

# ***Cyprus Organisation for Storage and Management of Oil Stocks***

Original (signed)

*Report and  
financial  
statements*

*31 December 2015*

# Cyprus Organisation for Storage and Management of Oil Stocks

## Report and financial statements 31 December 2015

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## **Independent auditor's report**

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

### **Report on the financial statements**

We have audited the accompanying financial statements of Cyprus Organisation for Storage and Management of Oil Stocks (the "Organisation"), which are presented on pages 4 - 28 and comprise the balance sheet as at 31 December 2015, and the statements of comprehensive income, accumulated surpluses and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

### **Board of Directors' responsibility 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.

### **Auditor's responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of financial statements that give a true and fair view 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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### **Opinion**

In our opinion, the financial statements give a true and fair view of the financial position of Cyprus Organisation for Storage and Management of Oil Stocks as at 31 December 2015, and of its financial performance and its cash flows for the year then ended 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.

### **Other matter**

This report, including the opinion, has been prepared for and only for the Company's members as a body 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'.

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

PricewaterhouseCoopers Limited  
Certified Public Accountants and Registered Auditors

Nicosia, 28 February 2019

# Cyprus Organisation for Storage and Management of Oil Stocks

## Statement of comprehensive income for the year ended 31 December 2015

	Note	2015 €	2014 €
Revenue	5	16.666.811	16.477.039
Direct expenses	6	(9.135.804)	(10.673.035)
Other expenses	6	(1.988.856)	(261.101)
(Deficit)/surplus from strategic inventory movement		(1.283.221)	432.774
Other income		<u>613.655</u>	<u>889.326</u>
<b>Operating surplus before strategic inventory net realisable value adjustment</b>		<b>4.872.585</b>	<b>6.865.003</b>
Strategic inventory net realisable value adjustment - unrealised	13	<u>(26.475.501)</u>	<u>(18.097.671)</u>
<b>Operating surplus after strategic inventory net realisable value adjustment</b>		<b>(21.602.916)</b>	<b>(11.232.668)</b>
Finance costs	8	<u>(2.924.468)</u>	<u>(3.234.404)</u>
<b>Deficit before tax</b>		<b>(24.527.384)</b>	<b>(14.467.072)</b>
Income tax expense	9	<u>(195.894)</u>	<u>(256.420)</u>
<b>Deficit and total comprehensive loss for the year</b>		<b><u>(24.723.278)</u></b>	<b><u>(14.723.492)</u></b>

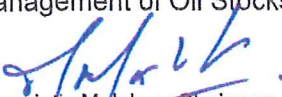
The notes on pages 8 to 28 are an integral part of these financial statements.


# Cyprus Organisation for Storage and Management of Oil Stocks

## Balance sheet at 31 December 2015

	Note	2015 €	2014 €
<b>Assets</b>			
<b>Non-current assets</b>			
Property, plant and equipment	12	514.660	723.182
Strategic inventory	13	<u>67.062.487</u>	<u>93.626.179</u>
		<u>67.577.147</u>	<u>94.349.361</u>
<b>Current assets</b>			
Trade and other receivables	14	4.027.638	4.409.360
Cash in hand and at bank	15	<u>26.746.702</u>	<u>29.882.088</u>
		<u>30.774.340</u>	<u>34.291.448</u>
<b>Total assets</b>		<u><u>98.351.487</u></u>	<u><u>128.640.809</u></u>
<b>Surplus and liabilities</b>			
Surplus		<u>30.725.821</u>	<u>55.449.099</u>
<b>Non-current liabilities</b>			
Borrowings	16	<u>61.285.233</u>	<u>67.232.911</u>
<b>Current liabilities</b>			
Trade and other payables	17	698.492	1.290.624
Borrowings	16	<u>5.641.941</u>	<u>4.668.175</u>
		<u>6.340.433</u>	<u>5.958.799</u>
<b>Total liabilities</b>		<u><u>67.625.666</u></u>	<u><u>73.191.710</u></u>
<b>Total surplus and liabilities</b>		<u><u>98.351.487</u></u>	<u><u>128.640.809</u></u>

On 28 February 2019 the Board of Directors of Cyprus Organisation for Storage and Management of Oil Stocks authorised these financial statements for issue.

  
Panayiotis Malekos, Chairman

  
Christos Solomonides, Vice Chairman

The notes on pages 8 to 28 are an integral part of these financial statements.

