Current report no. 23/2024

dated 31 May 2024

**CLARIFICATION ON COMPANY DEBT AND LIQUIDITY POSITION FOLLOWING PUBLIC COMMENTS BY SELL-SIDE ANALYSTS**

Following the publication of the Condensed Consolidated Interim Financial Statements for the three months ended 31 March 2024, Kernel Holding S.A. (the **"Company"**) provides additional clarification regarding its debt and liquidity position in light of recent analysts' comments.

The Company, along with its subsidiaries (the **"Group"**), is targeting the repayment of a Eurobond maturing on 17 October 2024 and the respective coupon, totaling USD 319.5 million (the **"Eurobond Payment"**). This repayment relies solely on the Group's available foreign liquidity pool, rather than the liquidity held in Ukraine. It is essential to distinguish between foreign liquidity and liquidity in Ukraine, as most of the Group's debt obligations are contracted outside Ukraine, while liquidity is accumulated and retained in Ukraine under restrictive capital controls due to the ongoing war.

**Liquidity in Ukraine** is currently inaccessible for the Eurobond Payment due to currency and capital controls imposed by the National Bank of Ukraine, including the prohibition to repay principal under loans provided to Ukrainian entities by foreign creditors before 20 June 2023. Additionally, Ukraine's transfer pricing policies limit the Group's potential to earn profits internationally. Capital control restrictions further limit the ability to transfer profits generated locally out of Ukraine through dividend distributions, which could otherwise strengthen foreign liquidity. Consequently, the **foreign liquidity pool** primarily comprises export proceeds that must be repatriated to Ukraine within 90 days of shipping goods[1]. If the Group's soft commodity exports are disrupted due to the ongoing war, cash held in international banks will be transferred to Ukraine to comply with respective local regulations.

Despite the National Bank of Ukraine's recent easing of currency restrictions in early May 2024, the impact on the Group's ability to move liquidity out of Ukraine has been minimal. While loans and bonds issued after 20 June 2023 are now allowed to be serviced practically without any restrictions, the repayment of the debt issued before this date remains prohibited. Therefore, the Group is exploring alternative options to accumulate the necessary foreign liquidity and is appealing to Ukrainian authorities for further relaxation of these restrictions to avoid the need for restructuring of the 2024 Eurobond. The ability to meet the Eurobond Payment will depend on several factors:

- Further relaxation of capital movement restrictions in Ukraine;
- The availability of substantial refinancing options in the foreign market;
- The pace of the Group's exports from Ukraine.

It is worth mentioning that the USD 60 million **share capital increase** completed in September 2023 was crucial in **supporting** specifically **the Group's foreign liquidity**, which is the primary pool for serving and repaying foreign debt. That equity raising, requested by the Group's creditors for completion

[1] On 11 November 2023 the maximum period for the repatriation of export proceeds to Ukraine was reduced from 180 days to 90 days for exporters of agricultural products.

by 31 December 2023 as a condition of the third wartime restructuring of the banks' credit portfolio, was accomplished under extraordinary operating circumstances, including:

- The blockade of the Black Sea, following Russia's exit from the Black Sea Grain Initiative, halted the Group's ability to export through this route. As a result, inventory, including the upcoming harvest, exceeding 3 million tons, substantially tying up the Group's liquidity;
- Direct missile attacks by Russia on agricultural infrastructure, including Company-owned port assets in Chornomorsk and on the Danube River, causing severe damage and disrupting operations;
- Limited visibility on future business prospects due to suspended export operations, a key revenue-generating activity for the Group.

Finally, when assessing the Group's liquidity, **it is crucial to consider** not only cash and debt but **also the working capital level**, which, as of 31 March 2024, was at its lowest since 30 September 2016. The Group must deploy substantial liquidity to replenish working capital to historically normalized levels, as inventory balances are expected to rise following the autumn 2024 harvest in Ukraine and the subsequent acceleration of soft commodity exports.

The Group remains committed to managing its debt and liquidity effectively, navigating the challenging environment, and fulfilling its obligations.

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.

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