

**INDEPENDENT AUDITOR'S REPORT  
TO THE SHAREHOLDERS OF NEPAL OIL CORPORATION LIMITED**

**Report on the Audit of the Financial Statements****Qualified Opinion**

We have audited the financial statements of Nepal Oil Corporation Limited (the 'Company'), Babarmahal, Kathmandu which comprise the Statement of Financial Position as at Ashadh 31, 2078, Statement of Profit or Loss, Statement of Other Comprehensive Income, Statement of Changes in Equity and Statement of Cash Flow for the year then ended, and Notes to the Financial Statements, including a summary of Significant Accounting Policies.

In our opinion, except for the effects of the matter described in the "*Basis for Qualified Opinion*" section of our report, the accompanying financial statements present fairly, in all material respects, the financial position of the company as at Ashadh 31, 2078 and its financial performance and its cash flows for the year then ended in accordance with Nepal Financial Reporting Standards (NFRSs).

**Basis for Qualified Opinion**

- a) As discussed in note 29.2 of the financial statement, during the supply of petroleum products upgraded from BS IV to BS VI quality, supplier has not been invoicing in accordance with terms of agreement entered between the company and the supplier. Though the company has disputed the claim of supplier, it has accounted for the purchases as per the invoice received. As a result of which, opening reserve has been understated by Rs 49.59 crores, purchase during the year has been overstated by 284.84 crores, liability has been overstated by 334.43 crores, closing stock has been overstated by 8.23 crores and closing reserve has been understated by Rs 326.20 crores.
- b) As discussed in note 2.4.16 of the Notes of financial statement, the company assesses impairment based on expected credit losses (ECL) model. However, the model as per the policy is not prepared and impairment provision for financial assets is done as per management estimate.
- c) As presented in Notes 13, there is unreconciled inter branch net debit balance of Rs 1,198,068/- . The impact of such unreconciled balance due to pending reconciliation is not determinable.
- d) As per clause 4 of contract entered between Nepal Oil Corporation (NOC) and National Park and Wildlife Conservation Department dated 2075/10/17, NOC shall replant the trees in the ratio of 1:25 for the total of 88163 trees of various species cut down by the pipeline project in the area of Parsa Wildlife Reserve (Total of 2204075 trees) and conserve the same for 5 years. However, NOC can opt to value the cost for the same and pay the amount to Parsa Wildlife Reserve at once within 5 years. This provision is mandatory according to prevailing Forest Act. However, company has not estimated and provisioned such amount in books resulting in understating of expenses/liabilities.

We conducted our audit in accordance with Nepal Standards on Auditing (NSAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the organisation in accordance with the *ICAN's Handbook of Code of Ethics for Professional Accountants* together with the ethical requirements that are relevant to our audit of the financial statements in Nepal, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.


  
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**Emphasis of Matter**

We draw attention to note 2.4.4 of the Notes of financial statement, which describes about charging the pipeline project related expenses as administrative expenses.

Further, we draw attention to note 2.4.22 of the Notes of financial statement, which describes about utilization of balance of Price Stabilization Fund held by the company in fiduciary capacity.

Our opinion is not modified in respect of these matters.

**Key Audit Matters**

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our audit opinion thereon, and we do not provide a separate opinion on these matters. Our assessed key audit matters and how we addressed them are outlined below:

Key Audit Matters	Auditor's Response
<b>i. Property, Plant and Equipment</b> <p>There are areas where management judgement impacts the carrying value of property, plant and equipment, intangible assets and their respective depreciation/amortisation rates and the ownership of the Property, Plant and Equipment requiring periodic review. These include the decision to capitalise or expense costs; the annual asset life review; the timeliness of the capitalisation of assets and the use of management assumptions and estimates for the determination or the measurement and recognition criteria for assets retired from active use and control over ownership of assets. Due to the materiality in the context of the Balance Sheet of the Company and the level of judgement and estimates required, we consider this to be as area of significance.</p>	<p>We assessed the controls in place over the fixed asset cycle, evaluated the appropriateness of capitalisation process, performed tests of details on costs capitalised, the timeliness of the capitalisation of the assets and the de-recognition criteria for assets retired from active use.</p> <p>In performing these procedures, we reviewed the judgements made by management including the nature of underlying costs capitalised; determination of realisable value of the assets retired from active use; the appropriateness of assets lives applied in the calculation of depreciation; the useful lives of assets as per the technical assessment of the management. We observed that the management has regularly reviewed the aforesaid judgements and there are no material changes.</p> <p>Further, we reviewed the documents evidencing ownership of immovable properties and physical verification was carried out on test basis.</p> <p>We considered the system and its control for the recognition, measurement and control to be materially adequate.</p>
<b>ii. Information Technology</b> <p>The preparation of financial statement is highly dependent on various reports generated by IT system of the company. Different software was used for the purpose of invoicing and accounting. Adequate and appropriate IT controls are required to ensure that IT application processes the data as expected. Audit outcome is dependent on the extent of IT</p>	<p>Our audit approach regarding Information Technology included:</p> <ul style="list-style-type: none"> <li>• Testing the design, operation and effectiveness of IT control</li> <li>• Understanding the data input and output system</li> <li>• Review of output reports on sample basis and its validation with source</li> </ul>



Key Audit Matters	Auditor's Response
controls and systems, and accordingly the above areas are determined to be as key audit matter.	We considered the IT system and its control to be adequate. However, the company has already migrated from existing IT system to ERP system after the end of reporting period.
<b>iii. Provisions and Contingent Liabilities</b>	
The Company is involved in various legal disputes including tax assessments for which final outcome cannot be easily predicted and which could potentially result in significant liabilities. The assessment of the risks associated with the litigations is based on complex assumptions, which require the use of judgement and such judgement relates, primarily, to the assessment of the uncertainties connected to the prediction of the outcome of the proceedings and to the adequacy of the disclosures in the financial statements. Because of the judgement required, the materiality of such litigations and the complexity of the assessment process, the area is a key matter for our audit.	<p>Our audit procedures in response to this Key Audit Matter included, among others,</p> <ul style="list-style-type: none"> <li>• Assessment of the process and relevant controls implemented to identify legal and tax litigations and pending administrative proceedings.</li> <li>• Assessment of assumptions used in the evaluation of potential legal and tax risks performed by the Company.</li> <li>• Inquiry with the legal and tax departments regarding the status of the most significant disputes and inspection of the key relevant documentation.</li> <li>• Analysis of opinion received from the experts wherever available.</li> <li>• Review of the adequacy of the disclosures in the notes to the financial statements</li> <li>• Review of minutes of various meetings.</li> </ul> <p>We considered the system and its control for the provisions and contingent liabilities to be adequate.</p>

**Other Information**

Management is responsible for the other information.

The other information comprises the financial or non-financial information included in the annual report, but does not include the financial statements and our auditor's report thereon. The annual report is expected to be made available for our review after the date of this auditor's report.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

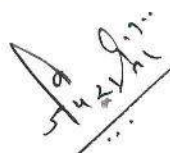
In connection with our audit of financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, we will consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

When we read the annual report, if we conclude that there is a material misstatement therein, we are required to request management and those charged with governance to correct the material misstatement.

**Responsibilities of Management for the financial statements**

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








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

Board of Director is responsible for overseeing the company's financial reporting process.

**Auditor's responsibilities for the audit of the financial statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with NSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

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

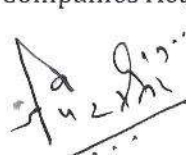
We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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

**Report on Requirements of the Companies Act, 2063**

We report, based on our audit, on the requirements of the Companies Act, 2063, that:

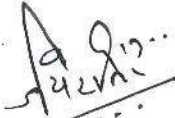
  

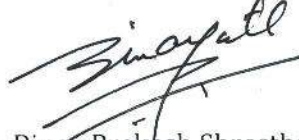




- i) We have obtained all the information and explanations, which to the best of our knowledge and belief were necessary for the purpose of our audit;
- ii) In our opinion, proper books of accounts as required by law have been kept by the company so far as it appears from our examination of such books of accounts;
- iii) In our opinion, the Statement of Financial Position, Statement of Profit or Loss and Other Comprehensive Income, Statement of Changes in Equity and Statement of Cash Flow dealt with by this report are in agreement with the books of accounts.
- iv) To the best of our information and according to explanation 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 the board of directors or any representative or any employee of the company have acted contrary to the provisions of laws relating to accounts or committed any misappropriation or caused any loss or damage to the company.



CA. Bijaya Raj Ghimire  
G & G Associates  
Chartered Accountants  
UDIN No. : 220114CA00097aJZUK



CA. Binay Prakash Shrestha  
K.A.S. Associates  
Chartered Accountants  
UDIN No. : 220114CA00116XweDa



Place : Kathmandu  
Date : 2078/09/29



**Nepal Oil Corporation Limited**  
 Babarmahal, Kathmandu  
**Statement of Financial Position**  
 As at 31 Ashadh 2078 (15 July 2021)

Particulars	Notes	As at 31 Ashadh 2078	As at 31 Ashadh 2077
<b>ASSETS</b>			
<b>Non- Current Assets</b>			
Property, Plant and Equipment	3	6,486,488,106	5,857,601,229
Intangible Assets	4	3,348,391	4,020,903
Capital Work-in-Progress (CWIP)	5	454,300,825	35,829,467
<b>Financial Assets</b>			
Investment	6	19,627,044,620	27,272,316,240
Loans & Advances	7	187,946,904	153,227,982
Deposits	8	98,091,490	89,387,573
Deferred Tax Assets	9	275,191,844	259,038,765
Other Non-Current Assets	10	153,587,546	126,198,270
		<b>27,285,999,726</b>	<b>33,797,620,428</b>
<b>Current Assets</b>			
Inventories	11	7,716,445,736	6,225,103,780
<b>Financial Assets</b>			
Trade Receivables	12	531,078,305	488,527,405
Cash & Cash Equivalents	13	16,448,334,145	17,140,933,599
Loans & Advances	7	17,143,714	10,945,694
Other financial assets	14	18,500,000	18,500,000
Other Current Assets	15	5,841,186,442	5,281,114,198
<b>Total Current Assets</b>		<b>30,572,688,342</b>	<b>29,165,124,677</b>
<b>Total Assets</b>		<b>57,858,688,069</b>	<b>62,962,745,105</b>
<b>LIABILITIES</b>			
<b>Equity</b>			
Share Capital	16	11,000,000,000	11,000,000,000
Other Equity	17	19,082,947,411	21,271,820,761
<b>Total Equity</b>		<b>30,082,947,411</b>	<b>32,271,820,761</b>
<b>Liabilities</b>			
<b>Non Current Liabilities</b>			
<b>Financial Liabilities</b>			
Dealer & Airlines Deposits	18	1,854,342,055	1,815,986,736
<b>Provisions</b>	19		
Provision for Defined Benefits Obligation Plan		269,959,191	739,756,652
Provision for Staff housing facilities		3,258,420,957	3,258,420,957
<b>Other Non Current Liabilities</b>	20		
Other Payables		174,300,020	167,664,339
<b>Total Non-Current Liabilities</b>		<b>5,557,022,222</b>	<b>5,981,828,683</b>
<b>Current Liabilities</b>			
<b>Provision</b>	19		
Provision for Bonus		3,473,299,338	3,473,299,338
<b>Other Current Liabilities</b>	20		
Price Stabilization Fund		14,489,932,588	11,573,173,906
Other Payables		4,255,486,508	9,662,622,416
<b>Total Current Liabilities</b>		<b>22,218,718,435</b>	<b>24,709,095,661</b>
<b>Total Liabilities</b>		<b>27,775,740,657</b>	<b>30,690,924,345</b>
<b>Total Equity and Liabilities</b>		<b>57,858,688,069</b>	<b>62,962,745,105</b>

