

**ΚΟΔΑΠ  
ΚΥΠΡΙΑΚΟΣ ΟΡΓΑΝΙΣΜΟΣ  
ΔΙΑΧΕΙΡΙΣΗΣ ΑΠΟΘΕΜΑΤΩΝ  
ΠΕΤΡΕΛΑΙΟΕΙΔΩΝ**

**CYPRUS ORGANISATION FOR  
STORAGE AND MANAGEMENT OF OIL  
STOCKS**

**FINANCIAL STATEMENTS**  
31 December 2019



# **CYPRUS ORGANISATION FOR STORAGE AND MANAGEMENT OF OIL STOCKS**

---

## **FINANCIAL STATEMENTS 31 December 2019**

<b>CONTENTS</b>	<b>PAGE</b>
Board of Directors and other corporate information	1
Independent auditor's report	2 - 4
Statement of comprehensive income	5
Statement of financial position	6
Statement of accumulated surpluses	7
Cash flow statement	8
Notes to the financial statements	9 - 33



# CYPRUS ORGANISATION FOR STORAGE AND MANAGEMENT OF OIL STOCKS

---

## BOARD OF DIRECTORS AND OTHER CORPORATE INFORMATION

**Board of Directors:**

Panayiotis Malekos (Chairman)  
Christos Solomonides (Vice Chairman) (resigned 02/09/2019)  
Maria Haviara Passades (Vice Chairman) (appointed 02/09/2019)  
Marios Lytras  
Michalis Hadjipantelas (resigned 02/09/2019)  
Stellos Neophytou  
Marios Panayides (resigned on 31/03/2020)  
Thekla Kadi  
Thomas Sepos  
Christos Christofi  
Michalis Komodromos (appointed 02/09/2019)  
Andreas Hadjipakkos (appointed 31/03/2020)

**Independent Auditors:**

PricewaterhouseCoopers Limited  
PwC Central  
43 Demostheni Severi Avenue  
CY-1080 Nicosia

**Legal Advisers:**

Ellades & Partners  
FROSIA House, 4th floor  
Corner Evagorou & Menandrou str1  
1066 Nicosia, Cyprus

**Registered office:**

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 33 and comprise the statement of financial position as at 31 December 2019, and the statement of comprehensive income, accumulated surpluses and cash flow statement 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 2019, 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 2020.

#### 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 are independent of the Organisation in accordance with the *International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards) (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 2020, 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.

*PricewaterhouseCoopers Ltd, PwC Central, 43 Demostheni Severi Avenue, CY-1080 Nicosia, Cyprus, P O Box 21612, CY-1591 Nicosia, Cyprus*  
T: +357 - 22 555 000, F: +357 - 22 555 001, [www.pwc.com/cy](http://www.pwc.com/cy)

PricewaterhouseCoopers Ltd is a member firm of PricewaterhouseCoopers International Ltd, each member firm of which is a separate legal entity. PricewaterhouseCoopers Ltd is a private Organisation registered in Cyprus (Reg. No. 143594). A list of the Organisation's directors including for individuals the present name and surname, as well as any previous names and for legal entities the corporate name, is kept by the Secretary of the Organisation at its registered office at 3 Themistocles Dervis Street, 1066 Nicosia and appears on the Organisation's web site. Offices in Nicosia, Limassol and Paphos.







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.

A handwritten signature in blue ink, appearing to read 'Constantinos Taliotis', with a long horizontal stroke extending to the right.

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

**PricewaterhouseCoopers Ltd**  
Certified Public Accountants and Registered Auditors

**Nicosia, 8 July 2020**



# CYPRUS ORGANISATION FOR STORAGE AND MANAGEMENT OF OIL STOCKS

## STATEMENT OF COMPREHENSIVE INCOME 31 December 2019

	Note	2019 €	2018 €
<b>Revenue</b>	8	<b>20,351,890</b>	20,151,804
Direct expenses	10	(10,688,157)	(7,707,524)
(Deficit) / surplus from renewal/sale of strategic inventory movement	16	(1,563,074)	880,227
Other expenses	10	(533,526)	(321,433)
Other income	9	<u>302,701</u>	<u>301,852</u>
<b>Operating surplus before strategic inventory net realisable value adjustment</b>		<b>7,869,834</b>	13,304,926
Strategic inventory net realisable value adjustment - unrealised	16	<u>22,401,528</u>	<u>(17,046,373)</u>
<b>Operating surplus / (deficit) after strategic inventory net realisable value adjustment</b>		<b>30,271,362</b>	(3,741,447)
Finance costs	12	<u>(383,764)</u>	<u>(1,068,377)</u>
<b>Surplus / (deficit) before tax</b>		<b>29,887,598</b>	(4,809,824)
Tax	13	<u>(28,418)</u>	<u>(70,938)</u>
<b>Surplus / (Deficit) for the year after tax</b>		<b><u>29,859,180</u></b>	<b><u>(4,880,762)</u></b>


The notes on pages 9 to 33 form an integral part of these financial statements.

# CYPRUS ORGANISATION FOR STORAGE AND MANAGEMENT OF OIL STOCKS

## STATEMENT OF FINANCIAL POSITION 31 December 2019

	Note	2019 €	2018 €
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	14	545,862	448,168
Strategic Inventory	16	99,853,081	79,215,385
Non-current receivables	15	660,151	-
		<u>101,059,094</u>	<u>79,663,553</u>
<b>Current assets</b>			
Trade receivables	15	3,452,882	4,569,966
Other receivables	15	3,975,703	3,048,711
Cash at bank and in hand	17	20,864,499	23,908,233
		<u>28,293,084</u>	<u>31,526,910</u>
<b>Total assets</b>		<u>129,352,178</u>	<u>111,190,463</u>
<b>SURPLUS AND LIABILITIES</b>			
Surplus		<u>109,120,616</u>	<u>79,261,436</u>
<b>Total Surplus</b>		<u>109,120,616</u>	<u>79,261,436</u>
<b>Non-current liabilities</b>			
Borrowings	18	14,210,470	23,306,471
		<u>14,210,470</u>	<u>23,306,471</u>
<b>Current liabilities</b>			
Trade and other payables	19	3,278,579	3,258,951
Borrowings	18	2,742,513	5,363,605
		<u>6,021,092</u>	<u>8,622,556</u>
<b>Total liabilities</b>		<u>20,231,562</u>	<u>31,929,027</u>
<b>Total equity and liabilities</b>		<u>129,352,178</u>	<u>111,190,463</u>

On 8 July 2020 the Board of Directors of the Cyprus Organisation for Storage and Management of Oil Stocks authorised these financial statements for issue.

