

DIRECTORS REPORT

Your Directors are pleased to submit their Report and the Audited Accounts of your Company for the year ended 31st Asadh 2074 (15th July 2017).

SOCIO ECONOMIC ENVIRONMENT

The economy of Nepal, in the year under review was a mélange of positive and negative indicators. Good monsoons and substantial improvement in the power supply situation aided a turnaround in agriculture and industry and resulted in GDP growth of 6.9% (0.01% in the previous year). Against a degrowth of 6.3% witnessed in the previous year, the industry sector grew by 10.9% during the year under review. The average consumer inflation during the year eased to 4.5% (9.9% in the previous year) on the back of a positive impact on the supply side coupled with base year effect.

The merchandise trade deficit, however, increased to 35.3% of GDP as against 31.3% during the previous year. Moreover, the share of inward remittances from expatriate Nepalese – the primary source of foreign exchange for the country – continued to slow down and hit 26.8% of share of GDP as against 29.6% in the previous year. Consequently, the Current Account recorded a deficit of 0.4% versus a surplus of 6.2% in the previous fiscal. These factors, coupled with the recent floods and substantial land inundation in the Terai continue to challenge the macroeconomic stability of the country over the short to medium term.

New legislations like the Industrial Enterprises Act, Labour Act and Social Security Act incorporate features that will, no doubt, enhance the ease of doing business. Further measures like contemporisation of legislation in areas like Foreign Investment and alignment of laws on Intellectual Property with the provisions of the WTO Framework and the Paris Convention of the World Intellectual Property Organization will further boost investor confidence and strengthen the long term health of the economy.

Similarly, interpretation and implementation of laws which, at times, are at odds with legislative intent need to be addressed. For example, while the Income Tax Act permits set-off of losses of one business with the profits of another business carried out by the same entity, assessment authorities do not permit such set-off, interpreting the law differently. Such denial of set-off acts as a disincentive for companies such as yours that are investing in new lines of business which invariably make losses in the initial years.

Your Company continues to engage with the policy-makers on such matters to induct clarity and contemporaneity in the regulatory framework that can contribute in revitalizing investment and industrial activity in Nepal.

Despite the fact that the legal cigarette industry occupies an important place in the country's economy, having substantial share in the manufacturing GDP, the discriminatory taxation and restrictive regulatory framework governing the industry continue to pose extraordinary challenges and complexities for the industry. The industry provides livelihood, directly and indirectly to more than 4 lakh farmers, farm workers and others engaged in the cultivation of tobacco and the tobacco trade and contributes approximately 10% of the total excise revenue collected by the Government. Moreover, in the backdrop of diminishing share of manufacturing in the GDP, the legal cigarette industry is one of the handful of industries that has adequate domestic manufacturing capacity.

Notwithstanding these factors, the Government unfortunately elected to once again increase the excise duty on domestic manufacture of cigarettes in the last Budget while leaving the tax rates on imported cigarettes unaltered. Unlike the global trend of more than 90% of tobacco consumption in cigarette form, in Nepal the consumption of tobacco in the form of duty-paid cigarettes is around 20%. Notably the share of duty paid cigarettes has dropped significantly over the years. Despite the low share of tobacco consumption, duty-paid cigarettes contribute more than 84% of the total tobacco revenue collected by the Government. Notwithstanding this, the cigarette centric taxation policy of the Government has resulted in punitive and discriminatory taxation of this product. According to the affordability index of cigarettes published by WHO, duty-paid cigarettes in Nepal are the least affordable in entire South East Asia region. The affordability index (% of per capita GDP required to purchase 2000 cigarettes of most popular brand) which stands at 23.10% is one of the highest in the world.

In contrast, the balance 80% of tobacco consumption in the country – in the form of Bidis, Smokeless Tobacco (SLT) products like khaini, gutka, snuff and betel-quid with tobacco ("Paan") and illicit cigarettes are lightly taxed or evade tax. Also, by virtue of fragmented manufacture over thousands of units operating in the unorganized sector these products manage to evade taxes substantially and stay outside the purview of regulatory oversight, thus avoiding compliance with the statutory provisions of the Tobacco Products Control Act (TOPCA), including those relating to Graphic Health Warnings (GHW). Moreover, the quality credentials of most of these products are highly suspect due to the unhygienic conditions under which they are manufactured and the mostly inferior inputs used in their manufacture. The high tax cost of duty-paid cigarettes has been driving consumption to revenue inefficient products like bidi, SLT and illicit

cigarettes which, due to reasons of low tax incidence as well as tax evasion are offered to consumers at very attractive and affordable prices.

The importance of increasing taxes on non-cigarette tobacco products has been recognized in the Technical Manual on Tobacco Administration published by the World Health Organisation. However, a skewed focus on cigarettes has resulted in a taxation policy that not only sub-optimises the revenue potential of tobacco but also spurs growth of contraband cigarette trade and encourages consumption of inferior quality tobacco products, thereby defeating the health objectives of tobacco control as well. The distortions in the Government's tax policy on tobacco products have also been highlighted in the Report on Tobacco Control in Nepal published by the Ministry of Health. Your Company continues to engage with the policy-makers on the importance of a balanced and equitable approach to tobacco taxation.

The regulatory framework for cigarettes also continues to stifle the legal cigarette industry. As per provisions of the Tobacco Products Control and Regulation Act (TOPCA), cigarette packages have to carry Graphic Health Warnings (GHW) covering at least 75% of the area of the cigarette packet. Whilst the legal cigarette industry adheres to statutory compliances in this regard scrupulously, the smuggled international brands of cigarettes do not bear the GHW required under Nepalese laws. Consequently, these cigarettes are perceived to be "safer" alternative by many consumers, resulting in almost unfettered growth of contraband cigarettes. Thus, even the regulatory framework on cigarettes helps, unwittingly, in encouraging the growth of illicit trade in cigarettes. In this context it would be pertinent to note that as per a WHO Report¹ published earlier this year out of the 195 countries / jurisdictions, 52 do not require warning or have small warnings and 65 others have medium size health warnings (covering less than 49% of the front and back of the package).

USA, China and Japan – the top three countries that account for more than half the global cigarette consumption do not mandate any GHW on cigarette packages and have, instead, adopted textual warnings only.

Country	Annual Consumption (Billions)	Per Capita Cigarette Consumption	Health Warning Requirement
USA	282	1028	Text (only on side panel)
China	2512	1711	Text – 30% (front & back)
Japan	193	1841	Text – 30% (front & back)
Nepal	12	420	Pictorial -75% of the entire pack area

Source - The Tobacco Atlas, 4th Edition (American Cancer Society)

Significantly, GHW proposed by the US Food and Drug Administration (FDA) in the past were held to be unconstitutional by the United States Court of Appeals, for the District of Columbia Circuit... In reaching this conclusion the Court noted that, "FDA failed to present any data—much less the substantial evidence required under the APA—showing that enacting their proposed graphic warnings will accomplish the agency's stated objective of reducing smoking rates..... FDA has not provided a shred of evidence—much less the "substantial evidence" required by the APA—showing that the graphic warnings will "directly advance" its interest in reducing the number of Americans who smoke. FDA.....offers no evidence showing that such warnings have directly caused a material decrease in smoking rates in any of the countries that now require them." The Court further observed that one of the principal researchers relied upon by the FDA had also conceded, on the basis of survey of relevant literature on the subject that there is no way to attribute declines in smoking to the new health warnings.

In line with the global lack of correlation between GHW and decline in smoking, no correlation has been established in Nepal either between implementation of GHW and reduction in consumption / increase in cessation of tobacco. Despite this, the Ministry of Health issued two new Directives in Kartik'71 and Poush'71 (November 2014 and January 2015) which, inter alia, requires manufacturers to print multiple pictorial warnings and warning messages on at least 90% of the pack area.

Like the 75% GHW, the proposed 90% GHW are also excessively large. Also, they are even more gruesome and unreasonable in comparison with the existing 75% GHW. There is no evidence that smoking causes the diseases depicted in the dreadful pictures neither there is any proof that such warnings lead to decreased consumption of tobacco. These warnings will only have unintended consequences including:

- further fillip to contraband trade of non GHW bearing international brands of cigarettes that, by virtue of being duty-evaded are available

¹WHO Report on the Global Tobacco Epidemic, 2017

in the market at a fraction of the cost of duty-paid Nepalese cigarettes.

- denial of an opportunity to consumers to make informed choices in a competitive market since the requirement of large GHW will preclude the possibility of providing adequate consumer information on the cigarette packet.
- commoditisation of the market where price will be the sole or prime driver of consumer choice thus eroding the Intellectual Property Rights of Trademark owners and jeopardizing the significant and substantial investments made over the years in creating and nurturing such Trademarks.

The proposed 90% GHW has since been challenged in the Hon'ble Supreme Court of Nepal. As stated in the previous year, numerous representations in this regard have been made by farmers, retailers and the legal cigarette industry to the Ministry of Industry – the implementing agency under TOPCA. Your Company, along with other industry players has also made recommendations to the Ministry of Health to keep the implementation of the new Directives on 90% GHW in abeyance. In the interim your Company, per advise of the regulator and as required statutorily, continues to print 75% GHW on the packs of cigarettes manufactured by the Company.

Even as your Company continues, as in the past to ensure compliance with the relevant regulations on tobacco, it remains engaged with the regulators and other policy-makers for an equitable, evidence-based, practical, reasonable and non-discriminatory tobacco regulatory and taxation framework that addresses the economic and societal imperatives of tobacco vis-à-vis the economy as well as the tobacco control objectives of the government. In its dialogue with the Government your Company continues to underscore the need for a balanced agenda on tobacco, tailored to Nepalese conditions that takes into account the important role that tobacco plays in the country's economy and the adverse impact on farmer earnings, employment opportunities, export potential and revenue generation likely to be accelerated by punitive and discriminatory taxation and a harsh and restrictive regulatory framework.

COMPANY PERFORMANCE

Your Company posted Gross Revenue from sale of products of NRs. 2,971 (₹ 1,857) crore for the year ended 31st Asadh 2074 against NRs. 2,568 (₹ 1,605) crore during the previous year. Profit before taxation increased to NRs. 1,130 (₹ 706) crore from NRs. 930 (₹ 581) crore during the previous year. The Company registered Profit for the year (after Tax expense and allocation towards Corporate Social Responsibility) amounting to NRs. 783 (₹ 489) crore as against NRs. 649 (₹ 406) crore in previous year. Total comprehensive income for the year stood at NRs. 784 (₹ 490) crore against NRs. 646 (₹ 404) crore in the previous year. Earnings per share for the year, after allocation of Employee Housing Reserve stand at NRs. 357 (₹ 223) {Previous year NRs. 296 (₹ 185)}. Net cash flows from operations aggregated NRs. 743 (₹ 464) crore compared to NRs. 793 (₹ 496) 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 paid NRs. 1,624 (₹ 1,015) crore by way of Excise Duty, Excise Sticker charges, VAT, Customs Duty, Dividend Distribution Tax and Income Tax {Previous Year: NRs. 1,382 (₹ 864) crore}. Your Company's Excise Duty contribution to the exchequer constitutes about 10 % of the Government's total Excise revenue while the VAT and Income Tax contribution constitute nearly 3 % of the Government's total VAT & Income Tax revenue.

EMPLOYMENT GENERATION

Your Company is one of the largest employers in the private sector and plays a very significant role in providing livelihood, directly and indirectly, to more than 4 lakh people involved in this sector – farmers, farm workers and others involved in manufacturing, distribution and sales. Further, the Company's Agarbatti and Matches businesses provide employment opportunities to economically disadvantaged sections of society, especially women. As a responsible corporate citizen of the country, your Company is committed to creating enablers for generating employment and economic surplus for the nation on a sustainable basis.

FAST MOVING CONSUMER GOODS (FMCG) BUSINESSES

• CIGARETTES

During the year, the Company further strengthened its Market Standing with leadership across segments, through sustained focus on product quality, portfolio of offerings and superior execution of Trade Marketing & Distribution strategies. The persistent focus on developing world class product offerings through product innovation and adoption of benchmarked international standards sets your Company's products at a significant competitive advantage vis-à-vis other industry players.

The manufacturing system of your Company continued to deliver benchmarks in Quality, Productivity and Sustainability. During the year the Integrated laboratory at the Simara Cigarette Factory was accredited with ISO/IEC 17025:2005 – General requirements for competence of Testing & Calibration Laboratories.

The Seratar Cigarette Factory continued to deliver an impressive performance across all parameters through structured capability building across people, technologies and processes. The stabilization of this Unit has further consolidated and strengthened your Company's Supply Chain capabilities.

In line with the objectives of strengthening hygiene and driving consistency in Quality processes and protocols, new metrics including HQRS (Hygiene Quality Rating System) and mPEX (Manufacturing Process Excellence) were introduced during the year.

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 agricultural. 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, resulting in improved returns for the farmer.

