

DIRECTORS REPORT

Your Directors are pleased to submit their Report and the Audited Accounts of your Company for the year ended 32nd Asadh, 2075 (16th July, 2018).

SOCIO ECONOMIC AND REGULATORY ENVIRONMENT

The year witnessed Nepal’s transition to federalism with the successful formation of governments at the federal, provincial and local level. Such an empowered structure of governance is expected to lend political stability and augurs well for the development of the country. Reforms and policies that enhance the ease of doing business and attract both domestic and foreign investment will be critical to bolstering economic growth going forward.

Towards this, the new federal government and the sub-national governments have promised to promote the country as an attractive investment location. The new Government continues to focus on policies & programs towards attaining the stability, development and prosperity in line with its motto of creating “Prosperous Nepal, Happy Nepalis.” The Government has set an ambitious real GDP growth target of 8% per annum along with a target to double per capita income in five years and to transform Nepal to the status of a middle-income country by 2030.

The economy of Nepal grew at a healthy pace during the year under review. Real GDP growth for the year under review is estimated at 5.9% against an average growth of 4.3% during the last decade (2065-2075). The annual average inflation during the year was contained at 4.2% (4.5% in the previous year). However, increasing fuel prices, higher taxes and increased cost of imports due to the recent strengthening of the US Dollar are expected to exert inflationary pressures going forward.

On the external front, merchandise imports increased sharply during the year to 41.3% of GDP as against 37.5% of GDP in the previous year on the back of increase in imports of petroleum products, vehicles and spare parts etc. While workers’ remittances grew faster at 8.6% during the year against 4.6% in the previous year, the same declined to 25.1% of GDP compared to 26.3% in the previous year. Consequently, the Current Account Deficit increased significantly to 8.2% of GDP versus 0.4% in the previous fiscal. The successful implementation of recent measures announced by the Government to increase Foreign Direct Investment (FDI) flows into the country and promote industries contributing to exports and import substitution is expected to go a long way in containing the rising pressures on the external account and ensuring the macroeconomic stability of the country.

During the year, the governments at all levels initiated the process of formulating new laws as per the Constitution. Various regulations such as the Consumer Protection Act, Industrial Enterprises Rules and Contribution based Social Security Rules etc. are in the process of being notified. The National Intellectual Property Policy, 2017 was also announced towards ensuring protection and promotion of intellectual property rights in the country. Revamping the current law on intellectual property rights in line with the new Policy as aforementioned will be critical in realising the government’s stated objectives. Further reforms towards promotion and protection of investments in the country would be crucial to spur private investments, both domestic and foreign.

Unlike most countries where tobacco and cigarettes are synonymous, the larger share of tobacco consumption in Nepal is in the form of Smokeless Tobacco (SLT) products like khaini, gutka, snuff and betel-quid with tobacco (“Paan”). Despite its low share in total tobacco consumption, the legal cigarette industry occupies an important place in Nepal’s economy. The legal cigarette industry:

- provides direct/indirect employment to an estimated 1 lakh people and supports the livelihoods of more than 4 lakh farmers, farm workers, retailers and others engaged in cultivation and trade of tobacco products.
- contributes around 10% of the total excise duty collection of the Government and around 83% of the excise duty collection from the tobacco sector.
- is amongst only a handful of industries in which Nepal has sufficient domestic manufacturing capacity and contributes significantly towards building country’s manufacturing competitiveness and industrial productivity.
- is one of the major contributors to the manufacturing sector GDP of the country.

However, a skewed focus on cigarettes has resulted in a punitive and discriminatory taxation policy. The Health Risk Tax, introduced with effect from mid-Jestha, 2075, is a case in point. It is pertinent to note that the Health Risk Tax on cigarettes is 14 times higher as compared to smokeless tobacco products (on a per Kg of tobacco basis). The introduction of Health Risk Tax, coupled with increase in excise duty announced in the Budget for 2075-76, has resulted in an unprecedented increase in tax incidence on cigarettes of upto 87%. The tax burden on cigarettes has been exacerbated by the increase in customs duty announced during the

year on import of certain raw materials for the tobacco industry. This has further increased the operating pressure on the legal cigarette industry.

The consumption of cigarettes is highly price elastic. With a large number of cigarette consumers also consuming relatively lower priced Smokeless Tobacco Products like Khaini, Gutkha etc., the steep increase in tax incidence on cigarettes as aforementioned will encourage the shift to cheaper/ revenue inefficient and largely tax evaded tobacco products. The risk of such shift in consumption has also been identified in the *WHO Study on Economics of Tobacco in Nepal*. The report states that “*With increased pricing on Cigarettes, people may switch to smokeless tobacco products. In order to prevent this switching..... it is necessary to increase taxes on these products.*”

An analysis of the WHO Report on Global Tobacco Epidemic, 2017 reveals that cigarette taxes in Nepal are amongst the highest in world (as a % of per capita GDP required to purchase 2000 cigarettes of most popular brand). Excessively high rates of taxes levied in cigarettes create a lucrative arbitrage for counterfeiters and smugglers. The Interpol, in its Trafficking and Counterfeiting Casebook, states that “*It would be hard to find a more ideal candidate for counterfeiting and illicit trade than cigarettes. The product is small, lightweight and profitable for illicit trade because the sale price is many times the cost of manufacture, mostly due to high levels of local tax in most countries*”. It may be noted that illegal trade taken as a whole ranks as the fourth biggest tobacco ‘company’ in the world.

Steep increase in duties on cigarettes, which are already subject to punitive and discriminatory taxation; will not only severely impact the legal cigarette industry and provide fillip to the illicit trade but also sub-optimize the revenue potential of the tobacco sector. The most effective ways to check the menace of illicit trade of cigarettes while pursuing health and revenue objectives are non-discriminatory & equitable taxation across tobacco products and moderation in cigarette taxation.

In addition to the punitive and discriminatory taxation regime, the legal cigarette industry is also subject to a harsh regulatory framework in Nepal. The provisions of the Tobacco Products Control and Regulation Act (TOPCA) require cigarette packages to carry Graphic Health Warnings (GHW) covering at least 75% of the total surface area of the packet. Unlike the global trend of regulatory requirement of printing the health warning on the principal display area (front and back of the package), regulations in Nepal require printing of health warnings covering 75% of the entire surface area of the package.

In this context, it is pertinent to note that the global average size of pictorial warnings is only about 30% coverage of the principal display area. In fact, the three countries that account for about 51% of the world’s cigarette consumption, viz. USA, Japan and China have not adopted pictorial/graphical health warnings and have prescribed only text-based warnings on cigarette packages.

Despite this, the Ministry of Health issued two new Directives in Kartik’71 (November 2014) and Poush’71 (January 2015) which, inter alia, require manufacturers to print multiple pictorial warnings and warning messages on at least 90% of the total surface area of the cigarette packet- the largest in the world. The pictures and warning messages, provided in the proposed Directive are even more egregious, gruesome and exaggerated than the existing GHW and seem to be designed to shock, as opposed to factually inform, the consumer.

The existing 75% GHW already impedes the legal cigarette industry from providing comprehensive brand information on the cigarette packet, thereby preventing cigarette consumers from making fully informed choices across brands. It is apprehended that a further increase in size of GHW to 90% will have the following unintended consequences:

- commoditization of the product due to practically no space being available on the cigarette packet for providing brand information. As a result of this, price will become the most significant determinant for consumer choice.
- further fillip to growth of smuggled international brands that do not carry statutory GHW as well as spawning of manufacture of counterfeit look-alike products of dubious quality. These duty evaded cigarettes can be offered to consumers at prices far lower to duty paid cigarettes. The growth of illicit cigarettes will also depress the demand for domestic tobacco thereby adversely impacting the earnings of Nepali tobacco farmers and farm workers as well as lakhs of people who are dependent directly/indirectly on the legal cigarette industry for their livelihood.
- substantially lower tax revenue to the exchequer.

It has been experienced internationally that extreme regulations do not reduce demand for tobacco, but merely shift it from the legal to illegal tobacco products of suspect quality, thereby undermining public health objectives.

As stated in previous years, your Company, along with other stakeholders like farmers, retailers etc. has made recommendations to the Ministry

of Health to keep the implementation of the new Directives on 90% GHW in abeyance. Your Company, during the year under review, filed a comprehensive writ in the Supreme Court of Nepal challenging the constitutionality of the new Directive requiring to print 90% GHW. Concurrently, in line with the direction from the Ministry of Industry – the implementing agency under TOPCA, your Company continues to print 75% GHW on cigarette packages manufactured by it.

To actualize the full revenue potential of tobacco, the need of the hour is to have a balanced, pragmatic, evidence based and non-discriminatory regulatory and taxation framework that addresses the agenda of all stakeholders including farmers, retailers, manufacturers and the government. Towards this, your Company continues to remain engaged with policy makers/regulators.

COMPANY PERFORMANCE

Your Company posted Gross Revenue from sale of products of NRs. 3,337 (₹ 2,086) crore for the year ended 32nd Asadh, 2075 against NRs. 2,971 (₹ 1,857) crore during the previous year. Profit before taxation increased to NRs. 1,353 (₹ 846) crore from NRs. 1,130 (₹ 706) crore during the previous year. Profit for the year (after Tax expense and allocation towards Corporate Social Responsibility) stood at NRs. 918 (₹ 574) crore against NRs. 783 (₹ 489) crore in previous year. Total Comprehensive Income for the year stood at NRs. 915 (₹ 572) crore against NRs. 784 (₹ 490) crore in the previous year. Earnings per share for the year stood at NRs. 455 (₹ 284) [Previous year NRs. 357 (₹ 223)]. Net cash flows from operations aggregated NRs. 866 (₹ 541) crore compared to NRs. 743 (₹ 464) crore in the previous year.

CONTRIBUTION TO THE EXCHEQUER

Your Company continues to be one of the largest contributors to the Exchequer, accounting for about 3% of the total revenues of the Government. For the year under review, your Company contributed NRs. 1,929 (₹ 1,206) crore by way of Excise Duty, Excise Sticker charges, VAT, Customs Duty, Dividend Distribution Tax, Income Tax and Contribution to National Level Welfare Fund [Previous Year: NRs. 1,661 (₹ 1,038) crore]. Your Company's Excise Duty contribution to the exchequer constitutes about 10% of the Government's total Excise revenue while its VAT & Income Tax contribution constitute nearly 2% of the Government's total VAT & Income Tax revenue.

DIVIDEND

The Board of Directors declared an Interim Dividend of NRs. 75 (₹ 47) per Ordinary Share for the year ended 32nd Asadh, 2075. The total outflow on this account will amount to NRs. 151 (₹ 94) crore. Your Board has also recommended a Final Dividend of NRs. 378 (₹ 236) per Ordinary Share, which if approved, will take the total Dividend for the year to NRs. 453 (₹ 283) per Ordinary Share.

All dividends have been paid within the prescribed period and there are no unclaimed dividends lying with your Company.

FAST MOVING CONSUMER GOODS (FMCG) BUSINESSES

• **CIGARETTES**

During the year, your Company reinforced its market standing leveraging a strong portfolio of offerings, superior product quality and, a deep and wide distribution network. The Business launched several differentiated and innovative offerings during the year including Surya 24 Carat Arctic Burst and Shikhar Ice Rush which have received positive response. The relentless focus on developing world-class products anchored on innovation and benchmarked international quality standards is a key source of sustainable competitive advantage for your Company. The Product & Packaging Development Agreement entered into by your Company with ITC Limited (ITC) has been instrumental towards gaining such distinct competitive advantage. Considering the continuous need of services in the area of product and packaging development and expertise of ITC in this domain, the said Agreement has been extended for a further period of five years.

The manufacturing systems of your Company continued to set benchmarks in Sustainability, Responsiveness, Quality and Productivity in its pursuit of achieving operating excellence. The Business also continued to strengthen its quality processes and hygiene standards and introduced new metrics for monitoring such areas.

Your Company continues to invest in contemporary technologies with a view to providing products of international quality to consumers. Towards this end, it is deeply satisfying to report that during the year, your Company developed capabilities of manufacturing capsule cigarettes and cigarette packets with print registered inner frame.

Leaf Tobacco

Your Company continued to partner with tobacco farmers in Nepal to enable higher productivity and quality enhancement at the farm level through the induction of best practices for sustainable agriculture. The adoption of these and other inputs provided by your Company

has led to a consistent improvement in quality of domestic grades of tobacco, thereby improving usage and marketability of the crop, and enhancing returns for the farmer.

• **OTHER FMCG PRODUCTS**

AGARBATTI

During the year, your Company sustained the growth momentum in the Agarbatti category, and continued to strengthen its market standing driven by a robust portfolio of offerings catering to all consumer segments. The Business focused on growing consumer franchise by ensuring superior availability and visibility of its products in trade channels, backed by brand investments and consumer activation programs. The supply chain was successfully scaled up to cater to the increased demand while ensuring continuous improvements in product quality.

In keeping with its commitment to augmenting societal capital, your Company continues to strengthen its relationships with Small and Medium Enterprises, which provide employment opportunities to economically deprived sections of society.

SAFETY MATCHES

During the year, your Company enhanced its market standing and leadership position in the Safety Matches industry in both wax and wooden segments. The Business continued to focus on increased availability across markets leveraging the strong Trade Marketing and Distribution capabilities of your Company, along with cost optimization initiatives. The supply chain, continues to deliver superior quality.

APPAREL

Your Company's offering, John Players, is a leading brand in the premium segment of the branded menswear segment and has presence across markets through Exclusive Branded Outlets, Departmental Chains and Multi-Brand Outlets. The apparel business offers a diverse range of products spanning Formal Wear, Casual Wear and Denims that cater to the quality conscious and discerning consumer.

However, the performance of the Business continues to be constrained by the significant increase in cheap imports which are largely tax evaded. Against this backdrop, your Company is restructuring the Business by rationalizing the supply chain and distribution presence.

BRANDED PACKAGED FOOD PRODUCTS

During the year, your Company successfully launched a portfolio of products in the Confectionery space, with offerings in the Hard Boiled Candy, Éclairs, Jelly and Toffee segments under the 'Toffichoo' and 'mint-o' trademarks, across major geographies of the country. Based on the positive response from consumers, the Business has initiated work towards setting up a state-of-the-art confectionery manufacturing facility at Biratnagar. Upon its commissioning, the facility will create employment opportunities and facilitate the development of small and medium enterprises through local sourcing of raw materials.

ENVIRONMENT HEALTH AND SAFETY

Your Company adopted various initiatives to remain a benchmark manufacturing facility in the country and continued to reinforce high standards of environment, occupational health and safety through institutionalization of best practices. During the year, Simara Factory was ranked No.1 in the national competition for "Environment Friendly Industry Award" organized by Ministry of Forest and Environment. The unit was further acknowledged and felicitated by Birgunj Chamber of Commerce & Industries for winning the national level award.

TAX MATTERS

As reported in earlier years, during the financial year 2009-10 the Full Bench of the Hon'ble Supreme Court passed an Order dated 29th October, 2009 in favour of your Company in respect of certain Excise and Income Tax litigation related to tax demands on the basis of alleged theoretical production.

The Inland Revenue Department, citing the judgments passed in favour of your Company by the Hon'ble Supreme Court, on 11th February, 2011 and 12th August, 2013 decided the following administrative review petitions in favour of your Company:

- Dropping VAT demand – NRs. 19.01 (₹ 11.88) crore for the financial years 2058-59 (2001-02) and 2064-65 (2007-08).
- Dropping Income Tax demand – NRs. 4.91 (₹ 3.07) crore for the financial year 2062-63 (2005-06).

All other pending Show Cause Notices (SCNs) and demands related to Excise, Income tax and VAT received from time to time on the issue of theoretical production are based on similar untenable contention by the Revenue authorities that your Company could have produced more

cigarettes than it has actually produced in a given year, based on an input-output ratio allegedly submitted by your Company in the year 2047-48 (1990-91) and that your Company is liable to pay taxes on such theoretically produced cigarettes. The allegations made by the Department are despite the fact that your Company's cigarette factory has always been under 'physical control' procedures of the Revenue authorities and all the cigarettes that are produced are duly accounted for and certified by the said authorities. No fresh demand has been received during the year on this account and the cumulative pending demand on your Company on account of theoretical production stands at NRs. 68.97 (₹ 43.11) crore, as detailed below, and are under appeal before the Hon'ble Supreme Court.

- Demand of Excise Duty – NRs. 27.80 (₹ 17.38) crore.
- Demand of VAT – NRs. 17.49 (₹ 10.93) crore.
- Demand of Income Tax – NRs. 23.68 (₹ 14.80) crore.

Your Company is advised by eminent counsel that the allegations made by the Department have no legal or factual basis and that the Demand Notices served on your Company are not sustainable, particularly in the light of the favorable Order dated 29th October, 2009 of the Hon'ble Supreme Court. The subsequent decisions of the Hon'ble Supreme Court and the Inland Revenue Department have further reinforced this position. Accordingly, your Company does not recognise any liability in this behalf.

RISK MANAGEMENT

Your Company continues to follow a systems-based approach to risk management. The Corporate Governance Policy of your Company lays down the structure, roles and responsibilities of the key entities in the governance process and also mandates periodic review of key areas of operations. The Corporate Governance Policy is backed by a robust internal control system consisting of the following key elements:

- Organizational Policies for key areas of operations e.g. financial policies and procedures, IT Policy etc.
- Comprehensive standard operating procedures (SOPs) across areas of operations which ensure appropriate segregation of duties, tiered approval mechanisms and maintenance of supporting records.
- Maintenance of Books of Accounts through use of Organisation wide ERP (SAP) with appropriate transactional controls built in.
- An independent, periodic risk based internal audit across functions and businesses.