  
.....  
Panayiotis Malekos  
(Chairman)

  
.....  
Maria Haviara Passades  
(Vice Chairman)

The notes on pages 9 to 33 form an integral part of these financial statements.

# CYPRUS ORGANISATION FOR STORAGE AND MANAGEMENT OF OIL STOCKS

---

## STATEMENT OF ACCUMULATED SURPLUSES

31 December 2019

	<b>Surplus €</b>
<b>Balance at 1 January 2018</b>	<b>84,142,198</b>
<b>Comprehensive income</b>	
Deficit for the year	<u>(4,880,762)</u>
<b>Balance at 31 December 2018/ 1 January 2019</b>	<b>79,261,436</b>
<b>Comprehensive income</b>	
Surplus for the year	<u>29,859,180</u>
<b>Balance at 31 December 2019</b>	<b><u>109,120,616</u></b>

---

The notes on pages 9 to 33 form an integral part of these financial statements.

# CYPRUS ORGANISATION FOR STORAGE AND MANAGEMENT OF OIL STOCKS

## CASH FLOW STATEMENT 31 December 2019

	Note	2019 €	2018 €
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
<b>Surplus / (deficit) before tax</b>		<b>29,887,598</b>	<b>(4,809,824)</b>
Adjustments for:			
Depreciation of property, plant and equipment	14	27,043	26,651
Unrealised exchange loss		-	3,790
(Surplus) / deficit from renewal of Strategic Inventory movement		1,563,074	(880,227)
Reversal of impairment - property, plant and equipment	14	(119,892)	-
Interest income	9	(85,437)	(194,744)
Interest expense	12	383,764	1,064,587
Strategic Inventory value increases of cost to net realisable value	16	(22,401,528)	17,046,373
		<b>9,254,622</b>	<b>12,256,606</b>
<b>Changes in working capital:</b>			
Decrease/(increase) in trade receivables		456,933	(505,481)
Increase in other receivables		(926,992)	(56,945)
Increase/(decrease) in trade and other payables		19,626	(197,033)
Strategic Inventory		200,757	1,893,975
<b>Cash generated from operations</b>		<b>9,004,946</b>	<b>13,391,122</b>
Tax paid		(28,418)	(70,938)
<b>Net cash generated from operating activities</b>		<b>8,976,528</b>	<b>13,320,184</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Payment for purchase of property, plant and equipment	14	(4,845)	(7,654)
Interest received		82,242	182,265
Movement in deposits from maturity over 3 months		5,063,496	17,214,948
<b>Net cash generated from investing activities</b>		<b>5,140,893</b>	<b>17,389,559</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Repayments of borrowings		(11,717,093)	(18,935,407)
Interest paid		(383,764)	(1,064,587)
<b>Net cash used in financing activities</b>		<b>(12,100,857)</b>	<b>(19,999,994)</b>
<b>Net increase in cash and cash equivalents</b>		<b>2,016,564</b>	<b>10,709,749</b>
Cash and cash equivalents at beginning of the year		13,713,868	3,004,119
<b>Cash and cash equivalents at end of the year</b>	17	<b>15,730,432</b>	<b>13,713,868</b>

The notes on pages 9 to 33 form an integral part of these financial statements.



# CYPRUS ORGANISATION FOR STORAGE AND MANAGEMENT OF OIL STOCKS

---

## NOTES TO THE FINANCIAL STATEMENTS

31 December 2019

### 1. Incorporation and principal activities

#### 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 Stocks Law of 2003 to 2020. Its registered office is at Eradeous street, 27, 2nd floor, Office 203, Nicosia, 2040, 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

On 11 March 2020, the World Health Organisation declared the Coronavirus COVID- 19 outbreak to be a pandemic in recognition of its rapid spread across the globe. Many governments are taking increasingly stringent steps to help contain, and in many jurisdictions, now delay, the spread of the virus, including: requiring self-isolation/ quarantine by those potentially affected, implementing social distancing measures, and controlling or closing borders and "locking-down" cities/regions or even entire countries. These measures have slowed down the economies both in Cyprus but globally as well with the potential of having wider impacts on the respective economies as the measures persist for a greater period of time.

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. 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 Law of 2003 to 2020.

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 2019 have been adopted by the EU through the endorsement procedure established by the European Commission.

The principal accounting policies applied in the preparation of these financial statements are set out below in Note 4. These policies have been consistently applied to all the years presented, unless otherwise stated.

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 7.

# CYPRUS ORGANISATION FOR STORAGE AND MANAGEMENT OF OIL STOCKS

---

## NOTES TO THE FINANCIAL STATEMENTS

31 December 2019

### 3. Adoption of new or revised standards and interpretations

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 2019. This adoption did not have a material effect on the accounting policies of the Organisation.

### 4. 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.

#### Revenue

##### Recognition and measurement

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 Law of 2003 to 2020. Revenues earned by the Organisation are recognised on the following basis:

- **Members' subscription**

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.

#### 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 legal or constructive obligations to pay further contributions if the scheme does not hold sufficient assets to pay all employees benefits relating to employee service in the current and prior periods.

#### Finance costs

Interest expense and other borrowing costs are charged to profit or loss as incurred.

#### 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.

# CYPRUS ORGANISATION FOR STORAGE AND MANAGEMENT OF OIL STOCKS

---

## NOTES TO THE FINANCIAL STATEMENTS

31 December 2019

### 4. Significant accounting policies (continued)

#### 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 accumulated depreciation and any accumulated impairment losses. Historical cost includes expenditure that is directly attributable to the acquisitions 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
Computers	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 when it is probable that future economic benefits in excess of the originally assessed standard of performance of the existing asset will flow to the Organisation. Major renovations are depreciated over the remaining useful life of the related asset.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

#### 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 assets - Classification

The Organisation classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through OCI or through profit or loss), and
- those to be measured at amortised cost.

# CYPRUS ORGANISATION FOR STORAGE AND MANAGEMENT OF OIL STOCKS

---

## NOTES TO THE FINANCIAL STATEMENTS

31 December 2019

### 4. Significant accounting policies (continued)

#### Financial assets - Classification (continued)

The classification and subsequent measurement of debt financial assets depends on: (i) the Organisation's business model for managing the related assets portfolio and (ii) the cash flow characteristics of the asset. On initial recognition, the Organisation may irrevocably designate a debt financial asset that otherwise meets the requirements to be measured at amortized cost or at FVOCI at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

All other financial assets are classified as measured at FVTPL.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or OCI. For investments in equity instruments that are not held for trading, this will depend on whether the Organisation has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income (FVOCI).

