



ANNUAL REPORT

2021



Drukair Corporation Limited
(a **dhi** company)



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ANNUAL REPORT 2021





TABLE OF CONTENT

Company Profile	6
Organizational Structure	7
Board of Directors	8
Management	11
The Year in Review	12
Directors' Report	14
Operational Highlights	14
Financial Highlights	14
Customer Care	16
Fleet Management	17
HR & Other Systems	17
Corporate Governance	17
Corporate Social Responsibility	17
Statutory Audit Report	18
Way Forward	18
Acknowledgements	18
Corporate Governance Report	19
Independent Auditors' Report	22
Minimum Audit Examination and Reporting Requirements	25
Financial Statements	30
Accounting Policies and Notes to Accounts	35

COMPANY PROFILE

Drukair is a Royal Government of Bhutan Owned Airline under its Investment Wing, Druk Holding & Investments Ltd. The national Airline of the Kingdom of Bhutan operates a scheduled network within the South Asian region from its Head Quarter at Paro, a picturesque Valley in Western Bhutan.

The national airline was conceived through a Royal Proclamation on April 5, 1981. Drukair began commercial operations on February 11, 1983, from Paro, a 65 km drive away from the capital, Thimphu. At the time, Paro had a little airstrip servicing helicopter operations. Drukair began humbly with an 18-seat Dornier 228-200 that made its historic touch down at Paro airport on January 14, 1983, to the chant of inauguration prayers, cymbals, conches and the like, with maroon-clad monks blessing the occasion and the plane. The first link was Kolkata, followed by eight destinations in South Asia. As more and more people took to the skies, not just to connect but also to enjoy perhaps the most breath-taking view of the Himalayan range, including Mt. Everest, Mt. Kanchenjunga and the highest unclimbed mountains in Bhutan itself, another Dornier was added to meet the increasing demand.

Drukair upgraded its fleet to BAe 146 on November, 1988, when the first jet plane touched down at Paro with the same traditional fanfare and weeks later the second BAe 146 joined. Drukair now operates with Airbus A319 for it's international destinations and an ATR for it's domestic and regional destinations. The ATR 42-600 has joined the existing fleet on 26th October 2019 and the A320 NEO has joined on 19th March 2020. All the pilots, maintenance crew and engineers are trained at the best institutes abroad.

At the end of 2021, Drukair has a fleet of five aircrafts consisting of three Airbus A319s, one A320 and one ATR-42-600 operating in 10 international airports in six countries (Bhutan, Bangladesh, India, Nepal, Thailand and Singapore) and four domestic airports with a total staff strength of 469 employees.

Vision

To be the leading airline connecting Bhutan and the world

Mission

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

Core Values

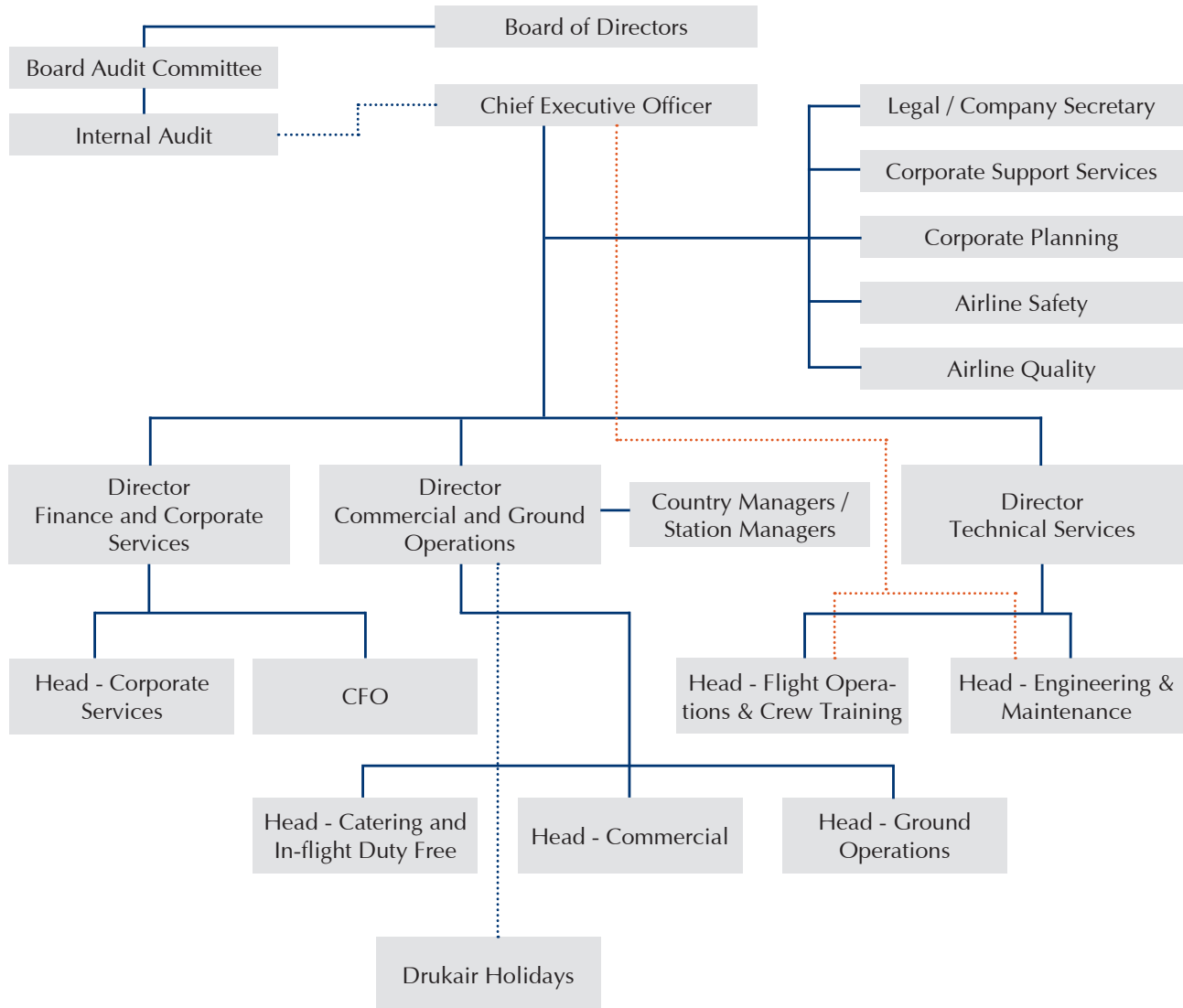
Safety, Standard, Service Excellence, Integrity, Team Work and Open Door Culture

Slogan

On the wings of the dragon

ORGANIZATIONAL STRUCTURE

Organizational Structure of Drukair Corporation Limited



BOARD OF DIRECTORS



Dasho Pema Chewang, Chairman

Dasho Pema Chewang is the Secretary of National Land Commission. He has 30 years of work experience. He received his Bachelor of Arts Degree from Sherubtse College, Kanglung, Bhutan and Master in Development Economics from Australian National University, Canberra, Australia.



Mr. Passang Dorji, Board Director

Mr. Passang Dorji is the Chief Executive Officer of Dawa Hospitality Pvt. Ltd. He also serves as the Honorary Consul of Finland to Bhutan. He has over 19 years of work experience. He has a Bachelor's degree in Civil engineering from Thammasat University, Thailand and Master in Business Administration (MBA) from Asian Institute of Management, Philippines.



Mr. Dorji Nima, Board Director

Mr. Dorji Nima is the Director at Druk Holding and Investments (DHI). He has over 18 years of professional work experience. He received his Bachelor of Business Administration degree from Madras University, India and Masters degree in Business Administration (MBA) from Australian Graduate School of Entrepreneurship, Melbourne, Australia.



Mr. Tandi Wangchuk, CEO & Board Director

Mr. Tandi Wangchuk is the Chief Executive Officer of Drukair Corporation Limited. He has more than 32 years of work experience. He received his B.Sc. in EEE from Bangladesh University of Engineering and Technology (BUET), Dhaka, Bangladesh and M.Sc. in Operational Telecommunication from Coventry University, Midlands, England, UK.

BOARD OF DIRECTORS



Mr. Dorji Dhradhul, Board Director

Mr. Dorji Dhradhul is the Director-General of the Tourism Council of Bhutan since January 2019. He has 30 years of work experience. He has a bachelor's degree in Agricultural Science from Tribhuvan University, Nepal and a Master's degree in Agricultural Extension from the University of Reading, UK.



Mr. Karma Wangchuk, Board Director

Mr. Karma Wangchuk is the Director General of Department of Air Transport (DoAT) under Ministry of Information and Communications. He has 32 years of work experience. He received his Bachelor of Commerce from Sherubtse College, Kanglung, Bhutan, Post Graduate Diploma in Aviation Management from NUS Singapore and Masters in Development Administration from Australian National University, Canberra, Australia.



Mr. Ugyen Sonam, Board Director

Mr. Ugyen Sonam is the Dzongdag of Mongar Dzongkhag. He has 31 years of work experience. He received his Bachelor of Arts from Sherubtse College, Kanglung, Bhutan and Master in Environmental Management and Development from Australian National University, Canberra, Australia.



Drukair, Royal Bhutan Airlines, is deeply humbled and tremendously honored to receive the Druk Thuksey Medal (Heart Son of the Thunder Dragon) from His Majesty on the 114th National Day, December 17, 2021.

MANAGEMENT



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



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

Mr. Rinzin Dorji is the Director of Finance and Corporate Services Department. He received his Bachelor of Commerce from Meerut University, India. He served Drukair for over 29 years.



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

Mr. Namgay Wangchuk is the Director of Commercial and Ground Operations Department. He received his Bachelor of Arts from Sherubtse College, Bhutan. He served Drukair for 33 years.



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

Mr. Karma Phuntsho Wangdi is the Director of Technical Services Department. He received his Bachelor of Arts from Sherubtse College, Bhutan. He served Drukair for over 28 years.

THE YEAR IN REVIEW

The Year 2021 brought its own challenges with the pandemic entering its second year after wiping out years of progress. We had hoped for a return to normal business with developments in vaccines and promising COVID treatments and had planned for a gradual recovery in our operations and business. However, the continuous mutation of the virus remains a challenge making travel industry recovery still a dream.

Airline operations still remain unpredictable with no sign of improvement in travel restrictions thereby resulting in huge financial challenges. In spite of the financial and operational challenges, we have managed to keep the minimum air-connectivity by maintaining regular flight schedules to cities in India and Thailand and time-to-time charters to other countries. We have also managed to increase domestic flights to Yonphula while maintaining a weekly flight to Bumthang.

The pandemic has crippled the world economics, and airlines have been one of the worst affected. Despite that, since the closure of the international borders on March 23, 2020, Drukair has operated 358 flights transporting 6527 adults and 33 infants, of which 1334 adults and 10 infants were on an outbound flight. Drukair operated 52 repatriation flights to bring in 4950 passengers. 24 of those flights were to the Middle East. 58 flights were operated to cities beyond Drukair's routes. The flights operated includes 63 cargo flights bringing in about 665 tones of cargo, out of which about 110 tones were medical cargo. Of this, approximately about 23 tones were vaccines, including 69,000 vials of Covishild, 50,000 vials of Sino Pharm, 34,145 vials of Pfizer, 60,000 vials of Moderna and 43,250 vials of AstraZeneca. Of the 358 flights, 213 flights were operated by Drukair to keep connectivity, although, on average, there were only about 28 passengers on each sector which is only about 23% of the available capacity. Of these, 26 flights were to Kolkata transporting patients. In delivering this, our frontline staff have spent numerous days in quarantine.

We used the opportunity provided by the minimized operations to improve our systems, SOPs, book keeping, etc. We successfully migrated our PSS from SITA to KIU and introduced SAP ERP which digitalized many of our day-to-day operations. We are in the process of operationalizing Interline with other airlines. The Flight Operations have developed and introduced MobileApp with their own initiative to digitalize their daily and routine works which have made their lives easier and manageable. We have also started digitalizing and archiving the past and the present processes, operations, memories etc.

Though 2021 was one of the most challenging and stressful year for Drukair, yet it also happens to be the most memorable one. We were awarded the DRUK THUKSEY by His Majesty on the 114th National Day Celebrations in the courtyard of Tashichhodzong. While a representative team of Drukair had the honour to receive the Award from His Majesty on 17th December, the rest of the employees in Paro and Thimphu were granted a Tokha at the airport. We are humbled and honoured by the Award and remain ever grateful to His Majesty.

With the initiative and leadership provided by Yab and financing by Her Majesty, we produced our version of Jerusalem which became a big hit not only in Bhutan but internationally.

We also shifted our Head Office to the brand new state-of-art DHI Co-location building at the year-end.

In 2021, Drukair operated a total of 850 flights, a decrease of about 43% from 1,487 flights operated in FY2020. The total number of passengers carried has decreased by 65% to 23,858

THE YEAR IN REVIEW

from 67,482 passengers carried in FY2020, consequently, achieving a load factor of 27.6% for FY2021. Drukair ferried 622 Metric Tons (MT) of cargo, 200 MT of mail and 204 MT of un-accompanied cargo (Inclusive of Excess Baggage) in 2021. Bulk of our operations were relief, repatriation, charter and cargo flights.

