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CYPRUS ORGANISATION FOR STORAGE AND MANAGEMENT OF OIL STOCKS

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Report and financial statements

31 December 2017

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CYPRUS ORGANISATION FOR STORAGE AND MANAGEMENT OF OIL STOCKS

FINANCIAL STATEMENTS
Year ended 31 December 2017

CONTENTS

BOARD OF DIRECTORS AND OTHER CORPORATE INFORMATION

Board of Directors	Panayiotis Malekos (Chairman) Christos Solomonides (Vice Chairman) Antonis Semelides (resigned on 14 February 2017) Marios Lytras (appointed on 29 December 2017) Michalis Hadjipantelas (appointed on 15 February 2017) Stelios Neophytou Marios Panayides Thekla Kadi Thomas Sepos Christos Christofi
Independent Auditors	PricewaterhouseCoopers Limited PwC Central 43 Demostheni Severi Avenue CY-1080 Nicosia
Legal Advisors	Eliades & Partners FROSIA HOUSE, 4th floor Corner Evagorou & Menandrou str 1 1066 Nicosia, Cyprus
Registered address	Eracleous street, 27, 2nd floor, Office 203 Nicosia 2040 Cyprus

Independent auditor's report

To the Members of Cyprus Organisation for Storage and Management of Oil Stocks and Auditor General of the Republic

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the Cyprus Organisation for Storage and Management of Oil Stocks (the "Organisation"), which are presented in pages 5 to 28 and comprise the statement of financial position as at 31 December 2017, and the statement of comprehensive income, accumulated surplus and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Organisation as at 31 December 2017, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and the requirements of the Maintenance of Oil Stocks Laws, 2003 to 2014.

Basis for Opinion

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

Responsibilities of the Board of Directors for the Financial Statements

The Board of Directors is responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of the Maintenance of Oil Stocks Laws, 2003 to 2014, and for such internal control as the Board of Directors determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

The Board of Directors is responsible for overseeing the Organisation's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organisation's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.

- Conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Organisation's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Organisation to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves a true and fair view.

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

Other Matter

This report, including the opinion, has been prepared for and only for the Organisation's members as a body and the Auditor General of the Republic in accordance with Section 69 of the Auditors Law of 2017 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whose knowledge this report may come to.

Constantinos Taliotis
Certified Public Accountant and Registered Auditor
for and on behalf of

PricewaterhouseCoopers Ltd
Certified Public Accountants and Registered Auditors

Nicosia, 28 February 2019

CYPRUS ORGANISATION FOR STORAGE AND MANAGEMENT OF OIL STOCKS

STATEMENT OF COMPREHENSIVE INCOME
Year ended 31 December 2017

	Note	2017 €	2016 €
Revenue	5	**20.251.049**	18.341.908
Direct expenses	7	**(7.099.730)**	(7.168.991)
Deficit from renewal of strategic inventory movement		**(197.179)**	(942.254)
Other expenses	7	**(313.841)**	(383.438)
Other income	6	**399.143**	347.147
Operating surplus before strategic inventory net realisable value adjustment		**13.039.442**	10.194.372
Strategic inventory net realisable value adjustment - unrealised	15	**7.762.696**	26.487.174
Operating surplus after strategic inventory net realisable value adjustment		**20.802.138**	36.681.546
Finance costs	9	**(1.721.626)**	(2.110.373)
Surplus before tax		**19.080.512**	34.571.173
Tax	10	**(132.744)**	(102.564)
Surplus and total comprehensive income for the year		**18.947.768**	34.468.609

The notes on pages 9 to 28 form an integral part of these financial statements.

CYPRUS ORGANISATION FOR STORAGE AND MANAGEMENT OF OIL STOCKS

STATEMENT OF FINANCIAL POSITION
31 December 2017

	Note	2017 €	2016 €
ASSETS			
Non-current assets			
Property, plant and equipment	13	**467.165**	488.988
Strategic Inventory	15	**97.275.505**	91.416.017
		97.742.670	91.905.005
Current assets			
Trade and other receivables	14	**4.283.960**	4.154.349
Cash at bank and in hand	16	**30.414.280**	28.154.359
		34.698.240	32.308.708
Total assets		**132.440.910**	124.213.713
SURPLUS AND LIABILITIES			
Surplus		**84.142.198**	65.194.430
Total surplus		**84.142.198**	65.194.430
Non-current liabilities			
Borrowings	17	**41.291.857**	52.602.950
		41.291.857	52.602.950
Current liabilities			
Trade and other payables	18	**692.381**	323.949
Borrowings	17	**6.314.474**	6.092.384
		7.006.855	6.416.333
Total liabilities		**48.298.712**	59.019.283
Total surplus and liabilities		**132.440.910**	124.213.713

On 28 February 2019 the Board of Directors authorised these financial statements for issue.

....
Panayiotis Malekos
Chairman

....
Christos Solomonides
Vice Chairman

The notes on pages 9 to 28 form an integral part of these financial statements.

