



KDM SHIPPING FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

KDM Shipping Public Limited (KDM:PW), a leading Ukrainian maritime shipping company that is primarily involved in the niche segment of dry bulk river-sea freight in the Black, Azov and Mediterranean Sea regions, announces its audited consolidated financial statements for the year ended 31 December 2013.

The following tables set forth certain selected consolidated financial data for the periods indicated, which have been extracted from the audited Consolidated Financial Statements.

| | For the year ended 31 December, | | |
|----------------------------|--------------------------------------------|-----------------|---------------|
| | 2013 | 2012 | Change |
| | <i>(USD in thousands)</i> | | <i>(%)</i> |
| Revenue | 31,486 | 28,906 | 8.9 |
| <i>Freight</i> | <i>20,421</i> | <i>21,554</i> | <i>(5.3)</i> |
| <i>Ship repair</i> | <i>5,606</i> | <i>4,301</i> | <i>30.3</i> |
| <i>Passenger transport</i> | <i>701</i> | <i>3,051</i> | <i>(77.0)</i> |
| <i>Grain</i> | <i>4,758</i> | <i>-</i> | <i>-</i> |
| Cost of sales | (20,403) | (14,001) | 45.7 |
| <i>Freight</i> | <i>(10,663)</i> | <i>(9,168)</i> | <i>16.3</i> |
| <i>Ship repair</i> | <i>(4,705)</i> | <i>(2,949)</i> | <i>59.5</i> |
| <i>Passenger transport</i> | <i>(450)</i> | <i>(1,884)</i> | <i>(76.1)</i> |
| <i>Grain</i> | <i>(4,585)</i> | <i>-</i> | <i>-</i> |
| Gross profit | 11,083 | 14,905 | (25.6) |
| <i>Gross margin</i> | <i>35.2%</i> | <i>51.6%</i> | <i>(31.8)</i> |
| EBITDA | 8,288 | 14,484 | (42.8) |
| <i>EBITDA margin</i> | <i>26.32%</i> | <i>50.1%</i> | <i>(47.5)</i> |
| Profit for the year | 6,772 | 12,550 | (46.0) |
| <i>Net margin</i> | <i>21.3%</i> | <i>43.4%</i> | <i>(50.9)</i> |

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Investor Relations

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On KDM Shipping Public Limited

KDM Shipping is one of the leaders of the Ukrainian shipping industry, primarily involved in the niche segment of dry bulk river-sea freight in the Black, Azov and Mediterranean Sea regions.

The Group's cargo fleet consists of 10 river-sea dry cargo vessels of total 29,673 DWT, which due to their shallow draft are capable of accessing major rivers and sea ports in Black and Azov Seas region. The Group's cargo fleet specializes in river-sea transportation services for dry bulk cargoes, including such commodities as grain, metal products, wood, fertilizers, feldspar, peas, cement, gypsum, silicomanganese, pig iron as well as other materials and equipment. The Group also provides passenger river transport services in the Kyiv region (operating its own fleet of 8 passenger river vessels) as well as ship building and repair services in the Group's shipyard, which is located in the city of Kherson.

The Group has developed a vertically integrated business model. The Group's main activity of dry-bulk shipping is supported by its own ship repair yard, its own ship agency in selected ports as well as its own crewing department. Such business model allows the Group to benefit from certain cost efficiencies and sustain competitive advantages.

KDM Shipping has been listed on the Warsaw Stock Exchange since August 2012.

More information at www.kdmshipping.com



KDM SHIPPING PUBLIC LIMITED
REPORT AND CONSOLIDATED FINANCIAL
STATEMENTS

For the year ended 31 December 2013

KDM SHIPPING PUBLIC LIMITED
REPORT AND CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

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KDM SHIPPING PUBLIC LIMITED
BOARD OF DIRECTORS AND OTHER OFFICERS

| | |
|------------------------|------------------------------------------------------------------------------------|
| Board of Directors | Konstantyn Molodkovets - Executive Director, CEO |
| | Denys Molodkovets - Executive Director, CFO |
| | Ivaylo Georgiev Getsov, COO (resigned on 12 February 2013) |
| | Konstantin Anisimov - Non-executive Director |
| | Mykhailo Chubai - Non-executive Director |
| 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 (the "Company") for the year ended 31 December 2013, based on our opinion, which is a result of diligent and scrupulous work, declare that the elements written in the consolidated financial statements are true and complete.

Members of the Board of Directors:

| | |
|------------------------|--|
| Konstantyn 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 2013 :

| | |
|-------------------|--|
| Denys Molodkovets | |
|-------------------|--|

Nicosia, 29 April 2014

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 2013 .

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 2013 are set out on page 8 of the consolidated financial statements. The profit for the year attributable to the owners of the Company amounted to USD 6 769 thousand (2012: USD 12 492 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 considered satisfactory.

REVENUE

The Group's revenue for the year ended 31 December 2013 amounted to USD 31 486 thousand (2012: USD 28 906 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 28 of the consolidated financial statements.

FUTURE DEVELOPMENTS

Group's management believes, 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.

The current situation will require from the Group reconsidering the main strategy carefully evaluating today's environment in the region. The market at the region of Azov Sea could reshape and company needs to concentrate on reacting to the market change accordingly. With respect to the export potential of Russia and transit potential of Ukraine, Group believes that this market will remain and will continue growing in the near future.

KDM SHIPPING PUBLIC LIMITED**BOARD OF DIRECTORS' REPORT** *(continued)***SHARE CAPITAL****Authorised share capital**

On 22 February 2012, it was resolved that the authorized share capital of the Company be increased from €17 100 divided into 1 710 000 ordinary shares of €0,01 each to €200 000 divided to 20 000 000 ordinary shares of €0,01 each by the creation of 18 290 000 new ordinary shares of nominal value €0,01 each. The new shares have the same rights as the existing shares.

Issued share capital

On 22 February 2012, it was resolved that the value of the shares of the Company's share capital is divided from €1,71 (USD 0,75) each to €0,01 (USD 0,01) each. As a result the currently existing 10 000 ordinary shares of nominal value €1,71 each, all of which have been issued and are fully paid up, be divided into 1 710 000 ordinary shares of €0,01 each, fully paid up.

Additionally, on the same date, it was resolved to issue and allot 4 790 000 ordinary shares of nominal value €0,01. As a result of the above, the issued share capital amounts to €65 000 (USD 81 000) and is divided into 6 500 000 ordinary shares of €0,01 each.

On 9 August 2012, the Company's shares started trading on the main market of Warsaw Stock Exchange ("WSE"). The offer price for each Company's share was established at PLN 32,4 (USD 9,80/EURO 7,96) and the investors subscribed for 796 000 shares of the Company which represent 10,9% of the total issued share capital. The number of Company's shares allotted was: 66 525 to retail investors and 729 475 to institutional investors.

This resulted an increase in the ordinary share capital of USD 73 thousand and share premium of USD 7 355 thousand net of transaction costs.

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 2013 the Group did not operate any branches.

KDM SHIPPING PUBLIC LIMITED**BOARD OF DIRECTORS' REPORT** *(continued)***BOARD OF DIRECTORS**

The members of the Board of Directors as at 31 December 2013 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 occurred after the reporting period are described in note 31 of the consolidated financial statements.

RELATED PARTY BALANCES AND TRANSACTIONS

Disclosed in note 27 of 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, 29 April 2014



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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 financial statements of KDM Shipping Public Limited (the "Company") and its subsidiaries (together with the Company, the "Group") on pages 8 to 64, which comprise the consolidated statement of financial position as at 31 December 2013, and the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Board of Directors' responsibility for the 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.

Auditor's responsibility

Our responsibility is to express an opinion on these financial 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.

Board Members:

N.G. Syrimis, A.K. Christofides, E.Z. Hadjizacharias, P.G. Loizou
 A.M. Gregoriades, A.A. Demetriou, D.S. Vakis, A.A. Apostolou
 S.A. Loizides, M.A. Loizides, S.G. Sofocleous, M.M. Antoniadis
 C.V. Vasiliou, P.E. Antoniadis, M.J. Hallos, M.P. Michael, P.A. Peleties
 G.V. Markides, M.A. Papacosta, K.A. Papanicolaou, A.I. Shiammouris
 G.N. Tziortzis, H.S. Charalambous, C.P. Anayiotos, I.P. Ghalanos
 M.G. Gregoriades, H.A. Kakoullis, G.P. Savva, C.A. Kalias, C.N. Kallis
 M.H. Zavrou, P.S. Elia, M.G. Lazarou, Z.E. Hadjizacharias
 P.S. Theophanous, M.A. Karantoni, C.A. Markides, G.V. Andreou
 J.C. Nicolaou, G.S. Prodromou, A.S. Sofocleous, G.N. Syrimis
 T.J. Yiasemides

KPMG Limited, a private company limited by shares, registered in Cyprus under registration number HE 132822 with its registered office at 14, Esperidon Street, 1087, Nicosia, Cyprus.

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Polis Chrysochou

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 Telephone +357 26 322098
 Fax +357 26 322722

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 2013, 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 note 30 "Contingent and Contractual Liabilities" to the consolidated financial statements, which describes the current political crisis and social unrest that started in November 2013 and escalated in 2014 in Ukraine. The impact of the events referred to in note 30 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.

