KPMG

KDM SHIPPING PUBLIC LIMITED

REPORT AND CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

KDM SHIPPING PUBLIC LIMITED

REPORT AND CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

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KDM SHIPPING PUBLIC LIMITED

BOARD OF DIRECTORS AND OTHER OFFICERS

Board of Directors	Konstiantyn Molodkovets - Executive Director, CEO
	Denys Molodkovets - Executive Director, CFO
	Konstantin Anisimov - Non-executive Director
	Mykhailo Chubai - Non-executive Director
	Ivaylo Georgiev Getsov, COO (resigned on 12 February 2013)
Audit Committee	Konstantin Anisimov – Head of Committee
	Mykhailo Chubai
Remuneration Committee	Mykhailo Chubai – Head of Committee
	Konstantin Anisimov
Secretary	Boomer Secretarial Limited 3 Michael Koutsofta Str. 3031, Limassol Cyprus
Independent Auditors	KPMG Limited
Registered Office	3 Michael Koutsofta Str. 3031, Limassol Cyprus

KDM SHIPPING PUBLIC LIMITED

Declaration of the members of the Board of Directors and the person responsible for the preparation of the consolidated financial statements of the Company

We, the Members of the Board of Directors and the person responsible for the preparation of the consolidated financial statements of KDM Shipping Public Limited for the year ended 31 December 2014, based on our knowledge, which is the product of careful and conscientious work, declare that the particulars which are specified in the consolidated financial statements are true and complete.

Members of the Board of Directors:

Konstiantyn Molodkovets	
Denys Molodkovets	
Konstantin Anisimov	
Mykhailo Chubai	

Person responsible for the preparation of the consolidated financial statements of the Company for the year ended 31 December 2014:

Denys Molodkovets	

Nicosia, 28 April 2015

KDM SHIPPING PUBLIC LIMITED

BOARD OF DIRECTORS' REPORT

The Board of Directors of KDM Shipping Public Limited (the "Company") presents to the members its annual report together with the audited consolidated financial statements of the Company and of its subsidiary companies (together with the Company referred to as the "Group") for the year ended 31 December 2014.

PRINCIPAL ACTIVITIES

The principal activities of the Group, which remained the same as the previous year, are the cargo freight, ship repair and passenger transportation.

FINANCIAL RESULTS

The financial results of the Group for the year ended 31 December 2014 are set out on page 8 of the consolidated financial statements. The loss for the year attributable to the owners of the Company amounted to USD 13 214 thousand (2013: profit USD 6 769 thousand) which the Board of Directors recommends to be transferred to the retained earnings.

EXAMINATION OF THE DEVELOPMENT, POSITION AND PERFORMANCE OF THE ACTIVITIES OF THE GROUP

The current financial position as presented in the consolidated financial statements is not considered satisfactory and the Board of Directors is making an effort to reduce the Company losses.

REVENUE

The Group's revenue for the year ended 31 December 2014 amounted to USD 22 172 thousand (2013: USD 31 486 thousand)

DIVIDENDS

The Board of Directors does not recommend the payment of a dividend and the net profit for the year is retained.

MAIN RISKS AND UNCERTAINTIES

The main risks and uncertainties faced by the Group and the steps taken to manage these risks, are described in note 29 to the consolidated financial statements.

FUTURE DEVELOPMENTS

Group's management believes, that one of the most important tasks is to sustain a strong presence on the market of cargo transportation, by maintaining relationships that Group build over the years with its clients.

SHARE CAPITAL

On 11 June 2013 the Company issued 2 000 000 new shares following the second public offering.The offer price for each Company's share was established at PLN 30 (USD 9,31/EURO 7,34) and the investors subscribed for 2 000 000 shares of the Company which represent 21,5% of the total issued share capital.

As a result of the above, the ordinary share capital increased to USD 118 thousand and is divided into 9 296 000 ordinary shares of € 0,01 each and share premium of USD 23 570 thousand net of transaction costs.

BRANCHES

During the year ended 31 December 2014 the Group did not operate any branches.

BOARD OF DIRECTORS

The members of the Board of Directors as at 31 December 2014 and at the date of this report are presented on page 1.

In accordance with the Company's Articles of Association all directors presently members of the Board continue in office.

There were no significant changes in the assignment of responsibilities and remuneration of the Board of Directors.

The Directors are responsible for formulating, reviewing and approving the Company's and its subsidiary companies strategies, budgets, certain items of capital expenditures and senior personnel appointments. Being a Company listed on the Warsaw Stock Exchange, the Directors have established audit and remuneration committees to improve corporate governance.

EVENTS AFTER THE REPORTING PERIOD

The events that occured after the reporting period are described in note 32 to the consolidated financial statements.

RELATED PARTY BALANCES AND TRANSACTIONS

Disclosed in note 28 to the consolidated financial statements.

INDEPENDENT AUDITORS

The independent auditors of the Company, KPMG Limited, have expressed their willingness to continue in office. A resolution giving authority to the Board of Directors to reappoint them and to fix their remuneration will be submitted at the forthcoming Annual General Meeting.

By order of the Board of Directors,

Boomer Secretarial Limited
Secretary

Nicosia, 28 April 2015

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INDEPENDENT AUDITORS' REPORT

TO THE MEMBERS OF

KDM SHIPPING PUBLIC LIMITED

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of KDM Shipping Public Limited (the "Company") and its subsidiaries (together with the Company, the "Group") on pages 8 to 61 which comprise the consolidated statement of financial position as at 31 December 2014, and the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year ended, and a summary of significant accounting policies and other explanatory information.

Board of Directors' responsibility for the consolidated financial statements

The Board of Directors is responsible for the preparation of consolidated 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 Cyprus Companies Law, Cap. 113, and for such internal control as the Board of Directors determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as at 31 December 2014, 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 Cyprus Companies Law, Cap. 113.

Emphasis of matter

We draw attention to notes 2 and 31 to the consolidated financial statements, which describe the political and social unrest and regional tensions in Ukraine. The impact of the events referred to in notes 2 and 31 about the continuing economic and political crisis in Ukraine and their final resolution cannot be determined and may adversely affect the Ukrainian economy and the operations of the Group. Our opinion is not qualified in respect of this matter.

Report on other legal requirements

Pursuant to the requirements of the Auditors and Statutory Audits of Annual and Consolidated Accounts Laws of 2009 and 2013, we report the following:

- We have obtained all the information and explanations we considered necessary for the purposes of our audit.
- In our opinion, proper books of account have been kept by the Company, so far as appears from our examination of those books.
- The consolidated financial statements are in agreement with the books of account.
- In our opinion and to the best of our information and according to the explanations given to us, the consolidated financial statements give the information required by the Cyprus Companies Law, Cap. 113, in the manner so required.
- In our opinion, the information given in the report of the Board of Directors on pages 3 to 5 is consistent with the consolidated financial statements.

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 34 of the Auditors and Statutory Audits of Annual and Consolidated Accounts Laws of 2009 and 2013 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.

Maria A. Papacosta, FCCA
Certified Public Accountant and Registered Auditor
for and on behalf of

KPMG Limited
Certified Public Accountants and Registered Auditors
14 Esperidon Street
1087 Nicosia
Cyprus

28 April 2015

KDM SHIPPING PUBLIC LIMITED

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2014

	Note	2014 USD'000	2013 USD'000
Revenue	5	22 172	31 486
Cost of sales	6	(19 931)	(20 403)
Gross profit		2 241	11 083
Other operating income		328	851
Selling and distribution expenses	8	(708)	(1 044)
Administrative expenses	7	(1 312)	(1 630)
Other operating expenses	9	(14 391)	(2 822)
(Loss)/ profit from operating activities	10	(13 842)	6 438
Finance income	12	17	19
Finance costs	12	(17)	(121)
Net finance expenses		-	(102)
(Loss)/profit before taxation		(13 842)	6 336
Taxation	13	624	436
(Loss)/profit for the year		(13 218)	6 772
Other comprehensive income:			
Items that are or may be reclassified subsequently to profit or loss			
Effect from translation into presentation currency		(7 412)	-
Total comprehensive income		(20 630)	6 772
(Loss)/profit for the year attributable to:			
Owners of the Company		(13 214)	6 769
Non-controlling interests		(4)	3
		(13 218)	6 772
Total comprehensive income attributable to:			
Owners of the Company		(20 605)	6 769
Non-controlling interests		(25)	3
		(20 630)	6 772
(Loss)/earnings per share			
Basic and fully diluted earnings per share (USD)	27	(1,42)	0,80

The notes on pages 14 to 61 are an integral part of these consolidated financial statements.

KDM SHIPPING PUBLIC LIMITED

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2014

	Note	2014 USD'000	2013 USD'000
Assets			
Vessels, property, plant and equipment	14	17 993	36 443
Intangible assets	15	-	120
Trade and other receivables	18	2 587	3 000
Deferred tax assets	23	-	2
Non-current assets		20 580	39 565
Inventories	17	6 778	6 158
Trade and other receivables	18	6 821	10 712
Tax asset	26	-	2
Cash and cash equivalents	19	18 849	20 307
Current assets		32 448	37 179
Total assets		53 028	76 744
Equity			
Share capital	21	118	118
Share premium		23 570	23 570
Retained earnings		39 693	52 907
Translation reserve		(16 939)	(9 548)
Equity attributable to owners of the Company		46 442	67 047
Non-controlling interests		62	87
Total equity		46 504	67 134
Liabilities			
Deferred tax liabilities	23	699	2 313
Other long-term liabilities	25	151	273
Non-current liabilities		850	2 586
Loans and borrowings	19, 22	4 016	4 000
Trade and other payables	24	1 658	3 024
Current liabilities		5 674	7 024
Total liabilities		6 524	9 610
Total equity and liabilities		53 028	76 744

On 28 April 2015 the Board of Directors of KDM Shipping Public Limited authorised for issue these consolidated financial statements for issue.

....
Konstiantyn Molodkovets
Director, CEO

....
Denys Molodkovets
Director, CFO

The notes on pages 14 to 61 are an integral part of these consolidated financial statements.

