

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

**Directors' report and  
financial statements**

**Year ended 31<sup>st</sup> December 2007**

**PRN No: A8/0968**

*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 - 7
Directors' report	8 - 9
Statement of directors' responsibilities in respect of the directors' report and the financial statements	10
Chairperson's Statement on the System of Internal Financial Controls	11 - 12
Comptroller and Auditor General's report	13 - 14
Statement of accounting policies	15 - 16
Profit and loss account and statement of total recognised gains and losses	17
Balance sheet	18
Cash flow statement	19
Notes forming part of the financial statements	20 - 30

# The National Oil Reserves Agency Limited

An Ghníomhaireacht Chúltaca Ola Náisiúnta

## Directors and other information

### Directors

Aidan Donnelly (Chairman)  
Katherine Licken  
Vincent Caffrey  
Sean Fitzgerald  
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

### Chairpersons 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.

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 August 1<sup>st</sup> 2007 upon the introduction of the **National Oil Reserves Agency Act 2007** which established NORA as a stand alone non-commercial 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 & 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

In parallel with the introduction of the National Oil Reserves Agency Act 2007, the Minister for Communications, Energy & 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 (changed from 0.476 cent per litre to 1.00 cent per litre) to be paid with effect from 1 November 2007 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.

Nora meets its 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.

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 I (Gasoline) increased by 0.8%, and CATEGORY II (Distillates – Diesel, Gas Oil, Kerosene) increased by 4.2%, while CATEGORY III (Fuel Oils) fell to Zero from July 2007.

At year end 2007, the breakdown of the stocks (excluding Fuel Oil) held by NORA was as follows:

	2007 ('000 Tonnes)	2006 ('000 Tonnes)
<b>Stocks in Ireland</b>	748 (47%)	780 (51%)
<b>Stocks Abroad</b>	174 (11%)	150 (10%)
<b>Stock Tickets (Ireland)</b>	0 (0%)	0 (0%)
<b>Stock Tickets (Abroad)</b>	679 (42%)	600 (39%)
<b>Total:</b>	1,601	1,530

The stocks owned by NORA and stored both in Ireland and abroad at the end of 2007 consisted of:

	2007 ('000 Tonnes)	2006 ('000 Tonnes)
<b>CAT I - Gasoline</b>	171	148
<b>CAT II - Distillates</b>	751	782
<b>Total:</b>	922	930

During 2007, arising from an EU Directive setting out requirements which lowered the maximum sulphur content in Gas Oil and Kerosene (Burning oil – not Jet) from 2000 ppm to 1,000 ppm, effective 1<sup>st</sup> January 2008, an upgrade of 100,000 tonnes of Gas Oil was completed.

# The National Oil Reserves Agency Limited

## An Ghníomhaireacht Chúltaca Ola Náisiúnta

### Obligation – v - Actual Stocks Held

2007		2007		2007		Obligation
81 (385)	81 (385)	77 (1,177)	77 (1,177)	Nil	Nil	
2006		2006		2006		Actual Stocks
82 (377)	82 (377)	77 (1,082)	79 (1,091)	44 (155)	45 (160)	
CAT I (Gasoline) Days ('000 tonnes)		CAT II (Distillates) Days ('000 tonnes)		CAT III (Fuel Oil) Days ('000 tonnes)		

The decrease in stocks owned by NORA in 2007 arises from a combination of changes in storage volumes which took place throughout the year, involving the reduction of storage at some existing locations, the expansion of storage at other existing locations, and the uptake of storage at some new locations.

Combined, this resulted in an increase in stocks held of :

- CAT I – 23,596 tonnes
- and a decrease in stocks held of
- CAT II – 26,524 tonnes

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 has resulted in existing storage coming under increasing pressure. This, coupled with the introduction of Biofuels requiring the allocation of some existing tankage to Bioethanol and Biodiesel, resulted in reduced NORA storage capacity in existing commercial storage.

Notwithstanding this, good progress was made in identifying and securing access to additional storage for strategic stocks on the island of Ireland. The Agency has entered into contracts for two key storage facilities, both of which require extensive refurbishment. This work is under way, and upon completion (one in late 2008, the other in late 2009) will provide NORA with an additional 190,000 tonnes of storage for CAT II product. This additional stock will be a key step in the Agency's plan to increase its strategic stocks on the island of Ireland, but with oil demand continuing to grow each year, significantly more storage is needed.

The Government White Paper (Delivering a Sustainable Energy Future for Ireland – March 2007 – Section 3.7) sets out a commitment – “to rebalance 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”.