Your Company continues to focus on regular reviews and continuous improvement of the policies and processes across the areas of operations so as to ensure that various risks associated with your Company's Business and operations are adequately addressed and appropriate risk mitigation plans are put in place.

CORPORATE SOCIAL RESPONSIBILITY (CSR) INITIATIVES

Your Company, as a responsible corporate citizen, places immense emphasis on contributing towards building the societal, environmental and economic capital of the nation. Towards this end, your Company pursues an integrated CSR strategy spanning areas such as environmental preservation, social empowerment, promoting and improving education in public schools.

As a part of the ongoing interventions in this area, your Company continues to:

- provide assistance to farmers in agro-forestry, agri-infrastructure and vermicomposting in villages situated in the economic vicinity of its operating locations.
- provide training and development to farmers towards improvement in productivity and other income generating activities.
- support the animal husbandry sector by providing extension services covering animal breeding, health and nutrition in order to drive yield improvement and higher returns for underprivileged farmers.

During the year under review, your Company also entered into an agreement with "Teach for Nepal (TFN)", an NGO for providing quality teachers in public schools through the TFN Teaching Fellowship program. More than 2000 students in rural part of Parsa District will benefit from this initiative.

Such initiatives, being consistent with the CSR guidelines enunciated by Nepal Rastra Bank for banks and financial institutions, will continue to be pursued, in the absence of any prescribed guidelines notified by the Government.

In accordance with the provisions of the Industrial Enterprises Act, 2073, your Company has allocated 1% of its annual profit towards discharging CSR activities. The allocated funds will be spent on the basis of annual plan and programs as mandated by law.

EMPLOYMENT GENERATION

Your Company is one of the largest employers in the private sector and plays a very significant role in providing livelihoods, directly and indirectly, to around 4 lakh people involved in this sector comprising farmers, farm workers and others involved in manufacturing, distribution and sales. Further, your Company's Agarbatti and Matches businesses provide employment opportunities to economically disadvantaged sections of society, especially women. Your Company's strategy of diversifying its business portfolio also complements its role of a responsible corporate citizen by creating enablers for generating employment opportunities as well as sustainable economic surplus for the nation.

EMPLOYEES

Employee relations continued to be cordial and the terms and conditions of employment offered by your Company remains one of the best in the country. Post the year under review, Long Term Agreements were concluded successfully with the unionized workforce at both Simara and Seratar factories.

Your Directors place on record their sincere appreciation of the contribution made by the employees during the year under review.

DIRECTORS

The Holding Company, ITC Limited, nominated Mr. R K Singhi (in place of Mr. B B Chatterjee) and Mr. Supratim Dutta (in place of Mr. A K Mukerji) as Company's Non-executive directors with effect from 4th February, 2018 and 18th July, 2018 respectively, consequent to their retirement from the services of that company.

Your Directors would like to place on record their sincere appreciation for the services rendered by Mr. B B Chatterjee and Mr. A K Mukerji as Directors of the Company.

There was no other change in the composition of the Board of Directors.

The details of shares held in your Company by your Directors as on 32nd Asadh, 2075 are annexed to this Report (**Annexure I**). Your Directors have confirmed that none of them or their close relatives has any direct involvement or any personal interest in any transaction of sale or purchase or any kind of contract or arrangement connected with the business of your Company. No amounts are due to your Company from any of the Directors, the Managing Director or their close relatives.

The details of payments made during the year to your Directors, the Managing Director and other officials are also annexed to this Report (**Annexure II**).

Further, details of Management expenses for the year 2074-75 are annexed to this Report (**Annexure III**).

AUDITORS

M/s. N Amatya & Company, Chartered Accountants, Kathmandu, Nepal and M/s. T R Upadhyya & Co, Chartered Accountants, Kathmandu, Nepal, auditors of your Company, retire at the ensuing Annual General Meeting and being eligible, offer themselves for re-appointment.

FUTURE OUTLOOK

Your Company continues to explore and pursue opportunities for profitable and sustainable growth and looks forward to the future with optimism and confidence and stands committed to creating a brighter future for all stakeholders.

On behalf of the Board

Date: 24th September, 2018 **Sanjiv Puri** **B Sumant** **A K Poddar**
 (8th Ashwin, 2075) Chairman Director Managing Director

Annexure I

Sl. No.	Name of Director	Number of Ordinary Shares of NRs. 100 (₹ 62.50) each held singly and / or jointly as on 32 nd Asadh 2075 (16 th July 2018)
1.	S Puri	Nil
2.	A K Mukerji (ceased w.e.f. 18 th July, 2018)	Nil
3.	R K Singhi	Nil
4.	B Sumant	Nil
5.	S R Pandey	67,212
6.	S SJB Rana	600
7.	A K Poddar	Nil

Annexure II**THE AMOUNT OF REMUNERATION, ALLOWANCE AND FACILITIES PAID TO DIRECTOR, MANAGING DIRECTOR, CHIEF EXECUTIVE AND COMPANY OFFICIALS**

During the financial year 2074/75, the following amounts have been paid to the Directors:

- Board Meeting Fee - NRs. 70,588 (₹ 44,118)
- Incidental expenses - NRs. 11,765 (₹ 7,353)

Payment to / on behalf of the Managing Director for the financial year 2074/75:

- Salary – NRs. 14,901,286 (₹ 9,313,304)
- Allowances – NRs. 3,821,735 (₹ 2,388,584)

In addition to the above, the Managing Director has been provided the following as per his terms of appointment:

- Furnished accommodation with necessary security at residence.
- Entrance fees and annual subscription charges for two clubs.
- Personal accident insurance.
- Company car with driver and telephone at residence.
- Fuel for generator and reimbursement of water tanker charges for residence.

Payment to / on behalf of Company officials for the financial year 2074/75:

- Salary – NRs. 25,909,329 (₹ 16,193,331)
- Allowances – NRs. 10,950,260 (₹ 6,843,913)

In addition to the above, some of the Company officials, as applicable, have been provided the following as per their terms of appointment:

- Furnished accommodation with necessary security at residence.
- Entrance fees and annual subscription charges for clubs as applicable.
- Personal accident insurance.
- Company car with driver and telephone at residence.
- Fuel for generator and reimbursement of water tanker charges for residence.

The Managing Director and some other employees of the company have been granted stock options under the Employee Stock Option Scheme of the Holding Company (ITC Limited). Such options are granted at 'market price' [within the meaning of Securities and Exchange Board of India (Share Based Employee Benefit) Regulations, 2014]. Since such options are not tradeable, no benefit is conferred upon the employee at the time of grant of options. The Company, however, has recorded employee benefits expense by way of share based payments to employees, in accordance with NFRS 2 out of which NRs. 23,177,936 (₹ 14,486,210) is attributable to Managing Director and NRs. 22,690,055 (₹ 14,181,284) is attributable to other officials.

Annexure III**MANAGEMENT EXPENSES**

The expenses incurred by your Company for its management and administration for the financial year 2074/75 comprising rent, electricity, fuel & water, rates & taxes, insurance premium, repairs & improvements, safety & pollution control cost, maintenance, travel & conveyance, postage, telephone, fax, bank charges, legal fees, printing & stationery, consultancy charges, professional service charges & other fees, information technology services, business entertainment expenses, board meeting fees, donations, books & periodicals and miscellaneous expenses amounted to NRs. 1,311,918,326 (₹ 819,948,954).

AUDITOR'S REPORT TO THE SHAREHOLDERS OF SURYA NEPAL PRIVATE LIMITED

Report on the Financial Statements

We have audited the accompanying financial statements of **Surya Nepal Private Limited**, which comprise the Statement of Financial Position as at 32nd Asadh 2075 (16th July 2018), the Statement of Profit or Loss and Other Comprehensive Income, Statement of Changes in Equity and Statement of Cash Flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

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

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Nepal Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well

as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of Surya Nepal Private Limited as at 32nd Asadh 2075 (16th July 2018), and of its financial performance and its cash flows for the year then ended in accordance with Nepal Financial Reporting Standards.

Report on the Requirements of the Company Act, 2063

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

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

Nem Lal Amatya
Partner

Shashi Satyal
Partner

Date: 8th Ashwin, 2075
(24th September, 2018)
Place: Kolkata

N. Amatya & Co.
Chartered Accountants

T R Upadhya & Co.
Chartered Accountants

STATEMENT OF FINANCIAL POSITION AS AT 32ND ASADH 2075 (16TH JULY 2018)

	Note	Figures in NRs. As at 32nd Asadh 2075 (16th July 2018)	Figures in ₹ As at 32nd Asadh 2075 (16th July 2018)	Figures in NRs. As at 31st Asadh 2074 (15th July 2017)	Figures in ₹ As at 31st Asadh 2074 (15th July 2017)
ASSETS					
NON-CURRENT ASSETS					
a) Property, Plant & Equipment	3A	4,783,798,974	2,989,874,360	5,417,747,028	3,386,091,894
b) Capital Work-in-Progress	3B	232,950,476	145,594,048	108,987,762	68,117,352
c) Intangible Assets	3C	33,989,797	21,243,622	83,670,238	52,293,898
d) Financial Assets					
i) Investments	4A	–	–	25,632,338	16,020,211
ii) Loans	5	30,610,168	19,131,355	36,562,388	22,851,493
iii) Others	6	880,825	550,516	–	–
e) Deferred Tax Assets (Net)	7	59,097,334	36,935,835	37,803,709	23,627,318
f) Other Non-Current Assets	8	1,718,279,469	1,073,924,669	2,039,776,665	1,274,860,415
CURRENT ASSETS					
a) Inventories	9	5,518,632,902	3,449,145,564	4,074,432,459	2,546,520,286
b) Financial Assets					
i) Investments	4B	25,632,338	16,020,211	–	–
ii) Trade Receivables	10	68,556,485	42,847,803	77,255,350	48,284,594
iii) Cash and Cash Equivalents	11	49,757,833	31,098,646	337,726,550	211,079,093
iv) Other Bank Balances	12	6,090,065,963	3,806,291,227	2,900,064,129	1,812,540,081
v) Loans	5	7,304,772	4,565,483	9,679,258	6,049,536
vi) Others	6	30,634,354	19,146,472	26,762,767	16,726,730
c) Other Current Assets	8	447,914,925	279,946,828	344,631,907	215,394,943
TOTAL ASSETS		19,098,106,615	11,936,316,639	15,520,732,548	9,700,457,844
EQUITY AND LIABILITIES					
EQUITY					
a) Equity Share Capital	13	2,016,000,000	1,260,000,000	2,016,000,000	1,260,000,000
b) Other Equity		12,351,060,246	7,719,412,652	10,287,490,023	6,429,681,267
LIABILITIES					
NON-CURRENT LIABILITIES					
a) Provisions	14	142,143,188	88,839,493	138,191,748	86,369,843
CURRENT LIABILITIES					
a) Financial Liabilities					
i) Borrowings	15	1,128,051,870	705,032,419	–	–
ii) Trade Payables	16	820,376,602	512,735,377	833,732,775	521,082,984
iii) Other Financial Liabilities	17	1,576,308,975	985,193,111	1,222,133,123	763,833,203
b) Other Liabilities	18	384,447,456	240,279,664	670,088,686	418,805,428
c) Provisions	14	27,803,081	17,376,926	26,233,215	16,395,758
d) Current Tax Liabilities (Net)	19	651,915,197	407,446,997	326,862,978	204,289,361
TOTAL EQUITY AND LIABILITIES		19,098,106,615	11,936,316,639	15,520,732,548	9,700,457,844

The accompanying notes 1 to 31 are an integral part of the Financial Statements.

This is the Statement of Financial Position referred to in our Report of even date.

Vikas Bhutra
Head of Finance

Abhimanyu Kumar Poddar
Managing Director

Saurya SJB Rana
Alternate Director

B Sumant
Director

S Puri
Chairman

S R Pandey
Director

S Dutta
Director

R K Singhi
Director

Nem Lal Amatya
Partner
N. Amatya & Co.
Chartered Accountants

Shashi Satyal
Partner
T R Upadhya & Co.
Chartered Accountants

Date: 8th Ashwin 2075 (24th September 2018)

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 32ND ASADH 2075 (16TH JULY 2018)

		Figures in NRs. For the year ended 32nd Asadh 2075 (16th July 2018)	Figures in ₹ For the year ended 32nd Asadh 2075 (16th July 2018)	Figures in NRs. For the year ended 31st Asadh 2074 (15th July 2017)	Figures in ₹ For the year ended 31st Asadh 2074 (15th July 2017)
	Note				
Gross Revenue from sale of products	20	33,369,581,646	20,855,988,529	29,714,590,472	18,571,619,045
Less: Duties	21	<u>9,167,629,398</u>	<u>5,729,768,375</u>	8,007,654,184	5,004,783,865
Net Revenue from sale of products		24,201,952,248	15,126,220,154	21,706,936,288	13,566,835,180
Other Operating Revenue	22	<u>25,666,152</u>	<u>16,041,344</u>	26,282,857	16,426,786
Net Revenue from operations		24,227,618,400	15,142,261,498	21,733,219,145	13,583,261,966
Raw Materials Consumed, etc.	23	<u>5,910,419,573</u>	<u>3,694,012,233</u>	5,648,091,265	3,530,057,040
Employee Benefits Expenses	24	<u>2,089,130,077</u>	<u>1,305,706,299</u>	1,797,740,936	1,123,588,085
Manufacturing, Admin, Selling Expenses etc.	25	<u>2,316,627,948</u>	<u>1,447,892,471</u>	2,263,025,738	1,414,391,087
Operating Profit		13,911,440,802	8,694,650,495	12,024,361,206	7,515,225,754
Other Income	26	<u>385,332,472</u>	<u>240,832,796</u>	131,512,053	82,195,034
Finance Cost	27	<u>22,939,999</u>	<u>14,337,499</u>	8,045,311	5,028,319
Depreciation and Amortization Expenses		<u>742,297,943</u>	<u>463,936,215</u>	851,642,098	532,276,312
Profit before Tax		13,531,535,332	8,457,209,577	11,296,185,850	7,060,116,157
Tax Expense	28	<u>4,260,892,788</u>	<u>2,663,057,992</u>	3,388,202,262	2,117,626,414
Corporate Social Responsibility		<u>93,489,394</u>	<u>58,430,871</u>	78,296,867	48,935,542
Profit for the year		9,177,153,150	5,735,720,714	7,829,686,721	4,893,554,201
Other Comprehensive Income					
(i) Items that will not be reclassified to profit or loss:					
– Remeasurements of defined benefit plans	29 (a)	<u>(39,061,325)</u>	<u>(24,413,328)</u>	19,690,861	12,306,789
(ii) Income tax relating to items that will not be reclassified to profit or loss	28	<u>11,718,398</u>	<u>7,323,999</u>	(5,907,258)	(3,692,036)
Other Comprehensive Income		(27,342,927)	(17,089,329)	13,783,603	8,614,753
Total Comprehensive Income for the year		9,149,810,223	5,718,631,385	7,843,470,324	4,902,168,954

The accompanying notes 1 to 31 are an integral part of the Financial Statements.

This is the Statement of Profit or Loss and Other Comprehensive Income referred to in our Report of even date.

Vikas Bhutra
Head of Finance

Abhimanyu Kumar Poddar
Managing Director

Saurya SJB Rana
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B Sumant
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N. Amatya & Co.
Chartered Accountants

Shashi Satyal
Partner
T R Upadhya & Co.
Chartered Accountants

Date: 8th Ashwin 2075 (24th September 2018)

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 32ND ASADH 2075 (16TH JULY 2018)

A. Equity Share Capital

Figures in NRs.

Figures in ₹

	Balance at the beginning of the reporting year		Changes in equity share capital during the year		Balance at the end of the reporting year	
	2074 (15th July 2017)	2,016,000,000	-	-	2,016,000,000	1,260,000,000
For the year ended 31st Asadh 2074 (15th July 2017)	2,016,000,000	2,016,000,000	-	-	2,016,000,000	1,260,000,000
For the year ended 32nd Asadh 2075 (16th July 2018)	2,016,000,000	2,016,000,000	-	-	2,016,000,000	1,260,000,000

B. Other Equity

Figures in NRs.

