

KDM SHIPPING PUBLIC LIMITED
(Formerly V.S. MARINE ENGINEERING SERVICES LIMITED)

CONSOLIDATED FINANCIAL STATEMENTS

For the years ended 31 December 2011, 2010 and 2009

KDM SHIPPING PUBLIC LIMITED
(formerly V.S. MARINE ENGINEERING SERVICES LIMITED)

CONSOLIDATED FINANCIAL STATEMENTS

For the years ended 31 December 2011, 2010 and 2009

C O N T E N T S

	<u>Pages</u>
Independent auditors' report	1
Consolidated statement of comprehensive income	2
Consolidated statement of financial position	3
Consolidated statement of changes in equity	4 - 6
Consolidated statement of cash flows	7
Notes to the consolidated financial statements	8 – 55



KPMG Limited
Chartered Accountants
14 Esperidon Street
1087 Nicosia, Cyprus
P.O.Box 21121
1502 Nicosia, Cyprus

Telephone +357 22 209000
Fax +357 22 678200
E-mail nicosia@kpmg.com.cy
Internet www.kpmg.com.cy

1

INDEPENDENT AUDITORS' REPORT

TO THE MEMBERS OF

KDM SHIPPING PUBLIC LIMITED **(formerly V.S. MARINE ENGINEERING SERVICES LIMITED)**

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of KMD Shipping Public Limited (the "Company") and its subsidiaries (the "Group") on pages 2 to 55 which comprise the consolidated statement of financial position as at 31 December 2011, 2010 and 2009, and the consolidated statements of comprehensive income, changes in equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Board of Directors' Responsibility for the Financial Statements

The Board of Directors is responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of the Cyprus Companies Law, Cap 113, and for such internal control as the Board of Directors determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements, in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Directors, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as of 31 December 2011, 2010 and 2009 and of its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of the Cyprus Companies Law, Cap. 113.

KPMG Limited

Chartered Accountants

Nicosia, 20 March 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. Kalias, C.N. Kallis
M.H. Zavrrou, 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.

Limassol

P.O.Box 50161, 3601
Telephone +357 25 869000
Fax +357 25 363842

Larnaca

P.O.Box 40075, 6300
Telephone +357 24 200000
Fax +357 24 200200

Paphos

P.O.Box 60288, 8101
Telephone +357 26 943050
Fax +357 26 943062

Paralimni / Ayia Napa

P.O.Box 33200, 5311
Telephone +357 23 820080
Fax +357 23 820084

Polis Chrysochou

P.O.Box 66014, 8330
Telephone +357 26 322098
Fax +357 26 322722

KDM SHIPPING PUBLIC LIMITED
(formerly V.S. MARINE ENGINEERING SERVICES LIMITED)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the years ended 31 December 2011, 2010 and 2009

	Note	2011 USD'000	2010 USD'000	2009 USD'000
Revenue	5	29.159	13.907	16.273
Cost of sales	6	<u>(13.645)</u>	<u>(8.372)</u>	<u>(9.498)</u>
Gross profit		15.514	5.535	6.775
Other income		325	13	20
Administrative expenses	7	(851)	(1.432)	(1.522)
Other operating expenses	8	<u>(921)</u>	<u>(428)</u>	<u>(194)</u>
Operating profit	9	<u>14.067</u>	<u>3.688</u>	<u>5.079</u>
Finance income	11	78	83	-
Finance expenses	11	<u>(178)</u>	<u>(58)</u>	<u>(159)</u>
Net finance (expenses)/income		<u>(100)</u>	<u>25</u>	<u>(159)</u>
Profit before tax		13.967	3.713	4.920
Tax	12	<u>222</u>	<u>1.364</u>	<u>(33)</u>
Profit for the year		<u>14.189</u>	<u>5.077</u>	<u>4.887</u>
Other comprehensive income				
Effect of translation into presentation currency		<u>(270)</u>	<u>57</u>	<u>(615)</u>
Total comprehensive income for the year		<u>13.919</u>	<u>5.134</u>	<u>4.272</u>
Profit for the year attributable to:				
Owners of the Company		14.178	4.338	4.075
Non-controlling interest		<u>11</u>	<u>739</u>	<u>812</u>
Profit for the year		<u>14.189</u>	<u>5.077</u>	<u>4.887</u>
Total comprehensive income attributable to:				
Owners of the Company		13.948	4.385	3.497
Non-controlling interest		<u>(29)</u>	<u>749</u>	<u>775</u>
Total comprehensive income for the year		<u>13.919</u>	<u>5.134</u>	<u>4.272</u>
Basic and diluted earnings per share (USD)	27	<u>8.29</u>	<u>2.54</u>	<u>2.38</u>

The notes on pages 8 to 55 are an integral part of the consolidated financial statements.

KDM SHIPPING PUBLIC LIMITED
(formerly V.S. MARINE ENGINEERING SERVICES LIMITED)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT DECEMBER 2011, 2010 AND 2009

	Note.	2011 USD'000	2010 USD'000	2009 USD'000
Assets				
Vessels, property, plant and equipment	13	30.070	21.480	20.940
Intangible assets	14	117	4	6
Deferred tax assets	23	<u>-</u>	<u>3</u>	<u>21</u>
Total non-current assets		<u>30.187</u>	<u>21.487</u>	<u>20.967</u>
Inventories	18	421	223	195
Trade and other receivables	19	3.239	1.473	2.244
Cash and cash equivalents	20	<u>80</u>	<u>77</u>	<u>196</u>
Current assets		<u>3.740</u>	<u>1.773</u>	<u>2.635</u>
Total assets		<u>33.927</u>	<u>23.260</u>	<u>23.602</u>
Equity				
Share capital	21	18	18	18
Retained earnings		33.638	19.851	20.195
Translation reserve		<u>(9.535)</u>	<u>(9.305)</u>	<u>(9.352)</u>
Total equity attributable to owners of the Company		24.121	10.564	10.861
Non-controlling interest		<u>48</u>	<u>3.183</u>	<u>2.604</u>
Total equity		<u>24.169</u>	<u>13.747</u>	<u>13.465</u>
Liabilities				
Loans and borrowings	22	3.183	4.000	4.000
Deferred tax liabilities	23	2.643	2.898	4.278
Other long-term liabilities	25	<u>229</u>	<u>99</u>	<u>-</u>
Non-current liabilities		<u>6.055</u>	<u>6.997</u>	<u>8.278</u>
Short term loans		501	-	-
Short term portion of long-term loans	22	817	-	-
Trade and other payables	24	2.383	2.514	1.859
Tax liability	26	<u>2</u>	<u>2</u>	<u>-</u>
Total current liabilities		<u>3.703</u>	<u>2.516</u>	<u>1.859</u>
Total liabilities		<u>9.758</u>	<u>9.513</u>	<u>10.137</u>
Total equity and liabilities		<u>33.927</u>	<u>23.260</u>	<u>23.602</u>

On 20 March 2012 the Board of Directors of KDM Shipping Public Limited (formerly V.S. Marine Engineering Services Limited) authorised these consolidated financial statements for issue.

.....
Kostiantyn Molodkovets
Director, CEO

.....
Denys Molodkovets
Director, CFO

The notes on pages 5 to 55 are an integral part of the consolidated financial statements.

KDM SHIPPING PUBLIC LIMITED
(formerly V.S. MARINE ENGINEERING SERVICES LIMITED)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the years ended 31 December 2011, 2010 and 2009

	<u>Attributable to owners of the Company</u>			Non-controlling interests USD'000	Total equity USD'000	
	Share capital USD'000	Translation reserve USD'000	Retained earnings USD'000			Total USD'000
Balance at 1 January 2011	18	(9.305)	19.851	10.564	3.183	13.747
Comprehensive income						
Profit for the year	-	-	14.178	14.178	11	14.189
Effect from translation into presentation currency	-	(230)	-	(230)	(40)	(270)
Total comprehensive income for the year	-	(230)	14.178	13.948	(29)	13.919
Transactions with owners, recognized directly in equity						
<i>Contributions by and distributions to owners</i>						
Dividends	-	-	(3.523)	(3.523)	-	(3.523)
Total transactions with owners	-	-	(3.523)	(3.523)	-	(3.523)
Changes in ownership interests in subsidiaries						
Acquisition of non-controlling interest without a change in control	-	-	3.132	3.132	(3.132)	-
Acquisition of subsidiary	-	-	-	-	(1)	(1)
Disposal of subsidiaries	-	-	-	-	27	27
	-	-	3.132	3.132	(3.106)	26
Balance at 31 December 2011	18	(9.535)	33.638	24.121	48	24.169

The notes on pages 8 to 55 are an integral part of the consolidated financial statements.

