



Norofert S.A.

**Financial Report
as of 31 October 2019**

*Publishing Date:
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1. Introductory Remarks

Following the successful private placement of Norofert shares and in the light of nearing listing on the Bucharest Stock Exchange's AeRO market, despite not yet being obliged to publish financial results, the management has decided, for the transparency purposes, to publish the latest consolidated financial results of Norofert Group. Our goal is to engage in an open dialogue with the shareholders and potential investors therefore we hope you will find this report of value. We also hope that it will help you get a better understanding of our business model, especially ahead of the Extraordinary General Shareholders' Meeting, which will take place on December 3rd, 2019. We hope you will vote at the EGSM, either in person or by providing us with a Power of Attorney ahead of the EGSM. You can find all the relevant documentation regarding the EGSM at the 'Investors' section of the Norofert website, available here: <http://norofert.ro/investors/>.

The management acknowledges that with Norofert being the first company active in the agricultural field to be listed on the Bucharest Stock Exchange, some explanations have to be provided in order to approximate the characteristics of the sector to the shareholders and potential investors. For this purpose, please find on the following pages information related to the factors that have had an impact on Norofert's financial results in 2019 and which might also appear in the future. We hope that the information provided in the report is sufficient for the shareholders however, in case further explanations are needed, we kindly invite the interested parties to get in contact with us directly.

Overall, the management is satisfied with the results registered thus far by the Group especially that the positive effects resulting from the investments made following successfully closing private placement are already visible. The company targets full year results as initially forecasted in the offering document, which was presented to investors ahead of the private placement, which took place in July 2019.

a. Romanian agricultural cycles

The Romanian agricultural cycle is split into two main seasons, each of them having a different influence on the company's financial performance:

- a) **February-May** is the season for seeding sunflower, corn and applying treatments for already planted wheat and rapeseed that have gone out of winter (meaning, they have grown and survived the winter season). For cultivating and treating these crops, Norofert sells its proprietary products which have the highest profitability margin. Thus, in the first half of each year, the Company generates the majority of its profit.
- b) **August-October** is the season for seeding wheat and rapeseed. During this campaign, Norofert sells primarily specially designed packages that contain seeds, herbicides, and fertilizers. These packages, alongside products from Karisma line, include 3rd party products (wheat seeds, an herbicide and a nitrogen fertilizer, which are not produced by Norofert) and have thus a lower profitability margin. Because of that, in the second half of the year, Norofert generally registers high revenues and a smaller profit compared to the first half of the year.

Depending on the weather, the cycles can extend over the above-specified period, thus impacting the sales of the company, more specifically the sales of the Norofert Organics and Norofert Karisma lines. The line for small farmers and hobby gardeners, Norofert FITO, is the only one that is not significantly influenced by the agricultural seasons. Thus, the production line of FITO products works full year and is expected to assure the steady cashflow of the Group as the payment term is also more favourable for the FITO line (90 days versus 280-360 days for the other two lines).

b. Weather conditions in 2019

2019 has so far been an abnormal year in Romania in terms of the weather, which could have been observed in the recent period – September, October and November 2019 have been exceptionally warm. Because of the weather, the conditions in September in Romania were not optimal for seeding wheat thus the majority of farmers have delayed the process of planting new crops. This has had a direct effect on the sales activity of Norofert as many of the products which should have been sold and invoiced before the end of September, were sold in

October or even November. For that specific purpose, the management has decided to present to the shareholders the financial results as of October 31st, 2019 in order to show the most up-to-date picture of the company's performance thus far. Following the floating of NRF shares on the AeRO market of the Bucharest Stock Exchange, the company will stick to the regulatory periods of reporting, which are half-yearly reports (as of June 30th) and full-year reports.