# Cyprus Organisation for Storage and Management of Oil Stocks

## Statement of accumulated surpluses for the year ended 31 December 2015

	Surplus €
Balance at 1 January 2014	<u>70.172.591</u>
Comprehensive income	
Loss for the year	<u>(14.723.492)</u>
Balance at 31 December 2014/1 January 2015	<u>55.449.099</u>
Comprehensive income	
Loss for the year	<u>(24.723.278)</u>
Balance at 31 December 2015	<u><u>30.725.821</u></u>
(1) As per the requirements of the Maintenance of Oil Stocks Laws, 2003 to 2014, the surplus from the operations of the Organisation, is intended to be used for the repayments of the loans that arose in the course of the Organisation's activities.	

The notes on pages 8 to 28 are an integral part of these financial statements.

# Cyprus Organisation for Storage and Management of Oil Stocks

## Statement of cash flows for the year ended 31 December 2015

	Note	2015 €	2014 €
<b>Cash flows from operating activities</b>			
Deficit before tax		(24.527.384)	(14.467.072)
Adjustments for:			
Depreciation of property, plant and equipment	12	26.477	26.591
Impairment of property, plant and equipment	12	184.525	
Interest income		(613.655)	(889.328)
Interest expense	8	2.924.468	3.234.401
(Deficit) / surplus from renewal of strategic inventory movement		1.283.221	(432.774)
Inventory value reduction of cost to net realisable value	13	26.475.501	18.097.671
Provision for impairment of other receivables		<u>1.347.969</u>	
		7.101.122	5.569.490
Changes in working capital:			
Trade and other receivables		(845.504)	(97.819)
Trade and other payables		(592.131)	(332.214)
Strategic inventory		<u>(1.195.030)</u>	<u>(224.979)</u>
<b>Cash generated from operations</b>		4.468.457	4.914.482
Income tax paid		<u>(195.894)</u>	<u>(256.420)</u>
<b>Net cash generated from operating activities</b>		<u>4.272.563</u>	<u>4.658.062</u>
<b>Cash flows from investing activities</b>			
Purchases of property, plant and equipment	12	(2.480)	(3.384)
Proceeds from sale of oil strategic inventory		-	111.174
New deposits with maturity over 3 months	15	(3.123.907)	(2.558.918)
Cash inflows from deposits over 3 months	15	2.558.918	14.032.339
Interest received		<u>492.911</u>	<u>748.187</u>
<b>Net cash (used in)/from investing activities</b>		<u>(74.558)</u>	<u>12.329.394</u>
<b>Cash flows from financing activities</b>			
Repayments of bank borrowings		(4.973.912)	(4.666.224)
Interest paid		<u>(2.924.468)</u>	<u>(3.234.401)</u>
<b>Net cash used in financing activities</b>		<u>(7.898.380)</u>	<u>(7.900.625)</u>
<b>Net (decrease)/increase in cash and cash equivalents</b>		<u>(3.700.375)</u>	<u>9.086.829</u>
Cash and cash equivalents at beginning of year		<u>15.105.687</u>	<u>6.018.858</u>
Cash and cash equivalents at end of year	15	<u>11.405.312</u>	<u>15.105.687</u>

The notes on pages 8 to 28 are an integral part of these financial statements.



# Cyprus Organisation for Storage and Management of Oil Stocks

## Notes to the financial statements

### 1 General information

#### Country of incorporation

The Organisation is established in Cyprus as public law organisation in accordance with the provisions of the Maintenance of Oil Stock Laws 2003 to 2014. The headquarters of the Organisation are in Nicosia and the offices of the Organisation are at 27 Eracleous Street, 2th Floor, Flat 2013, 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, in order to ensure the smooth supply of energy to the Republic.

#### 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.

Management determined impairment provisions for financial assets carried at amortised cost using the "incurred loss" model required by International Accounting Standard 39 "Financial Instruments: Recognition and Measurement". This standard requires recognition of impairment losses for loans and receivables that arose from past events and prohibits recognition of impairment losses that could arise from future events, including future changes in the economic environment, no matter how likely those future events are. Thus final impairment losses from financial assets could differ significantly from the current level of provisions. Refer to Note 6.

### 2 Summary of significant accounting policies

The principal accounting policies applied 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.

# Cyprus Organisation for Storage and Management of Oil Stocks

## 2 Summary of significant accounting policies (continued)

### 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 2015 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 IFRS 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.

### 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 2015. This adoption did not have a material effect on the accounting policies of the Organisation.

