KL III HEP	-	171,011
KHL-Design Review	-	312,939
Pre-Feasibility Study of Balephi HP	115,170	1,249,115
Jumdi Khola SHP	-	8,417
Design & Construction Supervision of Khudi HP	1,918,182	-
Khimti Additional Water Resource	203,333	-
FS & ESIA of Tamakoshi 2 & 3 HP	573,669	-
FS & EIA of Marsyandi III HP	2,999,062	-
BPC Design Guideline	203,598	-
Sustainable Poverty Reduction in Nepal	3,215	-
Tadi Khola HP - Design review works	43,984	-
Total	18,957,079	16,743,019

Administrative Expenses

Schedule No. 21

Particulars	F.Y. 2065/66	F.Y. 2064/65
Staff Cost:		
Salary	18,266,167	11,208,348
Allowance	9,897,556	6,632,051
Provident Fund	1,422,368	1,095,663
Paid Leave	1,287,509	1,535,404
Daily Wage	333,992	61,120
Overtime	1,289,439	1,190,447
Gratuity	3,571,320	5,207,003
Insurance	390,303	270,474
Festival Allowance	1,086,613	908,836
Performance Allowance	1,589,307	924,626
Sub-total	39,134,575	29,033,972
General Office Overhead	10,086,616	8,730,786
Training and Development	2,392,727	1,891,952
CSR Expenses	3,107,690	2,286,662
Audit Fee and Expenses	1,645,184	1,008,580
Board Meeting and AGM Expenses	959,943	687,805
Vehicle O & M Expenses	89,139	996,034
Consultancy Expenses	3,348,347	2,360,461
Share Registrar/Related Expenses	119,535	303,715
Insurance and Property Taxes	753,476	577,289
Communication Expenses	2,081,018	1,863,971
Travel/Daily Allowance	3,622,767	2,640,973
Union Expenses	498,745	528,608
Write Off Expenses	678,829	597,778
Charged to Projects	(4,359,367)	
Sub-total	25,024,648	24,474,614
Total Administrative Expenses	64,159,223	53,508,586

Provision of Loss in Investment

Schedule No. 22

Particulars	F.Y. 2065/66	F.Y. 2064/65
Khudi Hydropower Limited	21,284,416	6,330,622
JV of BPC/HES/WRC	-	(37,962)
JV of BPC/SILT	66,950	176,808
JIDCO	139,928	399,505
Total	21,491,294	6,868,973

Training and Technology Transfer Expense

Schedule No. 23

Particulars	F.Y. 2065/66	F.Y. 2064/65
Training & Technology Transfer Service Expenses	6,217,367	6,411,194
Less: Financial Support from NORAD	(4,316,813)	(3,867,516)
Total	1,900,554	2,543,678

Other Income

Schedule No. 24

Particulars	F.Y. 2065/66	F.Y. 2064/65
Housing Services	143,015	125,545
Guest House Income	133,990	118,260
Income from Other Sources	1,043,787	1,311,368
Personnel Services	1,015,693	-
Store Services	2,350	7,903
Equipment on Hire	128,367	3,025
Management Contract Fee	3,740,015	-
Other General Services	428,875	415,672
Total	6,636,093	1,981,773

Gain on Sale of Asset/Stock Materials

Schedule No. 25

Particulars	F.Y. 2065/66	F.Y. 2064/65
Sale Proceed	5,896,408	1,085,467
Less: Cost of Stock	(5,798,487)	(1,085,467)
Gain on Sale of Assets/Scrap Materials	509,818	142,834
Total	607,739	142,834

Significant Accounting Policies and Notes Relating to the Annual Account for the Fiscal Year 2065/66 (2008/09)

Schedule No. 26

1. Background

Butwal Power Company Limited (BPC) was established in 2022 (1966) as a private limited company registered under the Company Act 2021 (1965) by the United Mission to Nepal, Government of Nepal (GoN), Nepal Electricity Authority (NEA), and Nepal Industrial Development Corporation (NIDC). Its aim was to develop hydropower projects using appropriate training, technology transfer and human resources. This pioneering company developed the 1-MW Tinau, the 5.1-MW Andhikhola, and the 12-MW Jhimruk hydropower projects and is one of the sponsors of the 60-MW Khimti hydropower project. BPC was converted into a public limited company in 2049 (1993), and it was privatized in 2059 (2003). Its main shareholders now are Shangri-La Energy Limited (SEL), Interkraft AS, Norway (IKN), Government of Nepal (GoN) and General Public.

