

31/08/2012



**KDM SHIPPING 1H 2012 FINANCIAL STATEMENTS:
NET CASH FROM OPERATING ACTIVITIES AT USD 2.5 MILLION; NET PROFIT
AT USD 3.9 MILLION; GROSS PROFIT AT USD 5.0 MILLION; EBITDA AT USD 4.8
MILLION; NET OPERATING CASH FLOW INCREASED 30.1%**

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 interim consolidated financial statements for the first six months of 2012 (ending 30 June). The consolidated financial statements were reviewed by KPMG in accordance with the International Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity”.

During the first six months of 2012, the Company’s net operating cash flow increased by 30.1% compared to the same period in 2011, from USD 1.9 million to USD 2.5 million, EBITDA decreased by 7.8% compared to the same period in 2011, from USD 5.2 million to USD 4.8 million, freight revenues increased by 7.2% compared to the same period in 2011, from USD 6.9 million to USD 7.4 million, ship repair revenues decreased by 22.3% compared to the same period in 2011, from USD 1.5 million to USD 1.1 million, passenger transport revenues decreased by 33.3% compared to the same period in 2011, from USD 1.5 million to USD 1.0 million. Total assets of the Company increased by 6.9% compared to the same period in 2011, from USD 33.9 million to USD 36.3 million, while total liabilities decreased by 14.6% compared to the same period in 2011, from USD 9.8 million to USD 8.3 million.

FINANCIAL RESULTS – REVIEW

Selected financial data (in USD thousands)

	1H 2012	1H2011	Change
Revenues	9,568	9,907	(3.4%)
<i>Freight</i>	<i>7,408</i>	<i>6,908</i>	<i>7.2%</i>
<i>Ship repair</i>	<i>1,129</i>	<i>1,453</i>	<i>(22.3%)</i>
<i>Passenger transport</i>	<i>1,031</i>	<i>1,546</i>	<i>(33.3%)</i>
Cost of sales	(4,558)	(4,418)	3.2%
<i>Freight</i>	<i>(3,118)</i>	<i>(2,463)</i>	<i>26.6%</i>
<i>Ship repair</i>	<i>(684)</i>	<i>(919)</i>	<i>(25.6%)</i>
<i>Passenger transport</i>	<i>(756)</i>	<i>(1,036)</i>	<i>(27.0%)</i>
Gross profit	5,010	5,489	(8.7%)
<i>Gross margin</i>	<i>52.4%</i>	<i>55.4%</i>	<i>(5.5%)</i>
EBITDA	4,796	5,204	(7.8%)
<i>EBITDA margin</i>	<i>50.1%</i>	<i>52.5%</i>	<i>(4.6%)</i>
Profit for the period	3,877	4,864	(20.3%)
Net cash from operations	2,535	1,948	30.1%

Kostiantyn Molodkovets, Chief Executive Officer of KDM Shipping, commented:

‘On behalf of KDM Shipping, I am pleased to report our consolidated six-month financial results for the first half of 2012. Despite an unusually cold winter that froze large parts of the Black and Azov Seas for over one month at the beginning of this year, we continued to build upon our cash position by strategic spot market charters while focusing on the growth strategy communicated in our prospectus. This is demonstrated by the increase in our net cash from operating activities along with recent negotiations for acquiring additional vessels, which we plan to announce in more detail soon.

Comparing the first six months of 2012 to 2011 year-on-year, the main factor to take into consideration is the atypically cold winter and frozen sea conditions affecting our routes during the start of this year. The deep freeze increased costs of transportation, while also lowering the overall volume of cargoes during that period due to limited transport feasibility. Likewise, the harsh weather during that period increased our operating costs and lowered our ship repair segment activities. Notwithstanding that outlier period of extreme weather, our performance is on par with Company targets and next week we will publish our August dry bulk cargo freight data, which are strong.’

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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 8 river-sea, dry cargo vessels of total 25,206 DWT, which due to their shallow draft allow the access to major river and sea ports in Black and Azov Sea regions. The Group also provides passenger river transport services in the Kiev region (operating the fleet of 8 passenger river vessels), as well as ship repair services at its own shipyard 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, allowing the Group to benefit from certain cost efficiencies and to sustain competitive advantages.

The international economic rating of "League of the Best" in 2011, based on official data of the SSCU, ranked the Group seventh in terms of activity in freight river transport, third in terms of activity in maritime freight transport and fourth in building and repairing of ships, placing the Company among the leaders in various segments of the shipping industry.

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

More information at www.kdmshipping.com

KDM SHIPPING PUBLIC LIMITED
INTERIM CONSOLIDATED FINANCIAL STATEMENTS
For the 6 months ended 30 June 2012

KDM SHIPPING PUBLIC LIMITED**INTERIM CONSOLIDATED FINANCIAL STATEMENTS****For the 6 months ended 30 June 2012****C O N T E N T S**

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KDM SHIPPING PUBLIC LIMITED**BOARD OF DIRECTORS AND PROFESSIONAL ADVISORS**

Board of Directors	Konstantyn Molodkovets - Executive Director, CEO (appointed on 22 February 2012)
	Denys Molodkovets - Executive Director, CFO (appointed on 22 February 2012)
	Ivaylo Georgiev Getsov, COO (appointed on 29 March 2012)
	Oleksiy Veselovskyy - Executive Director, COO (appointed on 22 February 2012 and passed away on 25 March 2012)
	Konstantin Anisimov - Non-executive Director (appointed on 22 February 2012)
	Mykhailo Chubai - Non-executive Director (appointed on 22 February 2012)
	Stelios Stylianides - Non-executive Director (resigned on 22 February 2012)
Audit Committee	Konstantin Anisimov – Head of Committee (appointed on 19 March 2012)
	Mykhailo Chubai (appointed on 19 March 2012)
Remuneration Committee	Mykhailo Chubai – Head of Committee (appointed on 19 March 2012)
	Konstantin Anisimov (appointed on 19 March 2012)
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 interim consolidated financial statements of the Company

We, the Members of the Board of Directors and the person responsible for the preparation of the interim consolidated financial statements of KDM Shipping Public Limited for the 6 months ended 30 June 2012, based on our knowledge, which is the product of careful and conscientious work, declare that the particulars which are specified in the interim consolidated financial statements are true and complete.

Members of the Board of Directors:

Konstantyn Molodkovets	
Denys Molodkovets	
Ivaylo Georgiev Getsov	
Konstantin Anisimov	
Mykhailo Chubai	

Person responsible for the preparation of the interim consolidated financial statements for the 6 months ended 30 June 2012:

Denys Molodkovets	
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29 August 2012



KPMG Limited
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INDEPENDENT AUDITORS' REPORT ON REVIEW OF
INTERIM CONSOLIDATED FINANCIAL STATEMENTS TO THE MEMBERS OF
KDM SHIPPING PUBLIC LIMITED

Introduction

We have reviewed the accompanying consolidated statement of financial position of KDM Shipping Public Limited (the "Company") and its subsidiary companies (together referred to as "the Group") as of 30 June 2012, and the related consolidated statements of comprehensive income, changes in equity and cash flows for the six-month period then ended and a summary of significant accounting policies and other explanatory notes. The Company's Board of Directors is responsible for the preparation and fair presentation of these interim consolidated financial statements in accordance with IAS 34 "Interim Financial Reporting" and the requirements of the Cyprus Companies Law, Cap. 113. Our responsibility is to express a conclusion on these interim consolidated financial statements based on our review.