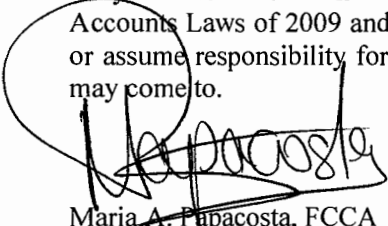
Report on other legal requirements

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
Esperidon 14
1087 Nicosia
Cyprus

29 April 2014

KDM SHIPPING PUBLIC LIMITED

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOMEFor the year ended 31 December 2013

| | Note | 2013 USD'000 | 2012 USD'000 |
|-----------------------------------------------------------------------------|------|-----------------|-----------------|
| Revenue | 5 | 31 486 | 28 906 |
| Cost of sales | 6 | <u>(20 403)</u> | <u>(14 001)</u> |
| Gross profit | | 11 083 | 14 905 |
| Other operating income | | 851 | 176 |
| Selling and distribution expenses | 8 | (1 044) | (322) |
| Administrative expenses | 7 | (1 630) | (1 016) |
| Other operating expenses | 9 | <u>(2 822)</u> | <u>(868)</u> |
| Profit from operating activities | 10 | <u>6 438</u> | <u>12 875</u> |
| Finance income | 12 | 19 | - |
| Finance costs | 12 | <u>(121)</u> | <u>(217)</u> |
| Net finance costs | | <u>(102)</u> | <u>(217)</u> |
| Profit before taxation | | 6 336 | 12 658 |
| Taxation | 13 | <u>436</u> | <u>(108)</u> |
| Profit for the year | | <u>6 772</u> | <u>12 550</u> |
| Other comprehensive income: | | | |
| <i>Items that are or may be reclassified subsequently to profit or loss</i> | | | |
| Effect of translation into presentation currency | | <u>-</u> | <u>(27)</u> |
| Total comprehensive income | | <u>6 772</u> | <u>12 523</u> |
| Profit for the year attributable to: | | | |
| Owners of the Company | | 6 769 | 12 492 |
| Non-controlling interests | | <u>3</u> | <u>58</u> |
| Profit for the year | | <u>6 772</u> | <u>12 550</u> |
| Total comprehensive income attributable to: | | | |
| Owners of the Company | | 6 769 | 12 479 |
| Non-controlling interests | | <u>3</u> | <u>44</u> |
| Total comprehensive income | | <u>6 772</u> | <u>12 523</u> |
| Earnings per share | | | |
| Basic and fully diluted earnings per share (USD) | 26 | <u>0.80</u> | <u>2.04</u> |

The notes on pages 14 to 64 are an integral part of these consolidated financial statements.

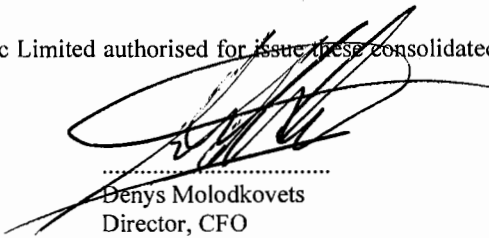
KDM SHIPPING PUBLIC LIMITED

CONSOLIDATED STATEMENT OF FINANCIAL POSITIONAs at 31 December 2013

| | Note | 2013 USD'000 | 2012 USD'000 |
|-----------------------------------------------------|--------|-----------------|-----------------|
| Assets | | | |
| Vessels, property, plant and equipment | 14 | 36 443 | 31 564 |
| Intangible assets | 15 | 120 | 110 |
| Trade and other receivables | 18 | 3 000 | 3 000 |
| Deferred tax assets | 22 | <u>2</u> | <u>236</u> |
| Non-current assets | | <u>39 565</u> | <u>34 910</u> |
| Inventories | 17 | 6 158 | 749 |
| Trade and other receivables | 18 | 10 712 | 5 060 |
| Tax asset | 25 | 2 | 1 |
| Cash and cash equivalents | 19 | <u>20 307</u> | <u>12 954</u> |
| Current assets | | <u>37 179</u> | <u>18 764</u> |
| Total assets | | <u>76 744</u> | <u>53 674</u> |
| Equity | | | |
| Share capital | 20 | 118 | 91 |
| Share premium | | 23 570 | 7 355 |
| Retained earnings | | 52 907 | 46 130 |
| Translation reserve | | <u>(9 548)</u> | <u>(9 548)</u> |
| Equity attributable to owners of the Company | | <u>67 047</u> | <u>44 028</u> |
| Non-controlling interests | | <u>87</u> | <u>92</u> |
| Total equity | | <u>67 134</u> | <u>44 120</u> |
| Liabilities | | | |
| Loans and borrowings | 21 | - | 2 433 |
| Deferred tax liabilities | 22 | 2 313 | 2 983 |
| Other long-term liabilities | 24 | <u>273</u> | <u>250</u> |
| Non-current liabilities | | <u>2 586</u> | <u>5 666</u> |
| Loans and borrowings | 19, 21 | 4 000 | 2 038 |
| Trade and other payables | 23 | <u>3 024</u> | <u>1 850</u> |
| Current liabilities | | <u>7 024</u> | <u>3 888</u> |
| Total liabilities | | <u>9 610</u> | <u>9 554</u> |
| Total equity and liabilities | | <u>76 744</u> | <u>53 674</u> |

On 29 April 2014 the Board of Directors of KDM Shipping Public Limited authorised for issue these consolidated financial statements for issue.

.....
Konstantyn Molodkovets
Director, CEO


.....
Denys Molodkovets
Director, CFO

The notes on pages 14 to 64 are an integral part of these consolidated financial statements.

KDM SHIPPING PUBLIC LIMITED

CONSOLIDATED STATEMENT OF CHANGES IN EQUITYFor the year ended 31 December 2013

| | | Attributable to owners of the Company | | | | Non-controlling interests | Total equity |
|---------------------------------------------------------|---------------|---------------------------------------|---------------------|-------------------|---------|---------------------------|--------------|
| Note | Share capital | Share premium | Translation reserve | Retained earnings | Total | | |
| | USD'000 | USD'000 | USD'000 | USD'000 | USD'000 | USD'000 | USD'000 |
| Balance at 1 January 2012 | 18 | - | (9 535) | 33 638 | 24 121 | 48 | 24 169 |
| Comprehensive income | | | | | | | |
| Profit for the year | - | - | - | 12 492 | 12 492 | 58 | 12 550 |
| Effect of translation into presentation currency | - | - | (13) | - | (13) | (14) | (27) |
| Total comprehensive income | - | - | (13) | 12 492 | 12 479 | 44 | 12 523 |
| Transactions with owners, recognized directly in equity | | | | | | | |
| Contributions by and distributions to owners | | | | | | | |
| Issue of share capital on 22 February 2012 | 20 | 63 | - | - | 63 | - | 63 |
| Issue of share capital on 9 August 2012 | 20 | 10 | 7 789 | - | 7 799 | - | 7 799 |
| Transaction costs | | - | (434) | - | (434) | - | (434) |
| Total transactions with owners | | 73 | 7 355 | - | 7 428 | - | 7 428 |
| Balance at 31 December 2012 | | 91 | 7 355 | (9 548) | 46 130 | 92 | 44 120 |

The notes on pages 14 to 64 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 2013

| | Note | <u>Attributable to owners of the Company</u> | | | | | <u>Non- controlling interests</u> | <u>Total equity</u> |
|--------------------------------------------------------------------|------|----------------------------------------------|----------------|---------------------|-------------------|----------------|-------------------------------------------|-------------------------|
| | | Share capital | Share premium | Translation reserve | Retained earnings | Total | | |
| | | USD'000 | USD'000 | USD'000 | USD'000 | USD'000 | USD'000 | USD'000 |
| Balance at 1 January 2013 | | <u>91</u> | <u>7 355</u> | <u>(9 548)</u> | <u>46 130</u> | <u>44 028</u> | <u>92</u> | <u>44 120</u> |
| Comprehensive income | | | | | | | | |
| Profit for the year | | <u>-</u> | <u>-</u> | <u>-</u> | <u>6 769</u> | <u>6 769</u> | <u>3</u> | <u>6 772</u> |
| Total comprehensive income | | <u>-</u> | <u>-</u> | <u>-</u> | <u>6 769</u> | <u>6 769</u> | <u>3</u> | <u>6 772</u> |
| Transactions with owners, recognized directly in equity | | | | | | | | |
| <i>Contributions by and distributions to owners</i> | | | | | | | | |
| Issue of share capital on 11 June 2013 | 20 | 27 | 18 583 | - | - | 18 610 | - | 18 610 |
| Transaction costs | | <u>-</u> | <u>(2 368)</u> | <u>-</u> | <u>-</u> | <u>(2 368)</u> | <u>-</u> | <u>(2 368)</u> |
| Total transactions with owners | | <u>27</u> | <u>16 215</u> | <u>-</u> | <u>-</u> | <u>16 242</u> | <u>-</u> | <u>16 242</u> |
| Acquisition of non-controlling interest without changes in control | | <u>-</u> | <u>-</u> | <u>-</u> | <u>8</u> | <u>8</u> | <u>(8)</u> | <u>-</u> |
| | | <u>-</u> | <u>-</u> | <u>-</u> | <u>8</u> | <u>8</u> | <u>(8)</u> | <u>-</u> |
| Balance at 31 December 2013 | | <u>118</u> | <u>23 570</u> | <u>(9 548)</u> | <u>52 907</u> | <u>67 047</u> | <u>87</u> | <u>67 134</u> |

The notes on pages 14 to 64 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 2013**

- (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.

The notes on pages 14 to 64 are an integral part of these consolidated financial statements.

