

**The National Oil Reserves Agency Limited**  
**An Ghníomhaireacht Chúltaca Ola Náisiúnta**

**Directors' report and  
financial statements**

**Year ended 31<sup>st</sup> December 2010**

*Registered number 229229*

# The National Oil Reserves Agency Limited

## An Ghníomhaireacht Chúltaca Ola Náisiúnta

<i>Contents</i>	<i>Page</i>
Directors and other information	2
Chairperson's Statement	3-12
Directors' Report	13-16
Statement of directors' responsibilities in respect of the directors' report and the financial statements	17
Chairperson's Statement on the System of Internal Financial Controls	18-19
Comptroller and Auditor General's Report	20-21
Statement of accounting policies	22-24
Profit and Loss Account and statement of total recognised gains and losses	25-26
Balance Sheet	27
Cash Flow Statement	28
Notes forming part of the financial statements	29-43

# The National Oil Reserves Agency Limited

## An Ghníomhaireacht Chúltaca Ola Náisiúnta

### Directors and other information

#### Directors

Aidan Donnelly (Chairman)  
Vincent Caffrey  
Seán Fitzgerald  
Aoife MacEvilly  
Oliver Whelan  
Pat Meehan (CEO)

#### Secretary

David Corcoran

#### Management

Pat Meehan	Chief Executive
David Corcoran	Financial Controller
Michael Cavanagh	Operations Manager

#### Registered office

7 Clanwilliam Square  
Grand Canal Quay  
Dublin 2

#### Auditors

Comptroller and Auditor General  
Dublin Castle  
Dublin 2

#### Bankers

Bank of Ireland  
Lower Baggot Street  
Dublin 2

#### Solicitors

Arthur Cox  
Earlsfort Centre  
Earlsfort Terrace  
Dublin 2

# The National Oil Reserves Agency Limited

## An Ghníomhaireacht Chúltaca Ola Náisiúnta

### Chairperson's Statement

The National Oil Reserves Agency Limited (NORA) is responsible for:

- ensuring that Ireland meets its obligations under EU legislation and International Energy Agency (IEA) rules to maintain a minimum of 90 days stocks of oil for use in the event of a physical shortage of supplies, and
- administering Ireland's Biofuel Obligation Scheme

### Background to NORA

NORA was established in 1995 under the European Communities (Minimum Stocks of Petroleum Oils) Regulations 1995 as a private limited company for the maintenance of Ireland's strategic oil reserves. For pragmatic reasons it was set up as a subsidiary of Irish National Petroleum Corporation Limited (INPC).

In July 2001, the businesses and commercial assets of INPC were sold to Tosco Corporation (now ConocoPhillips). NORA did not form part of that transaction. It was subsequently considered appropriate that NORA should be established on a statutory basis as a private limited company independent of INPC. The Government white paper entitled "Delivering a Sustainable Energy Future for Ireland" (Section 3.7.3), published in March 2007, confirmed a commitment by Government to establish NORA as an independent statutory body in 2007.

This was achieved on 1<sup>st</sup> August 2007 upon the introduction of the **National Oil Reserves Agency Act 2007** which established NORA as a stand-alone state body under the aegis of the Minister for Communications, Energy & Natural Resources.

This Act provided for:

- NORA's continued responsibility for the maintenance of strategic supplies of oil in line with the state's stockholding obligations to the EU and International Energy Agency (IEA);
- The transfer of the INPC shareholding in NORA to the Minister for Communications, Energy and Natural Resources and provided for the continued operation of the Agency as a private limited company under the Companies Acts;
- A variable levy on disposals of petroleum products to be imposed on oil companies and oil consumers;
- The furnishing to the Minister of regular returns regarding oil purchases, sales, consumption, imports and exports by oil companies, oil consumers and NORA;
- The monitoring of compliance with provisions for the application of penalties in the event of failure by oil companies and oil consumers to comply with the provisions;
- Revocation of the European Communities (Minimum Stocks of Petroleum Oils) Regulations 1995 and;
- The alteration of the Memorandum and Articles of Association of NORA for the purpose of making them consistent with the Act.

# The National Oil Reserves Agency Limited

## An Ghníomhaireacht Chúltaca Ola Náisiúnta

### Chairperson's Statement (*continued*)

#### **EU and IEA Oil Stocks Obligation**

Under the National Oil Reserves Agency Act 2007 and associated legislation, NORA is responsible for ensuring that Ireland meets its obligations under EU legislation and International Energy Agency (IEA) rules to maintain a minimum of 90 days stocks of oil for use in the event of a physical shortage of supplies.

In parallel with the introduction of the National Oil Reserves Agency Act 2007, the Minister for Communications, Energy and Natural Resources also introduced the National Oil Reserves Agency Act 2007 (Returns and Levy) Regulations 2007.

These Regulations, effective 1<sup>st</sup> August 2007 set out the information to be provided by the National Oil Reserves Agency (NORA), oil companies and oil consumers to the Minister in monthly statistical returns and provides for the variation in the amount of the NORA levy to be paid (changed from 0.476 cent per litre to 1.00 cent per litre with effect from 1<sup>st</sup> November 2007, and to 2.00 cent per litre with effect from 1<sup>st</sup> October 2009) together with the procedures for the invoicing and payment of the levy.

This new legislation, coupled with the policies and strategies set out in the Government White Paper entitled "Delivering a Sustainable Energy Future for Ireland" (Section 3.7) form the basis for NORA's ongoing role regarding meeting Ireland's oil stocks obligation.

#### **Biofuels Obligation Scheme**

On 1<sup>st</sup> July 2010, NORA commenced its administration of Ireland's Biofuel Obligation Scheme upon the introduction of the "Energy (Biofuel Obligation and Miscellaneous Provisions) Act 2010". This legislation was introduced to give effect to the provisions of the Council Directive 2009/28/EC on the promotion of the use of energy from renewable sources.

The Scheme places an obligation on suppliers of mineral oil to ensure that 4.166% (by volume) of the motor fuels (generally Gasoline and Motor Diesel) they place on the market in Ireland is produced from renewable sources, e.g. Ethanol and Biodiesel.

Under the terms of the National Oil Reserves Agency Act 2007 (Returns and Biofuel Levy) Regulations 2010, a Biofuel Levy of 2.00 cent per litre is payable on the sales of all Biofuels into the market with effect from 1<sup>st</sup> July 2010.

#### **NORA's Oil Stocks Obligation**

NORA meets its oil stockholding obligation by a combination of:

- Stocks owned by NORA and stored in Ireland and in other EU Member States with whom Ireland has concluded a Bi-lateral Oil Stockholding Agreement.
- Stocks held by NORA under short term commercial contracts ("Stock Tickets") in Ireland and in other EU Member States with whom Ireland has concluded a Bi-lateral Oil Stockholding Agreement. These contracts include an option to purchase the oil in emergency circumstances during the period of the contract.

# The National Oil Reserves Agency Limited

## An Ghníomhaireacht Chúltaca Ola Náisiúnta

### Chairperson's Statement (*continued*)

In line with the direction of the Minister for Communications, Energy, and Natural Resources regarding the quantities of oil to be held by NORA, NORA's obligation for CATEGORY 1 (Gasoline) decreased by 6.4% (25,000 tonnes), and CATEGORY 2 (Distillates – Diesel, Gas Oil, Kerosene) decreased by 13%, (162,000 tonnes) from 1<sup>st</sup> April 2010. There has been no stocks obligation for CATEGORY 3 (Fuel Oils) since 1<sup>st</sup> August 2007 and this nil obligation continued through 2010.

At year end 2010, the breakdown of the stocks held by NORA was as follows:

	<b>2010</b> <b>('000 Tonnes)</b>	<b>% of</b> <b>TOTAL</b>	<b>2009</b> <b>('000 Tonnes)</b>	<b>% of</b> <b>TOTAL</b>
<b>Stocks in Ireland</b>	<b>671</b>	<b>46%</b>	<b>741</b>	<b>45%</b>
<b>Stocks Abroad</b>	<b>557</b>	<b>38%</b>	<b>651</b>	<b>40%</b>
<b>Stock Tickets (Ireland)</b>	<b>0</b>	<b>0%</b>	<b>0</b>	<b>0%</b>
<b>Stock Tickets (Abroad)</b>	<b>235</b>	<b>16%</b>	<b>242</b>	<b>15%</b>
<b>Total:</b>	<b>1,463</b>		<b>1,634</b>	

The physical stocks owned by NORA and stored both in Ireland and abroad at the end of 2010 consisted of the following:

	<b>2010</b> <b>('000 Tonnes)</b>	<b>2009</b> <b>('000 Tonnes)</b>
<b>CAT I - Gasoline</b>	<b>242</b>	<b>171</b>
<b>CAT II - Distillates</b>	<b>985</b>	<b>1,221</b>
<b>Total:</b>	<b>1,227</b>	<b>1,392</b>

#### Obligation Volumes– v - Actual Stocks Held

<b>Category 1 Stocks</b>	<b>2010</b>	<b>2009</b>
Obligation Stocks (Tonnes)	368,000	393,000
Actual Stocks Held	377,211	393,000
Stock Days - Obligation	83	83
Stock Days - Held	84	83

<b>Category 2 Stocks</b>	<b>2010</b>	<b>2009</b>
Obligation Stocks (Tonnes)		
Obligation Stocks - Cat 2	1,080,000	1,242,000
Actual Stocks Held - Cat 2	1,084,941	1,241,000
Stock Days - Obligation	78	78
Stock Days - Held	78	78