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 2015, 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).

# Cyprus Organisation for Storage and Management of Oil Stocks

## 2 Summary of significant accounting policies (continued)

### Adoption of new and revised IFRSs (continued)

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.

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. 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.

v. 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.

### 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:

# Cyprus Organisation for Storage and Management of Oil Stocks

## 2 Summary of significant accounting policies (continued)

### Revenue recognition (continued)

#### (i) Members' subscriptions

As per legislation, members of the Organisation are required to pay subscriptions, which are calculated using a fixed proportion of quantities of sales from companies selling petroleum products. The proportion used is determined based on the group of the petroleum products. Members' subscriptions are recognised on an accrual basis in accordance with sale of petroleum products from Organisation's members.

#### (ii) 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.

### Employee benefits

The Organisation and the 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

#### (i) 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.

#### (ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. 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

## 2 Summary of significant accounting policies (continued)

### 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 on property, plant and equipment is calculated using the straight-line method to allocate their cost or revalued amounts to their residual values, over their estimated useful lives. The annual depreciation rates are as follows:

	%
Buildings	3
Computer hardware and software	33 1/3
Motor vehicles	20
Furniture and fixtures	10
Office equipment	10

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

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Expenditure for repairs and maintenance of property, plant and equipment is charged to the profit or loss of the year in which they were 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 and losses on disposal of property, plant and equipment are determined by comparing proceeds with carrying amount and are recognised in "other gains/(losses) – net" in profit or loss.

# Cyprus Organisation for Storage and Management of Oil Stocks

## 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.

### Strategic Inventories

Strategic inventories are stated at the 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 prices 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.

### 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 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 provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Organisation 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.

# Cyprus Organisation for Storage and Management of Oil Stocks

## 2 Summary of significant accounting policies (continued)

### Trade receivables (continued)

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 within "selling and marketing costs". 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 against "selling and marketing costs" in profit or loss.

### 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.

### 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.

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 balance sheet date.

# Cyprus Organisation for Storage and Management of Oil Stocks

## 2 Summary of significant accounting policies (continued)

### Trade and other payables

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 business 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.

### Cash and cash equivalents

In the statement of cash flows, cash and cash equivalents include cash in hand and deposits held at call with banks with original maturity of three months or less.

### 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.

## 3 Financial risk management

### (i) Financial risk factors

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

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 rate 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.



# Cyprus Organisation for Storage and Management of Oil Stocks

## 3 Financial risk management (continued)

### (i) Financial risk factors (continued)

- **Market risk**

#### **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 2015, 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 €19.820 (2014: €21.703) higher/lower.

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. At 31 December 2015, if the rates on the Euro borrowings had been 0,1% higher/lower with all other variables held constant, ddeficit for the year would have been €69.414 (2014: €74.234) 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.

# Cyprus Organisation for Storage and Management of Oil Stocks

## 3 Financial risk management (continued)

### (i) Financial risk factors (continued)

- **Credit risk**

Credit risk arises from cash and cash equivalents, deposits with banks 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 assets 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.

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.

- **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 the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

	Less than 1 year €	Between 1 and 2 years €	Between 2 to 5 years €	Over 5 years €
<b>At 31 December 2014</b>				
Borrowings	7.898.376	7.898.376	23.695.128	54.667.190
Trade and other payables	<u>1.290.624</u>	-	-	-
	<u>9.189.000</u>	<u>7.898.376</u>	<u>23.695.128</u>	<u>54.667.190</u>
	Less than 1 year €	Between 1 and 2 years €	Between 2 to 5 years €	Over 5 years €
<b>At 31 December 2015</b>				
Borrowings	7.898.376	7.898.376	23.695.130	40.140.754
Trade and other payables	<u>698.492</u>	-	-	-
	<u>8.596.868</u>	<u>7.898.376</u>	<u>23.695.130</u>	<u>40.140.754</u>

# Cyprus Organisation for Storage and Management of Oil Stocks

## 3 Financial risk management (continued)

### (i) Financial risk factors (continued)

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.

### (ii) Capital risk management

The capital as defined by management at 31 December 2015 and 2014 was as follows:

	2015 €	2014 €
Total borrowings (Note 16)	66.927.174	71.901.086
Less: cash and cash equivalents (Note 15)	<u>(26.746.702)</u>	<u>(29.882.088)</u>
Net debt	40.180.472	42.018.998
Total surplus	<u>30.725.821</u>	<u>55.449.099</u>
Total capital as defined by management	<u>70.906.293</u>	<u>97.468.097</u>
Gearing ratio	57%	43%

The increase in the gearing ratio during 2015 resulted primarily from the reduction of strategic inventory value from cost to net realisable value.

