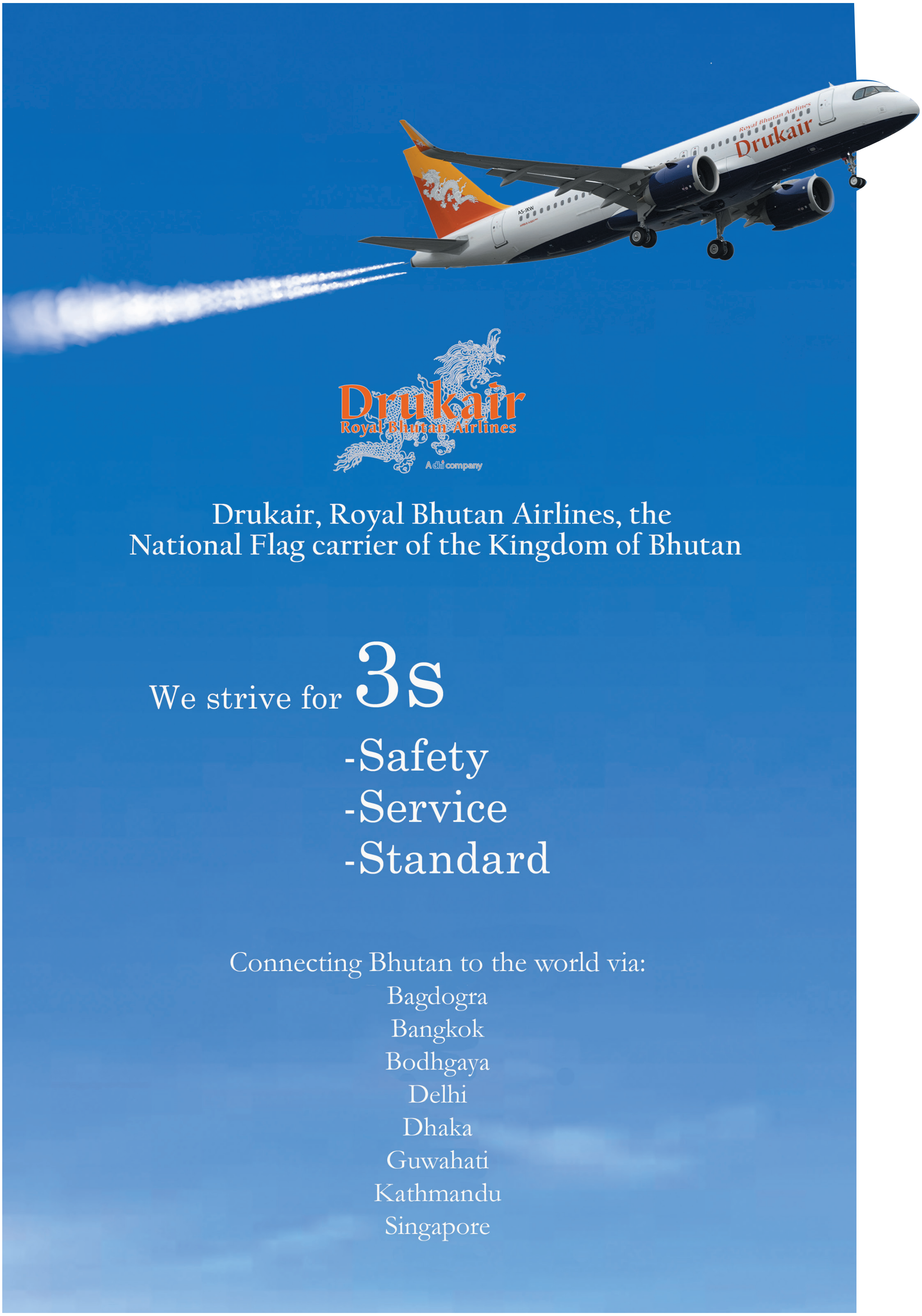
Drukair
Royal Bhutan Airlines
A dhi company

Annual Report 2019

Drukair Corporation Limited

www.drukair.com.bt


Drukair
Royal Bhutan Airlines
Drukair
Royal Bhutan Airlines
A dhi company
Drukair, Royal Bhutan Airlines, the
National Flag carrier of the Kingdom of Bhutan
We strive for 3s
-Safety
-Service
-Standard
Connecting Bhutan to the world via:
Bagdogra
Bangkok
Bodhgaya
Delhi
Dhaka
Guwahati
Kathmandu
Singapore

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 5,188 flights. The total number of passengers carried has increased to 285,911 from 285,397 carried in FY2018, consequently, achieving a load factor of 72.5% for 2019.

On the Financial performance, Drukair achieved the milestone of crossing over the Nu.4 billion revenue mark in FY2019. The overall income for the year, increased by 10.32%, to Nu. 4,353.09 million from Nu. 3,945.74 million in FY2018. The increase is mainly attributable to Nu. 436.30 million increase in passenger revenue (12.86% increase from FY2018) and Nu. 22.48 million increase in chartered revenue (23.70% increase from FY2018).

Drukair retained 67% market share on the four competitive routes of Bangkok, Delhi, Kathmandu and Kolkata and maintained on time performance of 99.6% compared with 98.9% of FY 2018.

Drukair achieved a Customer Satisfaction Index (CSI) of 4.01 out of 5 for 2019.

The audited accounts for 2019 had no qualifications and fulfilled all statutory requirements. The Company has complied to all the minimum audit requirements mentioned in the Companies Act 2016.

In 2019 Drukair replaced the aging ATR 42-500 with a new state-of-art ATR 42-600. The aircraft joined on 26th October 2019.

Drukair in 2019 crossed the equator by operating long term bi-weekly chartered flight to East Timor.

Now, looking back at 2019, of the many Corporate Social Responsibility (CSR) the Company takes pride in the continuous initiation of Trongsa Penlop Inspire Program in FY2019 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. The program was first initiated in 2018.

The dedication and hard-work of the employees were appreciated and the employees received two months of bonus and PBVA (Performance based Variance payout) of 13.52% for the year.

I would like to thank the Board and DHI and congratulate the staff for the achievement.

2020 brings in its own challenges as we are targeting crossing Nu. 5.5 billion revenue mark. This will be a historic land mark as we cross the 5 billion mark for the first time. The uncertainty of government policy on regional tourism and Timely Air Service Agreements with nations where we are planning to operate are the main challenges.
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 top most priority.

Tashi Delek

Tandi Wangchuk
Chief Executive Officer

CONTENTS

EXIT
Drukair
Drukair
Drukair

COMPANY PROFILE

Drukair is a Royal Government of Bhutan Owned Airline run by the Investment Wing, Druk Holding & Investments Ltd. The national Airline of the Kingdom of Bhutan operates a scheduled network within the South Asian region from its Head Quarter 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 65 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 jet plane touched down at Paro with the same traditional fanfare and weeks later the second BAe 146 joined. Drukair now operates with Airbus A319 for it's international destinations and an ATR for it's domestic and regional destinations. Recently Drukair has signed purchase agreement for the A320 NEO and an ATR-42-600. The ATR has joined the existing fleet on 26th October 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.

At the end of 2019, Drukair has a fleet of four aircrafts consisting of three Airbus A319s and one ATR-42-600 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 509 employees.

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

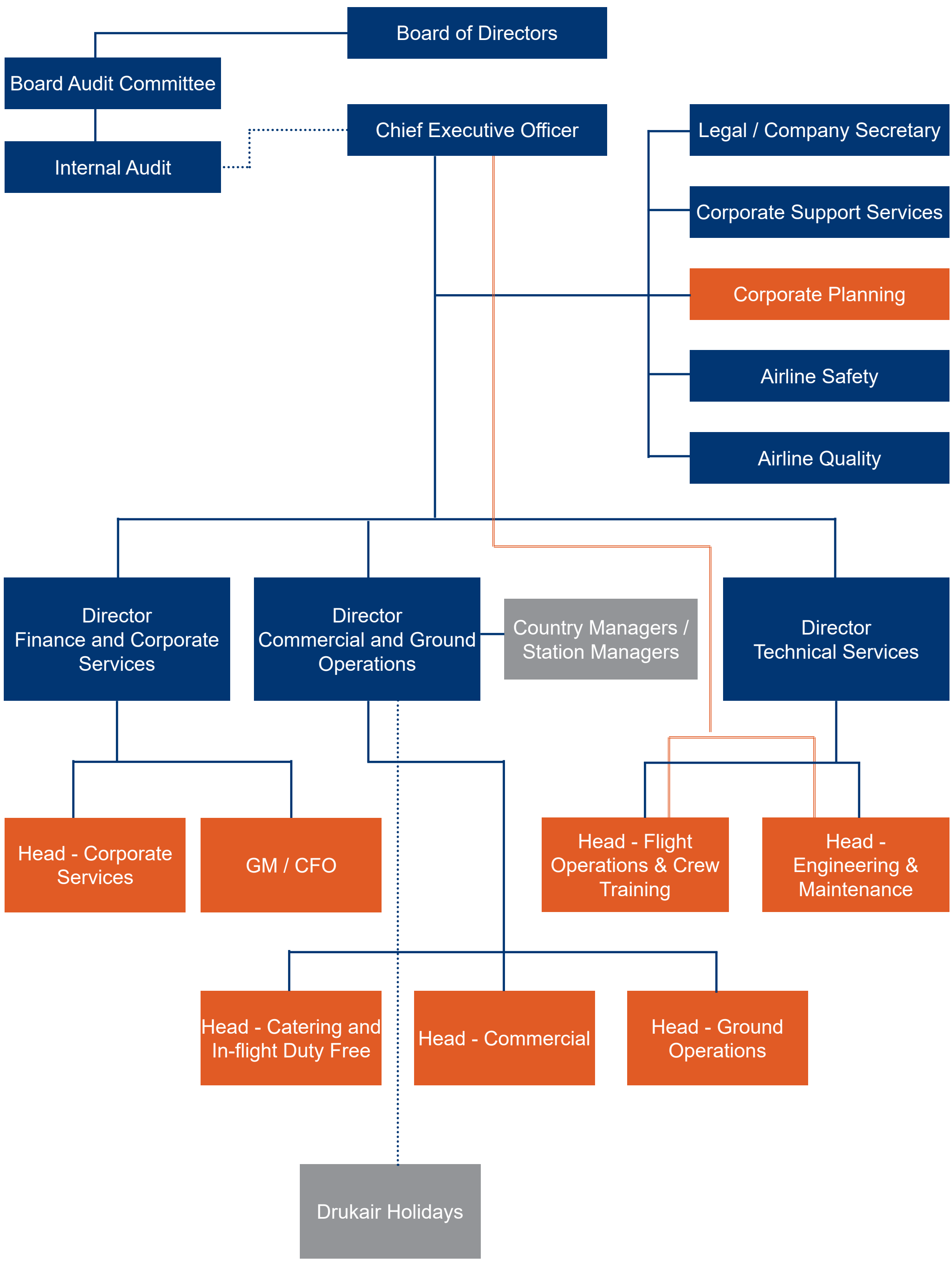
Vision: To be the leading airline connecting Bhutan and the world

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

Slogan: On the wings of the dragon

Destinations: 10 International & 3 Domestic destinations with Paro International Airport as its hub.

