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Cyprus Organization of Storage and Management of Oil Stocks

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Report and financial statements

31 December 2021

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CYPRUS ORGANISATION FOR STORAGE AND MANAGEMENT OF OIL STOCKS

FINANCIAL STATEMENTS
31 December 2021

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FINANCIAL STATEMENTS
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CYPRUS ORGANISATION FOR STORAGE AND MANAGEMENT OF OIL STOCKS

BOARD OF DIRECTORS AND OTHER CORPORATE INFORMATION

Board of Directors:	Panayiotis Malekos (Chairman) Maria Haviara Passades (Vice Chairman) Marios Lytras Stelios Neophytou Thekla Kadi Thomas Sepos Christos Christofi Michalis Komodromos (resigned 16/09/2021) Andreas Hadjipakkos Despina Panayiotou Theodosiou (appointed 21/09/2021)
Independent Auditors:	PricewaterhouseCoopers Limited PwC Central 43 Demostheni Severi Avenue CY-1080 Nicosia
Coordinating Authority of Auditors:	Audit office of the Republic of Cyprus 6, Deligiorgi street CY-1066 Nicosia
Legal Advisers:	Eliades & Partners FROSIA House, 4th floor Corner Evagorou & Menandrou street 1066 Nicosia, Cyprus Ioannides Demetriou LLC The City House, 17-19 Themistocli Dervi street 1066 Nicosia, Cyprus
Registered office:	Eracleous street, 27, 2nd floor, Office 203 Nicosia 2040 Cyprus

Independent Auditor's Report

To the Members of the Cyprus Organisation for Storage and Management of Oil Stocks and the 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 37 and comprise the statement of financial position as at 31 December 2021, and the statements 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 2021, 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.

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.

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

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 in accordance with Section 69 of the Auditors Law of 2017 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whose knowledge this report may come to.

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

PricewaterhouseCoopers Limited
Certified Public Accountants and Registered Auditors

Nicosia, 9 September 2022

CYPRUS ORGANISATION FOR STORAGE AND MANAGEMENT OF OIL STOCKS

STATEMENT OF COMPREHENSIVE INCOME
31 December 2021

	Note	2021 €	2020 €
Revenue	8	**18,050,848**	17,248,464
Direct expenses	10	**(11,169,795)**	(9,921,162)
Deficit from renewal/sale/storage of strategic inventory movement	17	**(5,624,540)**	(110,467)
Other expenses	10	**(704,536)**	(527,784)
Other income	9	**273,550**	33,814
Impairment of financial assets	6.2	**-**	(259,919)
Operating surplus before strategic inventory net realisable value adjustment		**825,527**	6,462,946
Strategic inventory net realisable value adjustment - unrealised	17	**37,039,757**	(28,821,663)
Operating surplus / (deficit) after strategic inventory net realisable value adjustment		**37,865,284**	(22,358,717)
Finance income/(cost)	12	**498,142**	(472,034)
Surplus / (Deficit) before tax		**38,363,426**	(22,830,751)
Tax	13	**(1,320)**	(6,009)
Surplus/ (Deficit) for the year after tax		**38,362,106**	(22,836,760)

The notes on pages 8 to 33 form an integral part of these financial statements.

STATEMENT OF FINANCIAL POSITION
31 December 2021

	Note	2021 €	2020 €
ASSETS			
Non-current assets			
Property, plant and equipment	14	**578,861**	553,681
Strategic Inventory	17	**116,371,516**	86,664,482
Non-current receivables	15	**533,936**	400,232
		117,484,313	87,618,395
Current assets			
Trade receivables	15	**3,938,971**	2,739,481
Other receivables	15	**4,998**	4,998
Non-financial assets	16	**928,623**	1,875,556
Cash deposits with original maturity over 3 months	18	**5,143,446**	5,140,478
Cash at bank and in hand	18	**12,351,968**	6,999,885
		22,368,006	16,760,398
Total assets		**139,852,319**	104,378,793
SURPLUS AND LIABILITIES			
Surplus		**124,645,962**	86,283,856
Total Surplus		**124,645,962**	86,283,856
Non-current liabilities			
Borrowings	19	**11,626,293**	14,501,548
		11,626,293	14,501,548
Current liabilities			
Trade and other payables	20	**817,614**	855,691
Borrowings	19	**2,762,450**	2,737,698
		3,580,064	3,593,389
Total liabilities		**15,206,357**	18,094,937
Total equity and liabilities		**139,852,319**	104,378,793

On 9 September 2022 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 8 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 2021

	Surplus €
Balance at 1 January 2020	**109,120,616**
Comprehensive income	
Deficit for the year	(22,836,760)
Balance at 31 December 2020/ 1 January 2021	**86,283,856**
Comprehensive income	
Surplus for the year	38,362,106
Balance at 31 December 2021	**124,645,962**

The notes on pages 8 to 33 form an integral part of these financial statements.

