ANNUAL REPORT 2018

THE YEAR IN REVIEW

I would like to take this opportunity to reflect on where Drukair has been in the last one year and challenges ahead for this year. Before I do so, I would like to thank the Board for its constant guidance and support to meet the financial and physical targets set for the year. I also would like to thank the Pilots, Cabin Crew, Field Engineers, Quality Managers, Traffic Controllers, Ground Operators and all the back end staff for ensuring that our flights are the safest despite very strenuous operating environments.

The highlights of the operations for the year were that, Drukair operated a total of 5,271 flights registering a growth of 7.51% from 4,903 flights operated in 2017. The total number of passengers carried also increased by 5.31% from 2017, which was higher than the global industry average growth of 4.7%, and about 3.9% for the Asian region. Further, Drukair managed to achieve a load factor of 72.57%, despite the increase in the number of flights.

On the Financial performance, despite the reduction in fares in 2018 there was a marginal increase in the revenue but the increase in the cost, mostly due to the increase in fuel price, decreased the Profit After Tax (PAT) by 54.27%, to Nu. 159 million from Nu. 348 million in 2017. The net worth of the Company stands at Nu. 2,957 million in 2018 against Nu. 2,943 million in 2017

Drukair retained overall 73% market share on the four competitive routes. Bangkok sector market share increased to 68% (from 60% in 2017) and Kathmandu sector remained same as that of 2017 at 87%. However, market shares on Delhi and Kolkata sectors reduced to 78% and 55%, from 85% and 66% in 2017 respectively.

Drukair achieved a Customer Satisfaction Index (CSI) of 4.05 as compared to 3.71 in 2017. Drukair also launched a versatile mobile application that made numerous important airline services easily accessible. Similarly, a dedicated baggage drop-in-counters for those who check-in online was established during the year. The airline also collaborated with Bhutan Telecom Ltd. (BT) in making ticket sales available in all 20 Dzongkhags. Further, a new customer service section was opened and the call center was revamped. The call Centre is now operated by full-time employees who have been specifically trained in the SITA reservation system to handle all reservation & ticketing related enquiries and other information.

The audited accounts for 2018 had no qualifications and fulfilled all statutory requirements. The Company has complied to all the minimum audit requirements mentioned in the Companies Act 2016.

Drukair signed the Purchase Agreement with Airbus for A320 NEO as an additional aircraft on 10th April, 2018. Further, the airline also made capital advance of USD 13 million as commitment fees and pre-delivery payments (PDP). The delivery of A320 NEO is expected in the first quarter of 2020.

Drukair will be replacing the existing ATR 42-500 with ATR 42-600. Purchase Agreement with ATR for the purchase of ATR 42-600, with a buy back offer of existing ATR 42-500 was signed on 6th April 2018. The delivery of the new ATR is scheduled in July 2019.

Drukair introduced a new route from Paro to Singapore via Guwahati from 29th September 2018 with two flights a week. With this introduction, presently, Drukair is the only airline connecting North East India and Singapore.

Now, looking back at 2018, of the many Corporate Social Responsibility (CSR) initiatives taken by Drukair, the initiation of Trongsa Penlop Inspire Program in FY2018 was the main highlight. Under this program, the airline fully sponsored excursion tour to Thailand to 44 students selected across the country. The ultimate goal of this project was to inspire the students to strive and reach for new heights through academic and personnel excellence.

The dedication and hard-work of the employees were appreciated and the employees received one and half months of bonus and PBVA (Performance based Variance payout) of 10.96% for the year. I would like to thank the Board and DHI and congratulate the staff for the achievement.

2019 brings in its own challenges. Drukair is making investments in two new aircrafts, Airbus A320 NEO and ATR 42-600. For the purpose, the airline has already made capital advances worth Nu. 1,119.84 million during the year as commitment fees and pre-delivery payments (PDPs), which eventually declined the cash position of the company by 66.74%, to Nu. 640 million from Nu. 1,924 million in 2017. Also there are further requirements for payment of PDP for A320 NEO in 2019 and balance payment for ATR 42-600 upon the delivery of the aircraft in July 2019. The cash flow challenge needs to be addressed through timely financing strategies increase in revenues and more efforts in collections. Therefore, I count on each employee to deliver more efficiently and we shall put in our best efforts to overcome the challenges ahead.

Once more, on behalf of the management of Drukair, I would like to express our sincere gratitude to the Board and DHI for their unconditional support at all times. We would like to put on record the management's appreciation to the customers for their loyalty and support to the Drukair.

I would also like to thank all the employees for the excellent safety record. I hope each of you will carry on with the same vigilance and dedication to provide uncompromising safety, standard and services to all our valued customers. May I also remind you of His Majesty's command to Drukair to always remember the three Ss: Safety, Standard and Service. To us "Safety & Standard" should always remain the topmost priority.

Tashi Delek

Tandi Wangchuk
Chief Executive Officer

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COMPANY PROFILE

Drukair is a wholly owned Government entity under Druk Holding & Investments Ltd. The national Airline of the Kingdom of Bhutan operates a schedule network within the South Asian region from its Head Quarters at Paro, a picturesque Valley in Western Bhutan.

The national airline was conceived through a Royal Proclamation on April 5, 1981. Drukair began commercial operations on February 11, 1983, from Paro, a 54 km drive away from the capital, Thimphu. At the time, Paro had a little airstrip servicing helicopter operations. Drukair began humbly with an 18-seat Dornier 228-200 that made its historic touch down at Paro airport on January 14, 1983, to the chant of inauguration prayers, cymbals, conches and the like, with maroon-clad monks blessing the occasion and the plane. The first link was Kolkata, followed by eight destinations in South Asia. As more and more people took to the skies, not just to connect but also to enjoy perhaps the most breath-taking view of the Himalayan range, including Mt. Everest, Mt. Kanchenjunga and the highest unclimbed mountains in Bhutan itself, another Dornier was added to meet the increasing demand.

Drukair upgraded its fleet to BAe 146 on November, 1988, when the first plane touched down at Paro with the same traditional fanfare and weeks later second BAe 146 was added. Drukair now operates with Airbus A319 for it's international destinations and an ATR 42-500 for it's domestic and regional destinations. Recently Drukair has signed purchase agreement for the A320 NEO and an ATR-42-600. The ATR will join the existing fleet in July 2019 and the A320 NEO will join in Q1 of 2020. All the pilots, maintenance crew and engineers are trained at the best institutes abroad.

Today Drukair has a fleet of four aircrafts consisting of three Airbus A319s and one ATR-42-500 operating in 10 international airports in six countries (Bhutan, Bangladesh, India, Nepal, Thailand and Singapore) and four domestic airports with a total Staff strength of 472 employees.

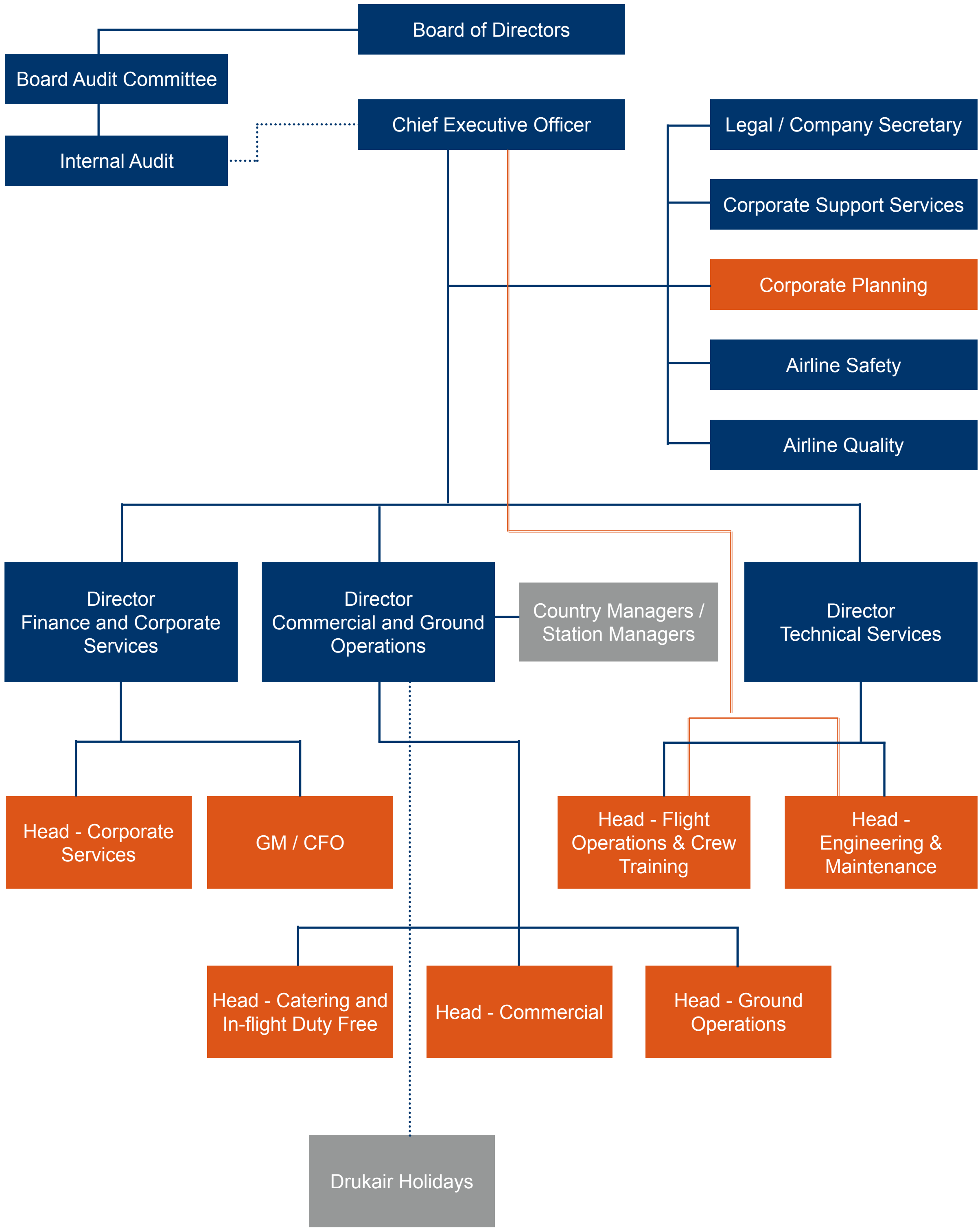
Vision: To be the leading airline connecting Bhutan and the world

Mission: Drukair, as a National Airline shall provide safe and reliable air transport services, be competitive and meet the growing demands, and consistently meet customer expectation with excellence in service

Core Values: Safety, Standard, Service Excellence, Integrity, Team Work and Open Door Culture

Slogan: On the wings of the dragon

ORGANIZATION CHART



BOARD OF DIRECTORS

CHAIRMAN
Mr. Pema Chewang

Secretary
National Land Commission Secretariat

Mr. Pema Chewang is the Secretary of National Land Commission Secretariat of Bhutan.

He has 27 years of work experience. He received his master in Development Economics from Australian National University, Canberra, Australia and Bachelor of Arts Degree from Sherubtse College.

BOARD DIRECTOR
Mr. Sonam Phuntsho Wangdi

Secretary
National Environment Commission

Mr. Sonam Phuntsho Wangdi is the Secretary of National Environment Commission.

He has more than 32 years of work experience with the Royal Government of Bhutan. He received his Master of International Law and Economics from World Trade Institute, University of Bern, Switzerland. He received his Bachelor of Commerce (Honors) from University of Delhi, India.

BOARD DIRECTOR
Mr. Passang Dorji

Executive Director
Cee Dee Construction Pvt. Ltd

Mr. Passang Dorji is the Executive Director of Cee Dee Construction Pvt. Ltd.

He has over Sixteen years of work experience. He has a bachelor in civil engineering from Thammasat University, Thailand and a MBA from Asian Institute of Management, Philippines. His area of work has been mainly in business development and investment analysis.

BOARD OF DIRECTORS

BOARD DIRECTOR
Mr. Kuenga Namgay

Director for Operations and Maintenance Department (DGPC)

Mr. Kuenga Namgay is the Director for the Operation and Maintenance Department in the Druk Green Power Corporation Limited. With over 27 years of work experience, he has served in various level of positions in the Company. He was the first Chief Executive Officer of Dagachhu Hydro Power Corporation Limited and also served in the Empowered Joined Group Secretariat in the Ministry of Economic Affairs as an Executive Director for three years. He has a Bachelor's degree in Mechanical Engineering from Aligarh Muslim University, India and a Master's degree in Mechanical Engineering from Toyohashi University of Technology, Japan.

BOARD DIRECTOR
Mrs. Kunzang Lhamu

Director of National Commission for Women and Children (NCWC).

Ms. Kunzang Lhamu is the Director of National Commission for Women and Children (NCWC). With 25 years of work experience she now works in the area of gender equality and promoting and protecting the rights of women and children. She started her career in the erstwhile Planning Commission which is now the Gross National Happiness Commission and worked in various capacities. Her area of expertise includes socio economic development planning and policy formulation, research and evaluation, and environmental and poverty analysis. She has Master in Public Policy from the Lee Kuan Yew School of Public Policy, National University of Singapore.

BOARD DIRECTOR
Mr. Dorji Nima

Associate Director at Druk Holding and Investments (DHI)

Mr. Dorji Nima is an Associate Director at Druk Holding and Investments (DHI). He looks after the performance planning, monitoring and evaluation for the DHI Group. He has over 15 years of professional work experience. He has a Masters degree in Business Administration (MBA) from Australian Graduate School of Entrepreneurship, Melbourne, Australia. He received AusAID scholarship to pursue MBA in Australia and RGoB scholarship to pursue Bachelor of Business Administration degree from Madras University, India in 2001.

BOARD DIRECTOR
Mr. Tandi Wangchuk

Chief Executive Officer Drukair Corporation Limited

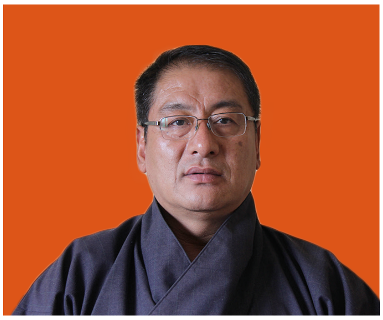
Mr. Tandi Wangchuk is the Chief Executive Officer of Drukair Corporation Limited. He has more than 29 years of work experience. He received his M.Sc. in Operational Telecommunication from Coventry University, Midlands, England, UK and B.Sc. in EEE from Bangladesh University of Engineeing and Technology (BUET), Dhaka, Bangladesh.