Schedules forms an integral part of this Balance Sheet  
 Significant Accounting Policies and Notes to Financial Statement

1 - 29

Sushama Kumari Karna  
 Acting Director  
 Finance Department  
 Dr. Arjun Kumar Khadka  
 BOD Member  
 Nagendra Sah  
 Acting Deputy  
 Managing Director  
 Radhika Aryal  
 BOD Member  
 (Invited)  
 Sushil Bhattarai  
 Dy. Managing Director  
 Dinesh Bhattarai  
 BOD Chairman  
 Madhuras Kobid Pun  
 Invited BOD Member  
 Binay Prakash Shrestha  
 K.A.S. Associates.  
 Chartered Accountants  
 Prem Kumar Shrestha  
 BOD Member  
 Bijaya Raj Ghimire  
 G & G Associates  
 Chartered Accountants  
 Dinanath Mishra  
 BOD Member  
 Date: Poush 29, 2078  
 Place: Kathmandu





**Statement of Profit or Loss**

For the year ended 31 Ashadh 2078 (15 July 2021)

Amount in NPR








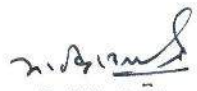
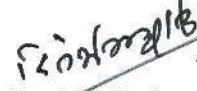


Particular	Notes	Current Year	Previous Year
Revenue from operations	21	232,445,705,463	205,745,293,899
Cost of Goods Sold	22	227,384,765,378	182,745,956,818
<b>Gross Profit</b>		<b>5,060,940,085</b>	<b>22,999,337,081</b>
Other Income	23	1,798,050,090	1,769,683,922
Selling and Distribution Expenses	24	200,558,187	205,328,957
Administrative Expenses	25	1,556,626,133	1,575,168,467
Depreciation and Amortization Expenses	3,4	93,352,390	126,035,918
Pollution Control Expenses		3,330,974,239	2,942,097,000
Corona Infection Control & Treatment Fund Expense		-	500,000,000
Corporate Social Responsibility Expenses		58,525,424	14,570,315
Price Stabilization Fund Expenses		2,324,457,055	2,057,452,939
Provision for Bad Debt		-	-
Foreign Exchange (Gain) / Loss		(114,731,092)	(78,546,711)
<b>Profit from Operations</b>		<b>(590,772,159)</b>	<b>17,426,914,118</b>
Finance Costs		-	-
Provision for Bonus		-	174,269,141
<b>Profit Before Tax</b>		<b>(590,772,159)</b>	<b>17,252,644,977</b>
Income Tax Expense		-	4,414,267,155
Deferred Tax Income / (Expense)		160,545,005	76,466,159
<b>Net Profit/ (loss) after tax</b>		<b>(430,227,154)</b>	<b>12,914,843,981</b>

Schedules forms an integral part of this Balance Sheet

Significant Accounting Policies and Notes to Financial Statement

1 - 29

As per our report of even date

 Sushama Kumari Karna Acting Director Finance Department	 Nagendra Sah Acting Deputy Managing Director	 Sushil Bhattarai Dy. Managing Director	 Madhumas Kobid Pun Invited BOD Member	 Prem Kumar Shrestha BOD Member	 Dinanath Mishra BOD Member
 Dr. Arjun Kumar Khadka BOD Member	 Radhika Aryal BOD Member (Invited)	 Dinesh Bhattarai BOD Chairman	 Binay Prakash Shrestha K.A.S. Associates Chartered Accountants	 Bijaya Raj Ghimire G & G Associates Chartered Accountants	Date: Poush 29, 2078 Place: Kathmandu





**Nepal Oil Corporation**  
Babarmahal, Kathmandu

**Statement of other comprehensive income**

For the year ended 31 Ashadh 2078 (15 July 2021)

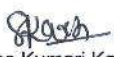
Amount in NPR


Particular	Notes	Current Year	Previous Year
Net Profit/ (loss) after tax		(430,227,154)	12,914,843,981
<b>Other Comprehensive Income</b>			
<b>Items that will not be subsequently reclassified to profit or loss</b>			
Actuarial gain / (loss) on remeasurement of defined benefit plans		572,839,326	(56,092,386)
Revaluation gain or losses of property			
Tax relating to non-recycleable components of other comprehensive income		(143,209,832)	14,023,097
<b>Items that may be subsequently reclassified to profit or loss</b>			
Exchange Gain/Loss arising on translation of foreign operations			
Gain / loss on hedging instrument in a cash flow hedges			
Net fair value gain or losses on available for sale financial assets		4,728,380	377,798
Share of Associates's other comprehensive income			
Tax relating to recycleable components of other comprehensive income		(1,182,095)	(94,450)
<b>Total Other Comprehensive Income (OCI) net of tax</b>		433,175,779	(41,785,941)
<b>TOTAL Comprehensive Income</b>		<b>2,948,625</b>	<b>12,873,058,040</b>


Schedules forms an integral part of this Balance Sheet

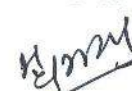
Significant Accounting Policies and Notes to Financial Statement


1 - 29


  
 Sushama Kumari Karna  
 Acting Director  
 Finance Department


  
 Nagendra Sah  
 Acting Deputy  
 Managing Director

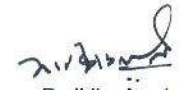
  
 Sushil Bhattarai  
 Dy. Managing Director

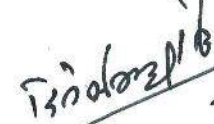
  
 Madhumas Kobid Pun  
 Invited BOD Member

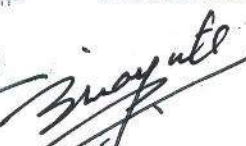
  
 Prem Kumar Shrestha  
 BOD Member

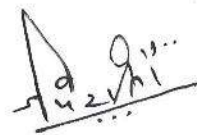
  
 Dinanath Mishra  
 BOD Member

  
 Dr. Arjun Kumar Khadka  
 BOD Member

  
 Radhika Aryal  
 BOD Member  
 (Invited)

  
 Dipesh Bhattarai  
 BOD Chairman

  
 Binay Prakash Shrestha  
 K.A.S. Associates.  
 Chartered Accountants

  
 Bijaya Raj Ghimire  
 G & G Associates  
 Chartered Accountants

Date: Poush 29, 2078  
 Place: Kathmandu





Nepal Oil Corporation Limited  
Babarmahal, Kathmandu

**Statement of Changes in Equity**  
For the year ended 31 Ashadh 2078 (15 July 2021)

Amount in NPR

Particular	Shares Capital	Other Equity		Other Equity (Sub Total)	Total Equity
		Retained Earning	Other Comprehensive Income		
<b>Balance at 1 Shrawan 2076</b>	<b>11,000,000,000</b>	<b>11,603,878,844</b>	<b>33,541,182</b>	<b>11,637,420,026</b>	<b>22,637,420,026</b>
Change in Accounting Policies	-	-	-	-	-
Prior period adjustment	-	(1,038,657,305)	-	(1,038,657,305)	(1,038,657,305)
Profit/(loss) for the year	-	12,914,843,981	-	12,914,843,981	12,914,843,981
Other Comprehensive Income	-	-	(41,785,941)	(41,785,941)	-
Issue of Share Capital	-	-	-	-	-
Dividend distribution	-	(2,200,000,000)	-	(2,200,000,000)	(2,200,000,000)
<b>Balance at 31 Ashadh 2077</b>	<b>11,000,000,000</b>	<b>21,280,065,520</b>	<b>(8,244,759)</b>	<b>21,271,820,761</b>	<b>32,271,820,761</b>
Change in Accounting Policies	-	-	-	-	-
Prior period adjustment	-	5,305,803	-	5,305,803	5,305,803
Profit/(loss) for the year	-	(430,227,154)	-	(430,227,154)	(430,227,154)
Tax Adjustment of Previous FY	-	-	-	2,872,222	2,872,222
Other Comprehensive Income	-	-	433,175,779	433,175,779	433,175,779
Issue of Share Capital	-	-	-	-	-
Dividend distribution	-	(2,200,000,000)	-	(2,200,000,000)	(2,200,000,000)
<b>Balance at 31 Ashadh 2078</b>	<b>11,000,000,000</b>	<b>18,655,144,169</b>	<b>424,931,021</b>	<b>19,082,947,411</b>	<b>30,082,947,411</b>

As per our report of even date

Sushama Kumari Karna  
Acting Director  
Finance Department

Nagendra Sah  
Acting Deputy  
Managing Director

Sushil Bhattarai  
Dy. Managing Director

Madhura Kobid Pun  
Invited BOD Member

Prem Kumar Shrestha  
BOD Member

Dhanath Mishra  
BOD Member

Dr. Arjun Kumar Khadka  
BOD Member

Radhika Aryal  
BOD Member  
(Invited)

Dinesh Bhattarai  
BOD Chairman

Binay Prakash Shrestha  
K.A.S. & Associates  
Chartered Accountants

Bijaya Raj Ghimire  
G & G Associates  
Chartered Accountants

Date: Poush 29, 2078  
Place: Kathmandu








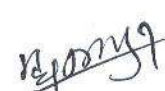

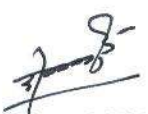
Statement of Cash Flow

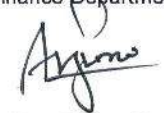
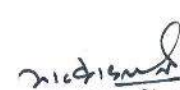
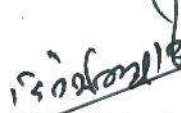


For the year ended 31 Ashadh 2078 (15 July 2021)

Amount in NPR

Particulars	Current Year	Previous Year
<b>A. Cash Flow from Operating Activities</b>		
Profit After Tax	(590,772,159)	12,838,377,822
Adjustments for:		
Depreciation and Amortization	93,352,390	126,035,918
Previous year expenses adjustment	5,305,803	(1,038,657,305)
Provision for Income tax	-	2,708,608,964
Additional Provision as per actuarial valuation	250,093,295	292,607,753
Receipt of Dealer deposit	38,355,319	64,614,241
Payment to refundable deposit	(8,703,917)	(1,446,135)
Payment of Other Liabilities	6,635,681	(61,453,053)
Net Disbursement of staff loan	(59,934,919)	(19,461,812)
Interest income (Concessional Loan - NFRS Adjustment)	(9,766,797)	(9,321,854)
Employee Benefit Cost (Concessional loan - NFRS Adjustment)	7,593,517	7,076,872
Actual contribution to CIT (Gratuity, Leave and Medical)	(147,051,430)	(45,684,100)
<b>Operating Profit before Working Capital Changes</b>	<b>(414,893,217)</b>	<b>14,861,297,312</b>
<b>Change in Working Capital (excluding Cash &amp; Cash Equivalents):</b>		
(Increase) / Decrease in Current Assets	(346,231,524)	(4,035,629,051)
Increase / (Decrease) in Current Liability	(5,407,135,908)	7,656,961,983
<b>Changes in Working Capital</b>	<b>(5,753,367,432)</b>	<b>3,621,332,932</b>
<b>Cash Generated From Operations</b>		
Less: Taxes Paid	(1,751,059,373)	(2,711,645,188)
<b>Net Cash Flow From Operating Activities</b>	<b>(7,919,320,022)</b>	<b>15,770,985,056</b>
<b>B. Cash Flow from Investing Activities:</b>		
Purchase of Property, Plant and Equipment	(721,566,755)	(256,075,527)
Expenditure on Construction Work In Progress	(418,471,358)	5,661,077
Investment in FD	7,650,000,000	(26,258,420,957)
<b>Net Cash Generated / (Used) in Investing Activities:</b>	<b>6,509,961,887</b>	<b>(26,508,835,406)</b>
<b>C. Net Cash Flow From Financing Activities:</b>		
Increase in share capital	-	-
Price establishment fund	2,916,758,682	2,603,384,173
Dividend / Dividend Tax Paid	(2,200,000,000)	(2,200,000,000)
<b>Net Cash Generated / (Used) from Financing Activities:</b>	<b>716,758,682</b>	<b>403,384,173</b>
<b>D. Net Change in Cash &amp; Cash Equivalents (A+B+C)</b>	<b>(692,599,454)</b>	<b>(10,334,466,178)</b>
<b>Cash &amp; Cash Equivalents as at the beginning of year</b>	<b>17,140,933,599</b>	<b>27,475,399,778</b>
<b>Cash &amp; Cash Equivalents as at the end of year</b>	<b>16,448,334,145</b>	<b>17,140,933,599</b>