ORGANIZATION CHART



BOARD OF DIRECTORS

CHAIRMAN
Mr. Pema Chewang

**Secretary
National Land
Commission**

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

He has 28 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 33 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

**Chief Executive Officer
Dawa Hospitality Pvt. Ltd**

Mr. Passang Dorji is the Chief Executive Officer of Dawa Hospitality Pvt. Ltd.

He has over 17 years of work experience. He has a Bachelor's degree in Civil engineering from Thammasat University, Thailand and a MBA from Asian Institute of Management, Philippines.

BOARD OF DIRECTORS

BOARDDIRECTOR
Mr. Kuenga Namgay

Chief Executive Officer of State Trading Corporation

Mr. Kuenga Namgay is the Chief Executive Officer of State Trading Corporation of Bhutan.

He has over 28 years of work experience. 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).

Mrs. Kunzang Lhamu is the Director of National Commission for Women and Children (NCWC).

With 26 years of work experience she now works in the area of gender equality and promoting and protecting the rights of women and children. She has Master's degree 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 16 years of professional work experience. He has a Masters degree in Business Administration (MBA) from Australian Graduate School of Entrepreneurship, Melbourne, Australia. He received his Bachelor of Business Administration degree from Madras University, India.

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 30 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 Engineering and Technology (BUET), Dhaka, Bangladesh.

MANAGEMENT TEAM

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

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 over 27 years.

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 31 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 26 years.


Drukair
Royal Bhutan Airlines
a dhi company

DIRECTORS' REPORT

Introduction

On behalf of the Drukair Board and the Management, I extend a warm welcome to all participants to the 29th 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, 2019 to December 31, 2019.

1. Operational highlights

In 2019, Drukair operated with the existing fleet of three A319 and one ATR 42-500 planes and served 10 international and four domestic stations.

Drukair operated a total of 5,188 flights, a decrease of about 2% from 5,271 flights operated in FY2018. The total number of passengers carried however, has increased by about 0.2%, to 285,911 passengers from 285,397 passengers carried in FY2018, consequently, achieving a load factor of 72.5% for 2019. Drukair ferried 209.528 Metric Tons (MT) of cargo, 113.050 MT of mail and 32.093 MT of excess baggage in 2019.

In FY2019, Drukair retained 67% market share on the four competitive routes of Bangkok, Delhi, Kathmandu and Kolkata and maintained on time performance of 99.6% compared with 98.9% of FY 2018.

In 2019 Drukair achieved a historic milestone when it crossed the equator for the first time. On October 31st 2019, Drukair started charter operations to Dili in East Timor, with 2 flights a week operated from Singapore to Dili.

2. Financial highlights

2.1. Total asset and liability

The total non-current asset of the company increased by 39.49%, to Nu. 5,508.29 million, from Nu. 3,948.77 million in FY2018. It was mainly on account of purchase of ATR 42-600 under the 'property, plant and equipment' which was delivered to Drukair on 22nd October 2019.

However, despite the capital advance paid towards A320 Neo and balance payment for ATR 42-600 in 2019, the 'cash and cash equivalents' is maintained at 696 million from Nu. 640.08 million in FY2019. For the purchase of these aircrafts the company has taken loan from NPPF and SAARC Development Fund in 2019.

Consequently, the company's total asset increased by 34%, to Nu. 8,551.91 million from Nu. 6,381.79 million in FY2018.

The net worth increased by 22.64%, which was due to transfer of profits for the year. The non current liabilities, however, increased by 92.69%, to Nu. 2,775.81 million from Nu. 1,430.17 million in FY2018 mainly due to the loan taken from NPPF and SDF for the purchase of A320 Neo and ATR 42-600.

2.2. Income

The Board would like to report that the airline operated the entire 2019 financial year with an increased airfare of 7.5%, which was introduced in beginning of FY2019.

Drukair achieved the milestone of crossing over the Nu.4 billion revenue mark in FY2019. The overall income for the year, increased by 10.32%, to Nu. 4,353.09 million from Nu. 3,945.74 million in FY2018. The increase is mainly attributable to Nu. 436.30 million increase in passenger revenue (12.86% increase from FY2018) and Nu. 22.48 million increase in chartered revenue (23.70% increase from FY2018).

2.3. Expenditure

The expenditures increased marginally by 4.38%, to Nu. 3,845.04 million from Nu. 3,603.85 million in FY2018. The increase is mainly attributable to Nu. 140.03 million increase in 'aircraft maintenance' (39.77% increase from FY2018) and increase in "employee cost" by Nu.70.68 million (14.64% increase from FY2018).

2.4. Profitability of the company

Considering an increase in the revenue and a marginal increase in the cost, the Profit After Tax (PAT) increased by 115.19%, to Nu. 343.04 million from Nu. 159.41 million in FY2018.

2.5. Dividend

In order to take forward its mandates, Drukair is making investments in Airbus A320 NEO. For the purpose, the airline has already made capital advances worth Nu. 1,520.97 million during the year as commitment fees and pre-delivery payments (PDPs), which eventually decreased the cash position of the company over the years. As there are further requirements for final payment of A320 NEO in FY2020 upon the delivery of the aircraft in March 2020, no proposal for dividend is being made for the FY2019.

3. Customer Care

In order to cut down lengthy procedures and allow for a smoother and efficient complaint handling in regards to damaged baggage, the management handed over the authority to Station Managers (USD 30 for the repair of any repairable damage and USD 80 for baggage damaged beyond repair).

Drukair revised denied boarding policy. The denied passenger will be rescheduled on the next Drukair flight or on any other possible airline within two nights. A monetary compensation of USD 100 for domestic and USD 300 for international and also Drukair shall arrange Hotel accommodation up to two nights.

Drukair in 2019 crossed the equator by operating long time twice a week chartered flight to East Timor.

Drukair managed a customer satisfaction index (CSI) of 4.01 out of 5 for 2019. Drukair also started with the Business process reengineering for the efficient service to our customers.

4. Fleet Management

In 2019 Drukair replaced the aging ATR 42-500 with a new state-of-art ATR 42-600. The aircraft joined on 26th October 2019.

Drukair has also done many route studies in order to optimize the utilization of its aircrafts.

Drukair managed 6.57 hours of daily Airbus utilization and 3.55 hours of daily ATR utilization.

The on time performance for the year is 99.6%.

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 64 employees, including replacement, additional staff and temporary staff in FY2019. Drukair's employee strength as at 31 December 2019 stood at 509, which included temporary and daily wage staff.

Drukair started to prepare for mitigation of Disaster Risk whereby prepared a Disaster Management and Contingency Plan in 2019 as mandated by the Disaster Management Act of Bhutan 2013, Chapter 6 "Agency and Private Sector."

Drukair introduced internal frame work to address Gender related issues at work place. The internal framework includes a mechanism for addressing sexual harassment at the workplace and also promotes a gender friendly work environment, which includes ensuring women's representation in decision making forums.

Drukair introduced work-study program for staff and will be sponsoring two employees for masters' program at RIM hereafter.

Drukair, celebrated its first Drukair Day on 5th April 2019 and awards for Best Employee, Honorarium and certificate of Merit were given to the staffs.

Health and Safety Committee of Drukair was formed and registered with Department of Labor (MoLHR).

Drukair also streamed line the procedures for Staff Welfare Fund (SWF) semso.

The pay and remunerations for the employees were revised with effect from 1st October 2019.

6. Corporate Governance

The Company complied with the CG Code issued by DHI. The Company's Board had seven Board meetings, nine Audit Committee meetings and five 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 2019, 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. Sonam Phuntsho Wangdi Secretary National Environment Commission, Mr. Kunga Namgay CEO, State Trading Corporation of Bhutan, Mrs. Kunzang Lhamu Director, National Commission for Women & Children, Mr. Dorji Nima, Associate Director, CPD, DHI and Mr. Passang Dorji, CEO Dawa Hospitality Pvt. Ltd were reappointed and continued their directorship.

The first quarter risk management meeting was held on 27th March 2019 to update the DCL Risk Register and Risk Treatment Action Plan (RTAP) and the final risk management meeting was held on 23rd October 2019 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.

The Company has contributed its share for CSR activities as agreed and decided by DHI for the year 2019. The Company as usual carried out rimdos at all four domestic airports for the benefit and safety of all the employees and passengers.

Of many CSR initiatives taken by Drukair as mentioned above, the Company takes pride in the continuous initiation of Trongsa Penlop Inspire Program in FY2019 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. The program was first initiated in 2018.

8. Statutory Audit Report

M/s. Ray & Ray was appointed by Royal Audit Authority, as the Statutory Auditor for Drukair. For 2018 and continued for 2019, 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. Acknowledgments

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 Drukair 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


A5-JNW
ATR 42-600
Drukair
Royal Bhutan Airlines

CORPORATE GOVERNANCE REPORT

The Company complied with the Companies Act of Bhutan 2016 and the DHI CG code. Seven Board Meetings were held in 2019 and the gap between two meetings did not exceed three months in accordance with the Companies Act of Bhutan 2016.

Board Committees

Nine Board Audit Committee meetings and Five Board HR Committee meetings were also convened in 2019 to deliberate issues confronting the company.

CEO and Board Remuneration

As in the previous year, the Board Directors received a fixed amount of money as sitting fee. As such, the remuneration is not based on commission or a percentage of profits or turnover.

Each Director is paid a sitting fee of Nu. 8,000(eight thousand) and Nu. 4,000 (four thousand) per sitting for every board meeting and board committee meeting respectively.

The remuneration and benefits paid to the Chief Executive Officer (CEO) in FY 2019 was Nu. 2,878,670.00 and ID ticket as per contract and the remuneration and other benefits paid to the Directors in FY 2019 was Nu. 528,000.00 and ID tickets as per rule.

Annual General Meeting

The 28th Drukair Annual General Meeting(AGM) was held on 16 April 2019 at Drukair Customer Service Office, Thimphu. No dividend was declared by the Company for the financial year 2018.

The AGM decided as followings:

1. THAT the borrowing of USD 37,375,922 from NPPF for the purchase of A320 Neo and borrowing of USD 13.160 million from SDF for the purchase of ATR 42-600 are ratified.