c. 2018 activity vs. 2019

The consolidated results presented on the following pages were registered by companies from Norofert Group in the first 10 months of 2019, thus between January 1st, 2019 and October 31st, 2019 and their evolution is presented in comparison to the results from the same period of 2018. For clarity purposes, the management would like to underline that the results recorded in 2018 at the individual level by the companies from the Group are not of reference because of some intra-group transactions that occurred last year as well as the fact that there has been the transfer of sales between the companies. As an example, for fiscal optimization purposes, some sales activity of the Norofert Organics SRL has been transferred to Norofert Fitofarma SRL in 2018 and there has been some intra-group activity until June 2019. Following the implementation of a new structure into place, where Norofert SA became a mother-company having a 99% stake in Norofert Organics SRL and Norofert Fitofarma SRL, the management has limited the intra-group activities to the minimum. Nonetheless, because of the activity in 2018, for some of the companies, there might be abnormal variations between 2018 and 2019. Wherever it was the case, we have provided all the relevant explanations.

d. Investments following Private Placement

Following the successful closing of the private placement in July 2019, the company has launched a new line on the market for conventional farming, called KARISMA (see point e. for more details). The 3rd quarter has also been a period of significant investments carried out at the organizational level, which included:

- Expansion of the sales team by 15 new team members;
- Expansion of the back-office team with 8 new team members (including support, credit risk analysis, logistics, marketing, and accounting personnel);
- Renting and equipping a new factory in Filipestii de Padure, with 2,400 m2 of production and 800 m2 of storage space (currently the largest fertilizers production facility in Romania) with 4 production lines, for: organic liquid fertilizers, conventional liquid fertilizers, effervescent tablet, granular soil fertilizer. Following this investment, we have increased our production capacity tenfold;
- Developing a product analysis laboratory;
- Developing bacterial and microorganism multiplication line;
- Leasing of 14 automobiles, with GPS tracking, for the sales team;
- Purchasing of CRM system (pending implementation);
- Full automatization of the Norofert FITO production line (process required by the contract signed with distribution partners, RodBun and Redoxim);
- Purchasing raw materials for 2019-2020 production cycle;
- Covering down payment of RON 1,3 million for wheat seeds, nitrogen fertilizer (3rd party produced) and an herbicide (3rd party produced) for packages for sale.

e. Investment in the marketing of Karisma line

In August 2019, Norofert has introduced a new line of products for conventional farming, called Karisma, which consists of fertilizers as well as an insectofungicide, which are produced in liquid as well as tablet form. With Karisma line, Norofert entered a conventional farming market, with the current size of 9 million hectares of arable land in Romania. The introduction of Karisma line has been a crucial strategy move for Norofert since it helps the company build relationship with important farmers who currently cultivate crops in the conventional fashion but that, in the medium-term future, can switch to organic farming and become clients for the Norofert Organics line. Since Norofert has just launched Karisma line, significant financial and sales efforts had to be made by the company to promote it to local farmers. It is important to underline that while Norofert is the market leader on the organic fertilizer market in Romania, it has low recognition in the conventional farming market, where it has to compete with both local and international companies, including significant players such as Lebosol or InterMag Poland. Thus, to have an advantage and provide added value versus the competition, Norofert has engaged in the following marketing activities:

- Developed special packages, which are sold directly to farmers, through the sales team, which consist of wheat grains, Karisma fertilizers (5 products), as well as herbicide and a nitrogen fertilizer produced by a third party. Norofert does not produce herbicides or nitrogen fertilizer, but they are essential in conventional farming thus they had to be included in the package for it to be successful. To sell these packages, Norofert purchased RON 3,5 million worth of wheat seeds, herbicides and nitrogen fertilizers, which it then resells. These 3rd party products are sold with a small profit margin and the effective profit is only made on the value of Karisma products included in the package. Despite lowering the overall profitability margin of the company (as a percentage of sales), the management considers the approach successful as between August and October 2019, the company has gained 120 new clients for the Karisma line, with each of the clients having on average 500 hectares of land cultivated with Karisma products.
- Invested in the demo lots – demo lots are small plots of land, up to 10 hectares, which the producer fertilizes for the farmer for free, to showcase the efficiency of its products. Providing farmers demo lots free of charge is an integral part of introducing new products and lines in the agricultural sector as it allows the farmer to see directly the results that the specific products have on the crops. This exercise implies some operational costs and no profit for Norofert. Each demo lot of fertilized and treated free of charge by the Norofert, for a period of 280 days, after which the farmer has to provide the producer with results and decides if to purchase the products for the next agricultural season. At the current moment, Norofert has 180 demo lots which are being fertilized with Karisma line (one demo lot is 10 hectares).

