KDM SHIPPING PUBLIC LIMITED

REPORT AND CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

KDM SHIPPING PUBLIC LIMITED

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For the year ended 31 December 2015

CONTENTS

KDM SHIPPING PUBLIC LIMITED

BOARD OF DIRECTORS AND OTHER OFFICERS

Board of Directors	Konstiantyn Molodkovets - Executive Director, CEO Denys Molodkovets - Executive Director, CFO Konstantin Anisimov - Non-executive Director (resigned on 25 August 2015) Mykhailo Chubai - Non-executive Director (resigned on 25 August 2015)
Audit Committee	Denys Molodkovets - Head of Committee (appointed on 25 August 2015) Konstiantyn Molodkovets (appointed on 25 August 2015) Konstantin Anisimov – Head of Committee (resigned on 25 August 2015) Mykhailo Chubai (resigned on 25 August 2015)
Remuneration Committee	Konstiantyn Molodkovets - Head of Committee (appointed on 25 August 2015) Denys Molodkovets (appointed on 25 August 2015) Mykhailo Chubai – Head of Committee (resigned on 25 August 2015) Konstantin Anisimov (resigned on 25 August 2015)
Secretary	Boomer Secretarial Limited 3 Michael Koutsofta Str. 3031, Limassol Cyprus
Independent Auditors	KPMG Limited
Registered Office	3 Michael Koutsofta Str. 3031, Limassol Cyprus

KDM SHIPPING PUBLIC LIMITED

DECLARATION OF THE MEMBERS OF THE BOARD OF DIRECTORS AND THE COMPANY OFFICIAL RESPONSIBLE FOR THE DRAFTING OF THE CONSOLIDATED FINANCIAL STATEMENTS

In accordance with article 9(3)(c) and (7) of the Transparency Requirements (Securities Listed for Trading on a Regulated Market) Law of 2007 (the "Law"), as amended from time to time, we, the Members of the Board of Directors and the Company official responsible for the drafting of the consolidated financial statements of KDM Shipping Public Limited (the "Company") for the year ended 31 December 2015, confirm that to the best of our knowledge:

a) the annual consolidated financial statements presented on pages 11 to 67:

i) have been prepared in accordance with the International Financial Reporting Standards as adopted by the European Union and the provisions of article (9), section (4) of the Law, and

ii) give a true and fair view of the assets and liabilities, the financial position and the profits or losses of KDM Shipping Public Limited and of the entities included in the consolidated financial statements, as a whole and

b) the report of the Board of Directors provides a fair review of the developments and performance of the business as well as the position of KDM Shipping Public Limited and of the entities included in the consolidated financial statements, as a whole, together with a description of the major risks and uncertainties that they face.

Members of the Board of Directors:

Konstiantyn Molodkovets	
Denys Molodkovets	

Company official responsible for the drafting of the consolidated financial statements of the Company for the year ended 31 December 2015:

Denys Molodkovets	

Nicosia, 25 April 2016

KDM SHIPPING PUBLIC LIMITED

BOARD OF DIRECTORS' REPORT

The Board of Directors of KDM Shipping Public Limited (the "Company") presents to the members its annual report together with the audited consolidated financial statements of the Company and of its subsidiary companies (together with the Company referred to as the "Group") for the year ended 31 December 2015.

PRINCIPAL ACTIVITIES

The principal activities of the Group, which remained the same as the previous year, are the cargo freight, ship repair, passenger transportation and trading in grain, corn, oil and barley.

FINANCIAL RESULTS

The financial results of the Group for the year ended 31 December 2015 are set out on page 11 of the consolidated financial statements. The loss for the year attributable to the owners of the Company amounted to USD 5 839 thousand (2014: loss USD 13 214 thousand) which the Board of Directors recommends to be transferred to the retained earnings.

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

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

Ship Repair department is still experiencing a low demand for its services from third parties. The order book is suffering as a result low utilisation of the shipyard having effect on the performance.

Passenger segment remained highly dependant on economical situation in Ukraine, disposable income of Ukrainians and tourist inflow. Group will start new season with introduction of the new vessel to its fleet, with positive outlook in performance of this vessel.

Freight segment had an overall weak performance in comparison to last year. Expectations of increasing freight rates, that management had on the 6 month reporting period, did not come true. Freight tariffs remain low until the reporting date, management is concentrating on cutting it operational costs.

REVENUE

The Group's revenue for the year ended 31 December 2015 amounted to USD 20 840 thousand (2014: USD 22 172 thousand)

DIVIDENDS

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

MAIN RISKS AND UNCERTAINTIES

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

MAIN RISKS AND UNCERTAINTIES (continued)

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

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

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

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

FUTURE DEVELOPMENTS

In this difficult market it is Management's belief that its main objective is to maintain good working relationship with all of the partners and keep strong position in cargo transportation market. Additional attention should be paid to new charterers that are appearing on the market of Group's geography of operations.

SHARE CAPITAL

The were no changes in the share capital of the Company during the year.

STATEMENT ON CORPORATE GOVERNANCE

The Board of Directors has adopted the Code of Corporate Governance (the "Code") of the Warsaw Stock Exchange ("WSE") which is available in the WSE website.

At present, the Corporate Governance Code is not fully implemented. There are specific provisions of the Code which cannot be adopted since they are either contrary to and/or do not accord with the provisions of the Articles of Association of the Company, or they cannot be adopted due to the recent developments in Eastern Ukraine. The Board of Directors will endeavour to remedy these as soon as practicable.

STATEMENT ON CORPORATE GOVERNANCE (continued)

The Board of Directors ensures through effective internal audit and risk management procedures the collection of the necessary items for the preparation of the periodic reporting required for listed companies.

The Company is governed by the Board of Directors. Companies formed under the Cyprus Companies Law, Cap. 113, do not have supervisory board and management board. Cyprus companies have a Board of Directors, members of which are appointed to fill certain executive and non-executive positions. The management of the business and the conduct of the affairs of the Company are vested in the Board of Directors. The Board of Directors used to be comprised by four members, two of which were non-independent and the remaining two were independent. This is in compliance with the provisions of the Articles of Association of the Company, which requires that the Board of Directors comprise by at least two Directors, two of which shall be independent.

Directors are appointed at general meetings. There is no requirement in the Articles of Association for the retirement of Directors by rotation, thus all Directors continue in office, unless they resign or following an ordinary resolution from the Company shareholders. Following the resignation of Konstantin Anisimov and Mykhailo Chubai new independent members will be appointed as soon as necessary arrangements can be made.

The Company has an Audit Committee and a Remuneration Committee. Analysis of their responsibilities is disclosed separately in this report.

The emoluments and other benefits of Directors of the Company are presented below:

	Emoluments	Other benefits	Total
	USD	USD	USD
Konstiantyn Molodkovets	15 000	-	**15 000**
Denys Molodkovets	13 000	-	**13 000**

The interest in the Company's share capital held directly or indirectly by each member of the Board of Directors at 31 December 2015 and at 20 April 2016 (5 days before the date of approval of the financial statements by the Board of Directors) are disclosed separately in this report.

The shareholders holding directly or indirectly more than 5% interest in the Company's share capital at 31 December 2015 and at 20 April 2016 (5 days before the date of approval of the financial statements by the Board of Directors) are disclosed separately in this report.

There are currently no shares in issue holding special or limited rights.