2. THAT the appointment of Messrs. Ray & Ray, Chartered Accountants as Statutory Auditor of Drukair for the year 2018 as recommended by Royal Audit Authority and the fees and out of pocket expenses paid to them are endorsed.

3. THAT all the Board Directors except for CEO were retired and reappointed.

4. THAT reappointment of Mr. Tandi Wangchuk as the CEO of Drukair for the term of three years w.e.f. 1st January 2019 and his remuneration package as fixed by DHI Board is endorsed.

5. THAT the payment of the remuneration of the Chief Executive Officer and Directors was approved and endorsed.

Risk Management Systems

The Board also takes responsibility to identify, isolate and manage significant risks within the Company's business environment.

A Risk Management Framework based on the Enterprise Risk Management principles has been issued by DHI to ensure that Risks related to the activities undertaken by the portfolio companies are managed deliberately and effectively through a properly established process of assessment, resource allocation, review and reporting.

Report of compliance of mitigation measures and Updated Risk Register to the board and DHI is being done half yearly or as per the DHI DCL Compact/TAS document, whichever comes earlier. However, if a risk has an extreme financial or reputation impact it should be raised immediately at the board level for further action.

As of 2019, 30 risks are still registered in the risk register with no risk at 'Major' impact level. However, 'fuel price volatility' still retains the highest 'risk rating' at 9.

Concerning Safety and Risks, as of 2019, DCL has four different systems namely, Risk Management System- implemented in 2014, Safety Management System- implemented in 2018, Occupational Health and Safety- implemented in 2Q 2019 and Disaster Management and Contingency Plan-implemented in 3Q 2019. The four systems have minor differences in terms of application and compliances, but they are there for one specific purpose which is to prevent/mitigate risks and ensure the safety of the organization and its stakeholders. Therefore, many hazards and risks identified in these four different systems overlap each other and creates discrepancies with compliance. DCL is planning to carefully integrate these four systems together for smooth and efficient compliance and execution.

Corporate Social Responsibility

In line with the DHI Corporate Social Responsibility (CSR) Guideline-2013, the company ensures to implement meaningful and sustainable CSR activities, including financial contributions and management actions towards the benefits of communities.

The Company has contributed its share for CSR activities as agreed and decided by DHI for the year 2019. The Company as usual carried out rimdos at all four domestic airports for the benefit and safety of all the employees and passengers.

Drukair successfully carried out the second Trongsa Penlop Inspire program in 2019. Trongsa Penlop Inspire Program, an educational outreach program was initiated in 2018 as our main Corporate Social Responsibility (CSR) program.

Policies and Practices of CEO and Board Evaluation

The evaluation of Board Directors and CEO have been carried out for the financial year 2019 as per the existing policies and practices of DHI and DHI owned companies.


Drukair
Royal Bhutan Airlines
JNW


A5-JNW
ATR 42-600

INDEPENDENT AUDITORS' REPORT

To the Shareholders 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 31 December 2019, 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.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Drukair Corporation Limited as at 31 December 2019 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 matters 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 a whole in forming our opinion thereon, and in our opinion, there are no such matters to report.

RAY & RAY CHARTERED ACCOUNTANTS

Emphasis of Matters

Attention is drawn to the Note No 20.1 to the Financial Statements which states about the management decision to carry forward the net input credit of Rs. 17,930,064.47 as at 31 December, 2019 against future payables as the Government of India has not yet issued any circular for discontinuance of such credit available.

Our opinion is not modified in respect of above mentioned matter.

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. 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 Appendix-I attached to this report as per the requirements of Paragraph 40(b) of the ISA 700.

RAY & RAY
Webel Bhawan
Kolkata-91
CHARTERED ACCOUNTANTS

Report on Other Legal and Regulatory Requirements

As requirement by section 266 of the Companies Act of Bhutan, 2016, we enclose in the Appendix-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 explanations, which to the best of our knowledge and belief were necessary for the purpose of our audit;

b) In our opinion proper books of account 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) On the basis of checking of records and information and explanations given to us, we are of the opinion that the Company has complied with other legal and regulatory requirements.

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

Amitava Chowdhury

Amitava Chowdhury
Partner
Membership No.: 056060
UDIN- 20056060AAAAA25656
Kolkata-
Date: 04.06.2020

Appendix –I

Appendix 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, 2019 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
Webel Bhawan
Kolkata-91
CHARTERED ACCOUNTANTS

Appendix- II

Minimum Audit Examination and Reporting Requirement

Appendix 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 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/2019/3012 dated 30th October, 2019 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 31 December, 2019 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 In flight 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 insignificant discrepancies on physical verification of inventory of catering division as compared to the books records, and the same has been dealt with properly in the books of account.

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.

RAY & RAY CHARTERED ACCOUNTANTS
Webel Bhawan Kolkata-91

7. The Company had taken unsecured loan amounting to Nu 321,000,000.00 from Druk Holding & Investment Limited, its holding company during the year 2018 and the same has been converted into equity of the Company during the current year. 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 were not prejudicial to the interest of the Company. The Company has also taken unsecured interest free loan of Nu 507,160,012.12 from Royal Government of Bhutan in earlier years. The outstanding balance of such loan as on 31 December 2019 is Nu 118,337,336.16. The Company had also issued Drukair bonds amounting to Nu 2,163,433,529.33 to National Pension and Provident Fund (NPPF) in earlier years. Yearend balance of such bonds including interest accrued is Nu 1,327,692,041.18. Additionally, the Company has also taken unsecured loans of Nu 585,517,134.73- from NPPF and Nu 942,500,000.00 from SAARC Development Fund (SDF) during the current year. The yearend balance of such loans including interest accrued is Nu 622,312,914.06 and Nu 953,324,806.16 respectively. 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 above loans 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, 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.

RAY & RAY
Webel Bhawan
Kolkata-91
CHARTERED ACCOUNTANTS

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. 36)

    (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 account. Hence no provision for loss is required.

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-clause17 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 in the following cases where delay in deposit of statutory dues were observed:

Name of Station / Division	Nature of Due	Amount	Month of deduction	Due date of payment	Actual date of payment	Delay in No of days
Bangkok	Withholding Tax	THB. 24,675.76	April- 2019	07.05.2019	05.06.2019	29
Gaya	TDS on Professional Fees	Rs.22,375.00	December-2018	07.01.2019	28.02.2019	52
		Rs.54,831.00	Feb-2019	07.03.2019	28.03.2019	21
		Rs.36,943.00	Dec-2019	07.01.2020	Not yet paid	
		Rs.892.00	Dec-2019	07.01.2020	Not yet paid	
	TDS on Rent	Rs.21,037.00	December-2018	07.01.2019	28.02.2019	52
		Rs.32,854.00	Feb-2019	07.03.2019	28.03.2019	21
		Rs.41,884.00	Dec-2019	07.01.2020	Not yet paid	
Drukair Holidays	TDS on Rent	Nu.746.00	Jan,2019	10.02.2019	10.05.2019	89
		Nu.3,306.00	Feb, 2019	10.03.2019	10.05.2019	61
		Nu.236.00	March, 2019	10.04.2019	10.05.2019	30
	TDS on Sales	Nu.8,899.00	Feb,2019	10.03.2019	10.05.2019	61
		Nu.831.00	March, 2019	10.04.2019	10.05.2019	30
Finance & Accounts Division, Paro	TDS on consultancy	Nu 1,400.00	March, 2019	10.04.2019	07.06.2019	58
	TDS on Hotel Bills	Nu 4,500.00	March, 2019	10.04.2019	07.06.2019	58
		Nu 768.00	March, 2019	10.04.2019	07.06.2019	58
		Nu 91.00	Jan, 2019	10.02.2019	07.06.2019	117

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 December 2019 (Nu)	Amount paid subsequently (Nu)	Amount not yet paid (Nu)
TDS Payable	1,384,022.66	1,384,022.66	Nil
TDS payable on Brokerage	114,422.00	114,422.00	Nil
TDS payable on Contractor	147,850.00	147,850.00	Nil
TDS payable on Professional	493,740.00	455,905.00	37,835.00
TDS payable on rent	150,721.00	108,837.00	41,884.00
Withholding Tax payable	126,765.40	126765.40	Nil
Corporate Income Tax Payable (HO)	170,597,284.38	Nil	170,597,284.38
Corporate Income Tax Payable (Bangkok)	1,497,667.65	Nil	1,497,667.65
Corporate Income Tax Payable (Kathmandu)	3,527,880.25	Nil	3,527,880.25
Corporate Income Tax Payable (Singapore)	37,019.40	Nil	37,019.40
Corporate Income Tax Payable (Dhaka)	932,383.00	Nil	932,383.00

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

RAY & RAY
CHARTERED ACCOUNTANTS

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.

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.

RAY & RAY
CHARTERED ACCOUNTANTS
Webel Bhawan
Kolkata-91

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 relationship, Standard Costing and variance analysis is not applicable to 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. 36 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.

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/ equipment acquired on lease or leased out to others.

RAY & RAY
CHARTERED ACCOUNTANTS
Webel Bhawan
Kolkata-91

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. Additional offsite backup sys tem has been implemented in Thimphu as offsite backup.

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 31December 2019, 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-I.

RAY & RAY
Webel Bhawan
Kolkata-91
CHARTERED ACCOUNTANTS

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 complied with the applicable provisions of the Companies Act of Bhutan, 2016. Details of Compliance calendar and Compliance checklist are given in EXHIBIT- A & EXHIBIT-B respectively.