KDM SHIPPING PUBLIC LIMITED

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2014

	Note	Attributable to owners of the Company						
		Share capital	Share premium	Translation reserve	Retained earnings	**Total**	**Non-controlling interests**	**Total equity**
		USD'000	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000
Balance at 1 January 2013		91	7 355	(9 548)	46 130	44 028	92	44 120
Comprehensive income								
Profit for the year		-	-	-	6 769	6 769	3	6 772
Total comprehensive income		-	-	-	6 769	6 769	3	6 772
Transactions with owners, recognized directly in equity								
Contributions by and distributions to owners								
Issue of share capital on 11 June 2013	21	27	18 583	-	-	18 610	-	18 610
Transaction costs		-	(2 368)	-	-	(2 368)	-	(2 368)
Total transactions with owners		27	16 215	-	-	16 242	-	16 242
Acquisition of non-controlling interest without changes in control		-	-	-	8	8	(8)	-
Balance at 31 December 2013		118	23 570	(9 548)	52 907	67 047	87	67 134

The notes on pages pages 14 to 61 are an integral part of these consolidated financial statements.

KDM SHIPPING PUBLIC LIMITED

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (continued)

For the year ended 31 December 2014

	Note	Attributable to owners of the Company						
		Share capital	Share premium	Translation reserve	Retained earnings	**Total**	**Non-controlling interests**	**Total equity**
		USD'000	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000
Balance at 1 January 2014		118	23 570	(9 548)	52 907	67 047	87	67 134
Comprehensive income								
Loss for the year		-	-	-	(13 214)	(13 214)	(4)	(13 218)
Effect from translation into presentation currency		-	-	(7 391)	-	(7 391)	(21)	(7 412)
Total comprehensive income		-	-	(7 391)	(13 214)	(20 605)	(25)	(20 630)
Transactions with owners, recognized directly in equity								
Contributions by and distributions to owners								
Balance at 31 December 2014		118	23 570	(16 939)	39 693	46 442	62	46 504

The notes on pages pages 14 to 61 are an integral part of these consolidated financial statements.

KDM SHIPPING PUBLIC LIMITED

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (continued)

For the year ended 31 December 2014

(1) In accordance with the Cyprus Companies Law, Cap. 113, Section 55 (2) the share premium, reserve can only be used by the Company in (a) paying up unissued shares of the Company to be issued to members of the Company as fully paid bonus shares; (b) writing off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the Company; and (c) providing for the premium payable on redemption of any redeemable preference shares or of any debentures of the Company.

(1) Companies incorporated in Cyprus which do not distribute 70% of their profits after tax, as defined by the Special Contribution for the Defense of the Republic Law, during the two years after the end of the year of assessment to which the profits refer, will be deemed to have distributed this amount as dividend. Special contribution for defence at 20% for the tax years 2012 and 2013 and 17% for 2014 and thereafter will be payable on such deemed dividend to the extent that the owners (individuals and companies) at the end of the period of two years from the end of the year of assessment to which the profits refer, are Cyprus tax residents. The amount of this deemed dividend distribution is reduced by any actual dividend paid out of the profits of the relevant year at any time. This special contribution for defence is paid by the Company for the account of the owners.

The above requirements of the Law are not applied in the case of the Company due to the fact that its owners are not residents in Cyprus for tax purposes.

KDM SHIPPING PUBLIC LIMITED

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2014

	Note	2014 USD'000	2013 USD'000
Cash flows from operating activities			
(Loss)/profit for the year		(13 218)	6 772
Adjustments for:			
Depreciation of vessels, property, plant and equipment	14	1 281	1 849
Amortisation of computer software	15	7	1
Provision for impairment of receivables	18	2 307	1 794
Recovery of receivables written-off in previous periods		-	(259)
VAT written-off		10	196
Recovery of payables previously written off	9	26	150
Loss on disposal of vessels, property, plant and equipment	9	1 132	604
Payables written-off		(191)	(416)
Loss on impairment of goodwill		74	-
Impairment of non-current assets	14	9 462	-
Interest income		-	(19)
Discount of notes issued	12	17	23
Interest expense	12	(17)	98
Income tax expense	13	(624)	(436)
Exchanges differences		1 364	-
Cash flows from operations before working capital changes		1 630	10 357
Increase in inventories		(904)	(5 409)
Increase in trade and other receivables		(1 413)	(7 382)
(Decrease)/increase in trade and other payables		(1 777)	1 475
Cash flows used in operations		(2 464)	(959)
Tax paid		-	(1)
Net cash flows used in operating activities		(2 464)	(960)
Cash flows from investing activities			
Payment for acquisition of intangible assets	15	-	(11)
Payment for acquisition of vessels, property, plant and equipment	14	(14)	(7 444)
Acquisition of non-controling interest		-	(8)
Proceeds from disposal of vessels, property, plant and equipment		1 362	79
Interest received		17	19
Net cash flows from/(used in) investing activities		1 365	(7 365)
Cash flows from financing activities			
Proceeds from issue of share capital		-	17 959
Payment of transaction costs related to issue of share capital		-	(1 717)
Repayment of borrowings		-	(423)
Interest paid		-	(126)
Net cash flows used in financing activities		-	15 693
Net (decrease)/increase in cash and cash equivalents		(1 474)	7 368
Cash and cash equivalents at the beginning of the year		20 307	12 939
Effect of translation into presentation currency		(375)	-
Cash and cash equivalents at the end of the year	19	18 833	20 307

The notes on pages pages 14 to 61 are an integral part of these consolidated financial statements.

KDM SHIPPING PUBLIC LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

1. INCORPORATION AND PRINCIPAL ACTIVITIES

KDM Shipping Public Limited (the "Company") was incorporated in Cyprus on 2 December 1999 as a private limited liability company under the Cyprus Companies Law, Cap. 113. Its Registered Office is at 3 Michael Koutsofta Str., 3031, Limassol, Cyprus.

The Company was initially established under the name V.S. Marine Engineering Services Limited. On 21 December 2011, the Company was re-registered as a public limited company and changed its name to KDM Shipping Public Limited.

The consolidated financial statements for the year ended 31 December 2014 comprise the financial statements of the Company and its subsidiaries (together with the Company referred to as the "Group")

The principal activities of the Group, which remained the same as the previous year, are the cargo freight, ship repair and passenger transportation.

The history of the Group began in 2001 with acquisition by the principal owner of River Sea type vessels for the purpose of cargo transportation in the region of Black, Azov and Mediterranean Seas. By using River Sea vessels low drought inland ports of Russia and Ukraine are easily accessible as well as any Sea port within the region of operations. Currently the Group's fleet of vessels is in private ownership and it is the 3rd largest operating under Ukrainian Flag. Entire fleet of vessels is in compliance with Ukrainian Maritime Registry of Shipping. The Group specializes in transportation of all general cargo such as: All Grain, SFSM, Scrap Metal, Pine Logs, Metals, Glass, Chemical fertilizers.

From 2002 the Group's principal owner started investing into acquisition of Ship Repair Yard in Kherson region Ukraine, and had full control by 2004. This was a strategic investment in reaching a verticaly integrated shipping business. By this point in time the Group had its own crewing, technical maintenance and ship repair departments. The Yard specialized in the repair of middle tonnage fishing fleet, River Sea vessels, special purpose vessels, floating cranes, dredgers and tugs. This helped the Group not only to cut down on costs involved in repair of its own fleet of vessels as well as improving quality control but to get additional profitability from undertaking repair works for other ship owners.

The shipyard was heavily involved in improving its repair facilities and increasing productivity. Nevertheless during this period management of the Group had undertaken a number of successful projects in segmental reporting in shipbuilding, ship modernization that generated additional revenue streams as well as reducing the risks for the entire Group.

In 2005 the Group started operating a seasonal passenger transportation business in Kiev Ukraine. With own fleet of passenger vessels in different divisions of comfort and size, the Group is one of the larger passenger carriers on water transport with a significant market share. The fleet of the luxury boats is also in the segment of providing specialized services like: conferences, meetings, corporate events, celebrations, excursion tours etc.

The Group's subsidiaries, country of incorporation, their principal activities and effective ownership percentage are disclosed in note 16 of the consolidated financial statements.

KDM SHIPPING PUBLIC LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

1. INCORPORATION AND PRINCIPAL ACTIVITIES *(continued)*

On 9 August 2012, the shares of the Company were admitted on the regulated market of the Warsaw Stock Exchange. On 11 June 2013, following the second public offering 2 000 000 new shares subscribed at issue price of PLN 30 per share (note 21).

The parent company of the Group is KDM Shipping Public Limited, with an issued share capital of 9 296 000 ordinary shares with nominal value of €0,01 per share. The shares were distributed as follows:

	31 December 2014		**31 December 2013**	
Owner	Number of shares	Ownership Interest %	Number of shares	Ownership Interest %
Kostiantyn Molodkovets (KM Management Limited)	5 100 000	54,86	5 100 000	54,86
Denys Molodkovets	866 999	9,33	749 999	8,07
Miralex Inc	-	-	449 998	4,84
Oleksyi Veselovsky [1]	200 000	2,15	200 000	2,15
Konstantin Anisimov	1	-	1	-
Liudmila Molodkovets	1	-	1	-
Iurii Molodkovets	1	-	1	-
Public	3 128 998	33,66	2 796 000	30,08
	9 296 000	100,00	9 296 000	100,00

[1] Since Mr. Veselovskyy passed away on 25 March 2012, these Shares in the Issuer constitute a part of estate to be transferred to heirs of Mr. Veselovskyy. The heir(s) will enter into possession of the Shares not earlier than after 6 months from the date of death, while the title to the shares will have passed to the relevant heir(s) as of the date of death.

2. BASIS OF PREPARATION

(a) Statement of compliance
The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union (EU) and the requirements of the Cyprus Companies Law, Cap.113 and are for the year ended 31 December 2014.

(b) Basis of measurement
The consolidated financial statements have been prepared under the historical cost convention.

(c) Standards and interpretations

Adoption of new and revised International Financial Reporting Standards and Interpretations
As from 1 January 2014, the Group adopted all changes to International Financial Reporting Standards (IFRSs) which are relevant to its operations. This adoption did not have a material effect on the consolidated financial statements of the Company.

The following Standards, Amendments to Standards and Interpretations have been issued but are not yet effective for annual periods beginning on 1 January 2014. Those which may be relevant to the Group are set out below. The Group does not plan to adopt these Standards early.

KDM SHIPPING PUBLIC LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

2. BASIS OF PREPARATION *(continued)*

(c) Standards and interpretations *(continued)*

Adoption of new and revised International Financial Reporting Standards and Interpretations (continued)

(i) Standards and Interpretations adopted by the EU

- IAS 19 (Amendments) "Defined Benefit Plans: Employee Contributions" (effective for annual periods beginning on or after 1 July 2014).
- Improvements to IFRSs 2010-2012 (effective for annual periods beginning on or after 1 July 2014).
- Improvements to IFRSs 2011-2013 (effective for annual periods beginning on or after 1 July 2014).