Scope of Review

We conducted our review in accordance with the International Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim consolidated financial statements are not prepared, in all material respect, in accordance with IAS 34 "Interim Financial Reporting" and the requirements of the Cyprus Companies Law, Cap. 113.


Chartered Accountants

Nicosia, 29 August 2012

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. Halios, M.P. Michael, P.A. Peleties
G.V. Markides, M.A. Papacosta, K.A. Papanicolaou, A.I. Shiammoutis
G.N. Tziortzis, H.S. Charalambous, C.P. Anayiotos, I.P. Ghalanos
M.G. Gregoriades, H.A. Kakoullis, G.P. Savva, C.A. Kallias, C.N. Kallis
M.H. Zavrou, P.S. Elia, M.G. Lazarou, Z.E. Hadjizacharias
P.S. Theophanous, M.A. Karantoni, C.A. Markides

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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KDM SHIPPING PUBLIC LIMITED

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the 6 months ended 30 June 2012

	Note	6 months ended	
		30 June 2012 USD'000	30 June 2011 USD'000
Revenue	5	9.568	9.907
Cost of sales	6	(4.558)	(4.418)
Gross profit		<u>5.010</u>	<u>5.489</u>
Administrative expenses	7	(230)	(378)
Selling and distribution expenses		(39)	-
Other operating expenses	8	(710)	(294)
Operating profit	9	<u>4.031</u>	<u>4.817</u>
Finance expenses		(158)	(227)
Net finance expenses	11	<u>(158)</u>	<u>(227)</u>
Profit before tax		3.873	4.590
Tax	12	4	274
Profit for the period		<u>3.877</u>	<u>4.864</u>
Other comprehensive income			
Effect of translation into presentation currency		(235)	(164)
Total comprehensive income for the period		<u>3.642</u>	<u>4.700</u>
Profit for the period attributable to:			
Owners of the Company		3.876	4.863
Non-controlling interest		1	1
Profit for the period		<u>3.877</u>	<u>4.864</u>
Total comprehensive income attributable to:			
Owners of the Company		3.642	4.700
Non-controlling interest		-	-
Total comprehensive income for the period		<u>3.642</u>	<u>4.700</u>
Basic and diluted earnings per share (USD)	27	<u>0,76</u>	<u>2,84</u>

The notes on pages 9 to 51 are an integral part of these interim consolidated financial statements.

KDM SHIPPING PUBLIC LIMITED**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

as at 30 June 2012

	Note	30 June 2012 USD'000	31 December 2011 USD'000
Assets			
Vessels, property, plant and equipment	13	31.671	30.070
Intangible assets	14	112	117
Total non-current assets		31.783	30.187
Inventories	18	516	421
Trade and other receivables	19	3.758	3.239
Tax asset	26	1	-
Cash and cash equivalents	20	152	80
Total current assets		4.427	3.740
Total assets		36.210	33.927
Equity			
Share capital	21	81	18
Retained earnings		37.514	33.638
Translation reserve		(9.770)	(9.535)
Total equity attributable to owners of the Company		27.825	24.121
Non-controlling interest		49	48
Total equity		27.874	24.169
Liabilities			
Loans and borrowings	22	4.612	3.183
Deferred tax liabilities	23	2.646	2.643
Other long-term liabilities	25	239	229
Total non-current liabilities		7.497	6.055
Short term loans	22	-	501
Short term portion of long-term loans	22	-	817
Trade and other payables	24	839	2.383
Tax liability	26	-	2
Total current liabilities		839	3.703
Total liabilities		8.336	9.758
Total equity and liabilities		36.210	33.927

Konstantyn Molodkovets, CEO

Denys Molodkovets, CFO

The notes on pages 9 to 51 are an integral part of these interim consolidated financial statements.

KDM SHIPPING PUBLIC LIMITED

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the 6 months ended 30 June 2012

	<u>Attributable to owners of the Company</u>				Non-controlling interests	Total equity
	Share capital	Translation reserve	Retained earnings	Total		
	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 period	-	-	3.876	3.876	1	3.877
Effect from translation into presentation currency	-	(235)	-	(235)	-	(235)
Total comprehensive income for the period	-	(235)	3.876	3.641	1	3.642
Transactions with owners, recognized directly in equity						
<i>Contributions by and distributions to owners</i>						
Issue of share capital on 22 February 2012	63	-	-	63	-	63
Total transactions with owners	63	-	-	63	-	63
Balance at 30 June 2012	81	(9.770)	37.514	27.825	49	27.874

The notes on pages 9 to 51 are an integral part of these interim consolidated financial statements.

KDM SHIPPING PUBLIC LIMITED

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (cont)

For the 6 months ended 30 June 2012

	<u>Attributable to owners of the Company</u>				<u>Non-controlling interests</u>	<u>Total equity</u>
	<u>Share capital</u>	<u>Translation reserve</u>	<u>Retained earnings</u>	<u>Total</u>		
	<u>USD'000</u>	<u>USD'000</u>	<u>USD'000</u>	<u>USD'000</u>	<u>USD'000</u>	<u>USD'000</u>
Balance at 1 January 2011	18	(9.305)	19.851	10.564	3.183	13.747
Comprehensive income						
Profit for the period	-	-	4.863	4.863	1	4.864
Effect from translation into presentation currency	-	(164)	-	(164)	-	(164)
Total comprehensive income for the period	-	(164)	4.863	4.699	1	4.700
Transactions with owners, recognized directly in equity						
<i>Contributions by and distributions to owners</i>						
Dividends paid	-	-	(547)	(547)	-	(547)
Total transactions with owners	-	-	(547)	(547)	-	(547)
Changes in ownership interests in subsidiaries						
Acquisition of non-controlling interest without change in control	-	-	3.132	3.132	(3.132)	-
Acquisition of subsidiary	-	-	-	-	(1)	(1)
Disposal of subsidiary	-	-	-	-	27	27
	-	-	3.132	3.132	(3.106)	26
Balance at 30 June 2011	18	(9.469)	27.299	17.848	78	17.926

The notes on pages 9 to 51 are an integral part of these interim consolidated financial statements.

KDM SHIPPING PUBLIC LIMITED

CONSOLIDATED STATEMENT OF CASH FLOWS

For the 6 months ended 30 June 2012

	Note	6 months ended	
		30 June 2012	30 June 2011
		USD'000	USD'000
Cash flows from operating activities:			
Profit for the period		3.877	4.864
Depreciation of vessels, property plant and equipment		765	387
Discount of notes issued		11	8
Gain from disposal of subsidiary		-	(52)
Write-offs of the accounts receivable		568	44
Write off of financial investments		-	11
Interest expense		147	208
Tax		(4)	(274)
Cash generated from operating activities before working capital changes		5.364	5.196
Increase in trade and other receivables		(1.132)	(1.910)
Increase in inventories		(95)	(162)
Increase in trade payables and other payables		(1.599)	(1.160)
Cash generated from operating activities		2.538	1.964
Tax paid		(3)	(16)
Net cash from operating activities		2.535	1.948
Cash flows from investing activities			
Payment for acquisition of vessels, property plant and equipment		(2.240)	(2.149)
Payment for acquisition of intangible assets		-	(7)
Acquisition of subsidiaries, net cash outflow on acquisition	16	-	(63)
Disposal of subsidiaries, cash inflow on disposal	17	-	4
Net cash used in investing activities		(2.240)	(2.215)
Cash flows from financing activities			
Proceeds from short term loans		-	943
Dividends paid		-	(547)
Proceeds from issue of notes		-	67
Interest paid		(217)	(268)
Net cash (used in)/generated from financing activities		(217)	195
Effects of translation into presentation currency		(6)	79
Net increase in cash and cash equivalents		72	7
Cash and cash equivalents at the beginning of the period		80	77
Cash and cash equivalents at the end of the period		152	84

The notes on pages 9 to 51 are an integral part of these interim consolidated financial statements.