STATEMENT OF ACCUMULATED SURPLUSES

Year ended 31 December 2017

	Surplus
	€
Balance at 1 January 2016	**30.725.821**
Comprehensive income	
Surplus for the year	34.468.609
Balance at December 2016/ 1 January 2017	**65.194.430**
Comprehensive income	
Surplus for the year	18.947.768
Balance at 31 December 2017	**84.142.198**

(1) Any surplus of income over expenses during any one year is used by the Organisation for meeting future expenses arising during the execution of its duties and in any other manner decided by the Board of Directors after approval by the Minister. Surpluses accumulated and not immediately required for the operation of the Organisation or for meeting its obligations may be invested following approval of the Minister of Energy, Commerce and Industry and the Minister of Finance.

STATEMENT OF CASH FLOWS
Year ended 31 December 2017

	Note	**2017** **€**	2016 €
CASH FLOWS FROM OPERATING ACTIVITIES			
Surplus for the year		**19.080.512**	34.571.173
Adjustments for:			
Depreciation of property, plant and equipment	13	**26.596**	25.672
Unrealised exchange loss		**20.927**	-
Interest income	6	**(393.603)**	(347.147)
Interest expense	9	**1.700.699**	2.110.373
Deficit from renewal of strategic inventory movement		**197.179**	942.254
Strategic Inventory value increase of cost to net realisable value		**(7.762.696)**	(26.487.174)
		12.869.614	10.815.151
Changes in working capital:			
Increase in trade and other receivables		**(61.338)**	(76.746)
Increase/(Decrease) in trade and other payables		**368.432**	(374.543)
Strategic Inventory		**1.706.029**	1.191.390
Cash generated from operations		**14.882.737**	11.555.252
Tax paid		**(132.744)**	(102.564)
Net cash generated from operating activities		**14.749.993**	11.452.688
CASH FLOWS FROM INVESTING ACTIVITIES			
Payment for purchase of property, plant and equipment	13	**(4.772)**	-
New deposits with maturity over 3 months		**(15.212.757)**	(9.439.429)
Cash inflows from deposits over 3 months		**9.439.429**	3.123.907
Interest received		**325.329**	297.182
Net cash used in investing activities		**(5.452.771)**	(6.018.340)
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayments of borrowings		**(11.089.851)**	(8.231.840)
Interest paid		**(1.700.699)**	(2.110.373)
Net cash used in financing activities		**(12.790.550)**	(10.342.213)
Net decrease in cash and cash equivalents		**(3.493.328)**	(4.907.865)
Cash and cash equivalents at beginning of the year		**6.497.447**	11.405.312
Cash and cash equivalents at end of the year	16	**3.004.119**	6.497.447

The notes on pages 9 to 28 form an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2017

1. Corporate information

Country of incorporation

The Cyprus Organisation for Storage and Management of Oil Stocks (the "Organisation") is established in Cyprus as a public law organisation in accordance with the provisions of the Maintenance of Oil Stock Laws 2003 to 2014 The headquarters of the Oranisation are in Nicosia and the offices of the Organisation are at 27 Eracleous street, 2nd floor, Flat 203, CY-2040, Nicosia, Cyprus.

Principal activities

The principal activities of the Organisation, which are unchanged from last year, are the storage and management of the national oil stocks.

Operating environment of the Organisation

The Cypriot economy has recorded positive growth in 2016 and 2017 after overcoming the economic recession of recent years. The overall economic outlook of the economy remains favorable, however there are still downside risks emanating from the still high levels of non-performing loans, the public debt ratio, as well as possible deterioration of the external environment for Cyprus.

This operating environment may have a significant impact on the Organisation's operations and financial position. Management is taking necessary measures to ensure sustainability of the Organisation's operations. However, the future effects of the current economic situation are difficult to predict and management's current expectations and estimates could differ from actual results.

2. Summary of significant accounting policies

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all years presented in these financial statements unless otherwise stated.

Basis of preparation

The financial statements of the Organisation have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU) and the requirements of the Maintenance of Oil Stocks Laws, 2003 to 2014.

As of the date of the authorisation of the financial statements, all International Financial Reporting Standards issued by the International Accounting Standards Board (IASB) that are effective as of 1 January 2017 have been adopted by the EU through the endorsement procedure established by the European Commission, with the exception of certain provisions of IAS 39 "Financial Instruments: Recognition and Measurement" relating to portfolio hedge accounting.

The financial statements have been prepared under the historical cost convention.

The preparation of financial statements in conformity with IFRSs requires the use of certain critical accounting estimates and requires Management to exercise its judgment in the process of applying the Organisation's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 4.

2. Summary of significant accounting policies (continued)

Adoption of new and revised IFRSs

During the current year the Organisation adopted all the new and revised International Financial Reporting Standards (IFRS) that are relevant to its operations and are effective for accounting periods beginning on 1 January 2017. This adoption did not have a material effect on the accounting policies of the Organisation except the following:

- Disclosure Initiative - Amendments to IAS 7 (issued on 29 January 2016 and effective for annual periods beginning on or after 1 January 2017). As a result of this amendment, the Company has disclosed a reconciliation of movements in liabilities arising from financing activities.