In 2021, there is Nu. 1,490.35 million loss before tax against a loss of Nu. 1,150.90 million in 2020 (increased by 29.50%). As Income Tax Act 2001 allows adjustment of taxes for losses incurred in three subsequent years, deferred tax income of Nu. 381.77 million is adjusted during the year, thereby reducing the losses after tax to Nu. 1,108.59 million. The losses after tax for the year 2021 increased from Nu.814.49 million in 2020 to Nu. 1,108.58 million.

However, I count on each employee to deliver more efficiently and we shall put in our best efforts to overcome the challenges ahead. I would also like to thank the employees for the pay cuts and austerity measures adopted voluntarily for the year.

On behalf of the management of Drukair, I would like to express our sincere gratitude to His Majesty and the government for the relief measures granted in these trying times as well as for the Leadership which has kept all of us safe from the pandemic. Also, I would like to thank the Board and DHI for their unconditional support at all times. We would like to put on record the management's appreciation to the customers for their loyalty and support to the Drukair.

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

Tashi Delek



(Tandi Wangchuk)
Chief Executive Officer

DIRECTORS' REPORT

Introduction

On behalf of the Drukair Board and the Management, I extend a warm welcome to all participants to the 31st Annual General Meeting (AGM) of Drukair Corporation Limited.

Dear Shareholder,

The Board is pleased to report the company's performance for the period January 1, 2021 to December 31, 2021. Before that, as everybody is aware that Drukair received the Druk Thuksey award from His Majesty during the 114th National Day Celebration while we are grateful and honored we also hope that this recognition drives the company to further improve its services to the Tsa-wa-sum.

Operational highlights

It has been two long years and aviation worldwide still remains the worst hit by the pandemic. The situation has further been fueled by the Omicron variant that has almost put a standstill for aviation to improve. According to global aviation statistics, there has been gradual rise in the aviation market but mostly on the domestic front, which Bhutan is deprived of with a very insignificant domestic market. This has therefore brought aviation business almost to a standstill for the airlines operators in Bhutan at large and with a very bleak potential for improvement even in the month to come.

In 2021, Drukair operated a total of 850 flights, a decrease of about 43% from 1,487 flights operated in FY2020. The total number of passengers carried has decreased by 65% to 23,858 from 67,482 passengers carried in FY2020, consequently, achieving a load factor of 27.6% for FY2021. Drukair ferried 622 Metric Tons (MT) of cargo, 200 MT of mail and 204 MT of unaccompanied cargo (Inclusive of Excess Baggage) in 2021. Bulk of our operations were relief, repatriation, charter and cargo flights.

Drukair had to develop COVID-19 SOP for all its operations and to minimize the risk of complete shutdown of operations, we had to establish new working concepts like restrictive positioning, home quarantine, bubble work environment, work from home, etc. besides meeting other national requirements to counter the spread of pandemic.

In FY 2021, Drukair achieved 100% market share on the four competitive routes of Bangkok, Delhi, Kathmandu and Kolkata with an increase of 22% compared to FY2020 and maintained on time performance of 100%.

Financial highlight

The summary of financial performance is as shown in the table below:

Amount in million Nu.	2021	2020	Variance %
Total Operating Revenue	556.41	965.67	-42.38%
Total Operating Expenditure	1,915.11	2,250.03	-14.89%
Operating profit/(Loss)	(1,358.70)	(1,284.36)	5.79%
Non-operating Revenue	251.39	473.42	-46.90%
Non-operating Expenses	(383.05)	(339.96)	12.67%
Profit/(loss) before tax	(1,490.36)	(1,150.90)	29.50%
Tax credits	381.77	336.40	13.49%
Profit/(loss) after tax	(1,108.59)	(814.49)	36.11%

DIRECTORS' REPORT

	2021	2020	Variance %
Capacity in Seat KM (Available Seat Kilometer) (m) - For scheduled flights	60.16	132.14	-54.47%
Capacity in Seat KM (Available Seat Kilometer) (m) - For Chartered flights	15.86	46.69	-66.04%
Passenger load factor for Scheduled Flights	33%	48%	-29.91%
Passenger load factor including charter	28%	61%	-54.99%
Passenger Revenue Available Seat Kilometer (PRASK) (Nu)	4.92	7.68	-35.94%
Cost Available Seat Kilometer (CASK) with fuel (Nu)	27.56	12.95	112.79%
Cost Available Seat Kilometer (CASK) with fuel (Nu)	26.08	11.75	122.03%
Passenger Yield (Nu)	13.52	8.92	51.63%

Overall capacity, measured by ASKs, was down by 54.47% for scheduled flights for the year and the number of passengers carried decreased by 64.65%. The significant fall in demand was experienced across all regions due to worldwide governments' travel restrictions, following the spread of the virus globally, particularly from 2nd quarter 2020 onwards. The decrease in the number of passengers resulted in a decrease in the overall operating revenue from Nu. 965.67 million in 2020 to Nu. 556.41 million (decreased by 42.38%). Except for the revenue from excess baggage and cargo charges which increased to Nu. 6.79 million and Nu. 165.09 million from Nu. 5.85 million and Nu. 91.45 million, all the other operating revenue decreased in comparison to 2020. The non-operating revenue also decreased by 46.90% i.e., from Nu. 473.42 million in 2020 to Nu. 251.39 million in 2021. The non-operating revenue for 2020 included Nu. 173 million profit on sale of ATR 42-500 and also the interest waiver on NPPF loan was 100% for two quarters in 2020, which decreased by 50% from 4th quarter 2020.

Summary of operation expenditure

BTN million	2021	2020	Variance %
Flight operation cost	259.23	495.43	-47.68%
Other operation cost	22.83	51.08	-55.30%
Aircraft maintenance cost	129.83	148.51	-12.58%
Other maintenance cost	13.84	7.36	88.13%
Employee cost	376.10	564.27	-33.35%
Marketing and Sales cost	8.11	34.92	-76.78%
Other cost	188.84	172.75	9.32%
Depreciation and amortisation expenses	916.33	775.72	18.13%
Total operating expenditure	1,105.17	948.47	16.52%

Although there are huge decreases in flight operation cost, other operation cost, aircraft maintenance cost, employee cost and marketing & sales cost, however, the overall decrease in operating expenditure is only 14.89% in comparison to 2020. Lesser variation in operating cost is mainly due to the increase in depreciation expenses. Depreciation expenses increased from Nu. 775.72 million in 2020 to Nu. 916.33 million in 2021. In 2020, the depreciation for A320 neo was charged only after the arrival of the aircraft in March 2020. Other maintenance cost has marginally increased due to the shifting of head office to new location, and increase in other cost was mainly due the insurance premium paid for the

DIRECTORS' REPORT

whole year pertaining to A320 neo.

Under other non-operating expenses, finance cost increased from Nu. 339.96 million in 2020 to Nu. 383.05 million in 2021 (increased by 12.67%). Interest expenses for NPPF loan, OD loan and COVID relief loan were prorated from the date of their withdrawal in 2020 and this year interest for the full year was charged for these loans.

In 2021, there is Nu. 1,490.35 million losses before tax against Nu. 1,150.90 million in 2020 (increased by 29.50%). As Income Tax Act 2001 allows adjustment of taxes for losses incurred in three subsequent years, deferred tax income of Nu. 381.77 million is adjusted during the year, thereby reducing the losses after tax to Nu. 1,108.59 million. The losses after tax for the year 2021 increased from Nu.814.49 million in 2020 to Nu. 1,108.58 million.

The statement of financial position showed decrease in Shareholder's equity (Net worth of the company) from Nu. 2,837.97 million in 2020 to Nu. 1,730.31 million in 2021. The borrowing has increased from Nu. 6,077.28 million in 2020 to Nu. 6,897.40 in 2021. In 2021, an additional amount of Nu. 287.29 million from OD loan, Nu. 250.92 million from COVID measure loan and Nu. 490 million inter-company loan from DHI was availed. The debt equity ratio has increased from 2.06 in 2020 to 3.86 in 2021 due to the decrease in shareholder's equity and increase in borrowing. During the year the Company also received Nu. 106,746,439 from RGoB as a subsidy for COVID 19.

Though the financial year 2021 has been a big challenge in terms of operations, business and financial conditions, yet as the National carrier, we could maintain the required international connectivity thereby allowing for import/export of essential commodities and urgent travel requirements of the nation.

Customer Care

With ongoing pandemic, the airline industries were significantly affected by the new normal measures which restricted travel around the world. With minimal international customers travelling onboard, Drukair continued to face challenges due to the pandemic. During these unprecedented times, customer service section played a pivotal role in disseminating reliable information and attending to customer queries through various channels in addition to assisting reservation and ticket issuance.

In the year 2021, contact center office has assisted 44166 customer calls via our toll free 1300 along with 11296 reservations, 269 date change and 72 ticket cancellations via reservation@drukair.com.bt.

We have also facilitated the ticket issuance of 3776 tickets inclusive of both international and domestic flight tickets with total revenue generation of Nu. 28,403,127. We have also assisted 2139 customer queries via enquiry@drukair.com.bt.

Apart from the above services, customer service section played a vital role in coordinating and arranging transportation services with passengers during the 2nd lockdown in the nation. We have also taken extra effort in acquiring transit approval for the passengers transiting from Bangkok after communicating with connecting airlines.

These initiatives have helped our passengers to travel onboard without disruption to their schedule eventually executing our operation plans successfully.

DIRECTORS' REPORT

Fleet Management

Drukair managed 0.70 hours of daily Airbus utilization and 0.99 hours of daily ATR utilization. The on-time performance for the year is 100%.

HR and other systems

Drukair's employee strength as at 31 December 2021 stood at 472, which included 409 regular, 62 contract and 1 daily wage staff.

Drukair recruited 2 employees under critical position in FY2021 as a replacement. Total of 25 staff separated from the company in FY2021 and only 2 staff were replaced based on the need of the company.

Corporate Governance

The Company complied with the CG Code issued by DHI. The Company's Board had Eight Board meetings, four Audit Committee meetings and two Human Resource Committee meetings.

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

At the end of 2021, the Drukair Board consisted of seven Directors including the Chairman and the CEO. DASHO PEMA CHEWANG, Secretary National Land Commission was appointed as the Chairman. Mr. Ugyen Sonam, Mongar Dzongdag, Mr. Karma Wangchuk, Director General, DoAT, Mr. Dorji Dhradhul, Director General, TCB, Mr. Dorji Nima, Associate Director, CPD, DHI and Mr. Passang Dorji, CEO Dawa Hospitality Pvt. Ltd (he also serves as the Honorary Consul of Finland to Bhutan) were reappointed and continued their directorship.

The first quarter risk management meeting was held on 9th March 2021 to identify and update the risk register and the final risk management meeting was held on 18th June 2021 for final review of compliance to mitigation measures.

Corporate Social Responsibility

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

The Company has contributed its share for CSR activities as agreed and decided by DHI for the year 2020. The Company as usual carried out rimdos/Soekha/Rewsangchoe at all four domestic airports for the benefit and safety of all the employees and passengers.

Because of Pandemic, Drukair could not carry out our flagship CSR program, the Trongsa Penlop Inspire Program in FY2021.

Through the role Drukair played for repatriation of our citizens, transporting PPE, medical equipment, medicines and other essential goods, we have strengthened our corporate social responsibility activities.

DIRECTORS' REPORT

Statutory Audit Report

M/s. Jigmi Audit and Financials Pvt Ltd., Thimphu was appointed by Royal Audit Authority, as the Statutory Auditor for Drukair, and the auditors have issued unqualified audit report for FY2021. The auditors have also reported that Drukair has complied with all the requirements of the Companies Act of Bhutan, 2016.

Way forward

As we move forward into 2022, we hope for a return to normal business or atleast improvement in the travel industry with development in vaccine and COVID treatment. Drukair will plan for increased operations in 2022 and we sincerely hope that the financial position of the Company will start improving.

Acknowledgements

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

The Board would like to thank Drukair management and employees for their dedicated hard work in ensuring that Drukair meet the national aspirations despite the pandemic. Finally, the company would like to thank all the customers for their loyalty and support to Drukair.

Thank you,

For and on behalf of the Board,



(Dasho Pema Chewang)
Chairman

CORPORATE GOVERNANCE REPORT

The Company complied with the Companies Act of Bhutan 2016 and the DHI CG code. Eight Board Meetings were held in 2021.

Board Committees

Four Board Audit Committee meetings and two Board HR Committee meetings were also convened in 2021 to deliberate issues confronting the company.

CEO and Board Remuneration

In the previous year, the Board Directors used to receive a fixed amount of money as sitting fee. The remuneration is not based on commission or a percentage of profits or turnover. Each Director were paid a sitting fee of Nu. 8,000(eight thousand) and Nu. 4,000 (four thousand) per sitting for every board meeting and board committee meeting respectively.