# The National Oil Reserves Agency Limited

## An Ghníomhaireacht Chúltaca Ola Náisiúnta

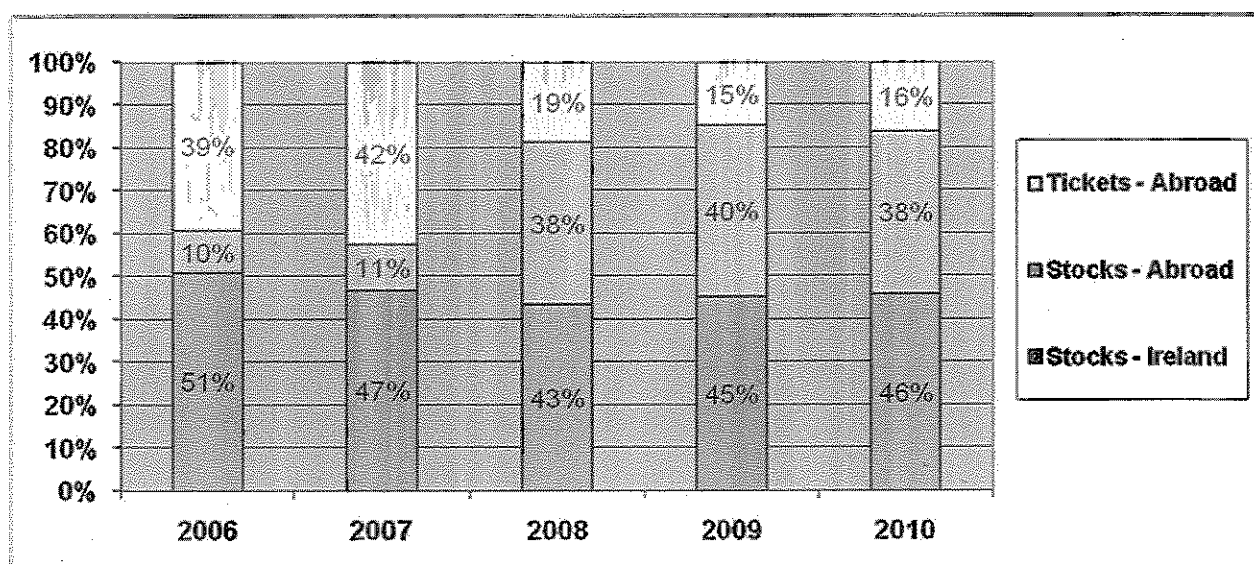
### Chairperson's Statement (*continued*)

#### World Oil Market, Financial Markets and Storage Procurement

The most notable developments in the business sector in which the Agency operates (international and domestic) in 2010 were the changes in the world oil, oil storage, and financial markets. These brought considerable challenges to the work of the Agency throughout the year.

In the absence of available storage volumes both on the island of Ireland and within the EU, NORA has for many years bridged the gap between obligation volumes and physical stocks held by way of securing stock tickets. This gap was closed considerably in recent years as NORA has progressively improved its physical stock position.

A profile of physical stocks held at home and abroad, together with stock tickets in terms of their relative proportions of NORA's annual stocks obligation for recent years is set out below.



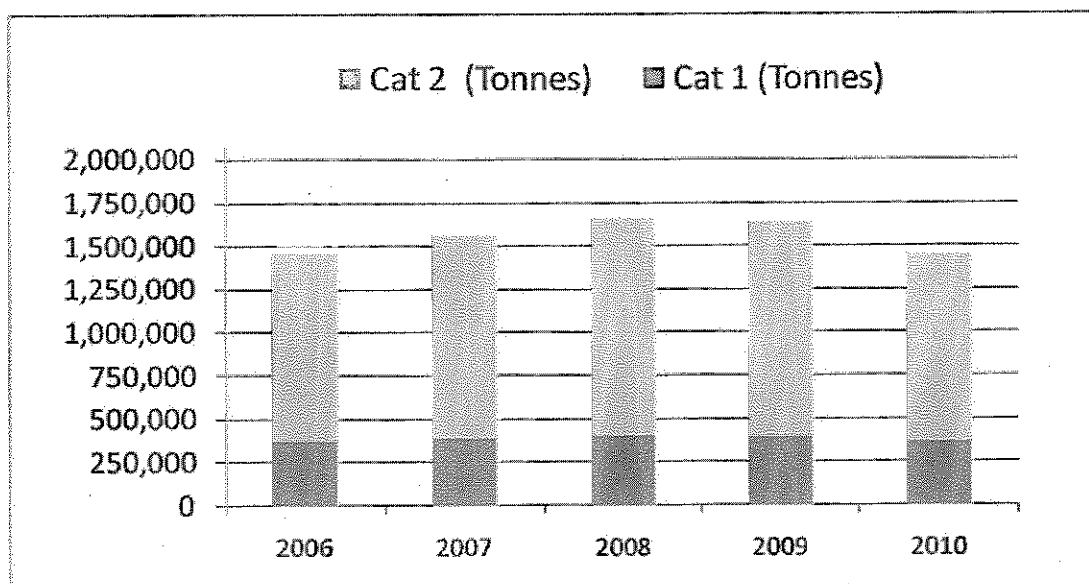
Arising from the downturn in the economy in Ireland in 2009, overall oil consumption volumes reduced by circa 12% and this in turn led to a corresponding reduction in NORA's annual Stocks Obligation volumes in 2010.

# The National Oil Reserves Agency Limited

## An Ghníomhaireacht Chúltaca Ola Náisiúnta

### Chairperson's Statement (*continued*)

A profile of the trend in NORA's Stocks Obligation volumes for recent years is set out below.



Throughout 2010, the Agency maintained full compliance with its Obligation volumes.

### Oil Storage Capacity in Ireland

The absence of the development of new additional storage capacity in Ireland in recent years against a background of consistent overall growth in oil market volumes up to 2008 has resulted in existing storage coming under increasing pressure. While the minor downturn in consumption since 2009 has slightly reduced the pressure, this has been more than offset by the introduction of Biofuels requiring the allocation of some existing tankage to Bioethanol and Biodiesel.

The outlook for consumption volumes in the coming years is for low percentage increases in line with growth levels in the Irish economy. The net position on storage capacity therefore is that there has been no significant change in its availability on the island of Ireland.

The Government's Energy Policy Framework 2007 – 2020 committed to the re-balancing of Ireland's strategic oil stocks, in favour of stocks held on the island of Ireland, subject to value for money considerations.

NORA has been actively seeking opportunities to develop storage on the island of Ireland in recent years. By end 2009, it had committed to three projects involving the development of existing facilities for the storage for Category 2 products.

Two of these projects will be completed in 2011, and will provide NORA with an additional 190,000 tonnes of storage. The third project will commence in 2011, and when complete in 2012 will provide NORA with a further 140,000 tonnes of storage.



# The National Oil Reserves Agency Limited

## An Ghníomhaireacht Chúltaca Ola Náisiúnta

### Chairperson's Statement (*continued*)

In May 2009, NORA appointed consultants (Goodbody-Atkins consortium) to assist in the development of its long term storage plans. This includes the evaluation of options for increasing strategic storage on the island of Ireland. Work on this project is progressing steadily, and will in due course identify the most beneficial plans for NORA in its quest for meeting its stocks obligations and storage requirements in future years.

#### NORA Levy

The Agency is funded by a levy on the sale of oil products. Its revenue, coupled with commercial loans is used to fund the procurement and holding of Ireland's strategic oil stocks. NORA receives no Exchequer funding. The levy remained unchanged at €0.00476 per litre from the establishment of NORA in 1995, up to 1<sup>st</sup> November 2007, when, under the terms of the National Oil Reserves Agency Act 2007 (Returns and Levy) Regulations 2007, it was increased to €0.01 per litre, in line with the commitment contained in the Government White Paper "*Delivering a Sustainable Energy Future for Ireland*".

In line with the strategy set out in this White Paper, NORA has embarked on a challenging programme of stockbuilding and storage facility procurement with the aim of rebalancing the strategic oil reserve by maximizing Ireland's wholly-owned stocks of oil and the level of stocks held on the island, subject to increased storage availability and value for money considerations.

NORA's debt at end 2007 was €157.9 million. With the acquisition of essential additional stocks in 2008, NORA's debt rose to €444.5m. At the end of 2009, it was €444.0m.

In 2009, NORA reviewed and updated its 5 year Strategic Stocks and Storage Plan (2009 – 2013), based upon meeting the requirements of strategic stock obligations (EU Strategic Stocks Directive and IEA Regulations), and achieving its key objectives in line with Government policy in relation to:

- Oil stock procurement, and rebalancing the level of stocks held on the island of Ireland
- Storage for the additional oil stocks
- Interest costs (arising from borrowings)
- Debt repayment plan
- Capital projects associated with oil storage facility development

In the course of this review, and particularly arising from forecasts for future years, it became clear that in order for NORA to fulfil its obligations and meet its targeted objectives in the future, its revenue, based on a Levy of €0.01 per litre would need to be increased.

In light of all of the prevailing factors, and NORA's need to maintain a firm financial basis for its ongoing and future business, the Minister for Communications, Energy and Natural Resources introduced legislation (National Oil Reserves Agency Act 2007 (Returns and Levy) (Amendment) (No. 2) Regulations 2009, (S.I. 220 of 2009) increasing the amount of the levy from €0.01 per litre of fuel purchased, to €0.02 per litre, with effect from 1<sup>st</sup> October 2009.

# The National Oil Reserves Agency Limited

## An Ghníomhaireacht Chúltaca Ola Náisiúnta

### Chairperson's Statement (*continued*)

Arising from this, the Agency commenced a debt repayment programme early in 2010, during which a total of €108.5 million was repaid, representing a 24.5% reduction in NORA's overall debt, to €335.5 million. Arising from new provisions contained in the Energy (Biofuel Obligation and Miscellaneous Provisions) Act 2010 NORA was authorised to engage the National Treasury Management Agency (NTMA) to assist and advise NORA in relation to its financial and borrowing activities, and such engagement commenced in 2010.

Accordingly, the NTMA is advising NORA in relation to the management of its financing and debt repayment plans. In line with NTMA advice, the amount and timing of the repayment of debt is being planned taking account of the need for the ongoing retention of cash reserves, likely future requirements for capital expenditure and the renewal of essential borrowing facilities.

#### **End of Year Cash Position**

NORA is constantly seeking to optimise "value for money" in its operations, in particular, in relation to its storage costs. In pursuit of this, in 2010, NORA withdrew stocks from a number of existing storage locations, and sold the stocks, in advance of commencing storage with new replacement stocks in alternative locations in 2011. This sale of stocks contributed significantly to a closing cash balance of €145.0 million at 31<sup>st</sup> December 2010.

This strong cash position is temporary. The planned utilisation of these cash reserves in 2011 is based on commitments made for storage projects and the purchase of replacement stocks, a summary of which is as follows:

	€ million
Cash in Hand at 31 <sup>st</sup> December 2010	145.0
Storage projects	(15.0)
Committed and planned stock purchases 2011	<u>(150.5)</u>
Net Position	<u>(20.5)</u>

#### **New EU Directive on Strategic Stocks**

In 2008, the EU commenced a process of reviewing the existing legislation with a view to enhancing the security of oil supply for the EU as a whole.

By mid-2009, following a detailed EU wide consultation process, a new Directive (Council Directive 2009/119/EC of 14<sup>th</sup> September 2009) replacing previous legislation was approved by the EU Commission. The principle change in the new Directive is the alignment of stock measurements with that of the International Energy Agency system.