KDM SHIPPING PUBLIC LIMITED
(formerly V.S. MARINE ENGINEERING SERVICES LIMITED)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the years ended 31 December 2011, 2010 and 2009

	<u>Attributable to owners of the Company</u>			Non-controlling interests USD'000	Total equity USD'000	
	Share capital USD'000	Translation reserve USD'000	Retained earnings USD'000			Total USD'000
Balance at 1 January 2010	<u>18</u>	<u>(9.352)</u>	<u>20.195</u>	<u>10.861</u>	<u>2.604</u>	<u>13.465</u>
Comprehensive income						
Profit for the year	-	-	4.338	4.338	739	5.077
Effect from translation into presentation currency	<u>-</u>	<u>47</u>	<u>-</u>	<u>47</u>	<u>10</u>	<u>57</u>
Total comprehensive income for the year	<u>-</u>	<u>47</u>	<u>4.338</u>	<u>4.385</u>	<u>749</u>	<u>5.134</u>
Transactions with owners, recognized directly in equity						
<i>Contributions by and distributions to owners</i>						
Dividends	<u>-</u>	<u>-</u>	<u>(4.682)</u>	<u>(4.682)</u>	<u>-</u>	<u>(4.682)</u>
Total transactions with owners	<u>-</u>	<u>-</u>	<u>(4.682)</u>	<u>(4.682)</u>	<u>-</u>	<u>(4.682)</u>
Changes in ownership interests in subsidiaries						
Acquisition of non-controlling interest	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(170)</u>	<u>(170)</u>
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(170)</u>	<u>(170)</u>
Balance at 31 December 2010	<u>18</u>	<u>(9.305)</u>	<u>19.851</u>	<u>10.564</u>	<u>3.183</u>	<u>13.747</u>

The notes on pages 8 to 55 are an integral part of the consolidated financial statements.

KDM SHIPPING PUBLIC LIMITED
(formerly V.S. MARINE ENGINEERING SERVICES LIMITED)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the years ended 31 December 2011, 2010 and 2009

	Attributable to owners of the Company			Non-controlling interests USD'000	Total equity USD'000	
	Share capital USD'000	Translation reserve USD'000	Retained earnings USD'000			Total USD'000
Balance at 1 January 2009	<u>18</u>	<u>(8.774)</u>	<u>21.085</u>	<u>12.329</u>	<u>1.829</u>	<u>14.158</u>
Comprehensive income						
Profit for the year	-	-	4.075	4.075	812	4.887
Effect from translation into presentation currency	<u>-</u>	<u>(578)</u>	<u>-</u>	<u>(578)</u>	<u>(37)</u>	<u>(615)</u>
Total comprehensive income for the year	<u>-</u>	<u>(578)</u>	<u>4.075</u>	<u>3.497</u>	<u>775</u>	<u>4.272</u>
Transactions with owners, recognized directly in equity						
<i>Contributions by and distributions to owners</i>						
Dividends	<u>-</u>	<u>-</u>	<u>(4.965)</u>	<u>(4.965)</u>	<u>-</u>	<u>(4.965)</u>
Total transactions with owners	<u>-</u>	<u>-</u>	<u>(4.965)</u>	<u>(4.965)</u>	<u>-</u>	<u>(4.965)</u>
Balance at 31 December 2009	<u><u>18</u></u>	<u><u>(9.352)</u></u>	<u><u>20.195</u></u>	<u><u>10.861</u></u>	<u><u>2.604</u></u>	<u><u>13.465</u></u>

The notes on pages 8 to 55 are an integral part of the consolidated financial statements.

KDM SHIPPING PUBLIC LIMITED
(Formerly V.S. MARINE ENGINEERING SERVICES LIMITED)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the years ended 31 December 2011, 2010 and 2009

	Note	2011 USD'000	2010 USD'000	2009 USD'000
Cash flow from operating activities:				
Profit for the year		14.189	5.077	4.887
Adjustments for:				
Depreciation of vessels, property, plant and equipment		766	758	774
Amortisation of computer software		4	4	-
Write-offs of accounts receivable		240	-	-
Loss from the sale of vessels, property, plant and equipment		14	-	-
Loss from the sale of intangible assets		-	2	-
Gain from the disposal of subsidiaries		(52)	-	-
Write-offs of financial investments		-	-	73
Notes discounting		(78)	(83)	-
Discount of notes issued		16	5	-
Interest expense		153	53	86
Income tax expenses		(222)	(1.364)	33
Cash flows from operations before working capital changes		<u>15.030</u>	<u>4.452</u>	<u>5.853</u>
(Increase)/decrease in inventories		(198)	(28)	251
(Increase)/decrease in trade and other receivables		(2.018)	817	250
(Decrease)/increase in trade and other payables		(146)	655	(227)
Cash flows from operation		<u>12.668</u>	<u>5.896</u>	<u>6.127</u>
Tax paid		-	(42)	(4)
Net cash flows from operating activities		<u>12.668</u>	<u>5.854</u>	<u>6.123</u>
Cash flow from investing activities				
Payment for acquisition of intangible assets		(7)	(4)	(4)
Payment for acquisition of vessels, property, plant and equipment		(9.446)	(1.232)	(859)
Acquisition of subsidiaries, net cash outflow on acquisition	16	(63)	-	-
Disposal of subsidiaries, cash inflow on disposal	17	4	-	-
Proceeds from disposal of vessels, property, plant and equipment		6	-	-
Net cash flows used in investing activities		<u>(9.506)</u>	<u>(1.236)</u>	<u>(863)</u>
Cash flows from financing activities				
Proceeds from short term loans		501	-	-
Proceeds from issue of notes		192	178	-
Interest paid		(153)	(53)	(86)
Dividends paid		(3.523)	(4.682)	(4.965)
Acquisition of non-controlling interest without changes in control		-	(170)	-
Net cash used in financing activities		<u>(2.983)</u>	<u>(4.727)</u>	<u>(5.051)</u>
Effects of translation into presentation currency		<u>(176)</u>	<u>(10)</u>	<u>(66)</u>
Net increase/(decrease) in cash and cash equivalents		<u>3</u>	<u>(119)</u>	<u>143</u>
Cash and cash equivalents at the beginning of the year		<u>77</u>	<u>196</u>	<u>53</u>
Cash and cash equivalents at the end of the year	20	<u><u>80</u></u>	<u><u>77</u></u>	<u><u>196</u></u>

The notes on pages 8 to 55 are an integral part of the consolidated financial statements.

KDM SHIPPING PUBLIC LIMITED
(Formerly V.S. MARINE ENGINEERING SERVICES LIMITED)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended 31 December 2011, 2010 and 2009

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.

Change of Company name

The Company was initially established under the name V.S. Marine Engineering Services Limited. On 21 December 2011, the Company changed its name from V.S. Marine Engineering Services Limited to KDM Shipping Public Limited.

The consolidated financial statements as at and for the years ended 31 December 2011, 2010 and 2009 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 for all three years 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 vessels low drought inland ports of Russia and Ukraine are easily accessible as well as any Sea port within the region of operations. Currently the Group's fleet of vessels is in private ownership and it is the 3rd largest operating under Ukrainian Flag. Entire fleet of vessels is in compliance with Ukrainian Maritime Registry of Shipping. The Group specializes in transportation of all general cargo such as: All Grain, SFSM, Scrap Metal, Pine Logs, Metals, Glass, Chemical fertilizers.

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

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

KDM SHIPPING PUBLIC LIMITED
(Formerly V.S. MARINE ENGINEERING SERVICES LIMITED)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended 31 December 2011, 2010 and 2009

1. INCORPORATION AND PRINCIPAL ACTIVITIES (continued)

In 2005 the Group started operating a seasonal passenger transportation business in Kiev Ukraine. With own fleet of passenger vessels in different divisions of comfort and size, the Group is one of the 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, country of incorporation, their principal activities and effective ownership percentage are disclosed in note 15 of the 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 ordinary shares with nominal value of €1,71 per share. The shares were distributed as follows:

Owner	31 December 2011		31 December 2010		31 December 2009	
	Number of shares	Ownership interest	Number of shares	Ownership interest	Number of shares	Ownership interest
		%		%		%
Denys						
Molodkovets	1.000	10	1.000	10	1.000	10
Kostiantyn						
Molodkovets	9.000	90	9.000	90	9.000	90

2. BASIS OF PREPARATION

(a) Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union (EU) and the requirements of the Cyprus Companies Law, Cap.113 and are for the years ended 31 December 2011, 2010 and 2009.