CYPRUS ORGANISATION FOR STORAGE AND MANAGEMENT OF OIL STOCKS

CASH FLOW STATEMENT
31 December 2021

	Note	2021 €	2020 €
CASH FLOWS FROM OPERATING ACTIVITIES			
Surplus / (Deficit) before tax		**38,363,426**	(22,830,751)
Adjustments for:			
Depreciation of property, plant and equipment	14	**27,979**	27,934
Deficit of renewal/sale/storage and physical losses of strategic inventory movement		**445,311**	112,321
Impairment charge of financial assets under amortised cost	6.2	**-**	259,919
Interest income	9	**(4,400)**	(20,028)
Interest expense	12	**269,782**	286,645
Strategic Inventory value (increases) / decreases due to the measurement of inventory at the lower of cost and net realisable value	17	**(37,039,757)**	28,821,663
		2,062,341	6,657,703
Changes in working capital:			
Trade and other receivables and non-financial assets		**(386,261)**	3,068,469
Trade and other payables		**(41,358)**	(2,422,888)
Strategic Inventory		**6,887,413**	(15,892,915)
Cash generated from/(used in) operations		**8,522,134**	(8,589,631)
Tax paid		**(1,320)**	(6,009)
Net cash generated from/(used in) operating activities		**8,520,814**	(8,595,640)
CASH FLOWS FROM INVESTING ACTIVITIES			
Payment for purchase of property, plant and equipment	14	**(53,159)**	(35,753)
Interest received		**4,400**	20,028
Movement in deposits with maturity over 3 months		**(2,968)**	3,178,229
Net cash (used in)/generated from investing activities		**(51,727)**	3,162,504
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayments of borrowings	18	**(2,850,512)**	-
Interest paid	18	**(266,529)**	(112,772)
Net cash used in financing activities		**(3,117,041)**	(112,772)
Net increase/(decrease) in cash and cash equivalents		**5,352,046**	(5,545,908)
Cash and cash equivalents at beginning of the year		**6,999,885**	12,545,792
Cash and cash equivalents at end of the year	18	**12,351,931**	6,999,885

The notes on pages 8 to 33 form an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS
31 December 2021

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 Eracleous street, 27, 2nd floor, Office 203, Nicosia, 2040, Cyprus.

Principal activities

The Organisation was founded for the purpose of harmonisation with European Directive 68/414/EEC, imposing an obligation on member states of the European Union to maintain minimum stocks of crude oil and/or petroleum products. As such the principal activities of the Organisation, which are unchanged from last year, is to maintain minimum stocks of crude and/or petroleum products.

Operating Environment of the Organisation

During 2021, the Coronavirus COVID 19 pandemic, which was declared as such by the World Health Organisation on 11 March 2020, continued to spread across the globe. Many governments maintained increasingly stringent measures, especially during the 1st quarter of 2021, to help contain or 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 globally and in Cyprus.

As the pandemic and the measures taken started to be relaxed before and during the 2nd half of 2021, there has been a steady and controlled increase of production and consumption in the world economy.

Due to this increased demand, oil prices started to recover from the low levels experienced during 2020 while tensions between Ukraine and Russia had an additional effect on rising oil and energy prices resulting in increases of international oil prices.

During November 2021, the United States of America announced a release of 50 million barrels of oil from the Strategic Petroleum Reserve as part of ongoing efforts to lower prices for Americans and address the mismatch between demand created from exiting the pandemic and supply.

The following had a direct impact on the Organisation:

1. Liquid fuel consumption remains below pre-pandemic levels of 2019, following a sharp fall in consumption due to the pandemic and the enforcement of a strict lockdown in Cyprus during 2020 and partly in 2021.

2. The Organisation's revenue stream, which is a fixed fee on consumption volumes, has been directly and significantly affected and has not yet recovered to pre-2020 levels.

