RNS Number : 1059S
Kistos PLC
12 July 2022

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THIS IS AN ANNOUNCEMENT OF A POSSIBLE OFFER FALLING UNDER RULE 2.4 OF THE UNITED KINGDOM ("UK") CITY CODE ON TAKEOVERS AND MERGERS (THE "TAKEOVER CODE") AND DOES NOT CONSTITUTE AN ANNOUNCEMENT OF A FIRM INTENTION TO MAKE AN OFFER UNDER RULE 2.7 OF THE TAKEOVER CODE. THERE CAN BE NO CERTAINTY THAT ANY OFFER WILL BE MADE.

THIS ANNOUNCEMENT CONTAINS INSIDE INFORMATION FOR THE PURPOSES OF ARTICLE 7 OF REGULATION 2014/596/EU, WHICH IS PART OF UK DOMESTIC LAW PURSUANT TO THE MARKET ABUSE (AMENDMENT) (EU EXIT) REGULATIONS (*SI 2019/310*) ("UK MAR").

FOR IMMEDIATE RELEASE

12 July 2022

Proposed Combination of Kistos plc with Serica Energy plc

- Kistos believes that the Proposed Combination will create a leading independent North Sea champion, led by the right team with the right strategy

- Kistos believes that the Proposed Combination has strong industrial logic, significant value creation potential and achieves increased scale, relevance and trading liquidity for shareholders of both companies

- Kistos considers that the Proposed Combination would position the Combined Company to be a market consolidator, with an optimised balance sheet

- It is anticipated that, following completion of the Proposed Combination, the Combined Company would apply for the admission of its shares to a Premium Listing and to trading on the Main Market of the London Stock Exchange, given that, at current market valuations, the Combined Company would rank among companies currently within the FTSE 250 index

- Accordingly, this announcement is being made by Kistos to urge Serica shareholders to encourage the Board of Serica to engage in constructive discussions with the Board of Kistos regarding the Proposed Combination

Kistos plc ("Kistos") is today announcing a proposed combination with Serica Energy plc ("Serica") (the "Proposed Combination").

The Proposed Combination comprises a possible cash and share-for-share exchange offer by Kistos for Serica, whereby Kistos would offer for each Serica share (the "Proposed Combination Terms"):

- 0.2932 new Kistos shares; plus
- cash of 246 pence, comprising:
  - a distribution of capital to Serica shareholders via a cash payment of 67 pence per share (in addition to the already announced dividend of 9 pence per share in respect of the 2021 financial year, which was approved by Serica shareholders at the Serica annual general meeting on 30 June 2022 and is expected to be paid on 22 July 2022 (the "Serica Dividend")); and
  - cash consideration equivalent to 179 pence per Serica share.

Based on the closing price of 463 pence per Kistos share on 11 July 2022 (the "Latest Practicable Date"), **the Proposed Combination Terms give an offer value of <u>382 pence per Serica share</u>**, representing a premium of:

- 25% to the closing price of 305 pence per Serica share on the Latest Practicable Date; and
- 22% to the six-month volume weighted average price of 312 pence per Serica share on the Latest Practicable Date.

Under the Proposed Combination Terms, Serica shareholders would own approximately 50% of the issued share capital of the combined business (the "Combined Company"), in addition to receiving a significant cash component.

While Serica has stated that its Board "can see industrial logic in combining the portfolios of the two companies", the Proposed Combination has been rejected by the Board of Serica.

Accordingly, this announcement is being made by Kistos to urge Serica shareholders to encourage the Board of Serica to engage in constructive discussions with the Board of Kistos regarding the Proposed Combination.

Background on discussions

On 16 May 2022, Kistos approached the Board of Serica in writing, requesting that it engage in discussions regarding the merits of a combination of both companies (the "Initial Approach Letter"). The Initial Approach Letter contained significant detail on the strategic merits and potential value creation for shareholders of both Kistos and Serica. Two days later, on 18 May 2022, the Board of Serica informed Kistos in a letter that it had rejected the approach as it did not represent, in its view, "a specific proposal for the Board [of Serica] to consider".

On 24 May 2022, Kistos approached the Board of Serica again in writing with the Proposed Combination Terms and reiterated Kistos' confidence in the strategic merits and potential value creation of the Proposed Combination, expected to be achieved through a re-rating driven by scale, trading liquidity, balance sheet strength and the right team with the right strategy (the "Second Approach Letter").

On 1 June 2022, the Board of Serica informed Kistos in writing that it had again rejected Kistos' approach. Serica's letter accepted Kistos' view regarding the strategic merit of a combination, stating that the Board of Serica "can see industrial logic in combining the portfolios of the two companies", and suggested entering into a "limited mutual exchange of information under a non-disclosure agreement" (the "NDA") to explore a transaction, with Serica's letter further stating, "we [the Board of Serica] further propose that the default basis upon which those conversations are pursued is that any combination would be affected [sic] through an acquisition of Kistos by Serica".

