KERNEL

Current report no 29/2023

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UPDATE ON OPERATIONS AND RECENT DEVELOPMENTS

Kernel Holding S.A. (the “**Company**”) hereby issues an operational update to elucidate recent developments that have significantly affected the Company and its subsidiaries (referred to as the "Group"). These notable shifts in the operating landscape have transpired since mid July until now. This report serves to provide insights into the dynamic environment and outline the Group's management responses to these challenges.

Context and background

The ongoing war arising from Russia’s invasion of Ukraine launched on February 24, 2022 has had a profound impact on the Group. The military actions have led to a suspension of operations and a shift in export logistics due to the blockade of Ukrainian Black Sea ports by Russians. This disruption has caused significant challenges for the Group's export-oriented business, resulting in decreased export volumes and skyrocketing logistics costs of alternative export channels. Additionally, Russian missile attacks on Ukrainian energy infrastructure have caused power outages and disruptions of regular business processes. The crisis has also led to the mobilization of almost 1.5 thousand employees for military service, resulting in the loss of 29 employees and injuries to 83 others.

Grain Deal update

The Grain Deal, a UN-brokered initiative for agricultural export from Ukraine via Black Sea ports, temporarily alleviated the challenges described above. The Grain Deal was signed in July 2022 and was the major supporting factor for Group performance in FY2023, allowing the Group to export 3.8 million tons of grain and 1.1 million tons of sunflower oil from Ukraine for the period of 12 months ending 30 June 2023 to maintain sufficient profitability. Despite constant disruptions caused by Russians sabotaging vessel inspections, the Grain Deal provided substantial relief to Group’s operations. On 18 July 2023, Russia unilaterally decided not to extend the Grain Deal negatively and materially impacting on the Group’s export capabilities as the Grain Deal was a major channel for delivering soft commodities to international market place. Any alternatives to sea-borne trade are limited in capacity and more expensive from a logistics standpoint adversely impacting operating profitability.

As a result, grains export in July 2023 amounted to a mere 10 thousand tons, sunflower meal shipments dropped to 33 thousand tons, and sunflower oil sales totaled 84 thousand tons.

Russian missile attacks on Group’s infrastructure

Since 19 July 2023, immediately following the termination of the Grain Deal, a sequence of destructive events unfolded. A Russian missile attacks severely damaged the grain export infrastructure at Ukrainian ports Odesa and Chornomorsk, including vital Group assets. This, coupled with the Grain Deal cancellation, rendered the export of soft commodities via Ukrainian Black Sea ports unfeasible. The attack inflicted considerable harm to storage facilities, intake capacities, and loading equipment.

Subsequently, on 24 July 2023, another missile attack by Russia targeted the port of Reni on the Danube River. The attack inflicted damage on port infrastructure, impacting the Group's vegetable oil transshipment terminal assets – resulting in the loss of 6 thousand tons of storage capacity, damage to railway intake capacity and piping equipment. In addition, almost one thousand tons of sunflower oil was spilled and lost.

Continuing this chain of unfortunate events, on 6 August 2023, a significant missile strike hit one of the Group's largest in-land silos located in the Khmelnytskyi region. The attack led to the destruction of 21 thousand tons of storage and truck unloading equipment. Moreover, 44 thousand tons of storage, drying facilities, and administrative buildings endured substantial damage.

The series of attacks culminated on 16 August 2023, as Russian drones targeted and inflicted severe damage upon all grain storages belonging to the Group's grain transshipment terminal in the Reni port. This assault also resulted in the destruction of valuable loading equipment.

These relentless attacks have had a profound and multi-faceted impact on the Group's operations, with crucial export and storage facilities incapacitated, valuable commodities lost, and substantial infrastructural damage incurred across various sites. The cumulative consequences of these incidents present a complex challenge that the Group is actively addressing.

The current preliminary assessment of the required capital expenditure (CapEx) to reinstate and rehabilitate the equipment that sustained damage or was destroyed during the recent attacks stands at a minimum of USD 20 million[1]. The repair process, for some instances, is projected to extend up to 12 months, highlighting the substantial scope of restoration needed. In tandem, the estimated market value of the commodities lost as a result of these attacks is approximately USD 12 million. It's important to note that both the equipment and inventories affected are devoid of insurance coverage against such unforeseen events. Consequently, these developments have had an adverse impact on the Group's liquidity position, underscoring the financial challenges posed by the current circumstances.

There are no other major war-related losses suffered by the Group besides those described above and those disclosed in the financial reports published up to date.