(ii) Standards and Interpretations not adopted by the EU

- IFRS 9 "Financial Instruments" (effective for annual periods beginning on or after 1 January 2018).
- IFRS 14 "Regulatory Deferral Accounts" (effective for annual periods beginning on or after 1 January 2016).
- IFRS 15 "Revenue from contracts with customers" (effective for annual periods beginning on or after 1 January 2017).
- Amendments to IFRS 10, IFRS 12 and IAS 28: Investment Entities: Applying the Consolidation Exception (effective for annual periods beginning on or after 1 January 2016).
- IFRS 11 "Accounting for acquisition of Interests in Joint Operations" (effective for annual periods beginning on or after 1 January 2016).
- Amendments to IAS 1: Disclosure Initiative (effective for annual periods beginning on or after 1 January 2016)
- Annual Improvements to IFRSs 2012–2014 Cycle (effective the latest as from the commencement date of its first annual period beginning on or after 1 January 2016)
- Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (effective for annual periods beginning on or after 1 January 2016).
- IAS 27 (Amendments) "Equity method in separate financial statements" (effective for annual periods beginning on or after 1 January 2016).
- IAS 16 and IAS 41 (Amendments) "Bearer plants" (effective for annual periods beginning on or after 1 January 2016).
- IAS 16 and IAS 38 (Amendments) "Clarification of acceptable methods of depreciation and amortisation" (effective for annual periods beginning on or after 1 January 2016).

The Board of Directors expects that the adoption of these standards in future periods will not have a material effect on the financial statements of the Group.

2. BASIS OF PREPARATION *(continued)*

(d) Significant accounting judgements and estimates

In preparing these consolidated financial statements Management has made judgments, estimates and assumptions that affect the application of the Group's accounting policies and the reported amounts of assets and liabilities, income and expenses. The estimates and underlying assumptions are based on historical experience and various other factors that are deemed to be reasonable based on knowledge available at that time. Actual results may differ from such estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively.

In particular, information about significant areas of estimation, uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amount recognised in the consolidated financial statements are described below:

- Work in progress
  Work in progress is stated at cost plus any attributable profit less any foreseeable losses and less amounts received or receivable as progress payments. The cost of work in progress includes materials, labour and direct expenses plus attributable overheads based on a normal level of activity. The Group uses its judgment to select a variety of methods and make assumptions that are mainly based on market conditions existing at each reporting period.

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

  The Group provides for doubtful debts to cover potential losses when a customer may be unable to make necessary payments. In assessing the adequacy of provision for doubtful debts, management considers the current economic conditions in general, the age of accounts receivable, the Group's experience in writing off of receivables, solvency of customers and changes in conditions of settlements. Economic changes, industry situation or financial position of separate customers may result in adjustments related to the amount of provision for doubtful debts reflected in the consolidated financial statements as impairments of receivables.

  Bad debts which are recovered are written-off from the consolidated statement of financial position along with a corresponding adjustment to the provision for doubtful debts, and the recovered amount is recognised in profit or loss.

2. BASIS OF PREPARATION *(continued)*

(d) Significant accounting judgements and estimates (continued)

- Income taxes and deffered tax assets
  Significant judgment is required in determining the provision for income taxes. There are transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

  Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgment is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and the level of future taxable profits together with future tax planning strategies.

  Deferred tax assets are reviewed at each reporting period and reduced to the extent that there is no longer any probability for sufficient taxable profit to be received, which enables utilization of the whole number of or a part of deferred tax assets. Estimate of probability includes judgments, which are based on expected characteristics of activity. To estimate the probability of utilising deferred tax assets in future, various factors are used, including previous years' results, operating plans, expiry of tax losses recovery, strategies of tax planning. Should actual results differ from the estimates, and should such estimates need to be reviewed in future periods, this can negatively influence the financial position, financial results and cash flows. Should the estimated utlisation of deferred tax assets be reduced, such reduction is to be recognised in consolidated statement of comprehensive income.

- Provision for obsolete and slow-moving inventory
  The Group reviews its inventory records for evidence regarding the saleability of inventory and its net realizable value on disposal. The provision for obsolete and slow-moving inventory is based on management's past experience, taking into consideration the value of inventory as well as the movement and the level of stock of each category of inventory.

  The amount of provision is recognized in the profit or loss. The review of the net realisable value of the inventory is continuous and the methodology and assumptions used for estimating the provision for obsolete and slow-moving inventory are reviewed regularly and adjusted accordingly.

KDM SHIPPING PUBLIC LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

2. BASIS OF PREPARATION *(continued)*

(d) Significant accounting judgements and estimates (continued)

- Vessel life and impairment
  The carrying value of the Group's vessels represents their original cost at the time they were delivered or purchased less depreciation calculated using an estimated useful life of years from the date the vessels were originally delivered from the shipyard. In the shipping industry, useful life in this range has become the standard. The actual life of a vessel may be different. If the economic life assigned to the vessel proves to be too long because of new regulations or other future events, higher depreciation expense and impairment losses could result in future periods related to a reduction in the useful life of the vessel.

  The carrying value of the Group's vessel may not represent its fair market value at any point in time since the market prices of second-hand vessels tend to fluctuate with changes in charter rates and the cost of new construction. Historically, both charter rates and vessel values tend to be cyclical. The Group records impairment losses only when events occur that cause the Group to believe that future cash flows for the vessel will be less than its carrying value. The carrying amount of vessel held and used by the Group is reviewed for potential impairment whenever events or changes in circumstances indicate that the carrying amount of the vessel may not be fully recoverable. In such instances, an impairment charge would be recognized if the estimate of the discounted future cash flows expected to result from the use of the vessel and its eventual disposition is less than the vessel's carrying amount.

  In developing estimates of future cash flows, the Group must make assumptions about future charter rates, ship operating expenses and the estimated remaining useful life of the vessel. These assumptions are based on historical trends as well as future expectations. Although management believes that the assumptions used to evaluate potential impairment are reasonable and appropriate, such assumptions may be highly subjective.

- Impairment of intangible asset
  Intangible assets are initially recorded at acquisition cost and are amortized on a straight line basis over their useful economic life. Intangible assets that are acquired through a business combination are initially recorded at fair value at the date of acquisition. Intangible assets with indefinite useful life are reviewed for impairment at least once per year. The impairment test is performed using the discounted cash flows expected to be generated through the use of the intangible assets, using a discount rate that reflects the current market estimations and the risks associated with the asset. When it is impractical to estimate the recoverable amount of an asset, the Group estimates the recoverable amount of the cash generating unit in which the asset belongs to.

- Impairment of goodwill
  Determining whether goodwill is impaired requires an estimation of the value in use of the cash generating units of the Group on which the goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating units using a suitable discount rate in order to calculate present value.

2. BASIS OF PREPARATION *(continued)*

(d) Significant accounting judgements and estimates (continued)

- Legal proceedings
  The Group's Management applies significant assumptions in the measurement and recognition of provisions for and risks of exposure to contingent liabilities, related to existing legal proceedings and other unsettled claims, and also other contingent liabilities. Management's judgment is required in estimating the probability of a successful claim against the Group or the crystallising of a material obligation, and in determining the probable amount of the final settlement or obligation. Due to uncertainty inherent in the process of estimation, actual expenses may differ from initial estimates. Such preliminary estimates may alter as new information is received, from internal specialists within the Group, if any, or from third parties, such as lawyers. Revision of such estimates may have a significant effect on the future results of operating activity.

- Contigent liabilities
  Contingent liabilities are determined by the occurrence or non-occurrence of one or more future events. Measurement of contingent liabilities is based on Management's judgments and estimates of the outcomes of such future events. In particular, the tax laws in Ukraine are complex and significant management judgement is required to interpret those laws in connection with the tax affairs of the Group, which is open to challenge by the tax authorities (Note 31).

- Ukrainian business environment
  Ukraine's political and economic situation has deteriorated significantly since the Government's decision not to sign the Association Agreement and the Deep and Comprehensive Free Trade Agreement with the European Union in late November 2013. Political and social unrest combined with rising regional tensions has deepened the ongoing economic crisis and has resulted in a widening of the state budget deficit and a depletion of the National Bank of Ukraine's foreign currency reserves and, as a result, a further downgrading of the Ukrainian sovereign debt credit ratings. In February 2014, following the devaluation of the national currency, the National Bank of Ukraine introduced certain administrative restrictions on currency conversion transactions and also announced a transition to a floating foreign exchange rate regime. The final resolution and the effects of the political and economic crisis are difficult to predict but may have further severe effects on the Ukrainian economy.

  The uncertain economic conditions in Ukraine have affected the cash flows forecasts of the Group's management in relation to the impairment assessment for financial and non-financial assets. The Group's management has assessed whether any impairment provisions are deeemed necessary for the Group's financial assets carried at amortised cost by considering the economic situation and outlook at the end of the reporting period.

  Although, Group's management considers that all necessary actions are being performed to maintain financial stability of the Group, but it is currently impossible to estimate the effect. These consolidated financial statements reflect current management estimation of Ukrainian business environment influence on the financial position of the Group. Situation development may differ from management expectations. These consolidated financial statements were not adjusted to reflect events efter the reporting period.

2. BASIS OF PREPARATION *(continued)*

(e) Functional and presentation currency
The functional currency of most of the companies of the Group is US Dollar ("USD"). Transactions in currencies other than the functional currency of the Group's companies are treated as transactions in foreign currencies. The Group's management decided to use US dollar ("USD") as the presentation currency for financial and management reporting purposes for the convenience of its principal users. Exchange differences arising from the translation to presentation currency are classified on equity and transferred to the Company's translation reserve.

(f) Going concern basis
These consolidated financial statements have been prepared under the going concern basis, which assumes the realisation of assets and settlement of liabilities in the course of ordinary economic activity. Renewals of the Group's assets, and the future activities of the Group, are significantly influenced by the current and future economic environment in Ukraine. The Board of Directors and Management are closely monitoring the events in the current operating environment of the Group as described in note 31. The consolidated financial statements do not comprise any adjustments in case of the Group's inability to continue as a going concern.

3. SIGNIFICANT ACCOUNTING POLICIES

The following accounting policies have been applied consistently for all the years presented in these consolidated financial statements. The accounting policies have been consistently applied by all companies of the Group.

Basis of consolidation
Subsidiaries
Subsidiaries are entities controlled by the Group. Control exists where the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

The financial statements of subsidiaries acquired or disposed during the year are included in the consolidated statement of profit and loss and other comprehensive income from the date that control commences until the date control ceases.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring them in line with the accounting policies of the Group.