MANAGEMENT TEAM

Left to right: Namgay Wangchuk, Tandi Wangchuk, Karma P. Wangdi and Rinzin Dorji

Mr. Namgay Wangchuk. Director, Department of Commercial and Ground Operations

Mr. Namgay Wangchuk is the Director of Commercial and Ground Operations Department. He received his Bachelor of Arts from Sherubtse College, Bhutan. He served Drukair for 30 years.



Mr. Karma Phuntsho Wangdi. Director, Department of Technical Services

Mr. Karma Phuntsho Wangdi is the Director of Technical Services Department. He received his Bachelor of Arts from Sherubtse College, Bhutan. He served Drukair for over 25 years.

Mr. Rinzin Dorji. Director, Department of Finance and Corporate Services

Mr. Rinzin Dorji is the Director of Finance and Corporate Services Department. He received his Bachelor of Commerce from Meerut University, India. He served Drukair for 26 years.


Royal Bhutan Airlines

DIRECTORS' REPORT

Introduction

On behalf of the Drukair Board and the Management, I extend a warm welcome to all participants to the 28th Annual General Meeting (AGM) of Drukair Corporation Limited.

Dear Shareholder,

The Board is pleased to report the company's performance for the period January 1, 2018 to December 31, 2018.

1. Operational highlights

In 2018, Drukair operated with an existing fleet of three A319 and one ATR 42-500 planes and served 10 international and four domestic stations.

Drukair operated a total of 5,271 flights registering a growth of 7.51% from 4,903 flights operated in FY2017. The total number of passengers carried also increased by 5.31%, to 285,397 passengers from 271,007 passengers carried in FY2017. The increase, however, was only for A319 (which increased by 6.05%), as the passengers carried by ATR decreased by 1.33% (or by 353 passengers). The Board is happy to report that the increase in the passenger traffic is higher than the industry average growth projection of 4.7% worldwide, and about 3.9% for the Asian region. Consequently, Drukair achieved a load factor of 72.57%, despite the increase in the number of flights.

In FY2018, Drukair retained 73% market share on the four competitive routes, which was also the share for FY2017. On the individual sectors, Bangkok sector market share increased to 68% (from 60% in FY2017) and Kathmandu sector remained same as FY2017's at 87%. However, market shares on Delhi and Kolkata sectors reduced to 78% and 55%, as against 85% and 66% achieved for FY2017 respectively.

Cargo and excess baggage recorded increase by about 2% and 17% respectively, while mail has decreased by about 17 % as compared to year 2017. Cargo ferried in 2018 was 347.838 Metric Tons (MT), mail carried was 119.384 MT and excess baggage carried was 57.708 MT compared to the Cargo ferried 342.037 MT, mail carried 169.921 MT and excess baggage carried 49.513 MT in 2017.

Drukair introduced a new route from Paro to Singapore via Guwahati from 29th September 2018 with two flights a week. With this introduction, presently, Drukair is the only airline connecting North East India and Singapore. Further, to create awareness on the new route, Drukair participated in the 5th North East Connectivity Summit held on 14th and 15th November, 2018 in Tawang, Arunachal Pradesh.

2. Financial highlights

2.1. Total asset and liability

The total non-current asset of the company increased by 35%, to Nu. 5,068.61 million, from Nu. 3,752.03 million in FY2017. It was mainly on account of additions of Nu. 161.61 million worth of 'Aircraft fleet – non-renewal' under the 'property, plant and equipment' and 'capital advance' of Nu. 1,119.84 million under 'other non-current assets', made towards purchase of two new aircrafts.

However, the two above accounts reduced the 'cash and cash equivalents' to Nu. 640.08 million from Nu. 1,924.76 million in FY2017.

Consequently, the company's total asset increased by a marginal 1.98%, to Nu. 6,381.92 million from Nu. 6,257.89 million in FY2017.

On the other side, the net worth increased marginally by 0.45%, which was due to transfer of profits for the year. The current liabilities, however, increased by 23%, to Nu. 1,995.11 million from Nu. 1,625.77 million in FY2017, as the company took inter-corporate loan of Nu. 321 million from DHI to meet its cash flow requirements.

2.2. Income

The Board would like to report that the airline operated the entire 2018 financial year with a reduced airfare of 15%, which was introduced in late FY2017.

The overall income for the year, however, increased by 4.18%, to Nu. 3,695.89 million from Nu. 3,547.75 million in FY2017. The increase is mainly attributable to Nu. 66.78 million increase in passenger revenue (2.35% increase from FY2017) and Nu. 44.78 million increase in chartered revenue (89.40% increase from FY2017).

2.3. Expenditure

The expenditures increase by 15.76%, to Nu. 3,524.59 million from Nu. 3,044.80 million in FY2017. The increase is mainly attributable to Nu. 293.26 million increase in 'aircraft fuel and oil' (32% increase from Fy2017) and Nu. 155.09 million increase in **'aircraft maintenance'** (84% increase from FY2017).

2.4. Profitability of the company

Considering a marginal increase in the revenue and a much higher increase in the cost, the Profit After Tax (PAT) decreased by 54.27%, to Nu. 159.41 million from Nu. 348.61 million in FY2017.

2.5. Dividend

In order to take forward its mandates, Drukair is making investments in two new aircrafts, Airbus A320 NEO and ATR 42-600. For the purpose, the airline has already made capital advances worth Nu. 1,119.84 million during the year as commitment fees and pre-delivery payments (PDPs), which eventually declined the cash position of the company by 66.74%, to Nu. 640 million from Nu. 1,924 million in FY2017. As there are further requirements for payment of PDP for A320 NEO in FY2019 and balance payment for ATR 42-600 upon the delivery of the aircraft in July 2019, no proposal for dividend is being made for the FY2018.

3. Customer Care

As a customer-centric organization, and also to enhance corporate image and branding, the Ticketing Office was shifted to the newly constructed corporate branch office at Thori Lam, Kawajangsa, Thimphu. The new place enabled Drukair to open more ticketing counters which helped in reducing the waiting time for customers. The place also ensures customer convenience by providing ample parking space.

In 2018, Drukair improved its outreach to customer nation-wide by collaborating with Bhutan Telecom Ltd. (BT) in making ticket sales available in all 20 Dzongkhags. Drukair opened a new customer service section and also revamped its call centre after taking it over from BT. The call centre is now operated by full-time employees who have been specifically trained in the SITA reservation system to handle all reservation & ticketing related enquiries and other related information. The call centre not only provides details on flight schedule and airfares but also accepts reservations through emails.

Drukair also launched its versatile mobile application and made many important airline services easily accessible. Customers can now make reservations, check flight schedules and flight status, pre-order duty-free goods and even check-in online. Similarly, a dedicated baggage drop-in-counters for those who check-in online was established during the year.

These initiatives resulted in Drukair achieving the best CSI (Customer Service Index) rating among all service oriented companies under DHI during the year. Drukair achieved a CSI of 4.05 as compared to 3.71 in FY2017.

4. Fleet Management

Drukair signed Purchase Agreement with Airbus for the purchase of A320 NEO as an additional aircraft on 10th April, 2018. Further, the airline also made capital advance of USD 12,993,641, equivalent to Nu. 867.48 million as commitment fees and pre-delivery payments (PDP). The delivery of A320 NEO is expected in the first quarter of 2020.

Drukair is also replacing the existing ATR 42-500 with ATR 42-600. Purchase Agreement with ATR for the purchase of ATR 42-600, with a buy back offer of existing ATR 42-500 (estimated at USD 4.42 million as of date), was signed on 6th April 2018. The airline made a capital advance of USD 2,773,275, equivalent to Nu. 252.36 million, as commitment fees and pre-delivery payments. The delivery of ATR 42-600 is expected in July 2019.

5. HR and other systems

Drukair believes that the strength of the company lies in its employees. Thus, human capital has always been the priority of the company. With the increase in number of flights and passengers, Drukair recruited 55 employees, including replacement and additional staff, in FY2018. Drukair's employee strength as at 31st

December 2018 stood at 472, which included temporary and daily wage staff.

As Drukair strives to be a High-Performance Organization, to encourage and motive employees to excel in their work areas, Performance Management System guidelines was introduced in FY2018. Drukair also adopted the Operational Health and Safety Manual during the year to ensure safety at work place.

To bring consistency, uniformity and transparency in financial reporting, Drukair introduced the revamped Financial and Budget manual, which is in line with the Bhutanese Accounting Standards. The manual also prescribes procedures and policies for employees to manage and take financial decisions.

To promote capacity building of the employees, Drukair streamlined and enhanced in-house training capabilities in 2018. This has immensely helped in reducing the training cost.

6. Corporate Governance

The Company complied with the CG Code issued by DHI. The Company's Board had nine Board meetings, one Extra Ordinary Board meeting, five Audit Committee meetings and three Human Resource Committee meetings.

The quorum at each of these meetings were duly met. Further, the gap between two meetings did not exceed three months in accordance with the Companies Act of Bhutan, 2016.

At the end of 2018, the Drukair Board consisted of seven Directors including the Chairman and the CEO. Mr. Pema Chewang, Secretary, National Land Commission was appointed as the Chairman. Mr. Kunga Namgay, Director, O&M Druk Green Power Corporation, Mrs. Kunzang Lhamu, Director, National Commission for Women & Children and Mr. Dorji Nima, Associate Director, CPD, DHI were newly appointed. Mr. Passang Dorji was reappointed and Mr. Sonam Phuntsho Wangdi continued his directorship.

The first quarter risk management meeting was held on 12th March 2018 to update the DCL Risk Register and Risk Treatment Action Plan (RTAP) and the final risk management meeting was held on 10th October 2018 for final review of compliance to mitigation measures.

7. Corporate Social Responsibility

As a socially responsible company, Drukair attaches high priority in transparency, providing right & timely information and to social wellbeing. The Corporate Social Responsibility (CSR) of the Company is guided by the Company Guidelines on Corporate Social Responsibility 2013 issued by DHI. The company ensures to implement meaningful and sustainable CSR activities, including financial contributions and support towards the benefits of communities.

Of many CSR initiatives taken by Drukair, the Company takes pride in the initiation of Trongsa Penlop Inspire Program in FY2018 where Drukair fully sponsored excursion tour to Thailand to 44 students selected across the country. The ultimate goal of this project was to inspire the students to strive and reach for new heights through academic and personnel excellence.

Further, to support the Government's initiative to celebrate 50 years of diplomatic relations between Bhutan and India, Drukair offered 30% discount on airfares to Indian national. Similarly, Drukair also offered 30% discount to Australian nationals to support the Government's initiative to celebrate 15 years of diplomatic relations between Bhutan and Australia.

8. Statutory Audit Report

M/s. Ray & Ray was appointed by Royal Audit Authority, as the Statutory Auditor for Drukair. For 2018, the the auditors have issued unqualified audit report. The auditors have also reported that Drukair has complied with all the requirements of the Companies Act of Bhutan, 2016.

9. Acknowledgements

I, as the Chairman, would like to express gratitude for the continued support and guidance from the DHI, Ministry of Finance, Ministry of Economic Affairs, Ministry of Information and Communications, Bhutan Civil Aviation Authority, Department of Air Transport, Royal Audit Authority and other government agencies.

The Board would like to thank DCL management and employees for their dedicated hard work in improving the performance of the company. Finally, the company would like to thank all the customers for their loyalty and support to Drukair.

Thank you,
For and on behalf of the Board,

[Pema Chewang]

CHAIRMAN

INDEPENDENT AUDITORS' REPORT
To the Shareholders of Drukair Corporation Limited

To the members of Drukair Corporation Limited

Report on the Financial Statements of Drukair Corporation Limited

Opinion

We have audited the accompanying financial statements of Drukair Corporation Limited (hereinafter referred to as the Company), which comprise the Statement of Financial Position as at 31st December 2018, the Statement of 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 and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Drukair Corporation Limited as at December 31, 2018, and its financial performance and its cash flows for the year then ended in accordance with Bhutanese Accounting Standards (BAS).

Basis for Opinion

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

Key Audit Matters

Key audit matters are those matter that, in our professional judgment, were of most significance in our audit of the financial statements of the company for the current year. These matters were addressed in the context of our audit of the financial statements of the Company as whole in forming our opinion thereon and in our opinion, there are no such matters to report.

Responsibilities of Management and those charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of this financial statement in accordance with the Bhutanese Accounting Standards (BAS), 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.

RAY & RAY CHARTERED ACCOUNTANTS

Ray & Ray
Chartered Accountants

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 responsible 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 the International Standards on Auditing (ISA) 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.

Further we exercised professional judgment and maintained professional skepticism through the audit and described our responsibilities in Annexure-I attached to this report as per the requirements of Paragraph 40(b) of the ISA 700.

Report on Other Legal and Regulatory Requirements

As requirement by section 266 of the Companies Act of Kingdom of Bhutan, 2016 we enclose in Annexure-II, a statement on Minimum Audit Examination and Reporting Requirements matters specified therein to the extent applicable to the company.

As required by section 265 of the Act, we report that:

a) We have obtained all the information and explanation, which to the best of our knowledge and belief were necessary for the purpose of our audit.

b) In our opinion proper books of accounts as required by law have been kept by the Company in so far as it appears from our examination of the books.

c) The Statement of Financial Position, Statement of Comprehensive Income, Statement of Change in Equity and the Statement of Cash flow dealt with by this report have been prepared in accordance with the accounting principles generally accepted and are in agreement with the books of account.

d) The Company has complied with other legal and regulatory requirements.

For Ray & Ray
Chartered Accountants
(Firm Registration No 301072E)

Amitava Chowdhury

RAY & RAY
CHARTERED ACCOUNTANTS

Amitava Chowdhury
Partner
Membership No.: 056060
Place: Kolkata
Dated: 21.03.2019

Ray & Ray
Chartered Accountants

Annexure –I

Annexure to the Independent Auditor's Report paragraph of the Auditor's Responsibilities for the Audit of the Financial Statements of Drukair Corporation Limited for the year ended 31st December, 2018 and as per the requirement of the paragraph 40(b) of ISA 700.

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

a) 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.

b) 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.

c) Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

d) 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.

e) Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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.