• OTHER FMCG PRODUCTS

AGARBATTI

During the year your Company sustained the growth momentum in the Agarbatti category and continued to improve its market standing. The diverse portfolio of offerings catering to all consumer segments, improvement in availability and visibility across markets, brand investments and strategic consumer activation programs resulted in the growth of consumer franchise. Whilst outsourced manufacturing was scaled up to cater to the growing demand, focus was maintained on delivery of products with superior quality.

In keeping with its commitment to contributing towards the growth of societal capital, your Company has built a symbiotic relationship with numerous Small and Medium Enterprises in this space – these SMEs provide employment opportunities to economically deprived sections of society and concomitantly serve the purpose of strengthening your Company's Supply Chain capacity and capability. This initiative underlines your Company's commitment towards enabling inclusive growth in the economy.

SAFETY MATCHES

During the year your Company strengthened its market leadership in the Safety Match industry, leveraging the investments made in the Wooden Matches segment and its Trade Marketing & Distribution reach to ensure availability across markets. Your Company is now the largest player in both Wax and Wooden Matches segments. The supply chain of Matches that is operated through the outsourced, contract manufacturing model 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 a significant 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. Your Company continues to focus on generating brand saliency and loyalty through strategic targeted marketing initiatives and ramping up efficiencies in the supply chain.

BRANDED PACKAGED FOOD PRODUCTS

With the objective of identifying viable investment opportunities, your Company has recently commenced import of confectionery products under the 'Toffichoo' and 'mint-o' trademarks from the holding company on a trial basis. Based on the outcome of the trials your Company proposes to manufacture these products in Nepal.

ENVIRONMENT HEALTH AND SAFETY

The high standards of environmental and occupational health and safety attained by your Company continue to be reinforced through institutionalising adoption of benchmarked systems and processes that ensure sustenance of the safe work environment created for employees. During the year under review the Seratar Cigarette Factory was assessed in the area of safety systems and processes by M/s Frost and Sullivan. It is encouraging to report that in the very first year of reporting the unit was ranked 'Pro-active' on safety excellence. The unit was also accredited with ISO 14001:2015 Certification in Environment Management System.

DIVIDEND

Your Board of Directors have declared an Interim Dividend of NRs. 60.50 (₹ 37.81) per Ordinary Share for the year ended 31st Asadh 2074. The outflow on this account, inclusive of Dividend Tax, will amount to NRs. 121.97 (₹ 76.23) crore. Your Board has also recommended a Final Dividend of NRs. 291 (₹ 181.88) per Ordinary Share. All dividends have been paid within the prescribed period and there are no unclaimed dividends lying with your Company.

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 the Company:

- VAT demand – NRs. 19.01 (₹ 11.88) crore for the financial years 2058-59 (2001-02) and 2064-65 (2007-08).
- 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 the Company could have produced more cigarettes than it has actually produced in a given year, based on 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 theoretically produced cigarettes. The allegations made by the Department are despite the fact that the 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 the 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 (₹ 14.8) 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 favourable 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. Consequently, your Company does not accept any liability in this behalf.

RISK MANAGEMENT

Your Company has adopted a systems-based approach to risk management. Your Company's Corporate Governance Policy 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 supported by strong internal control systems anchored to robust policies and procedures covering areas like Finance & Accounting and Information Technology. Transactional controls are built into your Company's ERP systems that are used as a business enabler and also to maintain the Books of Account.

CORPORATE SOCIAL RESPONSIBILITY (CSR) INITIATIVES

Your Company, as a responsible corporate citizen, places immense emphasis on contributions toward building the societal, environmental and economic capital of the nation. Towards this end your Company pursues an integrated CSR strategy that operates through the following platforms:

- "Prakriti" - Platform for initiatives on environmental preservation.
- "Asha" - Platform for initiatives on social empowerment.
- "Suswasthya" - Platform for promoting community health.

As a part of the ongoing endeavours in this respect your Company continues to:

- provide assistance to farmers in villages proximate to the Simara Cigarette Factory, in developing agro-forestry through high quality Poplar plantation and promoting the concept of "Grow Wood Grow Food" through inter cropping.
- 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.

- provide community health services through various "Suswasthya" programmes including periodic health camps and health and hygiene awareness programmes in the catchment areas of the manufacturing units.

Such initiatives, being consistent with the CSR guidelines enunciated by Nepal Rastra Bank for banks and financial institutions, will continue to be pursued.

In accordance with the Industrial Enterprises Act, 2073 that has taken effect this year, your Company has allocated 1% of annual profit towards discharging CSR and unutilized funds will be spent on the basis of annual plan and programs as mandated by law.

EMPLOYEES

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

DIRECTORS

Mr. Sanjiv Puri, nominated by ITC Limited, was appointed Chairman of your Company with effect from 28th February, 2017, in place of Mr. Y C Deveshwar, who stepped aside from his executive role concurrently on completion of his term as Executive Chairman of ITC Limited on 4th February, 2017. Your Directors would like to place on record their sincere appreciation for the vision, leadership and guidance provided by Mr. Deveshwar during his tenure as the Chairman of the Company.

On appointment of Mr. Sanjiv Puri as Chairman, Mr. B Sumant was appointed a Director of the Company and ceased to be Alternate Director to Mr. Y C Deveshwar with effect from 28th February 2017. Mr. Sandeep Kaul was appointed Alternate Director to Mr. Sanjiv Puri with effect from the said date. There was no other change in the composition of the Board of Directors during the year.

The details of shares held in the Company by your Directors as on 31st Asadh 2074 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 the Company. No amounts are due to the 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 2073-74 are annexed to this Report (**Annexure III**).

AUDITORS

M/s. N Amatya & Company, Chartered Accountants, Kathmandu, Nepal and M/s. T R Upadhyay & 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: 15th September, 2017
(30th Bhadra, 2074)

Sanjiv Puri
Chairman

B Sumant
Director

A K Poddar
Managing Director

Annexure I

Sl. No.	Name of Director	Number of Ordinary Shares of NRs. 100 (₹ 62.5)/- each held singly and / or jointly as on 31 st Asadh 2074 (15 th July 2017)
1.	S Puri	Nil
2.	A K Mukerji	Nil
3.	B B Chatterjee	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 2073/74, the following amounts have been paid to the Directors:

- Board Meeting Fee – NRs. 70,588 (₹ 44,118)
- Incidental expenses – NRs. 23,529 (₹ 14,706)

Payment to / on behalf of the Managing Director for the financial year 2073/74:

- Salary – NRs. 12,068,562 (₹ 75,42,851)
- Allowances – NRs. 2,980,408 (₹ 1,862,755)

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 2073/74:

- Salary – NRs. 27,882,982 (₹ 17,426,864)
- Allowances – NRs. 6,633,916 (₹ 4,146,198)

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 of the other officials have been granted stock options under the Employee Stock Option Scheme(s) 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 perquisite or benefit is immediately conferred upon the employee by such 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. 19,714,877 (₹ 12,321,798) is attributable to Managing Director and NRs. 22,839,386 (₹ 14,274,616) is attributable to other officials.

Annexure III**MANAGEMENT EXPENSES**

The expenses incurred by the Company for its management and administration for the financial year 2073/74 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. 1,253,871,139 (₹ 783,669,462).

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 31st Asadh 2074 (15th July 2017), 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 31st Asadh 2074 (15th July 2017), 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: 30th Bhadra, 2074
(15th September, 2017)
Place: Kolkata

N. Amatya & Co.
Chartered Accountants

T R Upadhyaya & Co.
Chartered Accountants

STATEMENT OF FINANCIAL POSITION AS AT 31ST ASADH 2074 (15TH JULY 2017)

		Figures in NRs. As at 31st Asadh 2074 (15th July 2017)	Figures in ₹ As at 31st Asadh 2074 (15th July 2017)	Figures in NRs. As at 31st Asadh 2073 (15th July 2016)	Figures in ₹ As at 31st Asadh 2073 (15th July 2016)	Figures in NRs. As at 1st Shrawan 2072 (17th July 2015)	Figures in ₹ As at 1st Shrawan 2072 (17th July 2015)
ASSETS							
NON-CURRENT ASSETS							
a) Property, Plant & Equipment	3A	5,417,747,028	3,386,091,894	5,920,144,364	3,700,090,228	6,530,860,481	4,081,787,802
b) Capital Work-in-Progress	3B	108,987,762	68,117,352	326,222,815	203,889,260	526,776,326	329,235,204
c) Intangible Assets	3C	83,670,238	52,293,898	133,350,679	83,344,174	183,031,120	114,394,450
d) Financial Assets							
i) Investments	4	25,632,338	16,020,211	25,632,338	16,020,211	25,632,338	16,020,211
ii) Loans	5	36,562,388	22,851,493	43,549,509	27,218,443	54,867,320	34,292,075
iii) Others	6	–	–	880,825	550,516	880,825	550,516
e) Deferred Tax Assets (Net)	7	37,803,709	23,627,318	25,637,795	16,023,622	–	–
f) Other Non-Current Assets	8	2,039,776,665	1,274,860,415	1,416,450,081	885,281,301	1,963,991,974	1,227,494,984
CURRENT ASSETS							
a) Inventories	9	4,074,432,459	2,546,520,286	3,499,847,331	2,187,404,581	2,734,741,010	1,709,213,131
b) Financial Assets							
i) Trade Receivables	10	77,255,350	48,284,594	81,033,402	50,645,876	151,655,480	94,784,676
ii) Cash and Cash Equivalents	11	337,726,550	211,079,093	1,819,743,962	1,137,339,977	19,544,858	12,215,537
iii) Other Bank Balances	12	2,900,064,129	1,812,540,081	62,795	39,247	61,821	38,638
iv) Loans	5	9,679,258	6,049,536	11,231,374	7,019,609	10,777,791	6,736,119
v) Others	6	26,762,767	16,726,730	869,940	543,713	2,588,700	1,617,938
c) Other Current Assets	8	344,631,907	215,394,943	360,134,343	225,083,965	292,715,542	182,947,215
TOTAL ASSETS		15,520,732,548	9,700,457,844	13,664,791,553	8,540,494,723	12,498,125,586	7,811,328,496
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	2,016,000,000	1,260,000,000
b) Other Equity		10,287,490,023	6,429,681,267	8,515,791,016	5,322,369,386	6,795,170,108	4,246,981,318
LIABILITIES							
NON-CURRENT LIABILITIES							
a) Provisions	14	138,191,748	86,369,843	143,283,593	89,552,246	133,099,865	83,187,415
b) Deferred Tax Liabilities (Net)	7	–	–	–	–	50,256,606	31,410,379
CURRENT LIABILITIES							
a) Financial Liabilities							
i) Borrowings	15	–	–	–	–	926,827,907	579,267,442
ii) Trade Payables	16	833,732,775	521,082,984	810,605,924	506,628,703	853,607,307	533,504,567
iii) Other Financial Liabilities	17	36,345,658	22,716,037	66,407,225	41,504,516	233,965,611	146,228,509
b) Other Liabilities	18	1,855,876,151	1,159,922,594	1,718,763,039	1,074,226,899	1,286,570,437	804,106,525
c) Provisions	14	26,233,215	16,395,758	66,543,697	41,589,811	39,643,296	24,777,060
d) Current Tax Liabilities (Net)	19	326,862,978	204,289,361	327,397,059	204,623,162	162,984,449	101,865,281
TOTAL EQUITY AND LIABILITIES		15,520,732,548	9,700,457,844	13,664,791,553	8,540,494,723	12,498,125,586	7,811,328,496

The accompanying notes 1 to 32 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

A K Mukerji
Director

B B Chatterjee
Director

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

Shashi Satyal
Partner
T R Upadhyaya & Co.
Chartered Accountants

Date: 30th Bhadra 2074 (15th September 2017)

STATEMENT OF PROFIT OR LOSS ACCOUNT FOR THE YEAR ENDED 31ST ASADH 2074 (15TH JULY 2017)

		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)	Figures in NRs. For the year ended 31st Asadh 2073 (16th July 2016)	Figures in ₹ For the year ended 31st Asadh 2073 (16th July 2016)
	Note				
Gross Revenue from sale of products	20	29,714,590,472	18,571,619,045	25,677,016,402	16,048,135,252
Less: Duties	21	8,007,654,184	5,004,783,865	6,723,206,185	4,202,003,866
Net Revenue from sale of products		21,706,936,288	13,566,835,180	18,953,810,217	11,846,131,386
Other Operating Income	22	26,282,857	16,426,786	12,108,577	7,567,861
Net Revenue from operations		21,733,219,145	13,583,261,966	18,965,918,794	11,853,699,247
Raw Materials Consumed, etc.	23	5,648,091,265	3,530,057,040	5,203,027,622	3,251,892,263
Employee Benefits Expenses	24	1,797,740,936	1,123,588,085	1,423,795,728	889,872,330
Manufacturing, Admin, Selling Expenses etc.	25	2,263,025,738	1,414,391,087	1,974,996,975	1,234,373,110
Operating Profit		12,024,361,206	7,515,225,754	10,364,098,469	6,477,561,544
Other Income	26	131,512,053	82,195,034	33,497,910	20,936,194
Finance Cost	27	8,045,311	5,028,319	44,895,852	28,059,908
Depreciation and Amortization Expenses		851,642,098	532,276,312	1,052,104,332	657,565,208
Profit before Tax		11,296,185,850	7,060,116,157	9,300,596,195	5,812,872,622
Tax Expense	28	3,388,202,262	2,117,626,414	2,813,868,615	1,758,667,885
Corporate Social Responsibility		78,296,867	48,935,542	–	–
Profit for the year		7,829,686,721	4,893,554,201	6,486,727,580	4,054,204,737
Other Comprehensive Income					
(i) Items that will not be reclassified to profit or loss:					
- Remeasurements of defined benefit plans	29 (a)	19,690,861	12,306,789	(45,882,841)	(28,676,775)
(ii) Income tax relating to items that will not be reclassified to profit or loss	28	(5,907,258)	(3,692,036)	13,764,852	8,603,033
Total Other Comprehensive Income		13,783,603	8,614,753	(32,117,989)	(20,073,742)
Total Comprehensive Income for the year		7,843,470,324	4,902,168,954	6,454,609,591	4,034,130,995

The accompanying notes 1 to 32 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

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Date: 30th Bhadra 2074 (15th September 2017)

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31ST ASADH 2074 (15TH JULY 2017)

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	Balance at the beginning of the reporting year	Changes in equity share capital during the year	Balance at the end of the reporting year
For the year ended 31st Asadh 2073 (15th July 2016)	2,016,000,000	-	2,016,000,000	1,260,000,000	-	1,260,000,000
For the year ended 31st Asadh 2074 (15th July 2017)	2,016,000,000	-	2,016,000,000	1,260,000,000	-	1,260,000,000

B. Other Equity

Figures in NRs.

