BHUTAN TELECOM LTD

Always there for you

A dhi Company

Annual Report | 2018

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The year in review

In 2018, 5G technology still continued to be the most talked about subject in the telecommunications industry, and the technology is gaining confidence amongst the telecommunication service providers. However telecom operators around the globe are not very clear on the use cases and business case for 5G roll out, unlike 3G and 4G technology. According to International Telecommunication Union (ITU), approximately 51.20% of the total global population of 3.9 billion are now on internet and more than 96% of the global population live within the areas covered by cellular network, indicating that the world has touched an important milestone for connecting people to the benefits of digital economy. The rapid growth in demand for data continued to drive telecommunication service providers to make huge investments in meeting the bandwidth requirements.

In keeping with the goal to drive digital transformation in the country, Bhutan Telecom Limited (BTL) reduced mobile data tariffs by an average of 19% for various data plans in 2018, making mobile internet affordable to a major segment of people in the country. According to ITU reports, Bhutan has brought down the cellular internet price to 0.97% of the GNI (Gross National Income) per capita and succeeded in achieving the ITU threshold to maintain the cellular internet price below 5.00% of the GNI per capita. In line with the reduction of mobile tariff, Data Center tariffs were also reduced by 42%, and leased line internet tariffs were reduced by a maximum of 43.75% in 2018, in fulfilling the company's social mandate of providing affordable telecommunications services, to drive the socio-economic growth of the country.

In 2018, the company performed well and achieved all the financial targets set by the Shareholder and the Board of Directors. The company recorded a revenue of Nu 3,573.73 Million and a profit after tax of Nu 922.458 Million in 2018, marking a revenue growth of 12.56% and Profit after tax growth of 9.86% respectively, as compared to 2017. All the operational and organizational management targets for the year were achieved, except for drop in the customer satisfaction survey rating. The key performance indicator that led to the drop in survey rating was value for money, where respondents have rated tariffs still being higher, although ITU has referred to Bhutan as one of the countries with lowest price for cellular services. In keeping with the feedbacks, the company would continue to look at means of reducing the tariffs in 2019.

BTL already initiated the development of Business Continuity Plan and also the setting up of an additional mobile core in Bumthang, with the financial assistance from Japan International Cooperation Agency (JICA), to scale up nation's disaster preparedness. In the same line, a Risk Based Internal Audit Manual was developed and instituted, to ensure timely identification and mitigation of company's risks, so as to ensure continuity of its business operations. The company launched B-Ngul (Mobile Financial Service) in May, mainly to extend financial services to unbanked segment of the people in the country as a social mandate and also as an additional service to the urban dwellers to carry out financial transactions. Since its launch, with over 47,466 users, B-Wallet / B-Ngul service recorded a total of 7,835 transactions amounting to Nu 7.19 Million.

BTL implemented the Corporate Strategic Plan 2020 and a ten year road map has been also drawn, in accordance with the DHI's (Druk Holding & Investments Limited) ten year roadmap, which would be driving the company forward, in fulfilling the economic and social goals of the country. The Corporate Strategic Plan is guiding the company in becoming the pioneers of Customer Service, Operational and Innovation Excellence, in its pursuit of becoming the Company of Choice. In order to promote and practice best work ethics by inculcating a sense of positive attitude in all the employees and to ensure highest standards in conducting business operations, BTL signed an integrity pledge with Anti-corruption Commission and implemented the BTL business code of conduct in 2018.

Although BTL has achieved the milestone of covering all the 205 Gewogs with cellular services, the rugged terrain and scattered settlements in the country poses one of the major challenge in providing seamless services across the national highways and far-flung settlements. However, the company would continue to enhance cellular service across the national highways and rural settlements in a phase wise manner, in keeping with its corporate belief to act responsibly in upholding the principle of balanced economic development, through extension of telecommunications service to rural and remote areas of the country. The company would be piloting Crypto Currency Mining in close co-ordination with Royal Monetary Authority and the BT TV (OTT TV) will be also launched in 2019, so as to keep the nation abreast with all the technological advancements around the globe.

I would like to thank all our valued customers for being with us and providing us with the platform to grow and improve, in this rapidly advancing industry. I also take this privilege to thank the DHI and the BT Board for all the guidance and support in closing the year 2018 on a positive note. I am also thankful to all the employees of the company for their unwavering support in fulfilling all the company's goals for 2018. I on behalf of the employees of the company and on my own behalf, would like to rededicate our services to the Tsa-Wa-Sum.

Yours Sincerely,

Karma Jurme
Chief Executive Officer.

1 Company Profile

Mission Statement

We are the providers of innovative and reliable ICT services, keeping Bhutan Connected.

Vision Statement

To be the Company of Choice.

1.1 Values

Team Work: We believe and commit to have a platform for employees to work together in the best interest of the company. We help each other succeed.

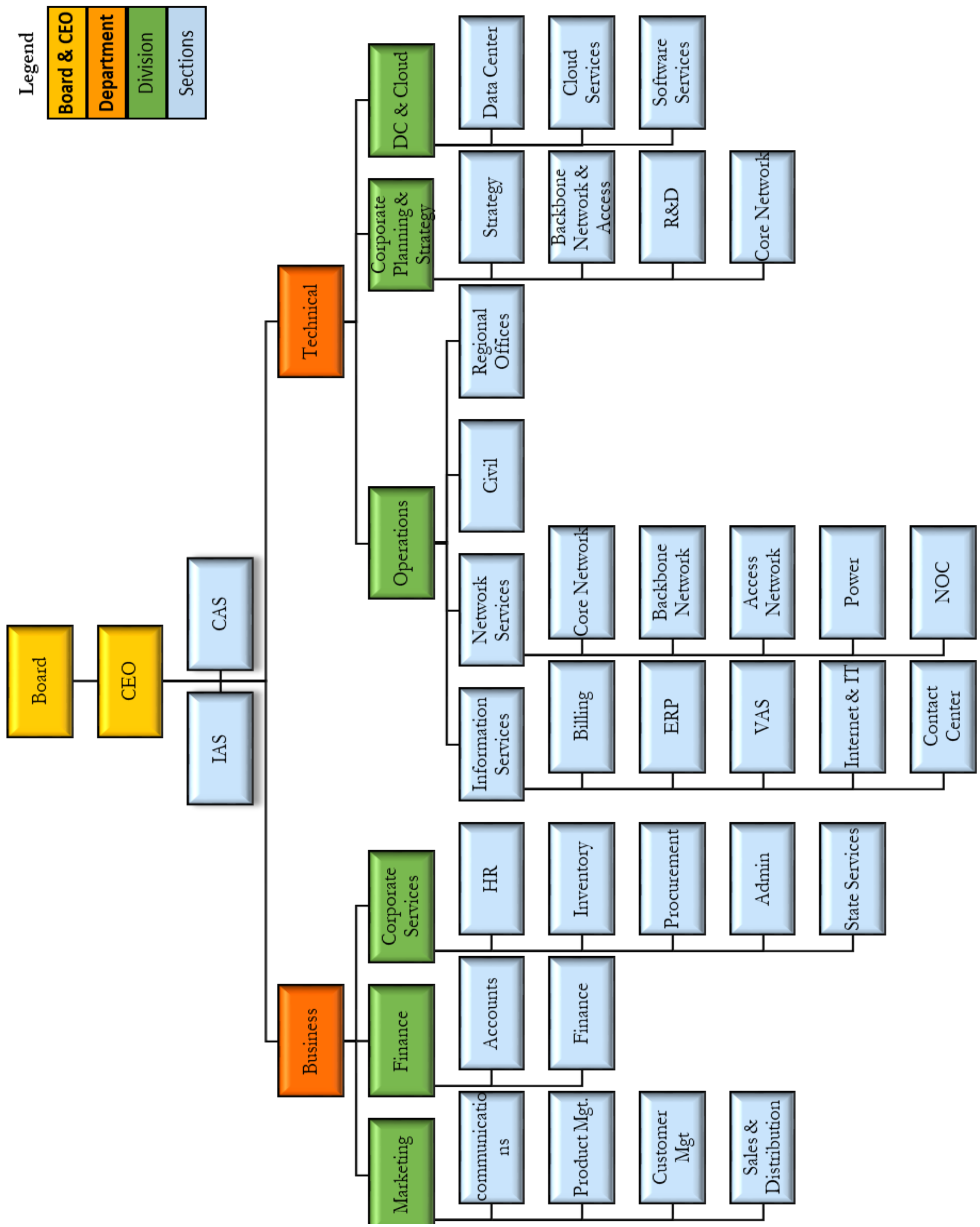
Integrity: We believe and commit to practice high ethical business standard in all business transactions including handling customers, suppliers and company information. We value in conducting our business with honesty, transparency and highest level of corporate ethics.

Growth: We believe and commit to create an enabling environment for employees to come up with new innovative ideas, which will contribute to the employees and the company's growth. To continuously develop human capacities and capabilities through education and training of employees.

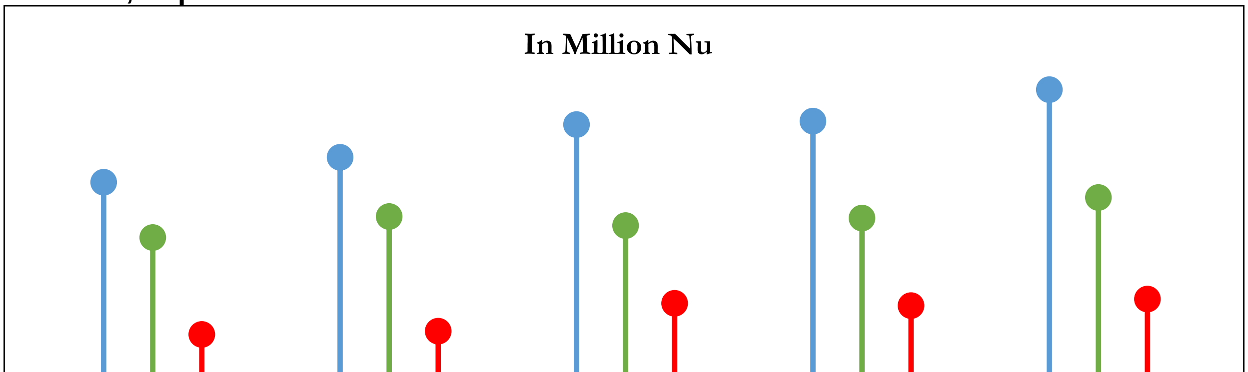
Excellence: We believe and commit to strive for the highest possible standards while conducting business with continuous improvement, constantly seeking solutions to problems. To deliver quality services to meet customer expectations (external) and exerting efforts to obtain feedback from customers to understand their needs and wants.

Responsiveness: We believe and commit to respond swiftly to the fast changing market environment and requirements/feedbacks of customers. We should be able to anticipate emerging needs of the customers and market dynamics.

1.2 Organizational Chart



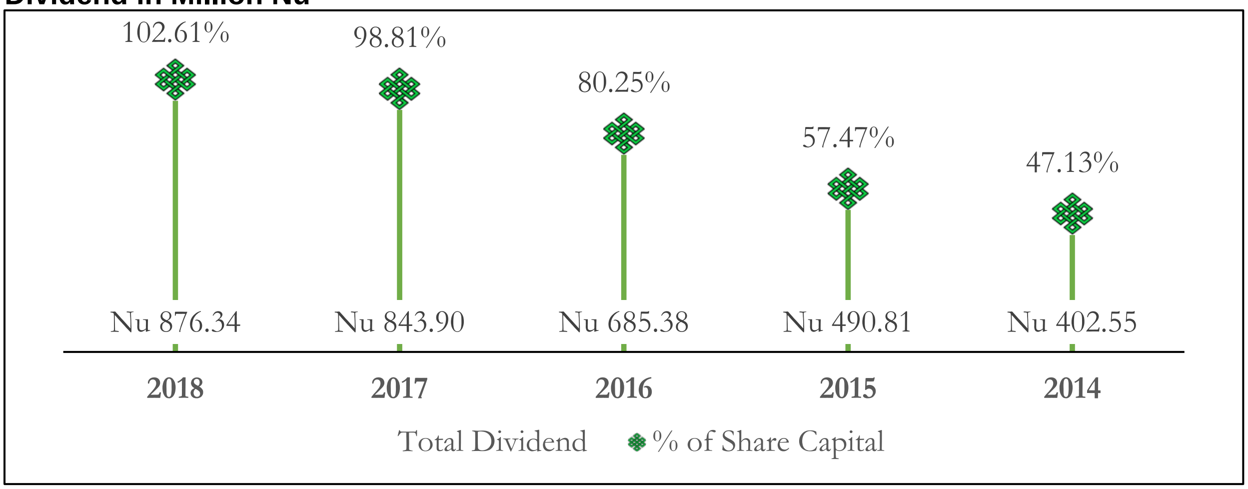
Revenue, Expenditure and Profit after Tax.



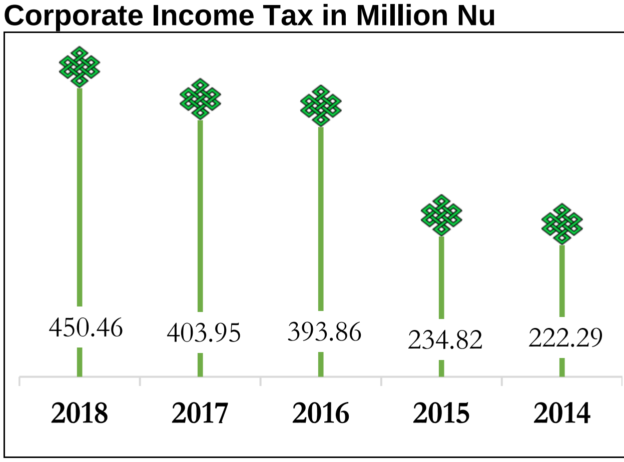
2014	2015	2016	2017	2018
2,401.47	2,717.14	3,131.86	3,175.05	3,573.74
1,701.63	1,967.66	1,852.88	1,947.87	2,208.31
474.74	516.04	869.10	839.67	922.46

Legend: Revenue | Operational Expenditure | Profit after Tax |

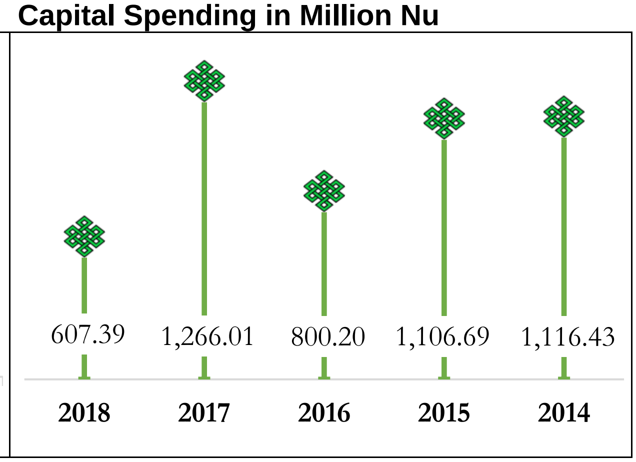
Dividend in Million Nu



Corporate Income Tax in Million Nu



Capital Spending in Million Nu



1.3 BT Day Celebration:

Coinciding with the World Telecommunication and Information Society Day, Bhutan Telecom celebrated the third BT day in Samdrup Jongkhar (Eastern Regional Headquarter) on May 17, 2018. BT Day is observed every year to celebrate successes and achievements of the company by bringing together all employees of the company, and also to reward high performing employees.






As part of the celebrations, the company also launched B-Ngul (Mobile Financial Service), BT APP (self-care) and the feedback system.

2 Board Directors

Mr. Pema L. Dorji has a Master's degree from Fletcher School of Law and Diplomacy, Tufts Univertsity, USA and a Master's degree in Political Science from Delhi University. He has more than 27 years of work experience in the Ministry of Foreign Affairs, Royal Bhutanese Embassy in New Delhi and Dhaka. He also served as the Director for SAARC Secretariat and Deputy Permanent Representative to UN, New York. He is currently serving as Director, Department of Immigration, MoHCA. He is the Chairman of BT Board and serves as an independent, non-executive director on BT Board.

Dr. Damber S. Kharka has a Masters in Economics from UNB, Canada and a PhD in Finance from Haryana School of Business. He has more than 30 Years of work experience in the field of Finance, Corporate Governance, Corporate Capacity Development and Management disciplines. He is currently serving as the Director, Corporate Performance Division, DHI. He serves as non-independent, non-executive director on BT Board.

Mr. Dechen Dorji has a Masters in Environmental Management from Yale University, US. He has more than 24 Years of work experience in the field of environment management, fund raising, innovative financing and sustainable development. He is currently serving as the Country Representative for global WWF in Bhutan. He serves as independent, non-executive director on BT Board.

Mr. Jigme Tenzing has a Masters in Information and Computer Science from University of Oregon, US. He has more than 16 Years of work experience in the field of strategic planning and Computer Science and Information Technology. He is currently serving as the Director, Department of Information Technology and Telecom. He serves as independent, non-executive director on BT Board.

Ms. Jamyang Choeden has a M.Phil in International and Comparative Education from University of Oslo, Norway. She has more than 33 years of work experience in the field of education, strategic planning and administration. She is currently serving as the Director for Bhutan Council for School Examinations and Assessments. She serves as independent, non-executive director on BT Board.

Mr. Gonpo Tenzin has a Masters in Urban and Regional Planning from University of Canberra, Australia. He has more than 16 years of experience in the field of strategic planning, research, program monitoring and evaluating experience. He is currently serving as the Head, Policy & Planning Division for National Land Commission. He serves as independent, non-executive director on BT Board.

Mr. Karma Jurme has a Masters in Human Resources Management from Curtin University in Australia. He has more than 28 years of work experience in the field of Administration and Human Resource Management. He is the Chief Executive Officer for Bhutan Telecom Ltd. He serves as non-independent, executive director on BT Board.

3 Management Team

Top Row (left to right): GM, Operations | GM, Corporate Services | GM, Corporate Planning & Strategy
Front Row (left to right): GM, Marketing | GM, Finance | Director, Technical Dept. | Chief Executive Officer | Director, Business Dept. | GM, DC & Cloud

Mr. Karma Jurme is the Chief Executive Officer and he has more than 28 years of work experience in the field of administration and Human Resource Management. He holds a Masters in Human Resources Management from Curtin University in Australia.

Mr. Chimmi Dorji is the Director, Business Department. He has more than 26 years of work experience in the field of finance and management, and holds ACCA from United Kingdom and Master of Business Administration from University of Delhi.

Mr. Karma Tshewang is the Director, Technical Department. He has more than 22 years of work experience in the field of management and telecommunications, and holds a Bachelor's Degree in Electrical Engineering from Penn State University in USA.

Mr. Sangay Wangdi is the General Manager, Finance and Accounts Division. He has more than 16 years of work experience in the field of Marketing and Finance, and holds a Master of Business Administration from Southern Cross University, Australia.

Mr. Jichen Thinley is the General Manager, Corporate Planning and Strategy Division. He has more than 29 years of work experience in the field of internet technology and telecommunications.

Mr. Penjore is the General Manager, Marketing Division. He has more than 17 years of work experience in the field of power systems, projects and marketing, and holds a Master of Business Administration from Monash University in Australia.

Mr. Jambay Sither is the General Manager, Operations Division. He has more than 27 years of work experience in the field of telecommunications and holds a Masters in Technology in Mobile Communication and Networking Technology from West Bengal University of Technology.

Mr. Dawa Sonam is the General Manager, DC & Cloud Division. He has served as the IT Head, DHI prior to his current appointment and holds a Master in Information Technology from Mudorch University in Australia.

Mr. Phuntsho is the General Manager, Corporate Services Division. He has more than 16 years of work experience in the field of administration and human resource management, and holds a Masters in Human Resource Planning and Development from Institute of Applied Manpower Research, India.