The surplus as defined by management at 31 December 2015 and 2014 consists of equity as shown on the face of the balance sheet.

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 judgements

Estimates and judgements 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

## 4 Critical accounting estimates and judgements (continued)

### (i) 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 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 mentioned 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.

# Cyprus Organisation for Storage and Management of Oil Stocks

## 4 Critical accounting estimates and judgements (continued)

### (i) Critical accounting estimates and assumptions (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 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 €1,3m was considered as receivable from the storage providers and not from the Greek VAT Authorities.

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 €6,738k may arise for VAT not charged on storage services relating to the period 2012 to 2015, which if charged, will be the subject of a refund claim from the Greek VAT Authorities.

## 5 Revenue

	2015 €	2014 €
Members' subscriptions	<u>16.666.811</u>	<u>16.477.039</u>

# Cyprus Organisation for Storage and Management of Oil Stocks

## 6 Expenses by nature

	2015 €	2014 €
Depreciation (Note 12)	26.477	26.591
Repairs and maintenance	7.178	6.959
Impairment	184.525	-
Insurance	38.434	1.869
Staff costs (Note 7)	50.955	51.178
Travelling and transportation expenses	12.144	9.888
Other expenses	51.048	37.376
Fees of the members of the Board of Directors	8.663	8.308
Provision for impairment of other receivables	1.347.969	-
Strategic inventory storage expenses	7.007.995	8.071.678
Non-recoverable VAT	29.048	-
Cost of purchase of services	43.355	52.647
Bank charges	20.964	58.605
Auditor's remuneration	8.750	9.500
Auditor's remuneration prior year	150	1.163
Demurrages	164.816	-
Ticketing	<u>2.122.189</u>	<u>2.598.374</u>
<b>Total direct expenses, administrative expenses and other expenses</b>	<u><b>11.124.660</b></u>	<u><b>10.934.136</b></u>

## 7 Staff costs

	2015 €	2014 €
Salaries	46.388	46.267
Social insurance costs	<u>4.567</u>	<u>4.911</u>
	<u><b>50.955</b></u>	<u><b>51.178</b></u>

## 8 Finance costs

	2015 €	2014 €
Interest expense:		
Bank borrowings	<u>2.924.468</u>	<u>3.234.404</u>

## 9 Income tax expense

	2015 €	2014 €
<b>Current tax:</b>		
Defence contribution	<u>195.894</u>	<u>256.420</u>
Income tax expense	<u><b>195.894</b></u>	<u><b>256.420</b></u>

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

## 10 Financial instruments by category

	Loans and receivables €
<b>31 December 2015</b>	
<b>Assets as per balance sheet</b>	
Trade and other receivables (excluding prepayments)	3.324.371
Cash and cash equivalents	<u>26.746.702</u>
<b>Total</b>	<u><u>30.071.073</u></u>
	<b>Other financial liabilities €</b>
<b>Liabilities as per balance sheet</b>	
Borrowings	66.927.174
Trade and other payables	<u>698.492</u>
<b>Total</b>	<u><u>67.625.666</u></u>
	<b>Loans and receivables €</b>
<b>31 December 2014</b>	
<b>Assets as per balance sheet</b>	
Trade and other receivables (excluding prepayments)	2.460.862
Cash and cash equivalents	29.882.088
	-
<b>Total</b>	<u><u>32.342.950</u></u>
	<b>Other financial liabilities €</b>
<b>Liabilities as per balance sheet</b>	
Borrowings	71.901.086
Trade and other payables	<u>1.290.624</u>
<b>Total</b>	<u><u>73.191.710</u></u>

## 11 Credit quality of financial assets

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

	2015 €	2014 €
<b>Trade receivables</b>		
Counterparties without external credit rating		
Group 1	3.202.358	2.460.862
Group 2	<u>122.013</u>	-
	<u><u>3.324.371</u></u>	<u><u>2.460.862</u></u>

# Cyprus Organisation for Storage and Management of Oil Stocks

## 11 Credit quality of financial assets (continued)

	2015 €	2014 €
Cash at bank and short-term bank deposits <sup>(1)(2)</sup>		
Caa1	-	970.827
Caa3	16.368.212	7.600.084
B3	-	6.066.930
Not rated	<u>10.378.189</u>	<u>15.243.815</u>
	<u>26.746.401</u>	<u>29.881.656</u>

(1) The rest of the balance sheet item 'cash and cash equivalents' is cash in hand.