With an agreement in principle on industrial logic, Kistos accepted the suggestion from Serica to enter into an NDA in order to agree on offer terms and structure. After Serica had conducted due diligence, Kistos received a proposal from Serica on 1 July 2022 (the "Serica Proposal").

Under the terms of the Serica Proposal, Kistos shareholders would receive for each Kistos share:

- cash of 90 pence; plus
- 1.29 new Serica shares.

The Serica Proposal represented a premium to the closing price on 30 June 2022 (the day before the Serica Proposal) of 12% - a low premium given the effective change of control implied by the Serica Proposal, which would see Serica shareholders hold approximately 72% of the Combined Company post-transaction. As of the Latest Practicable Date, **the Serica Proposal implies a <u>value of 483 pence per Kistos share</u>, <u>a premium of 4% to the closing Kistos share price</u>** of 463 pence per share.

On 8 July 2022, the Serica Proposal was rejected by the Board of Kistos on the basis that it was not at a recommendable value as it failed to recognise the inherent value in the existing Kistos portfolio, let alone the potential value creation that the Combined Company could generate. In addition, despite being positioned as a merger of equals, Serica had proposed that no Kistos senior management be retained, and that no Board members of Kistos should join the Board of the Combined Company.

The Board of Kistos believes that the terms of the Serica Proposal are at the wrong price, with the wrong mix of stock and cash (given leverage capacity).

The Proposed Combination by Kistos, in contrast, is at what the Board of Kistos considers to be the right price, with the right mix of stock and cash, and with an intent to put in place the right the right price, with the right mix of stock and cash, and with an intent to put in place the right combined team (drawn from both Kistos and Serica) to drive the Combined Company forward.

Compelling strategic and financial rationale

The Board of Kistos continues to believe that there is compelling industrial logic in the combination of Serica and Kistos, and that the Proposed Combination would create significant value for shareholders of both companies.

The Board of Kistos believes that Serica and Kistos trade on materially lower multiples versus their wider UK and Western European listed upstream independent peers and that the Proposed Combination has the potential to drive a re-rating of the Combined Company as a result of:

1. **Achieving scale and relevance:** Indicatively the Combined Company would have a market capitalisation of more than £1.8 billion if the Combined Company re-rated in line with the Peer Group median of 1.7x EBITDA[i], and would offer investors access to key market themes, those of energy supply and security, at a crucial moment for the industry. It is also anticipated that following completion of the Proposed Combination, the Combined Company would apply for the admission of its shares to listing on the premium segment of the Official List of the Financial Conduct Authority ("FCA") ("Premium Listing") and to trading on the main market for listed securities (the "Main Market") of London Stock Exchange plc (the "London Stock Exchange"), given that, at current market valuations, the Combined Company would rank among companies currently within the FTSE 250 index; index inclusion would be expected to drive investment flows into the Combined Company's stock and raise its profile with investors;
2. **Enhancing operating position**: The Combined Company would be expected to create a leading listed North Sea independent, with *pro forma* combined reserves which are c.86% operated, and strong operational performance and low unit production costs compared to the Peer Group;
3. **Optimising the combined balance sheet:** The Combined Company would be expected to have the scale and ability to optimise its balance sheet. On the basis of the Proposed Combination Terms, the *pro forma* Combined Company leverage (net debt divided by December 2022E EBITDA) is anticipated to be well below the Peer Group median;
4. **Strengthening the cash flow**: The Combined Company would be expected to generate significant and resilient free cash flow, enabling the Combined Company to consider a sustainable dividend policy;
5. **Creating a platform for growth**: The Combined Company would have optionality for both organic and non-organic growth over time, supported by the optimised balance sheet. The Kistos management team has a proven track record of M&A execution and resource development; and
6. **Leading in ESG:** In line with Kistos' mission statement, and the reality faced today where energy security and a commitment to tackling climate change must be equally balanced, the Combined Company would be well positioned to support the energy transition through its c.85% gas-weighted production, whilst maintaining a focus on becoming an industry leader for its carbon emission credentials.

The Board of Kistos strongly believes that an experienced management team with a clear track record, combined with effective oversight from an experienced Board, is key to delivering the opportunities presented by the Proposed Combination. Kistos would envisage employing a meritocratic approach to selecting the best individuals for the Combined Company drawn from the management teams and Boards of both Kistos and Serica.