KDM SHIPPING PUBLIC LIMITED

CONSOLIDATED STATEMENT OF CASH FLOWSFor the year ended 31 December 2013

| | Note | 2013 USD'000 | 2012 USD'000 |
|-------------------------------------------------------------------|------|----------------------|----------------------|
| Cash flows from operating activities | | | |
| Profit for the year | | 6 772 | 12 550 |
| Adjustments for: | | | |
| Depreciation of vessels, property, plant and equipment | 14 | 1 849 | 1 609 |
| Amortisation of computer software | 15 | 1 | 7 |
| Provision for impairment of receivables | 18 | 1 794 | 341 |
| Receivables written off | 9 | - | 20 |
| Recovery of receivables written-off in previous periods | | (259) | - |
| VAT written-off | | 196 | - |
| Recovery of payables previously written off | 9 | 150 | 309 |
| Loss on disposal of vessels, property, plant and equipment | 9 | 604 | 4 |
| Payables written-off | | (416) | - |
| Interest income | | (19) | - |
| Discount of notes issued | 12 | 23 | 21 |
| Other provisions | | - | 260 |
| Interest expense | 12 | 98 | 196 |
| Income tax expense | 13 | (436) | 108 |
| Cash flows from operations before working capital changes | | <u>10 357</u> | <u>15 425</u> |
| Increase in inventories | | (5 409) | (328) |
| Increase in trade and other receivables | | (7 382) | (2 179) |
| Increase/(decrease) in trade and other payables | | <u>1 475</u> | <u>(1 222)</u> |
| Cash flows (used in)/from operations | | <u>(959)</u> | <u>11 696</u> |
| Tax paid | | <u>(1)</u> | <u>(5)</u> |
| Net cash flows (used in)/from operating activities | | <u>(960)</u> | <u>11 691</u> |
| Cash flows from investing activities | | | |
| Payment for acquisition of intangible assets | 15 | (11) | - |
| Payment for acquisition of vessels, property, plant and equipment | 14 | (7 444) | (2 954) |
| Payment for acquisition of investments in subsidiaries | | - | (3 000) |
| Acquisition of non-controlling interest | | (8) | - |
| Proceeds from disposal of vessels, property, plant and equipment | | 79 | - |
| Interest received | | <u>19</u> | <u>-</u> |
| Net cash flows used in investing activities | | <u>(7 365)</u> | <u>(5 954)</u> |
| Cash flows from financing activities | | | |
| Proceeds from issue of share capital | | 17 959 | 7 862 |
| Payment of transaction costs related to issue of share capital | | (1 717) | (434) |
| Repayment of borrowings | | (423) | (200) |
| Proceeds from obligations under finance leases | | - | 39 |
| Interest paid | | <u>(126)</u> | <u>(115)</u> |
| Net cash flows from financing activities | | <u>15 693</u> | <u>7 152</u> |
| Net increase in cash and cash equivalents | | <u>7 368</u> | <u>12 889</u> |
| Cash and cash equivalents at the beginning of the year | | 12 939 | 80 |
| Effect of translation into presentation currency | | <u>-</u> | <u>(30)</u> |
| Cash and cash equivalents at the end of the year | 19 | <u><u>20 307</u></u> | <u><u>12 939</u></u> |

The notes on pages 14 to 64 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 2013

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 2013 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 draught 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 vertically 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 2013

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 20).

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:

| Owner | 31 December 2013 | | 31 December 2012 | |
|------------------------------------------------|------------------|----------------------|------------------|----------------------|
| | Number of shares | Ownership Interest % | Number of shares | Ownership Interest % |
| Kostiantyn Molodkovets (KM Management Limited) | 5 100 000 | 54,86 | 5 100 000 | 69,90 |
| ING Powszechnie Towarzystwo Emerytalne S.A. | 1 059 000 | 11,39 | - | - |
| PZU TFI S.A. | 797 750 | 8,58 | - | - |
| Denys Molodkovets | 749 999 | 8,07 | 749 999 | 10,28 |
| Miralex Inc | 449 998 | 4,84 | 449 998 | 6,17 |
| Oleksyi Veselovsky ⁽¹⁾ | 200 000 | 2,15 | 200 000 | 2,74 |
| Konstantin Anisimov | 1 | - | 1 | - |
| Liudmila Molodkovets | 1 | - | 1 | - |
| Iurii Molodkovets | 1 | - | 1 | - |
| Public | 939 250 | 10,11 | 796 000 | 10,91 |
| | <u>9 296 000</u> | <u>100,00</u> | <u>7 296 000</u> | <u>100,00</u> |

⁽¹⁾ Since Mr. Veselovsky passed away on 25 March 2012, these Shares in the Issuer constitute a part of estate to be transferred to heirs of Mr. Veselovsky. 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 2013 .

(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 2013, 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.

KDM SHIPPING PUBLIC LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

2. BASIS OF PREPARATION *(continued)*

(c) Standards and interpretations *(continued)*

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

The following Standards, Amendments to Standards and Interpretations have been issued but are not yet effective for annual periods beginning on 1 January 2013. Those which may be relevant to the Group are set out below. The Group does not plan to adopt these Standards early.

(i) Standards and Interpretations adopted by the EU

- IFRS 10 "Consolidated Financial Statements" (effective the latest, as from the commencement date of its first financial year starting on or after 1 January 2014).
- IFRS 11 "Joint Arrangements" (effective the latest, as from the commencement date of its first financial year starting on or after 1 January 2014).
- IFRS 12 "Disclosure of Interests in Other Entities" (effective the latest, as from the commencement date of its first financial year starting on or after 1 January 2014).
- Investment Entities - Amendments to IFRS 10, 12 and IAS 27 (effective the latest, as from the commencement date of its first financial year starting on or after 1 January 2014).
- Transition Guidance - Amendments to IFRS 10, 11 and 12 (effective the latest, as from the commencement date of its first financial year starting on or after 1 January 2014).)
- IAS 27 (Revised) "Separate Financial Statements" (effective the latest, as from the commencement date of its first financial year starting on or after 1 January 2014).
- IAS 27 (Revised) "Separate Financial Statements" (effective for annual periods beginning on or after 1 January 2013)
- IAS 28 (Revised) "Investments in Associates and Joint ventures" (effective the latest, as from the commencement date of its first financial year starting on or after 1 January 2014).
- IAS 32 (Amendments) "Offsetting Financial Assets and Financial Liabilities" (effective for annual periods beginning on or after 1 January 2014).
- IAS 36 (Amendments) "Recoverable Amount Disclosures for Non-Financial Assets" (effective for annual periods beginning on or after 1 January 2014).
- IAS 39 (Amendments) "Novation of Derivatives and Continuation of Hedge Accounting" (effective for annual periods beginning on or after 1 January 2014).

(ii) Standards and Interpretations not adopted by the EU

- IFRS 7 (Amendments) "Financial Instruments: Disclosures" – "Disclosures on transition to IFRS 9" (effective for annual periods beginning on or after 1 January 2015).
- IFRS 9 "Financial Instruments" (effective for annual periods beginning on or after 1 January 2015).
- IFRS 9 "Financial Instruments: Hedge accounting and Amendments to IFRS 9, IFRS 7 and IAS 39" (effective for annual periods beginning on or after 1 January 2015).
- IFRS 14 "Regulatory Deferral Accounts" (effective for annual periods beginning on or after 1 January 2016).
- 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).

KDM SHIPPING PUBLIC LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

2. BASIS OF PREPARATION *(continued)*

(c) Standards and interpretations *(continued)*

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

(ii) Standards and Interpretations not adopted by the EU (continued)

- Improvements to IFRSs 2011-2013 (effective for annual periods beginning on or after 1 July 2014).
- IFRIC 21 "Bank Levies" (effective for annual periods beginning on or after 1 January 2014).

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.

(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.

KDM SHIPPING PUBLIC LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

2. BASIS OF PREPARATION *(continued)*

(d) Significant accounting judgements and estimates *(continued)*

- Provision for bad and doubtful debts *(continued)*

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.

- Income taxes and deferred 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 date 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 utilisation of deferred tax assets be reduced, such reduction is to be recognised in consolidated statement of comprehensive income.

KDM SHIPPING PUBLIC LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

2. BASIS OF PREPARATION *(continued)*

(d) Significant accounting judgements and estimates (continued)

- 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.

- 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.

KDM SHIPPING PUBLIC LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

2. BASIS OF PREPARATION *(continued)*

(d) Significant accounting judgements and estimates *(continued)*

- 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.

- 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.

- Contingent 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 30).

(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 consolidated financial statements do not comprise any adjustments in case of the Group's inability to continue as a going concern.

KDM SHIPPING PUBLIC LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

3. ACCOUNTING POLICIES

Changes in accounting policies

Except for the changes below, the Group has consistently applied the accounting policies set out in this note to all years presented in these consolidated financial statements.

Accounting policies of subsidiaries have been changed where necessary to achieve consistent application of the accounting policies applied by the Group.

The nature and effects of the changes are explained below:

a) Fair value measurement

The Group has adopted International Financial Reporting Standard 13 “Fair Value Measurement” with a date of initial application of 1 January 2013.

IFRS 13 establishes a single framework for measuring fair value and making disclosures about fair value measurements when such measurements are required or permitted by other IFRSs. It unifies the definition of fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. It replaces and expands the disclosure requirements about fair value measurements in other IFRSs, including IFRS 7. As a result, the Group has included additional disclosures in this regard (see Note 29).