Figures in ₹

	Reserves and Surplus				Total	Items of Other Comprehensive Income		Total				
	General Reserve	Stock Option Payment Reserve	Employees' Housing Reserve	Retained Earnings		Remeasurement of Net Defined Benefit Plan	Reserves and Surplus					
							General Reserve		Stock Option Payment Reserve	Employees' Housing Reserve	Retained Earnings	Items of Other Comprehensive Income
Balance as at 31st Asadh 2073 (15th July 2016)	44,687,084	64,091,317	2,377,211,775	6,061,918,829	(32,117,989)	8,515,791,016	27,929,428	40,057,073	1,485,757,359	3,788,699,268	(20,073,742)	5,322,369,386
Profit for the year	-	-	-	7,829,686,721	-	7,829,686,721	-	-	-	4,893,554,201	-	4,893,554,201
Other Comprehensive Income (net of tax)	-	-	-	-	13,783,603	13,783,603	-	-	-	-	8,614,753	8,614,753
Total Comprehensive Income for the year	-	-	-	7,829,686,721	13,783,603	7,843,470,324	-	-	-	4,893,554,201	8,614,753	4,902,168,954
Reimbursement of value of share based payment	-	(64,091,317)	-	-	-	(64,091,317)	-	(40,057,073)	-	-	-	(40,057,073)
Transferred to Employees' Housing Reserve	-	-	6,24,098,666	(624,098,666)	-	-	-	-	390,061,666	(390,061,666)	-	-
Interim Dividend	-	-	-	(756,000,000)	-	(756,000,000)	-	-	-	(472,500,000)	-	(472,500,000)
Final Dividend	-	-	-	(5,251,680,000)	-	(5,251,680,000)	-	-	-	(3,282,300,000)	-	(3,282,300,000)
Transferred to Reserve	64,091,317	-	-	(64,091,317)	-	-	40,057,073	-	-	(40,057,073)	-	-
Total	64,091,317	(64,091,317)	6,24,098,666	1,133,816,738	13,783,603	1,771,699,007	40,057,073	(40,057,073)	390,061,666	708,635,462	8,614,753	1,107,311,881
Balance as at 31st Asadh 2074 (15th July 2017)	108,778,401	-	3,001,310,441	7,195,735,567	(18,334,386)	10,287,490,023	67,986,501	-	1,875,819,025	4,497,334,730	(11,458,989)	6,429,681,267
Profit for the year	-	-	-	9,177,153,150	-	9,177,153,150	-	-	-	5,735,720,714	-	5,735,720,714
Other Comprehensive Income (net of tax)	-	-	-	-	(27,342,927)	(27,342,927)	-	-	-	-	(17,089,329)	(17,089,329)
Total Comprehensive Income for the year	-	-	-	9,177,153,150	(27,342,927)	9,149,810,223	-	-	-	5,735,720,714	(17,089,329)	5,718,631,385
Interim Dividend	-	-	-	(1,219,680,000)	-	(1,219,680,000)	-	-	-	(762,300,000)	-	(762,300,000)
Final Dividend	-	-	-	(5,866,560,000)	-	(5,866,560,000)	-	-	-	(3,666,600,000)	-	(3,666,600,000)
Total	-	-	-	2,090,913,150	(27,342,927)	2,063,570,223	67,986,501	-	1,875,819,025	5,804,155,444	(17,089,329)	1,289,731,385
Balance as at 32nd Asadh 2075 (16th July 2018)	108,778,401	-	3,001,310,441	9,286,648,717	(45,677,313)	12,351,060,246	67,986,501	-	1,875,819,025	5,804,155,444	(28,548,318)	7,719,412,652

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 32ND ASADH 2075 (16TH JULY 2018) (Contd.)

For the year ended 32nd Asadh 2075 (16th July 2018), the Board of Directors of the Company at its meeting held on 8th Ashwin 2075 (24th September 2018) have:

- a) declared interim dividend of NRs. 75.00 (₹ 46.86) per share, amounting to NRs. 1,512,000,000 (₹ 945,000,000) and
- b) recommended final dividend of NRs. 378.00 (₹ 236.25) per share amounting to NRs. 7,620,480,000 (₹ 4,762,800,000).

General Reserve: The reserve is an outcome of appropriation from one component of equity to another, neither being an item of other comprehensive income. It can be distributed / utilized by the Company.

Stock Option Payment Reserve: Represents fair value of equity settled share based payment in respect of employees seconded by the Holding Company (ITC Limited) at the request of the Company, who have been granted stock option by ITC Limited and reimbursement of which is sought by ITC Limited.

Employees' Housing Reserve: Reserve represents the amounts set aside for providing employees' housing as per the provisions of the Labour Act, 2048, which has since been replaced by the Labour Act, 2074.

Retained Earnings: This reserve represents the cumulative profits of the Company and can be distributed / utilized by the Company.

The accompanying notes 1 to 31 are an integral part of the Financial Statements.

This is the Statement of Changes in Equity referred to in our Report of even date.

Vikas Bhutra
Head of Finance

Saurya SJB Rana
Alternate Director

B Sumant
Director

S Puri
Chairman

S R Pandey
Director

S Dutta
Director

R K Singhi
Director

Nem Lal Amatya
Partner
N. Amatya & Co.
Chartered Accountants

Shashi Satyal
Partner
TR Upadhyaya & Co.
Chartered Accountants

Date: 8th Ashwin 2075 (24th September 2018)

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 32ND ASADH 2075 (16TH JULY 2018)

	Figures in NRs. For the year ended 32nd Asadh 2075 (16th July 2018)	Figures in ₹ For the year ended 32nd Asadh 2075 (16th July 2018)	Figures in NRs. For the year ended 31st Asadh 2074 (15th July 2017)	Figures in ₹ For the year ended 31st Asadh 2074 (15th July 2017)
A Cash Flow From Operating Activities				
Profit Before Tax	13,531,535,332	8,457,209,577	11,296,185,850	7,060,116,157
Adjustments for :				
Depreciation and amortization expenses	742,297,943	463,936,215	851,642,098	532,276,312
Finance Cost	22,939,999	14,337,499	8,045,311	5,028,319
Interest from Investments	(1,470,625)	(919,141)	(1,470,625)	(919,141)
Interest on Short Term/Call Deposits	(379,436,878)	(237,148,049)	(125,249,219)	(78,280,762)
Foreign currency translations and transactions - Net	(1,178,423)	(736,514)	96,969	60,606
Loss/(Gain) on sale of property, plant and equipment - Net	(19,632,108)	(12,270,068)	1,144,703	715,439
Liability no longer required written back	(11,100,615)	(6,937,884)	-	-
Doubtful and bad advances	(11,010)	(6,881)	(9,416)	(5,885)
Operating Profit Before Working Capital Changes	13,883,943,615	8,677,464,754	12,030,385,671	7,518,991,045
Adjustments for :				
Trade Receivables, Loans, Advances and Other Assets	257,978,538	161,236,586	(595,991,548)	(372,494,718)
Inventories	(1,444,200,443)	(902,625,277)	(574,585,128)	(359,115,705)
Trade Payables, Other Liabilities and Provisions	(82,943,094)	(51,839,434)	(18,549,147)	(11,593,217)
Cash Generated From Operation	12,614,778,616	7,884,236,629	10,841,259,848	6,775,787,405
Income Tax Paid	(3,945,415,796)	(2,465,884,867)	(3,406,809,515)	(2,129,255,947)
Corporate Social Responsibility Paid	(9,615,486)	(6,009,679)	(5,280,982)	(3,300,614)
Net Cash From Operating Activities (A)	8,659,747,334	5,412,342,083	7,429,169,351	4,643,230,844
B Cash Flow From Investing Activities				
Purchase of property, plant and equipment	(178,872,335)	(111,795,209)	(101,373,936)	(63,358,710)
Disposal of property, plant and equipment	22,901,273	14,313,296	3,753,384	2,345,865
Investment in Bank Deposits (Original Maturity more than 3 months)	(6,090,000,000)	(3,806,250,000)	(2,900,000,000)	(1,812,500,000)
Redemption/ Maturity of Bank Deposits (Original Maturity more than 3 months)	2,900,000,000	1,812,500,000	-	-
Interest Received	377,167,708	235,729,818	102,473,275	64,045,797
Net Cash Used in Investing Activities (B)	(2,968,803,354)	(1,855,502,095)	(2,895,147,277)	(1,809,467,048)
C Cash Flow From Financing Activities				
Interest Paid	(21,252,465)	(13,282,791)	(8,045,311)	(5,028,319)
Dividends Paid	(7,086,240,000)	(4,428,900,000)	(6,007,680,000)	(3,754,800,000)
Net Cash Used in Financing Activities (C)	(7,107,492,465)	(4,442,182,791)	(6,015,725,311)	(3,759,828,319)
Net Increase/(Decrease) in Cash & Cash Equivalents (A+B+C)	(1,416,548,485)	(885,342,803)	(1,481,703,237)	(926,064,523)
Opening Cash and Cash Equivalents	335,083,264	209,427,040	1,816,786,501	1,135,491,563
Closing Cash and Cash Equivalents	(1,081,465,221)	(675,915,763)	335,083,264	209,427,040

Notes:

1 The above Statement of Cash Flows has been prepared under the "Indirect Method" as set out in NAS - 7 "Statement of Cash Flows".

2 Cash and Cash Equivalents:

Cash and Cash Equivalents as above	(1,081,465,221)	(675,915,763)	335,083,264	209,427,040
Unrealised gain/(Loss) on foreign currency cash and cash equivalents	3,171,184	1,981,990	2,643,286	1,652,053
Current Borrowings (Note 15)	1,128,051,870	705,032,419	-	-
Cash and Cash Equivalents (Note 11)	49,757,833	31,098,646	337,726,550	211,079,093

The accompanying notes 1 to 31 are an integral part of the Financial Statements.

This is the Statement of Cash Flows referred to in our Report of even date.

Vikas Bhutra
Head of FinanceAbhimanyu Kumar Poddar
Managing DirectorSaurya SJB Rana
Alternate DirectorB Sumant
DirectorS Puri
ChairmanS R Pandey
DirectorS Dutta
DirectorR K Singhi
DirectorNem Lal Amatya
Partner
N. Amatya & Co.
Chartered AccountantsShashi Satyal
Partner
T R Upadhyaya & Co.
Chartered Accountants

Date: 8th Ashwin 2075 (24th September 2018)

NOTES TO THE FINANCIAL STATEMENTS

1. **SIGNIFICANT ACCOUNTING POLICIES****Statement of Compliance**

These financial statements have been prepared in accordance with requirements of Company Act, 2063 of Nepal and applicable Nepal Financial Reporting Standards (NFRS) and the relevant presentation requirements thereof. The Company adopted NFRS from 1st Shrawan, 2073 (16th July, 2016).

Basis of Preparation

These financial statements are prepared in accordance with the historical cost convention, except for certain items that are measured at fair values, as explained in the accounting policies.

Fair Value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Company takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of NFRS 2 – Share Based Payment, leasing transactions that are within the scope of NAS 17 - Leases, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in NAS 2 – Inventories or value in use in NAS 36 - Impairment of Assets.

The preparation of financial statements in conformity with NFRS requires management to make judgements, estimates and assumptions that affect the application of the accounting policies and the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the year. Actual results could differ from those estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period; they are recognised in the period of the revision and future periods if the revision affects both current and future periods.

Operating Cycle

All assets and liabilities have been classified as current or non-current as per the Company's normal operating cycle and other criteria set out in NAS 1 - Presentation of Financial Statements based on the nature of products and the time between the acquisition of assets for processing and their realisation in cash and cash equivalents.

Property, Plant & Equipment – Tangible Assets

Property, plant & equipment are stated at cost of acquisition or construction less accumulated depreciation and impairment, if any.

Cost is inclusive of inward freight, duties and taxes and incidental expenses related to acquisition. In respect of major projects involving construction, related pre-operational expenses form part of the value of assets capitalised. Expenses capitalised also include applicable borrowing costs for qualifying assets, if any. All upgradation / enhancements are charged off as revenue expenditure unless they bring similar significant additional benefits.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the Statement of Profit or Loss and Other Comprehensive Income.

Depreciation of these assets commences when the assets are ready for their intended use which is generally on commissioning. Items of Property, Plant and Equipment are depreciated in a manner that amortises the cost (or other amount substituted for cost) of the assets after commissioning, less its residual value, over their useful lives on a straight line basis. Land is not depreciated.

The estimated useful lives of property, plant and equipment of the Company are as follows:

Buildings	3 – 60 Years
Plant and Equipment	9 – 15 Years
Furniture and Fixtures	10 Years
Vehicles	6 – 10 Years
Office Equipment	5 Years
Computers	3 – 6 Year

Property, plant and equipment's residual values and useful lives are reviewed at each Statement of Financial Position date and changes, if any, are treated as changes in accounting estimate.

Intangible Assets

Intangible Assets that the Company controls and from which it expects future economic benefits are capitalised upon acquisition and measured at cost comprising the purchase price (including import duties and non-refundable taxes) and directly attributable costs to prepare the asset for its intended use.

The useful life of an intangible asset is considered finite where the rights to such assets are limited to a specified period of time by contract or law (e.g., licences) or the likelihood of technical, technological obsolescence (e.g., computer software). If, there are no such limitations, the useful life is taken to be indefinite.

Intangible assets that have finite lives are amortized over their estimated useful lives by the straight line method unless it is practical to reliably determine the pattern of benefits arising from the asset. An intangible asset with an indefinite useful life is not amortized.

Software is amortised over a period of five years.

All intangible assets are tested for impairment. Amortization expenses and impairment losses and reversal of impairment losses are taken to the Statement of Profit or Loss and Other Comprehensive Income. Thus, after initial recognition, an intangible asset is carried at its cost less accumulated amortization and / or impairment losses.

The useful lives of intangible assets are reviewed annually to determine if a reset of such useful life is required for assets with finite lives and to confirm that business circumstances continue to support an indefinite useful life assessment for assets so classified. Based on such review, the useful life may change or the useful life assessment may change from indefinite to finite. The impact of such changes is accounted for as a change in accounting estimate.

Impairment of Assets

Impairment loss, if any, is provided to the extent the carrying amount of assets or cash generating units exceed their recoverable amount.

Recoverable amount is higher of an asset's net selling price and its value in use. Value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset or cash generating unit and from its disposal at the end of its useful life.

Impairment losses recognised in prior years are reversed when there is an indication that the impairment losses recognised no longer exist or have decreased. Such reversals are recognised as an increase in carrying amounts of assets to the extent that it does not exceed the carrying amounts that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised in previous years.

Inventories

Inventories are stated at lower of cost and net realisable value. The cost is calculated on weighted average method. Cost comprises expenditure incurred in the normal course of business in bringing such inventories to its present location and condition and includes, where applicable, appropriate overheads based on normal level of activity. Net realisable value is the estimated selling price less estimated costs for completion and sale.

Obsolete, slow moving and defective inventories are identified from time to time and, where necessary, a provision is made for such inventories.

NOTES TO THE FINANCIAL STATEMENTS (CONTD.)

Foreign Currency Transactions

The functional and presentation currency of the Company is Nepalese Rupee.

Transactions in foreign currency are accounted for at the exchange rate prevailing on the transaction date. Gains/Losses arising on settlement as also on translation of monetary items are recognized in the Statement of Profit or Loss and Other Comprehensive Income.

Derivatives

The Company uses derivative financial instruments, such as forward exchange contracts to hedge its foreign currency risks. Derivatives are initially recognised at fair value and are subsequently remeasured to their fair value at the end of each reporting period. The resulting gains/losses are recognised in the Statement of Profit or Loss and Other Comprehensive Income.

Financial instrument, Financial assets and Financial liabilities

Financial assets and financial liabilities are recognized when the Company becomes a party to the contractual provisions of the relevant instrument and are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities measured at fair value through profit or loss) are added to or deducted from the fair value on initial recognition of financial assets or financial liabilities. Purchase or sale of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognised on the trade date, i.e., the date when the Company commits to purchase or sell the asset.

Financial assets

Recognition: Financial assets include Investments, Trade receivables, Advances, Security Deposits, Cash and cash equivalents. Such assets are initially recognised at transaction price when the Company becomes party to contractual obligations. The transaction price includes transaction costs unless the asset is being fair valued through the Statement of Profit or Loss and Other Comprehensive Income.

Classification: Management determines the classification of an asset at initial recognition depending on the purpose for which the assets were acquired. The subsequent measurement of financial assets depends on such classification.

Financial assets are classified as those measured at:

- (a) amortised cost, where the financial assets are held solely for collection of cash flows arising from payments of principal and/or interest.
- (b) fair value through other comprehensive income (FVTOCI), where the financial assets are held not only for collection of cash flows arising from payments of principal and interest but also from the sale of such assets. Such assets are subsequently measured at fair value, with unrealised gains and losses arising from changes in the fair value being recognised in other comprehensive income.
- (c) fair value through profit or loss (FVTPL), where the assets are managed in accordance with an approved investment strategy that triggers purchase and sale decisions based on the fair value of such assets. Such assets are subsequently measured at fair value, with unrealised gains and losses arising from changes in the fair value being recognised in the Statement of Profit or Loss and Other Comprehensive in the period in which they arise.

Trade receivables, Advances, Security Deposits, Cash and cash equivalents etc. are classified for measurement at amortised cost while investments may fall under any of the aforesaid classes.

Impairment: The Company assesses at each reporting date whether a financial asset (or a group of financial assets) such as investments, trade receivables, advances and security deposits held at amortised cost and financial assets that are measured at fair value through other comprehensive income are tested for impairment based on evidence or information that is available without undue cost or effort. Expected credit losses are assessed and loss allowances recognised if the credit quality of the financial asset has deteriorated significantly since initial recognition.

Reclassification: When and only when the business model is changed, the Company shall reclassify all affected financial assets prospectively from the reclassification date as subsequently measured at amortised cost, fair value through other comprehensive income, fair value through profit or loss without restating the previously recognised gains, losses or interest and in terms of the reclassification principles laid down in the NFRS relating to Financial Instruments.

De-recognition: Financial assets are derecognised when the right to receive cash flows from the assets has expired, or has been transferred, and the Company has transferred substantially all of the risks and rewards of ownership. Concomitantly, if the asset is one that is measured at:

- (a) amortised cost, the gain or loss is recognised in the Statement of Profit or Loss and Other Comprehensive Income;
- (b) fair value through other comprehensive income, the cumulative fair value adjustments previously taken to reserves are reclassified to the Statement of Profit or Loss and Other Comprehensive Income unless the asset represents an equity investment in which case the cumulative fair value adjustments previously taken to reserves is reclassified within equity.

