

KDM SHIPPING PUBLIC LIMITED
REPORT AND CONSOLIDATED FINANCIAL
STATEMENTS

For the year ended 31 December 2017

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KDM SHIPPING PUBLIC LIMITED**BOARD OF DIRECTORS AND OTHER OFFICERS**

Board of Directors	Kostiantyn Molodkovets - Executive Director, CEO Denys Molodkovets - Executive Director, CFO
Audit Committee	Denys Molodkovets - Head of Committee Kostiantyn Molodkovets
Remuneration Committee	Kostiantyn Molodkovets - Head of Committee Denys Molodkovets
Secretary	Boomer Secretarial Limited 3 Michael Koutsofta Str. 3031, Limassol Cyprus
Independent Auditors	KPMG Limited
Registered Office	3 Michael Koutsofta Str. 3031, Limassol Cyprus

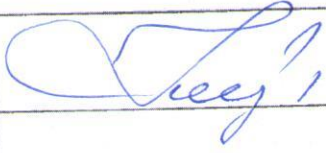
KDM SHIPPING PUBLIC LIMITED

DECLARATION OF THE MEMBERS OF THE BOARD OF DIRECTORS AND THE COMPANY
OFFICIAL RESPONSIBLE FOR THE PREPARATION 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 preparation of the consolidated financial statements of KDM Shipping Public Limited (the "Company") for the year ended 31 December 2017, confirm that to the best of our knowledge:

- a) the annual consolidated financial statements presented on pages 14 to 67:
- i) have been prepared in accordance with the International Financial Reporting Standards as adopted by the European Union and the provisions of articles (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 Management report 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:

Kostiantyn Molodkovets	
Denys Molodkovets	

Company official responsible for the preparation of the consolidated financial statements of the Company for the year ended 31 December 2017:

Denys Molodkovets	
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Nicosia, 27 April 2018

KDM SHIPPING PUBLIC LIMITED**MANAGEMENT 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 2017.

PRINCIPAL ACTIVITIES

Principal activities of the Group are cargo freight, ship repair and trading in grain, corn, oil and barley. Prior to 2017, the Group was also engaged in passenger transportation, but this segment was discontinued.

CHANGES IN GROUP STRUCTURE

Changes in Group structure are described in note 17 to the consolidated financial statements.

FINANCIAL RESULTS

The financial results of the Group for the year ended 31 December 2017 are set out on page 14 to the consolidated financial statements. Profit for the year attributable to owners of the Company amounted to USD 1 120 thousand (2016: loss USD 8 199 thousand) which the Board of Directors recommends to be transferred to retained earnings.

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

The Group's sales revenue for 2017 consisted mainly from grain trading operations and freight segment since ship repair segment did not contribute much to total revenue of the Group.

The Group's sales revenue from its freight segment is generated mainly from the transportation services for dry bulk cargoes. The Company concentrates on grain shipments however other commodities like metals, and building materials also transported in Black, Azov, Mediterranean and Caspian Sea regions' shipping routes.

The freight sales revenue for 2017 decreased by approximately 8% compared to the corresponding previous period. General market conditions have improved in second half of 2017, nevertheless the Company operated less of vessels during 2017 in comparison to 2016. As a result of management's cost-cutting efforts, cost of freight has decreased by 45%, which resulted in gross profit in the current period as compared to a loss in first half of 2016.

Grain trading segment sales revenue has increased by approximately 14% due to steady sales throughout 2017, net profit for the segment improved as to corresponding period last year. Gross profit for the corresponding previous period has increased by 63%.

Ship repair segment's revenue has showed negative tendency. Difficult political and economic situation have significantly cut the order book, main customers as of now are ship owners with minor repairs.

Overall, performance of the Group remained low due to a large number of economic and political issues in the region of operation. It is management's belief that freight segment will improve its performance in 2018 after the implementation of new strategy that aims to profit enhancement via increase of number of vessels under operations.

KDM SHIPPING PUBLIC LIMITED**MANAGEMENT REPORT** *(continued)***REVENUE**

The Group's revenue for the year ended 31 December 2017 amounted to USD 28 538 thousand (2016: USD 26 096 thousand)

DIVIDENDS

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

MAIN RISKS AND UNCERTAINTIES

The main risks and uncertainties faced by the Group and the steps taken to manage these risks, are described in note 28 to the consolidated financial statements.

CREDIT RISK

Credit risk arises when a failure by counter parties to discharge their obligations could reduce the amount of future cash inflows from financial assets on hand at the reporting date. The Group has 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.

LIQUIDITY RISK

Liquidity risk is the risk that arises when the maturity of assets and liabilities does not match. An unmatched position potentially enhances profitability, but can also increase the risk of losses. Management monitors the current liquidity position of the Group based on expected cash flows and expected revenue receipts.

CURRENCY RISK

Currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. Management monitors the exchange rate fluctuations on a continuous basis and acts accordingly.

INTEREST RATE RISK

Interest rate risk is the risk that 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. Group's management monitors the interest rate fluctuations on a continuous basis and acts accordingly.

KDM SHIPPING PUBLIC LIMITED**MANAGEMENT REPORT** *(continued)***UKRAINIAN BUSINESS AND ECONOMIC ENVIRONMENT**

The ongoing political and economic instability in Ukraine which commenced at the end of 2013 and led to a deterioration of state finances, volatility of financial markets, illiquidity on capital markets, higher inflation and devaluation of the national currency against major foreign currencies has continued in 2016 and 2017, though to a lesser extent as compared to 2014 and 2015.

Inflation rate in Ukraine during 2016 reduced to around 12% (as compared to 43% in 2015), and remained relatively stable through 2017, while GDP returned to growth of around 2% through 2016 and 2017 (after 9% decline in 2015). Devaluation of Ukrainian Hryvnia during 2016 has been moderate. In 2016 the National Bank of Ukraine ("NBU") has made certain steps to ease the currency control restrictions introduced in 2014 and 2015. Current restrictions are effective until rescinded by the NBU. The requirement to convert 65% of foreign currency in 2016 was lowered to 50% in 2017. Bans for payment of dividends abroad and early repayment foreign loans are still in effect. The banking system remains fragile due to its weak level of capital, low asset quality caused by the economic situation, national currency devaluation, changing regulations and other factors.

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 consolidated financial statements reflect current management estimation of Ukrainian business environment influence on the financial position of the Group. Situation development may differ from management expectations. These 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 as well as agriculture commodity trading. Company benefited greatly from presence in both of trading and shipping markets, assisting in development of new business opportunities.

In order to improve performance of freight segment, the Group has adopted a strategy of taking more vessels under management in order to provide transportation services to existing and new customers. Performance of first quarter of 2017 proved that adopted strategy was right, providing ground for additional revenue.

During 2018, the Management took a decision of restructuring the Group's current legal structure. This restructuring entails change of ownership of assets within the current group as well as change in jurisdictions of profit centers. Ship repair segment is going under some cost cutting exercises due to low financial performance.

SHARE CAPITAL

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

KDM SHIPPING PUBLIC LIMITED**MANAGEMENT REPORT** *(continued)***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. The Board of Directors will endeavour to remedy these as soon as practicable.

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 was 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.

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
Kostiantyn 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 2017 and at 22 April 2018 (5 days before the date of approval of the consolidated financial statements by the Board of Directors) are disclosed separately in this report.

The shareholders/(owners) holding directly or indirectly more than 5% interest in the Company’s share capital at 31 December 2017 and at 22 April 2018 (5 days before the date of approval of the consolidated 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.

KDM SHIPPING PUBLIC LIMITED**MANAGEMENT REPORT (continued)****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 2017 and at 22 April 2018 (5 days before the date of approval of the consolidated financial statements by the Board of Directors) were as follows:

	31 December 2017	23 April 2018
	%	%
Kostiantyn Molodkovets	54,86	54,86
Denys Molodkovets	12,88	3,08

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 2017 and at 22 April 2018 (5 days before the date of approval of the consolidated financial statements by the Board of Directors) were as follows:

	31 December 2017	23 April 2018
	%	%
Kostiantyn Molodkovets	54,86	54,86
Denys Molodkovets	12,88	3,08

BRANCHES

During the year ended 31 December 2017 the Group did not operate any branches.

