

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

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

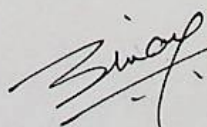
**Qualified Opinion**

We have audited the financial statements of Nepal Oil Corporation Limited (the 'Company'), Kathmandu which comprise the Statement of Financial Position as at Ashadh 32, 2079, 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.

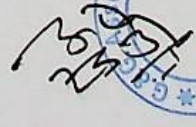
In our opinion, except for the effects of the matter described in the "Basis for Qualified Opinion" section of our report, the accompanying financial statements present fairly, in all material respects, the financial position of the company as at Ashadh 32, 2079 and its financial performance and its cash flows for the year then ended in accordance with Nepal Financial Reporting Standards (NFRSs).

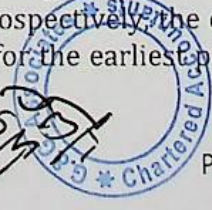
**Basis for Qualified Opinion**

- a) As presented in Notes 13, there is unreconciled inter branch net debit balance of Rs 11,950,327 /-. The impact of such unreconciled balance due to pending reconciliation is not determinable.
- b) 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.
- c) As per para 20 of NAS 20, Accounting for Government Grants and Disclosure of Government Assurances, A government grant that becomes receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the entity with no future related costs shall be recognised in profit or loss of the period in which it becomes receivable. As discussed in note 29.6 of the Notes of financial statement, the company has not recognized grant having reasonable assurance that the grant will be received amounting Rs 595,760,000/- in financial statement. As a result of which, revenue and asset has been understated by said amount.
- d) As per para 10A of NAS 20, Accounting for Government Grants and Disclosure of Government Assurances, the benefit of a government loan at a below-market rate of interest is treated as a government grant. The loan shall be recognised and measured in accordance with NFRS 9 Financial Instrument. As stated in note 29.6 of the Notes of financial statement, the company has utilized Rs 10,250,000,000/- as interest free borrowings from Price Stabilization Fund. However, the amount is shown at the proceeds received as liability aggregated with additional amount held in fiduciary capacity from PSF.
- e) As per para 22 of NAS 8, Accounting Policies, Changes in Accounting Estimates and Errors, when a change in accounting policy is required to be applied retrospectively, the entity shall adjust the opening balance of each affected component of equity for the earliest prior period









presented and the other comparative amounts disclosed for each prior period presented as if the new accounting policy had always been applied. As discussed in note 29.6 of the Notes of financial statement, the company has adopted to change the policy of valuation of inventory from First In First Out method to weighted average cost method. However, the change in accounting policy is not applied retrospectively. The impact of inability to apply effect of change in accounting policy retrospectively is not ascertainable.

- f) As per para 97 of NAS 38 "Intangible Assets", The depreciable amount of an intangible asset with a finite useful life shall be allocated on a systematic basis over its useful life. Amortisation shall begin when the asset is available for use, ie when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. Rs 205,819,515/- related to ERP has been recognized as capital WIP in note 5 of financial statement. As discussed in note 2.4.4 of the Notes of the financial statement, the company has adopted the policy to amortize Intangible Assets in 5 years. However, the company has not amortized cost of ERP. As a result of which expense has been understated and Assets has been overstated by Rs 41,163,903/-.
- g) 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.
- h) The company has implemented new ERP system for accounting and operation since the beginning of financial year. The preparation of financial statement is highly dependent on various reports generated by IT system of the company. However, there are differences in report generated by default trial balance report and customized query report like difference in sales report as per trial balance, bill wise sales report and VAT return, value of inventory as per inventory audit report and trial balance. There are unreconciled differences in balances of various ledgers of chart of account like Cost of goods Sold, Inventory & Clearing Account. Various adjustment entries are accounted for with manual intervention in those accounts without preserving proper audit trail. However, reconciliation ledger balances of those accounts with financial statement are yet to be prepared. The financial impact that could arise due to reconciliation is not determinable.

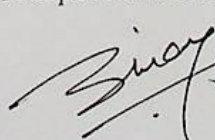

We conducted our audit in accordance with Nepal Standards on Auditing (NSAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the organisation in accordance with 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.

### 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.

We draw attention to note 2.1 of the Notes of financial statement, which describes about going concern assumption of the management during preparation of financial statement amid negative net worth of the company.

Our opinion is not modified in respect of these matters.

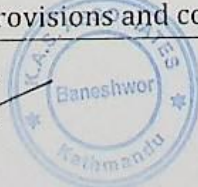
  


### Key Audit Matters

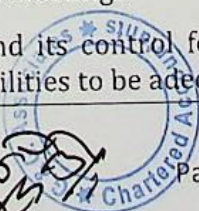
Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our audit opinion thereon, 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
<p><b>i. Property, Plant and Equipment</b></p> <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.</p> <p>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>
<p><b>ii. Provisions and Contingent Liabilities</b></p> <p>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>	<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>

*Singh*



*25/11*



## 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.

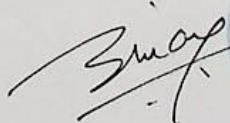

Board of Director is responsible for overseeing the company's financial reporting process.

## 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.

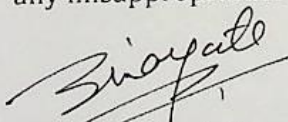
### Other Matters

We have issued separate management letter to the management and those charged with governance indicating areas where changes/improvements are required that include areas of internal control system.

### 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. Binay Prakash Shrestha  
K.A.S. Associates  
Chartered Accountants  
UDIN No. : 230113CA00116zXve3



  
CA. Anish Gyawali  
G. & G. Associates  
Chartered Accountants  
UDIN No. : 230113CA012226NrKG



Place : Kathmandu  
Date : 2079/09/28

**Nepal Oil Corporation Limited**  
Teku, Kathmandu  
**Statement of Financial Position**  
As at 32 Ashadh 2079 (16 July 2022)

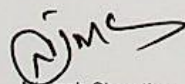
Amount in NPR

Particulars	Notes	As at 32 Ashadh 2079	As at 31 Ashadh 2078
<b>ASSETS</b>			
<b>Non- Current Assets</b>			
Property, Plant and Equipment	3	6,600,374,023	6,486,488,106
Intangible Assets	4	2,433,912	3,348,391
Capital Work-in-Progress (CWIP)	5	1,371,042,634	454,300,825
<b>Financial Assets</b>			
Investment	6	218,542,151	19,627,044,620
Loans & Advances	7	197,986,782	187,946,904
Deposits	8	98,603,236	98,091,490
Deferred Tax Assets	9	11,134,342,178	275,191,844
Other Non-Current Assets	10	158,495,594	153,587,546
		<b>19,781,820,511</b>	<b>27,285,999,726</b>
<b>Current Assets</b>			
Inventories	11	15,640,299,601	7,716,445,736
<b>Financial Assets</b>			
Trade Receivables	12	1,050,927,609	531,078,305
Cash & Cash Equivalents	13	13,786,496,300	16,448,334,145
Loans & Advances	7	3,795,248	17,143,714
Other financial assets	14	18,500,000	18,500,000
Other Current Assets	15	11,974,589,775	5,841,186,442
<b>Total Current Assets</b>		<b>42,474,608,534</b>	<b>30,572,688,342</b>
<b>Total Assets</b>		<b>62,256,429,045</b>	<b>57,858,688,069</b>
<b>LIABILITIES</b>			
<b>Equity</b>			
Share Capital	16	11,000,000,000	11,000,000,000
Other Equity	17	(17,813,700,981)	19,082,947,411
<b>Total Equity</b>		<b>(6,813,700,981)</b>	<b>30,082,947,411</b>
<b>Liabilities</b>			
<b>Non Current Liabilities</b>			
<b>Long Term Borrowing</b>			
Loan From Nepal Government (At Amortised Cost)		6,202,607,225	-
Benefit on Concessional government Loan		797,392,775	-
<b>Financial Liabilities</b>			
Dealer & Airlines Deposits	18	1,946,673,740	1,854,342,055
<b>Provisions</b>			
Provision for Defined Benefits Obligation Plan	19	679,022,710	269,959,191
Provision for Staff housing facilities		3,258,420,957	3,258,420,957
<b>Other Non Current Liabilities</b>			
Other Payables	20	110,867,924	174,300,020
<b>Total Non-Current Liabilities</b>		<b>12,994,985,331</b>	<b>5,557,022,222</b>
<b>Current Liabilities</b>			
<b>Provision</b>			
Provision for Bonus	19	3,473,299,338	3,473,299,338
<b>Other Current Liabilities</b>			
Price Stabilization Fund	20	18,296,629,564	14,489,932,588
Other Payables		34,305,215,791	4,255,486,508
<b>Total Current Liabilities</b>		<b>56,075,144,694</b>	<b>22,218,718,435</b>
<b>Total Liabilities</b>		<b>69,070,130,025</b>	<b>27,775,740,657</b>
<b>Total Equity and Liabilities</b>		<b>62,256,429,045</b>	<b>57,858,688,069</b>