In accordance with the transitional provisions of IFRS 13, the Group has applied the new fair value measurement guidance prospectively and has not provided any comparative information for new disclosures. Notwithstanding the above, the change had no significant impact on the measurements of the Group's assets and liabilities.

b) Presentation of items of Other Comprehensive Income (OCI)

A result of the amendments to IAS 1, the Group has modified the presentation of items of OCI in its statement of profit or loss and OCI, to present separately items that would be reclassified to profit or loss from those that would never be. Comparative information has been re-presented accordingly.

Significant accounting policies

Basis of consolidation

The consolidated financial statements of the Company comprise the financial statements of the parent company KDM Shipping Public Limited and the financial statements of the companies controlled by the Company as at 31 December 2013. Control exists where the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The consolidated financial statements of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the date that control commences until the date control ceases. Intra-group balances, and any unrealised income and expenses arising from intra-group transactions are eliminated in preparing consolidated financial statements.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

KDM SHIPPING PUBLIC LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

3. ACCOUNTING POLICIES *(continued)*

Significant accounting policies *(continued)*

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's loss of 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 and attributed to owners of the Company.

When the Group loses control of a subsidiary, the profit or loss on disposal 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. When assets of the subsidiary are carried at revalued amounts or fair values and the related cumulative gain or loss has been recognised in other comprehensive income and accumulated in equity, the amounts previously recognised in other comprehensive income and accumulated in equity are accounted for as if the Company had directly disposed of the relevant assets (i.e. reclassified to profit or loss or transferred directly to retained earnings as specified by applicable IFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IAS 39 Financial Instruments: Recognition and Measurement or, when applicable, the cost on initial recognition of an investment in an associate or a jointly controlled entity.

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.

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.

KDM SHIPPING PUBLIC LIMITED**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

For the year ended 31 December 2013

3. ACCOUNTING POLICIES (continued)**Significant accounting policies (continued)****Business combinations (continued)**

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.

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.

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.

KDM SHIPPING PUBLIC LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

3. ACCOUNTING POLICIES *(continued)*

Significant accounting policies *(continued)*

Business combinations *(continued)*

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.

Transactions under common control

Consolidation of companies including organisations and entities under common control requires that all the organisations and enterprises being consolidated are controlled by one and the same party or parties, both before consolidation and after it, and this control is not transitory.

Combinations of businesses under common control

A business combination in which the combining entities are ultimately controlled by the same individual both before and after the combination and the control is not transitory is accounted using the pooling of interests accounting principles (otherwise known as "carry over accounting" or "predecessor accounting"). The principles of predecessor accounting are:

- The Group does not restate assets and liabilities to their fair values. Instead the Group incorporates the assets and liabilities at the amounts recorded in the books of the acquired company (the predecessor carrying values) adjusted only to achieve harmonisation of accounting policies.
- No goodwill arises in predecessor accounting. Predecessor accounting may lead to differences in consolidation, for example the consideration given may differ from the aggregate book value of the assets and liabilities (as of the date of the transaction) of the acquired entity. Such differences are included in equity in retained earnings.
- The consolidated financial statements incorporate the acquired entity's results as if both entities (acquirer and acquiree) had always been combined from the date that common control was achieved. Consequently, the consolidated financial statements reflect both entities' full year's results, even though the business combination may have occurred part of the way through the year. In addition, the corresponding amounts for the previous years also reflect the combined results of both entities, even though the transaction did not occur until the current year.

KDM SHIPPING PUBLIC LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

3. ACCOUNTING POLICIES *(continued)*

Significant accounting policies *(continued)*

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.

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 date. Current tax includes any adjustments to tax payable in respect of previous periods.

KDM SHIPPING PUBLIC LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

3. ACCOUNTING POLICIES *(continued)*

Significant accounting policies *(continued)*

Tax *(continued)*

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.

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.

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.

KDM SHIPPING PUBLIC LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTSFor the year ended 31 December 2013**3. ACCOUNTING POLICIES** *(continued)*Significant accounting policies *(continued)*Vessels, property, plant and equipment *(continued)**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.

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.

Leased assets are depreciated over the shorter of lease term and their useful lives.

KDM SHIPPING PUBLIC LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

3. ACCOUNTING POLICIES *(continued)*

Significant accounting policies *(continued)*

Vessels, property, plant and equipment *(continued)*

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.

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.

KDM SHIPPING PUBLIC LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

3. ACCOUNTING POLICIES *(continued)*

Significant accounting policies *(continued)*

Intangible assets *(continued)*

(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.

Leasing

The determination of whether an arrangement is, or contains, a lease, is based on the substance of the arrangement at inception date: whether fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right for use the asset.

A lease is classified as finance lease, when according to lease term, the lessee assumes all the significant risks and benefits associated with ownership of the relevant assets. All other leases are classified as operating leases.

The Group as lessee

The leases of the Group are classified as finance leases, if they transfer to the Group substantially all the risks and rewards incidental to ownership of an asset. The Group recognises a finance lease as an asset and liability at the lower of the fair value of the leased asset and the present value of minimum lease payments.

Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised in the consolidated statement of profit or loss.

Leased asset are depreciated over the useful life of the asset. However, if there is no reasonable certainty that Group will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

Operating lease payments are recognised as an expense in the consolidated statement of profit or loss on a straight line basis over the lease term.

KDM SHIPPING PUBLIC LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTSFor the year ended 31 December 2013**3. ACCOUNTING POLICIES** *(continued)*Significant accounting policies *(continued)*Leasing *(continued)**Group as a lessor*

Initial direct costs incurred in negotiating an operating lease are added to the carrying value of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

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.

(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.

KDM SHIPPING PUBLIC LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

3. ACCOUNTING POLICIES *(continued)*

Significant accounting policies *(continued)*

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.

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 costs 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 value, 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 recoverable 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-generating unit) was recognised in the previous years. Reversal of the impairment loss is recognised as profit immediately.

KDM SHIPPING PUBLIC LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

3. ACCOUNTING POLICIES *(continued)*

Significant accounting policies *(continued)*

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 transferred 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.

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 rate that reflects where appropriate the risks 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.

KDM SHIPPING PUBLIC LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

3. ACCOUNTING POLICIES *(continued)*

Significant accounting policies *(continued)*

Value added tax (VAT) *(continued)*

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.

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.

KDM SHIPPING PUBLIC LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

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:

| 2013 | Freight USD'000 | Ship repair USD'000 | Passenger transport 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) |
| Operating profit | 7 406 | (893) | 231 | (306) | 6 438 |
| Net finance cost | (117) | 16 | (1) | - | (102) |
| Profit before tax | 7 289 | (877) | 230 | (306) | 6 336 |
| Tax | - | 919 | (483) | - | 436 |
| Net profit 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 |
| 2012 | Freight USD'000 | Ship repair USD'000 | Passenger transportation USD'000 | Grain USD'000 | Total USD'000 |
| Revenue | 21 554 | 4 301 | 3 051 | - | 28 906 |
| Cost of sales | (9 168) | (2 949) | (1 884) | - | (14 001) |
| Gross profit | 12 386 | 1 352 | 1 167 | - | 14 905 |
| Expenses | (615) | (665) | (750) | - | (2 030) |
| Operating profit | 11 771 | 687 | 417 | - | 12 875 |
| Net finance cost | (217) | - | - | - | (217) |
| Profit before tax | 11 554 | 687 | 417 | - | 12 658 |
| Tax | - | (19) | (89) | - | (108) |
| Net profit for the year | 11 554 | 668 | 328 | - | 12 550 |

KDM SHIPPING PUBLIC LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTSFor the year ended 31 December 2013**4. OPERATING SEGMENTS** *(continued)***2012**

| | Freight USD'000 | Ship repair USD'000 | Passenger transportation USD'000 | Grain USD'000 | Total USD'000 |
|-------------------------|--------------------|------------------------|----------------------------------------|------------------|------------------|
| Non-current assets | 11 520 | 11 997 | 11 393 | - | 34 910 |
| Current assets | <u>15 537</u> | <u>1 903</u> | <u>1 324</u> | <u>-</u> | <u>18 764</u> |
| Total assets | <u>27 057</u> | <u>13 900</u> | <u>12 717</u> | <u>-</u> | <u>53 674</u> |
| Non-current Liabilities | 718 | 103 | 4 845 | - | 5 666 |
| Current liabilities | <u>1 321</u> | <u>2 473</u> | <u>94</u> | <u>-</u> | <u>3 888</u> |
| Total liabilities | <u>2 039</u> | <u>2 576</u> | <u>4 939</u> | <u>-</u> | <u>9 554</u> |

Geographical information

Reportable segment information related to geographical location for the year ended 31 December 2013 and 31 December 2012 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.

| | 2013 USD'000 | 2012 USD'000 |
|---------------------------|-----------------|-----------------|
| Turkey | 10 024 | 9 203 |
| Ukraine | 11 124 | 10 212 |
| Russia | 6 841 | 6 280 |
| Georgia | 2 405 | 2 208 |
| Italy | 744 | 683 |
| Other countries | <u>348</u> | <u>320</u> |
| | <u>31 486</u> | <u>28 906</u> |
| <u>Non-current assets</u> | | |
| | 2013 USD'000 | 2012 USD'000 |
| Ukraine | <u>39 565</u> | <u>34 910</u> |

5. REVENUE

| | 2013 USD'000 | 2012 USD'000 |
|-----------------------|-----------------|-----------------|
| Rendering of services | 26 728 | 28 906 |
| Sales of goods | <u>4 758</u> | <u>-</u> |
| Total revenue | <u>31 486</u> | <u>28 906</u> |