At the date of approval of these financial statements a number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2016, and have not been applied in preparing these financial statements. None of these is expected to have a significant effect on the financial statements of the Organisation, except the following set out below:

- IFRS 9 "Financial Instruments: Classification and Measurement" (issued in July 2014 and effective for annual periods beginning on or after 1 January 2018). Key features of the new standard are:

i. Financial assets are required to be classified into three measurement categories: those to be measured subsequently at amortised cost, those to be measured subsequently at fair value through other comprehensive income (FVOCI) and those to be measured subsequently at fair value through profit or loss (FVPL).

ii. Classification for debt instruments is driven by the entity's business model for managing the financial assets and whether the contractual cash flows represent solely payments of principal and interest (SPPI). If a debt instrument is held to collect, it may be carried at amortised cost if it also meets the SPPI requirement. Debt instruments that meet the SPPI requirement that are held in a portfolio where an entity both holds to collect assets' cash flows and sells assets may be classified as FVOCI. Financial assets that do not contain cash flows that are SPPI must be measured at FVPL (for example, derivatives). Embedded derivatives are no longer separated from financial assets but will be included in assessing the SPPI condition.

2. Summary of significant accounting policies (continued)

Adoption of new and revised IFRSs (continued)

iii. Investments in equity instruments are always measured at fair value. However, management can make an irrevocable election to present changes in fair value in other comprehensive income, provided the instrument is not held for trading. If the equity instrument is held for trading, changes in fair value are presented in profit or loss.

iv. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income.

v. IFRS 9 introduces a new model for the recognition of impairment losses – the expected credit losses (ECL) model. There is a 'three stage' approach which is based on the change in credit quality of financial assets since initial recognition. In practice, the new rules mean that entities will have to record an immediate loss equal to the 12-month ECL on initial recognition of financial assets that are not credit impaired (or lifetime ECL for trade receivables). Where there has been a significant increase in credit risk, impairment is measured using lifetime ECL rather than 12-month ECL. The model includes operational simplifications for lease and trade receivables.

vi. Hedge accounting requirements were amended to align accounting more closely with risk management. The standard provides entities with an accounting policy choice between applying the hedge accounting requirements of IFRS 9 and continuing to apply IAS 39 to all hedges because the standard currently does not address accounting for macro hedging.

The Organisation is currently assessing the impact of the new standard on its financial statements and as of the date of issue of these financial statements the impact of the adoption of this standard is not known/ or reasonable estimable.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for the sale of goods and services in the ordinary course of the organisation's activities, net of value added taxes, returns and discounts.

The Organisation recognises revenue when the amount of revenue can be reliably measured, when it is probable that future economic benefits will flow to the entity and when specific criteria have been met for each of the Organisation's activities as described below. The revenue of the Organisation comprises of members' subscriptions, as defined by section 2 of the Maintenance of Oil Stocks Laws of 2003 to 2014. Revenues earned by the Organisation are recognised on the following bases:

- **Members' subscriptions**

  In accordance with the relevant legislation, members of the Organisation are required to pay subscriptions, which are calculated as a fixed amount per unit quantity of sales. Members' subscriptions are recognized on an accrual basis.

- **Interest income**

  Interest income is recognised using the effective interest method. When a loan or receivable is impaired, the Organisation reduces the carrying amount to its recoverable amount, being the estimated future cash flows discounted at the original effective interest rate of the instrument and continues unwinding the discount as interest income. Interest income on impaired loans and receivables is recognised using the original effective interest rate.

2. Summary of significant accounting policies (continued)

Employee benefits

The Organisation and its employees contribute to the Government Social Insurance Fund based on employees' salaries. The Organisation's contributions are expensed as incurred and are included in staff costs. The Organisation has no further payment obligations once the contributions have been paid. Prepaid contributions are recognized as an asset to the extent that a cash refund or a reduction in the future payments is available.

Foreign currency translation

(1) Functional and presentation currency
Items included in the Organisation's financial statements are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The financial statements are presented in Euro (€), which is the Organisation's functional and presentation currency.

(2) Transactions and balances
Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

Current income tax

The Organisation is not subject to corporation tax, but is subject to special defence contribution on interest income.

Property, plant and equipment

Property, plant and equipment are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of property, plant and equipment.

Depreciation is calculated on the straight-line method so as to write off the cost of each asset to its residual value over its estimated useful life. The annual depreciation rates used are as follows:

	%
Buildings	3
Vessel cost	33.3
Motor vehicles	20
Furniture, fixtures and office equipment	10

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

Where the carrying amount of an asset is greater than its estimated recoverable amount, the asset is written down immediately to its recoverable amount.

Expenditure for repairs and maintenance of property, plant and equipment is charged to profit or loss of the year in which it is incurred. The cost of major renovations and other subsequent expenditure are included in the carrying amount of the asset or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Organisation and the cost of the item can be measured reliably.