The Board of Directors can proceed with the issue of shares following an ordinary resolution from the Company shareholders. For the repurchase of the Company shares a special resolution from the Company's shareholders is required, in accordance with the provisions of Section 57 of Cyprus Companies Law.

The Report on Corporate Governance has been prepared in accordance with the provisions of the Code and includes the above mentioned explanations, as well as the information required by the relevant Article of the Directive.

SHAREHOLDERS HOLDING MORE THAN 5% OF THE COMPANY'S SHARE CAPITAL

The shareholders holding directly or indirectly more than 5% interest in the Company's share capital at 31 December 2015 and at 20 April 2016 (5 days before the date of approval of the consolidated financial statements by the Board of Directors) were as follows:

	31 December 2015	20 April 2016
	%	%
Konstiantyn Molodkovets	54,86	54,86
Denys Molodkovets	12,88	12,88

DIRECTORS' INTEREST IN THE COMPANY'S SHARE CAPITAL

In accordance with Article 4(b) of the Cyprus Securities and Exchange Commission Directive the interest in the Company's share capital held directly or indirectly by each member of the Board of Directors at 31 December 2015 and at 20 April 2016 (5 days before the date of approval of the consolidated financial statements by the Board of Directors) were as follows:

	31 December 2015	20 April 2016
	%	%
Konstiantyn Molodkovets	54,86	54,86
Denys Molodkovets	12,88	12,88

BRANCHES

During the year ended 31 December 2015 the Group did not operate any branches.

BOARD OF DIRECTORS

The members of the Board of Directors as at 31 December 2015 and at the date of this report are presented on page 1.

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

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

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

AUDIT COMMITTEE AND REMUNERATION COMMITTEE

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

The Audit Committee assists the Company's Board of Directors in discharging its responsibilities with regard to financial reporting, external and internal audits and controls, including reviewing the annual consolidated financial statements, reviewing and monitoring the extent of the non-audit work undertaken by external auditors, advising on the appointment of external auditors and reviewing the effectiveness of the internal audit activities, internal controls and risk management systems. The ultimate responsibility for reviewing and approving the annual consolidated financial statements and the half yearly financial statements remains with the Board of Directors.

The Remuneration Committee assists the Board of Directors in discharging its responsibilities in relation to remuneration, including making recommendations to the Board of Directors and/or the general meeting of the shareholders of the Company on the policy on executive remuneration, determining the individual remuneration and benefits package of each of the Executive Directors and recommending and monitoring the remuneration of senior management below Board level.

EVENTS AFTER THE REPORTING PERIOD

The events that occured after the reporting period are described in note32 to the consolidated financial statements.

RELATED PARTY BALANCES AND TRANSACTIONS

Disclosed in note 28 to the consolidated financial statements.

INDEPENDENT AUDITORS

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

By order of the Board of Directors,

BOOMER SECRETARIAL LIMITED

Boomer Secretarial Limited
Secretary

Nicosia, 25 April 2016

KPMG

KPMG Limited
Chartered Accountants
14 Esperidon Street, 1087 Nicosia, Cyprus
P.O. Box 21121, 1502 Nicosia, Cyprus
T: +357 22 209000, F: +357 22 678200

INDEPENDENT AUDITORS' REPORT

TO THE MEMBERS OF

KDM SHIPPING PUBLIC LIMITED

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of KDM Shipping Public Limited (the "Company") and its subsidiaries (together with the Company, the "Group"), on pages 11 to 67, which comprise the consolidated statement of financial position as at 31 December 2015, and the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Board of Directors' responsibility for the consolidated financial statements

The Board of Directors is responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of the Cyprus Companies Law, Cap. 113 as amended from time to time (the "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.

Independent auditors' responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as at 31 December 2015, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of the Companies Law, Cap 113.

Emphasis of matter

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

Report on other legal requirements

Pursuant to the requirements of the Auditors and Statutory Audits of Annual and Consolidated Accounts Law of 2009, L.42(I)/2009, as amended from time to time ("Law 42(I)/2009"), we report the following:

- We have obtained all the information and explanations we considered necessary for the purposes of our audit.
- In our opinion, proper books of account have been kept by the Company, so far as it appears from our examination of these books.
- The Group's financial statements are in agreement with the books of account.
- In our opinion and to the best of the information available to us and according to the explanations given to us, the consolidated financial statements give the information required by the Companies Law, Cap. 113, in the manner so required.
- In our opinion, the information given in the report of the Board of Directors on pages 3 to 7 is consistent with the consolidated financial statements.

Other matter

This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 34 of Law 42(I)/2009 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whose knowledge this report may come to.

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

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

25 April 2016

KDM SHIPPING PUBLIC LIMITED

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2015

	Note	2015 USD'000	2014 USD'000
Revenue	5	20 840	22 172
Cost of sales	6	(20 779)	(19 931)
Gross profit		61	2 241
Other operating income		47	328
Selling and distribution expenses	8	(235)	(708)
Administrative expenses	7	(523)	(1 312)
Other operating expenses	9	(5 022)	(14 391)
Loss from operating activities	10	(5 672)	(13 842)
Finance income	12	1	17
Finance costs	12	(10)	(17)
Net finance costs		(9)	-
Loss before taxation		(5 681)	(13 842)
Taxation	13	(159)	624
Loss		(5 840)	(13 218)
Other comprehensive income:			
Items that are or may be reclassified subsequently to profit or loss			
Effect from translation into presentation currency		(571)	(7 412)
Total comprehensive income		(6 411)	(20 630)
Loss attributable to:			
Owners of the Company		(5 839)	(13 214)
Non-controlling interests		(1)	(4)
		(5 840)	(13 218)
Total comprehensive income attributable to:			
Owners of the Company		(6 380)	(20 605)
Non-controlling interests		(31)	(25)
		(6 411)	(20 630)
Loss per share			
Basic and fully diluted earnings per share (USD)	27	(0,63)	(1,42)

The notes on pages 16 to 67 are an integral part of these consolidated financial statements.

KDM SHIPPING PUBLIC LIMITED

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2015

	Note	2015 USD'000	2014 USD'000
Assets			
Vessels, property, plant and equipment	14	15 959	17 993
Trade and other receivables	18	-	2 587
Non-current assets		15 959	20 580
Inventories	17	4 197	6 778
Trade and other receivables	18	5 972	6 821
Cash and cash equivalents	19	19 864	18 849
Current assets		30 033	32 448
Total assets		45 992	53 028
Equity			
Share capital	21	118	118
Share premium		23 570	23 570
Retained earnings		33 854	39 693
Foreign currency translation reserve		(17 480)	(16 939)
Equity attributable to owners of the Company		40 062	46 442
Non-controlling interests		31	62
Total equity		40 093	46 504
Liabilities			
Deferred tax liabilities	23	604	699
Other long-term liabilities	25	71	151
Non-current liabilities		675	850
Loans and borrowings	19, 22	4 000	4 016
Short term notes		38	-
Trade and other payables	24	1 186	1 658
Current liabilities		5 224	5 674
Total liabilities		5 899	6 524
Total equity and liabilities		45 992	53 028

On 25 April 2016 the Board of Directors of KDM Shipping Public Limited approved and authorised for issue these consolidated financial statements.

....
Konstiantyn Molodkovets
Director, CEO

....
Denys Molodkovets
Director, CFO

The notes on pages 16 to 67 are an integral part of these consolidated financial statements.