Update in respect of recent acquisitions

To improve the resilience of its oilseed processing business which has been the Group's major earnings driver recently, the Group:

- acquired assets used in the transshipment of vegetable oils in the port of Chornomorsk for USD 19.4 million. The deal remains subject to antitrust clearance in Ukraine. In case Ukrainian Black Sea ports remain blocked, the Group intends to use such assets as an important storage and transshipment hub to receive the sunflower oil by railway, accumulate it in storage, and then redirect sunflower oil by trucks to the Danube River port, thus reducing the logistics costs of alternative export route. One-time sunflower oil storage of 105 thousand tons allows the Group not to stop crushing plants during transportation disruptions, as heavily experienced in FY2022-FY2023, and smooth down the logistics. In case Ukrainian Black Sea ports are unblocked, the assets will be used as a core deep-water transshipment base on the Black Sea for sunflower oil exported by the Group;
- entered into an agreement to acquire 100% of corporate rights in Reni-Oil LLC, a sunflower oil transshipment terminal with 15 thousand tons of one-time sunflower oil storage in the Reni port for USD 24.75 million. It is the only terminal with proper intake, storage, and off-loading capacities among Ukrainian Danube River ports, allowing to export of sunflower oil even in case of the blockade of the Black Sea ports. The deal is expected to be completed by 31 December 2023.

Enhanced edible oil infrastructure footprint of the Group is vital ahead of the commissioning of the Group's brand-new crushing plant in the Khmelnytskyi region in Ukraine, scheduled for spring 2024. This crushing

[1] The assessment of damages is still ongoing, and the final amount of losses might be higher.

facility will allow to process up to 1 million tons of sunflower seeds per annum. Out of USD 279 million total investments, USD 40 million remains to be deployed.

Harvest update

The Group nearly completed the harvesting of winter crops of 2023, encompassing 60 thousand hectares of winter wheat (up from 35 thousand hectares from the previous year) and 10 thousand hectares of winter rapeseed (compared to 5 thousand hectares last year). Based on the preliminary results, the winter wheat yield reached 6.6 tons per hectare, showing a significant increase from the 4.6 tons per hectare achieved last year, while the winter rapeseed yield rose to 3.3 tons per hectare, up from the 2.5 tons per hectare of the preceding year, primarily driven by supporting weather conditions.

Risks for Group's spring crops (corn, sunflower, and soybean) are currently limited, so Group expects to achieve crop yields close to historical averages. The Group has 120 thousand hectares planted under sunflower, 84 thousand hectares under corn, and 65 thousand hectares sown with soybeans.

Outlook for the harvest in Ukraine in general is supportive, the Group envisages an increase in the production both of grain and oilseeds, as compared to the previous year.

Operations update and outlook for FY2024

Due to the blurred prospects of the de-blocking of Ukrainian Black Sea ports for the export of agricultural products in FY2024, the baseline scenario implies the availability exports only via Danube River ports and inland routes subject to any destruction caused by Russian regular missile attacks on agricultural infrastructure. As such, the Group secured some capacities for the export of sunflower oil and meal, but has not secured yet a stable and economically efficient option for grain handling. Thus, additional investments will be required to expand grain export capacities and to reduce logistics costs.

FY2024 earnings outlook at the beginning of the season implies a sizable EBITDA decline due to undermined performance of both Farming and Infrastructure and Trading segments driven by relatively weak global grain prices and expensive export logistics. Oilseed Processing segment, on the contrary, is expected to be the major profit driver for the Group in FY2024. Any volumes and margins estimates are very sensitive to the current operating environment in Ukraine as a result of war related constant disruptions.

Credit metrics and liquidity highlights

As of 31 July 2023, the Group had USD 1,445 million of interest-bearing debt (bank loans principal amounts and Eurobonds, excluding accrued interest and lease liabilities), USD 1,148 million of cash and cash equivalents, and USD 327 million of commodity inventories[1] (including 1,282 thousand tons of grains, 103 thousand tons of oilseeds, 147 thousand tons of sunflower oil, and 111 thousand tons of sunflower meal).