This new Directive will be effective from 31<sup>st</sup> December 2012. The Agency will liaise closely with the Department of Communications, Energy, and Natural Resources with a view to ensuring that it will be adequately prepared to achieve and maintain compliance with the new Directive from its effective date.

# The National Oil Reserves Agency Limited

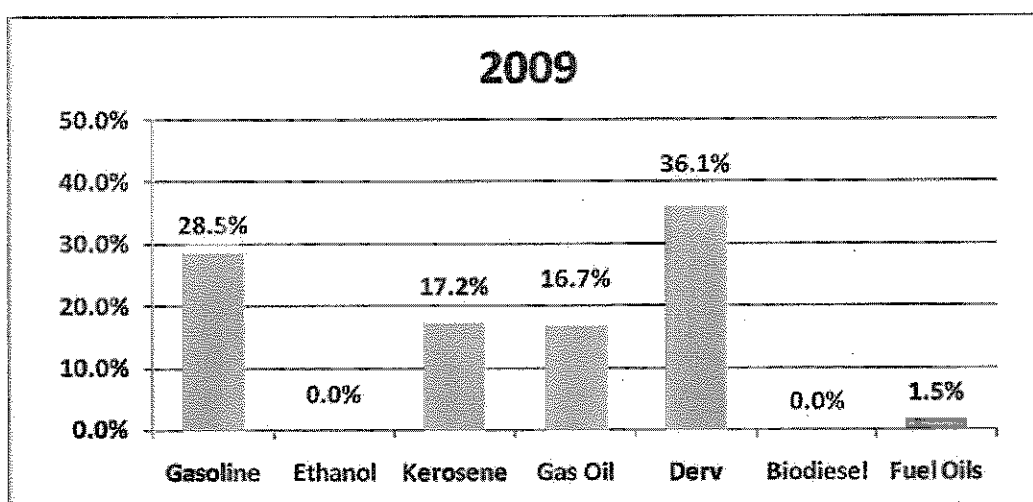
## An Ghníomhaireacht Chúltaca Ola Náisiúnta

### Chairperson's Statement (*continued*)

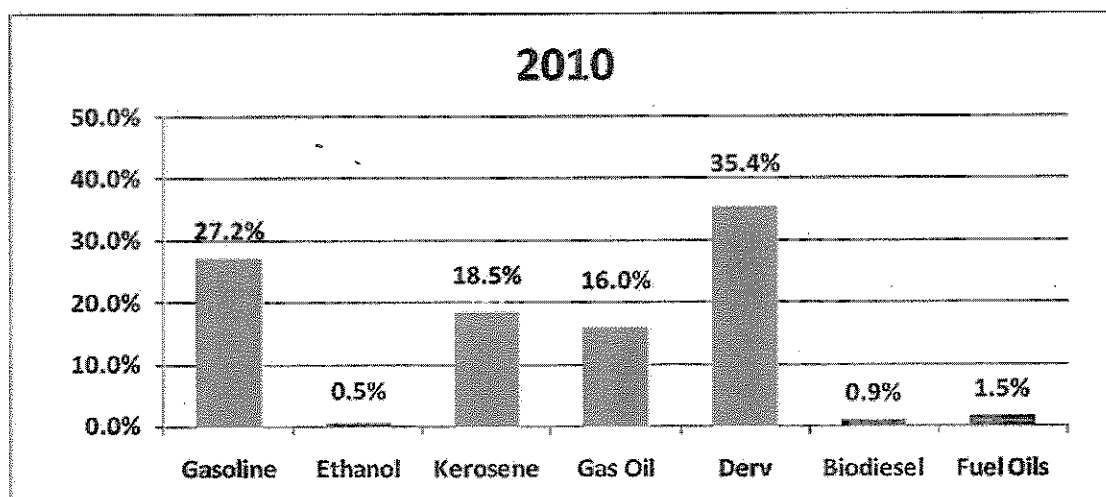
#### Composition of the NORA Levy

Set out hereunder is a breakdown of the levy volume percentages by product for 2010, together with comparable figures for 2009.

2009



2010



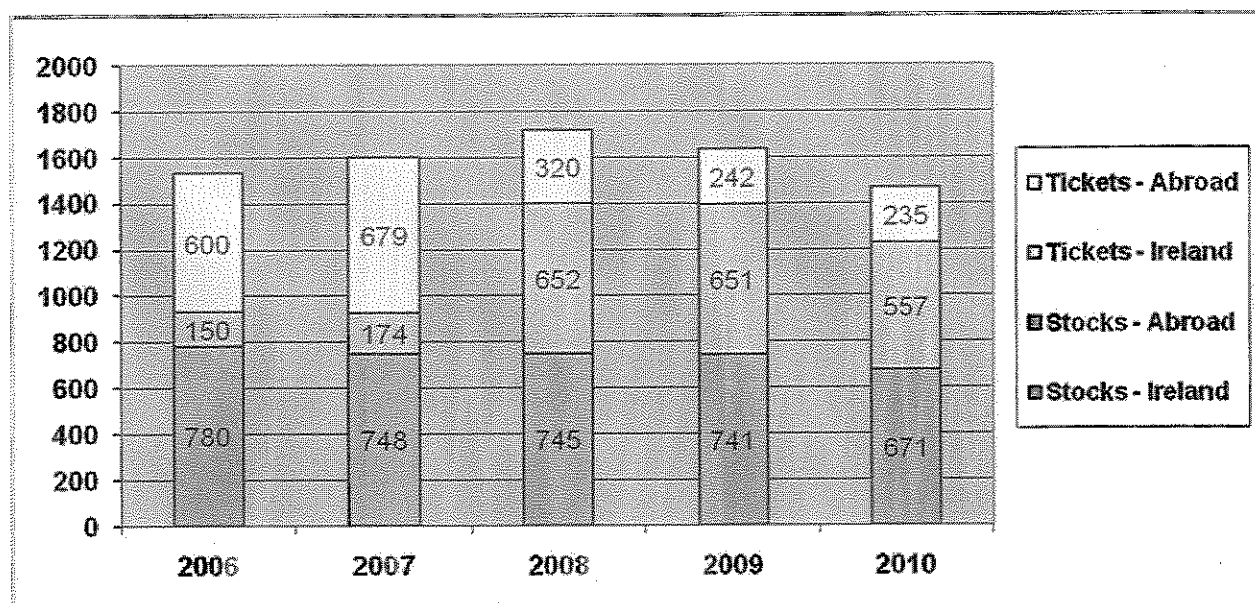
# The National Oil Reserves Agency Limited

## An Ghníomhaireacht Chúltaca Ola Náisiúnta

### Chairperson's Statement (*continued*)

#### NORA Stockholding

Set out below is a graphical representation of the breakdown of NORA's stockholding in the period 2006 to 2010 (000 tonnes)



#### Biofuels Obligation Scheme

NORA commenced its administration of Ireland's Biofuel Obligation Scheme on 1<sup>st</sup> July 2010, shortly after the introduction of the Energy Biofuel Obligation and Miscellaneous Provisions) Act 2010. This legislation was introduced to give effect to the provisions of the Council Directive 2009/28/EC on the promotion of the use of energy from renewable sources.

The Scheme places an obligation on suppliers of mineral oil to ensure that 4.166% (by volume) of the motor fuels (generally Gasoline and Motor Diesel) they place on the market is Biofuel manufactured from renewable sources e.g. Ethanol and Biodiesel.

Under the terms of the National Oil Reserves Agency Act 2007 (Returns and Biofuel Levy) Regulations 2010, a Biofuel Levy of 2.00 cent per litre is payable on the sales of all Biofuels into the market with effect from 1<sup>st</sup> July 2010.

The introduction of Biofuels to the market under the Government incentives of Mineral Oil Tax Relief Scheme 1 and 2 led to the establishment of Biofuels as an integral part of the motor fuels market commencing in August 2005 and reaching a level of 2.2% of market volume in 2009. This provided a valuable starting point for the introduction of Biofuels on a mandatory basis at a level of 4.166%.

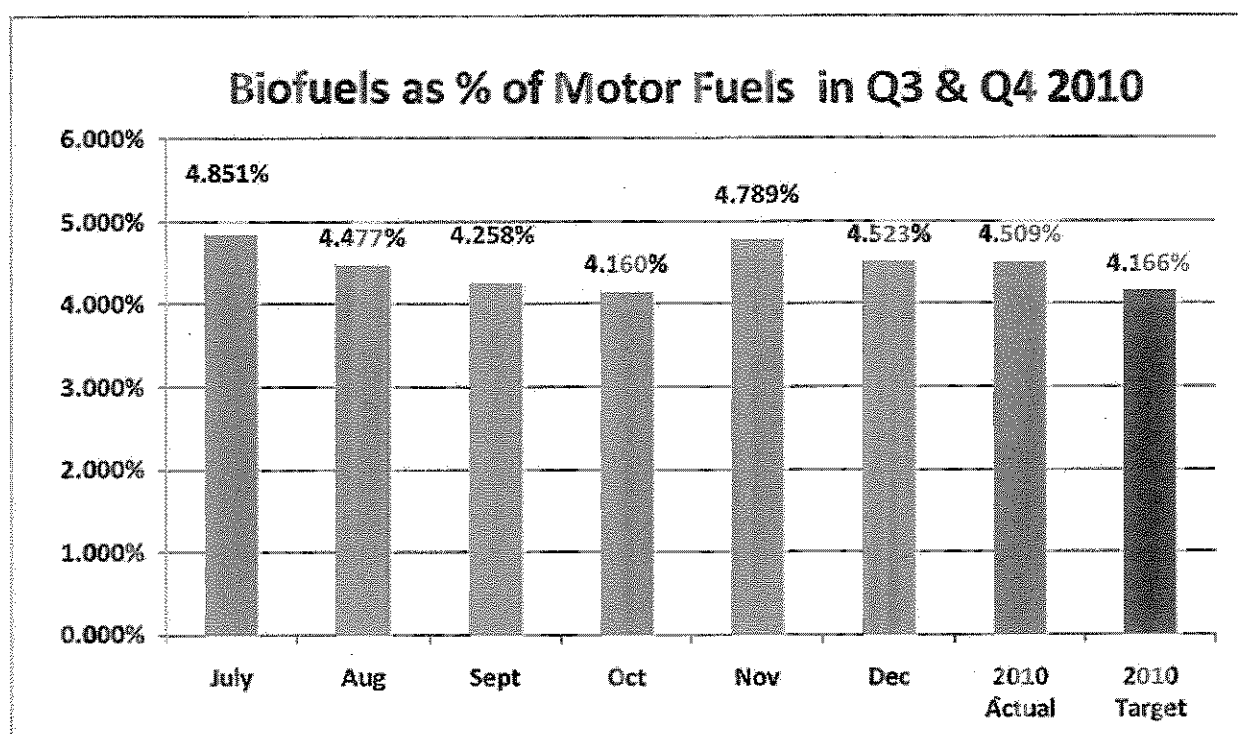
# The National Oil Reserves Agency Limited

## An Ghníomhaireacht Chúltaca Ola Náisiúnta

### Chairperson's Statement (*continued*)

In total, the level of Biofuels placed on the market in the initial obligation period from 1<sup>st</sup> July to 31<sup>st</sup> December 2010 was 98.6 million litres, representing 4.32% of the total combined (mineral oil and biofuels) volumes placed on the market, and 4.51% of the volume of mineral oil only placed on the market, exceeding the target obligation volume of 4.166%.

