

SJVN Arun-3 Power Development Company Pvt. Ltd.
Lokhanthali, Madhyapur, Thimi, Bhakatapur, Nepal

Statement of Financial Position

As at 16th July 2019 (Corresponding to 31Ashad 2076)

Financial Year 2075-76

INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDER OF SJVN ARUN - 3 POWER DEVELOPMENT COMPANY PVT. LTD.

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of SJVN Arun - 3 Power Development Company Pvt. Ltd. (the "Company"), which comprise the statement of financial position as at 31 Ashadh 2076 (16 July 2019), the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 Ashadh 2076 (16 July 2019), and its financial performance and its cash flows for the year then ended in accordance with Nepal Financial Reporting Standards (NFRSS).

Basis for Opinion

We conducted our audit in accordance with Nepal Standards on Auditing (NSAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the ICAN's Handbook of Code of Ethics for Professional Accountants together with the ethical requirements that are relevant to our audit of financial statements in Nepal, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the ICAN's Handbook of Code of Ethics for Professional Accountants. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with NFRSS, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

As part of an audit in accordance with NSAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material

misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Report on Other Legal and Regulatory Requirements

We have obtained information and explanations asked for, which, to the best of our knowledge and belief, were necessary for the purpose of our audit. In our opinion, statement of financial position as at 31 Ashadh 2076 (16 July 2019), the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended have been prepared in accordance with the requirements of the Companies Act 2063 and are in agreement with the books of account of the Company; and proper books of account as required by law have been kept by the Company.

To the best of our information and according to explanations given to us and so far appeared from our examination of the books of account of the Company necessary for the purpose of our audit, we have not come across cases where Board of Directors or any employees of the Company have acted contrary to the provisions of law relating to the accounts, or committed any misappropriation or caused loss or damage to the Company relating to the accounts in the Company.



Sanjeev Kumar Mishra
Partner

PKF T R Upadhyaya & Co.
Chartered Accountants

124 Lal Colony Marg, Lal Durbar, Kathmandu, Nepal

Date: November 10, 2019

UDIN: 191113CA00160ydW0n

SJVN Arun-3 Power Development Company Pvt. Ltd.
Lokhanthali, Madhyapur Thimi, Bhaktapur, Nepal


Statement of Financial Position

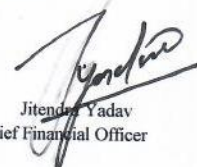
As at 16 July 2019 (corresponding to 31 Ashadh 2076)

	Note	Amount in NPR	
		As at 16 July 2019	As at 16 July 2018
ASSETS			
Non-current assets			
Property, plant and equipment	3	1,47,91,63,105	1,34,98,49,843
Capital Work-in-progress	4	7,68,86,50,252	3,44,91,86,018
Intangible asset	5	4,14,848	-
Financial assets			
Advance and deposits	6	3,06,750	1,21,500
Other non current assets	7	1,21,39,84,814	9,55,77,330
Total non-current assets		10,38,25,19,769	4,89,47,34,691
Current assets			
Financial assets			
Advance and deposits	6	36,27,793	50,63,774
Cash and cash equivalents	8	20,84,84,121	5,40,64,789
Current tax assets	13		2,08,803
Other current assets	7	66,11,64,523	7,82,81,833
Total current assets		87,32,76,437	13,76,19,199
Total assets		11,25,57,96,206	5,03,23,53,890
EQUITY AND LIABILITIES			
Equity			
Equity share capital			
Retained earnings	9	7,91,63,72,200	1,10,56,52,200
Total equity		7,97,72,54,746	1,09,63,90,632
Liabilities			
Non-current liabilities			
Financial liabilities			
Advance and other payables		-	-
Total non-current liabilities		-	-
Current liabilities			
Provisions			
Financial liabilities	10	7,04,56,996	3,83,92,567
Advance and other payables	11	78,30,76,095	27,44,58,814
Other current liabilities	12	2,41,44,95,236	3,62,31,11,878
Current Tax Liability (Net)	13	1,05,13,133	
Total current liabilities		3,27,85,41,460	3,93,59,63,259
Total liabilities		3,27,85,41,460	3,93,59,63,259
Total equity and liabilities		11,25,57,96,206	5,03,23,53,891

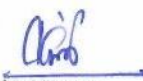
The accompanying notes form an integral part of the financial statements.

For and on behalf of the Company


Sujit Jha
Company Secretary

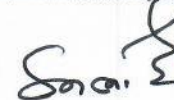

Jitendra Yadav
Chief Financial Officer


Arun Dhiman
Chief Executive Officer


Nand Lal Sharma
Chairman and Managing Director

For T R Upadhy & Co., Chartered Accountants

As per our attached report of even date


Sanjeev Kumar Mishra
Partner

Place:-
Date:




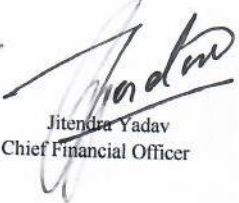

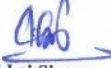
SJVN Arun-3 Power Development Company Pvt. Ltd.
Lokhanthali, Madhyapur Thimi, Bhaktapur, Nepal

Statement of Profit or Loss and Other Comprehensive Income
For the year ended 16 July 2019 (corresponding to 31 Ashadh 2076)

	Note	Year Ended 16 July 2019	(Amount in NPR) Year Ended 16 July 2018
Income			
Revenue		-	-
Other income		-	-
Total Income	14	<u>9,87,93,369</u>	<u>42,29,524</u>
Expenses			
Employee benefit expenses	15	49,85,244	45,21,329
Other expenses	16	2,82,640	3,20,555
Total expenses		<u>52,67,884</u>	<u>48,41,884</u>
Operating profit/(loss) before tax		<u>9,35,25,485</u>	<u>(6,12,360)</u>
Income tax		2,33,81,371	-
Net profit/(loss) after tax		<u>7,01,44,114</u>	<u>(6,12,360)</u>
Other comprehensive income			
<i>Other comprehensive income that will not be reclassified to profit or loss in subsequent periods</i>			
Defined benefit plan actuarial gain/(losses)			
Total other comprehensive income		-	-
Total comprehensive income		<u>7,01,44,114</u>	<u>(6,12,360)</u>

The accompanying notes form an integral part of the financial statements

For and on behalf of the Company

 Sujit Jha Company Secretary	 Jitendra Yadav Chief Financial Officer	 Arun Dhiman Chief Executive Officer	 Nand Lal Sharma Chairman and Managing Director
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For T R Upadhyaya & Co., Chartered Accountants

As per our attached report of even date


 Sanjeev Kumar Mishra
 Partner



Place:-
Date:

SJVN Arun-3 Power Development Company Pvt. Ltd.
Lokhanthali, Madhyapur Thimi, Bhaktapur, Nepal


Statement of Cash Flows
For the year ended 16 July 2019 (corresponding to 31 Ashadh 2076)

	Note	Year Ended 16 July 2019	Year Ended 16 July 2018
<i>(Amount in NPR)</i>			
Cash flows from operating activities			
Profit for the year from continuing operations		7,01,44,114	(6,12,360)
Adjustments for:			
Provision for loss due to fire			
Adjustment for operating assets and liabilities:			
(Increase)/decrease in Inventories		-	-
(Increase)/decrease in financial assets		12,50,731	2,52,69,572
(Increase)/decrease in other assets		(1,70,10,81,371)	6,28,47,553
Increase/(decrease) in provisions		3,20,64,429	1,41,59,770
Increase/(decrease) in financial liabilities		50,86,17,281	1,34,52,37,776
Increase/(decrease) in other liabilities		(1,19,81,03,509)	1,66,88,441
Net cash used by operating activities-(A)		(2,28,71,08,325)	1,46,35,90,752
Net cash used by investing activities			
Purchase of property, plant and equipment (including IA)	3	(14,23,73,433)	(12,96,48,858)
Increase in Project WIP (net of depreciation)	4	(4,22,68,18,910)	(1,29,40,07,963)
Net cash used by investing activities-(B)		(4,36,91,92,343)	(1,42,36,56,821)
Cash flows from financing activities			
Proceeds from the issue of equity share capital		6,81,07,20,000	-
Net cash generated by investing activities-(C)		6,81,07,20,000	-
Net increase in cash and cash equivalents-(A+B+C)		15,44,19,332	3,99,33,931
Cash and cash equivalents at the beginning of the year		5,40,64,789	1,41,30,858
Cash and cash equivalents at the end of the year	7	20,84,84,121	5,40,64,789

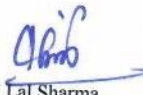
The accompanying notes form an integral part of the financial statements.