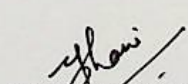
Notes forms an integral part of this Balance Sheet

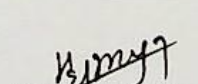
Significant Accounting Policies and Notes to Financial Statement

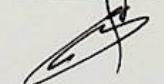
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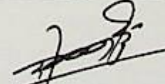
  
Nimesh Shrestha  
Acting Director  
Finance Department

  
Nagesh Sah  
Deputy  
Managing Director

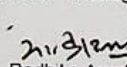
  
Umesh Prasad Thani  
Managing Director

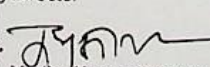
  
Madhuras Kovid Pun  
Invited BOD Member

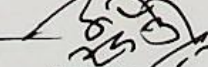
  
Mahesh Bhattarai  
BOD Member

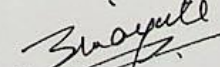
  
Dirja Nath Mishra  
BOD Member

  
Anand Kafle  
BOD Member

  
Radhika Aryal  
BOD Member

  
Madhu Kumar Marasini  
BOD Chairman

  
Anish Gyawali  
G & G Associates  
Chartered Accountants

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

Date: Poush 28, 2079  
Place: Kathmandu



**Statement of Profit or Loss**

For the year ended 32 Ashadh 2079 (16 July 2022)

Amount in NPR

Particular	Notes	Current Year	Previous Year
Revenue from operations	21	342,621,527,149	232,445,705,463
Cost of Goods Sold	22	383,300,802,228	227,384,765,378
<b>Gross Profit</b>		<b>(40,679,275,079)</b>	<b>5,060,940,085</b>
Other Income	23	498,225,218	1,798,050,090
Selling and Distribution Expenses	24	61,760,003	200,558,187
Administrative Expenses	25	1,607,076,361	1,556,626,133
Depreciation and Amortization Expenses	3,4	150,191,689	93,352,390
Pollution Control Expenses		3,688,310,407	3,330,974,239
Corporate Social Responsibility Expenses		23,284,612	58,525,424
Price Stabilization Fund Expenses		3,426,215,260	2,324,457,055
Foreign Exchange Gain / (Loss)		184,512,617	(114,731,092)
<b>Profit from Operations</b>		<b>(48,953,375,576)</b>	<b>(590,772,159)</b>
Finance Costs		-	-
Provision for Bonus		-	-
Less: Provision for Staff Housing Facilities		-	-
<b>Profit Before Tax</b>		<b>(48,953,375,576)</b>	<b>(590,772,159)</b>
Income Tax Expense		-	-
Deferred Tax Income / (Expense)		10,775,598,783	160,545,005
<b>Net Profit/ (loss) after tax</b>		<b>(38,177,776,792)</b>	<b>(430,227,154)</b>

Notes forms an integral part of this Statement of Profit or Loss

Significant Accounting Policies and Notes to Financial Statement

1 - 29

As per our report of even date

Nimesh Shrestha  
Acting Director  
Finance Department

Nagendra Sah  
Deputy  
Managing Director

Umesh Prasad Thani  
Managing Director

Madhumas Kovid Pun  
Invited BOD Member

Mahesh Bhattarai  
BOD Member

Dina Nath Mishra  
BOD Member

Ananda Kafle  
BOD Member

Radhika Aryal  
BOD Member

Madhu Kumar Marasini  
BOD Chairman

Anish Gyawali  
G & G Associates  
Chartered Accountants

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

Date: Poush 28, 2079  
Place: Kathmandu



Nepal Oil Corporation  
Teku, Kathmandu

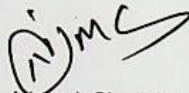
Statement of other comprehensive income  
For the year ended 32 Ashadh 2079 (16 July 2022)

Particular	Notes	Amount in NPR	
		Current Year	Previous Year
Net Profit/ (loss) after tax		(38,177,776,792)	(430,227,154)
<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		(334,124,693)	572,839,326
Tax relating to non-recycleable components of other comprehensive income		83,531,173	(143,209,832)
<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		(81,512)	4,728,380
Share of Associates's other comprehensive income			
Tax relating to recycleable components of other comprehensive income		20,378	(1,182,095)
<b>Total Other Comprehensive Income (OCI) net of tax</b>		<b>(250,654,654)</b>	<b>433,175,779</b>
<b>TOTAL Comprehensive Income</b>		<b>(38,177,776,792)</b>	<b>2,948,625</b>

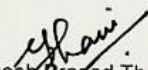
Notes forms an integral part of this Statement of other comprehensive income

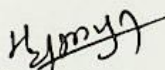
Significant Accounting Policies and Notes to Financial Statement

1 - 29


  
Nimesh Shrestha  
Acting Director  
Finance Department


  
Nagendra Sah  
Deputy  
Managing Director

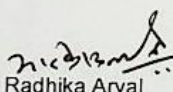
  
Umesh Prasad Thani  
Managing Director

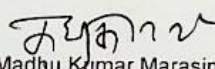
  
Madhumas Kovid Pun  
Invited BOD Member

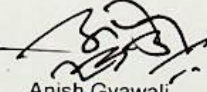
  
Mahesh Bhattarai  
BOD Member

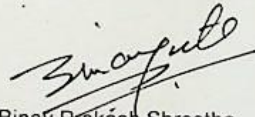
  
Dina Nath Mishra  
BOD Member

  
Ananda Kafle  
BOD Member

  
Radhika Aryal  
BOD Member

  
Madhu Kumar Marasini  
BOD Chairman

  
Anish Gyawali  
G & G Associates  
Chartered Accountants

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

Date: Poush 28, 2079  
Place: Kathmandu



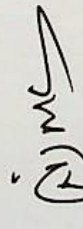
**Nepal Oil Corporation Limited**  
Teku, Kathmandu