3. The market value of oil products has increased substantially during 2021, and this affects the market values of owned fuel stocks. The market value of owned oil stocks as at 31 December 2021 is estimated at €144,8 m, which is €28,4 m higher than the book value of owned stocks of €116,4 m (Note 17/Strategic inventory).

4. The required social distancing and other isolation measures hindered the smooth routine operations of the Organisation during the 1st half of 2021.

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

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

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 date of these financial statements, indication of the impact is as follows:

1. Fee income for year 2021 increased by 4.7% while maintaining the fee rates constant. The fee income is expected to be at similar levels for the Financial Year 2022 and is considered sufficient to cover year 2022 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. 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 increase 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 rise further or remain high in the near future.

3. For the purposes of improving and upgrading its product mixture of strategic reserves, the organisation has proceeded with selling 33.000 MT of Gasoil and replacing it with 27.000 MT of ULSD 10 ppm during 2021.

The Organisation intends to consider the risks and challenges presented by extreme scenarios such as pandemic risks, military conflict in or near Europe and further increase in prices in future reviews of its preparedness plans and emergency response in line with EU guidelines and directives.

Please refer to note 24 for further information of the war in Ukraine.

During 2021 the organisation has proceeded with the tendering process for the Project Management Team for the construction of its storage Terminal at Vassiliko. The organisation has already secured €35 m of financing from EIB (Note 19) for the construction of the Terminal and has proceeded with the tendering procedure for the Engineering Procurement and Construction of the Terminal in 2022 (Note 24).

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 2021 have been adopted by the EU through the endorsement procedure established by the European Commission.

Basis of preparation (continued)

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, as modified by the initial recognition of financial instruments based on fair value.

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.

Going concern

The financial statements are prepared on a going concern basis. The organisation's strong balance sheet position, cash reserves and current ratio, ensure the organisation's going concern status. Additionally, the fee rates imposed on fuel consumption by the organisation may be changed at any time, to ensure continued coverage of the organisation's annual obligations according to applicable legislation, by decision of the Organisation's Board of Directors and approval by the Minister of Energy, Commerce and Industry. Please refer to section "Operating environment" in Note 1 as well.

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 2020. 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 its members have approved their obligation (in writing, orally, or in accordance with other customary business practices) and are committed to perform their respective obligations, the Organisation can identify each party's rights, the arrangement has commercial substance, it is probable that the Organisation will collect the consideration to which it will be entitled and when specific criteria have been met for each of the Organisation's rights against its members. 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.

4. Significant accounting policies (continued)

Employee benefits

The Organisation and its employees contribute to the Government Social Insurance Fund based on employees' salaries. The Organisation's contributions are expensed as incurred and are included in staff costs. The Organisation has no 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.

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 organisation 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 within "finance costs".

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 of an asset begins when it is available for use, i.e. when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. As such, "assets under construction" are not depreciated.

Land is not depreciated. 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 estimated recoverable amount.

Expenditure for repairs and maintenance of property, plant and equipment is charged to profit or loss of the year in which it is incurred. The cost of major renovations and other subsequent expenditure are included in the carrying amount of the asset or recognised as a separate asset, as appropriate, only 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 and the cost of the item can be measured reliably.

4. Significant accounting policies (continued)

Property, plant and equipment (continued)

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 are subject to depreciation 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 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 using measurement at amortised cost.

The classification depends on the Organisation's business model for managing the financial assets and the contractual cash flow characteristics of the assets. Management determines the classification of financial assets at initial recognition.

The Organisation classifies its financial assets at amortised cost. Financial assets at amortised cost are held for collection of contractual cash flows and their cash flows represent solely payments of principal and interest (SPPI). They are included in current assets, except for maturities greater than twelve months after the balance sheet date. These are classified as non-current assets. The Organisation's financial assets measured at amortised cost (AC) comprise: cash and cash equivalents, bank deposits with original maturity over 3 months, trade receivables, non-current receivables and other receivables.

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. 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.

Financial assets - Measurement

At initial recognition, the Organisation measures financial assets classified at amortised cost at their fair value plus incremental transaction costs that are directly attributable to the acquisition of the financial assets. Subsequently, these are measured at amortised cost.

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.

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 income statement within "net impairment losses on financial assets". Subsequent recoveries of amounts for which loss allowance was previously recognised are credited against the same line item.