For and on behalf of the Company


Sujit Jha
Company Secretary

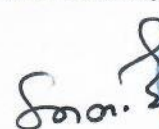

Jitendra Yadav
Chief Financial Officer


Arun Dhiman
Chief Executive Officer


Nand Lal Sharma
Chairman and Managing Director

For T R Upadhya & Co., Chartered Accountants

As per our attached report of even date


Sanjeev Kumar Mishra
Partner



Place:-
Date:

SJVN Arun-3 Power Development Company Pvt. Ltd.
Lokhanthali, Madhyapur Thimi, Bhaktapur, Nepal


Statement of Changes in Equity
For the year ended 16 July 2019 (corresponding to 31 Ashadh 2076)

	<u>Issued Capital</u>	<u>Retained Earnings</u>	<i>(Amount in NPR)</i> <u>Total</u>
FY 2018-19			
Balance as at 17 July 2018 (corresponding to 1 Shrawan 2075)	1,10,56,52,200	(92,61,568)	1,09,63,90,632
<i>Total Comprehensive Income attributable to owners</i>			
Profit/(Loss) for the year	-	7,01,44,114	7,01,44,114
Other comprehensive income	-	-	-
Total comprehensive income for the period	-	7,01,44,114	7,01,44,114
<i>Transaction with owners recorded directly in equity</i>			
Issue of ordinary share	6,81,07,20,000	-	6,81,07,20,000
Total contributions by owners	6,81,07,20,000	-	6,81,07,20,000
Balance as at 16 July 2019 (corresponding to 31 Ashadh 2076)	7,91,63,72,200	6,08,82,546	7,97,72,54,746
FY 2017-18			
Balance as at 16 July 2017 (corresponding to 1 Shrawan 2074)	1,10,56,52,200	(86,49,208)	1,09,70,02,992
<i>Total Comprehensive Income attributable to owners</i>			
Profit/(Loss) for the year	-	(6,12,360)	(6,12,360)
Other comprehensive income	-	-	-
Total comprehensive income for the period	-	(6,12,360)	(6,12,360)
<i>Transaction with owners recorded directly in equity</i>			
Issue of ordinary share	0	-	-
Total contributions by owners	0	-	-
Balance as at 16 July 2018 (corresponding to 32 Ashadh 2075)	1,10,56,52,200	(92,61,568)	1,09,63,90,632


The accompanying notes form an integral part of the financial statements.

For and on behalf of the Company


Sujit Jha
Company Secretary



Nitendra Yadav
Chief Financial Officer


Arun Dhiman
Chief Executive Officer


Nand Lal Sharma
Chairman and Managing Director

For T R Upadhya & Co., Chartered Accountants

As per our attached report of even date


Sanjeev Kumar Mishra
Partner



Place:-
Date:

SJVN Arun-3 Power Development Company Pvt. Ltd.

Notes to the Financial Statements

Note 3: Property, plant and equipments
(see accounting policy in note 2.7)

Cost	(Amount in NPR)								
	Land	Buildings	Plant and Machinery	Furniture Fixtures and Equipments	Electrical Works	Electrical Equipments	Office Equipments	Data Processing Equipments	Total
Balance as at 1 Shrawan 2075 (17 July 2018)	1,22,32,18,726	10,61,74,975	32,770	1,01,83,312	89,02,897	70,47,473	31,45,166	62,41,586	1,36,49,46,905
Addition during the year	2,52,95,160	4,89,15,115	10,45,250	4,83,37,508	24,22,399	80,00,793	38,94,385	41,51,863	14,20,62,473
Adjustment/(Transfer) during the year	-	-	-	(1,20,000)	-	-	(22,400)	(80,000)	(2,22,400)
Balance as at 31 Ashadh 2076 (16 July 2019)	1,24,85,13,886	15,50,90,090	10,78,020	5,84,00,820	1,13,25,296	1,50,48,266	70,17,151	1,03,13,449	1,50,67,86,978
Accumulated Depreciation									
Balance as at 1 Shrawan 2075 (17 July 2018)	-	38,12,160	19,275	40,09,213	11,46,206	12,78,753	11,03,420	37,28,035	1,50,97,062
Depreciation for the year	-	52,95,846	52,665	32,10,210	5,36,088	6,73,837	4,19,958	23,95,383	1,25,83,987
Depreciation on adjustment/(transfer) during the year	-	-	-	(9,495)	-	-	(12,129)	(35,552)	(57,176)
Balance as at 31 Ashadh 2076 (16 July 2019)	-	91,08,006	71,940	72,09,928	16,82,294	19,52,590	15,11,249	60,87,866	2,76,23,873
Net Carrying Value									
Balance as at 32 Ashadh 2075 (16 July 2018)	1,22,32,18,726	10,23,62,815	13,495	61,74,099	77,56,691	57,68,720	20,41,746	25,13,551	1,34,98,49,843
Balance as at 31 Ashadh 2076 (16 July 2019)	1,24,85,13,886	14,59,82,084	10,06,080	5,11,90,892	96,43,002	1,30,95,676	55,05,902	42,25,583	1,47,91,63,105









Note 4: Capital Work-in-Progress

(see accounting policy in note 2.9)

(Amount in NPR)

	1 Shrawan 2074 (16 July 2017)	Addition during FY 2074/75	32 Ashadh 2075 (16 July 2018)	Addition during FY 2075/76	31 Ashadh 2076 (16 July 2019)
Access Road	28,32,98,717	43,78,88,098	72,11,86,815	1,39,83,77,408	2,11,95,64,223
Building under construction	1,76,01,086	4,90,63,861	6,66,64,947	14,27,11,213	20,93,76,160
Civil works	-	5,62,26,181	5,62,26,181	1,19,87,64,474	1,25,49,90,655
Electrical works	-	59,21,813	59,21,813	14,04,18,963	14,63,40,776
Electro Mechanical Works	-	-	-	19,85,68,163	19,85,68,163
Expenditure incurred during construction (see note 4.1)	1,09,38,35,378	60,47,27,659	1,69,85,63,037	1,15,10,16,781	2,84,95,79,818
Others*	75,59,84,240	14,46,38,985	90,06,23,225	96,07,232	91,02,30,457
Total	2,15,07,19,421	1,29,84,66,597	3,44,91,86,018	4,23,94,64,234	7,68,86,50,252

* Others includes preliminary cost of NPR 451.4 million paid to Government of Nepal (GON) as consideration for takeover of the project as per MOU between Government of Nepal and SJVN Limited on 2 March 2008 and preliminary cost of NPR 120.63 million relating to project management consultancy services for execution of components of Transmission system.