KDM SHIPPING PUBLIC LIMITED

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2015

	Attributable to owners of the Company						
	Share capital	Share premium	Foreign currency translation reserve	Retained earnings	**Total**	**Non-controlling interests**	**Total equity**
	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000
Balance at 1 January 2014	118	23 570	(9 548)	52 907	67 047	87	67 134
Comprehensive income							
Loss for the year	-	-	-	(13 214)	(13 214)	(4)	(13 218)
Effect of translation into presentation currency	-	-	(7 391)	-	(7 391)	(21)	(7 412)
Total comprehensive expense	-	-	(7 391)	(13 214)	(20 605)	(25)	(20 630)
Balance at 31 December 2014	118	23 570	(16 939)	39 693	46 442	62	46 504
Balance at 1 January 2015	118	23 570	(16 939)	39 693	46 442	62	46 504
Comprehensive income							
Loss for the year	-	-	-	(5 839)	(5 839)	(1)	(5 840)
Effect from translation into presentation currency	-	-	(541)	-	(541)	(30)	(571)
Total comprehensive expense	-	-	(541)	(5 839)	(6 380)	(31)	(6 411)
Balance at 31 December 2015	118	23 570	(17 480)	33 854	40 062	31	40 093

The notes on pages pages 16 to 67 are an integral part of these consolidated financial statements.

KDM SHIPPING PUBLIC LIMITED

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (continued)

For the year ended 31 December 2015

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

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

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

KDM SHIPPING PUBLIC LIMITED

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2015

	Note	2015 USD'000	2014 USD'000
Cash flows from operating activities			
Loss for the year		(5 840)	(13 218)
Adjustments for:			
Depreciation of vessels, property, plant and equipment	14	1 070	1 281
Amortisation of computer software	15	-	7
Provision for impairment of receivables	18	2 739	2 307
VAT written-off		12	10
Recovery of payables previously written off	9	-	26
Loss on disposal of vessels, property, plant and equipment	9	119	1 132
Payables written-off		(37)	(191)
Impairment of inventory		589	-
Loss on impairment of goodwill		-	74
Impairment of non-current assets	14	-	9 462
Interest income		(1)	(17)
Discount of notes issued	12	10	17
Taxation	13	159	(624)
Exchanges differences		1 539	1 364
Cash flows from operations before working capital changes		359	1 630
Decrease/(increase) in inventories		2 639	(904)
Increase in trade and other receivables		(2 090)	(1 413)
Increase/(decrease) in trade and other payables		177	(1 777)
Cash flows from/(used in) operations		1 085	(2 464)
Tax paid		-	-
Net cash flows from/(used in) operating activities		1 085	(2 464)
Cash flows from investing activities			
Payment for acquisition of vessels, property, plant and equipment	14	(1 299)	(14)
Proceeds from disposal of vessels, property, plant and equipment		1 700	1 362
Interest received		1	17
Net cash flows from investing activities		402	1 365
Net increase/(decrease) in cash and cash equivalents		1 487	(1 099)
Cash and cash equivalents at the beginning of the year		18 833	20 307
Effect of translation into presentation currency		(456)	(375)
Cash and cash equivalents at the end of the year	19	19 864	18 833

The notes on pages pages 16 to 67 are an integral part of these consolidated financial statements.

KDM SHIPPING PUBLIC LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

1. INCORPORATION AND PRINCIPAL ACTIVITIES

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

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

The consolidated financial statements for the year ended 31 December 2015 comprise the financial statements of the Company and its subsidiaries (together with the Company referred to as the "Group").

The principal activities of the Group, which remained the same as the previous year, are the cargo freight, ship repair, passenger transportation and trading in grain, corn, oil and barley.

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.

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

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

1. INCORPORATION AND PRINCIPAL ACTIVITIES *(continued)*

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

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

	31 December 2015		31 December 2014	
Owner	Number of shares	Ownership Interest %	Number of shares	Ownership Interest %
Kostiantyn Molodkovets (KM Management Limited)	5 100 000	54,86	5 100 000	54,86
Denys Molodkovets	1 197 321	12,88	866 999	9,33
Oleksyi Veselovsky (1)	200 000	2,15	200 000	2,15
Konstantin Anisimov	1	-	1	-
Liudmila Molodkovets	1	-	1	-
Iurii Molodkovets	1	-	1	-
Public	2 798 676	30,11	3 128 998	33,66
	9 296 000	100,00	9 296 000	100,00

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

2. BASIS OF PREPARATION

(a) Statement of compliance
The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union (EU) and the requirements of the Cyprus Companies Law, Cap.113 and are for the year ended 31 December 2015.

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

(c) Standards and interpretations

Adoption of new and revised International Financial Reporting Standards and Interpretations
As from 1 January 2015, the Group adopted all changes to International Financial Reporting Standards (IFRSs) which are relevant to its operations. This adoption did not have a material effect on the consolidated financial statements of the Company.

The following Standards, Amendments to Standards and Interpretations have been issued but are not yet effective for annual periods beginning on 1 January 2015. Those which may be relevant to the Group are set out below. The Group does not plan to adopt these Standards early.

2. BASIS OF PREPARATION *(continued)*

(c) Standards and interpretations *(continued)*

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

(i) Standards and Interpretations adopted by the EU

- IAS 19 (Amendments) "Defined Benefit Plans: Employee Contributions" (effective for annual periods beginning on or after 1 February 2015).

  These amendments clarify the requirements that relate to how contributions from employees or third parties that are linked to service should be attributed to periods of service. In addition, they permit a practical expedient if the amount of the contributions is independent of the number of years of service. The amendments are intended to provide relief in that entities are allowed to deduct contributions from service cost in the period in which the service is rendered. The Group does not expect the adoption of these amendments in future periods to have a material effect on its financial statements.

- Annual Improvements to IFRSs 2010-2012 (effective for annual periods beginning on or after 1 February 2015).

  These amendments impact seven standards. The amendments to IFRS 2 amend the definitions of 'vesting condition' and 'market condition' and add definitions for 'performance condition' and 'service condition' that previously formed part of the definition of 'vesting condition'. The amendments to IFRS 3 clarify that contingent consideration which is classified as an asset or a liability should be measured at fair value at each reporting date. The amendments to IFRS 8, require disclosure of judgments made by management in applying the aggregation criteria to operating segments. They also clarify that an entity is only required to provide reconciliations of the total of the reportable segments' assets to the entity's assets if the segment assets are reported regularly. Amendments to IFRS 13 clarify that issuing IFRS 13 and amending IFRS 9 and IAS 39 did not remove the ability to measure short-term receivables and payables with no stated interest rate at their invoice amounts without discounting if the effect of not discounting is immaterial. The amendments to IAS 16 and IAS 38 clarify that when an item of property, plant and equipment or an intangible asset is revalued the gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount. Finally, the amendments to IAS 24 clarify that when an entity is providing key management personnel services to the reporting entity or to the parent of the reporting entity it is considered a related party of the reporting entity. The Group does not expect the adoption of these amendments in future periods to have a material effect on its financial statements.

- IAS 27 (Amendments) "Equity method in separate financial statements" (effective for annual periods beginning on or after 1 January 2016).

  The amendments will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. The Group does not expect the adoption of these amendments in future periods to have a material effect on its financial statements.

2. BASIS OF PREPARATION *(continued)*

(c) Standards and interpretations *(continued)*

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

(i) Standards and Interpretations adopted by the EU (continued)

- IAS 1 (Amendments): Disclosure Initiative (effective for annual periods beginning on or after 1 January 2016).