Changes in the Group's ownership interests in existing subsidiaries
Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity as transactions with owners acting in their capacity as owners. No adjustments are made to goodwill and no gain or loss is recognised in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Changes in the Group's ownership interests in existing subsidiaries (continued)
When the Group loses control of a subsidiary, the resulting profit or loss is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. The resulting profit or loss is recognised in profit or loss.

Any interest retained in the former subsidiary is measured at fair value when control is lost.

Business combinations
Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value at the acquisition date, except that:

- deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with IAS 12 Income Taxes and IAS 19 Employee Benefits respectively;

- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with IFRS 2 Share-based Payment at the acquisition date; and

- assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations are measured in accordance with that Standard.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at fair value or, when applicable, on the basis specified in another IFRS.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Business combinations (continued)
When the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the 'measurement period' (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with IAS 39, or IAS 37 Provisions, Contingent Liabilities and Contingent Assets, as appropriate, with the corresponding gain or loss being recognised in profit or loss.

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Group obtains control) and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognised at that date.

Operating segments
Segment results that are reported to the CEO include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly corporate assets, head office expenses and tax assets and liabilities.

The Group is organised by reportable segments and this is the primary format for segmental reporting. Each reportable segment provides products or services which are subject to risks and rewards that are different than those of other reportable segments.

The Group presents also information on the basis of geographic location: segment revenue is based on the geographical location of customers and segment assets are based on the geographical location of the assets.

KDM SHIPPING PUBLIC LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Revenue recognition
Revenue comprises the invoiced amount for the sale of services in the course of the ordinary activities of the Group.Revenue is recorded net of Value Added Tax, rebates and discounts. Revenues earned by the Group are recognised on the following bases:

- Sale of products
  Sales of products are recognised when significant risks and rewards of ownership of the products have been transferred to the customer, which is usually when the Group has sold or delivered the products to the customer, the customer has accepted the products and collectability of the related receivable is reasonably assured.

- Rendering of services
  Sales of services are recognised in the accounting period in which the services are rendered by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

Finance income
Finance income includes interest income which is recognised on an accrual basis.

Finance expenses
Interest expense and other costs on borrowings to finance construction or production of qualifying assets are capitalised, during the period of time that is required to complete and prepare the asset for its intended use. All other borrowing costs are expensed.

Tax
Income tax expense represents the sum of the current tax and deferred tax.

Tax liabilities and assets for the current and prior periods are measured at the amount expected to be paid to or recovered from the taxation authorities, using the tax rates and laws that have been enacted, or substantively enacted, by the reporting period. Current tax includes any adjustments to tax payable in respect of previous periods.

Deferred tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Currently enacted tax rates are used in the determination of deferred tax.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred taxes relate to the same fiscal authority.

Foreign currency translation
(a) Transactions and balances
Transactions in foreign currencies are initially recorded by the Group entities at their respective functional currency rates prevailing at the date of the transaction.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Foreign currency translation (continued)

(a) Transactions and balances (continued)
Monetary assets and liabilities are translated into the functional currency of each Group company, at the rates ruling at the reporting period. Foreign exchange gains and losses, arising from transactions in foreign currency, and also from translation of monetary assets and liabilities into the functional currency of each Group company at the rate ruling at the end of the year, are recognised in profit or loss.

The exchange rates used in the preparation of these consolidated financial statements are as follows:

Currency	31 December 2014	Weighted average for the year 2014	31 December 2013	Weighted average for the year 2013
UAH - US dollar	15,7686	11,9095	7,9930	7,9930

The foreign currencies may be freely convertible on the territory of Ukraine at the exchange rate which is close to the exchange rate established by the National Bank of Ukraine. At the moment the Ukrainian Hryvnia is not a freely convertible currency outside Ukraine.

(b) Presentation currency
The financial results and position of each subsidiary are translated into the presentation currency as follows:

- At each reporting period end all the assets and liabilities are translated at the exchange rate of the National Bank of Ukraine at the reporting period;
- Income and expenses are translated at the average exchange rates (except for the cases when such average exchange rate is not a reasonably approximate value reflecting cumulative influence of all exchange rates prevailing at the dates of transactions, in which case income and expenses are translated at the exchange rates at the dates of transactions);
- All exchange differences are recognised in other comprehensive income within foreign currency translation reserve.

Dividends
The amount payable to the owners of the Company in the form of dividends is recognised as a liability in the financial statements of the Group in the period the dividends were approved by the owners of the Company.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Vessels, property, plant and equipment

Initial recognition

Vessels, property, plant and equipment ("VPPE") are recognised by the Group as an asset only in a case, when:

- it is probable that the Group will receive certain future economic benefits
- the historical cost can be assessed in a reliable way
- it is intended for use during more than one operating cycle (usually more than 12 months)
- after actual commissioning, VPPE previously under construction is transferred to the relevant category.

Expenses after the initial recognition

Any subsequent expenses, increasing the future economic benefits from the asset, are treated as additions. Otherwise, the Group recognises subsequent expenditure as expenses of the period, in which they have been incurred. The Group divides all expenses, related to VPPE, into the following types:
- current repairs and expenses for and technical service maintenance
- capital refurbishment, including modernisation.

Subsequent measurement

After initial recognition as an asset, the Group applies the model of accounting for the VPPE at historical cost, net of accumulated depreciation and any accumulated losses from impairment, taking into account estimated residual values of such assets at the end of their useful lives. Such cost includes the cost of replacing significant parts of the plant and equipment and borrowing costs for long-term construction projects if the recognition criteria are met. When significant parts of VPPE are required to be replaced from time to time, the Group recognises such parts as individual assets with specific estimated useful lives and depreciation, respectively. Likewise, when a major inspection is performed, its cost is recognised in the carrying value of the VPPE as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognised in the profit or loss statement as incurred.

Expenditure for repairs and maintenance of VPPE is charged to profit or loss of the year in which it is incurred. The cost of major renovations and other subsequent expenditure are included in the carrying amount of the asset when it is probable that future economic benefits in excess of the originally assessed standard of performance of the existing asset will flow to the Group. Major renovations are depreciated over the remaining useful life of the related asset.

KDM SHIPPING PUBLIC LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Vessels, property, plant and equipment (continued)
Depreciation is recognised in profit or loss on the straight-line method over the useful lives of each part of an item of vessels, property, plant and equipment. The estimated useful lives of the Group's VPPE are as follows:

	Years
Buildings	30 - 50
Vessels	25 - 35
Vessels improvements	7
Vessels under construction	not depreciated
Plant and equipment	15 - 25
Vehicles	4 - 10
Furniture and fittings	4 - 10
Other	4 - 10

No depreciation is provided on land.

Depreciation methods, useful lives of assets and residual values are reviewed at each reporting period and adjusted if appropriate.

Assets under construction comprise costs directly related to construction of vessels and property, plant and equipment including an appropriate allocation of directly attributable variable overheads that are incurred in construction. Construction in progress is not depreciated.

An asset is not depreciated during the quarter of placing into operation. The acquired asset is depreciated starting from the following quarter from the date of placing into operation and depreciation is fully accumulated when useful life terminates.

De-recognition
An item of vessels, property, plant and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying value of the asset) is included in profit or loss when the asset is derecognised.

Impairment
At each reporting period the Group evaluates whether any indicators of possible impairment of an asset exist. If the recoverable value of an asset or a group of assets within VPPE is lower than their carrying (residual) value, the Group recognises such asset or group of assets as impaired, and accrues a provision for impairment of the amount of excess of the carrying value over the recoverable value of the asset. Impairment losses are recognised immediately in profit or loss.

KDM SHIPPING PUBLIC LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Intangible assets

(i) Goodwill
Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired undertaking at the date of acquisition. Goodwill on acquisition of subsidiaries is included in "intangible assets". Goodwill on acquisitions of associates is included in 'investments in associates'.

Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Gains and losses on the disposal of an undertaking include the carrying amount of goodwill relating to the undertaking sold. Goodwill is allocated to cash-generating units for the purpose of impairment testing.

(ii) Computer software
Costs that are directly associated with identifiable and unique computer software products controlled by the Group and that will probably generate economic benefits exceeding costs beyond one year are recognised as intangible assets. Subsequently computer software is carried at cost less any accumulated amortisation and any accumulated impairment losses. Expenditure which enhances or extends the performance of computer software programs beyond their original specifications is recognised as a capital improvement and added to the original cost of the computer software. Costs associated with maintenance of computer software programs are recognised as an expense when incurred. Computer software costs are amortised using the straight-line method over their useful lives, not exceeding a period of three years. Amortisation commences when the computer software is available for use and is included within administrative expenses.

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

Financial instruments
Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the instrument.

(i) Trade receivables
Trade receivables are initially measured at fair value and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in profit or loss when there is objective evidence that the asset is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

(ii) Cash and cash equivalents
Cash and cash equivalents comprise cash balances and call deposits of three months.

KDM SHIPPING PUBLIC LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments (continued)

(iii) Borrowings
Borrowings are recorded initially at the proceeds received, net of transaction costs incurred. Borrowings are subsequently stated 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.

(iv) Notes issued
Notes issued are initially recognised at fair value and are subsequently measured at amortised cost using the effective interest method.

(v) Trade payables
Trade payables are initially measured at fair value and are subsequently measured at amortised cost, using the effective interest rate method.

Derecognition of financial assets and liabilities

(i) Financial assets
A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the rights to receive cash flows from the asset have expired;
- the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass through' arrangement; or
- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

(ii) Financial liabilities
A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit or loss.

KDM SHIPPING PUBLIC LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment of non-current assets
The Group assesses at each reporting period the carrying value of its non-current assets to determine whether there is any objective evidence that non-current assets are impaired. If any such evidence exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). If it is not possible to estimate the recoverable amount of the cash-generating unit to which the asset belongs (the asset's cash-generating unit).

The expected recoverable amount of a cash-generating unit's fair value less cots to sell and its value in use. In estimating value in use, the future cash flows are discounted to present value using a pre-tax reflects current market assessments of the time value of money and the risks specific to the asset or cash generating unit.

If expected recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying vaue, the carrying value of the asset (or cash-generating unit) shall be reduced to its recoverable amount. that reduction is an impairment loss, unless the asset is carried at revalued model. Any impairment loss of a revalued asset shall be treated as a revaluation decrease. If the impairment loss is reversed subsequently, the carrying value of an asset (or cash-generating unit) increases to the revised and estimated amount of its recaoverable amount, where increased carrying value does not exceed the carrying value which could be determined only in the case where impairment loss for an asset (or cash-geenrating unit) was recognised in the previous years. Reversal of the impairment loss is recognised as profit immediately.