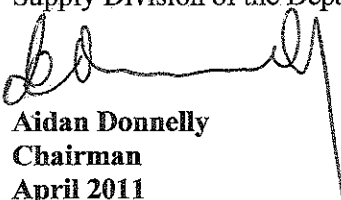
The profile of Biofuel volumes as a percentage of motor fuel volumes placed on the market in 2010 is set out graphically below.



2011 will see the commencement of the measurement of sustainability criteria of Biofuels in accordance with the requirements of Articles 18 and 19 of the EU Directive. NORA is working closely with the Department of Communications, Energy and Natural Resources in developing the standards and methodology for such measurement with a view to ensuring that satisfactory levels of compliance are achieved in the market place.

### Conclusion

I would like to thank the members of the Board and staff for their dedication and assistance during the year. I would also like to express my thanks to the Minister and recent former Ministers for their encouragement and interest in the work of the Agency. My thanks are also due to the staff of the Oil Supply Division of the Department for their continuing support and assistance throughout the year.

  
**Aidan Donnelly**  
**Chairman**  
**April 2011**

# The National Oil Reserves Agency Limited

## An Ghníomhaireacht Chúltaca Ola Náisiúnta

### Directors' report

The directors submit their report together with the audited financial statements for the year ended 31<sup>st</sup> December 2010.

### Principal activities, business review and developments

On 1<sup>st</sup> August 2007, the Agency was established as an Agency on a statutory basis under the aegis of the Minister for Communications, Energy and Natural Resources. The Agency operates in accordance with several statutes and regulations, key among them:

- The National Oil Reserves Agency Act 2007
- The National Oil Reserves Agency Act 2007 (Returns and Levy) Regulations 2007 (S.I. No. 567 of 2007) (and subsequent amendments)
- The Energy (Biofuel Obligation and Miscellaneous Provisions) Act 2010
- The National Oil Reserves Agency Act 2007 (Returns and Biofuel Levy) Regulations 2007 (S.I. No. 356 of 2010)
- The National Oil Reserves Agency Act 2007 (Biofuel Obligation Buy-Out Charge) Regulations 2007 (S.I. No. 644 of 2010)

The operations of the Agency consist of managing the strategic stocks of Ireland required under EU legislation and administering Ireland's Biofuel Obligation Scheme. The company meets its oil stocks obligations by owning stocks and by entering into agreements with third parties in Ireland and abroad to store stocks owned by the company and to make other strategic stocks available in certain specific circumstances.

The majority of the Agency's stocks have to date been held and managed by third parties in independently owned and operated storage facilities at home and abroad. However, as part of the Agency's long term storage development plans, NORA has undertaken long term leases in respect of two storage facilities (at Ringsend and Tarbert). The commissioning of Ringsend in 2011, will mark the commencement by the Agency of the responsibility for the operation, and maintenance of these facilities in accordance with all prevailing regulations, with particular emphasis on health, safety, and regulatory compliance. This approach will, in turn, be extended to the management and operation of the Tarbert storage facility when complete in 2012.

The Agency was delegated the task of administering the Biofuels Obligation Scheme which came into operation on 1<sup>st</sup> July 2010 following the commencement of the Energy (Biofuel Obligation and Miscellaneous Provisions) Act 2010. In the initial biofuel obligation period (1<sup>st</sup> July to 31<sup>st</sup> December 2010) the Agency successfully administered the biofuel obligation in accordance with the requirements of the scheme, and will adapt such administration to meet future scheme requirements as they develop.

# The National Oil Reserves Agency Limited

An Ghníomhaireacht Chúltaca Ola Náisiúnta

## Directors' Report (*continued*)

The costs of the Agency's operations are recoverable by the company through the oil stocks (mineral oil and biofuel) levy which, taking one year with another shall meet but not exceed the costs incurred by the company in carrying out its duties under the Regulations.

Other than this, the directors do not anticipate any significant changes in the principal activities of the company in the foreseeable future.

### **Business risks and management**

The principal business risks arising from the company's activities are interest rate, oil price, foreign exchange, counterparty, credit and liquidity risks. The Board approves and periodically reviews policies for managing each of these risks and ensures that appropriate reporting procedures are in place.

Stocks are mainly financed by medium term revolving credit facilities, with the aim of having a balanced maturity profile. Borrowings are in Euro to match levy income. Strategic stocks of oil products owned by the company are not hedged as the date of sale is not known.

Current policy is to have a balanced profile of debt at fixed and floating interest rates. However, this level can be increased or reduced where short term cash surpluses are used to repay debt, or in anticipation of future borrowings. Interest rates are fixed via the use of interest rate swaps.

Exchange rate exposure arises on strategic stock purchases and sales and on certain operating costs. Foreign currency spot and forward contracts and options are used to reduce volatility arising from currency fluctuations and to minimise costs.

The Agency seeks to minimise cash balances in current accounts. Cash surpluses are deposited with banks with an appropriate credit standing, in a manner which provides the most competitive return.

All financial instruments are used to match underlying physical requirements and are non speculative. In addition, financial transactions entered into are in line with the Specification of the Minister for Finance under the Financial Transactions of Certain Companies and Other Bodies Act 1992. Further details in relation to treasury policy are disclosed in note 12 to the financial statements.

### **Results for the period**

The results are disclosed on page 25 of the financial statements. As noted in the profit and loss account, a profit on the sale of Strategic Stocks of €66.1 million (2009: €0.7 million loss) was recorded in 2010. The profit arises on the sale of stocks in the normal course of business.

### **Directors' and company secretary's interests**

On 7<sup>th</sup> April 2011, Ms. Katherine Licken resigned from the Board. On 11<sup>th</sup> April 2011, Ms. Aoife MacEvilly was appointed to the Board.

The directors and company secretary, holding office at the balance sheet date, had no beneficial interest in the share capital of any group companies during the financial year or at the balance sheet date.

# The National Oil Reserves Agency Limited

## An Ghníomhaireacht Chúltaca Ola Náisiúnta

### Directors' Report (*continued*)

#### Directors' remuneration

Government guidelines on the payment of Directors' fees are being complied with.

Directors Fees per annum are as follows and were paid: (from 1<sup>st</sup> January 2010, and taking account of the reduction of 10% effective from that date):

Chairman:	Aidan Donnelly	€ 8,978
Directors:	Seán Fitzgerald	5,985
	Vincent Caffrey	5,985
	Pat Meehan	5,985
Total		<hr/> 26,933 <hr/>

The remuneration of the non-executive board members in the performance of these duties for the company is in compliance with Government guidelines.

#### Directors' attendance at Board meetings

In accordance with the requirements of paragraph 3.8 of the Code of Practice for the Governance of State Bodies, the following is a summary of the attendances of each Board Member at Board meetings for the year ended 31<sup>st</sup> December 2010.

Number of Board meetings held: 6

#### Attendance:

Aidan Donnelly	6
Vincent Caffrey	5
Seán Fitzgerald	5
Katherine Licken	6
Oliver Whelan	6
Pat Meehan	6

#### Post balance sheet events

There have been no significant events since the balance sheet date and the date of approval of these financial statements.

#### Health and Safety

The well being of the Agency's employees is safeguarded through the strict adherence to health and safety standards. The Safety, Health and Welfare at Work Act 2005 imposes certain requirements on employers and National Oil Reserves Agency takes the necessary action to ensure compliance with the Act.



# The National Oil Reserves Agency Limited

## An Ghníomhaireacht Chúltaca Ola Náisiúnta

### Directors' Report (*continued*)

#### Confidential Disclosures

In accordance with the provisions of Clause 2.11 of the Code of Practice for the Governance of State Bodies the Board has approved the Agency's policy to ensure employees have the opportunity, to raise concern about possible irregularities in financial reporting or other matters.

#### Payments Act

NORA complies with the provisions of the European Communities (Late Payments in Commercial Transactions) Regulations 2002 and its predecessor, the Prompt Payments of Accounts Act, 1999. NORA operates a policy of paying all undisputed supplier invoices within the agreed terms of payment and within 45 days of receipt of invoice.

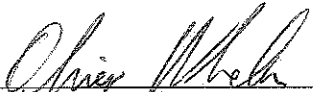
#### Accounting records

The directors believe that they have complied with the requirements of Section 202 of the Companies Act, 1990 with regard to books of account by employing accounting personnel with appropriate expertise and by providing adequate resources to the financial function. The books of account of the company are maintained at 7 Clanwilliam Square, Grand Canal Quay, Dublin 2.

#### Auditors

In accordance with Section 29(2) of the National Oil Reserves Agency Act 2007, the Comptroller and Auditor General is appointed as auditor of the Agency.

On behalf of the board

  
Oliver Whelan  
Director

  
Pat Meehan  
Director

21<sup>st</sup> April 2011

# The National Oil Reserves Agency Limited

## An Ghníomhaireacht Chúltaca Ola Náisiúnta

### **Statement of directors' responsibilities in respect of the Directors' Report and the financial statements**

The directors are responsible for preparing the Directors' Report and financial statements in accordance with applicable law and regulations.

The National Oil Reserves Act 2007 and Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the company financial statements in accordance with Generally Accepted Accounting Practice in Ireland, comprising applicable law and the accounting standards issued by the Accounting Standards Board and promulgated by the Institute of Chartered Accountants in Ireland.

The company's financial statements are required by law to give a true and fair view of the state of affairs of the company and of its surplus or deficit for that period.


In preparing each of the financial statements, the directors are required to:


- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.
- state whether applicable accountancy standards have been followed, subject to any material departures, disclosed and explained in the financial statements.