Income Recognition: Interest income is recognised in the Statement of Profit or Loss and Other Comprehensive Income using the effective interest method.

Financial Liabilities

Borrowings, trade payables and other financial liabilities are initially recognised at the value of the respective contractual obligations. They are subsequently measured at amortised cost. Any discount or premium on redemption / settlement is recognised in the Statement of Profit or Loss and Other Comprehensive Income as finance cost over the life of the liability using the effective interest method and adjusted to the liability figure disclosed in the Statement of Financial Position.

Financial liabilities are derecognised when the liability is extinguished, that is, when the contractual obligation is discharged, cancelled and on expiry.

Offsetting Financial Instruments

Financial assets and liabilities are offset and the net amount is included 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.

Revenue

Revenue is measured at the fair value of the consideration received or receivable for goods supplied, net of returns and discounts to customers. Revenue from the sale of goods includes excise duty, health risk tax and sticker charges payable by the Company but excludes amounts collected on behalf of third parties, such as value added tax.

Revenue from the sales of goods is recognised when significant risks and rewards of ownership have been transferred to the customer, which is mainly upon delivery, the amount of revenue can be measured reliably and recovery of the consideration is probable.

Dividend Distribution

Dividends paid is recognised in the period in which the interim dividends are approved by the Board of Directors, or in respect of the final dividend when approved by shareholders.

Employee Benefits

The Company provides for both defined benefit and defined contribution schemes.

Contribution to defined contribution schemes (Provident Fund and Gratuity for certain employees) are charged as expense based on the amount of contribution required to be made as and when services are rendered by the employee.

The Company also provides for defined benefits in the form of Gratuity and other retirement benefits in respect of certain employees. The cost of providing benefits under the defined benefit obligation is calculated by independent actuary using the projected unit credit method.

NOTES TO THE FINANCIAL STATEMENTS (CONTD.)

Service costs and net interest expense or income is reflected in the Statement of Profit or Loss and Other Comprehensive Income. Gain or Loss on account of remeasurements are recognised immediately through other comprehensive income in the period in which they occur. Gratuity is funded and deposited with the designated funds as per applicable laws, towards meeting the Gratuity obligation. Other retirement benefits are unfunded.

The employees of the Company are entitled to compensated leave for which the Company records the liability based on actuarial valuation computed using projected unit credit method. These benefits are unfunded.

Employee Share Based Compensation

The cost of options granted under the ITC Employee Stock Option Scheme to employees of ITC Limited ("ITC") seconded to the Company at its request is measured at the fair value of the options as on the grant date. The fair value of awards at grant date is calculated using the Black Scholes Option Pricing Model. The cost of stock options is recognized in the Statement of Profit or Loss and Other Comprehensive Income with a corresponding payable, when such reimbursement is sought by ITC.

Leases

Leases are recognised as a finance lease wherever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Company as a Lessee

Rentals payable under operating leases are charged to the Statement of Profit or Loss and Other Comprehensive Income on a straight-line basis over the term of the relevant lease.

Taxes on Income

Taxes on income comprises current taxes and deferred taxes. Current tax in the Statement of Profit or Loss and Other Comprehensive Income is provided as the amount of tax payable in respect of taxable income for the period using tax rates and tax laws enacted during the period, together with any adjustment to tax payable in respect of previous years.

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities and the amounts used for taxation purposes (tax base), at the tax rates and tax laws enacted or substantively enacted by the end of the reporting period.

Deferred tax assets are recognized for the future tax consequences to the extent it is probable that future taxable profits will be available against which the deductible temporary differences can be utilised.

Income tax, in so far as it relates to items disclosed under other comprehensive income or equity, are disclosed separately under other comprehensive income or equity, as applicable.

Deferred tax assets and liabilities are offset when there is legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on net basis, or to realize the asset and settle the liability simultaneously.

Claims

Claims against the Company not acknowledged as debts are disclosed after a careful evaluation of the facts and legal aspects of the matter involved.

Provisions

Provisions are recognised when, as a result of a past event, the Company has a legal or constructive obligation; it is probable that an outflow of resources will be required to settle the obligation; and the amount can be reliably estimated. The amount so recognised is a best estimate of the consideration required to settle the obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation.

In an event when the time value of money is material, the provision is carried at the present value of the cash flows estimated to settle the obligation.

2. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent liabilities at the date of the financial statements and the results of operations during the reporting period end. Although these estimates are based upon management's best knowledge of current events and actions, actual results could differ from those estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

A. Useful lives of property, plant and equipment and intangible assets:

As described in the significant accounting policies, the Company reviews the estimated useful lives of property, plant and equipment and intangible assets at the end of each reporting period.

B. Actuarial Valuation:

The determination of Company's liability towards defined benefit obligation to employees is made through independent actuarial valuation including determination of amounts to be recognised in the Statement of Profit or Loss and in Other Comprehensive Income. Such valuation depend upon assumptions determined after taking into account inflation, seniority, promotion and other relevant factors such as supply and demand factors in the employment market. Information about such valuation is provided in notes to the financial statements.

C. Claims, Provisions and Contingent Liabilities:

The Company has ongoing litigations with various regulatory authorities. Where an outflow of funds is believed to be probable and a reliable estimate of the outcome of the dispute can be made based on management's assessment of specific circumstances of each dispute and relevant external advice, management provides for its best estimate of the liability. Such accruals are by nature complex and can take number of years to resolve and can involve estimation uncertainty. Information about such litigations is provided in notes to the financial statements.

[Amount in NRs]

NOTES TO THE FINANCIAL STATEMENTS (Contd.)

Particulars	Gross Block			Depreciation and Amortization			Net Block		
	As at 31.03.2073 (15.07.2016)	Additions	Withdrawals/ Adjustments	As at 31.03.2074 (15.07.2017)	Additions	Withdrawals/ Adjustments	As at 31.03.2075 (16.07.2018)	As at 32.03.2075 (16.07.2018)	As at 31.03.2074 (15.07.2017)
3A. Property, Plant and Equipment									
Land & Land Development	305,147,856	-	-	305,147,856	-	-	-	305,147,856	305,147,856
Buildings	1,891,156,624	6,786,189	-	1,897,942,813	9,960,027	-	718,273,585	1,189,629,255	1,259,884,304
Plant and Machinery	7,273,451,344	263,753,334	-	7,537,204,678	31,176,457	125,830,982	4,303,596,025	3,138,954,128	3,673,181,284
Furniture and Fixtures	99,195,850	2,770,786	9,092,517	92,874,119	1,298,019	4,322,173	52,929,579	36,920,386	43,823,284
Vehicles	149,993,296	27,622,357	5,752,753	171,862,900	-	38,893,567	85,067,044	47,902,289	72,134,373
Computers	164,121,200	524,300	31,046,551	133,598,949	7,937,258	2,475,588	125,804,776	13,255,843	14,294,405
Office Equipment	104,235,813	3,005,442	3,788,511	103,452,744	11,566,852	704,955	62,325,424	51,989,217	49,281,522
Total	9,987,301,983	304,462,408	49,680,332	10,242,084,059	61,938,613	172,227,265	5,347,996,433	4,783,798,974	5,417,747,028
3B. Capital Work-in-Progress									
	326,222,815	59,141,177	276,376,230	108,987,762	185,681,975	61,719,261	-	232,950,476	108,987,762
3C. Intangible Assets									
Capitalised Software	289,032,926	-	-	289,032,926	-	-	255,043,129	33,989,797	83,670,238
Grand Total	10,602,557,724	363,603,585	326,056,562	10,640,104,747	247,620,588	233,946,526	5,603,039,562	5,050,739,247	5,610,405,028

[Amount in ₹]

NOTES TO THE FINANCIAL STATEMENTS (Contd.)

Particulars	Gross Block				Depreciation and Amortization				Net Block				
	As at 31.03.2023 (15.07.2016)	Additions	Withdrawals/ Adjustments	As at 31.03.2024 (15.07.2017)	Additions	Withdrawals/ Adjustments	As at 31.03.2024 (15.07.2017)	For the Year*	Withdrawals/ Adjustments	Upto 32.03.2023 (15.07.2016)	As at 32.03.2023 (16.07.2018)	Upto 32.03.2024 (16.07.2018)	As at 31.03.2024 (15.07.2017)
3A. Property, Plant and Equipment													
Land & Land Development	190,717,410	-	-	190,717,410	-	-	-	-	-	-	190,717,410	-	190,717,410
Buildings	1,181,972,890	4,241,368	-	1,186,214,258	6,225,017	-	1,192,439,275	104,662,094	50,134,423	448,920,991	743,518,284	448,920,991	787,427,690
Plant and Machinery	4,545,907,091	164,845,834	-	4,710,752,925	19,485,286	78,644,364	4,651,593,847	354,052,559	353,376,886	2,689,747,516	1,961,846,331	2,689,747,516	2,295,738,303
Furniture and Fixtures	61,997,406	1,731,741	5,682,823	58,046,324	811,262	2,701,358	56,156,228	5,078,882	4,855,619	2,431,404	23,075,241	33,080,987	27,389,552
Vehicles	93,745,810	17,263,973	3,595,471	107,414,312	-	24,308,479	83,105,833	19,906,925	3,101,951	22,544,456	29,938,931	53,166,902	45,083,983
Computers	102,575,750	327,688	19,404,094	83,499,344	4,960,786	1,547,243	86,912,887	11,327,306	19,403,918	1,547,241	8,284,902	78,627,985	8,934,004
Office Equipment	65,147,383	1,878,401	2,367,819	64,657,965	7,229,283	440,597	71,446,651	6,198,270	1,764,426	431,719	32,493,261	38,953,390	30,800,952
Total	6,242,063,740	190,289,005	31,050,207	6,401,302,538	38,711,634	107,642,041	6,332,372,131	501,226,036	27,988,904	105,598,812	2,989,874,360	3,342,497,771	3,386,091,894
3B. Capital Work-in-Progress													
	203,889,260	36,963,236	172,735,144	68,117,352	116,051,234	38,574,538	145,594,048	-	-	-	145,594,048	-	68,117,352
3C. Intangible Assets													
Capitalised Software	180,645,579	-	-	180,645,579	-	-	180,645,579	31,050,276	-	-	21,243,622	159,401,957	52,293,898
Grand Total	6,626,598,579	227,252,241	203,785,351	6,650,065,469	154,762,868	146,216,579	6,658,611,758	532,276,312	27,988,904	105,598,812	3,156,712,030	3,501,899,728	3,506,503,144

1. The amount of expenditures recognised in the carrying amount of property, plant and equipment in the course of construction is NRS. 7,88,324 (₹ 4,92,703) [2023/24 - NRS. 41,95,252 (₹ 26,22,033)].
2. The amortization expense of intangible assets have been included under 'Depreciation and Amortization expense' in the Statement of Profit or Loss and Other Comprehensive Income.

NOTES TO THE FINANCIAL STATEMENTS (CONTD.)

	Figures in NRs. As at 32nd Asadh 2075 (16th July 2018)	Figures in ₹ As at 32nd Asadh 2075 (16th July 2018)	Figures in NRs. As at 31st Asadh 2074 (15th July 2017)	Figures in ₹ As at 31st Asadh 2074 (15th July 2017)				
4A. NON-CURRENT INVESTMENTS								
INVESTMENT IN GOVERNMENT OR TRUST SECURITIES (at amortized cost)								
Investment in Promissory Note issued by Nepal Government								
6.5% Bikash Rinpatra, 2075 - Unquoted	–	–	25,632,338	16,020,211				
Total	<u>–</u>	<u>–</u>	<u>25,632,338</u>	<u>16,020,211</u>				
4B. CURRENT INVESTMENTS								
Current Portion of Non-Current Investment								
INVESTMENT IN GOVERNMENT OR TRUST SECURITIES (at amortized cost)								
Investment in Promissory Note issued by Nepal Government								
6.5% Bikash Rinpatra, 2075 - Unquoted	25,632,338	16,020,211	–	–				
Total	<u>25,632,338</u>	<u>16,020,211</u>	<u>–</u>	<u>–</u>				
5. LOANS								
NON-CURRENT								
Employee Loans	30,610,168	19,131,355	36,562,388	22,851,493				
Total	<u>30,610,168</u>	<u>19,131,355</u>	<u>36,562,388</u>	<u>22,851,493</u>				
CURRENT								
Employee Loans	7,304,772	4,565,483	9,679,258	6,049,536				
Total	<u>7,304,772</u>	<u>4,565,483</u>	<u>9,679,258</u>	<u>6,049,536</u>				
6. OTHER FINANCIAL ASSETS								
NON-CURRENT								
Deposits	880,825	550,516	–	–				
Total	<u>880,825</u>	<u>550,516</u>	<u>–</u>	<u>–</u>				
CURRENT								
Interest Accrued on								
– Investments	193,397	120,873	193,397	120,873				
– Call and Other Deposit with Banks	27,982,997	17,489,373	24,245,945	15,153,716				
– Commercial Advances	8,100	5,063	5,357	3,348				
Derivative instruments not designated as hedging instruments	1,130,019	706,262	624,276	390,173				
Deposits	–	–	880,825	550,516				
Recoverable from Holding Company	1,319,841	824,901	812,967	508,104				
Total	<u>30,634,354</u>	<u>19,146,472</u>	<u>26,762,767</u>	<u>16,726,730</u>				
7. DEFERRED TAX ASSETS / (LIABILITIES) (NET)								
Deferred Tax Assets	74,704,105	46,690,066	74,078,975	46,299,359				
Less: Deferred Tax Liabilities	15,606,771	9,754,231	36,275,266	22,672,041				
Deferred Tax Assets / (Liabilities) (Net)	<u>59,097,334</u>	<u>36,935,835</u>	<u>37,803,709</u>	<u>23,627,318</u>				
Movement in Deferred Tax Assets / (Liabilities) Balances 2074/75	Figures in NRs. Opening Balance	Figures in ₹ Opening Balance	Figures in NRs. Recognized in Profit or Loss	Figures in ₹ Recognized in Profit or Loss	Figures in NRs. Recognized in OCI	Figures in ₹ Recognized in OCI	Figures in NRs. Closing Balance	Figures in ₹ Closing Balance
Deferred Tax Assets in relation to:								
On Provision for Retirement and Other Employee Benefits	49,327,490	30,829,682	(8,690,805)	(5,431,753)	11,718,398	7,323,999	52,355,083	32,721,928
On Provision for Doubtful Advances	614,255	383,909	(3,303)	(2,064)	–	–	610,952	381,845
On Provision for Inventories	24,137,230	15,085,768	(2,399,160)	(1,499,475)	–	–	21,738,070	13,586,293
Total Deferred Tax Assets	<u>74,078,975</u>	<u>46,299,359</u>	<u>(11,093,268)</u>	<u>(6,933,292)</u>	<u>11,718,398</u>	<u>7,323,999</u>	<u>74,704,105</u>	<u>46,690,066</u>
Deferred Tax Liabilities in relation to:								
On Overheads Allocation on Finished Goods	33,717,626	21,073,516	3,172,951	1,983,094	–	–	36,890,577	23,056,610
On Fiscal Allowances on Property, Plant and Equipment etc.	2,492,173	1,557,608	(23,972,060)	(14,982,538)	–	–	(21,479,887)	(13,424,930)
Other Timing Difference	65,467	40,917	130,614	81,634	–	–	196,081	122,551
Total Deferred Tax Liabilities	<u>36,275,266</u>	<u>22,672,041</u>	<u>(20,668,495)</u>	<u>(12,917,810)</u>	<u>–</u>	<u>–</u>	<u>15,606,771</u>	<u>9,754,231</u>
Deferred Tax Assets / (Liabilities) - Net	<u>37,803,709</u>	<u>23,627,318</u>	<u>9,575,227</u>	<u>5,984,518</u>	<u>11,718,398</u>	<u>7,323,999</u>	<u>59,097,334</u>	<u>36,935,835</u>
2073/74	Opening Balance	Opening Balance	Recognized in Profit or Loss	Recognized in Profit or Loss	Recognized in OCI	Recognized in OCI	Closing Balance	Closing Balance
Deferred Tax Assets in relation to:								
On Provision for Retirement and Other Employee Benefits	62,948,187	39,342,617	(7,713,439)	(4,820,899)	(5,907,258)	(3,692,036)	49,327,490	30,829,682
On Provision for Doubtful Advances	617,080	385,675	(2,825)	(1,766)	–	–	614,255	383,909
On Provision for Inventories	22,230,319	13,893,949	1,906,911	1,191,819	–	–	24,137,230	15,085,768
Total Deferred Tax Assets	<u>85,795,586</u>	<u>53,622,241</u>	<u>(5,809,353)</u>	<u>(3,630,846)</u>	<u>(5,907,258)</u>	<u>(3,692,036)</u>	<u>74,078,975</u>	<u>46,299,359</u>
Deferred Tax Liabilities in relation to:								
On Overheads Allocation on Finished Goods	25,213,271	15,758,294	8,504,355	5,315,222	–	–	33,717,626	21,073,516
On fiscal allowances on Property, Plant and Equipment etc.	34,944,520	21,840,325	(32,452,347)	(20,282,717)	–	–	2,492,173	1,557,608
Other Timing Difference	–	–	65,467	40,917	–	–	65,467	40,917
Total Deferred Tax Liabilities	<u>60,157,791</u>	<u>37,598,619</u>	<u>(23,882,525)</u>	<u>(14,926,578)</u>	<u>–</u>	<u>–</u>	<u>36,275,266</u>	<u>22,672,041</u>
Deferred Tax Assets / (Liabilities) - Net	<u>25,637,795</u>	<u>16,023,622</u>	<u>18,073,172</u>	<u>11,295,732</u>	<u>(5,907,258)</u>	<u>(3,692,036)</u>	<u>37,803,709</u>	<u>23,627,318</u>

The Company has tax losses of NRs. 369,907,653 (₹ 231,192,283) [2073/74 - NRs. 492,459,190 (₹ 307,786,994)] for which no deferred tax assets have been recognised. These losses will expire between financial year 2075/76 to 2081/82.