Note 4.1: Detail breakdown of expenditure incurred during construction

These expenditure includes cost directly attributable to CWIP such as costs of employee benefits, depreciation on PPE, consultancy charges relating to project, rental expenses and other cost attributable to construction and development of project.

	Year ending 31 Ashadh 2076 (16 July 2019)	Year ending 32 Ashadh 2075 (16 July 2018)
Employee Benefit Expenses:		
Salaries, Wages, Allowances and Benefits	50,81,44,530	29,90,16,088
Contribution to Provident and Other Funds	3,87,04,334	1,90,94,910
Welfare Expenses	25,23,70,933	14,63,14,743
	79,92,19,797	46,44,25,741
Repair and Maintenance:		
Buildings	1,26,01,899	1,01,52,505
Others	77,203	2,37,177
	1,26,79,102	1,03,89,682
Project Office Expenses		
Running & maintenance of Office	1,16,98,468	52,88,869
Rent	81,61,630	59,57,709
Insurance	3,44,701	-
Security Expense	99,27,855	12,18,908
Electricity Charges	40,27,987	26,28,109
Travelling and Conveyance	2,15,72,501	1,73,98,028
Training and Recruitment Expense	22,14,229	41,41,729
Legal Expense	5,18,476	21,25,927
Professional and Consultancy Charges	6,43,86,747	1,85,74,849
Communication Expense	23,10,296	15,76,445
Printing and Stationery	38,85,558	10,95,366
	12,90,48,448	6,00,05,939
Other expenses		
Advertisement & Publicity	37,83,266	1,66,79,686
EDP Expense	16,80,136	9,96,229
Hiring of Vehicles	5,47,28,648	3,26,41,514
Entertainment Expense	42,282	3,73,313
Books & Periodical	-	1,27,296
Business Promotion Expenses	43,46,528	1,95,470
Environment & Ecology Expenses	64,455	1,57,825
Safety expenses	3,22,717	5,650
Expenses on departmental meetings	23,47,499	19,36,885
Expenses on visits of dignitaries	85,84,522	80,51,735
Rehabilitation and resettlement expenses	20,30,005	1,00,05,624
Miscellaneous Expenses	31,62,826	14,84,251
Depreciation and Amortization Expense	1,27,02,499	44,41,919
	9,37,95,383	7,70,97,397
Interest and Finance Charges:		
Other finance charges		
	12,32,11,551	
Total Expense	1,15,79,54,281	61,19,18,759
Less: Recovery & Receipts		
Employees	-	15,16,249
Contractors	-	52,00,232
Misc. Income	69,37,500	4,74,619
	69,37,500	71,91,100
Net expenditure attributable to capital work in progress	1,15,10,16,781	60,47,27,659

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SJVN Arun-3 Power Development Company Pvt. Ltd.

Notes to the Financial Statements

Note 5: Intangible Assets

	<i>(Amount in NPR)</i>	
	Intangible Assets	Total
<u>Cost</u>		
Balance as at 1 Shrawan 2075 (17 July 2018)	-	-
Addition during the year	-	-
Transfer/Adjustment during the year	5,33,360	5,33,360
Balance as at 31 Ashadh 2076 (16 July 2019)	-	-
	<u>5,33,360</u>	<u>5,33,360</u>
<u>Accumulated Depreciation</u>		
Balance as at 1 Shrawan 2075 (17 July 2018)	-	-
Depreciation for the year	-	-
Depreciation on transfer/adjustment during the year	1,18,512	1,18,512
Balance as at 31 Ashadh 2076 (16 July 2019)	-	-
	<u>1,18,512</u>	<u>1,18,512</u>
<u>Net Carrying Value</u>		
Balance as at 32 Ashadh 2075 (16 July 2018)	-	-
Balance as at 31 Ashadh 2076 (16 July 2019)	4,14,848	4,14,848
	<u>4,14,848</u>	<u>4,14,848</u>

* Intangible assets includes the value of designing of Official SAPDC website during the year.

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SJVN Arun-3 Power Development Company Pvt. Ltd.

Notes to the Financial Statements

Note 6: Financial assets- Advance and deposits
(see accounting policy in note 2.11.A)

	(Amount in NPR)	
	As at 16 July 2019	As at 16 July 2018
Advance to employee*	36,27,793	50,63,774
Security deposit	3,06,750	1,21,500
Total	39,34,543	51,85,274
	Current	50,63,774
	Non-Current	1,21,500

*Advance to employee includes interest free advances for transfer advance, furniture and multi purpose. Such advances are recovered from monthly remuneration of respective employees.

Note 7: Other assets

	(Amount in NPR)	
	As at 16 July 2019	As at 16 July 2018
Prepaid Expenses	17,85,692	-
Mobilization advance to government agencies	3,88,04,706	9,55,77,330
Advance to government departments	14,43,74,317	7,81,21,158
Mobilization advance against bank guarantee	1,19,18,84,733	-
Machinery/equipment advance against hypothecation	32,55,96,285	-
Advance to contractors- capital un secured	8,26,95,593	-
Accrued interest on advance to contractors-current	8,99,18,310	-
Other advances	89,701	1,60,675
Total	1,87,51,49,337	17,38,59,163
	Current	7,82,81,833
	Non-Current	9,55,77,330

Note 8: Cash & cash equivalents

(see accounting policy in note 2.12)

	(Amount in NPR)	
	As at 16 July 2019	As at 16 July 2018
Short term deposits and balance with bank	20,75,84,121	5,31,64,789
Margin Money deposited with banks	9,00,000	9,00,000
Total	20,84,84,121	5,40,64,789

(Handwritten signatures)



SJVN ARUN 3 Power Development Company Pvt. Ltd.

Notes to the Financial Statements

Note 9: Share Capital

(see accounting policy in note 2.13)

	<u>As at 16 July 2019</u>	<u>As at 16 July 2018</u>
	<i>(Amount in NPR)</i>	
Authorized Capital		
Ordinary 247,500,000 Shares @ NPR 100 each	24,75,00,00,000	24,75,00,00,000
Total	<u>24,75,00,00,000</u>	<u>24,75,00,00,000</u>
Issued Capital		
Ordinary 79163722 Shares @ NPR 100 each	7,91,63,72,200	1,10,56,52,200
Total	<u>7,91,63,72,200</u>	<u>1,10,56,52,200</u>
Subscribed and paid up capital (Ordinary)		
Ordinary 79163722 Shares @ NPR 100 each	7,91,63,72,200	1,10,56,52,200
Total	<u>7,91,63,72,200</u>	<u>1,10,56,52,200</u>

Reconciliation of number of shares

	<u>As at 16 July 2019</u>	<u>As at 16 July 2018</u>
Number of shares at the beginning of the year	11056522	11056522
Add: Issue during the year	68107200	-
Number of Shares at the end of the year	<u>79163722</u>	<u>11056522</u>

Note 10: Provisions

(see accounting policy in note 2.14)

	<u>As at 16 July 2019</u>	<u>As at 16 July 2018</u>
	<i>(Amount in NPR)</i>	
Provision for exgratia/bonus	7,04,56,996	3,64,25,442
Provision for wage revision	-	19,67,125
Total	<u>7,04,56,996</u>	<u>3,83,92,567</u>
	<u>7,04,56,996</u>	<u>3,83,92,567</u>
Current	7,04,56,996	3,83,92,567
Non- Current	-	-

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SJVN ARUN 3 Power Development Company Pvt. Ltd.