4 Directors' Report

Introduction

On behalf of the Board of Directors' of Bhutan Telecom Limited and the management, I am pleased to report that the year 2018 has been a year of significant progress for Bhutan Telecom Limited. I am privileged to present the Directors' Report – 2018 covering operational performance, audited financial statements, audit observations/recommendations, corporate governance, corporate social responsibility, and challenges and way forward for 2019.

Operational highlights

In line with the company's mission to always be the providers of innovative and reliable ICT services, keeping Bhutan Connected, the company continued to give top priority on enhancing network reliability and improving the availability of high speed data connectivity across the country. The company also undertook many initiatives to keep the nation abreast with the global technological trend and enriching customer experience. Some of the key operational performance and achievements are highlighted below:

Considering network reliability and high speed data availability as the key factor for enhancing service quality, Bhutan Telecom focused on building redundancy for backbone links and building additional 3G and 4G (LTE) stations across the country. The transmission links for the access networks in most of the places were also upgraded to meet the requirement for providing high speed data for 3G and 4G services. Some major expansion works were carried out in 2018 on the company's mobile network, a total of eighty one 3G sites were deployed in the rural areas, in keeping with the wider coverage of 3G technology and the availability of 3G compatible handsets in the rural areas. In view of huge demand for high speed data and also the growth of 4G compatible devices in the urban areas, a total of thirty new 4G (LTE) sites were deployed in major towns across the country, enhancing the service quality. Furthermore Carrier Addition (CA) was implemented for eleven 4G (LTE) sites in Thimphu to decongest the 4G LTE network.

In addition to the enhancement of service quality and accessibility with the deployment of additional 3G and 4G LTE sites, Bhutan Telecom upgraded the East-West Microwave Radio Backbone from an existing capacity of 1Gbps to 4Gbps in order to overcome the network break down caused by fiber damages. The upgraded East-West Microwave Radio Backbone is capable of seamlessly handling the total traffic between Kanglung and Thimphu core, thus providing uninterrupted voice and data services. New fiber links connecting Thimphu – Dochula and Lobesa

– Wangdue were also built to create redundant fiber link connecting Trongsa, Jakar Disaster Recovery site, Zhemgang and Tingtibi to avoid network disruption during fiber breakdown and planned fiber maintenance by Bhutan Power Corporation along Punatsangchu and Rurichu. The redundant fiber links will also act as a fiber protection link for the Central and Eastern Dzongkhags during fiber damages between Lobesa and Tingtibi, enhancing service reliability.

As envisioned by DHI and Board to enhance the customer experience and to always be the company of choice, My BT (interactive Self-care App) was deployed to empower the customers in managing their own usage/account. My BT has been also integrated with the banks and BPC to enable customers to transfer funds, pay energy and telecom bills from one window at the convenience of customers' homes and offices. Bhutan Telecom has also initiated the implementation of PCRF (Policy and Charging Rules Function), which is scheduled to be completed in March 2019, and with the implementation of PCRF, the mobile services could be customized and dynamically packaged as per requirements of the customer. The company's active mobile customers increased from 390,335 in 2017 to 396,502 at the end of 2018 and fixed line customers increased from 21,364 in 2017 to 22,015 at the end of 2018. Leased line Internet subscriptions increased from 598 in 2017 to 772 at the end of 2018. The company had 8,846 fixed broadband Internet subscriptions at the end of 2018.

In 2018, Bhutan Telecom charted a three year strategic Human Resource Plan in keeping with the company's strategic objective of enhancing Human Resource capacity and retaining employees, in fulfilling the long term goals of the company and the shareholder. The strategic HR plan outlines the strategic approach to take the company forward through proper succession planning and developing human capacity in the company for the next three years. In 2018, 139 employees attended ex-country trainings and 72 employees attended ex-country workshops / seminars / conferences to keep the company up-to-date with the rapid technological advancements. Furthermore, as envisioned by the Board and shareholders to enhance the in-house capacity through knowledge sharing within the company, 547 employees attended in-country development programs conducted by external and in-house experts. At the end of 2018, the company has a total of 661 employees, which includes 581 regular employees, seven contract employees, 65 ESPs and eight local caretakers.

Financial position and key financial performance highlights.

The company has financially performed well in the year 2018, BT recorded a revenue of Nu 3,573.73 Million for the period ending December 31, 2018 marking a revenue growth of 12.56% from the previous year. BT also recorded a profit after tax of Nu 922.458 Million for the period ending December 31, 2018 marking a growth of 9.86% from the previous year.

Financial highlights for 2018:

Revenue in Billion Nu.

Nu 3.573 b

▲ 12.56%

Expenditure in Billion Nu.

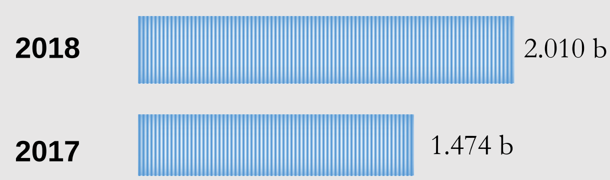
Nu 2.208 b

▲ 13.37%

*The Revenue of the company marked a growth of **12.56%** in 2018. The Operating Expenditure of the company marked an increase of **13.37%** in 2018.*

Cash from Operations in Billion Nu.

Nu 2.010 b



▲ Growth of 36.28%

PBT in Million Nu.

Nu 1,365.43 m

▲ 11.27%

PAT in Million Nu.

Nu 922.45 m

▲ 9.86%

The PBT and PAT marked an increase compared to 2017, PBT marked an increase by 11.27% and PAT marked an increase by 9.86% in 2018.

Capex in Million Nu.

Nu 552.763 m

The total investment for 2018 decreased by 61.86% as compared to investments made in 2017.

Asset (Net Worth)

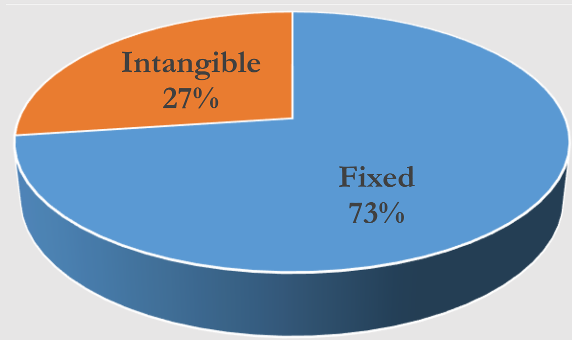
Fixed Assets **Nu 3.035 b**

▼ 9.47 %

Intangible Assets **Nu 1.129 b**

▼ 35.69%

The overall percentage decrease in fixed and intangible asset is 11.21% from 2017



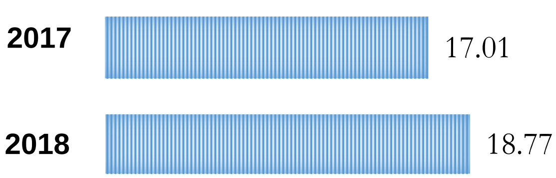
Liquidity.

	2018	2017	
Current Ratio	1.25:1	0.92:1	⬆
Quick Ratio	1.12:1	0.69:1	⬆

The current ratio improved from 0.92:1 in 2017 to 1.25:1 in 2018 and the quick ratio improved from 0.69:1 in 2017 to 1.12:1 in 2018.

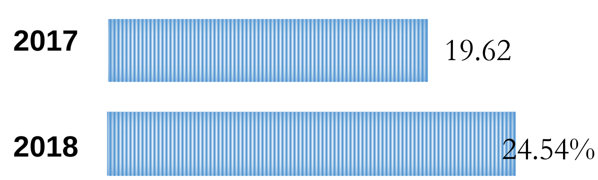
Profitability.

Return on Capital Employed



ROCE increased from 17.01% in 2017 to 18.77% in 2018.

Return on Equity.



ROE increased from 19.62% in 2017 to 24.54% in 2018.

Audit Issues

The Company was audited by statutory auditors, **GSA & Associates,** Chartered Accountants based in Delhi, India. Past recommendations made by the auditors were fully implemented and resolved, however, the auditors have made following suggestions for the financial period ending 31st December, 2018:

a. Revenue recognition

Bhutan Telecom Limited, being a telecommunication company, providing services relating to communication, internet, fixed line, lease line, is very much vulnerable to the requirements of new standard of revenue recognition i.e. BFRS 15. Apart from financial angle, it is more of an internal control requirement for the Company now to:-

- upgrade its systems in order to have record of all the complex information required for revenue recognition
- integrating the existing billing system with SAP for better control and monitoring

b. Classification as operating or finance lease

As per Bhutanese Accounting Standard (BAS)-17" company's 56 lease agreements which are having lease term of more than 20 years, evaluation should be done for classification and accounting as finance lease.

c. Fixed Assets Register (FAR)

Internal controls for maintaining fixed assets register is not sufficient to account depreciation in the statement of profit & loss accurately. Management is required to find the exact reason of the variation that is appearing for assets identified by the auditor.

d. Classification of Land as "Assets held for sale".

As company will not receive any consideration in exchange of land, this interpretation gives arise to applicability of Accounting standard Interpretation (ASI)-17 "Distribution of Non-Cash Assets to owners". Further we have disclosed the matter accordingly in the financial statements.

Accordingly:-

- Land amounting to Nu. 99 million will be reclassified as "Non-current assets held for sale" and
- Due to non-availability of fair value, dividend liability is required to be created with a corresponding impact in retained earnings by Nu. 99 million. The fact and reason for non-availability of fair value have been disclosed in note 12 of the financial statements.

e. Inter unit Transactions.

Management does not seem to have adequate internal controls regarding recording of inter unit transactions and balances. Some of the variations noticed are very old like 4-5 years old. Transactions made in regions are recorded as advance at head office but they the corresponding liability code is not reconciling with the asset code. Total impact is of Nu. 3 million as on 31st December, 2018. To square off the Advance transfer to regional offices from Company's Headquarter should create an Inter unit account for those kinds of transaction. So that keeping records for advances given for inter unit transactions becomes easy for company. Company needs to have inter branch accounts and requires periodic reconciliation of the same as a matter of internal control.

Board's recommendation of Dividend

The dividend for 2018 to the shareholder (DHI) is recommended at 101% of the Share Capital of Nu 854,082,000.

Corporate governance

The company is generally compliant with the provisions of the Corporate Governance Code and Ownership Policy developed and introduced by its owner – the Druk Holding & Investments Limited (DHI), the Companies Act, and other statutory requirements. In keeping with the signing of integrity pledge with Anti-Corruption Commission (ACC) on 27th December 2017, and also in line with ACC's Self-Evaluation Tool for Business Code of Conduct and self-evaluation carried out by Bhutan Telecom, BTL Business Code of Conduct was developed and finalized in consultation with ACC. The principles outlined in the Business Code of Conduct would ensure the conduct of company's business with highest moral, legal and ethical standards, safeguarding the long term interest of all the stakeholders.

All members of the Board of Directors are identified and appointed by DHI with subsequent endorsement in the general meetings. The DHI organizes and conducts orientation program for the new board members to prepare them on the roles and responsibilities of the board. At the end of 2018, the company's board comprised of seven directors, including the Chief Executive Officer. The board held eight board meetings, an annual general meeting and an extra ordinary general meeting. The company had three board committees in place – Board Audit Committee, Board HR Committee, and Board Tender Committee. Audit Committee held three meetings, HR Committee held four meetings and Tender Committee held three meetings in 2018.

Corporate Social Responsibility

In line with the corporate belief to act responsibly in upholding the principle of balanced economic development through extension of telecommunication services to rural and remote areas of the country, the company continued to provide telecommunications services even to non-profitable and challenging areas of the country as a social mandate. As a leading telecommunications service provider in the country, BTL deployed B-Ngul (Mobile Financial Service) with an investment of Nu 7.58 Million to help achieve our country's goal of financial inclusion, by taking financial services to the unbanked population of the country. Furthermore the company contributed Nu 495,000 as part of Corporate Social Responsibility initiative, to various civil societies and social causes in the country.

Challenges and way forward.

Though it is not very significant at this point in time, there are challenges in retaining skilled employees leaving the organization for better opportunities outside the country. However, the company is hopeful that the implementation of three year HR plan would minimize the impacts from skilled employee attrition, since the HR plan charts way for the company to develop a proper succession plan and overall human resource capacity. The Government internet bandwidth consolidation has also drastically changed the market dynamics for leased line internet services and has impacted the profitability of the leased line business. The company is working towards reducing the cost of leased line services to maintain the profitability, by negotiating rates with international circuit providers and also reducing the cost of operations within the organization.

In 2018, the company recorded a customer satisfaction score of 3.70 against the target of 3.75, as per the survey findings, customers are mostly satisfied with Customer Care, Service Efficiency and Service Accessibility but not with product / service quality attributes and value for money. In order to address the issues with the service quality attributes of mobile services, the company will continue enhancing the availability of high speed data across the country and the company will also enhance mobile coverage along Thimphu – Phuntsholing Highway and Thimphu – Jakar Highway in 2019. With the deployment of PCRF in 2019, the company is hopeful in addressing the customers issue with value for money, since the PCRF function would allow the customers to subscribe to plans and packages as per their requirement.

In line with the global trend and based on the board's directives to stay abreast with the global technological advancements, the company would be piloting crypto currency mining in close co-ordination with Royal Monetary Authority for a year in 2019. With the final approval accorded by the Bhutan InfoComm & Media Authority (BICMA), the company would be also launching the BT TV (OTT TV) service in 2019. In the same line, the company would be piloting couple of IoT (Internet of Things) services to fulfill the company's mandate to keep the nation up-to-date with the global technological advancements.

Acknowledgements

As always, our foremost gratitude goes to the company's valued customers for their continued loyalty and support. In spite of some shortcomings, the company has continued to receive the

cooperation and support from its valued customers. The company had made major investments in 2018 to address the problems and improve the customer experience. With the improvements being made in the service quality and the hard work put in by everyone associated with the company, we have no doubt that our valued customers will continue to remain with us.

The company's shareholder, Druk Holding & Investments (DHI), has guided the company throughout 2018 in overcoming the challenges. The company has been able to undertake many major projects only with the unwavering support and guidance from the DHI. The board and management of the company would like to thank DHI for the same. We also like to put on record our sincere thanks to all the other stakeholders for whatever support we received during the year. Lastly, the board would like to thank the management and employees of the company for working hard and achieving a lot of success in 2018. The board looks forward to similar efforts and success in 2019.

On behalf of the Board of Directors;

(Pema L Dorji)
CHAIRMAN

5 Corporate Governance Report

Bhutan Telecom Limited is mostly compliant with the provisions of the Corporate Governance Code and the Ownership Policy developed and introduced by its owner (Druk Holding and Investments Limited (DHI), the Companies Act of the Kingdom of Bhutan, and other statutory requirements.

5.1 Board of Directors

All the members of the Board of BT are identified and appointed by the DHI. All appointments are submitted to the BT's General Meetings for endorsement. The BT Board Comprised of Seven Directors, including the Chief Executive Officer. Necessary disclosures about each Board Director is provided below:

Name:	Address	Category	Appointment (present term)	Term	Directorship in other companies
Mr. Tenzin Dhendup (Chairman)	Former Secretary, MoAF	Independent Non-Executive	Retired on 20/06/2018	2nd	Druk Holding & Investments.
Mr. Pema L Dorji (Chairman)	Director, Department of Immigration, MoHCA	Independent Non-Executive	20/06/2018	1st	None
Dr. Damber S. Kharka	Director, CPD, DHI	Non-Independent Non-Executive	20/06/2018	3rd	State Mining Corporation Ltd
Mr. Dechen Dorji	Country representative, WWF Bhutan	Independent Non-Executive	20/06/2018	2nd	RSPN (Chairman) | Bhutan Philanthropy Ventures| Lhaksam |WWF Living Himalaya Initiative.
Mr. Jigme Tenzing	Chief, Application Division, DITT, MoIC	Independent Non-Executive	20/06/2018	2nd	None
Ms. Leki Wangmo	Director, National Pension & Provident Fund	Independent Non-Executive	Retired on 20/06/2018	1st	Penden Cement Authority Ltd.
Mr. Pasang Dorji	Executive Secretary, Thimphu Thromde	Independent Non-Executive	Retired on 20/06/2018	1st	None
Ms. Jamyang Choeden	Director, BCSEA, Ministry of Education.	Independent Non-Executive	20/06/2018	1st	None
Mr. Gonpo Tenzin	Head, PPD, National Land Commission.	Independent Non-Executive	20/06/2018	1st	None
Mr. Karma Jurme	CEO, Bhutan Telecom	Non-Independent Executive			None

5.2 Board Meetings

A total of eight Board Meetings were held in 2018 and the meetings were held as frequently as required and gap between any two meetings never exceeded three months, as required by the Companies Act of Bhutan 2016. Board Meetings in 2018 were held on the following dates:

1. Thursday, 18 January 2018 | 135th Board Meeting.
2. Wednesday, 14 February 2018 | 136th Board Meeting.
3. Monday, 12 March 2018 | 137th Board Meeting.
4. Wednesday, 20 June 2018 | 138th Board Meeting.
5. Tuesday, 31 July 2018 |139th Board Meeting.
6. Tuesday, 2 October 2018 |140th Board Meeting.
7. Friday, 26 October 2018 | 141st Board Meeting.
8. Wednesday, 26 December 2018 | 142nd Board Meeting.

Name of Director	18th Jan	14th Feb	12th Mar	20th Jun	31st Jul	2nd Oct	26th Oct	26th Dec	
	135	136	137	138	139	140	141	142	Total
Dasho Tenzin Dhendup (Chairman)	✓	✓	✓	Retired					3
Mr. Pema L Dorji (Chairman)	New Appointment			✓	✓	✓	✓	✓	5
Dr. Damber S. Kharka	✓	✓	✓	✓	✓	✓	✓	✓	8
Mr. Dechen Dorji	✓	✓		✓	✓	✓	✓		6
Mr. Jigme Tenzing	✓	✓	✓	✓	✓	✓	✓	✓	8
Ms. Leki Wangmo	✓	✓	✓	Retired					3
Mr. Pasang Dorji	✓	✓	Retired						2
Ms. Jamyang Choden	New Appointment			✓	✓	✓	✓	✓	5
Mr. Gonpo Tenzin	New Appointment			✓	✓	✓	✓	✓	5
Mr. Karma Jurme	✓	✓	✓	✓	✓	✓	✓	✓	8

The calendar for the Board Meetings during the entire year is proposed at the beginning of the year. The calendar is reviewed and the date for the next Board Meeting is confirmed in every Board Meeting. All the Board Meetings in 2018 were held at the Conference Hall of the Company's Headquarters in Chubachu, Thimphu. The agenda and related documents for the Board Meetings are generally circulated to the Board Members at least a week in advance of the Meetings. However, this timeline is not able to be met on rare occasions when the Board Meeting is called on short notice and/or when papers take time to finalize because of various reasons.

The following Board Committees are in place:

1. Board Audit Committee (BAC)
2. Board Tender Committee (BTC)
3. Board HR Committee (BHRC)

Board Audit Committee (BAC):

The Board Audit Committee was established to, inter alia; monitor the internal control system and internal audit activities. The Committee held three meetings in 2018 on the following dates:

1. 25th BAC Meeting was held on 19 April, 2018.
2. 26th BAC Meeting was held on 19 July, 2018.
3. 27th BAC Meeting was held on 14 November, 2018.

Name	19th Apr 25	19th Jul 26	14th Nov 27	Total
Ms. Leki Wangmo (BAC Chair)	✓	**Retired**		1
Mr. Dechen Dorji (BAC Chair)	✓	✓	✓	3
Mr. Gonpo Tenzin		✓	✓	2
Mr. Kelzang Chophel (Secretary)	✓	✓	✓	3

*Mr. Dechen Dorji is the current BAC Chair and chaired the proceeding of the committee from the 26th BAC meeting onwards.