Debt instruments measured at AC are presented in the balance sheet net of the allowance for ECL. The impairment methodology applied by the Organisation for calculating expected credit losses depends on the type of financial asset assessed for impairment. Refer to Note 6, Credit risk section for a description of impairment methodology applied by the Organisation for calculating expected credit losses for debt instruments measured at AC.

Financial assets -Reclassification

Financial assets 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.

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 (e.g. 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.

4. Significant accounting policies (continued)

Financial assets - modification (continued)

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.

Classification as 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 fair value through profit or loss.

Classification as 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.

Classification as trade receivables

Trade receivables are amounts due from members of the Organisation in respect of the subscription fees provided 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.

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.

4. Significant accounting policies (continued)

Interest income

Interest income on financial assets at amortised cost 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).

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 liabilities.

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset, being an asset that necessarily takes a substantial period of time to get ready for its intended use or sale, are capitalised as part of the cost of that asset, when it is probable that they will result in future economic benefits to the Company and the costs can be measured reliably.

4. Significant accounting policies (continued)

Trade and other payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade and other payable 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.

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 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. Net realisable value is the oil price as per recognised oil price platforms at the balance sheet date.

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 in the cases of supply disruption or crisis as this is defined in the Oil Crises Law of 2002 to 2014.

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 the year end and carrying amounts.

Ticketing

Ticketing relates to short term holding contracts under which one party agrees to hold oil stocks which will be available to the Organisation during a specified period and under which the Organisation has an option to purchase oil stocks in emergency circumstances at the prevailing price at the time. 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, interpretations and amendments to existing standards are effective for annual periods beginning after 1 January 2020, 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.

6. Financial risk management

Financial risk factors
The Organisation is exposed to market risk (including price risk, interest risk and currency risk), credit risk and liquidity risk 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 foreign exchange risk, cash flow 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

i. Price risk

The primary commodity price risk that the Organisation is exposed to includes oil prices that could adversely affect the value of the Organisation's strategic inventory. The Organisation, due to its non-profit nature and the provisions of the relevant legislation which dictate its operation, does not have formal arrangements for hedging this risk. If oil prices as at 31 December 2021 were 1% higher/lower, the surplus for the year after tax would have been unaffected as currently the oil stocks are valued at cost, which is lower than the net realisable value.

ii. Cash flow interest rate risk

The Organisation's interest rate risk arises from interest bearing assets and long-term borrowings. Interest bearing assets and borrowings at variable rates expose the Organisation to cash flow interest rate risk.

At 31 December 2021 and 31 December 2020, if the rates on the interest bearing assets had been 0,1% higher/lower with all other variables held constant, the change for post-tax surplus for the year would have been insignificant. At 31 December 2021 and 31 December 2020, if the rates on the long term borrowings had been 0,1% higher/lower with all other variables held constant, the change of post-tax surplus for the year would have been insignificant.

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; and

iv) monitoring positions and taking appropriate measures in each circumstance including:

a) arranging early repayments without penalty

b) refinancing

Interest receivable on deposits is also monitored on a continued basis and is managed by:

i) Assessing liquidity requirements

6. Financial risk management (continued)

6.1 Market risk (continued)

ii) Renegotiation of deposits on expiry of term

iii) Monitoring positions.

iii. 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.

At 31 December 2021 if the Euro had weakened/strengthened by 1% (2020: 1%) against to the US dollar with all other variables held constant, surplus/(deficit) for the year after tax would not have been significantly impacted, mainly as a result of foreign exchange gains/losses on translation of US dollar denominated cash balances.

The Organisation, due to its non-profit nature and provisions of the relevant legislation which dictate its operation, does not have formal arrangements for hedging this risk.

6.2 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.

(i) Risk management

In respect of 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.

(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
- Bank deposits with original maturity over 3 months

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.

6. Financial risk management (continued)

6.2 Credit risk (continued)

(ii) Impairment of financial assets (continued)

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.

Out of the total trade receivables (including non-current portion) of €4.472.908 (net) and €5.820.877 (gross):

- €89,005, which is past due for more than 365 days remains outstanding as at the date of these financial statements and management considers that no expected credit loss is required to be recognised

- €1.347.969 which is past due for more than 365 days - remains outstanding on a gross level and an expected credit loss of €1.347.969 has been recognised; and

- the remaining balance has been settled as at the date of these financial statements and no expected credit loss has been recognised as at 31 December 2021.

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 forwarding-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.

6. Financial risk management (continued)

6.2 Credit risk (continued)

(ii) Impairment of financial assets (continued)

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.