#### Financial assets - Recognition and derecognition

All purchases and sales of financial assets that require delivery within the time frame established by regulation or market convention ("regular way" purchases and sales) are recorded at trade date, which is the date when the Organisation commits to deliver a financial instrument. All other purchases and sales are recognized when the entity becomes a party to the contractual provisions of the instrument.

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Organisation has transferred substantially all the risks and rewards of ownership.

#### Financial assets - Measurement

At initial recognition, the Organisation measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss (FVTPL), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVTPL are expensed in profit or loss. Fair value at initial recognition is best evidenced by the transaction price. A gain or loss on initial recognition is only recorded if there is a difference between fair value and transaction price which can be evidenced by other observable current market transactions in the same instrument or by a valuation technique whose inputs include only data from observable markets.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

#### Debt instruments

Subsequent measurement of debt instruments depends on the Organisation's business model for managing the asset and the cash flow characteristics of the asset. There is one measurement category into which the Organisation classifies its debt instruments:

**Amortised cost:** Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in 'other income'. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other gains/(losses) together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the statement of profit or loss and other comprehensive income. Financial assets measured at amortised cost (AC) comprise: cash and cash equivalents, bank deposits with original maturity over 3 months, trade receivables and financial assets at amortised cost.

# CYPRUS ORGANISATION FOR STORAGE AND MANAGEMENT OF OIL STOCKS

---

## NOTES TO THE FINANCIAL STATEMENTS

31 December 2019

### 4. Significant accounting policies (continued)

#### Financial assets - impairment - credit loss allowance for ECL

The Organisation assesses on a forward-looking basis the ECL for debt instruments (including loans) measured at AC and FVOCI and with the exposure arising from loan commitments and financial guarantee contracts. The Organisation measures ECL and recognises credit loss allowance at each reporting date. The measurement of ECL reflects: (i) an unbiased and probability weighted amount that is determined by evaluating a range of possible outcomes, (ii) time value of money and (iii) all reasonable and supportable information that is available without undue cost and effort at the end of each reporting period about past events, current conditions and forecasts of future conditions.

The carrying amount of the financial assets is reduced through the use of an allowance account, and the amount of the loss is recognised in the statement of profit or loss and other comprehensive income within "net impairment losses on financial and contract assets".

Debt instruments measured at AC are presented in the statement of financial position net of the allowance for ECL. For loan commitments and financial guarantee contracts, a separate provision for ECL is recognised as a liability in the statement of financial position.

Expected losses are recognized and measured according to one of two approaches: general approach or simplified approach.

For trade receivables including trade receivables with a significant financing component the Organisation applies the simplified approach permitted by IFRS 9, which uses lifetime expected losses to be recognised from initial recognition of the financial assets.

For all other financial assets that are subject to impairment under IFRS 9, the Organisation applies general approach - three stage model for impairment. The Organisation applies a three stage model for impairment, based on changes in credit quality since initial recognition. A financial instrument that is not credit-impaired on initial recognition is classified in Stage 1.

Financial assets in Stage 1 have their ECL measured at an amount equal to the portion of lifetime ECL that results from default events possible within the next 12 months or until contractual maturity, if shorter ("12 Months ECL"). If the Organisation identifies a significant increase in credit risk ("SICR") since initial recognition, the asset is transferred to Stage 2 and its ECL is measured based on ECL on a lifetime basis, that is, up until contractual maturity but considering expected prepayments, if any ("Lifetime ECL"). Refer to note 6, Credit risk section, for a description of how the Organisation determines when a SICR has occurred. If the Organisation determines that a financial asset is credit-impaired, the asset is transferred to Stage 3 and its ECL is measured as a Lifetime ECL. The Organisation's definition of credit impaired assets and definition of default is explained in note 6, Credit risk section.

Additionally the Organisation has decided to use the low credit risk assessment exemption for investment grade financial assets. Refer to note 6, Credit risk section for a description of how the Organisation determines low credit risk financial assets.

#### Financial assets -Reclassification

Financial instruments are reclassified only when the business model for managing those assets changes. The reclassification has a prospective effect and takes place from the start of the first reporting period following the change.

# CYPRUS ORGANISATION FOR STORAGE AND MANAGEMENT OF OIL STOCKS

---

## NOTES TO THE FINANCIAL STATEMENTS

31 December 2019

### 4. Significant accounting policies (continued)

#### Financial assets - write-off

Financial assets are written-off, in whole or in part, when the Organisation exhausted all practical recovery efforts and has concluded that there is no reasonable expectation of recovery. The write-off represents a derecognition event. The Organisation may write-off financial assets that are still subject to enforcement activity when the Organisation seeks to recover amounts that are contractually due, however, there is no reasonable expectation of recovery.

#### Financial assets - modification

The Organisation sometimes renegotiates or otherwise modifies the contractual terms of the financial assets. The Organisation assesses whether the modification of contractual cash flows is substantial considering, among other, the following factors: any new contractual terms that substantially affect the risk profile of the asset (eg profit share or equity-based return), significant change in interest rate, change in the currency denomination, new collateral or credit enhancement that significantly affects the credit risk associated with the asset or a significant extension of a loan when the borrower is not in financial difficulties.

If the modified terms are substantially different, the rights to cash flows from the original asset expire and the Organisation derecognises the original financial asset and recognises a new asset at its fair value. The date of renegotiation is considered to be the date of initial recognition for subsequent impairment calculation purposes, including determining whether a SICR has occurred. The Organisation also assesses whether the new loan or debt instrument meets the SPPI criterion. Any difference between the carrying amount of the original asset derecognised and fair value of the new substantially modified asset is recognised in profit or loss, unless the substance of the difference is attributed to a capital transaction with owners.

In a situation where the renegotiation was driven by financial difficulties of the counterparty and inability to make the originally agreed payments, the Organisation compares the original and revised expected cash flows to assets whether the risks and rewards of the asset are substantially different as a result of the contractual modification. If the risks and rewards do not change, the modified asset is not substantially different from the original asset and the modification does not result in derecognition. The Organisation recalculates the gross carrying amount by discounting the modified contractual cash flows by the original effective interest rate, and recognises a modification gain or loss in profit or loss.