(b) Basis of measurement

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

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

As from 1 January 2011, the Group adopted all of the International Financial Reporting Standards (IFRSs) and International Accounting Standards (IAS), which are relevant to its operations. The adoption of these Standards did not have a significant effect on the consolidated financial statements of the Group.

KDM SHIPPING PUBLIC LIMITED
(Formerly V.S. MARINE ENGINEERING SERVICES LIMITED)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended 31 December 2011, 2010 and 2009

2. BASIS OF PREPARATION (continued)

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

The following Standards, Amendments to Standards and Interpretations had been issued but are not yet effective for the year ended 31 December 2011:

(i) Standards and Interpretations adopted by the EU

- IFRS 7 (Amendments) Financial Instruments: Disclosures - Transfers of Financial Assets (effective for annual periods beginning on or after 1 July 2011).

(ii) Standards and Interpretations not adopted by the EU

- IFRS 1 (Amendments) "Severe Hyperinflation and Removal of Fixed Dates for First-Time Adopters" (effective for annual periods beginning on or after 1 July 2011).
- IFRS 7 (Amendments) "Financial Instruments" Disclosures "Offsetting Financial Assets and Financial Liabilities" (effective for annual periods beginning on or after 1 January 2013).
- IFRS 7 (Amendments) "Financial Instruments" Disclosures – "Disclosures on transition to IFRS 9" (effective for annual periods beginning on or after 1 January 2015).
- IFRS 9 "Financial Instruments" (effective for annual periods beginning on or after 1 January 2015).
- IFRS 10 "Consolidated Financial Statements" (effective for annual periods beginning on or after 1 January 2013).
- IFRS 11 "Joint Arrangements" (effective for annual periods beginning on or after 1 January 2013).
- IFRS 12 "Disclosure of Interests in Other Entities" (effective for annual periods beginning on or after 1 January 2013).
- IFRS 13 "Fair Value Measurement" (effective for annual periods beginning on or after 1 January 2013).
- IAS 1 (Amendments) "Presentation of items of other Comprehensive Income" (effective for annual periods beginning on or after 1 July 2012).
- IAS 12 (Amendments) "Deferred tax" Recovery of Underlying Assets: (effective for annual periods beginning on or after 1 January 2012).
- IAS 19 (Amendments) "Employee Benefits" (effective for annual periods beginning on or after 1 January 2013).
- IAS 27 (Revised) "Separate Financial Statements" (effective for annual periods beginning on or after 1 January 2013).
- IAS 28 (Revised) "Investments in Associates and Joint ventures" (effective for annual periods beginning on or after 1 January 2013).
- IAS 32 (Amendments) "Offsetting Financial Assets and Financial Liabilities" (effective for annual periods beginning on or after 1 January 2014).
- IFRIC 20 "Stripping Costs in the Production Phase of a Surface Mine" (effective for annual periods beginning on or after 1 January 2013).

KDM SHIPPING PUBLIC LIMITED
(Formerly V.S. MARINE ENGINEERING SERVICES LIMITED)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended 31 December 2011, 2010 and 2009

2. BASIS OF PREPARATION (continued)

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

The Board of Directors expects that the adoption of the above financial reporting standards in future periods will not have a significant effect on the consolidated financial statements of the Group except for:

- The adoption of IFRS9 could change the classification and measurement of financial assets. The extent of the impact has not been determined.

(d) Use of estimates and judgements

The preparation of the Group's 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:

- 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.
- 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
(Formerly V.S. MARINE ENGINEERING SERVICES LIMITED)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended 31 December 2011, 2010 and 2009

2. BASIS OF PREPARATION (continued)

(d) Use of estimates and judgements (continued)

• Provision for obsolete and slow-moving inventory

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

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

• 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, expiry of tax losses recovery, strategies of tax planning. Should actual results differ from the estimates, and should such estimates need to be reviewed in future periods, this can negatively influence the financial position, financial results and cash flows. Should the estimated utilisation of deferred tax assets be reduced, such reduction is to be recognised in consolidated statement of comprehensive income.

KDM SHIPPING PUBLIC LIMITED
(Formerly V.S. MARINE ENGINEERING SERVICES LIMITED)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended 31 December 2011, 2010 and 2009

2. BASIS OF PREPARATION (continued)

(d) Use of estimates and judgements (continued)

- 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 a 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.

- Impairment of intangible asset

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

KDM SHIPPING PUBLIC LIMITED
(Formerly V.S. MARINE ENGINEERING SERVICES LIMITED)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended 31 December 2011, 2010 and 2009

2. BASIS OF PREPARATION (continued)

(d) Use of estimates and judgements (continued)

- Impairment of goodwill
Determining whether goodwill is impaired requires an estimation of the value in use of the cash generating units of the Group on which the goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating units using a suitable discount rate in order to calculate present value.
- Legal proceedings
The Group's Management applies significant assumptions in the measurement and recognition of provisions for and risks of exposure to contingent liabilities, related to existing legal proceedings and other unsettled claims, and also other contingent liabilities. Management's judgment is required in estimating the probability of a successful claim against the Group or the crystallising of a material obligation, and in determining the probable amount of the final settlement or obligation. Due to uncertainty inherent in the process of estimation, actual expenses may differ from initial estimates. Such preliminary estimates may alter as new information is received, from internal specialists within the Group, if any, or from third parties, such as lawyers. Revision of such estimates may have a significant effect on the future results of operating activity.
- Contingent liabilities
Contingent liabilities are determined by the occurrence or non-occurrence of one or more future events. Measurement of contingent liabilities is based on Management's judgments and estimates of the outcomes of such future events. In particular, the tax laws in Ukraine are complex and significant management judgement is required to interpret those laws in connection with the tax affairs of the Group, which is open to challenge by the tax authorities.

KDM SHIPPING PUBLIC LIMITED
(Formerly V.S. MARINE ENGINEERING SERVICES LIMITED)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended 31 December 2011, 2010 and 2009

2. BASIS OF PREPARATION (continued)

(d) Use of estimates and judgements (continued)

• 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 for financial and management reporting purposes. Exchange differences arising are classified as equity and transferred to the Company's translation reserve.

KDM SHIPPING PUBLIC LIMITED
(Formerly V.S. MARINE ENGINEERING SERVICES LIMITED)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended 31 December 2011, 2010 and 2009

2. BASIS OF PREPARATION (continued)

(f) Going concern basis

These consolidated financial statements have been prepared under the going concern basis, which assumes the realisation of assets and settlement of liabilities in the course of ordinary economic activity. Renewals of the Group's assets, and the future activities of the Group, are significantly influenced by the current and future economic environment in Ukraine. The consolidated financial statements do not comprise any adjustments in case of the Group's inability to continue as a going concern.

3. SIGNIFICANT ACCOUNTING POLICIES

The following accounting policies have been applied consistently for all the years presented in these 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.

Basis of consolidation

The consolidated financial statements comprise the financial statements of the parent company KDM Shipping Public Limited (formerly V.S. Marine Engineering Services 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 financial statements of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the date that control commences until the date control ceases. Intra-group balances, and any unrealised income and expenses arising from intra-group transactions are eliminated in preparing consolidated financial statements.

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

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

KDM SHIPPING PUBLIC LIMITED
(Formerly V.S. MARINE ENGINEERING SERVICES LIMITED)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended 31 December 2011, 2010 and 2009

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Changes in the Group's ownership interests in existing subsidiaries (continued)

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

Business combinations

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

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

- deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with IAS 12 Income Taxes and IAS 19 Employee Benefits respectively;
- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with IFRS 2 Share-based Payment at the acquisition date; and
- assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations are measured in accordance with that Standard.