Notes to the Financial Statements

Note 11: Advance and other payables
(see accounting policy in note 2.11.B)

	As at 16 July 2019	<i>(Amount in NPR)</i> As at 16 July 2018
Security deposit collected from contractors	44,42,583	29,78,996
Earnest money deposit	71,52,587	83,54,658
Retention money	22,70,17,073	3,14,11,858
Audit fee payable	2,54,250	1,13,000
Leave and pension contribution payable	21,83,757	21,83,757
Gratuity payable	12,32,980	3,85,325
Liability for Employees' Remuneration and Benefits	15,56,527	10,34,214
TDS payable	-	1,93,47,530
Other payables	53,92,36,338	20,86,49,476
Total	78,30,76,095	27,44,58,814
	78,30,76,095	27,44,58,814
Current	78,30,76,095	27,44,58,814
Non- Current	-	-

Note 11.1: Disclosure relating to employee benefits

At the year ending 31 March, the obligation relating to Post-retirement benefits including gratuity, medical benefits, leave encashment and terminal benefits of employees are calculated using actuarial techniques by the qualified actuary. As post-retirement benefit is funded and settled by Parent Company, such obligations are booked as payable to related party (SJVN Limited) based on actuarial data provided by the Parent Company (SJVN Limited).

The following are the principal assumptions at the reporting date:

Actuarial Assumptions	FY 2018-19	FY 2017-18
Mortality Table	IALM (2006-08)	IALM (2006-08)
Discount rate	7.75%	7.60%
Future salary increase	6.50%	6.50%

The estimates of future salary increases, considered in actuarial valuation, take into account inflation, seniority, promotions and other relevant factors. Discount rate is based on the prevailing market yield of Government securities in India as at the period end for the estimated term of the obligation. Assumptions of the future mortality are based on published statistics and mortality table. The calculations of the defined benefit obligation is sensitive to the mortality assumptions

a) Defined Contribution plans:-

i) Employer's contribution to Provident Fund:

Fixed contribution to Provident Fund is paid at a predetermined rate to a separate trust, created by the holding company, which invests the fund in permitted securities. The contribution of NPR 14,959,549 (Previous Year: NPR 9,067,758) is recognized as expense, charged to Expenditure During Construction (EDC) / Statement of Profit & Loss account. The obligation of the company is limited to fixed contribution and to ensure a minimum rate of return to the members as specified by Government of India. In addition to this Company has also contributed an amount of NPR 838,699 (Previous Year: NPR 504,512) on account of PF in respect of employees recruited from Nepal during the year and same has been charged to Expenditure During Construction (EDC)

ii) Pension:

Holding company has Defined Contribution Pension Scheme as approved by Ministry of Power (MOP) and liability for the same for the year towards employees posted in the company on secondment is NPR 18,314,288 (Previous Year : NPR 7,556,470) and is recognized on accrual basis. The same is recognised as expense, charged to Expenditure during Construction (EDC) / Statement of Profit & Loss account.

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b) Defined benefit plans:**i) Gratuity:**

Holding company has a defined benefit gratuity plan, which is regulated as per the provisions of Payment of Gratuity Act, 1972. The scheme is managed by a separate trust, created by the holding company and liability for the same for the year towards employees posted in the company on secondment is NPR 5,200,102 including actuarial gain/loss amounting of 1,268,758 (Previous Year : NPR 1,411,270 including actuarial gain/loss of NPR -337006) and recognized on the basis of actuarial valuation. The same is recognised as expense charged to Expenditure during Construction (EDC). In addition to this an amount of NPR : 847,655 (Previous Year : NPR 385,325) has also recognized as gratuity expenses in respect of employees recruited from Nepal during the year and same has been charged to Expenditure during Construction.

ii) Leave encashment:-

Holding Company has a defined leave encashment plan for its Employees. Under this plan they are entitled to encashment of earned leaves and medical leaves subject to certain limits and other conditions specified for the same and liability for the same for the year towards employees posted in the company on secondment is NPR 27,886,112 including actuarial gain/loss of NPR 162,352,876 (Previous Year: NPR 8,040,821) provided on the basis of actuarial valuation. The same is recognised as expense, charged to Expenditure during Construction (EDC). In addition to this an amount of NPR 1,013,967 has also recognized provision on account of accrued leave upto 16.07.2019 in respect of employees recruited from Nepal during the year and same has been charged to Expenditure during Construction.

iii) Retired Employee Health Scheme:-

Holding Company has a Retired Employee Health Scheme, under which retired employee and the spouse are provided Medical facilities in the Company hospitals/empanelled hospitals. They can also avail treatment as out-patient subject to a ceiling fixed by the Company. Liability for the same for the year towards employees posted in the company on secondment is NPR 2,303,978 including actuarial gain/loss of NPR 1,734,318 (Previous Year: NPR 5,631,425 including actuarial gain/loss of NPR 2,801,206) provided on the basis of actuarial valuation. The same is recognised as expense, charged to Expenditure during Construction (EDC).

iv) Baggage Allowance/Service Reward on Retirement:

Actual cost of shifting from place of duty at which employee is posted at the time of retirement to any other place where he/she may like to settle after retirement shall be paid in accordance with rules of the holding company. In addition to this Gift at the time of retirement shall be given to the employee in accordance with rules of the holding Company. The liability for the same for the year towards employees posted in the company on secondment is NPR 508,965 including actuarial gain/loss of NPR 207,321 (Previous Year: NPR 185,974 including actuarial gain/loss of NPR 56,543) and provided on the basis of actuarial valuation. The same is recognised as expense, charged to Expenditure during Construction (EDC).

Note 12: Other current liabilities

	<i>(Amount in NPR)</i>	
	As at 16 July 2019	As at 16 July 2018
Advance against Equity (SJVN Limited)	2,30,36,08,436	3,60,22,95,920
Other liabilities-Construction projects	11,08,86,800	2,08,15,958
Total	2,41,44,95,236	3,62,31,11,878
Note:- 13 Current Tax Assets/(Liability)		
	Year Ended 16 July 2019	Year Ended 16 July 2018
Tax Deducted at Sources	1,28,68,238	2,08,803
Less:- Provision for Tax	2,33,81,371	
Net	-1,05,13,133	2,08,803



SJVN Arun-3 Power Development Company Pvt. Ltd.

Notes to the Financial Statements

Note 14: Other Income

	Year Ended 16 July 2019	<i>(Amount in NPR)</i> Year Ended 16 July 2018
Bank interest	30,52,136	13,92,024
Insurance claim received	-	3,24,500
Interest on Contractors Advance	9,57,29,733	
Miscellaneous income	11,500	25,13,000
	<u>9,87,93,369</u>	<u>42,29,524.00</u>

Note 15: Employee benefits expenses
policy in note 2.15)

(see accounting

	Year Ended 16 July 2019	<i>(Amount in NPR)</i> Year Ended 16 July 2018
Salaries, Wages, Allowances and Benefits	34,08,519	33,09,528
Contribution to Provident and Other Funds	2,44,590	1,67,433
Welfare Expenses	13,32,135	10,44,368
Total	<u>49,85,244</u>	<u>45,21,329</u>

Note: Above employee benefits expenses includes salary and other related benefits of employees which are not directly attributable to project as per policy adopted by management. This includes full salary benefits of Company Secretary and 10% of salary of Chief Executive Officer (CEO) and Chief Finance Officer (CFO).