**Statement of Changes in Equity**  
For the year ended 32 Ashadh 2079 (16 July 2022)


Amount in NPR

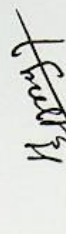
Particular	Shares Capital	Other Equity			Total Equity
		Retained Earning	Other Comprehensive Income	Other Equity (Sub Total)	
<b>Balance at 1 Shrawan 2077</b>	11,000,000,000	21,280,065,520	(8,244,759)	21,271,820,761	32,271,820,761
Prior period adjustment	-	5,305,803	-	5,305,803	5,305,803
Profit/(loss) 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
Dividend distribution	-	(2,200,000,000)	-	(2,200,000,000)	(2,200,000,000)
<b>Balance at 31 Ashadh 2078</b>	11,000,000,000	18,655,144,169	424,931,021	19,082,947,411	30,082,947,411
Prior period adjustment	-	1,531,783,054	-	1,531,783,054	1,531,783,054
Profit/(loss) for the year	-	(38,177,776,792)	-	(38,177,776,792)	(38,177,776,792)
Tax Adjustment of Previous FY	-	-	-	-	-
Other Comprehensive Income	-	-	(250,654,654)	(250,654,654)	(250,654,654)
Dividend distribution	-	-	-	-	-
<b>Balance at 32 Ashadh 2079</b>	11,000,000,000	(17,990,849,569)	174,276,367	(17,813,700,982)	(6,813,700,982)


As per our report of even date

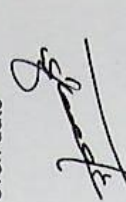
  
Nimesh Shrestha  
Acting Director  
Finance Department

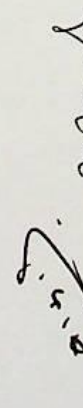
  
Nagendra Sah  
Deputy  
Managing Director

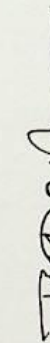
  
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Managing Director

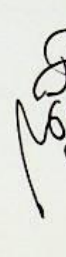
  
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Invited BOD Member

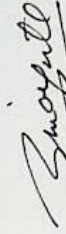
  
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K.A.S. Associates  
Chartered Accountants

Date: Poush 28, 2079  
Place: Kathmandu

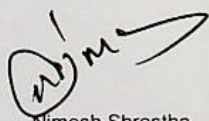


**Statement of Cash Flow**  
For the year ended 32 Ashadh 2079 (16 July 2022)

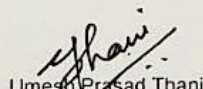
Amount in NPR

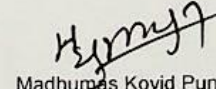
Particulars	Current Year	Previous Year
<b>A. Cash Flow from Operating Activities</b>		
Profit After Tax	(48,953,375,576)	(590,772,159)
<b>Adjustments for:</b>		
Depreciation and Amortization	150,191,689	93,352,390
Previous year expenses adjustment	(1,652,767)	5,305,803
Previous year income adjustment	1,533,435,821	-
Provision for Income tax	-	-
Additional Provision as per actuarial valuation	(25,838,417)	250,093,295
Receipt of Dealer deposit	92,331,686	38,355,319
Payment to refundable deposit	(511,746)	(8,703,917)
Payment of Other Liabilities	(63,432,096)	6,635,681
Net Disbursement of staff loan	(12,076,706)	(59,934,919)
Interest income (Concessional Loan - NFRS Adjustment)	(12,105,591)	(9,766,797)
Employee Benefit Cost (Concessional loan - NFRS Adjustment)	9,234,371	7,593,517
Actual contribution to CIT (Gratuity, Leave and Medical)	(18,019,468)	(147,051,430)
<b>Operating Profit before Working Capital Changes</b>	<b>(47,301,818,801)</b>	<b>(414,893,217)</b>
<b>Change in Working Capital (excluding Cash &amp; Cash Equivalents):</b>		
(Increase) / Decrease in Current Assets	(14,498,282,287)	(346,231,524)
Increase / (Decrease) in Current Liability	30,168,525,994	(5,407,135,908)
<b>Changes in Working Capital</b>	<b>15,670,243,707</b>	<b>(5,753,367,432)</b>
<b>Cash Generated From Operations</b>		
Less: Taxes Paid	(65,475,749)	(1,751,059,373)
<b>Net Cash Flow From Operating Activities</b>	<b>(31,697,050,844)</b>	<b>(7,919,320,022)</b>
<b>B. Cash Flow from Investing Activities:</b>		
Purchase of Property, Plant and Equipment	(263,163,126)	(721,566,755)
Expenditure on Construction Work In Progress	(916,741,809)	(418,471,358)
Investment in FD	19,408,420,957	7,650,000,000
<b>Net Cash Generated / (Used) in Investing Activities:</b>	<b>18,228,516,021</b>	<b>6,509,961,887</b>
<b>C. Net Cash Flow From Financing Activities:</b>		
Increase in share capital	-	-
Increase in borrowing	7,000,000,000	-
Price stabilisation fund	3,806,696,976	2,916,758,682
Dividend / Dividend Tax Paid	-	(2,200,000,000)
<b>Net Cash Generated / (Used) from Financing Activities:</b>	<b>10,806,696,976</b>	<b>716,758,682</b>
<b>D. Net Change in Cash &amp; Cash Equivalents (A+B+C)</b>	<b>(2,661,837,846)</b>	<b>(692,599,454)</b>
<b>Cash &amp; Cash Equivalents as at the beginning of year</b>	<b>16,448,334,145</b>	<b>17,140,933,599</b>
<b>Cash &amp; Cash Equivalents as at the end of year</b>	<b>13,786,496,300</b>	<b>16,448,334,145</b>

As per our report of even date

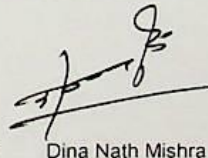
  
Nimesh Shrestha  
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Finance Department

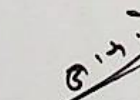
  
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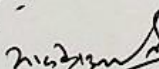
  
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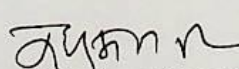
  
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Mahesh Bhattarai  
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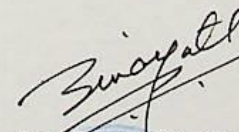
  
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K.A.S. Associates  
Chartered Accountants

Date: Poush 28, 2079  
Place: Kathmandu



Nepal Oil Corporation  
Teku, Kathmandu  
Notes to Financial Statement

Amount in NPR

3 Property, Plant and Equipment

	Land	Office Building	Plant & Machinery	Vehicle	Furniture and fixture	Office Equipment	Total
<b>At Cost</b>							
Balance as at 01 Shrawan 2077	5,340,820,944	483,543,915	531,008,844	381,047,325	54,248,992	243,727,072	7,034,397,093
Addition during the year	-	290,383,370	76,101,319	258,011,937	12,777,063	84,072,067	721,345,755
Disposal during the year				4,014,355			4,014,355
Balance as at 31 Ashad 2078	5,340,820,944	773,927,284	607,110,163	635,044,907	67,026,055	327,799,139	7,751,728,492
Addition during the year		100,065,800	51,133,072	27,148,154	8,108,747	76,707,354	263,163,126
Disposal during the year							
Balance as at 32 Ashad 2079	5,340,820,944	873,993,084	658,243,235	662,193,060	75,134,802	404,506,493	8,014,891,619
<b>Accumulated Depreciation</b>							
Balance as at 01 Shrawan 2077	-	217,070,499	483,056,926	289,344,004	25,804,531	161,519,904	1,176,795,864
Addition for the year		25,453,710	8,223,344	24,126,266	3,752,386	30,903,171	92,458,878
Depreciation on Disposal				4,014,355			4,014,355
Balance as at 31 Ashad 2078	-	242,524,210	491,280,270	309,455,914	29,556,917	192,423,075	1,265,240,386
Addition for the year		34,834,746	11,791,274	50,543,800	5,271,652	46,835,739	149,277,210
Depreciation on Disposal							
Balance as at 32 Ashad 2079	-	277,358,956	503,071,544	359,999,714	34,828,569	239,258,814	1,414,517,597
<b>Net Book Value on 31 Ashad 2078</b>	5,340,820,944	531,403,075	115,829,893	325,588,993	37,469,138	135,376,064	6,486,488,106
<b>Net Book Value on 32 Ashad 2079</b>	5,340,820,944	596,634,128	155,171,691	302,193,346	40,306,234	165,247,679	6,600,374,023