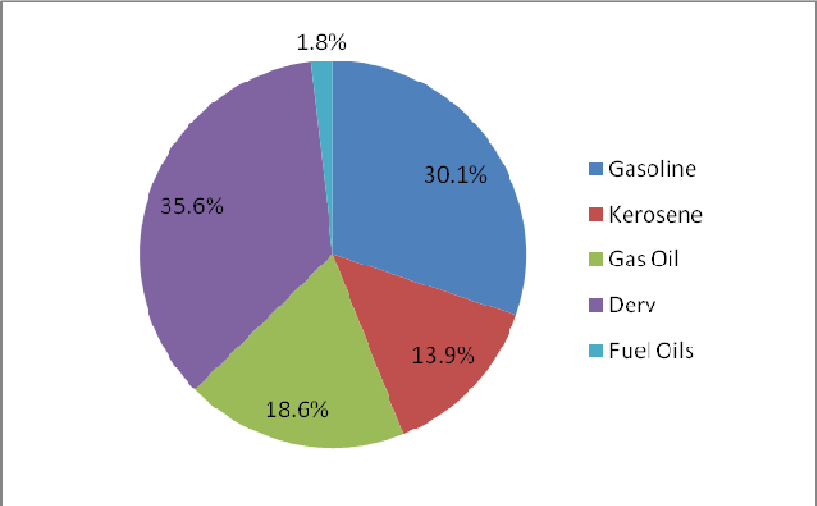
# The National Oil Reserves Agency Limited

An Ghníomhaireacht Chúltaca Ola Náisiúnta

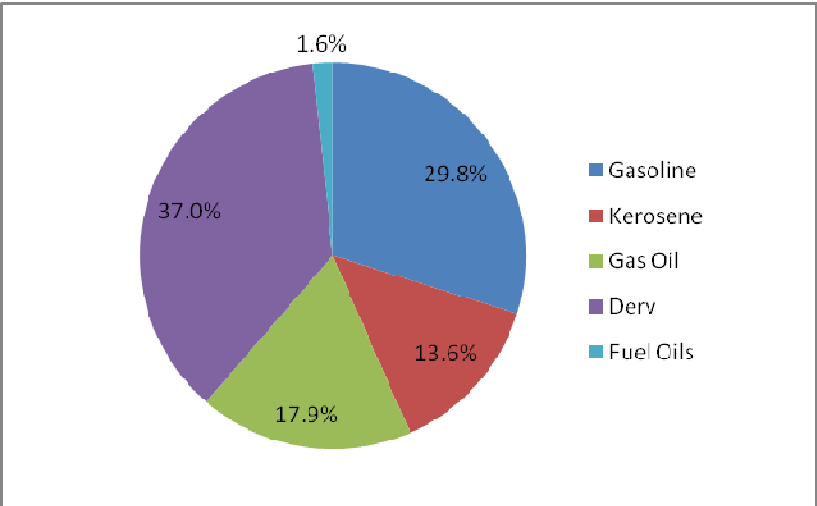
In addition, the Department of Communications, Energy, and Natural Resources in 2007 commissioned a study on the “*Review of Security of Oil Supplies in Ireland*”. The Agency anticipates that the White Paper commitment coupled with the outcome of this study, when completed, will significantly influence NORA’s future policies and strategies for securing storage for Ireland’s strategic stocks.

## Composition of the Levy

2006



2007



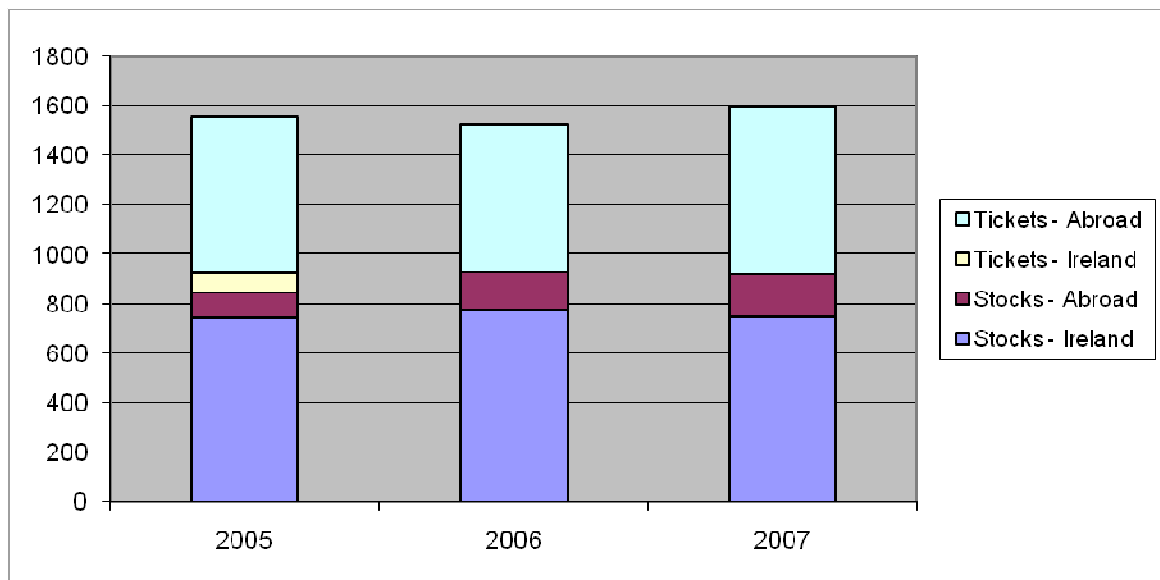
# The National Oil Reserves Agency Limited