Figures in ₹

	Reserves and Surplus				Items of Other Comprehensive Income	Total	Reserves and Surplus				Items of Other Comprehensive Income	Total
	General Reserve	Stock Option Payment Reserve	Employees' Housing Reserve	Retained Earnings			General Reserve	Stock Option Payment Reserve	Employees' Housing Reserve	Retained Earnings		
Balance as at 1st Shrawan 2072 (17th July 2015)	108,778,401	-	1,867,227,440	4,819,164,267	-	6,795,170,108	67,986,501	-	1,167,017,150	3,011,977,667	-	4,246,981,318
Profit for the year	-	-	-	6,486,727,580	-	6,486,727,580	-	-	-	4,054,204,737	-	4,054,204,737
Other Comprehensive Income (net of tax)	-	-	-	-	(32,117,989)	(32,117,989)	-	-	-	-	(20,073,742)	(20,073,742)
Total Comprehensive Income for the year	-	-	-	6,486,727,580	(32,117,989)	6,454,609,591	-	-	-	4,054,204,737	(20,073,742)	4,034,130,995
Recognition of share based payment *	(64,091,317)	64,091,317	-	64,091,317	-	64,091,317	(40,057,073)	40,057,073	-	40,057,073	-	40,057,073
Transferred to Employees' Housing Reserve	-	-	509,984,335	(509,984,335)	-	-	-	-	318,740,209	(318,740,209)	-	-
Interim Dividend	-	-	-	(604,800,000)	-	(604,800,000)	-	-	-	(378,000,000)	-	(378,000,000)
Final Dividend	-	-	-	(4,193,280,000)	-	(4,193,280,000)	-	-	-	(2,620,800,000)	-	(2,620,800,000)
Total	(64,091,317)	64,091,317	509,984,335	1,242,754,562	(32,117,989)	1,720,620,908	(40,057,073)	40,057,073	318,740,209	776,721,601	(20,073,742)	1,075,388,068
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	-	-	624,098,666	(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 General Reserve	64,091,317	-	-	(64,091,317)	-	-	40,057,073	-	-	(40,057,073)	-	-
Total	64,091,317	(64,091,317)	624,098,666	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

* refer Note 32 (ii).

For the year ended 31st Asadh, 2074 (15th July, 2017), the Board of Directors of the Company at its meeting held on 30th Bhadra 2074 (15th September 2017) have:

- a) declared interim dividend of NRs. 60.50 (₹ 37.81) per share, amounting to NRs. 1,219,680,000 (₹ 762,300,000) and
- b) recommended final dividend of NRs. 291.00 (₹ 181.88) per share amounting to NRs. 5,866,560,000 (₹ 3,666,600,000).

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: Created as per provisions of Labour Act, 2048 as prevailing at the Statement of Financial Position date.

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

The accompanying notes 1 to 32 are an integral part of the Financial Statements.

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

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Alternate Director

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B B Chatterjee
Director

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Partner
N. Amatya & Co.
Chartered Accountants

Shashi Satyal
Partner
T R Upadhyaya & Co.
Chartered Accountants

Date: 30th Bhadra 2074 (15th September 2017)

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31ST ASADH 2074 (15TH JULY 2017)

	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)	Figures in NRs. For the year ended 31st Asadh 2073 (15th July 2016)	Figures in ₹ For the year ended 31st Asadh 2073 (15th July 2016)
A Cash Flow From Operating Activities				
Profit Before Tax	11,296,185,850	7,060,116,156	9,300,596,195	5,812,872,622
Adjustments for :				
Depreciation and amortization expenses	851,642,098	532,276,311	1,052,104,332	657,565,208
Finance Cost	8,045,311	5,028,319	44,895,852	28,059,908
Interest from Investments	(1,470,625)	(919,141)	(1,470,625)	(919,141)
Interest on Short Term/Call Deposits	(125,249,219)	(78,280,762)	(15,235,197)	(9,521,998)
Foreign currency translations and transactions - Net	96,969	60,606	(450,811)	(281,757)
Loss on sale of property, plant and equipment - Net	1,144,703	715,439	4,120,706	2,575,441
Doubtful and bad advances	(9,416)	(5,885)	(159,702)	(99,814)
Operating Profit Before Working Capital Changes	12,030,385,671	7,518,991,043	10,384,400,750	6,490,250,469
Adjustments for :				
Trade Receivables, Loans, Advances and Other Assets	(595,991,548)	(372,494,718)	560,881,185	350,550,741
Inventories	(574,585,128)	(359,115,705)	(765,106,321)	(478,191,451)
Trade Payables, Other Liabilities and Provisions	(18,549,147)	(11,593,217)	461,112,029	288,195,018
Cash Generated From Operation	10,841,259,848	6,775,787,403	10,641,287,643	6,650,804,777
Income Tax Paid	(3,406,809,515)	(2,129,255,947)	(2,711,585,554)	(1,694,740,971)
Corporate Social Responsibility Paid	(5,280,982)	(3,300,614)	—	—
Net Cash From Operating Activities (A)	7,429,169,351	4,643,230,842	7,929,702,089	4,956,063,806
B Cash Flow From Investing Activities				
Purchase of property, plant and equipment	(101,373,936)	(63,358,710)	(389,700,962)	(243,563,101)
Disposal of property, plant and equipment	3,753,384	2,345,865	12,345,133	7,715,708
Investment in Bank Deposits (Original Maturity more than 3 months)	(2,900,000,000)	(1,812,500,000)	—	—
Interest Received	102,473,275	64,045,797	17,439,990	10,899,994
Net Cash Used in Investing Activities (B)	(2,895,147,277)	(1,809,467,048)	(359,915,839)	(224,947,399)
C Cash Flow From Financing Activities				
Interest Paid	(8,045,311)	(5,028,319)	(45,130,050)	(28,206,281)
Dividends Paid	(6,007,680,000)	(3,754,800,000)	(4,798,080,000)	(2,998,800,000)
Net Cash Used in Financing Activities (C)	(6,015,725,311)	(3,759,828,319)	(4,843,210,050)	(3,027,006,281)
Net Increase/(Decrease) in Cash & Cash Equivalents (A+B+C)	(1,481,703,237)	(926,064,523)	2,726,576,200	1,704,110,125
Opening Cash and Cash Equivalents	1,816,786,501	1,135,491,563	(909,789,699)	(568,618,562)
Closing Cash and Cash Equivalents	335,083,264	209,427,040	1,816,786,501	1,135,491,563
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	335,083,264	209,427,040	1,816,786,501	1,135,491,563
Unrealised gain/(Loss) on foreign currency cash and cash equivalents	2,643,286	1,652,053	2,957,461	1,848,414
Cash and Cash Equivalents (Note 11)	337,726,550	211,079,093	1,819,743,962	1,137,339,977

The accompanying notes 1 to 32 are an integral part of the Financial Statements.

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

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N. Amatya & Co.
Chartered Accountants

Shashi Satyal
Partner
T R Upadhy & Co.
Chartered Accountants

Date: 30th Bhadra 2074 (15th September 2017)

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).

Up to the year ended 31st Asadh, 2073 (15th July, 2016), the Company prepared its financial statements in accordance with applicable Accounting Standards and Generally Accepted Accounting Principles (GAAPs) of Nepal. These are the Company's first NFRS financial statements. The date of transition to NFRS is 1st Shrawan, 2072 (17th July, 2015). Details of the exceptions and optional exemptions availed by the Company and principal adjustments along with related reconciliation is detailed in Note 32 (First Time Adoption).

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 below.

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 Years

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

NOTES TO THE FINANCIAL STATEMENTS (CONTD.)

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.

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 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 makes contribution to both defined benefit and defined contribution schemes.

Provident Fund contributions are in nature of defined contribution scheme. Regular monthly contributions are made to the Provident Funds which are charged against revenue.

NOTES TO THE FINANCIAL STATEMENTS (CONTD.)

The Company provides for defined benefits in the form of Gratuity and other retirement benefits. The cost of providing benefits under the defined benefit obligation is calculated by independent actuary using the projected unit credit method. 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 Citizens Investment Trust, 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 of 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 related 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 and Judgements

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.

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 effect on the amounts recognised in the financial statements:

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.

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.

NOTES TO THE FINANCIAL STATEMENTS (Contd.)

[Amount in NRs]

Particulars	Gross Block				Depreciation and Amortization				Net Block			
	As at 01.04.2072 (17.07.2015)	Additions	Withdrawals/ Adjustments	As at 31.03.2073 (15.07.2016)	Additions	Withdrawals/ Adjustments	As at 31.03.2074 (15.07.2017)	For the Year*	Withdrawals/ Adjustments	As at 31.03.2074 (15.07.2017)	As at 31.03.2073 (15.07.2016)	As at 01.04.2072 (17.07.2015)
3A. Property, Plant and Equipment												
Land & Land Development	305,147,856	-	-	305,147,856	-	-	-	-	-	305,147,856	305,147,856	305,147,856
Buildings	1,874,166,947	16,989,677	-	1,891,156,624	6,786,189	-	1,897,942,813	264,710,701	-	1,259,884,304	1,420,557,465	1,668,278,489
Plant and Machinery	6,895,701,380	377,749,964	-	7,273,451,344	263,753,334	-	7,537,204,678	607,367,702	-	3,673,181,284	3,975,912,044	4,205,529,782
Furniture and Fixtures	96,879,467	2,316,383	-	99,195,850	2,770,786	9,092,517	92,874,119	12,270,071	-	43,823,284	52,321,451	62,275,139
Vehicles	172,329,094	4,363,894	26,699,692	149,993,296	27,622,357	5,752,753	171,862,900	41,248,939	10,233,853	99,728,527	77,152,728	130,503,612
Computers	161,879,891	2,241,309	-	164,121,200	524,300	31,046,551	133,598,949	64,806,569	-	119,304,544	31,894,078	94,459,338
Office Equipment	99,723,427	4,512,386	-	104,235,813	3,005,442	3,788,511	103,452,744	12,019,909	-	54,171,222	57,158,742	64,666,265
Total	9,605,828,062	408,173,613	26,699,692	9,987,301,983	304,462,408	49,680,332	10,242,084,059	1,002,423,891	10,233,853	4,824,337,031	5,920,144,364	6,530,860,481
3B. Capital Work-in-Progress												
	526,776,326	203,465,323	404,018,834	326,222,815	59,141,177	276,376,230	108,987,762	-	-	108,987,762	326,222,815	526,776,326
3C. Intangible Assets												
Capitalised Software	289,032,926	-	-	289,032,926	-	-	289,032,926	49,680,441	-	205,362,688	133,350,679	183,031,120
Grand Total	10,421,637,314	611,638,936	430,718,526	10,602,557,724	363,603,585	326,056,562	10,640,104,747	1,052,104,332	10,233,853	5,029,699,719	6,379,717,858	7,240,667,927

NOTES TO THE FINANCIAL STATEMENTS (Contd.)