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Nepal Oil Corporation  
 Teku, Kathmandu  
Notes to Financial Statement

4 Intangible assets

Amount in NPR

	Total
<b>At Cost</b>	
Balance as at 01 Shrawan 2078	4,835,137
Addition during the year	-
Disposal during the year	-
Balance as at 32 Ashad 2079	4,835,137
<b>Accumulated Amortization</b>	
Balance as at 01 Shrawan 2078	1,486,746
Addition for the year	914,479
Amortization on Disposal	-
Balance as at 32 Ashad 2079	2,401,224
Net Book Value on 31 Ashad 2078	3,348,391
Net Book Value on 32 Ashad 2079	2,433,912

*(Handwritten signatures and initials)*



Notes to Financial Statement

5 Capital Work-in-Progress

	As at 32 Ashadh 2079	As at 31 Ashadh 2078
Province 1- Biratnagar Office	1,540,000	1,540,000
Branch Office- Charali	1,790,924	1,790,924
Corporate Building Project	61,943,676	
Pipeline Project	10,887,608	-
AFS Pokhara Project	783,802,779	163,441,100
Lumbini Province - Bhalbari Office	82,161,944	25,777,184
Fuel Depot- Nepalgunj	4,205,158	-
Province 2- Amlekhgunj Office	33,243,875	13,896,043
Gandaki Province Office- Pokhara	72,500	4,341,314
Bagmati Province Office- Thankot	41,295,326	27,931,192
Head Office	350,098,845	215,583,068
<b>Total</b>	<b>1,371,042,634</b>	<b>454,300,825</b>

6 Investment

	As at 32 Ashadh 2079	As at 31 Ashadh 2078
<b>Investment on Listed shares</b>		
Gorakhkali Rubber Udyog (206000 shares)	-	-
Nepal Lube Oil Limited (43136 shares)	13,842,401	13,630,976
Nepal Bitumen & Barrel Udyog	-	-
<b>Investment on Unlisted shares</b>		
Sajha Pasal Sewa (10000 shares)	4,699,750	4,992,687
Arthik Sewa Kendra (3000 shares)	-	-
	<b>18,542,151</b>	<b>18,623,663</b>
<b>Other investment</b>		
Fixed Deposit	-	7,070,000,000
Fixed Deposit - Price Stabilization Fund	200,000,000	9,280,000,000
Fixed Deposit - Staff housing facilities	-	3,258,420,957
<b>Total</b>	<b>218,542,151</b>	<b>19,627,044,620</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.

*(Handwritten signatures and initials)*



Notes to Financial Statement

7 Loans & Advances

	As at 32 Ashadh 2079	As at 31 Ashadh 2078
<b>Current Portion</b>		
Employee Advance	3,795,248	17,143,714
<b>Non Current Portion</b>		
Employee Loan at amortized cost (NFRS)	197,986,782	187,946,904
<b>Total</b>	<b>201,782,031</b>	<b>205,090,618</b>

8 Deposits

	As at 32 Ashadh 2079	As at 31 Ashadh 2078
Refundable Deposit	98,603,236	98,091,490
<b>Total</b>	<b>98,603,236</b>	<b>98,091,490</b>

9 Deferred Tax

	As at 32 Ashadh 2079	As at 31 Ashadh 2078
Deferred Tax Assets	11,134,342,178	275,191,844
<b>Total</b>	<b>11,134,342,178</b>	<b>275,191,844</b>

10 Other Non Current Assets

	As at 32 Ashadh 2079	As at 31 Ashadh 2078
Prepayment Assets of Concessional Loan	158,495,594	153,587,546
<b>Total</b>	<b>158,495,594</b>	<b>153,587,546</b>

11 Inventories

	As at 32 Ashadh 2079	As at 31 Ashadh 2078
Store, spares parts and Stationary etc.	181,019,041	113,155,947
<b>Petroleum stock</b>		
Stock in depo	7,988,421,991	4,930,127,121
Stock in transit	7,470,858,569	2,673,162,668
<b>Total</b>	<b>15,640,299,601</b>	<b>7,716,445,736</b>

12 Trade Receivable

	As at 32 Ashadh 2079	As at 31 Ashadh 2078
Secured debtor	1,077,511,164	567,830,674
Unsecured debtor	-	583,444
Less: Provision for doubtful debt	38,533,882	38,533,882
	<b>1,038,977,283</b>	<b>529,880,237</b>
Branch Balance	11,950,327	1,198,068
<b>Total</b>	<b>1,050,927,609</b>	<b>531,078,305</b>

*(Handwritten signatures and initials)*



Notes to Financial Statement

13 Cash and cash equivalents

	As at 32 Ashadh 2079	As at 31 Ashadh 2078
Petty Cash	2,522,521	1,024
Cheque/Draft in transit	-	-
Cash at bank	11,620,195,388	9,384,058,478
Deposit for Price Stabilization Fund	217,104,650	5,209,932,588
Payable Deposit bank balance	1,946,673,740	1,854,342,055
<b>Total</b>	<b>13,786,496,300</b>	<b>16,448,334,145</b>

14 Other financial assets

	As at 32 Ashadh 2079	As at 31 Ashadh 2078
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 32 Ashadh 2079	As at 31 Ashadh 2078
Advance Income tax		
Income Tax Provisions	(11,975,331,535)	(11,975,331,535)
Less: Advance Income tax paid	15,916,728,386	15,851,252,636
Total Advance Income tax	3,941,396,850	3,875,921,101
VAT Receivable	6,224,317,900	1,465,995,102
Other receivable and prepayment	1,588,389,011	207,289,609
Letter of credit (Margin Money)	179,588,335	253,590,815
Prepayment	39,893,019	38,381,863
Advance custom duty	7,952	7,952
Custom, transportation and clearing	996,708	-
<b>Total</b>	<b>11,974,589,775</b>	<b>5,841,186,442</b>

Handwritten signatures and initials in various colors (black, blue, red) are present below the tables, including names like 'N/mc', 'Hymy', 'Ghar', 'S. H.', and 'N. B. B.'.