## An Ghníomhaireacht Chúltaca Ola Náisiúnta

The Agency is funded by a levy on the sale of oil products and raises commercial loans to purchase 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”.

Against the backdrop of a market which saw oil prices rise significantly in 2007, and the ongoing growth in oil consumption giving rise to a corresponding growth in strategic stocks obligation, the Agency welcomes this increase in levy and regards it as essential to underpinning its stockholding strategy.

### Breakdown of Stockholding 2005 – 2007



I would like to thank the members of the Board and the Staff for their dedication and assistance during the year. I would also like to express my thanks to the Minister, Eamon Ryan T.D., for his 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 to the Board of Irish National Petroleum Corporation for their assistance throughout the year.

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**Aidan Donnelly**  
**Chairman**

**30<sup>th</sup> June 2008**



# 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 December 2007.

### **Principal activities, business review and future developments**

On 1 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 the National Oil Reserves Agency Act 2007, and The National Oil Reserves Agency Act 2007 (Returns and Levy) Regulations 2007 (S.I. No. 567 of 2007).

The operations of the Agency consist of managing the strategic stocks of Ireland required under EU legislation. The company meets its 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 costs of its operations are recoverable by the company through the oil stocks 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.

The directors do not anticipate any significant changes in the principal activities of the company in the foreseeable future.

### **Business risks and management**

The principle 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 disposal 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 disposals 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 company seeks to minimise cash balances but where necessary cash surpluses are deposited with banks with an appropriate credit standing.

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.

# The National Oil Reserves Agency Limited

## Directors' report (*continued*)

### **Results for the period and dividends**

The results are disclosed on page 17 of the financial statements. As noted in the profit and loss account, a gain on the disposal of Strategic Stocks of €12.4 million (2006: €5.4 million) was recorded in 2007. The gain arises from the difference between the original cost of stocks and their disposal value, in a year when oil prices continued to maintain historically high levels.

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

The Board wishes to record condolences in relation to the untimely death of Mr. Gene Fitzgerald in December 2007. The Board acknowledges his outstanding contribution and service to the company during his period as a Director.

On 26 September 2007, Ms. Mary Austin retired from the Board. On 29 November 2007, Ms. Katherine Licken was appointed to the Board. On 1 January 2008, Mr. Pat Meehan was appointed to the position of Chief Executive and to the Board. . On 11 April 2008, Mr. Oliver Whelan 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.

### **Post balance sheet events**

Save as disclosed in note 20, there have been no significant events since the balance sheet date and the date of approval of these financial statements.

### **Prompt 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

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**Aidan Donnelly**

*Director*

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**Katherine Licken**

*Director*

30<sup>th</sup> June 2008

# 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 2006. 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 2006.

On behalf of the Board

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**Aidan Donnelly**  
*Director*

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**Katherine Licken**  
*Director*

30<sup>th</sup> June 2008

# 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 our responsibility for ensuring that an appropriate 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 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 National Oil Reserves Agency Limited

## An Ghníomhaireacht Chúltaca Ola Náisiúnta

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. In particular, it includes:

- a comprehensive budgeting system with an annual budget which is reviewed and agreed by the Board;
- regular reviews by the 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 a firm of accountants.

The annual internal audit plan is informed by an analysis of the risks to which the Agency is exposed and a full risk analysis exercise has been undertaken in this regard. The analysis of risk and internal audit plans are endorsed by the 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.