Offsetting financial instruments
Financial assets and financial liabilities are offset and the net amount reported in the consolidated statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously. This is not generally the case with master netting agreements, and the related assets and liabilities are presented gross in the consolidated statement of financial position.

Inventories
Inventories are measured at the lower of cost and net realisable value. The cost is determined using the weighted average method. Net realisable value is the estimated selling price in the ordinary course of business, less the costs to completion and selling expenses.

The cost of inventories comprises all expenses for acquisition, processing and other expenses incurred in bringing the inventories to their present location and condition. The cost of work in progress includes materials, labour and direct expenses plus attributable overheads based on a normal level of activity.

The Group regularly reviews inventories to determine whether there are any indicators of damage, obsolescence, slow movement, or a decrease in net realizable price. When such event takes place, the amount by which inventories are impaired, is reported in profit or loss.

Share capital
Ordinary shares are classified as equity. The difference between the fair value of the consideration received and the nominal value of the share capital issued is trasferred to the share premium account. Incremental costs directly attributable to the issue of shares, net of any tax effects, are recognised as a deduction from equity.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Provisions
Provisions are recognised when the Group 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 a reliable estimate of the amount can be made. Where the Group expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

The expense relating to any provision is presented in the consolidated statement of profit or loss net of any reimbursement. if the effect of the time value of money is material, provisions are discounted using a current pre-tax ratethat reflects where appropriate the risks to specific to liability. The unwinding of the discount is recognised as finance cost.

Non-current liabilities
Non-current liabilities represent amounts that are due more than twelve months from the reporting period.

Value added tax (VAT)
There are two rates of value added taxes: 20% – on import and sales of goods and services in the territory of Ukraine and 0% - on export of goods and rendering of services and works outside Ukraine.

The VAT liability is equal to the total amount of VAT accrued during the reporting period and arises at the earlier of goods shipment to the customer or at the date of receipt of payment from the client.

VAT credit is the amount by which a taxpayer is entitled to reduce his/her VAT liabilities in the reporting period. The right to VAT credit arises on the earlier of the date of payment to supplier or the date of receipt of goods by the Company.

For goods and services supplied at the 20% tax rate, revenue, expenses and assets are recognised net of VAT amount, unless:

- the value added tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the value added tax is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable.
- receivables and payables are stated with the amount of value added tax included.

The net amount of value added tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the consolidated statement of financial position.

Contingent assets and liabilities
Contingent liabilities are not recognized in the consolidated financial statements. Such liabilities are disclosed in the notes to the consolidated financial statements, with the exception of when the probability of an outflow of resources embodying economic benefits is remote.

Contingent assets are not recognized in the consolidated financial statements, but are disclosed in the notes in such cases when there is a possibility of receiving the economic benefits.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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

Events after the reporting period
The Group adjusts the consolidated financial statements amounts if events after the reporting period require adjustments. Events after the reporting period requiring adjustments of the consolidated financial statements amounts relate to the confirmation or contradiction of the circumstances prevailing at the reporting period, as well as estimates and judgments of management, which are made under conditions of uncertainty and incompleteness of information at the reporting period.

If non-adjusting events that occurred after the reporting period are significant, non-disclosure of information about them may affect the economic decisions of users which are made on the basis of these financial statements. Accordingly, the Group discloses the nature of such events and estimates of their financial effect or states the impossibility of such estimate for each material category of non-adjusting events that occurred after the reporting period.

4. OPERATING SEGMENTS

A reportable segment is a separable component of a business entity that produces goods or provides services to individuals (or groups of related products or services) in a particular economic environment that is subject to risks and generate revenues other than risks and income of those that are peculiar to other reportable segments.

The Group has four reportable segments, as described below, which are the Group's strategic divisions. The strategic divisions offer different services and are managed separately. Information regarding the results of each reportable segment is included below:

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4. OPERATING SEGMENTS *(continued)*

2014	Freight USD'000	Ship repair USD'000	Passenger transportation USD'000	Grain USD'000	Total USD'000
Revenue	9 196	270	221	12 485	22 172
Cost of sales	(8 313)	(752)	(134)	(10 732)	(19 931)
Gross profit	883	(482)	87	1 753	2 241
Expenses	(3 669)	(1 213)	(684)	(1 055)	(6 621)
Other material non cash items					
Impairment losses on non financial assets	(5 389)	(2 877)	(1 196)	-	(9 462)
Loss from operating activities	(8 175)	(4 572)	(1 793)	698	(13 842)
Net finance cost	17	(17)	-	-	-
Loss before tax	(8 158)	(4 589)	(1 793)	698	(13 842)
Tax	(5)	679	(50)	-	624
Net loss for the year	(8 163)	(3 910)	(1 843)	698	(13 218)
Non-current assets	13 391	5 432	1 757	-	20 580
Current assets	24 195	508	199	7 546	32 448
Total assets	37 586	5 940	1 956	7 546	53 028
Non-current liabilities	3	564	283	-	850
Current liabilities	5 167	342	165	-	5 674
Total liabilities	5 170	906	448	-	6 524

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4. OPERATING SEGMENTS *(continued)*

2013	Freight USD'000	Ship repair USD'000	Passenger transportation USD'000	Grain USD'000	Total USD'000
Revenue	20 421	5 606	701	4 758	31 486
Cost of sales	(10 663)	(4 705)	(450)	(4 585)	(20 403)
Gross profit	9 758	901	251	173	11 083
Expenses	(2 352)	(1 794)	(20)	(479)	(4 645)
Profit/ (loss) from operating activities	7 406	(893)	231	(306)	6 438
Net finance cost	(117)	16	(1)	-	(102)
Profit/ (loss) before tax	7 289	(877)	230	(306)	6 336
Tax	-	919	(483)	-	436
Net profit/ (loss) for the year	7 289	42	(253)	(306)	6 772
Non-current assets	23 820	12 392	3 353	-	39 565
Current assets	30 085	845	701	5 548	37 179
Total assets	53 905	13 237	4 054	5 548	76 744
Non-current Liabilities	-	2 102	484	-	2 586
Current liabilities	2 432	4 452	140	-	7 024
Total liabilities	2 432	6 554	624	-	9 610

Geographical information

Reportable segment information related to geographical location for the year ended 31 December 2014 and 31 December 2013 is presented below. Sales revenue analysis was based on the geographical location of customers and segment assets are based on the geographical location of the assets.

	2014 USD'000	2013 USD'000
Turkey	12 063	10 024
Ukraine	739	11 124
Russia	5 170	6 841
Georgia	1 443	2 405
Italy	425	744
Azerbaijan	1 429	-
Turkmenistan	500	-
United Kingdom	165	-
Other countries	238	348
	22 172	31 486

4. OPERATING SEGMENTS *(continued)*

Impairment test

The impairment loss was recognised in relation to the Ship Repair and Passenger transport segments which is analysed as follows:

	2014 USD'000
Ship repair	
Vessels, property, plant and equipment	(2 877)
Passenger transportation	
Vessels, property, plant and equipment	(1 196)
Goodwill	(74)
Impairment loss	(4 147)

In the light of the deterioration of the activities of the ship repair and passenger transport services, due to the political and economic environment in the Ukraine, the management estimated the recoverable amount of the related segments.

The recoverable amount of the segments was based on external valuaton received for vessels, property, plant and equipment and on management assumtion for the rest. The external valuators method used was value in use.

The key assumption used in the estimation of the recoverable amount is set out below.

	2014
Discount rate	14,9% - 26%

5. REVENUE

	2014 USD'000	2013 USD'000
Rendering of services	9 688	26 728
Sales of goods	12 484	4 758
Total revenue	22 172	31 486

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6. COST OF SALES

	2014 USD'000	2013 USD'000
Cost of services rendered	9 204	15 818
Cost of goods sold	10 727	4 585
	19 931	20 403

Cost of sales by elements were as follows:

	Note	2014 USD'000	2013 USD'000
Payroll and related charges	11	1 727	1 802
Materials		13 134	9 970
Third parties services		3 799	6 797
Depreciation of vessels, property, plant and equipment	14	1 271	1 834
		19 931	20 403

7. ADMINISTRATIVE EXPENSES

	Note	2014 USD'000	2013 USD'000
Payroll and related charges	11	251	277
Travelling		21	24
Office and other materials		16	41
Third parties services		967	1 218
Taxes and duties		40	54
Depreciation of vessels, property, plant and equipment	14	10	15
Amortisation of computer software	15	7	1
		1 312	1 630

8. SELLING AND DISTRIBUTION EXPENSES

	Note	2014 USD'000	2013 USD'000
Payroll and related charges	11	-	307
Third parties services		701	737
Materials		7	-
		708	1 044

9. OTHER OPERATING EXPENSES

	Note	2014 USD'000	2013 USD'000
Loss from foreign exchange difference, net		1 364	-
Loss on disposal of vessels, property, plant and equipment		1 132	604
VAT write-off		10	196
Impairment of goodwill	15	74	-
Impairment of vessels, property, plant and equipment	14	4 073	-
Impairmnet of assets held for sale	14	5 389	-
Fines and penalties		7	5
Provision for impairment of receivables	18	2 307	1 794
Recovery of payables previously written off		26	150
Sundry expenses		9	73
		14 391	2 822

10. (LOSS)/PROFIT FROM OPERATING ACTIVITIES

Operating (loss)/profit is stated after charging the following items:

	Note	2014 USD'000	2013 USD'000
Amortisation of computer software	15	7	1
Depreciation of vessels, property, plant and equipment	14	1 281	1 849
Loss on disposal of vessels, property, plant and equipment	9	1 132	604
Provision for impairment of receivables	9	2 307	1 794
Recovery of payables previously written off	9	26	150
Staff costs	11	1 978	2 386
Independent auditors' remuneration for the statutory audit of annual accounts		71	75
Independent auditor's remuneration for other assurance service		47	44
Independent auditor's remuneration for tax advice		1	1

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11. STAFF COSTS

Payroll and related charges for the year ended 31 December 2014 were presented as follows:

	Note	2014 USD'000	2013 USD'000
Wages and salaries		1 907	2 314
Contributions to social funds		71	72
Total staff costs	10	1 978	2 386

	Note	2014 USD'000	2013 USD'000
Production personnel	6	1 727	1 802
Administrative personnel	7	251	277
Selling and distribution personnel	8	-	307
Total staff costs		1 978	2 386

The average number of employees was as follows:

	2014	2013
Average number of employees, persons	194	257
Key management personnel	21	17
	215	274