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

For the 6 months ended 30 June 2012

1. INCORPORATION AND PRINCIPAL ACTIVITIES

KDM Shipping Public Limited (formerly V.S. Marine Engineering Services 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 interim consolidated financial statements as at and for the period ended 1 January 2012 to 30 June 2012 comprise the financial statements of the Company and its subsidiaries (together referred to as "the Group").

The principal activities of the Group, which remained the same, are cargo transportation, passenger transportation, ship repair and shipbuilding.

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 type vessels low drought inland ports of Russia and Ukraine are easily accessible as well as any Sea port within the region of operations. Currently the Group's fleet of vessels is in private ownership and it is the 3rd largest fleet operating under the 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, SFMS, 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 aimed 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 Ship Repair 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 and 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.

KDM SHIPPING PUBLIC LIMITED

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the 6 months ended 30 June 2012

1. INCORPORATION AND PRINCIPAL ACTIVITIES (cont.)

In 2005 the Group started operating a seasonal passenger transportation business in Kiev, Ukraine. With own fleet of passenger vessels in different division of comfort and size, the Group is one of the largest 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, their country of incorporation, their principal activities and effective ownership percentage are disclosed in note 15 of the interim consolidated financial statements.

The parent company of the Group is KDM Shipping Public Limited (formerly V.S. Marine Engineering Services Limited), with an issued share capital of 10.000.000 ordinary shares with nominal value of €0,01 per share. The shares were distributed as follows:

Owner	30 June 2012		31 December 2011	
	Number of shares	Ownership Interest %	Number of shares	Ownership Interest %
Konstantyn Molodkovets	5.100.000	78	9.000	90
Denys Molodkovets	749.999	12	1.000	10
Miralex Inc	449.998	7	-	-
Oleksiy Veselovsky (1)	200.000	3	-	-
Konstantin Anisimov	1	-	-	-
Liudmyla Molodkovets	1	-	-	-
Iurii Molodkovets	1	-	-	-

(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 interim consolidated financial statements for the 6 months ended 30 June 2012 have been prepared in accordance with IAS 34 “Interim Financial Reporting” and the requirements of the Cyprus Companies Law, Cap. 113 and were not audited by the external independent auditors’ of the Group.

(b) Basis of measurement

The interim consolidated financial statements have been prepared under the historical cost convention.

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

For the 6 months ended 30 June 2012

2. BASIS OF PREPARATION (cont.)**(c) New standards and interpretations**

The accounting policies applied by the Group in the interim consolidated financial statements are consistent with those followed in consolidated financial statements as at and for the year ended 31 December 2011, except for the adoption of new standards and interpretations as of 1 January 2012, noted below:

- **IAS 12 - *Income Taxes - Deferred Tax: Recovery of Underlying Assets* (Amendment)**
This amendment to IAS 12 includes a rebuttable presumption that the carrying amount of investment property measured using the fair value model in IAS 40 will be recovered through sale and, accordingly, that any related deferred tax should be measured on a sale basis. The presumption is rebutted if the investment property is depreciable and it is held within a business model whose objective is to consume substantially all of the economic benefits in the investment property over time, rather than through sale. Specifically, IAS 12 will require that deferred tax arising from a non-depreciable asset measured using the revaluation model in IAS 16 should always reflect the tax consequences of recovering the carrying amount of the underlying asset through sale. Effective implementation date is for annual periods beginning on or after 1 January 2012.

The jurisdictions in which the Group operates do not have a different tax charge for sale or consumption of the assets. While the amendment is applicable, it has no impact on the financial statement of the Group.

The following amendments to IFRSs did not have any impact on the accounting policies, financial position or performance of the Group:

- **IFRS 7 - *Financial Instruments: Disclosures - Transfers of financial assets* (Amendment)**

The IASB issued an amendment to IFRS 7 that enhances disclosures for financial assets. These disclosures relate to assets transferred (as defined under IAS 39). If the assets transferred are not derecognised entirely in the financial statements, an entity has to disclose information that enables users of financial statements to understand the relationship between those assets which are not derecognised and their associated liabilities. If those assets are derecognised entirely, but the entity retains a continuing involvement, disclosures have to be provided that enable users of financial statements to evaluate the nature of, and risks associated with, the entity's continuing involvement in those derecognised assets. Effective implementation date is for annual periods beginning on or after 1 July 2011 with no comparative requirements.

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

For the 6 months ended 30 June 2012

2. BASIS OF PREPARATION (cont.)**(c) New standards and interpretations**

- IFRS 1 - *First-time Adoption of International Financial Reporting Standards – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters (Amendment)*

When an entity's date of transition to IFRS is on or after the functional currency normalisation date, the entity may elect to measure all assets and liabilities held before the functional currency normalisation date, at fair value on the date of transition to IFRS. This fair value may be used as the deemed cost of those assets and liabilities in the opening IFRS statement of financial position. However, this exemption may only be applied to assets and liabilities that were subject to severe hyperinflation. Effective implementation date is for annual periods beginning on or after 1 July 2011 with early adoption permitted.

(d) Use of estimates and judgements

The preparation of the Group's interim consolidated financial statements in accordance with IFRSs requires from Management the exercise of judgment, to make estimates and assumptions that influence the application of accounting principles and the related 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 deviate from such estimates.

The estimates and underlying assumptions are revised on a continuous basis. Revisions in accounting estimates are recognised in the period during which the estimate is revised, if the estimate affects only that period, or in the period of the revision and future periods, if the revision affects the present as well as future periods.

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

(i) 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 judgement to select a variety of methods and make assumptions that are mainly based on market conditions existing at each reporting date.

(ii) 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 INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

For the 6 months ended 30 June 2012

2. BASIS OF PREPARATION (cont.)**(d) Use of estimates and judgements (cont.)****(iii) 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 realizable 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.

(iv) Income taxes and deferred tax assets

Significant judgement 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 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, expire 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 INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

For the 6 months ended 30 June 2012

2. BASIS OF PREPARATION (cont.)**(d) Use of estimates and judgements (cont.)****(v) Vessels 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, use of life in this range has become the standard. The actual life of a vessel may be different. If the economic life assigned to a 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 vessel.

The carrying value of the Group's vessels may not represent their 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 vessels. 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 vessels will be less than their carrying value. The carrying amount of vessels held and used by the Group is reviewed for potential impairment whenever events or changes in circumstances indicate that the carrying amount of the vessels 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 vessels and their eventual disposition is less than the vessels' 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 vessels. 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.

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

For the 6 months ended 30 June 2012

2. BASIS OF PREPARATION (cont.)**(d) Use of estimates and judgements (cont.)****(vi) 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.