KDM SHIPPING PUBLIC LIMITED
(Formerly V.S. MARINE ENGINEERING SERVICES LIMITED)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended 31 December 2011, 2010 and 2009

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combinations (continued)

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

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

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

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

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

KDM SHIPPING PUBLIC LIMITED
(Formerly V.S. MARINE ENGINEERING SERVICES LIMITED)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended 31 December 2011, 2010 and 2009

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combinations (continued)

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

Transactions under common control

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

Combinations of businesses under common control

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

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

KDM SHIPPING PUBLIC LIMITED
(Formerly V.S. MARINE ENGINEERING SERVICES LIMITED)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended 31 December 2011, 2010 and 2009

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

The Group presents information on the basis of geography, segment revenue is based on the geographical location of customers and segment assets are based on the geographical location of the assets.

Revenue recognition

Revenue comprises the invoiced amount for the sale of 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 transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

Finance income

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

Finance expenses

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

Tax

Income tax expense represents the sum of the 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.

KDM SHIPPING PUBLIC LIMITED
(Formerly V.S. MARINE ENGINEERING SERVICES LIMITED)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended 31 December 2011, 2010 and 2009

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Tax (continued)

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

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

Dividends

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

Vessels, property, plant and equipment

Initial recognition

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

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

Expenses after the initial recognition

Any subsequent expenses, increasing the future economic benefits from the asset, are treated as additions. Otherwise, the Group recognises subsequent expenses 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 maintenance and technical service
- capital refurbishment, including modernisation.

KDM SHIPPING PUBLIC LIMITED
(Formerly V.S. MARINE ENGINEERING SERVICES LIMITED)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended 31 December 2011, 2010 and 2009

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Vessels, property, plant and equipment (continued)

Subsequent measurement

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

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

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

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

No depreciation is provided on land.

Depreciation methods, useful lives and residual values are reassessed at the reporting date.

KDM SHIPPING PUBLIC LIMITED
(Formerly V.S. MARINE ENGINEERING SERVICES LIMITED)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended 31 December 2011, 2010 and 2009

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Vessels, property, plant and equipment (continued)

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.

De-recognition

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

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.

Intangible assets

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
(Formerly V.S. MARINE ENGINEERING SERVICES LIMITED)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended 31 December 2011, 2010 and 2009

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible assets (continued)

Computer software (continued)

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

Financial instruments

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

(i) *Trade receivables*

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

(ii) *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.

(ii) *Cash and cash equivalents*

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

(iii) *Borrowings*

Borrowings are recorded initially at the proceeds received, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption value is recognised in profit or loss over the period of the borrowings using the effective interest method.

(iv) *Notes issued*

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

KDM SHIPPING PUBLIC LIMITED
(Formerly V.S. MARINE ENGINEERING SERVICES LIMITED)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended 31 December 2011, 2010 and 2009

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

(v) *Trade payables*

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

Derecognition of financial assets and liabilities

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.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

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

Impairment of 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
(Formerly V.S. MARINE ENGINEERING SERVICES LIMITED)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended 31 December 2011, 2010 and 2009

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Offsetting financial instruments

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

Inventories

Inventories are 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.

Share capital

Ordinary shares are classified as equity.

Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where the Group expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

Non-current liabilities

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

KDM SHIPPING PUBLIC LIMITED
(Formerly V.S. MARINE ENGINEERING SERVICES LIMITED)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended 31 December 2011, 2010 and 2009

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

Comparatives

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

KDM SHIPPING PUBLIC LIMITED
(Formerly V.S. MARINE ENGINEERING SERVICES LIMITED)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended 31 December 2011, 2010 and 2009

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
2011				
Revenue	22.852	4.290	2.017	29.159
Cost of sales	<u>(9.824)</u>	<u>(2.456)</u>	<u>(1.365)</u>	<u>(13.645)</u>
Gross profit	13.028	1.834	652	15.514
Expenses	<u>(300)</u>	<u>(589)</u>	<u>(558)</u>	<u>(1.447)</u>
Operating profit	12.728	1.245	94	14.067
Net finance cost	<u>(100)</u>	-	-	<u>(100)</u>
Profit before tax	12.628	1.245	94	13.967
Tax	-	37	185	222
Net profit for the year	<u>12.628</u>	<u>1.282</u>	<u>279</u>	<u>14.189</u>
Non-current assets	7.554	14.602	8.031	30.187
Current assets	<u>1.904</u>	<u>1.273</u>	<u>563</u>	<u>3.740</u>
Total assets	<u>9.458</u>	<u>15.875</u>	<u>8.594</u>	<u>33.927</u>
Non-current liabilities	-	134	5.921	6.055
Current liabilities	<u>800</u>	<u>1.801</u>	<u>1.102</u>	<u>3.703</u>
Total liabilities	<u>800</u>	<u>1.935</u>	<u>7.023</u>	<u>9.758</u>
2010				
Revenue	12.766	627	514	13.907
Cost of sales	<u>(7.696)</u>	<u>(357)</u>	<u>(319)</u>	<u>(8.372)</u>
Gross profit	5.070	270	195	5.535
Expenses	<u>(2)</u>	<u>(575)</u>	<u>(1.270)</u>	<u>(1.847)</u>
Operating profit	5.068	(305)	(1.075)	3.688
Net finance cost	-	-	25	25
Profit before tax	5.068	(305)	(1.050)	3.713
Tax	-	(29)	1.393	1.364
Net profit for the year	<u>5.068</u>	<u>(334)</u>	<u>343</u>	<u>5.077</u>
Non-current assets	5.812	10.405	5.270	21.487
Current assets	<u>824</u>	<u>543</u>	<u>406</u>	<u>1.773</u>
Total assets	<u>6.636</u>	<u>10.948</u>	<u>5.676</u>	<u>23.260</u>
Non-current liabilities	-	34	6.963	6.997
Current liabilities	<u>998</u>	<u>1.280</u>	<u>238</u>	<u>2.516</u>
Total liabilities	<u>998</u>	<u>1.314</u>	<u>7.201</u>	<u>9.513</u>

KDM SHIPPING PUBLIC LIMITED
(Formerly V.S. MARINE ENGINEERING SERVICES LIMITED)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended 31 December 2011, 2010 and 2009

4. OPERATING SEGMENTS (continued)

2009	Freight USD'000	Ship repair USD'000	Passenger transport USD'000	Total USD'000
Revenue	14.137	1.540	596	16.273
Cost of sales	<u>(8.314)</u>	<u>(928)</u>	<u>(256)</u>	<u>(9.498)</u>
Gross profit	5.823	612	340	6.775
Expenses	<u>(352)</u>	<u>(411)</u>	<u>(933)</u>	<u>(1.696)</u>
Operating profit	5.471	201	(593)	5.079
Net finance cost	<u>-</u>	<u>-</u>	<u>(159)</u>	<u>(159)</u>
Profit before tax	5.471	201	(752)	4.920
Tax	<u>-</u>	<u>(22)</u>	<u>(11)</u>	<u>(33)</u>
Net profit for the year	<u><u>5.471</u></u>	<u><u>179</u></u>	<u><u>(763)</u></u>	<u><u>4.887</u></u>
Non-current assets	6.464	9.762	4.741	20.967
Current assets	<u>866</u>	<u>1.009</u>	<u>760</u>	<u>2.635</u>
Total assets	<u><u>7.330</u></u>	<u><u>10.771</u></u>	<u><u>5.501</u></u>	<u><u>23.602</u></u>
Non-current liabilities	-	-	8.278	8.278
Current liabilities	<u>779</u>	<u>625</u>	<u>455</u>	<u>1.859</u>
Total liabilities	<u><u>779</u></u>	<u><u>625</u></u>	<u><u>8.733</u></u>	<u><u>10.137</u></u>

In presenting information on the basis of geography, segment revenue is based on the geographical location of customers and segment assets are based on the geographical location of the assets.