We also provide those charged with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

RAY & RAY
CHARTERED ACCOUNTANTS

Ray & Ray
Chartered Accountants

Annexure- II

Minimum Audit Examination and Reporting Requirement

Annexure referred to in our audit Report of even date on Minimum Audit Examination and Reporting requirements

As requirement by section 266 of the Companies Act of Kingdom of Bhutan, 2016 and its enabling provisions relating to Clause II of Schedule XIV of the erstwhile Companies Act of Kingdom of Bhutan, 2000 thereto (the Minimum Audit Examination and Reporting Requirements) and required by the Royal Audit Authority of Bhutan vide its Letter No. RAA(SA-10)/CFID/2018/3241 dated 15th November, 2018 and on the basis of such checks as we considered appropriate and according to the information and explanations given to us, we report as follows:

1. The Company has maintained proper records showing full particulars including quantitative details and situation of fixed assets for Head Quarter and all the stations. The Management has carried out the physical verification of fixed assets during the year ended 31st December, 2018 in all locations. According to the information and explanations given to us, no material discrepancies were noticed on physical verification.

2. We have been informed that the fixed assets of the Company have not been revalued during the year.

3. Physical verifications were conducted at reasonable intervals in respect of inventories of Inflight catering& duty free stocks, stock of tickets, gift stocks, Aircraft maintenance consumables and Uniform Stocks.

4. In our opinion and according to the information and explanations given to us, the procedure of physical verification of inventories followed by the management are reasonable and adequate in relation to the size of the Company and the nature of its business.

5. In our opinion and according to the information and explanations given to us the management has identified some discrepancies on physical verification of inventory of catering division as compared to the books records, and the same has been dealt with in the books of accounts.

6. On the basis of examination of valuation of stocks and the information and explanations given to us and in our opinion, the valuation is fair and proper in accordance with the normally accepted accounting principles. The basis of valuation of inventory is the same as in the preceding year.

7. The Company has taken unsecured loan amounting to Nu 321,000,000/- from Druk Holding & Investment Limited, its holding company during the year of our audit . The outstanding balance of such loan as on 31.12.2018 is Nu 321,000,000/-. In our opinion and on the basis of information and explanations given to us, the rate of interest and other terms and conditions of such loan are not prejudicial to the interest of the Company. The Company has also taken unsecured interest free loan of Nu 653,666,451/-from Royal Government of Bhutan in earlier years. The outstanding balance of such loan as on 31.12.2018 is Nu 152,148,003.64. In our opinion and on the basis of information and explanations given to us, the terms and conditions of such loan is prima-facie not

Ray & Ray
Chartered Accountants

prejudicial to the interest of the Company. Additionally, the Company had issued Druk Air bonds amounting to Nu 2,163,433,529/- to National Pension and Provident Fund (NPPF) in earlier years. Yearend balance of such bonds is Nu 1,461,110,917.60. In our opinion and on the basis of information and explanations given to us, the rate of interest and the other terms and conditions of such loan are not prejudicial to the interest of the Company.

8. In our opinion and according to the information and explanations given to us, the Company has not granted any loan secured or unsecured to other companies, firms or other parties and/ or to the companies under the same management. Hence this sub-clause is not applicable.

9. In our opinion and according to the information and explanations given to us, the Company has not given any loan or advances to any party. Hence this sub-clause is not applicable.

10. In our opinion and according to the information and explanations given to us, the loans/ advances granted to officers/staff are in keeping with the provisions of service rules and no excessive / frequent advances are granted and accumulation of large advances against particular individual is avoided.

11. In our opinion and according to the information and explanations given to us, the Company has established adequate system of internal controls to ensure completeness, accuracy and reliability of accounting records, carrying out the business in and orderly and efficient manner, to safeguard the assets of the Company as well as to ensure adherence to the rules /to the rules regulations and system and procedures.

12. In our opinion and according to the information and explanations given to us having regard to certain exceptions that some of item purchased are of special nature where suitable alternative sources of supply does not exist for obtaining comparable quotations thereof, there is an adequate system of competitive biddings, commensurate with the size of the Company and the nature of its business, for the purchase of goods and services including stores, and plant and machinery, equipment and other assets. As the company is engaged in providing services, it has no requirement of raw materials.

13. (a) On the basis of checking of books of accounts and relevant records of the Company, and according to the information and explanations given to us, we are of the opinion that the Company has not entered into any transaction for purchases and sale of goods and service made in pursuance of contracts or arrangements entered into with the director(s) or any other party(ies) related to the director(s) or with the Company or firms in which the director(s) are directly or indirectly interested except DHI subsidiaries, the details of which is duly disclosed in the Related party transactions in notes to accounts to the financial statements. (refer note No. 35)

    (b) The examination of records does not reveal any transaction entered into by the Company which is prejudicial to the interest of the Company wherein directors are directly or indirectly interested.

14. In our opinion and according to the information and explanations given to us, there are no unserviceable or damaged stores, raw materials or finished goods, which have not been provided for in the books of accounts. Hence no provision for loss is required.

Ray & Ray
Chartered Accountants

15. In our opinion and according to the information and explanations given to us, the Company being a service sector company, maintenance of record as required under sub-clause 15 is not applicable.

16. In our opinion and according to the information and explanations given to us, the Company being a service sector company, maintenance of records as required under sub-clause16 is not applicable. However, the Company also runs a catering unit, where records have been maintained in respect of production.

17. In our opinion and according to the information and explanations given to us, the Company being a service sector company, maintenance of records as required under sub-clause 17 is not applicable.

18. In our opinion and according to the information and explanations given to us, the Company is regular in depositing rates and taxes, duties, royalties, provident funds, and other statutory dues with the appropriate authorities *except delay in deposit of withholding tax in respect of Bangkok station details of which are as below-*

Nature of Due	*Amount (BHT)*	*Month of deduction*	*Due date of payment*	*Actual date of payment*	*Delay in no of days*
Withholding tax	*166155.72*	*Sep, 18*	*07.10.2018*	*11.10.2018*	*4 days*

On the basis of checking of books of account and relevant records, we are of the opinion that provision for corporate tax is adequate and that necessary adjustments have been made to compute amount of tax required under the Revised Taxation Policy, 1992.

19. On the basis of checking of books of account of the Company, details of undisputed amounts payable in respect of rates, taxes, duties, royalties, provident funds and other statutory dues as per the last day of the financial year concerned are as under.

Nature of dues	Outstanding amount as on 31.12.18 (Nu.)	Amount paid subsequently (Nu.)	Amount not yet paid (Nu.)
CGST on sales payable	1,892,780.44	1,892,780.44	Nil
SGST on sales payable	1,892,780.14	1,892,780.14	Nil
TDS (PIT)	6,400.00	6,400.00	Nil
TDS Payable	456,752.97	456,752.97	Nil
TDS payable on Brokerage	161,112.00	16,112.00	Nil;
TDS payable on Contractor	157,615.00	157,615.00	Nil
TDS payable on Professional	682,653.00	682,653.00	Nil
TDS payable on rent	389,586.00	389,586.00	Nil
Professional ta payable (staff)	1,800.00	1,800.00	Nil

RAY & RAY CHARTERED ACCOUNTANTS Webel Bhawan Kolkata-91

Ray & Ray
Chartered Accountants

TDS Payable on subcontractors	3,689.00	3,689.00	Nil
Corporate Income Tax Payble	7,458,841.84	Nil	7,458,841.84

20. According to the information and explanations given to us and on the basis of our test checking of the accounts and other books and records, to the best of our knowledge, we are of the opinion that no personal expenses has been charged to the Company accounts other than those payable under contractual obligation/service rule and/or in accordance with generally accepted business practice.

21. The Company is a service sector company and therefore, requirement of maintenance of reasonable system of recording receipts, issues and consumption of materials and stores and allocating materials consumed to the respective jobs does not arise.

22. In our opinion and according to the information and explanations given to us, the Company prepares quantitative reconciliation at the end of accounting year in respect of all major items of inventories i.e. Inflight Catering & duty free stocks, stock of tickets, Gift stocks, aircraft maintenance supplies and Uniform stores. The Company does not have any finished products and therefore, quantitative reconciliation is not carried out in respect of finished products.

23. In our opinion and according to the information and explanations given to us, the Company has a system of obtaining approval of Board/appropriate authority for writing off amounts due to material loss/discrepancies in physical/ book balances of inventories including stores, and spares.

24. The Company being a service sector company and therefore, maintenance of record as required under sub-clause 24 is not applicable for this company.

25. In our opinion and according to the information and explanations given to us, there is a reasonable system of authorization at proper levels, and an adequate system of internal control commensurate with the size of Company and the nature of its business, on issue of stores.

26. In our opinion and according to the information and explanations given to us, the Company has a reasonable system of periodical review of tariffs and based on such review and considering the market and economic conditions, the tariff rates are determined and approved by the commercial committee constituted by the management. Also, the Company has proper costing system for the purpose of fixation of tariff rates.

27. In our opinion and according to the information and explanations given to us, the credit sales policy of the Company is reasonable and no credit rating of customers is carried out as the same is not applicable for the Company.

28. In our opinion and according to the information and explanations given to us, the agency commission structure is in accordance with the industry norms/ market conditions. Additionally, according to the information and explanations given to us, the Company has a proper system of evaluating performance of each agent on a periodic basis.

RAY & RAY CHARTERED ACCOUNTANTS

Ray & Ray
Chartered Accountants

29. In our opinion and according to the information and explanations given to us, the Company has reasonable system of continuous follow-up with debtors and other parties for recovery of outstanding amounts. Also age wise analysis is carried out for management information and follow up action.

30. In our opinion and according to the information and explanations given to us, the management of liquid resources particularly Cash/Bank and short term deposits etc. are adequate and that excessive amount are not lying idle in non-interest bearing accounts and withdrawals of loan amounts are made after assessing the requirement of fund from time to time and no excess amounts is withdrawn leading to avoidable interest burden on the Company.

31. In our opinion and according to the information and explanations given to us, the activities carried out by the Company are lawful and intra-vires to the Articles of the Company.

32. In our opinion and according to the information and explanations given to us, the activities /investment decisions are made subject to prior approval of the Board and investments in new projects i.e. acquisition of aircrafts are made only after ascertaining the technical and economic feasibility of such new ventures.

33. In our opinion and according to the information and explanations given to us, the Company has established effective budgetary control system.

34. The Company being a service sector company and therefore the system of input-output relation ship, Standard Costing and variance analysis is not applicable for the Company.

35. In our opinion and according to the information and explanations given to us, the details of remuneration, commission and other payments made in cash or in kind to the Board of Directors including the Chief Executive Officer or any of their relatives (including spouse(s) and child/children) by the Company directly or indirectly are disclosed in Note No. 35 in the Notes to Accounts.

36. In our opinion and according to the information and explanations given to us, the management of the Company complies with the directives of the Board of Directors as we have not come across any such incidence where it is not complied.

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

38. In our opinion and according to the information and explanations given to us, the Company maintains a reasonable system of costing to ascertain the cost of its services and enable it to make proper pricing decisions for its services.

39. In our opinion and according to the information and explanations given to us, proper records are kept for inter unit transactions/services and arrangements for services made with other agencies engaged in similar activities.

RAY & RAY
CHARTERED ACCOUNTANTS

Ray & Ray
Chartered Accountants

40. In our opinion and according to the information and explanations given to us, the Company has executed agreements properly and the terms and conditions of leases are reasonable and the same are applied for machinery/ equipments acquired on lease or leased out to others.

41. Computerized Accounting Environment:

    1. In our opinion and according to the information and explanations given to us, the size and nature of I.T. (Computer) system and installations are adequate for organizational and system development and other relevant internal control.

    2. In our opinion and according to the information and explanations given to us, the Company has adequate safeguard measures and back up facilities. Back up system for financial accounting has improved by installing another server in Thimphu as offsite back up.

    3. In our opinion and according to the information and explanations given to us, there are backup facilities of keeping files at different and remote location.

    4. In our opinion and according to the information and explanations given to us, the operational controls are adequate to ensure correctness and validity of input data and out-put information.

    5. In our opinion and according to the information and explanations given to us, the measures to prevent unauthorized access over the computer installation and files are in existence and adequate.

42. General

    1. Going Concern Problems

       On the basis of the attached Financial Statement for the year ended 31st December, 2018 audited by us, the company has earned profit during the current year. Net worth of the Company is positive and the financial position of the Company is healthy and we have no reason to believe that the company is not a going concern. Accordingly, the financial statements have been prepared under the going concern basis.

    2. Ratio Analysis (attached separately)

       The significant ratios indicating the financial health and performance of the Company are given in attachment of this report as per Annexure-III.

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

       According to the information and explanations given to us by the management and based on a Compliance Checklist duly audited by us, the Company has generally complied with the provisions of the Companies Act of the Kingdom of Bhutan. Details are given in **EXHIBIT – A & EXHIBIT-B respectively.**

    4. Adherence to Laws, Rules and Regulations:

RAY & RAY CHARTERED ACCOUNTANTS

Ray & Ray
Chartered Accountants

Audit of the Company is governed by the Companies Act of the Kingdom of Bhutan and the scope of audit is limited to examination and reviews of the financial statements as produced to us by the Management. In the course of audit, we have considered the compliance of provisions of the said Companies Act and its Articles of Incorporation relevant to the financial statements and we are unable to state whether the Company has been complying with all applicable laws (other than the Companies Act), rules and regulation, systems, procedures and practices.

For Ray & Ray
Chartered Accountants
(Firm Registration No 301072E)

Amitava Chowdhury

Amitava Chowdhury
Partner
Membership No.: 056060
Place: Kolkata
Dated: 21.03.2019


Bhutan Airlines

འབྲུག་མཁའ་འགྲུལ་ལས་འཛིན་ཚད།
(Drukair Corporation Limited)

Drukair Corporation Limited

Financial Statements

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Statement of Financial Position

Particulars	Related Note	As on 31 December, 2018	As on 31 December, 2017
Non-current assets			
Property, plant and equipment	5	3,817,913,296	3,656,299,695
Intangible assets	6	12,423,736	9,976,510
Investments	7	52,399,379	-
Trade and other receivables	8	13,603,105	2,369,423
Deposit for gratuity	9	52,406,244	43,643,035
Deferred tax asset	10	19,912	150,429
Other Non current assets	11	1,119,839,606	39,589,400
Total		**5,068,605,278**	**3,752,028,492**
Current assets			
Inventories	12	101,883,739	103,161,317
Trade and other receivables	8	172,064,419	126,753,780
Deposit for gratuity	9	111,475,493	111,265,316
Cash and cash equivalents	13	640,085,428	1,924,757,764
Other current assets	14	287,677,644	239,923,326
Total		**1,313,186,724**	**2,505,861,502**
Total Assets		**6,381,792,002**	**6,257,889,995**
Equity attributable to owners of the parent			
Share capital	15	2,225,211,100	2,225,211,100
Reserves	15	731,295,325	718,150,033
Total		**2,956,506,425**	**2,943,361,133**
Non-current liabilities			
Borrowing	16	1,363,104,901	1,613,258,720
Provisions	17	67,067,447	75,500,526
Total		**1,430,172,348**	**1,688,759,245**

Statement of Financial Position Contd.,

Current liabilities			
Borrowing	16	676,149,914	361,646,235
Trade and other payables	18	462,925,178	635,328,054
Other liabilities	19	742,130,806	448,107,219
Provisions	17	113,907,332	180,688,110
Total		**1,995,113,229**	**1,625,769,617**
Total equity and liabilities		**6,381,792,002**	**6,257,889,995**

The above statement of Financial Position is to be read in conjunction with the accompanying notes.