KDM SHIPPING PUBLIC LIMITED**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****For the year ended 31 December 2013****6. COST OF SALES**

| | 2013 USD'000 | 2012 USD'000 |
|---------------------------|-----------------|-----------------|
| Cost of services rendered | 15 818 | 14 001 |
| Cost of goods sold | <u>4 585</u> | <u>-</u> |
| | <u>20 403</u> | <u>14 001</u> |

Cost of sales by elements were as follows:

| | Note | 2013 USD'000 | 2012 USD'000 |
|--------------------------------------------------------|------|-----------------|-----------------|
| Payroll and related charges | 11 | 1 802 | 2 038 |
| Materials | | 9 970 | 6 060 |
| Third parties services | | 6 797 | 4 313 |
| Depreciation of vessels, property, plant and equipment | 14 | <u>1 834</u> | <u>1 590</u> |
| | | <u>20 403</u> | <u>14 001</u> |

7. ADMINISTRATIVE EXPENSES

| | Note | 2013 USD'000 | 2012 USD'000 |
|--------------------------------------------------------|------|-----------------|-----------------|
| Payroll and related charges | 11 | 277 | 245 |
| Travelling | | 24 | 13 |
| Office and other materials | | 41 | 28 |
| Third parties services | | 1 218 | 654 |
| Taxes and duties | | 54 | 50 |
| Depreciation of vessels, property, plant and equipment | 14 | 15 | 19 |
| Amortisation of computer software | 15 | <u>1</u> | <u>7</u> |
| | | <u>1 630</u> | <u>1 016</u> |

8. SELLING AND DISTRIBUTION EXPENSES

| | Note | 2013 USD'000 | 2012 USD'000 |
|-----------------------------|------|-----------------|-----------------|
| Payroll and related charges | 11 | 307 | 217 |
| Third parties services | | 737 | 89 |
| Materials | | - | 13 |
| Sundry expenses | | <u>-</u> | <u>3</u> |
| | | <u>1 044</u> | <u>322</u> |

KDM SHIPPING PUBLIC LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTSFor the year ended 31 December 2013**9. OTHER OPERATING EXPENSES**

| | Note | 2013 USD'000 | 2012 USD'000 |
|------------------------------------------------------------|------|-----------------|-----------------|
| Loss on disposal of vessels, property, plant and equipment | | 604 | 4 |
| VAT write-off | | 196 | - |
| Fines and penalties | | 5 | 6 |
| Provision for impairment of receivables | 18 | 1 794 | 341 |
| Receivables written-off | | - | 20 |
| Recovery of payables previously written off | | 150 | 309 |
| Sundry expenses | | <u>73</u> | <u>188</u> |
| | | <u>2 822</u> | <u>868</u> |

10. PROFIT FROM OPERATING ACTIVITIES

| | Note | 2013 USD'000 | 2012 USD'000 |
|--------------------------------------------------------------------------------|------|-----------------|-----------------|
| Profit from operating activities is stated after charging the following items: | | | |
| Amortisation of computer software | 15 | 1 | 7 |
| Depreciation of vessels, property, plant and equipment | 14 | 1 849 | 1 609 |
| Loss on disposal of vessels, property, plant and equipment | 9 | 604 | 4 |
| Provision for impairment of receivables | 9 | 1 794 | 341 |
| Receivables written-off | 9 | - | 20 |
| Staff costs | 11 | 2 386 | 2 500 |
| Recovery of payables previously written off | 9 | 150 | 309 |
| Independent auditors' remuneration for the statutory audit of annual accounts | | 75 | 78 |
| Independent auditor's remuneration for other assurance service | | 44 | 41 |
| Independent auditor's remuneration for tax advice | | <u>1</u> | <u>1</u> |

KDM SHIPPING PUBLIC LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTSFor the year ended 31 December 2013**11. STAFF COSTS**

Payroll and related charges for the year ended 31 December 2013 were presented as follows:

| | Note | 2013 USD'000 | 2012 USD'000 |
|------------------------------------|------|-----------------|-----------------|
| Wages and salaries | | 2 314 | 1 811 |
| Contributions to social funds | | <u>72</u> | <u>689</u> |
| Total staff costs | 10 | <u>2 386</u> | <u>2 500</u> |
| | | 2013 USD'000 | 2012 USD'000 |
| Production personnel | 6 | 1 802 | 2 038 |
| Administrative personnel | 7 | 277 | 245 |
| Selling and distribution personnel | 8 | <u>307</u> | <u>217</u> |
| Total staff costs | | <u>2 386</u> | <u>2 500</u> |

The average number of employees was as follows:

| | 2013 | 2012 |
|--------------------------------------|------------|------------|
| Average number of employees, persons | 257 | 252 |
| Key management personnel | <u>17</u> | <u>20</u> |
| | <u>274</u> | <u>272</u> |

12. NET FINANCE COSTS

| | 2013 USD'000 | 2012 USD'000 |
|----------------------------|-----------------|-----------------|
| Finance income | | |
| Bank interest | <u>19</u> | <u>-</u> |
| | <u>19</u> | <u>-</u> |
| Finance costs | | |
| Interest expense | | |
| Loan interest | (92) | (195) |
| Interest payable on leases | (6) | (1) |
| Discount of notes issued | <u>(23)</u> | <u>(21)</u> |
| | <u>(121)</u> | <u>(217)</u> |
| Net finance costs | <u>(102)</u> | <u>(217)</u> |

KDM SHIPPING PUBLIC LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTSFor the year ended 31 December 2013**13. TAXATION**

| | Note | 2013 USD'000 | 2012 USD'000 |
|-------------------------------------|------|---------------------|-------------------|
| Income tax | | - | 2 |
| Deferred tax - credit/charge | 22 | <u>(436)</u> | <u>106</u> |
| (Credit)/charge for the year | | <u><u>(436)</u></u> | <u><u>108</u></u> |

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

| | 2013 USD'000 | 2012 USD'000 |
|-------------------------------------------------------------------------------------------------------------|---------------------|-------------------|
| Accounting profit before taxation | <u>6 336</u> | <u>12 658</u> |
| Income tax, taxable at the rate of 19% (2012: 21%) | (380) | 266 |
| Income tax, taxable at the rate of 12,5% (2012: 10%) | (33) | 1 |
| Items not deductible/assesible for tax purposes | 401 | 605 |
| Changes in tax rate and law | <u>(424)</u> | <u>(764)</u> |
| Tax as per consolidated statement of profit or loss and other comprehensive income - (credit)/charge | <u><u>(436)</u></u> | <u><u>108</u></u> |

KDM SHIPPING PUBLIC LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTSFor the year ended 31 December 2013**14. VESSELS, PROPERTY, PLANT AND EQUIPMENT**

| 2013 | 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 | 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 | <u>14 248</u> | <u>23 189</u> | <u>5 700</u> | <u>1 289</u> | <u>187</u> | <u>141</u> | <u>113</u> | <u>44 867</u> |
| Depreciation | | | | | | | | |
| 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 | <u>2 512</u> | <u>4 940</u> | <u>-</u> | <u>678</u> | <u>99</u> | <u>93</u> | <u>102</u> | <u>8 424</u> |
| Carrying amounts | | | | | | | | |
| Balance at 31 December 2013 | <u>11 736</u> | <u>18 249</u> | <u>5 700</u> | <u>611</u> | <u>88</u> | <u>48</u> | <u>11</u> | <u>36 443</u> |

As at 31 December 2013 there were no assets acquired under finance lease (2012: USD 39 thousand).

KDM SHIPPING PUBLIC LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

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

2012

| | 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 | 10 981 | 17 637 | 4 952 | 1 388 | 206 | 191 | 96 | 35 451 |
| Additions | 1 120 | 1 423 | 465 | 14 | 55 | 11 | 14 | 3 102 |
| Disposals | - | (10) | - | (1) | (18) | (7) | (2) | (38) |
| Exchange differences | (5) | (6) | (2) | - | - | (2) | - | (15) |
| Balance at 31 December 2012 | <u>12 096</u> | <u>19 044</u> | <u>5 415</u> | <u>1 401</u> | <u>243</u> | <u>193</u> | <u>108</u> | <u>38 500</u> |
| Depreciation | | | | | | | | |
| Balance at 1 January | 1 955 | 2 516 | - | 604 | 102 | 109 | 95 | 5 381 |
| Depreciation for the year | 285 | 1 192 | - | 72 | 27 | 14 | 19 | 1 609 |
| On disposals | - | (10) | - | (1) | (17) | (4) | (2) | (32) |
| Exchange differences | (5) | (4) | - | (2) | (5) | - | (4) | (20) |
| Balance at 31 December 2012 | <u>2 235</u> | <u>3 694</u> | <u>-</u> | <u>673</u> | <u>107</u> | <u>119</u> | <u>108</u> | <u>6 936</u> |
| Carrying amounts | | | | | | | | |
| Balance at 31 December 2012 | <u>9 861</u> | <u>15 350</u> | <u>5 415</u> | <u>728</u> | <u>136</u> | <u>74</u> | <u>-</u> | <u>31 564</u> |
| Balance at 1 January 2012 | <u>9 026</u> | <u>15 121</u> | <u>4 952</u> | <u>784</u> | <u>104</u> | <u>82</u> | <u>1</u> | <u>30 070</u> |

KDM SHIPPING PUBLIC LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTSFor the year ended 31 December 2013**15. INTANGIBLE ASSETS****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 | <u>110</u> | <u>26</u> | <u>136</u> |
| Amortisation | | | |
| Balance at 1 January | - | 15 | 15 |
| Amortisation for the year | - | 1 | 1 |
| Balance at 31 December 2013 | <u>-</u> | <u>16</u> | <u>16</u> |
| Carrying amounts | | | |
| Balance at 31 December 2013 | <u>110</u> | <u>10</u> | <u>120</u> |