The Board Directors decided to forgo the Board sitting fees for 2021 inline with the austerity measures taken as decided in the 150 Board meeting held on 1st December 2020. Therefore, no sitting fees has been paid to any Board Directors for board meeting and board committee meetings. But 5 ID tickets (3 ID 75 and 2 ID 00) were paid to each Directors for the FY 2021.

The remuneration and benefits paid to the Chief Executive Officer (CEO) in FY 2021 was Nu. 2,363,700 and ID ticket as per contract.

Annual General Meeting

The 30th Drukair Annual General Meeting(AGM) was held on 19th March 2021 at DHI Board Room, Thimphu. No dividend was declared by the Company for the financial year 2020.

The AGM decided as followings:

RESOLVED

THAT the Director's report and Audited Accounts for the financial year 2020 and the Auditor's report for the same period were received and adopted as presented by the Board of Directors.

THAT no dividend is declared for the year 2020.

THAT the retirement and reappointment of all the Board Directors i.e. Dasho Pema Chewang- Secretary, NLC, Mr. Dorji Nima-Director, DHI, Mr. Passang Dorji-CEO, Dawa Hospitality Pvt. Ltd, Mr. Karma Wangchuk-Director General, DoAT, Mr. Ugyen Sonam-Mongar Dzongda and Mr. Dorji Dhradhul-Director General, TCB, except for the CEO is endorsed.

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

THAT the AGM took into cognizance that the COVID-19 pandemic had the maximum impact on Drukair's business in 2020. While the compact score for 2020 is assessed at 25.30 and no PBVA shall be paid, the AGM directed Drukair Board to finalize 2020 PMS score for employees considering COVID impact. For the CEO, 2019's score of 93.02% is decided to be considered for the finalization of his leadership assessment.

CORPORATE GOVERNANCE REPORT

Risk Management Systems

The Board also takes responsibility to identify, isolate and manage significant risks within the Company's business environment. A Risk Management Framework based on the Enterprise Risk Management principles has been issued by DHI to ensure that Risks related to the activities undertaken by the portfolio companies are managed deliberately and effectively through a properly established process of assessment, resource allocation, review and reporting.

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

In 2021, along with the vaccination program, the World Travel and Tourism Council had developed an extensive range of protocols to cover the new normal for service providers such as airlines, hotels and restaurants. In addition, International Air Transport Association (IATA) and state aviation authorities have discussed and deliberated the standards of the new normal to make travel safer, however, it was still taking time to put get into effect. While Sanitization, PPEs, Screening tools and reduced touch points are shaping up the travel experience for the business travelers, leisure travel still did not pick up.

Similarly, the Government of Bhutan had also indicated entry of tourists after the 2nd dose of vaccine, but much have not changed for the tourism scenario in Bhutan and for DCL through 2021, whose primary customers consists of leisure travelers. To top it all, towards the end of the year a new type of variant amongst others known as the Omicron variant was discovered. This variant with alarming mutation spread more easily than the original virus, making it even worse for the slow recovering aviation and travel scenario.

Therefore, as reported in the previous year, all 30 risks populated in the DCL Risk Register are still being directly affected except for regulatory risks. While most risks have decreased its risk rating due to decrease in 'likelihood' owing to minimal flight operations, some risks have become irrelevant. Therefore, the risks already populated in the risk register had not been updated assuming all these directly impacted risks will return to its normal risk parameters after the containment of the virus. The 2021 Risk Report consisted of two high risks that developed as a result of the pandemic; HR risk and Financial Risk. Both the risks required immediate attention and are being addressed at the Management and Board level.

Corporate Social Responsibility

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

The Company carried out Rimdo/Soekha/Rewsangcho at all four domestic airports for the benefit and safety of all the employees and passengers.

Through the role Drukair played to repertoire of our citizens, transporting PPE, medical equipment, medicines and other essential goods, we have strengthened our corporate social responsibility activities.

CORPORATE GOVERNANCE REPORT

Policies and Practices of CEO and Board Evaluation

The evaluation of Board Directors and CEO have been carried out for the financial year 2021 as per the existing policies and practices of DHI and DHI owned companies.

INDEPENDENT AUDITORS' REPORT

To the Shareholder(s) of Drukair Corporation Limited,
Paro

Opinion

We have audited the financial statements of Drukair Corporation Limited (the 'Company'), which comprises the Statement of Financial Position as at 31 December 2021, Statement of Comprehensive Income, Statement of Changes in Equity, and the Statement of Cash Flows for the year then ended, and Notes to the Financial Statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respect, of the financial position of the Company as at 31 December 2021, and of its financial performance and its Cash Flows for the year then ended in accordance with Bhutanese Accounting Standards (BAS).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of this report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Bhutan and we have fulfilled our ethical requirements 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.

Emphasis of Matter

We draw your attention to Note 2.2 in the financial statements, which indicates that the company during the year-ended 31.12.2021, was dependent on overdraft loan to augment its cash flow requirements. Further, Company's current liabilities exceeded its current assets by Nu.911.089 million, and it has an accumulated losses of Nu.1,878.212 million, which has resulted in erosion of the net worth of the company, and the revenue from sales had not covered up the operation cost of the company during the financial year 2021. Notwithstanding these events or conditions that may cast significant doubt on the ability of the company to continue as a going concern, the management is of the opinion that going concern basis of accounting is appropriate in view of the continued support of the Royal Government of Bhutan and the DHI, the holding company, and having regard to other facts mentioned in Note No.2.2.

Our opinion is not modified in respect of this matter.

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

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

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

INDEPENDENT AUDITORS' REPORT

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

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements, as a whole are free from material misstatements, 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.

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

- i. Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide basis for our opinion. The risk of not detecting material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions misrepresentations, or override of internal control;
- ii. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for purpose of expressing an opinion on the effectiveness of the Company's internal control;
- iii. Evaluate the appropriateness of accounting policies used and the reasonableness of Accounting estimates and related disclosures made by management;
- iv. Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as going concern. If we conclude that material uncertainty exists, we are required to draw attention in our audit report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our audit report. However, future events or conditions may cause the Company to cease to continue as a Going concern; and
- v. Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

INDEPENDENT AUDITORS' REPORT

those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters.

We describe these matters in our audit report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

As required by Section 266 of the Companies Act of Bhutan 2016, we enclose the Minimum Audit Examination and Reporting Requirements as Appendix I with statements on the matters specified therein to the extent applicable.

Further, as required under Section 265 of the Companies Act of Bhutan 2016, we report that:

- a. We have obtained all information and explanations, which to the best of our knowledge and belief, were necessary for the purpose of our audit;
- b. In our opinion, proper books of account as required by law have been kept by the Company so far as it appears from our examination of those books;
- c. The Company's 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 are in agreement with the books of accounts; and
- d. The Company has complied with other legal and regulatory requirements to the extent applicable to the company.



Jigmi Rinzin FCCA
(Membership No. 0283308)
Partner

Place: *Thimphu*
Date: *27/05/2022*

INDEPENDENT AUDITORS' REPORT

MINIMUM AUDIT EXAMINATION AND REPORTING REQUIREMENTS

In compliance with the ISA as adopted and issued by the Accounting and Auditing Standards Board of Bhutan (AASBB), and as required by Section 266 of the Companies Act of Bhutan, 2016, and on the basis of such checks as we considered appropriate, and according to the information and explanations given to us, we report, to the extent applicable, that:

1. The Company has maintained proper records showing full particulars including quantitative details and situation of fixed assets for Head Quarter and all the stations. Physical verification of Fixed Assets could not be conducted during the year by the management due to COVID-19 pandemic situation, except for aircrafts and aircraft related asset like rotables & expendables, and engineering tools & equipment which constituted 98% of the fixed asset held by the company in value. As a result difference between book stock and physical stock if any, during the year could not be detected.
2. We have been informed that the company follows cost-model for accounting of fixed asset. Therefore, the fixed assets of the Company have not been revalued during the year as disclosed in Note No. 2.5 in the Notes to Accounts.
3. Physical verification was conducted at reasonable intervals in respect of inventories of Catering Division and Engineering and Maintenance Division.
4. In our opinion, the procedure of physical verification of inventories followed by the management is reasonable and adequate in relation to the size of the Company and the nature of its business. No discrepancy was noticed on physical verification of inventory as compared to the book records.
5. In our opinion, the valuation is fair and proper in accordance with the normally accepted accounting principles. The basis of valuation of inventory is the same as in the preceding year.
6. The Company has taken unsecured interest free loan of Nu.507,160,012 from Royal Government of Bhutan (RGoB) in earlier years. The outstanding balance of such loan as on 31 December 2021 is Nu.109,884,669. The Company had also issued Drukair bonds amounting to Nu. 2,163,433,529 to National Pension and Provident Fund (NPPF) in earlier years. Year-end balance of such bonds including interest accrued is Nu.898,819,244. The Company has also taken secured loans of Nu.2,692,590,289 from NPPF and of USD13,000,000 from SAARC Development Fund (SDF) in the earlier year. The year-end balance of such loans including interest accrued is Nu.2,828,301,254 and USD11,644,595 respectively. The Company has taken loan for Covid Relief Measure and overdraft loan from Bank of Bhutan in 2020. The year-end outstanding balance of such loans (including interest accrued) is Nu.485,836,734 and Nu.9,988,906,949 respectively. During the year the company had also availed Nu.725,000,000 inter-group borrowing from DHI, out of which Nu.490,000,000 was withdrawn in 2021. In our opinion, the rate of interest and the other terms and conditions of above loans are not prejudicial to the interest of the Company.
7. In our opinion, the Company has not granted any loan secured or unsecured to other companies, firms or other parties and/or to the companies under the same management.
8. In our opinion, loans/advances granted to officers/staff are in keeping with the provisions of service rules and no excessive/frequent advances are granted and accumulation of large advances against particular individual is avoided.
9. In our opinion, the Company has established adequate system of internal controls to ensure completeness, accuracy and reliability of accounting records, carrying out the business in an orderly

INDEPENDENT AUDITORS' REPORT

and efficient manner, to safeguard the assets of the Company as well as to ensure adherence to the rules, regulations, system and procedures.

10. In our opinion, having regard to certain exceptions that some of item purchased are of special nature where suitable alternative sources of supply does not exist for obtaining comparable quotations thereof, there is an adequate system of competitive biddings, commensurate with the size of the Company and the nature of its business, for the purchase of goods and services including stores, plant and machinery, equipment and other assets. As the Company is engaged in providing services, it has no requirement of raw materials.
11. We are of the opinion that the Company has not entered into any transaction for purchases and sale of goods and service made in pursuance of contracts or arrangements entered into with the director(s) or any other party(ies) related to the director(s) or with the Company or firms in which the director(s) are directly or indirectly interested except DHI & its subsidiaries, the details of which is duly disclosed in the Related party transactions in notes to accounts to the financial statements (Refer Note No. 31).
12. Examination of records does not reveal any transaction entered into by the Company which is prejudicial to the interest of the Company wherein directors are directly or indirectly interested.
13. In our opinion, there are no unserviceable or damaged stores, which have not been provided for in the books of account. As a service sector company, the Company does not have any raw materials or finished goods.
14. The Company runs a catering unit, where records have been maintained in respect of production.
15. In our opinion, the Company is regular in depositing rates and taxes, duties, royalties, provident funds, and other statutory dues with the appropriate authorities.
16. In our opinion, there was no undisputed amount payable in respect of taxes, rates, duties, royalties, provident funds and other statutory deductions outstanding as on 31 December 2021 except for the disputes on the following which are disclosed as contingent liability under Note 32.
 - a. Demand of pax royalty amounting to INR 21.70 million payable to air India;
 - b. Outstanding of NRP29,297,575 million was raised by Revenue Department of Nepal;
 - c. Tax demand issued by Department of Revenue and Customs for 3% TDS on commission for foreign agents amounting to Nu.5,457,834; and
 - d. Demand notice for INR11,738,403 on account of service tax issued by CGST & CX, Kol-katta.
17. We are of the opinion that no personal expenses has been charged to the Company accounts other than those payable under contractual obligations/service rule and/or in accordance with generally accepted business practice.
18. The Company is a service sector company and therefore, requirement of maintenance of reasonable system of recording receipts, issues and consumption of materials and stores and allocating materials consumed to the respective jobs does not arise.
19. In our opinion, the Company prepares quantitative reconciliation at the end of accounting year in respect of all major items of inventories, i.e., Inflight Catering & duty free stocks, stock of tickets, Gift stocks, aircraft maintenance supplies and Uniform stores. The Company does not have any finished products and therefore, quantitative reconciliation is not required to be carried out in respect

INDEPENDENT AUDITORS' REPORT

of finished products.