Gains or losses on disposal of property, plant and equipment are determined by comparing proceeds with the carrying amount and are recognised in "other gains/(losses) - net" in profit or loss.

2. Summary of significant accounting policies (continued)

Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to depreciation or amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets, other than goodwill, that have suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

Financial instruments

Financial assets and financial liabilities are recognised in the Organisation's statement of financial position when the Organisation becomes a party to the contractual provisions of the instrument.

Trade receivables

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection is expected in one year or less (or in the normal operating cycle of the Organisation if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost, using the effective interest method, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Otganisation will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the carrying amount and the recoverable amount, being the present value of estimated future cash flows, discounted at the effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in profit or loss. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited in profit or loss.

Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents comprise cash on hand, deposits held at call with banks with original maturity of three months or less and bank overdrafts. In the statement of financial position, bank overdrafts are included in borrowings in current liabilities.

Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption value is recognised in profit or loss over the period of the borrowings, using the effective interest method, unless they are directly attributable to the acquisition, construction or production of a qualifying asset, in which case they are capitalised as part of the cost of that asset.

2. Summary of significant accounting policies (continued)

Financial instruments (continued)

Borrowings (continued)

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extend there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment (for liquidity services) and amortised over the period of the facility to which it relates.

Borrowing costs are interest and other costs that the Organisation incurs in connection with the borrowing of funds, including interest on borrowings, amortisation of discounts or premium relating to borrowings, amortisation of ancillary costs incurred in connection with the arrangement of borrowings, finance lease charges and exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs.

Borrowings are classified as current liabilities, unless the Organisation has an unconditional right to defer settlement of the liability for at least twelve months after the reporting date in which case it is classified as non current liability.

Trade and other payable

Trade and other payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade and other payables are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the Organisation if longer). If not, they are presented as non-current liabilities.

Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

Provisions

Provisions are recognised when the Organisation has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

2. Summary of significant accounting policies (continued)

Strategic Inventories

Strategic Inventories are stated at lower of cost and net realisable value. The cost is determined using the weighted average cost method and includes raw materials and other expenses except from borrowing costs.

The strategic inventories are categorised as non-current assets as there is no intention for selling them in the short term or medium term, unless there is need of renewal of stock. Net realisable value is the oil price as per recognised oil price platforms.

Stock losses arise from evaporation of oil products held in storage over time. In addition losses/gains in measurement arise from changes in temperature and pressure caused by weather conditions at the time of measurement. The Organisation continuously monitors such operating losses and measurement differences against industry standards. Operating stock losses are recgognised in the year in which they occur based on the difference between actual stock measurement at year end and carrying amounts.

Ticketing

Ticketing relate to short term holding contracts under which one party agrees to hold oil stocks which will be available to a counterparty during a specified period and under which the counterparty has an option to purchase oil stocks in emergency circumstances at a future price. The cost of is recorded in the statement of comprehensive income in the period to which the contracts relate.

Comparatives

Where necessary, comparative figures have been adjusted to conform to changes in presentation in the current year.

3. Financial risk management

Financial risk factors
The Organisation's activities expose it to a variety of financial risks: credit risk, liquidity risk, market risk (including fair value interest rate risk and cash flow interest rate risk), and capital risk management.

The Organisation employs formal risk management policies programme. This comprises the following:
i) statements of policy regarding market risk (foreign exchange risk, cash flow and fair value interest risk, credit risk, liquidity risk) and capital risk.
ii) daily monitoring of positions.
iii) mitigation techinques where risks are considered material in terms of amount or duration.
iv) avoidance of risk where it is considered that significant uncertainty prevails.

3.1 Credit risk
Credit risk arises from cash and cash equivalents, deposits with bank and financial institutions, as well as credit exposures to balances due from subscriptions, including outstanding receivables and committed transactions. Failure by the above counterparties to discharge their obligations could reduce the amount of future cash inflows from financial assts on hand at the balance sheet date. The Organisation has significant concentrations of credit risk for its receivables, allowing credit to its members as provided by existing legislation and for cash held with banks.

The Organisation uses all necessary collection measures provided by law in order to ensure the implementation of this policy.

3. Financial risk management (continued)

3.1 Credit risk (continued)

All members of the Organisation, as defined by section 2 of the Maintenance of Oil Stock Laws 2003 to 2014, are either government owned bodies or significant multinational corporations, or publicly listed companies with substantial credit standing.

The Organisation reviews the credit standing of these institutions on a regular basis. The Organisation does not place deposits to institutions outside Cyprus or not appropriately monitored by local supervisory authorities. See Note 12 for further disclosures on credit risk.

Management does not expect any losses from non-performance by these counterparties.

3.2 Liquidity risk

The table below analyses the Organisation's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet to contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months with the exception of borrowings equal their carrying balances as the impact of discounting is not sigificant.