(vii) 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.

(viii) 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.

(ix) 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.

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

For the 6 months ended 30 June 2012

2. BASIS OF PREPARATION (cont.)**(d) Use of estimates and judgements (cont.)****(x) Impact of the global financial and economic crisis**

The ongoing global financial and economic liquidity crisis that emerged out of the severe reduction in global liquidity which commenced in the middle of 2007 (often referred to as the "Credit Crunch") has resulted in, among other things, a lower level of capital market funding, lower liquidity levels across the banking sector and wider economy, and, at times, higher interbank lending rates and very high volatility in stock and currency markets. The uncertainties in the global financial markets have also led to bank failures of banks and other corporations, and to bank rescues in the United States of America, Western Europe, Russia and elsewhere. The full extent of the impact of the ongoing financial crisis is proving to be difficult to anticipate or completely guard against. The volume of wholesale financing has significantly reduced since August 2007. Such circumstances may affect the ability of the Group to obtain new borrowings and re-finance its existing borrowings at terms and conditions similar to those applied to earlier transactions. Debtors and clients of the Group may be adversely affected by the financial and economic environment, lower liquidity situation which could in turn impact their ability to repay the amounts owed. Deteriorating operating economic conditions for clients may also have an impact on Management's cash flow forecasts and assessment of the impairment of financial and non-financial assets. To the extent that information is available, Management has properly reflected revised estimates of expected future cash flows in its impairment assessments.

Management is unable to reliably determine the effects on the Group's future financial position of any further deterioration in the liquidity of the financial markets and the increased volatility in the currency and equity markets. Management believes it is taking all the necessary measures to support the sustainability and growth of the Group's business in the current circumstances.

(e) Functional and presentation currency

The functional currency of all companies of the Group is the Ukrainian Hryvnia ("UAH"). The currency of Cyprus is the Euro, but the principle exposure of the parent undertaking is through its Ukrainian subsidiaries, and therefore the functional currency of the Company is also considered to be UAH. 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 in the consolidated financial statements in compliance with IAS 21 *The effects of changes in foreign exchange rates*. Exchange differences arising are classified as equity and transferred to the Company's translation reserve.

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

For the 6 months ended 30 June 2012

2. BASIS OF PREPARATION (cont.)**(f) Going concern basis**

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

3. SIGNIFICANT ACCOUNTING POLICIES

The following accounting policies have been applied consistently for all the periods presented in these interim consolidated financial statements and in stating the financial position of the Group. The accounting policies have been consistently applied by all companies of the Group.

(a) Basis of consolidation

The interim consolidated financial statements comprise the financial statements of the parent company KDM Shipping Public Limited and the financial statements of its subsidiaries. Subsidiaries are entities controlled by the Group. 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 results of subsidiaries acquired or disposed of during the period/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.

(b) 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.

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

For the 6 months ended 30 June 2012

3. SIGNIFICANT ACCOUNTING POLICIES (cont.)**(b) Changes in the Group's ownership interests in existing subsidiaries (cont.)**

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.

(c) 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 INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

For the 6 months ended 30 June 2012

3. SIGNIFICANT ACCOUNTING POLICIES (cont.)**(c) Business combinations (cont.)****(i) Goodwill**

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.

(ii) Non-controlling interest

Non-controlling interests 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.

(iii) Contingent consideration

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 *Financial Instruments: Recognition and Measurement*, or IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, as appropriate, with the corresponding gain or loss being recognised in profit or loss.

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

For the 6 months ended 30 June 2012

3. SIGNIFICANT ACCOUNTING POLICIES (cont.)**(c) Business combinations (cont.)****(iii) Contingent consideration (cont.)**

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.

(iv) Provisional amounts

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.

(v) 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.

(vi) 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.

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

For the 6 months ended 30 June 2012

3. SIGNIFICANT ACCOUNTING POLICIES (cont.)**(c) Business combinations (cont.)****(vi) Combinations of businesses under common control (cont.)**

- The consolidated interim 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.

(d) Segmental reporting

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 business segments and this is the primary format for segmental reporting. Each business segment provides products or services which are subject to risks and rewards that are different from those of other business segments.

(e) Revenue recognition

Revenue comprises the invoiced amount for the sale of products and 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:

- 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 transactions assessed on the basis of the actual service provided as a proportion of the total services to be provided.

(f) Finance income

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

(g) 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.

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

For the 6 months ended 30 June 2012

3. SIGNIFICANT ACCOUNTING POLICIES (cont.)**(h) Tax**

Income tax expense represents the sum of the tax currently payable 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.

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 financial statements. Currently enacted or substantively 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.

(i) Dividends

Dividend distribution to the Group's owners is recognised in the Group's financial statements in the period in which they are approved by the Group's owners.

(j) Vessels, property, plant and equipment**(i) 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 future economic benefits
- the historical cost can be measured 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.

KDM SHIPPING PUBLIC LIMITED**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS**For the 6 months ended 30 June 2012**3. SIGNIFICANT ACCOUNTING POLICIES (cont.)****(j) Vessels, property, plant and equipment (cont.)****(ii) 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.

(iii) 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 plant and equipment and borrowing costs for long-term construction projects if the recognition criteria are met. When significant parts of plant and equipment 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 income 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 VPPE. The estimated useful lives of the Group's VPPE are as follows:

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

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

For the 6 months ended 30 June 2012

3. SIGNIFICANT ACCOUNTING POLICIES (cont.)**(j) Vessels, property, plant and equipment (cont.)****(iii) Subsequent measurement (cont.)**

No depreciation is provided on land.

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 first year of placing into operation. The acquired asset is depreciated starting from the following year from the date of placing into operation and depreciation is fully accumulated when useful life terminates.

(iv) Derecognition

An item of VPPE 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.

At each reporting date 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.

(k) Intangible assets**(i) 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.

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

For the 6 months ended 30 June 2012

3. SIGNIFICANT ACCOUNTING POLICIES (cont.)**(k) Intangible assets (cont.)****(i) Computer software (cont.)**

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.

(l) 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) *Financial investments*

Available for sale financial assets are those acquired and held for an unspecified period of time and may be sold to cover cash flow deficiencies, fluctuations in interest rates, exchange rates or other security prices. Available for sale financial assets are recognized initially at fair value plus any directly attributable transaction costs. Gains and losses arising from changes in fair value are recognised in other comprehensive income and then in equity, until the security is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognised in equity is included in the profit or loss for the period.

(iii) *Cash and cash equivalents*

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

(iv) *Borrowings*

Borrowings are recorded initially at the fair value of 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.

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

For the 6 months ended 30 June 2012

3. SIGNIFICANT ACCOUNTING POLICIES (cont.)**(l) Financial instruments (cont.)****(v) *Notes issued***

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

(vi) *Trade payables*

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

(m) 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.

(n) Impairment of assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to depreciation or amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

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

For the 6 months ended 30 June 2012

3. SIGNIFICANT ACCOUNTING POLICIES (cont.)**(o) 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.

(p) Inventories

Inventories are stated at the lower of cost and net realisable value. 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.

(q) Share capital

Ordinary shares are classified as equity.

(r) 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.

(s) Non-current liabilities

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

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

For the 6 months ended 30 June 2012

3. SIGNIFICANT ACCOUNTING POLICIES (cont.)**(t) Value added tax (VAT)**

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

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

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

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 consolidation statement of financial position.