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 following tables contain an analysis of the credit risk exposure of each class of financial instruments for which an ECL allowance is recognised.

CYPRUS ORGANISATION FOR STORAGE AND MANAGEMENT OF OIL STOCKS

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31 December 2021

6. Financial risk management (continued)

6.2 Credit risk (continued)

(ii) Impairment of financial assets (continued)

Cash and cash equivalents

Organisation internal credit rating	External credit rating	2021	2020
		€	€
Performing (as per Moody's)	B1	1,365,369	1,010,282
Performing (as per Moody's)	B2	2,896	-
Performing (as per Moody's)	B3	-	5,470,559
Performing (as per Moody's)	Ba3	10,956,040	-
Performing (as per Moody's)	Caa1	-	358,476
Performing/Unrated		26,251	159,969
Total cash and cash equivalents		12,350,556	6,999,286

The rest of the balance sheet item 'cash at bank and in hand' is cash in hand.

The estimated loss allowance on cash and cash equivalents as at 31 December 2021 and 31 December 2020 was immaterial. All cash and cash equivalents were performing (stage 1) as at 31 December 2021 and 2020.
In respect of the bank deposits of original maturity over 3 months, they are all performing with appropriate external credit rating and the estimated loss allowance of these as at 31 December 2021 and 31 December 2020 was immaterial.

6.3 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 2021	**Total**	**Within 1 year**	**1-2 years**	**2-5 years**	**More than 5 years**
	€	€	€	€	€
Bank loans	15,075,045	3,006,200	3,006,200	9,062,645	-
Bank overdraft (Note 18)	37	37	-	-	-
Trade and other payables	817,614	817,614	-	-	-
	15,892,695	**3,823,850**	**3,006,200**	**9,062,645**	**-**

31 December 2020	**Total**	**Within 1 year**	**1-2 years**	**2-5 years**	**More than 5 years**
	€	€	€	€	€
Bank loans	18,133,405	3,006,200	3,006,200	9,018,600	3,102,405
Bank overdraft (Note 18)	68	68	-	-	-
Trade and other payables	855,691	855,691	-	-	-
	18,989,165	3,861,960	3,006,200	9,018,600	3,102,405

6. Financial risk management (continued)

6.3 Liquidity risk (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.

6.4 Capital risk management

The Organisation's capital is analysed as follows:

	2021	2020
	€	€
Total borrowings (Note 19)	**14,388,706**	17,239,246
Less: Cash and cash equivalents and short term deposits with original maturity of more than three months (Note 18)	**(17,495,413)**	(12,140,363)
Net (asset) / debt	**(3,106,707)**	5,098,883
Total Surplus	**124,645,962**	86,283,856
Total capital	**121,539,255**	91,382,739
Gearing ratio	**(2.56)%**	5.58%

The decrease in the gearing ratio for the year ended 31 December 2021 resulted primarily from (a) the increase of total surplus primarily arising from the increase in the inventory valuation at the year end 2021 and (b) the increase of cash and cash equivalents.

7. Critical accounting estimates, judgments and assumptions

The preparation of financial statements requires the use of accounting estimates which, by definition, will seldom equal the actual results. Management also needs to exercise judgement in applying the Organisation's accounting policies. 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.

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. No estimates and assumptions have been identified in respect of these financial statements, which would have a significant risk of material misstatement within the next financial year.

Critical judgements in applying for Organisation's accounting policies

- **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 this classification reflects better 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.

  The underlying assessment relates to global prevailing oil prices as compared to carrying values. Management considered as net realisable value of oil stocks at year end prices as provided by the Ministry of Energy, Commerce and Industry.

- **Related parties**

  Judgement has been applied by management in determining whether certain parties meet the definition of IAS24 "Related parties".

8. Revenue

	2021	2020
	€	€
Member's subscriptions - recognised over time	18,050,848	17,248,464
	18,050,848	17,248,464

According to relevant legislation and directives issued by the organisation, KODAP levies a monthly subscription fee to its members as a fixed amount per unit quantity of sales. The subscription fees throughout 2021 and 2020 have been set and unchanged at €0.0027 per kilogram for heavy and light fuel oil and at €0.0107 per litre of gasoline, diesel, JetA1 and gasoil.

During the year the Organisation has recognized subscription revenue from Electricity Authority Cyprus ("EAC") of an amount of €5,509,635 (2020: €5,978,504).