20. In our opinion, the Company has a system of obtaining approval of Board/appropriate authority for writing off amounts due to material loss/discrepancies in physical/book balances of inventories including stores and spares.
21. In our opinion, there is a reasonable system of authorization at proper levels, and an adequate system of internal control commensurate with the size of Company and the nature of its business on issue of stores.
22. In our opinion, the Company has a reasonable system of periodical review of tariffs and based on such review and considering the market and economic conditions, the tariff rates are determined and approved by the Commercial committee constituted by the management. Also, the Company has proper costing system for the purpose of fixation of tariff rates.
23. In our opinion, the credit sales policy of the Company is reasonable and no credit rating of customers is carried out as the same is not applicable for the Company.
24. In our opinion, the agency commission structure is in accordance with the industry norms/market conditions. Additionally, the Company has a proper system of evaluating performance of each agent on a periodic basis.
25. In our opinion, the Company has reasonable system of continuous follow-up with debtors and other parties for recovery of outstanding amounts. Also, age-wise analysis is carried out for management information and follow up action.
26. In our opinion, management of liquid resources, particularly, cash/bank and short term deposits, etc., are adequate and that excessive amounts are not lying idle in non-interest bearing accounts and withdrawals of loan amounts are made after assessing the requirement of fund from time to time and no excessive amounts are withdrawn leading to avoidable interest burden on the Company.
27. In our opinion, activities carried out by the Company are lawful and intra-vires the Articles of the Company.
28. In our opinion, activities/investment decisions are made subject to prior approval of the Board and investments in new projects, i.e., acquisition of aircrafts are made only after ascertaining the technical and economic feasibility of such new ventures.
29. In our opinion, the Company has established effective budgetary control system.
30. Being a service sector company, system of input-output relationship, Standard Costing and variance analysis is not applicable to the Company.
31. In our opinion, details of remuneration, commission and other payments made in cash or in kind to the Board of Directors including the Chief Executive Officer or any of their relatives (including spouse(s) and child/children) if any, by the Company directly or indirectly are disclosed in Note No. 34 in the Notes to Accounts.
32. In our opinion, the management of the Company complies with the directives of the Board of Directors as we have not come across any such incidence where it is not complied.
33. In our opinion, officials of the Company have not transmitted any price sensitive information which

INDEPENDENT AUDITORS' REPORT

are not made publicly available, unauthorized to their relatives/ friends/associates or close persons which would directly or indirectly benefit themselves. We have, however, relied on the management assertion on the same and cannot independently verify the same.

34. In our opinion, 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.
35. In our opinion, proper records are kept for inter-unit transactions/services and arrangements for services made with other agencies engaged in similar activities.
36. In our opinion, the Company has executed agreements properly and the terms and conditions of leases are reasonable and the same are applied for machinery/ equipment acquired on lease or leased out to others.

Computerized Accounting Environment:

1. In our opinion, the size and nature of IT (Computer) system and installations are adequate for organizational and system development and other relevant internal control.
2. In our opinion, the Company has adequate safeguard measures and back-up facilities. Additional off-site back-up system has been implemented in Thimphu.
3. In our opinion, there are back-up facilities of keeping files at different and remote locations.
4. In our opinion, operational controls are adequate to ensure correctness and validity of input data and out-put information.
5. In our opinion, measures to prevent unauthorized access over the computer installation and files are in existence and adequate.

General

1. Going Concern Problems

On the basis of the attached Financial Statement for the year-ended 31 December 2021, audited by us, the Company has incurred loss during the current year due to Covid-19 pandemic and the Net Worth of the Company is continuing to deteriorate. However, with the continued support of the Royal Government of Bhutan and the DHI, its holding company, and having regard to other facts mentioned in Note No.1 (ii), we have no reason to believe that the Company is not a going concern. Accordingly, the financial statements have been prepared under the going concern basis

2. Ratio Analysis (attached separately)

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

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

The Company has complied with the applicable provisions of the Companies Act of Bhutan, 2016. Details of Compliance calendar and Compliance checklist are given in Annexure-II.

4. Adherence to Laws, Rules and Regulations

The audit of the Company is governed by the Companies Act of Bhutan, 2016 and the scope of audit is limited to examination and reviews of the financial statements as produced to us by the

INDEPENDENT AUDITORS' REPORT

Management.

In the course of the audit, we have considered the compliance of provisions of the said Companies Act, its Articles of Incorporation and applicable Bhutanese Accounting Standards.

For JIGMI Audit & Financials Pvt. Ltd.



Jigmi Rinzin FCCA
(Membership No. 0283308)
Partner

Place: *Thimphu*
Date: *27/05/2022*

FINANCIAL STATEMENTS

STATEMENT OF FINANCIAL POSITION AS AT

Particulars	Note	31 December 2021	31 December 2020
Non-current assets			
Property, plant and equipment	3	7,641,116,388	8,514,082,673
Work-In-Progress	3	2,087,780	3,501,358
Intangible assets	4	23,110,266	9,380,422
Trade and other receivables	5	2,854,863	4,632,092
Deposit for gratuity	6	36,680,943	46,974,554
Deferred tax asset	7	728,887,812	343,719,365
Total		8,434,738,051	8,922,290,466
Current assets			
Trade and other receivables	5	157,688,600	185,592,310
Deposit for gratuity	6	87,933,297	78,641,308
Capital Advances	8	194,633,542	196,571,085
Inventories	9	157,935,951	157,851,826
Cash and cash equivalents	10	74,354,539	68,167,555
Loan and advances	11	53,540,836	20,872,303
Total		726,086,765	707,696,387
Total assets		9,160,824,817	9,629,986,854
Equity attributable to owners of the parent			
Share capital	12	3,608,525,100	3,608,525,100
Reserves	12	(1,878,213,589)	(770,554,316)
Total		1,730,311,511	2,837,970,784
Non-current liabilities			
Borrowing	13	5,574,630,408	5,147,302,447
Provisions	14	114,238,695	107,001,000
Other liabilities	16	104,467,646	110,980,005
Total		5,793,336,749	5,365,283,452

FINANCIAL STATEMENTS

STATEMENT OF FINANCIAL POSITION AS AT (Continued)

Particulars	Note	31 December 2021	31 December 2020
Current liabilities			
Borrowing	13	1,104,058,558	712,000,710
Provisions	14	141,383,109	133,492,411
Trade and other payables	15	344,737,148	454,303,150
Other liabilities	16	46,997,741	126,936,347
Total		1,637,176,556	1,426,732,618
Total equity and liabilities		9,160,824,817	9,629,986,854

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED

Particulars	Note	31 December 2021	31 December 2020
Operating revenue			
Traffic revenue	17	547,783,098	951,857,731
Other operating revenue	18	8,626,764	13,814,981
Total operating revenue		556,409,861	965,672,712
Operating expenditure			
Flight operation cost	20	259,227,901	495,430,497
Other operation cost	21	22,828,991	51,075,955
Aircraft maintenance cost	22	129,828,153	148,508,056
Other maintenance cost	23	13,841,754	7,357,586
Employee cost	24	376,102,018	564,269,134
Marketing and Sales cost	25	8,108,898	34,920,494
Other cost	26	188,843,824	172,749,999
Depreciation and amortisation expenses	3 & 4	916,328,281	775,717,178
Total operating expenditure		1,915,109,819	2,250,028,899
Operating profit/(loss)		(1,358,699,958)	(1,284,356,187)
Non-operating items			
Non-operating revenue	19	251,389,521	473,424,958
Finance cost	27	(383,047,953)	(339,963,797)
Profit/(loss) before tax		(1,490,358,390)	(1,150,895,027)
Tax			
Tax	28	381,769,632	336,403,045
Profit/(loss) after tax		(1,108,588,758)	(814,491,982)

FINANCIAL STATEMENTS

STATEMENT OF COMPREHENSIVE INCOME (Continued)

Particulars	Note	31 December 2021	31 December 2020
Profit/(loss) after tax		(1,108,588,758)	(814,491,982)
Other Comprehensive Income			
Currency translation differences		8,314,768	33,491,939
(Non-taxable)			
Actuarial gains/(losses)		(7,897,549)	(40,366,327)
Total comprehensive income for the year		(1,108,171,539)	(821,366,369)

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2021

Particulars	Issued capital	Translation reserve	Retained Earnings	Total
Balance as at January 1, 2021	3,608,525,100	24,100,549	(794,654,865)	2,837,970,784
Profit/(Loss) for the year			(1,108,588,758)	(1,108,588,758)
Other Comprehensive Income/loss				-
Translation Loss		8,314,768		8,314,768
Actuarial gains/loss			(7,897,549)	(7,897,549)
Prior period adjustments			512,267	512,267
Balance at 31 December 2021	3,608,525,100	32,415,317	(1,910,628,905)	1,730,311,512

For the year ended 31 December 2020

Particulars	Issued capital	Translation reserve	Retained Earnings	Total
Balance as at January 1, 2020	2,558,351,900	52,035,878	1,015,427,023	3,625,814,802
add: Equity shares issued during the year	1,050,173,200	-	(1,000,000,000)	50,173,200
Profit/(Loss) for the year			(814,491,982)	(814,491,982)
Other Comprehensive Income/loss				-
Translation Loss		(27,935,329)		(27,935,329)
Actuarial gains/loss			7,452,807	7,452,807
Prior period adjustments			(42,714)	(42,714)
Transaction with the owners				-
Dividend paid in 2020			(3,000,000)	(3,000,000)
Balance at 31 December 2021	3,608,525,100	24,100,549	(794,654,865)	2,837,970,784

FINANCIAL STATEMENTS

STATEMENT OF CASHFLOW FOR THE YEAR ENDED

Particulars	31 December 2021	31 December 2020
Cash flow from operating activities (A)		
Profit before income tax expense	(1,490,358,390)	(1,150,895,027)
Depreciation, amortisation and impairment	916,328,281	775,717,178
Gain/Loss on sale of PPE	(2,884,122)	(173,445,174)
Interest Income	(102,132,830)	(141,387,390)
Interest Expense	377,528,868	330,025,237
Gain/Loss on forex rates	-	(1,362,625)
Stores and Spares written off	81,930	1,716,506
Operating profit before changes in Working Capital	(301,436,264)	(359,631,295)
Current asset and liability changes		
Movement in Trade and other Liabilities	(196,016,966)	(920,386,240)
Movement in Provisions	16,651,157	(19,155,412)
Movement in Inventory	(166,056)	(38,814,624)
Movement in Trade and other receivables	29,680,939	58,817,701
Movement in other current asset	(32,668,532)	114,734,009
Movement in deposits receivable	(554,696)	(6,542,257)
	(183,074,154)	(811,346,823)
Taxes paid	(3,453,329)	(60,016,552)
	(186,527,482)	(871,363,375)
Total cash flow from operating activities	(487,963,746)	(1,230,994,670)
Cash flow from investing activities (B)		
Purchase of PPE and intangible assets	(53,740,716)	(2,508,773,923)
Sale Proceeds from PPE	2,884,122	413,903,157
Interest income	7,582,273	7,391,718
Total cash flow from investing activities	(43,274,321)	(2,087,479,048)
Cash flow from financing activities (C)		
Repayment of Bond	(187,739,453)	(216,343,353)
Repayment of interest free Loan	-	(8,452,667)
Loan from NPPF	-	2,107,073,156

FINANCIAL STATEMENTS

STATEMENT OF CASHFLOW (Continued)

Particulars	31 December 2021	31 December 2020
Repayment of SDF loan	(108,188,889)	-
COVID 19 relief loan from BOB	250,920,045	234,916,689
OD loan from BOB	287,285,689	700,000,000
Inter-group borrowing	490,000,000	-
Dividend payout	-	(3,000,000)
Interest expense paid	(194,313,575)	(201,476,384)
Issue of shares		50,173,200
Total cash flow from financing activities	537,963,817	2,662,890,641
Changes in Cash and cash equivalents (A)+(B)+(C)	6,725,750	(655,583,077)
Cash and cash equivalents at beginning of year	68,167,555	696,388,005
	74,893,305	40,804,928
Effects of change in foreign exchange rate on cash and cash equivalents increase/(decrease)	(538,766)	27,362,627
Cash and cash equivalents at end of 31 December	74,354,539	68,167,555

For JIGMI Audit and Financials Pvt. Ltd.

For Drukair Corporation Limited




Jigmi Rinzin FCCA
(Membership No. 0283308)
Partner



(Rinzin Dorji)
Director, FCSD



(Tandi Wangchuk)
Chief Executive Officer



(Dasho Pema Chewang)
Chairman

Place: *Thimphu*
Date: *27/05/2022*

ACCOUNTING POLICIES & NOTES TO ACCOUNTS

Note 1 : General Information and authorization of financial statement

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

The Company is a limited liability company incorporated and domiciled in Bhutan with the address of its registered office at P.O. Box 1219, Paro. These financial statements relate to the year ended 31 December 2021.

The financial statements of the Company for the year ended 31 December 2021 were authorized for issue in accordance with the resolution of the Board of directors dated 19 March 2022.

Note 2: Significant Accounting Policies

A. Basis of preparation

i) Compliance with BAS

These financial statements have been prepared in accordance with the Bhutan Accounting Standards (BAS) and in conformity with the requirements of the Companies Act of Bhutan 2016.