Board Tender Committee (BTC):

The Board Tender Committee was established to make decision and approve works/ procurements which are beyond the management's authority. The Committee held three meetings in 2018 on the following dates:

1. 13th BTC Meeting was held on 15 January, 2018.
2. 14th BTC Meeting was held on 14 February, 2018.
3. 15th BTC Meeting was held on 22 July, 2018.

Name	15th Jan 13	14th Feb 14	22nd Jul 15	Total
Dr. Damber S. Kharka (BTC Chair)	✓	✓	✓	3
Mr. Jigme Tenzing (BTC Chair)	✓	✓	✓	3
Mr. Karma Jurme	✓	✓	✓	3
Mr. Chimmi Dorji (Secretary)	✓	✓	□	2
Mr. Karma Tshewang (Offtg. Secretary)			✓	1

*Mr. Jigme Tenzing is the Current BTC Chair and chaired the proceedings of the committee from the 15th BTC Meeting onwards

Board HR Committee (BHRC):

The Board HR Committee was established to make decisions on HR related issues which are beyond the authority of the management. The Committee held four meetings in 2018 on the following dates:

1. 29th BHRC Meeting was held on 18 January, 2018.
2. 30th BHRC Meeting was held on 14 July, 2018.
3. 31st BHRC Meeting was held on 14 September, 2018.
4. 32nd BHRC Meeting was held on 8 November, 2018.

Name	18th Jan 29	14th Jul 30	14th Sept 31	8th Nov 32	Total
Dasho Tenzin Dhendup	✓		Retired		1
Dr. Damber S. Kharka (BHRC Chair)	✓	✓	✓	✓	4
Mr. Pasang Dorji (BHRC Chair)	✓		Retired		1
Ms. Jamyang Choden		✓	✓	✓	3
Mr. Karma Jurme	✓	✓	✓	✓	4
Mr. Phuntsho (Secretary)	✓	✓	✓	✓	4

*Dr. Damber S. Kharka is the current BHRC chair and chaired the proceedings of the committee from the 30th BHRC meeting onwards.

5.3 Board Remuneration.

Transactions	Amount in Nu			
	2018		2017	
	DSA	Sitting Fee	DSA	Sitting Fee
Mr. Tenzin Dhendup	69,417.70	28,000.00	131,000.75	124,000.00
Mr. Pema L Dorji	57,098.00	40,000		
Dr. Damber S. Kharka		108,000.00	129,135.75	168,000.00
Mr. Pasang Dorji		24,000.00	97,742.30	136,000.00
Mr. Dechen Dorji		72,000.00	97,410.10	84,000.00
Ms. Leki Wangmo		40,000.00		132,000.00
Mr. Jigme Tenzing		76,000.00		84,000.00
Ms. Jamyang Choeden	57,098.00	52,000.00		
Mr. Gonpo Tenzin	57,098.00	56,000.00		
Total	**240,711.70**	**496,000.00**	**455,288.90**	**728,000.00**

5.4 Chief Executive Officers Remuneration.

Name	Particulars	2018	2017
Mr. Tshewang Gyeltshen (Former)	Salary		974,400.00
	Leave travel concession		10,000.00
	Bonus and PBVA		552,388.24
	Contribution to superannuation fund		73,920.00
	Sitting fess		68,000.00
	Leave encashment		183,400.00
Mr. Karma Jurme (Present)	Salary	1,745,280.00	576,000.00
	Leave travel concession	15,000.00	15,000.00
	Bonus and PBVA	162,740.00	-
	Contribution to superannuation fund	106,656.00	35,200.00
	Sitting fess	108,000.00	48,000.00
	Leave encashment		-
	Total	**2,137,676.00**	**2,536,308.24**

5.5 Annual General Meeting

The 16th Annual General Meeting was held on April 10, 2019 in the Bhutan Telecom Conference hall and attended by the Shareholder, Board Directors and the key members of the management team.

6 Independent auditors Report

To
The Members of
Bhutan Telecom Limited

Opinion
We have audited the financial statements of **Bhutan Telecom Limited**, Comprising the statement of financial position as at **31st December, 2018**, and the statement of comprehensive income, statement of Changes in Equity and statement of cash flows for the year then ended , and notes to financial statements, including a summary of the significant accounting policies.

In our opinion, the accompanying financial statements gives a true and fair view of the financial position of the Company as at **31st December, 2018,** and its financial performance and its cash flows for the year then ended are in accordance with Bhutanese Accounting Standards.

Basis for Opinion
We conducted our audit in accordance with International Standards on Auditing (ISA). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the company in accordance with the 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 in Bhutan, and we have fulfilled our other responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters
In compliance with ISA (international standard of auditing), Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.
Key audit matters identified in our audit are summarized as follows:-

- Impairment of Property, Plant & Equipment (PPE)
- Classification of data center as Investment property
- Accuracy and completeness of revenue recognized & related control system
- Classification as non-current Asset held for sale

Key Audit Matters	How our Audit Addressed the matter
Impairment of Property, Plant & Equipment (PPE)- *Refer to note 2 in Bhutan telecom Limited's (BTL) Financial Statement* Company has created a data centre in Phuentsholing with the purpose of providing data protection and storage services to other customers. Total investment made for the data centre is Nu.148,958,073.	Our procedure in relation to management's impairment assessment of PPE included : - Assessing the methodologies used by the management to estimate resale value in use. - Considering the appropriateness of the resale values estimated by the management based on our knowledge of the industry & values obtained by the

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Revenue generated by Company from data centre in 2018 is Nu. 20 million which consists of:- - Rent from providing storage space to consumers - Providing ISP services to the customers Company has assessed a recoverable amount for the data centre as 250 million. Accordingly, for data centre, management concluded that the recoverable amount was higher than their carrying value such that no impairment provision was required. These conclusions are dependent upon significant management judgement, including in respect of : - Estimated resale value, assessed by management internally, and - Estimated utilisation, disposal values, product sale price and discount rates applied to future cash flows.	Company in respect of PPE that have been disposed of during the year. - Checking on a sample basis the accuracy & relevance of the input data used by management to estimate values in use - Assessing management's key assumption used to estimate value in use based on our knowledge of the industry, and - Considering the potential impact of reasonably possible downside changes in these key assumptions. - We enquired of significant new customers or customer losses and any significant changes in the manner in which assets are expected to be used or changes in the business environment that could significantly impact future performance - Considered if there were changes in market interest rates that may significantly affect the discount rate that would be used in discounted cash flow impairment models by the Group. We noted that the market capitalisation of the Company was significantly higher than the carrying value of Data centre which is Nu. 148,958,073 as on 31st December, 2018.
Classification as Investment property *Refer to note 2 of the financial statement* Company has created a data centre in Phuentsholing with the purpose of providing data protection and storage services to customers. Total investment made for the data centre is Nu 148,958,073. Revenue generated by Company from data protection and storage activities from data centre is Nu. 20 million in 2018 which consists of:- - Rent from providing storage space to consumers - Providing ISP services to the customers During the year 2018, Company has earned majority of the revenue through lease of storage space which is an indication for classifying a property as investment property as per BAS 40 "Investment Property".	Our audit procedure to address the classification of data centre as investment property included the following:- - Evaluating the management's future plans and judgements for use of asset. Whether it will be used for providing storage space or for internet services - Evaluating the management's current intention and activities that are being provided. - Evaluating the requirements of BAS 40 related to classification of property as an investment property. We found the assumptions, adopted by management in favour of non-classification of investment Property, to be supportable and reasonable based on available evidence. GSA & ASSOCIATES ★ DELHI ★ CHARTERED ACCOUNTANTS

Management is of the opinion that the transaction carried out at data centre includes a significant business activity and in future also along with increase in rentals, business activity is also going to increase. We identified it as Key Audit matter because as classifying this asset as investment property involves significant judgments.	
Accuracy and completeness of revenue recognized & related control system *Refer to note 22 of the financial statement* The company reported revenue of Nu. 3,456 million from telecommunication and related activities. The application of revenue recognition accounting standards is complex and involves a number of key judgments and estimates, including those applied on revenue arrangements with multiple elements and those contracts where there is existence of principal and agent relationship. Due to the estimates and judgment involved in the application of the revenue recognition accounting standards we have considered this matter as a key audit matter. The Group's accounting policies relating to revenue recognition are presented in note 1 to the financial statements.	Our procedures in relation to revenue recognition comprising both control testing and substantive procedures on a sample basis. The procedures in addressing the risk related to accuracy of revenue recognised included: - Testing the IT environment in which the billing systems reside, including interface controls between different IT applications; - Testing the key controls over the calculation of the amounts billed to customers and the capturing and recording of the revenue transactions; - Testing the key controls over the authorisation of the rate changes and the input of such rates to the billing systems; - Testing the end-to-end reconciliations from data records to the billing systems and to the general ledger; - Testing material journals processed between the billing systems and the general ledger; - Testing the accuracy of customer bill calculations and the respective revenue Transactions recorded. - Assessed the appropriateness of the revenue recognition accounting policies including compliance with the BFRS 15. Based on our work, we noted no material issues in the accuracy of revenue recorded in the year.
Non-current Asset held for sale *Refer to note 12 in the financial statement of Bhutan telecom Limited for year ended December'18.* Bhutan Telecom Limited announced in January 2018 their intention to transfer their Land to its holding company i.e. Druk Holding & Investment limited (DHI). A non-current asset expecting disposal in the next year requires the Land to be classified as "Non-Current Asset Held for Sale" as per provisions of BFRS 5.	Our procedures in asset held for sale including the following:- - In the meeting of the Board of Directors of the Company held in January 2018, the Board has decided to transfer the ownership of lands to its Holding Company i.e. Druk holding & investment limited (DHI) in accordance with the DHI land policy 2016 and also the letter received from DHI with reference number DHI/DOI/PIU/Lands/2017/654 dated 8th November 2017. The transfer is to be done at book value and no consideration will be received from the holding company.

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According to BFRS 5, non-current assets and disposal groups should be classified as held-for-sale if their carrying value will be recovered principally through a sales transaction rather than through continuing use. In addition, assets held for sale should be measured at the lower of carrying value and estimated fair value less costs to sell. We found this as key audit matter because of the significance amount of these Land to the total assets.	- As per Appendix "A" of BFRS 5 an extension of the period required to complete a sale does not preclude an asset from being classified as held for sale if delay is caused by events or circumstances beyond the entity's control & there is sufficient evidence that company will remain committed to its plan to sell the asset. - As company will not receive any consideration on transferring assets to its holding company i.e. DHI, This transaction gives the interpretation for applicability of Accounting Standard Interpretation(ASI) - 17 " Distributions of Non Cash Assets to owners" issued by Accounting and Auditing Standards Board of Bhutan. Accordingly the classification adopted by the management in the financial statement is accepted.

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

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Bhutanese Accounting Standards 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.

Auditors' Responsibilities for the Audit of the Financial Statement

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs 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.
Our methodology for performing audit has been provided in Appendix "A"

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

Report on Other Legal and Regulatory Requirements
As required by Section 266 of the Companies Act of Bhutan, 2016 (the Minimum Audit Examination and Reporting Requirements) we provide in the Annexure "B" a statement on the matters specified therein to the extent applicable.

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

i) We have sought and obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit.
ii) In our opinion, proper books of account as required by law have been kept by the Company so far as appears from our examination of those books, proper returns adequate for the purposes of our audit have been received from the branches not visited by us.
iii) The Statement of Financial Position, the Statement of Comprehensive Income, the Statement of Changes in Equity and the Statement of Cash Flows dealt with by this report have been prepared in accordance with Bhutanese Accounting standards and are in agreement with the books of accounts and returns.
iv) In our opinion, the Statement of Financial Position, the Statement of Comprehensive Income, the Statement of Changes in Equity and the Statement of Cash Flows comply with the Bhutanese Accounting Standards and provisions of section 265 of the Companies Act of Bhutan, 2016.

For **GSA & Associates**
Chartered accountants
FRN – 000257N

GSA & ASSOCIATES ★ DELHI ★ CHARTERED ACCOUNTANTS

Tanuj Chugh
Partner
Membership No – 529619

Place: Thimphu
Date: 25/2/19

7 (Annexure "B" AS Referred To In Our Report)

MINIMUM AUDIT EXAMINATION AND REPORTING REQUIREMENTS
Bhutan Telecom Limited
For the year ended 31st December, 2018

As required under the International Standards of Auditing (ISA) as adopted and issued by Accounting and Auditing Standards of Bhutan (AASBB). On the basis of the checks as we considered appropriate & according to the information and explanation provided to us we report that:-

General:

a) Company have adhered to the Corporate Governance Guidelines and Regulations as applicable on them.
b) The governing board/authority pursued a prudent and sound financial management practice in managing the affairs of the company.
c) The financial statements are prepared applying the Bhutanese Accounting Standards issued by the Accounting and Auditing Standards Board of Bhutan (AASBB).
d) Proper books of accounts have been maintained and financial statements are in agreement with the underlying accounting records.
e) Adequate records as specified under Section 228 of the Companies Act of Bhutan 2016 have been maintained.
f) Mandatory obligations, social or otherwise, if any, entrusted are being fulfilled.
g) The amount of tax is computed correctly and reflected in the financial statements.

Regulatory norms in examining the accounts of the corporations subject to such statutory audit contains the following:

1. The Company has maintained the Property, Plant & Equipment register during the year. The register is showing particulars relating to acquisition cost, depreciation and net value. ***Company do not have adequate control for calculation of depreciation for assets acquired prior to migration to SAP. There were variations appearing in opening balances of PPE pertaining to pre SAP era. Same has been rectified during the year with a corresponding adjustment to retained earnings. Total such PPE and intangible items amounting to Nu. 378 millions.*** As explained to us, due to large size of regional offices & assets located at various locations BTL has decided to carry out physical verification for each regions annually.

2. None of the property, plant & equipment has been re-valued during the year.
The Land of an amount Nu. 99,285,178 is classified as "Noncurrent asset held for sale".

3. Physical verification of inventories has been conducted at reasonable intervals by a committee nominated by the management for reconciling Inventories between the System and actual physical inventories.

4. Procedures followed for physical verification of inventories are considered reasonable and adequate in relation to the size of the company and the nature of its business.

5. To the extent, physical verification of Inventory has been conducted; some immaterial discrepancy are observed on such verification. Quantitative reconciliation has been carried out during the year in respect of all major items of inventories at the end of the accounting period.

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6. On the basis of information received the company has a reasonable system of recording receipts, issues and consumption of materials and stores and allocating materials consumed to the respective jobs, commensurate with its size and nature of its business.

7. On the basis of information quantitative reconciliation is carried out at least at the end of accounting year in respect of all major items of inventories by the company.

8. ***The company has created provision for obsolete, damaged, slow moving and surplus goods/inventories which has been determined during the course of audit of Nu. 8.7 millions.***

9. As explained to us, the unserviceable or damaged inventories will be disposed through open auction in the year 2019.

10. Approval of appropriate authority is obtained for writing off amounts due to material loss/discrepancies in physical/book balances of inventories including finished goods, raw materials, stores and spares

11. On the basis of our examination of stock records, we are of the opinion that the valuation is fair and proper in accordance with the normally accepted accounting principles. The basis of valuation of stock is same as that in the previous year. In addition, the company has created a provision for impairment in value of inventory lying for long time.

12. The Company has 7.5% secured, non-convertible redeemable bonds of 1000 each redeemable at par in full on 15th july 2020 which is secured by hypothecation of Fixed Assets/ Plant & Machinery of the company. The terms of the said bonds are prima facie not prejudicial to the interest of the Company. Apart from this Company has also availed term loan at average rate of 7.5%

13. The Company has not availed any loan from other companies, firms or other parties and/or from the companies under the same management. The point no. 7 of Part II of Schedule XIV of The Companies Act of Bhutan 2016 is not applicable.

14. The Company has not granted any loan to other companies, firms or other parties and/or to the companies under the same management. The point no. 8 & 9 of Part II of Schedule XIV of The Companies Act of Bhutan 2016 is not applicable.

15. The advances granted to officers/staffs are in keeping with the provision of service rules. No excessive/frequent advances are granted and accumulation of large advances against particular individual is avoided.

16. The Company generally has an established system of internal control to ensure completeness, accuracy and reliability of accounting records, for carrying out the business in an orderly and efficient manner, to safeguard the assets of the Company as well as to ensure adherence to the rules & regulations, systems and procedures.

17. As informed to us, there is a reasonable system of obtaining competitive bids/quotations from the vendors in respect of purchase of stores, plant & machinery, equipment and other assets commensurate with the size of the Company and nature of its business.

18. (a) As informed to us, there is no transaction for purchase and sale of goods and services made in pursuance of contracts or agreements entered into with the directors or any other parties related to directors or with the Company or firms in which the directors are directly or indirectly interested.

(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 the directors are directly or indirectly interested.

19. According to the information and explanations given to us, no personal expenses have been debited to the Statement of Comprehensive Income Account excepting those payable under contractual obligations any unserviceable or damaged stores, finished goods are determined, and provisions for loss, if any, have been made in the accounts.

20. Company has some very old inventory lying with it for which a provision of Nu. 8.7 million has been created in the books of accounts of the Company.

21. It has been explained that the Company has reasonable system of ascertaining and identifying point of occurrence of breakage/damages of stores, spares and capital goods while in transit, during loading/unloading in storage and during handling etc. so that responsibility could be fixed and compensation sought from those responsible.

22. Since Company is majorly into service sector, it is maintaining records related to service inventory as well as consumable inventory on proper basis. Proper controls have been put in place to ensure the safety of inventory of the company.

23. Records for disposal of unusable and scrap items are maintained by the Company.

24. According to the records, the Company is generally regular in depositing rates and taxes, duties etc. and other statutory dues with the appropriate authorities during the year 2018. Provision for Corporate Income Tax is adequate and necessary adjustments have been made to compute the amount of tax required to be paid under The Rules on the Income Tax Act of Bhutan, 2017.

25. There is no undisputed statutory dues pending during the year.

26. The Company is a service oriented organization and not a manufacturing concern and there is no system of allocating man hours utilized to the respective jobs etc.

27. The Company is a service oriented organization and not a manufacturing concern. Hence recording consumption of materials and stores etc. is not applicable.

28. System of price fixation taking into account the cost of production and market conditions is not applicable for a service oriented Company.

29. The credit sales policy and credit rating of customers is not applicable for the Company.

30. The Company has engaged some agents in connection with mobile service through appropriate screening. The agency commission structure is in keeping with the industry norms / market conditions.

31. The system of follow-up with debtors and other parties for recovery of outstanding amounts is available at the Company. Company does vigorous follow-up to realize the old debts. ***But there is a requirement of integration of billing system and SAP system in the Company for better controls.***

32. The management of liquid resources particularly cash / bank is reasonably adequate considering the nature and size of the business. Funds are not lying idle in non-interest bearing accounts.

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33. According to the information and explanations given to us and on the basis of examination of books and records on test check basis, the activities carried out by the Company are in our opinion lawful and intra-vires the Articles of Incorporation of the Company.

34. According to the information and explanations given to us, the Company has a system of approval of the Board for all capital investment decision and investments in new projects.

35. The Company has established an effective budgetary control system.

36. The Company does not have a costing system to ascertain cost of its services. Current practice is based on estimation. The company is going to upgrade its systems for having better revenue allocation and cost management.

37. The details of remuneration to the Board of Directors including the Chief Executive Officer have been indicated in the Notes to the Accounts.

38. According to the information and explanation given to us, the directives of the Board have been complied with.

39. According to the information and explanations given to us, the officials of the Company have not transmitted any price sensitive information, which is not made publicly available, unauthorized to their relatives/friends/associates, or close persons, which would directly or indirectly benefit themselves.

40. The proper records have been maintained by the Company for all the transactions except that for inter-unit reconciliations. Company is in process of improving the same by having periodic reconciliations between units.