(t) Contingent assets and liabilities

Contingent liabilities are not recognized in the consolidated financial statements. Such liabilities are disclosed in the notes to 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.

(u) Comparatives

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

KDM SHIPPING PUBLIC LIMITED

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the 6 months ended 30 June 2012

4. OPERATING SEGMENTS

The Group has three 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:

	Freight USD'000	Ship repair USD'000	Passenger transport USD'000	Total USD'000
6 months ended 30 June 2012				
Revenue	7.408	1.129	1.031	9.568
Cost of sales	(3.118)	(684)	(756)	(4.558)
Gross profit	4.290	445	275	5.010
Expenses	(512)	(278)	(189)	(979)
Operating profit	3.778	167	86	4.031
Net finance cost	(158)	-	-	(158)
Profit before tax	3.620	167	86	3.873
Tax	-	3	1	4
Net profit for the period	3.620	170	87	3.877
Non-current assets	8.237	14.479	9.067	31.783
Current assets	3.214	769	444	4.427
Total assets	11.451	15.248	9.511	36.210
Non-current liabilities	-	134	7.363	7.497
Current liabilities	35	459	345	839
Total liabilities	35	593	7.708	8.336
6 months ended 30 June 2011				
Revenue	6.908	1.453	1.546	9.907
Cost of sales	(2.463)	(919)	(1.036)	(4.418)
Gross profit	4.445	534	510	5.489
Expenses	(290)	(262)	(120)	(672)
Operating profit	4.155	272	390	4.817
Net finance cost	(227)	-	-	(227)
Profit before tax	3.928	272	390	4.590
Tax	-	52	222	274
Net profit for the period	3.928	324	612	4.864
As at 31 December 2011				
Non-current assets	7.554	14.602	8.031	30.187
Current assets	1.904	1.273	563	3.740
Total assets	9.458	15.875	8.594	33.927
Non-current liabilities	-	134	5.921	6.055
Current liabilities	800	1.801	1.102	3.703
Total liabilities	800	1.935	7.023	9.758

KDM SHIPPING PUBLIC LIMITED**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS**For the 6 months ended 30 June 2012**5. SALES REVENUE**

	6 months ended	
	30 June 2012	30 June 2011
	USD'000	USD'000
Rendering of services	9.568	9.907

6. COST OF SALES

	6 months ended	
	30 June 2012	30 June 2011
	USD'000	USD'000
Wages and salaries	883	792
Materials	1.301	1.290
Third parties services	1.622	1.938
Depreciation	752	398
	4.558	4.418

7. ADMINISTRATIVE EXPENSES

	6 months ended	
	30 June 2012	30 June 2012
	USD'000	USD'000
Staff salaries and related charges	113	169
Other administrative expenses	6	7
Office and other material costs	15	8
Third parties services	58	159
Taxes and duties	30	24
Depreciation	8	11
	230	378

8. OTHER OPERATING EXPENSES

	6 months ended	
	30 June 2012	30 June 2012
	USD'000	USD'000
Loss from foreign exchange difference, net	162	372
Write off of accounts receivables	568	44
Other operating income	(22)	(136)
Fines and penalties	2	14
	710	294

KDM SHIPPING PUBLIC LIMITED**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS**For the 6 months ended 30 June 2012**9. OPERATING PROFIT**

Operating profit is stated after charging the following items:

	Note	6 months ended	
		30 June 2012	30 June 2011
		USD'000	USD'000
Depreciation of vessels, property plant and equipment	13	760	387
Staff costs	10	995	961
Write off of accounts receivables		568	44
Independent auditor's remuneration		32	19
		<hr/>	<hr/>

10. STAFF COSTS

	Note	6 months ended	
		30 June 2012	30 June 2011
		USD'000	USD'000
Wages and salaries		695	663
Contributions to pension fund		267	266
Contributions to other funds		33	32
		<hr/>	<hr/>
	9	995	961
		<hr/>	<hr/>

Staff costs for the periods ended 30 June 2012 and 30 June 2011 were presented as follows:

	6 months ended	
	30 June 2012	30 June 2011
	USD'000	USD'000
Payroll of production personnel and related taxes	883	783
Salaries and wages of administrative Personnel	112	178
	<hr/>	<hr/>
Total staff costs	995	961
	<hr/>	<hr/>

Average number of employees was as follows:

	6 months ended	
	30 June 2012	30 June 2011
Average number of employees, persons	249	184
Key management personnel	18	15
	<hr/>	<hr/>
	267	199
	<hr/>	<hr/>

KDM SHIPPING PUBLIC LIMITED

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTSFor the 6 months ended 30 June 2012**11. NET FINANCE EXPENSES**

	6 months ended	
	30 June 2012 USD'000	30 June 2012 USD'000
Finance expenses		
Interest expense		
Loan interest	272	333
Capitalised interest	(125)	(125)
	<hr/> 147	<hr/> 208
Other finance expenses		
Write-offs of financial investments	-	11
Discount of notes issued	11	8
	<hr/> 158	<hr/> 227

12. TAXATION

	6 months ended	
	30 June 2012 USD'000	30 June 2012 USD'000
Income tax	2	4
Deferred tax - credit	(6)	(278)
	<hr/> (4)	<hr/> (274)
Tax credit for the period	<hr/> (4)	<hr/> (274)

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

	6 months ended	
	30 June 2012 USD'000	30 June 2011 USD'000
Accounting profit before tax	<hr/> 3.873	<hr/> 4.590
Income tax, taxable at the rate of 21%	(5)	131
Income tax, taxable at the rate of 10%	(5)	(5)
Expenses not included in gross expenses for income tax	791	657
Changes in tax rate and law	(785)	(1.057)
	<hr/> (4)	<hr/> (274)
Tax as per consolidated statement of comprehensive income-credit	<hr/> (4)	<hr/> (274)

KDM SHIPPING PUBLIC LIMITED

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the 6 months ended 30 June 2012

13. VESSELS, PROPERTY, PLANT AND EQUIPMENT

	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 2011	11.020	12.186	1.013	1.399	212	191	96	26.117
Additions		1.602	554	2				2.158
Exchange differences	12	21	(1)	2	-	-	-	34
Acquisition of subsidiary	1	-	-	-	-	-	-	1
Disposal of subsidiaries	(31)	(39)	-	(3)	-	-	-	(73)
Balance at 30 June 2011	11.002	13.770	1.566	1.400	212	191	96	28.237
Additions		3.894	3.387	4		1	2	7.288
Disposals	-	(2)	-	(11)	-	-	(1)	(14)
Exchange differences	(20)	(25)	(1)	(5)	(6)	(1)	(2)	(60)
Balance at 31 December 2011	10.982	17.637	4.952	1.388	206	191	95	35.451
Additions	550	1.346	416	8	2	11	32	2.365
Exchange differences	(1)	(2)	-	-	-	-	1	(2)
Balance at 30 June 2012	11.531	18.981	5.368	1.396	208	202	128	37.814

KDM SHIPPING PUBLIC LIMITED

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the 6 months ended 30 June 2012