31 December 2017	Within 1 year	1-2 years	2-5 years	More than 5 years
	€	€	€	€
Borrowings	7.909.224	7.898.376	23.695.129	19.421.278
Trade and other payables	692.380	-	-	-
	8.601.604	**7.898.376**	**23.695.129**	**19.421.278**

31 December 2016	Within 1 year	1-2 years	2-5 years	More than 5 years
	€	€	€	€
Borrowings	7.898.376	7.908.376	23.695.130	27.319.654
Trade and other payables	323.948	-	-	-
	8.222.324	**7.908.376**	**23.695.130**	**27.319.654**

The Organisation is by law a not for profit organisation. Surpluses are maintained for use in:
(a) Additional stock purchases
(b) Unforseen changes in the payment of interest or storage fees.

The level of income and the Organisation's subscription/fee is reviewed annually through the budgeting process.

The Organisation maintains an ongoing 12-month cash flow rolling projection.

3.3 Market risk

3.3.1 Cash flow and fair value interest rate risk

As the Organisation has significant interest-bearing assets, the Organisation's income and operating cash flows are substantially dependent of changes in market interest rates. At 31 December 2017, if the rates on the Euro deposits had been 0,1% higher/lower with all other variables held constant, post-tax surplus for the year would have not been significant.

3. Financial risk management (continued)

3.3. Market risk (continued)

3.3.1 Cash flow and fair value interest rate risk (continued)

The Organisation's interest rate rsik arises from long-term borrowings. Borrowings issued at variable rates expose the Organisation to cash flow interest rate risk. Borrowings issued at fixed rates expose the Organisation to fair value interest rate risk. At 31 December 2017, if the rates on the Euro borrowings had been 0,1% higher/lower with all other variables held constant, post-tax surplus for the year would have been €53.150 (2016: €62.811) higher/lower.

Interest payable on loans is monitored on a continuous basis by management and proposals for refinancing are made when the Organisation faces a significant risk of interest rate cost escalation.

The Organisation manages the process of obtaining financing by:

i) requesting tenders
ii) negotiating terms
iii) seeking advice from the Ministry of Finance
iv) monitoring positions and taking appropriate measures in each circumstance including:
a) early repayments without penalty
b) refinancing
c) use of hedging instruments

Interest receivable on deposits is also monitored on a continued basis and is managed by:
i) Assessing liquidity requirements
ii) Renegotiation of deposits on expiry of term
iii) Monitoring positions

3.3.2 Foreign currency risk

Foreign currency risk is the risk that the fair value or cash flows of financial instruments will fluctuate because of changes in foreign exchange rates. Currency risk arises when future commercial transactions and recognised assets and liabilities are denominated in a currency that is not the Organisation's functional currency.

The Organisation is exposed to foreign exchange risk arising from various currency exposures primarily with respect to the US Dollar, relating primarily to its cash and cash equivalents. The Organisation's management monitors the exchange rate fluctuations on a continuous basis and acts accordingly.

3. Financial risk management (continued)

3.4 Capital risk management

The capital as defined by management at 31 December 2017 and 2016 was as follows:

	2017	2016
	€	€
Total borrowings (Note 17)	**47.606.331**	58.695.334
Less: Cash and cash equivalents (Note 16)	**(30.414.280)**	(28.154.359)
Net debt	**17.192.051**	30.540.975
Total surplus	**84.142.198**	65.194.430
Total capital as defined by management	**101.334.249**	95.735.405
Gearing ratio	**17%**	32%

The decrease in the gearing ratio during 2017 resulted primarily from the increase of strategic inventory value to net realisable value.

The surplus as defined by management at 31 December 2017 and 2016 consits of equity as shown on the face of the Statement of Financial Position.

Eventually the Organisation shall have an accumulated long term surplus equal to the cost of its strategic inventory. Given the above and the Organisation's ability to vary its levy/subscription in order to cover its expenditure no further capital requirements are considered necessary.

4. Critical accounting estimates and judgments

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

4. Critical accounting estimates and judgments (continued)

Judgments

The Organisation makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

- **Strategic inventory**

  Strategic inventory is held by the Organisation in accordance with EU Directive 2009/119/EEC and Maintenance of Oil Stocks laws of 2003 to 2014. Strategic inventory is not held for trading but can be sold to the members of the Organisation in the cases of supply disruption or crisis as this is defined in the Oil Crises Law of 2002 to 2014.

  The Organisation considered the guidance of IAS 2, IAS 39 and IAS 16 in order to determine the appropriate classification of strategic inventories. Following this assessment, the Organisation considered that strategic inventories should be classified as inventories in accordance with the provisions of IAS 2 since oil stocks are not held for own use and as they do not arise from contractual rights which give to the Organisation the present right to receive cash or another financial asset.

  These oil stocks are classified as non current assets as it better reflects the Organisation's objectives.