For Ray & Ray
Chartered Accountants
Firm Regn. No. 301072E

Aimtava Chowdhury
Partner
Membership No. 056060

Place: Kolkatta
Dated: 21.03.2019

For Drukair Corporation Limited

Pema Chewang
Chairman

Tandi Wangchuk
Chief Executive Officer

Rinzin Dorji
Director FCSD

Place: Thimphu
Dated: 11.03.2019

Statement of Comprehensive Income

Particulars	Note no.	For the year ended,	
		December 31,2018	December 31, 2017
Operating revenue		-	-
Traffic revenue	20	3,585,764,303	3,454,856,396
Other operating revenue	21	110,131,019	92,891,922
Total Operating Revenue		**3,695,895,322**	**3,547,748,318**
Operating Expenses			
Flight operation costs	22	1,645,634,514	1,317,692,433
Other operation costs	23	185,265,083	160,369,844
Aircraft maintenance costs	24	352,069,695	219,065,148
Other maintenance costs	25	25,478,063	9,906,775
Employee costs	26	482,766,623	409,968,370
Marketing and Sales	27	216,823,622	209,770,119
Other costs	28	204,020,559	249,456,586
Depreciation and amortization expenses	5	412,530,862	468,570,998
Total operating expenditure		**3,524,589,020**	**3,044,800,273**
Operating profit/(loss)		**171,306,302**	**502,948,045**
Non-operating items			
Non-operating revenue	29	249,839,801	196,326,510
Finance Cost	30	(159,263,604)	(159,200,763)
Profit/(loss) before tax		**261,882,499**	**540,073,792**
Tax Expenses			
Current Year		(78,584,662)	(161,427,103)
Earlier Years		(7,458,842)	18,377,080
CIT paid outside Bhutan		(16,296,751)	(13,873,713)
Deferred Tax Income/(Expense)		(130,517)	(34,534,648)
Profit/(loss) after tax for the financial year		**159,411,728**	**348,615,407**
Attributable to the owners of the parent		**159,411,728**	**348,615,407**
Earnings per share			
-Basic		7.16	15.67
-Diluted		7.16	15.67

RAY & RAY CHARTERED ACCOUNTANTS

Statement of Comprehensive Income Contd.,

Particulars	Note no.	For the year ended December 31, 2018	For the year ended December 31, 2017
Other Comprehensive Income			
Currency translation difference (non taxable)		(47,201,756)	66,789,283
Actuarial Gains		9,019,048	(22,762,048)
Total Comprehensive income for the year		**121,229,020**	**392,642,641**

The above statement of Comprehensive income should be read in conjunction with the accompanying notes.

For Ray & Ray
Chartered Accountants
Firm Regn. No. 301072E

For Drukair Corporation Limited

Amitava Chowdhury

Amitava Chowdhury
Partner
Membership No. 056060

Place: Kolkatta
Dated: 21.03.2019

RAY & RAY CHARTERED ACCOUNTANTS

Pema Chewang
Chairman

Tandi Wangchuk
Chief Executive Officer

Rinzin Dorji
Director FCSD

Place: Thimphu
Dated: 11.03.2019

Statement of Change in Equity

Particulars	Issued capital	Translation reserve	Actuarial reserve	Retained Earnings	Total
Balance as at January 1, 2018	2,225,211,100	65,745,695	(17,477,828)	669,882,163	2,943,361,130
Profit/(Loss) for the year 2018				159,411,728	159,411,728
					-
Other Comprehensive Income/loss					-
Translation Loss		(47,201,756)			(47,201,756)
Actuarial gains			9,019,048		9,019,048
Prior period adjustments				(83,727)	(83,724)
Transaction with the owners					-
Dividend paid in 2018				(108,000,000)	(108,000,000)
Balance at 31st December 2018	**2,225,211,100**	**18,543,939**	**(8,458,780)**	**721,210,164**	**2,956,506,425**

The above statement of change in equity should be read in conjunction with the accompanying notes.

For Ray & Ray
Chartered Accountants
Firm Regn. No. 301072E

For Drukair Corporation Limited

Amitava Chowdhury

Amitava Chowdhury
Partner
Membership No. 056060

Place: Kolkatta
Dated: 21.03.2019

RAY & RAY
CHARTERED ACCOUNTANTS

Pema Chewang
Chairman

Tandi Wangchuk
Chief Executive Officer

Rinzin Dorji
Director FCSD

Place: Thimphu
Dated: 11.03.2019

Statement of Cash Flow

Particulars	Amount in Nu.	
	2018	2017
Cash flow from operating activities (A)		
Comprehensive profit for the year after tax	159,411,728	392,270,133
Depreciation, amortization and impairment	412,530,862	468,570,998
Provision for tax	79,991,933	191,458,384
Gain/Loss on sale of PPE	4,325,406	(4,158,458)
Interest Income	(141,872,570)	(155,482,563)
Interest Expense	137,952,531	145,717,304
Stores and Spares written off	1,738,972	1,878,597
Prior period payout	(83,727)	-
Operating profit before working capital changes	**653,995,134**	**1,040,254,395**
Current asset and liability changes		
Movement in Trade and other Liabilities	121,620,711	367,382,130
Movement in Provisions	(261,233,207)	21,827,142
Movement in Inventory	1,277,578	4,949,674
Movement in Trade and other receivables	(56,544,321)	(62,268,293)
Movement in other current asset	(47,754,319)	(46,466,300)
Movement in deposits receivable	(8,973,387)	(102,537,469)
	(251,606,945)	**182,886,884**
Taxes paid	67,844,710	(33,330,722)
	(183,762,235)	149,556,161
Total cash flow from operating activities	**470,232,899**	**1,189,810,557**
Cash flow from investing activities (B)		
Non-current asset and liability changes		
Advance paid for PPE	(1,080,119,689)	(26,785,700)
Investment	(52,399,379)	207,140,600
Purchase of PPE and intangible assets	(576,591,689)	(328,138,546)
Sale Proceeds from PPE	(6,064,378)	6,192,614
Interest income	141,872,570	155,482,563
Total cash flow from investing activities	**(1,573,302,565)**	**13,891,532**
Cash flow from financing activities (C)		
Proceeds from Borrowing	321,000,000	-
Repayment of Bond	(216,343,151)	(216,343,151)
Repayment of Interest free loan	(33,810,667)	(33,810,667)
Dividend payout	(108,000,000)	-
Interest paid	(144,448,852)	(159,650,022)
Total cash flow from financing activities	**(181,602,671)**	**(409,803,840)**

RAY & RAY CHARTERED ACCOUNTANTS

Statement of Cash Flow Contd.,

Changes in Cash and cash equivalents (A)+(B)+(C)	(1,284,672,336)	793,898,249
Cash and cash equivalents at beginning of year	1,924,757,764	1,130,859,516
Note - Components of Cash and cash equivalents	**640,085,428**	**1,924,757,764**

The above statement of change in equity should be read in conjunction with the accompanying notes.

For Ray & Ray
Chartered Accountants
Firm Regn. No. 301072E

For Drukair Corporation Limited

Amitava Chowdhury
Partner
Membership No. 056060

Pema Chewang
Chairman

Tandi Wangchuk
Chief Executive Officer

Place: Kolkata
Dated: 21.03.2019

RAY & RAY CHARTERED ACCOUNTANTS

Rinzin Dorji
Director FCSD

Place: Thimphu
Dated 11.03.2019


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Notes to Financial Statements

1. General information

Drukair Corporation Ltd. (the "Company" or "DCL") is a wholly owned subsidiary of Druk Holding & Investments (a Royal Government of Bhutan undertaking). The principal activities of the company covers transport of people and cargo by air and related activities, including leasing of aircraft both as lessee and as lessor. The company's hub is at Paro airport and its aircraft fly to five countries in south-east Asia.

The Company is a limited liability company incorporated and domiciled in Bhutan. The address of its registered office is PO Box 1219, Nemeyzampa, and Paro. These financial statements relate to the year ended 31 December 2017.

The financial statements of the Company for the year ended December 31, 2018 were authorized for issue in accordance with the resolution of the Board of directors dated 11th March 2019.

2. Transition to Bhutan Accounting Standards (BAS)

The Ministry of Finance embarked on the process of developing Accounting Standards to promote high quality financial reporting which are consistent with international practices. Pursuant to this development, the Ministry of Economic Affairs of Royal Government of Bhutan has issued the Accounting Standard Rules for Companies in Bhutan, 2012, notifying the Bhutan Accounting Standards ('BAS') to be implemented by the Companies in Bhutan in three phases (I, II and III) with effect from January 1, 2013. Consequently, the Company has followed the BAS notified for implementation with effect from January 1, 2013 in preparing the financial statements from the year 2013 onwards to the extent as applicable to the Company as under.

SL No.	BAS	Standard Name	Effective Date
		Phase-1	
1	BAS 1	Presentation of Financial Statements	1.1.2015
2	BAS 2	Inventories	1.1.2015
3	BAS 7	Statement of Cash Flows	1.1.2015
4	BAS 8	Accounting Policies, Changes in Accounting Estimates and Errors	1.1.2015
5	BAS 10	Events after the Reporting Period	1.1.2015
6	BAS 12	Income Taxes	1.1.2015
7	BAS 16	Property, Plant & Equipment	1.1.2015
8	BAS 18	Revenue	1.1.2015
9	BAS 20	Accounting for Government Grants and Disclosure of Government Assistance	1.1.2015
10	BAS 21	The Effects of Changes in Foreign Exchange Rates	1.1.2015
11	BAS 23	Borrowing Costs	1.1.2015
12	BAS24	Related Party disclosures	1.1.2015
13	BAS 33	Earnings Per Share	1.1.2015
14	BAS 37	Provisions, Contingent Liabilities and Contingent Assets	1.1.2015

Notes to Financial Statements

		Phase-II	
15	BAS 17	Leases	1.1.2016
16	BAS 19	Employee Benefits	1.1.2016
17	BAS 26	Accounting and reporting by retirement benefit plans	1.1.2016
18	BAS 36	Impairment of Assets	1.1.2016
19	BAS 36	Intangible Assets	1.1.2016
		Phase-III	
20	BAS 32	Financial Instrument: Presentation	1.1.2017
21	BFRS 1	First- time adoption of BFRS	1.1.2017
22	BFRS5	Non-Current Assets Held for Sale and discontinued Operations	1.1.2017
23	BFRS 7	Financial Instruments: disclosure	1.1.2017
24	BFRS 9	Financial Instrument	1.1.2017
25	BFRS 13	Fair Value Measurement	1.1.2017
26	BFRS 15	Revenue for Contracts with Customers	1.1.2017

2.1 The company has adopted BAS phase – I from the year 2015 and Phase II in 2016 and and the changes in accounting policies consequent on adoption of above BAS had been accounted for in accordance with the transition provisions of the respective BAS and has been accounted for retrospectively by restating the comparatives from the previous GAAP to BAS with effect from January 1, 2013.

2.2 The BAS Phase- III standards applicable to the company were early adopted in 2017 and the changes in accounting policies consequent on adoption of above BAS had been accounted for in accordance with the transition provisions of the respective BAS and has been accounted for retrospectively by restating the comparatives from the previous GAAP to BAS with effect from January 1, 2016.

2.3 As detailed above, the financial statements of the Company for the year current year ended December 31, 2018 have been prepared in accordance with and are fully compliant with the Bhutanese Accounting Standards (BAS), except as stated otherwise in the financial statements.

3. Summary of Significant Accounting Policies

3.1 Basis of preparation

These financial statements are general purpose financial statements that have been prepared in accordance and to comply with the BAS and the relevant provisions of The Companies Act of the Kingdom of Bhutan, 2016 including the Accounting Standard Rules for Companies in Bhutan, 2012.

The said financial statements have been prepared on the accrual basis of accounting with the historical cost convention and going concern basis except as stated otherwise in the Financial Statements. The preparation of the Financial Statements requires the use of certain critical accounting estimates and judgments. It also requires management to exercise judgment in the process of applying the Company's accounting policies and the reported amounts of revenue, expenses, assets and liabilities may differ from the estimates. In areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 4.

RAY & RAY CHARTERED ACCOUNTANTS

Notes to Financial Statements

3.1 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements are measured using the currency of the primary economic environment in which the Company is registered referred to as the "functional currency". The functional currency and presentation currency of the Company is Bhutanese Ngultrum.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the Statement of Comprehensive Income.

3.2 Property, plant and equipment

The cost of an item of property, plant and equipment is recognized as an asset if, and only if, it is probable that future economic benefits associated with the item will flow to the Company and the cost can be measured reliably.

Property, plant and equipment are initially recognized at historical cost. The historical cost of property, plant and equipment is determined as the fair value of the asset at the date of acquisition and comprises its net purchase price after deducting for any trade discount and rebates, including import duties and non-refundable purchase taxes, any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Subsequent to initial recognition, property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses, if any. Subsequent expenditures relating to property, plant and equipment is capitalized only when it is probable that future economic benefits associated with these will flow to the Company and the cost of the item can be measured reliably.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are charged to the Statement of Comprehensive Income during the financial period in which they are incurred.

Spare parts and servicing equipment are normally treated as inventory and expensed as consumed. However, major spare parts and stand-by equipment are treated as property, plant and equipment when they are expected to be used during more than one year. Also, where the spares parts or servicing equipment can only be used in connection with an item of property, plant and equipment they are accounted for as property, plant and equipment.