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

These financial statements are presented in Bhutanese Ngultrum and all values are rounded to the nearest ngultrum, except where indicated otherwise.

ii) Going concern

The economic uncertainty of the COVID-19 pandemic and various COVID related protocols imposed by governments had a significant impact on the business operations and cash flows of the Company. As on 31 December 2021, the Company had cash and cash equivalent to Nu.75 million and undrawn borrowing of Nu.235 million out of Nu.725 million inter-company borrowings approved by the holding company, (DHI) in 2021. Being a landlocked country and as the national carrier, the Company was compelled to operate to keep the connectivity despite the challenges imposed by the pandemic. The Company played a crucial role in transporting the vaccines in the country to combat the pandemic, for which the company was awarded the Druk Thuksey medal by His Majesty the King on the 114th National Day Celebration on 17 December 2021.

To add resilience to the liquidity position of the Company, the repayment of existing debts were deferred and the company also received waiver on landing, parking, navigation and rent including the rent at Tivoli Court Kolkata from the Ministry of Finance (MoF), RGoB. The Company also received a

ACCOUNTING POLICIES & NOTES TO ACCOUNTS

waiver on the interest expense for the borrowing from NPPF through the Druk Gyalpo's Relief Kidu. Total waiver of Nu.107 million was received in 2021 as disclosed under Note 19.

The Management is actively pursuing with the Holding Company for meeting the liquidity gap till the pandemic situation improves. Having reviewed and acknowledged that the role of Drukair continues beyond its commercial operations, the Company has continued to adopt the going concern basis in preparing the financial statements.

The financial statements do not include the adjustments that would result if the Company was unable to continue as a going concern.

iii) Functional and Presentation currency

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

iv) Foreign currency transaction and balances

Foreign currency transactions in Bhutan are converted into the functional currency at the exchange rate prevailing at the date of the transaction. Monetary foreign currency assets and liabilities are converted at the year-end on the rate prevailing on that date. All foreign exchange gain/(loss) arising from the above are taken to the Profit & Loss Account.

Foreign currency transactions in countries other than Bhutan are converted into the currency of that country at the exchange rate prevailing at the date of the transaction. Translation of all transactions from the currency of countries other than Bhutan to the functional currency is done at the month beginning rate, for each month of the year except at the year-end. When monetary foreign currency assets and liabilities are translated at the year-end rate, all foreign exchange gain/(loss) arising from the above are taken to the Statement of Other Comprehensive Income (OCI).

B. Property, Plant and Equipment (PPE)

i) Cost recognition

Property, plant and equipment are held at cost. The DHI Group has a policy of not revaluing property, plant and equipment. Depreciation is calculated to write off the cost less estimated residual value on a straight-line basis, over the economic life of the asset. Residual values, where applicable, are reviewed annually against prevailing market values for equivalently aged assets and depreciation rates are adjusted accordingly on a prospective basis.

ii) Capitalization of interest on progress payments

Interest attributed to progress payments made on account of aircraft and other qualifying assets under construction are capitalized and added to the cost of the asset concerned. All other borrowing costs are recognized in the income statement in the year in which they are incurred.

iii) Fleet

All aircrafts are stated at the fair value of the consideration given after taking account of manufacturers' credits. Fleet assets owned, or right of use of assets, are disaggregated into separate components and depreciated based on the useful life of such assets on a straight-line basis. Depreciation rates are specific to aircraft type, based on the Company's fleet plans, with useful economic lives of 16 years.

ACCOUNTING POLICIES & NOTES TO ACCOUNTS

Cabin interior modifications, including those required for brand changes and relaunches, are depreciated over the lower of five years or the remaining economic life of the aircraft.

Aircraft and engine spares acquired on the introduction or expansion of a fleet, as well as rotatable spares purchased separately, are carried as property, plant and equipment and generally depreciated in line with the fleet to which they relate.

Major overhaul expenditure, including replacement spares and labour costs, is capitalized and amortized over the average expected life between major overhauls. All other replacement spares and costs relating to maintenance of fleet assets are charged to the income statement on consumption or as incurred respectively.

iv) Depreciation

Provision is made for the depreciation of all PPE. Except for buildings with a useful life of 30 years, other PPE are depreciated over periods ranging from 6.67 years to 10 years.

Detailed estimated range of useful lives of assets for depreciating its PPE, based on the evaluation performed by the Technical Department are as follows:

Asset Class	Useful life
Buildings and civil structures	30 years
Aircraft fleet – non-renewable: Aircraft frame	16 years
Aircraft fleet – renewable:	
Engine	12 years
APU	5 years
APU LLP	6 years
Landing gear	10 years
6-year check	6 years
12-year check	12 years
Capital tools and rotatable spare parts	3 - 15 years
Furniture & Fixtures	10 years
Vehicles	6.67 years
Other Equipment	10 years

Cost and the accumulated depreciation for those PPE sold, scrapped, retired or otherwise disposed-off are eliminated from the financial statements and the resulting gains and losses are included in the Statement of OCI.

C. Intangible assets

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

D. Income tax

Current tax assets and liabilities for the current period are measured at the amount expected to be re-

ACCOUNTING POLICIES & NOTES TO ACCOUNTS

coverable from or payable to the Income Tax authority based on the current period's taxable income. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted on the reporting date by the Income Tax Authority.

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

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

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

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

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

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

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

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

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

ACCOUNTING POLICIES & NOTES TO ACCOUNTS

E. Investments and other financial assets

i) Initial measurement

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

ii) Classification and subsequent measurement

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

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

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

Financial assets measured at amortized cost:

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

- a. The asset is held within a business model whose objective is to hold assets for collecting contractual cash flows; and
- b. Contractual terms of the asset give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.

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

Financial instruments measured at fair value through other comprehensive income (FVTOCI)

A financial instrument shall be measured at FVTOCI if both of the following conditions are met:

- a. The objective of the business model is achieved by both collecting contractual cash flows and selling financial assets; and
- b. The asset's contractual cash flow represents SPPI.

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

Financial instruments measured at fair value through profit and loss (FVTPL)

FVTPL is the residual category. Any financial instrument which does not meet the criteria for category

ACCOUNTING POLICIES & NOTES TO ACCOUNTS

rization as at amortized cost or FVTOCI is classified at FVTPL. Financial instruments included within FVTPL category are measured initially as well as at each reporting period at fair value. Fair value movements are recorded in statement of profit and loss.

iii) Impairment of financial assets

The Company assesses on a forward looking basis the expected credit losses associated with its assets carried at amortized cost and FVOCI debt instruments. The impairment methodology applied depends on whether there has been a significant increase in credit risk. Note 30 details how the Company determines whether there has been a significant increase in credit risk.

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

iv) De-recognition of financial assets

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

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

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

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

v) Income recognition

Interest income: Interest income from debt instruments is recognized using the effective interest (EIR) rate method. An IER is a 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 an EIR, 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.

F. Financial Liabilities

i) Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, borrowings, payables. All financial liabilities are recognized initially at fair value and, in the case of borrowings and payables, net of directly attributable transaction costs. The Company's financial liabilities include trade and other payables, borrowings including bank overdrafts.

ii) Subsequent measurement

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

ACCOUNTING POLICIES & NOTES TO ACCOUNTS

Financial Liabilities at fair value through profit or loss (FVTPL)

Financial liabilities at FVTPL include financial liabilities held for trading and financial liabilities designated upon initial recognition as at FVTPL. Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term.

Gains or losses on liabilities held for trading are recognized in the profit or loss.

Financial liabilities designated upon initial recognition at FVTPL 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/losses are not subsequently transferred to P&L. However, the Company may transfer the cumulative gain or loss within equity. All other changes in fair value of such liability are recognized in the statement of profit or loss. The Company has not designated any financial liability as at FVTPL.

Borrowings

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

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

Trade and other payables

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

iii) Derecognition

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expired. 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 derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognized in the statement of comprehensive income.

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

ACCOUNTING POLICIES & NOTES TO ACCOUNTS

Financial guarantee contracts

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

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

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

iv) Offsetting financial instruments

Financial assets and liabilities are offset and the net amount is reported in the 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 group or the counterparty.

Investments primarily meant to be held over long-term period (i.e. for more than 12 months from date of acquisition) are valued at cost. Provision is made when in the opinion of the management there is a decline, other than temporary, in the carrying value of such investments. Current investments are stated at the lower of cost or quoted/fair value.

G. Current Assets

i) Advances

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

ii) Cash and cash equivalents

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

iii) Inventories

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

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

ACCOUNTING POLICIES & NOTES TO ACCOUNTS

H. Reserves

Nature and purpose of reserves are as follows:

i) Retained Earnings

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

ii) Translation Reserve

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

iii) Actuarial Reserve

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

I. Grants

Grants from Government and Non-Government sources are recognized where there is reasonable assurance that the grant will be received and all attached conditions will be complied with.

Grants relating to expense items are recognized as income on a systematic basis over the periods that the related costs, which it is intended to compensate, are expensed. The unallocated portion of such grant is presented as part of Deferred Grants in the Statement of Financial Position.

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

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

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

J. Borrowing Costs

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

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

ACCOUNTING POLICIES & NOTES TO ACCOUNTS

are charged as expense to Statement of Comprehensive Income in the period they occur.

K. Provisions

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

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

L. Employee benefit liabilities

Contribution to Provident Fund (PF) administered by NNPPF is charged to Statement of Comprehensive Income as and when they fall due.

Retirement benefit liabilities are recognized when the Company has a present obligation (legal or constructive) as a result of past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

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

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

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

M. Revenue Recognition

Revenue from contracts with customers is recognized when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods or services. Description of revenue are as follows:

i. Traffic Revenue

Revenue is recognized when the transportation services are rendered. Passenger tickets are generally paid in advance of transportation and are recognized, net of discounts, as deferred revenue on sales of tickets in current liabilities until the customer has flown. All these revenue amounts related to transportation of passenger and cargo are categorized under Traffic Revenue. Prior to the impact of COVID-19 on the ability of passengers to utilize the transportation services, unused tickets were recognized as revenue after the contracted date of departure using estimates regarding the timing of recognition based on the terms and conditions of the ticket and statistical analysis of historical trends. If as a result of the impact of COVID-19 a flight is cancelled, the passenger is entitled to either a refund and rescheduling the original. In such cases the expired tickets are also shown as liability.

ACCOUNTING POLICIES & NOTES TO ACCOUNTS

The Company provides loyalty scheme through “HappinesSmiles” program where members can convert accumulated mileage to a cabin upgrade, free tickets and other member reward. The revenue recognized when the transportation service is provided is reduced by the price of the loyalty points issued.

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

ii. Other Revenue

Revenue attributable from the Catering services, Drukair holiday services, cargo and tranship handling charges are presented under this head. These revenue amounts are recognized when related performance obligations are satisfied, being where the control of the goods or services are transferred to the customer.

iii. Non-operating Revenue

These are revenue amounts attributable from non-operational activities such as interest subsidy, interest income earned from deposits and other miscellaneous incomes. Interest income is accrued on a time proportion basis, by reference to the principal outstanding and at the EIR applicable.

N. Earnings per share ('EPS')

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

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

O. Critical accounting estimates and assumptions

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

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

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

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

i) Useful lives of Property, Plant and Equipment (PPE)

Property, Plant and Equipment are depreciated on a straight-line basis at rates that can be used to write

ACCOUNTING POLICIES & NOTES TO ACCOUNTS

down their cost to their estimated residual values at the end of their useful lives. The estimates of the useful lives and residual values of the flight equipment are made by the Company on the basis of past experience and fleet operation performance in the industry which are detailed in the accounting policy vide Note 1 (B). Changes in the expected level of usage, technological developments, and level of wear and tear could impact the economic useful lives and the residual values of these assets, therefore future depreciation charges could be revised and could have an impact on the profit in future years.

ii) Retirement benefit obligations

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

iii) Provision for doubtful debts

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

iv) Frequent Flyer Program

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

v) Impairment of aircraft and related equipment

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

vi) Fair Value for Financial Instruments

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

ACCOUNTING POLICIES & NOTES TO ACCOUNTS

Note 3: Property, Plant and Equipment (PPE), Work-In-Progress (WIP) and Intangible Assets

Particulars	Gross Block Value	Depreciation	Net Block Value	For the year	Adjustments	31.12.2021	01.01.2021	31.12.2021
	01.01.2021	Additions/ Disposals	31.12.2021	01.01.2021				
Property, Plant & Equipment (PPE)								
Aircraft	12,462,081,615	31,649,916	12,493,731,531	4,174,575,030	-	5,056,518,327	8,287,506,585	7,437,213,204
Furniture & Fixture	17,612,681	4,635,680	22,248,361	7,641,300	11	9,171,096	9,971,381	13,077,265
Office Equipment	50,939,323	480,913	51,420,236	28,069,493	-2	31,503,440	22,869,830	19,916,796
Electrical Fitting & Equipment	15,012,473	1,005,040	16,017,513	5,857,527	65	7,296,479	9,154,946	8,721,034
Ramp Equipment	67,210,078	13,800	67,223,878	52,741,612	-	55,391,675	14,468,466	11,832,204
Engineering Equipment	26,573,851	90,270	26,664,121	24,178,216	-	24,589,163	2,395,635	2,074,958
Building	50,437,093	1	50,437,094	9,839,925	-	11,352,723	40,597,168	39,084,372
Motor Vehicle	68,573,997	-	68,573,997	40,534,942	-	47,529,967	28,039,055	21,044,030
Miscellaneous Asset	20,156,249	480,392	20,636,641	6,096,100	75	7,970,729	14,060,149	12,665,912
Catering Equipment	8,361,637	-	8,361,637	4,733,801	-	5,287,153	3,627,836	3,074,484
Tools & Spares	189,130,901	2,725,728	191,856,629	107,739,279	-649,894	119,444,500	81,391,622	72,412,129
Total of PPE	12,976,089,898	41,081,740	13,017,171,638	4,462,007,225	-649,745	5,376,055,252	8,514,082,673	7,641,116,388
Work in Progress	3,501,358	-1,413,578	2,087,780	-	-	-	3,501,358	2,087,780