The directors are responsible for keeping proper books of account that disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that its financial statements comply with the Companies Acts 1963 to 2009. They are also responsible for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

The directors are also responsible for preparing a Directors' Report that complies with the requirements of the Companies Acts 1963 to 2009.

On behalf of the Board

  
Oliver Whelan  
Director

  
Pat Meehan  
Director

21<sup>st</sup> April 2011

# **The National Oil Reserves Agency Limited**

## **An Ghníomhaireacht Chúltaca Ola Náisiúnta**

### **Chairperson's Statement on the System of Internal Financial Control**

#### **Responsibility for System of Internal Financial Control**

On behalf of the Board of the National Oil Reserves Agency, I acknowledge the Board's responsibility for ensuring that an effective system of internal financial control is maintained and operated for the organisation.

The system can provide only reasonable and not absolute assurance that assets are safeguarded, transactions authorised and properly recorded and that material errors or irregularities are either prevented or would be detected in a timely period. In considering the effectiveness of internal financial controls the Board has regard, among other things, to the requirements of the Code of Practice for the Governance for State Bodies.

#### **Key Control Procedures**

The Board has taken steps to ensure an appropriate control environment by:

- clearly defining management responsibilities;
- establishing reporting procedures to control significant failures and ensuring appropriate corrective action is taken;
- establishing a dedicated Risk and Audit Committee;
- clear separation of Board and Management functions;
- publication of a Code of Business Conduct for Board members and staff of the Agency;
- establishing an Internal Audit function;

The Board has established processes to identify and evaluate business risks by:

- identifying the nature, extent and possible implications of risks facing the Board including the extent and categories which it regards as acceptable
- assessing the likelihood of identified risks occurring;
- assessing the Board's ability to manage and mitigate the risks that do occur;
- having regard to the costs of operating particular controls relative to the benefit obtained;

The system of internal financial control is based on a framework of regular management information, administrative procedures including segregation of duties and a system of delegation and accountability.

# The National Oil Reserves Agency Limited

An Ghníomhaireacht Chúltaca Ola Náisiúnta

## Chairperson's Statement on the System of Internal Financial Control (*continued*)

In particular, it includes:

- a comprehensive budgeting system with an annual budget which is reviewed and agreed by the Board;
- regular reviews by the Risk and Audit Committee and Board of periodic annual financial reports which indicate financial performance against targets;
- setting targets to measure financial and other performance;
- regular internal audits

The internal audit function is a key element in informing the Board of the effectiveness of the system of internal financial control. The internal audit function operates in accordance with the Code of Practice for the Governance of State Bodies. The National Oil Reserves Agency's internal audit function is contracted out to Deloitte & Touche.

The annual internal audit plan is informed by an analysis of the risks to which the Agency is exposed and a formal Risk Register has been developed following a full risk analysis exercise. Internal audit plans are endorsed by the Risk and Audit Committee. The analysis of risk is also endorsed by the Risk and Audit Committee and approved by the Board. The internal auditors provide the Committee with reports on assignments carried out. These reports highlight deficiencies or weaknesses, if any, in the system of internal financial control.

Correspondence with the Comptroller and Auditor General, including the Audit Management Letter, and any issues raised therein, are brought to the attention of the Risk and Audit Committee and Board, which ensures that the issues raised are pursued.


The National Oil Reserves Agency has in the year ended 31<sup>st</sup> December 2010, through the activity of the Board, monitored the work of Management in the area of financial control. Specifically, the Board examined the following:

- bi-monthly management accounts, with analysis and explanation of significant deviations from budget
- annual accounts for 2010 and explanation of significant variances
- annual budget and financial plan for 2011

### Annual Review of Controls

I confirm that in respect of the year ended 31<sup>st</sup> December 2010 the Board conducted a review of the effectiveness of the system of internal financial control.

Signed on behalf of the Board.



**Aidan Donnelly**  
**Chairman**  
**April 2011**

**The National Oil Reserves Agency Limited**  
**An Ghníomhaireacht Chúltaca Ola Náisiúnta**

**Comptroller and Auditor General Report**

**NATIONAL OIL RESERVES AGENCY**

**Report of the Comptroller and Auditor General for presentation to the  
Houses of the Oireachtas**

See page 21 overleaf.



## Comptroller and Auditor General

### Report for presentation to the Houses of the Oireachtas

#### National Oil Reserves Agency Limited

I have audited the financial statements of the National Oil Reserves Agency Limited for the year ended 31 December 2010 under the National Oil Reserves Agency Act 2007. The financial statements, which have been prepared under the accounting policies set out therein, comprise the Statement of Accounting Policies, the Profit and Loss Account, the Statement of Total Recognised Gains and Losses, the Balance Sheet, the Cash Flow Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and Generally Accepted Accounting Practice in Ireland.

#### Responsibilities of the Directors

The Directors are responsible for the preparation of the financial statements, for ensuring that they give a true and fair view of the state of the company's affairs and of its surplus or deficit, and for ensuring the regularity of transactions.

#### Responsibilities of the Comptroller and Auditor General

My responsibility is to audit the financial statements and report on them in accordance with applicable law.

My audit is conducted by reference to the special considerations which attach to State bodies in relation to their management and operation.

My audit is carried out in accordance with the International Standards on Auditing (UK and Ireland) and in compliance with the Auditing Practices Board's Ethical Standards for Auditors.

#### Scope of audit of the Financial Statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements, sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of

- whether the accounting policies are appropriate to the company's circumstances, and have been consistently applied and adequately disclosed
- the reasonableness of significant accounting estimates made in the preparation of the financial statements, and
- the overall presentation of the financial statements.

I also seek to obtain evidence about the regularity of financial transactions in the course of audit.

In addition, I read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements. If I

become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

#### Opinion on the Financial Statements

In my opinion, the financial statements:

- give a true and fair view, in accordance with Generally Accepted Accounting Practice in Ireland, of the state of the company's affairs at 31 December 2010 and of its surplus for the year then ended; and
- have been properly prepared in accordance with the Companies Acts 1963 to 2009.

I have obtained all the information and explanations that I consider necessary for the purpose of my audit. In my opinion proper books of account have been kept by the company. The financial statements are in agreement with the books of account.

In my opinion, the information given in the Directors' Report is consistent with the financial statements.

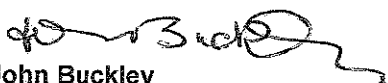
The net assets of the company, as stated in the balance sheet, are more than half of the amount of its called-up share capital and, in my opinion, on that basis there did not exist at 31 December 2010 a financial situation which, under Section 40 (1) of the Companies (Amendment) Act 1983, would require the convening of an extraordinary general meeting of the company.

#### Matters on which I report by exception

I report by exception if

- my audit noted any material instance where moneys have not been applied for the purposes intended or where the transactions did not conform to the authorities governing them, or
- the Statement on Internal Financial Control does not reflect the company's compliance with the Code of Practice for the Governance of State Bodies, or
- I find there are other material matters relating to the manner in which public business has been conducted.

I have nothing to report in regard to those matters upon which reporting is by exception.

  
John Buckley  
Comptroller and Auditor General

29 April 2011

# The National Oil Reserves Agency Limited

## An Ghníomhaireacht Chúltaca Ola Náisiúnta

### Statement of Accounting Policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the company's financial statements.

#### Basis of preparation

The financial statements are prepared in accordance with generally accepted accounting principles under the historical cost convention and comply with Financial Reporting Standards of the Accounting Standards Board as promulgated by the Institute of Chartered Accountants in Ireland.

#### Turnover

Turnover represents the invoiced value of levy income, excluding value added tax. Turnover is recognised on the basis of levy amounts due, in respect of the year, as notified by the Department of Communications, Energy and Natural Resources.

#### Taxation

Current tax is provided at amounts expected to be paid using the tax rates and laws that have been enacted or substantially enacted by the balance sheet date.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Provision is made at the rates expected to apply when the timing differences reverse. Timing differences are differences between the company's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements.

A net deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

#### Tangible fixed assets and depreciation

Tangible fixed assets are stated at cost less accumulated depreciation.

The charge for depreciation is calculated to write down the cost of tangible fixed assets to their estimated residual values by equal annual instalments over their expected useful lives which are as follows:

Motor vehicles	-	25% reducing balance
Fixtures and fittings	-	15% straight line
Computer equipment	-	33% straight line

# The National Oil Reserves Agency Limited

## An Ghníomhaireacht Chúltaca Ola Náisiúnta

### Statement of Accounting Policies (*continued*)

#### **Strategic stocks**

Strategic stocks of petroleum products are valued at cost. Cost includes the purchase price, freight and other costs incurred in bringing the stocks to their present location and condition. Strategic stocks are classified as fixed assets as it is not intended that they be sold in the short or medium term.

#### **Foreign currencies**

Transactions in foreign currencies are recorded at the rate ruling at the date of the transactions or at a contracted rate.

Monetary assets and liabilities denominated in foreign currencies are translated into Euro at the rate of exchange applicable at the balance sheet date, except where specifically covered by a forward foreign exchange contract, in which case the translation is at the contracted rate of exchange. All exchange differences arising are dealt with in the profit and loss account.

#### **Stock tickets**

Stock tickets are short term holding contracts under which a counterparty agrees to hold oil which will be available to the Agency during the period of the contracts, and under which the Agency has an option to purchase oil in emergency circumstances during the period of the contract, at a price to be determined in the future. The cost of these tickets is charged to the profit and loss account in the period to which the contracts relate.

#### **Operating leases**

Operating lease rentals are charged to the profit and loss account on a straight line basis over the lease term.

#### **Pensions**

The NORA Act 2007 provides for the preparation and submission to the Minister for Communications, Energy and Natural Resources of a scheme or schemes for granting superannuation benefits to staff. Any such scheme requires the approval of the Minister and the consent of the Minister for Finance before it can be implemented by the Agency.

The Agency has submitted a scheme and, pending its formal approval, the Minister for Finance has consented to the operation, on an administrative basis, of the Model Superannuation Scheme for civil servants. This scheme operates on a “pay-as-you-go” basis which means that benefits are not pre-funded through the making of contributions to a separate fund controlled by trustees.

Certain staff are members of an existing funded defined benefit scheme. Since 2007, the company had pursued a proposal whereby it was intended that, in due course, these staff will be admitted to the “pay-as-you-go” scheme and the existing fund will be wound up and its assets transferred to the Exchequer. The Agency has been in discussions with the Department of Communications, Energy and Natural Resources about facilitating this change and in determining how future pension costs will be met.