  The amendments introduce changes in various areas. In relation to materiality the amendments clarify that information should not be obscured by aggregating or by providing immaterial information, that materiality considerations apply to all parts of the financial statements, and even when a standard requires a specific disclosure, materiality considerations do apply. In relation to the statement of financial position and statement of profit or loss and other comprehensive income, the amendments clarify that the list of line items to be presented in these statements can be disaggregated and aggregated as relevant and provide additional guidance on subtotals in these statements. They also clarify that an entity's share of other comprehensive income of equity-accounted associates and joint ventures should be presented in aggregate as single line items based on whether or not it will subsequently be reclassified to profit or loss. In relation to the notes to the financial statements the amendments add additional guidance of ordering the notes so as to clarify that understandability and comparability should be considered when determining the order of the notes in order to demonstrate that the notes need not be presented in the order so far listed in paragraph 114 of IAS 1. The Group does not expect the adoption of these amendments in future periods to have a material effect on its financial statements.

- Annual Improvements to IFRSs 2012–2014 Cycle (effective for annual periods beginning on or after 1 January 2016)

  The amendments impact four standards. IFRS 5 was amended to clarify that change in the manner of disposal (reclassification from 'held for sale' to 'held for distribution' or vice versa) does not constitute a change to a plan of sale ore distribution, and does not have to be accounted for as such. The amendment to IFRS 7 adds guidance to help management determine whether the terms of an arrangement to service a financial asset which has been transferred constitute continuing involvement, for the purposes of disclosures required by IFRS 7. The amendment also clarifies that the offsetting disclosures of IFRS 7 are not specifically required for all interim periods, unless required by IAS 34. The amendment to IAS 19 clarifies that for post-employment benefit obligations, the decisions regarding discount rate, existence of deep market in high-quality corporate bonds, or which government bonds to use as a basis, should be based on the currency that the liabilities are denominated in, and not the country where they arise. IAS 34 will require a cross reference from the interim financial statements to the location of 'information disclosed elsewhere in the interim financial report'. The Group does not expect the adoption of these amendments in future periods to have a material effect on its financial statements.

2. BASIS OF PREPARATION *(continued)*

(c) Standards and interpretations *(continued)*

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

(i) Standards and Interpretations adopted by the EU (continued)

- IAS 16 and IAS 38 (Amendments) "Clarification of acceptable methods of depreciation and amortisation" (effective for annual periods beginning on or after 1 January 2016).

  In this amendment, the IASB has clarified that the use of revenue-based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset. However, in relation to intangible assets, the IASB stated that there are limited circumstances when the presumption can be overcome. This is applicable when the intangible asset is expressed as a measure of revenue and it can be demonstrated that revenue and the consumption of economic benefits of the intangible asset are highly correlated. The Group does not expect the adoption of these amendments in future periods to have a material effect on its financial statements.

- IFRS 11 (Amendments) 'Accounting for acquisitions of interests in Joint Operations"' (Amendments) (effective for annual periods beginning on or after 1 January 2016).

  This amends IFRS 11 such that the acquirer of an interest in a joint operation in which the activity constitutes a business, as defined in IFRS 3, is required to apply all of the principles of business combinations accounting in IFRS 3 and other IFRSs with the exception of those principles that conflict with the guidance in IFRS 11. The Group does not expect the adoption of these amendments in future periods to have a material effect on its financial statements.

- IAS 16 and IAS 41 (Amendments) "Bearer plants" (effective for annual periods beginning on or after 1 January 2016).

  The amendments change the financial reporting for bearer plants, such as grape vines, rubber trees and oil palms, which now should be accounted for in the same way as property, plant and equipment because their operation is similar to that of manufacturing. Consequently, the amendments include them within the scope of IAS 16, instead of IAS 41. The produce growing on bearer plants will remain within the scope of IAS 41. The Group is currently evaluating the effect on its consolidated financial statements.

(ii) Standards and Interpretations not adopted by the EU

- IFRS 14 "Regulatory Deferral Accounts" (effective for annual periods beginning on or after 1 January 2016).

  IFRS 14 is expected to specify the financial reporting requirements for regulatory deferral account balances that arise when an entity provides good or services to customers at a price or rate that is subject to rate regulation. IFRS 14 will permit an entity which is a first-time adopter of

2. BASIS OF PREPARATION *(continued)*

(c) Standards and interpretations *(continued)*

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

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

International Financial Reporting Standards to continue to account, with some limited changes, for "regulatory deferral account balances" in accordance with its previous GAAP, both on initial adoption of IFRS and in subsequent financial statements. The Group does not expect the adoption of these amendments in future periods to have a material effect on its financial statements.

- IFRS 10, IFRS 12 and IAS 28 (Amendments) "Investment Entities: Applying the Consolidation Exception" (effective for annual periods beginning on or after 1 January 2016).

  The amendments will address issues that arose in the context of applying the consolidation exception for investment entities. The amendments confirm that the exemption from preparing consolidated financial statements for an intermediate parent entity is available to a parent entity that is a subsidiary of an investment entity, even if the investment entity measures all of its subsidiaries at fair value. In addition, it clarifies that a subsidiary that provides services related to the parent's investment activities should not be consolidated if the subsidiary itself is an investment entity. Furthermore it is clarified that when applying the equity method to an associate or a joint venture, a non-investment entity investor in an investment entity may retain the fair value measurement applied by the associate or joint venture to its interests in subsidiaries. Finally, it confirmed that an investment entity measuring all of its subsidiaries at fair value is required to provide disclosures relating to investment entities as required by IFRS 12. The Group does not expect the adoption of these amendments in future periods to have a material effect on its financial statements.

- IAS 7 (Amendments) "Disclosure Initiative" (effective for annual accounting periods beginning on or after 1 January 2017).

  The amendments are intended to clarify IAS 7 and improve information provided to users for an entity's financing activities. The amendments will require that the following changes in liabilities arising from financing activities are disclosed (to the extent necessary): (a) changes from financing cash flows; (b) changes arising from obtaining or losing control of subsidiaries or other businesses; (c) the effect of changes in foreign exchange rates; (d) changes in fair values; and (e) other changes. The Group does not expect the adoption of these amendments in future periods to have a material effect on its financial statements.

2. BASIS OF PREPARATION *(continued)*

(c) Standards and interpretations *(continued)*

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

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

- IAS 12 (Amendments) "Recognition of Deferred Tax Assets for Unrealised Losses" (effective for annual accounting periods beginning on or after 1 January 2017).

  The amendments will give clarifications in relation to the recognition of a deferred tax asset that is related to a debt instrument measured at fair value. Additionally, it clarifies that the carrying amount of an asset does not limit the estimation of probable future taxable profits and that estimates for future taxable profits exclude tax deductions resulting from the reversal of deductible temporary differences. Finally, it clarifies that an entity assesses a deferred tax asset in combination with other deferred tax assets. Finally, where tax law restricts the utilisation of tax losses, an entity would assess a deferred tax asset in combination with other deferred tax assets of the same type. The Group does not expect the adoption of these amendments in future periods to have a material effect on its financial statements.

- IFRS 15 "Revenue from contracts with customers" (effective for annual periods beginning on or after 1 January 2018).

  IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including IAS 18 Revenue, IAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programs. The Group does not expect the adoption of these amendments in future periods to have a material effect on its financial statements.

- IFRS 9 "Financial Instruments" (effective for annual periods beginning on or after 1 January 2018).