#### Cash and cash equivalents

In the statement of cash flows, cash and cash equivalents includes cash in hand, deposits held at call with banks with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts. In the balance sheet bank overdrafts are shown within borrowings in current liabilities. Cash and cash equivalents are carried at AC because: (i) they are held for collection of contractual cash flows and those cash flows represent SPPI, and (ii) they are not designated at FVTPL.

#### Financial assets at amortised cost

These amounts generally arise from transactions outside the usual operating activities of the Organisation. These are held with the objective to collect their contractual cash flows and their cash flows represent solely payments of principal and interest. Accordingly, these are measured at amortised cost using the effective interest method, less provision for impairment. Financial assets at amortised cost are classified as current assets if they are due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current assets.



# CYPRUS ORGANISATION FOR STORAGE AND MANAGEMENT OF OIL STOCKS

---

## NOTES TO THE FINANCIAL STATEMENTS

31 December 2019

### 4. Significant accounting policies (continued)

#### Interest income

Interest income from financial assets at FVTPL is included in the other gains/(losses) - net on these assets. Interest income on financial assets at amortised cost and financial assets at FVOCI calculated using the effective interest method is recognised in the Income statement as "Other income". Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset except for financial assets that subsequently become credit impaired. For credit - impaired financial assets – Stage 3 the effective interest rate is applied to the net carrying amount of the financial asset (after deduction of the loss allowance), for Stage 1 and Stage 2 – gross amount of financial assets.

#### Financial liabilities - measurement categories

Financial liabilities are initially recognised at fair value and classified as subsequently measured at amortised cost, except for (i) financial liabilities at FVTPL: this classification is applied to derivatives, financial liabilities held for trading (e.g. short positions in securities), contingent consideration recognised by an acquirer in a business combination and other financial liabilities designated as such at initial recognition and (ii) financial guarantee contracts and loan commitments.

#### 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.

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 extent 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.

Borrowings are removed from the statement of financial position when the obligation specified in the contract is extinguished (i.e. when the obligation specified in the contract is discharged, cancelled or expires). The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss as other income or finance costs.

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 receivables

Trade receivables are amounts due from customers for goods 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 business 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 loss allowance.

# CYPRUS ORGANISATION FOR STORAGE AND MANAGEMENT OF OIL STOCKS

---

## NOTES TO THE FINANCIAL STATEMENTS

31 December 2019

### 4. Significant accounting policies (continued)

#### Trade receivables (continued)

Trade receivables are recognised initially at the amount of consideration that is unconditional unless they contain significant financing components, in which case they are recognised at fair value. The Organisation holds the trade receivables with the objective to collect the contractual cash flows and therefore measures them subsequently at amortised cost using the effective interest method.

Trade receivables are also subject to the impairment requirements of IFRS 9. The Organisation applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables. See Note 6 Credit risk section.

Trade receivables are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with the Organisation, and a failure to make contractual payments for a period of greater than 180 days past due.

#### 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.

#### 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 recognised 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 is recorded in the statement of comprehensive income in the period to which the contracts relate.

### 5. New accounting pronouncements

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 2019, 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.



# CYPRUS ORGANISATION FOR STORAGE AND MANAGEMENT OF OIL STOCKS

---

## NOTES TO THE FINANCIAL STATEMENTS

31 December 2019

### 6. Financial risk management

#### Financial risk factors

The Organisation is exposed to market risk, interest rate risk, credit risk, liquidity risk, currency risk and capital risk management arising from the financial instruments it holds. The risk management policies employed by the Organisation to manage these risks are discussed below:

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 techniques where risks are considered material in terms of amount or duration,
- iv) avoidance of risk where it is considered that significant uncertainty prevails.

#### 6.1 Market risk

The Organisation is exposed to commodity price risk (oil stocks).

#### 6.2 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 2019, 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 been significant.

The Organisation's interest rate risk 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.

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

# CYPRUS ORGANISATION FOR STORAGE AND MANAGEMENT OF OIL STOCKS

---

## NOTES TO THE FINANCIAL STATEMENTS

31 December 2019

### 6. Financial risk management (continued)

#### 6.3 Credit risk

Credit risk arises from cash and cash equivalents and deposits with banks and financial institutions, as well as credit exposures to balances due from subscriptions, including outstanding receivables and committed transactions.

##### *(i) Risk management*

Credit risk related to trade receivables: This is managed based on established policies, procedures and controls relating to customer credit risk management. Credit limits are established for all customers based on internal ratings. Credit quality of the customer is assessed and outstanding customer receivables are regularly monitored. The Organisation does not hold collateral as security.

All members of the Organisation, as defined by section 2 of the Maintenance of Oil Stock Laws of 2003 to 2020, 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.

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

For banks and financial institutions, only independently rated parties with a minimum rating of 'C' are accepted.

While cash and cash equivalents are also subject to the impairment requirements of IFRS9, the defined impairment loss was immaterial.

##### *(ii) Impairment of financial assets*

The Organisation has the three types of financial assets that are subject to the expected credit loss model:

- Trade receivables
- Other receivables
- Cash and cash equivalents

#### **Trade receivables**

The Organisation applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables.

To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due. The Organisation defines default as a situation when the debtor is more than 90 days past due on its contractual payments.

Trade receivables and contract assets are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with the Organisation, and a failure to make contractual payments for a period of greater than 180 days past due.

Impairment losses on trade receivables and contract assets are presented as net impairment losses within operating profit. Subsequent recoveries of amounts previously written off are credited against the same line item.

The estimated loss allowance on trade receivables as at 31 December 2019 and 31 December 2018 was immaterial. All trade balances were performing.

# CYPRUS ORGANISATION FOR STORAGE AND MANAGEMENT OF OIL STOCKS

---

## NOTES TO THE FINANCIAL STATEMENTS

31 December 2019

### 6. Financial risk management (continued)

#### 6.3 Credit risk (continued)

##### *(ii) Impairment of financial assets (continued)*

For other receivables the Organisation follows the general approach.

The Organisation considers the probability of default upon initial recognition of asset and whether there has been a significant increase in credit risk on an ongoing basis throughout each reporting period. To assess whether there is a significant increase in credit risk the Organisation compares the risk of a default occurring on the asset as at the reporting date with the risk of default as at the date of initial recognition. It considers available reasonable and supportive forward-looking information. Especially the following indicators are incorporated:

- Internal credit rating
- external credit rating (as far as available)
- actual or expected significant adverse changes in business, financial or economic conditions that are expected to cause a significant change to the borrower's ability to meet its obligations
- actual or expected significant changes in the operating results of the borrower/counterparty
- significant increases in credit risk on other financial instruments of the same borrower/counterparty
- significant changes in the value of the collateral supporting the obligation or in the quality of third-party guarantees or credit enhancements
- significant changes in the expected performance and behaviour of the borrower/counterparty, including changes in the payment status of counterparty in the Organisation and changes in the operating results of the borrower.