# The National Oil Reserves Agency Limited

## An Ghníomhaireacht Chúltaca Ola Náisiúnta

### Statement of Accounting Policies (*continued*)

In December 2010, at the request of the Department of Finance, the Agency submitted a proposal to the Department of Communications, Energy and Natural Resources outlining the necessary arrangements that need to be put in place to effect the transfer of the existing pension fund to that Department. As of 31<sup>st</sup> December 2010, the Agency awaits further information and direction from the Department of Communications, Energy and Natural Resources and the Department of Finance, in order to proceed with the proposed transfer.

In the interim, as the scheme continues to be maintained on an independent basis, and considering the associated implications in respect of pension funding, the Agency considers it appropriate to implement the provisions of Financial Reporting Standard (FRS) 17.

The pension charge in the profit and loss account comprises the current service cost plus the difference between the expected return on scheme assets and the interest cost of scheme liabilities.

Actuarial gains and losses arising from changes in actuarial assumptions and from experience surpluses and deficits are recognised in the statement of total recognised gains and losses for the year in which they occur.

Pension scheme assets are measured at fair value. Pension scheme liabilities are measured on an actuarial basis using the projected unit method. An excess of scheme liabilities over scheme assets is presented on the Balance Sheet as a liability.

An actuarial valuation of the scheme was carried out at 31<sup>st</sup> December 2010, which determined that the scheme met the minimum funding standard required. The next actuarial valuation against the minimum funding standard will be performed at 31<sup>st</sup> December 2011.

# The National Oil Reserves Agency Limited

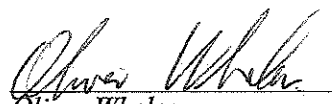
## An Ghníomhaireacht Chúltaca Ola Náisiúnta

### Profit and loss account

For the year ended 31<sup>st</sup> December 2010

	Note	2010 €	2009 €
<b>Turnover - continuing operations</b>	1	139,711,142	93,327,372
Operating costs	2	(34,812,704)	(36,872,672)
<b>Operating surplus - continuing operations</b>		<b>104,898,438</b>	<b>56,454,700</b>
Profit/(loss) on sale of strategic stocks	7	66,130,896	(714,252)
<b>Surplus on ordinary activities before interest and tax</b>		<b>171,029,334</b>	<b>55,740,448</b>
Net interest payable	3	(8,623,842)	(12,570,417)
<b>Surplus on ordinary activities before taxation</b>	4	<b>162,405,492</b>	<b>43,170,031</b>
Taxation charge on surplus on ordinary activities	6	(600,738)	12,834
<b>Surplus for the financial year</b>	15	<b>161,804,754</b>	<b>43,182,865</b>

On behalf of the Board

  
 Oliver Whelan  
 Director

  
 Pat Meehan  
 Director

21<sup>st</sup> April 2011

**The National Oil Reserves Agency Limited**  
**An Ghníomhaireacht Chúltaca Ola Náisiúnta**

**Statement of total recognised gains and losses**

*For the year ended 31<sup>st</sup> December 2010*

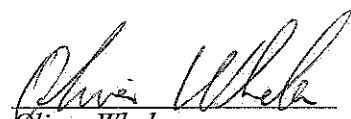
	<i>Note</i>	<b>2010</b> €	<b>2009</b> €
<b>Surplus for the financial year</b>		<b>161,804,754</b>	<b>43,182,865</b>
		<hr/>	<hr/>
		<b>161,804,754</b>	<b>43,182,865</b>
		<hr/>	<hr/>
Actual return less expected return on scheme assets	20(biii)	16,522	144,422
Experience gains/(losses) on pension scheme liabilities	20(bii)	32,870	29,258
Changes in assumptions underlying the present value of pension scheme liabilities	20(bii)	(39,362)	(55,800)
		<hr/>	<hr/>
<b>Actuarial (loss)/gain</b>		<b>10,030</b>	<b>117,880</b>
		<hr/>	<hr/>
		<hr/>	<hr/>
<b>Total gains and losses recognised</b>		<b>161,814,784</b>	<b>43,300,745</b>
		<hr/>	<hr/>

The cumulative loss recognised from actuarial gains and losses arising in the last five years amounts to €211,865.

**Movement in pension reserve**

<b>Balance at beginning of year</b>	<b>(128,346)</b>	<b>(246,226)</b>
<b>Pension Adjustment</b>	<b>288,139</b>	<b>-</b>
<b>Actuarial (loss)/ gain</b>	<b>10,030</b>	<b>117,880</b>
	<hr/>	<hr/>
<b>Balance at end of year</b>	<b>169,823</b>	<b>(128,346)</b>
	<hr/>	<hr/>

On behalf of the Board

  
**Oliver Whelan**  
*Director*

  
**Pat Meehan**  
*Director*

21<sup>st</sup> April 2011

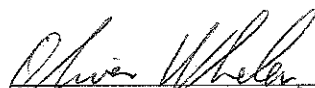
# The National Oil Reserves Agency Limited

## An Ghníomhaireacht Chúltaca Ola Náisiúnta

Balance sheet  
At 31<sup>st</sup> December 2010

	Note	2010 €	2009 €
<b>Fixed assets</b>			
Strategic stocks	7	548,239,905	562,191,727
Tangible assets	8	22,738	36,388
		<u>548,262,643</u>	<u>562,228,115</u>
<b>Current assets</b>			
Debtors	9	45,792,950	36,350,120
Cash at bank and in hand		145,013,999	82,803,584
		<u>190,806,949</u>	<u>119,153,704</u>
<b>Creditors: amounts falling due within one year</b>			
Bank loans	11(a)	(9,000,000)	(80,000,000)
Other creditors	10	(13,247,219)	(8,793,060)
		<u>168,559,730</u>	<u>30,360,644</u>
<b>Net current assets/(liabilities)</b>		<u>168,559,730</u>	<u>30,360,644</u>
<b>Total assets less current liabilities</b>		<u>716,822,373</u>	<u>592,588,759</u>
<b>Creditors: bank loans falling due after more than one year</b>	11(b)	(326,500,000)	(364,000,000)
		<u>390,322,373</u>	<u>228,588,759</u>
<b>Net assets excluding pension liability</b>		<u>390,322,373</u>	<u>228,588,759</u>
<b>Pension asset/(liability)</b>	20(bi)	169,823	88,653
		<u>390,492,196</u>	<u>228,677,412</u>
<b>Net assets</b>		<u>390,492,196</u>	<u>228,677,412</u>
<b>Capital and reserves</b>			
Called up share capital	13	1	1
Profit and loss account	15	390,258,158	218,388,314
Revaluation reserve	14	64,214	10,417,443
Pension reserve	15	169,823	(128,346)
		<u>390,492,196</u>	<u>228,677,412</u>
<b>Shareholders' funds</b>	15	<u>390,492,196</u>	<u>228,677,412</u>
Shareholders' funds are analysed as follows:			
Equity		1	1
Non equity		390,492,195	228,677,411
		<u>390,492,196</u>	<u>228,677,412</u>

On behalf of the Board

  
Oliver Whelan  
Director

  
Pat Meehan  
Director

21<sup>st</sup> April 2011

# The National Oil Reserves Agency Limited

## An Ghníomhaireacht Chúltaca Ola Náisiúnta

### Cash flow statement

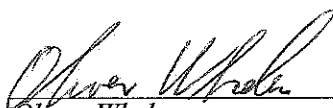
For the year ended 31<sup>st</sup> December 2010

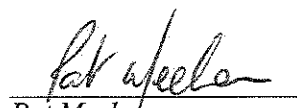
	Note	2010 €	2009 €
<b>Net cash inflow/(outflow) from operating activities</b>			
	16	99,376,961	40,383,885
Returns on investments and servicing of finance	17	(9,248,277)	(15,469,317)
Corporation tax		500,588	(717,817)
Capital expenditure and financial investment	17	80,081,143	871,424
Management of liquid resources		-	35,000,000
<b>Net cash inflow/(outflow) before financing</b>		<b>170,710,415</b>	<b>60,068,175</b>
Financing	17	(108,500,000)	(450,001)
<b>Increase/(decrease) in cash for the year</b>	<b>18</b>	<b>62,210,415</b>	<b>59,618,174</b>

### Reconciliation of net cash flow to movement in net debt

Increase/(decrease) in cash for the year	18	62,210,415	59,618,174
Net increase/(decrease) in debt	18	108,500,000	(34,549,999)
<b>Movement in net debt for the year</b>	<b>18</b>	<b>170,710,415</b>	<b>25,068,175</b>
Net debt at beginning of year		(361,196,416)	(386,264,591)
<b>Net debt at end of year</b>		<b>(190,486,001)</b>	<b>(361,196,416)</b>

On behalf of the Board

  
Oliver Whelan  
Director

  
Pat Meehan  
Director

21<sup>st</sup> April 2011

# The National Oil Reserves Agency Limited

An Ghníomhaireacht Chúltaca Ola Náisiúnta

Notes forming part of the accounts

For the year ended 31<sup>st</sup> December 2010

## 1 Turnover

Turnover comprises revenue from a levy which is collected in accordance with the terms of the following Regulations:

- (a) National Oil Reserves Agency Act 2007 (Returns and Levy) Regulations 2009 (S.I. No. 220 of 2009);
- (b) National Oil Reserves Agency Act 2007 (Returns and Levy) Regulations 2007 (S.I. No. 567 of 2007);
- (c) National Oil Reserves Agency Act 2007 (Returns and Biofuel Levy) Regulations 2010 (S.I. 356 of 2010) and;
- (d) National Oil Reserves Agency Act 2007 (Biofuel Obligation Buy-Out Charge) Regulations 2010 (S.I. 644 of 2010).

Due to the introduction of the Biofuel Obligation Scheme, NORA's turnover for the year is segregated into the following categories:

	2010 €	2009 €
Fossil fuel	137,740,821	93,327,372
Biofuel	1,970,321	-
	<hr/>	<hr/>
	139,711,142	93,327,372
	<hr/>	<hr/>

## 2 Operating costs

	2010 €	2009 €
Storage costs	28,835,945	28,466,229
Stock tickets (a)	2,340,969	4,328,849
Other operating costs	3,635,790	4,077,594
	<hr/>	<hr/>
	34,812,704	36,872,672
	<hr/>	<hr/>

- (a) The Company has accounted for certain transactions involving the reclaim of VAT incurred in the Netherlands under the EU 8th and 13th Directives. The Agency's application for reclaim of VAT of €329,030 incurred in the years 2007 – 2009 has been refused by the Revenue authorities in the Netherlands. While the Agency has lodged a formal appeal, it is considered prudent to include a provision in stock tickets for the amounts due, pending final outcome of the appeal.