Note 16: Other expenses

	Year Ended 16 July 2019	<i>(Amount in NPR)</i> Year Ended 16 July 2018
Consultancy charges	-	1,25,000
Audit fee-statutory	1,41,250	1,13,000
Audit expenses	1,41,390	82,555
Total	<u>2,82,640</u>	<u>3,20,555</u>

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SJVN ARUN-3 Power Development Company Pvt. Ltd.

Notes to the financial statements

For the year ended 31 Ashadh 2076 (corresponding to 16 July 2019)

1. General Information

SJVN ARUN-3 Power Development Company Pvt. Ltd. ("SAPDC" or "Company") was incorporated as private limited company under the Company Act 2063 on 25 April 2013 which is duly floated by single shareholder company SJVN Limited (a joint venture of Government of India and Government of Himachal Pradesh) with an aim to plan, promote, organize and execute Arun-3 Hydroelectric Project on BOOT basis. The registered address of the Company is Lokhanthali, Madhyapur (Thimi), Bhaktapur, Nepal and project office is located at Tumlingtar, Sankhuwasabha Nepal.

The Company is developing the Arun-3 Hydroelectric Project with capacity of 900 MW ("the Project") identified in Arun Khola by utilizing the water of Arun River located in Num, Diding, Pathivara and Yaphu Village Development Committee (VDC) of Sankhuwasabha district to generate, transmit and sell electricity.

On 25 November 2014, the Company entered into Project Development Agreement (PDA) with GON represented by the Investment Board of the Government of Nepal with defined terms and condition to execute the project activities for the development of 900 MW ARUN-3 Hydro Power Project.

Investment Board of Nepal (IBN) vide its letter no.640/074-075(640/2017-18) dated May 04, 2018 has issued the Generation Licence to SAPDC. Further, Department of Electricity Development (GoN) vide its letter no. 075/76-1066 dated Feb 12,2019 has issued the 400 Kv transmission license also to SAPDC.

The Company has entered into lease agreement with Government of Nepal, Ministry of Forest and Soil Conservation, Department of Forest, Department of National Parks and Wildlife Conservation on 23 August 2017. The Company has complied with certain requirements of the PDA and believes that it will comply with the remaining requirements as well to finalize the Power Purchase Agreement (PPA), achieve financial closure and achieve other milestones within the stipulated time frame. As per PDA, GoN granted to the Company the right to generate, sell and supply electrical energy and make capacity available from the Power Station. The PDA will expire after 30 years from the date of issuance of the Financial Closure.

Company has issued Letter of award for all its major works comprises into 4 Packages. The main Contractor for Package -I& Package -II (i.e. Civil Works) have already started construction work. The excavation of Adit-I and Adit-IV has been completed and excavation of HRT is under progress from both the adits. The Contractor for Package-IV i.e. Electro Mechanical works has started work of initial drawing, designs and its associates tests. Further, Contractor for Packages-III i.e. Hydro Mechanical works is in advance stage of mobilizing Man, Machinery and Material. The Company has also entered an agreement with M/s Powergrid Corporation of India Limited for Project Management Consultancy in respect of its 400KV Transmission line. M/s Powergrid Corporation of India Limited has already started the bidding process for 400 kv transmission line which is at the stage of evaluation.

The company is exploring the financial tieup for funding the debt portion with banks in India as well as with Nepalese Banks. State bank of India and some Nepalese banks have already accorded sanction while proposal for balance portion of debt is under advance stage of sanction by some banks in India.



SJVN ARUN-3 Power Development Company Pvt. Ltd.

Notes to the financial statements

For the year ended 31 Ashadh 2076 (corresponding to 16 July 2019)

2. Significant Accounting Policies

2.1 Statement of Compliance

The financial statements have been prepared on a going concern basis in accordance with the Nepal Financial Reporting Standards (NFRS) prepared by the Accounting Standards Board, Nepal (ASB) and pronounced by The Institute of Chartered Accountants of Nepal (ICAN).

2.2 Basis of preparation

The financial statements have been prepared on the historical cost basis except financial instruments and net defined benefit asset/liability in the accounting policies below. The term NFRS, which includes all the standards and the related interpretations is consistently used.

This section describes the critical accounting judgement that the Company has identified as having potentially material impact on the financial statements and sets out the significant accounting policies that relate to the financial statements as a whole. Accounting policies along with explanatory notes, wherever such explanation is required, is described in specific relevant sections. The Company's accounting policies require the management to exercise judgement in making accounting estimates.

2.3 Accounting Pronouncements

The Company for its preparation of financial statement has adopted accounting policies to comply with the pronouncements made by The Institute of Chartered Accountants of Nepal (ICAN) effective as on 13 September 2013.

2.4 Critical Accounting Estimates

In the application of the Company's accounting policies, which are described in relevant section below, the management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumption are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

2.5 Presentation

The financial statements are prepared and presented in Nepalese Rupees (NPR), which is the Company's functional and reporting currency. All the financial information have been presented in the Nepalese Rupees and all amounts has been rounded off to the nearest Nepalese Lakhs Nepalese Rupees and has been rounded off to nearest rupee, except otherwise indicated.

The figures for previous years are rearranged and reclassified wherever necessary for the purpose of facilitating comparison. Appropriate disclosures are made wherever necessary.

The Company presents assets and liabilities in statement of financial position based on current/non-current classification. The Company classifies an asset as current when it is:

- Expected to be realized or intended to be sold or consumed in normal operating cycle,
- Held primarily for the purpose of trading,
- Expected to be realized within twelve months after the reporting period, or



SJVN ARUN-3 Power Development Company Pvt. Ltd.

Notes to the financial statements

For the year ended 31 Ashadh 2076 (corresponding to 16 July 2019)

- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets are classified as non-current.

The Company classifies a liability as current when it is:

- Expected to be settled in normal operating cycle,
- Held primarily for the purpose of trading,
- Due to be settled within twelve months after the reporting period, or
- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period.

All other liabilities as non-current.

The operating cycle has been defined as twelve-month period.

The statement of cash flows has been prepared using indirect method. Cash flows from operating activities, in addition to the adjustments from profit for non-cash and non-operating activities, movements in working capital, interest and taxes.

Each material class of similar items is presented separately in the financial statements. Items of a dissimilar nature or function are presented separately, unless they are immaterial.

2.6 Financial periods

The Company prepares financial statements in accordance with the Nepalese financial year using Nepalese calendar. The corresponding dates for Gregorian calendar are as follows:

Particulars	Nepalese Calendar Date / Period	Gregorian Calendar Date / Period
SFP* Date	31 Ashadh 2076	16 July 2019
Current Reporting Period	1 Shrawan 2075 - 31 Ashadh 2076	17 July 2018 - 16 July 2019
Comparative SFP* Date	32 Ashadh 2075	16 July 2018
Comparative reporting period	1 Shrawan 2074 - 32 Ashadh 2075	16 July 2017 - 16 July 2018

* Statement of Financial Position

Significant accounting policies are set out below:

2.7 Property, plant and equipment (PPE)

Property, plant and equipment (PPE) are tangible items that are held for use in the production or supply of electricity and ancillary to it, or for administrative purpose; and are expected to be used for more than one period. PPE are stated at cost less accumulated depreciation and accumulated impairment losses, if any.

The cost of an item of PPE is recognized as an asset when it is probable that future economic benefits associated with the item will flow to the entity and the cost of the item can be measured reliably. An item of PPE that qualifies for recognition as an asset is measured at its cost. Subsequent expenditure is capitalized only if when it is probable that future economic benefits associated with the item will flow to the entity and the cost of the item can be measured reliably.

Depreciation is recognized so as to write off the cost of assets less their estimated residual values over their estimated useful lives using the straight-line method. The estimated useful lives,

SJVN ARUN-3 Power Development Company Pvt. Ltd.