The management considers the investment in the Karisma line as pivotal to increasing its market share on the Romanian market and building brand awareness and trust amongst conventional agriculture farmers.

f. Expectations regarding November and December 2019

The company targets the revenues as well as profit for full-year 2019 as initially forecasted in the offering document, which was presented to investors ahead of the private placement, which took place in July 2019. Nonetheless, while the target remains the same, the management considers it important that investors are aware that the sales will be heavily dependent on the weather conditions in the last two months of 2019. Should the weather conditions not be favourable and, should the agricultural season get delayed, the clients might not be interested in purchasing Norofert products and the planned sales for the wheat cultivation might be postponed until January-February 2020, thus negatively impacting the FY2019 financial results. If, however, wheat has normal evolution following seeding in October and it has optimal conditions for growing, which means the weather is neither too cold (causing the freezing of seeds) nor too warm (thus causing wheat's excessive growth), then the farmers will invest in further treatments in order to strengthen the crops during the winter period, which in turn would mean that the sale of Norofert's products from both Karisma and Organic lines will go as planned. However, taking into consideration the unusually warm autumn period so far registered in Romania, the process might postpone and some of the remaining sales for this year might only be registered at the beginning of 2020.

g. Risk related to goods held by the company

As of October 31st, 2019, the current assets of Norofert SA include inventory of goods of a total value of RON 3,5 million. These goods are wheat seeds as well as soil fertilizers produced by a 3rd party, which were purchased by Norofert to include them in the special packages promoting Karisma line. As mentioned in point e., the packages are an integral part of Norofert's marketing strategy of promoting the Karisma line among the conventional farmers. So far, thanks to the packages, Norofert has gained 120 new clients for Karisma line in the course of 3 months (August – October 2019). While these products are sold with a negligible profit margin, there exists a risk that the fertilizers suffer from devaluation and they might not be resold by Norofert before the end of the year or not at all. There is also the risk that the wheat seeds might deteriorate for several reasons (weather, atmospheric or storage conditions just to mention a few) and will not be fit to be re-sold. Should these risks realize, they would have a direct, negative effect on the company's financial result. Nonetheless, stored in optimal conditions, the wheat seeds can be re-analysed next year by the authorized institutions and can be put back on the market in order to include them in the new packages, sold by Norofert starting from September 2020. The wheat seeds remaining in stock represent estimated 25% of the total value of the goods mentioned above, the while rest of the products have a shelf life of at least 2 years from the date of manufacturing (September 2021), thus meaning that the company should have sufficient time, respectively 4 agricultural campaigns, to use them. The company will however do everything in its power in order for the risks related to the goods held by the company do not to realize however the management considers it crucial to inform the shareholders about the current situation.

h. Export plans

As already mentioned in the listing memorandum as well as in the public sphere, Norofert's ambition is to expand and grow prominence in the organic agriculture sector in Europe and globally. Norofert is already present with its products in the Republic of Moldova and Greece and the management plans to expand heavily in the near future. The medium-term goal of Norofert (3-5 years) is for 50% of the company's consolidated revenues to come from markets outside of Romania. Following the private placement, new opportunities to develop Norofert's presence abroad have appeared, most notably by entering the US market, but the management and the sales team were also approached by farmers and distributors from other countries as Jordan, Morocco, Kazakhstan or South Korea. We have very positive feedback and a great interest in our key innovation, the effervescent tablet, so we take our focus on foreign markets very seriously. Reaching this objective, of having 50% of revenues coming from foreign markets, will require a significant investment from our side as entering every single new market carries a significant burden related to covering the homologation costs and every single formulation has to be homologated separately. Nevertheless, the management is determined to make this step because Norofert's ambition is to become a regional player and have its key innovation, effervescent tablet, available to farmers around the world.