Next steps

Kistos is making this announcement in order to provide Serica's shareholders with the opportunity to make their views known regarding the attractiveness of a Proposed Combination, and to urge Serica shareholders to encourage the Board of Serica to engage in constructive discussions with Kistos.

A presentation will be held today at 09:30 today, 12 July 2022. You can access the presentation via the link below, using the password "welcome". You can also listen via conference call by dialling the numbers below, using the access code: 2591 607 9892

Link to Webcast: https://mmitc-collab.webex.com/mmitc-collab/onstage/g.php?MTID=e203971ef52e4b79deadb13e6ac3d27ab

United Kingdom: +44 20 3467 2616
Netherlands: +31 70 700 6779

A playback facility for the presentation and a copy of the presentation will be made available shortly on the Company's website at www.kistosplc.com.

Important Takeover Code notes

In accordance with Rule 2.6(a) of the Takeover Code, Kistos must, by not later than 5.00 p.m. (London time) on 9 August 2022, either announce a firm intention to make an offer for Serica in accordance with Rule 2.7 of the Takeover Code (a "Kistos Firm Offer") or announce that it does not intend to make an offer for Serica, in which case the announcement will be treated as a statement to which Rule 2.8 of the Takeover Code applies. This deadline will be extended only with the consent of Serica and the Panel on Takeovers and Mergers (the "Panel") in accordance with Rule 2.6(c) of the Takeover Code.

Pursuant to Rule 2.5 of the Takeover Code, Kistos reserves the right to:

1. Vary the form and/or mix of the consideration for the Proposed Combination at its discretion; and

2. Make an offer at any time at a lower value or on less favourable terms:
    a. with the recommendation or consent of the Board of Serica;

    b. if Serica announces, declares or pays any dividend or any other distribution to shareholders (in which case Kistos will have the right to make an equivalent reduction to the Proposed Combination Terms), excluding the Serica Dividend;

    c. if a third party announces a firm intention to make an offer for Serica on less favourable terms than the Proposed Combination Terms; or

    d. following the announcement by Serica of a Rule 9 waiver pursuant to the Takeover Code or a reverse takeover (as defined in the Takeover Code).

A further announcement will be made as appropriate. There can be no certainty that a Kistos Firm Offer will be made.

Kistos confirms that this announcement is not being made with the consent of Serica.

Other information

The Board of Kistos does not expect any significant anti-trust or other regulatory approvals. However, should any requirements arise, it is not expected that such approvals would be significant hurdles to the completion of the Proposed Combination.

For the purposes of UK MAR, the person responsible for arranging release of this Announcement on behalf of Kistos is Andrew Austin, Executive Chairman.

Enquiries

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Orrick, Herrington & Sutcliffe (UK) LLP is acting as legal adviser to Kistos in connection with the Proposed Combination.

Important information

This announcement is not intended to, and does not, constitute, represent or form part of any offer, invitation or solicitation of an offer to purchase, otherwise acquire, subscribe for, sell or otherwise dispose of any securities or the solicitation of any vote or approval in any jurisdiction whether pursuant to this announcement or otherwise.

The distribution of this announcement in jurisdictions outside theUK may be restricted by law and therefore persons into whose possession this announcement comes should inform themselves about, and observe, such restrictions. Any failure to comply with the restrictions may constitute a violation of the securities law of any such jurisdiction.

Merrill Lynch International ("BofA Securities"), which is authorised by thePrudential Regulation Authority ("PRA") and regulated by theFCA and the PRA in theUK, is acting as financial adviser exclusively for Kistos and for no one else in connection with the matters referred to in this announcement and will not be responsible to anyone other than Kistos for providing the protections afforded to its clients or for providing advice in relation to the matters referred to in this announcement. Neither BofA Securities, nor any of its affiliates, owes or accepts any duty, liability or responsibility whatsoever (whether direct or indirect, whether in contract, in tort, under statute or otherwise) to any person who is not a client of BofA Securities in connection with this announcement, any statement contained herein or otherwise.

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About Kistos

Kistos plc was established to acquire and manage companies in the energy sector engaging in the energy transition trend. The Company has acquired Tulip Oil Netherlands B.V., which has a portfolio of assets, including profitable, highly cash generative natural gas production, plus appraisal and exploration opportunities. In addition, Kistos acquired a 20% interest in the Greater Laggan Area (GLA) from TotalEnergies in July 2022. The GLA includes four producing fields and a development project.

Kistos is a low carbon intensity gas producer. The Q10-A gas field in theDutch North Sea (60% operated working interest) has recorded a Scope 1 carbon emissions intensity of 13g CO2e/boe since inception. This compares to an industry average of 22kg CO2/boe for gas extracted from the UK continental shelf. The Q10-A normally unmanned installation is located approximately 20 km from the Dutch shore. It is powered sustainably via wind and solar power and is remotely operated, limiting offshore visits, which are conducted by boat.