2012

| | Goodwill USD'000 | Computer software USD'000 | Total USD'000 |
|------------------------------------|---------------------|---------------------------------|------------------|
| Cost | | | |
| Balance at 1 January | 110 | 15 | 125 |
| Balance at 31 December 2012 | <u>110</u> | <u>15</u> | <u>125</u> |
| Amortisation | | | |
| Balance at 1 January | - | 8 | 8 |
| Amortisation for the year | - | 7 | 7 |
| Balance at 31 December 2012 | <u>-</u> | <u>15</u> | <u>15</u> |
| Carrying amounts | | | |
| Balance at 31 December 2012 | <u>110</u> | <u>-</u> | <u>110</u> |
| Balance at 1 January 2012 | <u>110</u> | <u>7</u> | <u>117</u> |

KDM SHIPPING PUBLIC LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

16. INVESTMENTS IN SUBSIDIARIES

The details of the subsidiaries are as follows:

| <u>Name</u> | <u>Country of incorporation</u> | <u>Principal activities</u> | 2013 Effective holding % | 2012 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 | 94,61 |
| Camrose Shipping Ltd | Marshall Islands | Ship owner Management | 100,00 | - |
| Infoland Incorporated | Panama | services | 100,00 | - |
| LLC Kuybyshev KSRY | Ukraine | Ship repair services | 100,00 | - |

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.

KDM SHIPPING PUBLIC LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTSFor the year ended 31 December 2013**17. INVENTORIES**

| | 2013 USD'000 | 2012 USD'000 |
|-----------------------------------|-----------------|-----------------|
| Raw materials | 43 | 38 |
| Work in progress | 66 | 338 |
| Goods for resale | 5 548 | - |
| Fuel | 492 | 354 |
| Spare parts and other consumables | - | 10 |
| Other materials | 9 | 9 |
| | <u>6 158</u> | <u>749</u> |

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

18. TRADE AND OTHER RECEIVABLES

| | 2013 USD'000 | 2012 USD'000 |
|-----------------------------------------------------|-----------------|-----------------|
| Trade receivables | 1 830 | 1 978 |
| Less: Provision for impairment of trade receivables | <u>(357)</u> | <u>(334)</u> |
| Trade receivables - net | 1 473 | 1 644 |
| Prepayments | 9 768 | 2 617 |
| Less: provision for prepayment | <u>(1 506)</u> | - |
| Prepayment for the acquisition of subsidiary | 3 000 | 3 000 |
| Loans receivable | 327 | - |
| VAT recoverable | 183 | 283 |
| Other taxes prepaid | 3 | - |
| Other receivables | 478 | 523 |
| Less: Provision of impairment of other receivables | <u>(14)</u> | <u>(7)</u> |
| | <u>13 712</u> | <u>8 060</u> |
| Non-current portion | 3 000 | 3 000 |
| Current portion | <u>10 712</u> | <u>5 060</u> |
| | <u>13 712</u> | <u>8 060</u> |

Non-current assets amounting to USD 3 000 thousand relate to a prepayment for the acquisition of 100% share in the equity capital of Shipmar LLC (RF). Control of the Company is expected to be obtained in 2014.

KDM SHIPPING PUBLIC LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

18. TRADE AND OTHER RECEIVABLES *(continued)*

Ageing analysis of trade and other receivables:

| | Gross amount 2013 USD'000 | Impairment 2013 USD'000 | Gross amount 2012 USD'000 | Impairment 2012 USD'000 |
|----------------------|------------------------------------|-------------------------------|------------------------------------|-------------------------------|
| Not past due | 1 501 | - | 1 627 | - |
| Past due 0-30 days | 82 | 8 | 89 | 7 |
| Past due 31-120 days | 386 | 356 | 418 | 328 |
| More than 120 days | 339 | 7 | 367 | 6 |
| | <u>2 308</u> | <u>371</u> | <u>2 501</u> | <u>341</u> |

Movement in provision for impairment of receivables:

| | 2013 USD'000 | 2012 USD'000 |
|---------------------------------------------|-----------------|-----------------|
| Balance at 1 January | 341 | - |
| Impairment losses recognised on receivables | 2 159 | 341 |
| Amount written off as uncollectible | (192) | - |
| Bad debts recovered | (431) | - |
| Balance at 31 December | <u>1 877</u> | <u>341</u> |

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 28 of the consolidated financial statements.

19. CASH AND CASH EQUIVALENTS

| | 2013 USD'000 | 2012 USD'000 |
|---------------|-----------------|-----------------|
| Cash at bank | 20 276 | 12 955 |
| Bank deposits | 31 | - |
| | <u>20 307</u> | <u>12 955</u> |

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

| | 2013 USD'000 | 2012 USD'000 |
|--------------------------------------|-----------------|-----------------|
| Cash and cash equivalents | 20 307 | 12 954 |
| Bank overdrafts and short term loans | - | (15) |
| | <u>20 307</u> | <u>12 939</u> |

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 28 of the consolidated financial statements.

KDM SHIPPING PUBLIC LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTSFor the year ended 31 December 2013**20. SHARE CAPITAL**

| | 2013 Number of shares | 2013 USD'000 | 2012 Number of shares | 2012 USD'000 |
|------------------------------------------------------|-----------------------------|-----------------|-----------------------------|-----------------|
| Authorised | | | | |
| Ordinary shares of USD 0,01 each (Euro 0,01 each) | <u>20 000 000</u> | <u>265</u> | <u>20 000 000</u> | <u>265</u> |
| Issued and fully paid | | | | |
| Balance at 1 January | 7 296 000 | 91 | 10 000 | 18 |
| Share split | | | | |
| 22 February 2012 | - | - | 1 700 000 | - |
| Issue of share capital | | | | |
| 22 February 2012 | - | - | 4 790 000 | 63 |
| Issue of share capital | | | | |
| 9 August 2012 | - | - | 796 000 | 10 |
| Issue of share capital | | | | |
| 11 June 2013 | <u>2 000 000</u> | <u>27</u> | <u>-</u> | <u>-</u> |
| Balance at 31 December | <u>9 296 000</u> | <u>118</u> | <u>7 296 000</u> | <u>91</u> |

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

| | 2013 USD'000 | 2012 USD'000 |
|--------------------------------------------|-----------------|-----------------|
| Kostiantyn Molodkovets | 65 | 64 |
| Denys Molodkovets | 10 | 9 |
| Miralex Inc. | 6 | 6 |
| Oleksiy Veselovskyy | 2 | 2 |
| ING Powszechne Towarzystwo Emerytalne S.A. | 13 | - |
| PZU TFI S.A. | 10 | - |
| Public | <u>12</u> | <u>10</u> |
| | <u>118</u> | <u>91</u> |

Authorised share capital

On 22 February 2012, it was resolved that the authorized share capital of the Company be increased from €17 100 divided into 1 710 000 ordinary shares of €0,01 each to €200 000 divided to 20 000 000 ordinary shares of €0,01 each by the creation of 18 290 000 new ordinary shares of nominal value €0,01 each. The new shares have the same rights as the existing shares.

KDM SHIPPING PUBLIC LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTSFor the year ended 31 December 2013**20. SHARE CAPITAL** *(continued)**Issued share capital*

On 22 February 2012, it was resolved that the value of the shares of the Company's share capital is divided from €1,71 (USD 0,75) each to €0,01 (USD 0,01) each. As a result the currently existing 10 000 ordinary shares of nominal value €1,71 each, all of which have been issued and are fully paid up, be divided into 1 710 000 ordinary shares of €0,01 each, fully paid up.

Additionally, on the same date, it was resolved to issue and allot 4 790 000 ordinary shares of nominal value €0,01. As a result of the above, the issued share capital amounts to €65 000 (USD 81 000) and is divided into 6 500 000 ordinary shares of €0,01 each.

On 9 August 2012, the Company's shares started trading on the main market of Warsaw Stock Exchange ("WSE"). The offer price for each Company's share was established at PLN 32,4 (USD 9,80/EURO 7,96) and the investors subscribed for 796 000 shares of the Company which represent 10,9% of the total issued share capital. The number of Company's shares allotted was: 66 525 to retail investors and 729 475 to institutional investors.

This resulted an increase in the ordinary share capital of USD 73 thousand and share premium of USD 7 355 thousand net of transaction costs.

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.

21. LOANS AND BORROWINGS

| | 2013 USD'000 | 2012 USD'000 |
|---------------------------------------|-----------------|-----------------|
| Long term liabilities | | |
| Bank loans | - | 2 400 |
| Obligations under finance leases | - | 33 |
| | <u>-</u> | <u>2 433</u> |
| Short term liabilities | | |
| Bank overdrafts | - | 15 |
| Bank loans | 4 000 | 417 |
| Short term portion of long term loans | - | 1 600 |
| Obligations under finance leases | - | 6 |
| | <u>4 000</u> | <u>2 038</u> |
| Total | <u>4 000</u> | <u>4 471</u> |

KDM SHIPPING PUBLIC LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTSFor the year ended 31 December 2013**21. LOANS AND BORROWINGS** *(continued)*

Maturity of non-current borrowings:

| | 2013 USD'000 | 2012 USD'000 |
|----------------------------|-----------------|-----------------|
| Within one year | 4 000 | 1 600 |
| Between one and five years | - | 2 400 |
| | <u>4 000</u> | <u>4 000</u> |

The bank loans and overdrafts are secured as follows:

- By mortgage against the vessels with net book value of USD 3 836 thousand (2012: USD 5 724 thousand)

The interest rates at the reporting period were as follows:

| | 2013 | 2012 |
|------------|------------------|------------------|
| Bank loans | 3M Libor + 10,5% | 3M Libor + 10,5% |

Obligations under finance lease liabilities

| | Minimum lease payments 2013 USD'000 | Interest 2013 USD'000 | Principal 2013 USD'000 | Minimum lease payments 2012 USD'000 | Interest 2012 USD'000 | Principal 2012 USD'000 |
|----------------------------|-------------------------------------------------|-----------------------------|------------------------------|-------------------------------------------------|-----------------------------|------------------------------|
| Within one year | - | - | - | 13 | 7 | 6 |
| Between one and five years | - | - | - | 51 | 18 | 33 |
| | <u>-</u> | <u>-</u> | <u>-</u> | <u>64</u> | <u>25</u> | <u>39</u> |

All lease obligations are denominated in United States Dollars.