As per our report of even date

 Sushama Kumari Karna  
Acting Director  
Finance Department
  Nagendra Sah  
Acting Deputy  
Managing Director
  Sushil Bhattarai  
Dy. Managing Director
  Madhumas Kobid Pun  
Invited BOD Member
  Prem Kumar Shrestha  
BOD Member
  Dinanath Mishra  
BOD Member

 Dr. Arjun Kumar Khadka  
BOD Member
  Radhika Aryal  
BOD Member  
(Invited)
  Dimesh Bhattarai  
BOD Chairman
  Binay Prakash Shrestha  
K.A.S. Associates.  
Chartered Accountants
  Bijaya Raj Ghimire  
G & G Associates  
Chartered Accountants





Date: Poush 29, 2078  
Place: Kathmandu







3 Property, Plant and Equipment

	Land	Office Building	Pump or Tank	Plant & Machinery	Vehicle	Vehicle	Vehicle	Refueller	Vehicle	Furniture and Fixture	Office Equipment-Computer	Office Equipment-Other	Lab Equipment	Office Equipment-Site Investigator Equipment	Other Equipment	Office Equipment	Total
At Cost																	
Balance as at 31 Shrawan 2076	5,340,820,944	350,544,821	488,344,138	488,344,138	190,424,731	11,076,782	147,347,519	348,840,033	43,874,109	58,267,336	86,030,765	21,800,257	28,892,377	21,800,257	5,845,278	199,736,814	6,782,174,458
Addition during the year	-	132,999,234	32,064,103	32,064,103	32,153,393	-	40,000	32,198,293	10,369,893	12,480,843	30,051,408	1,438,207	-	-	-	43,980,458	252,222,833
Disposal during the year	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Balance as at 31 Ashad 2077	5,340,820,944	483,543,915	520,408,241	520,408,241	222,578,124	11,076,782	147,387,519	381,038,326	54,244,002	70,757,189	116,082,163	23,238,474	28,892,377	23,238,474	5,845,278	243,717,072	7,034,387,083
Addition during the year	-	280,383,370	76,101,319	76,101,319	92,476,016	41,463,381	184,086,828	258,011,037	12,777,083	11,828,345	22,482,164	38,758,480	10,985,077	-	-	84,072,067	721,345,755
Disposal during the year	-	-	-	-	4,014,355	-	-	4,014,355	-	-	-	-	-	-	-	-	4,014,355
Balance as at 31 Ashad 2078	5,340,820,944	773,927,284	607,110,163	607,110,163	271,044,385	52,542,773	311,457,447	635,044,907	67,025,085	82,585,524	138,564,327	62,086,954	40,888,064	-	5,845,278	327,798,139	7,751,728,482
Accumulated Depreciation																	
Balance as at 31 Shrawan 2076	-	140,214,483	480,199,379	480,199,379	122,882,002	8,846,831	144,883,817	273,661,780	23,068,480	40,891,425	40,388,391	19,877,017	27,086,144	-	5,843,264	133,976,232	1,061,118,334
Addition for the year	-	70,836,000	2,857,347	2,857,347	13,061,396	813,196	1,197,702	15,682,254	2,735,051	11,635,834	14,866,334	844,785	382,059	-	1,550	27,543,073	125,677,531
Disposal on Disposal	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Balance as at 31 Ashad 2077	-	217,070,483	483,056,726	483,056,726	135,943,398	8,760,027	146,081,519	289,344,034	25,803,531	52,527,259	55,254,725	20,021,803	27,468,204	-	5,844,814	161,519,304	1,176,795,864
Addition for the year	-	25,453,710	8,223,144	8,223,144	18,824,790	3,980,302	1,321,014	24,126,289	3,752,388	5,442,589	21,171,265	897,502	381,037	-	119	30,903,171	92,458,878
Disposal on Disposal	-	-	-	-	4,014,355	-	-	4,014,355	-	-	-	-	-	-	-	-	4,014,355
Balance as at 31 Ashad 2078	-	242,524,193	491,280,270	491,280,270	151,364,192	10,739,389	147,387,519	309,465,914	29,556,917	58,000,814	76,437,980	21,919,305	27,849,081	-	5,844,933	192,423,075	1,265,240,388
Net Book Value on 31 Ashad 2077	5,340,820,944	266,473,416	47,951,418	47,951,418	86,029,228	4,316,005	1,356,000	91,703,321	28,444,461	18,229,920	60,825,438	2,716,871	2,434,773	-	465	82,207,168	5,657,881,229
Net Book Value on 31 Ashad 2078	5,340,820,944	531,403,075	115,829,893	115,829,893	119,688,684	47,803,385	164,104,914	325,588,983	37,469,138	19,613,577	82,146,338	40,277,850	13,026,154	-	346	135,576,004	6,866,488,106





**Nepal Oil Corporation**  
**Babarmahal, Kathmandu**  
**Notes to Financial Statement**

**4 Intangible assets**

Amount in NPR

	Total
<b>At Cost</b>	
Balance as at 01 Shrawan 2077	4,614,137
Addition during the year	221,000
Disposal during the year	-
Balance as at 31 Ashad 2078	4,835,137
<b>Accumulated Amortization</b>	
Balance as at 01 Shrawan 2077	593,233
Addition for the year	893,512
Amortization on Disposal	-
Balance as at 31 Ashad 2078	1,486,746
<b>Net Book Value on 31 Ashad 2077</b>	<b>4,020,903</b>
<b>Net Book Value on 31 Ashad 2078</b>	<b>3,348,391</b>

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**5 Capital Work-in-Progress**

	As at 31 Ashadh 2078	As at 31 Ashadh 2077
Province 1- Biratnagar Office	1,540,000	3,334,805
Branch Office- Charali	1,790,924	-
Pipeline Project	-	-
ERP Project	-	-
AFS Pokhara Project	163,441,100	-
Branch Office- Birgunj	-	-
Lumbini Province - Bhalbari Office	25,777,184	-
Karnali Province Office- Surkhet	-	-
Fuel Depot- Nepalgunj	-	-
Sudurpaschim Province Office- Dhangadhi	-	-
Province 2- Amlekhgunj Office	13,896,043	-
Gandaki Province Office- Pokhara	4,341,314	-
Fuel Depot- Janakpur	-	-
Bagmati Province Office- Thankot	27,931,192	-
Aviation Fuel Depot- Sinamanga	-	-
Head Office	215,583,068	32,494,662
<b>Total</b>	<b>454,300,825</b>	<b>35,829,467</b>

**6 Investment**

	As at 31 Ashadh 2078	As at 31 Ashadh 2077
<b>Investment on Listed shares</b>		
Gorakhkali Rubber Udyog (206000 shares)	-	-
Nepal Lube Oil Limited (43136 shares)	13,630,976	8,066,432
Nepal Bitumen & Barrel Udyog	-	-
<b>Investment on Unlisted shares</b>		
Sajha Pasal Sewa (10000 shares)	4,992,687	5,828,851
Arthik Sewa Kendra (3000 shares)	-	-
	<b>18,623,663</b>	<b>13,895,283</b>
<b>Other investment</b>		
Fixed Deposit	7,070,000,000	16,150,000,000
Fixed Deposit - Price Stabilization Fund	9,280,000,000	7,850,000,000
Fixed Deposit - Staff housing facilities	3,258,420,957	3,258,420,957
<b>Total</b>	<b>19,627,044,620</b>	<b>27,272,316,240</b>

Bonus Shares of Nepal Lube Oil (4900 & 13737 Units) and Sajha Pasal Sewa (580 & 2900 Units) received in period prior to date of transition has now been included in the investment of NOC retroactively from date of transition.

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*[Circular stamp: G & G Associates Chartered Accountants]*

*[Circular stamp: NEPAL OIL CORPORATION LTD.]*

*[Circular stamp: K.A.S. ASSOCIATES Baneshwor Kathmandu]*



Notes to Financial Statement

Amount in NPR

7 Loans & Advances

	As at 31 Ashadh 2078	As at 31 Ashadh 2077
<b>Current Portion</b>		
Employee Advance	17,143,714	10,945,694
<b>Non Current Portion</b>		
Employee Loan at amortized cost (NFRS)	187,946,904	153,227,982
<b>Total</b>	<b>205,090,618</b>	<b>164,173,676</b>

8 Deposits

	As at 31 Ashadh 2078	As at 31 Ashadh 2077
Refundable Deposit	98,091,490	89,387,573
<b>Total</b>	<b>98,091,490</b>	<b>89,387,573</b>

9 Deferred Tax

	As at 31 Ashadh 2078	As at 31 Ashadh 2077
Deferred Tax Assets	275,191,844	259,038,765
<b>Total</b>	<b>275,191,844</b>	<b>259,038,765</b>

10 Other Non Current Assets

	As at 31 Ashadh 2078	As at 31 Ashadh 2077
Prepayment Assets of Concesssional Loan	153,587,546	126,198,270
<b>Total</b>	<b>153,587,546</b>	<b>126,198,270</b>

11 Inventories

	As at 31 Ashadh 2078	As at 31 Ashadh 2077
Store, spares parts, tools etc.	113,155,947	87,672,915
<b>Petroleum stock</b>		
stock in depo	4,930,127,121	3,796,674,100
stock in transit	2,673,162,668	2,340,756,765
<b>Total</b>	<b>7,716,445,736</b>	<b>6,225,103,780</b>

12 Trade Receivable

	As at 31 Ashadh 2078	As at 31 Ashadh 2077
Secured debtor	567,830,674	529,785,401
Unsecured debtor	583,444	706,379
Less: Provision for doubtful debt	38,533,882	38,533,882
	<b>529,880,237</b>	<b>491,957,899</b>
Branch Balance	1,198,068	(3,430,494)
<b>Total</b>	<b>531,078,305</b>	<b>488,527,404</b>





**Nepal Oil Corporation**  
**Babarmahal, Kathmandu**

**Notes to Financial Statement**

Amount in NPR

**13 Cash and cash equivalents**

	As at 31 Ashadh 2078	As at 31 Ashadh 2077
Petty Cash	1,024	690
Cheque/Draft in transit	-	567,619
Cash at bank	9,384,058,478	11,601,204,647
Deposit for Price Stabilization Fund	5,209,932,588	3,723,173,906
Payable Deposit bank balance	1,854,342,055	1,815,986,736
<b>Total</b>	<b>16,448,334,145</b>	<b>17,140,933,599</b>