# The National Oil Reserves Agency Limited

An Ghníomhaireacht Chúltaca Ola Náisiúnta

Notes forming part of the accounts

For the year ended 31<sup>st</sup> December 2010

## 3 Net interest payable

	2010	2009
	€	€
Interest on bank loans	11,029,310	14,677,495
Bank interest receivable	(2,405,468)	(2,107,078)
	<u>8,623,842</u>	<u>12,570,417</u>

## 4 Surplus before taxation for the year

This has been arrived at after charging the following items:

	2010	2009
	€	€
Directors' remuneration	26,933	29,400
Auditors' remuneration	15,500	15,500
Depreciation	15,225	21,109
	<u>57,658</u>	<u>66,009</u>

In accordance with the requirements of paragraph 12.1 (iv) of the Code of Practice for the Governance of State Bodies, fees and expenses paid to the Board in the year ended 31<sup>st</sup> December 2010 are as follows:

	€ Fees	€ Travel	€ Subsistence	€ Other	€ Total
Pat Meehan	5,985	3,902	532	1,728	12,147
Aidan Donnelly	8,978	1,691	-	-	10,669
Vincent Caffrey	5,985	-	-	-	5,985
Sean Fitzgerald	5,985	-	-	-	5,985
Katherine Licken	-	-	-	-	-
Oliver Whelan	-	-	-	-	-
	<u>26,933</u>	<u>5,593</u>	<u>532</u>	<u>1,728</u>	<u>34,786</u>

## 5 Staff numbers and costs

(a) The average number of persons employed by the company in the financial period analysed by category was as follows:

	2010	2009
	5	5
Administration	<u>5</u>	<u>5</u>

# The National Oil Reserves Agency Limited

An Ghníomhaireacht Chúltaca Ola Náisiúnta

Notes forming part of the accounts

For the year ended 31<sup>st</sup> December 2010

## 5 Staff numbers and costs (continued)

The aggregate payroll costs of these employees were:

	2010 €	2009 €
Wages and salaries	375,381	410,443
Social welfare costs	34,093	39,305
Pension costs (note 20 (a))	30,732	32,626
	<hr/> 440,206 <hr/>	<hr/> 482,374 <hr/>

- (b) In accordance with the requirements of paragraph 12.1 (iv) of the Code of Practice for the Governance of State Bodies, details of the remuneration of the Chief Executive for the year ended 31<sup>st</sup> December 2010 are as follows:

	€
Annual basic salary	110,843
Actual payments under performance related pay scheme	24,076
Other benefits including company car	13,500
	<hr/> 148,419 <hr/>

The Chief Executive's pension entitlements do not extend beyond the standard entitlements in the defined benefit Model Superannuation Scheme for civil servants.

- (c) An amount of €29,449 in respect of the Pension Levy has been deducted in 2010 and paid over to the Department of Communications, Energy and Natural Resources.



# The National Oil Reserves Agency Limited

An Ghníomhaireacht Chúltaca Ola Náisiúnta

Notes forming part of the accounts

For the year ended 31<sup>st</sup> December 2010

## 6 Taxation

	2010	2009
	€	€
Corporation tax	600,853	-
Adjustments in respect of prior periods	-	(12,834)
	<hr/>	<hr/>
Total current tax charge	600,853	(12,834)
	<hr/>	<hr/>
<b><i>Factors affecting tax charge for the period:</i></b>		
Profit on ordinary activities before tax	162,405,492	43,170,031
	<hr/>	<hr/>
Profit on ordinary activities multiplied by standard rate of corporation tax at 12.5% (2009: 12.5%)	20,300,687	5,396,254
	<hr/>	<hr/>
<b><i>Effects of:</i></b>		
Income not taxable	(17,464,164)	(11,665,990)
Expenses not deductible for tax purposes	565,916	851,332
Depreciation in excess of capital allowances	563	1,298
Income taxable at higher rate of tax	300,326	263,317
Other timing differences	-	-
Unutilised tax losses	-	5,153,789
Utilisation of losses forward	(3,102,590)	-
Adjustment in respect of prior periods	-	(12,834)
	<hr/>	<hr/>
	600,738	(12,834)
	<hr/>	<hr/>

The company is not liable to corporation tax on its levy income for the year.

In accordance with FRS 19, no deferred tax asset has been recognised in respect of tax losses carried forward, as it cannot be considered more likely than not, that there will be suitable future profits to offset the losses forward.

The total unrecognised deferred tax asset arising thereon is €27,965,878 as at 31 December 2010.

# The National Oil Reserves Agency Limited

An Ghníomhaireacht Chúltaca Ola Náisiúnta

Notes forming part of the accounts

For the year ended 31<sup>st</sup> December 2010

## 7 Strategic stocks

	2010 €	2009 €
<b>At cost</b>		
<i><b>Petroleum products</b></i>		
At beginning of year	562,191,727	563,777,403
Additions in year	60,130,565	453,659
Sales during the year	(74,082,387)	(2,039,335)
	<hr/>	<hr/>
<b>At end of year</b>	<b>548,239,905</b>	<b>562,191,727</b>
	<hr/>	<hr/>
<b>Profit/(loss) on sale of strategic stocks</b>		
Net sale proceeds	140,213,283	1,325,083
Less: Cost of product	(74,082,387)	(2,039,335)
	<hr/>	<hr/>
	<b>66,130,896</b>	<b>(714,252)</b>
	<hr/>	<hr/>

Strategic stocks are held at the direction of the Minister of Communications, Energy and Natural Resources and are not intended to be sold in the short or medium term. The replacement cost of the stocks at 31<sup>st</sup> December 2010 was €732,773,491 (31<sup>st</sup> December 2009: €611,618,255). Replacement cost is calculated by reference to physical stocks held at year end, valued at average market prices for the months of December 2010 and December 2009 respectively.

As outlined in the Chairperson's Statement, the profit on sale of strategic stocks arises from the Agency's withdrawal of stocks from a number of existing storage locations, in advance of commencing storage with new replacement stocks in alternative locations in 2011. The proceeds from the sale of strategic stocks are being reinvested in financing replacement stocks.

# The National Oil Reserves Agency Limited

An Ghníomhaireacht Chúltaca Ola Náisiúnta

Notes forming part of the accounts

For the year ended 31<sup>st</sup> December 2010

## 8 Tangible fixed assets

	Motor Vehicles €	Fixtures and fittings €	Computer Equipment €	Total €
<i>Cost</i>				
At beginning of year	38,406	24,198	43,309	105,913
Additions in year	-	-	1,575	1,575
Disposals in year	-	-	-	-
<b>At end of year</b>	<b>38,406</b>	<b>24,198</b>	<b>44,884</b>	<b>107,488</b>
<i>Depreciation</i>				
At beginning of year	15,234	19,821	34,470	69,525
Charge for year	5,174	938	9,113	15,225
Disposals in year	-	-	-	-
<b>At end of year</b>	<b>20,408</b>	<b>20,759</b>	<b>43,583</b>	<b>84,750</b>
<i>Net book value:</i>				
<b>At 31<sup>st</sup> December 2010</b>	<b>17,998</b>	<b>3,439</b>	<b>1,301</b>	<b>22,738</b>
<b>At 31<sup>st</sup> December 2009</b>	<b>23,172</b>	<b>4,377</b>	<b>8,839</b>	<b>36,388</b>

## 9 Debtors

	2010 €	2009 €
Trade debtors	11,389,054	10,234,962
Value added tax	4,159,254	969,009
Prepayments and accrued income	30,133,082	24,571,424
Corporation Tax	-	500,475
Other debtors	111,560	74,250
	<b>45,792,950</b>	<b>36,350,120</b>

All debtors are due within one year.

# The National Oil Reserves Agency Limited

An Ghníomhaireacht Chúltaca Ola Náisiúnta

Notes forming part of the accounts

For the year ended 31<sup>st</sup> December 2010

## 10 Creditors: amounts falling due within one year

	2010	2009
	€	€
Trade creditors	900,531	1,145,135
Accruals	11,625,712	7,528,774
Corporation Tax	600,738	-
PAYE/PRSI	10,906	9,603
Others creditors	109,332	109,548
	<hr/>	<hr/>
	13,247,219	8,793,060
	<hr/>	<hr/>

## 11 Creditors: bank loans falling due after more than one year

	2010	2009
	€	€
Bank loans	335,500,000	364,000,000
	<hr/>	<hr/>

### *Maturity analysis:*

	2010	2009
	€	€
Bank loans are repayable as follows:		
(a) Under one year	9,000,000	80,000,000
(b) Over one year	326,500,000	364,000,000
	<hr/>	<hr/>
	335,500,000	444,000,000
	<hr/>	<hr/>

# The National Oil Reserves Agency Limited

An Ghníomhaireacht Chúltaca Ola Náisiúnta

Notes forming part of the accounts

For the year ended 31<sup>st</sup> December 2010

## 12 Treasury risk management

### (a) Interest rate and currency profile

The profile of the company's bank loans at 31<sup>st</sup> December 2010 was as follows:

Currency	Weighted average interest rates		Weighted average debt	
	Fixed %	Floating %	Fixed €'000	Floating €'000
Euro	4.06	1.84	135,100	200,400

### (b) Schedule of undrawn committed facilities

The company has undrawn committed borrowings facilities, maturing within one year as follows:

Currency	€'000
Euro	1,000

### (c) Currency analysis

The following is an analysis of the company's foreign currency denominated assets and liabilities.

	€'000 USD	€'000 £ STG	€'000 DKK
Monetary assets	83,462	2,396	498
Monetary liabilities	-	(447)	-
Net monetary assets/(liabilities)	83,462	1,949	498

### (d) Fair value of financial assets and liabilities

The fair value of the company's short term financial assets and financial liabilities approximate to their book value at 31<sup>st</sup> December 2010.

The unrealised loss on euro interest swaps at 31<sup>st</sup> December 2010 approximated to €6.50 million.

# The National Oil Reserves Agency Limited

An Ghníomhaireacht Chúltaca Ola Náisiúnta

Notes forming part of the accounts

For the year ended 31<sup>st</sup> December 2010

## 13 Called up share capital

There are 100 ordinary shares of €1.27 authorised, of which 1 share was allotted, called up and fully paid at 31<sup>st</sup> December 2010.