4. Adherence to Laws, Rules and Regulations:

Audit of the Company is governed by the Companies Act of Bhutan, 2016 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
UDIN- 20056060AAAAA25656
Kolkata
Date- 04.06.2020

Financial Statements

Drukair Coporation Limited

Statement of Financial Position

Amounts in Nu

Particulars	Related Note	As on 31 December 2019	As on 31 December 2018
Non-current assets			
Property, plant and equipment	5	5,465,452,573	3,817,913,296
Intangible assets	6	10,899,466	12,423,736
Investments	8	-	52,399,379
Trade and other receivables	9	10,101,448	13,603,105
Deposit for gratuity	10	21,841,116	52,406,244
Deferred tax asset	11	-	19,912
Total		**5,508,294,603**	**3,948,765,673**
Current assets			
Asset held for sale	7	233,613,413	-
Inventories	13	120,753,707	101,883,739
Trade and other receivables	9	164,158,620	172,064,419
Deposit for gratuity	10	97,343,435	111,475,493
Capital Advances	12	1,520,971,327	1,119,839,606
Cash and cash equivalents	14	696,388,005	640,085,428
Other current assets	15	210,388,347	287,677,644
Total		**3,043,616,855**	**2,433,026,329**
Total assets		**8,551,911,459**	**6,381,792,002**
Equity attributable to owners of the parent			
Share capital	16	2,558,351,900	2,225,211,100
Reserves	16	1,067,462,901	731,295,325
Total		3,625,814,801	2,956,506,425
Non-current liabilities			
Borrowing	17	2,640,968,015	1,363,104,901
Provisions	18	114,840,346	67,067,447
Total		**2,755,808,361**	**1,430,172,348**

Statement of Financial Position Contd.,

Amounts in Nu

Particulars	Related Note	As on 31 December 2019	As on 31 December 2018
Current liabilities			
Borrowing	17	380,699,082	676,149,914
Trade and other payables	19	912,179,355	462,925,178
Other liabilities	20	700,426,386	742,130,806
Provisions	18	176,983,473	113,907,332
Total		**2,170,288,296**	**1,995,113,229**
Total equity and liabilities		**8,551,911,459**	**6,381,792,002**

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

For Drukair Corporation Limited

Amitava Chowdhury

Aimtava Chowdhury
Partner
Membership No. 056060
UDIN- 20056060AAAAA25656

Pema Chewang
Chairman

Tandi Wangchuk
Chief Executive Officer

Place: Kolkatta
Dated: 04.06.2020

Rinzin Dorji
Director FCSD

Place:Thimphu
Dated: 03.03.2020

RAY & RAY CHARTERED ACCOUNTANTS Webel Bhawan Kolkata-91

DRUKAIR CORPORATION LTD. PARO:BHUTAN Drukair Royal Bhutan Airlines

Statement of Comprehensive Income

Amounts in Nu

Particulars	Note no.	For the year ended, 31 December 2019	31 December 2018
Operating revenue			
Traffic revenue	21	4,034,457,102	3,585,764,303
Other operating revenue	22	127,422,346	110,131,019
Total Operating Revenue		**4,161,879,447**	**3,695,895,322**
Operating Expenses			
Flight operation costs	23	1,532,712,248	1,645,634,514
Other operation costs	24	200,126,380	185,265,083
Aircraft maintenance costs	25	492,105,013	352,069,695
Other maintenance costs	26	10,148,459	25,478,063
Employee costs	27	553,447,339	482,766,623
Marketing and Sales	28	239,229,438	216,823,622
Other costs	29	215,614,691	204,020,559
Depreciation and amortisation expenses	5	416,514,738	412,530,862
Total operating expenditure		**3,659,898,305**	**3,524,589,020**
Operating profit/(loss)		501,981,142	171,306,302
Non-operating items			
Non-operating revenue	30	191,211,802	249,839,801
Finance Cost	31	(185,141,283)	(159,263,604)
Profit/(loss) before tax		508,051,661	261,882,499
Tax Expenses			
Current Year		(152,510,156)	(78,584,662)
Earlier Years		431,531	(7,458,842)
CIT paid outside Bhutan		(12,911,160)	(16,296,751)
Deferred Tax Income/(Expense)		(19,912)	(130,517)
Profit/(loss) after tax for the financial year		343,041,964	159,411,728
Attributable to the owners of the parent		343,041,964	159,411,728
Earnings per share			
-Basic	32	13.85	7.16
-Diluted	32	13.85	7.16

Statement of Comprehensive Income Contd.,

Amounts in Nu

Particulars	Note no.	For the year ended 31 December 2019	For the year ended 31 December 2018
Other Comprehensive Income			
Currency translation difference		33,491,939	(47,201,756)
Actuarial Gains/(Losses)		(40,366,327)	9,019,048
Total Comprehensive income for the year		**336,919,073**	**121,229,020**

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

For Drukair Corporation Limited

Amitava Chowdhury

Aimtava Chowdhury
Partner
Membership No. 056060
UDIN- 20056060AAAAA25656

Place: Kolkatta
Dated: 04.06.2020

Pema Chewang
Chairman

Tandi Wangchuk
Chief Executive Officer

Rinzin Dorji
Director FCSD

Place:Thimphu
Dated: 03.03.2020

RAY & RAY ★ CHARTERED ACCOUNTANTS ★ Webel Bhawan Kolkata-91

DRUKAIR CORPORATION LTD. ★ PARO:BHUTAN ★ Drukair Royal Bhutan Airlines

Statement of Change in Equity

Amounts in Nu

Particulars	Issued capital	Translation reserve	Actuarial reserve	Retained Earnings	Total
Balance as at 1 January 2019	**2,225,211,100**	**18,543,939**	**(8,458,780)**	**721,210,164**	**2,956,506,425**
Equity Share issues during the year 2019	333,140,800				333,140,800
Profit/(Loss) for the year 2019				343,041,964	343,041,964
Other Comprehensive Income/loss for the year 2019					-
Translation Loss		33,491,939			33,491,939
Actuarial gains			(40,366,327)		(40,366,327)
Balance at 31December 2019	**2,558,351,900**	**52,035,878**	**(48,825,107)**	**1,064,252,128**	**3,625,814,801**

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

For Drukair Corporation Limited

Amitava Chowdhury

Aimtava Chowdhury
Partner
Membership No. 056060
UDIN- 20056060AAAAA25656

Place: Kolkatta
Dated: 04.06.2020

Pema Chewang
Chairman

Tandi Wangchuk
Chief Executive Officer

Rinzin Dorji
Director FCSD

Place:Thimphu
Dated: 03.03.2020

RAY & RAY CHARTERED ACCOUNTANTS Webel Bhawan Kolkata-91

DRUKAIR CORPORATION LTD. Drukair Royal Bhutan Airlines PARO:BHUTAN

Statement of Cash Flow Amounts in Nu

Amounts in Nu

Particulars	2019	2018
Cash flow from operating activities (A)		
Profit Before Income Tax	508,051,661	261,882,499
Depreciation, amortization and impairment	416,514,738	412,530,862
Gain/Loss on sale of PPE	3,739,393	4,325,406
Interest Income	(130,651,501)	(141,872,570)
Interest Expense	163,483,209	137,952,531
Stores and Spares written off	5,238,814	1,738,972
Prior period payout		83,727
Operating profit before working capital changes	**966,376,313**	**676,641,427**
Current asset and liability changes		
Movement in Trade and other Liabilities	407,549,757	121,620,711
Movement in Provisions	32,118,089	(214,065,094)
Movement in Inventory	(18,869,968)	1,277,578
Movement in Trade and other receivables	11,407,457	(56,544,321)
Movement in other current asset	77,289,297	(47,754,319)
Movement in deposits receivable	42,988,263	(8,973,387)
	552,482,895	(204,438,832)
Taxes paid	(98,405,359)	(67,844,710)
	454,077,536	(272,283,542)
Total cash flow from operating activities	**1,420,453,849**	**404,357,885**
Cash flow from investing activities (B)		
Non-current asset and liability changes		
Advance paid for PPE	(401,111,809)	(1,080,119,689)
Investment encashed	52,399,379	(52,399,379)
Purchase of PPE and intangible assets	(2,319,950,076)	(582,656,067)
Interest income	132,360,425	141,872,570
Total cash flow from investing activities	**(2,536,302,081)**	**(1,573,302,565)**
Cash flow from financing activities (C)		
Loan from DHI	-	321,000,000
Repayment of Bond	(216,343,353)	(216,343,151)
Repayment of Interest free loan	(33,810,667)	(33,810,667)
Dividend payout	-	(108,000,000)

Statement of Cash Flow Contd.,

Amounts in Nu

Particulars	2019	2018
Loan from NPPF	585,517,135	-
Loan from SDF	942,500,000	-
Interest paid	(125,793,205)	(137,952,531)
Total cash flow from financing activities	**1,152,069,910**	**(175,106,350)**
Changes in Cash and cash equivalents (A)+(B)+(C)	36,221,677	(1,344,051,030)
Cash and cash equivalents at beginning of year	640,085,428	1,924,757,764
	676,307,106	637,009,311
Effects of change in foreign exchange rate on cash and cash equivalents increase/(decrease)	20,080,900	59,378,694
Cash and cash equivalents at the end of year	**696,388,005**	**640,085,428**

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

For Drukair Corporation Limited

Amitava Chowdhury

Aimtava Chowdhury
Partner
Membership No. 056060
UDIN- 20056060AAAAA25656

Place: Kolkatta
Dated: 04.06.2020

Pema Chewang
Chairman

Tandi Wangchuk
Chief Executive Officer

Rinzin Dorji
Director FCSD

Place:Thimphu
Dated: 03.03.2020

RAY & RAY CHARTERED ACCOUNTANTS Webel Bhawan Kolkata-91

DRUKAIR CORPORATION LTD. PARO:BHUTAN Drukair Royal Bhutan Airlines

INDEX

All amounts are in Bhutanese Ngultrum ('Nu') except at stated otherwise

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 2019.

The financial statements of the Company for the year ended 31 December 2019 were authorized for issue in accordance with the resolution of the Board of directors dated 2nd March 2020.

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 1 January 2013. Consequently, the Company has followed the BAS notified for implementation with effect from 1 January 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

DRUKAIR CORPORATION LTD. PARO:BHUTAN

RAY & RAY CHARTERED ACCOUNTANTS

All amounts are in Bhutanese Ngultrum ('Nu') except at stated otherwise

Notes to Financial Statements

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
	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 38	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 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 1 January 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 1 January 2016.

2.3 As detailed above, the financial statements of the Company for the year current year ended 31 December 2019 have been prepared in accordance with and are fully compliant with the Bhutanese Accounting Standards (BAS), except as stated otherwise in the financial statements.

All amounts are in Bhutanese Ngultrum ('Nu') except at stated otherwise
Notes to 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 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.

3.2 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.

DRUKAIR CORPORATION LTD. Drukair Royal Bhutan Airlines PARO:BHUTAN

RAY & RAY CHARTERED ACCOUNTANTS Webel Bhawan Kolkata-91

All amounts are in Bhutanese Ngultrum ('Nu') except at stated otherwise

Notes to Financial Statements

3.3 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:

All amounts are in Bhutanese Ngultrum ('Nu') except at stated otherwise

Notes to Financial Statements

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.

3.4 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.

DRUKAIR CORPORATION LTD. PARO:BHUTAN

RAY & RAY CHARTERED ACCOUNTANTS

3.5 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.

3.6 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.

DRUKAIR CORPORATION LTD. Drukair Royal Bhutan Airlines PARO:BHUTAN

RAY & RAY CHARTERED ACCOUNTANTS

All amounts are in Bhutanese Ngultrum ('Nu') except at stated otherwise

Notes to Financial Statements

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.