Depreciation on property, plant and equipment is computed using the straight line method over the estimated useful lives. Freehold land is not depreciated as it has an unlimited useful life whereas leasehold land is depreciated on a straight line method over the primary term of the lease.
The Company has based on evaluation performed by the technical Department, established the estimated range of useful lives of assets for depreciating its property, plant and equipment as follows:

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Buildings and civil structures	33.33 years
Aircraft fleet – non renewable: (a) Aircraft frame	 16 years
Aircraft fleet – renewable: (a) Engine (b) APU (c) APU LLP (d) Landing gear (e) 6 year check (f) 12 year check	 12 years 5 years 6 years 10 years 6 years 12 years
Capital tools and rotable spare parts	3- 15 years
Furniture & Fixtures	10 years
Vehicles	6.67 years
Other Equipment	10 years

Significant parts of property, plant and equipment which are required to be replaced at intervals and have specific useful lives are recognized and depreciated separately.

The useful life, residual value and depreciation method are reviewed, and adjusted appropriately, at least at each Statement of Financial Position date to ensure that the method and period of depreciation are consistent with the expected pattern of economic benefits. Change in the estimated useful life, residual value and / or depreciation method, if any, is depreciated prospectively over the asset's remaining revised useful life.

The cost and the accumulated depreciation for property, plant and equipment sold, scrapped, retired or otherwise disposed off are eliminated from the financial statements and the resulting gains and losses are included in the Statement of Comprehensive Income.

3.3 Intangible assets

Intangible assets include computer software and are carried at cost of acquisition/implementation less accumulated amortisation. Amortisation is recognized on a straight line basis over the estimated useful life as estimated by the management.

3.4 Impairment of assets

The Company assesses at each balance sheet date whether there is any indication that property, plant and equipment may be impaired based on internal or external factors. If any such indication exists, the Company estimates the recoverable amount of the assets. If the carrying amount ofasset/cash generating unit exceeds the recoverable amount on the reporting date, the carrying amount is reduced to the recoverable amount. The recoverable amount is measured as the higher of the net selling price and the value in use determined by the present value of estimated future cash flows.

Notes to Financial Statements

3.5 Income tax

Current tax assets and liabilities for the current period are measured at the amount expected to be recoverable from or payable to the Income tax authority based on the current period's taxable income. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted on the reporting date by the Income Tax Authority.

Deferred income tax is provided on all temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognized for all taxable temporary differences except when the deferred income tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

Deferred income tax assets are recognized for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilized, except when the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

The carrying amount of deferred income tax assets is reviewed at each Balance Sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and the Company intends to settle its current tax assets and liabilities on net basis. Management evaluates positions taken in income tax returns with respect to situations in which applicable income tax regulation is subject to interpretation.

The income tax liabilities are recognized when, despite the Company's belief that its income tax return positions are supportable, the Company believes, it is more likely than not, based on the technical merits, that certain positions may not be fully sustained upon review by income tax authorities. Benefits from tax positions are measured at the single best estimate of the most likely outcome.

At each Statement of Financial Position date, the tax positions are reviewed, and to the extent that new information becomes available which causes the Company to change its judgment regarding the adequacy of existing income tax liabilities, such changes to income tax liabilities are duly recognized in income tax expense in the year in which such determination is made.

Interest and penalties, if any, related to accrued liabilities for potential tax assessments are included in income tax charge for the year in which the assessment is completed.

3.6 Investments and other financial assets

(i) Initial measurement

At initial recognition, the Company measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition

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of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss.

(ii) Classification and subsequent measurement

For the purpose of subsequent measurement, financial assets of the Company are classified in the following categories:

- Financial assets measured at amortized cost;
- Financial assets measured at fair value through other comprehensive income (FVTOCI); and
- Financial assets measured at fair value through profit and loss (FVTPL)

The classification of financial assets depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows. Management determines the classification of its financial assets at initial recognition.

Financial assets measured at amortized cost:

A financial asset is measured at amortized cost if both the following conditions are met:

a) The asset is held within a business model whose objective is to hold assets for collecting contractual cash flows; and

b) Contractual terms of the asset give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.

After initial measurement, such financial assets are subsequently measured at amortized cost using the effective interest rate (EIR) method. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included in finance income in the profit or loss. The losses arising from impairment are recognized in the profit or loss. This category generally applies to trade and other receivables, bank deposits, security deposits, investment in Government Securities, bonds, cash and cash equivalents and employee loans, etc.

Financial instruments measured at fair value through other comprehensive income

A financial instrument shall be measured at fair value through other comprehensive income if both of the following conditions are met:

a) The objective of the business model is achieved by both collecting contractual cash flows and selling financial assets; and

b) The asset's contractual cash flow represents SPPI.

Financial instruments included within FVTOCI category are measured initially as well as at each reporting period at fair value. Fair value movements are recognized in other comprehensive income (OCI). Currently, the Company does not have any asset classified under this category

Financial instruments measured at fair value through profit and loss

Fair value through profit and loss is the residual category. Any financial instrument which does not meet the criteria for categorization as at amortized cost or fair value through other comprehensive income is classified at FVTPL. Financial instruments included within FVTPL category are measured initially as well as at each reporting period at fair value. Fair value movements are recorded in statement of profit and loss.

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(iii) Impairment of financial assets

The Company assesses on a forward looking basis the expected credit losses associated with its assets carried at amortized cost and FVOCI debt instruments. The impairment methodology applied depends on whether there has been a significant increase in credit risk. Note 34details how the Company determines whether there has been a significant increase in credit risk.

For trade receivables only, the Company applies the simplified approach permitted by IFRS 9 Financial Instruments, which requires expected lifetime losses to be recognized from initial recognition of the receivables.

(iv) Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised only when:

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

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

When the Company has neither transferred a financial asset nor retains substantially all risks and rewards of ownership of the financial asset, the financial asset is derecognised if the entity has not retained control of the financial asset. When the entity retains control of the financial asset, the asset is continued to be recognized to the extent of continuing involvement in the asset.

(v) Income recognition

Interest income: Interest income from debt instruments is recognized using the effective interest rate method. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the gross carrying amount of a financial asset. When calculating the effective interest rate, the Company estimates the expected cash flows by considering all the contractual terms of the financial instrument (for example, prepayment, extension, call and similar options) but does not consider the expected credit losses.

Dividend income: Dividends are recognized in profit or loss only when the right to receive payment is established, it is probable that the economic benefits associated with the dividend will flow to the Company, and the amount of the dividend can be measured reliably.

3.7 Financial Liabilities

(i) Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, borrowings, payables. All financial liabilities are recognized initially at fair value and, in the case of

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borrowings and payables, net of directly attributable transaction costs. The Company's financial liabilities include trade and other payables, borrowings including bank overdrafts.

(ii) Subsequent measurement

The measurement of financial liabilities depends on their classification, as described below:

Financial Liabilities at fair value through profit or loss

Financial liabilities at fair value recognized through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss. Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term.
Gains or losses on liabilities held for trading are recognized in the profit or loss.

Financial liabilities designated upon initial recognition at fair value through profit or loss are designated as such at the initial date of recognition, and only if the criteria in IFRS 9 are satisfied. For liabilities designated as FVTPL, fair value gains/ losses attributable to changes in own credit risk are recognized in OCI. These gains/ loss are not subsequently transferred to P&L. However, the Company may transfer the cumulative gain or loss within equity. All other changes in fair value of such liability are recognized in the statement of profit or loss. The Company has not designated any financial liability as at fair value through profit and loss.

Borrowings: Any difference between the proceeds (net of transaction costs) and the redemption amount is recognized in profit or loss over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities are recognized as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalized as a prepayment for liquidity services and amortized over the period of the facility to which it relates.

Borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period. Where there is a breach of a material provision of a long-term loan arrangement on or before the end of the reporting period with the effect that the liability becomes payable on demand on the reporting date, the entity classify the liability as current, if the lender does not agree not to demand payment as a consequence of the breach before reporting date.

Trade and other payables: These amounts represent liabilities for goods and services provided to the Company prior to the end of financial year which are unpaid. Trade and other payables are presented as current liabilities unless payment is not due within 12 months after the reporting period. They are recognized initially at their fair value and subsequently measured at amortized cost using the effective interest method.

(iii) Derecognition

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the DE recognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the statement of profit or loss.

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Borrowings are removed from the balance sheet when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss as other gains/(losses).

Financial guarantee contracts

Financial guarantee contracts are recognized as a financial liability at the time the guarantee is issued. The liability is initially measured at fair value and subsequently at the higher of the amount determined in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets and the amount initially recognized less cumulative amortization, where appropriate.

The fair value of financial guarantees is determined as the present value of the difference in net cash flows between the contractual payments under the debt instrument and the payments that would be required without the guarantee, or the estimated amount that would be payable to a third party for assuming the obligations.

Where guarantees in relation to loans or other payables of associates are provided for no compensation, the fair values are accounted for as contributions and recognized as part of the cost of the investment.

(iv) Offsetting financial instruments

Financial assets and liabilities are offset and the net amount is reported in the balance sheet where there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the group or the counterparty.
Investments primarily meant to be held over long term period (i.e. for more than 12 months from date of acquisition) are valued at cost. Provision is made when in the opinion of the management there is a decline, other than temporary, in the carrying value of such investments. Current investments are stated at the lower of cost or quoted/fair value.

3.8 Advances

Advances represent advances paid to suppliers, contractors and employees in the ordinary course of the business activities of the Company. Advances are initially recognized at the value of cash advanced and are assessed at each Statement of Financial Position date for recoverability and the provision is recognized when it is more likely that the Company will not be able to collect the same. Advances are classified under current assets if payment is recoverable within one year or less as at Statement of Financial Position date, if not, they are classified under non-current assets.

3.9 Cash and cash equivalents

Cash and cash equivalents include cash in hand, bank balances and deposits, other short-term highly liquid investments with original maturities of three months or less and that are readily convertible to known amount of cash and cash equivalent and which are subject to an insignificant risk of changes in value.

3.10Inventories

An inventory consists of stores and spares held for operation & maintenance and other catering/duty free inventories.

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Inventories are stated at the lower of cost and net realizable value. The NRV shall be obtained for an inventory item costing Nu. 5,000.00 and above considering the materiality of the amount. Cost is determined using the weighted average cost formula and comprises cost of purchases and other incidental expenses incurred in acquiring inventories and bringing them to their existing location and condition.

3.11Reserves

The nature and purpose of these reserves are as follows:

i) General Reserve:

General Reserve is a free reserve. It is not maintained for any specific purpose. It serves as a tool for meeting future requirements. General Reserve may be used for future expansion of the business or to meet any contingent liability, or for any other purpose which, may arise.

ii) Translation Reserve:

Any gain or loss arising from conversion of the Financial Results of foreign operations into the local currency is transferred to the Translation Reserve. By maintaining a translation reserve, the Company is able to set off the unrealized foreign exchange loss in one year with the profits earned on translation of results of foreign operations in other years, without disturbing its general reserves.

iii) Actuarial Reserve

The Company accounts for the Employee Benefits on actuarial basis. Any profit or loss arising due to change in actuarial assumptions is recorded in the Actuarial Reserve. Any gain or loss arising on Defined Benefit Obligation is recorded in the Actuarial reserve.

3.12Borrowings

Borrowings are stated at principal outstanding and interest accrued and due on such borrowings based on the applicable interest rate. Borrowings are classified as current liabilities unless the Companyhas an unconditional right to defer settlement of the liability for at least 12 months after the Statement of Financial Position date.

3.13Grants

Grants from Government and Non-Government sources are recognized where there is reasonable assurance that the grant will be received and all attached conditions will be complied with.
Grants relating to expense items are recognized as income on a systematic basis over the periods that the related costs, which it is intended to compensate, are expensed. The unallocated portion of such grant is presented as part of Deferred Grants in the Statement of Financial Position.

Grants related to non-current assets are treated as Deferred liability in the Statement of Financial Position and are recognized to the Statement of Comprehensive Income on a systematic basis over the useful life of the related assets.

Grant received as compensation for expenses/losses already incurred or with no future related costs is recognized as income in the year it is received or becomes receivable.

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BAS 20-Accounting for Government Grant and disclosure of Government Assistance has been implemented by the Company retrospectively for the grants existed as on the transition date.

3.14Borrowing Costs

Borrowing costs consist of interest and other costs that Company incurs in connection with the borrowing of funds.

General and specific borrowing costs (net of investment income on temporary investment of those borrowings) that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalized as part of the costs of the asset, until such time the assets are substantially ready for their intended use or sale.A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale, which is two years or more as decided by the Company keeping in view the nature of assets and past trend of time taken for their completion.

All other borrowing costs are charged as expense to Statement of Comprehensive Income in the period they occur.

3.15Trade and other payables

Trade and other payables are obligations incurred by the Company towards purchase of goods and availing the services that have been acquired or availed in the ordinary course of business. Trade and other payables are classified under current liabilities, if payment is due within 12 months as at Statement of Financial Position date, if not, they are classified under non-current liabilities.

3.16 Provisions

The Company recognizes provisions when the Company has a present obligation (legal or constructive) arising from past events (legal or constructive obligation), payment for the obligation is probable, and the expenditure for settling the obligation can be estimated reliably.

The amount recognized as a provision is the best estimate of the expenditure required to settle the present obligation, taking into account the risks and uncertainties surrounding the obligation as of the balance sheet date. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

3.17Employee benefit liabilities

Contribution to Provident Fund administered by National Pension and Provident Fund is charged to Statement of Comprehensive Income as and when they fall due.
Retirement benefit liabilities are recognized when the Company has a present obligation (legal or constructive) as a result of past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Gratuity and Leave encashment are provided for based on actuarial valuation as at the Statement of Financial Position date. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise.

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

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Notes to Financial Statements

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

3.18 Revenue Recognition

Revenue is recognized to the extent that it is probable that the associated economic benefits will flow to the Company and the revenue can be measured reliably. Revenue is measured at the fair value of the consideration received or receivable.

The following specific recognition criteria must also be met before revenue is recognized:

(a) Operating Revenue:

All revenues generated through operation of air transport service activities such as airfare, administration charges, and commission earned and excess baggage charges, cargo sales are categorized under operating revenues. Such revenues are recognized when the services are rendered. The un-flown passenger tickets are recognized as "Passenger Sales Liability"

(b) Non Operating Revenue:

Non-operating revenues are those income, which are earned from non-operational activities such as interest subsidy, interest income earned from deposits and other miscellaneous incomes.

Interest income is accrued on a time proportion basis, by reference to the principal outstanding and at the effective interest rate applicable.

Other items of revenue which arise from the provision of services incidental to the core activities of the business are recognized when the services are provided and it is probable that economic benefits associated with the transaction will flow to the Company and amount can be measured reliably.

3.19 Earnings per share ('EPS')

The Company presents the basic and diluted EPS data for its ordinary shares. Basic EPS is computed by dividing the net profit for the year attributable to the ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the year.