[Amount in ₹]

Particulars	Gross Block				Depreciation and Amortization				Net Block			
	As at 01.04.2072 (17.07.2015)	Additions	Withdrawals/ Adjustments	As at 31.03.2073 (15.07.2016)	Additions	Withdrawals/ Adjustments	As at 31.03.2073 (15.07.2016)	For the Year*	Withdrawals/ Adjustments	As at 31.03.2074 (15.07.2017)	As at 31.03.2073 (15.07.2016)	As at 01.04.2072 (17.07.2015)
3A. Property, Plant and Equipment												
Land & Land Development	190,717,410	-	-	190,717,410	-	-	-	-	-	190,717,410	190,717,410	190,717,410
Buildings	1,171,354,342	10,618,548	-	1,181,972,890	4,241,368	-	128,680,286	165,444,188	-	787,427,690	887,848,416	1,042,674,056
Plant and Machinery	4,309,813,363	236,093,728	-	4,545,907,091	164,845,834	-	1,681,357,249	379,604,814	-	2,295,738,303	2,484,945,028	2,628,456,114
Furniture and Fixtures	60,549,667	1,447,739	-	61,997,406	1,731,741	5,682,823	21,627,705	7,668,794	-	30,656,772	32,700,907	38,921,962
Vehicles	107,705,684	2,727,434	16,687,308	93,745,810	17,265,973	3,595,471	26,140,926	25,780,387	6,396,158	45,083,983	48,220,455	81,564,758
Computers	101,174,932	1,400,818	-	102,575,750	327,688	19,404,094	42,137,846	40,504,106	-	8,934,004	19,933,798	59,037,086
Office Equipment	62,327,142	2,820,241	-	65,147,383	1,878,401	2,367,819	21,910,726	7,512,443	-	30,800,952	35,724,214	40,416,416
Total	6,003,642,540	255,108,508	16,687,308	6,242,063,740	190,289,005	31,050,207	1,921,854,738	626,514,932	6,396,158	3,386,091,894	3,700,090,228	4,081,787,802
3B. Capital Work-in-Progress												
	329,235,204	127,165,827	252,511,771	203,889,260	36,963,236	172,735,144	-	-	-	68,117,352	203,889,260	329,235,204
3C. Intangible Assets												
Capitalised Software	180,645,579	-	-	180,645,579	-	-	66,251,129	31,050,276	-	52,293,898	83,344,174	114,394,450
Grand Total	6,513,523,323	382,274,335	269,199,079	6,626,598,579	227,252,241	203,785,351	1,988,105,867	657,565,208	6,396,158	3,506,503,144	3,987,323,662	4,525,417,456

- * Includes additional depreciation amounting to Nil [2072-73 - NRs. 399,836,691 (₹ 249,897,932) arising from change in estimated useful life of certain Plant and Machinery, Computers and Other Assets.
- The amount of expenditures recognised in the carrying amount of property, plant and equipment in the course of construction is NRs. 4,195,252 (₹ 2,622,033) [2072/73 - NRs. 6,099,620 (₹ 3,812,263)].
- 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 31st Asadh 2074 (15th July 2017)	Figures in ₹ As at 31st Asadh 2074 (15th July 2017)	Figures in NRs. As at 31st Asadh 2073 (15th July 2016)	Figures in ₹ As at 31st Asadh 2073 (15th July 2016)	Figures in NRs. As at 1st Shrawan 2072 (17th July 2015)	Figures in ₹ As at 1st Shrawan 2072 (17th July 2015)		
4. INVESTMENTS								
INVESTMENT IN GOVERNMENT OR TRUST SECURITIES (at amortized cost) Investment in Promissory Note issued by Nepal Government 6.5% Bikash Rinptra, 2075 - Unquoted	25,632,338	16,020,211	25,632,338	16,020,211	25,632,338	16,020,211		
	25,632,338	16,020,211	25,632,338	16,020,211	25,632,338	16,020,211		
5. LOANS								
NON-CURRENT								
Employee Loans	36,562,388	22,851,493	43,549,509	27,218,443	54,867,320	34,292,075		
Total	36,562,388	22,851,493	43,549,509	27,218,443	54,867,320	34,292,075		
CURRENT								
Employee Loans	9,679,258	6,049,536	11,231,374	7,019,609	10,777,791	6,736,119		
Total	9,679,258	6,049,536	11,231,374	7,019,609	10,777,791	6,736,119		
6. OTHER FINANCIAL ASSETS								
NON-CURRENT								
Deposits	-	-	880,825	550,516	880,825	550,516		
Total	-	-	880,825	550,516	880,825	550,516		
CURRENT								
Interest Accrued on								
– Investments	193,397	120,873	193,397	120,873	928,710	580,444		
– Call and Other Deposit with Banks	24,245,945	15,153,716	850	531	22	14		
– Commercial Advances	5,357	3,348	3,883	2,427	3,566	2,229		
Derivative instruments not designated as hedging instruments	624,276	390,173	352,948	220,593	215,570	134,731		
Deposits	880,825	550,516	-	-	-	-		
Recoverable from Holding Company	812,967	508,104	318,862	199,289	1,440,832	900,520		
Total	26,762,767	16,726,730	869,940	543,713	2,588,700	1,617,938		
7. DEFERRED TAX ASSETS / (LIABILITIES) (NET)								
Deferred Tax Assets	74,078,975	46,299,359	85,795,586	53,622,241	71,156,274	44,472,671		
Less: Deferred Tax Liabilities	36,275,266	22,672,041	60,157,791	37,598,619	121,412,880	75,883,050		
Deferred Tax Assets / (Liabilities) (Net)	37,803,709	23,627,318	25,637,795	16,023,622	(50,256,606)	(31,410,379)		
	Figures in NRs.	Figures in ₹	Figures in NRs.	Figures in ₹	Figures in NRs.	Figures in ₹		
Movement in Deferred Tax Assets / (Liabilities) Balances 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	85,795,586	53,622,241	(5,809,353)	(3,630,846)	(5,907,258)	(3,692,036)	74,078,975	46,299,359
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	60,157,791	37,598,619	(23,882,525)	(14,926,578)	-	-	36,275,266	22,672,041
Deferred Tax Assets / (Liabilities) - Net	25,637,795	16,023,622	18,073,172	11,295,732	(5,907,258)	(3,692,036)	37,803,709	23,627,318
2072/73	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	51,822,947	32,389,342	(2,639,612)	(1,649,758)	13,764,852	8,603,033	62,948,187	39,342,617
On Provision for Doubtful Advances	664,991	415,619	(47,911)	(29,944)	-	-	617,080	385,675
On Provision for Inventories	18,668,336	11,667,710	3,561,983	2,226,239	-	-	22,230,319	13,893,949
Total Deferred Tax Assets	71,156,274	44,472,671	874,460	546,537	13,764,852	8,603,033	85,795,586	53,622,241
Deferred Tax Liabilities in relation to:								
On Overheads Allocation on Finished Goods	15,432,284	9,645,178	9,780,987	6,113,117	-	-	25,213,271	15,758,295
On fiscal allowances on Property, Plant and Equipment etc.	105,980,596	66,237,873	(71,036,076)	(44,397,548)	-	-	34,944,520	21,840,325
Total Deferred Tax Liabilities	121,412,880	75,883,051	(61,255,089)	(38,284,431)	-	-	60,157,791	37,598,620
Deferred Tax Assets / (Liabilities) - Net	(50,256,606)	(31,410,380)	62,129,549	38,830,968	13,764,852	8,603,033	25,637,795	16,023,621

The Company has tax losses of NRs. 492,459,190 (₹ 307,786,994) [2072/73 - NRs. 620,286,984 (₹ 387,679,365); 2071/72 - NRs. 643,470,697 (₹ 402,169,186)] for which no deferred tax assets have been recognised. These losses will expire between financial year 2074/75 to 2079/80.

NOTES TO THE FINANCIAL STATEMENTS (CONTD.)

	Figures in NRs. As at 31st Asadh 2074 (15th July 2017)	Figures in ₹ As at 31st Asadh 2074 (15th July 2017)	Figures in NRs. As at 31st Asadh 2073 (15th July 2016)	Figures in ₹ As at 31st Asadh 2073 (15th July 2016)	Figures in NRs. As at 1st Shrawan 2072 (17th July 2015)	Figures in ₹ As at 1st Shrawan 2072 (17th July 2015)
8. OTHER ASSETS						
NON-CURRENT						
Capital Advances	–	–	–	–	2,009,883	1,256,177
Advances other than Capital Advances						
- Commercial Advances to Holding Company	1,984,190,173	1,240,118,858	1,325,963,086	828,726,929	1,877,429,096	1,173,393,185
- Security Deposits						
- With Statutory Authorities	55,465,892	34,666,183	90,189,468	56,368,418	84,255,468	52,659,668
- Others	120,600	75,374	297,527	185,954	297,527	185,954
Total	2,039,776,665	1,274,860,415	1,416,450,081	885,281,301	1,963,991,974	1,227,494,984
CURRENT						
Commercial Advances						
- Green Leaf / Sapling / Seeds Bought from Tobacco Farmers (net of loan disbursed by Bank)	4,045,883	2,528,677	4,725,322	2,953,326	3,743,710	2,339,819
- Other Goods and Services	7,542,339	4,713,962	10,348,416	6,467,760	26,438,086	16,523,804
Excise Duty Advance	12,606,720	7,879,200	34,755,455	21,722,159	949,670	593,544
Deposit with Statutory Authorities	203,662,716	127,289,198	193,590,812	120,994,258	151,096,435	94,435,272
Employee Advances	2,130,313	1,331,446	1,657,630	1,036,019	3,982,271	2,488,919
Unexpired Expenses	116,216,594	72,635,371	115,750,132	72,343,833	108,363,782	67,727,364
Margin Money Deposit	509,165	318,228	1,397,815	873,634	392,530	245,331
Less: Allowance for doubtful advances and deposits	(2,081,823)	(1,301,139)	(2,091,239)	(1,307,024)	(2,250,941)	(1,406,838)
Total	344,631,907	215,394,943	360,134,343	225,083,965	292,715,542	182,947,215
9. INVENTORIES						
(At lower of cost and net realisable value)						
Raw Materials (including in-transit)	1,784,803,416	1,115,502,135	1,709,757,851	1,068,598,657	1,271,295,381	794,559,613
Stock - In - Process	126,632,567	79,145,354	137,044,783	85,652,989	120,078,112	75,048,820
Finished Goods	1,895,846,674	1,184,904,171	1,410,425,127	881,515,704	1,097,073,637	685,671,023
Stores and Supplies (including in-transit)	267,149,802	166,968,626	242,619,570	151,637,231	246,293,880	153,933,675
Total	4,074,432,459	2,546,520,286	3,499,847,331	2,187,404,581	2,734,741,010	1,709,213,131
The above includes goods in transit as under						
Raw Materials	49,019,149	30,636,968	76,662,844	47,914,278	–	–
Stores and Supplies	4,091,559	2,557,224	15,889,527	9,930,954	–	–
Total	53,110,708	33,194,192	92,552,371	57,845,232	–	–
The cost of inventories recognised as an expense includes NRs. Nil [during 2072/73: NRs. 1,461,662 (₹ 913,539)] in respect of write-downs of inventory to net realisable value and has been reduced by NRs. 364,841 (₹ 228,026) [during 2072/73: NRs. Nil (₹ Nil)] 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	814,651	509,157	1,700,000	1,062,500	949,332	593,333
Unsecured, considered good	76,440,699	47,775,437	79,333,402	49,583,376	150,706,148	94,191,343
Doubtful	339,012	211,883	339,012	211,883	339,012	211,883
Less: Allowance for doubtful receivables	(339,012)	(211,883)	(339,012)	(211,883)	(339,012)	(211,883)
	77,255,350	48,284,594	81,033,402	50,645,876	151,655,480	94,784,676
11. CASH AND CASH EQUIVALENTS*						
Cash on Hand	60,325	37,703	91,825	57,391	91,325	57,078
Balances with Banks						
Current Accounts	6,733,895	4,208,684	22,197,640	13,873,525	1,388,036	867,523
Short Term - Call Deposits	330,932,330	206,832,706	1,796,041,352	1,122,525,845	18,065,497	11,290,936
Cheques on Hand	–	–	1,413,145	883,216	–	–
	337,726,550	211,079,093	1,819,743,962	1,137,339,977	19,544,858	12,215,537
* 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 *	2,900,000,000	1,812,500,000	–	–	–	–
Earmarked Balance						
(Savings Account - Provident Fund)	64,129	40,081	62,795	39,247	61,821	38,638
	2,900,064,129	1,812,540,081	62,795	39,247	61,821	38,638
* 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 31st Asadh 2074 (15th July 2017)	Figures in ₹ As at 31st Asadh 2074 (15th July 2017)	Figures in NRs. As at 31st Asadh 2073 (15th July 2016)	Figures in ₹ As at 31st Asadh 2073 (15th July 2016)	Figures in NRs. As at 1st Shrawan 2072 (17th July 2015)	Figures in ₹ As at 1st Shrawan 2072 (17th July 2015)
13. EQUITY SHARE CAPITAL						
Authorised						
65,000,000 Ordinary Shares of NRs. 100 (₹ 62.5)/- each	6,500,000,000	4,062,500,000	6,500,000,000	4,062,500,000	6,500,000,000	4,062,500,000
Issued, Subscribed & Paid up						
20,160,000 Ordinary Shares of NRs.100 (₹ 62.5)/- each, fully paid	2,016,000,000	1,260,000,000	2,016,000,000	1,260,000,000	2,016,000,000	1,260,000,000
	<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	20,160,000		20,160,000		20,160,000	
At the end of the year	20,160,000		20,160,000		20,160,000	
Rights, preferences and restrictions attached to the Ordinary Shares						
The Ordinary Shares of the Company, having par value of NRs. 100.00 (₹ 62.5) 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	78,101,846	48,813,654	73,294,531	45,809,082	73,404,818	45,878,011
Other Benefits	60,089,902	37,556,189	69,989,062	43,743,164	59,695,047	37,309,404
Total	<u>138,191,748</u>	<u>86,369,843</u>	<u>143,283,593</u>	<u>89,552,246</u>	<u>133,099,865</u>	<u>83,187,415</u>
CURRENT						
Provision for Retirement and Other Employee Benefits						
Retirement Benefits	13,457,533	8,410,958	60,219,791	37,637,369	34,463,762	21,539,851
Other Benefits	12,775,682	7,984,800	6,323,906	3,952,442	5,179,534	3,237,209
Total	<u>26,233,215</u>	<u>16,395,758</u>	<u>66,543,697</u>	<u>41,589,811</u>	<u>39,643,296</u>	<u>24,777,060</u>
15. BORROWINGS (CURRENT)						
Secured						
Overdrafts / Other Demand Loans from Banks*	—	—	—	—	926,827,907	579,267,442
Total	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>926,827,907</u>	<u>579,267,442</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	435,347,986	272,092,491	447,518,759	279,699,224	423,990,339	264,993,962
– Others	398,384,789	248,990,493	363,087,165	226,929,479	429,616,968	268,510,605
Total	<u>833,732,775</u>	<u>521,082,984</u>	<u>810,605,924</u>	<u>506,628,703</u>	<u>853,607,307</u>	<u>533,504,567</u>
17. OTHER FINANCIAL LIABILITIES (CURRENT)						
Payable for Property, Plant and Equipment Retention Money	4,517,542	2,823,464	17,583,128	10,989,455	162,729,993	101,706,246
– For Property, Plant and Equipment	5,834,948	3,646,843	6,915,943	4,322,464	45,859,821	28,662,388
– Others	2,552,853	1,595,533	2,651,988	1,657,493	2,324,564	1,452,853
Payable for Employee Benefits	16,478,024	10,298,765	32,931,120	20,581,950	14,047,235	8,779,522
Security Deposits from Customers	6,050,000	3,781,250	5,500,000	3,437,500	5,550,000	3,468,750
Interest Accrued but not due on current borrowings	—	—	—	—	234,198	146,374
Others (derivatives not designated as hedging instrument)	912,291	570,182	825,046	515,654	3,219,800	2,012,376
Total	<u>36,345,658</u>	<u>22,716,037</u>	<u>66,407,225</u>	<u>41,504,516</u>	<u>233,965,611</u>	<u>146,228,509</u>
18. OTHER LIABILITIES (CURRENT)						
Advances received from Customers	432,757,642	270,473,526	529,408,535	330,880,334	332,493,861	207,808,663
Statutory Liabilities	130,360,034	81,475,021	274,517,345	171,573,341	210,859,539	131,787,212
Provision for Corporate Social responsibility	73,015,885	45,634,928	—	—	—	—
Provision for Employee's Bonus under The Bonus Act, 2030	—	—	—	—	—	—
– Distribution by Company	108,580,583	67,862,864	91,988,036	57,492,523	89,956,799	56,222,999
– Deposit with Welfare Funds established under The Labour Act, 2048	754,044,817	471,278,011	552,225,799	345,141,124	433,513,580	270,945,988
– Deposit with National Level Welfare Fund established by Govt. of Nepal	323,162,065	201,976,291	236,668,199	147,917,624	185,791,534	116,119,709
Others	33,955,125	21,221,953	33,955,125	21,221,953	33,955,125	21,221,954
Total	<u>1,855,876,151</u>	<u>1,159,922,594</u>	<u>1,718,763,039</u>	<u>1,074,226,899</u>	<u>1,286,570,437</u>	<u>804,106,525</u>
19. CURRENT TAX LIABILITIES (NET)						
Provision for Income Tax	3,499,236,151	2,187,022,594	2,968,939,789	1,855,587,368	2,302,059,155	1,438,786,972
Less: Advance Tax paid / Withholding Tax deducted	(3,172,373,173)	(1,982,733,233)	(2,641,542,730)	(1,650,964,206)	(2,139,074,706)	(1,336,921,691)
Total	<u>326,862,978</u>	<u>204,289,361</u>	<u>327,397,059</u>	<u>204,623,162</u>	<u>162,984,449</u>	<u>101,865,281</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTD.)