3.7 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 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)

DRUKAIR CORPORATION LTD. PARO:BHUTAN Drukair Royal Bhutan Airlines

RAY & RAY CHARTERED ACCOUNTANTS

All amounts are in Bhutanese Ngultrum ('Nu') except at stated otherwise

Notes to Financial Statements

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

DRUKAIR CORPORATION LTD. PARO:BHUTAN

RAY & RAY CHARTERED ACCOUNTANTS

All amounts are in Bhutanese Ngultrum ('Nu') except at stated otherwise

Notes to Financial Statements

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.

(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 35 details 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.

DRUKAIR CORPORATION LTD. PARO:BHUTAN

RAY & RAY CHARTERED ACCOUNTANTS

(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.

3.8 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 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.

DRUKAIR CORPORATION LTD. PARO:BHUTAN

RAY & RAY CHARTERED ACCOUNTANTS

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.

DRUKAIR CORPORATION LTD. PARO:BHUTAN

RAY & RAY CHARTERED ACCOUNTANTS

All amounts are in Bhutanese Ngultrum ('Nu') except at stated otherwise

Notes to Financial Statements

(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.

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.

DRUKAIR CORPORATION LTD. PARO:BHUTAN

RAY & RAY CHARTERED ACCOUNTANTS

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.

3.9 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.

3.10 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.

3.11 Inventories

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

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.

RAY & RAY
CHARTERED ACCOUNTANTS

DRUKAIR CORPORATION LTD.
PARO:BHUTAN

All amounts are in Bhutanese Ngultrum ('Nu') except at stated otherwise

Notes to Financial Statements

3.12 Reserves

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.

3.13 Borrowings

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.

3.14 Grants

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.

DRUKAIR CORPORATION LTD. PARO:BHUTAN

RAY & RAY CHARTERED ACCOUNTANTS

All amounts are in Bhutanese Ngultrum ('Nu') except at stated otherwise

Notes to Financial Statements

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.

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.

3.15 Borrowing 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.

3.16 Trade 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.

All amounts are in Bhutanese Ngultrum ('Nu') except at stated otherwise

Notes to Financial Statements

3.17 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.

3.18 Employee 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.

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.

3.19 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.

3.20 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.

4. 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.

DRUKAIR CORPORATION LTD. PARO:BHUTAN

RAY & RAY CHARTERED ACCOUNTANTS

All amounts are in Bhutanese Ngultrum ('Nu') except at stated otherwise

Notes to Financial Statements

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.

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.

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.

DRUKAIR CORPORATION LTD. PARO:BHUTAN

RAY & RAY CHARTERED ACCOUNTANTS

All amounts are in Bhutanese Ngultrum ('Nu') except at stated otherwise

Notes to Financial Statements

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.

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.

RAY & RAY CHARTERED ACCOUNTANTS

DRUKAIR CORPORATION LTD. PARO:BHUTAN

All amounts are in Bhutanese Ngultrum ('Nu') except at stated otherwise

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 31 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	**3,616,132,165**	**10,525,967**	**25,009,830**	**11,501,661**	**16,864,870**	**2,905,749**
Changes in Book Value during the year 2019						
Additions	2,270,319,917	797,182	5,413,861	433,962	4,929,810	426,242
Disposals & Sales/ Adjustments	(579,724,114)	-	-	-	-	-
Depreciation on Disposals/Adjustments	346,110,700				-	-
Depreciation	(404,857,889)	(1,422,396)	(3,419,846)	(1,365,047)	(3,128,419)	(532,766)
Total Changes in Book Value	**1,631,848,615**	**(625,214)**	**1,994,015**	**(931,085)**	**1,801,391**	**(106,524)**
Balance as on 31 December 2019						
Cost	8,681,814,079	19,430,525	63,376,823	16,151,883	76,910,827	26,916,509
Accumulated Depreciation	(3,433,833,300)	(9,529,771)	(36,372,978)	(5,581,307)	(58,244,566)	(24,117,284)
Book Value as on 31 December 2019	**5,247,980,780**	**9,900,753**	**27,003,845**	**10,570,576**	**18,666,261**	**2,799,225**

All amounts are in Bhutanese Ngultrum ('Nu') except at stated otherwise

Notes to Financial Statements

Particulars	Building	Motor Vehicle	Miscel-laneous Asset	Catering Equipment	Tools & Spares	Work in Progress	Total
Balance as on 31 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	**43,622,763**	**29,999,884**	**10,916,842**	**1,854,938**	**48,578,629**		**3,817,913,297**
Changes in Book Value during the year 2019							**-**
Additions	-	9,712,803	5,676,744	3,756,945	18,327,266	155,345	2,319,950,076
Disposals & Sales/ Adjustments	-	-	(134,659)	-	(6,652,542)		(586,511,315)
Depreciation on Disposals/Adjustments	-						346,110,700
Depreciation	(1,512,798)	(3,088,202)	(1,492,315)	(655,937)	(10,534,571)		(432,010,185)
Total Changes in Book Value	**(1,512,798)**	**6,624,601**	**4,049,770**	**3,101,007**	**1,140,153**	**155,345**	**1,647,539,276**
Balance as on 31 December 2019							-
Cost	50,437,093	75,138,063	21,642,079	15,533,757	146,355,507	155,345	9,193,862,489
Accumulated Depreciation	(8,327,127)	(38,513,579)	(6,675,467)	(10,577,812)	(96,636,726)	-	(3,728,409,916)
Book Value as on 31 December 2019	**42,109,966**	**36,624,485**	**14,966,612**	**4,955,945**	**49,718,781**	**155,345**	**5,465,452,573**

The difference in depreciation amount of Nu.17,019,717 between schedule of fixed asset and statement of comprehensive income is due to depreciation adjusted for asset purchased through credit memo and RGOB grant received as per BAS 16 and BAS 20.

All amounts are in Bhutanese Ngultrum ('Nu') except at stated otherwise

Notes to Financial Statements

6. Intangible assets

Computer Software	As at 31 Decemeber 2019	As at 31 December 2018
Opening gross carrying value (i)	16,750,670	13,138,271
Additions		3,612,399
Disposals	-	-
Closing gross carrying value(ii)	16,750,670	16,750,670
Opening accumulated amortization (iii)	(4,326,934)	(3,161,761)
Addition	(1,524,270)	(1,165,173)
Closing accumulated amortization (iv)	(5,851,204)	(4,326,934)
Net carrying value (ii-iv)	**10,899,466**	**12,423,736**

7. Assets held for sale

	As at 31 December 2019	As at 31 December 2018
ATR 42-500	233,613,413	-
Total	**233,613,413**	**-**

7.1 As per the purchase agreement for ATR 42-600 signed between ATR and Drukair, the old ATR 42-500 is be redelivered to ATR upon the arrival of the new ATR 42-600. The new ATR 42-600 was delivered to Drukair on 22 October 2019. The aircraft ATR 42-500 will be redelivered to ATR on 28 January 2020. The carrying value of ATR 42-500 as on 31 December 2019 is Nu. 233,613,413.

8. Investments- non current

	As at 31 December 2019	As at 31 December 2018
Deposit with Bank	-	50,000,000
Accrued Interest	-	2,399,379
Total	**-**	**52,399,379**

9. Trade & other receivables

	As at 31 December 2019	As at 31 December 2018
Non Current		
Trade debtors	13,078,459	17,306,575
Less: Provision for Doubtful debts	(2,977,012)	(3,703,470)
Total	**10,101,448**	**13,603,105**
Current		
Trade debtors	100,709,333	114,377,559
Security deposit paid	56,286,196	51,604,053
Accrued income	7,163,092	6,082,807
Total	**164,158,620**	**172,064,419**

DRUKAIR CORPORATION LTD. PARO:BHUTAN

RAY & RAY CHARTERED ACCOUNTANTS

All amounts are in Bhutanese Ngultrum ('Nu') except at stated otherwise

Notes to Financial Statements

10. Deposits for gratuity

	As at 31 December 2019	As at 31 December 2018
Non-Current		
Deposit with banks for gratuity	17,916,251	46,495,236
Accrued interest	3,924,865	5,911,008
Total	**21,841,116**	**52,406,244**
Current		
Deposits with bank - gratuity	86,153,698	105,850,151
Accrued interest	11,189,737	5,625,342
Total	**97,343,435**	**111,475,493**

11. Deferred tax asset

	As at 31 December 2019	As at 31 December 2018
Non Current		
Deferred Tax Asset	-	19,912
Total	**-**	**19,912**

11.1 The deferred tax benefit is claimed during the year for the differential in interest income due to effective interest calculated on fixed deposit encashed during the year.

12. Other noncurrent asset

	As at 31 December 2019	As at 31 December 2018
Capital Advances	1,520,971,327	1,119,839,606
Total	1,520,971,327	1,119,839,606

13. Inventories

	As at 31 December 2019	As at 31 December 2018
In-flight catering & duty free stocks	69,793,467	51,076,989
Stock of tickets	1,279,562	1,278,592
Gift stocks	709,441	770,429
Aircraft maintenance consumables	45,236,829	45,240,577
Uniforms	3,734,409	3,517,151
Total	**120,753,707**	**101,883,739**

DRUKAIR CORPORATION LTD. PARO:BHUTAN

RAY & RAY CHARTERED ACCOUNTANTS

All amounts are in Bhutanese Ngultrum ('Nu') except at stated otherwise

Notes to Financial Statements

14. Cash and cash equivalents

	As at 31 December 2019	As at 31 December 2018
Cash and cheques in hand	7,619,411	17,433,727
In current account with banks	688,768,595	622,651,701
Total	**696,388,005**	**640,085,428**

15. Other current assets

	As at 31 December 2019	As at 31 December 2018
Advance to parties	32,726,447	109,933,554
Advance to employee	1,388,050	1,639,554
Prepaid expenses	32,567,213	32,977,281
RGOB subsidy receivable	96,388,231	106,058,345
Advance tax paid	47,318,406	37,068,911
Total	**210,388,347**	**287,677,644**

16. Share Capital

	As at 31 December 2018	As at 31 December 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		
25,583,519 (PY 22,252,111) Equity shares of Nu 100 each, fully paid in cash	2,558,351,900	2,225,211,100
Total	**2,558,351,900**	**2,225,211,100**
Reserves (As per SOCE)	**1,067,462,901**	**731,295,325**

16.1 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).