The fair values of lease obligations approximate to their carrying amounts as presented above.

The Group's obligations under finance leases are secured by the lessors' title to the leased assets.

The exposure of the Group to interest rate risk and liquidity risk in relation to financial instruments is reported in note 28 of the consolidated financial statements.

KDM SHIPPING PUBLIC LIMITED**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****For the year ended 31 December 2013****22. DEFERRED TAX**

| | 2013 USD'000 | 2012 USD'000 |
|--------------------------|-----------------|-----------------|
| Balance at 1 January | 2 747 | 2 643 |
| Credit in profit or loss | (436) | - |
| Debit in profit or loss | - | 106 |
| Exchange difference | - | (2) |
| Balance at 31 December | <u>2 311</u> | <u>2 747</u> |

Deferred tax liability

Deferred tax liability arises as follows:

| | 2013 USD'000 | 2012 USD'000 |
|----------------------------------------|-----------------|-----------------|
| Vessels, property, plant and equipment | <u>2 313</u> | <u>2 983</u> |
| | <u>2 313</u> | <u>2 983</u> |

Deferred tax assets

Deferred tax asset arises as follows:

| | 2013 USD'000 | 2012 USD'000 |
|------------|-----------------|-----------------|
| Provisions | <u>2</u> | <u>236</u> |
| | <u>2</u> | <u>236</u> |

23. TRADE AND OTHER PAYABLES

| | 2013 USD'000 | 2012 USD'000 |
|------------------------------------------------|-----------------|-----------------|
| Trade payables | 1 167 | 619 |
| Advances received | 505 | 90 |
| Salaries contributions and other related taxes | 34 | 121 |
| Other accounts payable | 1 060 | 732 |
| Other taxes payable | 3 | 17 |
| Deferred income | 12 | - |
| Interest payable | <u>243</u> | <u>271</u> |
| | <u>3 024</u> | <u>1 850</u> |

The exposure of the Group to liquidity risk in relation to trade and other payables is reported in note 28 of the consolidated financial statements.

KDM SHIPPING PUBLIC LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTSFor the year ended 31 December 2013**24. OTHER LONG-TERM LIABILITIES**

| | 2013 USD'000 | 2012 USD'000 |
|-------------------------|-----------------|-----------------|
| Long-term notes payable | 369 | 369 |
| Discount | <u>(96)</u> | <u>(119)</u> |
| | <u>273</u> | <u>250</u> |

The above amounts relate to bills issued by the Group.

Maturity of other long-term liabilities:

| | 2013 USD'000 | 2012 USD'000 |
|---------------------------------|-----------------|-----------------|
| Between one year and five years | 369 | 296 |
| After five years | <u>-</u> | <u>73</u> |
| | <u>369</u> | <u>369</u> |

25. TAX ASSET

| | 2013 USD'000 | 2012 USD'000 |
|---------------------------------|-----------------|-----------------|
| Balance as at 1 January | (1) | 2 |
| Income tax accrued for the year | - | 2 |
| Income tax paid for the year | <u>(1)</u> | <u>(5)</u> |
| Balance as at 31 December | <u>(2)</u> | <u>(1)</u> |

KDM SHIPPING PUBLIC LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

26. EARNINGS PER SHARE

The calculation of earnings per share was based on the profit attributable to ordinary owners and the weighted number of ordinary shares outstanding as follows:

Profit attributable to ordinary owners:

| | 2013 USD'000 | 2012 USD'000 |
|---------------------|-----------------|-----------------|
| Profit for the year | <u>6 769</u> | <u>12 492</u> |

Number of ordinary shares:

| | 2013 '000 | 2012 '000 |
|------------------------------------------------------------------------------------------------------|--------------|--------------|
| Issued ordinary shares at 1 January | 7 296 | 10 |
| Effect of share split as a result of change in nominal value from €1,71 to €0,01 on 22 February 2012 | - | 1 700 |
| Effect of 4 790 000 shares issued on 22 February 2012 | - | 4 109 |
| Effect of 796 000 shares issued on 9 August 2012 | - | 315 |
| Effect of 2 000 000 shares issued on 11 June 2013 | <u>1 115</u> | <u>-</u> |
| Weighted average number of ordinary shares at 31 December | <u>8 411</u> | <u>6 134</u> |
| Total basic and fully diluted earnings per share (USD) | <u>0,80</u> | <u>2,04</u> |

Earnings per share is the 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 diluted earnings per share are the same.

27. RELATED PARTY BALANCES AND TRANSACTIONS

The majority of the Company's share capital is held by Molodkovets Kostiantyn who owns 54,86%, ING Powszechne Towarzystwo Emerytalne S.A. which owns 11,39%, PZU TFI S.A. which owns 8,58% and Molodkovets Denys who owns 8,07%. During the year ended 31 December 2013 10,11% 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.

KDM SHIPPING PUBLIC LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

27. 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:

| | 2013 USD'000 | 2012 USD'000 |
|--------------------------------|------------------|------------------|
| Salaries | 52 | 57 |
| Contributions to pension funds | <u>22</u> | <u>26</u> |
| Total | <u><u>74</u></u> | <u><u>83</u></u> |

Number of key management personnel was as follows:

| | 2013 | 2012 |
|---------------------------------------------|------------------|------------------|
| Number of key management personnel, persons | <u><u>17</u></u> | <u><u>20</u></u> |

(ii) Transactions with related parties

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

| | 2013 USD'000 | 2012 USD'000 |
|-------------------------|------------------|-----------------|
| Purchases | 18 | - |
| Administrative expenses | <u>1</u> | <u>-</u> |
| Total | <u><u>19</u></u> | <u><u>-</u></u> |

KDM SHIPPING PUBLIC LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

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

(iii) Amounts receivable from directors/owners

| | 2013 USD'000 | 2012 USD'000 |
|----------------------------------|-----------------|-----------------|
| Receivable from directors/owners | <u>21</u> | <u>18</u> |

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

(iv) Amounts payable to directors/owners

| | 2013 USD'000 | 2012 USD'000 |
|-----------------------------|-----------------|-----------------|
| Payable to directors/owners | <u>111</u> | <u>86</u> |

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

28. 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 instruments as may be necessary in order to obtain finance for its activities, not for the purpose of receiving income. In the process of its activities, the 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.

KDM SHIPPING PUBLIC LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTSFor the year ended 31 December 2013**28. 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.

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:

| | 2013 USD'000 | 2012 USD'000 |
|-----------------------------|-----------------|-----------------|
| Trade and other receivables | 2 278 | 2 450 |
| Cash at bank | 20 276 | 12 954 |
| Bank deposits | <u>31</u> | <u>-</u> |
| | <u>22 585</u> | <u>15 404</u> |

Credit quality of financial assets

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to Moody's ratings is presented as follows:

KDM SHIPPING PUBLIC LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

28. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

(i) Credit risk (continued)

Cash at bank and short term bank deposits

| | 2013 USD'000 | 2012 USD'000 |
|-----------|-----------------|-----------------|
| A2 | 2 618 | 3 |
| Ba1 | 2 | - |
| Ba2 | 8 | 1 |
| Baa1 | 14 325 | 12 725 |
| Caa1 | 42 | 183 |
| Caa2 | - | 2 |
| Caa3 | 34 | - |
| Not rated | <u>3 321</u> | <u>40</u> |
| | <u>20 350</u> | <u>12 954</u> |

(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 liquidity risk

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 | Over than 5 years USD'000 |
|-----------------------------|--------------------------------|--------------------------------------|--------------------------------|--------------------------------------|---------------------------------|---------------------------------|
| Loans and borrowings | 4 000 | 4 000 | 4 000 | - | - | - |
| Trade and other payables | 2 470 | 2 470 | 2 470 | - | - | - |
| Other long-term liabilities | <u>273</u> | <u>369</u> | <u>-</u> | <u>-</u> | <u>369</u> | <u>-</u> |
| | <u>6 743</u> | <u>6 839</u> | <u>6 470</u> | <u>-</u> | <u>369</u> | <u>-</u> |

KDM SHIPPING PUBLIC LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTSFor the year ended 31 December 2013**28. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT** *(continued)**(ii) Liquidity risk (continued)***31 December 2012**

| | 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 |
|----------------------------------|--------------------------------|--------------------------------------|--------------------------------|--------------------------------------|---------------------------------|---------------------------------|
| Obligations under finance leases | 39 | 62 | 3 | 9 | 50 | - |
| Bank loans | 4 433 | 5 000 | 972 | 1 442 | 2 586 | - |
| Trade and other payables | 1 351 | 1 351 | 1 351 | - | - | - |
| Other long-term liabilities | <u>250</u> | <u>369</u> | <u>-</u> | <u>-</u> | <u>296</u> | <u>73</u> |
| | <u><u>6 073</u></u> | <u><u>6 782</u></u> | <u><u>2 326</u></u> | <u><u>1 451</u></u> | <u><u>2 932</u></u> | <u><u>73</u></u> |

(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.