Macroeconomic information (such as market interest rates or growth rates) is incorporated as part of the internal rating model. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables.

Regardless of the analysis above, a significant increase in credit risk is presumed if a debtor is more than 30 days past due in making a contractual payment.

A default on a financial asset is when the counterparty fails to make contractual payments within 90 days of when they fall due.

Financial assets are written off when there is no reasonable expectation of recovery, such as a debtor failing to engage in a repayment plan with the Organisation. The Organisation categorises a loan or receivable for write off when a debtor fails to make contractual payments greater than 180 days past due. Where loans or receivables have been written off, the Organisation continues to engage in enforcement activity to attempt to recover the receivable due. Where recoveries are made, these are recognised in profit or loss.

The Organisation uses three categories for loans, receivables, other receivables, debt securities at FVOCI which reflect their credit risk and how the loss provision is determined for each of those categories.

# CYPRUS ORGANISATION FOR STORAGE AND MANAGEMENT OF OIL STOCKS

## NOTES TO THE FINANCIAL STATEMENTS

31 December 2019

### 6. Financial risk management (continued)

#### 6.3 Credit risk (continued)

##### (ii) Impairment of financial assets (continued)

A summary of the assumptions underpinning the Organisation's expected credit loss model is as follows:

Category	Organisation definition of category	Basis for recognition of expected credit loss provision	Basis for calculation of interest revenue
Performing	Counterparties have a low risk of default and a strong capacity to meet contractual cash flows	Stage 1: 12 month expected losses. Where the expected lifetime of an asset is less than 12 months, expected losses are measured at its expected lifetime.	Gross carrying amount
Underperforming	Counterparties for which there is a significant increase in credit risk; as significant increase in credit risk is presumed if interest and/or principal repayments are 30 days past due (see above in more detail)	Stage 2: Lifetime expected losses	Gross carrying amount
Non-performing	Interest and/or principal repayments are 90 days past due	Stage 3: Lifetime expected losses	Amortised cost carrying amount (net of credit allowance)
Write-off	Interest and/or principal repayments are 180 days past due and there is no reasonable expectation of recovery.	Asset is written off	None

The Organisation provides for credit losses against cash and cash equivalents. The following tables contain an analysis of the credit risk exposure of each class of financial instruments for which an ECL allowance is recognised. The gross carrying amounts below also represent the Organisation's maximum exposure to credit risk on these assets as at 31 December 2019 and 31 December 2018.

#### Cash and cash equivalents

Organisation internal credit rating	External credit rating	2019	2018
		€	€
Performing	B1	3,050,462	1,041,222
Performing	B3	8,684,238	11,904,628
Performing	Caa1	3,965,701	3,817,158
Performing/Unrated		5,163,806	7,144,933
<b>Total cash and cash equivalents</b>		<u>20,864,207</u>	<u>23,907,941</u>

The rest of the balance sheet item 'cash and cash equivalents' is cash on hand

The estimated loss allowance on cash and cash equivalents as at 31 December 2019 and 31 December 2018 was immaterial. All cash and cash equivalents were performing (stage 1) as at 31 December 2019 and 2018.

# CYPRUS ORGANISATION FOR STORAGE AND MANAGEMENT OF OIL STOCKS

## NOTES TO THE FINANCIAL STATEMENTS

31 December 2019

### 6. Financial risk management (continued)

#### 6.4 Liquidity risk

Liquidity risk is the risk that arises when the maturity of assets and liabilities does not match. An unmatched position potentially enhances profitability, but can also increase the risk of losses. The Organisation has procedures with the object of minimising such losses such as maintaining sufficient cash and other highly liquid current assets and by having available an adequate amount of committed credit facilities.

The following tables detail the Organisation's remaining contractual maturity for its financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Organisation can be required to pay. The table includes both interest and principal cash flows.

31 December 2019	Total	Within 1	1-2 years	2-5 years	More than
	€	year	€	€	5 years
Bank loans	17,817,970	3,006,200	3,006,200	9,018,600	2,786,970
Trade and other payables	3,278,579	3,278,579	-	-	-
	<b>21,096,549</b>	<b>6,284,779</b>	<b>3,006,200</b>	<b>9,018,600</b>	<b>2,786,970</b>

31 December 2018	Total	Within 1	1-2 years	2-5 years	More than
	€	year	€	€	5 years
Bank loans	30,555,029	5,992,626	5,452,288	12,755,836	6,354,279
Trade and other payables	3,258,951	3,258,951	-	-	-
	<b>33,813,980</b>	<b>9,251,577</b>	<b>5,452,288</b>	<b>12,755,836</b>	<b>6,354,279</b>

The Organisation is by law a not for profit organisation. Surpluses are maintained for use in:

- (a) Additional stock purchases.
- (b) Unforeseen 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.

#### 6.5 Currency risk

Currency risk is the risk that the value of financial instruments will fluctuate due to 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 measurement currency. The Organisation is exposed to foreign exchange risk arising from various currency exposures primarily with respect to the US Dollar and the Euro relating primarily to its cash and cash equivalent. The Organisation's Management monitors the exchange rate fluctuations on a continuous basis and acts accordingly, relating primarily to its cash and cash equivalents.

# CYPRUS ORGANISATION FOR STORAGE AND MANAGEMENT OF OIL STOCKS

---

## NOTES TO THE FINANCIAL STATEMENTS

31 December 2019

### 6. Financial risk management (continued)

#### 6.6 Capital risk management

The Organisation's capital is analysed as follows:

	2019	2018
	€	€
Total borrowings (Note 18)	16,952,983	28,670,076
Less: Cash and cash equivalents (Note 17)	<u>(20,864,499)</u>	<u>(23,908,233)</u>
Net (asset) / debt	<b>(3,911,516)</b>	4,761,843
Total Surplus	<u>109,120,616</u>	<u>79,261,436</u>
<b>Total capital</b>	<u>105,209,100</u>	<u>84,023,279</u>
<b>Gearing ratio</b>	<u>(3.72)%</u>	<u>5.67%</u>

The decrease in the gearing ratio during the year ended 31 December 2019 resulted primarily from the decrease in borrowings.

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.

### 7. Critical accounting estimates, judgments and assumptions

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.