The National Oil Reserves Agency has in the year ended 31 December 2007, 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 2006 and explanation of significant variances
- annual budget and financial plan for 2008

### **Annual Review of Controls**

I confirm that in respect of the year ended 31 December 2007 the Board conducted a review of the effectiveness of the system of internal financial control.

Signed on behalf of the Board.

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**Aidan Donnelly, Chairman**

30<sup>th</sup> June 2008

# The National Oil Reserves Agency Limited

## An Ghníomhaireacht Chúltaca Ola Náisiúnta

### NATIONAL OIL RESERVES AGENCY

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

I have audited the financial statements of the National Oil Reserves Agency for the year ended 31 December 2007 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.

#### **Respective Responsibilities of the Directors and the Comptroller and Auditor General**

The Directors' responsibilities for preparing the financial statements in accordance with applicable law and Generally Accepted Accounting Practice in Ireland are set out in the Statement of Directors' Responsibilities. The Directors are also responsible for ensuring the regularity of transactions.

My responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

I report my opinion as to whether the financial statements give a true and fair view, in accordance with Generally Accepted Accounting Practice in Ireland and are properly prepared in accordance with the Companies Acts 1963 to 2006. I also report whether in my opinion proper books of account have been kept by the Company; whether, at the balance sheet date, there exists a financial situation requiring the convening of an extraordinary general meeting of the Company; and whether the information given in the Directors' Report is consistent with the financial statements. In addition, I state whether I have obtained all the information and explanations necessary for the purposes of my audit, and whether the financial statements are in agreement with the books of account.

I report any material instance where moneys have not been applied for the purposes intended or where the transactions do not conform to the authorities governing them.

I review whether the Statement on Internal Financial Control reflects the Company's compliance with the Code of Practice for the Governance of State Bodies and report any material instance where it does not do so, or if the statement is misleading or inconsistent with other information of which I am aware from my audit of the financial statements. I am not required to consider whether the Statement on Internal Financial Control covers all financial risks and controls, or to form an opinion on the effectiveness of the risk and control procedures.

I read other information contained in the Annual Report, and consider whether it is consistent with the audited financial statements. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the financial statements.

# The National Oil Reserves Agency Limited

## An Ghníomhaireacht Chúltaca Ola Náisiúnta

### **Basis of audit opinion**

In the exercise of my function as Comptroller and Auditor General, I conducted my audit of the financial statements in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board and by reference to the special considerations which attach to State bodies in relation to their management and operation. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures and regularity of the financial transactions included in the financial statements. It also includes an assessment of the significant estimates and judgments made in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations that I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the financial statements.

Without qualifying my opinion, I draw attention to the Accounting Policy on pensions which explains why the provisions of Financial Reporting Standard 17 have not been implemented.

### **Opinion**

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 2007 and of its surplus for the year then ended; and
- have been properly prepared in accordance with the Companies Acts 1963 to 2006.

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 2007 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.

**John Buckley**  
**Comptroller and Auditor General**  
**30 June 2008**

# The National Oil Reserves Agency Limited

## An Ghníomhaireacht Chúltaca Ola Náisiúnta

### Statement of accounting policies

*for the year ended 31 December 2007*

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

*for the year ended 31 December 2007*

#### **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.

#### **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 needs 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. It is envisaged 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 is in discussions with the Department of Communications, Energy and Natural Resources about how future pension costs will be met. It is envisaged that the arrangements will involve the payment of employer and employee contributions to the Department with the Department making funding available to the Agency to meet the cost of benefits as they fall due.

The pension charge in the financial statements (Note 5) represents employer contributions for the year paid to the existing scheme. In view of the impending arrangements in respect of pension funding, the Agency does not consider it appropriate to implement the provisions of Financial Reporting Standard (FRS) 17.

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

**Profit and loss account**  
*for the year ended 31 December 2007*

	<i>Note</i>	<b>2007</b> €	2006 €
<b>Turnover - continuing operations</b>	<i>1</i>	<b>46,708,092</b>	37,000,935
Operating costs	<i>2</i>	<b>(32,854,954)</b>	(29,647,471)
<b>Operating surplus - continuing operations</b>		<b>13,853,138</b>	7,353,464
Gain on disposal of strategic stocks	<i>7</i>	<b>12,438,322</b>	5,361,018
<b>Surplus on ordinary activities before interest and tax</b>		<b>26,291,460</b>	12,714,482
Net interest payable	<i>3</i>	<b>(6,001,191)</b>	(4,652,444)
<b>Surplus on ordinary activities before taxation</b>	<i>4</i>	<b>20,290,269</b>	8,062,038
Taxation charge on surplus on ordinary activities	<i>6</i>	<b>(675,878)</b>	(566,322)
<b>Surplus for the financial year</b>	<i>15</i>	<b>19,614,391</b>	7,495,716