BOARD OF DIRECTORS

The members of the Board of Directors as at 31 December 2017 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.

KDM SHIPPING PUBLIC LIMITED**MANAGEMENT REPORT (continued)****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 occurred after the reporting period are described in note 31 to the consolidated financial statements.

RELATED PARTY BALANCES AND TRANSACTIONS

Disclosed in note 27 to the consolidated financial statements.

INDEPENDENT AUDITORS

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

By order of the Board of Directors,

Boomer Secretarial Limited
Secretary

Nicosia, 27 April 2018



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Independent Auditors' report

to the Members of

KDM SHIPPING PUBLIC LIMITED

Report on the audit of the consolidated financial statements

Opinion

We have audited the accompanying consolidated financial statements of KDM Shipping Public Limited (the "Company") and its subsidiaries (the "Group"), which are presented on pages 14 to 67 and comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS-EU) and the requirements of the Cyprus Companies Law, Cap. 113, as amended from time to time (the "Companies Law, Cap. 113").

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the "Auditors' responsibilities for the audit of the consolidated financial statements" section of our report. We are independent of the Group in accordance with the Code of Ethics for Professional Accountants of the International Ethics Standards Board for Accountants ("IESBA Code"), and the ethical requirements in Cyprus that are relevant to our audit of the consolidated financial statements, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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Material uncertainty relating to going concern

We draw attention to notes 2(d), 2(f) and 30 to the consolidated financial statements, which discuss the political and economic environment in Ukraine, the country in which the Group mainly operates, and Management's assessment that the Group will continue as a going concern. As stated in notes 2(d), 2(f) and 30, the impact of these events on the Ukraine economy cannot be determined and may adversely affect the operations of the Group. This indicates that an uncertainty exists which may cast significant doubt on the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Key audit matters

Key audit matters are those matters that, in our professional judgment were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements, as a whole, and in forming our opinion thereon and we do not provide a separate opinion on these matters.

We have determined that there are no key audit matters to communicate in our report.

Other information

The Board of Directors is responsible for the other information. The other information comprises the Management Report, but does not include the consolidated financial statements and our auditors' report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon, except as required by the Companies Law, Cap. 113.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

With regards to the management report and the corporate governance statement, our report is presented in "*Report on other legal and regulatory requirements*" section.

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

In preparing the consolidated financial statements, the Board of Directors is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless there is an intention to either liquidate the Group or to cease operations, or there is no realistic alternative but to do so.

The Board of Directors is responsible for overseeing the Group's financial reporting process.

Auditors' responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.
- Conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves a true and fair view.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

Auditors' responsibilities for the audit of the consolidated financial statements (continued)

We communicate with the Board of Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters.

Report on other legal and regulatory requirements

Other regulatory requirements

Pursuant to the requirements of Article 10(2) of EU Regulation 537/2014 we provide the following information in our Independent Auditors' Report, which is required in addition to the requirements of ISAs.

Date of our appointment and period of engagement

We were first appointed auditors of the Company by those charged with governance on 31 August 2011. Our appointment has been renewed annually by shareholder resolution. The Company became listed in August 2012. Our total uninterrupted period of engagement is 7 years covering the periods ended 31 December 2011 to 31 December 2017.

Consistency of the additional report to the Audit Committee

Our audit opinion is consistent with the additional report presented to the Audit Committee dated 27 April 2018. Although there is an Audit Committee, the structure of its members did not follow the legal requirements by the date of our report.

Provision of non-audit services ("NAS")

We have not provided any prohibited NAS referred to in Article 5 of EU Regulation 537/2014 as applied by Section 72 of the Auditors Law of 2017, L.53(I)2017, as amended from time to time ("Law L53(I)/2017").

Report on other legal and regulatory requirements (continued)

Other legal requirements

Pursuant to the additional requirements of law L.53(I)2017, and based on the work undertaken in the course of our audit, we report the following:

- In our opinion, the management report, the preparation of which is the responsibility of the Board of Directors, has been prepared in accordance with the requirements of the Companies Law, Cap. 113, and the information given is consistent with the consolidated financial statements.
- In the light of the knowledge and understanding of the business and the Company's environment obtained in the course of the audit, we have not identified material misstatements in the management report.
- In our opinion, the information included in the corporate governance statement in accordance with the requirements of subparagraphs (iv) and (v) of paragraph 2(a) of Article 151 of the Companies Law, Cap. 113, has been prepared in accordance with the requirements of the Companies Law, Cap. 113, and is consistent with the consolidated financial statements.
- In our opinion, the corporate governance statement includes all information referred to in subparagraphs (i), (ii), (iii), (vi) and (vii) of paragraph 2(a) of Article 151 of the Companies Law, Cap. 113.

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 69 of Law L53(I)/2017, 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.

The engagement partner on the audit resulting in this independent auditors' report is Maria A. Papacosta.



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

27 April 2018

KDM SHIPPING PUBLIC LIMITED

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2017

	Note	2017 USD'000	2016 USD'000
Continuing operations			
Revenue	6	28 538	26 096
Cost of sales	7	<u>(27 330)</u>	<u>(27 291)</u>
Gross profit/(loss)		1 208	(1 195)
Other operating income	8	2 000	47
Selling and distribution expenses	9	(364)	(49)
Administrative expenses	10	(728)	(636)
Other operating expenses	11	<u>(967)</u>	<u>(4 813)</u>
Profit/(loss) from operating activities	12	<u>1 149</u>	<u>(6 646)</u>
Finance income	14	27	5
Finance costs	14	<u>(88)</u>	<u>(68)</u>
Net finance expenses		<u>(61)</u>	<u>(63)</u>
Profit/(loss) before taxation		1 088	(6 709)
Taxation	15	<u>(4)</u>	<u>39</u>
Profit/(loss) from continuing operations		1 084	(6 670)
Discontinued operation			
Loss from discontinued operation, net of tax	5	<u>-</u>	<u>(1 524)</u>
Profit/(loss) for the year		<u>1 084</u>	<u>(8 194)</u>
Other comprehensive income			
<i>Items that are or may be reclassified subsequently to profit or loss</i>			
Effect from translation into presentation currency		<u>472</u>	<u>(1 877)</u>
Total comprehensive income/(expense) for the year		<u>1 556</u>	<u>(10 071)</u>
Profit/(loss) for the year attributable to:			
Owners of the Company		1 120	(8 199)
Non-controlling interests		<u>(36)</u>	<u>5</u>
		<u>1 084</u>	<u>(8 194)</u>
Total comprehensive income/(expense) attributable to:			
Owners of the Company		1 592	(9 138)
Non-controlling interests		<u>(36)</u>	<u>(933)</u>
		<u>1 556</u>	<u>(10 071)</u>
Profit/(loss) per share			
Basic and fully diluted loss per share (USD)	26	<u>0.12</u>	<u>(0.88)</u>
Profit/(loss) per share – Continuing operations			
Basic and fully diluted loss per share (USD)	26	<u>0.12</u>	<u>(0.72)</u>

The notes on pages 19 to 67 are an integral part of these consolidated financial statements.