Note 4: Intangible Asset

Intangible assets (Computer Software)	16,640,675	15,360,277	32,000,952	7,260,253	-	8,890,686	9,380,422	23,110,266
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ACCOUNTING POLICIES & NOTES TO ACCOUNTS

Note 5: Trade & other receivables

	As at 31 December 2021	As at 31 December 2020
Non-Current		
Trade debtors	11,570,563	13,347,793
Less: Provision for Doubtful debts	(8,715,700)	(8,715,701)
Total	2,854,863	4,632,092
Current		
Trade debtors	24,573,838	43,982,028
Security deposit paid	68,220,502	65,946,076
Accrued income	1,040,619	882,170
RGoB subsidy receivable	63,853,641	74,782,035
Total	157,688,600	185,592,310

Note 6: Deposits for gratuity

	As at 31 December 2021	As at 31 December 2020
Non-Current		
Deposit with banks for gratuity	28,533,065	38,826,676
Accrued interest	8,147,878	8,147,878
Total	36,680,943	46,974,554
Current		
Deposits with bank - gratuity	82,633,837	71,785,530
Accrued interest	5,299,460	6,855,778
Total	87,933,297	78,641,308

Note 7: Deferred tax asset

	As at 31 December 2021	As at 31 December 2020
Deferred Tax Asset	728,887,812	343,719,365
Total	728,887,812	343,719,365

Refer Note 28 (b) for details on deferred tax

Note 8: Capital advance

	As at 31 December 2021	As at 31 December 2020
Capital Advances	194,633,542	196,571,085
Total	194,633,542	196,571,085

ACCOUNTING POLICIES & NOTES TO ACCOUNTS

Note 9: Inventories

	As at 31 December 2021	As at 31 December 2020
In-flight catering & duty free stocks	95,656,345	102,002,734
Stock of tickets	1,337,574	1,347,172
Gift stocks	803,464	803,464
Aircraft maintenance consumables	57,141,313	50,972,681
Uniform stocks	2,609,786	2,725,775
Other stock	387,470	-
Total	157,935,951	157,851,826

Note 10: Cash and cash equivalents

	As at 31 December 2021	As at 31 December 2020
Cash and cheques in hand	1,066,785	409,225
Bank Current Account	73,287,754	67,758,329
Total	74,354,539	68,167,555

Note 11: Loans and advances

	As at 31 December 2021	As at 31 December 2020
Advance to parties	15,148,547	14,101,942
Advance to employee	1,528,123	1,627,528
Prepaid expenses	3,615,982	5,059,635
Advance tax paid	33,248,184	83,199
Total	53,540,836	20,872,303

Note 12: Share capital

	As at 31 December 2021	As at 31 December 2020
Authorized for 50,000,000 equity Shares of Nu.100 each	5,000,000,000	5,000,000,000
Total	5,000,000,000	5,000,000,000

Issued, Subscribed, and fully paid up	As at 31 December 2020	As at 31 December 2019
36,085,251 (PY 36,085,251) Equity Shares of Nu.100 each, fully paid in cash	3,608,525,100	3,608,525,100
Total	3,608,525,100	3,608,525,100
Reserves (As per SOCE)	(1,878,213,589)	(770,554,316)

ACCOUNTING POLICIES & NOTES TO ACCOUNTS

Note 12.1: All ordinary shares are ranked equally. Fully paid shares carry one vote per share and the right to dividends. There are no restrictions on the transfer of shares in the Company or on voting rights between holders of shares. Entire share capital is held by the Holding Company, DHI.

Note 12.2 Reconciliation of Share capital:

	2021	2020
At the beginning of the year		
- Number of shares	36,085,251	36,085,251
- Amount (in Nu.)	3,608,525,100	3,608,525,100
Add: issued during the year		
- Number of shares	-	-
- Amount (in. Nu)	-	-
Less: Redeemed during the year		
- Number of shares	-	-
- Amount (in Nu)	-	-
At the end of the year		
- Number of shares	36,085,251	36,085,251
- Amount (in. Nu)	3,608,525,100	3,608,525,100

Note 13: Borrowings

	As at 31 December 2021	As at 31 December 2020
Non-Current		
Drukair Bonds from NPPF	840,684,758.82	812,080,859
Interest free loan from RGOB	76,074,002	76,074,002
Loan from NPPF	2,492,706,595	2,492,706,595
SDF Loan	752,772,222	860,888,889
COVID relief measure loan from BoB	425,107,142	205,552,103
Overdraft loan from BOB	987,285,689	700,000,000
Total	5,574,630,408	5,147,302,447
Current		
Drukair Bonds from NPPF	-	216,343,353
Interest free loan from RGoB	33,810,667	33,810,667
Loan from NPPF	199,883,695	199,883,695
SDF Loan	107,538,889	107,611,111
Inter-group Borrowing	490,000,000	
COVID relief measure loan from BoB	60,729,592	29,364,586
Accrued interest but not due on Bonds	58,134,485	68,477,349
Accrued interest but not due on NPPF loan	135,710,965	39,450,862
Accrued interest but not due for SDF Loan	6,628,995.23	6,304,686
Accrued interest but not due OD Loan	11,621,270	10,754,401
Total	1,104,058,558	712,000,710

ACCOUNTING POLICIES & NOTES TO ACCOUNTS

Nature of Security, Interest Rate and terms of repayments:

Note 13.1 Bonds

Following series of Bonds were issued to NPPF for the purchase of aircraft – JSW. These bonds are secured on the same aircraft. The coupon for these bonds were paid by MoF and the same has been treated as government revenue grant. The coupon expense amounting to Nu.74,198,040 has been treated as interest subsidy as shown under Non-operating revenue Note 17.

Drukair Bond series I of Nu.246,886,529 at coupon rate of 9% p.a. repayable within 10 years in 10 annual installments with last installment due on 24 February 2024.

Drukair Bond series I of Nu.286,039,000 at coupon rate of 9% p.a. repayable within 10 years in 10 annual installments with last installment due on 25 August 2024.

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

The repayment related to these bonds for the year 2022 and 2023 has been deferred till 2024.

Note 13.2 Royal Government of Bhutan - Interest free loan

Interest-free loan of Nu.507,160,012.12 was obtained for the purchase of aircraft BAE-146 and is repayable within 15 years in 60 quarterly equal installments. The repayment of loan installment was deferred, and the applicable installment amounting to Nu.33,810,667 (previous year Nu.25,358,000.61) for the financial year was deferred.

Note 13.3 National Pension and Provident Fund

A term loan was availed amounting to Nu.2,709,754,345 equivalent to USD37,375,922 at an interest rate of 7.15% p.a. repayable within 10 years in 40 quarterly equal installments for the purchase of A320 Neo (JKW). The loan is secured against the sovereign guarantee provided by the Ministry of Finance (MoF).

During the year, the company received an interest waiver of 50% under the Druk Gyelpo's Relief Kidu amounting to Nu.96,260,102 (Previous Year Nu.120,456,631.44). In line with the monetary measures issued by the Royal Monetary Authority of Bhutan in response to the COVID 19, the loan installment amounting to Nu.381,283,677 payable as per the amortization schedule was deferred. The interest expense has been treated as revenue grant and shown as RGoB subsidy under Non-operating revenue under Note 17.

Note 13.4 SAARC Development Fund

A term loan was availed amounting to Nu.942,500,000, equivalent of USD13,000,000 at an interest rate of USD 6 months LIBOR rate + 2% p.a. repayable within 10 years semi-annually for the purchase of ATR 42-600 aircraft. This loan is secured against the sovereign guarantee provided by the MoF and the applicable interest on the loan thereon amounting to Nu.21,628,910 equivalent to USD259,049 was paid by the MoF. The same has been treated as government revenue grant reflected as interest subsidy under Non-operating income under Note.17.

Note 13.5 Bank of Bhutan

COVID relief measure loan

The term loan was availed amounting to Nu.229,800,000 (previous year Nu.229,800,000) at an interest rate of 5% p.a. repayable within four years in 48 monthly installments to meet the working capital of the Company .The applicable interest on the loan thereon have been capitalized and

ACCOUNTING POLICIES & NOTES TO ACCOUNTS

Nu.485,836,733.82 is outstanding as on 31 December 2021.

Overdraft loan

The overdraft loan was availed amounting to Nu.1 billion at an interest rate of 7.02% p.a. in 2020. The same has been renewed in 2021.

Note 13.6 Druk Holding & Investment – Interest-free Inter-group borrowing

Interest-free inter-group borrowing of Nu.490,000,000 is outstanding as on 31 December 2021. The loan was approved in 2021 amounting to Nu. 725,000,000.

Note 14: Provisions

	As at 31 December 2021	As at 31 December 2020
Non-Current		
Provisions for gratuity	88,101,342	87,095,636
Provisions for leave encashment	23,604,720	15,263,318
Liability for frequent flyer program	2,532,633	4,642,046
Total	114,238,695	107,001,000
Current		
Corporate income tax liability	111,883,528	111,938,041
Provisions for gratuity	20,111,015	11,003,855
Provisions for leave encashment	4,323,301	1,266,422
Liability for frequent flyer program	5,065,265	9,284,093
Total	141,383,109	133,492,411

Provision for Gratuity, Leave Encashment, and frequent flyer program are based on the actuarial valuation. The details are reflected in Note 35. Reconciliation of corporate tax liability is as shown below.

Current tax liability

Particular	2021	2020
Balance as at 1 January	111,938,041.39	164,638,272.58
Income tax outside Bhutan	3,398,815	7,316,321
Paid during the year	(3,453,329)	(60,016,552)
Balance at 31 December	111,883,528	111,938,041

ACCOUNTING POLICIES & NOTES TO ACCOUNTS

Note 15: Trade and other payables

	As at 31 December 2021	As at 31 December 2020
Current		
Trade creditors	65,143,791	14,054,008
Accrued expenses	28,785,951	116,831,033
Deposits received	244,224,590	317,274,872
Employees payables	6,582,817	6,143,236
Total	344,737,148	454,303,150

Note 16: Other liabilities

	As at 31 December 2021	As at 31 December 2020
Non- Current		
Deferred liability for credit memo	99,936,142	105,693,251
Deferred Government Grant for Domestic Operations	4,531,504	5,286,754
Total	104,467,646	110,980,005
Current		
Deferred revenue on sale of tickets	29,233,819	63,977,590
Deferred liability for credit memo	5,757,109	5,757,109
Liability for stale cheque	3,257,064	3,202,379
Taxes and duties payable*	7,994,499	53,244,018
Deferred Government Grant for Domestic Operations	755,250	755,250
Total	46,997,741	126,936,347

*Taxes and Duties payable includes Nu.7,155,169 of taxes collected from customers for the un-flown tickets as of 31 December 2020.