**Statement of total recognised gains and losses**  
*for the year ended 31 December 2007*

<b>Surplus for the financial year</b>		<b>19,614,391</b>	7,495,716
<b>Transfer from revaluation reserve in respect of strategic stocks disposed during the year</b>	<i>14</i>	<b>634,987</b>	105,069
<b>Total gains and losses recognised</b>		<b>20,249,378</b>	7,600,785

On behalf of the Board

**Aidan Donnelly**  
*Director*

**Katherine Licken**  
*Director*

30<sup>th</sup> June 2008

# The National Oil Reserves Agency Limited

## An Ghníomhaireacht Chúltaca Ola Náisiúnta

### Balance sheet

at 31 December 2007

	<i>Note</i>	<b>2007</b> €	2006 €
<b>Fixed assets</b>			
Strategic stocks	7	<b>290,796,872</b>	277,106,142
Tangible assets	8	<b>3,953</b>	16,006
		<hr/>	<hr/>
		<b>290,800,825</b>	277,122,148
<b>Current assets</b>			
Debtors	9	<b>22,245,752</b>	8,739,744
Cash at bank and in hand		<b>1,237,126</b>	1,506,182
		<hr/>	<hr/>
		<b>23,482,878</b>	10,245,926
<b>Creditors:</b> amounts falling due within one year	10	<b>(8,164,271)</b>	(4,827,424)
		<hr/>	<hr/>
<b>Net current assets/(liabilities)</b>		<b>15,318,607</b>	5,418,502
		<hr/>	<hr/>
<b>Total assets less current liabilities</b>		<b>306,119,432</b>	282,540,650
<b>Creditors:</b> bank loans falling due after more than one year	11	<b>(157,862,001)</b>	(153,897,610)
		<hr/>	<hr/>
<b>Net assets</b>		<b>148,257,431</b>	128,643,040
		<hr/>	<hr/>
<b>Capital and reserves</b>			
Called up share capital	13	<b>1</b>	1
Profit and loss account	15	<b>137,839,987</b>	117,590,609
Revaluation reserve	14	<b>10,417,443</b>	11,052,430
		<hr/>	<hr/>
<b>Shareholders' funds</b>	15	<b>148,257,431</b>	128,643,040
		<hr/>	<hr/>
Shareholders' funds are analysed as follows:			
Equity		<b>1</b>	1
Non equity		<b>148,257,430</b>	128,643,039
		<hr/>	<hr/>
		<b>148,257,431</b>	128,643,040
		<hr/>	<hr/>

On behalf of the Board

**Aidan Donnelly**  
*Director*

**Katherine Licken**  
*Director*

30<sup>th</sup> June 2008

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

**Cash flow statement**

*for the year ended 31 December 2007*

	<i>Note</i>	<b>2007</b> €	2006 €
<b>Net cash inflow from operating activities</b>	<i>16</i>	<b>6,951,157</b>	3,996,381
Returns on investments and servicing of finance	<i>17</i>	<b>(5,921,576)</b>	(4,136,134)
Corporation tax		<b>(4,016,324)</b>	(1,803,667)
Capital expenditure and financial investment	<i>17</i>	<b>(1,246,704)</b>	(44,375,796)
<b>Net cash inflow before financing</b>		<b>(4,233,447)</b>	(46,319,216)
Financing	<i>17</i>	<b>3,964,391</b>	46,399,965
<b>Decrease in cash for the year</b>	<i>18</i>	<b>(269,056)</b>	80,749

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

Decrease in cash for the year	<i>18</i>	<b>(269,056)</b>	80,749
Net increase in debt	<i>18</i>	<b>(3,964,391)</b>	(46,399,965)
<b>Movement in net debt for the year</b>	<i>18</i>	<b>(4,233,447)</b>	(46,319,216)
Net debt at beginning of year		<b>(152,391,428)</b>	(106,072,212)
<b>Net debt at end of year</b>		<b>(156,624,875)</b>	(152,391,428)

# The National Oil Reserves Agency Limited

## An Ghníomhaireacht Chúltaca Ola Náisiúnta

### Notes forming part of the accounts

For the year ended 31 December 2007

#### 1 Turnover

Turnover comprises revenue from a levy which is collected in accordance with the terms of the National Oil Reserves Agency Act 2007 (Returns and Levy) Regulations 2007 (S.I. No. 567 of 2007).