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 2013 based on carrying amounts was as follows:

KDM SHIPPING PUBLIC LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

28. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

(iii) *Market risk (continued)*Exposure to foreign currency risk (continued)

31 December 2013

| | Euro USD'000 | United States Dollars USD'000 | Polish zloty USD'000 |
|---------------------------|-----------------|-------------------------------------|-------------------------|
| Assets | | | |
| Cash and cash equivalents | 11 | - | 36 |
| | <u>11</u> | <u>-</u> | <u>36</u> |
| Liabilities | | | |
| Loans and borrowings | - | (4 000) | - |
| | <u>-</u> | <u>(4 000)</u> | <u>-</u> |
| Net exposure | <u>11</u> | <u>(4 000)</u> | <u>36</u> |

31 December 2012

| | Euro USD'000 | United States Dollars USD'000 | Ukrainian Hryvnia USD'000 |
|-----------------------------|-----------------|-------------------------------------|---------------------------------|
| Assets | | | |
| Cash and cash equivalents | 176 | - | - |
| Trade and other receivables | 418 | - | 440 |
| | <u>594</u> | <u>-</u> | <u>440</u> |
| Liabilities | | | |
| Loans and borrowings | (86) | (4 370) | - |
| Trade and other payables | - | - | (92) |
| | <u>(86)</u> | <u>(4 370)</u> | <u>(92)</u> |
| Net exposure | <u>508</u> | <u>(4 370)</u> | <u>348</u> |

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 | |
|-----------------------|--------------------------|-----------------|------------------|-----------------|
| | 2013 USD'000 | 2012 USD'000 | 2013 USD'000 | 2012 USD'000 |
| Ukrainian Hryvnia | - | 3 | - | 3 |
| United States Dollars | (40) | (44) | (40) | (44) |
| Euro | - | 5 | - | 5 |
| Polish zloty | - | - | - | - |
| | <u>(40)</u> | <u>(36)</u> | <u>(40)</u> | <u>(36)</u> |

KDM SHIPPING PUBLIC LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTSFor the year ended 31 December 2013**28. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT** *(continued)**(iii) Market risk (continued)**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 2013 the structure of interest financial instruments of the Group grouped according to the types of interest rates, was presented as follows:

| | 2013 USD'000 | 2012 USD'000 |
|-----------------------------------------|-----------------------|-----------------------|
| <i>Fixed rate instruments</i> | | |
| Financial liabilities | - | (15) |
| <i>Variable rate instruments</i> | | |
| Financial liabilities | <u>(4 000)</u> | <u>(4 417)</u> |
| | <u><u>(4 000)</u></u> | <u><u>(4 432)</u></u> |

Sensitivity analysis

An increase of 100 basis points in interest rates at 31 December 2013 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 | |
|---------------------------|--------------------------|--------------------|--------------------|--------------------|
| | 2013 | 2012 | 2013 | 2012 |
| | USD'000 | USD'000 | USD'000 | USD'000 |
| Variable rate instruments | <u>(40)</u> | <u>(44)</u> | <u>(40)</u> | <u>(44)</u> |
| | <u><u>(40)</u></u> | <u><u>(44)</u></u> | <u><u>(40)</u></u> | <u><u>(44)</u></u> |

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.

KDM SHIPPING PUBLIC LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTSFor the year ended 31 December 2013**28. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT** *(continued)*Capital management *(continued)*

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.

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.

| | 2013 USD'000 | 2012 USD'000 |
|----------------------------------------------------|-----------------|-----------------|
| Long-term loans | - | 4 000 |
| Bank overdrafts | - | 15 |
| Short-term loans | 4 000 | 417 |
| Obligations under finance lease | - | 39 |
| Total amount of borrowings | <u>4 000</u> | <u>4 471</u> |
| Cash and cash equivalents | <u>(20 307)</u> | <u>(12 954)</u> |
| Net debt | <u>(16 307)</u> | <u>(8 483)</u> |
| Share capital | 118 | 91 |
| Share premium | 23 570 | 7 355 |
| Retained earnings | 52 907 | 46 130 |
| Effect from translation into presentation currency | (9 548) | (9 548) |
| Non-controlling interests | 87 | 92 |
| Total equity | <u>67 134</u> | <u>44 120</u> |
| Total amount of equity and net debt | <u>50 827</u> | <u>35 637</u> |
| Financial leverage coefficient | <u>(32.08)%</u> | <u>(23.80)%</u> |

KDM SHIPPING PUBLIC LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTSFor the year ended 31 December 2013**28. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT** *(continued)*Capital management *(continued)*

For the years ended 31 December 2013 and 2012 the ratio of net debt to EBITDA amounted to:

| | 2013 USD'000 | 2012 USD'000 |
|----------------------------------------------------------------------------------|----------------------|---------------------|
| Profit for the year | 6 772 | 12 550 |
| Income tax (credit)/ charge | (436) | 108 |
| Finance costs, net | <u>102</u> | <u>217</u> |
| EBIT (Earnings before interest and income tax) | 6 438 | 12 875 |
| Depreciation and amortization | <u>1 850</u> | <u>1 609</u> |
| EBITDA (Earnings before interest, income tax, depreciation and amortization) | <u>8 288</u> | <u>14 484</u> |
| Net debt/EBITDA | <u>(196.75)%</u> | <u>(58.57)%</u> |

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

29. 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).

KDM SHIPPING PUBLIC LIMITED**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

For the year ended 31 December 2013

29. FAIR VALUES (continued)

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 as 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 2013, 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.

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.

30. 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.

KDM SHIPPING PUBLIC LIMITED**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

For the year ended 31 December 2013

30. CONTINGENT AND CONTRACTUAL LIABILITIES *(continued)****Ukrainian business and economic environment (continued)***

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 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.

The Company operates in the Cypriot tax jurisdiction and its subsidiaries in the Ukrainian 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.

KDM SHIPPING PUBLIC LIMITED**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

For the year ended 31 December 2013

30. CONTINGENT AND CONTRACTUAL LIABILITIES *(continued)*

The Group considers that it operates in compliance with tax laws of Ukraine, although, a lot of new laws about taxes and transactions in foreign currency have been adopted recently, and their interpretation is rather ambiguous.

In December 2010, the revised Tax Code of Ukraine was officially published. In its entirety, the Tax Code of Ukraine became effective on 1 January 2011, while some of its provisions took effect later. Apart from changes in CIT rates from 1 April 2011, the Tax Code also changes various other taxation rules.

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 2013 the Group had no liabilities for any supplementary pension payments, health care, insurance or other benefits after retirement to their working or former employees.

On the 25th of April 2013, the Company and the owners (including the Principal owner) involved in the Transaction, received a consent to release the lock-up obligations imposed on them pursuant to the placement agreement made in connection with the Company's initial public offering, to the extent necessary to enter into the new Transactions that of capital raise through selling of new and/or existing shares. The new lock-up obligations for Principal Owner/Shareholder and/or other shareholders is likely to be imposed soon.

The Group had no contingent liabilities as at 31 December 2013.

KDM SHIPPING PUBLIC LIMITED**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

For the year ended 31 December 2013

31. EVENTS AFTER THE REPORTING PERIOD

There were no material events after the reporting period, which affect the consolidated financial statements as at 31 December 2013 except as described here below:

KDM Shipping Group of companies has experienced a difficult 1st quarter of 2014. Political situation both in Ukraine and Russia had a negative effect on Group's performance. All segments of the Group's business are experiencing difficult times; however freight segment experienced the digest impact.

Impact of the political situation in Ukraine on the local market of export and imports that is affecting directly the market of transportation is huge. Unfortunately with ongoing political unrest in Ukraine, situation in the transportation market was getting from bad to worst. From the beginning of December the Group started to feel that the cargo out and inflow was declining, only large players who had strict contractual obligations were using Ukrainian ports for transit, majority of shippers both importers and exporters redirected their cargos, due to the risk of delays. With situation deteriorating we faced yet another crisis, change on the key government positions has left some of the key public services (customs, port authorities) beheaded, that caused additional delays and in some cases has simply ceased operations.

Due to above situation, the Group experienced a delay in operations. The customer base has changed dramatically, a number of key players on the market of both import and export have stopped/suspended trading activities in Ukraine. Additional problem for the clients is the unstable currency that puts too much risk on the operations in the region.

Historically Russian market was of great importance to the Group performance, both for outgoing and return cargo. Relationships between two countries are likely to have an effect of Group's operations from Russian ports. The biggest impact could be of an indirect nature with implementation in the later stage. Annexation of Crimea has significantly reshaped the region of Azov Sea. Kerch straight has lost the neutrality that it maintained between Russia and Ukraine for so many years. Biggest threat is possibility of Russian state to impose limitations or/and high tariffs for foreign vessels passing through Kerch.

During March 2014 one of the Group's general cargo vessels, with crew on board, reported taking water in the engine room while being en-route with cargo. The crew was rescued and some basic maintenance work was undertaken in order to contain possible threat of oil spill as well as cargo damage. At this point the vessel is safely afloat in port no threat of environmental disaster or threat to its cargo.

On 29 April 2014 the Board of Directors of KDM Shipping Public Limited authorised for issue these consolidated financial statements for issue.