(2) As per Moody's credit ratings 18 January 2016.

Group 1 – members with no defaults in the past.

Group 2 – interest receivable

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

## 12 Property, plant and equipment

	Land and buildings €	Furniture, fixtures and office equipment €	Motor vehicles €	Computer hardware and software €	Total €
<b>At 1 January 2014</b>					
Cost	752.700	21.651	31.881	30.218	836.450
Accumulated depreciation	<u>(22.581)</u>	<u>(6.888)</u>	<u>(31.881)</u>	<u>(28.711)</u>	<u>(90.061)</u>
Net book amount	<u>730.119</u>	<u>14.763</u>	<u>-</u>	<u>1.507</u>	<u>746.389</u>
<b>Year ended 31 December 2014</b>					
Opening net book amount	730.119	14.763	-	1.507	746.389
Additions	-	1.043	-	2.341	3.384
Depreciation charge (Note 6)	<u>(22.581)</u>	<u>(2.269)</u>	<u>-</u>	<u>(1.741)</u>	<u>(26.591)</u>
Closing net book amount	<u>707.538</u>	<u>13.537</u>	<u>-</u>	<u>2.107</u>	<u>749.773</u>
<b>At 31 December 2014</b>					
Cost	752.700	22.694	31.881	32.559	839.834
Accumulated depreciation	<u>(45.162)</u>	<u>(9.157)</u>	<u>(31.881)</u>	<u>(30.452)</u>	<u>(116.652)</u>
Net book amount	<u>707.538</u>	<u>13.537</u>	<u>-</u>	<u>2.107</u>	<u>723.182</u>
<b>Year ended 31 December 2015</b>					
Opening net book amount	707.538	13.537	-	2.107	723.182
Additions	-	2.480	-	-	2.480
Depreciation charge (Note 6)	<u>(22.581)</u>	<u>(2.362)</u>	<u>-</u>	<u>(1.534)</u>	<u>(26.477)</u>
Impairment charge (Note 6)	<u>(184.525)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(184.525)</u>
Closing net book amount	<u>500.432</u>	<u>13.655</u>	<u>-</u>	<u>573</u>	<u>541.137</u>
<b>At 31 December 2015</b>					
Cost	752.700	25.174	31.881	32.559	842.314
Accumulated depreciation	<u>(252.268)</u>	<u>(11.519)</u>	<u>(31.881)</u>	<u>(31.986)</u>	<u>(327.654)</u>
Net book amount	<u>500.432</u>	<u>13.655</u>	<u>-</u>	<u>573</u>	<u>514.660</u>



# Cyprus Organisation for Storage and Management of Oil Stocks

## 12 Property, plant and equipment (continued)

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

Depreciation expense of €26.477 (2014: €26.591) has been charged in "other expenses".

## 13 Strategic inventory

	2015 €	2014 €
Finished goods	<u>67.062.487</u>	<u>93.626.179</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 2015 is recognised in the income statement for the year 2015 and amounts to an unrealised loss of €26.475.501 (2014: €18.097.671).

At 31 December 2015, the Organisation owned or had secured quantities of oil amounting to 562.768 (2014: 499.021) metric tons which is above the minimum quantity as per the legislation of 578.310 (2014: 483.120) metric tonnes.

The Organisation as at the year end 31 December 2015 was in compliance with the Maintenance of Oil Stocks Laws, 2003 - 2014, paragraph 7(3)(b), which requires the Organisation to maintain a minimum quantity of stock, so that the national stocks of oil products are not less than the prescribed level i.e. 90 days of the average daily consumption of oil products.

Cost	2015 €	2014 €
Strategic inventory at 1 January	93.626.179	111.177.272
Purchases	30.573.309	11.725.053
Disposals	<u>-30.661.501</u>	<u>-11.178.475</u>
	93.537.987	111.723.850
Less: value reduction of cost to net realisable value	<u>-26.475.501</u>	<u>-18.097.671</u>
Strategic inventory at 31 December	<u><u>67.062.487</u></u>	<u><u>93.626.179</u></u>

In 2015 there was a deficit from sale of strategic inventories of €1.283.221 (2014: €432.774 surplus) which relates to the recycling of strategic inventories in order to be consistent with national or EU legislation. The deficit/surplus arises from the difference between cost of inventory and their selling price at the time of the sale. It also includes surplus/deficit arising from the storage and transfer of products.