**14 Other financial assets**

	As at 31 Ashadh 2078	As at 31 Ashadh 2077
Margin Deposit (Bank Guarantee)	18,500,000	18,500,000
<b>Total</b>	<b>18,500,000</b>	<b>18,500,000</b>

**15 Other Current Assets**

	As at 31 Ashadh 2078	As at 31 Ashadh 2077
Advance Income tax		
Income Tax Provisions	(11,975,331,535)	(11,978,203,757)
Less: Advance Income tax paid	15,851,252,636	14,100,193,263
Total Advance Income tax	3,875,921,101	2,121,989,506
VAT Receivable	1,465,995,102	720,954,814
Other receivable and prepayment	207,289,609	212,672,824
Letter of credit (Margin Money)	253,590,815	176,968,175
Prepayment	38,381,863	48,520,928
Advance custom duty	7,952	7,952
Advance to Indian Oil Corporation	-	-
Advance to Nepal Government on profit	-	2,000,000,000
<b>Total</b>	<b>5,841,186,442</b>	<b>5,281,114,198</b>

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*21/12/2078*

Notes to Financial Statement

16 Equity Share Capital

	As at 31 Ashadh 2078	As at 31 Ashadh 2077
Authorized 300,000,000 equity shares of Rs. 100 each	30,000,000,000	30,000,000,000
Issued Capital 300,000,000 Equity Shares of Rs 100 each	30,000,000,000	30,000,000,000
Subscribed and fully paid up 110,000,000 Equity Shares of Rs 100 each	11,000,000,000	11,000,000,000
<b>Total</b>	<b>11,000,000,000</b>	<b>11,000,000,000</b>

17 Other Equity

	As at 31 Ashadh 2078	As at 31 Ashadh 2077
General Reserves	21,271,820,761	11,637,420,026
(Less): Dividend distribution	(2,200,000,000)	(2,200,000,000)
Add: Profit/loss for the Year	(430,227,154)	12,914,843,981
(Less): Previous year expenses	(1,299,997)	(1,038,657,305)
Add : Revaluation of investment made on Nepal Bitumen and Barrel Industry	6,605,800	-
Add : Tax Adjustment of Previous FY	2,872,222	
Other Comprehensive Income (Net of tax)	433,175,779	(41,785,941)
<b>Total</b>	<b>19,082,947,411</b>	<b>21,271,820,761</b>

18 Dealer & Airlines Deposits

	As at 31 Ashadh 2078	As at 31 Ashadh 2077
Dealer & Airlines Deposits	1,854,342,055	1,815,986,736
<b>Total</b>	<b>1,854,342,055</b>	<b>1,815,986,736</b>

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*L. K. R.*

*J. R.*



*21.08.2018*

*Ad. 21.08.2018*



Notes to Financial Statement

19 Provisions

Defined Benefit Obligation & Other Long Term Provisions as per Actuarial Valuation	As at 31 Ashadh 2078	As at 31 Ashadh 2077
Gratuity	93,339,490	307,167,766
Medical Benefit	107,457,897	343,488,945
Leave	69,161,804	89,099,941
	<b>269,959,191</b>	<b>739,756,652</b>
Current Portion		-
Non Current Portion	<b>269,959,191</b>	<b>739,756,652</b>

Long Term Provisions	As at 31 Ashadh 2078	As at 31 Ashadh 2077
Provision for Staff housing facilities	3,258,420,957	3,258,420,957
<b>Total</b>	<b>3,258,420,957</b>	<b>3,258,420,957</b>

Short Term Provisions	As at 31 Ashadh 2078	As at 31 Ashadh 2077
Provision for Bonus	3,473,299,338	3,473,299,338
<b>Total</b>	<b>3,473,299,338</b>	<b>3,473,299,338</b>

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*Spicer* *Spicer*

Notes to Financial Statement

20 Other Liabilities

Non Current	As at 31 Ashadh 2078	As at 31 Ashadh 2077
Unclaimed Liabilities	42,738,508	36,102,827
Nepal Government (Subsidy oil from China)		-
National employee welfare fund	115,052,053	115,052,053
Interest payable	16,509,460	16,509,460
<b>Total</b>	<b>174,300,020</b>	<b>167,664,339</b>

Current	As at 31 Ashadh 2078	As at 31 Ashadh 2077
Price Establishment Fund	14,489,932,588	11,573,173,906
<b>Total</b>	<b>14,489,932,588</b>	<b>11,573,173,906</b>

Other Payables

Advances from customer	393,187,772	433,653,233
Salary payable to staff	13,108,882	30,210,982
Employee providend fund deduction	333,552	268,710
Payable to Indian Oil Corporation	3,579,601,195	8,261,491,582
Employee welfare fund	29,162,495	20,451,548
Deduction for Yuva swarozgar	193	193
Nirman Bebasai fund deduction	-	983,180
TDS Payable	5,390,968	8,390,521
Custom, transportation and clearing	39,705,391	246,236,225
Insurance claim		376,803
National insurance company ltd.	70,614,708	106,984,020
Provision for Other Expenses	5,883,986	1,101,000
Payable to CIT related to salary	216,280	226,280
Expenses payable	118,281,085	552,248,139
<b>Total</b>	<b>4,255,486,508</b>	<b>9,662,622,416</b>


















	Current Year	Previous Year
<b>21 Revenue from operation</b>		
Sales of petroleum products	226,455,416,475	191,002,069,021
Sales of Aviation fuel ( jet fuel)	5,990,288,988	14,743,224,878
<b>Total</b>	<b>232,445,705,463</b>	<b>205,745,293,899</b>
<b>22 Cost of sales</b>		
Petroleum product purchase	158,464,703,272	145,982,890,218
Custum duty and service fee	37,358,642,440	15,285,588,822
Transportation Expenses - Terminal	4,292,753,624	4,185,057,574
Road repairs and maintenance expenses	5,754,729,812	4,985,962,688
National Park and Wildlife Department	20,000,000	20,000,000
Insurance expenses	90,125,624	114,370,989
Infrastructure tax	22,869,669,530	13,979,529,770
<b>Total purchase cost (A)</b>	<b>228,850,624,302</b>	<b>184,553,400,059</b>
<b>Petroleum product in transit</b>		
Opening Balance	2,340,756,765	2,845,274,975
Less: closing balance	2,673,162,668	2,340,756,765
<b>Difference in stock (B)</b>	<b>(332,405,903)</b>	<b>504,518,210</b>
<b>Stock of petroleum product in depot</b>		
Opening balance	3,796,674,100	1,484,712,649
Less: closing balance	4,930,127,121	3,796,674,100
<b>Difference in stock (C )</b>	<b>(1,133,453,021)</b>	<b>(2,311,961,451)</b>
<b>Total</b>	<b>227,384,765,378</b>	<b>182,745,956,818</b>
<b>23 Other Income</b>		
Interest income	1,728,012,814	1,378,725,203
Interest income (Concessional Loan - NFRS Adjustment)	9,766,797	9,321,854
Dividend income	-	171,000
Business income	11,527,306	35,818,596
Miscellaneous income	3,155,968	4,392,074
Rental income	2,797,838	6,195,810
Duty Drawback income form IOC	42,189,367	335,059,386
Scrap sale or Auction sale	600,001	
<b>Total</b>	<b>1,798,050,090</b>	<b>1,769,683,922</b>



**Nepal Oil Corporation**  
**Babarmahal, Kathmandu**

**Notes to Financial Statement**

Amount in NPR

24 Selling and distribution expenses	Current Year	Previous Year
Transportation Expenses - Local	182,527,723	151,642,071
Fuel Throughput Expenses	17,894,181	43,825,837
Supply Facilitation Expenses	-	9,861,049
Other Selling and Distribution Expense	136,283	-
<b>Total</b>	<b>200,558,187</b>	<b>205,328,957</b>

25 Administration Expenses	Current Year	Previous Year
Salary, wages and other employee expenses	497,118,503	500,250,374
Retirement fund expenses	26,265,865	18,167,197
Employee medical expenses	28,690,600	30,993,027
Accumulated Leave	8,050,457	15,347,916
PV Defined Benefit Obligation for Gratuity	181,574,248	132,702,625
PV Defined Benefit Obligation for Medical	96,973,143	120,971,557
PV Defined Benefit Obligation for Leave	2,319,362	38,933,571
Employee providend fund	22,757,191	23,153,487
Employee Benefit Cost (Concessional loan - NFRS Adjustment)	7,593,517	7,076,872
Rental expenses	19,681,353	15,753,634
Repairs and maintenance	221,934,433	215,475,707
Electricity and water	23,713,830	20,760,771
Travelling expenses	28,756,354	36,386,048
Transportation or fuel	39,859,108	30,677,832
Office Operating expenses	21,965,192	23,903,035
Notice and Other Publication expenses	12,860,357	6,974,026
LPG Awareness & Safety expenses	8,942,806	9,039,402
Audit fee	970,000	925,000
Audit expenses	1,671,598	1,734,530
Consultancy and Legal Expenses	19,806,774	16,207,616
Tax and fee	16,889,922	64,163,431
Board meeting allowances	1,188,367	1,525,367
Board meeting expenses	358,216	366,338
Recruitment and meeting expenses	20,505,042	12,349,104
Bank commission expenses	442,044	374,753
Insurance fee	108,777,512	96,350,656
Communication expenses (post,telephone,telex,internet)	7,328,021	5,589,243
Printing expenses	14,761,143	10,778,815
Advertisement expenses	8,788,889	6,300,612
Training expenses	5,458,082	3,834,491
Security expenses	10,547,095	11,951,420
Books & Paper Expenses	551,096	1,415,031
Business Promotion and COVID-19 Related Expensee	25,957,632	14,670,769
Miscellaneous expenses	11,169,763	16,223,514
Pipeline related expenses	45,839,304	59,264,106
VAT expenses (ITC not allowed)	3,967,188	1,697,437
Examination expenses	2,592,128	2,879,153
<b>Total</b>	<b>1,556,626,133</b>	<b>1,575,168,467</b>



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26 Fair Valuation Measurement

Particulars	Note	Carrying Value As at 31 Ashadh 2078	Carrying Value As at 31 Ashadh 2077	Fair Value As at 31 Ashadh 2078	Fair Value As at 31 Ashadh 2077	Fair Value Measurement hierarchy level
<b>A. Financial Assets</b>						
<b>FVTOCI Financial Instruments</b>						
Investments	7					
Quoted Equity Shares		16,883,700	16,883,700	17,720,332	8,066,432	Level 1
Unquoted Equity Shares		952,000	952,000	4,992,687	5,828,851	Level 3
<b>B. Amortised Cost</b>						
Loans and advances	8					
Employee Advance		17,143,714	10,945,694	187,946,904	10,945,694	Refer Notes Level 2,
Employee Loan		213,092,260	272,072,242	187,946,904	153,227,982	Refer Notes
Deposit						
Refundable Deposit	9	98091490.35	89,387,573	98,091,490	89,387,573	Refer Notes
Trade Receivables	13	531078304.7	488,527,405	531,078,305	488,527,405	Refer Notes
Cash & Cash Equivalents	14	16448334145	17,140,933,599	16,448,334,145	17,140,933,599	Refer Notes
Other financial assets	15	18,500,000	18,500,000	18,500,000	18,500,000	Refer Notes
<b>Financial Liabilities</b>						
<b>Amortised Cost</b>						
Dealer & Airlines Deposits	19	1,854,342,055	1,815,986,736	1,854,342,055	1,815,986,736	Refer Notes

Notes:

The management assessed that fair value of Trade Receivables, Cash & Cash Equivalents, Bank Guarantee, Dealer & Airlines Deposits, Other Refundable Deposit & Employee Advance approximate their carrying amounts. Employee Loan has been measured at amortised cost for House & Land Loan and House Maintenance Loan.