41. Company has maintained records related to leases and other items. Company is still in the process of evaluation of certain contracts for which finance lease accounting might get applicable.

42. 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.

Computerized Accounting environment

1. The Company is operating in SAP environment, the internal control system with respect to inter unit transactions, inventory management and revenue accounting needs little improvement.

2. It is explained to us that the Company has a main system at Thimphu and standby server installed at Phuntsholing and backup is going on daily basis with complete backup with two way process. Firstly, data backup are going on system and then it takes it to TSM server on daily basis.

3. As per information given to us, the Company keeps a back-up data for the entire Company in a standby server installed at Phuntsholing and the same is being maintained at Thimphu.

4. As per information given to us, Operational controls are adequate to ensure correctness and validity of input data and output information.

5. As per information given to us, there are adequate preventive measures to prevent unauthorized access over the computer installation and files.

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6. ***As per information data migration during change over to new system were not effectively managed to ensure completeness and integrity of data of the system.***

   As per information given to us, there are no adequate control for integration between Billing system & SAP.

GENERAL

1. **Going Concern Problem**
   Based on the Company's financial statements for the year ended 31st December, 2018 audited by us, the Company is healthy and going concern assumption is appropriate.

2. **Ratio Analysis**
   Financial and operational ratio in respect of the Company is given in the statement of Ratio Analysis.

3. **Compliance of Companies Act of Bhutan, 2016:**
   The Company has complied with the provisions of The Companies Act of Bhutan 2016 concerning conducting of meetings, filing requirements, maintenance of records, issue of shares, raising of loans and all other matters specified in the said Act.

4. **Adherence of Laws, Rules & Regulations:**
   Audit of the Company is governed by The Companies Act of the Bhutan, 2016 and the scope of audit is limited to examination and reviews of the financial statement as produced to us by the management. In the course of audit, we have considered the compliance of provision of the said Companies Act and its Article of Incorporation. The Company does not have a comprehensive Compliance Reporting and Recording System as regards adherence to all laws, rules and regulations, systems, procedures and practices. Under the circumstances we are unable to comment on the compliance of the same by the Company during the year 2018.

For GSA & Associates.

Chartered Accountants

(Firm Reg. No.000257N)

GSA & ASSOCIATES DELHI CHARTERED ACCOUNTANTS

Tanuj Chugh

Partner

M. No. 529619

Place : Thimphu

Date : 25/2/19

8 Statement of Financial Position for the year ended 31st December, 2018

Amount in Nu.

Particulars	Note no.	As at 31st December, 2018	As at 31st December, 2017
I. ASSETS :			
(a) Non-current assets			
Property, plant and equipment	2(a)	3,035,956,265	3,353,676,890
Intangible assets	2(b)	1,129,198,308	1,337,580,391
Capital work-in-progress	2(c)	83,416,952	15,077,015
Financial Assets			
- Investment in associate	3	-	92,308,400
- Investments	4	190,682,583	124,734,293
Deferred tax assets (net)	5	27,892,024	9,659,869
Other non-current asset	6	1,282,729	-
Total non-current assets		**4,468,428,861**	**4,933,036,858**
(b) Current assets			
Inventories	7	98,877,104	107,008,946
Financial Assets			
- Trade receivables	8	108,911,295	127,062,333
- Cash and bank balances	9	633,519,824	172,043,086
- Other receivables	10	3,286,083	2,860,642
Other current asset	11	6,574,163	4,115,127
Non-current asset held for sale	12	99,285,178	-
Total current assets		**950,453,648**	**413,090,134**
TOTAL ASSETS		**5,418,882,509**	**5,346,126,992**
II. EQUITY AND LIABILITIES :			
(a) Shareholders Fund			
Equity share capital	13	854,082,000	854,082,000
Retained earnings & reserves		2,903,751,554	2,938,916,121
Total shareholders fund		**3,757,833,554**	**3,792,998,121**
(b) Deferred government grants	14	87,633,714	110,957,565
(c) Non-current liabilities			
Financial liabilities			
- Long term borrowings	15	602,627,144	648,615,398
- Other non-current liabilities	16	155,400,000	194,250,000
Deferred tax liability (net)	5	-	-
Long term provision	17	57,164,638	67,340,966
Total non-current liabilities		**815,191,782**	**910,206,364**
(d) Current liabilities			
Financial liabilities			
- Trade and other payables	18	154,896,426	102,953,902
- Other current liabilities	19	96,526,009	96,092,203
Short term provision	20	236,623,130	207,138,914
Other current liabilities	21	270,177,894	125,779,922
Total current liabilities		**758,223,459**	**531,964,941**
Total liabilities (b+c+d)		**1,661,048,955**	**1,553,128,871**
TOTAL EQUITY & LIABILITIES		**5,418,882,509**	**5,346,126,992**
Summary of significant accounting policies	1		

The above accompanying notes are an integral part of the financial statements
This is the statement of financial position referred to in our report of even date

For GSA & Associates.
Chartered accountants
(Firm Reg. No. 000257N)

Tanuj Chugh
Partner
M. No. 529619
Place: Thimphu
Date: 25/02/2019

GSA & ASSOCIATES DELHI CHARTERED ACCOUNTANTS

for and on behalf of board of directors

Chairman

Chief Executive Officer

9 Statement of Comprehensive Income for the year ended 31st December 2018

Amount in Nu.

Particulars	Note no.	As at 31st December, 2018	As at 31st December, 2017
Income:			
Income from operations	22	3,456,823,404	3,039,804,839
Other income	23	116,914,505	135,248,243
		3,573,737,909	**3,175,053,082**
Expense			
Network operating expenses	24	563,149,713	495,438,295
Cost of trading goods	25	13,476,390	44,969,988
Employee benefit	26	325,889,675	316,625,054
Sales & marketing expenses	27	182,487,416	166,818,458
Depreciation and amortization	28	952,836,074	719,666,260
Finance cost	29	52,394,779	38,604,315
Other expenses	30	118,078,037	165,750,573
		2,208,312,084	**1,947,872,943**
Profit before tax		**1,365,425,825**	**1,227,180,139**
III. Add/(Less): Tax expenses :	31		
Previous tax		10,737,614	-
Current tax		450,462,174	403,952,708
Deferred income tax		(18,232,155)	(16,443,370)
Total tax expense		**442,967,633**	**387,509,338**
Profit after tax for the year		**922,458,192**	**839,670,801**
IV. Other comprehensive income			
Actuarial (gains)/losses on defined benefit plans		20,624,316	46,380
Income tax relating to component for other comprehensive income		(6,187,295)	-
Other comprehensive income, net of tax		**14,437,021**	**46,380**
Total comprehensive income for the year		**908,021,171**	**839,624,421**
Earnings Per Share	32	**1,080.06**	**983.13**
Summary of significant accounting policies	1		

The above accompanying notes are an integral part of the financial statements
This is the statement of comprehensive income referred to in our report of even date

For GSA & Associates.
Chartered accountants
(Firm Reg. No. 000257N)

GSA & ASSOCIATES DELHI CHARTERED ACCOUNTANTS

Tanuj Chugh
Partner
M. No. 529619
Place: Thimphu
Date: 25/02/2019

for and on behalf of board of directors

Chairman

Chief Executive Officer

10 Statement of Cash Flow for the year ended 31st December, 2018

Amount in Nu.

Particulars	***2018***		***2017***	
Cash Flow from operating activities				
Net profit before tax	*1,365,425,825*		*1,232,812,730*	
Add/Less: Net Addition in Provision (Current & Non-Current)	*19,307,888*		*(41,438,638)*	
Add/Less: Gain on sale of Property Plant and Equipment	*(1,055,927)*		*-*	
Add/Less: Gain or Loss on scrapping / retirement of Assets	*2,514,248*			
Add/Less: Foreign Exchange Loss/(Gain)				
Net profit before tax and after adjustment of provisions		***1,386,192,034***		***1,191,374,092***
Adjustment for				
Depreciation during the year	*952,836,074*		*667,866,260*	
Interest Paid	*51,275,301*		*35,135,206*	
Interest Received	*(11,746,876)*	*992,364,499*	*(6,795,680)*	*696,205,786*
Net profit from operating activities before working capital changes		***2,378,556,533***		***1,887,579,878***
(Increase)/Decrease in Inventories	*8,131,842*		*65,885,130*	
(Increase)/Decrease in trade receivables	*18,151,038*		*(406,659)*	
(Increase)/Decrease in other receivables	*(425,441)*		*665,650*	
(Increase)/Decrease in other current asset	*(2,459,036)*		*19,514,542*	
(Increase)/Decrease in deferred tax asset	*(18,232,155)*		*(9,659,869)*	
(Increase)/Decrease in investment in associate	*92,308,400*			
(Increase)/Decrease in investment	*(59,000,000)*		*(64,376,696)*	
(Increase)/Decrease in other non-current asset	*(1,282,729)*		*12,950,000*	
Increase/(Decrease) in other trade payables	*51,942,524*		*38,897,801*	
Increase/(Decrease) in other current liabilities	*144,397,973*		*(23,638,561)*	*39,831,339*
Increase/(Decrease) in other financial current liabilities	*433,806*			
Increase/(Decrease) in assets held for sale	*(99,285,178)*			
Increase/(Decrease) in Other non-current financial liability	*(38,850,000)*			
Increase/(Decrease) in Other deferred govt grant	*(23,323,851)*	*72,507,192*		
Cash Generated from operating activities		***2,451,063,725***		***1,927,411,216***
Income Tax Paid		*(441,029,093)*		*(452,461,097)*
Net cash flow from operating activities		***2,010,034,632***		***1,474,950,120***
Cash flow from investing activities				
Payment for property plant and equipment	*(407,444,264)*		*(949,217,984)*	
Payment for intangible assets	*(145,319,455)*		*(500,250,729)*	
Payment for capital work in progress	*(68,339,937)*		*176,659,652*	
Sale of property plant and equipment (actual cash received)	*1,963,000*			
Interest Received			*6,795,680*	
Investment in fixed deposits	*11,746,876*		*-*	
Margin //money provided	*-*		*-*	
Net cash used in investing activities		***(607,393,780)***		***(1,266,013,380)***

GSA & ASSOCIATES ★ DELHI ★ CHARTERED ACCOUNTANTS

Amount in Nu.

Particulars	2018		2017	
Cash flow from financing activities				
Term loan (long term borrowings)	(45,988,254)		348,615,398	
Short term borrowings	-		79,636,473	
Receipt of capital grant from BICMA	-		5,500,000	
Payment of dividend	(843,900,560)		(685,381,144)	
Interest paid on bond	(51,275,301)		(35,135,206)	
Net cash used in financing activities		**(941,164,116)**		**(286,764,479)**
Increase/(Decrease) in cash & cash equivalents		**461,476,736**		**(77,827,739)**
Opening Cash & Bank Balances	172,043,086		249,870,825	
Closing Cash & Bank Balances	633,519,824		172,043,086	
Increase/(Decrease) in cash & cash equivalents		**461,476,739**		**(77,827,739)**

Reconciliation of cash and cash equivalent with statement of financial position	**2018**	**2017**
Cash on hand	1,209,913	358,313
Balances with banks in current accounts	632,309,911	171,684,773
Fixed deposits placed for a period less than 3 months	-	-
Cash and cash equivalents	**633,519,824**	**172,043,086**
Other bank balances		
Cash and cash equivalents as per statement of financial position	**633,519,824**	**172,043,086**

This is the statement of cash flow referred to in our report of even date.

For GSA & Associates.
Chartered accountants
(Firm Reg. No. 000257N)

GSA & ASSOCIATES DELHI CHARTERED ACCOUNTANTS

Tanuj Chugh
Partner
M. No. 529619

Place: Thimphu
Date: 25/02/2019

for and on behalf of board of directors

Chairman

Chief Executive Officer

11 Statement of Changes in Equity for the year ended 31st December, 2018

Amount in Nu.

Particulars	Equity share Capital	Retained Earnings	Group Investment Reserve	Total Equity
Balance at 1st January 2017	854,082,000	2,823,656,987	405,489,602	4,083,228,589
Less:- Bonus pertaining to year 2016	-	(44,096,956)	-	(44,096,956)
Less:- Brand management fees	-	(19,435,675)	-	(19,435,675)
Less:- Depreciation charge	-	(378,578,993)	-	(378,578,993)
Adjusted balance as on 01st January, 2017	**854,082,000**	**2,381,545,363**	**405,489,602**	**3,641,116,965**
Changes in equity for 2017	-	-	-	-
Add : Comprehensive income for the year	-	839,624,421	-	839,624,421
Less : Dividend	-	(372,199,942)	(313,181,202)	(685,381,144)
Less : Free hold land transferred to DHI	-	(2,362,121)	-	(2,362,121)
Balance at 31st December 2017	**854,082,000**	**2,846,607,722**	**92,308,400**	**3,792,998,122**
Changes in equity for 2018		-	-	-
Add : Comprehensive income for the year		908,021,171	-	908,021,171
Less : Dividend for the year		(751,592,160)	(92,308,400)	(843,900,560)
Less : Liability for free hold land transferred to DHI (refer note 12)		(99,285,178)	-	(99,285,178)
Balance at 31st December 2018	**854,082,000**	**2,903,751,554**	**-**	**3,757,833,554**

For GSA & Associates.

Chartered accountants

(Firm Reg. No. 000257N)

GSA & ASSOCIATES ★ DELHI ★ CHARTERED ACCOUNTANTS

Tanuj Chugh

Partner

M. No. 529619

Place: Thimphu

Date: 25/02/2019

for and on behalf of board of directors

Chairman

Chief Executive Officer

12 Notes forming part of the Financial Statements for the year ended 31st December 2018

Note "2 (a)" : Property, Plant & Equipment :

Amount in Nu.

Particulars	Gross Block				Accumulated Depreciation				Net Block	
	01.01.2018	Addition	Adjustment	31.12.2018	01.01.2018	Addition	Adjustment	31.12.2018	31.12.2018	01.01.2018
Land*	98,999,078	286,100	99,285,178	(0)	-			-	(0)	98,999,078
Buildings #	628,100,729	49,259,722	1,797,776	675,562,675	182,458,810	27,484,024	490,988	209,451,846	466,110,829	445,641,919
Tele. Equipment #	6,206,642,129	227,628,731	54,140,074	6,380,130,786	4,342,180,749	375,886,397	53,594,093	4,664,473,053	1,715,657,733	1,864,461,380
Office equipment #	97,354,670	9,155,942	3,178,389	103,332,223	82,994,793	8,812,995	2,990,136	88,817,652	14,514,571	14,359,877
Power system & cables #	1,932,510,716	115,682,736	3,060,504	2,045,132,948	1,028,114,699	200,996,576	2,587,285	1,226,523,990	818,608,958	904,396,017
Furniture & fixtures #	19,445,664	1,412,472	20,159	20,837,977	12,464,594	1,520,180	20,155	13,964,619	6,873,358	6,981,070
Vehicles #	75,298,942	4,018,560	2,945,070	76,372,432	56,461,393	7,758,216	2,037,993	62,181,616	14,190,816	18,837,549
Total (A)	9,058,351,928	407,444,264	164,427,150	9,301,369,042	5,704,675,038	622,458,388	61,720,650	6,265,412,776	3,035,956,265	3,353,676,890
Previous year (A)	8,111,496,064	949,217,984	2,362,121	9,058,351,927	4,840,451,933	494,570,119	-	5,335,022,052	3,723,329,874	3,271,044,131
Note "2 (b)" : Intangible assets :										
Software applications #	1,569,110,284	145,319,455	-	1,714,429,739	490,529,893	301,901,538		792,431,431	921,998,308	1,078,580,391
Lisence #	777,000,000			777,000,000	518,000,000	51,800,000		569,800,000	207,200,000	259,000,000
Previous year	1,845,859,555	500,250,729	-	2,346,110,284	742,504,175	266,025,718		1,008,529,893	1,337,580,391	1,103,355,381

Note "2 (c)" : Capital work in progress :

Capital work-in-progress	15,077,015	68,339,937		83,416,952					83,416,952	15,077,015
Previous year	191,736,667	(176,659,652)		15,077,015					15,077,015	191,736,667

* In the meeting of the Board of Directors of the company held on 18 January 2018, the Board has decided to transfer the ownership of lands to its Holding Company i.e. Druk holding & investment limited (DHI) in accordance with the DHI land policy 2016 and also the letter received from DHI with reference number DHI/DOI/PIU/Lands/2017/654 dated 8th November 2017. The transfer is to be done at book value and no consideration will be received from the holding company.

For details related to charges for fixed assets (refer note 15)

Refer note no. - 37 of the Financials

Disclosure for para 79 of BAS 16 "Property Plant and Equipment" - Refer note 42

Certain assets are not been fully controlled by company and the same are jointly control with Ms. Bhutan Power Corporation, a fellow subsidiary

GSA & ASSOCIATES ★ CHARTERED ACCOUNTANTS ★ DELHI

The useful lives applied are as follows:	
Asset type	**Useful life**
1. Land	*NA*
2. Building	
a. Permanent structure	*50 yrs*
b. Semi-permanent structure	*15 yrs*
c. Temporary structure	*5 yrs*
3. Tele-equipment	
a. Tower	*30 yrs*
b. Rest	*7 yrs*
4. Power systems & cable	
a. Air conditioner	*5 yrs*
b. Rest	*10 yrs*
5. Furniture	*10 yrs*
6. Office equipment	*5 yrs*
7. Vehicle	*5 yrs*
8. Software application	*5 yrs*
8. License	*15 yrs (based on agreement)*

For GSA & Associates.

Chartered accountants

(Firm Reg. No. 000257N)

GSA & ASSOCIATES ★ DELHI ★ CHARTERED ACCOUNTANTS

Tanuj Chugh

Partner

M. No. 529619

Place: Thimphu

Date: 25/02/2019

for and on behalf of board of directors

Chairman

Chief Executive Officer

Notes forming part of the Financial Statements for the year ended 31st December, 2018

Amount in Nu.

Particulars	As at 31st December, 2018	As at 31st December, 2017
Note "3" : Investment in associate:		
Investment in Equity Shares, Unquoted		
Investment in the form of Share-TTPL*	-	92,308,400
(923084 number of equity shares of face value of Nu 100)		
*The land has been transferred to parent company at book value without consideration and the same has been adjusted from the Group investment reserve of the company. The transaction is not carried at fair value as the company was holding the investment on behalf of its parent company i.e Druk Holding Investment Limited.		
	-	**92,308,400**
Note "4" : Investments:		
Investment for redemption of bond*	180,000,000	120,000,000
Other Receivables - Non Current	1,000,000	-
Accrued income on investments	9,682,583	4,734,293
* Bonds are to be matured in the year 2020		
	190,682,583	**124,734,293**
Note "5" : Deferred tax asset(net):		
Deferred tax asset-non current	27,892,024	9,659,869
	27,892,024	**9,659,869**
Reconciliation of deferred tax assets (net):		
Opening balance as of 1 Jan	9,659,869	(6,783,502)
Tax income/(expense) during the period recognised in SOCI	24,419,450	16,443,371
Tax income/(expense) during the period recognised in SOCI	(6,187,295)	-
Closing balance as at 31 December,18	**27,892,024**	**9,659,869**
Note "6" : Other non-current asset:		
Contract Asset*	1,282,729	
* For disclosures related to contract assets refer note 11		
	1,282,729	**-**
Note "7": Inventories :		
Inventory – Consumables	26,215,613	33,491,349
Inventory - Traded Goods	58,522,120	48,741,460
Inventory – Others	14,139,371	24,776,137
Total Inventories*	**98,877,104**	**107,008,946**
* Inventories mentioned above are net of provisions. Details mentioned below:-		
Provision created for :-		
Inventory – Consumables	3,968,587	**-**
Inventory - Traded Goods	1,031,130	**-**
Inventory – Others	3,709,137	**-**
	8,708,854	
Note "8": Trade receivables :		
Unsecured, Considered good		
Sundry debtors - domestic current	124,694,679	149,347,559
Sundry debtors - International current	14,894,947	7,316,261
	139,589,626	**156,663,820**
Impairment of trade receivables*	(30,678,331)	(29,601,487)
* For basis of impairment refer note 35	**108,911,295**	**127,062,333**

GSA & ASSOCIATES ★ DELHI ★ CHARTERED ACCOUNTANTS

Amount in Nu.