2. Significant Accounting Policies

A. Basis of Presentation

BPC's financial statements are prepared in accordance with generally accepted accounting principles ascribed in Nepal Accounting Standards as well as the prevailing rules of the Company Act 2063 (2006) and the Electricity Act 2049. Except where otherwise stated, they are based on accrual and historical cost convention basis.

B. Capitalisation of Fixed Assets

Fixed assets are recorded at cost-less accumulated depreciation and all direct costs relating to the acquisition and installation of fixed assets are capitalized. Rural electrification networks are capitalized according to actual accumulated direct overhead and direct material costs used in erection. Office furniture, equipment and vehicles costing less than Rs. 5,000 per unit and plant equipment costing less than Rs.10,000 per unit is charged to the profit and loss account in the year of purchase.

C. Depreciation and Amortisation

The depreciation of power plant, transmission and distribution lines is provided by using the straight line method provided for in the Electricity Act 2049. Depreciation of office furniture, equipment, vehicles and other assets are depreciated using the diminishing balance method at rates prescribed in the Income Tax Act 2058. Deferred revenue expenditures are amortised within five years while river training expenses are amortised within three years.

D. Inventory

Inventories are valued at cost and weighted average costing method is applied to calculate the value of items issued from stock.

E. Foreign Currency

Transactions in foreign currency are stated in terms using the exchange rate prevailing on the date of transaction. Foreign currency assets and liabilities held in foreign currency on the date of balance sheet are given in Nepalese rupees using the buying rate of Nepal Rastra Bank on that date. Foreign currency exchange conversion differences are charged to the profit and loss account.

F. On-going Contracts and Projects

Income for ongoing contracts is recognised as per the contract agreement with the party. Expenditure on on-going engineering and consultancy work is shown at cost as current work in progress, while ongoing rural electrification works are shown as capital work in progress. Expenditure on ongoing In-house engineering, feasibility studies and operation support is valued at cost as current work in progress and is charged on cost basis.

G. Grant Aid in Reserve

Capital grants received are shown as grant aid in reserve to the extent of asset creation they constitute. Grant aid in reserve is reduced by the depreciation of such assets and the same amount is realised as income to balance the expense of depreciation expense in the profit and loss account.

Revenue grant and related expenses are recognised in the profit and loss account (Refer to schedule no. 23).

H. Retirement Benefits

Retirement benefits for employees includes a provident fund, a citizen investment fund and a gratuity scheme. Periodic contributions made to the provident fund are charged to revenue. While provisions for gratuity is made in accordance with BPC's gratuity scheme, the actual gratuity is computed at the end of the year and an additional gratuity for the year provided as revenue expenses. Employees are eligible for the gratuity scheme only after completing three years of service. The gratuity amount is paid to the employees on super annuation or separation.

I. Provision for Employee Bonuses

A 2% bonus on electricity income and dividend from Himal Power Limited (HPL) is provided in line with the provisions of the Electricity Act 2049. In line with the Bonus Act, a 10% bonus is provided for income from other sources.

J. Asset Retirement

Absolute, unusable and un-repairable asset/materials are written off on written down value and disposed off.

3. Paid-up Share Capital

After Privatization on 15 Magh, 2059 (29 January, 2003), M/s Shangri-La Energy Limited is the BPC's majority shareholder with shareholdings of 68.9%. As recorded in the share register, SEL's shares are pledged with Himalayan Bank Ltd. against a loan. As per the provisions of the Share Sale and Purchase Agreement, GoN issued a 2% shareholding to BPC employees and 10% of shares were sold to general public through competitive bidding. GoN retained a 9.09% shareholding. The company is listed in the Nepal Stock Exchange Limited since 28 Poush, 2061 (12 January, 2005). The closing market price of the share as on balance sheet date was NRs. 1270/- per share. The face value of share is Rs. 100/- per share.

4. Grant Aid in Reserve

The total depreciation of NRs.5,866,305 on grant aid assets have been charged against grant aid in reserve as shown below.

Source of Grant	Depreciation (in NRs.)	Closing Balance (in NRs.)
NORAD grant for Jhimruk Hydroelectric and Rural Electrification Center	1,263,314	18,087,552
UMN PCS contributions for rural electrification	1,594,519	29,870,175
USAID grant for rural electrification	1,388,873	19,810,595
USAID support for Rural Electrification Global Development Alliance of Nepal	739,583	16,896,374
Jhimruk Rehabilitation Project grant for enhancement of power plants	337,866	9,238,862
NFMA Support for Rural Electrification Expansion Project	363,899	27,046,025
Local VDC (Kadoori)	30,643	694,582
Local VDC (Udayapurkot)	17,268	391,475
Local VDC (Dhungegadhi)	27,927	953,451
Local VDC (Hanspur)	27,331	999,545
Local VDC (Dhakabang)	10,646	241,346
Local VDC (Others)	64,435	4,777,549
Total Grant Aid in Reserve	5,866,305	129,007,531
Less: Inventory items under JRP Grant		(874,481)
Total Grant Aided Assets		128,133,050