Methods and assumptions

The following methods and assumptions were used to estimate the fair values at the reporting date:

A. Level 1 Hierarchy

(i) Quoted Equity Shares

Closing quoted price (unadjusted) in Nepal Stock Exchange.

B. Level 2 Hierarchy

(i) Loan to employees:

Discounting future cashflows using rates currently available for items on similar terms, credit risk and remaining maturities.

C. Level 3 Hierarchy

(i) Unquoted Equity Instrument

Simple average of price computed as per Net Assets Value Method (NAV) and Capitalized Earning Method (CEM) has been considered as fair value. Net Assets Value has been calculated by considering total equity i.e. paid up capital and reserves has been considered after adjusting for any earmarked regulatory reserves and capitalized earning has been taken as average of profit after tax from available data of past years









27 Reconciliation of deferred tax as at beginning and end of the year

I. As at 31 Ashadh 2077

Particulars	Book Carrying Value as at end of the year	Tax Base as at end of the year	Temporary Difference	Tax Rate	Deferred Tax Asset/(Liability)
Temporary Difference for:					
Provisions					
Gratuity	307,167,766	116,774,147	190,393,620	25%	47,598,405
Medical Benefit	343,488,945	42,518,553	300,970,392	25%	75,242,598
Leave	89,099,941	22,257,499	66,842,442	25%	16,710,610
Total deferred tax assets - temporary differences on provisions as at end of the year	739,756,652	181,550,199	558,206,453		139,551,613
Fixed Assets					
WDV of Assets included under Tax	516,780,285	995,106,691	478,326,406	25%	119,581,601
Total deferred tax assets - temporary difference on fixed assets as at end of the year					119,581,601
	Carrying Value	Fair value	Temporary Difference	Tax Rate	
Fair valuation of Investments	13,517,485	13,895,283	(377,798)	25%	(94,450)
Deferred tax (expense) / income recognized in Fair valuation of Investments					(94,450)
Net deferred tax assets / (liabilities) as at end of the period					259,038,765
Net deferred tax assets / (liabilities) as at end of previous year					168,643,960
Deferred tax (expense) / income recognized in Profit & Loss					76,466,159
Deferred tax (expense) / income recognized in Other Comprehensive Income					13,928,647

I. As at 31 Ashadh 2078

Particulars	Book Carrying Value as at end of the year	Tax Base as at end of the year	Temporary Difference	Tax Rate	Deferred Tax Asset/(Liability)
Temporary Difference for:					
Provisions					
Gratuity	93,339,490	12,695,636.22	80,643,854	25%	20,160,964
Medical Benefit	107,457,897		107,457,897	25%	26,864,474
Leave	69,161,804	5,323,832.17	63,837,972	25%	15,959,493
Total deferred tax assets - temporary differences on provisions as at end of the year	269,959,191	18,019,468	251,939,722		62,984,931
Fixed Assets					
WDV of Assets included under Tax	1,145,667,162	1,674,487,238	528,820,076	25%	132,205,019
Total deferred tax assets - temporary difference on fixed assets as at end of the year					132,205,019
Deferred Tax Asset on Carry Forward of Losses		(319,219,613.45)		25%	79,804,903
	Carrying Value	Tax Base as at end of the year	Temporary Difference	Tax Rate	
Fair valuation of Investments	18,623,663	17,835,700	787,963	25%	196,991
Deferred tax (expense) / income recognized in Fair valuation of Investments					196,991
Net deferred tax assets / (liabilities) as at end of the period					275,191,844
Net deferred tax assets / (liabilities) as at end of previous year					259,038,765
Deferred tax (expense) / income recognized in Profit & Loss					160,545,005
Deferred tax (expense) / income recognized in Other Comprehensive Income					(144,391,926)

*for Date*  
  
NEPAL OIL CORPORATION LTD.

*Henry*  
*Ang*

*K. S. Sharma*

*for*

*for*

*for*  
  
K.A.S. ASSOCIATES  
Baneshwor  
Kathmandu

  
G & G Associates  
Chartered Accountants

*for*  
*24/2/78*



Notes to Financial Statement

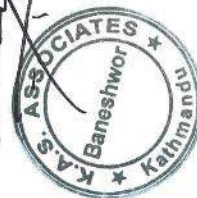
28 (I) Present Value of Defined Benefit Obligation ( Net of Plan Asset )

Amount in NPR

Particulars	Opening as at 1 Shrawan 2076	CSC	Interest Cost	Act Loss/ (Gain)		Payment From Employer	Closing as at 31 Ashadh 2077 (A+B+C+D+E+F)
				OCI (D)	P & L (E)		
Gratuity	173,312,942	73,329,555	59,373,070	45,824,716	-	(44,672,518)	307,167,766
Medical Benefit	212,249,718	64,032,095	56,939,462	10,267,670	-	-	343,488,945
Leave	51,177,952	15,747,980	12,284,796	0	10,900,795	(1,011,582)	89,099,941
<b>Total</b>	<b>436,740,612</b>	<b>153,109,630</b>	<b>128,597,328</b>	<b>56,092,386</b>	<b>10,900,795</b>	<b>(45,684,100)</b>	<b>739,756,652</b>

Particulars	Opening as at 1st Shrawan 2077	CSC	Interest Cost	Act Loss/ (Gain)		Payment From Employer	Closing as at 31 Ashadh 2078 (A+B+C+D+E+F)
				OCI (D)	P & L (E)		
Gratuity	307,167,766	77,932,749	72,868,041	(282,353,688)	-	(82,275,378)	93,339,490
Medical Benefit	343,488,945	28,933,327	68,039,816	(290,485,638)	-	(42,518,553)	107,457,897
Leave	89,099,941	823,833	1,285,825	-	209,704	(22,257,499)	69,161,804
<b>Total</b>	<b>739,756,652</b>	<b>107,689,909</b>	<b>142,193,682</b>	<b>(572,839,326)</b>	<b>209,704</b>	<b>(147,051,430)</b>	<b>269,959,191</b>

Spoken Report Date Aug 1st 2078



m. Bhandari



## Nepal Oil Corporation Limited

Babarmahal, Kathmandu

### Notes to the financial Statements

#### 1. ENTITY INFORMATION AND SIGNIFICANT ACCOUNTING POLICIES

Nepal Oil Corporation Limited ("NOC" and "Corporation") is a state owned trading enterprise of Nepal that imports, stores and distributes various petroleum products in the country. It was established on 2027/09/26 as private limited company under the Company Act 2021. Subsequently it was converted into public limited company on 2033/04/06 by the Government of Nepal under the "Company Act, 2021. The government owns 99.46% of its share and rest is contributed by four other state owned enterprises: Rastriya Beema Company Limited, Food Management & Trading Company Ltd., Nepal Bank Ltd. and Rastriya Baniya Bank. The corporate office of the company is situated at Babarmahal, Kathmandu. NOC, headquartered in Kathmandu, has over the years expanded and now has seven provincial offices in every province of Nepal, three branch offices, three fuel depots, one petrol pump, seven aviation fuel depots, and three aviation fuel refueling station with total existing storage capacity of 71,558 kilolitres (kl). Currently projects of international oil pipeline that connects with Motihari in Bihar of India and Amlekhgunj Depot in Parsa district of Nepal has been completed. This will make transportation of Oil easier and safer and faster to all the corners of Nepal.

#### 2. BASIS OF PREPARATION, MEASUREMENT AND SIGNIFICANT ACCOUNTING POLICIES

##### 2.1. Basis of preparation and measurement

###### (a) 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 1<sup>st</sup> Shrawan, 2076 (17<sup>th</sup> July, 2019)

###### (b) Basis of preparation:

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

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

###### (c) 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. Based on the nature of services and the time between acquisition of assets for processing and their realization in cash and cash equivalents, the Corporation has ascertained its operating cycle as twelve months for the purpose of current or non-current classification of assets and liabilities.

##### 2.2. Critical Accounting Estimates

The preparation of Financial Statements requires management to make judgments, estimates and assumptions in the application of accounting policies that affect the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Any revision in accounting estimates is recognized prospectively in the period of change and material revision



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## Nepal Oil Corporation Limited

Babarmahal, Kathmandu

including its impact on Financial Statements, is reported in the Notes to Financial Statements in the year of incorporation of revision. Estimates and judgments are continuously evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable.

### 2.3. Functional and Presentation Currency

The financial statement is prepared in Nepalese Rupees (NPR), which is the Corporation's official functional currency.

### 2.4. Significant accounting policies

#### 2.4.1. Current versus non-current classification:

The Corporation presents assets and liabilities in the Statement of Financial Position based on Current / Non-Current classification. Based on the nature of service and the time of their realization in cash and cash equivalents, the Corporation has ascertained its operating cycle as twelve months for the purpose of Current/Non-Current classification of Assets and Liabilities.

The Corporation classifies an asset as current when it is:

- i) Expected to be realized or intended to be consumed in normal operating cycle.
- ii) Held primarily for the purpose of trading.
- iii) Expected to be realized within twelve months after the reporting period or
- iv) Cash or Cash Equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets are classified as non-current.

The Corporation classifies a liability as current when:

- i) Expected to be settled in normal operating cycle.
- ii) Held primarily for the purpose of trading.
- iii) Settled within twelve months after the reporting period or
- v) No unconditional right to defer the settlement of the liability for at least twelve months after the reporting period.

All other liabilities are classified as non-current. Deferred tax assets and liabilities are classified as non-current assets and liabilities.

#### 2.4.2. Property, Plant and Equipment (PPE)

This includes tangible assets held for use in supply of services or for administrative purposes. These are recognized and carried under cost model i.e. cost less accumulated depreciation and impairment loss, if any which is akin to recognition criteria under erstwhile GAAP, except freehold land which are carried at historical cost. Cost includes purchase price/construction cost including applicable freight, duties, taxes after deducting any discounts and rebates, and other expenses directly incidental to acquisition, bringing the asset to its working condition and the location and installation including site restoration up to the time when the asset is ready for its intended use and present value of any estimated cost of dismantling and removing the item and restoring the site on which it is located. These costs are capitalized until the asset is ready for use and includes borrowing cost capitalized as per NFRS. When a major inspection/repair occurs, its cost is recognized in the carrying amount of the Plant and Equipment as a replacement if the recognition criteria is satisfied. Any remaining carrying amount of the cost of previous inspection/repair is derecognized. All other repair and maintenance costs are recognized in Profit or Loss as incurred.

#### Recognition:

The cost of an item of PPE is recognized as an asset if, and only if:

- (a) It is probable that future economic benefits associated with the item will flow to the entity;
- (b) And the cost of the item can be measured reliably.

In accordance with the above criteria, subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate.



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## Nepal Oil Corporation Limited

Babarmahal, Kathmandu

Subsequently Property, Plant and Equipment is stated at cost, net of accumulated depreciation and accumulated impairment losses, if any. During sales of fixed assets any profit earned / loss sustained towards excess / shortfall of sale value vis-a-vis carrying cost of assets is accounted for in Statement of Profit or Loss.

