

# KDM Shipping Public Limited (the “Company”) HE 106931

## DIRECTORS REPORT TO THE SHAREHOLDERS

### Letter from the Board of Directors of the Company

On 25 April 2013 the Board of Directors of the Company resolved to proceed with the creation (the “Offering”) of up to a total of 2,700,000 shares of the Company (the “Offer Shares”).

At the forthcoming Extraordinary General Meeting of the Company which will be held at the office of Dr. K. Chrysostomides & Co. LLC at 1, Lampousas Street 1095 Nicosia, Cyprus at 10 a.m. (EEST) on 17 May 2013 (the “EGM”) the following resolutions (the “Resolutions”) will be presented for approval:

1. Opening of the General Meeting.
2. Special Business

To consider and if thought fit to pass the following resolutions:

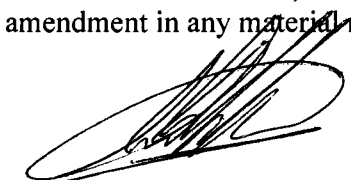
- i. That in accordance with the provisions of Section 59A of the Cyprus Companies Law Cap. 113 (the “Law”), the issued share capital of the Company be increased from EURO 72,960.00 (divided into 7,296,000 shares of nominal value of EURO 0.01 each) to up to Euro 99,960.00 (divided into 9,996,000 shares of nominal value EURO 0.01 each) by the creation of up to 2,700,000 new shares of a nominal value of EURO 0.01 each ranking *pari passu* with the existing shares of a nominal value of EURO 0.01 each in the capital of the Company (the “Additional Shares”).
- ii. That in accordance with the provisions of Sections 60B(5) and 59A of the Law, the Directors of the Company be and are authorised to allot any number of the shares up to 700,000 shares of a nominal value of EURO 0.01 each to such institutional investors as the Directors of the Company shall determine and at a price derived on the basis of customary bookbuilding process that will be organized amongst institutional investors, such price to be determined by the Company’s Board of Directors. The authority granted to the Board of Directors pursuant to this present resolution must be exercised by the Directors by 31st December 2013 at the latest.
- iii. That in accordance with the provisions of Sections 60B(5) and 59A of the Law, the Directors of the Company be and are authorised to allot any number of the shares up to 2,000,000 shares of a nominal value of EURO 0.01 each to Mr. Kostiantyn Molodkovets (or a company beneficially owned by him) subject to mandatory condition that the exactly same number of existing shares is sold by Mr. Kostiantyn Molodkovets (or a company beneficially owned by him) to institutional investors prior to any such allotment at a price equal to the price paid by such investors which in turn shall be derived on the basis of customary bookbuilding process that will be organized amongst institutional investors, such price to be determined by the Company’s Board of Directors. The authority granted to the Board of Directors pursuant to this present resolution must be exercised by the Directors by 31st December 2013 at the latest.

- iv. That in accordance with the provisions of Sections 60B(5) and 59A of the Law, the Directors of the Company be authorised to issue and allot any number of the Additional Shares up to a total of 2,700,000 shares, as if section 60B of the Law did not apply to such allotment, to Mr. Kostiantyn Molodkovets (or a company beneficially owned by him) and such institutional investors as the directors deem appropriate as and when required and that the pre-emption rights conferred by section 60B of the Law to the Members of the Company be and are hereby waived and disapplied. The authority granted to the Board of Directors pursuant to this present resolution must be exercised by the Directors by 31st December 2013 at the latest.
  - v. That the registration of the additional shares (up to 700,000 shares) of the Company, to be offered to institutional investors, with the securities deposit operated by the Polish National Depository of Securities (*Krajowy Depozyt Papierów Wartościowych S.A.*) as well as applying for admission those shares to the regulated market operated by the Warsaw Stock Exchange (*Giełda Papierów Wartościowych w Warszawie S.A.*) pursuant to the relevant prospectus exemption, be and is hereby approved. Listing of the remaining 2,000,000 newly issued shares, subscribed by Mr Kostiantyn Molodkovets (or a company beneficially owned by him), is not contemplated at the moment.
3. Any other business (for discussion).
  4. Closing of the General Meeting.

The Board of Directors notes that the proposed allotment of the Additional Shares and the listing of up to 700,000 Additional Shares is conditional, *inter alia*, upon all Resolutions being duly passed at the EGM without amendment in any material respect.

**DENYS MOLODKOVETS**

For and on behalf of the Board of Directors



### **Directors' Report**

This letter constitutes a written report, pursuant to section 60B(5) of the Law, to be presented to the shareholders of the Company at the EGM setting out the reasons for withdrawing the right of pre-emption in relation to the allotment of the Shares.