#### 2 Operating costs

	2007 €	2006 €
Storage costs	21,698,165	17,981,281
Stock tickets	7,978,176	10,210,618
Other operating costs	3,178,613	1,455,572
	<hr/>	<hr/>
	32,854,954	29,647,471
	<hr/> <hr/>	<hr/> <hr/>

#### 3 Net interest payable

	2007 €	2006 €
Interest on bank loans	6,560,761	4,755,382
Bank interest receivable	(559,570)	(102,938)
	<hr/>	<hr/>
	6,001,191	4,652,444
	<hr/> <hr/>	<hr/> <hr/>

#### 4 Surplus before taxation for the year

This has been arrived at after charging the following items:

	2007 €	2006 €
Directors' remuneration	13,125	33,000
Auditors' remuneration	16,500	16,000
Depreciation	6,350	7,311
	<hr/>	<hr/>

#### 5 Staff numbers and costs

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

	2007	2006
Administration	4	5
	<hr/> <hr/>	<hr/> <hr/>

# The National Oil Reserves Agency Limited

## An Ghníomhaireacht Chúltaca Ola Náisiúnta

### Notes forming part of the accounts

For the year ended 31 December 2007

#### 5 Staff numbers and costs (continued)

The aggregate payroll costs of these employees were:

	2007 €	2006 €
Wages and salaries	289,195	293,640
Social welfare costs	26,995	28,282
Pension costs	77,253	98,690
	<hr/>	<hr/>
	393,443	420,612
	<hr/>	<hr/>

#### 6 Taxation

	2007 €	2006 €
Corporation tax	675,878	566,322
	<hr/>	<hr/>
<b>Factors affecting tax charge for the period:</b>		
Surplus on ordinary activities before tax	20,290,269	8,062,038
	<hr/>	<hr/>
Surplus on ordinary activities multiplied by standard rate of corporation tax at 12.5% (2005: 12.5%)	2,536,284	1,007,755
<b>Effects of:</b>		
Non taxable/deductible (income)/expenses	(954,465)	(324,760)
Expenses deductible on disposals	(930,357)	(125,301)
Depreciation in excess of capital allowances	(485)	(1,624)
Income taxable at higher rate of tax	27,028	12,867
Other timing differences	(2,899)	(2,615)
Adjustment in respect of prior year	772	-
	<hr/>	<hr/>
	675,878	566,322
	<hr/>	<hr/>

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

# The National Oil Reserves Agency Limited

## An Ghníomhaireacht Chúltaca Ola Náisiúnta

### Notes forming part of the accounts

For the year ended 31 December 2007

#### 7 Strategic stocks

	2007 €	2006 €
<b>At cost</b>		
<i><b>Petroleum products</b></i>		
At beginning of year	277,106,142	227,369,327
Additions in year	23,381,500	80,157,201
Disposals during the year	(9,690,770)	(30,420,386)
	<hr/>	<hr/>
<b>At end of year</b>	<b>290,796,872</b>	277,106,142
	<hr/> <hr/>	<hr/> <hr/>
<b>Gain on disposal of strategic stocks</b>		
Net disposal proceeds	22,129,092	35,781,405
Less: Cost of product	(9,690,770)	(30,420,386)
	<hr/>	<hr/>
	<b>12,438,322</b>	5,361,019
	<hr/> <hr/>	<hr/> <hr/>

The gain on disposal of strategic stocks of €12.4 million relates to the disposal of stocks in the normal course of business. The gain arises from the difference between the original cost of stocks and their disposal value, in a year when oil prices continued to maintain historically high levels. The proceeds have been reinvested in financing replacement stocks (Note 17).

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 December 2007 was €551,460,897 (2006: €388,431,128).

# The National Oil Reserves Agency Limited

## An Ghníomhaireacht Chúltaca Ola Náisiúnta

### Notes forming part of the accounts

For the year ended 31 December 2007

#### 8 Tangible fixed assets

	Motor Vehicles €	Fixtures and fittings €	Computer Equipment €	Total €
<i>Cost</i>				
At beginning of year	23,140	21,045	17,179	61,364
Additions in year	-	-	1,619	1,619
Disposals in year	(23,140)	-	-	(23,140)
<b>At end of year</b>	<b>-</b>	<b>21,045</b>	<b>18,798</b>	<b>39,843</b>
<i>Depreciation</i>				
At beginning of year	13,378	15,510	16,470	45,358
Charge for year	2,440	3,157	753	6,350
Disposals in year	(15,818)	-	-	(15,818)
<b>At end of year</b>	<b>-</b>	<b>18,667</b>	<b>17,223</b>	<b>35,890</b>
<i>Net book value:</i>				
<b>At 31 December 2007</b>	<b>-</b>	<b>2,378</b>	<b>1,575</b>	<b>3,953</b>
At 31 December 2006	9,762	5,535	709	16,006