Particulars	As at 31st December, 2018	As at 31st December, 2017
Note "9": Cash and bank balances :		
Cash and cash equivalents		
Cash on hand in regions & exchanges	1,209,913	358,313
(As certified by the management)		
Cash at banks		
Balances lying with Bank & Current account	632,309,911	171,684,773
Total cash and bank balances	**633,519,824**	**172,043,086**
Note "10": Other receivables:		
Unsecured, Considered good		
(Advances recoverable in cash and/or in kind or for value to be received)		
Security Deposit – Others	1,214,006	788,565
Other Receivables – Current	64,264	64,264
Income accrued but not Due	2,007,813	2,007,813
	3,286,083	**2,860,642**
Note "11": Other current assets :		
Advance to Suppliers	3,897,702	1,351,425
Advance to Others	767,113	1,343,767
Advance to Staff, Office Expenses	37,977	1,141,817
Prepaid Expense	99,486	270,096
Balance with Govt. Authority		
TDS on Others	288,864	8,022
Indirect taxes	1,055,445	-
Contract Asset*	427,576	-
	6,574,163	**4,115,127**
* Judgement used for creation of contract assets are as follows:- (a) Expected life of the connection considered to be 5 years (b) Expenses considered as part of contract cost are cost of new SIM and cost of drop wire (c) Amortization of contract cost is done of straight line basis in a period of 5 years (d) Amortization of contract cost in 2018 of Nu. 427,576.32 (e) Impairment of contract cost in 2018 is Nu. Nil		
Note "12": Non-current asset held for sale		
Asset held for disposal*	99,285,178	-
	99,285,178	**-**

In the meeting of the Board of Directors of the company held on __ January 2018, the Board has decided to transfer the ownership of lands to its Holding Company i.e. Druk holding & investment limited (DHI) in accordance with the DHI land policy 2016 and also the letter received from DHI with reference number DHI/DOI/PIU/Lands/2017/654 dated 8th November 2017. The transfer is to be done at book value and no consideration will be received from the holding company.

Non cash asset transfer has been accounted in the books of the company in compliance with the requirements of Accounting Standard Interpretation - 17 " Distributions of Non Cash Assets to owners", issued by Accounting and Auditing Standards Board of Bhutan. ASI 17 requires to recongnise a liability in the books to distribute non cash asset as a dividend to its shareholder at fair value of the assets to be distributed with a corresponding liability for dividend payable.

Measurement of Land:- Due to the large volume of the land and the distinct location of many of the lands, it was impracticable for the company to determine the fair value of the lands and hence, the transaction has been accounted at carrying value of the lands.

GSA & ASSOCIATES ★ DELHI ★ CHARTERED ACCOUNTANTS

Notes forming part of the Financial Statements for the year ended 31st December, 2018

Amount in Nu.

Particulars	As at 31st December, 2018	As at 31st December, 2017
Note "13" : Share capital :		
Equity share capital		
Authorised :		
1,500,000 (Previous Year 1,500,000) Equity Shares of Nu. 1,000 each	**1,500,000,000**	**1,500,000,000**
Issued, subscribed and paid up :		
854,082 (previous Year 854,082) Equity Shares of Nu.1,000 each	854,082,000	854,082,000
Total issued, subscribed and fully paid-up	**854,082,000**	**854,082,000**

i. Terms / Rights attached to Equity Shares

The Company has only one class of equity shares having a par value of Nu.1000/- per share. Each holder of equity shares is entitled to one vote per share. Each holder of these ordinary shares are entitled to receive dividends as and when declared by the company. Of the above 854,082 (previous year 854,082) shares are held by the Druk Holding & Investment Limited, being the Holding Company.

ii. Shares held by the holding company

Name of Shareholder	As at 31st December, 2018		As at 31st December, 2017	
	No. of Shares held	% of total holding	No. of Shares held	% of total holding
Druk Holdings & Investment Limited	854,082	100	854,082	100
Total	**854,082**	**100**	**854,082**	**100**

iii Reconciliation of number of shares

Particulars	As at 31st December, 2018		As at 31st December, 2017	
	Equity Shares		Equity Shares	
	No. of Shares	Amount in Nu.	No. of Shares	Amount in Nu.
Shares outstanding at the beginning of the year	854,082	854,082,000	854,082	854,082,000
Shares issued during the year	-	-	-	-
Shares bought back during the year	-	-	-	-
Shares outstanding at the end of the year	**854,082**	**854,082,000**	**854,082**	**854,082,000**

GSA & ASSOCIATES ★ DELHI ★ CHARTERED ACCOUNTANTS

Notes forming part of the Financial Statements for the year ended 31st December, 2018

Amount in Nu.

Particulars	As at 31st December, 2018	As at 31st December, 2017
Note "14" : Deferred government grants non-current:		
Grant from RGoB*	81,133,478	100,816,003
Grant from Govt of India*	-	1,402,621
Grant from JICA**	6,500,236	8,738,941
Deferred government grants#	**87,633,714**	**110,957,565**
* Monetary grant received against investment in property plant and equipment in rural areas. The same is treated as deferred income and is recognised in the statement of comprehensive income on a systematic or rational basis over the useful life of the assets.		
** Non-monetary grant received in the form of property plant and equipment where the grant and the corresponding PPE have been accounted on the fair value on the date of receipt. Subsequently, The same is treated as deferred income and is recognised in the statement of comprehensive income on a systematic or rational basis over the useful life of the assets.		
# Amortisation of govt. grant during the year is Nu. 23,323,850		
Note "15": Long term borrowings:		
a) Term Loan-BOB*	396,826,476	428,251,871
Less : Current maturity of long term loan	94,199,332	79,636,473
Long term loan - BOB-A	**302,627,144**	**348,615,398**
b) Corporate Bond - Bank of Bhutan**-**B**	300,000,000	300,000,000
Total (A+B)	**602,627,144**	**648,615,398**
* Term loan BOB - Secured by hypothecation of Property# to BOB by way of first charge as security BOB (NPPF) - Secured by hypothecation of Property plant & equipment of worth Nu. 100 million		
# Property includes - Vehicles, PPE and tools		
** 7.50% Secured, non-cumulative non-convertible redeemable bonds of 1000 each redeemable at par in full on 15th July 2020. Corporate Bond is secured by hypothecation of Fixed Assets/ Plant & Machinery of the company.		
Note "16" : Other non-current liabilities		
Lisence fees payable	194,250,000	233,100,000
Less:- Current maturity (refer note 19)	(38,850,000)	(38,850,000)
	155,400,000	**194,250,000**
Note "17" : Long term provision :		
Provision for Leave Encashment*	14,379,000	40,890,756
Less : Current obligation (refer note 20)	(1,182,606)	-
	13,196,394	**40,890,756**
Provision for Gratuity*	31,357,034	-
Less : Current obligation (refer note 20)	(13,839,000)	**-**
	17,518,034	**-**
Reserve created Insurance of Assets	26,450,210	26,450,210
* For details refer note 39	**57,164,638**	**67,340,966**
Note "18" : Trade and other payables:		
Sundry creditors		
Sundry Creditors – Domestic	29,356,560	10,344,041
Sundry Creditors - related party	24,290	757,225
Sundry Creditors – International	95,026,506	60,216,831
Other payables	30,489,071	31,635,806
	154,896,427	**102,953,903**

GSA & ASSOCIATES DELHI CHARTERED ACCOUNTANTS

Amount in Nu.

Particulars	***As at 31st December, 2018***	***As at 31st December, 2017***
Note "19" : Other current Financial liabilities		
Current maturity for license payable	*38,850,000*	*38,850,000*
Security Deposits – Customer	*3,230,000*	*3,140,000*
Security Deposits – Vendor	*9,473,958*	*8,174,095*
Payable to employees	*57,411*	*56,661*
Provision for Bonus	*44,914,640*	*45,871,447*
	96,526,009	***96,092,203***
Note "20" : Short term provision:		
Income Tax Payable (net of advance tax of Nu. 222,673,354)	*221,601,524*	*207,138,914*
Provision for Leave Encashment (refer note 17)	*1,182,606*	-
Provision for Gratuity (refer note 17)	*13,839,000*	-
	236,623,130	***207,138,914***
Note "21" : Other current liabilities:		
b) Other liabilities		
Current maturity of long term loan (refer note 15)	*94,199,332*	*79,636,473*
Payable to Government Authority	*16,285,214*	*11,919,938*
Contract liability*		
Advances from Customer	-	*136,131*
Advances from Customer - Deposit Work	*8,335,473*	*8,077,249*
Advance from Postpaid Customer	*3,048,375*	*4,065,478*
Liability for Unearned Income	*47,577,717*	*21,190,099*
	58,961,565	***33,468,957***
Liability towards shareholder (refer note 12)	*99,285,178*	-
Other Deductions	*1,446,606*	*754,554*
	270,177,895	***125,779,922***

**The services are being provided on the basis of usage by the subscribers. Un-provided services will be availed by the subscribers in the next year.*

Notes forming part of the Financial Statements for the year ended 31st December, 2018

Amount in Nu.

Note 22 Revenue from operations

Particulars	As at 31st December, 2018	As at 31st December, 2017
Service revenue		
-Landline	*96,860,999*	*106,656,521*
-Mobile	*2,943,259,189*	*2,539,357,208*
-Internet	*371,392,606*	*334,617,997*
-Others	*30,012,563*	*31,507,285*
	3,441,525,357	***3,012,139,011***
Sale of products		
-Telecom products	*12,221,446*	*13,231,648*
-Accessories	*3,076,601*	*14,434,179*
	15,298,047	***27,665,827***
	3,456,823,404	***3,039,804,839***
Breakup for revenue		
Domestic	***3,411,639,891***	***3,012,469,798***
Export	***45,183,513***	***27,335,041***

Note 23 *Other income*

Particulars	***As at 31st December, 2018***	***As at 31st December, 2017***
Fines	*10,373,514*	*5,546,761*
Income from Depository Works	*45,281,134*	*115,721,647*
Net Income from Depository Works	-	-
Interest from Fixed Deposits	*11,746,876*	*6,795,680*
Income from Sale of Yellow Page	-	-
Gain on Forex Fluctuation	-	*1,681,138*
Miscellaneous Income	*49,512,981*	*5,503,017*
	116,914,505	***135,248,243***

Note 24 Network operating expense

Particulars	As at 31st December, 2018	As at 31st December, 2017
Internet bandwidth & leased line charges	*285,277,512*	*264,381,334*
Power & fuel	*43,943,420*	*40,124,910*
Repair & maintenance	*220,226,383*	*175,809,069*
Other	*13,702,398*	*15,122,982*
	563,149,713	***495,438,295***

Note 25 Cost of trading goods

Particulars	As at 31st December, 2018	As at 31st December, 2017
Cost of trading goods	13,476,390	44,969,988
	13,476,390	***44,969,988***

Note 26 Employee benefit

Particulars	As at 31st December, 2018	As at 31st December, 2017
Salaries & bonus	*255,324,300*	*248,670,519*
Provident Fund Contribution	*15,848,003*	*16,005,004*
*Gratuity**	*10,052,000*	*7,886,412*
Staff welfare expenses	*6,984,128*	*2,954,368*
*Others**	*37,681,244*	*41,108,751*
	325,889,675	***316,625,054***

**For disclosure of post-employment benefits refer note 39*

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Amount in Nu.

Note 27 Sales & marketing expenses

Particulars	As at 31st December, 2018	As at 31st December, 2017
Business Promotion	*1,226,489*	*1,642,030*
Advertisement	*1,936,332*	*1,784,266*
Commission	*160,130,423*	*144,197,990*
Others	*19,194,172*	*19,194,173*
	182,487,416	***166,818,458***

Note 28 Depreciation & amortization

Particulars	As at 31st December, 2018	As at 31st December, 2017
*Depreciation**	*605,754,716*	*460,260,722*
*Amortization**	*347,081,358*	*259,405,538*
	952,836,074	***719,666,260***

** Depreciation expense has been netted off with amortisation of govt grant Nu. 23,323,850*

Note 29 Finance cost

Particulars	As at 31st December, 2018	As at 31st December, 2017
*Interest on Loans**	*49,846,160*	*35,135,206*
Bank Charges	*1,119,478*	*2,188,984*
Interest-Others	*1,429,141*	***1,280,125***
	52,394,779	***38,604,315***

** Interest capitalised shall be Nu 1 Million*

Note 30 Other expenses

Particulars	As at 31st December, 2018	As at 31st December, 2017
Fines & Penalty	*984,967*	*303,093*
Rates and Taxes	*2,304,139*	*1,296,578*
Provision for Expected credit loss (refer note 35)	*6,425,315*	*4,388,496*
Deposit Work Expense	*31,104,178*	*92,852,140*
Communication (Fax, Mail, Post)	*439,828*	*629,782*
Carriage Outward & Inward	*932,843*	*591,383*
Vehicle Running Expense - POL	*9,341,713*	*8,800,477*
Audit expenses	*541,510*	*623,571*
Printing and stationary	*1,279,828*	*1,560,745*
Insurance	*999,701*	*5,591,220*
Loss on sale or retirement of asset	*1,458,321*	*-*
Professional fees	*2,873,172*	*3,948,887*
Charity & donation	*600,000*	*1,976,837*
Travel	*15,725,116*	*16,470,519*
Physical verification of inventory loss	*477,724*	*3,493,024*
R&M Building - Service	*7,140,341*	*3,978,901*
Repair & maintenance other	*13,740,529*	*12,136,022*
Provision for Old Inventories	*8,708,854*	
Others expenses	*12,999,958*	*7,108,899*
	118,078,037	***165,750,574***

Note 31 Tax expense

Particulars	As at 31st December, 2018	As at 31st December, 2017
Deferred Tax Income	*(18,232,155)*	*16,443,370*
Deferred Tax Expense	*-*	*-*
Corporate Income Tax Paid	*450,462,174*	*403,952,708*
Tax Expense related to Prior Period	*10,737,614*	*-*
	442,967,633	**387,509,338**

(refer note 31(a) for tax exp. Reconciliation)

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Note 32 **Earnings per Share**

Particulars	As at 31st December, 2018	As at 31st December, 2017
Profit available for equity shareholders	***922,458,192***	***839,670,801***
Weighted number of equity shares outstanding	*854,082*	*854,082*
Nominal value of equity shares	*1,000*	*1,000*
Basic & diluted earnings per share	*1,080*	*983*
No. of Employee as on 31.12.18	*661*	
Profit After tax	*922*	
Earning per employee	*1.40*	

Note : 33 INCOME TAX

The major components of income tax expense for the years ended 31 Dec 2018 and 31 Dec 2017 are:

Profit or loss section	**As At** 31st Dec 2018	**As At** 31st Dec 2017
Current income tax:		
Current income tax charge for the year	450,462,174	403,952,708
Adjustments in respect of current income tax of previous years	10,737,614	-
	461,199,788	**403,952,708**
Deferred tax:		
Deferred tax for the year	(18,232,155)	-16,443,370
	(18,232,155)	**-16,443,370**
Income tax expense reported in the Statement of Profit and Loss	**442,967,633**	**387,509,338**
OCI section		
Tax related to items that will not be reclassified to Profit & Loss	-6,187,295	-
Income tax charged to OCI	**-6,187,295**	**-**

Reconciliation between average effective tax rate and applicable tax rate for the year ended 31 Dec 2018 and 31 Dec 2017:

Accounting profit before income tax	**%**	**1,365,425,825**	**%**	**1,227,180,139**
At Bhutan's statutory income tax rate of 30% (31 Dec 2018: 30%)	30.00%	409,627,748	30.00%	368,154,042
Effect of non-deductible expenses, exempt income and others	1.66%	22,602,271	1.58%	19,355,296
Effect of prior year re-assessments	0.79%	10,737,614	0.00%	-
Income tax expense reported in the Statement of Profit and Loss	32.44%	**442,967,633**	31.58%	**387,509,338**

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Notes forming part of the Financial Statements for the year ended 31st December, 2018

Note: 34 Fair value measurements:

Financial instruments by category

Particulars	As at December 31, 2018			As at December 31, 2017		
	FVPL	FVOCI	Amortised cost	FVPL	FVOCI	Amortised cost
Financial assets						
Investment in associates	-	-	-	-	-	92,308,400
Investment for redemption of bond	-	-	180,000,000	-	-	120,000,000
Other Receivables - Non Current	-	-	1,000,000	-	-	-
Accrued income on investments	-	-	9,682,583	-	-	4,734,293
Trade receivables	-	-	108,911,295	-	-	127,062,333
Cash and cash equivalent	-	-	633,519,824	-	-	172,043,086
Security deposit	-	-	1,214,006	-	-	788,565
Income accrued but not Due	-	-	2,007,813	-	-	2,007,813
Other Receivables	-	-	64,264	-	-	64,264
Total financial assets	**-**	**-**	**936,399,785**	**-**	**-**	**519,008,755**
Financial liabilities						
Term loan - BOB	-	-	396,826,476	-	-	428,251,871
Corporate bond	-	-	300,000,000	-	-	300,000,000
License fee payable	-	-	194,250,000	-	-	233,100,000
Trade payables	-	-	124,407,356	-	-	71,318,097
Other payable	-	-	30,489,071	-	-	31,635,806
Payable to employees	-	-	57,411	-	-	56,661
Provision for Bonus	-	-	44,914,640	-	-	45,871,447
Security deposits	-	-	12,703,958	-	-	11,314,095
Total financial liabilities	**-**	**-**	**1,103,648,911**	**-**	**-**	**1,121,547,977**

(i) Fair value hierarchy

This section explains the judgements and estimates made in determining the fair values of the financial instruments that are (a) recognised and measured at fair value and (b) measured at amortised 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. An explanation of each level follows underneath the table.

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 (for example, traded bonds, over-the-counter derivatives) is determined using valuation techniques which maximise 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.*
During the year, there has been no movement between fair value levels from previous year.

(ii) Valuation technique used to determine fair value

Specific valuation techniques used to value financial instruments include:
(i) discounted cash flow analysis

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(iii) Fair value of financial assets and liabilities measured at amortised cost

Particulars	December 31, 2018		December 31, 2017	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets				
Investment in associates	-	-	92,308,400	92,308,400
Investment for redemption of bond	180,000,000	180,000,000	120,000,000	120,000,000
Accrued income on investments	9,682,583	9,682,583	4,734,293	4,734,293
Trade receivable	108,911,295	108,911,295	127,062,333	127,062,333
Other Receivables - Non Current	1,000,000	1,000,000	-	-
Income accrued but not Due	2,007,813	2,007,813	2,007,813	2,007,813
Security deposit	1,214,006	1,214,006	788,565	788,565
Cash and cash equivalent	633,519,824	633,519,824	172,043,086	172,043,086
Other Receivables	64,264	64,264	64,264	64,264
Total financial assets	**936,399,785**	**936,399,785**	**519,008,755**	**519,008,755**
Financial liabilities				
Term loan - BOB	396,826,476	396,826,476	428,251,871	428,251,871
Corporate bond	300,000,000	300,000,000	300,000,000	300,000,000
License fee payable	194,250,000	194,250,000	233,100,000	233,100,000
Trade payables	124,407,356	124,407,356	71,318,097	71,318,097
Other payable	30,489,071	30,489,071	31,635,806	31,635,806
Payable to employees	57,411	57,411	56,661	56,661
Provision for Bonus	44,914,640	44,914,640	45,871,447	45,871,447
Security deposits	12,703,958	12,703,958	11,314,095	11,314,095
Total financial liabilities	**1,103,648,911**	**1,103,648,911**	**1,121,547,977**	**1,121,547,977**

The carrying amounts of sundry debtor, cash and bank balances, trade receivables, interest accrued, security deposit, other receivables, 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 judgement 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.