NOTES TO THE FINANCIAL STATEMENTS (CONTD.)

	Figures in NRs. As at 32nd Asadh 2075 (16th July 2018)	Figures in ₹ As at 32nd Asadh 2075 (16th July 2018)	Figures in NRs. As at 31st Asadh 2074 (15th July 2017)	Figures in ₹ As at 31st Asadh 2074 (15th July 2017)
8. OTHER ASSETS				
NON-CURRENT				
Capital Advances	23,016,429	14,385,268	–	–
Advances other than Capital Advances				
– Commercial Advances to Holding Company	1,637,454,548	1,023,409,093	1,984,190,173	1,240,118,858
– Security Deposits				
– With Statutory Authorities	57,679,892	36,049,933	55,465,892	34,666,183
– Others	128,600	80,375	120,600	75,374
Total	1,718,279,469	1,073,924,669	2,039,776,665	1,274,860,415
CURRENT				
Commercial Advances				
– Green Leaf bought from Tobacco Farmers (net of loan disbursed by Bank)	4,666,929	2,916,831	4,045,883	2,528,677
– Other Goods and Services	3,297,950	2,061,219	7,542,339	4,713,962
Advance with Statutory Authorities	58,211,378	36,382,111	12,606,720	7,879,200
Deposit with Statutory Authorities	264,473,271	165,295,794	203,662,716	127,289,198
Employee Advances	1,366,527	854,079	2,130,313	1,331,446
Unexpired Expenses	116,352,693	72,720,433	116,216,594	72,635,371
Margin Money Deposit	1,616,990	1,010,619	509,165	318,228
Less: Allowance for doubtful advances and deposits	(2,070,813)	(1,294,258)	(2,081,823)	(1,301,139)
Total	447,914,925	279,946,828	344,631,907	215,394,943
9. INVENTORIES				
(At lower of cost and net realisable value)				
Raw Materials (including in-transit)	1,905,043,544	1,190,652,215	1,784,803,416	1,115,502,135
Stock-In-Process	90,338,369	56,461,481	126,632,567	79,145,354
Finished Goods	3,246,131,584	2,028,832,240	1,895,846,674	1,184,904,171
Stores and Supplies (including in-transit)	277,119,405	173,199,628	267,149,802	166,968,626
Total	5,518,632,902	3,449,145,564	4,074,432,459	2,546,520,286
The above includes goods in transit as under				
Raw Materials	100,611,326	62,882,079	49,019,149	30,636,968
Stores and Supplies	3,187,351	1,992,094	4,091,559	2,557,224
Total	103,798,677	64,874,173	53,110,708	33,194,192
The cost of inventories recognised as an expense includes NRs. 4,885,957 (₹ 3,053,723) [during 2073/74: NRs. Nil (₹ Nil)] in respect of write-downs of inventory to net realisable value and has been reduced by NRs. Nil (₹ Nil) [during 2073/74: NRs. 364,841 (₹ 228,026)] in respect of the reversal of such write-downs. Previous write downs have been reversed as a result of increased sales prices.				
10. TRADE RECEIVABLES (CURRENT)				
Secured, considered good	3,580,779	2,237,987	814,651	509,157
Unsecured, considered good	64,975,706	40,609,816	76,440,699	47,775,437
Doubtful	339,012	211,883	339,012	211,883
Less: Allowance for doubtful receivables	(339,012)	(211,883)	(339,012)	(211,883)
Total	68,556,485	42,847,803	77,255,350	48,284,594
11. CASH AND CASH EQUIVALENTS*				
Cash on Hand	55,825	34,891	60,325	37,703
Balances with Banks				
Current Accounts	25,256,003	15,785,002	6,733,895	4,208,684
Short Term - Call Deposits	24,446,005	15,278,753	330,932,330	206,832,706
Total	49,757,833	31,098,646	337,726,550	211,079,093
* Cash and cash equivalents include cash on hand, cheques on hand, cash at bank and deposits with banks with original maturity of 3 months or less.				
12. OTHER BANK BALANCES				
In Deposit Accounts *	6,090,000,000	3,806,250,000	2,900,000,000	1,812,500,000
Earmarked Balance (Savings Account - Provident Fund)	65,963	41,227	64,129	40,081
Total	6,090,065,963	3,806,291,227	2,900,064,129	1,812,540,081
* Represents deposits with original maturity of more than 3 months having remaining maturity of less than 12 months from the Statement of Financial Position date.				

NOTES TO THE FINANCIAL STATEMENTS (CONTD.)

	Figures in NRs. As at 32nd Asadh 2075 (16th July 2018)	Figures in ₹ As at 32nd Asadh 2075 (16th July 2018)	Figures in NRs. As at 31st Asadh 2074 (15th July 2017)	Figures in ₹ As at 31st Asadh 2074 (15th July 2017)
13. EQUITY SHARE CAPITAL				
Authorised				
65,000,000 Ordinary Shares of NRs. 100/- (₹ 62.50) each	<u>6,500,000,000</u>	<u>4,062,500,000</u>	<u>6,500,000,000</u>	<u>4,062,500,000</u>
Issued, Subscribed & Paid up				
20,160,000 Ordinary Shares of NRs.100/- (₹ 62.50) each, fully paid	<u>2,016,000,000</u>	<u>1,260,000,000</u>	<u>2,016,000,000</u>	<u>1,260,000,000</u>
	<u>2,016,000,000</u>	<u>1,260,000,000</u>	<u>2,016,000,000</u>	<u>1,260,000,000</u>
Out of the above:				
1. 16,800,000 Ordinary Shares were issued as fully paid up bonus shares in 2065-66 (2008-09).				
2. 2,800,000 Ordinary Shares were issued as fully paid up bonus shares in 2060-61 (2003-04).				
3. 280,000 Ordinary Shares were issued as fully paid up bonus shares in 2052-53 (1995-96).				
4. 11,894,400 Ordinary Shares are held by the Holding Company, ITC Limited.				
Reconciliation of number of Shares outstanding:				
		Number of Shares		
At the beginning of the year	<u>20,160,000</u>		<u>20,160,000</u>	
At the end of the year	<u>20,160,000</u>		<u>20,160,000</u>	
Rights, preferences and restrictions attached to the Ordinary Shares				
The Ordinary Shares of the Company, having par value of NRs. 100.00 (₹ 62.50) per share, rank pari passu in all respects including voting rights and entitlement to dividend.				
14. PROVISIONS				
NON-CURRENT				
Provision for Retirement and Other Employee Benefits [Refer Note 29]				
Retirement Benefits	<u>72,444,430</u>	<u>45,277,769</u>	<u>78,101,846</u>	<u>48,813,654</u>
Other Benefits	<u>69,698,758</u>	<u>43,561,724</u>	<u>60,089,902</u>	<u>37,556,189</u>
Total	<u>142,143,188</u>	<u>88,839,493</u>	<u>138,191,748</u>	<u>86,369,843</u>
CURRENT				
Provision for Retirement and Other Employee Benefits				
Retirement Benefits	<u>18,711,107</u>	<u>11,694,442</u>	<u>13,457,533</u>	<u>8,410,958</u>
Other Benefits	<u>9,091,974</u>	<u>5,682,484</u>	<u>12,775,682</u>	<u>7,984,800</u>
Total	<u>27,803,081</u>	<u>17,376,926</u>	<u>26,233,215</u>	<u>16,395,758</u>
15. BORROWINGS (CURRENT)				
Secured				
Overdrafts / Other Demand Loans from Banks*	<u>1,128,051,870</u>	<u>705,032,419</u>	<u>-</u>	<u>-</u>
Total	<u>1,128,051,870</u>	<u>705,032,419</u>	<u>-</u>	<u>-</u>
* Overdrafts / Other Demand Loans from Banks are secured by hypothecation of Property, Plant and Equipment, Investment, Inventories and Trade Receivables, both present and future.				
16. TRADE PAYABLES (CURRENT)				
Trade Payables for Goods and Services				
- Holding Company	<u>491,859,094</u>	<u>307,411,934</u>	<u>435,347,986</u>	<u>272,092,491</u>
- Others	<u>328,517,508</u>	<u>205,323,443</u>	<u>398,384,789</u>	<u>248,990,493</u>
Total	<u>820,376,602</u>	<u>512,735,377</u>	<u>833,732,775</u>	<u>521,082,984</u>
17. OTHER FINANCIAL LIABILITIES (CURRENT)				
Payable for Property, Plant and Equipment Retention Money	<u>24,708,628</u>	<u>15,442,893</u>	<u>4,517,542</u>	<u>2,823,464</u>
- For Property, Plant and Equipment	<u>15,689,283</u>	<u>9,805,802</u>	<u>5,834,948</u>	<u>3,646,843</u>
- Others	<u>2,174,269</u>	<u>1,358,918</u>	<u>2,552,853</u>	<u>1,595,533</u>
Payable for Employee Benefits	<u>21,560,049</u>	<u>13,475,031</u>	<u>16,478,024</u>	<u>10,298,765</u>
Provision for Employee's Bonus under The Bonus Act, 2030				
- Distribution by Company	<u>113,535,309</u>	<u>70,959,568</u>	<u>108,580,583</u>	<u>67,862,864</u>
- Deposit with Welfare Funds established under The Labour Act	<u>972,978,032</u>	<u>608,111,270</u>	<u>754,044,817</u>	<u>471,278,011</u>
- Deposit with National Level Welfare Fund established by Govt. of Nepal	<u>416,990,585</u>	<u>260,619,116</u>	<u>323,162,065</u>	<u>201,976,291</u>
Security Deposits from Customers	<u>6,150,000</u>	<u>3,843,750</u>	<u>6,050,000</u>	<u>3,781,250</u>
Interest Accrued but not due on current borrowings	<u>1,687,534</u>	<u>1,054,709</u>	<u>-</u>	<u>-</u>
Others (derivatives not designated as hedging instrument)	<u>835,286</u>	<u>522,054</u>	<u>912,291</u>	<u>570,182</u>
Total	<u>1,576,308,975</u>	<u>985,193,111</u>	<u>1,222,133,123</u>	<u>763,833,203</u>
18. OTHER LIABILITIES (CURRENT)				
Advances received from Customers	<u>33,463,090</u>	<u>20,914,431</u>	<u>432,757,642</u>	<u>270,473,526</u>
Statutory Liabilities	<u>137,973,224</u>	<u>86,233,265</u>	<u>130,360,034</u>	<u>81,475,021</u>
Provision for Corporate Social responsibility	<u>156,889,793</u>	<u>98,056,121</u>	<u>73,015,885</u>	<u>45,634,928</u>
Others	<u>56,121,349</u>	<u>35,075,847</u>	<u>33,955,125</u>	<u>21,221,953</u>
Total	<u>384,447,456</u>	<u>240,279,664</u>	<u>670,088,686</u>	<u>418,805,428</u>
19. CURRENT TAX LIABILITIES (NET)				
Provision for Income Tax	<u>4,363,427,753</u>	<u>2,727,142,346</u>	<u>3,499,236,151</u>	<u>2,187,022,594</u>
Less: Advance Tax paid / Withholding Tax deducted	<u>(3,711,512,556)</u>	<u>(2,319,695,349)</u>	<u>(3,172,373,173)</u>	<u>(1,982,733,233)</u>
Total	<u>651,915,197</u>	<u>407,446,997</u>	<u>326,862,978</u>	<u>204,289,361</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTD.)

	Figures in NRs. For the Year 32nd Asadh 2075 (16th July 2018)	Figures in ₹ For the Year 32nd Asadh 2075 (16th July 2018)	Figures in NRs. For the Year 31st Asadh 2074 (15th July 2017)	Figures in ₹ For the Year 31st Asadh 2074 (15th July 2017)
20. GROSS REVENUE FROM SALE OF PRODUCTS				
FMCC				
– Cigarettes	32,828,122,208	20,517,576,380	29,259,997,900	18,287,498,688
– Branded Packaged Food Products	82,290,347	51,431,467	9,593,802	5,996,126
– Others (Apparel, Safety Matches, Agarbattis)	459,169,091	286,980,682	444,998,770	278,124,231
Total	33,369,581,646	20,855,988,529	29,714,590,472	18,571,619,045
21. DUTIES				
Excise Duty	8,936,700,140	5,585,437,588	7,872,105,603	4,920,066,002
Health Risk Tax	90,027,700	56,267,313	–	–
Sticker Charges	140,901,558	88,063,474	135,548,581	84,717,863
Total	9,167,629,398	5,729,768,375	8,007,654,184	5,004,783,865
22. OTHER OPERATING REVENUE				
Liability no longer required written back	11,100,615	6,937,884	–	–
Provision for doubtful advance/debts written back	11,010	6,881	9,416	5,885
Miscellaneous Income	14,554,527	9,096,579	26,273,441	16,420,901
Total	25,666,152	16,041,344	26,282,857	16,426,786
23. RAW MATERIALS CONSUMED ETC.				
Leaf and Casing Materials	3,045,185,002	1,903,240,626	2,911,851,119	1,819,906,949
Wrapping Materials	2,492,904,791	1,558,065,494	2,424,942,202	1,515,588,876
Fabrics, Trims etc.	9,812,558	6,132,849	15,184,516	9,490,323
Purchases and Contract Manufacturing Charges	398,954,146	249,346,341	323,378,117	202,111,323
	5,946,856,497	3,716,785,310	5,675,355,954	3,547,097,471
Allocation of overheads etc. on Finished Goods (manufactured)				
Opening	167,419,148	104,636,968	140,154,459	87,596,537
Closing	(203,856,072)	(127,410,045)	(167,419,148)	(104,636,968)
Total	5,910,419,573	3,694,012,233	5,648,091,265	3,530,057,040
24. EMPLOYEE BENEFITS EXPENSES				
Salaries, Wages & Allowances	512,886,993	320,554,371	479,281,291	299,550,807
Contribution to Provident and Other Funds	21,800,317	13,625,198	16,365,370	10,228,356
Provision for Retirement Benefits (Refer (I) of Note 29.a)	(32,383,907)	(20,239,942)	39,369,902	24,606,188
Cost of Stock Option Reimbursable	57,193,032	35,745,645	51,838,452	32,399,033
Labour & Staff Welfare	26,129,716	16,331,073	25,098,456	15,686,535
Provision for Employees' Bonus	1,503,503,926	939,689,954	1,185,787,465	741,117,166
Total	2,089,130,077	1,305,706,299	1,797,740,936	1,123,588,085
25. MANUFACTURING, ADMIN, SELLING EXPENSES ETC.				
Hired Machine Expenses	66,206,724	41,379,203	86,798,703	54,249,189
Rent	60,852,317	38,032,698	73,748,267	46,092,667
Electricity, Fuel & Water	108,140,294	67,587,684	118,175,602	73,859,751
Rates & Taxes	104,911,836	65,569,898	71,703,268	7,170,793
Insurance Premium	94,790,996	59,244,373	95,345,951	59,591,219
Repairs & Improvements - Depreciable Assets	169,986,697	106,241,686	185,101,372	115,688,358
Maintenance - Owned Properties	6,409,517	4,005,948	6,245,452	3,903,408
Maintenance - Other Properties	6,431,495	4,019,684	17,130,939	10,706,837
Safety & Pollution Control Cost	36,847,296	23,029,560	30,848,438	19,280,274
Consumption of Stores & Spare Parts *	43,749,909	27,343,693	49,833,152	31,145,720
Freight and Handling charges	75,404,915	47,128,072	74,956,775	46,847,984
Product & Packaging Development - Tools / Accessories	18,583,275	11,614,547	57,755,173	36,096,983
Product Development & License Fees	603,664,632	377,290,395	549,911,810	343,694,881
Advertising	6,626,726	4,141,704	4,262,827	2,664,267
Market Research	19,638,195	12,273,872	23,717,890	14,823,681
Retail Accessories	34,356,922	21,473,076	28,920,180	18,075,113
Trade Distribution Expenses	134,766,294	84,228,934	114,389,710	71,493,569
Information Technology Services	100,877,721	63,048,576	132,590,330	82,868,956
Travel & Conveyance	77,142,270	48,213,919	78,286,098	48,928,811
Training & Recruitment Expenses	3,258,358	2,036,474	3,577,912	2,236,195
Postage, Telephone, Fax etc.	5,955,088	3,721,930	5,851,840	3,657,400
Bank Charges and Commission	5,261,969	3,288,731	8,025,786	5,016,116
Audit Fees	925,000	578,125	925,000	578,125
Legal Fees	5,190,700	3,244,188	1,783,800	1,114,875
Printing & Stationery	6,560,319	4,100,199	5,972,209	3,732,631
Consultancy Charges	404,480,912	252,800,570	365,064,704	228,165,440
Professional Service Charges & Other Fees	106,694,541	66,684,088	106,495,479	66,559,674
Business Entertainment Expenses	7,192,352	4,495,220	7,130,879	4,456,799
Promotion & Sponsorship	16,413,250	10,258,281	12,546,009	7,841,256
Board Meeting Fees	70,588	44,118	70,588	44,118
Donations	787,500	492,188	561,750	351,094
Books & Periodicals	192,914	120,571	381,836	238,648
Membership Fee	747,530	467,206	414,755	259,222
Loss / (gain) on Property, Plant & Equipment Sold / Discarded (Net)	(19,632,108)	(12,270,068)	1,144,703	715,439
Miscellaneous Expenses (Refer (v) of Note 30)	3,141,004	1,963,128	3,586,551	2,241,594
Total	2,316,627,948	1,447,892,471	2,263,025,738	1,414,391,087

* Includes writeback of provision for obsolescence of spares NRs. 7,997,201 (₹ 4,998,251) [provision created in 2073/74 - NRs. 6,356,370 (₹ 3,972,731)].