# Cyprus Organisation for Storage and Management of Oil Stocks

## 13 Strategic inventory (continued)

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, CPSCL, EAC and other local private providers (note 6).

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 31/12/2015 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.

For losses up to the agreed allowable level, the Organisation does not automatically accept them, unless it is proved that are not due to negligence or misconduct of the storage operator.

## 14 Trade and other receivables

	2015 €	2014 €
Trade receivables	3.202.358	2.460.052
Other receivables	1.269	810
Prepayments	3.500	-
VAT recoverable	699.767	1.948.498
Interest receivable from fixed deposit accounts	<u>120.744</u>	-
	<u>4.027.638</u>	<u>4.409.360</u>

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

As of 31 December 2015, trade receivables of €3.202.358 (2014: €2.460.052) were fully performing.

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

# Cyprus Organisation for Storage and Management of Oil Stocks

## 14 Trade and other receivables (continued)

The maximum exposure to credit risk at the balance sheet 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 carrying amounts of the Organisation's trade and other receivables are denominated in the following currencies:

	2015 €	2014 €
Euro - functional and presentation currency	<u>4.027.638</u>	<u>4.409.360</u>

## 15 Cash and bank balances

	2015 €	2014 €
Cash at bank and in hand	11.405.312	15.105.687
Short-term bank deposits	<u>15.341.390</u>	<u>14.776.401</u>
	<u>26.746.702</u>	<u>29.882.088</u>

Cash and cash equivalents include the following for the purposes of the statement of cash flows:

	2015 €	2014 €
Cash and bank balances	26.746.702	29.882.088
Restricted bank balances and deposits with over 3 months maturity	<u>(15.341.390)</u>	<u>(14.776.401)</u>
	<u>11.405.312</u>	<u>15.105.687</u>

Cash and cash equivalents are denominated in the following currencies:

	2015 €	2014 €
Euro - functional and presentation currency	<u>26.746.702</u>	<u>29.882.088</u>

## Non-cash transactions

The principal non-cash transactions during the current year were the settlements of additions amounting to €30.573.309 and disposals of strategic inventory of €27.492.842 at no consideration. Only a net amount of €1.221.030 was paid during the year.

# Cyprus Organisation for Storage and Management of Oil Stocks

## 16 Borrowings

	2015 €	2014 €
<b>Current</b>		
Bank borrowings	<u>5.641.941</u>	<u>4.668.175</u>
<b>Non-current</b>		
Bank borrowings	<u>61.285.233</u>	<u>67.232.911</u>
<b>Total borrowings</b>	<u><u>66.927.174</u></u>	<u><u>71.901.086</u></u>
<b>Maturity of non-current borrowings</b>		
Between 1 and 2 years	5.838.954	4.876.558
Between 2 and 5 years	18.778.353	15.992.538
Over 5 years	<u>36.667.926</u>	<u>46.363.815</u>
	<u><u>61.285.233</u></u>	<u><u>67.232.911</u></u>

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

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

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

	2015 %	2014 %
Bank borrowings	3,44	4,54

The carrying amounts of borrowings approximate their fair value.

The carrying amounts of the Organisation's borrowings are denominated in the following currencies:

	2015 €	2014 €
Euro - functional and presentation currency	<u>66.927.174</u>	<u>71.901.086</u>

## 17 Trade and other payables

	2015 €	2014 €
Trade payables	578.568	1.279.389
Other payables	5.831	-
Accrued expenses	<u>114.093</u>	<u>11.235</u>
	<u><u>698.492</u></u>	<u><u>1.290.624</u></u>

The fair value of trade and other payables which are due within one year approximates their carrying amount at the balance sheet date.

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

	2015 €	2014 €
Euro - functional and presentation currency	<u>698.491</u>	<u>1.290.624</u>

# Cyprus Organisation for Storage and Management of Oil Stocks

## 18 Commitments

### (i) Operating lease commitments – where the Company is the lessee

The Company 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:

	2015 €	2014 €
No later than 1 year	5.153.360	-
Later than 1 year and no later than 5 years	<u>3.303.673</u>	-
	<u>8.457.033</u>	-

## 19 Events after the balance sheet date

On 28 December 2017, the Organisation signed the 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.

There were no other 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 3.