Spare parts are capitalized when they meet the definition of PPE. i.e. when the Corporation intends to use these during more than a period of 12 months.

The acquisition of some items of PPE although not directly increasing the future economic benefits of any particular existing item of PPE, may be necessary for the Corporation to obtain the future economic benefits from its other assets. Such items of PPE are recognised as assets.

On transition to NFRS, the company has elected to continue the carrying value of all of its PPE recognised as at 1 Shrawan 2075 measured as per the previous GAAP and use that carrying value as the deemed cost of the PPE.

### 2.4.3. Intangible Assets

#### Recognition:

Intangible assets acquired separately are measured at cost on initial recognition. The cost of intangible assets acquired in a business combination is their fair value at the date of acquisition. Following initial recognition, Intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses. Internally generated intangibles, excluding capitalized development cost, are not capitalized and the related expenditure is reflected in the statement of profit and loss in the period in which the expenditure is incurred.

Cost incurred on computer software/license purchased resulting in future economic benefits, other than specific software that are integral part of the related hardware, are capitalized as Intangible Assets and amortized on straight line basis over the five years period. The amortization expense on intangible assets with finite lives is recognized in the Statement of Profit and Loss unless such expenditure forms part of the carrying value of another asset.

#### De-recognition of PPE and Intangible Assets:

PPE and Intangible Assets are derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of PPE or Intangible Asset is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognized in the Statement of Profit and Loss.

### 2.4.4. Capital Work in Progress

Tangible assets not ready for the intended use on the date of Statement of Financial Position are disclosed as "Capital work-in-progress". Expenses exclusively attributable to projects incurred during construction are capitalized.

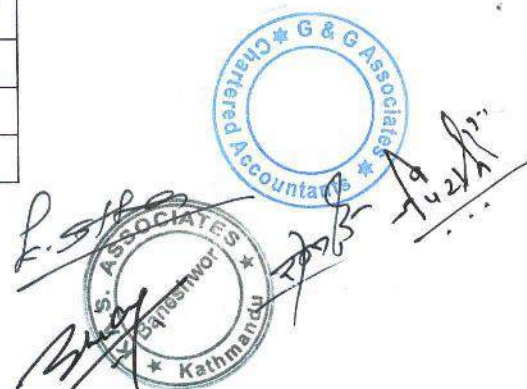
#### Petroleum Pipeline Project (PPP)

Under the G2G Agreement between Government of Nepal & India for construction of pipeline for supply of petroleum from Motihari Bihar of India to Amlekhgunj of Bara District of Nepal the project has been successfully inaugurated by the PM of Nepal and India on 24 Bhadra, 2076. Currently, the line is used for import of diesel only. However, since the final report has not been received from the contractor (i.e Indian Oil Corporation) the total expenditure of the project could not be determined. The total projected investment in the project by Nepalese & Indian government were as follows:

Country	Project Investment Amount (INR)	% of Investment
Nepal	750,000,000.00	27.27
India	2,000,000,000.00	72.73
<b>Total</b>	<b>2,750,000,000.00</b>	<b>100.00</b>



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**Depreciation & Amortization:**

Cost of PPE net of residual value excluding freehold land is depreciated or amortized (in case of intangible assets) on the Straight Line Method based on the estimated useful lives of the assets determined by the management. Depreciation on assets under construction (amortization in case of software under development) does not commence until they are complete and available for use. Depreciation / amortization on additions to fixed assets/ intangible assets is charged on pro-rata basis in the year of purchase. The useful life of the assets and the corresponding rates at which the assets are depreciated / amortized are as follows:

Particulars	Useful life (Years)
Building (Other than factory building)	60
Compound Wall	30
Motor cycles, scooters and other mopeds	10
Motor buses, motor lorries and motor cars	8
Office Equipment	5
Office Furniture & Fittings	10
Leasehold improvements	10
Electrical Equipment and installations	10
Computer server & networks	6
End user devices, such as, desktops, laptops, etc	3
Intangible assets	5

Components relevant to fixed assets, where significant, are separately depreciated on written down basis in terms of their life span assessed by technical evaluation in item specific context. Residual value is determined considering past experience and generally the same as between 0% and 5% of the cost of assets.

The residual values, useful lives and methods of depreciation of PPE / amortization of intangible assets are reviewed at each financial year end and adjusted prospectively, if appropriate.

**2.4.5. Impairment of non- financial assets**

An asset is deemed to be impaired when recoverable value is less than its carrying cost and the difference between the two represents provisioning exigency. Recoverable value is the higher of the 'Value in Use' and "Fair Value as reduced by cost of disposal". Test of impairment of PPE and other non-financial assets are undertaken under Cash Generating Unit (CGU) concept.

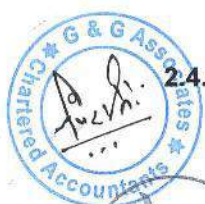
Test of impairment of assets are generally undertaken based on indication of impairment, if any, from external and internal sources of information outlined in para 12 of NAS-36. Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

**2.4.6. Investment Property**

Investment property is stated at fair value determined annually by an independent value. Fair value is based on current prices in an active market for similar properties in the same location and condition. Any gain or loss arising from a change in fair value is recognized in the income statement. When an item of property, plant and equipment becomes an investment property following a change in its use, any difference arising at the date of transfer between the carrying amount of the item and its fair value is recognized directly in equity if it is a gain. Upon disposal of the item, the gain is transferred to retained earnings. Any loss is recognized in the income statement.

**2.4.7. Leases****Finance Lease**

Lease Agreements are classified as finance leases, if substantially all the risks and rewards incidental to ownership of the leased asset is transferred to the lessee.



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## Nepal Oil Corporation Limited

Babarmahal, Kathmandu

### Operating Lease

Lease Agreements which are not classified as finance leases are considered as operating lease. Payments made under operating leases are recognised in Statement of Profit and Loss with reference to lease terms and other relevant considerations. Lease incentives received / lease premium paid (if any) are recognised as an integral part of the total lease expense, over the term of the lease. Payments made under Operating Leases are generally recognised in Statement of Profit and Loss on a straight-line basis over the term of the lease, unless another systematic basis is more representative of the time pattern of the lessee's benefit.

As per the notice issued by ICAN for applicability of NFRS 2018, standard prescribed for accounting of leases i.e. NFRS 16 – Leases, is effective only after 1 Shrawan 2078.

### 2.4.8. Cash and cash equivalents

For the purpose of presentation in the statement of cash flows, cash and cash equivalents includes cash in hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

### 2.4.9. Cash Flow Statement

Cash flows are reported using the indirect method, whereby net profit before tax is adjusted for the effects of transactions of a non-cash nature and any deferrals of accruals of past or future cash receipts or payments. The cash flows from regular revenue generating & investing activities of the Corporation are segregated.

### 2.4.10. Inventories

Inventories are stated at cost or net realizable value, whichever is lower. Cost of inventories comprises of expenditure incurred in the normal course of business in bringing inventories to their present location including appropriate overheads apportioned on a reasonable and consistent basis and are determined on the following basis:

- Closing stock of Petroleum products is valued at cost determined on First in First out basis.
- Goods in transit are valued on the basis of cost.
- Stores and spare parts are valued on cost basis.

The net realizable value (NRV) of stock in trade are based on the final selling price less cost required to make the sale.

### 2.4.11. Non-current assets held for sale:

Non-current assets and disposals are classified as held for sale when:

- They are available for immediate sale
- Management is committed to a plan to sell
- It is unlikely that significant changes to the plan will be made or the plan will be withdrawn;
- Active program to locate a buyer has been initiated;
- Asset or disposal company is being marketed at a reasonable price in relation to its fair value and
- Sale is expected to complete within 12 months from the date of classification.

Non-current assets and disposals classified as held for sale are measured at the lower of:

- Their carrying amount immediately prior to being classified as held for sale in accordance with the Company's accounting policy; and
- Fair value less costs to sell.

After their classification as held for sale, non-current assets (including those in a disposal company) are not depreciated. The results of operations disposed during the year are included in the statement of comprehensive income up to the date of disposal.



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## Nepal Oil Corporation Limited

Babarmahal, Kathmandu

### 2.4.12. Insurance Claims:

In case of accident of tanker carrying petroleum product all the payments relating to such tanker owner is suspended until the insurance claim is settled for the same and actual insurance claim received amount is recognized in cash basis and remaining unclaimed loss is claimed from the tanker owner.

### 2.4.13. Revenue Recognition

**Sale of Goods:** Revenue from the sale of goods is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer, revenue and the associated costs can be estimated reliably and it is probable that economic benefits associated with the transaction will flow to the Corporation.

Revenue from the sale of goods is measured at the fair value of the consideration received or receivable (after including fair value allocations related to multiple deliverable and/or linked arrangements), net of returns, taxes or duties collected on behalf of the Government and applicable trade discounts or rebates. Where Corporation acts as an agent on behalf of a third party, the associated income is recognised on a net basis.

**Interest income:** Interest income on call deposits and employee advances is recognised in accrual basis / effective interest method as applicable.

**Dividend Income:** Dividends is recognised when the shareholder's right to receive payment is established.

**Other Income:** Corporation also earns various other incomes which are recognised following the revenue recognition prescribed as per applicable accounting standard.

### 2.4.14. Provisions for expenses

A provision is recognized in the Statement of Financial Position, when the Corporation has a legal or constructive obligation as a result of a past event, it is probable that an outflow of assets will be required to settle the obligation and the obligation can be measured reliably.

### 2.4.15. Employment benefits

Liabilities in respect of employee benefits to employees are provided for as follows:

#### Short-term employee benefits

Short-term employee benefits include benefits which are provided on periodic basis during year for the service rendered by employees during current period such as salaries and allowances. A liability is recognized for the amount expected to be paid if the Corporation has a present or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

#### Long Term Employee Benefit Plan

##### Contributory Nature:

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution plans are recognized as an expense in statement of profit or loss when incurred.

**(i) Provident Fund:** The defined contribution expenses include employer's contribution to provident fund. These amounts have been deposited in Employee Provident Fund, a 100% Government of Nepal undertaking.

##### Defined Nature:

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Corporation's net obligation in respect of defined benefit plans is calculated separately for each plan.



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by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods. That benefit is discounted to determine its present value. The Corporation recognizes all actuarial gains and losses net of deferred tax arising from defined benefit plans immediately in other comprehensive income and all expenses related to defined benefit plans in employee benefit expense in profit or loss.

The Corporation recognizes gains and losses on the curtailment or settlement of a defined benefit plan when the curtailment or settlement occurs. The gain or loss on curtailment or settlement comprises any resulting change in the fair value of plan assets, any change in the present value of the defined benefit obligation, any related actuarial gains and losses and any past service cost that had not previously been recognized.

Defined benefit scheme surplus and deficit are measured at the fair value of plan assets at the reporting date; less plan liabilities calculated using the projected unit credit method discounted to its present value using yields available on high quality corporate bonds that have maturity dates approximating to the terms of the liabilities; plus, unrecognized past service costs; less the effect of minimum funding requirements agreed with scheme trustees. Any difference between the expected return on assets and that actually achieved, and any changes in the liabilities over the year due to changes in assumptions or experience within the scheme, are recognized in other comprehensive income in the period in which they arise. Past service costs are recognized directly in income, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time. In this case, the past service costs are amortized on a straight line basis over the vesting period.