5. Investments, Associates, Subsidiaries and Joint Venture

A. Investment in Shares

BPC has shares in the following companies

Name of company	No. of shares	Unit rate	Face value (in NRs.)	Cost price (in NRs.)	Holding (%)
Himal Power Limited	2,978,502	100	297,850,200	434,931,461	16.88
Nepal Hydro & Electric Limited	715,800	100	71,580,000	71,580,000	51.3
Khudi Hydropower Limited	504,000	100	50,400,000	50,400,000	60
Khudi Hydropower Limited (Redeemable Preference Share)	576,000	100	57,600,000	57,600,000	-
Nyadi Hydropower Limited	384,988	100	38,498,800	38,498,800	97.22
Keton Hydropower Limited	144,000	100	14,400,000	14,400,000	90
BPC Services Limited	100,000	100	10,000,000	10,000,000	100
Jhimruk Industrial Dev. Center (P) Limited	45,000	100	4,500,000	4,500,000	24.0
Hydro Lab (P) Limited	10,000	100	1,000,000	1,000,000	20.0
Jumdi Hydropower Co. Limited	6,395	100	639,500	639,500	19.03

All shares are valued at cost.

Himal Power Limited

Himal Power Limited (HPL) owns and operates the 60-MW Khimti I Hydropower Project, which began commercial operation on 5 July, 2000 (27 Ashad, 2057). HPL was established on 21 February, 1993 (2049/11/10) by BPC and the Norwegian companies Statkraft SF, ABB Energi AS (now ABB Kraft), and Kvaerner Energy AS (now G.E. Hydro). The company was registered with the objective of developing the project under the build, own, operate and transfer (BOOT) approach.

HPL sold NRs. 2.590 billion worth of electricity in FY 2065/66 and has a net worth of NRs. 6.602 billion. EPS is Rs. 90/- per share and Net worth is Rs. 374/- per share.*

BPC has increased its share investment portfolio in HPL by purchasing additional 348,168 shares. BPC, being one of the promoter shareholder of HPL, has purchased 174,084 shares from Alstom Norway, AS and 174,084 from GE (Norway) AS. Total purchase price of the share is US\$ 2,101,104 (equivalent Rs. 164,306,352).

BPC has pledged its shares in HPL as collateral in Wilmington Trust Company (WTC), USA, for a loan for the Khimti-I Hydropower Project under separate agreements with HPL, WTC and the lenders. This obligation will be terminated upon the full settlement of the loan by 2011 A.D.

Nepal Hydro & Electric Limited

BPC established Nepal Hydro & Electric Limited (NHE) in 2042 B.S. with Butwal Power Company Ltd., Alstom Power Norway AS, GE Energy (Norway) AS, Butwal Technical Institute, Himal Hydro and General Construction Ltd. as shareholders.

The company manufactures and refurbishes hydro and electric power equipments. It designs, manufactures, installs, tests and commissions hydro-mechanical and electro-mechanical equipment, including HV sub-stations, transmission line towers and poles and heavy steel structures.

The turnover of the company in FY 2065/66 was NRs. 324 million* and its net worth was NRs. 187 million*.

EPS is negative by Rs. 10.30 per share and Net worth is Rs. 134/- per share.*

Khudi Hydropower Limited

Khudi Hydropower Limited (KHL) owns the 4-MW Khudi Power Plant, which began commercial operation in FY 2063/64. BPC is the majority shareholder of KHL. Other shareholders are Lamjung Electricity Development Company Limited (LEDCO) and SCP Hydro International Inc., Canada.

BPC's preference share of Khudi is a redeemable cumulative non-voting class of shares with an annual dividend of 2.5% over the interest rate of the principal loan as per Article 1.2.24 of the Shareholders Agreement. The accumulated accrued dividend receivable on this is Rs. 19,089,838. Income will be booked in the year of receipt.

KHL sold NRs 43.274 million* worth of electricity in FY 2065/66 and its net worth was NRs 105.98 million*. EPS is negative by Rs. 22/- per share and Net worth is Rs. 64/- per share. Power plant was under shut down about 5 months due to the damages on account of flood on September 2008. The insurance claim against the loss is in process.