KDM SHIPPING PUBLIC LIMITED

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

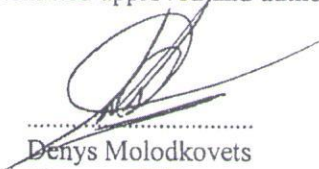
As at 31 December 2017

	Note	2017 USD'000	2016 USD'000
Assets			
Vessels, property, plant and equipment	16	7 666	8 957
Trade and other receivables	19	1 255	-
Non-current assets		<u>8 921</u>	<u>8 957</u>
Inventories	18	176	76
Trade and other receivables	19	6 410	6 036
Cash and cash equivalents	20	21 339	23 490
Assets classified as held for sale	16	535	-
Current assets		<u>28 460</u>	<u>29 602</u>
Total assets		<u>37 381</u>	<u>38 559</u>
Equity			
Share capital	21	118	118
Share premium		23 570	23 570
Retained earnings		26 775	25 655
Foreign currency translation reserve		(17 947)	(18 419)
Equity attributable to owners of the Company		<u>32 516</u>	<u>30 924</u>
Non-controlling interests		<u>(938)</u>	<u>(902)</u>
Total equity		<u>31 578</u>	<u>30 022</u>
Liabilities			
Deferred tax liabilities	23	479	485
Other long-term liabilities	25	-	39
Non-current liabilities		<u>479</u>	<u>524</u>
Loans and borrowings	22	2 127	4 146
Short-term notes		68	29
Trade and other payables	24	3 129	3 838
Current liabilities		<u>5 324</u>	<u>8 013</u>
Total liabilities		<u>5 803</u>	<u>8 537</u>
Total equity and liabilities		<u>37 381</u>	<u>38 559</u>

On 27 April 2018, the Board of Directors of KDM Shipping Public Limited approved and authorised for issue these consolidated financial statements.



 Kostiantyn Molodkovets
 Director, CEO



 Denys Molodkovets
 Director, CFO

The notes on pages 19 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 2017

	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 2016	118	23 570	(17 480)	33 854	40 062	31	40 093
Comprehensive income							
Loss for the year	-	-	-	(8 199)	(8 199)	5	(8 194)
Effect from translation into presentation currency	-	-	(939)	-	(939)	(938)	(1 877)
Total comprehensive expense	-	-	(939)	(8 199)	(8 138)	(933)	(10 071)
Balance at 31 December 2016	118	23 570	(18 419)	25 655	30 924	(902)	30 022
Balance at 1 January 2017	118	23 570	(18 419)	25 655	30 924	(902)	30 022
Comprehensive income							
Profit/(loss) for the year	-	-	-	1 120	1 120	(36)	1 084
Effect from translation into presentation currency	-	-	472	-	472	-	472
Total comprehensive expense	-	-	472	1 120	1 592	(36)	1 556
Balance at 31 December 2017	118	23 570	(17 947)	26 775	32 516	(938)	31 578

The notes on pages 19 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 2016

- (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 Defence 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 defence is paid by the Company for the account of the owners.

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

KDM SHIPPING PUBLIC LIMITED

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2017

	Note	2017 USD'000	2016 USD'000
Cash flows from operating activities			
Profit/(loss) for the year		1 084	(8 194)
Adjustments for:			
Depreciation of vessels, property, plant and equipment	16	750	1 146
Provision for impairment of receivables	19	71	647
VAT write-off		-	1
Loss from discontinued operations		-	1 524
Payables written-off		(2 000)	-
Impairment of vessels, property, plant and equipment	4	-	3 272
Interest income	14	(27)	(5)
Discount of notes issued	14	-	68
Income tax expense	15	4	(39)
Foreign exchange differences		232	552
Cash flows from/(used in) operations before working capital changes		114	(1 028)
(Increase)/decrease in inventories		(100)	4 121
Increase in trade and other receivables		(2 687)	(1 461)
(Decrease)/increase in trade and other payables		(709)	2 652
Cash flows (used in)/from operations		(3 382)	4 284
Tax paid		-	-
Net cash flows (used in)/from operating activities		(3 382)	4 284
Cash flows from investing activities			
Payment for acquisition of vessels, property, plant and equipment	16	-	(49)
Proceeds from disposal of vessels, property, plant and equipment		7	-
Disposal of discontinued operation	5	-	(52)
Interest received		-	1
Net cash flows from/(used in) investing activities		7	(100)
Cash flows from financing activities			
Provision of non-bank loans to shareholders	19	1 255	-
Proceeds from non-bank loans	22	103	537
Repayment of non-bank loans	22	(122)	(391)
Net cash flows (used in)/from financing activities		1 236	146
Net (decrease)/increase in cash and cash equivalents		(2 139)	4 330
Cash and cash equivalents at the beginning of the year		23 490	19 864
Effect from translation into presentation currency		(12)	(704)
Cash and cash equivalents at the end of the year	20	21 339	23 490

The notes on pages 19 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 2017

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 on 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 2017 comprise the financial statements of the Company and its subsidiaries (together with the Company referred to as the "Group").

During 2016, the Group has discontinued its passenger transportation segment. Other principal activities of the Group remained the same as in the previous year, and are cargo freight, ship repair 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. 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 of 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.

The Group's subsidiaries, country of incorporation, their principal activities and effective ownership percentage are disclosed in note 17 to the consolidated financial statements.

KDM SHIPPING PUBLIC LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

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 EUR 0,01 per share. The shares were distributed as follows:

Owner	31 December 2017		31 December 2016	
	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 (Denhold Management Limited)	1 197 321	12,88	1 197 321	12,88
Oleksyi Veselovskyy ⁽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	2 798 676	30,11
	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 2017.

(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 2017, 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 Company is required to adopt IFRS 9 "Financial Instruments" and IFRS 15 "Revenue from Contract with Customers" from 1 January 2018. The Company has preliminarily assessed the estimated impact that the initial application of these standards will have on its consolidated financial statements. The actual impact of adopting the standards at 1 January 2018 may change because the new accounting policies are subject to change until the Group presents its first consolidated financial statements that include the date of

KDM SHIPPING PUBLIC LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

2. BASIS OF PREPARATION *(continued)*

(c) Standards and interpretations *(continued)*

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

Standards and Interpretations adopted by the EU initial application ("DIA").

The following Standards, Amendments to Standards and Interpretations have been issued but are not yet effective for annual periods beginning on 1 January 2017. Those which may be relevant to the Group are set out below. The Group does not plan to adopt these Standards early.

(i) Standards and Interpretations adopted by the EU

- IFRS 9 "Financial Instruments" (effective for annual periods beginning on or after 1 January 2018).
- IFRS 15 "Revenue from contracts with customers" (effective for annual periods beginning on or after 1 January 2018).

The Group is currently evaluating the expected impact of adopting the standard on its financial statements. As such, the expected impact of the standard is not yet known or reasonably estimable.

- IFRS 15 (Clarifications) "Revenue from Contracts with Customers" (effective for annual periods beginning on or after 1 January 2018)

The Group is currently evaluating the expected impact of adopting the standard on its financial statements. As such, the expected impact of the standard is not yet known or reasonably estimable.

- IFRS 16 "Leases" (effective for annual periods beginning on or after 1 January 2019).
The Group is currently evaluating the expected impact of adopting the standard on its financial statements. As such, the expected impact of the standard is not yet known or reasonably estimable.
- IFRS 4 (Amendments) "Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts" (effective for annual periods beginning on or after 1 January 2018).
- Annual Improvements to IFRSs 2014-2016 Cycle (effective for annual periods beginning on or after 1 January 2018 (IFRS I and IAS 28)).
- IFRS 2 (Amendments) "Classification and Measurement of Share-based Payment Transactions" (effective for annual periods beginning on or after 1 January 2018).
- IAS 40 (Amendments) "Transfers of Investment Property" (effective for annual periods beginning on or after 1 January 2018).
- IFRS 9 (Amendments) "Prepayment Features with Negative Compensation" (effective for annual periods beginning on or after 1 January 2019).
- IFRIC 22 "Foreign Currency Transactions and Advance Consideration" (effective for annual periods beginning on or after 1 January 2018).

Preliminary impact of IFRS 9 on the Group

IFRS 9 "Financial Instruments" sets out requirements for recognizing and measuring financial assets and financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39 "Financial Instruments: Recognition and Measurement".

The new impairment requirements are expected to have an impact on the Group's consolidated financial statements from the implementation of IFRS 9. Management is not yet able to provide quantitative information about the expected impact since the Group is in the process of building and testing models, assembling data and calibrating the impairment stage transfer criteria. The impact is also dependent on finalizing the classification assessment and the current circumstances. Management expects loss allowances under IFRS 9 to be at the same level as IAS 39.