13. VESSELS, PROPERTY, PLANT AND EQUIPMENT (cont.)

	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
Depreciation								
Balance at 1 January 2011	1.684	2.139	-	548	82	94	90	4.637
Depreciation charge for the period	138	141	-	29	60	7	8	383
On disposal of subsidiaries	(1)	(2)	-	-	-	-	-	(3)
Exchange differences	1	-	-	-	-	-	(6)	(5)
Balance at 30 June 2011	1.822	2.278	-	577	142	101	92	5.012
Depreciation charge for the period	137	141	-	29	60	8	8	383
Exchange differences	(3)	(3)	-	(2)	-	-	(6)	(14)
Balance at 31 December 2011	1.956	2.416	-	604	202	109	94	5.381
Depreciation charge for the period	137	576	-	34	5	7	1	760
Exchange differences	(1)	1	-	1	-	-	1	2
Balance at 30 June 2012	2.092	2.993	-	639	207	116	96	6.143
Net book value								
Balance at 1 January 2011	9.336	10.047	1.013	851	130	97	6	21.480
Balance at 30 June 2011	9.180	11.492	1.566	823	70	90	4	23.225
Balance at 31 December 2011	9.026	15.221	4.952	784	4	82	1	30.070
Balance at 30 June 2012	9.439	15.988	5.368	757	1	86	32	31.671

KDM SHIPPING PUBLIC LIMITED

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTSFor the 6 months ended 30 June 2012**14. INTANGIBLE ASSETS**

	Goodwill USD'000	Computer software USD'000	Total USD'000
Cost			
Balance at 1 January 2011	-	8	8
Additions	110	7	117
Balance at 30 June 2011	110	15	125
Additions	-	-	-
Balance at 31 December 2011	110	15	125
Additions	-	-	-
Balance at 30 June 2012	110	15	125
Amortisation			
Balance at 1 January 2011	-	4	4
Amortisation charge for the period	-	4	4
Balance at 30 June 2011	-	8	8
Amortisation charge for the period	-	-	-
Balance at 31 December 2011	-	8	8
Amortisation charge for the period	-	5	5
Balance at 30 June 2012	-	13	13
Net book value			
Balance at 1 January 2011	-	4	4
Balance at 30 June 2011	110	7	117
Balance at 31 December 2011	110	7	117
Balance at 30 June 2012	110	2	112

KDM SHIPPING PUBLIC LIMITED

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the 6 months ended 30 June 2012

15. INVESTMENTS IN SUBSIDIARIES

The details of the subsidiaries are as follows:

<u>Name</u>	<u>Country of incorporation</u>	<u>30 June 2012 Holding%</u>	<u>31 December 2011 Holding%</u>
KD Shipping Co. Limited Inc.	Panama	100,00	100,00
LLC Danapris	Ukraine	99,84	99,84
LLC Capital Shipping Company	Ukraine	99,57	99,57
LLC Hylea-Servise	Ukraine	99,57	99,57
LLC CSC-Agent	Ukraine	99,58	99,58
LLC Riverest Tur	Ukraine	94,61	94,61

16. ACQUISITION OF SUBSIDIARY

In January 2011 the Company acquired 94,61% of the share capital of LLC Riverest Tur, an owner of passenger license in Ukraine.

Goodwill arising on consolidation:

	USD'000
Consideration paid	63
Plus: non-controlling interests	1
Plus: Fair value of the net liabilities acquired	46
	<hr/>
Goodwill arising on consolidation	110
	<hr/> <hr/>

The assets and liabilities acquired were as follows:

	Acquiree's carrying amount before acquisition USD'000	Fair value USD'000
Property, plant and equipment	1	1
Trade payables	(44)	(44)
Other payables	(3)	(3)
	<hr/>	<hr/>
Net liabilities	(46)	(46)
	<hr/> <hr/>	<hr/> <hr/>

KDM SHIPPING PUBLIC LIMITED**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS**For the 6 months ended 30 June 2012**16. ACQUISITION OF SUBSIDIARY (cont.)**

Net cash outflow on acquisition of subsidiary	30 June 2011 USD'000
Consideration paid in cash	(63)
Cash and cash equivalents acquired	<u>-</u>
	<u><u>(63)</u></u>

17. DISPOSAL OF SUBSIDIARIES

In January 2011 the Company disposed 84,38% of the share capital of LLC Hylea-Sydoservise, an owner of passenger license in Ukraine, 84,38% of the share capital of LLC Hylea-Mechanoservise, an owner of passenger license in Ukraine, and 82,17% of the share capital of LLC Capital River Port, a passenger service company operating in Ukraine.

The assets and liabilities disposed were as follows:

	USD'000
Property, plant and equipment	70
Inventories	2
Trade and other receivables	2
Prepayments and other current assets	2
Taxes recoverable and prepaid	1
Other long term liabilities	(2)
Trade and other payables	(135)
Other accounts payable	(3)
Deferred tax liabilities	<u>(12)</u>
Net liabilities	(75)
Non-controlling interests	<u>27</u>
Net liabilities disposed	<u><u>(48)</u></u>
Cash consideration received	<u>4</u>
Cash inflow on disposal	<u><u>4</u></u>

KDM SHIPPING PUBLIC LIMITED

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the 6 months ended 30 June 2012

18. INVENTORIES

	30 June 2012 USD'000	31 December 2011 USD'000
Raw materials	33	40
Work-in-progress	248	18
Fuel	193	351
Spare parts and other consumables	11	7
Other materials	31	5
	516	421

19. TRADE AND OTHER RECEIVABLES

	30 June 2012 USD'000	31 December 2011 USD'000
Trade receivables	2.626	1.608
Prepayments	109	939
Tax invoices not received	6	4
VAT for reimbursement against decrease in tax liabilities of future tax periods	661	279
Other taxes prepaid	2	-
Amounts receivable from owners	63	-
Other receivables	291	409
	3.758	3.239

Ageing analysis of trade and other receivables:

	Gross amount 30 June 2012 USD'000	Impairment 30 June 2012 USD'000	Gross amount 31 Dec 2011 USD'000	Impairment 31 Dec 2011 USD'000
Not past due	1.008	-	617	-
Past due 0-30 days	13	-	2	-
Past due 31-120 days	29	-	24	-
More than 120 days	1.576	-	965	-
	2.626	-	1.608	-

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

KDM SHIPPING PUBLIC LIMITED

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the 6 months ended 30 June 2012

20. CASH AND CASH EQUIVALENTS

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

	30 June 2012 USD'000	31 December 2011 USD'000
Cash in hand	23	-
Cash at bank	129	80
	152	80

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

21. SHARE CAPITAL

	30 June 2012 Number of shares	30 June 2012 USD'000	31 December 2011 Number of shares	31 December 2011 USD'000
Authorised				
Ordinary shares of USD 0,01/1,75 each (Euro 0,01/1,71 each)	20.000.000	200.000	10.000	18
Issued and fully paid				
Balance at 1 January	10.000	18	10.000	18
Share split 22 February 2012	1.700.000	-	-	-
Issue of share capital 22 February 2012	4.790.000	63	-	-
Balance at 30 June /31 December	6.500.000	81	10.000	18

Dividends

The following dividends were declared and paid by the Company for the period/year ended 30 June / 31 December:

	30 June 2012 USD'000	31 December 2011 USD'000
USD 496,5 per qualifying ordinary share	-	-
USD 468,2 per qualifying ordinary share	-	-
USD 352,3 per qualifying ordinary share	-	3.523
	-	3.523

KDM SHIPPING PUBLIC LIMITED

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the 6 months ended 30 June 2012

21. SHARE CAPITAL (cont.)

The owners of the parent company as at 30 June 2012 and 31 December 2011 were as follows:

	30 June 2012 USD'000	31 December 2011 USD'000
Kostiantyn Molodkovets	64	2
Denys Molodkovets	9	16
Miralex Inc.	6	-
Oleksiy Veselovsky	2	-
Konstantin Anisimov	-	-
Liudmyla Molodkovets	-	-
Iurii Molodkovets	-	-
	81	18
	81	18

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 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.