  IFRS 9 replaces the existing guidance in IAS 39. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, a new expected credit loss model for calculating impairment on financial assets, and new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39. The Group does not expect the adoption of these amendments in future periods to have a material effect on its financial statements.

- IFRS 16 "Leases" (effective for annual periods beginning on or after 1 January 2019).

  IFRS 16 will supersede IAS 17 and related interpretations. The new standard will bring most leases on-balance sheet for lessees under a single model, eliminating the distinction between operating and finance leases. Lessor accounting however will remain largely unchanged and the distinction between operating and finance leases is retained. The Group does not expect the adoption of these amendments in future periods to have a material effect on its financial statements.

2. BASIS OF PREPARATION *(continued)*

(c) Standards and interpretations *(continued)*

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

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

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

(d) Significant accounting judgements and estimates

The preparation of the consolidated financial statements in accordance with IFRS requires from management to exercise judgment, to make estimates and assumptions that influence the application of accounting principles and the reported amounts of assets, 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.

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

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

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

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

2. BASIS OF PREPARATION *(continued)*

(d) Significant accounting judgements and estimates (continued)

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

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

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

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

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

2. BASIS OF PREPARATION *(continued)*

(d) Significant accounting judgements and estimates (continued)

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

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

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

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

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

2. BASIS OF PREPARATION *(continued)*

(d) Significant accounting judgements and estimates (continued)

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

- 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. Additionally, the economic and political situation in Ukraine may have an impact (note 31).

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

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

2. BASIS OF PREPARATION *(continued)*

(d) Significant accounting judgements and estimates (continued)

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

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

- Measurement of fair values
  A number of the Group's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities.

  The Group has an established control framework with respect to the measurement of fair values. This includes a valuation team that has overall responsibility for overseeing all significant fair value measurements, including Level 3 fair values, and reports directly to the CFO.

  The valuation team regularly reviews significant unobservable inputs and valuation adjustments. If third party information, such as broker quotes or pricing services, is used to measure fair values, then the valuation team assesses the evidence obtained from the third parties to support the conclusion that such valuations meet the requirements of IFRS, including the level in the fair value hierarchy in which such valuations should be classified.

  Significant valuation issues are reported to the Board of Directors.

  When measuring the fair value of an asset or a liability, the Group uses market observable data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows.

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

2. BASIS OF PREPARATION *(continued)*

(d) Significant accounting judgements and estimates (continued)

- Measurement of fair values (continued)
  If the inputs used to measure the fair value of an asset or a liability might be categorised in different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement. The Group recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

  Further information about the assumptions made in measuring fair values is included in the relevant notes.

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

(f) Going concern basis
These consolidated financial statements have been prepared under the going concern basis, which assumes the realisation of assets and settlement of liabilities in the course of ordinary economic activity. Renewals of the Group's assets, and the future activities of the Group, are significantly influenced by the current and future economic environment in Ukraine. The Board of Directors and Management are closely monitoring the events in the current operating environment of the Group as described in note 31 to the consolidated financial statements and has assessed the current situation and there is no indication of adverse effects while at the same time are taking all the steps to secure Group's short and long term viability. To this effect, they consider that the Group is able to continue its operations as a going concern.

3. SIGNIFICANT ACCOUNTING POLICIES

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

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

KDM SHIPPING PUBLIC LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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

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

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

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

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Business combinations (continued)

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

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

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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

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

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

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

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

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

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

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

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

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

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

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.

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

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

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

Currency	**31 December 2015**	**Weighted average for the year 2014**	**31 December 2014**	**Weighted average for the year 2014**
US dollar - UAH	24,0007	21,8290	15,7686	11,9095
US dollar - RUB	72,8827	60,9579	56,2584	38,4217

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

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

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

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

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Vessels, property, plant and equipment

Initial recognition

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

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

Expenses after the initial recognition

Any subsequent expenses, increasing the future economic benefits from the asset, are treated as additions. Otherwise, the Group recognises subsequent expenditure as expenses of the period, in which they have been incurred. The Group divides all expenses, related to VPPE, into the following types:

- current repairs and expenses for and technical service maintenance
- capital refurbishment, including modernisation.

Subsequent measurement

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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

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

No depreciation is provided on land.

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

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

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

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

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

KDM SHIPPING PUBLIC LIMITED

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For the year ended 31 December 2015

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Intangible assets

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

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

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments (continued)

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

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

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

Derecognition of financial assets and liabilities

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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

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

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

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Provisions

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

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

Non-current liabilities

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

Value added tax (VAT)

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

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

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

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

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

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

Contingent assets and liabilities

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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

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

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

4. OPERATING SEGMENTS

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

Reportable segments are reported in a manner consistent with internal reporting provided to the chief operating decision-maker. All reportable segments results are reviewed regularly by the Group's CEO to make decisions about resources to be allocated to the segment and to assess its performance and for which discrete financial information is available.

The operating businesses are organised and managed separately according to the nature of products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets.

For the year ended 31 December 2015 the Group identified the following four reportable segments, which include products and services, that differ by levels of risk and conditions of generation of income:

i) Freight
ii) Ship repair
iii) Passenger transportation
iv) Grain

4. OPERATING SEGMENTS *(continued)*

2015	Freight USD'000	Ship repair USD'000	Passenger transportation USD'000	Grain USD'000	Total USD'000
Revenue	4 845	594	211	15 190	20 840
Cost of sales	(4 665)	(833)	(302)	(14 979)	(20 779)
Gross profit	180	(239)	(91)	211	61
Expenses	(3 247)	(987)	(853)	(57)	(5 144)
Other material non-cash items					
Impairment losses on non-financial assets	-	(589)	-	-	(589)
Loss from operating activities	(3 067)	(1 815)	(944)	154	(5 672)
Net finance cost	-	(9)	-	-	(9)
Loss before tax	(3 067)	(1 824)	(944)	154	(5 681)
Tax	-	(313)	154	-	(159)
Net loss for the year	(3 067)	(2 137)	(790)	154	(5 840)
Non-current assets	11 722	3 511	726	-	15 959
Current assets	25 753	180	66	4 034	30 033
Total assets	37 475	3 691	792	4 034	45 992
Non-current liabilities	-	627	48	-	675
Current liabilities	607	4 114	502	1	5 224
Total liabilities	607	4 741	550	1	5 899

4. OPERATING SEGMENTS *(continued)*

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

Geographical information

Reportable segment information related to geographical location for the year ended 31 December 2015 and 31 December 2014 is presented below. Sales revenue analysis was based on the geographical location of customers and segment assets are based on the geographical location of the assets.