KDM SHIPPING PUBLIC LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

2. BASIS OF PREPARATION *(continued)*

(c) Standards and interpretations *(continued)*

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

IFRS 9 Implementation Programme

The Group expects that it will be in a position to provide quantitative information on the impact of the transition to IFRS 9 on its financial position and performance in its next reported consolidated financial statements. Standards and Interpretations not yet adopted by the EU

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

- IFRIC 23 "Uncertainty over Income Tax Treatments" (effective for annual periods beginning on or after 1 January 2019).
- IAS 28 (Amendments) "Long-term Interest in Associates and Joint Ventures" (effective for annual periods beginning on or after 1 January 2019).
- Annual Improvements to IFRSs 2015-2017 Cycle (effective for annual periods beginning on or after 1 January 2019).
- IAS 19 (Amendments) "Plan Amendment, Curtailment or Settlement" (effective for annual periods beginning on or after 1 January 2019).
- "Amendments to References to the Conceptual Framework in IFRS Standards" (effective for annual periods beginning on or after 1 January 2020).
- IFRS 10 (Amendments) and IAS 28 (Amendments) "Sale or Contribution of Assets between an Investor and its Associate or Joint Venture" (effective date postponed indefinitely).

The Group does not expect the adoption of this interpretation in future periods to have a material effect on its financial statements.

(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.

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

For the year ended 31 December 2017

2. BASIS OF PREPARATION (continued)**(d) Significant accounting judgements and estimates (continued)**

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 receivables, solvency of customers and changes in conditions of settlements. Economic changes, industry situation or financial position of separate customers may result in adjustments related to the amount of provision for doubtful debts reflected in the consolidated financial statements as impairments of receivables.

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

- Income taxes and deferred tax assets

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

Deferred tax assets are 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.

KDM SHIPPING PUBLIC LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

2. BASIS OF PREPARATION *(continued)*

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

- Provision for obsolete and slow-moving inventory

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

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

- Vessel life and impairment

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

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

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

- 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.

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

For the year ended 31 December 2017

2. BASIS OF PREPARATION *(continued)***(d) Significant accounting judgements and estimates** *(continued)*

- 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 30).

- Ukrainian business environment

The ongoing political and economic instability in Ukraine which commenced at the end of 2013 and led to a deterioration of state finances, volatility of financial markets, illiquidity on capital markets, higher inflation and devaluation of the national currency against major foreign currencies has continued in 2016 and 2017, though to a lesser extent as compared to 2014 and 2015.

Inflation rate in Ukraine during 2016 reduced to around 12% (as compared to 43% in 2015), and remained relatively stable through 2017, while GDP returned to growth of around 2% through 2016 and 2017 (after 9% decline in 2015). Devaluation of Ukrainian Hryvnia during 2016 has been moderate. In 2016 the National Bank of Ukraine ("NBU") has made certain steps to ease the currency control restrictions introduced in 2014 and 2015. Current restrictions are effective until rescinded by the NBU. The requirement to convert 65% of foreign currency in 2016 was lowered to 50% in 2017. Bans for payment of dividends abroad and early repayment foreign loans are still in effect. The banking system remains fragile due to its weak level of capital, low asset quality caused by the economic situation, national currency devaluation, changing regulations and other factors.

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 consolidated financial statements reflect current management estimation of Ukrainian business environment influence on the financial position of the Group. Situation development may differ from management expectations. These financial statements were not adjusted to reflect events after the reporting period.

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

For the year ended 31 December 2017

2. BASIS OF PREPARATION (continued)**(d) Significant accounting judgements and estimates (continued)****• 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.

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).

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.

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

For the year ended 31 December 2017

2. BASIS OF PREPARATION *(continued)***(e) Functional and presentation currency**

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

(f) Going concern basis

These consolidated financial statements have been prepared under the going concern basis, which assumes the realisation of assets and settlement of liabilities in the course of ordinary economic activity. Renewals of the Group's assets, and the future activities of the Group, are significantly influenced by the current and future economic environment in Ukraine. The Board of Directors and Management are closely monitoring the events in the current operating environment of the Group as described in note 30 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.

Certain comparative amounts in the consolidated statement of profit or loss and other comprehensive income have been reclassified or re-presented as a result of an operation discontinued during the current year.

Basis of consolidation***Subsidiaries***

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

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

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

KDM SHIPPING PUBLIC LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interests in subsidiaries that do not result in the Group 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;
- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with IFRS 2 Share-based Payment at the acquisition date; and
- assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations are measured in accordance with that Standard.

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

For the year ended 31 December 2017

3. SIGNIFICANT ACCOUNTING POLICIES (continued)**Business combinations (continued)**

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.

Operating segments

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

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

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

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

For the year ended 31 December 2017

3. SIGNIFICANT ACCOUNTING POLICIES (continued)**Discontinued operation**

A discontinued operation is a component of the Group's business, the operations and cash flows of which can be clearly distinguished from the rest of the Group and which:

- represents a separate major line of business or geographic area of operations;
- is part of a single coordinated plan to dispose of a separate major line of business or geographic area of operations; or
- is a subsidiary acquired exclusively with a view to resale.

Classification as a discontinued operation occurs at the earlier of disposal or when the operation meets the criteria to be classified as held-for-sale.

When an operation is classified as a discontinued operation, the comparative statement of profit or loss and other comprehensive income is re-presented as if the operation had been discontinued from the start of the comparative year.

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.

KDM SHIPPING PUBLIC LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Tax *(continued)*

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

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

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

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 2017	Weighted average for the year 2017	31 December 2016	Weighted average for the year 2016
USD - UAH	28,0899	26,5957	27,1739	25,5435
USD - RUB	57,4713	58,1395	61,3497	66,6448

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.

KDM SHIPPING PUBLIC LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Dividends

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

Vessels, property, plant and equipment

Initial recognition

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

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

Expenses after the initial recognition

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

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

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 is included in the carrying amount of the asset when it is probable that future economic benefits in excess of the originally assessed standard of performance of the existing asset will flow to the Group. Major renovations are depreciated over the remaining useful life of the related asset.

KDM SHIPPING PUBLIC LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

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.

Financial instruments

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

KDM SHIPPING PUBLIC LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

3. SIGNIFICANT ACCOUNTING POLICIES (continued)Financial instruments (continued)(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) Loans receivable

Loans receivable are measured at amortised cost using the effective interest rate method.

(iii) Cash and cash equivalents

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

(iv) Borrowings

Borrowings are recorded initially at the 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.

(v) Notes issued

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

(vi) Trade payables

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

Derecognition of financial assets and liabilities(i) Financial assets

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

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

(ii) Financial liabilities

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

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

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

For the year ended 31 December 2017

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 costs to sell and its value in use. In estimating value in use, the future cash flows are discounted to present value using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the asset or cash generating unit.

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

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.

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

For the year ended 31 December 2017

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.

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

For the year ended 31 December 2017

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 2017 the Group identified the following three 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) Grain

In 2016, reportable segments also included passenger transportation, which was discontinued by the Group in August 2016.