RAY & RAY CHARTERED ACCOUNTANTS Webel Bhawan Kolkata-91

DRUKAIR CORPORATION LTD. PARO:BHUTAN Drukair Royal Bhutan Airlines

All amounts are in Bhutanese Ngultrum ('Nu') except at stated otherwise

Notes to Financial Statements

16.2 Reconciliation of Share capital :

	As at 31 December 2019	As at 31 December 2018
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	3,331,408	-
- Amount (in. Nu)	333,140,800	-
Less: Redeemed during the year	**-**	**-**
- Number of shares	-	-
- Amount (in Nu)	-	-
At the end of the year		**-**
- Number of shares	25,583,519	22,252,111
- Amount (in. Nu)	2,558,351,900	2,225,211,100

17. Borrowings- unsecured

	As at 31 December 2019	As at 31 December 2018
Non-Current		
Drukair Bonds from National Pension and Provident Fund (Refer Note. 17.1)	1,028,424,212	1,244,767,565
Interest free loan from RGOB (Refer Note. 17.2)	84,526,669	118,337,336
Loan from National Pension and Provident Fund Refer Note. 17.3)	585,517,135	-
Loan from SDF (Refer Note. 17.4)	942,500,000	-
Total	**2,640,968,015**	**1,363,104,901**
Current		
Drukair Bonds from National Pension and Provident Fund (Refer Note. 17.1)	216,343,353	216,343,353
Loan from Druk Hondling & Investments Ltd.,(Refer Note.17.5)	-	321,000,000
Interest free loan from RGOB (Refer Note. 17.2)	33,810,667	33,810,667
Accrued interest but not due on Bonds	82,924,477	97,208,345
Accrued interest but not due on NPPF loan	36,795,779	7,787,548
Accrued interest but not due for SDF Loan	10,824,806	-
Total	**380,699,082**	**676,149,914**

DRUKAIR CORPORATION LTD. ★ PARO:BHUTAN ★

RAY & RAY ★ CHARTERED ACCOUNTANTS ★

All amounts are in Bhutanese Ngultrum ('Nu') except at stated otherwise

Notes to Financial Statements

17.1 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 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

17.2 Interest free loan:

Interest free loan of Nu. 507,160,012.12 was obtained from Royal Government of Bhutan for the purchase of aircraft BAE-146 and is repayable within 15 years in 60 quarterly equal installments.

17.3 NPPF loan

Loan amount in Ngultrum equivalent to USD 37,375,922 (Nu. 2,709,754,345) at interest rate of 7.15% repayable within 10 years in 40 quarterly equal installments was signed between Drukair and NPPF for the purchase of A320 Neo. During the year Drukair has withdrawn Nu. 585,517,135 against this loan.

17.4 SDF loan

Loan of USD 13,000,000 (Nu. 942,500,000) was taken from SAARC Development Fund at the interest rate of USD 6 months LIBOR rate + 2% p.a. repayable within 10 years semi annually for the purchase of ATR 42-600 aircraft.

17.5 DHI Loan

During the year DHI loan of Nu. 321,000,000 and corresponding interest of Nu. 12,140,800 was converted to issue of shares to DHI as per DHI letter No. DHI/FD/04/2019/193 dated 4th April 2019.

DRUKAIR CORPORATION LTD. Drukair Royal Bhutan Airlines PARO:BHUTAN

RAY & RAY CHARTERED ACCOUNTANTS Webel Bhawan Kolkata-91

All amounts are in Bhutanese Ngultrum ('Nu') except at stated otherwise

Notes to Financial Statements

18. Provisions

	As at 31 December 2019	As at 31 December 2018
Non-Current		
Provisions for gratuity	89,252,909	53,475,462
Provisions for leave encashment	13,553,830	8,072,497
Liability for frequent flyer program	12,033,607	5,519,488
Total	**114,840,346**	**67,067,447**
Current		
Corporate income tax liability	164,638,273	98,053,847
Provisions for gratuity	6,005,243	4,507,867
Provisions for leave encashment	323,154	306,642
Liability for frequent flyer program	6,016,803	11,038,976
Total	**176,983,473**	**113,907,332**

19. Trade and other payables

	As at 31 December 2019	As at 31 December 2018
Current		
Trade creditors	141,370,586	148,749,416
Accrued expenses	204,704,536	97,711,468
Deposits received	521,499,446	194,097,729
Employees payables	44,604,787	22,366,564
Total	**912,179,355**	**462,925,178**

20. Other liabilities

	As at 31 December 2019	As at 31 December 2018
Current		
Passenger advance sales	510,016,562	544,948,766
Deferred liability for credit memo	88,776,730	106,532,076
Liability for stale cheque	4,148,917	3,105,527
Taxes and duties payable (Refer Note. 20.1)	90,686,922	79,991,933
Deferred Government Grant for Domestic Operations	6,797,254	7,552,505
Total	**700,426,386**	**742,130,806**

DRUKAIR CORPORATION LTD. PARO:BHUTAN

RAY & RAY CHARTERED ACCOUNTANTS

All amounts are in Bhutanese Ngultrum ('Nu') except at stated otherwise

Notes to Financial Statements

20.1 Taxes and duties payable include the following CGST, SGCT and IGST receivable and payable in Indian Stations as at 31 December 2019. On this, the Government of India has not yet issued any circular for discontinuation of such credit available. Therefore, the Company has decided to carry forward the net input credit for adjustments against future payables if any.

CGST credit Available	12,114,766.86
SGST credit Available	9,819,605.86
IGST credit Available	8,189.83
CGST On Sales Payable	-1,995,218.79
SGST On Sales Payable	-1,995,218.49
IGST On Sales Payable	-22,060.80
Net Credit available	**17,930,064.47**

21. Traffic revenue

	For the year ended	
	31 December 2019	**31 December 2018**
Passenger revenue	3,453,070,832	3,041,943,421
Insurance & Fuel Surcharge	376,465,406	351,288,012
Excess baggage	16,577,964	20,223,861
Cargo Revenue	64,794,173	58,991,337
Chartered sales	117,348,727	94,867,672
RGOB grant for domestic operation	6,200,000	18,450,000
Total	**4,034,457,102**	**3,585,764,303**

22. Other operating revenue

	For the year ended	
	31 December 2019	**31 December 2018**
Administrative fee	6,199,292	6,938,598
No show charges	13,097,270	8,905,314
Duty free sales	27,219,915	27,949,674
Commission earned	1,722,165	2,075,161
B3 Catering sales	28,642,876	19,744,110
Cancellation charges	34,282,382	32,477,630
Drukair Holiday Inbound sales	15,690,332	12,040,533
Cargo Transshipment and handling charges	568,113	-
Total	**127,422,346**	**110,131,019**

DRUKAIR CORPORATION LTD. Drukair Royal Bhutan Airlines PARO:BHUTAN

RAY & RAY CHARTERED ACCOUNTANTS

All amounts are in Bhutanese Ngultrum ('Nu') except at stated otherwise

Notes to Financial Statements

23. Flight Operation Cost

	For the year ended	
	31 December 2019	31 December 2018
Aircraft fuel and oil	880,708,083	983,318,643
Aircraft navigation charges	144,051,635	155,670,772
Aircraft landing and parking fees	88,890,661	90,491,531
Aircraft ground handling and security charges	288,596,736	288,291,502
Simulator expenses	18,970,564	18,029,568
Chartered Expenses	51,328,166	44,551,086
Crew meal and outstation expenses	60,166,403	65,281,413
Total	**1,532,712,248**	**1,645,634,514**

24. Other operation cost

	For the year ended	
	31 December 2019	31 December 2018
In- flight catering expenses	148,975,357	134,096,401
Drukair holiday expenses	11,815,564	7,772,378
Disrupted flight expenses	9,624,089	14,581,595
Loss baggage claim	191,059	153,324
Purchase of duty free items	16,472,063	16,826,362
Service charges	11,493,058	10,320,989
Cargo transport & handling charges	1,555,191	1,514,034
Total	**200,126,380**	**185,265,083**

25. Aircraft maintenance cost

	For the year ended	
	31 December 2019	31 December 2018
Consumption stores and spares	28,099,346	24,860,536
Aircraft maintenance	452,424,682	339,451,860
Less: Credit Memorandum Utilized	(2,025,714)	(23,427,720)
Freight charges	8,367,884	9,446,046
Stores & scrap written off	5,238,814	1,738,972
Total	**492,105,013**	**352,069,695**

DRUKAIR CORPORATION LTD. PARO:BHUTAN

RAY & RAY CHARTERED ACCOUNTANTS

All amounts are in Bhutanese Ngultrum ('Nu') except at stated otherwise

Notes to Financial Statements

25.1 CFMI has provided a Credit Memorandum of USD 1,869,611 (Nu.135,546,798) against the purchase of new aircraft that has been inducted in March 2015 and balance as on January 1, 2019 was USD 89,194.25 (Nu. 6,466,583). During the year Credit Memorandum amounting to USD 121.25 (Nu. 8,791) was utilized. The balance amount of unutilised Credit Memorandum at the end of 2019 is USD 89,073 (Nu. 6,457,792) 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.

25.2 B/E Aerospace has provided Credit Memorandum of USD 16,535 (Nu. 1,198,788) against purchase of equipment for airbus A319 (JSW). During the year there is no utilisation against this credit memorandum. Therefore, the closing balance for the of unutilised Credit Memorandum remains same as that of 31st December 2018 i.e., USD 13,273.54 (Nu. 962,332) which can be utilised against the future repairs of the engines and the same will be adjusted against the cost of repair on utilisation.

25.3 During the year, Air France Industries (AFI) has provided Credit Memorandum of USD 367,351.80 (Nu. 26,633,006) as compensation for the delay in redelivery of engine from shop visit and balance as on January 1, 2019 was USD 27,819.63 (Nu. 2,016,923). During the year USD 27,819.63 (Nu. 2,016,923) was utilized against the engine lease for the month of January, 2019. Therefore, there is no balance under this credit memorandum from hereon.

25.4 During the year, ATR has provided Credit Memorandum of USD 150,000 (Nu. 10,875,000) as per credit note number 90607847 against good & services for the purchase of ATR MSN 1412 and USD 4,000 (Nu. 290,000) as per credit note number 90607849 against letter of agreement No.6 for the purchase of ATR MSN 1412. The balance credit memorandum from ATR as on 31 December 2019 is USD 154,000 (Nu. 11,165,000).