12. NET FINANCE COSTS

	2014 USD'000	2013 USD'000
Finance income		
Bank interest	17	19
	17	19
Finance costs		
Interest expense		
Loan interest	-	(92)
Interest payable on leases	-	(6)
Discount of notes issued	(17)	(23)
	(17)	(121)
Net finance costs	-	(102)

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13. TAXATION

	Note	2014 USD'000	2013 USD'000
Income tax		1	-
Deferred tax - credit	23	(625)	(436)
Credit for the year		(624)	(436)

Reconciliation of tax based on the taxable income and tax based on accounting losses:

	2014 USD'000	2013 USD'000
Accounting (loss)/profit before taxation	(13 842)	6 336
Income tax, taxable at the rate of 18% (2013: 19%)	(1 016)	(380)
Income tax, taxable at the rate of 12,5% (2013: 12,5%)	3	(33)
Items not deductible/assesible for tax purposes	389	401
Changes in tax rate and law	-	(424)
Tax as per consolidated statement of profit or loss and other comprehensive income - (credit)	(624)	(436)

14. VESSELS, PROPERTY, PLANT AND EQUIPMENT

2014	Land and buildings	Vessels	Vessels under construction	Plant and equipment	Vehicles	Furniture and fittings	Other	Total
	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000
Cost								
Balance at 1 January	14 248	23 189	5 700	1 289	187	141	113	44 867
Additions	-	2 604	267	16	97	-	5	2 989
Disposals	(462)	(3 893)	(213)	(127)	(15)	(2)	-	(4 712)
Exchange differences	(6 913)	(1 027)	(1 496)	(592)	(112)	(54)	(32)	(10 226)
Reclassification to assets held for sale	-	(4 635)	-	-	-	-	-	(4 635)
Balance at 31 December 2014	6 873	16 238	4 258	586	157	85	86	28 283
Depreciation and impairment losses								
Balance at 1 January	2 512	4 940	-	678	99	93	102	8 424
Depreciation for the year	231	988	-	42	8	9	3	1 281
On disposals	(61)	(3 498)	-	(53)	(15)	(1)	-	(3 628)
Exchange differences	(1 280)	(91)	-	(325)	(47)	(36)	(29)	(1 808)
Impairment charge	2 877	5 389	1 196	-	-	-	-	9 462
Reclassification to assets held for sale	-	(3 441)	-	-	-	-	-	(3 441)
Balance at 31 December 2014	4 279	4 287	1 196	342	45	65	76	10 290
Carrying amounts								
Balance at 31 December 2014	2 594	11 951	3 062	244	112	20	10	17 993

The Group tested the Ship Repair and Passenger transport segment for impairment and recognised an impairment loss of USD 4 073 thousand with respect to vessels and property. Further information about the impairment loss and its disclosure is included in the Note 4.

14. VESSELS, PROPERTY, PLANT AND EQUIPMENT *(continued)*

2013	Land and buildings USD'000	Vessels USD'000	Vessels under construction USD'000	Plant and equipment USD'000	Vehicles USD'000	Furniture and fittings USD'000	Other USD'000	Total USD'000
Cost								
Balance at 1 January	12 096	19 044	5 415	1 401	243	193	108	38 500
Additions	2 191	4 938	285	12	2	6	10	7 444
Disposals	(39)	(793)	-	(124)	(58)	(58)	(5)	(1 077)
Balance at 31 December 2013	14 248	23 189	5 700	1 289	187	141	113	44 867
Depreciation and impairment losses								
Balance at 1 January	2 235	3 694	-	673	107	119	108	6 936
Depreciation for the year	302	1 443	-	70	6	14	14	1 849
On disposals	(25)	(197)	-	(65)	(14)	(40)	(20)	(361)
Balance at 31 December 2013	2 512	4 940	-	678	99	93	102	8 424
Carrying amounts								
Balance at 31 December 2013	11 736	18 249	5 700	611	88	48	11	36 443
Balance at 1 January 2013	9 861	15 350	5 415	728	136	74	-	31 564

As at 31 December 2013 there were no assets acquired under finance lease.

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15. INTANGIBLE ASSETS

2014	Goodwill USD'000	Computer software USD'000	Total USD'000
Cost			
Balance at 1 January	110	26	136
Exchange differences	(36)	(12)	(48)
Balance at 31 December 2014	74	14	88
Amortisation and impairment losses			
Balance at 1 January	-	16	16
Amortisation for the year	-	7	7
Exchange differences	-	(9)	(9)
Impairment charge	(74)	-	(74)
Balance at 31 December 2014	74	14	88
Carrying amounts			
Balance at 31 December 2014	-	-	-

2013	Goodwill USD'000	Computer software USD'000	Total USD'000
Cost			
Balance at 1 January	110	15	125
Additions	-	11	11
Balance at 31 December 2013	110	26	136
Amortisation and impairment losses			
Balance at 1 January	-	15	15
Amortisation for the year	-	1	1
Balance at 31 December 2013	-	16	16
Carrying amounts			
Balance at 31 December 2013	110	10	120
Balance at 1 January 2013	110	-	110

The Group tested the Passenger transport segment for impairment and recognised an impairment loss of USD 74 thousand with respect to goodwill. Further information about the impairment loss and its disclosure is included in the Note 4.

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16. INVESTMENTS IN SUBSIDIARIES

The details of the subsidiaries are as follows:

Name	*Country of incorporation*	*Principal activities*	*2014 Effective holding %*	*2013 Effective holding %*
KD Shipping Co. Limited Inc.	Panama	Bear Boat Charterer of vessels	100,00	100,00
LLC Danapris	Ukraine	Ukrainian holding company	99,84	99,84
LLC Capital Shipping Company	Ukraine	Ship owner, safety and technical license	99,57	99,57
LLC Hylea-Servise	Ukraine	Ship repair services	99,57	99,57
LLC CSC-Agent	Ukraine	Agent services in ports of Ukraine	99,58	99,58
LLC Riverest Tur	Ukraine	Passenger transportation	99,88	99,88
Camrose Shipping Ltd	Marshall Islands	Ship owner	-	100,00
Infoland Incorporated	Panama	Management services	100,00	100,00
LLC Kuybyshev KSRY	Ukraine	Ship repair services	100,00	100,00
LLC Rivertime	Ukraine	Supporting trading activities of passenger services	89,89	-
LLC Marine Management	Russian Federation	Ship's operator	100,00	

During the year ended 31 December 2014 the Group acquired 100% interest in LLC Marine Management (Russian Federation) for a purchase consideration of USD 2 975 thousand. The acquisition of this subsidiary does not constitute a business therefore the cost was recognised as assets (a vessel of USD 2 975 thousand) and agreed to the fair value as at the date of acquisition.

During the year ended 31 December 2013 the Group acquired 100% interest in Camrose Shipping Ltd (Marshall Islands) for a purchase consideration of USD 3 880 thousand (€2 875 thousand). The acquisition of this subsidiary does not constitute a business therefore the cost was recognised as assets (a vessel of USD 3 828 thousand and fuel inventory of USD 52 thousand) and agreed to the fair values as at date of acquisition.

The Representative office of KD Shipping Co Limited has been established without the right to conduct commercial activity in Ukraine.

The companies LLC Capital Shipping Company and LLC CSC-Agent are in the process of liquidation.

In 2014 the Group has sold 100% interest in Camrose Shipping LTD (Marshall Islands) as a result of disposal of its main assets.

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17. INVENTORIES

	2014 USD'000	2013 USD'000
Raw materials	26	43
Work in progress	60	66
Goods for resale	6 552	5 548
Fuel	139	492
Other materials	1	9
	6 778	6 158

Goods for resale represent acquisition of barley and corn with intention to sell at time when it would make economic value to sell and generate profit.

18. TRADE AND OTHER RECEIVABLES

	2014 USD'000	2013 USD'000
Trade receivables	2 083	1 830
Less: Provision for impairment of trade receivables	(356)	(357)
Trade receivables - net	1 727	1 473
Prepayments	8 510	9 768
Less: Provision for prepayment	(1 035)	(1 506)
Prepayment for the acquisition of subsidiary	-	3 000
Loans receivable	-	327
VAT recoverable	136	183
Other taxes prepaid	1	3
Other receivables	81	478
Less: Provision of impairment of other recevables	(12)	(14)
	9 408	13 712
Non-current portion	2 587	3 000
Current portion	6 821	10 712
	9 408	13 712

Non-current assets in 2014 relate to construction work to restructure some of the facilities of the Group and it is expected to be completed in 2015. Non-current assets in 2013 relate to a prepayment for the acquisition of 100% share in the equity capital of Shipmar LLC which was finalized in 2014.

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18. TRADE AND OTHER RECEIVABLES *(continued)*

Ageing analysis of trade and other receivables:

	Gross amount 2014 USD'000	Impairment 2014 USD'000	Gross amount 2013 USD'000	Impairment 2013 USD'000
Not past due	1 442	-	1 501	-
Past due 0-30 days	78	1	82	8
Past due 31-120 days	249	87	386	356
More than 120 days	395	280	339	7
	2 164	368	2 308	371

Movement in provision for impairment of receivables:

	2014 USD'000	2013 USD'000
Balance at 1 January	1 877	341
Impairment losses recognised on receivables	2 321	2 159
Amount written off as uncollectible	(1 784)	(192)
Bad debts recovered	(18)	(431)
Effect of translation to presentation currency	(993)	-
Balance at 31 December	1 403	1 877

The exposure of the Group to credit risk and impairment losses and to liquidity risk in relation to trade and other receivables is reported in note 29 to the consolidated financial statements.

19. CASH AND CASH EQUIVALENTS

	2014 USD'000	2013 USD'000
Cash at bank	18 847	20 276
Bank deposits	2	31
	18 849	20 307

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

	2014 USD'000	2013 USD'000
Cash and cash equivalents	18 849	20 307
Bank overdrafts and short term loans (Note 22)	(16)	-
	18 833	20 307

The exposure of the Group to credit risk and impairment losses and to liquidity risk in relation to cash and cash equivalents is reported in note 29 to the consolidated financial statements.