Nepal Oil Corporation  
Teku, Kathmandu

Notes to Financial Statement

16 Equity Share Capital	As at	As at
	32 Ashadh 2079	31 Ashadh 2078
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	As at
	32 Ashadh 2079	31 Ashadh 2078
General Reserves	19,082,947,411	21,271,820,761
(Less): Dividend distribution	-	(2,200,000,000)
Add: Profit/loss for the Year	(38,177,776,792)	(430,227,154)
(Less): Previous year expenses	(1,652,767)	(1,299,997)
Add: Previous year income	1,533,435,821	-
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)	(250,654,654)	433,175,779
<b>Total</b>	<b>(17,813,700,981)</b>	<b>19,082,947,411</b>

18 Dealer & Airlines Deposits	As at	As at
	32 Ashadh 2079	31 Ashadh 2078
Dealer & Airlines Deposits	1,946,673,740	1,854,342,055
<b>Total</b>	<b>1,946,673,740</b>	<b>1,854,342,055</b>

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Notes to Financial Statement

20 Other Liabilities

Non Current	As at 32 Ashadh 2079	As at 31 Ashadh 2078
Unclaimed Liabilities	48,883,283	42,738,508
Retention Money Deposit	45,475,181	-
National employee welfare fund	-	115,052,053
Interest payable	16,509,460	16,509,460
<b>Total</b>	<b>110,867,924</b>	<b>174,300,020</b>

Current	As at 32 Ashadh 2079	As at 31 Ashadh 2078
Price Establishment Fund	18,296,629,564	14,489,932,588
<b>Total</b>	<b>18,296,629,564</b>	<b>14,489,932,588</b>

<b>Other Payables</b>		
Advances from customer	220,967,068	393,187,772
Salary payable to staff	24,085,046	13,108,882
Employee provident fund deduction	91,848	333,552
Payable to Indian Oil Corporation	31,906,058,832	3,579,601,195
Employee welfare fund	28,446,565	29,162,495
Deduction for Yuva swarozgar	193	193
TDS Payable	50,113,794	5,390,968
Custom, transportation and clearing	-	39,705,391
National insurance company ltd.	-	70,614,708
Provision for Other Expenses	378,268,083	5,883,986
Payable to CIT related to salary	18,500	216,280
Clearing Account Balance	1,372,881,046	-
Expenses payable	324,284,817	118,281,085
<b>Total</b>	<b>34,305,215,791</b>	<b>4,255,486,508</b>

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Notes to Financial Statement

21 Revenue from operation	Current Year	Previous Year
Sales of petroleum products	323,131,585,599	226,455,416,475
Sales of Aviation fuel ( jet fuel)	19,489,941,549	5,990,288,988
<b>Total</b>	<b>342,621,527,149</b>	<b>232,445,705,463</b>


22 Cost of sales	Current Year	Previous Year
Petroleum product purchase	308,796,882,802	158,464,703,272
Custum duty and service fee	43,609,302,317	37,358,642,440
Transportation Expenses - Terminal	6,449,238,791	4,292,753,624
Road repairs and maintenance expenses	6,470,831,160	5,754,729,812
National Park and Wildlife Department	20,000,000	20,000,000
Insurance expenses	135,916,577	90,125,624
Infrastructure tax	24,948,635,800	22,869,669,530
<b>Total purchase cost (A)</b>	<b>390,430,807,448</b>	<b>228,850,624,302</b>
<b>Petroleum product in transit</b>		
Opening Balance	2,673,162,668	2,340,756,765
Less: closing balance*	7,470,858,569	2,673,162,668
<b>Difference in stock (B)</b>	<b>4,797,695,901</b>	<b>(332,405,903)</b>
<b>Stock of petroleum product in depot</b>		
Opening balance	4,930,127,121	3,796,674,100
Less: closing balance*	7,988,421,991	4,930,127,121
<b>Difference in stock (C )</b>	<b>3,058,294,871</b>	<b>(1,133,453,021)</b>
<b>Technical Gain/Loss (D)</b>	<b>705,985,551</b>	
<b>Total</b>	<b>383,280,802,228</b>	<b>227,384,765,378</b>

\*Note: Closing stock has been restated at net realisable value (NRV) since estimated selling price was lower than the cost of inventory as at end of reporting period. Such NRV loss recognized under cost of goods sold during the current fiscal year amounts to NPR 66,84,67,863

23 Other Income	Current Year	Previous Year
Interest income	441,630,195	1,728,012,814
Interest income (Concessional Loan - NFRS Adjustment)	12,105,591	9,766,797
Dividend income	3,020,360	-
Business income	20,988,027	11,527,306
Miscellaneous income	7,091,976	3,155,968
Rental income	13,389,069	2,797,838
Duty Drawback income form IOC	-	42,189,367
Scrap sale or Auction sale	-	600,001
<b>Total</b>	<b>498,225,218</b>	<b>1,798,050,090</b>

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Notes to Financial Statement

24 Selling and distribution expenses	Current Year	Previous Year
Transportation Expenses - Local	-	182,527,723
Fuel Throughput Expenses	61,760,003	17,894,181
Supply Facilitation Expenses	-	-
Other Selling and Distribution Expense	-	136,283
<b>Total</b>	<b>61,760,003</b>	<b>200,558,187</b>

25 Administration Expenses	Current Year	Previous Year
Salary, wages and other employee expenses	635,782,111	542,957,807
Retirement fund expenses	10,841,637	26,265,865
Employee medical expenses	28,936,106	28,690,600
Accumulated Leave	17,845,903	8,050,457
PV Defined Benefit Obligation for Gratuity	90,769,495	181,574,248
PV Defined Benefit Obligation for Medical	10,444,806	96,973,143
PV Defined Benefit Obligation for Leave	(8,256,007)	2,319,362
Employee providend fund	24,003,187	22,757,191
Employee Benefit Cost (Concessional loan - NFRS Adjustment)	9,234,371	7,593,517
Rental expenses	28,150,064	19,681,353
Repairs and maintenance	304,875,980	221,934,433
Electricity and water	28,872,021	23,713,830
Travelling expenses	39,047,906	28,756,354
Transportation or fuel	51,570,991	39,859,108
Office Operating expenses	34,566,976	21,965,192
Notice and Other Publication expenses	8,552,949	12,860,357
LPG Awareness & Safety expenses	7,505,903	8,942,806
Audit fee	970,000	970,000
Audit expenses	2,517,942	1,671,598
Consultancy and Legal Expenses	37,325,020	19,806,774
Tax and fee	16,702,797	16,889,922
Board meeting allowances	1,655,400	1,188,367
Board meeting expenses	357,851	358,216
Recruitment and meeting expenses	13,028,327	20,505,042
Bank commission expenses	437,471	442,044
Insurance fee	129,114,242	108,777,512
Communication expenses (post, telephone, telex, internet)	16,587,402	7,328,021
Printing expenses	10,420,942	14,761,143
Advertisement expenses	6,588,373	8,788,889
Training expenses	5,254,503	5,458,082
Security expenses	11,099,884	10,547,095
Books & Paper Expenses	580,722	551,096
Business Promotion and COVID-19 Related Expense	11,513,713	25,957,632
Miscellaneous expenses	11,678,056	11,169,763
VAT expenses (ITC not allowed)	-	3,967,188
Examination expenses	8,499,320	2,592,128
<b>Total</b>	<b>1,607,076,361</b>	<b>1,556,626,133</b>

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26 Fair Valuation Measurement

Particulars	Note	Carrying Value	Carrying Value	Fair Value	Fair Value	Fair Value
		As at 32 Ashadh 2079	As at 31 Ashadh 2078	As at 32 Ashadh 2079	As at 31 Ashadh 2078	Measurement hierarchy level
<b>A. Financial Assets</b>						
<b>FVTOCI Financial Instruments</b>						
Investments	7					
Quoted Equity Shares		16,883,700.00	16,883,700	13,842,401	17,720,332	Level 1
Unquoted Equity Shares		952,000.00	952,000	4,699,750	4,992,687	Level 3
<b>B. Amortised Cost</b>						
Loans and advances	8					
Employee Advance		3,795,248.38	17,143,714	3,795,248	187,946,904	Refer Notes Level 2,
Employee Loan		336,212,116.00	213,092,260	197,986,782	187,946,904	Refer Notes
Deposit						
Refundable Deposit	9	98,603,236.35	98,091,490.35	98,603,236	98,091,490	Refer Notes
Trade Receivables	13	1,050,927,609.18	531,078,304.7	1,050,927,609	531,078,305	Refer Notes
Cash & Cash Equivalents	14	13,786,496,300.04	16,448,334,145	13,786,496,300	16,448,334,145	Refer Notes
Other financial assets	15	18,500,000.00	18,500,000	18,500,000	18,500,000	Refer Notes
<b>Financial Liabilities</b>						
<b>A. Amortised Cost</b>						
Dealer & Airlines Deposits	18	1,946,673,740.36	1,854,342,055	1,946,673,740	1,854,342,055	Refer Notes
Loan from Government of Nepal		7,000,000,000.00	-	6,202,607,225	-	