26. Other maintenance cost

	For the year ended	
	31 December 2019	**31 December 2018**
Ground transport maintenance	656,484	714,692
Maintenance of ground transport equipment	4,783,227	6,402,806
Maintenance of hanger and workshop	113,225	18,573
Other maintenance	4,595,523	18,341,993
Total	**10,148,459**	**25,478,063**

All amounts are in Bhutanese Ngultrum ('Nu') except at stated otherwise

Notes to Financial Statements

27. Employee cost

	For the year ended	
	31 December 2019	31 December 2018
Pay and allowances	416,820,646	368,717,443
Leave travel allowance	6,452,496	5,327,080
Productivity Allowance	14,526,017	14,450,547
Bonus and variable pay	42,292,935	12,254,403
Overtime	779,871	1,399,776
Uniform/make up expenses	14,814,232	14,285,159
Medical expenses	1,478,712	2,395,732
Staff welfare	2,110,807	343,770
Staff training and development	30,094,047	43,290,433
Leave encashment	5,639,902.59	96,285
Provident fund contribution	11,311,311	8,465,008
Retirement benefits	7,126,364	11,740,987
Total	**553,447,339**	**482,766,623**

28. Marketing and sales

	For the year ended	
	31 December 2019	31 December 2018
Marketing and sales promotion	7,416,058	8,388,695
Agent Commission	231,375,964	206,389,381
Advertisement & souvenir	437,415	2,045,546
Total	**239,229,438**	**216,823,622**

RAY & RAY CHARTERED ACCOUNTANTS Webel Bhawan Kolkata-91

DRUKAIR CORPORATION LTD. Drukair Royal Bhutan Airlines PARO:BHUTAN

All amounts are in Bhutanese Ngultrum ('Nu') except at stated otherwise

Notes to Financial Statements

29. Other cost

	For the year ended	
	31 December 2019	31 December 2018
Board meeting expenses	922,964	835,462
Fee & subscriptions	16,411,600	13,991,801
Printing and stationery	7,746,947	6,970,539
Office expenses	1,095,517	937,336
Lease rent (non aircraft)	15,725,479	14,960,424
Travelling expenses	26,307,116	28,632,608
Transportation expenses	4,181,098	5,020,957
Rates and taxes	4,192,327	794,038
Insurance	46,432,991	39,785,054
In-flight magazine	1,652,108	1,866,906
Communication expenses	66,411,215	63,222,275
Electricity charges	1,631,590	1,311,999
Brand Management Fee	6,744,134	10,086,447
Entertainment expenses	1,729,087	1,953,025
Books & periodicals	288,446	295,444
Corporate Social Responsibility	4,561,069	1,870,000
Donation & grants	294,576	1,119,015
Employee Engagement & religious expenses	217,017	3,717,240
loss on sale of assets	3,739,393	-
Consulting fees	3,043,379	3,897,539
Audit fees & expenses	1,426,931	382,495
Hospitality expenses	859,708	2,369,953
Total	**215,614,691**	**204,020,559**

RAY & RAY CHARTERED ACCOUNTANTS Webel Bhawan Kolkata-91

DRUKAIR CORPORATION LTD. PARO:BHUTAN

All amounts are in Bhutanese Ngultrum ('Nu') except at stated otherwise

Notes to Financial Statements

30. Non operating revenue

	For the year ended	
	31 December 2019	31 December 2018
Liabilities written off	42,102,456	-
Subsidy on Interest Expense on NPPF Bond	122,733,091	130,164,984
Interest income	7,918,411	11,707,587
Gain on sale of property, plant and equipment	-	4,325,406
Forex gain	13,267,295	94,483,083
Rent and other recovery	586,602	9,158,741
VAT refund	4,603,947	-
Total	191,211,802	249,839,801

31. Finance cost

	For the year ended	
	31 December 2019	31 December 2018
Bank charges	21,658,074	21,311,073
Interest on borrowing & others	163,483,209	137,952,531
Total	**185,141,283**	**159,263,604**

32. 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:

Basic EPS attributable ordinary shares	For the year ended	
	31 December 2019	31 December 2018
Net profit attributable to the owners of the company	343,041,964	159,411,728
Issued and outstanding ordinary shares at the beginning of the year	22,252,111	22,252,111
Share allotted to DHI during the year	3,331,408	
Outstanding ordinary shares at the end of the year	25,583,519	22,252,111
Weighted average number of ordinary shares	24,762,076	22,252,111
Basic and Diluted EPS attributable to ordinary shares	**13.85**	**7.16**

All amounts are in Bhutanese Ngultrum ('Nu') except at stated otherwise

Notes to Financial Statements

33. Fair Value measurements

Particulars	31 December 2019			31 December 2018		
	FVPL	FVOCI	Amortized Cost	FVPL	FVOCI	Amortized Cost
Financial assets						
Investment			-			52,399,379
Security deposit paid			56,286,196			51,604,053
Cash and cash equivalents			696,388,005			640,085,428
Trade receivables			110,810,780			127,980,664
Other receivables			7,163,092			6,082,807
Total financial assets	**-**	**-**	**870,648,073**	**-**	**-**	**878,152,331**
Financial liabilities						
Borrowing			3,021,667,098			2,039,254,815
Trade payables			141,370,586			148,749,416
Security deposit received			521,499,446			194,097,729
Other payables			253,458,240			123,183,560
Total financial liabilities	**-**	**-**	**3,937,995,370**	**-**	**-**	**2,505,285,520**

(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. t

DRUKAIR CORPORATION LTD. PARO:BHUTAN

RAY & RAY CHARTERED ACCOUNTANTS

All amounts are in Bhutanese Ngultrum ('Nu') except at stated otherwise

Notes to Financial Statements

(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	31 December 2019		31 December 2018	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets				
Investments	-	-	52,399,379	52,399,379
Trade receivables	110,810,780	110,810,780	13,603,105	13,603,105
Total	**110,810,780**	**110,810,780**	**66,002,484**	**66,002,484**
Financial liabilities				
Borrowing	3,021,667,098	3,001,893,983	1,363,104,901	1,331,870,123
Total	**3,021,667,098**	**3,001,893,983**	**1,363,104,901**	**1,331,870,123**

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 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.

DRUKAIR CORPORATION LTD. PARO:BHUTAN

RAY & RAY CHARTERED ACCOUNTANTS

All amounts are in Bhutanese Ngultrum ('Nu') except at stated otherwise
Notes to Financial Statements

34. 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.

35. 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.

RAY & RAY CHARTERED ACCOUNTANTS

DRUKAIR CORPORATION LTD. PARO:BHUTAN

All amounts are in Bhutanese Ngultrum ('Nu') except at stated otherwise

Notes to 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 – foreign exchange	Future commercial transactions and recognized financial liabilities not denominated in Bhutanese Ngultrum (Nu.)	Cash flow forecasting Sensitivity analysis	Diversification of 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	31 December 2019		31 December 2018	
	USD	SGD	USD	SGD
Financial assets	-	-	-	-
Financial liabilities	115,494,401	8,107,557	114,733,800	6,519,126
Net exposure to foreign currency risk	**(115,494,401)**	**(8,107,557)**	**(114,733,800)**	**(6,519,126)**

DRUKAIR CORPORATION LTD. Drukair Royal Bhutan Airlines PARO:BHUTAN

RAY & RAY CHARTERED ACCOUNTANTS

All amounts are in Bhutanese Ngultrum ('Nu') except at stated otherwise

Notes to Financial Statements

Particulars	31 December 2019		31 December 2018	
	USD	SGD	USD	SGD
Financial assets	**207,463**	**6,780,978**	**2,448,548**	**11,573,016**
Financial liabilities	13,788,846	-	9,899,324	-
Net exposure to foreign currency risk	**(13,581,383)**	**6,780,978**	**(7,450,776)**	**11,573,016**

Particulars	31 December 2019		31 December 2018	
	USD	SGD	USD	SGD
Financial assets	**2,021,668**	**12,888,555**	**2,906,812**	**19,427,977**
Financial liabilities	-	6,053,708		14,120,050
Net exposure to foreign currency risk	**2,021,668**	**6,834,847**	**2,906,812**	**5,307,927**

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	
	31 December 2019	31 December 2018
SGD sensitivity		
Nu. depreciate by 5%	(405,378)	(325,956)
Nu. appreciate by 5%	405,378	325,956
Nu. depreciate by 5%	(5,774,720)	(5,736,690)
Nu. appreciate by 5%	5,774,720	5,736,690
NPR sensitivity		
Nu. depreciate by 5%	339,048.92	578,651
Nu. appreciate by 5%	(339,048.92)	(578,651)
Thai Baht sensitivity		
Nu. depreciate by 5%	(679,069.15)	(372,539)
Nu. appreciate by 5%	679,069	372,539
Taka sensitivity		
Nu. depreciate by 5%	101,083	145,341
Nu. appreciate by 5%	(101,083)	(145,341)

*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.

DRUKAIR CORPORATION LTD. PARO:BHUTAN

RAY & RAY CHARTERED ACCOUNTANTS

All amounts are in Bhutanese Ngultrum ('Nu') except at stated otherwise

Notes to Financial Statements

(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.

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.

DRUKAIR CORPORATION LTD. Drukair Royal Bhutan Airlines PARO:BHUTAN

RAY & RAY CHARTERED ACCOUNTANTS

All amounts are in Bhutanese Ngultrum ('Nu') except at stated otherwise

Notes to Financial Statements

Contractual maturities of financial liabilities December 31, 2019	Less than 1 year	More than 1 years	Total
Trade and Other Payables	912,179,355	-	912,179,355
Borrowings	250,154,020	2,640,968,015	2,891,122,035
Interest	130,545,062		130,545,062
Total financial liabilities	**1,292,878,437**	**2,640,968,015**	**3,933,846,452**

(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:

DRUKAIR CORPORATION LTD. Drukair Royal Bhutan Airlines PARO:BHUTAN

RAY & RAY CHARTERED ACCOUNTANTS Webel Bhawan Kolkata-91

All amounts are in Bhutanese Ngultrum ('Nu') except at stated otherwise

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 31 December 2018 (Gross)	100,709,333	63,671	13,014,788	113,787,792
Less: Provision for impairment loss			(2,977,012)	(2,977,012)
Trade receivable as on 31 December 2019 (Net)	**100,709,333**	**63,671**	**10,037,776**	**110,810,780**

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 33.

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.