Nyadi Hydropower Limited

Nyadi Hydropower Limited (NHL) was established to build, own and operate the 20-MW Nyadi Hydropower project in Lamjung District. BPC is the major shareholder of NHL and LEDCO is another. Shareholders agreement has been signed with Everest Power for equity participation. Everest Power will hold 29% shares in NHL. Everest Power is the process of obtaining approval of Dol.

BPC's equity investment in this company has increased by Rs. 26,346,300 this year. BPC will have an obligation to inject equity of Rs. 592,000,000/- till the completion

of the project construction. The project is under PPA negotiation stage.

Keton Hydropower Limited

BPC has purchased 90% shares in Keton Hydropower Limited for the development of the 42-MW Marsyangdi Hydropower Project in the southern part of Lamjung District in western Nepal. The due diligence study of the project has been completed and the feasibility study is being conducted. BPC is the major shareholder in Keton Hydropower Limited. BPC has injected Rs. 14,400,000 equity investment in this company in this year.

After completion of feasibility study of the project, BPC will have an obligation to inject equity of Rs. 1,080,000,000/- on its part of 90% shareholding progressively till the completion of project construction.

BPC Services Limited

BPC is the sole owner of BPC Services Limited (BPCSL), which was established in 2063/64 to provide operation and maintenance services to hydropower plants. Currently BPCSL provides operation and maintenance services to KHL and is negotiating with one power plant owner for undertaking O&M service contract.

BPCSL's turnover in FY 2065/66 is NRs. 7.023 million and its Net worth is NRs. 10.67 million.

Jhimruk Industrial Development Centre (P) Limited

JIDCO was established in 2054 B.S. in Pyuthan District as part of BPC's corporate social responsibility initiative. JIDCO promotes skill development among the locals and is involved in various community and enterprise development programmes.

In the FY 2065/66, JIDCO's turnover was NRs. 2.1 million*. The net worth of the company stood at NRs. 13 million*. EPS is negative by Rs. 3.13 per share and Net worth is Rs. 70.30 per share.*

Hydro Lab Private Limited

Hydro Lab Private Limited was established in 2053 B.S. to carry out research and provide consulting services in hydraulics and sediments. It assists water resource engineering professionals by conducting the physical hydraulic model studies needed to validate the design and operation modality of headworks. Hydro Lab conducted model studies for Upper Tama Koshi Hydropower Headworks, Devighat Intake, Melamchi Drinking Water Headworks, Jhimruk Intake, Khudi Hydropower Headworks, and others.

The turnover of Hydro Lab this fiscal year was NRs. 11.72 million*. When the fiscal year closed, Hydro Lab's net worth was NRs. 31.73 million. EPS is Rs. 61/- per share and Net worth is Rs. 382/- per share.

Jumdi Hydropower Private Limited

Jumdi Hydropower Private Limited (JHPL) is established to develop and operate the 1.75 MW Jumdi Khola Small

Hydropower project. Shareholders agreement has been signed with Sulabh Co-operative Society Limited on March 2009.

The WIP of Jumdi Khola Small Hydropower worth Rs.1,279,000 has been settled with this agreement for the minority equity share investment of Rs. 639,500 in Jumdi Hydropower Private Limited. The remaining Rs. 639,500 will be paid to BPC by Sulav Co-operative Society Limited with an agreed interest of 10%.

B. Participation in Joint Venture

BPC-HES-WRC Joint Venture

BPC is the lead partner of the JV, with other two JV partners, to conduct a feasibility study and an environmental impact assessment of the Madhi, Inkhu and Budhi Ganga rivers small hydropower project. The client of the project is DoED. The contract amount is NRs.26.32 million inclusive of VAT. BPC's primary responsibility is for the Madi Khola Small Hydropower Project, which is contracted at NRs.8.71 million. Loss on JV for the year was Rs. 4,270 and Retained earnings at the end of Ashadh 2066 was Rs. 1,618,750.

C. Provision of Loss in Investment

Provision of loss has been taken in BPC proportion of investment in shares in subsidiaries and in JVs as per the audited / latest available financial statements.

The financial statements of the BPC's subsidiaries and JV's are attached as annexes 1 and 2.

6. Post Balance Sheet Effect on Operation of Engineering Business as a Separate Entity

BPC is currently having an engineering business unit which is separate in nature from its main operation of generation and distribution of electricity. In view of the best practices of engineering business, to have focused and effective management of business units of BPC and the provisions in the Electricity Act, unbundling of Engineering business unit of BPC was approved by the Board. An Asset Transfer Agreement has been signed on 2nd March 2009 between PEEDA and BPC and Hydro Consult Pvt. Limited (HCPL) regarding acquisition of HCPL and the merger of BPC Engineering unit and HCPL.