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 and

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

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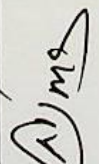

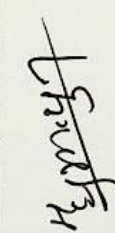


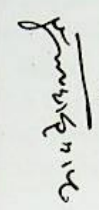
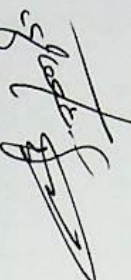
Notes to Financial Statement

Amount in NPR

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

Particulars	Opening as at 1st Shrawan 2077		CSC	Interest Cost	Act Loss/ (Gain)		Payment		Closing as at 31 Ashadh 2078 (A+B+C+D+E+F)
	(A)	(B)			OCI (D)	P & L (E)	From Employer		
							(F)	(F)	
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	0	209,704	(22,257,499)		69,161,804	
<b>Total</b>	<b>739,766,652</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>	

Particulars	Opening as at 1st Shrawan 2078		CSC	Interest Cost	Act Loss/ (Gain)		Payment		Closing as at 32 Ashadh 2079 (A+B+C+D+E+F)
	(A)	(B)			OCI (D)	P & L (E)	From Employer		
							(F)	(F)	
Gratuity	93,339,490	78,821,953	11,947,542	154,862,488	-	(12,695,636)		326,275,837	
Medical Benefit	107,457,897	740,283	9,704,523	179,262,205	-	-		297,164,908	
Leave	69,161,804	15,803,749	6,935,731	(30,995,487)	(30,995,487)	(5,323,832)		55,581,965	
<b>Total</b>	<b>269,959,191</b>	<b>95,365,985</b>	<b>28,587,796</b>	<b>334,124,693</b>	<b>(30,995,487)</b>	<b>(18,019,468)</b>		<b>679,022,710</b>	



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**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 Banijya Bank. The corporate office of the company is situated at Teku, 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, two 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).

The financial statement has been approved by Board of Directors vide 2322 meeting dated 28 Poush 2079.

**(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 NFRS 16- 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.

**Going concern assumption**

The financial statements have been prepared on a going concern basis. Though net worth of the Company is negative as at end of reporting period, management considers that going concern assumption is valid as it is government owned entity and in the period subsequent to reporting period the Company has recovered substantial amount of loss.

**(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

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Aims  
for  
G.G. Associates & Services  
Chartered Accountants  
Kathmandu



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, 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.

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**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.

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.

**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 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 initially were as follows:

Country	Project Investment Amount (INR)	% of Investment
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# Nepal Oil Corporation Limited

Teku, Kathmandu



Nepal	750,000,000	27.27
India	2,000,000,000	72.73
<b>Total</b>	<b>2,750,000,000</b>	<b>100.00</b>

The second phase of the Motihari Amlekhgunj pipeline has been initiated in the current fiscal year and NPR 1,231,777,125.00 (INR 769,500,000) has been given as advance to Indian Oil Corporation (IOC) for initiation of the project which is expected to be completed in January 2024.

## 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)
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 valuer. 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 recognised 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 recognised directly in equity if it is a gain. Upon disposal of the item, the gain is transferred to retained earnings. Any loss is recognised in the income statement.

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### 2.4.7. Leases

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

#### Assets taken on lease (As a Lessee):

The NAS-17 Leases has been replaced by NFRS -16 lease.

The Company has lease arrangements for land for parking space, staff quarter and Civil Aviation Authority of Nepal for land being used at airports.

The Company assesses whether a contract is or contains a lease at inception of the contract. The assessment involves the exercise of judgement about whether it depends on a specified asset, whether the Company contains substantially all the economic benefits from the use of that asset, and whether the Company has the right to direct the use of the asset.

The Company recognizes a right-of-use asset and a lease liability at the lease commencement date except for short term leases and low value asset leases. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful lives of right-of-use assets are determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain re-measurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company uses an incremental borrowing rate specific to the company, term and currency of the contract. Generally, the company uses its incremental borrowing rate as the discount rate.

After the commencement date, the amount of lease liabilities are increased to reflect the accretion of interest and reduced for the lease payments made and remeasured (with a corresponding adjustment to the related ROU asset) when there is a change in future lease payments in case of renegotiation, changes of an index or rate or in case of reassessment of options.

#### Short-term leases and leases of low-value assets

The company has elected not to recognize right-of-use assets and lease liabilities for short term leases as well as low value assets and recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

Since, the company has only short-term lease agreements, the Company has elected not to apply the requirement in paragraphs 22-49 of NFRS 16 - Lease and accordingly has recognized rental payment under it's short term lease as rent expense on accrual basis.

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## Nepal Oil Corporation Limited

Teku, Kathmandu

### 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 and goods in transit are valued at cost determined on Weighted average cost basis (which was determined on First in First out basis previously).

The impact of such accounting policy has not been ascertained and not provided in the financial statements.

- Stores and spare parts are valued on actual 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.

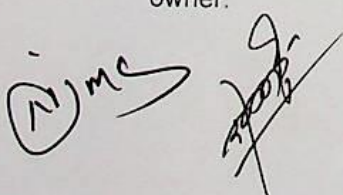
Non-current assets and disposals classified as held for sale are measured at the lower of:

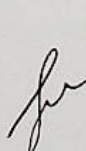
- Their carrying amount immediately prior to being classified as held for sale in accordance with the Company's accounting policy; and
- Fair value less costs to sell.

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.

### 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.





  
NEPAL OIL CORPORATION LTD.

  
G. & S. Associates  
Chartered Accountants

  
K. S. Shrestha  
Chartered Accountant

## Nepal Oil Corporation Limited

Teku, Kathmandu

### 2.4.13. Revenue Recognition

Revenue from contracts with customers is recognized on transfer of control of promised goods or services to a customer at an amount that reflects the consideration to which the Company is expected to be entitled to in exchange for those goods or services. Revenue is recognized on transfer of all significant risks and rewards of ownership to the buyer.

Revenue towards satisfaction of a performance obligation is measured at the amount of transaction price (net of variable consideration) allocated to that performance obligation. The transaction price of goods sold and services rendered is net of variable consideration on account of various discounts and schemes offered by the Company as part of the contract. This variable consideration is estimated based on the expected value of outflow. Revenue (net of variable consideration) is recognized only to the extent that it is highly probable that the amount will not be subject to significant reversal when uncertainty relating to its recognition is resolved.

**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.

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NEPAL OIL CORPORATION LTD.

