



Current report no 08/2023

dated 06 March 2023

LETTER FROM NAMSEN LIMITED ON THE DELISTING OF KERNEL HOLDING S.A.

Kernel Holding S.A., a company with registered office in Luxembourg (the “**Company**”) hereby informs that on 06 March 2023 the Company received from Namsen Limited, the largest shareholder of the Company currently holding 31,974,011 shares with voting rights attached, representing 41.29% of total voting rights (“**Namsen**”), a letter (the “**Letter**”) in which:

- Namsen informs the Board of Directors of the Company (the “**Board**”) about the intention of Namsen to delist the Company and to launch a delisting tender offer to invite the remaining shareholders to sell their shares in the Company for the purposes of the potential delisting of the Company’s shares.
- Namsen requests the Board to consider delisting of the Company's shares from trading on the Warsaw Stock Exchange and make the respective decisions within limits of Board’s powers and responsibilities.

The copy of the Letter is enclosed as an appendix to this current report.

Following the receipt of the Letter, the Board initiated a discussion with its legal counsels in Poland and in Luxembourg to understand the consequences for the Company and obligations relied on the Company in connection with such initiation of the delisting of the Company's shares from trading on the Warsaw Stock Exchange. Thereafter the Board will determine its course of actions, and any regulatory required communications will follow in due course.

Legal grounds: Legal grounds: Art. 17 of REGULATION (EU) No 596/2014 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 16 April 2014 on market abuse (market abuse regulation) and repealing Directive 2003/6/EC of the European Parliament and of the Council and Commission Directives 2003/124/EC, 2003/125/EC and 2004/72/EC.

Signatures of individuals authorised to represent the Company:

Anastasiia Usachova

Yuriy Kovalchuk

Appendix 1.

To:

Members of the Board of Directors of Kernel Holding S.A.
9, rue de Bitbourg
L-1273 Luxembourg
Grand Duchy of Luxembourg

Nicosia, Cyprus, 6 March 2023

Dear Sirs,

We, Namsen Limited ("**Namsen**" or "**we**"), are writing to you in our capacity as the majority shareholder of Kernel Holding S.A. ("**Kernel**" or the "**Company**"). We currently hold 31,974,011 shares with voting rights attached, representing 41.29% of total voting rights (given that Treasury Shares owned by the Etrecom Investments Limited do not carry any voting rights).

As you know, we are the main longstanding shareholder of the Company and facilitated the Company's initial public offering ("**IPO**") in 2007 at the Warsaw Stock Exchange by accepting to sell a substantial part of our shares to public shareholders.

Due to various reasons, which are further discussed below, we, as majority shareholder, have come to the conclusion that the disadvantages, from a strategic, commercial and cost perspective, resulting from the listing of the Company's shares on Warsaw Stock Exchange outweigh the relative advantages of being a public traded company, as further specified below.

No benefits from being listed on the Warsaw Stock Exchange

- (1) Unjustifiable spread between public cost of Company equity as compared to the public cost of Company debt destroys the benefit of on-demand access to public equity*

When we supported the Company going public, we expected the IPO to enhance the Company's profile and business, to facilitate the Company's access to the international capital markets and enable the Company to raise funds with a view to implementing the Company's strategy and achieving its strategic goals, to facilitate the Company's access to the capital markets and, improving opportunities for further growth, expansion and development of the business and, thus to increase share value to the shareholders. Simplified access to capital markets was the main incentive for the going-public decision back in 2007. The Company successfully used this channel three times thereafter: in 2008, 2010, and 2011 to finance Company's growth. But since then, the situation has totally changed, and **during last eleven years Kernel has never raised equity via public offerings to finance the growth of the Company** and its subsidiaries (the "**Group**")¹, as the equity value has constantly been depressed, implying unjustifiably higher cost of financing as compared to the debt.

- (2) Limited tools to improve stock visibility and liquidity to revive the benefits of access to capital equity market*

¹ Issuing shares under the management incentive plans cannot be treated as financing the growth of the Company via equity raise.

Despite the substantial management focus aimed at **amplifying Kernel equity story**², no meaningful results were achieved. Company suffers from the lack of financial visibility and **poor analyst coverage**: Kernel is currently diligently covered by 3-4 analysts only (all of whom Polish / Ukrainian), as compared to 7-8 analysts back in 2017 (including UK and US based sell-side analysts). It translates into the insufficient liquidity of Kernel stock to justify the trading on a regulated market. Low liquidity, in its turn, impairs the ability of shareholders to exit the stock in fast and predictable fashion especially with the war-related risks in Ukraine. Numerous attempts to improve stock visibility and widen shareholder base over the past decade via regular communication to the market, participation in capital market conferences, non-deal roadshows and material investments into investor relation development and marketing barely translated into any visible improvements.