HCPL is a consulting engineering service provider promoted by PEEDA and PEEDA has been supporting the HCPL by providing foreign professional engineers. BPC is planning to take 80% majority share of this company by transferring its Engineering business assets in HCPL.

The goodwill earned by BPC through long experience and successful records of BPC Engineering for delivering the qualitative engineering service in the hydropower sector in Nepal could be enhanced through merger of the BPC Engineering with HCPL.

The profit (loss) trend of the existing BPC Engineering business is as under:

2065/66	2064/65	2063/64	2062/63	2061/62
6,934,957	694,619	(404,765)	(3,195,309)	(6,869,102)

The proposed capital structure of HCPL after merger will be as under:

Shareholders	Equity Share Rs.	Preference Share Rs.
BPC	8,000,000	3,000,000
PEEDA	2,000,000	200,000
Total	10,000,000	3,200,000

The transferable net assets of BPC Engineering as per the agreement worth Rs. 11,000,000/-. BPC has received share certificate of Rs. 6,000,000 in advance from HCPL in consideration of the transfer of business assets of BPC Engineering which will be effective in post balance sheet date.

7. Receivables and WIP

Discontinued WIP worth Rs. 2,919,595 and Receivables worth Rs. 411,089 has been written off.

8. Cash in Hand and at Bank / Bank Overdraft

Cash in hand and in the bank includes a foreign currency balance of US\$ 3,247,152.

The overdraft facility from bank has been obtained against the security of fixed deposit receipts and hypothecation of Jhimruk Power plant asset.

9. Deferred Revenue Expenditure

The details relating to deferred revenue expenditure are given below.

Particulars	Amount (in NRs.)	Remarks
Last year's balance	4,764,578	
Addition for the year		
Jhimruk River training	5,193,341	Shall be written off within 3 years
Total	9,957,919	
Less amortization		
Jhimruk River training	1,731,114	1/3 Amortisation (1st year)
Jhimruk River training	2,122,772	1/3 Amortisation (2nd year)
Jhimruk River training	219,032	1/3 Amortisation (3rd year)
VSAT expenses	150,000	1/5 Amortisation
Total amortization for the year	4,222,918	
Balance to be amortized	5,735,001	

10. Sale/Purchase of Electricity: Andhikhola Power Plant

Particulars	kWh	Amount (in NRs.)
Total electricity generation	36,669,650	
Total sales	35,010,496	
Sold to NEA @ NRs.3.55 per kWh	23,821,056	84,564,748
Sold to local consumers at an average of NRs.3.942 per kWh	11,189,440	44,112,337
Internal consumption	136,313	
Transit loss	2,857,031	
Purchase from NEA	(1,334,189)	(4,736,372)

11. Sale/Purchase of Electricity: Jhimruk Power Plant

Particulars	kWh	Amount (in NRs.)
Total electricity generation	64,541,732	
Total sales	61,328,350	
Sold to NEA @ Rs.4.91 per kWh	59,172,776	290,538,330
Sold to local consumers at an average of Rs.5.374 per kWh	2,155,574	11,584,782
Internal consumption	242,313	
Transit loss	2,007,849	
Purchase from NEA	(347,910)	(1,708,238)

12. Administrative Expenses

The expenses of the Head office, Butwal office and those of the operations support office are treated as administrative expenses. This also includes net development expenditure Rs. 4,723,890 recognized in P/L account during the fiscal year.

13. Dividend Income

Dividend income net of tax during the fiscal year are as under:

Name of Company	US Dollar	Equivalent Rs.
Himal Power Limited	1,312,804	102,430,176
Nepal Hydro & Electric Limited	-	1,700,025
BPC Services Limited	-	712,500
Total		104,842,701

In booking the Income from dividend, BPC follows generally accepted accounting principle on cash basis. But in the particular case of dividend amounting US\$ 998,030 from HPL, is booked on accrual basis.

HPL's Share purchase agreement (for additional shares 348,168) was signed on 23 October 2008. The closing date was due on 31st December 2008. The approval process from DoI was delayed and approval received on 15th July 2009 (31 Ashadh 2066). The formal transaction took place on 15th July 2009 with the price adjustment linked with agreed LIBOR interest rate of the closing day as per the provision of the agreement. The Share certificate issued on the same day and the share purchase were accounted accordingly. The dividend was also declared on the same day after the issue of share certificates. Payment is received after post balance sheet date.