	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)	Figures in NRs. For the year ended 31st Asadh 2073 (15th July 2016)	Figures in ₹ For the year ended 31st Asadh 2073 (15th July 2016)
20. GROSS REVENUE FROM SALE OF PRODUCTS				
FMCG				
- Cigarettes	29,259,997,900	18,287,498,688	25,296,395,796	15,810,247,373
- Branded Packaged Food Products	9,593,802	5,996,126	-	-
- Others (Apparel, Safety Matches, Agarbattis)	444,998,770	278,124,231	380,620,606	237,887,879
Total	29,714,590,472	18,571,619,045	25,677,016,402	16,048,135,252
21. DUTIES				
Excise Duty	7,872,105,603	4,920,066,002	6,598,916,059	4,124,322,537
Sticker Charges	135,548,581	84,717,863	124,290,126	77,681,329
Total	8,007,654,184	5,004,783,865	6,723,206,185	4,202,003,866
22. OTHER OPERATING INCOME				
Provision for doubtful advance/debts written back	9,416	5,885	159,702	99,814
Miscellaneous Income	26,273,441	16,420,901	11,948,875	7,468,047
Total	26,282,857	16,426,786	12,108,577	7,567,861
23. RAW MATERIALS CONSUMED ETC.				
Leaf and Casing Materials	2,911,851,119	1,819,906,949	2,723,553,202	1,702,220,751
Wrapping Materials	2,424,942,202	1,515,588,876	2,226,549,530	1,391,593,456
Fabrics, Trims etc.	15,184,516	9,490,323	17,667,050	11,041,906
Purchases and Contract Manufacturing Charges	323,378,117	202,111,323	269,232,896	168,270,560
	5,675,355,954	3,547,097,471	5,237,002,678	3,273,126,673
Allocation of overheads etc. on Finished Goods (manufactured)				
Opening	140,154,459	87,596,537	106,179,403	66,362,127
Closing	(167,419,148)	(104,636,968)	(140,154,459)	(87,596,537)
Total	5,648,091,265	3,530,057,040	5,203,027,622	3,251,892,263
24. EMPLOYEE BENEFITS EXPENSES				
Salaries, Wages & Allowances	476,539,447	297,837,154	399,745,262	249,840,789
Contribution to Provident Fund	16,365,370	10,228,356	14,047,101	8,779,438
Provision for Retirement and Other Employee Benefits	42,111,746	26,319,841	31,161,483	19,475,927
Cost of Stock Option Reimbursable	51,838,452	32,399,033	64,091,317	40,057,073
Labour & Staff Welfare	25,098,456	15,686,535	33,868,531	21,167,832
Provision for Employees' Bonus	1,185,787,465	741,117,166	880,882,034	550,551,271
Total	1,797,740,936	1,123,588,085	1,423,795,728	889,872,330
25. MANUFACTURING, ADMIN, SELLING EXPENSES ETC.				
Hired Machine Expenses	86,798,703	54,249,189	72,717,902	45,448,689
Rent	73,748,267	46,092,667	71,777,840	44,861,150
Electricity, Fuel & Water	118,175,602	73,859,751	143,035,291	89,397,057
Rates & Taxes	11,473,268	7,170,793	5,889,483	3,680,927
Insurance Premium	95,345,951	59,591,219	91,239,742	57,024,839
Repairs & Improvements - Depreciable Assets	185,101,372	115,688,358	152,760,611	95,475,382
Maintenance - Owned Properties	6,245,452	3,903,408	7,903,407	4,939,629
Maintenance - Other Properties	17,130,939	10,706,837	9,634,769	6,021,731
Safety & Pollution Control Cost	30,848,438	19,280,274	16,316,949	10,198,093
Consumption of Stores & Spare Parts *	49,833,152	31,145,720	45,199,183	28,249,489
Freight	74,956,775	46,847,984	78,659,958	49,162,474
Product & Packaging Development - Tools / Accessories	57,755,173	36,096,983	15,178,479	9,486,549
Product Development & License Fees	549,911,810	343,694,881	475,056,407	296,910,254
Advertising	4,262,827	2,664,267	4,033,385	2,520,866
Market Research	23,717,890	14,823,681	17,781,540	11,113,463
Retail Accessories	28,920,180	18,075,113	21,140,702	13,212,939
Trade Distribution Expenses	114,389,710	71,493,569	115,640,162	72,275,101
Information Technology Services	132,590,330	82,868,956	137,422,847	85,889,279
Travel & Conveyance	78,286,098	48,928,811	68,551,458	42,844,661
Training & Recruitment Expenses	3,577,912	2,236,195	3,505,871	2,191,169
Postage, Telephone, Fax etc.	5,851,840	3,657,400	6,192,249	3,870,156
Bank Charges and Commission	8,025,786	5,016,116	4,084,520	2,552,825
Audit Fees	925,000	578,125	845,000	528,125
Legal Fees	1,783,800	1,114,875	506,000	316,250
Printing & Stationery	5,972,209	3,732,631	6,334,203	3,958,877
Consultancy Charges	365,064,704	228,165,440	280,778,059	175,486,287
Professional Service Charges & Other Fees	106,495,479	66,559,674	93,495,838	58,434,899
Business Entertainment Expenses	7,130,879	4,456,799	4,124,837	2,578,023
Promotion & Sponsorship	12,546,009	7,841,256	11,575,719	7,234,824
Board Meeting Fees	70,588	44,118	70,588	44,118
Donations	561,750	351,094	2,686,637	1,679,148
Books & Periodicals	381,836	238,648	355,638	222,274
Membership Fee	414,755	259,222	977,948	611,218
Loss / (gain) on Property, Plant & Equipment Sold / Discarded (Net)	1,144,703	715,439	4,120,706	2,575,441
Miscellaneous Expenses (Refer (v) of Note 30)	3,586,551	2,241,594	5,403,047	3,376,904
Total	2,263,025,738	1,414,391,087	1,974,996,975	1,234,373,110

* Includes provision for obsolescence of spares NRs. 6,356,370 (₹ 3,972,731) [2072/73 - NRs. 11,873,275 (₹ 7,420,797)].

NOTES TO THE FINANCIAL STATEMENTS (CONTD.)

	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)	Figures in NRs. For the year ended 31st Asadh 2073 (15th July 2016)	Figures in ₹ For the year ended 31st Asadh 2073 (15th July 2016)
26. OTHER INCOME				
Interest Income from:				
a) Deposits with banks - carried at amortised cost	125,249,219	78,280,762	15,235,197	9,521,998
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	1,205,225	753,266	1,500,429	937,768
d) Others - Interest received from customers, etc.	6,800,156	4,250,098	20,548,329	12,842,706
e) Net foreign exchange gain / (loss)	(3,213,172)	(2,008,233)	(5,256,670)	(3,285,419)
Total	131,512,053	82,195,034	33,497,910	20,936,194
27. FINANCE COST				
Interest expenses:				
a) On financial liabilities measured at amortised cost				
- Interest on Term Loan (from Holding Company)	-	-	912,953	570,596
- Interest on Short Term Loans / Overdrafts	2,340,135	1,462,584	27,005,373	16,878,358
b) Others				
- Interest on Trading Debts	5,705,176	3,565,735	16,977,526	10,610,954
Total	8,045,311	5,028,319	44,895,852	28,059,908
28. TAX EXPENSE				
A. Amount recognized in Profit or Loss				
Current Tax	3,406,275,434	2,128,922,146	2,875,998,164	1,797,498,853
Deferred Tax	(18,073,172)	(11,295,732)	(62,129,549)	(38,830,968)
Total	3,388,202,262	2,117,626,414	2,813,868,615	1,758,667,885
B. Amount recognised in Other Comprehensive Income				
The tax (charge) / credit arising on income and expenses recognised in other comprehensive income is as follows:				
Deferred Tax on items that will not be reclassified to profit or loss	(5,907,258)	(3,692,036)	13,764,852	8,603,033
Remeasurements of defined benefit plans	(5,907,258)	(3,692,036)	13,764,852	8,603,033
Total	(5,907,258)	(3,692,036)	13,764,852	8,603,033
C. Reconciliation between tax expense and accounting profit				
Profit before tax	11,296,185,850	7,060,116,156	9,300,596,195	9,300,596,195
Income Tax expense calculated at the applicable tax rate (Cigarettes Manufacturing @ 30%, Garment Manufacturing @ 20% and Trading @ 25% with loss setoff between trading and Cigarette manufacturing)	3,388,332,784	2,117,707,990	2,791,180,114	1,744,487,572
Factors affecting tax charge for the year				
Effects of:				
- Difference in tax treatment of certain expense	192,218	120,136	22,688,501	14,180,313
- Benefit of previously unrecognised tax loss	(322,740)	(201,713)	-	-
Income Tax recognised in profit or loss	3,388,202,262	2,117,626,413	2,813,868,615	1,758,667,885

29.a. Defined Benefit Plans**Description of Plans**

The Company provides for 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, Rastriya Bima Sansthan, etc. are the share holders 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 liabilities arising in the Defined Benefit Schemes are determined in accordance with the advice of independent, professional qualified actuaries, using the projected unit method at the year end. 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.