22. LOANS AND BORROWINGS

	30 June 2012 USD'000	31 December 2011 USD'000
Long term liabilities		
Bank loans	4.612	3.183
Short term liabilities		
Bank loans	-	1.318
Total	4.612	4.501

KDM SHIPPING PUBLIC LIMITED**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS**For the 6 months ended 30 June 2012**22. LOANS AND BORROWINGS (cont.)**

Maturity of non-current borrowings:

	30 June 2012 USD'000	31 December 2011 USD'000
Within one year	-	1.318
Between one and five years	4.612	3.183
After five years	-	-
	<u>4.612</u>	<u>4.501</u>

The accrued interest on loans and borrowings amounts to USD 114 thousand (31 December 2011: USD 59 thousand) and is included in other accounts payable in note 24 of the interim consolidated financial statements.

In accordance with the loan agreement the repayments extended until 25 January 2013.

The bank loans are secured as follows:

- By mortgage against vessels of net book value of USD 6.393 thousand (31 December 2011: USD 5.479 thousand)
- By mortgage against buildings of net book value USD 4.872 thousand (31 December 2011: USD 5.562 thousand).

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

	<u>30 June 2012</u>	<u>31 December 2011</u>
Bank loans	3M Libor +10,62239%	3M Libor + 9%

The exposure of the Group to interest rate risk and liquidity risk in relation to loans and borrowings is reported in note 29 of the interim consolidated financial statements.

23. DEFERRED TAX**Deferred tax liability**

Deferred tax liability arises as follows:

	30 June 2012 USD'000	31 December 2011 USD'000
Vessels, property, plant and equipment	<u>2.646</u>	<u>2.643</u>

KDM SHIPPING PUBLIC LIMITED

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTSFor the 6 months ended 30 June 2012**24. TRADE AND OTHER PAYABLES**

	30 June 2012 USD'000	31 December 2011 USD'000
Trade payables	192	1.649
Advances received	221	39
Salaries contributions and other related taxes	105	71
Payables for the acquisition of subsidiaries	-	363
Other accounts payable	312	206
Other taxes payable	9	55
	<hr/>	<hr/>
	839	2.383
	<hr/>	<hr/>

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

25. OTHER LONG-TERM LIABILITIES

	30 June 2012 USD'000	31 December 2011 USD'000
Long-term notes payable	370	370
Discount	(131)	(141)
	<hr/>	<hr/>
	239	229
	<hr/>	<hr/>

The amounts above relate to bills issued by the Group.

Maturing of other long term liabilities:

	30 June 2012 <u>Nominal value</u> USD'000	31 December 2011 <u>Nominal value</u> USD'000
Within one year	-	-
Between one and five years	125	119
After five years	245	251
	<hr/>	<hr/>
	370	370
	<hr/>	<hr/>

KDM SHIPPING PUBLIC LIMITED**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS**For the 6 months ended 30 June 2012**26. TAX (ASSET)/LIABILITY**

	30 June 2012 USD'000	31 December 2011 USD'000
Income tax accrued	2	11
Income tax paid	(3)	(9)
	<u>(1)</u>	<u>2</u>

27. EARNINGS PER SHARE

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

Profit attributable to ordinary owners:

	30 June 2012 USD '000	30 June 2011 USD '000
Profit for the period	<u>3.876</u>	<u>4.863</u>
Number of ordinary shares:		
	30 June 2012 '000	30 June 2011 '000
Issued ordinary shares at 1 January	10	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	1.700
Effect of 4.790.000 shares issued on 22 February 2012	<u>3.421</u>	<u>-</u>
Weighted average number of ordinary shares at 30 June	<u>5.131</u>	<u>1.710</u>

The earnings per share calculation for 30 June 2011 has been adjusted retrospectively to reflect the share split.

28. RELATED PARTY BALANCES AND TRANSACTIONS

The Company is controlled by Molodkovets Konstantyn and Molodkovets Denys, who directly or indirectly own 90% of the Company's share capital as at 30 June 2012 (31 December 2011: 100%).

For the purposes of these interim 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.

KDM SHIPPING PUBLIC LIMITED

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the 6 months ended 30 June 2012

28. RELATED PARTY BALANCES AND TRANSACTIONS (cont.)

The Group enters into transactions with both related and unrelated parties. It is generally not possible to objectively determine whether any transaction with a related party would have been entered into if the parties had not been related, or whether such transactions would have been effected on the same terms, conditions and amounts if the parties had not been related.

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

- A. Key management;
- B. Companies which activities are significantly influenced by the Group's owners.

(i) Remuneration of key management

Salary costs of key management for the period/year ended 30 June 2012 and 31 December 2011 were as follows:

	30 June 2012 USD'000	31 December 2011 USD'000
Salaries	242	456
Contributions to pension funds	92	193
	<hr/> 334	<hr/> 649

Number of key management personnel for the period/year ended 30 June 2012 and 31 December 2011 was as follows:

	30 June 2012 USD'000	31 December 2011 USD'000
Number of key management personnel, persons	<hr/> 18	<hr/> 23

(ii) Transactions with related parties

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

	30 June 2012 USD'000	31 December 2011 USD'000
Sales	-	57
Purchases	-	(281)
	<hr/> -	<hr/> (224)

KDM SHIPPING PUBLIC LIMITED

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the 6 months ended 30 June 2012

28. RELATED PARTY BALANCES AND TRANSACTIONS (cont.)

(iii) Outstanding balances with related parties

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

	30 June 2012 USD'000	31 December 2011 USD'000
Trade receivables	-	156
Other receivables	-	47
Trade payables	-	(204)
Other payables	(60)	(74)
	<hr style="border-top: 1px solid black;"/>	<hr style="border-top: 1px solid black;"/>
	(60)	(75)
	<hr style="border-top: 3px double black;"/>	<hr style="border-top: 3px double black;"/>

(iv) Amounts receivable from owners

	30 June 2012 USD'000	31 December 2011 USD'000
Receivables from owners	63	-
	<hr style="border-top: 1px solid black;"/>	<hr style="border-top: 1px solid black;"/>

The amounts receivable from owners are interest fee, and have no specific repayment date.

29. FINANCIAL 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

The 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.

(i) Credit risk

Credit risk arises when a failure by counter parties to discharge their obligations could reduce the amount of future cash inflows from financial assets on hand at the reporting date. The Group has no significant concentration of credit risk. 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.

KDM SHIPPING PUBLIC LIMITED

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTSFor the 6 months ended 30 June 2012**29. FINANCIAL RISK MANAGEMENT (cont.)***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 date was:

	30 June 2012 USD'000	31 December 2011 USD'000
Trade and other receivables	3.758	3.239
Cash at bank	129	80
	3.887	3.319

(ii) Liquidity risk

Liquidity risk is the risk that arises when the maturity of assets and liabilities does not match. An unmatched position potentially enhances profitability, but can also increase the risk of losses. The Group has procedures with the object of minimising such losses such as maintaining sufficient cash and other highly liquid current assets.