	2011 USD'000	2010 USD'000	2009 USD'000
<u>Revenue</u>			
Turkey	7.439	6.727	4.765
Ukraine	11.618	3.903	3.579
Russia	4.705	1.820	2.230
Georgia	2.516	650	3.127
Italy	1.639	503	1.521
Greece	968	90	568
Other countries	<u>274</u>	<u>214</u>	<u>483</u>
	<u><u>29.159</u></u>	<u><u>13.907</u></u>	<u><u>16.273</u></u>
<u>Non current assets</u>			
	2011 USD'000	2010 USD'000	2009 USD'000
Ukraine	<u><u>30.187</u></u>	<u><u>21.487</u></u>	<u><u>20.967</u></u>

KDM SHIPPING PUBLIC LIMITED
(Formerly V.S. MARINE ENGINEERING SERVICES LIMITED)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended 31 December 2011, 2010 and 2009

5. SALES REVENUE

	2011 USD'000	2010 USD'000	2009 USD'000
Rendering of services	<u>29.159</u>	<u>13.907</u>	<u>16.273</u>
	<u>29.159</u>	<u>13.907</u>	<u>16.273</u>

6. COST OF SALES

	2011 USD'000	2010 USD'000	2009 USD'000
Wages and salaries	1.922	1.446	2.381
Materials	5.619	2.734	3.148
Third parties services	5.353	3.421	3.217
Sundry expenses	3	36	6
Depreciation	<u>748</u>	<u>735</u>	<u>746</u>
	<u>13.645</u>	<u>8.372</u>	<u>9.498</u>

7. ADMINISTRATIVE EXPENSES

	2011 USD'000	2010 USD'000	2009 USD'000
Staff salaries and related charges	324	387	357
Other administrative expenses	9	98	314
Office and other material costs	17	95	104
Third parties services	440	756	639
Taxes and duties	39	69	80
Depreciation	18	23	28
Amortisation	<u>4</u>	<u>4</u>	<u>-</u>
	<u>851</u>	<u>1.432</u>	<u>1.522</u>

8. OTHER OPERATING EXPENSES

	2011 USD'000	2010 USD'000	2009 USD'000
Loss from foreign exchange difference, net	561	67	145
Other operating expenses	347	355	48
Fines and penalties	<u>13</u>	<u>6</u>	<u>1</u>
	<u>921</u>	<u>428</u>	<u>194</u>

KDM SHIPPING PUBLIC LIMITED
(Formerly V.S. MARINE ENGINEERING SERVICES LIMITED)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended 31 December 2011, 2010 and 2009

9. OPERATING PROFIT

Operating profit is stated after charging the following items:

	Note	2011 USD'000	2010 USD'000	2009 USD'000
Depreciation of vessels, property plant and equipment	13	766	758	774
Staff costs	10	2.246	1.833	2.738
Auditor's remuneration for the statutory audit of annual accounts		<u>39</u>	<u>36</u>	<u>10</u>

10. STAFF COSTS

	Note	2011 USD'000	2010 USD'000	2009 USD'000
Wages and salaries		1.575	1.340	2.011
Contributions to pension fund		604	445	653
Contributions to other funds		<u>67</u>	<u>48</u>	<u>74</u>
	9	<u>2.246</u>	<u>1.833</u>	<u>2.738</u>

Payroll and related taxes for the years ended 31 December 2011, 2010 and 2009 were presented as follows:

	2011 USD'000	2010 USD'000	2009 USD'000
Payroll of production personnel and related taxes	1.922	1.446	2.381
Salaries and wages of administrative personnel	<u>324</u>	<u>387</u>	<u>357</u>
Total staff costs	<u>2.246</u>	<u>1.833</u>	<u>2.738</u>

Average number of employees was as follows:

	2011	2010	2009
Average number of employees, persons	246	287	328
Key management personnel	<u>23</u>	<u>26</u>	<u>22</u>
	<u>269</u>	<u>313</u>	<u>350</u>

KDM SHIPPING PUBLIC LIMITED
(Formerly V.S. MARINE ENGINEERING SERVICES LIMITED)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended 31 December 2011, 2010 and 2009

11. NET FINANCE INCOME AND EXPENSES

	2011 USD'000	2010 USD'000	2009 USD'000
Finance income			
Effect of notes' discounting	<u>78</u>	<u>83</u>	<u>-</u>
	<u>78</u>	<u>83</u>	<u>-</u>
Finance expenses			
Interest expense			
Loan interest	(153)	(53)	(86)
Other finance expenses			
Write-offs of financial investments	(9)	-	(73)
Discount of notes issued	<u>(16)</u>	<u>(5)</u>	<u>-</u>
	<u>(178)</u>	<u>(58)</u>	<u>(159)</u>

12. TAXATION

	Note	2011 USD'000	2010 USD'000	2009 USD'000
Income tax		9	7	1
Deferred tax - credit	24	<u>(231)</u>	<u>(1.371)</u>	<u>32</u>
Credit for the year		<u>(222)</u>	<u>(1.364)</u>	<u>33</u>

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

	2011 USD'000	2010 USD'000	2009 USD'000
Accounting profit before tax	<u>13.967</u>	<u>3.713</u>	<u>4.920</u>
Income tax, taxable at the rate of 27,5%	-	151	105
Income tax, taxable at the rate of 21%	507	732	1.145
Income tax, taxable at the rate of 10%	-	-	(28)
Expenses not included in gross expenses for income tax	42	(777)	(1.189)
Changes in tax rate and law	<u>(771)</u>	<u>(1.470)</u>	<u>-</u>
Tax as per consolidated statement of comprehensive income-credit	<u>(222)</u>	<u>(1.364)</u>	<u>33</u>

KDM SHIPPING PUBLIC LIMITED
(Formerly V.S. MARINE ENGINEERING SERVICES LIMITED)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended 31 December 2011, 2010 and 2009

13. VESSELS, PROPERTY, PLANT AND EQUIPMENT

2011	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	11.020	12.186	1.013	1.399	212	191	96	26.117
Additions	-	5.496	3.941	6	-	1	2	9.446
Disposals	-	(2)	-	(11)	-	-	(1)	(14)
Exchange differences	(9)	(4)	(2)	(3)	(6)	(1)	(1)	(26)
Acquisition of subsidiary	1	-	-	-	-	-	-	1
Disposal of subsidiaries	(31)	(39)	-	(3)	-	-	-	(73)
Balance at 31 December	<u>10.981</u>	<u>17.637</u>	<u>4.952</u>	<u>1.388</u>	<u>206</u>	<u>191</u>	<u>96</u>	<u>35.451</u>
Depreciation								
Balance at 1 January	1.683	2.139	-	548	82	94	91	4.637
Depreciation during the year	275	282	-	58	120	15	16	766
Exchange differences	(2)	(3)	-	(2)	-	-	(12)	(19)
On disposal of subsidiaries	(1)	(2)	-	-	-	-	-	(3)
Balance at 31 December	<u>1.955</u>	<u>2.416</u>	<u>-</u>	<u>604</u>	<u>202</u>	<u>109</u>	<u>95</u>	<u>5.381</u>
Net book value								
Balance at 31 December	<u>9.026</u>	<u>15.221</u>	<u>4.952</u>	<u>784</u>	<u>4</u>	<u>82</u>	<u>1</u>	<u>30.070</u>

KDM SHIPPING PUBLIC LIMITED
(Formerly V.S. MARINE ENGINEERING SERVICES LIMITED)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended 31 December 2011, 2010 and 2009

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

2010	Land and buildings USD'000	Vessels USD'000	Vessels under construction USD'000	Plant and equipment USD'000	Vehicles USD'000	Furniture and fittings USD'000	Other USD'000	Total USD'000
Cost								
Balance at 1 January	10.154	12.040	774	1.379	207	158	94	24.806
Additions	834	105	238	16	5	32	2	1.232
Exchange differences	<u>32</u>	<u>41</u>	<u>1</u>	<u>4</u>	<u>-</u>	<u>1</u>	<u>-</u>	<u>79</u>
Balance at 31 December	<u>11.020</u>	<u>12.186</u>	<u>1.013</u>	<u>1.399</u>	<u>212</u>	<u>191</u>	<u>96</u>	<u>26.117</u>
Depreciation								
Balance at 1 January	1.424	1.752	-	472	63	74	81	3.866
Depreciation during the year	254	381	-	74	19	20	10	758
Exchange differences	<u>5</u>	<u>6</u>	<u>-</u>	<u>2</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>13</u>
Balance at 31 December	<u>1.683</u>	<u>2.139</u>	<u>-</u>	<u>548</u>	<u>82</u>	<u>94</u>	<u>91</u>	<u>4.637</u>
Net book value								
Balance at 31 December	<u>9.337</u>	<u>10.047</u>	<u>1.013</u>	<u>851</u>	<u>130</u>	<u>97</u>	<u>5</u>	<u>21.480</u>