	2015 USD'000	2014 USD'000
Turkey	15 618	12 063
Ukraine	524	739
Russia	257	5 170
Georgia	417	1 443
Italy	295	425
Azerbaijan	1 146	1 429
Turkmenistan	123	500
United Kingdom	-	165
China	1 617	-
Bulgaria	120	-
Other countries	723	238
	20 840	22 172

4. OPERATING SEGMENTS *(continued)*

Impairment test

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

	2015 USD'000	2014 USD'000
Ship repair		
Vessels, property, plant and equipment	(589)	(2 877)
Passenger transportation		
Vessels, property, plant and equipment	-	(1 196)
Goodwill	-	(74)
Impairment loss	(589)	(4 147)

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

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

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

	2015
Discount rate	14,9% - 26%

5. REVENUE

	2015 USD'000	2014 USD'000
Rendering of services	5 650	9 688
Sales of goods	15 190	12 484
Total revenue	20 840	22 172

KDM SHIPPING PUBLIC LIMITED

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For the year ended 31 December 2015

6. COST OF SALES

	2015 USD'000	2014 USD'000
Cost of services rendered	6 050	9 204
Cost of goods sold	14 729	10 727
	20 779	19 931

Cost of sales by elements were as follows:

	Note	2015 USD'000	2014 USD'000
Payroll and related charges	11	1 277	1 727
Materials		15 885	13 134
Third parties services		2 553	3 799
Depreciation of vessels, property, plant and equipment	14	1 064	1 271
		20 779	19 931

7. ADMINISTRATIVE EXPENSES

	Note	2015 USD'000	2014 USD'000
Payroll and related charges	11	143	251
Travelling		21	21
Office and other materials		8	16
Third parties services		319	967
Taxes and duties		23	40
Depreciation of vessels, property, plant and equipment	14	6	10
Amortisation of computer software	15	-	7
Sundry expenses		3	-
		523	1 312

8. SELLING AND DISTRIBUTION EXPENSES

	2015 USD'000	2014 USD'000
Third parties services	234	701
Materials	1	7
	235	708

9. OTHER OPERATING EXPENSES

	Note	2015 USD'000	2014 USD'000
Loss from foreign exchange difference, net		1 539	1 364
Loss on disposal of vessels, property, plant and equipment		119	1 132
VAT write-off		12	10
Impairment of goodwill	15	-	74
Impairment of inventory		589	-
Impairment of vessels, property, plant and equipment	14	-	4 073
Impairment of assets held for sale	14	-	5 389
Fines and penalties		15	7
Provision for impairment of receivables	18	2 739	2 307
Recovery of payables previously written off		-	26
Sundry expenses		9	9
		5 022	14 391

10. LOSS FROM OPERATING ACTIVITIES

	Note	2015 USD'000	2014 USD'000
Operating loss is stated after charging the following items:			
Amortisation of computer software	15	-	7
Depreciation of vessels, property, plant and equipment	14	1 070	1 281
Loss on disposal of vessels, property, plant and equipment	9	119	1 132
Provision for impairment of receivables	9	2 739	2 307
Recovery of payables previously written off	9	-	26
Staff costs	11	1 420	1 978
Independent auditors' remuneration for the statutory audit of annual accounts		57	71
Independent auditor's remuneration for other assurance service		44	47
Independent auditor's remuneration for tax advice		1	1

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11. STAFF COSTS

Payroll and related charges for the year ended 31 December 2015 were presented as follows:

	Note	2015 USD'000	2014 USD'000
Wages and salaries		1 370	1 907
Contributions to social funds		50	71
Total staff costs	10	1 420	1 978

	Note	2015 USD'000	2014 USD'000
Production personnel	6	1 277	1 727
Administrative personnel	7	143	251
Total staff costs		1 420	1 978

The average number of employees was as follows:

	2015	2014
Average number of employees, persons	136	194
Key management personnel	21	21

12. NET FINANCE COSTS

	2015 USD'000	2014 USD'000
Finance income		
Bank interest	1	17
	1	17
Finance costs		
Interest expense		
Discount of notes issued	(10)	(17)
Net finance costs	(9)	-

13. TAXATION

	Note	2015 USD'000	2014 USD'000
Income tax		-	1
Deferred tax - charge/(credit)	23	159	(625)
Charge/(credit) for the year		159	(624)

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

	2015 USD'000	2014 USD'000
Accounting loss before taxation	(5 681)	(13 842)
Income tax, taxable at the rate of 18%	(511)	(1 016)
Income tax, taxable at the rate of 12,5%	(20)	3
Items not deductible/assessible for tax purposes	690	389
Tax as per consolidated statement of profit or loss and other comprehensive income - charge/(credit)	159	(624)

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14. VESSELS, PROPERTY, PLANT AND EQUIPMENT

2015	Land and buildings	Vessels	Vessels under construction	Plant and equipment	Vehicles	Furniture and fittings	Other	Total
	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000
Cost								
Balance at 1 January	6 873	16 238	4 258	586	157	85	86	28 283
Additions	1 219	1 173	111	656	6	-	3	3 168
Disposals	-	(1 641)	-	-	(58)	-	(1)	(1 700)
Exchange differences	(2 462)	(198)	(506)	(249)	(49)	(21)	(13)	(3 498)
Reclassification to inventory	-	-	(673)	-	-	-	-	(673)
Internal transfer	-	7	(8)	-	-	-	1	-
Balance at 31 December 2015	5 630	15 579	3 182	993	56	64	76	25 580
Depreciation and impairment losses								
Balance at 1 January	4 279	4 287	1 196	342	45	65	76	10 290
Depreciation for the year	147	864	-	43	9	5	2	1 070
On disposals	-	(49)	-	-	(25)	-	-	(74)
Exchange differences	(1 483)	(27)	-	(115)	(14)	(15)	(11)	(1 665)
Balance at 31 December 2015	2 943	5 075	1 196	270	15	55	67	9 621
Carrying amounts								
Balance at 31 December 2015	2 687	10 504	1 986	723	41	9	9	15 959

In 2015 Management decided not to continue the repair of a vessel under construction due to the big investment required and rather use it as scrap metal in the ship repair activities. Therefore the net carrying amount of the vessel was reclassified to inventory.

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For the year ended 31 December 2015

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

2014	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	14 248	23 189	5 700	1 289	187	141	113	44 867
Additions	-	2 604	267	16	97	-	5	2 989
Disposals	(462)	(3 893)	(213)	(127)	(15)	(2)	-	(4 712)
Exchange differences	(6 913)	(1 027)	(1 496)	(592)	(112)	(54)	(32)	(10 226)
Reclassification to assets held for sale	-	(4 635)	-	-	-	-	-	(4 635)
Balance at 31 December 2014	6 873	16 238	4 258	586	157	85	86	28 283
Depreciation and impairment losses								
Balance at 1 January	2 512	4 940	-	678	99	93	102	8 424
Depreciation for the year	231	988	-	42	8	9	3	1 281
On disposals	(61)	(3 498)	-	(53)	(15)	(1)	-	(3 628)
Exchange differences	(1 280)	(91)	-	(325)	(47)	(36)	(29)	(1 808)
Impairment charge	2 877	5 389	1 196	-	-	-	-	9 462
Reclassification to assets held for sale	-	(3 441)	-	-	-	-	-	(3 441)
Balance at 31 December 2014	4 279	4 287	1 196	342	45	65	76	10 290
Carrying amounts								
Balance at 31 December 2014	2 594	11 951	3 062	244	112	20	10	17 993
Balance at 1 January 2014	11 736	18 249	5 700	611	88	48	11	36 443

In 2014 the Group tested the Ship Repair and Passenger transport segment for impairment and recognised an impairment loss of USD 4 073 thousand with respect to vessels and property. Further information about the impairment loss and its disclosure is included in the Note 4.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

15. INTANGIBLE ASSETS

2015	Goodwill USD'000	Computer software USD'000	Total USD'000
Cost			
Balance at 1 January	74	14	88
Additions	-	(5)	(5)
Balance at 31 December 2015	74	9	83
Amortisation and impairment losses			
Balance at 1 January	74	14	88
On disposals	-	(5)	(5)
Balance at 31 December 2015	74	9	83
Carrying amounts			
Balance at 31 December 2015	-	-	-

2014	Goodwill USD'000	Computer software USD'000	Total USD'000
Cost			
Balance at 1 January	110	26	136
Exchange differences	(36)	(12)	(48)
Balance at 31 December 2014	74	14	88
Amortisation and impairment losses			
Balance at 1 January	-	16	16
Amortisation for the year	-	7	7
Exchange differences	-	(9)	(9)
Impairment charge	74	-	74
Balance at 31 December 2014	74	14	88
Carrying amounts			
Balance at 31 December 2014	-	-	-
Balance at 1 January 2014	110	10	120

In 2014 the Group tested the Passenger transport segment for impairment and recognised an impairment loss of USD 74 thousand with respect to goodwill. Further information about the impairment loss and its disclosure is included in the Note 4.