G.G. Associates Chartered Accountants

Baneshwor

## Nepal Oil Corporation Limited

Teku, Kathmandu

**(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 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.

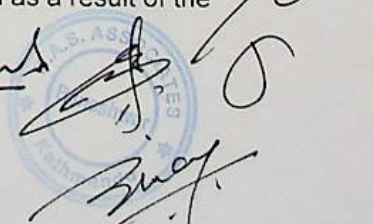

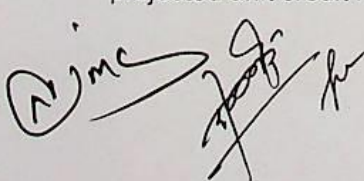
Defined benefit scheme surplus and deficit are measured at the fair value of plan assets at the reporting date; less plan liabilities calculated using the projected unit credit method discounted to its present value using yields available on high quality corporate bonds that have maturity dates approximating 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 is the 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



# Nepal Oil Corporation Limited

Teku, Kathmandu

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.

### (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.

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*(Circular stamp: G.G. Associates Chartered Accountants)*

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## Nepal Oil Corporation Limited

Teku, Kathmandu

### 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.

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.

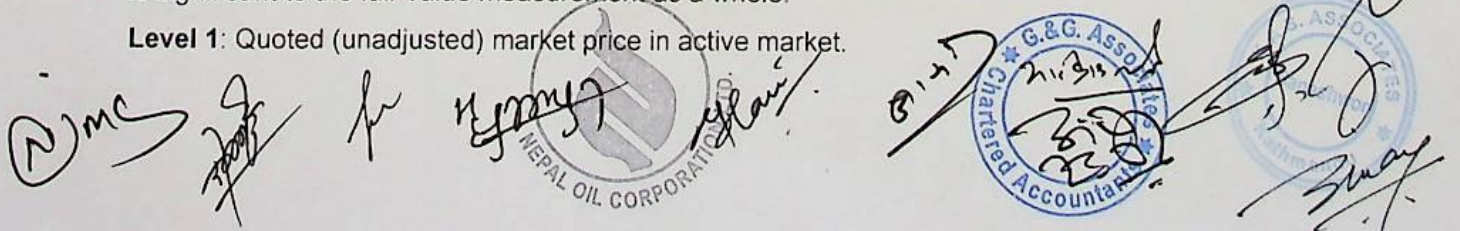
The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the assets or liability, assuming that market participants act in their economic best interest.

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.

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**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.

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:**

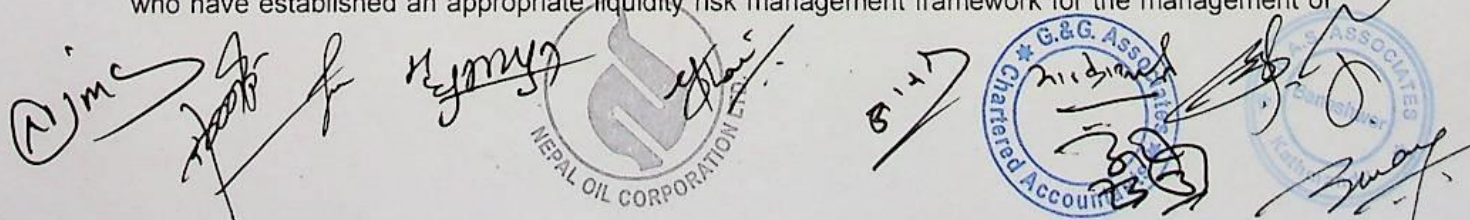
The Corporation's investments in listed equity securities are susceptible to market price risk arising from uncertainties about future values of the investment securities.

##### **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



## Nepal Oil Corporation Limited

Teku, Kathmandu

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.

### 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

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## Nepal Oil Corporation Limited

Teku, Kathmandu

2077/78	2,324,457,054.63
2078/79	3,426,215,260.12
Total cumulative Interest income related to PSF balance	1,928,417,942
<b>Total</b>	<b>18,296,629,564</b>

Out of it NPR 18,296,629,564, as per the decision of committee of Price Stabilization Fund on various dates, NOC has utilized Fund amounting NPR 10,250,000,000/- from price stabilization fund. Such fund is received as borrowing from Price Stabilization Fund.

Additional amount of NPR 7,629,524,914 is used for payment to IOC out of remaining balance of PSF. Other remaining balances amounting to NPR 417,104,649.87 are already deposited into various commercial bank accounts

### 2.4.23. Dividend

Dividend declared and paid to Government of Nepal during FY 2078/79 is Nil (FY 2077/78 is Nil)

### 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
9	2078-79	Nil
<b>Total</b>		<b>3,473,299,338</b>

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.

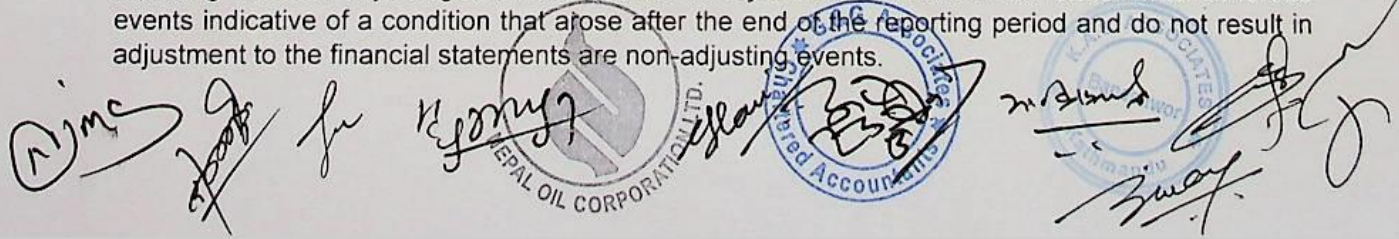
Provision for bonus has not been made as corporation is in loss during the FY 2078.79.

### 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.



**Nepal Oil Corporation Limited**

Teku, Kathmandu

**2.4.27. New standards that are effective for FY 2078-79**

A new Financial Reporting Standard (NFRS 2018) has been pronounced by the ICAN on 11 Ashad 2077. The NFRS 2018 contains some new standards with amendments to the existing standards.

NFRS 2018 introduces the new standard as mentioned hereunder that are applicable from the date mentioned below:

Nepal Financial Reporting Standard (NFRS)	Applicable date
NFRS 9	16 July 2021
NFRS 15	16 July 2021
NFRS 17	16 July 2021

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# Nepal Oil Corporation Limited

Teku, Kathmandu

## 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.

Management committee comprises of members as follows:

S. No.	Name of the person	Relation with NOC
1	Umesh Prasad Thani	Managing Director
2	Er. Sushil Bhattarai	Deputy Managing Director Marketing
3	CA Nagendra Sah	Deputy Managing Director Finance/Administration
4	Er. Karuna Chhetri	Deputy Managing Director Corporate Affairs
5	Er. Deepak Baral	Director Quality Control & Monitoring Department
6	Er. Birendra Goit	Director Supply & Distribution Department
7	Er. Suraj Shah	Director Engineering, Project and Information System Department
8	Netra Prasad Kafle	Director LPG & Aviation Department
9	Purna Prasad Rijal	Planning Administration & Human Resource Development Department
10	Nimesh Shrestha	Acting Director, Finance Department
11	Nakul Bhandari	Acting Director, Internal Control & Monitoring Department
12	Er. Binitmani Upadhyay	Deputy Director/Spokesperson
13	Mr. Puskar Karki	Deputy Director/Assistant Spokesperson

- b) Details of remuneration to Chief Executive Officer
- c) Short term benefits: Surendra Kumar Poudel – NPR 868,483.15 (From Shrawan to Poush)  
Umesh Prasad Thani-NPR 783,380.86 (From Falgun to Asadh) (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 Thirteen 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.