Diluted EPS is computed by adjusting the net profit for the year attributable to the ordinary shareholders and by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares.

3.20 Critical accounting estimates and assumptions

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

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

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

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

4. Critical accounting estimates and assumption

a) Depreciation of Property, Plant and Equipment

Property, Plant and Equipment are depreciated on a straight-line basis at rates that can be used to write down their cost to their estimated residual values at the end of their useful lives. The estimates of the useful lives and residual values of the flight equipment are made by the Company on the basis of past experience and fleet operation performance in the industry. Changes in the expected level of usage, technological developments, level of wear and tear could impact the economic useful lives and the residual values of these assets, therefore future depreciation charges could be revised and could have an impact on the profit in future years

b) Retirement benefit obligations

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

c) Provision for doubtful debts

As at each Statement of Financial Position date, the Company assesses recoverability of trade receivables. Provision for doubtful debts is recognized based on the historical experience of collectability of debts. The Company estimates the portion of its outstanding receivables that cannot be collected based on aging schedules at an increasing percentage of each aging category. Actual doubtful debts could differ from these estimates.

d) Frequent Flyer Program

The Company has a “my happiness mile” through which program members can convert accumulated mileage to a cabin upgrade, free tickets and other member reward. A portion of passenger revenue attributable to the rewards for the frequent flyer program is deferred. The entity should recognize this deferred revenue as revenue only when the entity has fulfilled its obligations on the granting of rewards or when the period for converting the mileage to rewards has expired. The liability for frequent flyer program is provided based on the actuarial method which is determined from the redemption rate, loyalty points accrued and cost per point.

e) Impairment of aircraft and related equipment

The impairment of aircraft and related equipment was based on the recoverable amount of those assets, which is the higher of fair value less costs to sell or value-in-use of those assets. Any changes in the market price or future cash flows will affect the recoverable amount of those assets and may lead to recognition of additional or reversal of impairment losses.

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f) Fair Value for Financial Instruments

The fair value of financial instruments that are not traded in an active market is determined using valuation techniques. The Company uses its judgment to select a variety of methods and make assumptions that are mainly based on market conditions existing at the end of each reporting period. Financial instruments are valued using a discounted cash flow analysis based on assumptions supported, where possible, by observable market prices or rates. The chosen valuation techniques and assumptions used are possible effecting in determining the fair value of financial instrument.

Notes to Financial Statements

5. Property, plant and equipment

Particulars	Air Craft Fleet-Non Renewable	Furniture & Fixture	Office equipment	Electrical Fitting & Equipment	Ramp Equipment	Engineering Equipment
Balance as on 31st December 2017						
Cost	6,504,554,184	13,980,561	46,656,378	11,135,351	66,287,663	24,892,797
Accumulated Depreciation	-2,996,395,908	-6,997,573	-30,387,040	-3,644,598	-53,208,938	-23,383,262
Book Value	**3,508,158,275**	**6,982,988**	**16,269,338**	**7,490,753**	**13,078,725**	**1,509,535**
Changes in Book Value during the year						
Additions	486,664,092	4,709,083	11,854,043	4,649,759	5,693,355	1,597,470
Disposals & Sales/ Adjustments		-56,301	-547,460	-67,189	-	-
Depreciation on Disposals/Adjustments		46,334	534,305	63,623	-	-
Depreciation	-378,690,203	-1,156,137	-3,100,397	-635,285	-1,907,209	-201,255
Total Changes in Book Value	**107,973,889**	**3,542,979**	**8,740,492**	**4,010,908**	**3,786,145**	**1,396,215**
Balance as on 31st December 2018						
Cost	6,991,218,276	18,633,343	57,962,962	15,717,921	71,981,018	26,490,267
Accumulated Depreciation	-3,375,086,111	-8,107,376	-32,953,132	-4,216,260	-55,116,147	-23,584,517
Book Value as on 31st December 2018	**3,616,132,165**	**10,525,967**	**25,009,830**	**11,501,661**	**16,864,870**	**2,905,749**

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Particulars	Building	Motor Vehicle	Miscellaneous Asset	Catering Equipment	Tools & Spares	Total
Balance as on 31st December 2017						
Cost	20,020,498	52,174,041	7,522,455	11,776,813	133,434,518	6,892,435,258
Accumulated Depreciation	-5,726,682	-30,771,480	-4,422,004	-9,427,276	-72,084,599	-3,236,449,360
Book Value	**14,293,816**	**21,402,561**	**3,100,451**	**2,349,537**	**61,349,919**	**3,655,985,897**
Changes in Book Value during the year						-
Additions	30,416,595	17,559,668	8,741,275	-	4,121,370	576,006,710
Disposals & Sales/ Adjustments	-	-4,308,449	-163,737		-2,875,105	-8,018,240
Depreciation on Disposals/Adjustments	-	4,308,446	83,733		1,136,133	6,172,573
Depreciation	-1,087,647	-8,962,342	-844,880	-494,599	-15,153,688	-412,233,644
Total Changes in Book Value	**29,328,948**	**8,597,323**	**7,816,391**	**-494,599**	**-12,771,290**	**161,927,399**
Balance as on 31st December 2018						-
Cost	50,437,093	65,425,261	16,099,994	11,776,813	134,680,783	7,460,423,728
Accumulated Depreciation	-6,814,329	-35,425,377	-5,183,152	-9,921,874	-86,102,155	-3,642,510,431
Book Value as on 31st December 2018	**43,622,763**	**29,999,884**	**10,916,842**	**1,854,938**	**48,578,629**	**3,817,913,296**

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6. Intangible assets

Computer Software	As at December 31, 2018	As at December 31, 2017
Opening gross carrying value (i)	13,138,271	5,035,487
Additions	3,612,399	8,102,784
Disposals	-	
Closing gross carrying value(ii)	16,750,670	13,138,271
Opening accumulated amortization (iii)	(3,161,761)	(2,573,510)
Addition	(1,165,173)	(588,251)
Closing accumulated amortization (iv)	(4,326,934)	(3,161,761)
Net carrying value (ii-iv)	**12,423,736**	**9,976,510**

7. Investments- non current

	As at December 31, 2018	As at December 31, 2017
Deposit with Bank	50,000,000	-
Accrued Interest	2,399,379	-
Total	**52,399,379**	**-**

8. Trade & other receivables

	As at December 31, 2018	As at December 31, 2017
Non Current		
Trade debtors	17,306,575	6,072,893
Less: Provision for Doubtful debts	(3,703,470)	(3,703,470)
Total	**13,603,105**	**2,369,423**
Current		
Trade debtors	114,377,559	80,807,966
Security deposit paid	51,604,053	44,531,849
Accrued income	6,082,807	1,245,182
Advance to employees recoverable	-	168,784
Total	**172,064,419**	**126,753,780**

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9. Deposits for gratuity

	As at December 31, 2018	As at December 31, 2017
Non-Current		
Deposit with banks for gratuity	46,495,236	43,643,035
Accrued interest	5,911,008	-
Total	**52,406,244**	**43,643,035**
Current		
Deposits with bank - gratuity	105,850,151	100,771,721
Accrued interest	5,625,342	10,493,595
Total	**111,475,493**	**111,265,316**

10. Deferred tax asset

	As at December 31, 2018	As at December 31, 2017
Non Current		
Deferred Tax Asset	19,912	150,429
Fair valuation of debtor	-	-
Fair valuation of deposit	-	-
Total	**19,912**	**150,429**

11. Other noncurrent asset

	As at December 31, 2018	As at December 31, 2017
Capital Advances	1,119,839,606	39,589,400
Total	**1,119,839,606**	**39,589,400**

12. Inventories

	As at December 31, 2018	As at December 31, 2017
In-flight catering & duty free stocks	51,076,989	48,546,933
Stock of tickets	1,278,592	1,759,460
Gift stocks	770,429	839,738
Aircraft maintenance consumables	45,240,577	47,754,090
Uniforms	3,517,151	4,261,095
Total	**101,883,739**	**103,161,317**

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13. Cash and cash equivalents

	As at December 31, 2018	As at December 31, 2017
Cash and cheques in hand	17,433,727	10,841,399
In current account with banks	622,651,701	1,913,916,365
Total	**640,085,428**	**1,924,757,764**

14. Other current assets

	As at December 31, 2018	As at December 31, 2017
Advance to parties	109,933,554	38,227,585
Advance to employee	1,639,554	2,024,324
Prepaid expenses	32,977,281	19,065,181
RGOB subsidy receivable	106,058,345	116,892,214
Advance tax paid	37,068,911	63,714,021
Total	**287,677,644**	**239,923,326**

15. Share Capital

	As at December 31, 2018	As at December 31, 2017
Authorized for 50,000,000 equity shares of Nu 100 each	5,000,000,000	5,000,000,000
Total	5,000,000,000	5,000,000,000

Issued, Subscribed, and fully paid up	As at December 31, 2018	As at December 31, 2017
22,252,111 Equity shares of Nu 100 each, fully paid in cash	2,225,211,100	2,225,211,100
Total	**2,225,211,100**	**2,225,211,100**
Reserves (As per SOCE)	**731,295,325**	**718,150,033**

15. 1 All ordinary shares are ranked equally. Fully paid shares carry one vote per share and the right to dividends. There are no restrictions on the transfer of shares in the Company or on voting rights between holders of shares. Entire share capital is held by the Holding Company Druk Holding & Investments (A Royal Government of Bhutan Undertaking).

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15.2 Reconciliation of Share capital :

	As at December 31, 2018	As at December 31, 2017
At the beginning of the year		
- Number of shares	22,252,111	22,252,111
- Amount (in Nu.)	2,225,211,100	2,225,211,100
Add: issued during the year	-	-
- Number of shares	-	-
- Amount (in. Nu)	-	-
Less: Redeemed during the year	-	-
- Number of shares	-	-
- Amount (in Nu)	-	-
At the end of the year		
- Number of shares	22,252,111	22,252,111
- Amount (in. Nu)	2,225,211,100	2,225,211,100

16. Borrowings- unsecured

	As at December 31, 2018	As at December 31, 2017
Non-Current		
Drukair Bonds from National Pension and Provident Fund	1,244,767,565	1,461,110,716
Interest free loan from RGOB	118,337,336	152,148,004
Total	**1,363,104,901**	**1,613,258,720**
Current		
Drukair Bonds from National Pension and Provident Fund	216,343,353	216,343,353
Loan from Druk Hondling & Investments Ltd.,	321,000,000	
Interest free loan from RGOB	33,810,667	33,810,667
Accrued interest but not due on Bonds	97,208,345	111,492,214
Accrued interest but not due on loan	7,787,548	
Total	**676,149,914**	**361,646,235**

16.1 Bonds:

Following series of Bonds were issued to National Pension & Provident Fund for the purchase of aircraft – JSW

- Drukair Bond series I of Nu. 246,886,529 at coupon rate of 9% repayable within 10 years in 10 annual installments with last installment due on 2/24/2024
- Drukair Bond series I of Nu. 286,039,000 at coupon rate of 9% repayable within 10 years in 10

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annual installments with last installment due on 8/25/2024

- Drukair Bond series I of Nu. 1,630,508,000 at coupon rate of 8.5% repayable within 10 years in 10 annual installments with last installment due on 3/3/2025

16.2 Interest free loan:

Interest free loan of Nu. 507,160,12.12 was obtained from Royal Government of Bhutan for the purchase of aircraft BAE-146 and is repayable with 15 years in 60 quarterly equal installments.

17. Provisions

	As at December 31, 2018	As at December 31, 2017
Non-Current		
Provisions for gratuity	53,475,462	60,643,764
Provisions for leave encashment	8,072,497	8,550,684
Liability for frequent flyer program	5,519,488	6,306,078
Total	**67,067,447**	**75,500,526**
Current		
Corporate income tax liability	98,053,847	173,060,715
Provisions for gratuity	4,507,867	5,680,888
Provisions for leave encashment	306,642	-
Liability for frequent flyer program	11,038,976	1,946,507
Total	**113,907,332**	**180,688,110**

18. Trade and other payables

	As at December 31, 2018	As at December 31, 2017
Current		
Trade creditors	148,749,416	58,547,080
Accrued expenses	97,711,468	321,168,804
Deposits received	194,097,729	231,092,065
Employees payables	22,366,564	24,520,105
Total	**462,925,178**	**635,328,054**

19. Other liabilities

	As at December 31, 2018	As at December 31, 2017
Current		
Passenger advance sales	651,480,842	368,289,517

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Liabilities for stale cheque	3,105,527	2,983,289
Taxes and duties payable	79,991,933	69,251,981
Deferred grant for domestic operations	7,552,505	7,582,433
Total	**742,130,806**	**448,107,219**

20. Traffic revenue

	For the year ended	
	December 31, 2018	**December 31, 2017**
Passenger including surcharges	3,393,231,433	3,323,451,881
Excess baggage	20,223,861	16,222,180
Cargo	58,991,337	59,694,176
Chartered sales	94,867,672	50,088,159
RGOB grant for domestic operation	18,450,000	5,400,000
Total	**3,585,764,303**	**3,454,856,396**

21. Other operating revenue

	For the year ended	
	December 31, 2018	**December 31, 2017**
Administrative fee	6,938,598	7,141,728
No show charges	8,905,314	9,281,094
Duty free sales	27,949,674	26,203,026
Commission earned	2,075,161	2,000,839
Miscellaneous revenue	19,744,110	15,564,381
Cancellation charges	32,477,630	32,700,853
Drukair Holiday Inbound sales	12,040,533	-
Total	**110,131,019**	**92,891,922**

22. Flight Operation Cost

	For the year ended	
	December 31, 2018	**December 31, 2017**
Aircraft fuel and oil	983,318,643	744,055,657
Aircraft navigation charges	155,670,772	142,279,647
Aircraft landing and parking fees	90,491,531	99,183,583
Aircraft ground handling and security charges	288,291,502	245,551,407
Simulator expenses	18,029,568	11,783,279
Chartered Expenses	44,551,086	15,363,449

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Crew meal and outstation expenses	65,281,413	59,475,411
Total	**1,645,634,514**	**1,317,692,433**

23. Other operation cost

	For the year ended	
	December 31, 2018	**December 31, 2017**
In- flight catering expenses	134,096,401	124,605,993
Airfare Expenses (Drukair Holidays)	2,388,500	-
Food and Lodge	5,383,878	370,014
Disrupted flight expenses	14,581,595	8,114,639
Loss baggage claim	153,324	443,273
Purchase of duty free items	16,826,362	16,609,789
Service charges	10,320,989	9,472,633
Cargo transport & handling charges	1,514,034	753,501
Total	**185,265,083**	**160,369,844**

24. Aircraft maintenance cost

	For the year ended	
	December 31, 2018	**December 31, 2017**
Consumption stores and spares	24,860,536	26,537,382
Aircraft maintenance	339,451,860	184,359,778
Less: Credit Memorandum Utilized	(23,427,720)	(534,221)
Freight charges	9,446,046	6,823,613
Stores & scrap written off	1,738,972	1,878,597
Total	**352,069,695**	**219,065,148**

24.124.1 CFMI has provided a Credit Memorandum of USD 1,869,611 against the purchase of new aircraft that has been inducted in March 2015 and balance as on January 1, 2018 was USD 1,603,294.25. During the year Credit Memorandum amounting to USD 1,157,600 was utilized for the purchase of HPT Blades (INV NO 58939314) and HPT Disk (INV NO 58937005). This amount utilised is treated as deferred revenue and expensed off to the extent of depreciation of these assets. The balance amount of unutilised Credit Memorandum at the end of 2017 is USD USD 89,194.25 which can be utilised against the future repairs/purchase of the engines and the same will be adjusted against the cost of repair/purchase on utilisation.