Rule 2.4 information

In accordance with Rule 2.4(c)(iii) of the Takeover Code, Kistos confirms that it is not aware of any dealings in Serica shares that would require a minimum level, or particular form, of consideration that it would be obliged to offer under Rule 6 or Rule 11 of the Takeover Code (as appropriate). However, it has not been practicable for Kistos to make enquiries of all persons presumed to be acting in concert with it prior to this announcement in order to confirm whether any details are required to be disclosed under Rule 2.4(c)(iii). To the extent that any such details are identified following such enquiries, Kistos will make an announcement disclosing such details as soon as practicable, and in any event by no later than the time it is required to make its Opening Position Disclosure under Rule 8.1 of the Takeover Code.

Rule 2.9 information

In accordance with Rule 2.9 of the Takeover Code, Kistos confirms that, as at close of business on 11 July 2022 (being the business day prior to the date of this announcement), its issued share capital consisted of 82,863,743 ordinary shares of nominal value 10 pence each in the capital of Kistos which carry voting rights of one vote per share and admitted to trading on AIM, the market of that name operated by the London Stock Exchange with International Securities Identification Number (ISIN) GB00BLF7NX68.

Disclosure requirements of the Takeover Code

Under Rule 8.3(a) of the Takeover Code, any person who is interested in 1% or more of any class of relevant securities of an offeree company or of any securities exchange offeror (being any offeror other than an offeror in respect of which it has been announced that its offer is, or is likely to be, solely in cash) must make an Opening Position Disclosure following the commencement of the offer period and, if later, following the announcement in which any securities exchange offeror is first identified. An Opening Position Disclosure must contain details of the person's interests and short positions in, and rights to subscribe for, any relevant securities of each of (i) the offeree company and (ii) any securities exchange offeror(s). An Opening Position Disclosure by a person to whom Rule 8.3(a) applies must be made by no later than 3.30 p.m. (London time) on the 10th business day following the commencement of the offer period and, if appropriate, by no later than 3.30 p.m. (London time) on the 10th business day following the announcement in which any securities exchange offeror is first identified. Relevant persons who deal in the relevant securities of the offeree company or of a securities exchange offeror prior to the deadline for making an Opening Position Disclosure must instead make a Dealing Disclosure.

Under Rule 8.3(b) of the Takeover Code, any person who is, or becomes, interested in 1% or more of any class of relevant securities of the offeree company or of any securities exchange offeror must make a Dealing Disclosure if the person deals in any relevant securities of the offeree company or of any securities exchange offeror. A Dealing Disclosure must contain details of the dealing concerned and of the person's interests and short positions in, and rights to subscribe for, any relevant securities of each of (i) the offeree company and (ii) any securities exchange offeror(s), save to the extent that these details have previously been disclosed under Rule 8. A Dealing Disclosure by a person to whom Rule 8.3(b) applies must be made by no later than 3.30 p.m. (London time) on the business day following the date of the relevant dealing.

If two or more persons act together pursuant to an agreement or understanding, whether formal or informal, to acquire or control an interest in relevant securities of an offeree company or a securities exchange offeror, they will be deemed to be a single person for the purpose of Rule 8.3.

Opening Position Disclosures must also be made by the offeree company and by any offeror and Dealing Disclosures must also be made by the offeree company, by any offeror and by any persons acting in concert with any of them (see Rules 8.1, 8.2 and 8.4).

Details of the offeree and offeror companies in respect of whose relevant securities Opening Position Disclosures and Dealing Disclosures must be made can be found in the Disclosure Table on the Takeover Panel's website at www.thetakeoverpanel.org.uk, including details of the number of relevant securities in issue, when the offer period commenced and when any offeror was first identified. You should contact the Panel's Market Surveillance Unit on +44 (0)20 7638 0129 if you are in any doubt as to whether you are required to make an Opening Position Disclosure or a Dealing Disclosure.

Website publication

In accordance with Rule 26.1 of the Takeover Code, a copy of this announcement will be made available, subject to certain restrictions relating to persons resident in restricted jurisdictions, on Kistos' website (www.kistosplc.com) by no later than noon (London time) on the business day following this announcement. The content of the website referred to in this announcement is not incorporated into and does not form part of this announcement.

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[i] "Peer Group" comprises Capricorn Energy, Energean, EnQuest, Genel Energy, Harbour Energy and Tullow Oil. Peer Group median of 1.7x December 2022 EBITDA per Factset as at 11 July 2022. Peer Group median net debt / December 2022 EBITDA per Factset of 1.0x.

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