# CYPRUS ORGANISATION FOR STORAGE AND MANAGEMENT OF OIL STOCKS

---

## NOTES TO THE FINANCIAL STATEMENTS

31 December 2019

### 7. Critical accounting estimates, judgments and assumptions (continued)

#### *Critical accounting estimates and assumptions*

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 law of 2003 to 2020. 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 the 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 not 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 stock 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 of crisis.

Management considered a net realizable value of oil stocks on the basis of the global prevailing oil prices.

- **Impairment of financial assets**

The loss allowances for financial assets are based on assumptions about risk of default and expected loss rates. The Organisation uses judgement in making these assumptions and selecting the inputs to the impairment calculation, based on the organization's past history, existing market conditions as well as forward looking estimates at the end of each reporting period. Details of the key assumptions and inputs used are disclosed in the Note 6 Credit risk section.

The Organisation reviews its trade and other receivables for evidence of their recoverability. Such evidence includes the customer's payment record and the customer's overall financial position. If indications of irrecoverability exist, the recoverable amount is estimated and a respective provision for bad and doubtful debts is made. The amount of the provision is charged through profit or loss. The review of credit risk is continuous and the methodology and assumptions used for estimating the provision are reviewed regularly and adjusted accordingly.

# CYPRUS ORGANISATION FOR STORAGE AND MANAGEMENT OF OIL STOCKS

---

## NOTES TO THE FINANCIAL STATEMENTS

31 December 2019

### 7. Critical accounting estimates, judgments and assumptions (continued)

#### *Critical judgements in applying the Organisation's accounting policies*

- **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 inter alia 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 15).

However, in the event that the Council of State confirms the original decision of the Administrative Appeal Court of Athens, management, based on expert advice, estimates that a liability of €8.007k (2018: €7.470k) may arise for VAT not charged on storage services relating to the period 2011 to 2019, which if charged, will be the subject of a refund claim from the Greek VAT Authorities.

### 8. Revenue

	2019	2018
	€	€
Member's subscriptions	<u>20,351,890</u>	<u>20,151,804</u>
	<u>20,351,890</u>	<u>20,151,804</u>

### 9. Other income

	2019	2018
	€	€
Interest income	85,437	194,744
Exchange profit	97,372	83,060
Reversal of impairment of Property, Plant & Equipment	119,892	-
Sundry operating income	-	24,048
	<u>302,701</u>	<u>301,852</u>



# CYPRUS ORGANISATION FOR STORAGE AND MANAGEMENT OF OIL STOCKS

## NOTES TO THE FINANCIAL STATEMENTS 31 December 2019

### 10. Expenses by nature

	2019	2018
	€	€
Staff costs (Note 11)	60,663	56,823
Depreciation and amortisation expense	27,043	26,651
Auditors' remuneration - current year	4,000	5,500
Professional fees	923	5,000
Insurance	76,526	18,929
Travelling and transportation expenses	23,635	11,946
Fees of the members of the Board of Directors	13,689	9,659
Strategic inventory storage expenses	6,297,826	5,862,394
Ticketing	4,390,330	1,845,130
Non recoverable VAT	20,651	-
Cost of purchase of services	116,742	84,538
Bank charges	39,773	22,176
Other expenses	149,882	80,211
<b>Total expenses</b>	<b>11,221,683</b>	<b>8,028,957</b>

### 11. Staff costs

	2019	2018
	€	€
Salaries	51,187	48,785
Social security costs	6,947	5,610
Pensions cost	2,529	2,428
	<b>60,663</b>	<b>56,823</b>
Average number of employees	<b>2</b>	<b>2</b>

### 12. Finance costs

	2019	2018
	€	€
Net foreign exchange losses	-	3,790
Interest expense	383,764	1,064,587
<b>Finance costs</b>	<b>383,764</b>	<b>1,068,377</b>

### 13. Tax

	2019	2018
	€	€
Defence contribution	28,418	70,938
<b>Charge for the year</b>	<b>28,418</b>	<b>70,938</b>

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.

# CYPRUS ORGANISATION FOR STORAGE AND MANAGEMENT OF OIL STOCKS

## NOTES TO THE FINANCIAL STATEMENTS

31 December 2019

### 14. Property, plant and equipment

	Land and buildings	Computers	Motor vehicles	Furniture, fixtures and office equipment	Total
	€	€	€	€	€
<b>Cost</b>					
Balance at 1 January 2018	568,175	36,931	31,881	25,574	662,561
Additions	-	729	-	6,925	7,654
Disposals	-	-	(31,881)	-	(31,881)
<b>Balance at 31 December 2018/ 1 January 2019</b>	<b>568,175</b>	<b>37,660</b>	<b>-</b>	<b>32,499</b>	<b>638,334</b>
Additions	-	4,845	-	-	4,845
Reversal of impairment	119,892	-	-	-	119,892
<b>Balance at 31 December 2019</b>	<b>688,067</b>	<b>42,505</b>	<b>-</b>	<b>32,499</b>	<b>763,071</b>
<b>Depreciation</b>					
Balance at 1 January 2018	112,905	34,016	31,881	16,594	195,396
Charge for the year	22,581	1,470	-	2,600	26,651
On disposals	-	-	(31,881)	-	(31,881)
<b>Balance at 31 December 2018/ 1 January 2019</b>	<b>135,486</b>	<b>35,486</b>	<b>-</b>	<b>19,194</b>	<b>190,166</b>
Charge for the year	22,581	1,862	-	2,600	27,043
<b>Balance at 31 December 2019</b>	<b>158,067</b>	<b>37,348</b>	<b>-</b>	<b>21,794</b>	<b>217,209</b>
<b>Net book amount</b>					
<b>Balance at 31 December 2019</b>	<b>530,000</b>	<b>5,157</b>	<b>-</b>	<b>10,705</b>	<b>545,862</b>
<b>Balance at 31 December 2018</b>	<b>432,689</b>	<b>2,174</b>	<b>-</b>	<b>13,305</b>	<b>448,168</b>

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

Depreciation expense of €27.043 (2018: €26.651) has been charged in 'administrative expenses'.

### 15. Trade and other receivables

	2019	2018
	€	€
Trade receivables	4,113,033	4,569,966
Deposits and prepayments	-	19,512
Interest receivable from fixed deposit accounts	3,195	12,483
Other receivables	1,803	1,803
Refundable VAT	3,970,705	3,014,913
	<b>8,088,736</b>	<b>7,618,677</b>
Less non-current receivables	(660,151)	-
<b>Current portion</b>	<b>7,428,585</b>	<b>7,618,677</b>

Refundable VAT includes the amount of €2.7m relating to VAT on storage services received by the Organisation in the years 2015-2018 and invoiced to the Organisation in 2018. The corresponding liability was recognised in Trade and other payables. On the 28th of February 2020, this amount was refunded by the VAT authority and on the same date, the Organisation paid the corresponding amount to the creditor.