16. INVESTMENTS IN SUBSIDIARIES

The details of the subsidiaries are as follows:

Name	*Country of incorporation*	*Principal activities*	2015 *Effective holding %*	2014 *Effective holding %*
KD Shipping Co. Limited Inc.	Panama	Bear Boat Charterer of vessels	100,00	100,00
LLC Danapris	Ukraine	Ukrainian holding company	99,84	99,84
LLC Capital Shipping Company	Ukraine	Ship owner, safety and technical license	99,57	99,57
LLC Hylea-Servise	Ukraine	Ship repair services	99,57	99,57
LLC CSC-Agent	Ukraine	Agent services in ports of Ukraine	99,58	99,58
LLC Riverest Tur	Ukraine	Passenger transportation	99,88	99,88
Infoland Incorporated	Panama	Management services	100,00	100,00
LLC First Kherson Shipbuilding Yard	Ukraine	Ship repair services	100,00	100,00
LLC Rivertime	Ukraine	Liquidated	-	89,89
LLC Marine Management	Russian Federation	Ship's operator	100,00	100,00

In 2015 LLC Riverest Tur increased its shareholding in LLC Rivertime to 99,82% through an increase of share capital.

In 2014 the Group acquired 100% interest in LLC Marine Management (Russian Federation) for a purchase consideration of USD 2 975 thousand. The acquisition of this subsidiary does not constitute a business therefore the cost was recognised as assets (a vessel of USD 2 975 thousand).

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

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

In 2015, the company LLC Rivertime was liquidated and the company LLC Capital Shipping Company is in the process of liquidation.

17. INVENTORIES

	2015 USD'000	2014 USD'000
Raw materials	95	26
Work in progress	13	60
Goods for resale	4 033	6 552
Fuel	54	139
Other materials	2	1
	4 197	6 778

In 2015 Management decided not to continue the repair of a vessel under construction due to the big investment required and rather use it as scrap metal in the ship repair activities. Therefore the net carrying amount of the vessel was reclassified to inventory.

During 2015 an impairment of USD 589 thousand (2014: nil) was recognised in profit or loss to write down inventories at their net realisable value.

18. TRADE AND OTHER RECEIVABLES

	2015 USD'000	2014 USD'000
Trade receivables	389	2 083
Less: Provision for impairment of trade receivables	(354)	(356)
Trade receivables - net	35	1 727
Receivables from directors/owners	-	9
Prepayments	7 682	8 510
Less: Provision for prepayment	(1 924)	(1 035)
VAT recoverable	157	136
Other taxes prepaid	-	1
Other receivables	44	72
Less: Provision of impairment of other receivables	(22)	(12)
	5 972	9 408
Non-current portion	-	2 587
Current portion	5 972	6 821
	5 972	9 408

Non-current assets in 2014 related to construction work to restructure some of the facilities of the Group which was completed in 2015 and included as addition under property, plant and equipment (note 14).

18. TRADE AND OTHER RECEIVABLES *(continued)*

Ageing analysis of trade and other receivables:

	Gross amount 2015 USD'000	Impairment 2015 USD'000	Gross amount 2014 USD'000	Impairment 2014 USD'000
Not past due	15	-	1 442	-
Past due 0-30 days	7	-	78	1
Past due 31-120 days	27	14	249	87
More than 120 days	384	362	395	280
	433	376	2 164	368

Movement in provision for impairment of receivables:

	2015 USD'000	2014 USD'000
Balance at 1 January	1 403	1 877
Impairment losses recognised on receivables	2 739	2 321
Amount written off as uncollectible	(1 424)	(1 784)
Bad debts recovered	(22)	(18)
Effect of translation to presentation currency	(396)	(993)
Balance at 31 December	2 300	1 403

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

19. CASH AND CASH EQUIVALENTS

	2015 USD'000	2014 USD'000
Cash at bank	19 857	18 847
Bank deposits	7	2
	19 864	18 849

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

	2015 USD'000	2014 USD'000
Cash and cash equivalents	19 864	18 849
Bank overdrafts and short term loans (Note 22)	-	(16)
	19 864	18 833

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

20. ASSETS CLASSIFIED AS HELD FOR SALE

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

21. SHARE CAPITAL

	2015 Number of shares	2015 USD'000	2014 Number of shares	2014 USD'000
Authorised				
Ordinary shares of USD 0,01 each (Euro 0,01 each)	20 000 000	265	20 000 000	265
Issued and fully paid				
Balance at 1 January and 31 December	9 296 000	118	9 296 000	118

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

	2015 USD'000	2014 USD'000
Kostiantyn Molodkovets	65	65
Denys Molodkovets	15	11
Oleksiy Veselovskyy	2	2
Public	36	40
	118	118

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

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

22. LOANS AND BORROWINGS

	2015 USD'000	2014 USD'000
Short term liabilities		
Bank overdrafts	-	16
Bank loans	4 000	4 000
Total	4 000	4 016

The bank loans and overdrafts are secured as follows:

- By mortgage against the vessels with net book value of USD 3 285 thousand (20143 566 thousand)

The interest rates at the reporting period were as follows:

	2015	2014
Bank loans	3M Libor + 10,5%	3M Libor + 10,5%

23. DEFERRED TAX

	2015 USD'000	2014 USD'000
Balance at 1 January	699	2 311
Credit in profit or loss	-	(625)
Debit in profit or loss	159	-
Exchange difference	(254)	(987)
Balance at 31 December	604	699

Influence of temporary difference on deferred tax

	2015 USD'000	2014 USD'000
Vessels, property, plant and equipment	(650)	(735)
Provisions	46	36
Net deferred tax liability	(604)	(699)

24. TRADE AND OTHER PAYABLES

	2015 USD'000	2014 USD'000
Trade payables	458	469
Advances received	31	376
Payable to directors/ owners	154	84
Salaries contributions and other related taxes	106	62
Other accounts payable	174	414
Other taxes payable	14	4
Deferred income	4	6
Interest payable	245	243
	1 186	1 658

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

25. OTHER LONG-TERM LIABILITIES

	2015 USD'000	2014 USD'000
Long-term notes payable	83	187
Discount	(12)	(36)
	71	151

The above amounts relate to bills issued by the Group.