NOTES TO THE FINANCIAL STATEMENTS (CONTD.)

	Figures in NRs. For the Year 32nd Asadh 2075 (16th July 2018)	Figures in ₹ For the Year 32nd Asadh 2075 (16th July 2018)	Figures in NRs. For the Year 31st Asadh 2074 (15th July 2017)	Figures in ₹ For the Year 31st Asadh 2074 (15th July 2017)
26. OTHER INCOME				
Interest Income from:				
a) Deposits with banks - carried at amortised cost	379,436,878	237,148,049	125,249,219	78,280,762
b) Interest from Investments - measured at amortised cost	1,470,625	919,141	1,470,625	919,141
c) Interest on employee loans - measured at amortised cost	944,570	590,356	1,205,225	753,266
d) Others - Interest received from customers, etc.	7,530,412	4,706,508	6,800,156	4,250,098
Net foreign exchange gain / (loss)	(4,050,013)	(2,531,258)	(3,213,172)	(2,008,233)
Total	385,332,472	240,832,796	131,512,053	82,195,034
27. FINANCE COST				
Interest expenses:				
a) On financial liabilities measured at amortised cost				
– Interest on Short Term Loans / Overdrafts	17,805,151	11,128,219	2,340,135	1,462,584
b) Others				
– Interest on Trading Debts	5,134,848	3,209,280	5,705,176	3,565,735
Total	22,939,999	14,337,499	8,045,311	5,028,319
28. TAX EXPENSE				
A. Amount recognised in Profit or Loss				
Current Tax	4,101,468,015	2,563,417,509	3,406,275,434	2,128,922,146
Deferred Tax	(9,575,227)	(5,984,517)	(18,073,172)	(11,295,732)
Adjustments/(credits) related to previous years - Net	169,000,000	105,625,000	–	–
Total	4,260,892,788	2,663,057,992	3,388,202,262	2,117,626,414
B. Amount recognised in Other Comprehensive Income				
The tax (charge) / credit arising on income and expenses recognised in other comprehensive income is as follows:				
On items that will not be reclassified to profit or loss				
– Remeasurements of defined benefit plans	11,718,398	7,323,999	(5,907,258)	(3,692,036)
Total	11,718,398	7,323,999	(5,907,258)	(3,692,036)
C. Reconciliation between tax expense and accounting profit				
Profit before tax	13,531,535,332	8,457,209,577	11,296,185,850	7,060,116,157
Income Tax expense calculated at the applicable tax rate (Cigarettes Manufacturing @ 30%, Garment Manufacturing @ 20% and Trading @ 25%)	4,059,531,188	2,537,206,991	3,388,332,784	2,117,707,990
Factors affecting tax charge for the year				
Effects of:				
– Difference in tax treatment of certain expense	30,779,484	19,237,178	192,218	120,137
– Benefit of previously unrecognised tax loss	–	–	(322,740)	(201,713)
– Adjustments recognised in the current year in relation to previous years	169,000,000	105,625,000	–	–
– Unused tax losses not recognised	1,582,116	988,823	–	–
Income Tax recognised in profit or loss	4,260,892,788	2,663,057,992	3,388,202,262	2,117,626,414

29.a. Defined Benefit Plans

The Company provides defined benefit in the form of Gratuity and other retirement benefits. Gratuity is funded and deposited with Citizen Investment Trust (CIT) towards meeting the gratuity obligation. Other retirement benefits are unfunded.

CIT is a public financial organization established under the Citizen Investment Trust Act, 2047. Nepal Government, Nepal Rastra Bank, Nepal Stock Exchange Ltd., Rastriya Beema Sansthan, etc. are the shareholders of CIT, which is listed on Nepal Stock Exchange. CIT operates and manages various types of retirement schemes / programs. The Gratuity Fund Scheme is operated by a committee of CIT in accordance with terms and conditions of Gratuity Scheme Operation Procedure, 2055 as approved by Board of CIT. The Committee managing the Gratuity Fund Scheme invests in various sectors as prescribed under Gratuity Scheme Operation Procedure, 2055. As per the CIT Act, 2047, amount deposited by the Company and interest thereon shall be paid by the Government of Nepal in the event the same is not paid by CIT.

The liabilities arising in the Defined Benefit Schemes are determined in accordance with the advice of independent, professional qualified actuaries, using the projected unit credit method. The Company makes regular contributions to these Employee Benefit Plans. Additional contributions are made to these plans as and when required based on actuarial valuation.

Consequent to the introduction of Labour Act, 2074 (Act) during the year, the current defined benefit plan relating to Gratuity for certain employees has, in effect, been replaced by a defined contribution plan. 'Benefits Paid' (in Table VI below) includes amount pertaining to such employees, lying currently with the CIT, required to be transferred to the Social Security Fund to be set up by the Government of Nepal under the provisions of the Contribution Based Social Security Act, 2074.

The Defined Benefit plans expose the Company to risk of actuarial deficit arising out of interest rate risk, salary cost inflation risk and investment risk. The Scheme's accounting liabilities are calculated using a discount rate set with reference to the yield as communicated by CIT. A decrease in yields will increase the fund liabilities, leading to accounting deficit in the funds. Increase in salary due to adverse inflationary pressures might lead to higher liabilities. Investment risk may arise from lower earnings in the investment portfolio which is managed by the committee of CIT as referred above.

		Figures in NRs.		Figures in ₹		Figures in NRs.		Figures in ₹	
		For the year ended		For the year ended		For the year ended		For the year ended	
		32nd Asadh, 2075 (16th July, 2018)		32nd Asadh, 2075 (16th July, 2018)		31st Asadh, 2074 (15th July, 2017)		31st Asadh, 2074 (15th July, 2017)	
		Gratuity	Other Retirement Benefits	Gratuity	Other Retirement Benefits	Gratuity	Other Retirement Benefits	Gratuity	Other Retirement Benefits
		Funded	Unfunded	Funded	Unfunded	Funded	Unfunded	Funded	Unfunded
1	Components of Employer Expense								
	– Recognised in Profit or Loss								
1	Current Service Cost	11,024,446	5,034,936	6,890,279	3,146,835	9,641,920	1,454,783	6,026,200	909,239
2	Past Service Cost	(38,557,646)	(9,087,650)	(24,098,529)	(5,679,781)	3,853,879	20,649,863	2,408,674	12,906,164
3	Net Interest Cost	(6,394,046)	5,596,053	(3,996,279)	3,497,533	706,844	3,062,614	441,777	1,914,133
4	Total expense recognised in the Statement of Profit or Loss	(33,927,246)	1,543,339	(21,204,529)	964,587	14,202,643	25,167,260	8,876,651	15,729,536

NOTES TO THE FINANCIAL STATEMENTS (CONTD.)

		Figures in NRs.		Figures in ₹		Figures in NRs.		Figures in ₹	
		For the year ended 32nd Asadh, 2075 (16th July, 2018)		For the year ended 32nd Asadh, 2075 (16th July, 2018)		For the year ended 31st Asadh, 2074 (15th July, 2017)		For the year ended 31st Asadh, 2074 (15th July, 2017)	
		Gratuity	Other Retirement Benefits	Gratuity	Other Retirement Benefits	Gratuity	Other Retirement Benefits	Gratuity	Other Retirement Benefits
		Funded	Unfunded	Funded	Unfunded	Funded	Unfunded	Funded	Unfunded
—	Re-measurements recognised in Other Comprehensive Income								
5	Return on Plan Assets (excluding amount included in Net Interest Cost)	2,406,539	-	1,504,087	-	(8,227,485)	-	(5,142,178)	-
6	Effect of Changes in demographic assumptions	1,937,142	69,767	1,210,714	43,604	2,473,605	(498,358)	1,546,003	(311,474)
7	Effect of Changes in financial assumptions	(5,278,968)	(2,618,942)	(3,299,355)	(1,636,839)	(22,732,902)	(13,617,698)	(14,208,064)	(8,511,061)
8	Changes in asset ceiling (excluding interest income)	-	-	-	-	-	-	-	-
9	Effect of experience adjustments	49,566,753	(7,020,966)	30,979,221	(4,388,104)	18,135,399	4,776,578	11,334,624	2,985,361
10	Total re-measurements included in Other Comprehensive Income	48,631,466	(9,570,141)	30,394,667	(5,981,339)	(10,351,383)	(9,339,478)	(6,469,615)	(5,837,174)
11	Total defined benefit cost recognised in Statement of Profit or Loss and Other Comprehensive Income (4+10)	14,704,220	(8,026,802)	9,190,138	(5,016,752)	3,851,259	15,827,782	2,407,036	9,892,362

The current service cost, past service cost and net interest cost for the year pertaining to Gratuity and Other Retirement Benefit expenses have been recognised in "Provision for Retirement Benefits" under Note 24. The remeasurements of the net defined benefit liability are included in Other Comprehensive Income.

		Figures in NRs.		Figures in ₹		Figures in NRs.		Figures in ₹	
		For the year ended 32nd Asadh, 2075 (16th July, 2018)		For the year ended 32nd Asadh, 2075 (16th July, 2018)		For the year ended 31st Asadh, 2074 (15th July, 2017)		For the year ended 31st Asadh, 2074 (15th July, 2017)	
		Gratuity	Other Retirement Benefits	Gratuity	Other Retirement Benefits	Gratuity	Other Retirement Benefits	Gratuity	Other Retirement Benefits
II	Actual Returns	10,524,216	-	6,577,635	-	16,921,799	-	10,576,125	-

III Net Asset/(Liability) recognised in Statement of Financial Position									
1	Present Value of Defined Benefit Obligation	167,634,583	76,451,317	104,771,614	47,782,073	248,790,241	87,708,119	155,493,901	54,817,574
2	Fair Value on Plan Assets	152,930,363	-	95,581,477	-	244,938,981	-	153,086,863	-
3	Status [Surplus/(Deficit)]	(14,704,220)	(76,451,317)	(9,190,138)	(47,782,073)	(3,851,260)	(87,708,119)	(2,407,038)	(54,817,574)
4	Restriction on Asset recognised	-	-	-	-	-	-	-	-

	5	Net Asset/(Liability) recognised in Statement of Financial Position	Figures in NRs.		Figures in ₹		Figures in NRs.		Figures in ₹	
			As at 32nd Asadh, 2075 (16th July, 2018)		As at 32nd Asadh, 2075 (16th July, 2018)		As at 31st Asadh, 2074 (15th July, 2017)		As at 31st Asadh, 2074 (15th July, 2017)	
			Current	Non-current	Current	Non-current	Current	Non-current	Current	Non-current
		Gratuity	(14,704,220)	-	(9,190,138)	-	(3,851,260)	-	(2,407,038)	-
		Other Retirement Benefits	(4,006,887)	(72,444,430)	(2,504,304)	(45,277,769)	(9,606,273)	(78,101,846)	(6,003,921)	(48,813,654)

		Figures in NRs.		Figures in ₹		Figures in NRs.		Figures in ₹	
		For the year ended 32nd Asadh, 2075 (16th July, 2018)		For the year ended 32nd Asadh, 2075 (16th July, 2018)		For the year ended 31st Asadh, 2074 (15th July, 2017)		For the year ended 31st Asadh, 2074 (15th July, 2017)	
		Gratuity	Other Retirement Benefits	Gratuity	Other Retirement Benefits	Gratuity	Other Retirement Benefits	Gratuity	Other Retirement Benefits
IV	Change in Defined Benefit Obligations (DBO)								
1	Present Value of DBO at beginning of the year	248,790,241	87,708,120	155,493,901	54,817,575	242,040,732	81,250,338	151,275,458	50,781,461
2	Current Service Cost	11,024,446	5,034,936	6,890,279	3,146,835	9,641,920	1,454,783	6,026,200	909,239
3	Past service cost	(38,557,646)	(9,087,650)	(24,098,529)	(5,679,781)	3,853,879	20,649,863	2,408,674	12,906,164
4	Interest Cost	6,536,708	5,596,053	4,085,442	3,497,533	9,401,158	3,062,614	5,875,724	1,914,133
5	Remeasurement gains/(losses):	-	-	-	-	-	-	-	-
a	Effect of Changes in demographic assumptions	1,937,142	69,767	1,210,714	43,604	2,473,606	(498,358)	1,546,004	(311,474)
b	Effect of Changes in financial assumptions	(5,278,968)	(2,618,942)	(3,299,355)	(1,636,839)	(22,732,902)	(13,617,698)	(14,208,064)	(8,511,061)
c	Changes in asset ceiling (excluding interest income)	-	-	-	-	-	-	-	-
d	Effect of experience adjustments	49,566,753	(7,020,966)	30,979,221	(4,388,104)	18,135,399	4,776,578	11,334,624	2,985,361
6	Curtailment Cost/(Credits)	-	-	-	-	-	-	-	-
7	Settlement Cost/(Credits)	(99,694,220)	-	(62,308,888)	-	-	-	-	-
8	Liabilities assumed in business combination	-	-	-	-	-	-	-	-
9	Exchange difference on foreign plans	-	-	-	-	-	-	-	-
10	Benefits Paid	(6,689,873)	(3,230,000)	(4,181,171)	(2,018,750)	(14,023,551)	(9,370,000)	(8,764,719)	(5,856,250)
11	Present Value of DBO at the end of the year	167,634,583	76,451,317	104,771,614	47,782,073	248,790,241	87,708,120	155,493,901	54,817,573

V	Best Estimate of Employer's Expected Contribution for the next year	Figures in NRs.	Figures in ₹	Figures in NRs.	Figures in ₹
		As at 32nd Asadh, 2075 (16th July, 2018)	As at 32nd Asadh, 2075 (16th July, 2018)	As at 31st Asadh, 2074 (15th July, 2017)	As at 31st Asadh, 2074 (15th July, 2017)
	Gratuity	14,704,220	9,190,138	3,851,260	2,407,038

NOTES TO THE FINANCIAL STATEMENTS (Contd.)

		Figures in NRs.		Figures in ₹		Figures in NRs.		Figures in ₹	
		For the year ended 32nd Asadh, 2075 (16th July, 2018)		For the year ended 32nd Asadh, 2075 (16th July, 2018)		For the year ended 31st Asadh, 2074 (15th July, 2017)		For the year ended 31st Asadh, 2074 (15th July, 2017)	
		Gratuity	Other Retirement Benefits	Gratuity	Other Retirement Benefits	Gratuity	Other Retirement Benefits	Gratuity	Other Retirement Benefits
VI	Change in Fair Value of Assets								
1	Plan Assets at beginning of the year	244,938,981	-	153,086,863	-	189,776,749	-	118,610,468	-
2	Asset acquired in Business Combination	-	-	-	-	-	-	-	-
3	Interest Income	12,930,754	-	8,081,721	-	8,694,315	-	5,433,947	-
4	Remeasurement Gains/(Losses)on plan assets	(2,406,539)	-	(1,504,087)	-	8,227,485	-	5,142,178	-
5	Actual Company Contributions	3,851,260	3,230,000	2,407,038	2,018,750	52,263,983	9,370,000	32,664,989	5,856,250
6	Benefits Paid	(106,384,093)	(3,230,000)	(66,490,058)	(2,018,750)	(14,023,551)	(9,370,000)	(8,764,719)	(5,856,250)
7	Plan Assets at the end of the year	152,930,363	-	95,581,477	-	244,938,981	-	153,086,863	-

	Actuarial Assumptions	As at 32nd Asadh, 2075 (16th July, 2018)	As at 31st Asadh, 2074 (15th July, 2017)
		Discount Rate (%)	Discount Rate (%)
	Gratuity	7.00%	6.50%
	Other Retirement Benefits	7.00%	6.50%

The estimates of future salary increases, considered in actuarial valuations take account of inflation, seniority, promotion and other relevant factors such as supply and demand factors in the employment market.

	Major Category of Plan Assets as a % of the Total Plan Assets	As at 32nd Asadh, 2075 (16th July, 2018)	As at 31st Asadh, 2074 (15th July, 2017)
		1	Citizen Investment Trust Managed Funds*

* In the absence of detailed information regarding plan assets which is funded with Citizen Investment Trust, the composition of each major category of plan assets, the percentage or amount for each category to the fair value of plan assets has not been disclosed.

IX Basis used to determine the Expected Rate of Return on Plan Assets

The expected rate of return on plan assets is based on discount rate set with reference to the yield as communicated by CIT.