KDM SHIPPING PUBLIC LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

4. OPERATING SEGMENTS (continued)

2017	Freight USD'000	Ship repair USD'000	Grain USD'000	Total USD'000
External revenues	3 428	691	24 419	28 538
Inter-segment revenues	-	-	-	-
Cost of sales	<u>(2 988)</u>	<u>(1 056)</u>	<u>(23 286)</u>	<u>(27 330)</u>
Gross profit	440	(365)	1 133	1 208
Income/(expenses)	748	(111)	(696)	(59)
<i>Other material non-cash items</i>				
Impairment losses on non-financial assets	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Loss from operating activities	1 188	(476)	437	1 149
Net finance cost	<u>(83)</u>	<u>-</u>	<u>22</u>	<u>(61)</u>
Loss before tax	1 105	(476)	459	1 088
Tax	<u>(4)</u>	<u>-</u>	<u>-</u>	<u>(4)</u>
Net loss for the year	<u>1 101</u>	<u>(476)</u>	<u>459</u>	<u>1 084</u>
Non-current assets	3 580	4 085	1 255	8 920
Current assets	<u>23 013</u>	<u>393</u>	<u>5 055</u>	<u>28 461</u>
Total assets	<u>26 593</u>	<u>4 478</u>	<u>6 310</u>	<u>37 381</u>
Non-current liabilities	4	475	-	479
Current liabilities	<u>4 137</u>	<u>177</u>	<u>1 010</u>	<u>5 324</u>
Total liabilities	<u>4 141</u>	<u>652</u>	<u>1 010</u>	<u>5 803</u>

KDM SHIPPING PUBLIC LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

4. OPERATING SEGMENTS (continued)

2016	Freight USD'000	Ship repair USD'000	Passenger transportation (discontinued) USD'000	Grain USD'000	Total USD'000
Revenue	3 731	945	114	21 420	26 210
Inter-segment revenues	-	-	-	-	-
Cost of sales	<u>(5 451)</u>	<u>(1 116)</u>	<u>(153)</u>	<u>(20 724)</u>	<u>(27 444)</u>
Gross profit	(1 720)	(171)	(39)	696	(1 234)
Expenses	(786)	(566)	(62)	(765)	(2 179)
<i>Other material non-cash items</i>					
Impairment losses on non-financial assets	<u>(2 878)</u>	<u>-</u>	<u>(394)</u>	<u>-</u>	<u>(3 272)</u>
Loss from operating activities	(5 384)	(737)	(495)	(69)	(6 685)
Net finance cost	<u>(65)</u>	<u>2</u>	<u>-</u>	<u>-</u>	<u>(63)</u>
Loss before tax	(5 449)	(735)	(495)	(69)	(6 748)
Tax	<u>0</u>	<u>39</u>	<u>-</u>	<u>-</u>	<u>39</u>
Net loss for the year	<u>(5 449)</u>	<u>(696)</u>	<u>(495)</u>	<u>(69)</u>	<u>(6 709)</u>
Non-current assets	4 534	4 423	-	-	8 957
Current assets	<u>24 793</u>	<u>114</u>	<u>-</u>	<u>4 695</u>	<u>29 602</u>
Total assets	<u>29 327</u>	<u>4 537</u>	<u>-</u>	<u>4 695</u>	<u>38 559</u>
Non-current liabilities	33	491	-	-	524
Current liabilities	<u>1 204</u>	<u>5 075</u>	<u>-</u>	<u>1 734</u>	<u>8 013</u>
Total liabilities	<u>1 237</u>	<u>5 566</u>	<u>-</u>	<u>1 734</u>	<u>8 537</u>

Geographical information

Reportable segment information related to geographical location for the years ended 31 December 2017 and 31 December 2016 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.

	2017 USD'000	2016 USD'000
Caspian region	21 977	11 429
Turkey	3 918	8 115
China	-	4 222
Georgia	-	773
Russia	1 920	399
Ukraine	328	328
Italy	84	88
Bulgaria	-	87
Other countries	<u>117</u>	<u>655</u>
Total	<u>28 538</u>	<u>26 096</u>

KDM SHIPPING PUBLIC LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

4. OPERATING SEGMENTS *(continued)*

Impairment test

The impairment loss was recognised in relation to Freight, Ship Repair and Passenger transportation segments which is analysed as follows:

	2016 USD'000
Vessels, property, plant and equipment	
Freight	(2 878)
Passenger transportation	(394)
Ship repair	-
Impairment loss	(3 272)

In the light of the deterioration of the activities of the ship repair and passenger transportation 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 valuator's method used was the value in use.

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

	2016
Discount rate	18% - 20%

5. DISCONTINUED OPERATION

In August 2016, management discontinued its passenger transportation segment. The Group sold LLC Riverest Tur, the segment operating company, and all related assets.

An impairment loss of USD 394 thousand writing down the carrying amount of the disposal group to its fair value less costs to sell has been included in "other operating expenses" in the consolidated statement of profit or loss and other comprehensive income (note 11).

KDM SHIPPING PUBLIC LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

5. DISCONTINUED OPERATION (continued)

Results of discontinued operation are as follows:

	2016 USD'000
Revenue	114
Cost of sales	<u>(153)</u>
Gross profit	(39)
Expenses	<u>(456)</u>
Loss from operating activities	(495)
Taxation	<u>-</u>
Loss from operating activities, net of tax	(495)
Loss on sale of discontinued operation	(1 029)
Income tax on gain on sale of discontinued operation	<u>-</u>
Loss from discontinued operation, net of tax	<u>(1 524)</u>
Basic and fully diluted loss per share (USD)	<u>(0.16)</u>

Cash flows used in discontinued operation are as follows:

	2016 USD'000
Net cash flows used in operating activities	(287)
Net cash flows used in investing activities	<u>(52)</u>
Net cash flows for the year	<u>(339)</u>

The above cash flows analysis on discontinued operation is not disclosed separately on the face of the consolidated financial statements

Effect of disposal on the financial position of the Group is as follows:

	2016 USD'000
Non-current assets	(726)
Current assets	(66)
Non-current liabilities	48
Current liabilities	<u>502</u>
Net assets and liabilities	<u>(242)</u>
Consideration to be received	-
Cash and cash equivalents disposed of	<u>(4)</u>
Net cash inflows	<u>(4)</u>

KDM SHIPPING PUBLIC LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

6. REVENUE

	2017 USD'000	2016 USD'000
Sales of goods	24 419	21 420
Rendering of services	4 119	4 676
Total revenue	<u>28 538</u>	<u>26 096</u>

7. COST OF SALES

	2017 USD'000	2016 USD'000
Cost of goods sold	23 286	20 724
Cost of services rendered	4 044	6 567
Total cost of sales	<u>27 330</u>	<u>27 291</u>

Cost of sales by elements were as follows:

	Note	2017 USD'000	2016 USD'000
Materials		23 282	22 038
Third party services		2 388	2 554
Payroll and related charges	13	987	1 564
Depreciation of vessels, property, plant and equipment	16	673	1 135
Total		<u>27 330</u>	<u>27 291</u>

8. OTHER OPERATING INCOME

	2017 USD'000	2016 USD'000
Effect of derecognition of bank loans (note 22)	2 000	-
Total other operating income	<u>2 000</u>	<u>-</u>

9. SELLING AND DISTRIBUTION EXPENSES

	2017 USD'000	2016 USD'000
Third party services	364	49
Total selling and distribution expenses	<u>364</u>	<u>49</u>

KDM SHIPPING PUBLIC LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

10. ADMINISTRATIVE EXPENSES

	Note	2017 USD'000	2016 USD'000
Third party services		422	426
Payroll and related charges	13	151	115
Travelling		109	5
Taxes and duties		32	74
Office and other materials		8	5
Depreciation of vessels, property, plant and equipment	16	6	11
Total administrative expenses		728	636

11. OTHER OPERATING EXPENSES

	Note	2017 USD'000	2016 USD'000
Loss from foreign exchange difference, net		232	552
Idle vessels expenses		547	-
Promotion and entertainment expenses		111	5
Provision for impairment of receivables	12	71	647
Fines and penalties		4	329
Impairment of vessels, property, plant and equipment	16	-	3 272
VAT write-off		-	1
Sundry expenses		2	12
Total other operating expenses		967	4 813

12. LOSS FROM OPERATING ACTIVITIES

	Note	2017 USD'000	2016 USD'000
Operating loss is stated after charging the following items:			
Staff costs	13	1 138	1 679
Depreciation of vessels, property, plant and equipment	16	679	1 146
Provision for impairment of receivables	11	71	647
Impairment of vessels, property, plant and equipment	16	-	3 272
Independent auditors' remuneration for the statutory audit of annual consolidated financial statements		92	65
Independent auditor's remuneration for other assurance service		28	28
Independent auditor's remuneration – prior years		15	-
Independent auditor's remuneration for tax advice		1	1