# CYPRUS ORGANISATION FOR STORAGE AND MANAGEMENT OF OIL STOCKS

## NOTES TO THE FINANCIAL STATEMENTS 31 December 2019

### 15. Trade and other receivables (continued)

The Organisation does not hold any collateral over the trading balances.

	2019	2018
	€	€
Euro	<u>8,088,736</u>	<u>7,618,677</u>
	<u>8,088,736</u>	<u>7,618,677</u>

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

The exposure of the Organisation to credit risk and impairment losses in relation to trade and other receivables is reported in note 6 of the financial statements.

### 16. Strategic Inventory

	2019	2018
	€	€
<b>Finished goods</b>	<u>99,853,081</u>	<u>79,215,385</u>

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 2019 is recognised in the statement of comprehensive income for the year 2019 and amounts to an unrealised surplus of €22,401,528. (2018: deficit of €17,046,374).

At 31 December 2019, the Organisation owned or had secured quantities, for the purpose of meeting the obligation per K.Δ.Π. 114/2019, of oil amounting to 608.030 metric tons. This corresponds to 95 days of inland imports. The relevant legislation and regulations stipulates a minimum of 90 days of inland imports.

	2019	2018
	€	€
Strategic inventory at 1 January	79,215,385	97,275,505
Purchases	14,449,955	4,178,051
Disposals	(16,213,787)	(5,191,797)
Adjustment for net realisable value	<u>22,401,528</u>	<u>(17,046,374)</u>
<b>Balance at 31 December</b>	<u>99,853,081</u>	<u>79,215,385</u>

# CYPRUS ORGANISATION FOR STORAGE AND MANAGEMENT OF OIL STOCKS

## NOTES TO THE FINANCIAL STATEMENTS

31 December 2019

### 16. Strategic Inventory (continued)

In 2019 there was a deficit from the renewal/sale of strategic inventories of €1.563.074 (2018 - Surplus: €880.227) 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 historic 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) re-circulation of oil stocks is required to maintain product quality within specifications,
- (b) there is an energy crisis according to the provisions of Oil Crisis Law and of the Maintenance of Oil Stocks Law of 2003 to 2020; or
- (c) a seasonal adjustment in specification is necessary; or
- (d) the Organisation needs to upgrade inventories as a result of changes in specifications required by Law.
- (e) 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 December 2019 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 global prevailing oil prices.

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.

### 17. Cash at bank and in hand

	2019	2018
	€	€
Cash at bank and in hand	12,545,792	13,713,868
Bank deposits	<u>8,318,707</u>	<u>10,194,365</u>
	<u>20,864,499</u>	<u>23,908,233</u>

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

	2019	2018
	€	€
Cash at bank and in hand	20,864,499	23,908,233
Bank deposits	<u>(5,134,067)</u>	<u>(10,194,365)</u>
	<u>15,730,432</u>	<u>13,713,868</u>

# CYPRUS ORGANISATION FOR STORAGE AND MANAGEMENT OF OIL STOCKS

## NOTES TO THE FINANCIAL STATEMENTS 31 December 2019

### 17. Cash at bank and in hand (continued)

#### Reconciliation of liabilities arising from financing activities:

	<b>2019</b>	<b>2018</b>
	<b>Bank</b>	<b>Bank</b>
	<b>Borrowings</b>	<b>borrowings</b>
	€	€
Balance at 1 January	28,670,076	47,605,483
Cash flows:		
Repayment of principal	(11,717,093)	(18,935,407)
Repayment of interest	(383,764)	(1,064,587)
Interest expense	383,764	1,064,587
<b>Balance at 31 December</b>	<b><u>16,952,983</u></b>	<b><u>28,670,076</u></b>

#### Cash and cash equivalents by currency:

	<b>2019</b>	<b>2018</b>
	€	€
United States Dollars	<b>3,184,640</b>	3,079,338
Euro	<b><u>17,679,859</u></b>	<u>20,828,895</u>
	<b><u>20,864,499</u></b>	<u>23,908,233</u>

The exposure of the Organisation to credit risk and impairment losses in relation to cash and cash equivalents is reported in note 6 of the financial statements.

#### Non cash transactions:

In 2018, refundable VAT was recognised for the amount of €2,7m relating to VAT on storage services received by the Organisation in the years 2015-2018 and invoiced to the Organisation in 2018. The corresponding liability was recognised in Trade and other payables. On the 28th of February 2020, this amount was refunded by the VAT authority and on the same date, the Organisation paid the corresponding amount to the creditor.

There were no non-cash transactions during 2019.

### 18. Borrowings

	<b>2019</b>	<b>2018</b>
	€	€
<b>Current borrowings</b>		
Bank loans	<b>2,742,513</b>	5,363,605
<b>Non-current borrowings</b>		
Bank loans	<b><u>14,210,470</u></b>	<u>23,306,471</u>
<b>Total</b>	<b><u>16,952,983</u></b>	<u>28,670,076</u>

#### Maturity of non-current borrowings:

	<b>2019</b>	<b>2018</b>
	€	€
Between one to two years	<b>2,789,306</b>	4,971,885
Between two and five years	<b>8,656,725</b>	12,098,895
After five years	<b><u>2,764,439</u></b>	<u>6,235,691</u>
	<b><u>14,210,470</u></b>	<u>23,306,471</u>

# CYPRUS ORGANISATION FOR STORAGE AND MANAGEMENT OF OIL STOCKS

## NOTES TO THE FINANCIAL STATEMENTS

31 December 2019

### 18. Borrowings (continued)

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:

	2019	2018
Bank loans	1.69%	2.59%

The Organisation borrowings are denominated in the following currencies:

	2019	2018
	€	€
Euro	<u>16,952,983</u>	<u>28,670,076</u>
	<u>16,952,983</u>	<u>28,670,076</u>

The Organisation had decided to construct and operate a storage Terminal in Vassiliko (the project) which will be used as storage facility for the Organisation's strategic oil stocks. For that purpose, 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). The expected cost for the project is €58 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. The contract was amended on 14 January 2020 and any amount not drawn by 31 December 2022 will be cancelled.

The carrying amount of borrowings approximate their fair value.