KDM SHIPPING PUBLIC LIMITED
(Formerly V.S. MARINE ENGINEERING SERVICES LIMITED)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended 31 December 2011, 2010 and 2009

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

2009	Land and buildings USD'000	Vessels USD'000	Vessels under construction USD'000	Plant and equipment USD'000	Vehicles USD'000	Furniture and fittings USD'000	Other USD'000	Total USD'000
Cost								
Balance at 1 January	10.490	12.057	552	1.305	214	139	91	24.848
Additions	39	425	240	124	-	25	6	859
Exchange differences	<u>(375)</u>	<u>(442)</u>	<u>(18)</u>	<u>(50)</u>	<u>(7)</u>	<u>(6)</u>	<u>(3)</u>	<u>(901)</u>
Balance at 31 December	<u>10.154</u>	<u>12.040</u>	<u>774</u>	<u>1.379</u>	<u>207</u>	<u>158</u>	<u>94</u>	<u>24.806</u>
Depreciation								
Balance at 1 January	1.214	1.432	-	416	45	55	64	3.226
Depreciation during the year	260	379	-	73	20	22	20	774
Exchange differences	<u>(50)</u>	<u>(59)</u>	<u>-</u>	<u>(17)</u>	<u>(2)</u>	<u>(3)</u>	<u>(3)</u>	<u>(134)</u>
Balance at 31 December	<u>1.424</u>	<u>1.752</u>	<u>-</u>	<u>472</u>	<u>63</u>	<u>74</u>	<u>81</u>	<u>3.866</u>
Net book value								
Balance at 31 December	<u>8.730</u>	<u>10.288</u>	<u>774</u>	<u>907</u>	<u>144</u>	<u>84</u>	<u>13</u>	<u>20.940</u>

KDM SHIPPING PUBLIC LIMITED
(Formerly V.S. MARINE ENGINEERING SERVICES LIMITED)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended 31 December 2011, 2010 and 2009

14. INTANGIBLE ASSETS

2011	Goodwill USD'000	Computer software USD'000	Total USD'000
Cost			
Balance at 1 January	-	8	8
Additions	<u>110</u>	<u>7</u>	<u>117</u>
Balance at 31 December	<u>110</u>	<u>15</u>	<u>125</u>
Amortisation			
Balance at 1 January	-	4	4
Amortisation during the year	<u>-</u>	<u>4</u>	<u>4</u>
Balance at 31 December	<u>-</u>	<u>8</u>	<u>8</u>
Net book value			
Balance at 31 December	<u>110</u>	<u>7</u>	<u>117</u>
2010			
Cost			
Balance at 1 January	-	6	6
Additions	-	4	4
Disposals	<u>-</u>	<u>(2)</u>	<u>(2)</u>
Balance at 31 December	<u>-</u>	<u>8</u>	<u>8</u>
Amortisation			
Balance at 1 January	-	-	-
Amortisation during the year	<u>-</u>	<u>4</u>	<u>4</u>
Balance at 31 December	<u>-</u>	<u>4</u>	<u>4</u>
Net book value			
Balance at 31 December	<u>-</u>	<u>4</u>	<u>4</u>
2009			
Cost			
Balance at 1 January	-	2	2
Additions	<u>-</u>	<u>4</u>	<u>4</u>
Balance at 31 December	<u>-</u>	<u>6</u>	<u>6</u>
Amortisation			
Balance at 1 January	-	-	-
Amortisation during the year	<u>-</u>	<u>-</u>	<u>-</u>
Balance at 31 December	<u>-</u>	<u>-</u>	<u>-</u>
Net book value			
Balance at 31 December	<u>-</u>	<u>6</u>	<u>6</u>

KDM SHIPPING PUBLIC LIMITED
(Formerly V.S. MARINE ENGINEERING SERVICES LIMITED)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended 31 December 2011, 2010 and 2009

15. INVESTMENTS IN SUBSIDIARIES

The details of the subsidiaries are as follows:

<u>Name</u>	<u>Country of incorporation</u>	<u>2011 Effective Holding%</u>	<u>2010 Effective Holding%</u>	<u>2009 Effective Holding%</u>
KD Shipping Co. Limited Inc.	Panama	100,00	100,00*	100,00*
LLC Danapris	Ukraine	99,84	99,84	99,84
LLC Capital Shipping Company	Ukraine	99,57	82,17	82,17
LLC Hylea-Mechanoservise	Ukraine	-	84,38	84,38
LLC Hylea-Sydoservise	Ukraine	-	84,38	84,38
LLC Hylea-Servise	Ukraine	99,57	55,05	55,05
LLC Capital River Port	Ukraine	-	82,17	82,17
LLC CSC-Agent	Ukraine	99,58	82,17	82,17
LLC Riverest Tur	Ukraine	94,61	-	-

* The Company acquired 100% of the share capital of KD Shipping Co. Limited Inc. on 25 November 2011. KD Shipping Co. Limited Inc. was previously owned by the shareholders of the Company and thus considered to be under common control. KD Shipping Co. Limited Inc. results as well as its assets and liabilities are reflected in the consolidated financial statements as of 01 January 2009 using the predecessor accounting as stated in note 3.

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	<u>46</u>
Goodwill arising on consolidation	<u><u>110</u></u>

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	<u>(3)</u>	<u>(3)</u>
Net liabilities	<u><u>(46)</u></u>	<u><u>(46)</u></u>

KDM SHIPPING PUBLIC LIMITED
(Formerly V.S. MARINE ENGINEERING SERVICES LIMITED)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended 31 December 2011, 2010 and 2009

16. ACQUISITION OF SUBSIDIARY (continued)

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

From the acquisition date of 1 January 2011 of LLC Riverest Tur no revenue contributed and a loss of USD 8.095 was attributed to the Group's results.

17. DISPOSAL OF SUBSIDIARIES

In January 2011 the Company disposed 84,38% of the share capital of LLC Hylea-Sydoservice, an owner of passenger license in Ukraine, 84,38% of the share capital of LLC Hylea-Mechanoservice, 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>(48)</u>
Cash consideration received	<u>4</u>
Cash inflow on disposal	<u>4</u>

KDM SHIPPING PUBLIC LIMITED
(Formerly V.S. MARINE ENGINEERING SERVICES LIMITED)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended 31 December 2011, 2010 and 2009

18. INVENTORIES

	2011 USD'000	2010 USD'000	2009 USD'000
Raw materials	40	45	36
Work-in-progress	18	18	10
Fuel	351	146	134
Spare parts and other consumables	7	7	8
Other materials	<u>5</u>	<u>7</u>	<u>7</u>
	<u>421</u>	<u>223</u>	<u>195</u>

19. TRADE AND OTHER RECEIVABLES

	2011 USD'000	2010 USD'000	2009 USD'000
Trade receivables	1.608	907	1.620
Prepayments	939	175	123
Tax invoices not received	4	100	85
VAT for reimbursement against decrease in tax liabilities of future tax periods	279	191	155
Other taxes prepaid	-	4	9
Other receivables	<u>409</u>	<u>96</u>	<u>252</u>
	<u>3.239</u>	<u>1.473</u>	<u>2.244</u>

Ageing analysis of trade and other receivables:

	Gross amount 2011 USD'000	Impairment 2011 USD'000	Gross amount 2010 USD'000	Impairment 2010 USD'000	Gross amount 2009 USD'000	Impairment 2009 USD'000
Not past due	617	-	626	-	957	-
Past due 0-30 days	2	-	5	-	-	-
Past due 31-120 days	24	-	8	-	22	-
More than 120 days	<u>965</u>	<u>-</u>	<u>268</u>	<u>-</u>	<u>641</u>	<u>-</u>
	<u>1.608</u>	<u>-</u>	<u>907</u>	<u>-</u>	<u>1.620</u>	<u>-</u>

An amount of USD 240.000 was written off in year 2011 in relation to trade receivables.

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 consolidated financial statements.

KDM SHIPPING PUBLIC LIMITED
(Formerly V.S. MARINE ENGINEERING SERVICES LIMITED)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended 31 December 2011, 2010 and 2009

20. CASH AND CASH EQUIVALENTS

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

	2011 USD'000	2010 USD'000	2009 USD'000
Cash at bank	<u>80</u>	<u>77</u>	<u>196</u>
	<u>80</u>	<u>77</u>	<u>196</u>

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 consolidated financial statements.