Notes to the financial statements

For the year ended 31 Ashadh 2076 (corresponding to 16 July 2019)

residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

As item of PPE is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use or disposal of the asset. Any gain or loss arising on the disposal or retirement of an item of PPE is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

Depreciation

Freehold land is not depreciated. Depreciation is provided on all other items of PPE so as to write off their carrying value over the expected useful economic lives.

Depreciation is charged on following items of PPE on straight line method based on the estimated useful life of such PPE:

Class of PPE	Estimated Useful Life (in Years)	Depreciation Rate	Estimated Residual value
Buildings	30	3.34%	10% of cost except mobile phones and computers whose estimated residual value are nil.
Plant and Machinery	15	6.33%	
Furniture, fixtures and equipment			
Electrical works			
Electrical equipment			
Office equipment			
Data processing equipment	2 year in case of mobile phone	50%	
	3 years in case of Computer & Hardware etc.	33.33%	
Intangible Assets(Software)	3	33.33%	Estimated residual value are nil.

Depreciation is provided on prorata basis from the month in which the assets becomes available for use. Depreciation on assets declared surplus/obsolete is provided till the end of the month in which such declaration is made. Assets costing NPR 8,000 or less are depreciated fully in the year of acquisition.

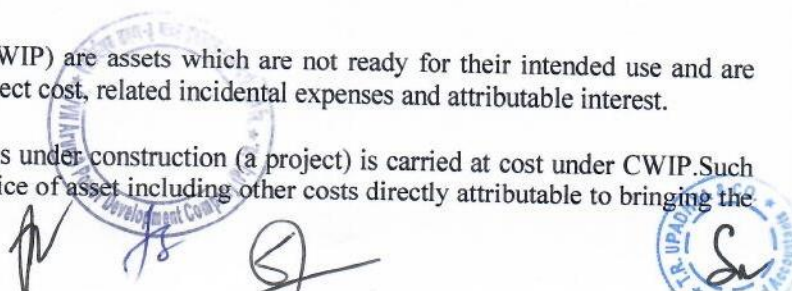
2.8 Lease

The Company does not have any item covered under finance lease which needs disclosure as per NFRS. All other leases are classified as operating leases. Lease payments made under operating leases are recognized under Capital Work in Progress (CWIP) on a straight-line basis over the lease term unless another systematic basis is more representative of the time pattern of the lessee's benefit.

2.9 Capital Work in Progress

Capital Work in Progress (CWIP) are assets which are not ready for their intended use and are carried at cost; comprising direct cost, related incidental expenses and attributable interest.

Expenditure incurred on assets under construction (a project) is carried at cost under CWIP. Such cost comprises of purchase price of asset including other costs directly attributable to bringing the



SJVN ARUN-3 Power Development Company Pvt. Ltd.

Notes to the financial statements

For the year ended 31 Ashadh 2076 (corresponding to 16 July 2019)

asset to the location and condition necessary for it to be capable of operating in the intended manner.

CWIP includes construction of access road, bridge, staff quarters for project staff, consideration paid to Government of Nepal for takeover of project and expenses directly attributable to the development of the project.

Cost directly attributable to CWIP include costs of employee benefits, depreciation on PPE, consultancy charges relating to project, rental expenses and other cost if attributable to construction and development of project. Based on judgement and evaluation, management has considered all expenses incurred during the period as directly attributable cost incurred for development of the project and capitalized under CWIP except the followings which has been charged to statement of profit or loss.

- A. 100% remuneration to Company Secretary and 10% remuneration in case of CEO and CFO
- B. Audit fee and Audit expenses.
- C. Donation, advisory fee and loss due to fire.

Expenditure against of deposit works is accounted for on the basis of statement of account received from the concerned agency and acceptance by the company. However, provision is made whenever considered necessary.

2.10 Impairment of non-financial assets

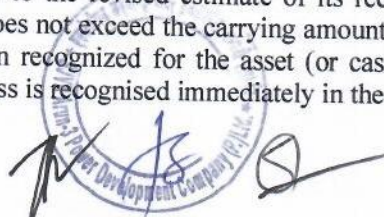
At the end of each reporting period, the Company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). When it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash generating units, or otherwise they are allocated to the smallest group of cash generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or cash-generating unit.

If the recoverable amount of an asset (or cash generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in the statement of profit or loss.

When an impairment loss subsequently reverses, the carrying amount of the asset (or cash generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash generating unit) in prior years. Reversal of an impairment loss is recognised immediately in the statement of profit or loss.



SJVN ARUN-3 Power Development Company Pvt. Ltd.

Notes to the financial statements

For the year ended 31 Ashadh 2076 (corresponding to 16 July 2019)

2.11 Financial Instrument

A. Financial Assets

Definition

Financial assets refer to assets that arise from contractual agreements on future cash flows or from owning equity instruments of another entity. It includes loans and advances, accounts receivable, and marketable securities (bonds, notes, shares).

According to the NFRS, a financial asset can be:

- Equity instruments of another entity,
- Contractual right to receive cash or another financial asset from another entity or to exchange financial assets or financial liabilities with another entity under conditions that are potentially favorable to the entity,
- A contract that will or may be settled in the entity's own equity instruments and is either a non-derivative for which the entity is or may be obliged to receive a variable number of the entity's own equity instruments, or a derivative that will or may be settled other than by exchange of a fixed amount of cash or another financial asset for a fixed number of the entity's own equity instruments.

Initial Recognition and Measurement

All financial assets are recognized initially at fair value plus, in the case of financial assets not recorded at fair value through income statement, transaction costs that are attributable to the acquisition of the financial asset. Financial assets are classified, at initial recognition, as financial assets measured at fair value or as financial assets measured at amortized cost using effective interest method.

The Company currently holds only financial assets subsequently measured at amortized cost mainly comprises of advances and deposit.

Advances and deposits

Advances are initially measured at their carrying value which is approximate to their fair value and subsequently measured at amortized cost. These advances are both interest and non-interest bearing and are expected to be settled in the normal course of operations (refer note 5).

B. Financial Liabilities

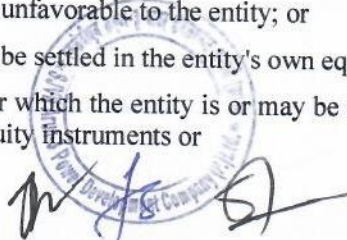
Definition

A Contractual Obligation:

- a) to deliver cash or another financial asset to another entity; or
- b) to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the entity; or

A contract that will or may be settled in the entity's own equity instruments and is:

- a) a non-derivative for which the entity is or may be obliged to deliver a variable number of the entity's own equity instruments or



SJVN ARUN-3 Power Development Company Pvt. Ltd.

Notes to the financial statements

For the year ended 31 Ashadh 2076 (corresponding to 16 July 2019)

- b) a derivative that will or may be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the entity's own equity instruments. For this purpose the entity's own equity instruments do not include: instruments that are themselves contracts for the future receipt or delivery of the entity's own equity instruments; puttable instruments classified as equity or certain liabilities arising on liquidation classified by NAS 32 as equity instruments.

Initial Recognition and Measurement

All financial liabilities are initially recognized at fair value plus or minus, in the case of financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial liability.

Financial liability of the Company comprises of advances from related parties, consultancy fee payable, audit fee payable and salary and other payables.

Advance and other payables

Advance and other payables are recognized at carrying amount which are approximate to their fair value.