36. 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:

All amounts are in Bhutanese Ngultrum ('Nu') except at stated otherwise

Notes to Financial Statements

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	2,558,351,900	-
		b) Sale of air tickets	3,090,311	35,951
		c) Brand management fees for 2018	6,744,134	-
		d) Misc. Revenue	8,475	8,475
		e) Commission	125,417	(125,417)
		f) Interest on Borrowings	4,353,288	607,042
		g) Donations		(5,909)
		h) Corporate Guarantee fees	125,137	(125,137)
Bank of Bhutan Limited	Fellow Subsidiary	a) Sale of air tickets	4,230,298	143,104
		b) Bank Charges	9,413,258	-
		c) Purchase of POS machine	34,500	-
		d) Commission	160,336	(458,588)
		e) Current account	145,880,447	-
Bhutan Power Corporation Limited	Fellow Subsidiary	a) Sale of air tickets	9,258,525	-
		b)Electricity Charges	1,388,756	(128,695)
Bhutan Telecom Limited	Fellow Subsidiary	a) Sale of air tickets	4,619,143	-
		b) Telephone and Internet Charges	4,295,466	(306,443)
		c) Purchase of modem	65,880	-
		d) Rental Charges	67,002	-
Construction Development Corporation Limited	Fellow Subsidiary	a) Sale of air tickets	1,489,526	310,141
		b) Misc. Expenses	15,408	-
		c) Commission	55,952	(55,952)
Dagachhu Hydro Power Corporation Limited	Fellow Subsidiary	sale of air tickets	672,710	23,914
Dungsum Cement Corporation Limited	Fellow Subsidiary	sale of air tickets	697,229	(23,802)
Druk Green Power Corporation Limited	Fellow Subsidiary	a) Sale of air tickets	3,378,391	441,700
		b) commission	105,464	(213,364)

All amounts are in Bhutanese Ngultrum ('Nu') except at stated otherwise

Notes to Financial Statements

Name of related party	Relationship	Nature of transaction with related party	Transaction amount in Nu.	Receivable/ (Payable) amount in Nu.
Natural resources Development Corporation Limited	Fellow Subsidiary	a) Sale of air tickets	2,041,324	173,067
		b) Commission	74,247	(74,247)
State Trading Corporation Limited	Fellow Subsidiary	a) Sale of air tickets	1,419,044	-
		b) Commission	52,495	(129,485)
		c) Purchase of vehicles	3,697,368	-
		d) Purchase of ICT products	272,776	-
Thimphu Tech Park Limited	Fellow Subsidiary	a) Sale of air tickets	183,234	-
		b) Misc. Expenses	25,000	-
Wood Craft Centre Limited	Fellow Subsidiary	a) Sale of air tickets	523,405	-
		b) Purchase of furniture	152,890	-
Koufuku International Limited	Fellow Subsidiary	Purchase of dairy products	2,859,934	-
Bhutan Broad Product Limited	Fellow Subsidiary	Purchase of furniture	130,412	-
Dungsam Polymers Limited	Fellow Subsidiary	-	-	-
Bhutan Board Export Limited	Fellow 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 Bhutan 2016.

DRUKAIR CORPORATION LTD. PARO:BHUTAN

RAY & RAY CHARTERED ACCOUNTANTS

All amounts are in Bhutanese Ngultrum ('Nu') except at stated otherwise

Notes to Financial Statements

Summary of compensation paid to the KMP:

	For the year ended December 31,	
	2019	**2018**
Basic Salary, Allowance, PF and leave encashment	2,783,136.00	2,292,040.00
Sitting Fees	92,000.00	96,000.00
Leave Travel Concession	3,534.00	15,000.00
Total	**2,878,670.00**	**2,403,040.00**

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.

37. Capital management and commitments

The Company has contractual commitments of about USD 105 million (Nu. 7,612,500,000) exclusive of rebates to Airbus SAS for the purchase of one (1) A320 NEO Aircraft with conversion right to A319 NEO. Out of USD 105 million as on 31st December 2019 the Company paid USD 21,263,322 (Nu. 1,541,590,845). The balance amounts are to be paid as per the purchase agreement signed between Drukair and Airbus SAS on 10th April, 2018.

38. 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. In 2018, the Station has deposited NPR 9,800,000.00 (33% of NPR 29,297,575.00) to appeal the case

DRUKAIR CORPORATION LTD. Drukair Royal Bhutan Airlines PARO:BHUTAN

RAY & RAY CHARTERED ACCOUNTANTS Webel Bhawan Kolkata-91

All amounts are in Bhutanese Ngultrum ('Nu') except at stated otherwise

Notes to Financial Statements

to Inland Revenue Department, Nepal for administrative review and waiver. However, the Inland Revenue Department has passed the resolution against Drukair's favour. During the year the Company has further deposited NPR 4,980,588 as security deposit to Inland Revenue Office to appeal the case in the Revenue Tribunal court. The case is still pending with Revenue Tribunal court.

iii) The tax assessment of the Company was carried out till 2017. There is a tax demand of 5,457,834.18 pertaining to 3% TDS for commission for foreign agents. To this, the Company has submitted an appeal to Department of Revenue and Customs and the case is still pending as on 31 December 2019.

39. 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 2019
Present value of the obligation at the beginning of the period	57,983,329
Interest cost	4,217,074
Past service cost	3,004,835
Current service cost	7,346,156
Benefits paid (if any)	(3,511,350)
Actuarial gain/(loss)	26,218,108
Present value of the obligation at the end of the period	95,258,152

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

Period	Year 2019
Present value of the obligation at the end of the period	95,258,152
Fair value of plan assets at end of period	104,069,948
Net liability/(asset) recognized in Balance Sheet and related analysis	8,811,796
Funded Status	8,811,796

DRUKAIR CORPORATION LTD. PARO:BHUTAN

RAY & RAY CHARTERED ACCOUNTANTS

All amounts are in Bhutanese Ngultrum ('Nu') except at stated otherwise

Notes to Financial Statements

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

Period	Year 2019
Interest cost	4,217,074
Past service cost	3,004,835
Current service cost	7,346,156
Expected return on plan asset	(7,805,246)
Expenses to be recognized in P&L	6,762,819

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

Period	Year 2019
Actuarial (gain)/loss - obligation	26,218,108
Actuarial (gain)/loss - plan assets	7,805,246
Total Actuarial (gain)/loss	(34,023,354)

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

Period	Year 2019
Fair value of plan assets at the beginning of the period	152,345,387
Expected return on plan assets	7,805,246
Contributions	(48,275,439)
Benefits paid	0
Actuarial gain/(loss) on plan assets	(7,805,246)
Fair Value of Plan Asset at the end of the Period	104,069,948

5: The assumptions employed for the calculations are tabulated:

Discount rate	7.50 % per annum
Salary Growth Rate	7.00 % per annum
Mortality	100% of IALM (2006-08)
Withdrawal rate (Per Annum)	5.00% p.a.

6: Bifurcation of net Liability

Period	Year 2019
Current Liability (Short Term)*	6,005,243
Non Current Liability (Long Term)	89,252,909
Total Liability	95,258,152

ii) Leave Encashment Liability

This has been determined by actuarial method at Nu 13,876,984 the following is the summary of leave encashment as per the actuary valuation report:

DRUKAIR CORPORATION LTD. Drukair Royal Bhutan Airlines PARO:BHUTAN

RAY & RAY CHARTERED ACCOUNTANTS Webel Bhawan Kolkata-91

All amounts are in Bhutanese Ngultrum ('Nu') except at stated otherwise

Notes to Financial Statements

The table below shows a summary of the key results for the year ending 31 December 2019:

1: Present Value of Obligations:

Period	Year 2019
Present value of the obligation at the beginning of the period	8,379,139
Interest cost	142,058
Past service cost	0
Current service cost	5,497,845
Benefits paid (if any)	(6,485,031)
Actuarial (gain)/loss	6,342,973
Present value of the obligation at the end of the period	13,876,984

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

Period	Year 2019
Present value of the obligation at the end of the period	13,876,984
Fair value of plan assets at end of period	0
Net liability/(asset) recognized in Balance Sheet and related analysis	13,876,984
Funded Status	13,876,984

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

Period	Year 2019
Interest cost	142,058
Past service cost	0
Current service cost	5,497,845
Expected return on plan asset	0
Expenses to be recognized in P&L	5,639,903

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

Period	Year 2019
Actuarial (gain)/loss - obligation	6,342,973
Actuarial (gain)/loss - plan assets	0
Total Actuarial (gain)/loss	6,342,973

4: The assumptions employed for the calculations are tabulated:

Discount rate	7.50 % per annum
Salary Growth Rate	7.00 % per annum
Mortality	100%of IALM (2006-08)
Withdrawal rate (Per Annum)	5.00% p.a.

DRUKAIR CORPORATION LTD. PARO:BHUTAN Drukair Royal Bhutan Airlines

RAY & RAY CHARTERED ACCOUNTANTS

All amounts are in Bhutanese Ngultrum ('Nu') except at stated otherwise

Notes to Financial Statements

5: Bifurcation of net Liability

Period	Year 2019
Current Liability (Short Term)*	323,154
Non Current Liability (Long Term)	13,553,830
Total Liability	13,876,984

iii) Liability for Frequent Flyer Programme

This has been determined by actuarial method at Nu 18.05 million (PY Nu 16.56 million). The Following Actuarial estimates were used to determine the Actuarial Liability in 2018:

(a)	Redemption Rate-	75%
(b)	Loyalty Points accrued-	12,753,406
(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 of the main activity. Therefore, the company's profit and loss account and balance sheet represent the results of this sole segment. During the year 2019, the company carried 281,663 no. of revenue passengers and 376,491.36 kg of cargo (PY: 285,397 no. revenue passengers and 347,838 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 RGOB to the extent of Nu 118 million (PY Nu. 152 million) as on 31-12-2019. The estimated interest expenses of this loan has not been accounted for in the books of the Company. If the interest is considered at 9% p.a., the expenses on account of this interest for the year 2019 would be Nu 11.79 million (PY Nu 14.83 million).

DRUKAIR CORPORATION LTD. PARO:BHUTAN

RAY & RAY CHARTERED ACCOUNTANTS

All amounts are in Bhutanese Ngultrum ('Nu') except at stated otherwise

Notes to Financial Statements

40. Events after the reporting period

This financial statements do not reflect any dividend payable to the shareholder as dividend pay out is subject approval by the members in the General Meeting to be held to adopt the financial statement for the year ended December 31, 2019. At the reporting date no proposal for dividend declaration was received.

Signatures to Notes "1 to 40" 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

Aimtava Chowdhury
Partner
Membership No. 056060
UDIN- 20056060AAAAA25656

Pema Chewang
Chairman

Tandi Wangchuk
Chief Executive Officer

Place: Kolkatta
Dated: 04.06.2020

Rinzin Dorji
Director FCSD

Place:Thimphu
Dated: 03.03.2020

RATIO ANALYSIS

ANNEXURE-I

Sl no.	Particulars	2019	2018
A. Ratios for assessing financial health (in numbers)			
I	Current Ratio	1.40	0.66
II	Debt equity Ratio	0.83	0.69
III	Liquid Ratio	1.32	0.53
IV	Fixed Assets to Equity	1.51	1.30
V	Fixed Assets Turnover	0.74	0.94
VI	Inventory Turnover for Engineerinf items	0.62	0.55
B. Ratios of assessing profitability (In percentage)			
I	Return on equity (%)	9.46%	5.39%
II	Return on Capital employed (%)	7.64%	5.24%
III	Operation and Maintenance expenses to Traffic Revenue	50.19%	55.71%
IV	Earning Per Share	13.85	7.16
C. Ratios for assessing cashflow efficiency (In numbers)			
I	Casho flow turnover	0.35	0.13
II	Operation Index	4.14	2.95