Note 17: Traffic revenue

	31 December 2021	31 December 2020
Passenger revenue	241,044,712	534,684,922
Insurance & Fuel Surcharge	31,342,332	28,315,777
Excess Baggage	6,795,816	5,849,760
Cargo	165,085,399	91,452,489
Chartered sales	101,601,545	279,379,416
Administrative fee	1,248,945	1,275,513
No show charges	52,931	2,189,881
Cancellation charges	611,418	8,709,973
Total	547,783,098	951,857,731

ACCOUNTING POLICIES & NOTES TO ACCOUNTS

Note 18: Other operating revenue

	31 December 2021	31 December 2020
Duty free sales	7,075,136	7,470,351
Commission earned	15,444	207,998
B3 Catering sales	570,694	3,455,428
Drukair Holiday sales	-	2,351,675
Cargo Transshipment and handling charges	965,490	329,528
Total	8,626,764	13,814,981

Note 19: Non-operating revenue

	31 December 2021	31 December 2020
Liability Written back	32,630,699	6,233,313
Subsidy on Interest Expense	96,106,875	134,106,618
Interest income	6,025,955	7,280,772
Gain on sale of property, plant and equipment	2,884,122	173,445,174
Rent Recovery	45,500	4,843,342
RGoB subsidy for COVID 19	106,746,439	139,239,306
Miscellaneous Revenue	437,571	1,764,073
Amortization on credit memorandum	5,757,109	5,757,109
Amortization of deferred government grant	755,250	755,250
Total	251,389,521	473,424,958

Note 20: Flight operation cost

	31 December 2021	31 December 2020
Aircraft fuel and oil	112,730,447	215,899,493
Aircraft navigation charges	43,506,698	58,702,766
Aircraft landing and parking fees	6,928,964	20,696,368
Aircraft ground handling and security charges	29,490,742	79,563,726
Simulator expenses	10,746,264	6,256,190
Chartered Expenses	39,927,291	92,454,857
Crew meal and outstation expenses	3,322,039	13,158,525
Quarantine Expenses	12,575,456	8,698,573
Total	259,227,901	495,430,497

ACCOUNTING POLICIES & NOTES TO ACCOUNTS

Note 21: Other operation cost

	31 December 2021	31 December 2020
In-flight catering expenses	17,518,565	39,017,974
Drukair Holidays Expenses	-	1,918,964
Disrupted flight expenses	590,276	1,916,228
Loss baggage claim	10,273	22,393
Purchase of duty free items	4,263,359	4,446,910
Service charges	250,100	3,233,933
Cargo transport & handling charges	196,417	519,553
Total	22,828,991	51,075,955

Note 22: Aircraft maintenance cost

	31 December 2021	31 December 2020
Consumption stores and spares	12,059,676	10,916,218
Aircraft maintenance	115,099,535	158,647,199
Less: Credit memorandum utilized	(4,891,515)	(28,596,501)
Freight charges	6,578,419	5,824,634
Stores & scrap written off	982,038	1,716,506
Total	129,828,153	148,508,056

Reconciliation of credit memorandum (Amount in USD)

Particulars	CFM	B/E Aerospace	ATR	Saint Gobain Sully	Total
Balance as on 1 January 2021	264,061.50	25,572.56	148,274.91	873.66	438,782.63
Add: Credits received	-	-	37,449.70	-	37,449.70
Less: Credits utilized	-	-1,376.13	-64,325.88	-	-65,702.01
Balance as on 31 Dec. 2021	264,061.50	24,196.43	121,398.73	873.66	410,530.32

The credit memorandum from CFM was received for the purchase engine of A320 neo (JKW) in 2020. There is no utilization against this credit memorandum in 2021.

B/E Aerospace has provided Credit Memorandum against the purchase of equipment for airbus A319 (JSW) and A32eo. During the year USD1,376.13 was utilised for the maintenance of aircraft equipment. In 2019, for the purchase of ATR MSN 1412, ATR had provided Credit Memorandum of USD150,000 (Nu.10,875,000) as per Credit Note No.90607847 against goods & services and USD4,000 (Nu.290,000) as per Credit Note No.90607849 against Letter of Agreement No.6. This year additional credit of USD37,449.70 was received from ATR, and USD64,325.88 was used for the maintenance of ATR MSN 1412 (JKW).

ACCOUNTING POLICIES & NOTES TO ACCOUNTS

Note 23: Other maintenance cost

	31 December 2021	31 December 2020
Ground transport maintenance	415,155	315,136
Maintenance of ground transport equipment	2,087,820	2,156,178
Maintenance of hanger and workshop	274,815	63,458
Other maintenance	11,063,963	4,822,814
Total	13,841,754	7,357,586

Note 24: Employee Cost

	31 December 2021	31 December 2020
Pay and allowances	321,090,572	497,080,337
Leave travel allowance	7,527,203	7,035,613
Productivity Allowance	3,053,399	2,611,958
Bonus and variable pay	-	-
Overtime	10,947	347,295
Uniform/make up expenses	-	2,364,761
Medical expenses	1,204,449	1,268,682
Staff welfare	61,300	1,262,187
Staff training and development	2,904,442	5,792,702
Leave encashment	12,100,532	12,635,715
Provident fund contribution	19,161,682	18,613,297
Retirement benefits	8,782,502	15,256,586
Transfer grant	204,990	-
Total	376,102,018	564,269,134

Note 25: Marketing and sales promotion

	31 December 2021	31 December 2020
Marketing sales promotion	550,793	1,299,091
Agent Commission	7,104,740	33,547,434
Advertisement & souvenir	453,365	73,968
Total	8,108,898	34,920,494

ACCOUNTING POLICIES & NOTES TO ACCOUNTS

Note 26: Other cost

	31 December 2021	31 December 2020
Board meeting expenses	180,718	608,306
Fee & subscriptions	14,983,642	18,479,037
Printing and stationery	2,005,017	3,850,120
Office Tea expenses	896,171	964,124
Lease rent (non-aircraft)	14,800,506	17,376,507
Travelling expenses	2,786,864	3,466,883
Transportation expenses	1,718,030	1,600,562
Rates and taxes	-	745,181
Insurance	104,798,418	49,504,783
In-flight magazine	-	664,833
Communication expenses	25,291,426	49,593,175
Security Services	1,152,397	1,118,840
Electricity charges	998,949	1,273,220
Entertainment expenses	-	560,506
Books & periodicals	178,746	296,389
Donation & grants	-	183,922
Employee Engagement & religious expenses	3,241,516	86,503
Consulting fees	2,012,996	1,640,134
Audit fees	1,059,736	615,132
Forex loss	11,474,459	8,847,976
Hospitality and supplies and expenses	136,831	3,295,178
Other write off	81,930	2,240,000
Doubtful debts	-	5,738,690
Interline expenses	410,471	-
Miscellaneous Expenses	635,000	-
Total	188,843,824	172,749,999

Note 27: Finance cost

	31 December 2021	31 December 2020
Bank charges	5,519,085	9,938,560
Interest on borrowing & others	377,528,868	330,025,237
Total	383,047,953	339,963,797

ACCOUNTING POLICIES & NOTES TO ACCOUNTS

Note 28: Taxes

a Tax (charge)/(credit) in the income statement

Particular	2021	2020
i Income tax expense		
Current tax on profit for the year	-	-
Tax adjustment for earlier year	-	-
Tax outside Bhutan	(3,398,815)	(7,316,321)
Total current tax	(3,398,815)	(7,316,321)
ii Deferred tax		
Deferred tax income for the year	385,168,447	343,719,365
Total deferred tax	385,168,447	343,719,365
Total Tax credit	381,769,632	336,403,045

b Deferred tax

Particular	2021	2020
Balance as at 1 January	343,719,365	-
Deferred tax Income	385,168,447	343,719,365
Balance at 31 December	728,887,812	343,719,5

c Reconciliation of total tax charged in the income statement

Particular	2021	2020
Accounting (loss)/profit before tax	(1,490,358,390)	(1,150,895,027)
Tax calculated at the standard rate of corporate tax in Bhutan of 30%	447,107,517	345,268,508
Non-deductible expense	(61,939,070)	(1,549,142)
Tax paid outside Bhutan	(3,398,815)	(7,316,321)
Balance at 31 December	381,769,632	336,403,045

Note 29: Earnings Per Share (EPS)

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

Basic EPS attributable ordinary shares	2021	2020
Net profit/loss attributable to the owners of the company	(1,108,588,758)	(814,491,982)
Issued and outstanding ordinary shares at the beginning of the year	36,085,251	25,583,519
Share allotted to DHI during the year	-	10,501,732
Outstanding ordinary shares at the end of the year	36,085,251	36,085,251
Weighted average number of ordinary shares	36,085,251	33,474,165
Basic and Diluted EPS attributable to ordinary shares	(30.72)	(24.33)

ACCOUNTING POLICIES & NOTES TO ACCOUNTS

Note 30: Fair value measurement

Financial instrument by category

Particulars	31 December 2021			31 December 2020		
	FVPL	FVOCI	Amortized Cost	FVPL	FVOCI	Amortized Cost
Financial assets						
Security deposit paid			68,220,502			65,946,076
Cash and cash equivalents			74,354,539			68,167,555
Trade receivables			27,428,701			48,614,120
Other receivables			1,040,619			882,170
Total financial assets	-	-	171,044,361	-	-	183,609,921
Financial liabilities						
Borrowing			6,678,688,967			5,859,303,158
Trade payables			65,143,791			14,054,008
Security deposit received			244,224,590			317,274,872
Other payables			6,582,817			126,176,648
Total financial liabilities	-	-	6,994,640,164	-	-	6,316,808,686

Fair value hierarchy

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

Level 1

Level 1 hierarchy includes financial instruments measured using quoted prices.

Level 2

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

Level 3

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

Valuation techniques used to determine fair value

Specific valuation techniques used to value financial instruments include the fair value of the financial

ACCOUNTING POLICIES & NOTES TO ACCOUNTS

instruments as determined using discounted cash flow analysis.
Fair value of financial assets and liabilities measured at amortized cost

Particulars	31 December 2021		31 December 2020	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets				
Trade receivables	27,428,701	27,428,701	48,614,120	48,614,120
Total	27,428,701	27,428,701	48,614,120	48,614,120
Financial liabilities				
Borrowing	6,678,688,967	6,682,501,218	5,859,303,158	5,850,776,375
Total	6,678,688,967	6,682,501,218	5,859,303,158	5,850,776,375

The carrying amounts of current sundry debtor, cash and cash equivalents, current investment, interest accrued, other receivables, security deposit given and paid, trade payables and other payables are considered to be the same as their fair values, due to their short-term nature.

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

Note 31: Capital management

Risk management

The Company is formed as a wholly owned subsidiary of Druk Holding & Investments Limited (DHI).

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

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

ACCOUNTING POLICIES & NOTES TO ACCOUNTS

Note 32: Financial Risk Management

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

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

Risk	Exposure arising from	Measurement	Management
Credit risk	Cash and cash equivalents, trade receivables, financial assets measured at amortized cost	Aging analysis	Diversification of customer base
Liquidity risk	Borrowings and other liabilities	Cash flow forecasts	Availability of committed facilities
Market risk – foreign exchange	Future commercial transactions and recognized financial liabilities not denominated in Bhutanese Ngultrum (Nu.)	Cash flow forecasting Sensitivity analysis	Diversification of liability
Market risk – interest rate	Long-term borrowings at fixed rates	Sensitivity analysis	Portfolio of loan contains fixed interest loans from financial institutions

Market risk

i) Foreign currency risk

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

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

ACCOUNTING POLICIES & NOTES TO ACCOUNTS

Foreign currency risk exposure

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

Particulars	31 December 2021		31 December 2020	
	USD	SGD	USD	SGD
Financial assets	-	4,390	-	-
Financial liabilities	(46,384,113)	(633,021)	(486,847)	(2,455,107)
Net exposure to foreign currency risk	(46,384,113)	(628,631)	(486,847)	(2,455,107)

Particulars	31 December 2021		31 December 2020	
	Thai Baht	NPR	Thai Baht	NPR
Financial assets	11,347,656	-	-	-
Financial liabilities	(4,547,149)	(60,075)	(2,343,435)	-
Net exposure to foreign currency risk	6,800,507	(60,075)	(2,343,435)	-

Particulars	31 December 2021		31 December 2020	
	Taka	INR	Taka	INR
Financial assets	-	2,338,858	-	1,214,416
Financial liabilities	(109,643)	(2,825,451)	(13,804)	(13,804)
Net exposure to foreign currency risk	(109,643)	(486,593)	(13,804)	1,200,612

ACCOUNTING POLICIES & NOTES TO ACCOUNTS

Sensitivity

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

	Impact on profit before tax	
	31 December 2021	31 December 2020
SGD sensitivity		
Nu. depreciate by 5%	(31,432)	(122,755)
Nu. appreciate by 5%	31,432	122,755
USD sensitivity		
Nu. depreciate by 5%	(2,319,206)	(24,342)
Nu. appreciate by 5%	2,319,206	24,342
NPR sensitivity		
Nu. depreciate by 5%	(3,003.75)	-
Nu. appreciate by 5%	3,003.75	-
Thai Baht sensitivity		
Nu. depreciate by 5%	340,025	(117,172)
Nu. appreciate by 5%	(340,025)	117,172
Taka sensitivity		
Nu. depreciate by 5%	(5,482)	(690)
Nu. appreciate by 5%	5,482	690

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

ii) Interest rate risk

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

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

iii) Price Risk

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

ACCOUNTING POLICIES & NOTES TO ACCOUNTS

Liquidity risk

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

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

Maturities of financial liabilities

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

Contractual maturities of financial assets 31 December 2021	Less than 1 year	More than 1 years	Total
Trade and Other Payables	344,737,148	-	344,737,148
Borrowings	1,137,869,226	5,574,630,408	6,712,499,634
Interest	578,918,524	1,306,326,019	1,885,244,543
Total financial liabilities	2,061,524,898	6,880,956,427	8,942,481,325

Contractual maturities of financial assets 31 December 2020	Less than 1 year	More than 1 years	Total
Trade and Other Payables	454,303,150	-	454,303,150
Borrowings	712,000,710	5,147,302,447	5,859,303,158
Interest	324,602,754.81	1,146,207,048	1,470,809,803
Total financial liabilities	1,490,906,615	6,293,509,495	7,784,416,110

C. Credit risk

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

Trade receivables

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

The Company's long term trade receivable usually from government bodies and management expects to recover the entire amount subsequently. However, the management has evaluated the long term trade receivable for time value of money impact and considered it for impairment as per BFRS 9. Other

ACCOUNTING POLICIES & NOTES TO ACCOUNTS

trade receivables are from sale agents with a credit tenure of 30-45 days.