24.2B/E Aerospace has provided Credit Memorandum of USD 16,535 against purchase of airbus A319 (JSW). During the year there is no unitisation against this credit memorandum. Therefore, the closing balance for the of unutilised Credit Memorandum remains same as that of 31st December 2017 i.e., USD 13,273.54 which is can be utilised against the future repairs of the engines and the same will be adjusted against the cost of repair on utilisation.

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24.3 During the Air France Industries (AFI) has provided Credit Memorandum of USD 367,351.80 as compensation for the delay in redelivery of engine from shop visit. During the year USD 339,532.17 has been utilized against the engine lease for the month of November and December. The balance amount of unutilised credit memorandum is USD 27,819.63.

25. Other maintenance cost

	For the year ended	
	December 31, 2018	**December 31, 2017**
Ground transport maintenance	714,692	986,862
Maintenance of ground transport equipment	6,402,806	4,006,020
Maintenance of hanger and workshop	18,573	7,750
Other maintenance	18,341,993	4,906,144
Total	**25,478,063**	**9,906,775**

26. Employee Cost

	For the year ended	
	December 31, 2018	**December 31, 2017**
Pay and allowances	368,717,443	316,838,999
Leave travel allowance	5,327,080	5,298,937
Productivity Allowance	14,450,547	14,109,974
Bonus and variable pay	12,254,403	4,591,208
Overtime	1,399,776	1,611,846
Uniform/make up expenses	14,285,159	14,493,038
Medical expenses	2,395,732	1,282,842
Staff welfare	343,770	347,139
Staff training and development	43,290,433	25,401,313
Leave encashment	96,285.150	7,538,571
Provident fund contribution	8,465,008	7,826,612
Retirement benefits	11,740,987	10,627,892
Total	**482,766,623**	**409,968,370**

27. Marketing and sales

	For the year ended	
	December 31, 2018	**December 31, 2017**
Marketing and sales promotion	8,388,695	-
Agent Commission	206,389,381	201,223,540
Advertisement & souvenir	2,045,546	8,546,580
	216,823,622	**209,770,119**

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28. Other cost

	For the year ended	
	December 31, 2018	December 31, 2017
Board meeting expenses	835,462	1,540,276
Fee & subscriptions	13,991,801	19,482,563
Printing and stationery	6,970,539	7,665,225
Office expenses	937,336	861,828
Lease rent (non aircraft)	14,960,424	18,361,242
Travelling expenses	28,632,608	24,568,177
Transportation expenses	5,020,957	4,576,665
Rates and taxes	794,038	739,817
Insurance	39,785,054	43,921,889
In-flight magazine	1,866,906	1,790,896
Communication expenses	63,222,275	65,606,120
Electricity charges	1,311,999	1,375,705
Brand Management Fee	10,086,447	-
Entertainment expenses	1,953,025	351,273
Books & periodicals	295,444	49,983
Corporate Social Responsibility	1,870,000	-
Donation & grants	1,119,015	1,865,000
Miscellaneous expenses	3,717,240	3,134,865
Consulting fees	3,897,539	4,475,100
Audit fees	382,495	1,831,486
Forex loss	-	45,605,236
Hospitality and supplies and expenses	2,369,953	1,151,810
Doubtful debts	-	501,432
Total	**204,020,559**	**249,456,586**

29. Non operating revenue

	For the year ended	
	December 31, 2018	December 31, 2017
Liabilities written off	-	26,644,513
Subsidy on Interest Expense	130,164,984	145,717,305
Interest income	11,707,587	9,765,258
Loss on sale of property, plant and equipment	4,325,406	4,158,458
Forex gain	94,483,083	-
Other miscellaneous income	9,158,741	10,040,976
Total	**249,839,801**	**196,326,510**

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30. Finance cost

	For the year ended	
	December 31, 2018	December 31, 2017
Bank charges	21,311,073	13,483,459
Interest on borrowing & others	137,952,531	145,717,304
Total	**159,263,604**	**159,200,763**

31. Earning Per Share (EPS)

Reconciliations of net profit for the year and ordinary share used in the computation of basic and diluted EPS are as follows:

	For the year ended	
Basic EPS attributable ordinary shares	**December 31, 2018**	**December 31, 2017**
Net profit attributable to the owners of the company	159,411,728	348,615,407
Issued and outstanding ordinary shares at the beginning of the year	22,225,211	22,225,211
Effective and outstanding ordinary shares at the beginning of the year	-	-
Weighted average number of ordinary shares outstanding at the end of the year	22,225,211	22,225,211
Basic and Diluted EPS attributable to ordinary shares	**7.16**	**15.67**

32. Fair Value measurements

Particulars	December 31, 2018			December 31, 2017		
	FVPL	FVOCI	Amortized Cost	FVPL	FVOCI	Amortized Cost
Financial assets						
Investment			52,399,379			-
Security deposit paid			51,604,053			44,531,849
Cash and cash equivalents			640,085,428			1,924,757,764
Trade receivables			127,980,664			83,177,389
Other receivables			6,082,807			1,413,966
Total financial assets	**-**	**-**	**878,152,332**	**-**	**-**	**2,053,880,967**
Financial liabilities						
Borrowing			2,039,254,815			1,974,904,954
Trade payables			148,749,416			58,547,080

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Security deposit received			194,097,729			231,092,065
Other payables			123,183,560			345,688,909
Total financial liabilities			**2,505,285,519**			**2,610,233,008**

(i) Fair value hierarchy

This section explains the judgments and estimates made in determining the fair values of the financial instruments that are (a) recognized and measured at fair value and (b) measured at amortized cost and for which fair values are disclosed in the financial statements. To provide an indication about the reliability of the inputs used in determining fair value, the Company has classified its financial instruments into the three levels prescribed under the accounting standard.

Level 1: Level 1 hierarchy includes financial instruments measured using quoted prices.

Level 2: The fair value of financial instruments that are not traded in an active market is determined using valuation techniques which maximize the use of observable market data and rely as little as possible on entity-specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

Level 3: If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

(ii) Valuation technique used to determine fair value

Specific valuation techniques used to value financial instruments include:

- the fair value of the financial instruments is determined using discounted cash flow analysis.

Particulars	December 31, 2018		December 31, 2017	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets				
Investments	52,399,379	52,399,379	-	-
Trade receivables	13,603,105	13,603,105	6,072,893	5,398,128
	66,002,485	**66,002,485**	**6,072,893**	**5,398,128**
Financial liabilities				
Borrowing	1,363,104,901	1,331,870,123	1,974,904,954	1,927,813,631
Total financial liabilities	**1,363,104,901**	**1,331,870,123**	**1,974,904,954**	**1,927,813,631**

The carrying amount for noncurrent investments and trade receivables are considered to be the same as the fair values.

The carrying amounts of current sundry debtor, cash and cash equivalents, current investment, interest accrued, other receivables, security deposit given and paid, trade payables and other payables are considered to be the

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same as their fair values, due to their short-term nature.

The fair values for financial instruments were calculated based on cash flows discounted using current borrowing rate. They are classified as level 3 fair values in the fair value hierarchy due to the inclusion of unobservable inputs including counterparty credit risk.

Significant estimates

The fair value of financial instruments that are not traded in an active market is determined using valuation techniques. The Company uses its judgment to select a variety of methods and make assumptions that are mainly based on market conditions existing at the end of each reporting period. For details of the key assumptions used and the impact of changes to these assumptions see (ii) above.

33. Capital Management

(a) Risk management

The Company is formed as a wholly owned subsidiary of Druk Holding & Investments Limited (DHI). For the purpose of the Company's capital management, capital includes issued capital, General Reserve, Translation Reserve and all other equity reserves attributable to the equity holders of the parent. The primary objective of the Company's capital management is to maximize the shareholder value and ensure that funds are available to meet future commitments. The Company manages its capital structure and makes adjustments in light of the changes in economic conditions and the requirements of the financial covenants. To maintain or adjust the capital structure, the Company may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares.

Capital expenditure is mostly met from operating cash flows. Fixed term borrowings are only made for major capital projects. Such borrowings are repaid when the project is completed and generating positive cash flows. In addition to commitments to outside parties, the company has a requirement to meet dividend and tax expectations, as contained in the Annual Compact with the parent company and RGoB. The amount mentioned under total equity in balance sheet is considered as capital by the Company.

34. Financial Risk Management

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

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

Risk	Exposure arising from	Measurement	Management
Credit risk	Cash and cash equivalents, trade receivables, financial assets measured at amortized cost	Aging analysis	Diversification of customer base
Liquidity risk	Borrowings and other liabilities	Cash flow forecasts	Availability of committed facilities
Market risk –	Future commercial transactions	Cash flow forecasting	Diversification of

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foreign exchange	and recognized financial liabilities not denominated in Bhutanese Ngultrum (Nu.)	Sensitivity analysis	liability
Market risk – interest rate	Long-term borrowings at fixed rates	Sensitivity analysis	Portfolio of loan contains fixed interest loans from financial institutions

(A) Market risk

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

The Company is in aviation industry and has its operation in various countries. As a result, the Company is exposed to foreign currency exposure through its operational activities. The risk is measured through a forecast of highly probable foreign currency cash flows. Further the Company manages its foreign currency risk by maintaining its foreign currency exposure, as approved by Board as per established risk management policy.

Foreign currency risk exposure
The Company's exposure to foreign currency risk at the end of the reporting period expressed in Nu. are as follows:

Particulars	December 31, 2018		December 31, 2017	
	USD	SGD	USD	SGD
Financial assets	-	-	189,721,188	-
Financial liabilities	114,733,800	6,519,126	(14,572,680)	-
Net exposure to foreign currency risk	**(114,733,800)**	**(6,519,126)**	**175,148,508**	**-**

Particulars	December 31, 2018		December 31, 2017	
	Thai Baht	NPR	Thai Baht	NPR
Financial assets	2,448,548	11,573,016	7,045,187	-
Financial liabilities	9,899,324	-		-
Net exposure to foreign currency risk	**(7,450,776)**	**11,573,016**	**7,045,187**	**-**

Particulars	December 31, 2018		December 31, 2018	
	Taka	INR	Taka	INR
Financial assets	2,906,812	19,427,977	2,287,246	10,471,135
Financial liabilities		14,120,050	6,173,298	31,405,862
Net exposure to foreign currency risk	**2,906,812**	**5,307,927**	**(3,886,052)**	**(20,934,728)**

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Sensitivity
The sensitivity of profit or loss to changes in the exchange rates arises mainly from foreign currency denominated financial instruments.

Particulars	Impact on profit before tax	
	December 31, 2018	December 31, 2017
SGD sensitivity		
Nu. depreciate by 5% (2015: 5%)	(325,956)	-
Nu. appreciate by 5% (2015: 5%)	325,956	-
USD sensitivity		
Nu. depreciate by 5% (2015: 5%)	(5,736,690)	8,757,425
Nu. appreciate by 5% (2015: 5%)	5,736,690	(8,757,425)
NPR sensitivity		
Nu. depreciate by 5% (2015: 5%)	578,650.82	-
Nu. appreciate by 5% (2015: 5%)	(578,650.82)	-
Thai Baht sensitivity		
Nu. depreciate by 5% (2015: 5%)	(372,538.81)	352,259
Nu. appreciate by 5% (2015: 5%)	372,539	(352,259)
Taka sensitivity		
Nu. depreciate by 5% (2015: 5%)	145,341	(194,303)
Nu. appreciate by 5% (2015: 5%)	(145,341)	194,303

*Holding all other variables constant

As the value of INR is equivalent to Nu. historically, the company is not exposed to foreign exchange risk arising from foreign currency transactions in INR.

(ii) Interest rate risk
Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company's exposure to the risk of changes in market interest rates relates primarily to the Company's long-term debt obligations with floating interest rates.

The Company has only fixed rate borrowings and are carried at amortised cost. Further the loan given and investment made by the Company is at fixed rate interest. Interest expenses/income, are therefore not subject to interest rate risk as defined in IFRS 7, since neither the carrying amount nor the future cash flows will fluctuate because of a change in market interest rates.

(iii) Price Risk
The risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer or by factors affecting all similar financial instruments traded in the market. As the company does not have any investment in listed securities which are exposed to price risk, company is not exposed to significant price risk.

(b) Liquidity risk

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

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

i) Maturities of financial liabilities

The tables below analyze the group's financial liabilities into relevant maturity groupings based on the contractual maturities for all financial liabilities. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

Contractual maturities of financial liabilities December 31, 2018	Less than 1 year	More than 1 years	Total
Trade and Other Payables	462,952,178	-	462,925,178
Borrowings	676,149,914	1,363,104,901	2,039,254,815
Interest	130,206,955	362,990,624	493,197,579
Total financial liabilities	**1,269,282,046**	**1,976,249,344**	**3,245,531,390**

(C) Credit risk

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

i) Trade receivables

Customer credit risk is managed by each business unit subject to the Company's established policy, procedures and control relating to customer credit risk management.

The Company's long term trade receivable usually from government bodies and management expects to recover the entire amount subsequently. However, the management has evaluated the long term trade receivable for time value of money impact and considered it for impairment as per BFRS 9. Other trade receivables are from sale agents with a credit tenure of 30-45 days.

However, from FY 2015 the Company takes bank guarantee or advance payments from the sale agents before issuing the ticket vouchers to them for further sale to the customers. Trade receivables are usually from government bodies which are non-interest bearing and are generally on credit term of 30-45 days. The Company regularly monitors its outstanding customer receivables.