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTSFor the year ended 31 December 2017**13. STAFF COSTS**

Payroll and related charges for the year ended 31 December 2017 were presented as follows:

	Note	2017 USD'000	2016 USD'000
Wages and salaries		1 084	1 632
Contributions to state pension funds		28	24
Contributions to social security funds		26	23
Total staff costs	12	<u>1 138</u>	<u>1 679</u>

		2017 USD'000	2016 USD'000
Production personnel	7	987	1 564
Administrative personnel	10	151	115
Total staff costs		<u>1 138</u>	<u>1 679</u>

The average number of employees was as follows:

	2017	2016
Average number of employees, persons	116	110
Key management personnel	<u>18</u>	<u>18</u>

14. NET FINANCE COSTS

	2017 USD'000	2016 USD'000
Finance income		
Loan interest	27	-
Bank interest	-	5
Total finance income	<u>27</u>	<u>5</u>
Finance costs		
Bank fees	(88)	-
Discount of notes issued	-	(68)
Total finance costs	<u>(88)</u>	<u>(68)</u>
Net finance costs	<u>(61)</u>	<u>(63)</u>

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTSFor the year ended 31 December 2017**15. TAXATION**

	Note	2017 USD'000	2016 USD'000
Deferred tax – charge/(credit)	23	<u>4</u>	<u>(39)</u>
Credit for the year		<u>4</u>	<u>(39)</u>

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

	2017 USD'000	2016 USD'000
Accounting loss before taxation	<u>1 088</u>	<u>(6 709)</u>
Income tax, taxable at the rate of 18% (2016: 18%)	(42)	(149)
Income tax, taxable at the rate of 12,5% (2016: 12,5%)	(21)	(25)
Items not deductible/assessable for tax purposes	<u>67</u>	<u>135</u>
Tax as per consolidated statement of profit or loss and other comprehensive income – charge/(credit)	<u>4</u>	<u>(39)</u>

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For the year ended 31 December 2017

16. VESSELS, PROPERTY, PLANT AND EQUIPMENT

2017	Land and buildings USD'000	Vessels 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	5 440	14 296	991	20	45	72	20 864
Additions	-	-	-	-	-	-	-
Disposals	-	-	-	(5)	-	-	(5)
Exchange differences	(91)	-	(27)	-	-	-	(118)
Reclassification to assets held for sale	-	(1 373)	-	-	-	-	(1 373)
Balance at 31 December 2017	5 349	12 923	964	15	45	72	19 368
Depreciation and impairment losses							
Balance at 1 January	2 974	8 505	310	9	42	67	11 907
Depreciation for the year	151	539	55	1	2	2	750
On disposals	-	-	-	(1)	-	-	(1)
Exchange differences	(90)	-	(26)	-	-	-	(116)
Impairment charge	-	(838)	-	-	-	-	(838)
Reclassification to assets held for sale	-	-	-	-	-	-	-
Balance at 31 December 2017	3 035	8 206	339	9	44	69	11 702
Carrying amounts							
Balance at 31 December 2017	2 314	4 717	625	6	1	3	7 666

Net book value of vessels used to secure the Group's bank loans is disclosed in note 22.

In March 2018, the Group has sold one of its vessels for USD 600 thousand. It was, therefore, reclassified as held for sale as of 31 December 2017. The vessel was presented under freight segment.

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For the year ended 31 December 2017

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

2016	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	5 630	15 579	3 182	993	56	64	76	25 580
Additions	-	-	-	47	-	-	2	49
Disposals	-	(1 058)	-	-	-	-	(1)	(1 059)
Exchange differences	(188)	(111)	-	(20)	(1)	(1)	(1)	(322)
Reclassification to assets held for sale	(2)	(114)	(3 182)	(29)	(35)	(18)	(4)	(3 384)
Balance at 31 December 2016	5 440	14 296	-	991	20	45	72	20 864
Depreciation and impairment losses								
Balance at 1 January	2 943	5 075	1 196	270	15	55	67	9 621
Depreciation for the year	131	956	-	54	1	2	2	1 146
On disposals	-	(350)	-	-	-	-	-	(350)
Exchange differences	(100)	(3)	-	(8)	4	1	1	(105)
Impairment charge	-	2 878	-	-	-	-	-	2 878
Reclassification to assets held for sale	-	(51)	(1 196)	(6)	(11)	(16)	(3)	(1 283)
Balance at 31 December 2016	2 974	8 505	-	310	9	42	67	11 907
Carrying amounts								
Balance at 31 December 2016	2 466	5 791	-	681	11	3	5	8 957

In 2016 management decided to dispose of its passenger transportation segment. As a result, impairment charge of USD 394 thousand was recognised in profit or loss. Therefore, the net carrying amount of passenger vessels was reclassified as assets held for sale. As at 31 December 2016 management carried out an impairment assessment of its transport vessels. As a result, impairment charge of USD 2 878 thousand was recognised in profit or loss.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

17. INVESTMENTS IN SUBSIDIARIES

The details of the subsidiaries are as follows:

<u>Name</u>	<u>Country of incorporation</u>	<u>Principal activities</u>	<u>2017 Effective holding %</u>	<u>2016 Effective holding %</u>
KD Shipping Co. Limited Inc.	Panama	Bareboat charterer of vessels, commodities trader	100,00	100,00
LLC Danapris	Ukraine	Ukrainian holding company	99,84	99,84
LLC Capital Shipping Company	Ukraine	Safety and technical license	99,57	99,57
LLC Hylea-Servise	Ukraine	Ship repair services	99,57	99,57
Infoland Incorporated	Panama	Management services	100,00	100,00
LLC First Kherson Shipbuilding Yard (formerly LLC Kuybyshev KSRY)	Ukraine	Ship repair services	100,00	100,00
LLC Marine Management	Russian Federation	Ship operator	100,00	100,00
Mak Agro Grains Cereals and Legumes Trading LLC	United Arab Emirates	Commodities trader	51,00	51,00
Bemax Marketing LTD	Marshall Islands	Dormant	-	100,00
Intention Development LTD	Marshall Islands	Dormant	-	100,00
Promo Ring LTD	Marshall Islands	Dormant	-	100,00
Star Value LTD	Marshall Islands	Dormant	-	100,00
Terra Empire LTD	Marshall Islands	Dormant	-	100,00
Unlimited Mark LTD	Marshall Islands	Dormant	-	100,00
KD Bulk	Marshall Islands	Dormant	-	100,00
KD Cargo	Marshall Islands	Dormant	-	100,00
KD Logistics	Marshall Islands	Dormant	-	100,00
KD Maritime	Marshall Islands	Dormant	-	100,00

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For the year ended 31 December 2017

17. INVESTMENTS IN SUBSIDIARIES (continued)

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

In September 2016 the Group acquired a 51% stake in share capital of Mak Agro Grains Cereals and Legumes Trading LLC, a commodities trading company.

LLC Danapris, LLC Capital Shipping Company and LLC Hylea-Servise are in the process of liquidation.

Group subsidiaries incorporated in Marshall Islands were dormant companies and have been liquidated.