C. Subsequent measurement of financial asset and liabilities

Currently, financial asset and financial liabilities consist of only loans and receivables, cash and cash equivalents and other payables which are subsequently measured at amortized cost using effective interest method, less any impairment.

D. Effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial instrument, or, where appropriate, a shorter period, to the net carrying amount of the financial instrument

E. Impairment of financial assets

Financial assets, being loans and receivables, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

F. De-recognition of financial assets and financial liabilities

The Company de-recognises a financial asset only when the contractual right to the cash flows from the assets expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Company neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Company recognises its retained interest in the asset and an associated liability for amounts it may have to pay.

The Company derecognises financial liabilities when, and only when, the Company's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in the statement of profit or loss.

SJVN ARUN-3 Power Development Company Pvt. Ltd.

Notes to the financial statements

For the year ended 31 Ashadh 2076 (corresponding to 16 July 2019)

2.12 Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits with bank, together with other short-term, highly liquid investments maturing within 90 days from the date of acquisition that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.

2.13 Share capital and Retained Earnings

The Company's equity shares are classified as equity instruments. Share capital represents the nominal value (NPR 100) of ordinary and retained earnings includes all current and prior period profit/(loss).

2.14 Provisions

A provision is recognized in the statement of financial position, when the Company has a legal or constructive obligation as a result of a past event, it is probable that an outflow of assets will be required to settle the obligation and the obligation can be measured reliably. Provision includes provision for wage revision and ex-gratia/bonus.

2.15 Employee Benefits

Employee benefit consist of short-term benefits, post-retirement benefits and terminal benefits such as salaries and allowances, provident fund, pension, gratuity, post-retirement medical facilities, leave benefits and other terminal benefits.

All cost relating to employee benefits are considered as directly attributable cost of the project and capitalized under CWIP except 100% remuneration of Company Secretary and 10% remuneration in case of CEO and CFO (refer note 2.9).

a. Short-term employee benefits:

Short-term employee benefits includes benefits which are provided on periodic basis during year for the service rendered by employees such as salaries and allowances. A liability is recognized for the amount expected to be paid if the Company has a present or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

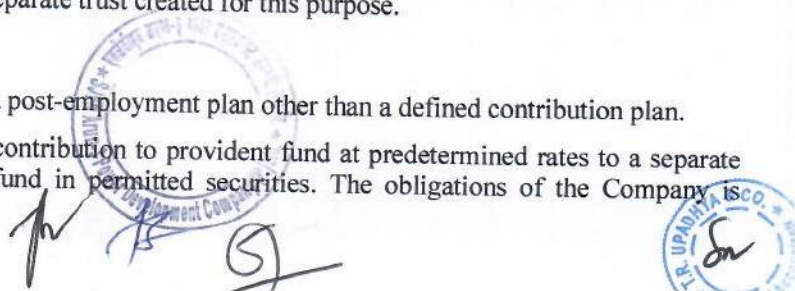
b. Post-retirement benefits:

Defined Contribution Plan

- i) A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into separate trust and will have an obligation for contributions into separate trust and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution plans are recognized as an employee benefit expense in the periods during which services are rendered by employees.
- ii) The Company also has defined contribution pension scheme for providing pension benefit. Its obligation is to contribute the extent of amount not exceeding 30% basic pay and dearness allowance less employer contributions towards provident fund, gratuity, post-retirement medical facility. The liability for the same is recognized on accrual basis. The scheme is funded and managed by separate trust created for this purpose.

Defined Benefit Plan

- i) A defined benefit plan is a post-employment plan other than a defined contribution plan.
- ii) The Company pays fixed contribution to provident fund at predetermined rates to a separate trust, which invests the fund in permitted securities. The obligations of the Company



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Notes to the financial statements

For the year ended 31 Ashadh 2076 (corresponding to 16 July 2019)

limited to such fixed contribution and to ensure a minimum rate of return to the members as specified by Government of India.

- iii) The gratuity scheme is funded by the company and is managed by a separate trust. Company's liability is determined by the qualified actuary using the projected unit credit method at the year ending 31 March and any shortfall in the fund size maintained by the trust is additionally provided for by the company.
- iv) The company has a retired employee health scheme under which retired employees, spouse and eligible parents of retired employees are provided medical facilities in the company hospitals/empanelled hospitals. They can also avail treatment as out-patient subject to a ceiling fixed by the Company.
- v) The Company also has other benefit plans i.e., leave encashment, allowance on retirement/death and moments on superannuation.
- vi) The Company's net obligation in respect of defined benefit plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value. The liability is ascertained at the year-ending 31 March by the qualified actuary using the projected unit credit method.

c. Terminal Benefits

Expense incurred on terminal benefits in the form of ex-gratia payments and notice pay on voluntary retirement schemes, if any, are charged to the profit or loss in the year of incurrence of such expense.

The above employee benefits (post-retirement benefits and terminal benefits) are applicable to employees deputed in the Company on secondment basis from holding company.

The employee benefits in respect of employee recruited by SAPDC are provided as per terms of employment and applicable laws.

2.16 Taxation

Income Tax expenses represent the sum of the current tax and deferred tax.

a. **Current Tax**

Current tax, which comprises expected tax payable, is based on taxable profit or loss for the year based on Nepalese tax laws and including adjustment to the tax payable or receivable in respect of previous years, if any. The Company's liability for tax is computed on the basis of rates as prescribed by Income Tax Act and Finance Act issued thereto from time to time.

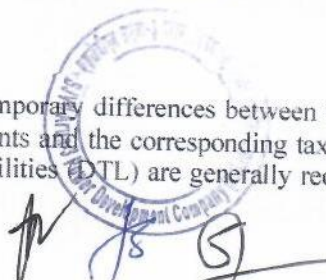
Current tax assets and liabilities are offset if certain criteria are met.

Tax Holiday

Under Section 11 (3d) of the Income Tax Act, 2002 (as amended by the Finance Act 2018), 100% of the income from the hydropower project for the first 10 years from the date of commercial operation is exempted and additionally 50% tax rebate will be provided on income for subsequent 5 years if the hydropower project commences commercial operation by 12 April 2024. The temporary differences that reverse during a tax holiday period are not recognized.

b. **Deferred tax**

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred Tax Liabilities (DTL) are generally recognized for all taxable temporary



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differences. Deferred Tax Assets (DTA) are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized.

The carrying amount of DTA is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

DTL and DTA are measured at the tax rates that are expected to apply in the period in which the liability is settled or the assets realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of DTL and DTA reflects the tax consequences that would follow from the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

DTA and DTL are offset if certain criteria are met.

Deferred tax asset on taxable loss is not recognized as it is highly unlikely that Company will be able to utilize the carried forward losses as they can only be carried forward for 12 years and will therefore expire before it is liable to pay income taxes, given the income tax holiday period of 10 years from the commercial operations date on 100% and thereafter on 50% of the income for further 5 years.

2.17 Cash Flow Statement

Cash flows are reported using the indirect method, whereby net profit before tax is adjusted for the effects of transactions of a non cash nature and any deferrals of accruals of past or future cash receipts or payments. The cash flow from regular revenue generating, investing and financing activities of the company are segregated. The cash flow statement is separately attached with the financial statements of the Company.

Cash and cash equivalents comprise of short-term deposit with bank for the cash flow statement purpose (refer note 7).

2.18 Capital Management

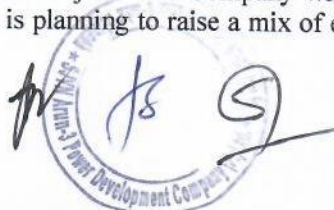
The Company manages its capital to ensure that Company will be able to continue as going concern while maximizing the return to stakeholders.