20. ASSETS CLASSIFIED AS HELD FOR SALE

	Vessels, property, plant and equipment USD'000
Transfers from Vessels, property, plant and equipment	1 194
Disposal	(1 194)
Balance at 31 December 2014	-

21. SHARE CAPITAL

	2014 Number of shares	2014 USD'000	2013 Number of shares	2013 USD'000
Authorised				
Ordinary shares of USD 0,01 each (Euro 0,01 each)	20 000 000	265	20 000 000	265
Issued and fully paid				
Balance at 1 January	9 296 000	118	7 296 000	91
Issue of share capital 11 June 2013	-	-	2 000 000	27
Balance at 31 December	9 296 000	118	9 296 000	118

The owners of the parent company as at 31 December were as follows:

	2014 USD'000	2013 USD'000
Kostiantyn Molodkovets	65	65
Denys Molodkovets	11	10
Miralex Inc.	-	6
Oleksiy Veselovskyy	2	2
Public	40	35
	118	118

On 11 June 2013 the Company issued 2 000 000 new shares following the second public offering.The offer price for each Company's share was established at PLN 30 (USD 9,31/EURO 7,34) and the investors subscribed for 2 000 000 shares of the Company which represent 21,5% of the total issued share capital.

As a result of the above, the ordinary share capital increased to USD 118 thousand and is divided into 9 296 000 ordinary shares of € 0,01 each and share premium of USD 23 570 thousand net of transaction costs.

22. LOANS AND BORROWINGS

	2014 USD'000	2013 USD'000
Short term liabilities		
Bank overdrafts	16	-
Bank loans	4 000	4 000
Total	4 016	4 000

The bank loans and overdrafts are secured as follows:

- By mortgage against the vessels with net book value of USD 3 566 thousand (2013: profit USD 3 836 thousand)

The interest rates at the reporting period were as follows:

	2014	2013
Bank loans	3M Libor + 10,5%	3M Libor + 10,5%

23. DEFERRED TAX

	2014 USD'000	2013 USD'000
Balance at 1 January	2 311	2 747
Credit in profit or loss	(625)	(436)
Exchange difference	(987)	-
Balance at 31 December	699	2 311

Influence of temporary difference on deferred tax

	2014 USD'000	2013 USD'000
Vessels, property, plant and equipment	(735)	(2 313)
Provisions	36	2
Net deferred tax liability	(699)	(2 277)

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24. TRADE AND OTHER PAYABLES

	2014 USD'000	2013 USD'000
Trade payables	469	1 167
Advances received	376	505
Salaries contributions and other related taxes	62	34
Other accounts payable	498	1 060
Other taxes payable	4	3
Deferred income	6	12
Interest payable	243	243
	1 658	3 024

The exposure of the Group to liquidity risk in relation to trade and other payables is reported in note 29 to the consolidated financial statements.

25. OTHER LONG-TERM LIABILITIES

	2014 USD'000	2013 USD'000
Long-term notes payable	187	369
Discount	(36)	(96)
	151	273

The above amounts relate to bills issued by the Group.

Maturity of other long-term liabilities:

	2014 USD'000	2013 USD'000
Between one year and five years	151	369
After five years	-	-
	151	369

The exposure of the Group to liquidity risk in relation to other long-term liabilities is reported in note 29 to the consolidated financial statements.

26. TAX ASSET

	2014 USD'000	2013 USD'000
Balance as at 1 January	(2)	(1)
Income tax accrued for the year	1	-
Income tax paid for the year	-	(1)
Effect of translation into presentation currency	1	-
Balance as at 31 December	-	(2)

27. (LOSS)/ EARNINGS PER SHARE

The calculation of earnings per share for the year ended 31 December 2014 and 31 December 2013 was based on the (loss)/ profit attributable to ordinary owners and the weighted number of ordinary shares outstanding as follows:

(Loss)/ profit attributable to ordinary owners:

	2014 USD'000	2013 USD'000
(Loss)/ profit for the year	(13 214)	6 769

Number of ordinary shares:

	2014 '000	2013 '000
Issued ordinary shares at 1 January	9 296	7 296
Effect of 2 000 000 shares issued on 11 June 2013	-	1 115
Weighted average number of ordinary shares at 31 December	9 296	8 411
Total basic and fully dilluted (loss)/ earnings per share (USD)	(1,42)	0,80

(Loss)/ earnings per share is the (loss)/ profit for the year after taxation divided by the weighted average number of shares in issue for each year.

There are no options or instruments convertible into new shares and so basic and dilluted earnings per share are the same.

28. RELATED PARTY BALANCES AND TRANSACTIONS

The majority of the Company's share capital is held by Molodkovets Kostiantyn who owns 54,86% and Molodkovets Denys who owns 9,33%. During the year ended 31 December 2014 33,66% of the Company's share capital is traded at the Warsaw Stock Exchange and is held by both institutional and retail investors.

In the ordinary course of its business, the Group has engaged and continue to engage in transactions with both related and unrelated parties.

28. RELATED PARTY BALANCES AND TRANSACTIONS *(continued)*

For the purposes of these consolidated financial statements, parties are considered to be related if one party has the ability to control the other party, is under common control, or can exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

According to these criteria the related parties of the Group are divided into the following categories:

A. Key management;

B. Companies whose activities are significantly influenced by the Group's owners.

(i) Remuneration of key management

Salary costs of key management for the year ended 31 December 2013 and 2012 were as follows:

	2014 USD'000	2013 USD'000
Salaries	82	52
Contributions to pension funds	15	22
Total	97	74

Number of key management personnel was as follows:

	2014	2013
Number of key management personnel, persons	21	17

(ii) Transactions with related parties

Companies whose activities are significantly influenced by the Group's owners:

	2014 USD'000	2013 USD'000
Administrative expenses	22	19
Total	22	19

28. RELATED PARTY BALANCES AND TRANSACTIONS *(continued)*

(iii) Amounts receivable from directors/owners

	2014 USD'000	2013 USD'000
Receivable from directors/owners	9	21

The amount receivable from owners are interest free, and have no specific repayment date.

(iv) Amounts payable to directors/owners

	2014 USD'000	2013 USD'000
Payable to directors/owners	84	111

No other material related party transactions have occurred since the end of 2013.

29. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Financial risk factors

The Group is exposed to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk

Risk Management Framework

The Company's Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and in the Group's activities.

The Group is not a finance company, thus it uses financial intruments as may be necessary in order to obtain finance for its activities, not for the purpose of receivig income. In the process of its activities, teh Group uses the following financial instruments: cash and cash equivalents, loans, accounts receivable, bank loans, finance leases and account payable.

The Group is exposed to the following risks resulting from the use of financial instruments: credit risk, liquidity risk and market risk including foreign currency risk and interest rate risk of fair value. This explanation contains information relating to the Group's exposure to each of those risk types mentioned above, Group's objectives, its policy and procedures of these risks measurement and management.

29. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT *(continued)*

(i) Credit risk

Credit risk is the risk of financial loss for the Group in case of non-fulfilment of financial obligations by a client or counterparty under the respective agreement. The Group has policies in place to ensure that sales of products and services are made to customers with an appropriate credit history and monitors on a continuous basis the ageing profile of its receivables. Cash balances are held with high credit quality financial institutions and the Group has policies to limit the amount of credit exposure to any financial institution.

Trade and other receivables
The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer.

The Group recognises impairment that represents its estimate of incurred losses in respect of trade and other receivables. The main components of this amount are a specific loss component that relates to individually significant exposures and a collective loss component established for groups of similar assets in respect of losses that have been incurred but not yet identified.

For the year ended 31 December 2014 USD 5 441 thousand or 24,5% from the Group`s revenue refers to the sales transactions carried out with one of the Group`s clients.

Exposure to credit risk
The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting period was presented as follows:

	2014 USD'000	2013 USD'000
Trade and other receivables	1 796	2 461
Cash at bank	18 847	20 307
Bank deposits	2	31
	20 645	22 799

Credit quality of financial assets

In 2014 the majority of the cash and cash equivalents of the Group are held with banks and financial institutions in Ukraine which are not rated. In 2013 the majority of the Group's cash and cash equivalents were held with banks and financial institutions which were rated A2 to BBa1 based on Moody's ratings and the minority with banks and financial institutions in Ukraine which were not rated.

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29. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT *(continued)*

(ii) *Liquidity risk*

Liquidity risk is the risk of the Group's failure to fulfill its financial obligations at the date of maturity. An unmatched position potentially enhances profitability, but can also increase the risk of losses. The Group 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 table below represents the expected maturity of components of working capital:

Exposure to liqudity risk

31 December 2014	Carrying amounts USD'000	Contractual cash flows USD'000	3 months or less USD'000	Between 3-12 months USD'000	Between 1-5 years USD'000	Over than 5 years USD'000
Loans and borrowings	4 016	4 016	16	4 000	-	-
Trade and other payables	1 210	1 210	1 210	-	-	-
Other long-term liabilities	151	187	-	-	187	-
	5 377	5 413	1 226	4 000	187	-

31 December 2013	Carrying amounts USD'000	Contractual cash flows USD'000	3 months or less USD'000	Between 3-12 months USD'000	Between 1-5 years USD'000	More than 5 years USD'000
Bank loans	4 000	4 000	4 000	-	-	-
Trade and other payables	2 470	2 470	2 470	-	-	-
Other long-term liabilities	273	369	-	-	369	-
	6 743	6 839	6 470	-	369	-

(iii) *Market risk*

Market risk is the risk of negative influence of changes in market prices, such as foreign exchange rates and interest rates, on revenue position of the Group or on the value of the Group's available financial instruments.

The objective of market risk management is to provide control over the Group's exposure to market risk, as well as keeping its level within reasonable limits. Description of the Group's exposure to such market components as currency risk and interest rate risk, is given below.

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29. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT *(continued)*

(iii) Market risk (continued)

Foreign Currency Risk

Foreign currency risk which represents a part of market risk is the risk of change in the value of financial instruments due to changes in foreign exchange rates. Management does not use derivative financial instruments to hedge foreign currency risks and does not follow an official policy for distribution of risks between liabilities in one or another currency. However, in the period of receiving new borrowings and loans, Management uses its own estimates to take the decision as for which currency denomination will be more favourable for the Group during the expected period till maturity.

Exposure to foreign currency risk

The Group's exposure to foreign currency risk and the amount in local currency as at 31 December 2014 based on carrying amounts was as follows:

31 December 2014	Euro USD'000	United States Dollars USD'000	Polish zloty USD'000
Assets			
Cash and cash equivalents	-	31	-
	-	31	-
Liabilities			
Loans and borrowings	-	(4 000)	-
	-	(4 000)	-
Net exposure	-	(3 969)	-

31 December 2013	Euro USD'000	United States Dollars USD'000	Ukrainian Hryvnia USD'000
Assets			
Cash and cash equivalents	11	-	36
	11	-	36
Liabilities			
Loans and borrowings	-	(4 000)	-
	-	(4 000)	-
Net exposure	11	(4 000)	36

29. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT *(continued)*

(iii) Market risk (continued)

Sensitivity analysis (foreign currency risk)
An increase of 100 basis points in foreign currency rates at 31 December would have decreased profit and equity by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant. For a decrease of 100 basis points there would be an equal and opposite impact on the profit and equity.