  In addition, the Organisation considered appropriate to use the lower of cost and net realisable value rather than fair value less costs to sell as a measurement basis for strategic inventories since the Organisation does not act as broker-trader of oil stocks with the purpose of acquiring and selling oil stocks in the near future and generating a profit from fluctuations in price; instead, the principal activity of the Organisation is to store and manage national oil stocks and release them in cases of supply disruption or crisis.

  The key judgement underlying this assessment relates to global prevailing oil prices as compared to carrying values. Management considered as net realisable value of oil stocks the monthly average prices per "Platts".

- **Provision for doubtful receivables**

  Each year, the Organisation assesses whether receivables have been impaired according to the accounting policy mentinoned in Note 2. The provision for doubtful receivables is determined according to Management's expectations about each debtor's ability to repay its debts. Provision for doubtful receivables is based on Management's judgment and may change in the future depending on the circumstances.

4. Critical accounting estimates and judgments (continued)

- **Legal case**

Significant judgment is used for the determination of whether the storage services rendered by the Organisation from Greek based providers are subject to VAT in Greece or Cyprus.

In 2010 and 2011 the Organisation received invoices from Greek providers on which Greek VAT was charged. The Organisation claimed refund of this VAT from the Greek VAT Authorities. The Greek VAT Authorities rejected the claim. Against the rejection, the Organisation has filed a recourse to the Administrative Appeal Court of Athens. After consideration of the facts, the Administrative Appeal Court of Athens issued a decision in favour of the Organisation. The Greek VAT Authorities have filed an appeal against this decision to the Council of State. The examination of the appeal is currently pending.

Management believes, based on expert advice citing interalia decisions of the European Court of Justice issued after the decision of the Administrative Appeal Court of Athens, that the storage services should be subject to VAT in Cyprus and that the original decision of the court is likely to be overwritten. As a consequence, an amount of €1.347k was considered as receivable from the storage providers and not from the Greek VAT Authorities. The amount of €1.347k was fully provided for (Note 14).

However, in the event that the Counsil of State confirms the original decision of the Administrative Appeal Court of Athens, management, based on expert advice, estimates that a liability of €7.259k may arise for VAT not charged on storage services relating to the period 2011 to 2017, which if charged, will be the subject of a refund claim from the Greek VAT Authorities.

5. Revenue

	2017	2016
	€	€
Members' subscriptions	20.251.049	18.341.908
	20.251.049	18.341.908

6. Other income

	2017	2016
	€	€
Interest income	393.603	347.147
Sundry operating income	5.540	-
	399.143	347.147

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2017

7. Expenses by nature

	2017	2016
	€	€
Staff costs (Note 8)	**55.521**	55.712
Depreciation expense (Note 13)	**26.596**	25.672
Auditors' remuneration - current year	**5.500**	5.500
Auditors' remuneration - prior years	**-**	4.000
Repairs and maintenance	**7.544**	2.242
Insurance	**53.183**	41.179
Travelling and transportation expenses	**7.959**	9.492
Fees of the members of the Board of Directors	**7.263**	4.586
Strategic inventory storage expenses (Note 15)	**5.807.010**	5.842.283
Ticketing	**1.287.600**	1.321.588
Non-recoverable VAT	**8.721**	39.527
Cost of purchase of services	**96.986**	100.872
Bank charges	**18.268**	29.332
Other professional fees	**-**	12.100
Other expenses	**31.420**	58.344
Total direct expenses, selling and marketing costs, administrative expenses and other expenses	**7.413.571**	7.552.429

8. Staff costs

	2017	2016
	€	€
Salaries	**46.978**	46.267
Social security costs	**6.220**	4.911
Provident fund	**2.323**	4.534
	55.521	55.712
Average number of employees	**2**	2

9. Finance costs

	2017	2016
	€	€
Net foreign exchange losses	**20.927**	-
Interest expense	**1.700.699**	2.110.373
	1.721.626	2.110.373

10. Tax

	2017	2016
	€	€
Defence contribution - current year	**132.744**	102.564
Charge for the year	**132.744**	102.564

The Organisation is not subject to income tax on surplus from its trading activities.

The Organisation is subject to 30% defence contribution on interest income.

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2017

11. Financial instruments by category

31 December 2017	Loans and receivables €
Assets as per statement of financial position:	
Trade and other receivables	4.134.561
Cash and cash equivalents	30.414.280
Total	**34.548.841**

	Borrowings and other financial liabilities €
Liabilities as per statement of financial position:	
Borrowings	47.606.331
Trade and other payables	692.380
Total	**48.298.711**

31 December 2016	Loans and receivables €
Assets as per statement of financial position:	
Trade and other receivables	4.088.262
Cash and cash equivalents	28.154.359
Total	32.242.621

	Borrowings and other financial liabilities €
Liabilities as per statement of financial position:	
Borrowings	58.695.334
Trade and other payables	323.449
Total	**59.018.783**

12. Credit quality of financial assets

The credit quality of financials assets that are neither past due nor impaired can be assessed by reference to external credit ratings (if applicable) or to historical information about counterparty default rates:

	2017 €	2016 €
Fully performing trade and other receivables		
Counterparties without external credit rating		
Group 1	**4.064.485**	4.036.494
Group 2	**70.077**	51.768
	4.134.562	4.088.262
Total fully performing trade and other receivables	**4.134.562**	4.088.262

12 Credit quality of financial assets (continued)

	2017 €	2016 €
Cash at bank and short term bank deposits [1]		
B1	**4.011.924**	-
Caa1	**9.923.584**	-
Caa2	**13.677.699**	20.751.124
Caa3	-	1.079.340
Not rated	**2.800.046**	6.323.673
	30.413.253	28.154.137

The rest of the statement of financial position item "Cash and cash equivalents" is cash in hand.