Moreover, cyclical nature of the commodity business the Company is in rarely fits well for supporting a growth story constantly required by capital market investors. This factor has only become more acute in recent years with the increased volatility of global markets. Company's earnings are hard to predict and forecast, which negatively impacts the visibility and liquidity, and depresses share price.

(3) Recent regulatory changes in Polish pension system further aggravated the deterioration of the shareholder base quality as most of current minority shareholders are not committed to Company needs

Polish investors are not Kernel core base shareholders any longer. After an IPO, up to 80% of Company's free float was composed of Polish investors, stemming from the successful pension reform in Poland. Today, according to our estimates, less than 15% of shareholders are investors from Poland, as the recent pension reform in Poland reduced the pension funds' appetite for WSE-listed stocks. Additionally, due to the consolidation of the pension funds market in Poland we observe a decreasing number of shareholders, who would like to extend their position in Kernel. During the latest Extraordinary General Meeting ("**EGM**") of shareholders of the Company held in September 2022, it was proposed to the shareholders to create the authorized share capital to enable Company to raise promptly the emergency equity funding if needed in the environment of ongoing Russia's war against Ukraine while debt capital markets remain closed for Ukrainian issuers. Such initiative faced a huge resistance from minority shareholders, evidenced by the record high attendance (71% of all voting shares participated at such EGM) and significant majority of minority shareholders voted against the authorized share capital increase. It is our understanding that **many shareholders are not willing to support the Company with cash injections and have short-term speculative interest in the stock rather than long-term strategic view on the Company.**

Considering the above and with no sign of such situation to improve in the nearest future, we conclude that there is **no value any longer for the Company shares to remain publicly listed.**

(4) Prolonged armed conflict in Ukraine has an impact on decreasing Company's valuation and share price on WSE

Current situation in Ukraine doesn't enable Kernel's Management to establish a suitable Company's strategy that would provide investors with an opportunity to evaluate Kernel based on its future cash flows. Lack of market stability and unpredictable economic conditions disqualified the Company as an investment grade asset for the majority of pension and mutual long-only funds, which could make Kernel

² Between February 2020 and February 2022, Kernel engaged a major CEE investment bank to assist Kernel in enhancing its international equity capital market profile, to increase Kernel exposure to international investors and in order to expand its investor base, but limited success has been reached.

a speculative asset in hands of hedge funds and short-term investors and lead to further loss of the Company's reputation on financial markets.

Sizable direct and indirect cost for the Company of staying listed

(1) Material gap over extended period between market and intrinsic value of the Company elevates the cost of Company strategic development.

As per our opinion, the market valuation has not reflected the intrinsic value of the Company for a long time as compared to similar companies listed on other stock exchanges. Low historical valuation created a dangerous benchmark, which is very hard to override. It has a negative impact on M&A transactions which are an essential part of Group's historic and future strategic growth:

- **Negative market perception** (both from equity holders and from creditors) when Kernel acquires strategic assets at multiples which are higher than Company's market valuation aggravating syndrome of 'value disruptive transaction'.
- On the other side of the spectrum, it is **impossible to sell assets at multiples which are higher than Kernel's current valuation**, as buyers always refer to the Company's market valuation when negotiating any deals.
- There is no immediate benchmark, regional and sectoral peer group on the WSE for the Company, as other Ukrainian players listed on WSE suffer from the same issues.

Eliminating such valuation benchmark is the other important purpose of the intended delisting.

Considerable investments made in the last eight years had very minor reflection in equity value, thus discouraging any strategic initiatives and investments as those do not create additional value for shareholders. On the contrary, Namsen as the largest shareholder is ready to reinvest the Company's profits sacrificing any short term-distribution as well as potentially inject additional capital to grow the Company's business and shareholder equity.

(2) Mandatory regulatory disclosure requirements undermine the competitive edge of the Company

Besides, **being public undermine the competitive edge of the Company**, as local and international peers replicate Company's managerial decisions and strategic initiatives (related to the development of the business in Ukraine), use information disclosed in Company's financial reports (financial position of the Company, market outlooks and guidance) when competing with Kernel.