		Figures in NRs.		Figures in ₹		Figures in NRs.		Figures in ₹	
		For the year ended 32nd Asadh, 2075 (16th July, 2018)		For the year ended 32nd Asadh, 2075 (16th July, 2018)		For the year ended 31st Asadh, 2074 (15th July, 2017)		For the year ended 31st Asadh, 2074 (15th July, 2017)	
		Gratuity	Other Retirement Benefits	Gratuity	Other Retirement Benefits	Gratuity	Other Retirement Benefits	Gratuity	Other Retirement Benefits
X	Net Asset / (Liability) recognized in Statement of Financial Position (including experience adjustment impact)								
1	Present Value of Defined Benefit Obligation	167,634,583	76,451,317	104,771,614	47,782,073	248,790,241	87,708,119	155,493,901	54,817,574
2	Fair Value on Plan Assets	152,930,363	-	95,581,477	-	244,938,981	-	153,086,863	-
3	Status [Surplus/(Deficit)]	(14,704,220)	(76,451,317)	(9,190,138)	(47,782,073)	(3,851,260)	(87,708,119)	(2,407,038)	(54,817,574)
4	Experience Adjustment of Plan Assets [Gain / (loss)]	(2,406,539)	-	(1,504,087)	-	8,227,485	-	5,142,178	-
5	Experience Adjustment of Obligation [(Gain) / Loss]	49,566,753	(7,020,966)	30,979,221	(4,388,104)	18,135,399	4,776,578	11,334,624	2,985,361

XI Sensitivity Analysis

The Sensitivity Analysis below has been determined based on reasonably possible change of the respective assumptions occurring at the end of the reporting period, while holding all other assumptions constant. These sensitivities show the hypothetical impact of a change in each of the listed assumptions in isolation. While each of these sensitivities holds all other assumptions constant, in practice such assumptions rarely change in isolation and the asset value changes may offset the impact to some extent. For presenting the sensitivities, the present value of the Defined Benefit Obligation has been calculated using the projected unit credit method at the end of the reporting period, which is the same as that applied in calculating the Defined Benefit Obligation presented above. There was no change in the methods and assumptions used in the preparation of the Sensitivity Analysis from previous year.

		Figures in NRs.	Figures in ₹	Figures in NRs.	Figures in ₹
		DBO as at 32nd Asadh, 2075 (16th July, 2018)	DBO as at 32nd Asadh, 2075 (16th July, 2018)	DBO as at 31st Asadh, 2074 (15th July, 2017)	DBO as at 31st Asadh, 2074 (15th July, 2017)
1	Discount rate +100 basis points	228,761,662	142,976,039	316,083,307	197,552,067
2	Discount rate -100 basis points	261,290,888	163,306,805	359,696,831	224,810,519
3	Salary Increase Rate +1%	255,649,101	159,780,688	352,369,842	220,231,151
4	Salary Increase Rate -1%	233,618,369	146,011,480	322,245,830	201,403,644

Maturity Analysis Of The Benefit Payments

1	Year 1	44,561,496	27,850,935	41,435,936	25,897,460
2	Year 2	12,988,836	8,118,023	30,474,000	19,046,250
3	Year 3	28,915,897	18,072,436	21,004,778	13,127,986
4	Year 4	22,489,413	14,055,883	32,814,913	20,509,321
5	Year 5	16,706,531	10,441,582	39,533,210	24,708,256
6	Next 5 Years	104,242,691	65,151,682	139,273,951	87,046,219

b. Amounts towards Defined Contribution Plans have been recognised under "Contribution to Provident and Other Funds" in Note 24.

NOTES TO THE FINANCIAL STATEMENTS (Contd.)

30. Additional Notes to the Financial Statements

- (i) These financial statements were authorised for issue by the Board of Directors on 8th Ashwin 2075 (24th September 2018).
- (ii) Cost of inventory recognized as expense during the year amount to NRs. 7,301,927,094 (₹ 4,563,704,434) [2073/74 – NRs. 7,106,074,538 (₹ 4,441,296,586)].
- (iii) Estimated amount of contracts remaining to be executed on capital account and not provided for NRs. 319,304,103 (₹ 199,565,064) [2073/74 - NRs. 312,053,970 (₹ 195,033,731)].
- (iv) Remuneration to Managing Director :

Particulars	For the year ended 32nd Asadh 2075 (16th July 2018) In NRs.	For the year ended 32nd Asadh 2075 (16th July 2018) In ₹	For the year ended 31st Asadh 2074 (15th July 2017) In NRs.	For the year ended 31st Asadh 2074 (15th July 2017) In ₹
Salary & Allowances	18,723,021	11,701,888	15,048,970	9,405,606
Other Benefits *	2,461,724	1,538,578	2,245,201	1,403,251
Post Employment Benefits	**	**	**	**
Total	21,184,745	13,240,466	17,294,171	10,808,857

Note:

The Managing Director and some other employees of the company have been granted stock options under the Employee Stock Option Scheme of the Holding Company (ITC Limited). Such options are granted at 'market price' [within the meaning of Securities and Exchange Board of India (Share Based Employee Benefit) Regulations, 2014]. Since such options are not tradable, no benefit is conferred upon the employee at the time of grant of options. The Company, however has recorded employee benefits expense by way of share based payments to employees, in accordance with NFRS 2, at NRs 57,193,032 (₹ 35,745,645) for the year ended 32nd Asadh 2075 [2073/74 – NRs. 51,838,452 (₹ 32,399,033)], out of which NRs. 23,177,936 (₹ 14,486,210) [2073/74 – NRs. 19,714,877 (₹ 12,321,798)] is attributable to Managing Director. During the year, 25,300 options (2073/74 – 17,600 options) were granted to the Managing Director.

* Other Benefits includes amounts incurred/reimbursed by the Company towards Residential Rent & Maintenance, Fuel & Driver Salary for Vehicle, Vehicle Repairs & Maintenance etc.

** Post employment benefits are actuarially determined on overall basis for all employees.

- (v) Miscellaneous Expenses include reimbursement of expenses to statutory auditors amounting to NRs. 156,525 (₹ 97,828) [2073-74 - NRs. 131,850 (₹ 82,406)].
- (vi) Related Party Disclosures

Nature of relationship and name of the related parties:

1. Holding Company
ITC Limited, India
2. Fellow Subsidiary Companies
 - a) Srinivasa Resorts Limited, India
 - b) Fortune Park Hotels Limited, India
 - c) Bay Islands Hotels Limited, India
 - d) WelcomHotels Lanka (Private) Limited, Sri Lanka
 - e) Landbase India Limited, India
 - f) Russell Credit Limited, India and its subsidiary
Greenacre Holdings Limited, India
 - g) Technico Pty Limited, Australia and its subsidiaries
Technico Technologies Inc., Canada
Technico Asia Holdings Pty Limited, Australia and its subsidiary
Technico Horticultural (Kunming) Co. Limited, China
 - h) Technico Agri Sciences Limited, India
 - i) Wimco Limited, India
 - j) Pavan Poplar Limited, India
 - k) Prag Agro Farm Limited, India
 - l) ITC Infotech India Limited, India and its subsidiaries
ITC Infotech Limited, UK
ITC Infotech (USA), Inc. and its subsidiary
Indivate Inc., USA
 - m) Gold Flake Corporation Limited, India
 - n) ITC Investments & Holdings Limited, India and its subsidiary
MRR Trading & Investment Company Limited, India
 - o) North East Nutrients Private Limited, India

The above list does not include ITC Global Holdings Pte. Limited, Singapore which ceased to be a subsidiary of Holding Company pursuant to its dissolution by High Court of the Republic of Singapore vide order dated 10th July, 2018.
3. Associate of Holding Company
 - a) Gujarat Hotels Limited, India
 - b) International Travel House Limited, India
– being associates of the Holding Company, and
 - c) Tobacco Manufacturers (India) Limited, UK
– of which the Holding Company is an associate
4. Associates of Holding Company's subsidiaries
 - a) Russell Investments Limited, India

NOTES TO THE FINANCIAL STATEMENTS (Contd.)

- b) Divya Management Limited, India
- c) Antrang Finance Limited, India
– being associates of Russell Credit Limited, India and
- d) ATC Limited, India
– being associate of Gold Flake Corporation Limited, India
- 5. Joint Venture of Holding Company
 - a) Maharaja Heritage Resorts Limited, India
 - b) Espirit Hotels Private Limited, India
 - c) Logix Developers Private Limited, India
- 6. Joint Venture of Holding Company's Subsidiary
 - a) ITC Essentra Limited, India
– being joint venture of Gold Flake Corporation Limited, India
- 7. Key Management Personnel:

S Puri	Chairman & Non-Executive Director
S Kaul	Alternate Director to Mr. S Puri
B Sumant	Non-Executive Director
A K Mukerji	Non-Executive Director (ceased w.e.f. 18th July 2018)
S Dutta	Non-Executive Director (w.e.f. 18th July 2018)
B B Chatterjee	Non-Executive Director (ceased w.e.f. 4th February 2018)
R K Singhi	Non-Executive Director (w.e.f. 4th February 2018)
S R Pandey	Non-Executive Director
S SJB Rana	Non-Executive Director
Saurya SJB Rana	Alternate Director to Mr. S. SJB Rana
Abhimanyu Kumar Poddar	Managing Director

Disclosure of transactions between the Company and related parties and the status of outstanding balances as at 32nd Asadh, 2075 (16th July, 2018):

Related Party Transactions Summary	For the year ended 32nd Asadh, 2075 (16th July, 2018) In NRs.			For the year ended 31st Asadh, 2074 (15th July, 2017) In NRs.		
	Holding Company	Fellow Subsidiaries	Key Management Personnel*	Holding Company	Fellow Subsidiaries	Key Management Personnel*
Purchase of Goods/ Services	5,213,144,127	60,211,053	–	5,062,789,364	70,674,773	–
Sitting Fees/ Incidental Expenses to Other Directors	–	–	82,353	–	–	94,118
Cost of Stock Option Reimbursable	57,193,032	–	–	51,838,452	–	–
Machine Hire Charges	59,797,396	–	–	73,788,674	–	–
Dividend Payments	4,180,881,600	–	–	3,544,531,200	–	–
Expenses recovered	4,273,790	–	–	716,258	–	–
Expenses reimbursed	770,975	–	–	1,632,323	–	–
Advances Given	2,132,642,792	–	–	3,254,259,275	–	–
Outstanding Balances						
- Advances / Other Receivables	1,638,774,389	–	–	1,985,003,140	–	–
- Creditors / Payables	491,859,094	21,649,863	–	435,347,986	52,100,937	–

Related Party Transactions Summary	For the year ended 32nd Asadh, 2075 (16th July, 2018) In ₹			For the year ended 31st Asadh, 2074 (15th July, 2017) In ₹		
	Holding Company	Fellow Subsidiaries	Key Management Personnel*	Holding Company	Fellow Subsidiaries	Key Management Personnel*
Purchase of Goods/ Services	3,258,215,079	37,631,908	–	3,164,243,353	44,171,733	–
Sitting Fees/ Incidental Expenses to Other Directors	–	–	51,471	–	–	58,824
Cost of Stock Option Reimbursable	35,745,645	–	–	32,399,033	–	–
Machine Hire Charges	37,373,373	–	–	46,117,921	–	–
Dividend Payments	2,613,051,000	–	–	2,215,332,000	–	–
Expenses recovered	2,671,119	–	–	447,661	–	–
Expenses reimbursed	481,859	–	–	1,020,202	–	–
Advances Given	1,332,901,745	–	–	2,033,912,047	–	–
Outstanding Balances						
- Advances / Other Receivables	1,024,233,993	–	–	1,240,626,963	–	–
- Creditors / Payables	307,411,934	13,531,164	–	272,092,491	32,563,086	–

* also refer to Note 30 (iv).

NOTES TO THE FINANCIAL STATEMENTS (Contd.)

Related Party Transactions Summary	For the year ended 32nd Asadh, 2075 (16th July, 2018) In NRs.		For the year ended 31st Asadh, 2074 (15th July, 2017) In NRs.	
	Associate of Holding Company	Joint Venture of Holding Company's Subsidiary	Associate of Holding Company	Joint Venture of Holding Company's Subsidiary
Purchase of Goods/ Services	3,684,925	921,289	3,256,401	824,942
Outstanding Balances				
- Creditors / Payables	7,407	-	10,267	-

Related Party Transactions Summary	For the year ended 32nd Asadh, 2075 (16th July, 2018) In ₹		For the year ended 31st Asadh, 2074 (15th July, 2017) In ₹	
	Associate of Holding Company	Joint Venture of Holding Company's Subsidiary	Associate of Holding Company	Joint Venture of Holding Company's Subsidiary
Purchase of Goods/ Services	2,303,078	575,806	2,035,251	515,589
Outstanding Balances				
- Creditors / Payables	4,629	-	6,417	-

(vii) Contingent liabilities:

A Claims against the Company not acknowledged as debts:

a) Demands raised by Revenue Authorities on theoretical production of cigarettes:

Excise, Income Tax and Value Added Tax (VAT) authorities issued Show Cause Notices (SCNs) and raised demands to recover taxes for different years on the theoretical production of cigarettes. The basis for all these SCNs and demands is an untenable contention by the Revenue Authorities that the Company could have produced more cigarettes than it has actually produced in a given year, by applying an input-output ratio allegedly submitted by the Company in the year 2047-48 (1990-91) and, that, the Company is liable to pay taxes on such cigarettes that could have been theoretically produced and sold. This, despite the fact that the Company's cigarette factory was under 'physical control' of the Excise authorities and cigarettes produced are duly accounted for and certified as such by the Revenue Authorities.

The above basis of theoretical production has been rejected by the Supreme Court of Nepal vide its orders dated 29th October 2009 and 1st April 2010. In the said order of the Supreme Court of Nepal dated 1st April 2010, the Excise demands {(for the financial years 2055-56 to 2059-60 (1998-99 to 2002-03)) and Income Tax demands {for the financial year 2058-59 (2001-02)} were set aside. Citing the aforesaid decisions of the Supreme Court of Nepal, the Inland Revenue Department, on 11th February 2011 and 12th August 2013 decided the following administrative review petitions in favour of the Company relating to theoretical production:

(i) Value Added Tax - NRs. 190,142,762 (₹ 118,839,226) for the financial years 2058-59 and 2064-65 (2001-02 and 2007-08).

(ii) Income Tax - NRs. 49,070,474 (₹ 30,669,046) for the financial year 2062-63 (2005-06).

The Company's counsel appearing in the matter has opined that the verdict of the Supreme Court of Nepal dated 29th October 2009, which was delivered by a Full Bench of the Court, will add substantial strength to Company's case in all the other matters relating to the issue of theoretical production.

Following is the status of pending demands and Show Cause Notices received from the Revenue Authorities based on similar untenable contention:

Excise Demands and Show Cause Notice

1. Excise demand letter dated 22nd February 2008 for NRs. 149,515,509 (₹ 93,447,193) relating to the financial years 2060-61 to 2062-63 (2003-04 to 2005-06). The Company's writ petition, challenging the demand, has been admitted by the Supreme Court of Nepal on 2nd April 2008 and it has issued Show Cause Notices to the respondents.
2. Excise demand letter dated 30th November 2008 for NRs. 128,510,757 (₹ 80,319,223) relating to the financial year 2063-64 (2006-07). The Company's writ petition, challenging the demand, has been admitted by the Supreme Court of Nepal on 6th January 2009 and it has issued Show Cause Notices to the respondents.
3. Show Cause Notice dated 19th January 2010 seeking to demand NRs. 196,537,807 (₹ 122,836,129) by way of Excise Duty for the financial year 2064-65 (2007-08). Company's writ petition challenging the Notice was admitted by the Supreme Court of Nepal. On 7th March 2010, Supreme Court of Nepal issued interim order directing Inland Revenue Department not to raise demand, pending final disposal of the writ petition.

VAT Demands

4. VAT demand letter dated 8th August 2007 for NRs. 57,238,860 (₹ 35,774,288) relating to the financial year 2059-60 (2002-03). The Company's writ petition, challenging the demand, has been admitted by the Supreme Court of Nepal on 12th September 2007 and it has issued Show Cause Notices to the respondents.
5. VAT demand letter dated 5th August 2008 for NRs. 10,718,107 (₹ 6,698,817) relating to the financial year 2060-61 (2003-04). The Company's writ petition, challenging the demand, has been admitted by the Supreme Court of Nepal on 5th September 2008 and it has issued Show Cause Notices to the respondents.
6. VAT demand letter dated 10th July 2009, for NRs. 106,966,056 (₹66,853,785) relating to the financial years 2061-62 to 2063-64 (2004-05 to 2006-07). The Company's writ petition, challenging the demand, has been admitted by the Supreme Court of Nepal on 9th August 2009 and it has issued Show Cause Notices to the respondents.

Income Tax Demands

7. Income Tax demand letter dated 12th August 2007 for NRs. 196,092,971 (₹ 122,558,107) relating to the financial year 2059-60 (2002-03). The Company's writ petition, challenging the demand, has been admitted by the Supreme Court of Nepal on 12th September 2007 and it has issued Show Cause Notices to the respondents.

NOTES TO THE FINANCIAL STATEMENTS (Contd.)

8. Income Tax demand letter dated 15th September 2008 for the financial year 2060-61 (2003-04). Out of total demand of NRs. 22,536,944 (₹ 14,085,590), the basis of the demand for NRs. 19,139,653 (₹ 11,962,283) is on theoretical production. The Company's writ petition, challenging the demand, has been admitted by the Supreme Court of Nepal on 8th December 2008 and it has issued Show Cause Notices to the respondents.
9. Income Tax demand letter dated 16th October 2009 for the financial year 2061-62 (2004-05). Out of a total demand of NRs. 22,626,609 (₹ 14,141,631), the basis of the demand for NRs. 21,565,409 (₹ 13,478,381) is on theoretical production. The Company filed an administrative review petition before the Director General, Inland Revenue Department on 18th December 2009. The Director General without dealing with the issues raised by the Company, summarily dismissed the petition by an order dated 2nd March 2010. The Company thereafter filed an appeal before the Revenue Tribunal, on 17th June 2010. The Revenue Tribunal, vide its order dated 9th July 2012 (received by the Company on 2nd November 2012), directed Director General, Inland Revenue Department to reassess the case. The Director General appealed to the Supreme Court of Nepal for admission of the case against the decision of the Revenue Tribunal. The Supreme Court admitted the case on 11th March 2016. The matter has been heard on 12th February 2018 and order is reserved.