9. Other income

	2021	2020
	€	€
Interest income	**4,400**	20,028
Sundry operating income	**269,150**	13,786
	273,550	33,814

The sundry operating income above relates to the write off of a payable amount following contractual withdrawal of the corresponding claim by the third party.

10. Expenses by nature

	2021	2020
	€	€
Staff costs (Note 11)	**127,234**	73,460
Depreciation expense (Note 14)	**27,979**	27,934
Auditors' remuneration	**4,000**	5,350
Insurance	**234,942**	99,504
Travelling and transportation expenses	**-**	95
Fees of the members of the Board of Directors (Note 21.1)	**15,090**	20,969
Strategic inventory storage expenses	**10,599,845**	8,922,462
Ticketing	**569,950**	998,700
Non recoverable VAT	**13,551**	11,425
Purchase of services	**146,527**	121,397
Bank charges	**54,779**	55,572
Other expenses	**80,434**	112,077
Total expenses	**11,874,331**	10,448,945

Out of the expenses above, €11,169,795 (2020: €9,921,162) relate to direct expenses. Direct expenses are defined as those expenses which are directly related to the Organisation's operations and they are the strategic inventory storage expenses and ticketing.

The Organisation has a storage agreement with EAC for which an amount of €416,000 (2020: €416,000) has been recognised in "direct expenses".

11. Staff costs

	2021	2020
	€	€
Salaries	**106,626**	61,841
Social security costs	**15,887**	9,001
Pensions cost	**4,721**	2,618
	127,234	73,460
Average number of employees	**3**	2

12. Finance income/(costs)

	2021	2020
	€	€
Net foreign exchange gains / (losses)	**767,924**	(185,389)
Interest expense	**(269,782)**	(286,645)
Total interest and finance charges	**(269,782)**	(286,645)
Finance income/(cost)	**498,142**	(472,034)

13. Tax

	2021	2020
	€	€
Defence contribution	**1,320**	6,009
Charge for the year	**1,320**	6,009

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.

14. Property, plant and equipment

	Land and buildings	Asset under construction	Computers	Furniture, fixtures and office equipment	Total
	€	€	€	€	€
Cost					
Balance at 1 January 2020	688,067	-	42,505	32,499	763,071
Additions	-	25,812	8,117	1,824	35,753
Balance at 31 December 2020/ 1 January 2021	**688,067**	**25,812**	**50,622**	**34,323**	**798,824**
Additions / (Reclassifications)	-	50,650	5,815	(3,306)	53,159
Balance at 31 December 2021	**688,067**	**76,462**	**56,437**	**31,017**	**851,983**
Depreciation					
Balance at 1 January 2020	158,067	-	37,348	21,794	217,209
Charge for the year	22,581	-	2,712	2,641	27,934
Balance at 31 December 2020/ 1 January 2021	**180,648**	**-**	**40,060**	**24,435**	**245,143**
Charge for the year	22,581	-	3,424	1,974	27,979
Balance at 31 December 2021	**203,229**	**-**	**43,484**	**26,409**	**273,122**
Net book amount					
Balance at 31 December 2021	**484,838**	**76,462**	**12,953**	**4,608**	**578,861**
Balance at 31 December 2020	**507,419**	**25,812**	**10,562**	**9,888**	**553,681**

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

14. Property, plant and equipment (continued)

Depreciation expense of €27,979 (2020: €27,934) has been charged in 'other expenses'.

Management considered the prevailing economic conditions, the performance of the Organisation and other impairment indicators as per IAS 36, and concluded that there are no indications that the carrying amount of the Organisation's property, plant and equipment as at 31 December 2021 might exceed its recoverable amount.

Asset under construction relates to the Storage Terminal in Vasiliko.

15. Financial assets

	2021	2020
	€	€
Trade receivables	**5,820,877**	4,487,682
Less: loss allowance of trade receivables	**(1,347,969)**	(1,347,969)
Trade receivables – net	**4,472,908**	3,139,713
Interest receivable from fixed deposit accounts	**3,195**	3,195
Other receivables	**1,803**	1,803
Total net receivables	**4,477,906**	3,144,711
Less non-current receivables	**(533,936)**	(400,232)
Current portion	**3,943,970**	2,744,479

As at 31 December 2021, the Organisation had a receivable with EAC of €975,459 (2020: €877,270). This is included within Trade Receivables.