The Board of Directors of the Company propose that the issued share capital of the Company be increased from EURO 72,960.00 (divided into 7,296,000 shares of nominal value of EURO 0.01 each) to up to EURO 99,960.00 (divided into 9,996,000 shares of nominal value EURO 0.01 each) by the creation of up to 2,700,000 new shares of a nominal value of EURO 0.01 each (the "Additional Shares") ranking *pari passu* with the existing shares of EURO 0.01 each in the capital of the Company.

The Company plans to increase its share capital and issue up to 2,700,000 ordinary shares in order to finance the Company's business development. At the same time, in order to accelerate the receipt of proceeds and execute the capital increase as soon as possible, the Company has decided to utilise the support of the major shareholder and has structured the transaction as described in the EGM Notice and this Directors' Report.

Timing of the contemplated transaction is important and shall be planned carefully in the current state of periodic uncertainty in global equity market conditions. The Company would like to take advantage of the current relatively stable situation on the Warsaw Stock Exchange and the fact the market is expecting accomplishment of the investment program announced during the IPO. The Board of Directors is of the opinion and recommends that in order to utilise a prevailing market window, a quick and flexible placement structure (as presented) should be adopted.

The Company's Board of Directors proposes to organize capital raising by the way of offering up to 2,700,000 ordinary shares in the offering to investors that will be organized in the form of bookbuilding addressed to qualified investors only (the "**Investors**"), pursuant to an exemption from the obligation to publish a prospectus under the Prospectus Directive and applicable Cypriot and Polish regulations (the "**Offering**").

In order to speed up the process, the Company's Board of Directors asked Mr. Kostiantyn Molodkovets to support the planned Offering by selling, to Investors, part of his shareholding (up to 2,000,000 shares). At the same time, the Company (pursuant to the general meeting approval) will execute a capital increase of up to 2,700,000 ordinary shares, out of which up to 2,000,000 newly issued ordinary shares will be subscribed and acquired by Mr. Kostiantyn Molodkovets (or a company beneficially owned by him) (the "Acquisition Shares") and the remaining 700,000 newly issued ordinary shares (the "Additional Investor Shares") offered directly to the Investors. Issue price for the Acquisition Shares shall be equal to the issue price of the Additional Investor Shares. As a result of this transaction the total number of shares held by Mr. Kostiantyn Molodkovets will remain unchanged.

As a result, the contemplated transaction structure encompasses up to 2,700,000 ordinary shares to be offered to Investors (up to 2,000,000 Sale Shares and up to 700,000 Additional Investor Shares). The offering of both Sale Shares and Additional Investor Shares will be addressed to the Investors only, during the same bookbuilding process.

The Board of Directors proposes that (i) the final number of shares in the planned capital increase (i.e. the Acquisition Shares and Additional Investors Shares) and (ii) the issue price for the new shares, be determined by the Board of Directors of the Company based on the results of the bookbuliding process – this will provide the Company with opportunity to maintain flexibility in determining the final terms of the Offering in order to attract the maximum number of investors possible and raise required amount of the new capital.

The issue price will be arrived at on the basis of a customary bookbuilding process among Investors, which will reflect both the equity market conditions as well as sentiment to the Company (which will include the investment program to be financed with the proceeds from the

Additional Shares). The price will be set at the level as close as reasonably possible to the market price of shares listed on the Warsaw Stock Exchange (subject to any market standard discounts prevailing at the time of the Offering).

Such a transaction structure is economically identical to a typical capital increase process with a key advantage of enabling the Company to have access to immediate funds through a relatively quick capitalisation procedure. The sale of existing shares by the major shareholder **(or a company beneficially owned by him)** and the subsequent return of the same number of new shares (resulting from capital increase) is just a technical aspect of this transaction and does not change either the total number of shares or the number of shares owned by the major shareholder.

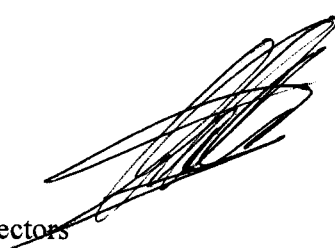
The shareholders are requested to disapply their pre-emptive rights in relation to the Additional Shares in order to enable the Company to proceed with the Offering and admission of up to the 700,000 Additional Shares to trading on the regulated market of the Warsaw Stock Exchange as soon as possible and to enable all potential investors in the Company to have equal rights with respect to their subscription to the Offering.

The Board of Directors of the Company recommends that the shareholders vote in favour of the Resolutions as this will be to the benefit of the Company.

Yours sincerely

DENYS MOLODKOVETS

For and on behalf of the Board of Directors

A handwritten signature in black ink, appearing to be 'Denys Molodkovets', written over the typed name and title.