i. Bonds issuance

On December 3rd, during the EGSM, the shareholders are invited to vote on the subject of the issuance of corporate bonds, a subject about which we have received many questions. Following the EGSM and in parallel with floating NRF shares on the AeRO market, we are looking to attract approximately 2 million euros (RON 10 million) in the form of corporate bonds. The capital destination will be, first and foremost, the expansion to the US market – we need capital for the homologation of our products to enter the US market and this process can be pricey given the wide range of our products. The remaining part of the capital will be directed into our working capital to be able to meet the constantly growing demand for Norofert products as well as the growing portfolio of our services and product lines. The management truly believes that the investment in expansion to the foreign markets is the right next step since it will allow to exponentially grow Norofert's revenues as well as profitability.

2. EGSM on December 3rd, 2019

The management would like to thank all the shareholders who have actively participated in the voting by correspondence, which took place in the first two weeks of November. Unfortunately, because of the logistical challenges encountered by some of our shareholders, we did not manage to collect votes and waivers of convening formalities from 100% of the shareholders, which was required by the law to have the resolution of the Extraordinary General Meeting of Shareholders by correspondence validly held. This means that the Extraordinary General Shareholders Meeting (EGSM) that we have planned and called for December 3rd, 2019 at 10:00 AM at Norofert's headquarters **will take place**, having on the agenda the same matters as those submitted to voting by correspondence.

Consequently, during the EGSM, subjects such as admission to trading and corporate bonds issuance will be discussed and voted upon. Please note that the EGSM is of crucial importance in order to continue the company's development plans and also for floating Norofert (NRF) shares on the AeRO market of the Bucharest Stock Exchange. The full agenda for the EGSM can be consulted in the call notice for the EGSM, which can be found on our website, Investors' section, here: <http://norofert.ro/investors/general-shareholders-meeting/>.

We invite all of you to join the EGSM. Should you be unable to join us in person, we invite you to send to us the Power of Attorney to authorize another person to represent you at the EGSM. You can find the Power of Attorney template for Norofert's EGSM also on our website (here: http://norofert.ro/wp-content/uploads/2019/11/Model-procura_AGEA_Norofert.docx). If you are unable to attend EGSM, please send to Norofert's address the signed original Power of attorney (PoA) accompanied by a photocopy of your Identification Document, certified by you as being conformed with the original.

Please note the following important issues regarding the PoA:

- The PoA does not need to be certified by a notary.
- Providing a digitally signed PoA is not valid for this EGSM.
- The envelope with the PoA and the identification document must reach us the latest 48 hours before the EGSM, which means that it has to arrive at our headquarters by December 1st, 10:00 AM.
- *For legal persons*: please provide a Power of Attorney, accompanied by an official document attesting the capacity as legal representative of the person issuing the PoA.

We look forward to discussing Norofert's results with you on December 3rd, 2019.

3. FINANCIAL RESULTS

A) Consolidated Financial Results for Norofert Group (Norofert SA, Norofert Fitofarma SRL and Norofert Organics SRL)

Profit & Loss Account Indicators (lei) – results consolidated at the Group level	31.10.2019	31.10.2018	Change (%)
Operating Income, out of which:	11.506.299 lei	8.925.396 lei	29%
Turnover	11.531.973 lei	8.740.938 lei	32%
Change in inventories	(69.929 lei)	145.856 lei	-148%
Other operating revenues	44.255 lei	38.602 lei	15%
Operating Expenses, out of which:	7.299.727 lei	4.984.037 lei	46%
Costs of Materials, out of which:	4.401.641 lei	1.938.434 lei	127%
<i>Costs of Raw Materials</i>	1.913.970 lei	1.002.378 lei	91%
<i>Costs of Goods</i>	2.458.406 lei	820.030 lei	200%
<i>Other materials-related expenses</i>	29.265 lei	116.026 lei	-75%
Personnel Expenses	1.207.664 lei	578.245 lei	109%
Depreciation expenses and value adjustments	(204.935 lei)	488.829 lei	-142%
Other operating expenses	1.895.357 lei	1.978.529 lei	-4%
Operating Result	4.206.572 lei	3.941.359 lei	7%
Financial Income	31.272 lei	39.340 lei	-21%
Financial Expenses	85.061 lei	62.094 lei	37%
Financial Result	(53.789 lei)	(22.754 lei)	136%
Total Revenues	11.537.571 lei	8.964.736 lei	29%
Total Expenses	7.384.788 lei	5.046.131 lei	46%
Gross Result	4.152.783 lei	3.918.605 lei	6%
Profit tax / other taxes	97.785 lei	151.367 lei	-35%
Net Result	4.054.998 lei	3.767.238 lei	8%