**(a) Post Retirement Benefit:**

- (i) **Gratuity:** Gratuity Liability is recognised on the basis of actuarial valuation as per NAS-19. Liability recognised in the date of Statement of Financial Position. In respect of gratuity, present value of the defined benefit obligation at the end of each reporting period less the fair value of plan assets. The defined benefit obligation is calculated annually by actuaries using the projected unit credit method. The present value of defined benefit is determined by discounting the estimated future cash outflows by reference to market yield at the end of each reporting period on government bonds that have terms approximate to the terms of the related obligation. The net interest cost is calculated by applying the discount rate to the net balance of the defined benefit obligation and the fair value of plan assets. This cost is included in employee benefit expense in the statement of profit or loss. Gratuity is funded and deposited to a separate entity administered by an independent trust towards meeting the gratuity obligation.
- (ii) **Life Insurance:** The organization maintains life insurance for permanent employees for 6 years salary and is currently done at M/S Rastriya Beema Sansthan Ltd.
- (iii) **Medical Expenses:** Corporation recognizes this liability for medical fund to be provided to the employees at the time of withdrawal or retirement. Due to its defined nature the basis of determining liability is done by actuarial valuation as per NAS-19.

**(b) Other Long Term Benefits:**

**Leave Encashment:** Corporation has a policy on compensated absences which are of accumulating in nature. The expected cost of accumulating compensated absences is determined by actuarial valuation performed by an independent actuary at each date of Statement of Financial Position using projected unit credit method on the additional amount expected to be paid / availed as a result of the unused entitlement that has accumulated at the date of Statement of Financial Position. Encashment of leave is recognized as expense in the period in which the encashment occurs.

**2.4.16. Financial Instrument**

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument to another entity. Financial assets or liabilities are recognized when the company becomes a party to the contractual provisions of the instruments.



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## Nepal Oil Corporation Limited

Babarmahal, Kathmandu

### (a) Financial Assets

The Corporation classifies its financial assets into the following measurement categories:

- a) Financial assets measured at fair value through profit or loss showing separately;
  - those designated as such upon initial recognition and
  - those mandatorily measured at fair value in accordance with NFRS-9 on financial instrument.
- b) Financial assets measured at fair value through Other Comprehensive Income, and
- c) Financial assets measured at amortized cost.

### Initial Recognition and Measurement:

At initial recognition, an entity shall measure a financial asset or financial liability at its fair value plus or minus, in the case of a financial assets or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

However, if the fair value of the financial assets or financial liabilities at initial recognition differs from the transaction price, the entity shall account for that instrument at that date as follows:

- (a) If that fair value is evidenced by quoted price in an active market for an identical assets or liabilities (i.e. a Level 1 input) or based on a valuation technique that uses only data from observable markets. An entity shall recognize the difference between the fair value at initial recognition and the transaction price as a gain or loss.
- (b) In all other cases, adjusted to defer the difference between the fair value at initial recognition and the transaction price. After initial recognition, the entity shall recognize the deferred difference as a gain or loss only to the extent that it arises from a change in factor (including time) that market participants would take into account when pricing the asset or liability.

**Subsequent Measurement:** For purpose of subsequent measurement financial assets are classified in two broad categories:

- Financial Assets at fair value.
- Financial assets at amortized cost.

Where assets are measured at fair value, gains and losses are either recognized entirely in the statement of profit and loss, or recognized in other comprehensive income.

A financial asset that meets the following two conditions is measured at amortized cost.

- **Business Model Test:** The objective of the Corporation's business model is to hold the financial asset to collect the contractual cash flows.
- **Cash flow characteristics test:** The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payment of principal and interest (SPPI) on the principal amount outstanding.

A financial asset that meets the following two conditions is measured at fair value through OCI:

- **Business Model Test:** The financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets.
- **Cash flow characteristics test:** The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payment of principal and interest (SPPI) on the principal amount outstanding.

All other financial assets are measured at fair value through profit and loss.

### Impairment of financial assets:

The Corporation assesses impairment based on expected credit losses (ECL) model at an amount equal to:

- 12 months expected credit losses, or
- Lifetime expected credit losses depending upon whether there has been a significant increase in credit risk since initial recognition.

### (b) Financial Liabilities

The Corporation classifies its financial liabilities into the following measurement categories:

- a) Held at fair value through profit or loss (FVTPL), or
- b) Held at amortized cost.



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## Nepal Oil Corporation Limited

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All financial liabilities are initially recognized at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

A financial liability is classified as FVTPL if it is classified as held for trading, or it is a derivative or is designated as such on initial recognition. Financial Liabilities at FVTPL are measured at fair value and net gain or losses, including any interest expense, are recognised in statement of profit and loss. Other financial liabilities are subsequently measured at amortized cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognised in statement of profit and loss. Any gain or loss on de-recognition is also recognized in statement of profit and loss.

### De-recognition of financial assets and financial liabilities:

Corporation de-recognizes a financial asset only when the contractual right to the cash flows from the assets expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Corporation neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Corporation recognizes its retained interest in the asset and an associated liability for amounts it may have to pay.

Corporation de-recognizes financial liabilities when, and only when, the Corporation's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognised in the statement of profit or loss.

### 2.4.17. Fair value measurement:

The Company measures financial instruments at fair value at each balance sheet date. Fair value is the price that would be received to sell an asset or paid to transfer the liability in an orderly transaction between market participants in the measurement date.

The fair value measurement is based on the presumption that the transaction to sell the assets or transfer the liability takes place either in the principal market for the assets or liability or in the absence of the principal market, in the most advantageous market for the assets or liability. The principal or the most advantageous market must be accessible to the company.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the assets or liability, assuming that market participants act in their economic best interest.

A fair value measurement of non-financial asset takes into account a market participant's ability to generate economic benefits by using the assets in its highest and best use or by selling it to another market participant that would use the assets in its highest and best use.

The company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statement are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole.

**Level 1:** Quoted (unadjusted) market price in active market.

**Level 2:** Valuation techniques for which the lowest level input is significant to the fair value measurement is directly or indirectly observable.

**Level 3:** Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For the assets and liabilities that are recognised in the financial statements on a recurring basis, the company determines whether transfers have occurred between levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

In case of level 3 valuations, external valuers are also involved in some cases for valuation of assets and liabilities, such as unquoted financial assets, loans to related parties, etc.



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For the purpose of fair value disclosures, the company has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the assets or liability and the level of the fair value hierarchy as explained above.

#### **2.4.18. Financial risk management objectives**

The Corporation's operations expose it to various risks. These risks include market risk (including currency risk, interest rate risk and other price risk), credit and liquidity risk.

##### **Risk Management Frameworks**

The management of the Corporation has overall responsibility for the establishment and oversight of the Corporation's risk management framework. The risk management framework is intended to ensure that risks are managed with due diligence and care.

The Corporation's risk management policies are established to identify and analyze the risks it faces, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and its activities. The Corporation, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

##### **a. Market risk**

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of the changes in market prices. The major components of market risks are interest rate risk, foreign currency risk, other price risks viz. equity shares, etc. Financial instrument affected by market risk include deposits and FVTOCI investments.

##### **i. Interest Rate Risk:**

The Corporation is exposed to interest rate risk from the possibility that changes in interest rate will affect future cash flows of a financial instrument. Corporation currently has investment in Bank and Financial Institutions, which expose it primarily to the financial risks of changes in interest rates.

##### **ii. Foreign Currency Risk:**

The Corporation's primary functional currency is NPR but the Corporation has few transactions denominated in foreign currencies so far therefore Corporation is exposed to risk related to foreign currency rate fluctuation which may change the fair value or future cash flows of such items.

##### **iii. Equity Price Risk:**

The Corporation's investments in listed equity securities are susceptible to market price risk arising from uncertainties about future values of the investment securities.

##### **b. Credit risk management**

Credit risk refers to the risk that counterparty will default on its contractual obligation resulting in financial loss to the Corporation. Outstanding receivables are regularly monitored and any indications for its impairment is analyzed at the end of the reporting period.

##### **c. Liquidity risk management**

Ultimate responsibility for liquidity risk management rests with the management of the Corporation who have established an appropriate liquidity risk management framework for the management of the Corporation's short term, medium term and long term funding and liquidity management requirements.

#### **2.4.19. Foreign currency transactions**

Foreign currency transactions are accounted at exchange rates prevailing on the date of the transactions. All foreign currency monetary assets and liabilities, if any, as at the date of Statement of Financial Position are restated at the applicable exchange rates prevailing on that date. Exchange differences arising on the retranslation of unsettled monetary assets and liabilities are recognised immediately in profit or loss, except for foreign currency borrowings qualifying as a hedge of a net investment in a foreign operation, in which case exchange differences are recognised in other comprehensive income and accumulated in the foreign exchange reserve along with the exchange differences arising on the retranslation of the foreign operation.



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### 2.4.20. Taxation

#### Income Tax:

Income tax on the profit or loss for the year comprises current taxes and deferred taxes. Income tax is recognized in the Statement of Profit or Loss except to the extent that it relates to items recognized directly to equity.

#### Current tax:

Current tax is the expected tax payable on the taxable income for the year using tax rates at the date of Statement of Financial Position and any adjustment to tax payable in respect of previous years.

**Income tax rates applicable to Corporation: 25%**

#### Deferred tax:

Deferred tax is provided using balance sheet approach on temporary differences at the reporting date as difference between the tax base and the carrying amount of assets and liabilities. Deferred tax asset is recognized subject to the probability that taxable profit will be available against which the temporary differences can be reversed. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date. Deferred tax relating to items recognized outside profit or loss is recognized outside profit or loss (either in other comprehensive income or in equity). Deferred tax assets and deferred tax liabilities are set off if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

### 2.4.21. Administrative Expenses:

Expenses having reasonable certainty is to be recognized on accrual basis and those which are incidental or are not reasonably certain are recognized as and when incurred.

### 2.4.22. Price Stabilization Fund:

As per the notice issued on part 64 of Nepal Gazette published on 2071, Chaitra 23 under the head Ministry of Commerce and Supplies, 0.5% of amount of retail price of all kind of petroleum products and gas shall be deposited under Price Stabilization Fund (PSF) as specified in clause C of rule 3 of Petroleum and Gas Price Stabilization Fund (Regulations, 2071). Also, as per the notice published in Nepal Gazette on 2074, Jestha 29, 1% of amount of retail selling price of petroleum product and gas shall be deposited in PSF.

Financial Year	Amount
2071/72	2,818,389,237.95
2072/73	485,159,406.00
2073/74	830,121,468.12
2074/75	1,959,423,895.76
2075/76	2,466,992,360.50
2076/77	2,057,452,938.99
2077/78	2,324,457,054.63
Total cumulative Interest income related to PSF balance	1,54,79,36,226.12
<b>Total</b>	<b>14,48,99,32,588.07</b>

Total NPR 14,48,99,32,588.07 amount accumulated for PSF up to the end of FY 2077/78.

Out of it NPR 4,69,49,54,774.16 is still pending to be deposited into PSF account, other remaining balances are already deposited into various commercial bank accounts.