Risk Management

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 referred above. 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, in case the Trust fails to pay the amount deposited by Company and interest earned thereon, the same shall be paid by Government of Nepal.

		Figures in NRs.		Figures in ₹		Figures in NRs.		Figures in ₹	
		For the year ended 31st Asadh, 2074 (15th July, 2017)		For the year ended 31st Asadh, 2074 (15th July, 2017)		For the year ended 31st Asadh, 2073 (15th July, 2016)		For the year ended 31st Asadh, 2073 (15th July, 2016)	
		Gratuity	Other Retirement Benefits	Gratuity	Other Retirement Benefits	Gratuity	Other Retirement Benefits	Gratuity	Other Retirement Benefits
		Funded		Funded		Funded		Funded	
1	Components of Employer Expense								
	- Recognised in Profit or Loss								
1	Current Service Cost	9,641,920	1,454,783	6,026,200	909,239	7,401,994	1,296,012	4,626,246	810,008
2	Past Service Cost	3,853,879	20,649,863	2,408,674	12,906,164	-	-	-	-
3	Net Interest Cost	706,844	3,062,614	441,777	1,914,133	690,427	3,420,131	431,517	2,137,582
4	Total expense recognised in the Statement of Profit or Loss	14,202,643	25,167,260	8,876,651	15,729,536	8,092,421	4,716,143	5,057,763	2,947,590

NOTES TO THE FINANCIAL STATEMENTS (CONTD.)

		Figures in NRs.		Figures in ₹		Figures in NRs.		Figures in ₹	
		For the year ended 31st Asadh, 2074 (15th July, 2017)		For the year ended 31st Asadh, 2074 (15th July, 2017)		For the year ended 31st Asadh, 2073 (15th July, 2016)		For the year ended 31st Asadh, 2073 (15th July, 2016)	
		Gratuity	Other Retirement Benefits	Gratuity	Other Retirement Benefits	Gratuity	Other Retirement Benefits	Gratuity	Other Retirement Benefits
		Funded		Funded		Funded		Funded	
—	Re-measurements recognised in Other Comprehensive Income								
5	Return on Plan Assets (excluding amount included in Net Interest Cost)	(8,227,485)	-	(5,142,178)	-	8,086,118	-	5,053,824	-
6	Effect of Changes in demographic assumptions	2,473,605	(498,358)	1,546,003	(311,474)	(3,624,521)	(198,153)	(2,265,326)	(123,846)
7	Effect of Changes in financial assumptions	(22,732,902)	(13,617,698)	(14,208,064)	(8,511,061)	38,926,536	3,209,509	24,329,085	2,005,943
8	Changes in asset ceiling (excluding interest income)	-	-	-	-	-	-	-	-
9	Effect of experience adjustments	18,135,399	4,776,578	11,334,624	2,985,361	783,430	(1,300,078)	489,644	(812,549)
10	Total re-measurements included in Other Comprehensive Income	(10,351,383)	(9,339,478)	(6,469,615)	(5,837,174)	44,171,563	1,711,278	27,607,227	1,069,548
11	Total defined benefit cost recognised in Statement of Profit or Loss and Other Comprehensive Income (4-10)	3,851,259	15,827,782	2,407,036	9,892,362	52,263,984	6,427,421	32,664,990	4,017,138

The current service cost and net interest cost for the year pertaining to Gratuity and Retirement Benefits expenses have been recognised in "Provision for Retirement and Other Employee 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 31st Asadh, 2074 (15th July, 2017)		For the year ended 31st Asadh, 2074 (15th July, 2017)		For the year ended 31st Asadh, 2073 (15th July, 2016)		For the year ended 31st Asadh, 2073 (15th July, 2016)	
		Gratuity	Other Retirement Benefits	Gratuity	Other Retirement Benefits	Gratuity	Other Retirement Benefits	Gratuity	Other Retirement Benefits
II	Actual Returns	16,921,799	-	10,576,125	-	-	-	-	-

III	Net Asset/(Liability) recognised in Statement of Financial Position								
1	Present Value of Defined Benefit Obligation	248,790,241	87,708,119	155,493,901	54,817,574	242,040,733	81,250,338	151,275,458	50,781,461
2	Fair Value on Plan Assets	244,938,981	-	153,086,863	-	189,776,749	-	118,610,468	-
3	Status [Surplus/(Deficit)]	(3,851,260)	(87,708,119)	(2,407,038)	(54,817,574)	(52,263,984)	(81,250,338)	(32,664,990)	(50,781,461)
4	Restriction on Asset recognised	-	-	-	-	-	-	-	-

		Figures in NRs.		Figures in ₹		Figures in NRs.		Figures in ₹		Figures in NRs.		Figures in ₹	
		As at 31st Asadh, 2074 (15th July, 2017)		As at 31st Asadh, 2074 (15th July, 2017)		As at 31st Asadh, 2073 (15th July, 2016)		As at 31st Asadh, 2073 (15th July, 2016)		As at 1st Shrawan, 2072 (17th July, 2015)		As at 1st Shrawan, 2072 (17th July, 2015)	
		Current	Non-current	Current	Non-current	Current	Non-current	Current	Non-current	Current	Non-current	Current	Non-current
	Gratuity	(3,851,260)	-	(2,407,038)	-	(52,263,984)	-	(32,664,990)	-	(30,685,661)	-	(19,178,538)	-
	Other Retirement Benefits	(9,606,273)	(78,101,846)	(6,003,921)	(48,813,654)	(7,955,807)	(73,294,531)	(4,972,379)	(45,809,082)	(3,778,100)	(73,404,817)	(2,361,313)	(45,878,011)

		Figures in NRs.		Figures in ₹		Figures in NRs.		Figures in ₹		Figures in NRs.		Figures in ₹	
		For the year ended 31st Asadh, 2074 (15th July, 2017)		For the year ended 31st Asadh, 2074 (15th July, 2017)		For the year ended 31st Asadh, 2073 (15th July, 2016)		For the year ended 31st Asadh, 2073 (15th July, 2016)		For the year ended 31st Asadh, 2073 (15th July, 2016)		For the year ended 31st Asadh, 2073 (15th July, 2016)	
		Gratuity	Other Retirement Benefits	Gratuity	Other Retirement Benefits	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	242,040,732	81,250,338	151,275,458	50,781,461	200,291,878	77,182,917	125,182,424	48,239,323				
2	Current Service Cost	9,641,920	1,454,783	6,026,200	909,239	7,401,994	1,296,012	4,626,246	810,008				
3	Past service cost	3,853,879	20,649,863	2,408,674	12,906,164	-	-	-	-				
4	Interest Cost	9,401,158	3,062,614	5,875,724	1,914,133	8,776,544	3,420,131	5,485,340	2,137,582				
5	Remeasurement gains/(losses):	-	-	-	-	-	-	-	-				
a	Effect of Changes in demographic assumptions	2,473,606	(498,358)	1,546,004	(311,474)	(3,624,521)	(198,153)	(2,265,326)	(123,846)				
b	Effect of Changes in financial assumptions	(22,732,902)	(13,617,698)	(14,208,064)	(8,511,061)	38,926,536	3,209,509	24,329,085	2,005,943				
c	Changes in asset ceiling (excluding interest income)	-	-	-	-	-	-	-	-				
d	Effect of experience adjustments	18,135,399	4,776,578	11,334,624	2,985,361	783,430	(1,300,078)	489,644	(812,549)				
6	Curtailed Cost/(Credits)	-	-	-	-	-	-	-	-				
7	Settlement Cost/(Credits)	-	-	-	-	-	-	-	-				
8	Liabilities assumed in business combination	-	-	-	-	-	-	-	-				
9	Exchange difference on foreign plans	-	-	-	-	-	-	-	-				
10	Benefits Paid	(14,023,551)	(9,370,000)	(8,764,719)	(5,856,250)	(10,515,129)	(2,360,000)	(6,571,956)	(1,475,000)				
11	Present Value of DBO at the end of the year	248,790,241	87,708,120	155,493,901	54,817,573	242,040,732	81,250,338	151,275,457	50,781,461				

V	Best Estimate of Employer's Expected Contribution for the next year	Figures in NRs.		Figures in ₹		Figures in NRs.		Figures in ₹		Figures in NRs.		Figures in ₹	
		As at 31st Asadh, 2074 (15th July, 2017)		As at 31st Asadh, 2074 (15th July, 2017)		As at 31st Asadh, 2073 (15th July, 2016)		As at 31st Asadh, 2073 (15th July, 2016)		As at 1st Shrawan, 2072 (17th July, 2015)		As at 1st Shrawan, 2072 (17th July, 2015)	
	Gratuity	3,851,260		2,407,038		52,263,984		32,664,990		30,685,661		19,178,538	

NOTES TO THE FINANCIAL STATEMENTS (Contd.)

		Figures in NRs.		Figures in ₹		Figures in NRs.		Figures in ₹	
		For the year ended 31st Asadh, 2074 (15th July, 2017)		For the year ended 31st Asadh, 2074 (15th July, 2017)		For the year ended 31st Asadh, 2073 (15th July, 2016)		For the year ended 31st Asadh, 2073 (15th July, 2016)	
		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	189,776,749	—	118,610,468	—	169,606,217	—	106,003,886	—
	2 Asset acquired in Business Combination	—	—	—	—	—	—	—	—
	3 Interest Income	8,694,315	—	5,433,947	—	8,086,117	—	5,053,823	—
	4 Remeasurement Gains/(Losses) on plan assets	8,227,485	—	5,142,178	—	(8,086,118)	—	(5,053,824)	—
	5 Actual Company Contributions	52,263,983	9,370,000	32,664,989	5,856,250	30,685,662	2,360,000	19,178,539	1,475,000
	6 Benefits Paid	(14,023,551)	(9,370,000)	(8,764,719)	(5,856,250)	(10,515,129)	(2,360,000)	(6,571,956)	(1,475,000)
	7 Plan Assets at the end of the year	244,938,981	—	153,086,863	—	189,776,749	—	118,610,468	—

VII	Actuarial Assumptions	As at 31st Asadh, 2074 (15th July, 2017)			As at 31st Asadh, 2073 (15th July, 2016)			As at 1st Shrawan, 2072 (17th July, 2015)	
		Discount Rate (%)	Expected Return on Plan Assets (%)		Discount Rate (%)	Expected Return on Plan Assets (%)		Discount Rate (%)	Expected Return on Plan Assets (%)
	Gratuity	6.50%	4.00%		4.00%	4.50%		4.50%	5.50%
	Other Retirement Benefits	6.50%			4.00%			4.50%	

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.

VIII	Major Category of Plan Assets as a % of the Total Plan Assets	As at 31st Asadh, 2074 (15th July, 2017)			As at 31st Asadh, 2073 (15th July, 2016)			As at 1st Shrawan, 2072 (17th July, 2015)	
	1 Government Securities								
	2 High Quality Corporate Bonds								
	3 Citizen Investment Trust Managed Funds*	100%			100%			100%	
	4 Mutual Funds								
	5 Cash and Cash Equivalents								
	6 Term Deposits								

* 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 ₹		Figures in NRs.		Figures in ₹	
		For the year ended 31st Asadh, 2074 (15th July, 2017)		For the year ended 31st Asadh, 2074 (15th July, 2017)		For the year ended 31st Asadh, 2073 (15th July, 2016)		For the year ended 31st Asadh, 2073 (15th July, 2016)		For the year ended 1st Shrawan, 2072 (17th July, 2015)		For the year ended 1st Shrawan, 2072 (17th July, 2015)	
		Gratuity	Other Retirement Benefits	Gratuity	Other Retirement Benefits	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	248,790,241	87,708,119	155,493,901	54,817,574	242,040,733	81,250,338	151,275,458	50,781,461	200,291,878	77,182,917	125,182,424	48,239,323
	2 Fair Value on Plan Assets	244,938,981	—	153,086,863	—	189,776,749	—	118,610,468	—	169,606,217	—	106,003,886	—
	3 Status [Surplus/(Deficit)]	(3,851,260)	(87,708,119)	(2,407,038)	(54,817,574)	(52,263,984)	(81,250,338)	(32,664,990)	(50,781,461)	(30,685,661)	(77,182,917)	(19,178,538)	(48,239,323)
	4 Experience Adjustment of Plan Assets [Gain / (loss)]	8,227,485	—	5,142,178	—	8,086,118	—	5,053,824	—	645,836	—	403,648	—
	5 Experience Adjustment of Obligation [(Gain) / Loss]	18,135,399	4,776,578	11,334,624	2,985,361	783,430	(1,300,078)	489,644	(812,549)	4,268,796	1,559,713	2,667,998	974,821

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.