## Nepal Oil Corporation Limited

Teku, Kathmandu

- d) The Corporation has active bank accounts in Nepal Bank Ltd., Rastriya Banijya Bank Ltd. & Agricultural Development Bank Ltd.
- e) During the FY 78/79, the Corporation has paid **NPR 61,760,002.90** (FY2077/78 **NPR17,894,180.96** ) Nepal Civil Aviation Authority for using its land for the purpose of selling and distribution of air oil.
- f) During the FY 78/79, the Corporation has paid insurance premium of **NPR 71,954,942.10** (FY 2077/78 **NPR 86,579,476.73**) to Rastriya Beema Company Limited against group life insurance policy.

### 29.2. Payable to Indian Oil Corporation

NOC shows payable to Indian Oil Corporation under other payable in the note 20 Other Liabilities as claim made by NOC 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 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.

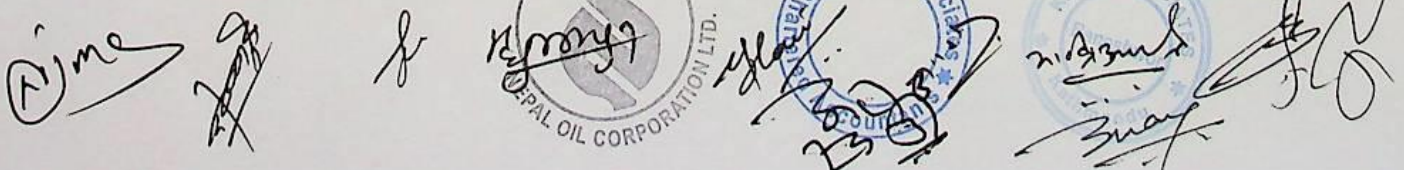
This issue has been communicated at higher authority of bilateral cooperation between India and Nepal named as Joint Working Group (JWG) on oil and gas and on 13<sup>th</sup> August, 2020. The JWG meeting decided and instructed IOC – NOC higher level Apex body to resolve the issue and inform the JWG 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.

This year IOC provide credit note amounting NPR 1,676,370,188.26 against CapEX cost mentioned previous year to adjust purchase cost of Petrol (MS) and Diesel (HSD). Accordingly, purchase cost of Petrol (MS) has been increased by NPR 577,754,220.05 and Diesel (HSD) cost has been decreased by NPR 587,014,520.30 with net impact of NPR 9,260,300.25 adjusted to this year purchase cost. Similarly, purchase cost related to previous year amounting to NPR 1,667,109,888.01 has been credited against general reserve in the current fiscal year.

### 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 179,588,335.28 for issue of letter of credit for purchasing refueller in the favor of vendor.
- d) The Corporation has been involved in disputed claim liability form Everest Gas Udhog amounting to NPR. 21,989,227 relating to the compensation for publishing the notice regarding



## Nepal Oil Corporation Limited

Teku, Kathmandu

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.
- 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 Aushadhi Ltd. on 2065/02/03 which was previously encroached by 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 recognized NPR 1,531,783,054.00 as prior period income booked during the year. The amount relates to the waiver of CAPEX cost as disclosed in note 29.2 of the financial statement.

### 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. 33,503,454.55 received for FY 2078-79 at CIT will be transferred to the specified fund now reported as Other Liability at Note 21.

### 29.6. Government Grant received

During the year, the company had requested for refund equivalent to Infrastructure tax for the period from Jestha 20 2079 to Ashadh end 2079 amounting Rs 2,519,242,000/- based on various decisions of Government of Nepal. The company has received Rs 595,760,000/- during the year as grant which is realized in bank after the end of fiscal year. The company has not recognized such grant as revenue.

The company is yet to receive claim of Rs 1,923,482,000/- till the date of approval of financial statement.

### 29.7. Fuel Throughput Expenses

Nepal Oil Corporation is paying fuel throughput expenses @ 0.4% of ATF sales to M/s Civil Aviation Authority of Nepal as per Airport Service Fee Rules, 2078 which was previously 0.3%. Nepal Oil Corporation has paid 17,894,181.00 and 61,760,003.00 as fuel throughput expenses in the previous year 2077.78 and current year 2078.79 respectively.

### 29.8. Technical Gain/Loss

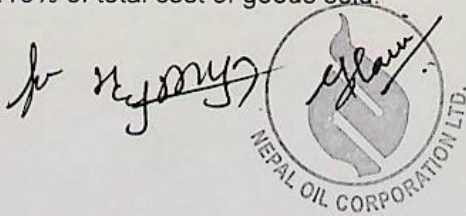
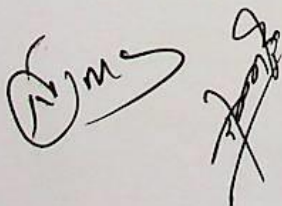
If there is difference in the filling temperature and Receive temperature of the oil in the tanker and Actual quantity measured is less than the standard quantity then certain technical loss is given to the tanker. The technical loss is calculated by using the following formula for each category of petroleum products:

$MS = 1.12 * \text{Temperature difference} * \text{Tanker Capacity}$

$HSD = 0.75 * \text{Temperature difference} * \text{Tanker Capacity}$

Where 1.12 and 0.75 are the standard coefficient used.

During the year technical loss amounting to NPR 705,985,551.00 has been provided to the transporters which is 0.18% of total cost of goods sold.



**29.9. 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.

<b>Financial Assumptions</b>	
Discount Rate	9.00%
Salary Escalation Rate	For Officer Level – 10% and Non-Officer Level – 12%
Expected Return on Assets	9.00%
<b>Demographic</b>	
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
		40	0.00220
		50	0.00572
Salary Increase frequency	Once a year	60	0.01438
		70	0.04006
		80	0.10920
		90	0.23864

**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.

• **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, sejniory, 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.

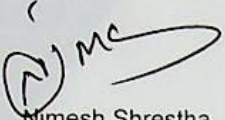
Handwritten signatures and stamps are present at the bottom of the page, including a circular stamp for NEPAL OIL CORPORATION LTD. and another for ASSOCIATES.

**Nepal Oil Corporation Limited**

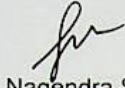
Teku, Kathmandu

• **Mortality Rate**

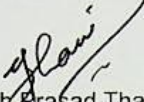
Nepali Assured Lives Mortality (2009) as issued by Beema Samti, Nepal has been used for the actuarial valuation purpose.



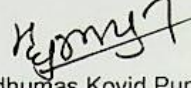
Nimesh Shrestha  
Acting Director  
Finance Department



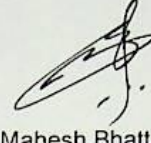
Nagendra Sah  
Deputy  
Executive Director



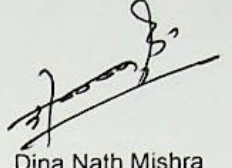
Umesh Prasad Thani  
Executive Director




Madhumas Kovid Pun  
Invited BOD Member



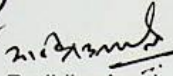
Mahesh Bhattarai  
BOD Member



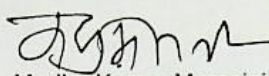
Dina Nath Mishra  
BOD Member



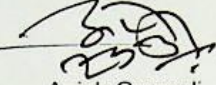
Ananda Kafle  
BOD Member



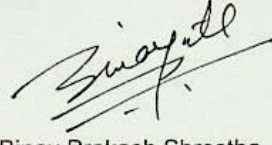
Radhika Aryal  
BOD Member



Madhu Kumar Marasini  
BOD Chairman



Anish Gyawali  
G & G Associates  
Chartered Accountants



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

Date: Poush 28, 2079  
Place: Kathmandu