Legal case

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 filed an appeal against this decision to the Council of State.

The Council of State issued decision 1681/2019 according to which the original decision of the Administrative Appeal Court of Athens was overwritten and accordingly it has been confirmed that the storage services should be subject to VAT in Cyprus. 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 is fully provided for (Note 6). Decision 1681/2019 ensures that no liability may arise from VAT not charged on storage services for the period since 2011, with the relevant amount for the period 2011-2019 estimated at €8 m.

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

Movement in provision for impairment of current receivables:

	2021	2020
	€	€
Balance at 1 January	**1,347,969**	1,347,969
Balance at 31 December	**1,347,969**	1,347,969

15. Financial assets (continued)

The Organisation's financial assets are denominated in the following currencies:

	2021	2020
	€	€
Euro	**4,477,906**	3,144,711
	4,477,906	3,144,711

The fair values of financial assets 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 financial assets is reported in note 6 of the financial statements.

16. Non-financial Assets

	2021	2020
	€	€
Deposits and prepayments	**-**	547,745
Refundable VAT	**928,623**	1,327,811
Balance at 31 December	**928,623**	1,875,556

17. Strategic Inventory

	2021	2020
	€	€
Finished goods	**116,371,516**	86,664,482

The above strategic inventory belongs to the Organisation. Strategic inventory stock is stated at the lower of historic cost and net realisable value. As at 31 December 2021, the historic cost was lower than net realisable value. The relevant movement in the carrying amount is recognised in the statement of comprehensive income for the year 2021 and amounts to an unrealised surplus of €37,039,757 (2020: deficit of €28,821,663). The surplus in 2021 is the result of significant increases in international oil market prices compared to the position as at 31 December 2020.

At 31 December 2021, the Organisation owned or had secured quantities, for the purpose of meeting the obligation per Κ.Δ.Π. 261/2021, of oil amounting to 497,920 metric tons. This corresponds to 95 days of inland imports. The month end average stocks held by the Organisation during 2021 correspond to 91 days of inland imports. The relevant legislation and regulations stipulate a minimum of 90 days of inland imports.

	2021	2020
	€	€
Strategic inventory at 1 January	**86,664,482**	99,853,081
Purchases	**14,239,013**	15,745,385
Cost of stocks sold	**(21,126,425)**	-
Deficit from renewals of strategic inventory movement	**(305,907)**	-
Deficit of physical losses from storage	**(139,404)**	(112,321)
Adjustment for net realisable value	**37,039,757**	(28,821,663)
Balance at 31 December	**116,371,516**	86,664,482

17. Strategic Inventory (continued)

The movement in the above table, excluding the Adjustment for Net Realisable Value, is €7.3 m while the Deficit from renewal/sale/storage of strategic inventory movement in the Statement of Comprehensive Income is €5.6m. The difference is mainly the result of foreign exchange gains/losses and unequal volumes of stocks purchased and sold.

The deficit of €139,404 relates to stock deficits which are due to the storage of oil products over long periods. During 2021, there was a deficit from the renewal of strategic inventories of €305,907.

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;

(c) a seasonal adjustment in specification is necessary;

(d) the organisation needs to upgrade inventories as a result of changes in specifications required by Law; and

(e) operational issues drive the sale 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 external providers including providers based in Greece.

Storage contracts, currently held by the Organisation, are contractually under the term of zero percentage losses.

18. Cash at bank and in hand

	2021	2020
	€	€
Cash in hand	**1,413**	600
Cash at bank	**12,350,555**	6,999,285
	12,351,968	6,999,885

18. Cash at bank and in hand (continued)

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

	2021	2020
	€	€
Cash at bank and in hand	**12,351,968**	6,999,885
Bank overdrafts (Note 19)	**(37)**	(68)
	12,351,931	6,999,817

Reconciliation of liabilities arising from financing activities:

	2021 Bank borrowings	2020 Bank borrowings
	€	€
Balance at 1 January	17,126,405	16,952,983
Cash flows:		
Repayment of principal	(2,850,512)	-
Repayment of interest	(266,529)	(112,772)
Interest expense	266,529	286,194
Balance at 31 December	**14,275,893**	**17,126,405**

Cash and cash equivalents by currency:

	2021	2020
	€	€
United States Dollars	**2,471,216**	131,077
Euro	**9,880,752**	6,868,808
	12,351,968	6,999,885

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.

There were no non-cash transactions during 2021 and 2020.