B) Individual Financial Results

i. Norofert SA

Profit & Loss Account (lei)	31.10.2019	31.10.2018	Change (%)
Turnover	11.503.435 lei	4.886.921 lei	135%
Operating Expenses	9.217.828 lei	4.847.305 lei	90%
Operating Result	2.247.650 lei	224.074 lei	903%
Financial Result	(44.374 lei)	(22.754 lei)	95%
Gross Result	2.203.276 lei	201.320 lei	994%
Net Result	2.135.374 lei	89.468 lei	2287%

ii. Norofert Fitofarma SRL

Profit & Loss Account (lei)	31.10.2019	31.10.2018	Change (%)
Turnover	2.168.262 lei	2.164.990 lei	0%
Operating Expenses	763.118 lei	163.578 lei	367%
Operating Result	1.417.427 lei	2.001.412 lei	-29%
Financial Result	(61 lei)	0 lei	
Gross Result	1.417.366 lei	2.001.412 lei	-29%
Net Result	1.413.050 lei	1.979.762 lei	-29%

iii. Norofert Organics SRL

Profit & Loss Account (lei)	31.10.2019	31.10.2018	Change (%)
Turnover	2.776.071 lei	1.786.493 lei	55%
Operating Expenses	2.234.576 lei	70.620 lei	3064%
Operating Result	541.495 lei	1.715.873 lei	-68%
Financial Result	(9.354 lei)	0 lei	
Gross Result	532.141 lei	1.715.873 lei	-69%
Net Result	506.574 lei	1.698.008 lei	-70%

4. FINANCIAL POSITION

A) Consolidated Statement of Financial Position of Norofert Group (Norofert SA, Norofert Fitofarma SRL and Norofert Organics SRL)

Profit & Loss Indicators (lei) – results consolidated at the Group level	31.10.2019	31.10.2018	Change (%)
Fixed Assets, out of which:	2.060.391 lei	665.274 lei	210%
Intangible assets	284 lei	691 lei	-59%
Property, plant and equipment	1.759.275 lei	413.350 lei	326%
Financial Assets	58.601 lei	9.002 lei	551%
Assets under investment	242.231 lei	242.231 lei	0%
Current Assets, out of which:	22.223.139 lei	8.211.628 lei	171%
Inventories	4.043.542 lei	934.763 lei	333%
Raw materials and consumables	346.522 lei	544.196 lei	-36%
Inventory Items	12.025 lei	- lei	
Finished Products	73.868 lei	145.856 lei	-49%
Goods	3.511.299 lei	136.343 lei	2475%
Packaging	39.288 lei	71.141 lei	-45%
Biological assets of stock nature	- lei	- lei	
Advances for the stock acquisitions	60.540 lei	37.227 lei	63%
Receivables	17.081.798 lei	6.821.010 lei	150%
Trade Receivables	15.096.321 lei*	6.246.279 lei	142%
Receivables from Affiliated Companies	- lei	- lei	
Due from Shareholder	- lei	- lei	
Other	1.985.477 lei	574.731 lei	245%
Short-term investments	- lei	- lei	
Cash and cash equivalents	1.097.799 lei	455.855 lei	141%
Pre-paid expenses	92.804 lei	5.718 lei	1523%
Total Assets	24.376.334 lei	8.882.620 lei	174%
Current liabilities, out of which:	7.976.227 lei	3.948.905 lei	102%
Third-party providers	6.817.784 lei**	3.240.215 lei	110%
Debts with affiliated companies	- lei	- lei	
Bank debt	271.550 lei	399.578 lei	-32%
Debt to shareholders	25.600 lei	26.500 lei	-3%
Financial leasing	- lei	- lei	
Other short-term debts	861.293 lei	282.612 lei	205%
Non-current liabilities, out of which:	1.112.431 lei	204.658 lei	444%
Bank debt	- lei	- lei	
Financial leasing	1.112.431 lei	204.658 lei	444%
Provisions	- lei	387.167 lei	-100%
Income in advance	11.773 lei	- lei	
Total Liabilities	9.100.431 lei	4.540.730 lei	100%