The ageing of trade receivables as of balance sheet date is given below. The age analysis has been considered from the due date:

RAY & RAY CHARTERED ACCOUNTANTS

Notes to Financial Statements

Particulars	Less than six months	More than six months less than 3 years	More than 3 years	Total
Trade receivable as on December 31, 2018 (Gross)	114,377,558	13,603,105	3,703,470	131,684,133
Less: Provision for impairment loss			(3,703,470)	(3,703,470)
Trade receivable as on December 31, 2018 (Net)	**114,377,558**	**13,603,105**	**-**	**127,980,663**

The requirement for impairment is analyzed at each reporting date. The maximum exposure to credit risk at the reporting date is the carrying value of each class of financial assets disclosed in Note 32.

ii) Financial instruments and cash deposits

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

35. Related party transactions

The Company is a wholly owned subsidiary of Druk Holding & Investments (a Royal Government of Bhutan undertaking). The Company considers that for the purpose of BAS 24 the Royal Government of Bhutan is in a position of control over it, and therefore regards the Royal Government of Bhutan and its controlled companies/corporations as related parties for the purpose of the disclosures required by BAS 24.

A summary of the Company's transactions with the Royal Government of Bhutan and its related entities is included below:

Name of related party	Relationship	Nature of transaction with related party	Transaction amount in Nu.	Receivable/(Payable) amount in Nu.
Druk Holding & Investment	Holding company	a) Consideration for issue of equity shares	2,225,211,100.00	-
		b) Sale of air tickets	2,397,571.00	-
		c) Brand management fees for 2017	10,086,447.00	-
		d) Borrowings	321,000,000.00	-
		e) Commission	67,656.65	(67,656.65)
		f) Interest on Borrowings	7,787,547.94	(7,787,547.94)
		g) Dividend paid for 2017	108,000,000.00	-
Bank of Bhutan Limited	Fellow Subsidiary	a) Sale of air tickets	5,722,686.00	708,533.35
		b) Bank Charges	360,474.79	-
		c) Purchase of POS	57,000.00	-

Notes to Financial Statements

		machine		
		d) Commission	211,439.65	
		e) Current account	-	241,068,680.20
Bhutan Power Corporation Limited	Fellow Subsidiary	a) Sale of air tickets	16,225,304.00	-
		b) Electricity Charges	1,046,027.56	-
Bhutan Telecom Limited	Fellow Subsidiary	a) Sale of air tickets	4,502,562.00	-
		b) Telephone and Internet Charges	6,379,513.00	(100,000.00)
		c) Purchase of B-secure Charges	38,023.00	-
		d) Misc. Revenue	24,875.00	-
		e) Rental Charges	67,002.00	-
Construction Development Corporation Limited	Fellow Subsidiary	a) Sale of air tickets	897,613.00	(56,887.00)
		b) purchase of equipment	294,792.00	5,896.00
		c) Construction of customer service building	28,506,694.00	-
		d) Construction of Toilet	345,400.00	-
		e) Commission	20,595.90	(20,595.90)
Dagachhu Hydro Power Corporation Limited	Fellow Subsidiary	sale of air tickets	1,383,956.00	93,612.00
Dungsum Cement Corporation Limited	Fellow Subsidiary	sale of air tickets	971,244.00	-
Druk Green Power Corporation Limited	Fellow Subsidiary	a) Sale of air tickets	5,505,316.00	74,438.00
		b) commission	107,900.00	(107,900.00)
Natural resources Corporation Limited	Fellow Subsidiary	a) Sale of air tickets	791,032.00	-
		b) Commission	29,105.80	(29,105.80)
State Trading Corporation Limited	Fellow Subsidiary	a) Sale of air tickets	2,176,696.00	191,933.65
		b) Commission	70,770.55	-
		c) Purchase of vehicles	10,498,974.00	500,000.00
		d) Purchase of ICT products	332,500.00	-
Thimphu Tech Park Limited	Fellow Subsidiary	sale of air tickets	22,641.00	-
Wood Craft Centre Limited	Fellow Subsidiary	a) Sale of air tickets	609,403.00	-
		b) Purchase of furniture	863,745.00	-
Koufuku International Limited	Fellow Subsidiary	Purchase of dairy products	758,560.00	-
Bhutan Broad Product Limited	Fellow Subsidiary	Purchase of furniture	34,441.00	-
Dungsam Polymers Limited	Fellow Subsidiary	-	-	-
Bhutan Board Export	Fellow		-	-

Notes to Financial Statements

Limited	Subsidiary	-		
Tangsibji Hydro Energy Limited	Fellow Subsidiary	-	-	-
State Mining Corporation Limited	Fellow Subsidiary	-	-	-
Penden Cement Authority Limited	Fellow Subsidiary	-	-	-

Key management personnel ('KMP')

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

Summary of compensation paid to the KMP:

	For the year ended December 31,	
	2018	**2017**
Basic Salary, Allowance, PF and leave encashment	2,292,040.00	2,192,266
Sitting Fees	96,000.00	156,000
Leave Travel Concession	15,000.00	15,000
Total	**2,403,040.00**	**2,363,266**

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

Reimbursement of expenses incurred by related parties for and behalf of the Company and vice-versa, and the related outstanding amounts have not been included in the above disclosures.

The disclosures given above have been recon the basis of information available with the Company and relied upon by the Auditors.

36. Capital management and commitments

The Company has contractual commitments of about USD 108 million (exclusive of rebates) to Airbus SAS for the purchase of one (1) A320 NEO Aircraft with conversion right to A319 NEO. Out of USD 108 million the Company paid USD 200,000 in 2017 and USD 12,793,641 in 2018. The balance amounts are to be paid as per the MOU signed between Drukair and Airbus SAS on September 18, 2017.

The Company also has contractual commitments of about USD 18,488,500 million (exclusive of rebates) to ATR for the purchase of one (1) ATR 42-600. Out of USD 18,488,500 million the Company paid USD 2,773,275 in 2018. The balance amounts are to be paid as per the Purchase Agreement signed between Drukair and ATR on September 6th April 2018.

Notes to Financial Statements

37. Contingent liabilities

i) On behalf of Air India, the Embassy of India has sent a reminder vide letter No THI/Adm/551/1/2015 dated 07.12.2015 to settle outstanding due payable to Air India at the earliest possible. This outstanding amount of Rs 21.70 million is purported to be the pax compensation on the 5th freedom sector under commercial agreement which was applicable up to 11.09.2006. The Liabilities against this claim has not been provided in the current year accounts in light of the matter being appealed at the highest level of both governments.

ii) As per Notice of Demand raised by the Revenue Department Nepal in respect of the year 2014-'15 total assessed amended tax is NPR 34,897,711.00 against which NPR 5,600,136.00 was already paid by way of advance submitted tax leaving a balance due of NPR 29,297,575.00. The station has deposited NPR 9,800,000.00 (33% of NPR 29,297,575.00) and put up for an appeal against the demand with the tax Authorities, Nepal which is pending for assessment.

38. Other Notes to Accounts

i) Gratuity:

Defined Benefit Plans

Valuation in respect of Gratuity has been carried out by independent actuary, Royal Insurance Corporation of Bhutan Ltd., Bhutan. The present value of the defined benefit obligation, and the related current service cost and past service cost, were measured using the Projected Unit Credit Method.

Disclosure as per BAS 19, 'Employees Benefit' for defined benefit scheme (Gratuity)

1: Changes in Present Value of Obligations:

Period	**Year 2018**
Present value of the obligation at the beginning of the period	66,324,652
Interest cost	4,779,648
Past service cost	1,821,654
Current service cost	4,284,525
Benefits paid (if any)	(5,192,035)
Actuarial (gain)/loss	(14,035,115)
Present value of the obligation at the end of the period	**57,983,329**

2: The amount to be recognized in the Balance Sheet:

Period	**Year 2018**
Present value of the obligation at the end of the period	57,983,329
Fair value of plan assets at end of period	152,345,387
Net liability/(asset) recognized in Balance Sheet and related analysis	94,362,058
Funded Status	**94,362,058**

3 (a): Expense recognized in the statement of Profit and Loss:

Period	**Year 2018**
Interest cost	4,779,648
Past service cost	1,821,654
Current service cost	4,284,525
Expected return on plan asset	(11,490,601)

RAY & RAY CHARTERED ACCOUNTANTS

Notes to Financial Statements

Expenses to be recognized in P&L	(604,774)

3 (b): Other comprehensive (income) / expenses (Remeasurement)

Period	**Year 2018**
Actuarial (gain)/loss - obligation	(14,035,115)
Actuarial (gain)/loss - plan assets	12,353,233
Total Actuarial (gain)/loss	(1,681,882)

4: Table showing changes in the Fair Value of Planned Assets:

Period	**Year 2018**
Fair value of plan assets at the beginning of the period	153,208,019
Expected return on plan assets	11,490,601
Contributions	0
Benefits paid	0
Actuarial gain/(loss) on plan assets	(12,353,233)
Fair Value of Plan Asset at the end of the Period	**152,345,387**

5: The assumptions employed for the calculations are tabulated:

Discount rate	7.50 % per annum
Salary Growth Rate	7.00 % per annum
Mortality	IALM 2006-08 Ultimate
Expected rate of return	7.50% per annum
Withdrawal rate (Per Annum)	5.00% p.a.

6: Bifurcation of net Liability

Period	**Year 2018**
Current Liability (Short Term)*	4,507,867
Non Current Liability (Long Term)	53,475,462
Total Liability	**57,983,329**

ii) Leave Encashment Liability

This has been determined by actuarial method at Nu 8,379,139 the following is the summary of leave encashment as per the actuary valuation report:

The table below shows a summary of the key results for the year ending at December 2018:

1: Present Value of Obligations:

Period	**Year 2018**
Present value of the obligation at the beginning of the period	8,544,882
Interest cost	245,524
Past service cost	9,636
Current service cost	(165,743)
Benefits paid (if any)	(5,271,227)
Actuarial (gain)/loss	0
Present value of the obligation at the end of the period	**8,379,139**

2: The amount to be recognized in the Balance Sheet:

RAY & RAY CHARTERED ACCOUNTANTS

Notes to Financial Statements

Period	Year 2018
Present value of the obligation at the end of the period	8,379,139
Fair value of plan assets at end of period	0
Net liability/(asset) recognized in Balance Sheet and related analysis	(8,379,139)
Funded Status	**(8,379,139)**

3 (a): Expense recognized in the statement of Profit and Loss:

Period	Year 2018
Interest cost	245,524
Past service cost	9,636
Current service cost	(165,743)
Expected return on plan asset	(0)
Expenses to be recognized in P&L	**89,417**

3 (b): Other comprehensive (income) / expenses (Remeasurement)

Period	Year 2017
Actuarial (gain)/loss - obligation	5,016,067
Actuarial (gain)/loss - plan assets	0
Total Actuarial (gain)/loss	**5,016,067**

4: The assumptions employed for the calculations are tabulated:

Discount rate	7.50 % per annum
Salary Growth Rate	7.00 % per annum
Mortality	IALM 2006-08 Ultimate
Expected rate of return	0
Withdrawal rate (Per Annum)	5.00% p.a.

5: Bifurcation of net Liability

Period	Year 2018
Current Liability (Short Term)*	306,642
Non Current Liability (Long Term)	8,072,497
Total Liability	**8,379,139**

iii) Liability for Frequent Flyer Programme

This has been determined by actuarial method at Nu 16.56 million (PY Nu 8.25 million). The Following Actuarial estimates were used to determine the Actuarial Liability in 2018:

(a) Redemption Rate- 75%
(b) Loyalty Points accrued- 11,699,281.00
(c) Cost Per Point- 2.03

iv) Segment Information

For management purposes, the company has only one operating segment viz. transport of people and cargo by air, mainly from Bhutan to neighbouring countries. The company also transports people and cargo from India to third countries and also domestically within Bhutan, but these activities are part and parcel of the

RAY & RAY CHARTERED ACCOUNTANTS

Notes to Financial Statements

main activity. Therefore, the company's profit and loss account and balance sheet represent the results of this sole segment. During the year 2018, the company carried 285,397 no. of revenue passengers and 347,838 kg of cargo (PY: 271,007 no. revenue passengers and 342,037 kg of cargo).

v) Government grants

Grants from RGOB and other organisations relating to costs are recognised in the income statement over the period necessary to match them with the costs that they are intended to compensate.

vi) Benefit of Interest Free Loan

There is an interest free loan outstanding and due to the Govt. of Nu 185.96million (PY Nu. 219.77 million) as on 31-12-2017. The estimated interest benefit of this loan has not been accounted for in the books of the company. If the interest is considered at 9% pa, the benefit for the year 2017 would be Nu 16.73 million (PY Nu 19.75 million).

39. Events after the reporting period

No dividend was declared for the year 2018 during the Annual General meeting held on 16th April, 2019 considering the Capital Commitment for the payment of A320 Neo and ATR 42-600.

Signatures to Notes "1 to 39" of the financial statements for and on behalf of the Board of Directors.

For Ray & Ray
Chartered Accountants
Firm Regn. No. 301072E

For Drukair Corporation Limited

Amitava Chowdhury

Amitava Chowdhury
Partner
Membership No. 094384

Pema Chewang
Chairman

Tandi Wangchuk
Chief Executive Officer

Rinzin Dorji
Director FCSD

Place : Kolkatta
Dated: 21.03.2019

RAY & RAY CHARTERED ACCOUNTANTS Webel Bhawan Kolkata-91

Place: Thimphu
Dated: 11.03.2019

DRUKAIR CORPORATION LIMITED

RATIO ANALYSIS ANNEXURE-III

Sl.No	Particulars	Year ended 31.12.2018	Year ended 31.12.2017
A. Ratios for assessing financial health (In numbers)			
I	Current Ratio	0.66	1.54
II	Debt equity Ratio	0.69	0.67
III	Liquid Ratio	0.53	1.44
IV	Fixed Assets to Equity	1.30	1.25
V	Fixed Assets Turnover	0.94	0.94
B. Ratios of assessing profitability (In percentage)			
I	Return on equity (%)	5.39%	11.84%
II	Return on Capital employed (%)	5.24%	10.98%
III	Operation and Maintenance expenses to Traffic Revenue	55.71%	44.48%
IV	Earning Per Share	7.16	15.67
C. Ratios for assessing cash flow efficiency (In numbers)			
I	Cash flow turnover	0.13	0.35
II	Operation Index	2.95	3.44

RAY & RAY CHARTERED ACCOUNTANTS


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