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

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

Particulars	Less than six months	More than six months less than 3 years	More than 3 years	Total
Trade receivable as on 31 December 2021 (Gross)	24,408,298	165,539	11,570,563	36,144,400
Less: Provision for impairment loss	-	-	(8,715,700)	(8,715,700)
Trade receivable as on 31 December 2021 (Net)	24,408,298	165,539	2,854,863	27,428,701

The requirement for impairment is analyzed at each reporting date. The maximum exposure to credit risk at the reporting date is the carrying value of each class of financial assets disclosed in Note 30.

Financial instruments and cash deposits

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

Note 33: Related party transactions

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

ACCOUNTING POLICIES & NOTES TO ACCOUNTS

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

Name of related party	Relationship	Nature of transaction with related party	Transaction amount in Nu.	Receivable/ (Payable) amount in Nu.
Druk Holding & Investment	Holding company	a) Consideration for issue of equity shares	3,608,525,100.00	-
		b) Sale of air tickets	503,990.00	-
		c) Dividend paid	-	-
		d) Commission	19,964.00	(19,564.72)
		e) Intra group Borrowing	490,000,000.00	-
		f) Others	-	13,223.00
		g) Security Deposit Received	467,170.00	
Bank of Bhutan Limited	Fellow Subsidiary	a) Sale of air tickets	96,248.00	-
		b) Bank Charges	1,354,041.66	-
		c) Loans	1,473,122,422.61	-
		d) Commission	3,535.00	(467,338.60)
		e) Interest on borrowing	87,838,632.51	(11,621,270.16)
		f) Current account	28,440,468.38	-
Bhutan Power Corporation Limited	Fellow Subsidiary	a) Sale of air tickets	95,850.00	15,213.00
		b) Electricity Charges	880,232.43	(50,000.00)
Bhutan Telecom Limited	Fellow Subsidiary	a) Sale of air tickets	-	(50,974.00)
		b) Telephone and Internet Charges	3,583,393.50	(476,107.15)
		c) Rental Charges	73,702.20	-
Dungsum Cement Corporation Limited	Fellow Subsidiary	a) Commission	-	(23,802.00)
Druk Green Power Corporation Limited	Fellow Subsidiary	a) Sale of air tickets	931,768.00	135,660.00
		b) Commission	35,119.00	(29,745.03)
State Trading Corporation Limited	Fellow Subsidiary	a) Sale of air tickets	14,602.00	-
		b) Commission	604.00	(8,820.32)
		c) Maintenance of Vehicle	820.00	-
Thimphu Tech Park Limited	Fellow Subsidiary	a) Capital Work in Progress	207,790.79	(2,707,790.79)
		b) Software	12,517,711.06	-
		c) Staff Training Expenses	120,000.00	-

ACCOUNTING POLICIES & NOTES TO ACCOUNTS

Wood Craft Centre Limited	Fellow Subsidiary	-	-
Koufuku International Limited	Fellow Subsidiary	-	-
Bhutan Broad Product Limited	Fellow Subsidiary	-	-
Dungsam Polymers Limited	Fellow Subsidiary	-	-
Bhutan Board Export Limited	Fellow Subsidiary	-	-
Tangsibji Hydro Energy Limited	Fellow Subsidiary	-	-
State Mining Corporation Limited	Fellow Subsidiary	-	-
Penden Cement Authority Limited	Fellow Subsidiary	-	-
Construction Development Corporation Limited	Fellow Subsidiary	a) Sale of air tickets	-
		b) Commission	-
Dagachhu Hydro Power Corporation Limited	Fellow Subsidiary	sale of air tickets	-
Natural resources Development Corporation Limited	Fellow Subsidiary	a) Sale of air tickets	-
		b) Commission	-

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

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

Key management personnel ('KMP')

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

Summary of compensation paid to the KMP:

For the year ended 31 December	2021	2020
Basic Salary, Allowance, PF and leave encashment	2,348,700	3,124,119
Sitting Fees	-	64,000
Leave Travel Concession	15,000	15,000
Total	2,363,700	3,203,119

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

ACCOUNTING POLICIES & NOTES TO ACCOUNTS

During the year CEO, Directors, Engineers and Pilots had voluntarily agreed for pay cut of 25% on their gross salary for the whole year. Likewise, 15% by employees under general cadre from grade 7 and above. The Board Directors had also voluntarily forgone their sitting fee for the whole year.

Note 34: Contingent liabilities

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

As per Notice of Demand raised by the Revenue Department Nepal in respect of the year 2014-15 total assessed amended tax is NPR.34,897,711.00 against which NPR5,600,136.00 was already paid by way of advance submitted tax leaving a balance due of NPR29,297,575.00. In 2018, the Station has deposited NPR9,800,000.00 (33% of NPR29,297,575.00) to appeal the case to Inland Revenue Department, Nepal for administrative review and waiver. However, the Inland Revenue Department has passed the resolution against Drukair's favour. In 2020, the Company paid NPR 4,980,588 as security deposit to Inland Revenue Office to appeal the case in the Revenue Tribunal court. Further during the year the company paid NPR6,250,000 was paid to Inland Revenue Department, Nepal. The case is still pending with Revenue Tribunal court.

During the tax assessment in 2018 there was is a tax demand of Nu.5,457,834.18 pertaining to 3% TDS for commission for foreign agents. This year the tax assessment was completed 2018, 2019 and 2020 however, the tax dispute on the mentioned amount is still pending.

A show cause cum demand notice dated 31.12.2020 for Rs.11,738,403.00 on account of service tax (including cess) for the period 2014-15 to 2017-18 was raised by Additional Commissioner, CGST & CX, Kolkata, Audit-I Commissionerate. This was raised based on the assumption that all passengers travelled by "business class". On 31 January 2021, the Company issued a protest letter with all the supporting documents confirming the "false statement" conceived by the inspecting officials. The case is lying with the office of the Commissioner of CGST & CX as on date.

Note 35: Employee Benefits

Gratuity

Defined Benefit Plans

Valuation in respect of Gratuity has been carried out by independent actuary, Druk infinity consulting firm, Bhutan. The present value of the defined benefit obligation, and the related current service cost and past service cost, were measured using the Projected Unit Credit (PUC) Method.

ACCOUNTING POLICIES & NOTES TO ACCOUNTS

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

1: Changes in Present Value of Obligations:	
Period	Year 2021
Present value of the obligation at the beginning of the period	98,099,491
Interest cost	6,960,753
Past service cost	-
Current service cost	8,285,238
Benefits paid (if any)	(5,289,455)
Actuarial gain/(loss)	156,330
Present value of the obligation at the end of the period	108,212,357

2: The amount to be recognized in the statement of financial position	
Period	Year 2021
Present value of the obligation at the end of the period	108,212,357
Fair value of plan assets at end of period	111,166,902
Fund status – surplus/(deficit)	2,954,545
Net asset/(liability) recognized in Balance Sheet	2,954,545

3 (a): Expense recognized in the statement of Profit and Loss:	
Period	Year 2021
Interest cost	6,960,753
Past service cost	-
Current service cost	8,285,238
Expected return on plan asset	(8,295,915)
Expenses to be recognized in P&L	6,950,076

3 (b): Other comprehensive (income) / expenses	
Period	Year 2021
Actuarial (gain)/loss - obligation	156,639
Actuarial (gain)/loss - plan assets	7,741,219
Total Actuarial (gain)/loss	7,897,549

4: Table showing changes in the Fair Value of Planned Assets:	
Period	Year 2021
Fair value of plan assets at the beginning of the period	110,612,206
Expected return on plan assets	8,295,915
Contributions	-
Benefits paid	-
Actuarial gain/(loss) on plan assets	(7,741,219)
Fair Value of Plan Asset at the end of the Period	111,166,902

ACCOUNTING POLICIES & NOTES TO ACCOUNTS

5: The assumptions employed for the calculations are tabulated:

Discount rate	7.50 % per annum
Salary Growth Rate	7.00 % per annum
Mortality	100% of IALM (2012-14)
Withdrawal rate (Per Annum)	5.00% p.a.

6: Bifurcation of net Liability

Period	Year 2021
Current Liability	20,111,015
Non-Current Liability	(23,065,560)
Net Liability	(2,954,545)

Leave Encashment Liability

This has been determined by actuarial method at Nu.27,928,021 the following is the summary of leave encashment as per the actuary valuation report:

The table below shows a summary of the key results for the year ending 31 December 2021:

1: Present Value of Obligations:

Period	Year 2021
Present value of the obligation at the beginning of the period	16,517,620
Interest cost	1,204,946
Past service cost	-
Current service cost	11,410,401
Benefits paid (if any)	(451,670)
Actuarial (gain)/loss	(753,277)
Present value of the obligation at the end of the period	27,928,020

2: The amount to be recognized in the statement of financial position

Period	Year 2021
Present value of the obligation at the end of the period	27,928,021
Fair value of plan assets at end of the period	-
Funded Status	(27,928,021)
Net defined benefit asset/(liability)	(27,928,021)

3 (a): Expense recognized in the statement of comprehensive income

Period	Year 2021
Interest cost	1,204,946
Past service cost	-
Current service cost	11,410,401
Interest on plan asset	-
Immediate recognition of gains/losses-other long term employee benefits	(753,276)
Expenses to be recognized in P&L	11,862,071

ACCOUNTING POLICIES & NOTES TO ACCOUNTS

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

Period	Year 2021
Actuarial (gain)/loss - obligation	(753,276)
Actuarial (gain)/loss - plan assets	-
Total Actuarial (gain)/loss	(753,276)
4: The assumptions employed for the calculations are tabulated:	
Discount rate	7.50 % per annum
Salary Growth Rate	7.00 % per annum
Mortality	100% of IALM (2012-14)
Withdrawal rate (Per Annum)	5.00% p.a.

5: Bifurcation of net Liability

Period	Year 2021
Current Liability (Short Term)*	4,323,301
Non-Current Liability (Long Term)	23,604,720
Total Liability	27,928,021

Note 36: Additional Disclosure

Liability for Frequent Flyer Programme

This has been determined by actuarial method at Nu.7.60 million (PY Nu.13.93 million). The following Actuarial estimates were used to determine the Actuarial Liability in 2021:

Redemption Rate-	33%
Loyalty Points accrued-	12,200,563
Cost Per Point-	2.03

Segment Information

For management purposes, the company has only one operating segment viz. transport of people and cargo by air, mainly from Bhutan to neighbouring countries. The company also transports people and cargo from India to third countries and also domestically within Bhutan, but these activities are part of the main activity. Therefore, the company's profit and loss account and balance sheet represent the results of this sole segment. During the year 2020, the company carried 23,858 number of revenue passengers and 197,234 kg of cargo (PY: 67,482 no. revenue passengers and 197,234 kg of cargo).

Government grants

Grants from RGoB and other organisations relating to costs are recognised in the income statement over the period necessary to match them with the costs that they are intended to compensate. During the year the Company recognised revenue grant of Nu.202,853,315 (Nu.96,106,875 for subsidy on interest expense and Nu.106,746,439 for RGoB subsidy for COVID 19). Rent waiver of Nu.5,728,284, Nu.96,260,103 against 50% waiver on NPPF loan interest, and waiver of Nu.4,758,053 for landing & navigation charges treated as RGoB subsidy for COVID 19. There is also an amortization of deferred grant on the purchase of asset for Gelephu station amounting to Nu.755,250 for the year.

ACCOUNTING POLICIES & NOTES TO ACCOUNTS

Benefit of interest free loan

There is an interest free loan outstanding and due to the RGoB to the extent of Nu.110 million (PY Nu.118 million) as on 31 December 2021. The estimated interest expenses of this loan has not been accounted for in the books of the Company. If the interest is considered at 9% p.a., the expenses on account of this interest for the year 2021 would be Nu 9.88 million (PY Nu.9.88 million). Similarly, for interest-free inter group borrowing of Nu.490 million, considering the same interest rate of 9% p.a. the interest expenses would be Nu.21.07 million.

Note 37: Events after the reporting period

The full impact of the COVID-19 continues to evolve as of the date of this report. As such, it is uncertain as to the full magnitude that the pandemic will have on the Company's financial condition, liquidity, and future results of operations. Management is actively monitoring the global situation on its financial condition, liquidity, operations, suppliers, industry, and workforce. Given the daily evolution of the COVID-19 outbreak and the global responses to curb its spread, the Company is not able to estimate the effects of the COVID-19 outbreak on its results of operations, financial condition, or liquidity for fiscal year 2021.

For JIGMI Audit and Financials Pvt. Ltd.

For Drukair Corporation Limited



Jigmi Rinzin FCCA
(Membership No. 0283308)
Partner




(Rinzin Dorji)
Director, FCSD



(Tandi Wangchuk)
Chief Executive Officer



(Dasho Pema Chewang)
Chairman

Place: *Thimphu*
Date: *27/05/2022*



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