14. Provision for Corporate Tax

As per Electricity Act 2049, income tax on the sale of electricity generated by Jhimruk power plant is exempted upto end of Shrawan 2066. Income tax on the sale of electricity generated by Andhikhola power plant was exempted until 18 Jestha, 2063. So, tax provisions are made for Income from Andhikhola Power Plant and for income from engineering and other sources. The dividend received from HPL is the net of tax, hence, no tax provisions are made for this income.

Particulars	Taxable income	Tax provision
Net Income from Engineering and Other Sources	36,445,035	9,111,259
Net Income from Andhikhola Center	15,678,152	3,135,630
Total	52,123,187	12,246,889

BPC's taxable income for the year after tax audit may be different than the figures mentioned above which are as per self tax assessment. Difference if any, will be adjusted from retained earnings.

15. Transactions with Related Parties

Business transactions were conducted with related parties in line with the Section 93 (3.C) of the Company Act and as per BPC rules and regulations.

Name of transaction party	Amount (in NRs.)	Items/Services procured
Trishakti Cable Industries (P) Ltd.	3,480,083	Purchase of materials, etc.
Mercantile Communications (P) Ltd	1,530,218	Proprietary VSAT service, computers, etc.

16. Transactions with Subsidiaries

Following transactions were made with the subsidiary companies:

Name of transaction party	Amount (in NRs.)	Nature of transaction
Nepal Hydro & Electric Limited	21,680,282	Repair and maintenance of power plant
Khudi Hydropower Limited	9,082,935	Engineering and management support services
BPC Services Limited	1,609,296	Secondment of human resources
Nyadi Hydropower Limited	14,141,999	Engineering and management support services
Keton Hydropower Limited	10,709,815	Engineering and management support services

17. Provision for Housing Facilities

No provision has been made for staff housing facilities as BPC provides housing facilities to its staff at site offices and housing allowance is being paid to the employees in the remuneration package.

18. REEP and the JDMP Project under NFMA Financial Support

BPC signed an agreement with the NMFA on 30 November, 2006, to get the Norwegian Government's support for rural electrification and for the mitigation of the adverse impact that diverting water to the Jhimruk power plant at downstream areas. It will provide electricity to the people who live in these areas in order to improve their standard of living. The status as on balance sheet date is as under:

Particulars	Contributions (in NRs.)			Total
	NMFA	BPC	Community Contribution	
Advance received during the year	33,666,385			
Interest earned	1,154,693			
Total NMFA Grant for the year	34,821,078			
Funds used (expenditure)				
REEP	25,914,335	10,309,225	3,932,897	40,156,457
JDMP	7,522,369	2,148,972	2,731,325	12,402,666
Total funds used	33,436,704	12,458,197	6,664,222	52,559,123
Fund surplus for the year	1,384,374			
Fund balance b/f	28,574,064			
Total NMFA Fund balance	29,958,438			

BPC will retain ownership of the extended distribution system (REEP) but ownership of the infrastructure project (JDMP) will be transferred to the local community after the project is completed (as per clause 3.1 of the REEP final inception report and clause 5.1 of the JDMP final inception report approved by NMFA on 10 September, 2007). The costs under REEP NRs. 38,314,123 is capitalized; the NMFA portion of JDMP, NRs. 7,522,369 has been adjusted from advance received from NMFA and the BPC portion of JDMP, NRs. 2,148,972 has been written off as a part of mitigation expenses. Community contribution is shown both as income and expenses in line with the grant provision.

19. Contingent Tax Liability (Net of Tax Provision)

As per the tax assessment notices received from the Large Taxpayers Office of the GoN, the company is being imposed additional tax liabilities. The company has filed appeal proceedings for administrative review with Inland Revenue Department against the assessment orders.

Period	Additional Tax Liability
FY 2059/60	
2059.4.1 to 2059.10.14	237,891,365
2059.10.15 to 2060.3.32	9,446
FY 2060/61	17,749,128
Total	255,649,939

The company had received tax assessment letter for the fiscal year 2061/62 on 2066/2/31 (ref. 7568) from LTPO with an additional tax of Rs. 616,096. The company has written a letter dated 2066/3/10 (ref. 5827) requesting LTPO to adjust against advance tax. No response is received from LTPO for confirmation.

No provision is made for contingent tax liability.

20. Deferred Tax

Consideration of Prudence for Recognition of Deferred Tax Assets

The tax effect of timing differences that result in a debit balance or a debit to the deferred tax balance should not be carried forward unless there is reasonable expectation of realization or there is absolute certainty that future taxable profits will arise.

“The deferred tax assets resulting from temporary differences and from tax loss carry forwards are to be given recognition only if realization is deemed to be probable.” (Interpretation and Application of IAS by Barry J. Epstein & A A Mirza).