A material portion of the accumulated liquidity will be consumed in FY2024 for the working capital replenishment, for capital expenditures to develop an alternative exports route via the Danube River, to repair the damaged facilities by Russian missile strikes along with the ongoing completion and commissioning of a crushing plant in Western Ukraine as well as to address maintenance backlogs resulting from liquidity preservation measures taken in FY2022-FY2023. The Group considers investments in the rolling stock, Danube river grain transshipment, and river fleet to handle monthly export volumes of c. 300,000 tons with an estimated CapEx requirement of around USD 50 million. Given the recent Russia's attacks on Ukrainian port infrastructure, the Group faces the strong need to diversify loading points in ports

[1] Preliminary data at estimated market prices and excluding inventories at temporarily occupied territories.

to mitigate further risks of damages caused by possible future strikes by Russians.

The Group does not have access to credit limits in banks, relying on the accumulated cash at hand. Nevertheless, the Group continues the negotiations with different financial institutions for the working capital or CapEx credit facilities.

Uncertainty with VAT refunds onwards and possible UAH devaluation risk increases Group's exposure to material FX losses.

Delisting status update

The Company is currently in the process of being delisted from the Warsaw Stock Exchange. Below is a summary of key milestones of the process.

On 06 March 2023, the Company received from Namsen Limited a letter 1) informing the Board of Directors 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; and 2) requesting the Board of Directors 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.

On 30 March 2023, the Company received from Namsen Limited a letter informing the Company about the announcement of the delisting tender offer for the sale of all shares in the Company, as required by the applicable delisting regulations.

On 13 April 2023, the Board of Directors, as a competent decision-making body of a public company domiciled in Luxembourg and listed on the Warsaw Stock Exchange decided to withdraw the shares of the Company from trading on the WSE. The Board of Directors also announced the intention to convert all Company's shares into the registered form after delisting.

On 12 May 2023, the delisting tender offer was settled. As a result, Namsen acquired 30,248,449 shares of the Company (36% of total shares issued), increasing its total stake to 74% of the total shares issued.

On 15 May 2023, the Company submitted an application to the Polish Financial Supervision Authority ("PFSA") for approval of the withdrawal of the Company's shares from trading on the regulated market operated by the WSE.

On 13 July 2023, the Company submitted to the PFSA the additional legal memorandum and other documents requested by the PFSA.

On 01 August 2023, the Company submitted to the PFSA a letter opposing the motions submitted on admission to the Kernel proceedings at PFSA.

As of the date of the publication of this current report, the Company has not received any additional information about the timing of the decision of the Polish Financial Supervision Authority on the delisting. Once such approval is granted by the PFSA, the Company will immediately make a delisting application to the WSE and file a relevant motion to the Polish National Depositary for the conversion of Kernel shares to a registered form with relevant communication to follow.

Update in respect of certain financing facilities of the Group

As disclosed in the current report of the Company No 02/2023, the Group has entered into waiver letters (collectively, the "**Waiver Letters**") in relation to, inter alia, the Natixis PXF Facility, the ING PXF Facility, EBRD Facility, and EIB Facilities and other credit agreements (the "**Facility Agreements**") in each case, with respect to the period ending 30 June 2023 to maintain the stability of the Group and to preserve its business and assets.

Pursuant to the Waiver Letters, the Group has agreed with the lenders under the lending facilities listed above (the "**Lenders**"), inter alia and as applicable, to a waiver and deferral, during the period ending on the relevant long stop date specified above (the "**Effective Period**"), of any repayment of principal, a waiver of specified potential or actual defaults or events of default arising as a consequence of the war in Ukraine.

The Group currently intends, and has informed the Lenders in the Waiver Letters, that interest will continue to accrue and be paid under the terms of the Facility Agreements as well as certain cash-sweep during the Effective Period. The Company also currently pays and intends to keep paying interest due under the Eurobonds.

Considering continuation of Russian war against Ukraine, in spring 2023 the Group initiated an extension of the waivers beyond the Effective Period for an extended 12 month period ending 30 June 2024. As of now, the process for such extension with the majority of the Lenders is still ongoing. However, the Group has signed under all facilities either 1) temporary standstills; or 2) extensions; or 3) new waivers and consents pending definitive agreement with those Lenders with whom no extension has yet been completed.

At the same time, the Group has agreed with those Lenders who have not signed yet new waiver and consents the key terms for the extension of the Waiver Letters to 30 June 2024, which are subject to final documentation and approval by respective credit committees of each Lender, agreeing in principle among others to:

- extend tenor until 30 June 2024;
- extend cash sweep mechanism;
- fix total CapEx basket sufficient to maintain the current scale of operations; and
- initiate the process of the shareholders' support in a form of a new equity injection of at least USD 60 million.

The Company will inform investors about further developments with respect to the extension of the Waiver Letters.

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

Viktoriia Lukianenko