KDM SHIPPING PUBLIC LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTSFor the year ended 31 December 2017**18. INVENTORIES**

	2017 USD'000	2016 USD'000
Work in progress	121	1
Fuel	32	64
Materials	23	11
Total inventories	<u>176</u>	<u>76</u>

19. TRADE AND OTHER RECEIVABLES

	2017 USD'000	2016 USD'000
Trade receivables	1 583	1 678
<u>Less: Provision for impairment of trade receivables</u>	<u>-</u>	<u>-</u>
Trade receivables - net	1 583	1 678
Loans receivable from directors/owners (note 27(iii))	1 255	-
Prepayments	3 259	5 354
<u>Less: Provision for prepayments</u>	<u>-</u>	<u>(2 198)</u>
VAT recoverable	48	120
Interest on loans receivable	27	-
Other receivables	1 493	1 082
<u>Less: Provision for impairment of other receivables</u>	<u>-</u>	<u>-</u>
Total trade and other receivables	<u>7 665</u>	<u>6 036</u>
Non-current portion	1 255	-
Current portion	6 410	6 036
Total	<u>7 665</u>	<u>6 036</u>

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

19. TRADE AND OTHER RECEIVABLES (continued)*Ageing analysis of trade and other receivables:*

	Gross amount 2017 USD'000	Impairment 2017 USD'000	Gross amount 2016 USD'000	Impairment 2016 USD'000
Not past due	2 937	-	2 602	-
Past due 0-30 days	53	-	42	-
Past due 31-120 days	86	-	116	-
More than 120 days	-	-	-	-
	<u>3 076</u>	<u>-</u>	<u>2 760</u>	<u>-</u>

Movement in provision for impairment of receivables:

	2017 USD'000	2016 USD'000
Balance at 1 January	2 198	2 300
Impairment losses recognised on receivables	71	680
Amount written off as uncollectible	(2 269)	(749)
Bad debts recovered	-	(33)
Balance at 31 December	<u>-</u>	<u>2 198</u>

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

20. CASH AND CASH EQUIVALENTS

	2017 USD'000	2016 USD'000
Cash at bank	<u>21 339</u>	<u>23 490</u>
Total cash and cash equivalents	<u>21 339</u>	<u>23 490</u>

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

	2017 USD'000	2016 USD'000
Cash and cash equivalents	<u>21 339</u>	<u>23 490</u>
Total	<u>21 339</u>	<u>23 490</u>

The exposure of the Group to credit risk and impairment losses and to liquidity risk in relation to cash and cash equivalents is reported in note 28 to the consolidated financial statements.

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For the year ended 31 December 2017

21. SHARE CAPITAL

	2017 Number of shares	2017 USD'000	2016 Number of shares	2016 USD'000
Authorised				
Ordinary shares of USD 0,01 each (EUR 0,01 each)	<u>20 000 000</u>	<u>265</u>	<u>20 000 000</u>	<u>265</u>
Issued and fully paid				
Balance at 1 January and 31 December	<u><u>9 296 000</u></u>	<u><u>118</u></u>	<u><u>9 296 000</u></u>	<u><u>118</u></u>

The owners of the parent company as at 31 December 2017 were as follows:

	2017 USD'000	2016 USD'000
Kostiantyn Molodkovets	65	65
Denys Molodkovets	15	15
Oleksyi Veselovskyy	2	2
Public	<u>36</u>	<u>36</u>
	<u><u>118</u></u>	<u><u>118</u></u>

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/EUR 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 EUR 0,01 each and share premium of USD 23 570 thousand net of transaction costs.

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22. LOANS AND BORROWINGS

	2017 USD'000	2016 USD'000
Short-term liabilities		
Non-bank loans (note 27(vi))	127	146
Bank loans	2 000	4 000
Total loans and borrowings	<u>2 127</u>	<u>4 146</u>

Bank loans have an interest rate of 3M Libor + 10,5% and are secured by mortgage against the vessels with net book value of USD 2 087 thousand (2016: USD 2 549 thousand).

Movement in loans and borrowings:

	2017 USD'000	2016 USD'000
Balance at 1 January	4 146	4 000
Proceeds from non-bank loans	103	537
Repayment of non-bank loans	(122)	(391)
Income from derecognition of bank loans (Note)	(2 000)	-
Balance at 31 December	<u>2 127</u>	<u>4 146</u>

Note: The Group has derecognised one of its bank loans in the amount of USD 2 000 thousand following a Court Decision ruled in Ukraine. The effect of this derecognition was recognised in profit or loss as part of other operating income.

23. DEFERRED TAX

	2017 USD'000	2016 USD'000
Balance at 1 January	485	604
Credit in profit or loss	-	(39)
Debit in profit or loss	4	-
Exchange difference	(10)	(80)
Balance at 31 December	<u>479</u>	<u>485</u>

Influence of temporary difference on deferred tax

	2017 USD'000	2016 USD'000
Vessels, property, plant and equipment	(484)	(491)
Provisions	5	6
Net deferred tax liability	<u>(479)</u>	<u>(485)</u>

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For the year ended 31 December 2017

24. TRADE AND OTHER PAYABLES

	2017 USD'000	2016 USD'000
Trade payables	1 266	2 514
Advances received	792	41
Salaries contributions and other related taxes	332	367
Payable to directors/owners (note 27(iv))	83	85
Other taxes payable	1	24
Interest payable	243	243
Other accounts payable	412	564
Total trade and other payables	3 129	3 838

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

25. OTHER LONG-TERM LIABILITIES

	2017 USD'000	2016 USD'000
Long-term notes payable	-	83
Discount	-	(44)
Total other long-term liabilities	-	39

The above amounts relate to bills issued by the Group.

Maturity of other long-term liabilities:

	2017 USD'000	2016 USD'000
Between one year and five years	-	39
	-	39

The exposure of the Group to liquidity risk in relation to other long-term liabilities is reported in note 28 to the consolidated financial statements.

KDM SHIPPING PUBLIC LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTSFor the year ended 31 December 2017**26. EARNINGS/(LOSS) PER SHARE**

The calculation of earnings per share for the year ended 31 December 2017 and 31 December 2016 was based on the profit/(loss) attributable to ordinary owners and the weighted number of ordinary shares outstanding as follows:

Profit/(loss) attributable to ordinary owners:

	2017 USD'000	2016 USD'000
Profit/(loss) for the year from continuing operations	1 120	(6 670)
Loss for the year from discontinued operation	<u>-</u>	<u>(1 524)</u>
Profit/(loss) for the year	<u>1 120</u>	<u>(8 194)</u>

Number of ordinary shares:

	2017 '000	2016 '000
Weighted average number of ordinary shares at 31 December	<u>9 296</u>	<u>9 296</u>
Total basic and fully diluted loss per share (USD)	<u>0,12</u>	<u>(0,88)</u>
Basic and fully diluted profit/(loss) per share (USD) – Continuing operations	<u>0,12</u>	<u>(0,72)</u>
Basic and fully diluted profit/(loss) per share (USD) – Discontinued operation	<u>-</u>	<u>(0,16)</u>

Profit/(loss) per share is the profit/(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.

27. RELATED PARTY BALANCES AND TRANSACTIONS

The majority of the Company's share capital is held by Kostiantyn Molodkovets who owns 54,86% and Denys Molodkovets who owns 12,88%. During the year ended 31 December 2017 30,11% of the Company's share capital is traded at the Warsaw Stock Exchange and is held by both institutional and retail investors.

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

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

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

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

A. Key management;

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

(i) Remuneration of key management

Salary costs of key management for the year ended 31 December 2017 and 2016 were as follows:

	2017 USD'000	2016 USD'000
Salaries	73	59
Contributions to pension funds	<u>8</u>	<u>8</u>
Total	<u>81</u>	<u>67</u>

Number of key management personnel was as follows:

	2017	2016
Number of key management personnel, persons	<u>18</u>	<u>18</u>

(ii) Transactions with related parties

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

	2017 USD'000	2016 USD'000
Revenue	-	607
Administrative expenses	81	(22)
Other operating expenses	-	(9)
Interest income	<u>27</u>	<u>-</u>
Total	<u>108</u>	<u>576</u>

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For the year ended 31 December 2017

27. RELATED PARTY BALANCES AND TRANSACTIONS *(continued)***(iii) Amounts receivable from directors/owners** (note 19)

	2017 USD'000	2016 USD'000
Loans receivable from directors/owners	<u>1 255</u>	<u>-</u>

Loans receivables from directors/owners bear an interest rate of 2,5% per annum and mature in 2020.

(iv) Amounts payable to directors/owners (note 24)

	2017 USD'000	2016 USD'000
Payable to directors/owners	<u>83</u>	<u>167</u>

(v) Outstanding balances with related parties (note 22)

	2017 USD'000	2016 USD'000
Non-bank loans	<u>127</u>	<u>146</u>

Non-bank loans from related parties as at 31 December 2017 have an interest rate of 1% per annum and mature in August 2018.