The following items have given rise to deferred tax as per the financial statement

a. Deferred Asset:		
Accumulated Provision for loss:	Rs.	37,639,000
b. Deferred Liabilities:		
Deferred Revenue Expenditure	Rs.	5,735,000
c. Net Deferred Assets	(a-b)	Rs. 31,904,000
d. Deferred Tax Asset effect @25%	Rs.	7,976,000

Loss provision arises from the investment in subsidiary companies and JVs. There is no absolute certainty in recouping the accumulated loss of the respective companies in the near future, no accounting effect for deferred tax has given in the current year's annual accounts.

21. Capital Commitment

a) 30-MW Kabeli-A Hydropower Project:

On 29 January, 2007 BPC signed a joint venture agreement with SEL, SCP Hydro International Inc.,

Canada; Asia-Pasific Power-Tech Company Limited, China; and KHL, for the development of the 30-MW Kabeli-A hydropower project. The proposal submitted to the DoED, GoN with a bank guarantee (bid bond) of US\$500,000 with the 10% margin deposit of US\$ 50,000 for development of the project on BOOT basis has been approved by GoN. BPC will invest 10.8% of the project cost as equity investment based on the estimated project cost of US\$ 58.778 million, BPC share will be US\$6.35 million.

b) 20-MW Nyadi Hydropower Project:

BPC has a shareholder's agreement with Lamjung Electricity Development Company Limited for the development of the 20-MW Nyadi hydropower project. BPC has an equity investment of Rs. 38,498,800 in this project. BPC will have an obligation to inject equity of Rs. 592,000,000/- till the completion of the project construction.

c) 42-MW Marsyangdi-III Hydropower Project:

BPC has purchased 90% share in Keton Hydropower Limited for the development of the 42-MW Marsyangdi-III hydropower project. BPC has an equity investment of Rs. 14,400,000 in this project. After completion of feasibility study of the project, BPC will have an obligation to inject equity of Rs. 1,080,000,000/- on its part.

22. Price Risk

For purchase of goods, it is limited to the foreign currency exchange variation incase of specific spares and original equipment manufacturer's spares from abroad. There is no risk on sale of power as the company has fixed rate power purchase agreement with NEA.

23. Figures of the previous year and rounding off

The figures of the FY 2064/65 have been regrouped and reclassified wherever necessary to make comparison with the figures of the FY 2065/66. All figures are in Nepalese rupees if not otherwise specified and have been rounded off to the nearest rupee.

BALANCE SHEET

As on 31 Ashadh 2066 (15 July 2009)

ANNEX - 1 Relating to the Accounting Note # 5

Particulars	Provisional	Provisional	Provisional	Provisional	Audited	Audited	Audited
	Khudi	Nyadi	Keton	NHE	BPCSL	BPC-HES -WRC JV	BPC-SILT JV
Sources of Fund							
Shareholder's Fund							
Share Capital	165,650,000	39,599,600	16,000,000	139,530,000	10,000,000	-	-
Reserve & Surplus	(59,665,619)	-	-	47,446,894	666,996	1,618,750	(859,173)
Total Shareholder's Fund	105,984,381	39,599,600	16,000,000	186,976,894	10,666,996	1,618,750	(859,173)
Other Funds							
Mid Term & Long Term Debt	387,307,679	-	-	44,422,903	-	-	-
Total Other Funds	387,307,679	-	-	44,422,903	-	-	-
TOTAL	493,292,059	39,599,600	16,000,000	231,399,797	10,666,996	1,618,750	(859,173)
Application of Fund							
Fixed Assets							
Gross Block	537,941,925	1,026,935	339,780	229,531,465	150,000	-	-
Less: Depreciation	65,362,895	472,404	-	122,367,965	33,750	-	-
Net Fixed Assets	472,579,030	554,531	339,780	107,163,500	116,250	-	-
Capital Work in Progress	1,128,332	-	-	36,934,727	-	-	-
Major Repair (Flood)	107,202,448	-	-	-	-	-	-
Current Assets							
Cash in Hand and at Bank	1,812,306	550,681	137,312	1,377,304	2,852,354	292,807	453,003
Advances & Deposits	31,617,076	38,350	8,200	20,097,127	1,150,867	87,342	-
Debtors & Accounts Receivable	-	322,944	-	137,957,678	14,395,036	5,708,787	587,061
Inventories	-	-	-	27,617,230	-	-	-
Project in Progress	-	43,319,839	17,398,750	27,282,540	-	-	-
Letter of Credit Account	-	-	-	2,761,991	-	-	-
Total Current Assets	33,429,382	44,231,814	17,544,262	217,093,870	18,398,257	6,088,936	1,040,064
Less: Current Liabilities							
Insurance Claim Advance	20,000,000	-	-	-	-	-	-
Creditors & Other Payables	114,858,805	5,186,745	1,884,042	77,689,587	7,201,382	4,470,186	1,899,237
Short Term Loan (Overdraft)	-	-	-	23,236,246	-	-	-
Provisions	-	-	-	27,230,217	646,129	-	-
Dividend Payable	-	-	-	1,636,250	-	-	-
Total Current Liabilities	134,858,805	5,186,745	1,884,042	129,792,300	7,847,511	4,470,186	1,899,237
Net Current Assets	(101,429,423)	39,045,069	15,660,220	87,301,570	10,550,746	1,618,750	(859,173)
Pre-Operating Cost	10,715,052	-	-	-	-	-	-
Deferred Tax Assets	3,096,620	-	-	-	-	-	-
TOTAL	493,292,059	39,599,600	16,000,000	231,399,797	10,666,996	1,618,750	(859,173)