### 19. Trade and other payables

	2019	2018
	€	€
Trade payables (1)	3,184,217	3,213,403
Accruals	<u>94,362</u>	<u>45,548</u>
	<u>3,278,579</u>	<u>3,258,951</u>

(1) Trade payables include the amount of €2,7m relating to VAT on storage services received by the Organisation in the years 2015-2018 and invoiced to the Organisation in 2018. The corresponding asset was recognised in Trade and other receivables, VAT Refundable. On the 28th of February 2020, this amount was refunded by the VAT authority and on the same date, the Organisation paid the corresponding amount to the creditor.

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

	2019	2018
	€	€
Euro	<u>3,278,579</u>	<u>3,258,951</u>
	<u>3,278,579</u>	<u>3,258,951</u>

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

# CYPRUS ORGANISATION FOR STORAGE AND MANAGEMENT OF OIL STOCKS

## NOTES TO THE FINANCIAL STATEMENTS 31 December 2019

### 20. Related party transactions

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

The following transactions were carried out with related parties:

#### 20.1 Directors' remuneration

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

	2019	2018
	€	€
Directors' fees	<u>13,689</u>	<u>9,659</u>
	<u>13,689</u>	<u>9,659</u>

### 21. Contingent liabilities

The Organisation had no contingent liabilities as at 31 December 2019 and 2018.

### 22. Commitments

#### Operating lease commitments

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

	2019	2018
	€	€
Within one year	3,945,996	5,962,855
Between one and five years	<u>4,804,843</u>	<u>277,333</u>
	<u>8,750,839</u>	<u>6,240,188</u>

### 23. Events after the reporting period

Pandemic and Oil Market Disruption: Impact on the Organisation

In March 2020 the Organisation faced an unprecedented set of circumstances as a result of the combined impact of:

- The failure of OPEK+ to reach agreement on production quotas in March 2020 and the ensuing oversupply and price reduction by some major world oil producers.
- The worldwide spreading of the coronavirus COVID-19 disease, the enforcement of lockdown measures by numerous countries and the resulting slump in energy and liquid fuel consumption.

As a result, oil markets were seriously disrupted and economies came to a near standstill. The following had a direct impact on the Organisation: the Cyprus Organisation for Storage and Management of Oil Stocks faced numerous challenges and an opportunity:

1. Liquid fuel consumption dropped sharply following the enforcement of a strict lockdown in Cyprus since 24 March 2020.
2. As a direct result, the Organisation's revenue stream which is a fee on consumption volumes, was directly and substantially affected. Current estimates indicate a reduction in the range of 20% to 30% for year 2020 at the current fee rates. The fee rates may be changed, according to applicable legislation, by decision of the Organisation's Board of Directors and approval by the Minister of Energy, Commerce and Industry.

# CYPRUS ORGANISATION FOR STORAGE AND MANAGEMENT OF OIL STOCKS

---

## NOTES TO THE FINANCIAL STATEMENTS

31 December 2019

### 23. Events after the reporting period (continued)

3. The market value of oil products declined substantially and this affects the market values of already owned liquid fuel stocks. The market value of 31 December 2019 oil stocks, at 30 June 2020 values, was €60.029.895.

4. Worldwide oil stock levels began to increase rapidly, resulting in an abrupt increase in demand for storage space and a sharp increase in storage fees for any available capacity. This had an impact on the Organisation as some of its storage agreements were approaching expiry in the short term.

5. The required social distancing and other isolation measures initially hindered the smooth routine operations of the Organisation.

6. There have been no disruptions to the supply of liquid fuel or energy in Cyprus that would trigger the release of strategic oil stocks.

The nature of the risks and challenges associated with the pandemic are fundamentally new for energy security and the challenges were compounded by the concurrent impact of the increase in oil supply and collapse in oil demand.

The Organisation moved quickly to ascertain, to the extent possible, the likely impact and to mitigate the emerging risks and challenges.

In this regard, a number of attributes and tools were effectively deployed, such as:

- The very long term perspective of the Organisation's operations and strategic plans.
- Robust balance sheet and strong liquidity.
- The Organisation's good and long-standing relationships with key oil players in Cyprus and in Europe.
- Creative, proactive and swift response in close coordination with the Authorities.

#### Evaluation of impact

Based on the information available at the time of writing, indication of the impact is as follows:

1. Our estimates indicate an expected decrease in fee income for year 2020 in the range of 20% to 30% at the current fee rates. These levels of fee income are considered sufficient to cover year 2020 operating expenses. Further cushions, such as the use of existing cash reserves, further financing facilities or an increase in the level of fees, as stipulated in the Law, can be readily available. Based on the current cash flow projections, such cushions, are not expected to be utilised. As already stated in (2) above, the fee rates levied on fuel consumption may, according to applicable legislation, be changed by way of a decision of the Board of Directors of the Organisation and approval by the Minister of Energy, Commerce and Industry.

2. The sharp decline in the market value of oil products affects the book value of owned liquid fuel stock. As a stockholding agency, the Organisation does not own stocks for trading or short term disposal but rather with a very long term perspective. It is expected that market values will recover from the extreme low levels reached in March-April. Other than on book values, there is no significant adverse impact on the Organisation from the information in hand to date.

3. The sharp decline in market prices created an opportunity for the Organisation to purchase oil stocks at low prices, subject of course to availability of storage space. Purchases of €12,9m (60.000 cubic metres) of oil stocks have already been completed in June 2020 and further oil stock purchases are planned. The increase in own oil stocks improves the security of supply of Cyprus.

4. With some storage agreements approaching expiry and an adverse environment of a general sudden increase in demand for storage space and a sharp rise in quoted rates, the Organisation faced substantial challenges to safeguard continuity of storage availability for existing owned oil stocks and, following that, to secure additional storage capacity enabling further purchases of products.



# **CYPRUS ORGANISATION FOR STORAGE AND MANAGEMENT OF OIL STOCKS**

---

## **NOTES TO THE FINANCIAL STATEMENTS**

31 December 2019

### **23. Events after the reporting period (continued)**

The Organisation intends to consider the risks and challenges presented by extreme scenarios such as pandemic risks in future reviews of its preparedness plans and emergency response in line with EU guidelines and directives.

The event is considered as a non-adjusting event and is therefore not reflected in the recognition and measurement of the assets and liabilities in the financial statements as at 31 December 2019.

There were no other material events after the reporting period, which have a bearing on the understanding of the financial statements.

**Independent auditor's report on pages 2 to 4**