Equity, out of which:	15.275.903 lei	4.341.890 lei	252%
Subscribed and paid-up capital	7.261.250 lei	3.800 lei	190986%
Legal reserves	760 lei	680 lei	12%
Other Reserves	8.240 lei	8.240 lei	0%
Retained profit or losses	3.950.655 lei	561.932 lei	603%
Profit or loss for the financial year	4.054.998 lei	3.767.238 lei	8%
Profit distribution	- lei	- lei	
Total Equity and Debt	24.376.334 lei	8.882.620 lei	174%

* From the total trade receivables, following the compensation operation for November, the amount will be reduced by 2,64 million lei.

** From the total liabilities to third-party providers, following the compensation operation for November, the total amount will be reduced by 2,14 million lei.

B) Individual Statements of Financial Position

i. Norofert SA

Assets	31.10.2019	31.10.2018	Change (%)
Fixed Assets	834.028 lei	665.274 lei	25%
Current Assets	17.438.635 lei	4.207.630 lei	314%
Pre-paid expenses	87.810 lei	5.718 lei	1436%
Total Assets	18.360.473 lei	4.878.622 lei	276%

Liabilities	31.10.2019	31.10.2018	Change (%)
Shareholders' Equity	9.405.144 lei	669.989 lei	1304%
Debtors:	8.943.556 lei	3.821.466 lei	134%
- Due within 1 year	8.801.823 lei	3.616.808 lei	143%
- Due within more than 1 year	141.733 lei	204.658 lei	-31%
Provisions	- lei	387.167 lei	-100%
Income in advance	11.773 lei	- lei	
Total Liabilities	18.360.473 lei	4.878.622 lei	276%

ii. Norofert Fitofarma SRL

Assets	31.10.2019	31.10.2018	Change (%)
Fixed Assets	- lei	- lei	
Current Assets	4.814.073 lei	2.304.579 lei	109%
Pre-paid expenses	- lei	- lei	
Total Assets	4.814.073 lei	2.304.579 lei	109%

Liabilities	31.10.2019	31.10.2018	Change (%)
Shareholders' Equity	3.408.712 lei	1.976.828 lei	72%
Debtors:	1.405.361 lei	327.751 lei	329%
- Due within 1 year	1.405.361 lei	327.751 lei	329%
- Due within more than 1 year	- lei	- lei	
Provisions	- lei	- lei	
Income in advance	- lei	- lei	
Total Liabilities	4.814.073 lei	2.304.579 lei	109%

iii. *Norofert Organics SRL*

Assets	31.10.2019	31.10.2018	Change (%)
Fixed Assets	1.265.963 lei	- lei	
Current Assets	5.531.399 lei	1.809.492 lei	206%
Pre-paid expenses	4.994 lei	- lei	
Total Assets	6.802.356 lei	1.809.492 lei	276%

Liabilities	31.10.2019	31.10.2018	Change (%)
Shareholders' Equity	2.501.647 lei	1.695.073 lei	48%
Debtors:	4.300.709 lei	114.419 lei	3659%
- Due within 1 year	3.330.011 lei	114.419 lei	2810%
- Due within more than 1 year	970.698 lei	- lei	
Provisions	- lei	- lei	
Income in advance	- lei	- lei	
Total Liabilities	6.802.356 lei	1.809.492 lei	276%



 **NOROFERT ORGANICS**

 **KARISMA**

 **NOROFERT FITO**

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