The following are the contractual maturities of financial liabilities, including estimated interest payments:

	Carrying amounts USD'000	Contractual cash flows USD'000	6 months or less USD'000	Between 6-12 months USD'000	Between 1-5 years USD'000	More than 5 years USD'000
30 June 2012						
Bank loans	4.612	5.616	-	-	5.616	-
Trade and other payables	839	839	839	-	-	-
Other long-term liabilities	239	369	-	-	369	-
	5.688	5.821	837	-	4.615	73
31 December 2011						
Bank loans	4.000	4.615	293	1.026	3.296	-
Short term loans	501	621	621	-	-	-
Trade and other payables	2.383	2.383	2.383	-	-	-
Other long-term liabilities	229	370	-	-	119	251
	7.113	7.989	3.297	1.026	3.415	251

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29. FINANCIAL RISK MANAGEMENT (cont.)

(iii) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Company's income or the value of its holdings of financial instruments.

Currency Risk

The Group is exposed to currency risk on sales, purchases and borrowings that are denominated in a currency other than the respective functional currencies, primarily the US dollar.

In respect of monetary assets and liabilities denominated in foreign currencies, the Group's policy is to ensure that its net exposure is kept to an acceptable level by buying or selling foreign currencies at spot rates when necessary to address short-term imbalances.

An increase of 100 basis points in foreign currency rates at 30 June and 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	
	30 June 2012	31 December 2011	30 June 2012	31 December 2011
	USD'000	USD'000	USD'000	USD'000
USD	(419)	(409)	(419)	(409)

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.

At the reporting date the interest rate profile of interest-bearing financial instruments was:

	30 June 2012 USD'000	31 December 2011 USD'000
<i>Variable rate instruments</i>		
Financial assets	152	80
Financial liabilities	(4.612)	(4.501)
	(4.460)	(4.421)

Sensitivity analysis

An increase of 100 basis points in interest rates at 30 June and 31 December would have decreased profit and equity 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.

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For the 6 months ended 30 June 2012

29. FINANCIAL RISK MANAGEMENT (cont.)

	Effect on profit or loss		Effect on equity	
	30 June 2012	31 December 2011	30 June 2012	31 December 2011
	USD'000	USD'000	USD'000	USD'000
Variable rate instruments	(48)	(44)	(48)	(44)

Capital management

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.

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.

In relation to capital management, the Group's objectives are as follows: maintaining the Group's ability to adhere to the going concern principle in order to provide income for shareholders and benefits to other interested parties, and also maintaining the optimal capital structure with the purpose of its cost reduction.

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 borrowing costs net of cash and cash equivalents. Total amount of capital is calculated as own capital reflected in the 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 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.

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.

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For the 6 months ended 30 June 2012

29. FINANCIAL RISK MANAGEMENT (cont.)*(iii) Market risk (cont.)*EBITDA (cont.)

	30 June 2012 USD'000	31 December 2011 USD'000
Long-term loans	4.612	4.000
Short term loans	-	501
Total amount of borrowings	<u>4.612</u>	<u>4.501</u>
Cash and cash equivalents	(152)	(80)
Net debt	<u>4.460</u>	<u>4.421</u>
Share capital	81	18
Retained Earnings	37.514	33.638
Effect from translation into presentation currency	(9.770)	(9.535)
Non-controlling interests	49	48
Total equity	<u>27.874</u>	<u>24.169</u>
Total amount of equity and net debt	<u>32.334</u>	<u>28.590</u>
Financial leverage coefficient	<u>13,79%</u>	<u>15,46%</u>

For the periods ended 30 June 2012 and 31 December 2011 the ratio of net debt to EBITDA amounted to:

	30 June 2012 USD'000	31 December 2011 USD'000
Profit for the period	3.877	14.189
Income tax credit	(4)	(222)
Finance expenses	158	100
EBIT (Earnings before interest and income tax)	<u>4.031</u>	<u>14.067</u>
Depreciation and amortisation	765	770
EBITDA (Earnings before interest, income tax, depreciation and amortization)	<u>4.796</u>	<u>14.837</u>
Net Debt/EBITDA	<u>92,99%</u>	<u>29,80%</u>

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

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30. FAIR VALUES

The carrying amounts and fair values of certain financial assets and liabilities are as follows:

	Carrying amounts		Fair values	
	30 June 2012 USD'000	31 December 2011 USD'000	30 June 2012 USD'000	31 December 2011 USD'000
Financial assets				
Trade and other receivables	3.758	3.239	3.758	3.239
Cash and cash equivalents	152	80	152	80
Financial liabilities				
Loans and borrowings	(4.612)	(4.000)	(4.612)	(4.000)
Other long-term liabilities	(239)	(229)	(239)	(229)
Trade and other payables	(839)	(2.383)	(839)	(2.383)
Short term loans	-	(501)	-	(501)
	(1.780)	(3.794)	(1.780)	(3.794)
	(1.780)	(3.794)	(1.780)	(3.794)

31. CONTINGENT AND CONTRACTUAL LIABILITIES

a) ***Economical environment***

Main operating activity of the Group is carried out internationally. However laws and other regulatory acts affecting some operating activities in Ukraine such as passenger transport and ship repair 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.

The Ukraine's economy returned to growth in 2011. Although significant economic uncertainties remain, Ukrainian economy experienced a 4,2% GDP growth in 2011 and further recovery is expected in 2012.

b) ***Taxation***

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

It should be mentioned that the Group took part in transactions which may be interpreted by tax authorities not in the way they are interpreted by the Group, as a result of which it may accrue additional significant tax liabilities and fines. Notwithstanding the fact that most of tax returns of the Group's companies for the mentioned periods were reviewed by the tax authorities without any significant discrepancies or imposition of additional tax liabilities, they remain open to subsequent investigations. According to effective laws, tax returns remain open and may be subject to the reviews during three years after their provision, but, in some cases, this limit is not applied.

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For the 6 months ended 30 June 2012

31. CONTINGENT AND CONTRACTUAL LIABILITIES (cont.)

As a result of future tax reviews additional liabilities may be discovered which may not comply with tax reporting of the Group. Such liabilities may be represented by taxes, as well as fines and penalties; and their amounts may be significant. 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.

c) *Legal matters*

In the course of its economic activities the Group participates in legal proceedings with unconscionable counterparties. In most cases, the Group is the initiator of proceedings with the purpose of prevention from losses in the economic sphere or minimizing them.

The Group's management considers that legal proceedings on such matters will not have any significant influence on its financial position.

d) *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 30 June 2012 the Group had no liabilities for any supplementary pension payments, health care, insurance or other benefits after retirement to their working or former employees.

32. EVENTS AFTER THE REPORTING DATE

There were no material events after the reporting period which affect the interim consolidated financial statements as at 30 June 2012 except from the following:

On 9 August 2012 by a way of an ordinary procedure to exchange trading on the parallel market 7,096,000 ordinary shares were listed on the Warsaw Stock Exchange. The value of these shares totals PLN 25,790,497 when computed at the issuing price of shares in public offering, set at PLN 32,40. The 796,003 shares are held by 144 shareholders and represent 11,2% of the shares of the Company that are to be admitted to exchange trading.