19. Borrowings

	2021	2020
	€	€
Current borrowings		
Bank overdrafts (Note 18)	**37**	68
Bank loans	**2,762,413**	2,737,630
	2,762,450	2,737,698
Non-current borrowings		
Bank loans	**11,626,293**	14,501,548
Total	**14,388,743**	17,239,246

19. Borrowings (continued)

Maturity of non-current borrowings:

	2021	2020
	€	€
Between one to two years	**2,814,655**	2,784,339
Between two and five years	**8,811,638**	8,641,313
After five years	**-**	3,075,896
	11,626,293	14,501,548

The above borrowings are repayable by semi-annual installments by March 2027. The bank loans are secured as follows:

- By pledging of partial income, comprised of members' subscriptions of the Organisation as included in the budget every year.

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

	2021	2020
Bank loans	**1.87%**	1.68%

The Organisation borrowings are denominated in the following currencies:

	2021	2020
	€	€
Euro	**14,388,706**	17,239,246
	14,388,706	17,239,246

The Organisation, utilising the Government Directive of 2020 for suspension of loan repayments due to the pandemic, did not make any loan repayment during 2020.

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 the final availability date of loan disbursements has been set at 31 December 2022.

The loan agreement with EIB requires the Organisation to comply with the following covenants:

1. Debt over Adjusted Equity (DOAE): shall not exceed (i) 175% from 01/01/2020 (included) until 31/12/2020 (included) and (ii) 150% thereafter.

2. Availability of liquid funds (ALF): not lower than 1:1

3. Annual income stream generation (ISG): not lower than 1:1

No covenant breaches took place during the year.

The carrying amount of borrowings approximate their fair value.

20. Trade and other payables

	2021	2020
	€	€
Trade payables	**709,750**	593,526
Accruals	**107,864**	262,165
	817,614	855,691

As at 31 December 2021, the Organisation did not have a payable with EAC (2020: €104,000).

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

	2021	2020
	€	**€**
Euro	**817,614**	855,691
	817,614	855,691

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

21. Related party transactions

The Organisation is supervised by the Minister of Energy, Commerce and Industry of the Republic of Cyprus.

The following transactions were carried out with related parties:

21.1 Directors' remuneration

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

	2021	2020
	€	€
Directors' fees	**15,090**	20,969
	15,090	20,969

Specific transactions with the EAC have been disclosed in the relevant notes (Notes 8, 10, 15 and 20).

22. Contingent liabilities

The Organisation had no contingent liabilities as at 31 December 2021 and 2020.

23. Commitments

Storage fees commitments
The future aggregate minimum storage fee commitments under non-cancellable agreements are as follows:

	2021	2020
	€	€
Within one year	**10,113,223**	10,278,598
Between one and five years	**6,162,928**	16,793,403
	16,276,151	27,072,001

The decrease for 2021 relates to the fact that various storage agreements end during 2023 with only one agreement with a third party extends beyond 2023. No new storage agreements have been signed during the year.

24. Events after the reporting period

The international economy has been disrupted by the war in Ukraine which started in February 2022. As a result, international oil markets have been further affected from the hostilities in addition to the exit from the pandemic which had already led to higher prices and the release of petroleum reserves from the United States and other countries such as China, the United Kingdom and others (Note 1). The European Union, the United Kingdom, USA, and other countries imposed substantial economic and other sanctions upon Russia. International oil prices have continued to rise significantly throughout the first months of 2022.

The International Energy Agency and its members proceeded with collective action of two releases of oil reserves in March and April 2022, for 60 m and 120 m barrels respectively. The European Commission, invited members of the European Union, who are not members of IEA, to voluntarily contribute with releases of national oil reserves to IEA's collective actions. The Cyprus government has participated in the first release, with the release of 5.500 MT of oil reserve stocks through Decree on Oil Crises (Release of Strategic Oil Reserves) of 2022 of the Minister of Energy.

High international oil prices had a positive recognised impact on the organisation's oil stock values and Surplus. Oil prices continued to rise in 2022, and the market value of year end 2021 owned stocks at 31/05/2022 values was €288 m.

In relation to the construction of its owned terminal in Vassiliko, the organisation has, during 2022, proceeded with the award and signing of the contract for the Project Management Team. Furthermore, the tender for the Engineering Procurement and construction of the Terminal was published in May 2022 and is currently at the stage of valuation.

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

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