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Note 35: Financial Risk Management

The company's activities expose it to market risk, liquidity risk and credit risk.

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

Risk	Exposure arising from	Measurement	Management
Credit risk	*Cash and cash equivalents, trade receivables, financial assets measured at amortised cost.*	*Aging analysis*	*Diversification of bank deposits, customer base and credit limits*
Liquidity risk	*Trade payables and other financial liabilities*	*Rolling cash flow forecasts*	*Availability of committed credit lines and borrowing facilities*
Market risk – foreign exchange	*Recognised financial assets and liabilities not denominated in Ngultrum(Nu.)*	*Cash flow forecasting Sensitivity analysis*	*Diversification of liability*
Market risk – interest rate	*Long-term borrowings at variable rates*	*Sensitivity analysis*	*Portfolio of loan contains fixed interest loans from financial institutions*

(A) 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.

Credit risk arises from cash and cash equivalents, investments carried at amortised cost and deposits with banks and financial institutions, as well as credit exposures to wholesale customers including outstanding receivables.

(i) Credit risk management

Credit risk from balances with banks and financial institutions is managed by the Company's finance department. Currently the Company has investment in fixed deposit which are made only with approved counterparties in accordance with the Company's policy.

Apart from cash and cash equivalent, company's majority of the financial assets are in the form of trade receivables only. 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. As significant portion of the company's sale is in cash (all prepaid services), total trade receivables outstanding at the reporting date are also not significant in comparison of the company's total revenue. These trade receivables are non-interest bearing and are generally on credit term of 30-60 days. The Company regularly monitors its outstanding customer receivables.

Company categorised its trade receivables mainly into two categories, due from international customers and from domestic customers. In case of international debtors, there is no history of default and delay risk. Further, as per the arrangement and company's policy in case of majority of the international customers, receivables balances are settled on regular interval. Therefore, considering the forward looking approach management believes that the credit risk in case of international customers is not significant and no loss allowance is required to be provided. In case of domestic trade receivables, company have history of delay in recovery as well as default in recovery. However, as per the company policy, in case of delay in recovery, company billed and recover delay charges for the delay period. Accordingly, company is not exposed to delay risk. For default risk, company based on history, past trends and forwarding looking approach provides for loss allowance following expected credit loss method.

(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.

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities and the availability of funding through an adequate amount of committed credit facilities to meet obligations when due and to close out market positions. The company is exposed to significant liquidity risk apart from general financial liabilities such as trade payables, etc., during the financial year 2015, company has also borrowed 300 million through bond for a tenure of 5 years which is payable after 5 years. Further, as per the terms and conditions of the bond, company is required to create a bond redemption reserve every year to repay the bond at maturity. In 2017, company also borrow 45 million term loan for a tenure of 5 year to finance the LTE project 2017. Company also borrows 50 million term loan for a terms of 5 years from NPPF to address the routine operational fund. 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.

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Impairment of Trade Receivables 2018

	Phase - I		Phase - II		Phase - III	
Particulars	**0-3 Months**	**3-6 Months**	**6-9 Months**	**9-12 Months**	**More Than a YEAR**	**Total**
Impairment percentage	**5**	**20**	**30**	**60**	**100**	
Domestic SD	76,623,190	6,111,515	3,809,446	25,489,696	5,696,165	117,730,012
Other Debtors	8,434,898	-	2,535	-	-	8,437,433
International	8,647,256	2,758,245	1,562,544	1,122,460	791,052	14,881,557
Bulk SMS	211,363	29,870	128,826	22,013	83,846	475,917
						-
Total	**93,916,707**	**8,899,629**	**5,503,351**	**26,634,168**	**6,571,063**	**141,524,919**
Impairment value	**4,695,835**	**1,779,926**	**1,651,005**	**15,980,501**	**6,571,063**	**30,678,331**
Write-off						**5,348,472**
						24,253,015
Provision for Doubtful Debts						6,425,315

(i) Maturities of financial liabilities

The tables below analyse the company's financial liabilities into relevant maturity groupings based on their contractual maturities for:
a) all non-derivative financial liabilities, and
The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

Contractual maturities of financial liabilities:

Particulars	*Less than 1 year*	*More than 1 years*	*Total*
December 31, 2018			
Non-derivatives			
Corporate bond	*-*	*300,000,000*	*300,000,000*
Term loan	*94,199,332*	*302,627,144*	*396,826,476*
Trade payables	*124,407,356*	*-*	*124,407,356*
Other payable	*30,489,071*	*-*	*30,489,071*
Payable to employees	*57,411*	*-*	*57,411*
Provision for Bonus	*44,914,640*	*-*	*44,914,640*
Security deposits	*12,703,958*	*-*	*12,703,958*
License fee payable	*38,850,000*	*155,400,000*	*194,250,000*
Total non-derivative liabilities	***345,621,768***	***758,027,144***	***1,103,648,911***
December 31, 2017			
Non-derivatives			
Corporate bond	*-*	*300,000,000*	*300,000,000*
Term loan	*79,636,473*	*348,615,398*	*428,251,871*
Trade payables	*71,318,097*	*-*	*71,318,097*
Other payable	*31,635,806*	*-*	*31,635,806*
Payable to employees	*56,661*	*-*	*56,661*
Security deposits	*11,314,095*	*-*	*11,314,095*
Provision for Bonus	*45,871,447*	*-*	*45,871,447*
License fee payable	*38,850,000*	*194,250,000*	*233,100,000*
Total non-derivative liabilities	***278,682,579***	***842,865,398***	***1,121,547,977***

(C) 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 does not operate internationally, however, expose to the foreign currency risk due to receivable/payable denominated in foreign currency for the various transactions such as interconnect agreement with foreign operators, and providing network services to the foreign operator's customers, etc. Foreign currency risk, is closely monitored by the Management to decide on the requirement of hedging. The position of foreign currency exposure to the Company as at the end of the year expressed in Nu. are as follows:

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	December 31, 2018	December 31, 2017
	USD	USD
Financial asset	*208,824*	*113,505*
Financial liabilities	*972,628*	*42,305*
Net exposure to foreign currency risk	***-763,804***	***71,200***
	December 31, 2018	***December 31, 2017***
	Euro	***Euro***
Financial assets	*3,234*	*523*
Financial liabilities	*785*	*423*
Net exposure to foreign currency risk	***2,449***	***100***

Sensitivity:

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

	Change in currency exchange rate	Impact on profit before tax	
		December 31, 2018	December 31, 2017
USD sensitivity			
Appreciation in Nu.	5%	*38,190*	*(3,560)*
Deprecation in Nu.	-5%	*(38,190)*	*3,560*
EURO sensitivity			
Appreciation in Nu.	5%	*(122)*	*(5)*
Deprecation in Nu.	-5%	*122*	*5*

** Holding all other variables constant*
As value of Nu. is constantly equal to the INR, company is not exposed to any foreign currency risk relating to amount receivables/payable in INR.

(ii) Interest rate risk
Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company's exposure to the risk of changes in market interest rates relates primarily to the Company's long-term debt obligations with floating interest rates. As company does not have any variable rate borrowing outstanding or investment, company is not exposed to significant interest rate risk.

(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.

Note: 36 Capital management

(a) Risk management

The company's objectives when managing capital are to

i. safeguard their ability to continue as a going concern, so that they can continue to provide returns for shareholders and benefits for other stakeholders, and

ii. Maintain an optimal capital structure to reduce the cost of capital.
The Company is formed as a wholly owned subsidiary of Druk Holding & Investments Limited (DHI). Company manages the share capital issued and subscribed along with shareholder's fund appearing in the financial statement as capital of the company.

(b) Dividends

	December 31, 2018	December 31, 2017
Final dividend for the year	843,900,560	685,381,144

Notes forming part of the Financial Statements for the year ended 31st December, 2018

Note 37: The following reconciliation provides the effect of re-statement in the year ending 31st December, 2017

(A) Reconciliation of financial position as at 31st December, 2017

Particulars	Note no.	As at 31-12-2017 (Restated)	Adjustment	As at 31st December, 2017
I. ASSETS:				
(a) Non-current assets				
Property, plant and equipment	A	3,353,676,889	(369,652,986)	3,723,329,874
Intangible assets	A, B	1,337,580,391	250,073,993	1,087,506,398
Capital work-in-progress		15,077,015	-	15,077,015
Financial Assets				
- Investment in associate		92,308,400	-	92,308,400
- Investments		124,734,293	-	124,734,293
Deferred tax assets (net)		9,659,869	-	9,659,869
Other non-current asset	B	-	(12,950,000)	12,950,000
Total non-current assets		**4,933,036,857**	**(132,528,993)**	**5,065,565,849**
(b) Current assets				
Inventories		107,008,946	-	107,008,946
Financial Assets				
Trade receivables	C	127,062,333	(4,215,469)	131,277,803
Cash and bank balances		172,043,086	-	172,043,086
Other receivables	D	2,860,642	2,007,812	852,830
Other current asset	B	4,115,127	(14,957,813)	19,072,940
Non-current asset held for sale		-	-	-
Total current assets		**413,090,134**	**(17,165,470)**	**430,255,605**
TOTAL ASSETS		**5,346,126,991**	**(149,694,463)**	**5,495,821,454**
II. EQUITY AND LIABILITIES:				
(a) Shareholders Fund				
Equity share capital		854,082,000	-	854,082,000
Retained earnings & reserves		2,938,916,122	431,347,224	3,370,263,346
Total shareholders fund		**3,792,998,122**	**431,347,224**	**4,224,345,346**
Deferred government grants	L	110,957,564	22,791,407	88,166,157
(b) Non-current liabilities				
Financial liabilities				
Long term borrowings		648,615,398	-	648,615,398
Deferred tax liability (net)		-	-	-
Other non-current liabilities	B	194,250,000	194,250,000	-
Long term provision		67,340,966	-	67,340,966
Total non-current liabilities		**910,206,364**	**194,250,000**	**715,956,364**
(c) Current liabilities				
Trade and other payables	N	199,046,106	104,036,369	95,009,737
Other current liabilities	C,M,N	125,779,921	52,629,596	73,150,325
Short term provision	L	207,138,914	(12,418,137)	219,557,051
Short term borrowings	M	-	(79,636,473)	79,636,473
Total current liabilities		**531,964,941**	**64,611,355**	**467,353,586**
Total liabilities (b+c)		**1,553,128,869**	**281,652,763**	**1,271,476,107**
TOTAL EQUITY & LIABILITIES		**5,346,126,991**	**(149,694,462)**	**5,495,821,454**

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(A) Reconciliation of statement of comprehensive income as at 31st December, 2017

Particulars	Notes	For the Year 31-December-2017		
		Restated	Adjustment	As at 31-12-2017
Income:				
Income from operations	K	3,039,804,839	15,557,378	3,024,247,461
Other income	J	135,248,243	(14,771,020)	150,019,263
Gain on forex fluctuations	J	-	(19,819,798)	19,819,799
		3,175,053,082	**(19,033,440)**	**3,194,086,522**
Expense				
Network operating expenses	G,E,H,I	495,438,293	495,438,293	-
Cost of trading goods	G	44,969,988	44,969,988	-
Employee benefit	F	316,625,054	(11,803,021)	328,428,075
Sales & marketing expenses	E	166,818,458	166,818,458	-
Administrative & general expenses	E	-	(516,284,421)	516,284,421
Stores & Spares	G	-	(59,904,615)	59,904,615
Repair & Maintenance	H	-	(193,182,262)	193,182,263
International Payments	I	-	(193,866,489)	193,866,489
Finance cost		38,604,314	38,604,314	-
Loss on forex fluctuations	J	-	(18,138,661)	18,138,661
Other expenses	G,E,H	165,750,573	165,750,573	-
Depreciation and amortization		719,666,260	51,800,000	667,866,260
		1,947,872,941	**(81,597,841)**	**1,309,804,523**
Profit before tax		**1,947,872,941**	**(81,597,841)**	**1,309,804,523**
III. Add/(Less): Tax expenses :				
Previous tax		-		-
Current tax		403,952,708	-	403,952,708
Deferred income tax		(16,443,370)	-	(16,443,370)
Total tax expense		**387,509,337**	**-**	**387,509,337**
Profit after tax for the year		**1,560,363,604**	**(81,597,841)**	**922,295,186**
IV. Other comprehensive income				
Actuarial (gains)/losses on defined benefit plans		46,380	-	46,380
Income tax relating to component for other comprehensive income		-	-	
Other comprehensive income, net of tax		46,380	-	46,380
Total comprehensive income for the year		**1,560,317,224**	**(81,597,841)**	**922,248,806**

Notes:

A) Asset whose life has expired but accumulated depreciation was short accounted for due to SAP transition problem. Same has been adjusted in 2017 with a corresponding impact on retained earnings. Impact Nu. 378 million

B) License purchased by the Company in 2008 was not capitalized and was accounted for as prepaid expense. Same has now been expensed out with a gross block of Nu. 777 million and accumulated amortization of Nu. 518 million as on 01st January, 2017. Amortization expense booked in year 2017 is Nu. 51.8 million. Unpaid portion has been accounted as license fee payable liability of Nu. 194.25 million as non-current and Nu. 38.85 million as current.

C) Advance received from postpaid customers against which invoice had already been raised in year 2017. Hence, advance from customer and debtor balance has been adjusted.

D) Income accrued but not due has been reclassified from other current asset to other receivable

SSA ASSOCIATES DELHI CHARTERED ACCOUNTANTS

E) General & administrative expenses has been reclassified into Selling & marketing Expenses of Nu.166 million, Network operating Cost of Nu.11.9 million & the rest amount i.e. Nu. 140 million as other Expenses
F) Provision has been created for paying bonus of 2018 & bonus expenses of 2016 which is paid in 2017 has been adjusted from retained earnings
G) Stores & spares has been reclassified into cost of trading goods of Nu. 8 million. Other Expenses Nu. 6.91 million and the rest amount i.e. Nu. 8 million reclassified as Network Operating Cost
H) Repairs & maintenance cost has been reclassified into network Operating cost & other operating expense
I.) International payments has been reclassified as Network operating Cost
J) Gain and Loss On Forex Fluctuations has been reclassified into Other Income
K.) Other Income of Nu.15 million has been reclassified into Revenue from Operations
L) Deferred govt grant classification change from non-current & current and presented separately
M) Short term borrowings has been reclassified into other Current liabilities
N) There is reclassification between trade payable and other current liability

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Notes to accounts

38. Related party disclosure

As identified by the management and in accordance with the Bhutanese Accounting Standard -24 following are the list of related parties

List of related parties where control exists and related parties with whom transactions have taken place during the period and relationships:

i. Parent and subsidiary:

Nature of relationship	Name of entity	Acronym used
Holding Company	Druk Holding & Investment Ltd.	DHI

ii. Key management personnel

Position	Name	Remarks
Chairperson	Mr. Pema L Dorji	Present
Chairperson	Mr. Tenzin Dhendup	Retired
Director	Dr. Damber S. Kharka	Present
Director	Mr. Pasang Dorji	Retired
Director	Ms. Leki Wangmo	Retired
Director	Mr. Jigme Tenzing	Present
Director	Mr. Dechen Dorji	Present
Director	Ms. Jamyang Choeden	Present
Chief executive officer	Mr. Karma Jurme	Present

iii. Entities under common control

Nature of relationship	Name of entity	Acronym used
Subsidiary of holding company	Bhutan Power Corporation Limited	BPC
Subsidiary of holding company	Drukair Corporation Limited	DACL
Subsidiary of holding company	Druk Green Power Corporation	DGPC
Subsidiary of holding company	Dungsam Cement Corporation Ltd	DCCL
Subsidiary of holding company	Natural Resource Development Corporation Ltd	NRDCL
Subsidiary of holding company	Construction Development Corporation Ltd	CDCL
Subsidiary of holding company	Wood Craft Center Ltd	WCCL
Subsidiary of holding company	State Mining Corporation Ltd	SMCL
Subsidiary of holding company	Koufuku International Private Ltd	KIPL
Controlled company of holding company	Bank of Bhutan Ltd	BOBL
Controlled company of holding company	Dungsam Polymers Ltd	DPL
Controlled company of holding company	State Trading Corporation of Bhutan Ltd	STCBL
Linked company of holding company	Bhutan Board Product Ltd	BBPL
Linked company of holding company	Penden Cement Authority Ltd	PCAL

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Government Agencies

Nature of relationship	Name of entity	Acronym used
Government Agencies	Ministry of Education	MoE
Government Agencies	Ministry of Labour & Human Resource	MoLHR
Government Agencies	Ministry of Works & Human Settlement	MoWHS
Government Agencies	Ministry of Foreign Affairs	MoFA
Government Agencies	Ministry of Finance	MoF
Government Agencies	Ministry of Economic Affairs	MoEA
Government Agencies	Ministry of Home & Culture Affairs	MoHCA
Government Agencies	Ministry of Health	MoHCA
Government Agencies	Ministry of Agriculture & Forestry	MoAF
Government Agencies	Ministry of Information and Communication	MoIC

a) Transactions with related parties during the year:

i. DSA and sitting fee:

Transactions	Amount in Nu			
	2018		2017	
	DSA	Sitting Fee	DSA	Sitting Fee
Mr. Tenzin Dhendup	69,417.70	28,000.00	131,000.75	124,000.00
Mr. Pema L Dorji	57,098.00	40,000		
Dr. Damber S. Kharka		108,000.00	129,135.75	168,000.00
Mr. Pasang Dorji		24,000.00	97,742.30	136,000.00
Mr. Dechen Dorji		72,000.00	97,410.10	84,000.00
Ms. Leki Wangmo		40,000.00		132,000.00
Mr. Jigme Tenzing		76,000.00		84,000.00
Ms. Jamyang Choeden	57,098.00	52,000.00		
Mr. Gonpo Tenzin	57,098.00	56,000.00		
Mr. Sangay Khandu				16,000.00
Mr. Karma Y. Raydi				16,000.00
Mr. Kezang Lotey				4,000.00
Mr. Nim Dorji				4,000.00
Mr. Pema Chewang				16,000.00
Ms. Yangchen Dolkar Dorji				4,000.00
Mr. Chimmi Dorji				28,000.00
Total	**240,711.70**	**496,000.00**	**455,288.90**	**816,000.00**

GSA & ASSOCIATES ★ CHARTERED ACCOUNTANTS ★ DELHI

ii. Chief executive officer's remuneration:

Name	Particulars	2018	2017
Mr. Tshewang Gyeltshen	Salary		974,400.00
(Former)	Leave travel concession		10,000.00
	Bonus and PBVA		552,388.24
	Contribution to superannuation fund		73,920.00
	Sitting fess		68,000.00
	Leave encashment		183,400.00
Mr. Karma Jurme	Salary	1,745,280.00	576,000.00
(Present)	Leave travel concession	15,000.00	15,000.00
	Bonus and PBVA	162,740.00	-
	Contribution to superannuation fund	106,656.00	35,200.00
	Sitting fess	108,000.00	48,000.00
	Leave encashment		-
	Total	**2,137,676.00**	**2,536,308.24**

iii. Intergroup transaction with the DOC companies:

GCOA	GCOA Ledger	Entity	Inter CO ID	2018.DEC	Amount
2103010302	Intragroup trade payables	BTL	I_TTPL	2018.Dec	(3,381.18)
1109010102	Intragroup trade receivables	BTL	I_TTPL	2018.Dec	11,508.00
4107010514	Communication and ICT revenue from DHI Group companies	BTL	I_TTPL	2018.Dec	(31,88,757.00)
3109010616	Rental Expenses paid to DHI Group Companies	BTL	I_TTPL	2018.Dec	1,23,750.19
4107010514	Communication and ICT revenue from DHI Group companies	BTL	I_CDCL	2018.Dec	(23,79,108.43)
4108010014	Income from Deposit Works	BTL	I_CDCL	2018.Dec	30,00,000.00
1101020103	Balances with BOBL	BTL	I_BOBL	2018.Dec	32,01,04,528.08
2204030001	Intra corporate deposits	BTL	I_BOBL	2018.Dec	(30,00,00,000.00)
3110010607	Interest on intra group bonds	BTL	I_BOBL	2018.Dec	2,25,00,000.00
2103040002	Intergroup Accrued expenses	BTL	I_BOBL	2018.Dec	(1,08,30,193.72)
2204050401	Borrowings from BOBL-noncurrent	BTL	I_BOBL	2018.Dec	(26,12,78,368.03)
2104060301	Borrowings from BOBL- current	BTL	I_BOBL	2018.Dec	(8,55,48,107.66)
3110010602	Interest on loans from BoBL	BTL	I_BOBL	2018.Dec	2,67,11,477.38
3109010044	Intra Group Commission and Brokerage fees	BTL	I_BOBL	2018.Dec	3,79,72,775.79
4107010522	Intra Group Commission and Breakage Income	BTL	I_BOBL	2018.Dec	(19,05,641.44)
4107010521	Rental Income from Group Companies	BTL	I_BOBL	2018.Dec	(48,000.00)

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GCOA	GCOA Ledger	Entity	Inter CO ID	2018.DEC	Amount
4107010524	Inter Group Miscellaneous Income	BTL	I_BOBL	2018.Dec	(14,50,600.00)
4108010014	Income from Deposit Works	BTL	I_BOBL	2018.Dec	(17,40,575.22)
1109010102	Intragroup trade receivables	BTL	I_BOBL	2018.Dec	4,000.00
1205020204	Intra group deposits – noncurrent	BTL	I_BOBL	2018.Dec	6,10,00,000.00
3109010043	Intra Group Miscellaneous Expenses	BTL	I_BOBL	2018.Dec	45,818.00
4107010514	Communication and ICT revenue from DHI Group companies	BTL	I_DH01	2018.Dec	(3,40,976.00)
1109010102	Intragroup trade receivables	BTL	I_DH01	2018.Dec	1,984.00
4107010514	Communication and ICT revenue from DHI Group companies	BTL	I_NRDCL	2018.Dec	(20,20,425.00)
3109010043	Intra Group Miscellaneous Expenses	BTL	I_NRDCL	2018.Dec	58,044.00
1109010102	Intragroup trade receivables	BTL	I_NRDCL	2018.Dec	(1,29,187.00)
3109010616	Rental Expenses paid to DHI Group Companies	BTL	I_NRDCL	2018.Dec	45,000.00
4108010021	Intra group Consulting Income	BTL	I_NRDCL	2018.Dec	45,00,000.00
4107010514	Communication and ICT revenue from DHI Group companies	BTL	I_SMCL	2018.Dec	(9,32,308.00)
4107010508	Service Revenue from DHI Group companies	BTL	I_SMCL	2018.Dec	(12,00,000.00)
4107010524	Inter Group Miscellaneous Income	BTL	I_SMCL	2018.Dec	(1,93,654.00)
1109010102	Intragroup trade receivables	BTL	I_SMCL	2018.Dec	5,91,850.00
4107010514	Communication and ICT revenue from DHI Group companies	BTL	I_BBPL	2018.Dec	(5,11,918.24)
1213030001	Furniture, fixtures, computers and office equipment	BTL	I_BBPL	2018.Dec	7,24,343.25
2103010302	Intergroup trade payables	BTL	I_BBPL	2018.Dec	1,44,712.00
4107010514	Communication and ICT revenue from DHI Group companies	BTL	I_DACL	2018.Dec	(63,48,064.00)
1109010102	Intragroup trade receivables	BTL	I_DACL	2018.Dec	1,00,000.00
3109010614	Flight tickets and other services purchased from DACL	BTL	I_DACL	2018.Dec	45,02,564.00
3109010043	Intra Group Miscellaneous Expenses	BTL	I_DACL	2018.Dec	24,875.00
4107010521	Rental Income from Group Companies	BTL	I_DACL	2018.Dec	(67,002.00)
4107010524	Inter Group Miscellaneous Income	BTL	I_DACL	2018.Dec	(38,023.00)
1109010102	Intragroup trade receivables	BTL	I_DC01	2018.Dec	1,73,744.00
4107010514	Communication and ICT revenue from DHI Group companies	BTL	I_DC01	2018.Dec	(23,68,229.00)
2503010008	Intragroup Dividends relating to current year	BTL	I_DI01	2018.Dec	84,39,00,560.00

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GCOA	GCOA Ledger	Entity	Inter CO ID	2018.DEC	Amount
3109010617	Inter group Brand Management Fees	BTL	I_DI01	2018.Dec	1,91,94,172.05
2501010001	Equity Shares held by DHI	BTL	I_DI01	2018.Dec	(85,40,82,000.00)
4107010514	Communication and ICT revenue from DHI Group companies	BTL	I_DI01	2018.Dec	(10,27,159.00)
1109010102	Intragroup trade receivables	BTL	I_DI01	2018.Dec	2,14,037.00
4107010514	Communication and ICT revenue from DHI Group companies	BTL	I_WCC	2018.Dec	(2,73,042.00)
1213030001	Furniture, fixtures, computers and office equipment	BTL	I_WCC	2018.Dec	
3109010043	Intra Group Miscellaneous Expenses	BTL	I_WCC	2018.Dec	
1109010102	Intragroup trade receivables	BTL	I_WCC	2018.Dec	23,932.00
4107010514	Communication and ICT revenue from DHI Group companies	BTL	I_PCAL	2018.Dec	(7,20,456.00)
4107010514	Communication and ICT revenue from DHI Group companies	BTL	I_DP01	2018.Dec	(7,54,962.00)
1109010102	Intragroup trade receivables	BTL	I_DP01	2018.Dec	1,49,509.00
4107010514	Communication and ICT revenue from DHI Group companies	BTL	I_DG01	2018.Dec	(30,62,511.96)
1109010102	Intragroup trade receivables	BTL	I_DG01	2018.Dec	30,04,357.13
3109010616	Rental Expenses paid to DHI Group Companies	BTL	I_DG01	2018.Dec	15,204.00
4107010508	Service Revenue from DHI Group companies	BTL	I_DG01	2018.Dec	(61,77,954.88)
4107010514	Communication and ICT revenue from DHI Group companies	BTL	I_THEL	2018.Dec	(14,20,221.32)
4107010514	Communication and ICT revenue from DHI Group companies	BTL	I_KIL	2018.Dec	(2,02,454.00)
4107010514	Communication and ICT revenue from DHI Group companies	BTL	I_STCBL	2018.Dec	
3107010012	Running &Maintenance of Vehicle-Intergroup	BTL	I_STCBL	2018.Dec	13,22,108.54
2103010302	Intergroup trade payables	BTL	I_STCBL	2018.De	(14,589.50)

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39. Employee's benefit disclosures as per BAS 19

a) Gratuity scheme:

SECTION II – DISCLOSURES

A. ACCOUNTING EXHIBITS

Nu:

A1. Change in defined benefit obligation (DBO)	31-Dec-18	31-Dec-17
DBO at the beginning of the current period	132,555,663.00	122,702,952.00
Current service cost	10,052,000.00	7,886,412.00
Past service cost	-	-
Interest cost	10,6044,453.00	9,450,528.00
Benefits paid by the plan	(7,988,105.00)	(9,142,709.00)
Benefits paid by the employer	-	-
Actuarial (gains)/losses due to plan experience	(23,425,989.00)	(2,523,025.00)
Actuarial (gains)/losses due to change in demographic assumptions	-	-
Actuarial (gains)/losses due to change in financial assumptions	-	4,181,505.00
DBO at the end of the current period	**168,650,000.00**	**132,555,663.00**

A2. Change in fair value of plan assets	31-Dec-18	31-Dec-17
Fair Value of Assets at the beginning of current period	124,046,685.00	108,298,304.00
Contributions paid into the plan	8,508,978.00	14,404,648.00
Expected return on the plan assets	9,923,735.00	8,874,342.00
Benefits paid by the plan	(7,988,105.00)	(9,142,709.00)
Return on plan assets greater or (less) than discount rate	2,801,673.00	1,612,100.00
Fair Value of assets at the end of the current the period	**137,292,966.00**	**124,046,685.00**

A3. Income statement	31-Dec-18	31-Dec-17
Current service cost	10,856,160.00	7,886,412.00
Past service cost	-	-
Net interest cost on net DB liability/(asset)	1,955,003.00	576,186.00
Net cost for the year recognized in income statement	**12,811,163.00**	**8,462,598.00**

A4. Other comprehensive income (OCI)	31-Dec-18	31-Dec-17
Actuarial (gains)/losses due to liability experience	(23,425,989.00)	(2,523,025.00)
Actuarial (gains)/losses due to liability assumption changes	-	4,181,505.00
Return on plan assets (greater)or less than discount rate	(2,801,673.00)	(1,612,100.00)
Re-measurement (gains)/losses recognized in OCI	**20,624,316.00**	**46,380.00**

A5. Defined benefit cost	31-Dec-18	31-Dec-17
Current service cost	10,052,000.00	7,886,412.00
Past service cost	-	-
Net interest cost on net DB liability/(asset)	680,718.00	576,186.00
Re-measurement (gains)/losses recognized in OCI	20,624,316.00	46,380.00
Total Defined Benefit Cost	**31,357,034.00**	**8,508,978.00**

GSA & ASSOCIATES DELHI CHARTERED ACCOUNTANTS

A6. Development of net financial position	31-Dec-18	31-Dec-17
Defined benefit obligation	(168,650,000.00)	(132,555,663.00)
Fair value of plan assets	137,292,966.00	124,046,685.00
Funded status - (deficit)/surplus	(31,357,034.00)	(8,508,978.00)
Net defined benefit asset/(liability)	**(31,357,034.00)**	**(8,508,978.00)**

A7. Reconciliation of net financial position	31-Dec-18	31-Dec-17
Net defined benefit liability/(asset) at the beginning of current period	8,508,978.00	14,404,648.00
Amount recognized in the income statement	10,052,000.00	8,462,598.00
Amount recognized in the OCI	20,624,316.00	46,380.00
Contributions paid into the plan	680,718.00	(14,404,648.00)
Benefits paid by employer	(8,508,978.00)	-
Net defined benefit liability/(asset) at the end of current period	**31,357,034.00**	**8,508,978.00**

A8. Expected benefit payments for the year ending	*in Nu.*
31-Dec-19	13,839,000.00
31-Dec-20	17,019,000.00
31-Dec-21	17,130,000.00
31-Dec-22	17,244,000.00
31-Dec-23	23,050,000.00
December 31, 2024 to December 31, 2028	115,662,000.00

A9. Estimated term of liability (Years)	8 Years

A10. Scheme Asset Allocation	Amount	Percentage
Fixed Deposits and Term Deposits	16,475,156.00	12.00%
Cash (including Special Deposits)	1,372,930.00	1.00%
Other (including assets under schemes of insurance)	1,19,444,880.00	87.00%
Total	**137,292,966.00**	**100.00%**

A.11 Sensitivity Analyses

1. Discount Rate	Net Effect on DBO
Base Discount Rate of 8%	-
Discount rate of 9% (+1%)	(11,834,000)
Discount rate of 7% (-1%)	13,516,000.00
2. Salary Escalation Rate	
Base Salary Escalation Rate of 8%	-
Salary Escalation Rate of 9% (+1%)	11,565,000.00
Salary Escalation Rate of 7% (-1%)	(11,238,000.00)

GSA & ASSOCIATES ★ DELHI ★ CHARTERED ACCOUNTANTS

B. SCHEME DESCRIPTIONS

B.1 Gratuity Scheme Benefits as at 31 December 2018.

1. **Normal Retirement Age**: 56 years.
2. **Benefit payable on**: Death/Disability/Resignation/Normal Retirement.
3. **Form of Benefit**: Lump sum.
4. **Vesting period**: 5 years for Normal Retirement and Resignation and none for the rest.
5. **Maximum Benefit**: Nu. 1,500,000.
6. **Benefit Formula**: Monthly Basic Salary at the time of exit X Eligible service rendered till the time of exit rounded to the nearest integer.

C. ACTUARIAL ASSUMPTIONS

C.1 Summary of Actuarial Assumptions

Particulars	31-Dec-18	31-Dec-17
Discount Rates	8.00%	8.00%
Salary Escalation Rates	8.00%	8.00%
Employee Turnover Rates	5.00%	5.00%
Mortality Rates	100% of IALM (2006-08)	100% of IALM (2006-08)

C.2 Rationale for choosing actuarial assumptions

1. Discount rate for this valuation is based on Yield to Maturity (YTM) available on high quality Government issued Corporate Bonds and Deposit Rates of similar terms.
2. Salary escalation assumption has been based on the past experiences of the Company as well as overall long-term salary growth rates after taking into consideration expected earnings inflation, performance and seniority related increases.
3. Employee turnover rates are set based on the Company's experience and expected long-term future employee turnover within the Company.
4. The scheme does not have sufficient experience (data) in respect of past mortality claims so scheme-specific mortality rates could not be estimated. However, based on professional judgment, 100% of IAL Mortality Table (2006-08) would be appropriate for assessment of liability in respect of death benefits.
5. As per the provisions of BAS 19, selection of appropriate assumptions is responsibility of the Company. We have advised that the suitability of assumptions is responsibility of the Company.
6. We believe that assumptions taken in this report fall within the range of possible assumptions that are appropriate for this valuation. Other values of assumption parameters could have been reasonable as well and would have produced different results.

b) Other Long-term benefits(Un-funded)

In Ngultrums

Particulars	31-Dec-18	31-Dec-17
Present value of obligation at the end of the year towards compensated absences ** **Excluding earned leave on Contract Labour	14,379,000	9,355,283

GSA & ASSOCIATES ★ CHARTERED ACCOUNTANTS ★ DELHI

Description of Risk Exposure:

Valuations are based on certain assumptions, which are dynamic in nature and vary over time. As such company is exposed to various risks as follow -

1. Salary Increases- Actual salary increases will increase the Plan's liability. Increase in salary increase rate assumption in future valuations will also increase the liability.
2. Investment Risk – If Plan is funded then assets liabilities mismatch & actual investment return on assets lower than the discount rate assumed at the last valuation date can impact the liability.
3. Discount Rate: Reduction in discount rate in subsequent valuations can increase the plan's liability.
4. Mortality & disability – Actual deaths & disability cases proving lower or higher than assumed in the valuation can impact the liabilities.
5. Withdrawals – Actual withdrawals proving higher or lower than assumed withdrawals and change of withdrawal rates at subsequent valuations can impact Plan's liability.

40. Provisions and Contingent Liabilities:

a) Capital Commitments:

Particulars	2018	2017
Amount of contracts remaining to be executed on PCRF project	900,000	-
Amount of contracts remaining to be executed on Revamping at CHQ	8,062,398	-
Estimated amount of contracts remaining to be executed on Capital Account	458,045	-
Amount of contract remaining to be executed on Capital Accounts but not provided (Net of Advances)	-	62,500,000

b) Movement in Provisions:

Particular	2018				
	Leave Encashment	Gratuity	Expected credit loss	Bonus	Provision for Inventory
Opening	40,890,756	-		45,871,447	-
Addition	16,472,685	31,357,034		44,914,640	8,708,854
Adjustment	31,535,473	-		-	-
Utilized	11,448,968	-		45,871,447	-
Closing	**14,379,000**	**31,357,034**		**44,914,640**	**8,708,854**

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41. Operating Lease

As Lessee

The company has entered into operating lease as defined in BAS-17 on "Leases"

Disclosure regarding minimum lease rental in case of non- cancellable operating leases:

Total of future Minimum Lease payments under Non-cancellable operating leases for each of the following periods:

Particulars	As at 31st December 2018	As at 31st December 2017
(i) Not later than one year.	3,143,015	3,064,131
(ii) Later than one year but not later than five years.	10,254,178	10,407,331
(iii) Later than five years.	11,388,308	12,648,950
Total	**24,785,502**	**26,120,413**

As Lessor

Total of future Minimum Lease Receipts under Non-cancellable operating leases for each of the following periods:

Particulars	As at 31st December 2018	As at 31st December 2017
(i) Not later than one year.	2,622,137	18,808,661
(ii) Later than one year but not later than five years.	3,231,940	4,770,382
(iii) Later than five years.	-	-
Total	**5,854,078**	**23,579,043**

42. PPE - Assets which are fully depreciated (but still in use)

In compliance with para 79 of BAS 16 i.e Property, Plant & Equipment, given below are some assets which are fully depreciated in the books of accounts but is still in use with the company.

Class of assets	No. of assets	Opening gross block of assets	Opening Accumulated depreciated charged	Depreciation charged during year	Closing net block	Opening net block
Building	45	3,939,247	3,806,350	132,852	45	132,897
Furniture	13	165,664	153,696	11,955	13	11,968
Office equipment	3	2,880,240	2,307,214	573,023	3	573,026
Powers & Cable	204	12,040,775	12,040,571	-	204	204
Software	1	11,191,897	10,517,501	674,395	1	674,396
Tele & Tools	19	13,289,545	13,169,677	119,851	18	119,868

43. Provision for Taxation

Particulars	2018	2017
Current tax on:		
Operating Profit	450,462,173.64	403,952,707.54
Comprehensive income	(6,187,294.8)	-
Total tax payable	**444,274,878.84**	**403,952,707.54**
Less:		
Advance tax paid	220,145,039	194,153,376.67
Tax deducted at source	-	2,660,416.58
Net tax payable	**224,129,839.37**	**207,138,914.29**

Note No- 1 Significant accounting policies of Bhutan Telecom Limited

REPORTING ENTITY

Bhutan Telecom Limited ("Company") was formed as a public corporation by virtue of Bhutan Telecommunication Act, 1999. The principal activities of Bhutan Telecom Limited are providing the telecom services like landline service, mobile service, internet and other allied services. Company has also started business of providing data centre and contact centre services. The holding company is Druk Holding and Investments Limited.

1. Compliance with Bhutanese Accounting Standards (BAS):

Basis of Preparation

The financial statements have been prepared on accrual and going concern basis. The accounting policies are applied consistently to all the periods presented in the financial statements. All assets and liabilities have been classified as current or non-current as per the Company's normal operating cycle and other criteria as set out in the BAS 1.

The financial statements have been prepared on a historical cost basis unless otherwise indicated.

The financial statements are presented in Nu and all values are rounded off to the nearest Nu.

2. Use of estimates:

The preparation of the financial statements in conformity with BAS requires management to make estimates, judgments and assumptions. These estimates, judgments and assumptions affect the application of accounting policies and the reported amounts of assets and liabilities, the disclosures of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the period. Application of accounting policies that require critical accounting estimates involving complex and subjective judgments and the use of assumptions in these financial statements have been disclosed below. Accounting estimates could change from period to period. Actual results could differ from those estimates. Appropriate changes in estimates are made as management becomes aware of changes in circumstances surrounding the estimates. Changes in estimates are reflected in the financial statements in the period for which changes are made and, if material, their effects are disclosed in the notes to the financial statements.

The areas involving critical estimates or judgments are:

(a) Estimation of defined benefit obligation - Note No. 39
(b) Estimation of useful life of Property plant and equipment - Note "2 (a)"
(c) Income Taxes: Significant judgments are involved in determining the provision for income taxes, including amount expected to be paid/recovered for uncertain tax positions. - Note No. 31
(d) Recognition of deferred tax asset - Note No. 5

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(e) Estimation of Impairment of Trade Receivable- Note No. 35
(f) Revenue and Contract assets- Note No. 11

3. Current and non-current Classification

The Company presents assets and liabilities in the statement of financial position based on current/ non-current classification.