Profit & Loss Account

For the year ended 31 Ashadh 2066 (15 July 2009)

ANNEX - 2 Relating to the Accounting Note # 5

Particulars	Provisional	Provisional	Audited	Audited	Audited
	Khudi	NHE	BPCSL	BPC-HES-WRC JV	BPC-SILT JV
Operating Income					
Sale Revenue/ Consultancy Service	43,273,995	314,013,768	7,022,616	4,528,247	-
Total Operating Income	43,273,995	314,013,768	7,022,616	4,528,247	-
Operating Expenses					
Power Plant Expenses/ Expenses/ Cost of Sale	13,238,205	262,927,488	6,202,177	4,532,517	101,583
Total Operating Expenses	13,238,205	262,927,488	6,202,177	4,532,517	101,583
Gross Profit/ (Loss)	30,035,790	51,086,280	820,439	(4,270)	(101,583)
Interest Income	7,337	-	1,243,679	-	-
Other Income	-	-	325	-	-
Administrative Expenses	9,334,922	30,638,643	-	-	-
Income/ (Loss) from Operation	20,708,206	20,447,637	2,064,443	(4,270)	(101,583)
Other Expenses					
Depreciation	21,971,024	7,508,940	33,750	-	-
Interest Expenses	36,918,150	9,913,803	-	-	-
Total Other Expenses	58,889,174	17,422,743	33,750	-	-
Income from Other Sources					
Foreign Currency Exchange (Loss)/Gain	-	(2,240,305)	-	-	-
Grant for Mitigation from SCPHI	1,742,526	-	-	-	-
Non operating income	-	158,077	-	-	-
Total Income From Other Sources	1,742,526	(2,082,228)	-	-	-
Profit (Loss) Before Bonus & Tax	(36,438,442)	942,666	2,030,693	(4,270)	(101,583)
Profit (Loss) of CWE-NHE JV	-	(14,811,036)	-	-	-
Provision for Employee's Bonus	-	85,697	184,608	-	-
Provision for Corporate Tax	-	214,242	461,521	-	-
Net Profit (Loss) Before Appropriation	(36,438,442)	(14,168,309)	1,384,564	(4,270)	(101,583)
Profit & Loss Appropriation Account :					
Appropriation					
Last Years Balance	(23,227,177)	61,615,203	282,431	-	-
Profit/ (Loss) for the year	(36,438,442)	(14,168,309)	1,384,564	(4,270)	(101,583)
Total Profit (Loss)	(59,665,619)	47,446,894	1,666,995	(4,270)	(101,583)
Deffered Tax Income	-	-	-	-	-
Less: Interim Dividend	-	-	-	-	-
Proposed Dividend	-	-	1,000,000	-	-
Total Dividend	-	-	1,000,000	-	-
Deffered Tax for the previous year	-	-	-	-	-
Balance Transferred to Balance Sheet	(59,665,619)	47,446,894	666,995	(4,270)	(101,583)

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ANDHIKHOLA HYDRO ELECTRIC CENTER

Galyang, Syangja
Tel: 977-075-529152
Fax: 977-075-529152



JHIMRUK HYDRO ELECTRIC CENTER

Darimchaur, Pyuthan
Tel: 977-086-429041
Fax: 977-086-429040



LIASON OFFICE

Campus Road, Butwal
Tel: 977-071-540809
Fax: 977-071-541058



CORPORATE OFFICE

P.O. Box. 11728
Gangadevi Marga - 313, Buddha Nagar
Kathmandu, Nepal
Tel: 977-1-4781776, 4784026
Fax: 977-1-4780994
E-mail: info@bpc.com.np