The capital structure of the Company consists of its equity (comprising issued capital and accumulated losses).

The Company is not subject to any externally imposed capital requirements.

The Company's Management reviews its capital structure on a regular basis. As part of this review, Management considers the cost of capital and the risk associated with capital.

As the Company is not yet operational, it has been incurring losses through the year as commercial operations have not commenced yet. The Company has entered into PDA with GoN, MoE for the development of the Project. The Company will require significant capital to fund construction of the Project and is planning to raise a mix of equity and debt financing on ratio of 30:70 for this purpose.



SJVN ARUN-3 Power Development Company Pvt. Ltd.

Notes to the financial statements

For the year ended 31 Ashadh 2076 (corresponding to 16 July 2019)

2.19 Financial risk management objectives

The Company's operations expose it to various risks. These risks include market risk (including currency risk, interest rate risk and other price risk), credit and liquidity risk.

Risk Management Frameworks

The management of the Company has overall responsibility for the establishment and oversight of the Company's risk management framework. The risk management framework is intended to ensure that risks are managed with due diligence and care.

The Company's risk management policies are established to identify and analyze the risks it faces, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and its activities. The Company, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

a. Market risk

The Company currently has no transactions, which expose it primarily to the financial risks of changes in interest rates.

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SJVN ARUN-3 Power Development Company Pvt. Ltd.

Notes to the financial statements

For the year ended 31 Ashadh 2076 (corresponding to 16 July 2019)

b. Foreign currency risk management

The Company's functional currency is NPR. The Company has certain transaction denominated in foreign currencies. As of the reporting date, Management has analysed the impact of the exposure to foreign currency balances and the impact is not material.

c. Credit risk management

Credit risk refers to the risk that counterparty will default on its contractual obligation resulting in financial loss to the Company. At the reporting date, the Company is not exposed to credit risk.

Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the management of the Company who have established an appropriate liquidity risk management framework for the management of the Company's short term, medium term and long term funding and liquidity management requirements.

2.20 Revenue Recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the revenue and associated costs incurred or to be incurred can be reliably measured and when recognition criteria related to sale i.e. when the significant risks and rewards of ownership of the goods have transferred to the buyer, with the Company retaining neither continuing managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold.

Revenue is measured at fair value of consideration received or receivable.

Revenue from the sale of energy shall be recognized in the statement of profit or loss on accrual basis in accordance with the provisions of the power purchase agreement after commercial operation which is yet to be started.

2.21 Other Income

Interest Income on advances paid to contractors out of Equity Fund are recognised in the Statement of Profit and Loss and Other Comprehensive Income on accrual basis.

Interest Income on secured advances paid to contractors out of Borrowed Fund will be set off against the Interest Expense on said Fund

2.22 Expenses

Expenses incurred which are not directly attributable to the development of the Project are recognized in Statement of Profit or loss on accrual basis. Such expenses includes audit and advisory fee, loss due to fire, donation and 100% remuneration of Company Secretary and 10% remuneration in case of CEO and CFO.



SJVN ARUN-3 Power Development Company Pvt. Ltd.

Notes to the financial statements

For the year ended 31 Ashadh 2076 (corresponding to 16 July 2019)

17. OTHER EXPLANATORY NOTES

17.1 Contingent Liability

- Lease Agreement with “Department of Forest” and “Department of National Park and Wildlife Conservation”
The Company has entered into agreements with Forest Department, National Park and Wildlife Conservation Department, Ministry of Forest and Soil Conservation, Government of Nepal, on 2074.05.07 (23 August 2017) and 2074.10.23 (06 February 2018). As per the agreements, a total of 123.218 hectare of forest land has been leased for project construction by GoN. Out of this 123.218 hectare, 79.04 hectare lies in 9 community forests of District Forest area while remaining 44.178 hectare lies in 8 community forests of Makalu Barun National Park area. The Company should plant 8,272 numbers of plants within a said land area of 123.18 hectares. The cost of such plantation cannot be estimated reliably as on date.
- The work for construction of prefabricated office and residential building at Phaksindha, near Num/Dam Site of Arun-3 HEP was awarded to M/s Zillion – Pappu JV on 19th March 2017. The contractor did not commence the work within the contractual time. Accordingly, Contract was terminated. The contractor has given arbitration notice without mentioning the cost compensation. Pending submission of cost compensation claim the financial implication can't be ascertained as on date.

17.2 Contingent Assets

There are no contingent asset as on date.

17.3 Public Interest Litigation

There is no pending litigation by/against the Company as on date.

17.4 Related Party Transactions and balances

A. Details of related party and relationship

Related Party	Nature of Relationship
SJVN Ltd.	Parent company
Fellow Subsidiary Company	None
Directors and Key Management Personnel:	
Sh.Nand Lal Sharma	Chairman and Managing Director (CMD)
Sh. Amarjit Singh Bindra	Director
Sh. Rakesh Kumar Bansal	Director
Sh. Kanwar Singh	Director (Retired on 31.03.2019)
Smt. Geeta Kapur	Director (w.e.f. 18.10.2018)
Sh. Surinder Pal Bansal	Director (w.e.f. 01.04.2019)
Sh. Satish Kumar Sharma	CEO (Retired on 31.05.2019)





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Notes to the financial statements

For the year ended 31 Ashadh 2076 (corresponding to 16 July 2019)

Sh. Arun Dhiman	CEO (Assumed charge on 01.06.2019)
Sh. Jitendra Yadav	CFO
Sh. Sujit Jha	Company Secretary

B. Shareholding Pattern:

Name of Holding Entity	Principal Activity /Business	Share holding pattern	
		As at 16.7.2019	As at 16.07.2018
SJVN Limited	Power Generation	100%	100%

C. Transactions and Balances with holding Company

Particulars	Nature of transactions	(Amount in NPR)			
		Balance as at 17 th July 2018	Transactions during FY 2018-19	Equity share issued during the FY 2018 - 19	Balance as at 16 th July 2019
		1	2	3	4 (1+2-3)
Payable to SJVN LTD.	Advance against Equity	3602,295,920	5512,032,516	6810,720,000	2303,608,436

D. Remunerations to Key Management Personnel

Particulars	(Amount in NPR)	
	FY 2018-19	FY 2017-18
Salary	24,179,445	23,366,644
Contribution to Provident Fund & Pension	1,977,574	1,296,910
Other Benefits	13,321,352	11,491,641
Total *	39,478,371	36,155,195

*Out of above 100% remuneration of Company Secretary and 10% remuneration in case of CEO and CFO have been charged in Profit & Loss Account statement.

17.5 Minimum Lease Payments

As per disclosure requirement of Nepal Accounting Standard - 17, the minimum lease payments on the basis of existing lease agreements entered by the company are as hereunder:

Particulars	Amount in NPR
Not later than one year	2,033,097
Later than one year but not later than five year	13,653,487
Later than five year	146,032,101





SJVN ARUN-3 Power Development Company Pvt. Ltd.

Notes to the financial statements

For the year ended 31 Ashadh 2076 (corresponding to 16 July 2019)

17.6 Event after reporting period

No major events have been occurred after balance sheet which required to be reported.

17.7 Capital Commitment

Estimated amount of contracts remaining to be executed on capital account and not provided for is NPR 46,310,793,066/-

17.8 Comparative Information and rounding off

Previous Year figures have been regrouped /rearranged wherever necessary to facilitate comparison. Though the books of accounts have been maintained in paisa, figures in the financial statement have been rounded off to the nearest rupees.