Group 1 - members with no defaults in the past

Group 2 - Other receivables

None of the financial assets that are fully performing has been renegotiated in the last year.

13. Property, plant and equipment

	Land and buildings €	Computer hardware and software €	Motor vehicles €	Furniture, fixtures and office equipment €	Total €
Cost					
Balance at 1 January 2016	568.175	32.559	31.881	25.174	657.789
Balance at December 2016/ 1 January 2017	**568.175**	**32.559**	**31.881**	**25.174**	**657.789**
Additions	-	4.372	-	400	4.772
Balance at 31 December 2017	**568.175**	**36.931**	**31.881**	**25.574**	**662.561**
Depreciation					
Balance at 1 January 2016	67.743	31.986	31.881	11.520	143.130
Charge for the year	22.581	573	-	2.517	25.671
Balance at December 2016/ 1 January 2017	**90.324**	**32.559**	**31.881**	**14.037**	**168.801**
Charge for the year	22.581	1.457	-	2.557	26.595
Balance at 31 December 2017	**112.905**	**34.016**	**31.881**	**16.594**	**195.396**
Net book amount					
Balance at 31 December 2017	**455.270**	**2.915**	-	**8.980**	**467.165**
Balance at December 2016	**477.851**	-	-	**11.137**	**488.988**

The process for the registration of the land and buildings in the name of the Organisation, has not yet been completed.

Depreciation expense of €26.596 (2016: €25.670) has been charged in "administrative expenses".

14. Trade and other receivables

	2017	2016
	€	€
Trade receivables	**4.064.485**	4.036.494
Interest receivable from fixed deposit accounts	**68.274**	49.965
Other receivables	**1.803**	1.803
Refundable VAT	**149.398**	66.087
	4.283.960	4.154.349

The fair values of trade and other receivables approximate their carrying amounts.

As of 31 December 2017, trade receivables of €4.064.485 (2016: €4.036.494) were fully performing.

The other classes within trade and other receivables include an amount of €1.3m which is fully provided for (Note 4).

The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivable mentioned above. The Organisation does not hold any collateral as security.

The Organisation has significant concentrations of credit risk, however the Organisation does not undertake any credit risk other than that involved in allowing credit to its members as provided by existing legislation.

The Organisation trade and other receivables are denominated in the following currencies:

	2017	2016
	€	€
Euro	**4.283.959**	4.154.349
	4.283.959	4.154.349

The exposure of the Organisation to credit risk and impairment losses in relation to trade and other receivables is reported in note 3 of the financial statements.

15. Strategic Inventory

	2017	2016
	€	€
Finished goods	**97.275.505**	91.416.017

All of the above strategic inventory items belong to the Organisation. All strategic inventory stocks are stated at the lower of historic cost and net realisable value. The difference between net realisable value and cost as at 31 December 2017 is recognised in the income statement for the year 2017 and amounts to an unrealised surplus of €7.762.696. (2016: €26.487.174).

At 31 December 2017, the Organisation owned or had secured quantities of oil amounting to 575.365 metric tons. This corresponds to 90 days of inland imports. The relevant legislation and regulations stipulates a minimum of 90 days of inland imports. The month end average stocks held by the Organisation during 2017 was 91 days.

	2017	2016
	€	€
Strategic inventory at 1 January	**91.416.017**	67.062.487
Purchases	**1.075.910**	288.455
Disposals	**(2.979.118)**	(2.422.099)
	89.512.809	64.928.843

15. Strategic Inventory (continued)

Less: adjustment for net realisable value	**7.762.696**	26.487.174
Strategic inventory at 31 Deember	**97.275.505**	91.416.017

In 2017 there was a deficit from the sale of strategic inventories of €197.179 (2016: €942.254) which relates to the recycling of strategic inventories in order to be consistent with national or EU legislation. The deficit arises from the difference between cost of inventory and their selling price at the time of the sale. It also includes deficit arising from the storage and transfer of products.

Strategic inventories are sold when:

(a) there is an energy crisis according to the provisions of Oil Crisis Law and of the Maintenance of Oil Stocks Law of 2003 to 2014; or

(b) a seasonal adjustment in specification is necessary; or

(c) the organisation needs to upgrade inventories as a result of changes in specifications required by Law.

(d) operational issues such as availability of storage, due to alterations in the Cyprus' oil consumption profile etc.