	Effect on profit or loss		Effect on equity	
	2014	2013	2014	2013
	USD'000	USD'000	USD'000	USD'000
United States Dollars	(40)	(40)	(40)	(40)

Interest Rate Risk

Interest rate risk is the risk that expenditure or the value of financial instruments will fluctuate due to changes in market interest rates. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk. The Group's management monitors the interest rate fluctuations on a continuous basis and acts accordingly.

Structure of interest risk
As at 31 December 2014 the structure of interest financial instruments of the Group grouped according to the types of interest rates, was presented as follows:

	2014	2013
	USD'000	USD'000
Fixed rate instruments		
Financial assets	2	-
Financial liabilities	(16)	-
Variable rate instruments		
Financial liabilities	(4 000)	(4 000)
	(4 014)	(4 000)

KDM SHIPPING PUBLIC LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

29. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT *(continued)*

(iii) Market risk (continued)

Interest Rate Risk (continued)

Sensitivity analysis
An increase of 100 basis points in interest rates at 31 December 2014 would have increased/(decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. For a decrease of 100 basis points there would be an equal and opposite impact on the profit and equity.

	Effect on profit or loss		Effect on equity	
	2014	2013	2014	2013
	USD'000	USD'000	USD'000	USD'000
Variable rate instruments	(40)	(40)	(40)	(40)
	(40)	(40)	(40)	(40)

Capital management

The Group's management follows the policy of providing a firm capital base which allows supporting the trust of investors, creditors and market and ensuring future business development.

The Group manages its capital to ensure that it will be able to continue as a going concern while increasing the return to owners through the strive to improve the debt to equity ratio. The Group's overall strategy remains unchanged from last year.

To manage capital, the Group's management, above all, uses calculations of financial leverage coefficient (ratio of leverage ratio) and ratio between net debt and EBITDA.

Financial leverage is calculated as a ratio between net debt and total amount of capital. This ratio measures net debt as a proportion of the capital of the Group, i.e. it correlates the debt with total equity and shows whether the Group is able to pay the amount of outstanding debts. An increase in this coefficient indicates an increase in borrowings relative to the total amount of the Group's capital. Monitoring this indicator is necessary to keep the optimal correlation between own funds and borrowings of the Group in order to avoid problems from over leverage. It is calculated as cumulative borrowings net of cash and cash equivalents. Total amount of capital is calculated as own capital reflected in the consolidated statement of financial position plus the amount of net debt.

For the ratio of net debt to EBITDA, the calculation of net debt is as stated above. EBITDA is an indicator of income before taxes, interest depreciation and amortization. It is useful for the Group's financial analysis, since the Group's activity is connected with long-term investments in vessels, property, plant and equipment. EBITDA does not include depreciation, so that in the Group's opinion, it reflects the approximate cash flows deriving from the Group's income in a more reliable way.

29. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT *(continued)*

Capital management (continued)

Financial leverage ratio calculation
The ratio of net debt to EBITDA gives an indication of whether income obtained from operating activities is sufficient to meet the Group's liabilities.

	2014 USD'000	2013 USD'000
Bank overdrafts	16	-
Short-term loans	4 000	4 000
Total amount of borrowings	4 016	4 000
Cash and cash equivalents	(18 849)	(20 307)
Net debt	(14 833)	(16 307)
Share capital	118	118
Share premium	23 570	23 570
Retained earnings	39 693	52 907
Effect from translation into presentation currency	(16 939)	(9 548)
Non-controling interests	62	87
Total equity	46 504	67 134
Total amount of equity and net debt	31 671	50 827
Financial leverage coefficient	(46,83)%	(32,08)%

For the years ended 31 December 2014 and 2013 the ratio of net debt to EBITDA amounted to:

	2014 USD'000	2013 USD'000
(Loss)/profit for the year	(13 218)	6 772
Income tax credit	(624)	(436)
Finance costs, net	-	102
Impairment losses	9 462	-
EBIT (Earnings before interest and income tax)	(4 380)	6 438
Depreciation and amortization	1 288	1 850
EBITDA (Earnings before interest, income tax, depreciation and amortisation)	(3 092)	8 288
Net debt/EBITDA	479,72%	(196,75)%

During the year there were no changes in approaches to capital management. The Group is not subject to any external regulatory capital requirements.

30. FAIR VALUES

The Group has an established control framework with respect to the measurements of fair value. This framework includes a valuation team that reports directly to the Chief Financial Officer.

The valuation team regularly revises significant unobservable inputs and valuations adjustments. The valuations team assesses and documents the evidence obtained to support the conclusion that the valuation meets the requirements of IFRS, including the level in the level in the fair value hierarchy. Significant valuations issues are reported to the Chief Financial Officer.

Assumptions in assessing fair value of financial instruments and assessment of their subsequent recognition

The Group measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements.

The different levels have been defined as follows:

- *Level 1* - quoted prices (unadjusted) in active markets for identical assets or liabilities.
- *Level 2* - inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- *Level 3* - inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The financial assets and financial liabilities of the Group are not measured at fair value and their carrying amount is a reasonable approximation of fair value.

Fair value of financial instruments is defined at the amount at which instrument could be exchanged in a current transaction between knowledgeable willing parties in an arm's length transaction, other than in forced or liquidation sale. As no readily available market exists for a large part of the Group's financial instruments, judgment is necessary in arriving at fair value, based on current economic conditions and specific risks attributable to the instruments. The estimates presented herein are not necessarily indicative of the amounts the Group could realize in a market exchange from the sale of its full holding of a particular instrument.

As at 31 December 2014, the following methods and assumptions were used by the Group to estimate the fair value of each class of financial instruments for which it is practicable to estimate such value:

Cash and cash equivalents - the fair value is estimated to be the same as the carrying value for these short-term financial instruments.

Trade and other receivables - the fair value is reasonably estimated to be the same as the carrying value, as provision for doubtful debts is reasonable estimation of discount needed for reflection of credit risk influence.

Trade and other payables - the fair value is estimated to be the same as the carrying value for trade and other payables.

30. FAIR VALUES *(continued)*

Application of the effective interest rate method for calculating carrying value of short-term receivables, interest free loans granted and received, long-term notes payable and payables has been applied to reflect at fair values.

Bank loans - the fair value of bank loans is estimated to approximate the total carrying value as the nominal interest rate of bank loans is approximately tied to the market rate concerning bank loans with similar credit risk rate and repayment period at the reporting period.

31. CONTINGENT AND CONTRACTUAL LIABILITIES

Ukrainian business and economic environment

Main operating activities of the Group are not carried out in Ukraine, however the Group's performance is affected by the development of the political situation in Ukraine and Russia. Laws and other regulatory acts affecting the activities of entities in Ukraine may be subject to changes during short periods of time. As a result, assets and operating activity of the Group may be exposed to the risk in case of any unfavorable changes in political and economical environment.

Ukraine's political and economic situation has deteriorated significantly since the Government's decision not to sing the Association Agreement and the Deep and Comprehensive Free Trade Agreement with the European Union in late November 2013. Political and social unrest combined with rising regional tensions has deepened the ongoing economic crises and has resulted in a widening of the state budget deficit and a depletion of the National Bank of Ukraine's foreign currency reserves and, as a result, a further downgrading of the Ukrainian sovereign debt credit rating. In February 2014, following the devaluation of the national currency, the National Bank of Ukraine introduced certain administrative restrictions on currency conversion transactions and also announced a transition to a floating foreign exchange rate regime.

The final resolution and effects of the political and economic crisis are difficult to predict but may have further severe effects on the Ukrainian economy.

Whilst management believes it is taking appropriate measures to support the sustainability of the Group's business in the current circumstances, a continuation of the current unstable business environment could negatively affect the Group's results and financial position in a manner not currently determinable. These consolidated financial statements reflect management's current assessment of the impact of the Ukrainian business environment on the operations and financial position of the Group. The future business environment may differ from management's assessment. These consolidated financial statements do not include any adjustment for the impact of events in Ukraine that have occurred after the reporting period.

Taxation

As a result of unstable economic situation in Ukraine, tax authorities in Ukraine pay more and more attention to the business cycles. In connection with this, tax laws in Ukraine are subject to frequent changes. Furthermore, there are cases of their inconsistent application, interpretation and execution. Non-compliance with laws and norms may lead to serious fines and penalties.

31. CONTINGENT AND CONTRACTUAL LIABILITIES *(continued)*

Taxation (continued)
The Company operates in the Cypriot tax jurisdiction and its subsidiaries in the Ukrainain tax jurisdiction. The Company's Management must interpret and apply existing legislation to transactions with third parties and its own activities. Significant judgment is required in determining the provision for direct and indirect taxes. There are transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

The Group's uncertain tax positions are reassessed by management at every reporting period. Liabilities are recorded for income tax positions that are determined by management as more likely than not to result in additional taxes being levied if the positions were to be challenged by the tax authorities. The assessment is based on the interpretation of tax laws that have been enacted or substantively enacted by the reporting period and any known Court or other rulings on such issues. Liabilities for penalties, interest and taxes other than on income are recognised based on management's best estimate of the expenditure required to settle the obligations at the reporting period.

While the Group's management believes the enactment of the Tax Code of Ukraine will not have significant negative impact on the Group's financial results in the foreseeable future, as of the date these financial statements were authorized for issue management was in the process of assessing its effects of its adoption on the operations of the Group considering the fact that the above are only applicable to operating activities that are maintained in Ukraine (ship repair and passenger business).

Legal matters
In the course of its economic activities, the Group is involved in legal proceedings with third parties. In most cases, the Group is the initiator of such proceedings with the purpose of preventing from losses in the economic sphere or minimizing them.

The Group's management considers that as at the reporting period, active legal proceedings on such matters will not have any significant influence on its financial position.

Pension and other liabilities
Most of the Group's employees receive pension benefits from the Pension Fund, Ukrainian state organization, in accordance with the regulations and laws of Ukraine. Group is obliged to deduct a certain percentage of salaries to the Pension Fund to pay pensions.

As at 31 December 2014 the Group had no liabilities for any supplementary pension payments, health care, insurance or other benefits after retirement to their working or former employees.

The Group had no contingent liabilities as at 31 December 2014.

32. EVENTS AFTER THE REPORTING PERIOD

There were no material events after the reporting period which affect the consolidated financial statements as at 31 December 2014.

On 28 April 2015 the Board of Directors of KDM Shipping Public Limited authorised for issue these consolidated financial statements for issue.