KDM SHIPPING PUBLIC LIMITED
(Formerly V.S. MARINE ENGINEERING SERVICES LIMITED)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended 31 December 2011, 2010 and 2009

21. SHARE CAPITAL

	2011 Number of shares	2011 USD'000	2010 Number of shares	2010 USD'000	2009 Number of shares	2009 USD'000
Authorised						
Ordinary shares of EUR 1,71 each (translated to USD 1,75 each)	<u>10.000</u>	<u>18</u>	<u>10.000</u>	<u>18</u>	<u>10.000</u>	<u>18</u>
Issued and fully paid						
Balance at 1 January	<u>10.000</u>	<u>18</u>	<u>10.000</u>	<u>18</u>	<u>10.000</u>	<u>18</u>
Balance at 31 December	<u>10.000</u>	<u>18</u>	<u>10.000</u>	<u>18</u>	<u>10.000</u>	<u>18</u>

Dividends

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

	2011 USD'000	2010 USD'000	2009 USD'000
USD 496,5 per qualifying ordinary share	-	-	4.965
USD 468,2 per qualifying ordinary share	-	4.682	-
USD 352,3 per qualifying ordinary share	<u>3.523</u>	<u>-</u>	<u>-</u>
	<u>3.523</u>	<u>4.682</u>	<u>4.965</u>

KDM SHIPPING PUBLIC LIMITED
(Formerly V.S. MARINE ENGINEERING SERVICES LIMITED)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended 31 December 2011, 2010 and 2009

21. SHARE CAPITAL (continued)

The owners of the parent company as at 31 December 2011, 2010 and 2009 were as follows:

	2011 USD'000	2010 USD'000	2009 USD'000
Denys Molodkovets	16	16	16
Kostiantyn Molodkovets	<u>2</u>	<u>2</u>	<u>2</u>
	<u>18</u>	<u>18</u>	<u>18</u>

On 22 February 2012 it was resolved that the value of the shares of the Company's capital is divided from €1,71 each to €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.

On the same date, 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 will have the same rights as the existing shares.

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 and is divided into 6.500.000 ordinary shares of €0,01 each.

22. LOANS AND BORROWINGS

	2011 USD'000	2010 USD'000	2009 USD'000
Long term liabilities			
Bank loans	<u>3.183</u>	<u>4.000</u>	<u>4.000</u>
Short term liabilities			
Bank loans	<u>817</u>	<u>-</u>	<u>-</u>
Total	<u>4.000</u>	<u>4.000</u>	<u>4.000</u>

KDM SHIPPING PUBLIC LIMITED
(Formerly V.S. MARINE ENGINEERING SERVICES LIMITED)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended 31 December 2011, 2010 and 2009

22. LOANS AND BORROWINGS (continued)

Maturity of non-current borrowings:

	2011 USD'000	2010 USD'000	2009 USD'000
Within one year	<u>817</u>	<u>-</u>	<u>-</u>
Between one and five years	3.183	3.506	2.518
After five years	<u>-</u>	<u>494</u>	<u>1.482</u>
	<u>3.183</u>	<u>4.000</u>	<u>4.000</u>
	<u>4.000</u>	<u>4.000</u>	<u>4.000</u>

The bank loans are secured as follows:

- By mortgage against vessels of net book value of USD 5.479 thousand (2010: USD 3.522 thousand and 2009: USD 3.388).
- By mortgage against buildings for 2011 of net book value of USD 5.562 thousand.

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

	2011	2010	2009
Bank loans	3M Libor + 9%	6M Libor + 7%	6M Libor + 7%

23. DEFERRED TAX

Deferred tax liability

Deferred taxation liability arises as follows:

	2011 USD'000	2010 USD'000	2009 USD'000
Vessels, property, plant and equipment	2.643	2.869	4.246
Inventories	-	3	1
Accounts receivable and prepayments	-	17	31
Provisions	<u>-</u>	<u>9</u>	<u>-</u>
	<u>2.643</u>	<u>2.898</u>	<u>4.278</u>

At 31 December 2011, no deferred tax liability was recognised on temporary differences related to the investments in subsidiaries since the sale of shares in subsidiaries does not raise taxable income.

KDM SHIPPING PUBLIC LIMITED
(Formerly V.S. MARINE ENGINEERING SERVICES LIMITED)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended 31 December 2011, 2010 and 2009

23. DEFERRED TAX (continued)

Deferred tax assets

Deferred taxation asset arises as follows:

	2011 USD'000	2010 USD'000	2009 USD'000
Vessels, property, plant and equipment	-	1	-
Accounts receivable and prepayments	<u>-</u>	<u>2</u>	<u>21</u>
	<u>-</u>	<u>3</u>	<u>21</u>

Deferred tax assets have not been recognised in respect of tax losses for the year 2011 USD 53.724(2010: USD 514.047).

24. TRADE AND OTHER PAYABLES

	2011 USD'000	2010 USD'000	2009 USD'000
Trade payables	1,649	1,403	1,130
Advances received	39	104	86
Salaries contributions and other related taxes	71	139	97
Payables for the acquisition of subsidiaries	363	360	362
Other accounts payable	206	477	169
Other taxes payable	<u>55</u>	<u>31</u>	<u>15</u>
	<u>2,383</u>	<u>2,514</u>	<u>1,859</u>

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

25. OTHER LONG-TERM LIABILITIES

	2011 USD'000	2010 USD'000	2009 USD'000
Long-term notes payable	370	178	-
Discount	<u>(141)</u>	<u>(79)</u>	<u>-</u>
	<u>229</u>	<u>99</u>	<u>-</u>

The amounts above relate to bills issued by the Group.

KDM SHIPPING PUBLIC LIMITED
(Formerly V.S. MARINE ENGINEERING SERVICES LIMITED)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended 31 December 2011, 2010 and 2009

25. OTHER LONG-TERM LIABILITIES (continued)

Maturing of other long term liabilities:

	2011 <u>Nominal value</u> <u>USD'000</u>	2010 <u>Nominal value</u> <u>USD'000</u>
Within one year	-	-
Between one and five years	119	-
After five years	<u>251</u>	<u>178</u>
	<u><u>370</u></u>	<u><u>178</u></u>

26. TAX LIABILITY

	2011 USD'000	2010 USD'000	2009 USD'000
Income tax accrued for the period	11	7	1
Income tax paid for the period	(9)	(7)	(1)
Effect of translation into presentation currency	<u>-</u>	<u>2</u>	<u>-</u>
	<u><u>2</u></u>	<u><u>2</u></u>	<u><u>-</u></u>

27. EARNINGS PER SHARE

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

Profit attributable to ordinary owners:

	2011 USD'000	2010 USD'000	2009 USD'000
Profit for the year	<u><u>14.178</u></u>	<u><u>4.338</u></u>	<u><u>4.075</u></u>

KDM SHIPPING PUBLIC LIMITED
(Formerly V.S. MARINE ENGINEERING SERVICES LIMITED)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended 31 December 2011, 2010 and 2009

27. EARNINGS PER SHARE (continued)

Number of ordinary shares:

	2011 '000	2010 '000	2009 '000
Issued ordinary shares at 1 January	<u>10</u>	<u>10</u>	<u>10</u>
Share split as a result of change in nominal value from €1,71 to €0,01 on 22 February 2012	<u>1.710</u>	<u>1.710</u>	<u>1.710</u>
Number of shares at 31 December	<u><u>1.710</u></u>	<u><u>1.710</u></u>	<u><u>1.710</u></u>

28. RELATED PARTY BALANCES AND TRANSACTIONS

The Company is controlled by Molodkovets K. and Molodkovets D., who directly or indirectly own 100% of the Company's share capital as at each reporting period.