For the storage of the stocks, the Organisation has storage service agreements with the external providers including providers based in Greece.

Storage contracts, currently held by the Organisation, have the following terms:

1. Storage with zero percentage losses, or

2. The annual storage losses of oil stocks shall not exceed a maximum allowable percentage. In this case, the storage provider, at the expiry or termination of the storage agreement shall compensate the Organisation by replenishing the lost products or may compensate the oil stock in value.

Therefore, the losses at year ended 31/12/2017 that exceed the cumulative maximum allowable limits as at the same date, are recognized as receivable from the service provider. The amount receivable is calculated using the year-end average Platts price.

Reported losses up to the agreed maximum allowable levels are recognized in the Financial Statements on the basis of prudence; however, the Organisation does not accept these losses unless it is satisfied that there is no related responsibility whatsoever by the storage operator.

16. Cash at bank and in hand

	2017	2016
	€	€
Cash at bank and in hand	**3.004.967**	6.497.447
Short-term bank deposits	**27.409.313**	21.656.912
	30.414.280	28.154.359

The effective interest rate on short-term bank deposits was 1,45% (2016: 2%) and these deposits have an average maturity of 6 months.

16. Cash at bank and in hand (continued)

For the purposes of the statement of cash flows, the cash and cash equivalents include the following:

	2017	2016
	€	€
Cash and bank balances	30.414.280	28.154.359
Bank balances and deposits with over 3 months maturity	(27.409.313)	(21.656.912)
Bank overdrafts (Note 17)	(848)	-
	3.004.119	6.497.447

Cash and cash equivalents by currency:

	2017	2016
	€	€
United States Dollars	1.531.331	-
Euro	28.882.949	28.154.359
	30.414.280	28.154.359

The exposure of the Organisation to credit risk and impairment losses in relation to cash and cash equivalents is reported in note 3 of the financial statements.

Reconciliation of liabilities arising from financing activities

	Bank Borrowings
	€
Opening balance 1 January 2017	58.695.334
Cash flows:	-
Repayment of principal	(11.089.851)
Repayment of interest	(1.700.699)
Interest expense	1.700.699
Closing balance 31 December 2017	47.605.483

17. Borrowings

	2017	2016
	€	€
Current borrowings		
Bank overdrafts (Note 16)	848	-
Bank loans	6.313.626	6.092.384
	6.314.474	6.092.384
Non-current borrowings		
Bank loans	41.291.857	52.602.950
Total	47.606.331	58.695.334

17. Borrowings (continued)

Maturity of non-current borrowings:

	2017	2016
	€	€
Between one to two years	**6.523.358**	6.313.626
Between two and five years	**20.976.442**	20.263.922
After five years	**13.792.057**	26.025.402
	41.291.857	52.602.950

The above borrowings are repayable by 2025. The bank loans are secured as follows:

- By pledging of income of the Organisation as included in the budget every year.
- By pledging of all rights of the Organisation that derive from insurances.

The weighted average effective interest rates at the reporting date were as follows:

	2017	2016
Bank loans	**3,14%**	3,32%

The carrying amounts of borrowings approximate their fair value.

The Organisation borrowings are denominated in the following currencies:

	2017	2016
	€	€
Euro	**47.606.331**	58.695.334
	47.606.331	58.695.334

On 28 December 2017, the Organisation signed a Finance Contract with European Investment Bank (EIB) under which EIB provides a credit in the amount of €35 million for the purposes of the construction of the Terminal in Vassiliko (the project) which will be used as storage facilities for the Organisation's strategic oil stocks. The expected cost for the project is €52,8 million and will be financed by EIB credit and own funds. As at the date of the approval of these financial statements no tranche was withdrawn.

18. Trade and other payables

	2017	2016
	€	€
Trade payables	**34.463**	304.245
Accruals	**657.918**	19.704
	692.381	323.949

The Organisation trade and other payables are denominated in the following currencies:

	2017	2016
	€	€
Euro	**692.380**	323.949
	692.380	323.949

The fair values of trade and other payables due within one year approximate to their carrying amounts as presented above.

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2017

19. Related party transactions

The Organisation is controlled by the Ministry of Energy, Commerce, Industry and Tourism.

The following transactions were carried out with related parties:

19.1 Directors' remuneration

The remuneration of Directors and other members of key management was as follows:

	2017	2016
	€	€
Directors' fees	**7.263**	4.586
	7.263	4.586

20. Commitments

Operating lease commitments - where the Organisation is the lessee

The Organisation leases various warehouses under non-cancellable operating lease agreements for the storage of oil stocks. The leases have varying terms, escalation clauses and renewal rights.

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	2017	2016
	€	€
Within one year	**3.299.813**	2.201.173
Between one and five years	**4.520.460**	2.047.500
	7.820.273	4.248.673

21. Events after the reporting period

There were no material events after the balance sheet date, which have a bearing on the understanding of the financial statements.

Independent Auditor's Report on pages 2 to 4