(3) The actual direct and indirect costs to comply with public company regulatory requirements are constantly growing

Finally, maintenance cost associated with administration of public disclosures, market access and communication along with legal expenses to comply with complex regulatory framework and corporate governance standards applied to public companies **constantly increase**. Management team is significantly involved in activities associated with public status of the Company. Delisting of the Company can save costs and administrative effort to a considerable extent, regarding expenses and costs in connection with regulatory requirements. In addition, the Company will be able to unlock resources and streamline the management time for the benefit of its core business.

The intention to delist the Company

Summarising the above, our perception is that **direct and indirect listing costs exceed listing benefits**, and now it is a good time **to delist the Company**. Private ownership shall allow the Company

to be less vulnerable to potential adverse consequences of negative stock market conditions. It would favour long-term strategies without regard to short-term moods on the capital markets.

It is with a view to the above that we hereby wish to make a proposal to take the Company private. This would enable management to concentrate 100% of their time and resources on the execution of strategic plan serving the true interests of the Company as well as explore new strategic opportunities and sustainable growth.

Additionally, delisting of the Company and the preceding delisting tender offer is associated with the increase of the stake of Namsen as a key shareholder, implying more focus and commitment of the largest shareholder to serve the interests of the Company. In current circumstances, when due to the war in Ukraine the solvency of the Company and the Group depends on the stance of its debtholders, such step sends a **strong positive signal to Group's creditors** and serves the best interest of the Company.

Considering low liquidity of Company shares on the stock exchange due to the reasons discussed above we are also of the opinion that **delisting tender offer constitutes a beneficial proposal for all groups of shareholders**. The shareholders wishing to liquidate their exposure but incapable of doing so due to low market depth and liquidity would have the ability to do so. And shareholders believing (as we do) in long-term prospects of private Company would benefit from the revived strategic focus and commitment in navigating the Company throughout the most challenging and riskiest times in its history while retaining greater freedom to pursue the Company's strategic goals and options.

This said, we also would like to inform you, that Namsen would be willing to launch a delisting tender offer to invite the remaining shareholders to sell their shares in the Company for the purposes of the potential delisting of the Company's shares. However, we would like to provide you with further details on this separately if the Company is supportive of the idea to be taken private.

- The bidder under the Tender offer will be the Namsen Limited (hereinafter, in addition to the definition above, also the "**Bidder**").
- Number of shares to be the object of the Tender offer: 52,057,219.
- The price for the tendered shares is set to be PLN 18.5 per share, which meets the requirements of the minimum price to be used in the delisting tender offer.
- Trigon Dom Maklerski S.A. will serve as an intermediating broker in the delisting tender offer.

If we acquire at least 95% but less than 100% of the shares of the Company during the delisting tender offer, we may consider a mandatory squeeze out, in compliance with all applicable regulations, including, but not limited to the Luxembourg Law of 21 July 2012 on mandatory squeeze-out and sell-out of securities.

The delisting tender offer will not have any impact on the location of the Company's business in the future.

We do not envisage the intended delisting to have any impact on the Group's employees.

Strategic plans of the Bidder for Kernel primarily include the stabilization and maintaining of the Group's operations during the war in Ukraine, and the following development and increase of the scale of Group's operations, as envisaged in Group's Strategy 2026 specified in Group's annual reports. We remain committed to further support the development and well-being of the Group.

In December 2022, we applied for clearance from the Antimonopoly Committee of Ukraine to exceed the 50% threshold at the votes of the general meeting of shareholders of the Company. In February 2023, we obtained the respective clearance from the Antimonopoly Committee of Ukraine.

Corporate decision on the delisting of the Company

According to Luxembourg law, the **decision to delist the shares should be taken by the Board of Directors** and must comply with the laws of the Grand Duchy of Luxembourg as home member state of the Company. Against this background, Polish requirements of appointing delisting resolution by EGM with 90% of majority of votes are not applicable.

We invite the Board of Directors to consider the delisting of the Company from the Warsaw Stock Exchange and make the respective decisions within limits of Board of Directors' powers and responsibilities.

The Board may consider making the content of this letter public, if it is deemed necessary.

As part the delisting tender offer Namsen retained CMS as its legal advisor, FinPoint as its financial advisor and Trigon as the broker for the purposes of the transaction.

We remain available to discuss the above and in case you have questions.

Kind regards,
Namsen Limited

Giannoulla Georgiou
Director