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

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 years ended 31 December 2011, 2010 and 2009 were as follows:

	2011 USD'000	2010 USD'000	2009 USD'000
Salaries	456	241	157
Contributions to pension funds	193	84	39
Other contributions	<u>-</u>	<u>3</u>	<u>2</u>
	<u><u>649</u></u>	<u><u>328</u></u>	<u><u>198</u></u>

KDM SHIPPING PUBLIC LIMITED
(Formerly V.S. MARINE ENGINEERING SERVICES LIMITED)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended 31 December 2011, 2010 and 2009

28. RELATED PARTY BALANCES AND TRANSACTIONS (continued)

Number of key management personnel for the years ended 31 December 2011, 2010 and 2009 was as follows:

	2011	2010	2009
Number of key management personnel, persons	<u>23</u>	<u>26</u>	<u>22</u>

(ii) Transactions with related parties

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

	2011 USD'000	2010 USD'000	2009 USD'000
Sales	57	5	2
Purchases	<u>(281)</u>	<u>(84)</u>	<u>(29)</u>
	<u>(224)</u>	<u>(79)</u>	<u>(27)</u>

(iii) Outstanding balances with related parties

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

	2011 USD'000	2010 USD'000	2009 USD'000
Trade receivable	156	16	14
Other receivables	47	26	19
Trade payables	(204)	(20)	(19)
Other payables	<u>(74)</u>	<u>(22)</u>	<u>(16)</u>
	<u>(75)</u>	<u>-</u>	<u>(2)</u>

KDM SHIPPING PUBLIC LIMITED
(Formerly V.S. MARINE ENGINEERING SERVICES LIMITED)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended 31 December 2011, 2010 and 2009

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.

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:

	2011 USD'000	2010 USD'000	2009 USD'000
Trade and other receivables	2.021	1.107	1.966
Cash at bank	<u>80</u>	<u>77</u>	<u>196</u>
	<u>2.101</u>	<u>1.184</u>	<u>2.162</u>

KDM SHIPPING PUBLIC LIMITED
(Formerly V.S. MARINE ENGINEERING SERVICES LIMITED)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended 31 December 2011, 2010 and 2009

29. FINANCIAL RISK MANAGEMENT (continued)

(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:

31 December 2011	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	Over than 5 years USD'000
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	<u>229</u>	<u>370</u>	<u>-</u>	<u>-</u>	<u>119</u>	<u>251</u>
	<u>7.113</u>	<u>7.989</u>	<u>3.297</u>	<u>1.026</u>	<u>3.415</u>	<u>251</u>
31 December 2010	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
Bank loans	4.000	4.615	-	-	4.615	-
Trade and other payables	2.514	2.514	2.514	-	-	-
Other long-term liabilities	<u>99</u>	<u>178</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>178</u>
	<u>6.613</u>	<u>7.307</u>	<u>2.514</u>	<u>-</u>	<u>4.615</u>	<u>178</u>
31 December 2009	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
Bank loans	4.000	4.615	-	-	3.579	1.036
Trade and other payables	<u>1.859</u>	<u>1.859</u>	<u>1.497</u>	<u>-</u>	<u>362</u>	<u>-</u>
	<u>5.859</u>	<u>6.474</u>	<u>1.497</u>	<u>-</u>	<u>3.941</u>	<u>1.036</u>

KDM SHIPPING PUBLIC LIMITED
(Formerly V.S. MARINE ENGINEERING SERVICES LIMITED)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended 31 December 2011, 2010 and 2009

29. FINANCIAL RISK MANAGEMENT (continued)

(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.

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:

	2011 USD'000	2010 USD'000	2009 USD'000
<i>Variable rate instruments</i>			
Financial assets	80	77	196
Financial liabilities	<u>(4.501)</u>	<u>(4.000)</u>	<u>(4.000)</u>
	<u>(4.421)</u>	<u>(3.923)</u>	<u>(3.804)</u>

Sensitivity analysis

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

	2011 USD'000	Profit or loss 2010 USD'000	2009 USD'000
Variable rate instruments	<u>(44)</u>	<u>(39)</u>	<u>(50)</u>
	<u>(44)</u>	<u>(39)</u>	<u>(50)</u>

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.

KDM SHIPPING PUBLIC LIMITED
(Formerly V.S. MARINE ENGINEERING SERVICES LIMITED)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended 31 December 2011, 2010 and 2009

29. FINANCIAL RISK MANAGEMENT (continued)

(iii) Capital management (continued)

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.

KDM SHIPPING PUBLIC LIMITED
(Formerly V.S. MARINE ENGINEERING SERVICES LIMITED)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended 31 December 2011, 2010 and 2009

29. FINANCIAL RISK MANAGEMENT (continued)

(iii) Market risk (continued)

EBITDA (continued)

	2011 USD'000	2010 USD'000	2009 USD'000
Long-term loans	4.000	4.000	4.000
Short term loans	<u>501</u>	<u>-</u>	<u>-</u>
Total amount of borrowings	<u>4.501</u>	<u>4.000</u>	<u>4.000</u>
Cash and cash equivalents	<u>(80)</u>	<u>(77)</u>	<u>(196)</u>
Net debt	<u>4.421</u>	<u>3.923</u>	<u>3.804</u>
Share capital	18	18	18
Retained Earnings	33.638	19.851	20.195
Effect from translation into presentation currency	(9.535)	(9.305)	(9.352)
Non-controlling interests	<u>48</u>	<u>3.183</u>	<u>2.604</u>
Total equity	<u>24.169</u>	<u>13.747</u>	<u>13.465</u>
Total amount of equity and net debt	<u>28.590</u>	<u>17.670</u>	<u>17.269</u>
Financial leverage coefficient	<u>15.46%</u>	<u>22.20%</u>	<u>22.03%</u>

For the years ended 31 December 2011, 2010 and 2009 the ratio of net debt to EBITDA amounted to:

	2011 USD'000	2010 USD'000	2009 USD'000
Profit for the period	14.189	5.077	4.887
Income tax credit	(222)	(1.364)	33
Finance cost/(income)	<u>100</u>	<u>(25)</u>	<u>159</u>
EBIT (Earnings before interest and income tax)	14.067	3.688	5.079
Depreciation and amortisation	<u>770</u>	<u>762</u>	<u>774</u>
EBITDA (Earnings before interest, income tax, depreciation and amortization)	<u>14.837</u>	<u>4.450</u>	<u>5.853</u>
Net Debt/EBITDA	<u>29.80%</u>	<u>88.16%</u>	<u>64.99%</u>

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

KDM SHIPPING PUBLIC LIMITED
(Formerly V.S. MARINE ENGINEERING SERVICES LIMITED)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended 31 December 2011, 2010 and 2009

30. FAIR VALUES

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

	Carrying amounts			Fair values		
	2011 USD'000	2010 USD'000	2009 USD'000	2011 USD'000	2010 USD'000	2009 USD'000
Financial assets						
Trade and other receivables	3.239	1.473	2.244	3.239	1.473	2.244
Cash and cash equivalents	80	77	196	80	77	196
Financial liabilities						
Loans and borrowings	(4.000)	(4.000)	(4.000)	(4.000)	(4.000)	(4.000)
Other long-term liabilities	(229)	(99)	-	(229)	(99)	-
Trade and other payables	(2.383)	(2.514)	(1.859)	(2.383)	(2.514)	(1.859)
Short term loans	<u>(501)</u>	<u>-</u>	<u>-</u>	<u>(501)</u>	<u>-</u>	<u>-</u>
	<u>(3.794)</u>	<u>(5.063)</u>	<u>(3.419)</u>	<u>(3.794)</u>	<u>(5.063)</u>	<u>(3.419)</u>

31. CONTINGENT AND CONTRACTUAL LIABILITIES

a) ***Economical environment***

Main operating activity of the Group is carried out within Ukraine. Laws and other regulatory acts affecting the activities of entities in Ukraine may be subject to changes during short periods of time. As a result, assets and operating activity of the Group may be exposed to the risk in case of any unfavorable changes in political and economical environment.

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.

KDM SHIPPING PUBLIC LIMITED
(Formerly V.S. MARINE ENGINEERING SERVICES LIMITED)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended 31 December 2011, 2010 and 2009

31. CONTINGENT AND CONTRACTUAL LIABILITIES (continued)

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 31 December 2011 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 consolidated financial statements as at 31 December 2011 apart from:

- On 22 February 2012 it was resolved that the value of the shares of the Company's capital is divided from €1,71 each to €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.

On the same date, 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 will have the same rights as the existing shares.

KDM SHIPPING PUBLIC LIMITED
(Formerly V.S. MARINE ENGINEERING SERVICES LIMITED)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended 31 December 2011, 2010 and 2009

32. EVENTS AFTER THE REPORTING DATE (continued)

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 and is divided into 6.500.000 ordinary shares of €0,01 each.

- On 20 March 2012 the Board of Directors of KDM Shipping Public Limited (formerly V.S. Marine Engineering Services Limited) authorised the consolidated financial statements for the year ended 31 Decedmber 2011 for issue.