### 2.4.23. Dividend

Dividend declared and paid to Government of Nepal during FY 2077/78 is Nil (FY 2076/77 NPR 2,000,000,000)



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### 2.4.24. Employee bonus:

Employee bonus provision has been apportioned at the rate of 1% amounting to **NPR 3,473,299,338**  
Bonus provision has been duly tabulated below:

S.N	Fiscal Year	Amount (NPR)
1	2065 - 66	198,846,132.10
2	2071 - 72	902,528,270.20
3	2072 - 73	1,261,761,721.10
4	2073 - 74	771,213,051.50
5	2074 - 75	47,963,845.18
6	2075 - 76	116,717,177.60
7	2076 - 77	174,269,141
8	2077-78	Nil
Total		3,473,299,338

The bonus has not been distributed due to letter dated 2070.08.24 with Reference No. 2070/71/357 from the Finance Ministry directing not to distribute the bonus till the wholly owned government organization's retained earnings is in positive balance along with other letter dated 2072.12.08 with Reference No. 2072/73/331 and 2073.03.21 with Reference No. 2072/73/473.


Provision for bonus has not been made as corporation is in loss during the FY 2077.78.

### 2.4.25. Prior period items:

Prior period items are income or expenses which arise in the current period as a result of errors or omissions in the preparation of the financial statements of one or more prior periods are prior period items. Effects of prior period expenses and income are adjusted against general reserve.

### 2.4.26. Events Occurring after Balance Sheet Date:

Events which occur between the balance sheet date and the date on which the financial statements are approved, may indicate the need for adjustments to assets and liabilities as at the balance sheet date or may require disclosure. Events providing further evidence of conditions that existed at the reporting date are adjusting events and result in adjustment to the financial statements. Whereas events indicative of a condition that arose after the end of the reporting period and do not result in adjustment to the financial statements are non-adjusting events.

*for date*  
*Kyomgy*  
*Ang*  
*K. S. Khan*  
*Shree*  
  
  
  
*A. S. Khan*  
*n. S. Khan*



## 29. OTHER EXPLANATORY NOTES

### 29.1. Related Party Disclosures

#### a) Management Committee:

The constitution of management committee is based on designation hence the constitution keeps on varying depending upon change in official position of such designation. All key management personals receive sitting fee for attended meetings (NPR 4,000 per meeting) and monthly communication allowance. Apart from above, no other benefits are provided to the management personnel this year. Also total management committee meeting expense amounted to NPR 1,546,582.91.

Management committee comprises of members as follows:

S. No.	Name of the person	Relation with NOC
1	Surendra Kumar Poudel	Managing Director
2	Er. Sushil Bhattarai	Deputy Managing Director Marketing
3	CA Nagendra Sah	For Deputy Managing Director Finance/Administration
4	Er. Birendra Goit	Director Internal Control & Monitoring Department
5	Er. Karuna Chhetri	Director Quality Control & Monitoring Department
6	Er. Deepak Baral	Director Supply & Distribution Department
7	Netra Prasad Kafle	Acting Director LPG & Aviation Department
8	Purna Prasad Rijal	Planning Administration & Human Resource Development Department
9	Mrs. Sushama Kumari Karna	Acting Director, Finance Department
10	Er. Binitmani Upadhyay	Deputy Director/Assistant Spokesperson
11	Mr. Puskar Karki	Deputy Director/Assistant Spokesperson

- b) Details of remuneration to Chief Executive Officer
- c) Short term benefits – NPR 1,672,929.35 (including salary, allowances and provident fund)
- d) Termination benefits - Not provided
- e) Other long term benefits - Not provided
- f) Retirement benefits - Not provided
- g) Share based payments - Not provided

#### Additional information:

- a) On the date of finalization of this report there are eleven employees involved in top management of the Corporations.
- b) The main management employees are receiving the facilities as provided by Employees Facilities Regulations.
- c) During the FY 77/78, the Corporations has paid total insurance premium of **NPR 112,323,659.07** (FY 2076/77 NPR 133,962,204.40) to Rastriya Beema Company Limited against insurance of vehicles, stocks, transits, assets, employees accident, third party insurance and air oil refueling etc.
- d) The Corporation has active bank accounts in Nepal Bank Ltd., Rastriya Banijya Bank Ltd. & Agricultural Development Bank Ltd. and almost every other A commercial banks.



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- e) During the FY 77/78, the Corporation has paid **NPR 17,894,180.96** (FY2076/77 NPR 43,825,837.30) Nepal Civil Aviation Authority for using its land for the purpose of selling and distribution of air oil.
- f) During the FY 77/78, the Corporation has paid insurance premium of **NPR 86,579,476.73** (FY 2076/77 NPR 76,759,439.77) to Rastriya Beema Company Limited against group life insurance policy.

### 29.2. Payable to Indian Oil Corporation

The corporation shows amount of NPR. 3,57,96,01,195.40 as payable to Indian Oil Corporation under other payable in the note 21 Other Liabilities as claim made by IOC for the up gradation in the quality of Petrol and Diesel from BS 4 to BS6 from the 1<sup>st</sup> April, 2020. IOC's claim was communicated to NOC on account of capital expenditure (CapEX) that IOC had incurred in the up gradation of their petroleum refineries to produce higher grade Petrol and Diesel i.e; Euro 4 to Euro 6. However the corporation has been continuously disputing the claim from beginning by IOC for additional cost charge.

Appropriate justification was not obtained by NOC in line with the supply agreement for increasing the costs as NOC has been maintaining the stand that there is no provision to consider such cost related to refinery up gradation. NOC has been buying processed/refined Petrol and Diesel from IOC based on the refined spot price postings made by PLATTS/ARGUS agencies.

Pricing principles in the agreement are related to the Depots and Terminals which are involved in NOC supply but not the refineries. As per the agreement IOC can recover fixed and variable cost under the heading of marketing cost involved in NOC supply but not the refineries. Any cost related to the handling of the up gradation product can only be considered as per the spirit of supply agreement signed in 2017. Thus, after various discussions, IOC was ready to waive their claim made under the CapEX cost and requested NOC to consider the pricing of products as outlined in the agreement.

This issue has been communicated at higher authority of bilateral cooperation between India and Nepal named as Joint Working Group (JWG) on oil and gas on 13<sup>th</sup> August, 2020. The JWG meeting decided and instructed IOC – NOC higher level Apex body to resolve the issue and inform the JWG accordingly. IOC-NOC 's Apex body held meeting in India on 15<sup>th</sup> December, 2021 and agreed to consider additional marketing cost of INR. 50 per KL on Petrol and Diesel.

### 29.3. Contingent Liabilities

The Corporation is involved in various taxes and other disputes for which final outcomes cannot be easily predicted and which could potentially result in significant liabilities. Such cases are listed below:

- a) The Corporation has been involved in disputed tax related litigations with the Revenue Tribunal for amount payable to Large Tax Payers (LTP) Office amounting to NPR 6,363,920.00.
- b) The Corporation has deposited an amount NPR 18,500,000.00 as guarantee for procurement related to petroleum pipeline project in favor of Department of Custom.
- c) The Corporation has deposited amount of NPR 253,590,815.33 for issue of letter of credit for purchasing refueller in the favor of vendor.
- d) The Corporation has been involved in disputed claim liability from Everest Gas Udhog amounting to NPR. 21,989,227 relating to the compensation for publishing the notice regarding building of Gas Bullet except for the explosive license to be obtained from IOC on which IOC later denied the final approval. The case has been already lost at district court Kathmandu and appeal has been filed at appellate court Patan, Lalitpur.
- e) The Corporation has been claimed for the compensation of NPR 112,118,886 from Nepal Electricity Authority (NEA) for mixing of water in furnish oil. The case was decided in favor of Corporation at Honorable High Court but NEA has again filed the case at Honorable Supreme Court.



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- f) The Corporation has been continuously dealing with the litigation from Mr. Rana Bahadur Shah for land of kitta number 190 owned by Corporation located at Baneshwor-30 with area of 3-4-3-1 (Ropani-Aana-Paisa-Daam) acquired from Nepal Aushadhi Ltd. on 2065/02/03 which was previously encroached by Nepal Aushadhi Ltd. on 2032/10/19 for the purpose of building setup for production and supply line of medicines but did not used the land for the defined purpose of encroachment.

### 29.4. Prior Period Adjustment

The Corporation has de-recognized the investment in Nepal Bitumen & Barrel Udyog at cost amounting to NPR 6,605,800 during the year through general reserves and adjusted the amount with the amount payable to Government of Nepal relating to payables of oil imported from China Government during the period of blockade at Indian borders.

### 29.5. Contribution to Staff Welfare Fund

As per the decision of board dated 2057/10/13, the amount equivalent to interest received on plan assets for gratuity maintained at Citizen Investment Trust (CIT) should be additionally transferred to staff welfare fund. Accordingly, the interest amount of NPR. 30,773,458 received for the FY 2077-78 at CIT will be transferred to the specified fund now reported as Other Liability at Note 20.

### 29.6. Actuarial Assumptions

The principal assumptions used for reporting period are summarized in the table below. The assumptions as at the balance sheet date are used to determine the defined benefit obligation & employee benefit expense.

Financial Assumptions	
Discount Rate	8.00%
Salary Escalation Rate	For Officer Level – 10% and Non-Officer Level – 12%
Expected Return on Assets	8.00%
Demographic	
Mortality Table *	Nepali Assured Lives Mortality - 2009
Withdrawal Rate	0.35%
Retirement Age	58 Years

\* Mortality Rates: Representative mortality rates from Nepali Assured Lives Mortality (2009) are given in the table below:

Timing Related Assumptions		Age	Rate
Time of Retirement	Immediately on achieving normal retirement	20	0.00103
		30	0.00122
Salary Increase frequency	Once a year	40	0.00220
		50	0.00572
		60	0.01438

### Bases of Assumptions

#### Discount Rate

As per para 83 of NAS 19, the rate used to discount other long term employee benefit obligation (both funded and unfunded) shall be determined by reference to market yield at the Balance Sheet Date on high quality corporate bonds. In countries where there is no deep market in such bonds the market yields (at the Balance Sheet Date) on government bonds shall be used. The currency and term of the corporate bond or government bond shall be consistent with currency and estimated term of the post-employment benefit obligation.



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- **Expected Rate of Return on Assets**

It is the average long term rate of return expected on investments of the Trust Fund.

- **Salary Escalation Rate**

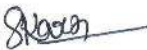
This is Management's estimate of the increases in the salaries of the employees over the long term. Estimated future salary increases should take account of inflation, seniority, promotion and other relevant factors such as supply and demand in the employment market.

- **Withdrawal Rate**

This is Management's estimate of the level of attrition in the company over the long term. Estimated withdrawal rates should take into account the broad economic outlook, type of sector the company operates in and measures taken by the management to retain/relieve the employees.

- **Mortality Rate**

Nepali Assured Lives Mortality (2009) as issued by Beema Samti, Nepal has been used for the actuarial valuation purpose.



Sushama Kumari Karna  
Acting Director  
Finance Department



Nagendra Sah  
Acting Deputy  
Managing Director



Sushil Bhattarai  
Dy. Managing Director



Madhumas Kobid Pun  
Invited BOD Member



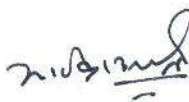
Prem Kumar Shrestha  
BOD Member



Dinanath Mishra  
BOD Member



Dr. Arjun Kumar Khadka  
BOD Member



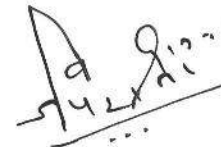
Radhika Aryal  
BOD Member  
(Invited)



Dinesh Bhattarai  
BOD Chairman



Binay Prakash Shrestha  
K.A.S. Associates  
Chartered Accountants



Bijaya Raj Ghimire  
G & G Associates  
Chartered Accountants

Date: Poush 29, 2078  
Place: Kathmandu