NOTES TO THE FINANCIAL STATEMENTS (Contd.)

		Figures in NRs.	Figures in ₹	Figures in NRs.	Figures in ₹
		DBO as at 31st Asadh, 2074 (15th July, 2017)	DBO as at 31st Asadh, 2074 (15th July, 2017)	DBO as at 31st Asadh, 2073 (15th July, 2016)	DBO as at 31st Asadh, 2073 (15th July, 2016)
1	Discount rate +100 basis points	316,083,307	197,552,067	301,058,042	188,161,276
2	Discount rate -100 basis points	359,696,831	224,810,519	348,795,826	217,997,391
3	Salary Increase Rate +1%	352,369,842	220,231,151	339,281,536	212,050,960
4	Salary Increase Rate -1%	322,245,830	201,403,644	308,924,664	193,077,915

Maturity Analysis Of The Benefit Payments

		Figures in NRs.	Figures in ₹	Figures in NRs.	Figures in ₹
		DBO as at 31st Asadh, 2074 (15th July, 2017)	DBO as at 31st Asadh, 2074 (15th July, 2017)	DBO as at 31st Asadh, 2073 (15th July, 2016)	DBO as at 31st Asadh, 2073 (15th July, 2016)
1	Year 1	41,435,936	25,897,460	21,482,155	13,426,347
2	Year 2	30,474,000	19,046,250	31,620,247	19,762,654
3	Year 3	21,004,778	13,127,986	24,619,588	15,387,243
4	Year 4	32,814,913	20,509,321	17,150,439	10,719,024
5	Year 5	39,533,210	24,708,256	25,845,694	16,153,559
6	Next 5 Years	139,273,951	87,046,219	123,941,608	77,463,505

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

30. Additional Notes to the Financial Statements

- These financial statements were authorised for issue by the Board of Directors on 30th Bhadra 2074 (15th September 2017).
- Cost of inventory recognized as expense during the year amount to NRs. 7,106,074,538 (₹ 4,441,296,586) [2072/73 – NRs. 6,509,573,592 (₹ 4,068,483,495)].
- Estimated amount of contracts remaining to be executed on capital account and not provided for NRs. 312,053,970 (₹ 195,033,731) [2072/73 - NRs. 47,513,340 (₹ 29,695,838); 2071/72 - NRs. 96,599,371 (₹ 60,374,607)].
- Remuneration to Managing Director :

Particulars	For the year ended 31st Asadh 2074 (15th July 2017) In NRs.	For the year ended 31st Asadh 2074 (15th July 2017) In ₹	For the year ended 31st Asadh 2073 (15th July 2016) In NRs.	For the year ended 31st Asadh 2073 (15th July 2016) In ₹
Salary & Allowances	15,048,970	9,405,606	11,884,228	7,427,643
Other Benefits *	2,245,201	1,403,251	2,160,269	1,350,168
Post Employment Benefits	**	**	**	**
Total	17,294,171	10,808,857	14,044,497	8,777,811

Note:

The Managing Director and some of the other company employees 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 perquisite or benefit is immediately conferred upon the employee by such 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. 51,838,452 (₹ 32,399,033) for the year ended 31st Asadh 2074 [2072/73 – NRs. 64,091,317 (₹ 40,057,073)], out of which NRs. 19,714,877 (₹ 12,321,798) [2072/73 – NRs. 28,088,194 (₹ 17,555,121)] is attributable to Managing Director. During the year, 17,600 options (2072/73 – 16,000 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. 131,850 (₹ 82,406) [2072/73 - NRs. 146,600 (₹ 91,625)].

(vi) Related Party Disclosures

Nature of relationship and name of the related parties:

- Holding Company
ITC Limited, India
- Fellow Subsidiary Companies
 - Srinivasa Resorts Limited, India
 - Fortune Park Hotels Limited, India
 - Bay Islands Hotels Limited, India
 - WelcomHotels Lanka (Private) Limited, Sri Lanka
 - Landbase India Limited, India
 - Russell Credit Limited, India and its subsidiary
Greenacre Holdings Limited, India
 - 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
 - Technico Agri Sciences Limited, India

NOTES TO THE FINANCIAL STATEMENTS (Contd.)

- 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, United Kingdom
 - ITC Infotech (USA), Inc., United States of America and its subsidiary
 - Indivate Inc., United States of America (w.e.f. 18.11.2016)
 - m) Gold Flake Corporation Limited, India
 - n) ITC Investments & Holdings Limited, India and its subsidiary
 - MRR Trading & Investment Company Limited, India
 - o) King Maker Marketing, Inc., United States of America (ceased w.e.f 16.11.2016)
 - p) North East Nutrients Private Limited, India
- The above list does not include ITC Global Holdings Pte. Limited, Singapore (in liquidation)
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
 - 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) Spirit 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

Note: King Maker Marketing, Inc. USA (KMM) ceased to be a subsidiary of Holding Company with effect from 16.11.2016 consequent to divestment of Holding Company's entire shareholding in KMM.

7. Key Management Personnel:

Y C Deveshwar	Chairman & Non-Executive Director (ceased w.e.f 28th February 2017)
S Puri	Chairman & Non-Executive Director (w.e.f 28th February 2017)
	Non-Executive Director (ceased w.e.f. 28th February 2017)
S Kaul	Alternate Director to Mr S Puri (w.e.f. 28th February 2017)
B Sumant	Non-Executive Director (w.e.f. 28th February 2017)
	Alternate Director to Mr Y C Deveshwar (ceased w.e.f. 28th February 2017)
A K Mukerji	Non-Executive Director
B B Chatterjee	Non-Executive Director
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 during the year ended 31st Asadh, 2074 (15th July, 2017) and 31st Asadh, 2073 (15th July, 2016):

	For the year ended 31st Asadh, 2074 (15th July, 2017) In NRs.			For the year ended 31st Asadh, 2073 (15th July, 2016) In NRs.		
	Holding Company	Fellow Subsidiaries	Key Management Personnel*	Holding Company	Fellow Subsidiaries	Key Management Personnel*
Purchase of Goods/ Services	5,062,789,364	70,674,773		4,762,852,055	78,972,054	
Sitting Fees/ Incidental Expenses to Other Directors			94,118			97,059
Interest Expense	–			912,953		
Cost of Stock Option Reimbursable	51,838,452			64,091,317		
Machine Hire Charges	73,788,674			66,964,402		
Dividend Payments	3,544,531,200			2,830,867,200		
Expenses recovered	716,258			2,769,302		
Expenses reimbursed	1,632,323			3,500,875		
Advances Given	3,254,259,275			1,922,539,477		

NOTES TO THE FINANCIAL STATEMENTS (Contd.)

	For the year ended 31st Asadh, 2074 (15th July, 2017) In ₹			For the year ended 31st Asadh, 2073 (15th July, 2016) In ₹		
	Holding Company	Fellow Subsidiaries	Key Management Personnel*	Holding Company	Fellow Subsidiaries	Key Management Personnel*
Purchase of Goods/ Services	3,164,243,353	44,171,733		2,976,782,534	49,357,534	
Sitting Fees/ Incidental Expenses to Other Directors	-		58,824	-		60,662
Interest Expense	-			570,596		
Cost of Stock Option Reimbursable	32,399,033			40,057,073		
Machine Hire Charges	46,117,921			41,852,751		
Dividend Payments	2,215,332,000			1,769,292,000		
Expenses recovered	447,661			1,730,814		
Expenses reimbursed	1,020,202			2,188,047		
Advances Given	2,033,912,047			1,201,587,173		

* also refer to Note 30 (iv).

	For the year ended 31st Asadh, 2074 (15th July, 2017) In NRs.		For the year ended 31st Asadh, 2073 (15th July, 2016) 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	3,256,401	824,942	3,241,063	1,433,810

	For the year ended 31st Asadh, 2074 (15th July, 2017) In ₹		For the year ended 31st Asadh, 2073 (15th July, 2016) 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	2,035,251	515,589	2,025,664	896,131

Disclosure of outstanding balances between the Company and related parties as on 31st Asadh, 2074 (15th July, 2017), 31st Asadh, 2073 (15th July, 2016) and 1st Shrawan, 2072 (17th July, 2015):

	As at 31st Asadh, 2074 (15th July, 2017) In NRs.		As at 31st Asadh, 2073 (15th July, 2016) In NRs.		As at 1st Shrawan, 2072 (17th July, 2015) In NRs.	
	Holding Company	Fellow Subsidiaries	Holding Company	Fellow Subsidiaries	Holding Company	Fellow Subsidiaries
- Advances / Other Receivables	1,985,003,140	-	1,326,281,948	-	1,878,869,928	-
- Creditors / Payables	435,347,986	52,100,937	447,518,759	66,436,764	423,990,339	81,231,500

	As at 31st Asadh, 2074 (15th July, 2017) In ₹		As at 31st Asadh, 2073 (15th July, 2016) In ₹		As at 1st Shrawan, 2072 (17th July, 2015) In ₹	
	Holding Company	Fellow Subsidiaries	Holding Company	Fellow Subsidiaries	Holding Company	Fellow Subsidiaries
- Advances / Other Receivables	1,240,626,963	-	828,926,218	-	1,174,293,705	-
- Creditors / Payables	272,092,491	32,563,086	279,699,224	41,522,978	264,993,962	50,769,688

	As at 31st Asadh, 2074 (15th July, 2017) In NRs.		As at 31st Asadh, 2073 (15th July, 2016) In NRs.		As at 1st Shrawan, 2072 (17th July, 2015) In NRs.	
	Associate of Holding Company	Joint Venture of Holding Company's Subsidiary	Associate of Holding Company	Joint Venture of Holding Company's Subsidiary	Associate of Holding Company	Joint Venture of Holding Company's Subsidiary
- Creditors / Payables	10,267	-	89,268	-	210,442	122,028

	As at 31st Asadh, 2074 (15th July, 2017) In ₹		As at 31st Asadh, 2073 (15th July, 2016) In ₹		As at 1st Shrawan, 2072 (17th July, 2015) In ₹	
	Associate of Holding Company	Joint Venture of Holding Company's Subsidiary	Associate of Holding Company	Joint Venture of Holding Company's Subsidiary	Associate of Holding Company	Joint Venture of Holding Company's Subsidiary
- Creditors / Payables	6,417	-	55,793	-	131,526	76,268

NOTES TO THE FINANCIAL STATEMENTS (Contd.)

(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 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.
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

NOTES TO THE FINANCIAL STATEMENTS (Contd.)

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 has admitted the case on 11th March 2016 and issued notice to the Company for hearing, which is pending.

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. 146,655,561 (₹ 91,659,726) [Previous year - NRs. 146,655,561 (₹ 91,659,726)] (net of provision made for the above assessment years) 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. 23,220,253 (₹ 14,512,658) [Previous year - NRs. 21,358,496 (₹ 13,349,060)], 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 interalia 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. 51,838,452 (₹ 32,399,033) [2072/73 – NRs. 64,091,317 (₹ 40,057,073)] (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	2073/74	2072/73
	No. of Options	No. of Options
Outstanding at the beginning of the year	220,040	184,925
Add: Granted during the year	48,450	38,885
Add: Corporate Action: Bonus by ITC	128,429	-
Less: Lapsed during the year	-	-
Add / (Less): Movement due to transfer of employees within group	36,820	-
Less: Exercised during the year	60,006	3,770
Outstanding at the end of the year	373,733	220,040
Options exercisable at the end of the year	247,303	135,324

(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 on asset turnover and profitability ratio.

The Company is not subject to any capital adequacy norms under regulations presently in force. Employees Housing Reserve is set aside as required by law.

NOTES TO THE FINANCIAL STATEMENTS (Contd.)