An asset is treated as current when:

(a) it expects to realise the asset, or intends to sell or consume it, in its normal operating cycle;
(b) it holds the asset primarily for the purpose of trading;
(c) it expects to realise the asset within twelve months after the reporting period; or
(d) the asset is cash or a cash equivalent unless the asset is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

Current maturities of non-current asset are also termed as current assets.

All other assets are classified as non-current.

An entity shall classify a liability as current when:

(a) it expects to settle the liability in its normal operating cycle;
(b) it holds the liability primarily for the purpose of trading;
(c) the liability is due to be settled within twelve months after the reporting period; or
(d) it does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting period.

Current maturities of non-current liabilities are also termed as Short term liability.

Company always classifies deferred tax assets (liabilities) as non-current assets (liabilities). All other liabilities are classified as non-current.

The operating cycle of a company is the time between the acquisition of assets for processing and their realisation in cash or cash equivalents. When the entity's normal operating cycle is not clearly identifiable, it is assumed to be twelve months.

4. Revenue recognition:

Revenue is measured at the amount entity expects to be entitled in exchange for transferring promised goods or services to a customer, and represents amounts receivable for goods supplied or services rendered, stated net of discounts, returns and taxes and other incidental expenses.

Sale of goods and services: Company recognises revenue when the entity satisfies a performance obligation identified in the contract by transferring a promised good or service (i.e. an asset) to a customer and the amount of revenue can be reliably measured and it is probable that future economic benefits will flow to the company. An asset is assumed to be transferred to customer when (or as) the customer obtains control of that asset. Incremental cost incurred by the company for obtaining as contract with customer is recognised as assets if the recovery of such cost is expected. Such assets are amortised on a systematic basis that is consistent with the transfer to the customer of the goods or services to which the asset relates.

Revenue from providing services is recognised in the accounting period in which the services are rendered.

Bilateral contracts between two entities in the same line of business for non-monetary exchange of goods and services to facilitate sales to its customers or potential customers are not accounted for as sales (revenue) as per BAS 15. Any balance against such exchange contracts not settled during the same financial year are accounted for as payable/receivable and included under other current assets/liabilities in statement of financial position.

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

a) Post-paid calls are recognized on the basis of metered calls in monthly cycles as generated through central billing system except for 281 landline connection for BT office all over the country, 26 VVIP connections in Thimphu and Phuentsholing, 225 landlines and 623 post-paid connections for employees with certain ceiling as per service rule w.e.f. 1st March 2006.

b) ISP bills are booked monthly on the basis of usage times and include revenue on account of start-up kits.

c) All fixed network leased lines (international, local and domestic) are billed.

d) Income from sale of recharge voucher is recognized on the basis of usage by subscribers.

e) Sale of instruments including satellite phones are billed on delivery basis.

f) **<u>Interest income</u>**

Interest income is recorded using the effective interest rate (EIR).

g) **<u>Rental Income</u>**

Rental income arising from operating leases is accounted for on a straight-line basis over the lease terms and is included in revenue in the statement of comprehensive income due to its operating nature.

h) **<u>Other Claims</u>**

All other miscellaneous incomes are booked in the accounts only when collection is made.

5. Property plant & equipment:

a) Property plant & equipment

PPE is recognized when it is probable that the future economic benefits associated with the asset will flow to the entity and the cost of the asset can be measured reliably.

i. Property Plant &Equipment except land are stated at historical cost less accumulated depreciation and impairment losses, if any. Such cost includes the cost of replacing part of plant and equipment and borrowing cost for long-term construction projects.

ii. Cost includes purchase price and directly attributable expenses including installation charges, taxes & duties etc. up to the date the asset is ready for its intended use.

iii. Subsequent costs are included in the asset's carrying amount or recognised 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 derecognised. All other repairs and maintenance are charged to the statement of comprehensive income during the financial period in which they are incurred.

b) Depreciation

i. Deprecation is recorded by a charge to operating profit computed on a straight-line basis so as to write off the cost of the assets to their residual values over the expected useful lives. The residual value and the useful life of an asset are reviewed at each year end.

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ii. Estimated useful life of Assets applied is as follows:

Asset Type	Useful life
1. Land	NA
2. Building	
a. Permanent Structure	50 yrs.
b.Semi-Permanent Structure	15 yrs.
c. Temporary Structure	5 yrs
3. Tele-Equipment	
a. Tower	30 yrs.
b. Rest	7 yrs.
4. Power Systems & Cable	
a. Air Conditioner	5 yrs.
b. Rest	10 yrs.
5. Furniture	10 yrs.
6. Office Equipment	5 yrs.
7. Vehicle	5 yrs.

c) Capital work in progress:

i. Work, which is still in progress relating to civil construction, is accounted for under capital work-in-progress after settling the project system in SAP on monthly basis

ii. Expenses directly attributable to the asset including expenses to bring the asset to the site and in the working condition for its intended use are capitalised along with that asset.

iii. Capitalization of work-in-progress has been done on the basis of completion certificate issued by the concerned authority.

6. Intangible assets:

a) Software

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses (if any).

b) Amortisation

These costs are amortised over their estimated useful lives of 5 years or estimated life as mentioned in the licenses.

Costs associated with maintaining computer software programme are recognised as an expense as incurred.

7. Borrowing cost:

General and specific borrowing costs directly attributable to the acquisition, construction or production of a major capital project or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds. Borrowing cost also includes exchange differences to the extent regarded as an adjustment to the borrowing costs. Further, exchange losses arising from foreign currency borrowings should be regarded as an adjustment to the interest cost to the extent these losses do not exceed the difference between the cost of borrowing in functional currency when compared to the cost of borrowing in foreign currency. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

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All other borrowing costs are recognised in statement of comprehensive income in the period in which they are incurred.

8. Government grants:

a) Government Grants including non-monetary grants are not recognised until there is reasonable assurance that the company will comply with the conditions attaching to them and that the grants will be received.

b) Government grants related to depreciable assets is treated as deferred income and are recognised in comprehensive income statement on a systematic basis over the useful life of asset. Government Grants related to assets are presented in the statement of financial position by setting up the grant as deferred income. Grants related to income are presented as part of statement of comprehensive income under the general heading 'Other Income'.

c) Amount of depreciation on property, plant and equipment acquired through grant has been transferred to statement of comprehensive income as a credit to depreciation on the respective assets.

d) A government grant may take form of a transfer of a non-monetary asset, such as land or other resources, for the use of company. In these circumstances, the fair value of the non-monetary asset is assessed and both the grant and asset are accounted for at that fair value.

9. Employee benefits:

The company operates a defined benefit gratuity plan in Bhutan, for which requires contributions has majorly been made in insurance fund & fixed deposits. The cost of providing benefits under the defined benefit plan is determined using the projected unit credit method. Liability for gratuity funded are determined by an independent actuarial valuation made at the end of each financial year.

Re-measurements, comprising of actuarial gains and losses, the effect of the asset ceiling, excluding amounts included in net interest on the net defined benefit liability and the return on plan assets (excluding amounts included in net interest on the net defined benefit liability), are recognised immediately in the statement of financial position with a corresponding debit or credit to retained earnings through OCI in the period in which they occur. Re-measurements are not reclassified to statement of comprehensive income in subsequent periods.

Past service costs are recognised in statement of comprehensive income on the earlier of:

(i) The date of the plan amendment or curtailment

(ii) The date that the Company recognizes related restructuring costs

Net interest is calculated by applying the discount rate to the net defined benefit liability or asset. The Company recognizes the following changes in the net defined benefit obligation as an expense in the consolidated statement of profit and loss:

(iii) Service costs comprising current service costs, past-service costs, gains and losses on curtailments and non-routine settlements; and

(iv) Net interest expense or income

Defined contribution plan: Company's contributions paid/payable during the year to Provident Fund and insurance fund are recognised in statement of comprehensive statement.

Compensated absence: Liability for compensated absence is provided based on actuarial valuation carried by an independent valuer based on accumulated leave credit outstanding to employees as on the date of statement of financial position.

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10. Current & deferred income tax:

The tax expense for the period comprises current and deferred tax. Tax is recognised in the comprehensive income statement, except to the extent that it relates to items recognised in other comprehensive income. In this cases, the tax is also recognised in other comprehensive income.

The current income tax charge is calculated on the basis of the tax laws enacted at the statement of financial position date in Bhutan. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is determined using tax rates (and laws) that have been enacted at the statement of financial position date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

11. Provision & contingent liabilities:

a) Provisions are recognised when the company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation; and the amount can be reliably estimated. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

b) Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future uncertain events not wholly within the control of the company, are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

c) Contingent assets are neither recognized, nor disclosed However, when the realisation of income is virtually certain, then the related asset is not a contingent asset and its recognition is appropriate. Where an inflow of economic benefits is probable, an entity shall disclose a brief description of the nature of the contingent assets at the end of the reporting period, and, where practicable, an estimate of their financial effect.

d) Provisions & contingent liabilities are reviewed at each statement of financial position date

12. Foreign currency translation:

a) A foreign currency transaction shall be recorded, on initial recognition in the functional currency, by applying to the foreign currency amount the spot exchange rate, of the date on which the transaction first qualifies for recognition as per BAS, between the functional currency and the foreign currency at the date of the transaction.

b) Foreign currency transactions that are completed within the accounting period are translated into Bhutan ngultrum using the exchange rates prevailing at the date of settlement. Monetary assets and liabilities denominated in foreign currencies outstanding at the end of the reporting period are translated at the exchange rates prevailing as at the end of reporting period. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined.

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c) 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 recognised in the statement of comprehensive income.

13. Inventories:

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average method. Cost of inventories includes all cost of purchase, cost of conversion and other cost incurred in bringing the inventories to their present location and conditions.

Traded goods: Cost includes cost of purchase and other costs incurred in bringing the inventories to their present location and condition. Cost is determined on weighted average basis.Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

Consumables and Stores & Spares: The Stock of stores & spare parts are charged to revenue account except loose tools. Stores are valued at cost calculated on the basis of yearly weighted average method. Provisions are made for unserviceable, damaged, obsolete, slow moving, defective stores and spares identified during the physical stock taking.

14. Segmental reporting:

The company is in the Business of providing telecom services and its operating facilities are all situated in the Royal Kingdom of Bhutan only. Under the broad segment of telecom services the company has subsidiary segments of fixed line service, mobile service, data centre and cloud service and internet service. Further as the company's share are not listed with any stock exchange market, the provision of BAS-8 – Operating segments is not applicable to the company.

15. Impairment

At the end of each reporting period, entity assesses whether there is any indication that an asset (tangible or intangible) may be impaired. If any such indication exists, the entity estimates the recoverable amount of the asset. Asset is impaired when its carrying value exceeds its recoverable amount. Where an indication of impairment exists, the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or group of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

16. Leases

The determination of whether an arrangement is (or contains) a lease is based on the substance of the arrangement at the inception of the lease. The arrangement is, or contains, a lease if fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset or assets, even if that right is not explicitly specified in an arrangement.

Company as a lessee A lease is classified at the inception date as a finance lease or an operating lease. A lease that transfers substantially all the risks and rewards incidental to ownership to the company is classified as a finance lease. Operating lease is a lease other than a finance lease. Finance leases are capitalized at the commencement of the lease at the inception date fair value of the leased property or, if lower, at the present value of the minimum lease payments. Operating lease payments are recognised as an expense in the Statement of comprehensive income on a straight-line basis over the lease term. Lease equalization reserve is created over the leases where the future increase in lease rental is not in conformity with the inflation.

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<u>Company as a lessor</u> Leases in which the company does not transfer substantially all the risks and rewards of ownership of an asset are classified as operating leases. Rental income from operating lease is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred by lessors in negotiating and arranging an operating lease shall be added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease income. Leases are classified as finance leases when substantially all of the risks and rewards of ownership transfer from the Company to the lessee.

17. Fair value measurement

The Company measures some financial instruments at fair value at each reporting date. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date:

- Level 1 — Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 — inputs other than quoted prices included in level 1 that are observed for the assets or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 — inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The Company recognizes transfers between levels of the fair value hierarchy at the end of reporting period during which the change has occurred. The management has an established control framework with respect to fair value measurement. This includes a valuation team that has an overall responsibility for overseeing all significant fair value measurement, including level 3 fair values, and reports directly to the management.

For the purpose of fair value disclosures, the Company has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above. This note summarizes accounting policy for fair value. Other fair value related disclosures are given in the relevant notes.

- Disclosures for valuation methods, significant estimates and assumptions
- Financial instruments (including those carried at amortised cost)

18. Investments & other financial assets:

a) 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 statement of comprehensive income, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through statement of comprehensive income are expensed in statement of comprehensive income.

b) Classification and subsequent measurement:

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

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

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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.

i. 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 statement of comprehensive income and the losses arising from impairment are also recognized in the same. 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.

ii. 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 represent 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.

iii. 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.

c) Impairment of financial assets:

The company assesses on a forward looking basis the expected credit losses associated with its assets carried at amortised cost and FVOCI debt instruments. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

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

d) De-recognition of financial assets:

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

i. The rights to receive cash flows from the asset have been transferred, or

ii. 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.

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When the company has not transferred substantially all the risks and rewards of ownership of a financial asset, the financial asset is not derecognised.

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.

e) Income recognition:

Interest income: Interest income from debt instruments is recognised 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 recognised in comprehensive income 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.

Reclassification of financial assets

The Company determines classification of financial assets and liabilities on initial recognition. After initial recognition, no reclassification is made for financial assets which are equity instruments and financial liabilities. For financial assets which are debt instruments, a reclassification is made only if there is a change in the business model for managing those assets. Changes to the business model are expected to be infrequent. The Company's senior management determines change in the business model as a result of external or internal changes which are significant to the Company's operations. Such changes are evident to external parties. A change in the business model occurs when the Company either begins or ceases to perform an activity that is significant to its operations. If the Company reclassifies financial assets, it applies the reclassification prospectively from the reclassification date which is the first day of the immediately next reporting period following the change in business model. The Company does not restate any previously recognised gains, losses (including impairment gains or losses) or interest.

The following table shows various reclassification and how they are accounted for

Original classification	Revised Classification	Accounting treatment
Amortised cost	FVTPL	Fair value is measured at reclassification date. Difference between previous amortised cost and fair value is recognised in SCI.
FVTPL	Amortised Cost	Fair value at reclassification date becomes its new gross carrying amount. EIR is calculated based on the new gross carrying amount.
Amortised cost	FVTOCI	Fair value is measured at reclassification date. Difference between previous amortised cost and fair value is recognised in OCI. No change in EIR due to reclassification.
FVTOCI	Amortised cost	Fair value at reclassification date becomes its new amortised cost carrying amount. However, cumulative gain or loss in OCI is adjusted against fair value. Consequently, the asset is measured as if it had always been measured at amortised cost.

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Original classification	Revised Classification	Accounting treatment
FVTPL	FVTOCI	Fair value at reclassification date becomes its new carrying amount. No other adjustment is required.
FVTOCI	FVTPL	Assets continue to be measured at fair value. Cumulative gain or loss previously recognised in OCI is reclassified to SCI at the reclassification date.

19. Financial liabilities:

a) Initial recognition and measurement:

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through statement of comprehensive income, borrowings, and payables. All financial liabilities are recognised 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.

b) Subsequent measurement:

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

i. Financial Liabilities at fair value through statement of comprehensive income:

Financial liabilities at fair value through statement of comprehensive income include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through statement of comprehensive income. Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term.

Gains or losses on liabilities held for trading are recognised in the statement of comprehensive income. Financial liabilities designated upon initial recognition at fair value through statement of comprehensive income are designated as such at the initial date of recognition, and only if the criteria in BFRS 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 recognised in the statement of comprehensive income. The Company has not designated any financial liability as at fair value through profit and loss.

ii. Borrowings:

Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in statement of comprehensive income over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities are recognised 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 capitalised as a prepayment for liquidity services and amortised 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 agreed not to demand payment as a consequence of the breach before reporting date.

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iii. Embedded derivatives:

An embedded derivative is a component of a hybrid (combined) instrument that also includes a non-derivative host contract - with the effect that some of the cash flows of the combined instrument vary in a way similar to a stand-alone derivative. An embedded derivative causes some or all of the cash flows that otherwise would be required by the contract to be modified according to a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through statement of comprehensive income. If the hybrid contract contains a host that is a financial asset within the scope of BAS 9, the Company does not separate embedded derivatives. Rather, it applies the classification requirements contained in BAS 9 to the entire hybrid contract. Derivatives embedded in all other host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated at fair value though statement of comprehensive income. These embedded derivatives are measured at fair value with changes in fair value recognised in statement of comprehensive income, unless designated as effective hedging instruments.

iv. 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 recognised initially at their fair value and subsequently measured at amortised cost using the effective interest method.

c) De-recognition:

A financial liability is derecognised 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 statement of comprehensive income.

Borrowings are removed from the statement of financial position 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 statement of comprehensive income as other gains/(losses).

Financial guarantee contracts

Financial guarantee contracts are recognised 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 BAS 37 Provisions, Contingent Liabilities and Contingent Assets and the amount initially recognised less cumulative amortisation, 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

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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 recognised as part of the cost of the investment.

Instrument	Subsequent recognition	Gains or losses
Held for trading	Fair value	Statement of comprehensive income
Financial guarantee contracts	Higher of loss allowance and amount recognised less cumulative amortization	Statement of comprehensive income
Loans and borrowings	Amortised cost	Statement of comprehensive income

20. Offsetting financial instrument:

Financial assets and liabilities are offset and the net amount is reported in the statement of financial position 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 Company or the counterparty.

21. Cash & cash equivalents:

In the statement of cash flows, cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less and bank overdrafts.

22. Assets held for sale

Non-current assets or disposal groups comprising of assets and liabilities are classified as 'held for sale' when all of the following criteria's are met: (i) decision has been made to sell. (ii) the assets are available for immediate sale in its present condition. (iii) the assets are being actively marketed and (iv) sale has been agreed or is expected to be concluded within 12 months of the Statement of financial position date.

Subsequently, such non-current assets and disposal groups classified as 'held for sale' are measured at the lower of its carrying value and fair value less costs to sell. Non-current assets held for sale are not depreciated or amortised.

23. Earnings per share:

Basic Earnings per share is calculated by dividing the net profit / (loss) after tax for the period attributable to equity shareholders of the company by the total number of shares which are fully paid up.

Authorization of Financial Statements for issue:

These Financial Statements for the year ending December 31, 2018 were authorized for issue in accordance with a resolution of the Board of Directors of the Company on February, 25, 2019.

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13 Ratio Analysis for the year ended 31st December, 2018

	2018	2017
1. LIQUIDITY		
A. Current Ratio	1.25:1	0.92:1
B. Quick Ratio:	1.12:1	0.69:1
Quick Assets/Quick Liabilities		
C. Accounts Receivable Period	42.32 Days	38.11 Days
365/Accounts receivable turnover		
D. Working Capital to Sales	1.06%	0.89%
Average Current Assets-Average Current Liabilities/Net sales		
2. SOLVENCY:		
A. Term Debt to Total Fixed Assets	14.18%	13.44%
Long term Debt/Total Fixed Asset-Net		
B. Debt Equity Ratio:	0.16:1	0.15:1
Debt/(Capital Fund+Reserve & Surplus)		
3. PROFITABILITY:		
A. Return on Capital Employed:		
a) PBT/Capital Employed	31.31%	24.96%
b) PAT/Capital Employed	18.77%	17.01%
Capital Employed=Equity Capital + Loan Fund		
B. Return on Equity:	24.54%	19.62%
Profit After Tax/Total Equity		
Total Equity= Capital + Reserve & Surplus		
C. Return on Sales	39.49%	40.22%
PBT/Operating Income		
D. Employee Cost to Gross Income	9.44%	10.86%
Total Employee Expenses/Operating Income		
E. Profit per Employee:	1.40 million	1.26 million
PAT/Total no. of Employees		

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