## 14 Revaluation reserve

	2010 €	2009 €
At 1 <sup>st</sup> January	10,417,443	10,417,443
Transfer to profit and loss account (note 15)	(10,353,229)	-
<b>At 31<sup>st</sup> December 2010</b>	<b>64,214</b>	<b>10,417,443</b>

In 2001, by arrangement with Irish National Petroleum Corporation Limited and the Minister for Communications, Energy and Natural Resources, the company acquired strategic stocks held at the time by Irish National Petroleum Corporation Limited for a nominal payment. The company revalued these strategic stocks to the amount of their cost to Irish National Petroleum Corporation Limited.

The directors consider that this reserve is not available for distribution.

## 15 Reconciliation of movements in shareholders' funds

	Profit & Loss Account €	Revaluation Reserve €	Pension Reserve €	Total €
Opening balance at 1 <sup>st</sup> January	218,388,314	10,417,443	(128,346)	228,677,411
Surplus for the financial year	161,804,754	-	-	161,804,754
Movement in revaluation reserve	10,353,229	(10,353,229)	-	-
Actuarial Gain/(Loss)	-	-	10,030	10,030
Pension Adjustment	(288,139)	-	288,139	-
	<b>390,258,158</b>	<b>64,214</b>	<b>169,823</b>	<b>390,492,195</b>

An adjustment has been made to bring the pension reserve in line with the pension liability. The adjustment consists of the cumulative pension costs and funding of pensioners' pay since the adoption of FRS 17. As the adjustment does not affect prior year results no restatement of figures is necessary.

Section 44(3) of the National Oil Reserves Agency Act, 2007 provides that in determining the rate of the Levy, the Minister for Communications, Energy and Natural Resources shall seek to ensure that (taking one year with another) the sums realised by applying those rates to the volume assessments meet but do not exceed the estimated expenses of the Agency. Therefore the entire balance on the profit and loss account is considered not to be available for distribution.

# The National Oil Reserves Agency Limited

An Ghníomhaireacht Chúltaca Ola Náisiúnta

Notes forming part of the accounts

For the year ended 31<sup>st</sup> December 2010

## 16 Reconciliation of operating surplus to net cash inflow from operating activities

	2010 €	2009 €
<b>Operating surplus</b>	<b>104,898,438</b>	<b>56,454,700</b>
(Increase)/decrease in debtors	(10,537,881)	(15,285,878)
(Decrease)/increase in creditors	5,072,289	(729,255)
Depreciation	15,225	21,109
Pension charge less contribution	(71,110)	(76,791)
	<hr/>	<hr/>
<b>Net cash inflow from operating activities</b>	<b>99,376,961</b>	<b>40,383,885</b>
	<hr/>	<hr/>

## 17 Analysis of cash flows for headings netted in the cash flow statement

	2010 €	2009 €
<b>Returns on investment and servicing of finance</b>		
Interest paid	(11,851,733)	(17,781,722)
Interest received	2,603,456	2,312,405
	<hr/>	<hr/>
	<b>(9,248,277)</b>	<b>(15,469,317)</b>
	<hr/>	<hr/>

### Capital expenditure and financial investment

	2010 €	2009 €
Purchase of strategic stocks	(60,130,565)	(453,659)
Purchase of tangible fixed assets	(1,574)	-
Proceeds on sale of strategic stocks	140,213,283	1,325,083
	<hr/>	<hr/>
	<b>80,081,143</b>	<b>871,424</b>
	<hr/>	<hr/>

### Financing

Bank loans	(108,500,000)	(450,001)
	<hr/>	<hr/>

# The National Oil Reserves Agency Limited

An Ghníomhaireacht Chúltaca Ola Náisiúnta

Notes forming part of the accounts

For the year ended 31<sup>st</sup> December 2010

## 18 Analysis of net debt

	At 1 January 2010 €	Cash flow €	At 31 December 2010 €
Cash at bank and in hand	82,803,584	62,210,415	145,013,999
Bank overdraft	-	-	-
	<u>82,803,584</u>	<u>62,210,415</u>	<u>145,013,999</u>
Bank loans	(444,000,000)	108,500,000	(335,500,000)
	<u>(444,000,000)</u>	<u>108,500,000</u>	<u>(335,500,000)</u>
Net debt	<u>(361,196,416)</u>	<u>170,710,415</u>	<u>(190,486,001)</u>

## 19 Commitments

### *Operating lease commitments*

The total lease payments made in 2010 by the Agency were €28,885,594.

The company has leasehold interests in its registered office at 7 Clanwilliam Square, Dublin and in oil storage facilities at Ringsend, Dublin and Tarbert, Co. Kerry.

Annual commitments under operating leases at the balance sheet date are as follows:

	2010 Property €000	2010 Oil Storage €000	2009 Property €000	2009 Oil Storage €000
<b><i>Expiring:</i></b>				
Within one year	50	4,346	50	121
Between one and two years	100	1,056	100	2,495
Between two and five years	200	2,897	200	6,907
After more than five years	400	19,178	450	19,049
	<u>750</u>	<u>27,477</u>	<u>800</u>	<u>28,572</u>

### *Foreign currency commitments*

The company has entered into foreign currency commitments of £0.1 million sterling (euro equivalent: €0.1 million) relating to storage expenses at 31<sup>st</sup> December 2010.



# The National Oil Reserves Agency Limited

An Ghníomhaireacht Chúltaca Ola Náisiúnta

Notes forming part of the accounts

For the year ended 31<sup>st</sup> December 2010

## 19 Commitments (continued)

### Capital commitments

Future capital expenditure approved by the directors in relation to the acquisition of strategic stocks at 31<sup>st</sup> December 2010 was as follows:

	2010 €000	2009 €000
Contracted	1,465	10,004
Authorised but not contracted	35,267	10,000

## 20 Pensions

### (a) Pension costs

	2010 €	2009 €
Current service cost	57,711	52,659
Interest cost	57,780	58,334
Expected return on scheme assets	(67,755)	(58,284)
Less: employees contributions	(17,004)	(20,083)
	30,732	32,626

### (bi) Net pension liability

	2010 €	2009 €
Present value of funded obligations	1,185,672	1,100,900
Fair value of scheme assets	(1,355,495)	(1,189,553)
Net liability/(asset)	(169,823)	(88,653)

### (bii) Present value of scheme obligations

at beginning of year	1,100,900	1,012,700
Current service cost	57,710	52,659
Interest cost	57,780	58,334
Actuarial (gain)/loss	6,492	26,542
Benefits paid	(37,211)	(49,335)
Present value of scheme obligations at end of year	1,185,671	1,100,900

# The National Oil Reserves Agency Limited

An Ghníomhaireacht Chúltaca Ola Náisiúnta

Notes forming part of the accounts

For the year ended 31<sup>st</sup> December 2010

## 20 Pensions (continued)

	2010 €	2009 €
<b>(biii) Change in scheme assets</b>		
Fair value of scheme assets at beginning of year	1,189,553	906,683
Expected return on scheme assets	67,755	58,284
Actuarial gain/(loss)	16,522	144,422
Employer contributions	101,872	109,416
Members' contributions	17,004	20,083
Benefits paid	(37,211)	(49,335)
Closing value of scheme assets	1,355,495	1,189,553

The current practice of increasing pensions in line with public sector salary inflation is taken into account in measuring the defined benefit obligation.

### (c) Description of scheme and actuarial assumptions

The pension scheme is a defined benefit final salary pension arrangement with benefits defined by reference to current "model" public sector scheme regulations. Employer contribution rates are set having regard to actuarial advice and periodic review on the funding rate required for the scheme. The scheme provides a pension (one eightieth per year of service), a gratuity or lump sum (three eightieths per year of service) and spouse's and children's pensions. Normal Retirement Age is a member's 65<sup>th</sup> birthday. Pensions in payment (and deferment) normally increase in line with general public service sector salary inflation.

	2010	2009
Discount rate	5.00%	5.20%
Salary increases	3.50%	3.50%
Pension increases	3.00%	3.00%
Inflation increases	2.00%	2.00%

Assumptions regarding future mortality experience are set based on published mortality tables (PNML00/PNFL00) published by the actuarial profession in the UK. The 00 tables are derived from insurance company data collected between 1999 and 2002.

The mortality assumptions chosen are based on standard tables reflecting typical pensioner mortality and they allow for increasing life expectancy over time.

The average life expectancy, in years, of a pensioner retiring is as follows:

	Retiring at 65
Males	21.6
Females	23.3

# The National Oil Reserves Agency Limited

An Ghníomhaireacht Chúltaca Ola Náisiúnta

Notes forming part of the accounts

For the year ended 31<sup>st</sup> December 2010

## 20 Pensions (continued)

The scheme assets at year end comprised:

	2010	2009
Equities	38.2%	32.7%
Bonds	56.1%	63.0%
Property	1.4%	3.2%
Other	4.3%	1.1%
	<u>100.0%</u>	<u>100.0%</u>

Actual return less expected return on scheme assets

	2010 €	2009 €
Actual return	84,277	202,706
Less: expected return	(67,755)	(58,284)
Actuarial gain/(loss)	<u>16,522</u>	<u>144,422</u>

### (d) History of defined benefit obligations, assets and experience gains and losses

	2010 €000	2009 €000	2008 €000	2007 €000	2006 €000
Defined benefit obligations	1,186	1,101	1,013	(175)	(242)
Fair value of scheme assets	(1,355)	(1,190)	(907)	476	373
Deficit/(Surplus) for funded scheme	<u>(169)</u>	<u>(89)</u>	<u>106</u>	<u>301</u>	<u>131</u>
Experience (gains)/losses on scheme liabilities					
Amount	32.9	29.3	165.1	7.7	2.6
Percentage of scheme liabilities	2.8%	2.7%	16.3%	4.4%	1.1%

### (e) Funding of pensions

A triennial actuarial valuation of the scheme was carried out at 1<sup>st</sup> January 2009 and recommended a contribution rate of 23.6% of basic salaries (inclusive of members' contributions).

# The National Oil Reserves Agency Limited

An Ghníomhaireacht Chúltaca Ola Náisiúnta

Notes forming part of the accounts

*For the year ended 31<sup>st</sup> December 2010*

## **21 Board Members Interests**

The National Oil Reserves Agency adopted procedures in accordance with the guidelines issued by the Department of Finance in relation to the disclosure of interests by Board members and those procedures have been adhered to during the year. The Board members and the National Oil Reserves Agency complied with the Department of Finance Guidelines covering situations of personal interest.

## **22 Approval of financial statements**

The directors approved the financial statements on 21<sup>st</sup> April 2011.