28. FINANCIAL INSTRUMENTS AND RISK MANAGEMENTFinancial 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 and accounts payable.

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

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.

(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 2017 USD 7 785 thousand (2016: USD 4 904 thousand) or 27% (2016: 19%) 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:

	2017 USD'000	2016 USD'000
Cash at bank	21 339	23 490
Trade and other receivables	4 358	2 760
	<u>25 697</u>	<u>26 250</u>

Credit quality of financial assets

In 2017 and 2016 the majority of cash and cash equivalents of the Group are held with banks and financial institutions in Ukraine which are not rated. As of 31 December 2017, Government of Ukraine was rated Caa2 (31 December 2016: Caa3) by Moody's credit rating agency.

KDM SHIPPING PUBLIC LIMITED

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

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

Exposure to liquidity risk

31 December 2017	Carrying amounts USD'000	Contractual cash flows USD'000	3 months or less USD'000	Between	Between	More than
				3-12 months USD'000	1-5 years USD'000	5 years USD'000
Loans and borrowings	2 127	2 127	2 127	-	-	-
Trade and other payables	1 921	1 921	1 921	-	-	-
Short-term notes	68	136	136	-	-	-
	4 116	4 184	4 184	-	-	-

31 December 2016	Carrying amounts USD'000	Contractual cash flows USD'000	3 months or less USD'000	Between	Between	More than
				3-12 months USD'000	1-5 years USD'000	5 years USD'000
Loans and borrowings	4 146	4 146	4 146	-	-	-
Trade and other payables	3 317	3 317	3 317	-	-	-
Short-term notes	38	53	53	-	-	-
Other long-term liabilities	71	83	-	-	83	-
	7 572	7 599	7 516	-	83	-

(iii) Market risk

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

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

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For the year ended 31 December 2017

28. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

(iii) Market risk (continued)*Foreign Currency Risk*

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

Exposure to foreign currency risk

The Group's exposure to foreign currency risk and the amount in local currency as at 31 December 2017 and 2016 based on carrying amounts was as follows:

31 December 2017	Euro USD'000	United States Dollar USD'000
<i>Assets</i>		
Cash and cash equivalents	372	-
	<u>372</u>	<u>-</u>
<i>Liabilities</i>		
Loans and borrowings	-	(2 000)
Trade and other payables	-	(64)
	<u>-</u>	<u>(2 064)</u>
Net exposure	372	(2 064)
31 December 2016	Euro USD'000	United States Dollar USD'000
<i>Assets</i>		
Cash and cash equivalents	-	4
	2 371	3
	<u>2 371</u>	<u>7</u>
<i>Liabilities</i>		
Loans and borrowings	-	(4 000)
	-	(50)
	<u>-</u>	<u>(4 050)</u>
Net exposure	2 371	(4 043)

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For the year ended 31 December 2017

28. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)*(iii) Market risk (continued)*Sensitivity analysis (foreign currency risk)

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

	Effect on profit or loss		Effect on equity	
	2017	2016	2017	2016
	USD'000	USD'000	USD'000	USD'000
Euro	4	24	4	24
United States Dollar	(21)	(40)	(21)	(40)
	<u>(17)</u>	<u>(16)</u>	<u>(17)</u>	<u>(16)</u>

(iv) 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 2017 and 31 December 2016 the structure of interest financial instruments of the Group grouped according to the types of interest rates, was presented as follows:

	2017	2016
	USD'000	USD'000
<i>Variable rate instruments</i>		
Financial liabilities	<u>(2 000)</u>	<u>(4 000)</u>
	<u>(2 000)</u>	<u>(4 000)</u>

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28. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)(iv) *Interest Rate Risk* (continued)Sensitivity analysis

An increase of 100 basis points in interest rates at 31 December 2017 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	
	2017	2016	2017	2016
	USD'000	USD'000	USD'000	USD'000
Variable rate instruments	<u>(20)</u>	<u>(40)</u>	<u>(20)</u>	<u>(40)</u>
	<u><u>(20)</u></u>	<u><u>(40)</u></u>	<u><u>(20)</u></u>	<u><u>(40)</u></u>

Capital management

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

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

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

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

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

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28. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT *(continued)**Capital management (continued)**Financial leverage ratio calculation*

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

	2017 USD'000	2016 USD'000
Short-term loans	2 127	4 146
Total amount of borrowings	<u>2 127</u>	<u>4 146</u>
Cash and cash equivalents	<u>(21 339)</u>	<u>(23 490)</u>
Net debt	<u>(19 212)</u>	<u>(19 344)</u>
Share capital	118	118
Share premium	23 570	23 570
Retained earnings	26 775	25 655
Effect from translation into presentation currency	(17 947)	(18 419)
Non-controlling interests	<u>(938)</u>	<u>(902)</u>
Total equity	<u>31 578</u>	<u>30 022</u>
Total amount of equity and net debt	<u>12 366</u>	<u>10 678</u>
Financial leverage coefficient	<u>(155,36)%</u>	<u>(182,52)%</u>

For the years ended 31 December 2017 and 2016 the ratio of net debt to EBITDA amounted to:

	2017 USD'000	2016 USD'000
Profit/(loss) for the year	1 084	(8 194)
Income tax expense/(credit)	4	(39)
Finance costs, net	61	63
Impairment losses	<u>-</u>	<u>3 272</u>
EBIT (Earnings before interest and income tax)	1 149	(4 898)
Depreciation and amortization	<u>679</u>	<u>1 146</u>
EBITDA (Earnings before interest, income tax, depreciation and amortisation)	<u>1 828</u>	<u>(3 752)</u>
Net debt/EBITDA	<u>(1 050,98)%</u>	<u>519,46%</u>

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

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29. 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.

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.

30. CONTINGENT AND CONTRACTUAL LIABILITIES

Ukrainian business and economic environment

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

The ongoing political and economic instability in Ukraine which commenced at the end of 2013 and led to a deterioration of state finances, volatility of financial markets, illiquidity on capital markets, higher inflation and devaluation of the national currency against major foreign currencies has continued in 2016 and 2017, though to a lesser extent as compared to 2014 and 2015.

Inflation rate in Ukraine during 2016 reduced to around 12% (as compared to 43% in 2015), and remained relatively stable through 2017, while GDP returned to growth of around 2% through 2016 and 2017 (after 9% decline in 2015). Devaluation of Ukrainian Hryvnia during 2016 has been moderate. In 2016 the National Bank of Ukraine ("NBU") has made certain steps to ease the currency control restrictions introduced in 2014 and 2015. Current restrictions are effective until rescinded by the NBU. The requirement to convert 65% of foreign currency in 2016 was lowered to 50% in 2017. Bans for payment of dividends abroad and early repayment foreign loans are still in effect. The banking system remains fragile due to its weak level of capital, low asset quality caused by the economic situation, national currency devaluation, changing regulations and other factors.

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For the year ended 31 December 2017

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

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

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

Taxation

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

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

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

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).

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30. CONTINGENT AND CONTRACTUAL LIABILITIES (continued)***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 2017 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 2017.

31. EVENTS AFTER THE REPORTING PERIOD

There were no material events after the reporting period, which affect the consolidated financial statements as at 31 December 2017 apart from the ones described below.

In order to improve performance of freight segment, the Group has adopted a strategy of taking more vessels under management in order to provide transportation services to existing and new customers. Performance of first quarter of 2017 proved that adopted strategy was right, providing ground for additional revenue.

During 2018, the Management took a decision of restructuring the Group's current legal structure. This restructuring entails change of ownership of assets within the current group as well as change in jurisdictions of profit centers. Ship repair segment is going under some cost cutting exercises due low financial performance.

On 27 April 2018, the Board of Directors of KDM Shipping Public Limited approved and authorised for issue, these consolidated financial statements.