The Management considers that all the demands and show cause notice listed above have no legal or factual basis. Accordingly, the Management is of the view that there is no liability that is likely to arise, particularly in the light of the decisions in favour of the Company by the Supreme Court of Nepal and the Inland Revenue Department.

b) Other demands raised on account of:

1. Income Taxes for various assessment years amounting to NRs. 275,972,010 (₹ 172,482,506) [2073/74 - NRs. 305,122,168 (₹ 190,701,355)] (net of provision made for the above assessment years) including interest on claims, where applicable, estimated to be NRs. 54,789,780 (₹ 34,243,613) [2073/74 - NRs. 158,466,607 (₹ 99,041,629)] against which the Company has filed appeals with the appropriate authorities/Courts.
2. Value Added Tax matters under dispute, pertaining to various financial years amounting to NRs. 32,752,830 (₹ 20,470,519) [2073/74 - NRs. 28,772,109 (₹ 17,982,568)] including interest on claims, where applicable, estimated to be NRs. 6,895,973 (₹ 4,309,983) [2073-74 - NRs. 5,551,856 (₹ 3,469,910)] which are under appeal / reassessment.

(viii) The Company's significant leasing arrangements are in respect of operating leases for building premises (residential, office, godowns, etc.). These leasing arrangements which are not non-cancellable range between 1 year and 3 years generally, or longer, and are usually renewable by mutual consent on mutually agreeable terms. The aggregate lease rentals payable are charged as 'Rent' under Note 25 - Manufacturing, Selling and Administrative Expenses, etc.

(ix) Some of the employee(s) of the Company seconded from the Holding Company (ITC Limited), have been granted stock options under the ITC Employees Stock Option Scheme (ITC ESOS). These options vest over a period of three years from the date of grant and are exercisable within a period of five years from the date of vesting. Each option entitles the holder thereof to apply for and be allotted ten Ordinary Shares of ITC of Indian Rupee 1 each inter alia upon payment of exercise price.

These options have been granted at 'market price' within the meaning of Securities and Exchange Board of India (Share Based Employee Benefit) Regulations, 2014. The fair value of the options granted is determined by ITC, using the Black Scholes Option Pricing Model, for all the options covered under the ITC ESOS as a whole.

The Company has recognized the cost of options granted, as stated above, under the ITC Employee Stock Option Scheme (ITC ESOS) (equity - settled) in accordance with NFRS 2 - Share Based Payment and the Company's share of the cost of fair value of such options has been accounted for based on the advice / on-charge by ITC. Accordingly, an amount of NRs. 57,193,032 (₹ 35,745,645) [2073/74 - NRs. 51,838,452 (₹ 32,399,033)] (Refer Note 24) which represents the on-charge from ITC has been recognized as employee benefits expense with a corresponding payable, when such reimbursement is sought by ITC.

The details of such options granted by ITC and status of the outstanding options is as under:

Particulars	2074/75 (2017/18)	2073/74 (2016/17)
	No. of Options	No. of Options
Outstanding at the beginning of the year	373,733	220,040
Add: Granted during the year	63,490	48,450
Add: Corporate Action: Bonus by ITC	-	128,429
Add / (Less): Movement due to transfer of employees within group	(33,290)	36,820
Less: Exercised during the year	44,830	60,006
Outstanding at the end of the year	359,103	373,733
Options exercisable at the end of the year	242,345	247,303

(x) Figures have been rounded off to the nearest Nepalese Rupee.

31. Financial Instruments and Related Disclosures

1. Capital Management

The primary objective of the company's capital management is to maximize the shareholder value. The Company aims at maintaining a strong capital base and augments its internal generations with a judicious use of borrowing facilities to fund spikes in working capital that arise from time to time as well as requirements to finance business growth. The Company monitors the return on capital employed based own asset turnover and profitability ratio.

The Company is not subject to any capital adequacy norms under regulations presently in force.

NOTES TO THE FINANCIAL STATEMENTS (Contd.)

2. Categories of Financial Instruments

Particulars	Note	Amount in NRs.		Amount in ₹		Amount in NRs.		Amount in ₹	
		As at 32nd Asadh 2075 (16th July 2018)	Fair Value	As at 32nd Asadh 2075 (16th July 2018)	Fair Value	As at 31st Asadh 2074 (15th July 2017)	Fair Value	As at 31st Asadh 2074 (15th July 2017)	Fair Value
A. Financial assets									
a) Measured at amortised cost									
i) Cash and Cash Equivalents	11	49,757,833	49,757,833	31,098,646	31,098,646	337,726,550	337,726,550	211,079,093	211,079,093
ii) Other Bank Balances	12	6,090,065,963	6,090,065,963	3,806,291,227	3,806,291,227	2,900,064,129	2,900,064,129	1,812,540,081	1,812,540,081
iii) Investments	4A, 4B	25,632,338	22,625,000	16,020,211	14,140,625	25,632,338	23,253,419	16,020,211	14,533,387
iv) Loans	5	37,914,940	26,397,922	23,696,838	16,498,701	46,241,646	30,751,622	28,901,029	19,219,764
v) Trade Receivables	10	68,556,485	68,556,485	42,847,803	42,847,803	77,255,350	77,255,350	48,284,594	48,284,594
vi) Other Financial assets	6	30,385,160	30,176,593	18,990,726	18,860,371	26,138,491	26,138,491	16,336,557	16,336,557
Sub - total		6,302,312,719	6,287,579,796	3,938,945,451	3,929,737,373	3,413,058,504	3,395,189,561	2,133,161,565	2,121,993,476
b) Derivatives measured at fair value									
i) Derivative instruments not designated as hedging instruments	6	1,130,019	1,130,019	706,262	706,262	624,276	624,276	390,173	390,173
Sub - total		1,130,019	1,130,019	706,262	706,262	624,276	624,276	390,173	390,173
Total financial assets		6,303,442,738	6,288,709,815	3,939,651,713	3,930,443,635	3,413,682,780	3,395,813,837	2,133,551,738	2,122,383,649
B. Financial liabilities									
a) Measured at amortised cost									
i) Borrowings	15	1,128,051,870	1,128,051,870	705,032,419	705,032,419	-	-	-	-
ii) Trade Payables	16	820,376,602	820,376,602	512,735,377	512,735,377	833,732,775	833,732,775	521,082,984	521,082,984
iii) Other financial liabilities	17	1,575,473,689	1,575,473,689	984,671,057	984,671,057	1,221,220,832	1,221,220,832	763,263,021	763,263,021
Sub - total		3,523,902,161	3,523,902,161	2,202,438,853	2,202,438,853	2,054,953,607	2,054,953,607	1,284,346,005	1,284,346,005
b) Derivatives measured at fair value									
i) Derivative instruments not designated as hedging instruments	17	835,286	835,286	522,054	522,054	912,291	912,291	570,182	570,182
Sub - total		835,286	835,286	522,054	522,054	912,291	912,291	570,182	570,182
Total financial liabilities		3,524,737,447	3,524,737,447	2,202,960,907	2,202,960,907	2,055,865,898	2,055,865,898	1,284,916,187	1,284,916,187

NOTES TO THE FINANCIAL STATEMENTS (Contd.)

3. Financial risk management objectives

The Company's activities expose it to a variety of financial risks, including market risk, credit risk and liquidity risk. The Company continues to focus on a system-based approach to risk management. The Company's financial risk management process seeks to enable the early identification, evaluation and effective management of key risks facing the business. Backed by strong internal control systems, the current Risk Management framework is based on comprehensive internal policies and procedures across areas of operations. The Company has a process of regular reviews / audits for monitoring of such risks.

a) Market risk

Market risk comprises of foreign currency risk and interest rate risk.

i. Foreign currency risk

The Company undertakes transactions denominated in foreign currency (mainly US Dollar, Euro and GBP) which are subject to the risk of exchange rate fluctuations. Financial assets and liabilities denominated in foreign currency (other than Indian Rupee) are subject to reinstatement risks.

The carrying amounts of foreign currency denominated financial assets and liabilities including derivatives contracts are as follows:

(Amount in NRs.)				
As at 32nd Asadh, 2075 (16th July 2018)	USD	EURO	GBP	Total
Financial Assets	8,920,415	-	-	8,920,415
Financial Liabilities	48,150,002	-	-	48,150,002

(Amount in ₹)				
As at 32nd Asadh, 2075 (16th July 2018)	USD	EURO	GBP	Total
Financial Assets	5,575,259	-	-	5,575,259
Financial Liabilities	30,093,751	-	-	30,093,751

(Amount in NRs.)				
As at 31st Asadh, 2074 (15th July 2017)	USD	EURO	GBP	Total
Financial Assets	8,358,420	-	-	8,358,420
Financial Liabilities	54,203,455	565,497	14,685	54,783,637

(Amount in ₹)				
As at 31st Asadh, 2074 (15th July 2017)	USD	EURO	GBP	Total
Financial Assets	5,224,013	-	-	5,224,013
Financial Liabilities	33,877,159	353,436	9,178	34,239,773

The Company uses derivatives, such as forward exchange contracts, to manage the business risk arising out of the underlying foreign currency transactions, which serves as an economic hedge. Such forward exchange contracts that were outstanding on respective reporting dates are as follows:

(Amount in Foreign Currency)			
Currency	Cross Currency	As at 32nd Asadh, 2075 (16th July 2018) Buy	As at 31st Asadh, 2074 (15th July 2017) Buy
US Dollar	NRs	898,825	845,340
Euro	NRs	20,782	245,818
GBP	NRs	1,910	-

Hedges of Foreign currency risk and derivative financial instruments

The Company uses derivatives to hedge its exposure to changes in movement in foreign currency. Where such derivatives are not designated under hedge accounting and changes in the fair value of such hedges are recognised in the Statement of Profit or Loss and Other Comprehensive Income. The counter parties in these derivative instruments are highly rated commercial banks and the Company considers the risk of non-performance by such counter parties as not material.

Foreign currency sensitivity

As the foreign currency risk on the Statement of Financial Position date is not significant, no sensitivity disclosures have been made.

ii. Interest rate risk

The objectives of the Company's interest rate risk management processes are to lessen the impact of adverse interest rate movements on its statement of profit or loss and other comprehensive income and cash flows and to minimise counter party risks.

The Company is exposed to interest rate risk primarily with respect to its short terms borrowings from banks to fund spikes in working capital that arise from time to time. Such risks arise primarily due to changes in money supply within the economy and/or liquidity in banking system. In view of the short term nature of such borrowings, impact of such interest rate risk is insignificant.

The Company's investments are predominantly held in Fixed Deposits. Such deposits are held with highly rated commercial banks and have a short term tenure and are not subject to interest rate volatility. The Company ensures optimisation of cash through fund planning and robust cash management practices.

Counter party risk is managed by operating with highly rated commercial banks.

b) Liquidity risk

The Company manages its liquidity risk by ensuring that it will always have sufficient liquidity to meet its liabilities when due. The Company's investment decisions relating to deployment of surplus liquidity are guided by the tenets of safety, liquidity and return. The Company also maintains adequate credit lines with the commercial banks to fund spikes in working capital that arise from time to time.

NOTES TO THE FINANCIAL STATEMENTS (Contd.)

The Company's Current assets aggregate to NRs. 12,238,499,572 (₹ 7,649,062,234) [2073/74 – NRs. 7,770,552,420 (₹ 4,856,595,263)] including Cash and cash equivalents and Other bank balances of NRs. 6,139,823,796 (₹ 3,837,389,873) [2073/74 – NRs. 3,237,790,679 (₹ 2,023,619,174)] against an aggregate Current liability (excluding borrowings) of NRs. 3,460,851,311 (₹ 2,163,032,075) [2073/74 – NRs. 3,079,050,777 (₹ 1,924,406,734)] on the reporting date.

Further, while the Company's total equity stands at NRs. 14,367,060,246 (₹ 8,979,412,652) [2073/74 – NRs. 12,303,490,023 (₹ 7,689,681,267)], it has borrowings of NRs. 1,128,051,870 (₹ 705,032,419) [2073/74 – NRs. Nil (₹ Nil)]. In such circumstances, liquidity risk or the risk that the Company may not be able to settle or meet its obligations as they become due does not exist.

c) Credit risk

The Company's short term surpluses are deployed in fixed and call deposits with highly rated commercial banks. The investment in fixed and call deposits stood at NRs. 6,114,446,005 (₹ 3,821,528,753) [2073/74 – NRs. 3,230,932,330 (₹ 2,019,332,706)] at amortised cost. The commercial banks for placement of such deposits are short listed and exposure limits are determined on the basis of their credit rating, financial statements and other relevant information which are periodically reviewed.

The Company has policy of dealing on cash terms, to the extent practicable. Credit is extended in business interest in accordance with guidelines which takes into account various factors such as market feedback, past trading patterns, etc. The Company during the course of its operations deals with a large number of customers limiting the risk of credit concentration. The Company's exposure to trade receivables on the reporting date, net of expected loss provisions stood at NRs. 68,556,485 (₹ 42,847,803) [2073/74 – NRs. 77,255,350 (₹ 48,284,594)]. The Company's historical experience of collecting receivables and the level of default indicate that the credit risk is low. Loss allowances are recognized, where considered appropriate by the Management. The movement of the expected loss provision (allowance for bad and doubtful loans and receivables etc.) made by the Company are as under:

(Amount in NRs.)		
Particulars	Expected Loss Provision	
	32nd Asadh 2075 (16th July 2018)	31st Asadh 2074 (15th July 2017)
Opening Balance	2,420,835	2,430,251
Add: Provisions Made - Net	(11,010)	(9,416)
Less: Utilisation for impairment / de-recognition	-	-
Closing Balance	2,409,825	2,420,835

(Amount in ₹)		
Particulars	Expected Loss Provision	
	32nd Asadh 2075 (16th July 2018)	31st Asadh 2074 (15th July 2017)
Opening Balance	1,513,022	1,518,907
Add: Provisions Made - Net	(6,881)	(5,885)
Less: Utilisation for impairment / de-recognition	-	-
Closing Balance	1,506,141	1,513,022

4. Fair value measurement

The following table presents the fair value hierarchy of financial assets and liabilities measured at fair value on a recurring basis:

Particulars	Fair Value Hierarchy (Level)	Amount in NRs.	Amount in ₹	Amount in NRs.	Amount in ₹
		Fair Value	Fair Value	Fair Value	Fair Value
		As at 32nd Asadh 2075 (16th July 2018)	As at 32nd Asadh 2075 (16th July 2018)	As at 31st Asadh 2074 (15th July 2017)	As at 31st Asadh 2074 (15th July 2017)
A. Financial Assets					
a) Measured at amortised cost					
i) Investment in Government Bonds	2	22,625,000	14,140,625	23,253,419	14,533,387
ii) Loans*	3	19,093,150	11,933,219	21,072,364	13,170,228
iii) Other Financial Assets*	3	672,258	420,161	-	-
Sub-Total		42,390,408	26,494,005	44,325,783	27,703,615
b) Derivatives measured at fair value					
i) Derivative instruments not designated as hedging instruments	2	1,130,019	706,262	624,276	390,173
Sub-Total		1,130,019	706,262	624,276	390,173
Total financial assets		43,520,427	27,200,267	44,950,059	28,093,788
B. Financial liabilities					
a) Derivatives measured at fair value					
i) Derivative instruments not designated as hedging instruments	2	835,286	522,054	912,291	570,182
Total financial liabilities		835,286	522,054	912,291	570,182

* Represents Fair Value of Non-current Financial Instruments.

NOTES TO THE FINANCIAL STATEMENTS (Contd.)

Fair value hierarchy

Fair value of the financial instruments is classified in various fair value hierarchies based on the following three levels:

Level 1: Quoted prices (unadjusted) in active market for identical assets or liabilities.

Level 2: Inputs other than quoted price including within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices). The fair value of financial instruments that are not traded in an active market is determined using market approach and valuation techniques which maximize the use of observable market data and rely as little as possible on entity-specific estimates. If significant inputs required to fair value an instrument are observable, the instrument is included in Level 2.

Derivatives are valued using valuation techniques with market observable inputs such as foreign exchange spot rates and forward rates at the end of the reporting period.

Level 3: Inputs for the assets or liabilities that are not based on observable market data (unobservable inputs).

The fair value of trade receivables, trade payables and other current financial assets and liabilities is considered to be equal to the carrying amounts of these items due to their short term nature. Where such items are Non-current in nature, the same has been classified as Level 3 and fair value is determined using discounted cash flow basis.

There has been no change in the valuation methodology for Level 3 inputs during the year. The Company has not classified any material financial instruments under Level 3 of the fair value hierarchy. There were no transfers between Level 1 and Level 2 during the year.

Vikas Bhutra
Head of Finance

Abhimanyu Kumar Poddar
Managing Director

Saurya SJB Rana
Alternate Director

B Sumant
Director

S Puri
Chairman

S R Pandey
Director

S Dutta
Director

R K Singhi
Director

Nem Lal Amatya
Partner
N. Amatya & Co.
Chartered Accountants

Shashi Satyal
Partner
T R Upadhya & Co.
Chartered Accountants

Date: : 8th Ashwin 2075 (24th September 2018)