#### 9 Debtors

	2007 €	2006 €
Trade debtors	6,658,422	2,692,715
Amounts due from former parent undertaking	105,364	51,581
Value added tax	422,970	1,437,655
Corporation tax	3,324,894	-
Prepayments and accrued income	11,734,102	4,555,831
Other debtors	-	1,962
	<b>22,245,752</b>	<b>8,739,744</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 December 2007*

**10 Creditors:** amounts falling due within one year

	<b>2007</b>	2006
	€	€
Trade creditors	<b>2,436,941</b>	135,985
Accruals and deferred income	<b>5,702,122</b>	4,672,746
PAYE/PRSI	<b>7,626</b>	3,142
Corporation Tax	-	15,551
Others creditors	<b>17,582</b>	
	<hr/>	<hr/>
	<b>8,164,271</b>	4,827,424
	<hr/> <hr/>	<hr/> <hr/>

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

	<b>2007</b>	2006
	€	€
Bank loans	<b>157,862,001</b>	153,897,610
	<hr/>	<hr/>

***Maturity analysis:***

	<b>2007</b>	2006
	€	€
Bank loans are repayable as follows:		
Within one year	-	
Between one and two years	<b>75,937,001</b>	60,497,610
Between two and five years	<b>50,000,000</b>	64,300,000
Greater than five years	<b>31,925,000</b>	29,100,000
	<hr/>	<hr/>
	<b>157,862,001</b>	153,897,610
	<hr/> <hr/>	<hr/> <hr/>

# The National Oil Reserves Agency Limited

## An Ghníomhaireacht Chúltaca Ola Náisiúnta

### Notes forming part of the accounts

For the year ended 31 December 2007

## 12 Treasury risk management

### (a) Interest rate and currency profile

The profile of the company's bank loans at 31 December 2007 was as follows:

Currency	Weighted average interest rates		Weighted average debt	
	Fixed %	Floating %	Fixed €'000	Floating €'000
Euro	3.72	4.90	90,000	67,862
	<u>      </u>	<u>      </u>	<u>      </u>	<u>      </u>

### (b) Schedule of undrawn committed facilities

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

Currency	€'000
Euro	139,138
	<u>      </u>

### (c) Currency analysis

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

	€'000 USD	€'000 £ STG
Monetary assets	45	17
Monetary liabilities	(1,877)	(269)
	<u>      </u>	<u>      </u>
Net monetary liabilities	(1,832)	(252)
	<u>      </u>	<u>      </u>

### (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 December 2007.

The unrealised gain on euro interest swaps at 31 December 2007 approximated € 1.97 million.

# The National Oil Reserves Agency Limited

## An Ghníomhaireacht Chúltaca Ola Náisiúnta

### Notes forming part of the accounts

*For the year ended 31 December 2007*

#### 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 December 2007.

#### 14 Revaluation reserve

	2007 €	2006 €
At 1 January	11,052,430	11,157,499
Transfer to profit and loss account (note 15)	(634,987)	(105,069)
<b>At 31 December 2007</b>	<b>10,417,443</b>	<b>11,052,430</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. In 2007 and 2006, part of these stocks were disposed of and accordingly amounts of €634,987 and €105,069 respectively have been transferred from the revaluation reserve to the profit and loss account upon their realisation.

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

#### 15 Reconciliation of movements in shareholders' funds

	2007 €	2006 €
(a) Opening shareholders' funds	128,643,040	121,147,324
Surplus for the financial year	19,614,391	7,495,716
<b>Closing shareholders' funds</b>	<b>148,257,431</b>	<b>128,643,040</b>

# The National Oil Reserves Agency Limited

## An Ghníomhaireacht Chúltaca Ola Náisiúnta

### Notes forming part of the accounts

For the year ended 31 December 2007

#### 15 Reconciliation of movements in shareholders' funds (continued)

	2007 €	2006 €
(b) Profit and loss account, at beginning of year	117,590,609	109,989,824
Transfer from revaluation reserve (note 14)	634,987	105,069
Surplus for the financial year	19,614,391	7,495,716
Profit and loss account, at end of year	137,839,987	117,590,609

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.