Maturity of other long-term liabilities:

	2015 USD'000	2014 USD'000
Between one year and five years	71	151
	71	151

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

26. TAX ASSET

	2015 USD'000	2014 USD'000
Balance as at 1 January	-	(2)
Income tax accrued for the year	-	1
Effect of translation into presentation currency	-	1
Balance as at 31 December	-	-

27. LOSS PER SHARE

The calculation of loss per share for the year ended 31 December 2015 and 31 December 2014 was based on the loss attributable to ordinary owners and the weighted number of ordinary shares outstanding as follows:

	2015 USD'000	2014 USD'000
Loss attributable to ordinary owners:		
Loss for the year	(5 839)	(13 214)

	2015 '000	2014 '000
Number of ordinary shares:		
Weighted average number of ordinary shares at 31 December	9 296	9 296
Total basic and fully diluted loss per share (USD)	(0,63)	(1,42)

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

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

28. RELATED PARTY BALANCES AND TRANSACTIONS

The majority of the Company's share capital is held by Molodkovets Kostiantyn who owns 54,86% and Molodkovets Denys who owns 12,88%.

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

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

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

A. Key management;

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

(i) Remuneration of key management

Salary costs of key management for the year ended 31 December 2015 and 2014 were as follows:

	2015 USD'000	2014 USD'000
Salaries	56	82
Contributions to pension funds	11	15
Total	67	97

Number of key management personnel was as follows:

	2015	2014
Number of key management personnel, persons	21	21

(ii) Transactions with related parties

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

	2015 USD'000	2014 USD'000
Administrative expenses	1	22
Other operating expenses/ (income)	(13)	-
Total	(12)	22

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

(iii) Amounts receivable from directors/owners

	2015 USD'000	2014 USD'000
Receivable from directors/owners	-	9

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

(iv) Amounts payable to directors/owners

	2015 USD'000	2014 USD'000
Payable to directors/owners	154	84

29. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

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

- Credit risk
- Liquidity risk
- Market risk

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

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

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

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

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

(i) Credit risk

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

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

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

For the year ended 31 December 2015 USD 9 096 thousand (2014: USD 5 441 thousand) or 44% (2014: 24,5%) from the Group`s revenue refers to the sales transactions carried out with one of the Group`s clients.

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

	2015 USD'000	2014 USD'000
Trade and other receivables	57	1 787
Cash at bank	19 857	18 847
Bank deposits	7	2
	19 921	20 636

Credit quality of financial assets

In 2015 and 2014 the majority of the cash and cash equivalents of the Group are held with banks and financial institutions in Ukraine which are not rated.

(ii) Liquidity risk

Liquidity risk is the risk of the Group's failure to fulfil its financial obligations at the date of maturity. An unmatched position potentially enhances profitability, but can also increase the risk of losses. The Group has procedures with the object of minimising such losses such as maintaining sufficient cash and other highly liquid current assets and by having available an adequate amount of committed credit facilities.

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

(ii) Liquidity risk (continued)

The table below represents the expected maturity of components of working capital:

Exposure to liquidity risk

31 December 2015	Carrying amounts USD'000	Contractual cash flows USD'000	3 months or less USD'000	Between 3-12 months USD'000	Between 1-5 years USD'000	Over than 5 years USD'000
Loans and borrowings	4 000	4 000	4 000	-	-	-
Trade and other payables	877	877	877	-	-	-
Short term notes	38	42	-	42	-	-
Other long-term liabilities	71	95	-	-	95	-
	4 986	5 014	4 877	42	95	-

31 December 2014	Carrying amounts USD'000	Contractual cash flows USD'000	3 months or less USD'000	Between 3-12 months USD'000	Between 1-5 years USD'000	More than 5 years USD'000
Bank loans	4 016	4 016	16	4 000	-	-
Trade and other payables	1 126	1 210	1 210	-	-	-
Other long-term liabilities	151	187	-	-	187	-
	5 293	5 413	1 226	4 000	187	-

(iii) Market risk

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

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

Foreign Currency Risk

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

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

(iii) Market risk (continued)

Exposure to foreign currency risk

The Group's exposure to foreign currency risk and the amount in local currency as at 31 December 2015 and 2014 based on carrying amounts was as follows:

31 December 2015	Euro USD'000	United States Dollars USD'000	Polish zloty USD'000
Assets			
Cash and cash equivalents	2	21	-
	2	21	-
Liabilities			
Loans and borrowings	-	(4 000)	-
	-	(4 000)	-
Net exposure	2	(3 979)	-

31 December 2014	Euro USD'000	United States Dollars USD'000	Ukrainian Hryvnia USD'000
Assets			
Cash and cash equivalents	-	31	36
	-	31	36
Liabilities			
Loans and borrowings	-	(4 000)	-
	-	(4 000)	-
Net exposure	-	(3 969)	36

Sensitivity analysis (foreign currency risk)

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

	Effect on profit or loss		Effect on equity	
	2015 USD'000	2014 USD'000	2015 USD'000	2014 USD'000
United States Dollars	(40)	(40)	(40)	(40)

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

(iii) Market risk (continued)

Interest Rate Risk

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

Structure of interest risk

As at 31 December 2015 and 31 December 2014 the structure of interest financial instruments of the Group grouped according to the types of interest rates, was presented as follows:

	2015 USD'000	2014 USD'000
Fixed rate instruments		
Financial assets	7	2
Financial liabilities	-	(16)
Variable rate instruments		
Financial liabilities	(4 000)	(4 000)
	(3 993)	(4 014)

Sensitivity analysis

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

	Effect on profit or loss		Effect on equity	
	2015 USD'000	2014 USD'000	2015 USD'000	2014 USD'000
Variable rate instruments	(40)	(40)	(40)	(40)
	(40)	(40)	(40)	(40)

Capital management

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

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

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For the year ended 31 December 2015

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

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

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

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

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

	2015 USD'000	2014 USD'000
Bank overdrafts	-	16
Short-term loans	4 000	4 000
Total amount of borrowings	4 000	4 016
Cash and cash equivalents	(19 864)	(18 849)
Net debt	(15 864)	(14 833)
Share capital	118	118
Share premium	23 570	23 570
Retained earnings	33 854	39 693
Effect from translation into presentation currency	(17 480)	(16 939)
Non-controlling interests	31	62
Total equity	40 093	46 504
Total amount of equity and net debt	24 229	31 671
Financial leverage coefficient	(65,48)%	(46,83)%

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

Capital management (continued)

For the years ended 31 December 2015 and 2014 the ratio of net debt to EBITDA amounted to:

	2015 USD'000	2014 USD'000
Loss for the year	(5 840)	(13 218)
Income tax expense/ (credit)	159	(624)
Finance costs, net	9	-
Impairment losses	589	9 462
EBIT (Earnings before interest and income tax)	(5 083)	(4 380)
Depreciation and amortization	1 070	1 288
EBITDA (Earnings before interest, income tax, depreciation and amortisation)	(4 013)	(3 092)
Net debt/EBITDA	395,32 %	479,72 %

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

30. FAIR VALUES

The Group has an established control framework with respect to the measurements of fair value.

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

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

The different levels have been defined as follows:

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

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

30. FAIR VALUES *(continued)*

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

31. CONTINGENT AND CONTRACTUAL LIABILITIES

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

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

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

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

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

31. CONTINGENT AND CONTRACTUAL LIABILITIES *(continued)*

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

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

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

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

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

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

As at 31 December 2015 the Group had no liabilities for any supplementary pension payments, health care, insurance or other benefits after retirement to their working or former employees.

The Group had no contingent liabilities as at 31 December 2015.

32. EVENTS AFTER THE REPORTING PERIOD

There were no material events after the reporting period, which affect the consolidated financial statements as at 31 December 2015.

On 25 April 2016 the Board of Directors of KDM Shipping Public Limited approved and authorised for issue these consolidated financial statements.