2. Categories of Financial Instruments

Particulars	Note	Figures in NRs.		Figures in ₹		Figures in NRs.		Figures in ₹		Figures in NRs.		Figures in ₹	
		As at 31st Asadh 2074 (15th July 2017)	Fair Value	As at 31st Asadh 2074 (15th July 2017)	Fair Value	As at 31st Asadh 2073 (15th July 2016)	Fair Value	As at 31st Asadh 2073 (15th July 2016)	Fair Value	As at 1st Shrawan 2072 (17th July 2015)	Fair Value	As at 1st Shrawan 2072 (17th July 2015)	Fair Value
A. Financial assets													
a) Measured at amortised cost													
	11	337,726,550	337,726,550	211,079,093	211,079,093	1,819,743,962	1,819,743,962	1,137,339,977	1,137,339,977	19,544,858	19,544,858	12,215,537	12,215,537
	12	2,900,064,129	2,900,064,129	1,812,540,081	1,812,540,081	62,795	62,795	39,247	39,247	61,821	61,821	38,638	38,638
	4	25,632,338	23,253,419	16,020,211	14,533,387	25,632,338	23,557,665	16,020,211	14,723,541	25,632,338	23,850,543	16,020,211	14,906,589
	5	46,241,646	30,751,622	28,901,029	19,219,764	54,780,883	40,900,116	34,238,052	25,562,572	65,645,111	47,368,238	41,028,194	29,605,149
	10	77,255,350	77,255,350	48,284,594	48,284,594	81,033,402	81,033,402	50,645,876	50,645,876	151,655,480	151,655,480	94,784,676	94,784,676
	6	26,138,491	26,138,491	16,336,557	16,336,557	1,397,817	1,276,642	873,636	797,901	3,253,955	3,045,612	2,033,723	1,903,507
	Sub - total	3,413,058,504	3,395,189,561	2,133,161,565	2,121,993,476	1,982,651,197	1,966,574,582	1,239,156,999	1,229,109,114	265,793,563	245,526,551	166,120,979	153,454,096
b) Derivatives measured at fair value													
	6	624,276	624,276	390,173	390,173	352,948	352,948	220,593	220,593	215,570	215,570	134,731	134,731
	Sub - total	624,276	624,276	390,173	390,173	352,948	352,948	220,593	220,593	215,570	215,570	134,731	134,731
	Total financial assets	3,413,682,780	3,395,813,837	2,133,551,738	2,122,383,649	1,983,004,145	1,966,927,530	1,239,377,592	1,229,329,707	266,009,133	245,742,121	166,255,710	153,588,827
B. Financial liabilities													
a) Measured at amortised cost													
	15	-	-	-	-	-	-	-	-	926,827,907	926,827,907	579,267,442	579,267,442
	16	833,732,775	833,732,775	521,082,984	521,082,984	810,605,924	810,605,924	506,628,703	506,628,703	853,607,307	853,607,307	533,504,567	533,504,567
	17	35,433,367	35,433,367	22,145,855	22,145,855	65,582,179	65,582,179	40,988,862	40,988,862	230,745,811	230,745,811	144,216,133	144,216,133
	Sub - total	869,166,142	869,166,142	543,228,839	543,228,839	876,188,103	876,188,103	547,617,565	547,617,565	2,011,181,025	2,011,181,025	1,256,988,142	1,256,988,142
b) Derivatives measured at fair value													
	17	912,291	912,291	570,182	570,182	825,046	825,046	515,654	515,654	3,219,800	3,219,800	2,012,376	2,012,376
	Sub - total	912,291	912,291	570,182	570,182	825,046	825,046	515,654	515,654	3,219,800	3,219,800	2,012,376	2,012,376
	Total financial liabilities	870,078,433	870,078,433	543,799,021	543,799,021	877,013,149	877,013,149	548,133,219	548,133,219	2,014,400,825	2,014,400,825	1,259,000,518	1,259,000,518

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 is based on internal policies and procedures which are in compliance with applicable regulations. 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 31st Asadh, 2074 (15th July 2017)	USD	EURO	GBP	Total
Financial Assets	8,358,420	-	-	8,374,675
Financial Liabilities	54,203,455	565,497	14,685	54,783,638

(Amount in ₹)				
As at 31st Asadh, 2074 (15th July 2017)	USD	EURO	GBP	Total
Financial Assets	5,224,013	-	-	5,234,172
Financial Liabilities	33,877,159	353,436	9,178	34,239,773

(Amount in NRs.)				
As at 31st Asadh, 2073 (15th July 2016)	USD	EURO	GBP	Total
Financial Assets	8,638,555	-	-	8,638,555
Financial Liabilities	3,696,156	108,665	633	3,805,453

(Amount in ₹)				
As at 31st Asadh, 2073 (15th July 2016)	USD	EURO	GBP	Total
Financial Assets	5,399,097	-	-	5,399,097
Financial Liabilities	2,310,098	67,916	396	2,378,410

(Amount in NRs.)				
As at 1st Shrawan, 2072 (17th July 2015)	USD	EURO	GBP	Total
Financial Assets	8,153,703	-	-	8,153,703
Financial Liabilities	6,013,994	72,075,197	2,735,909	80,825,100

(Amount in ₹)				
As at 1st Shrawan, 2072 (17th July 2015)	USD	EURO	GBP	Total
Financial Assets	5,096,064	-	-	5,096,064
Financial Liabilities	3,758,746	45,046,998	1,709,943	50,515,687

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 31st Asadh, 2074 (15th July 2017) Buy	As at 31st Asadh, 2073 (15th July 2016) Buy	As at 1st Shrawan, 2072 (17th July 2015) Buy
US Dollar	NRs	845,340	1,026,852	399,065
Euro	NRs	245,818	180,475	652,918
GBP	NRs	-	2,109	11,028

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.

NOTES TO THE FINANCIAL STATEMENTS (Contd.)

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.

The Company's Current assets aggregate to NRs. 7,770,552,420 (₹ 4,856,595,263) [2072/73 – NRs. 5,772,923,147 (₹ 3,608,076,968); 2071/72 – NRs. 3,212,085,202 (₹ 2,007,553,254)] including Cash and cash equivalents and Other bank balances of NRs. 3,237,790,679 (₹ 2,023,619,174) [2072/73 – NRs. 1,819,806,757 (₹ 1,137,379,224); 2071/72 – NRs. 19,606,679 (₹ 12,254,175)] against an aggregate Current liability (excluding borrowings) of NRs. 3,079,050,777 (₹ 1,924,406,734) [2072/73 – NRs. 2,989,716,944 (₹ 1,868,573,091); 2071/72 – NRs. 2,576,771,100 (₹ 1,610,481,942)] on the reporting date.

Further, while the Company's total equity stands at NRs. 12,303,490,023 (₹ 7,689,681,267) [2072/73 – NRs. 10,531,791,016 (₹ 6,582,369,386); 2071/72 – NRs. 8,811,170,108 (₹ 5,506,981,318)], it has borrowings of NRs. Nil (₹ Nil) [2072/73 – NRs. Nil (₹ Nil); 2071/72 – NRs. 926,827,907 (₹ 579,267,442)]. 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. 3,230,932,330 (₹ 2,019,332,706) [2072/73 – NRs. 1,796,041,352 (₹ 1,122,525,845); 2071/72 – NRs. 18,065,497 (₹ 11,290,936)] 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. 77,255,350 (₹ 48,284,594) [2072/73 – NRs. 81,033,402 (₹ 50,645,876); 2071/72 – NRs. 151,655,480 (₹ 94,784,676)]. 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	
	31st Asadh 2074 (15th July 2017)	31st Asadh 2073 (15th July 2016)
Opening Balance	2,430,251	2,589,953
Add: Provisions Made	–	–
Less: Utilisation for impairment / de-recognition	(9,416)	(159,702)
Closing Balance	2,420,835	2,430,251

(Amount in ₹)		
Particulars	Expected Loss Provision	
	31st Asadh 2074 (15th July 2017)	31st Asadh 2073 (15th July 2016)
Opening Balance	1,518,907	1,618,721
Add: Provisions Made	–	–
Less: Utilisation for impairment / de-recognition	(5,885)	(99,814)
Closing Balance	1,513,022	1,518,907

4. Fair value measurement

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 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.

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

NOTES TO THE FINANCIAL STATEMENTS (Contd.)

Fair Value Hierarchy

Particulars	Fair Value Hierarchy (Level)	Figures in NRs.	Figures in ₹	Figures in NRs.	Figures in ₹	Figures in NRs.	Figures in ₹
		Fair Value	Fair Value	Fair Value	Fair Value	Fair Value	Fair Value
		As at 31st Asadh 2074 (15th July 2017)	As at 31st Asadh 2074 (15th July 2017)	As at 31st Asadh 2073 (15th July 2016)	As at 31st Asadh 2073 (15th July 2016)	As at 1st Shrawan 2072 (17th July 2015)	As at 1st Shrawan 2072 (17th July 2015)
A. Financial Assets							
a) Measured at amortised cost *							
i) Investment in Government Bonds	2	23,253,419	14,533,387	23,557,665	14,723,541	23,850,543	14,906,589
ii) Loans	3	21,072,364	13,170,228	29,668,742	18,542,964	36,590,447	22,869,029
iii) Other Financial Assets	3	–	–	759,650	474,781	672,482	420,301
Sub-Total		44,325,783	27,703,615	53,986,057	33,741,286	61,113,471	38,195,919
b) Derivatives measured at fair value							
i) Derivative instruments not designated as hedging instruments	2	624,276	390,173	352,948	220,593	215,570	134,731
Sub-Total		624,276	390,173	352,948	220,593	215,570	134,731
Total financial assets		44,950,059	28,093,788	54,339,005	33,961,879	61,329,041	38,330,650
B. Financial liabilities							
a) Derivatives measured at fair value							
i) Derivative instruments not designated as hedging instruments	2	912,291	570,182	825,046	515,654	3,219,800	2,012,376
Total financial liabilities		912,291	570,182	825,046	515,654	3,219,800	2,012,376

* Represents Fair Value of Non-current Financial Instruments.

32. First Time Adoption of NFRS

- (i) NFRS 1 (First-time Adoption of Nepal Financial Reporting Standards) provides a suitable starting point for accounting in accordance with NFRS and is required to be mandatorily followed by first-time adopters. The Company has prepared the opening Statement of Financial Position as per NFRS as of 1st Shrawan, 2072 (17th July, 2015) (the transition date) by:
- recognising all assets and liabilities whose recognition is required by NFRS,
 - not recognising items of assets or liabilities which are not permitted by NFRS,
 - reclassifying items from previous Generally Accepted Accounting Principles (GAAP) to NFRS as required under NFRS, and
 - applying NFRS in measurement of recognised assets and liabilities.
- (ii) A. Reconciliation of total comprehensive income for the year ended 31st Asadh, 2073 (15th July, 2016) is summarized as follows:

Particulars	Notes	Year ended 31st Asadh, 2073 (15th July, 2016) In NRs.	Year ended 31st Asadh, 2073 (15th July, 2016) In ₹
Profit After Tax as reported under previous GAAP		6,518,700,908	4,074,188,068
Impact of recognising the cost of stock options at fair value	(iii) (b)	(64,091,317)	(40,057,073)
Reclassification of actuarial gains/losses, arising in respect of employee benefit schemes, to Other Comprehensive Income (OCI)	(iv) (a)	45,882,841	28,676,776
Tax Adjustments	(iv) (a)	(13,764,852)	(8,603,033)
Profit After Tax as reported under NFRS		6,486,727,580	4,054,204,737
Other Comprehensive Income (net of tax)		(32,117,989)	(20,073,742)
Total Comprehensive Income as reported under NFRS		6,454,609,591	4,034,130,995

B. There is no change in total equity as reported under previous GAAP and as reported under NFRS.

- (iii) NFRS 1 mandates certain exceptions and allows first-time adopters exemptions from the retrospective application of certain requirements under NFRS. The Company has applied the following exemptions in the financial statements:
- The Company had revalued certain Freehold land, based on professional valuation, as at 17.12.2043 (31.03.1987) and had a balance of NRs. 12,181,280 (₹ 7,613,300) in Revaluation Reserve on the date of transition. On transition, such revaluation reserve has been adjusted in retained earnings.
 - Under previous GAAP, the cost of options granted to managers on secondment from ITC Limited under the ITC Employee Stock Option Scheme (ITC ESOS) [equity - settled] was recognised using the intrinsic value method. Under this method, no expenses were required to be recognised in the Statement of profit or loss and other comprehensive income as the fair value of the shares on the date of grant equalled the exercise price. Under NFRS, the cost of options granted under ITC ESOS is recognised based on the fair value of the options as on the grant date on a straight line basis over the vesting / service period. 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.
- (iv) In addition to the above, the principal adjustment made by the Company in restating its previous GAAP financial statements, including the statement of financial position as at 1st Shrawan, 2072 (17th July, 2015) and the financial statements as at and for the year ended 31st Asadh, 2073 (15th July, 2016) is detailed below:
- Under previous GAAP, actuarial gains and losses related to the defined benefit schemes for gratuity and other retirement benefits were recognised in profit or loss. Under NFRS, the actuarial gains and losses form part of remeasurement of the net defined benefit liability/asset which is recognised in OCI. Consequently, the tax effect of the same has also been recognised in OCI instead of profit or loss.

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

Date: 30th Bhadra 2074 (15th September 2017)