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

	2007 €	2006 €
<b>Operating surplus</b>	<b>13,853,138</b>	7,353,464
(Increase)/decrease in debtors	(10,181,114)	(89,520)
(Decrease)/increase in creditors	3,272,783	(3,274,874)
Depreciation	6,350	7,311
<b>Net cash inflow from operating activities</b>	<b>6,951,157</b>	3,996,381

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

	2007 €	2006 €
<b>Returns on investment and servicing of finance</b>		
Interest paid	(6,481,146)	(4,239,072)
Interest received	559,570	102,938
	(5,921,576)	(4,136,134)

# The National Oil Reserves Agency Limited

## An Ghníomhaireacht Chúltaca Ola Náisiúnta

### Notes forming part of the accounts

For the year ended 31 December 2007

#### 17 Analysis of cash flows for headings netted in the cash flow statement (*continued*)

Capital expenditure and financial investment	2007 €	2006 €
Purchase of strategic stocks	(23,381,499)	(80,157,201)
Purchase of tangible fixed assets	5,703	-
Net proceeds on disposal of strategic stocks	22,129,092	35,781,405
	<u>(1,246,704)</u>	<u>(44,375,796)</u>
<b>Financing</b>		
Bank loans	3,964,391	46,399,965
	<u>3,964,391</u>	<u>46,399,965</u>

#### 18 Analysis of net debt

	At 1 January 2007 €	Cash flow €	At 31 December 2007 €
Cash at bank and in hand	1,506,182	(269,056)	1,237,126
Bank overdraft	-	-	-
	<u>1,506,182</u>	<u>(269,056)</u>	<u>1,237,126</u>
Bank loans	(153,897,610)	(3,964,391)	(157,862,001)
	<u>(153,897,610)</u>	<u>(3,964,391)</u>	<u>(157,862,001)</u>
<b>Net debt</b>	<b>(152,391,428)</b>	<b>(4,233,447)</b>	<b>(156,624,875)</b>
	<u>(152,391,428)</u>	<u>(4,233,447)</u>	<u>(156,624,875)</u>

#### 19 Commitments

##### *Operating lease commitments*

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

	2007 Property €000	2007 Oil Storage €000	2006 Property €000	2006 Oil Storage €000
<b>Expiring:</b>				
Within one year	50	213	51	2,419
Between one and two years	100	-	-	-
Between two and five years	200	6,279	-	1,423
After more than five years	500	18,680	-	14,617
	<u>850</u>	<u>25,171</u>	<u>51</u>	<u>18,459</u>
	<u>850</u>	<u>25,171</u>	<u>51</u>	<u>18,459</u>

# The National Oil Reserves Agency Limited

## An Ghníomhaireacht Chúltaca Ola Náisiúnta

### Notes forming part of the accounts

*For the year ended 31 December 2007*

#### **19 Commitments** *(continued)*

##### ***Foreign currency commitments***

The company has entered into foreign currency commitments of US\$116.7 million (euro equivalent: €80.0 million) relating to the acquisition of strategic stocks, and £1.0 million sterling (euro equivalent: €1.4 million) relating to storage expenses at 31 December 2007.

##### ***Capital commitments***

Future capital expenditure approved by the directors in relation to the acquisition of strategic stocks at 31 December 2007 was as follows:

	<b>2007</b>	2006
	<b>€000</b>	€000
Contracted	<b>105,224</b>	-
Authorised but not contracted	<b>8,176</b>	-
	<hr/> <hr/>	<hr/> <hr/>

#### **20 Contingent Asset**

At 31 December the Agency had a contingent asset estimated at €3.5 million pertaining to a commercial agreement with a supplier.

#### **21 Contingent Liability**

The Company has accounted for certain transactions involving the upgrading of stocks, by their replacement by stocks of a different specification, as transactions not giving rise to profits liable to corporation tax. Should it be established in the future that a different taxation treatment applies then the Company estimates that it will be liable to further corporation tax of €3.2 million.

#### **22 Group membership**

Up to 31 July 2007, the National Oil Reserves Agency Limited was a wholly owned subsidiary undertaking of Irish National Petroleum Corporation Limited an undertaking incorporated and operating in the Republic of Ireland.

On 1 August 2007, the National Oil Reserves Agency Act 2007 established the Agency on a statutory basis under the aegis of the Minister for 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 December 2007*

#### **23 Board Members Interests**

The National Oil Reserves Agency adopted procedures in accordance with the guidelines issues 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.

#### **24 Approval of financial statements**

The directors approved the financial statements on 30<sup>th</sup> June 2008

