

Notore

PRESS RELEASE

Notore Chemical Industries Plc Reports 14.20% Increase in Gross Profit for the Nine Month Period Ended 30 June 2018

Lagos, 9 August 2018 – Notore Chemical Industries Nigeria Plc (“Notore” or the “Group”), a leading vertically integrated agro-allied and chemicals business today announced its (unaudited) results for the Nine-month period ended 30 June 2018.

Group Financial Highlights

In million ₦, unless otherwise stated	9M 2018	9M 2017	Var %
Revenue	20,584	25,834	(20.32%)
Cost of Sales	(12,422)	(18,689)	33.50%
Gross Profit	8,161	7,144	14.20%
Gross Profit Margin	39.65%	27.65%	1,200 bps
Operating Expenses	(4,605)	(3,436)	(34.02%)
Operating Expenses (% of revenue)	22.37%	13.30%	(907)bps
Operating Profit	3,750	4,068	(7.83%)
EBITDA*	9,786	10,084	(2.96%)
EBITDA Margin	47.54%	39.04%	850 bps
Net Finance (Cost)/Income	37.36%	30.13%	(723) bps
Gross Interest cover ratio	1.27x	1.30x	n/m
Net Interest cover ratio	1.27x	1.30x	n/m
Profit/(Loss) Before Tax	(3,939)	(3,715)	(6.03%)
Profit / (Loss) Before Tax Margin	(19.14%)	(14.38%)	(476 bps)
Net Profit / (Loss) from cont. ops. attributable to Notore shareholders	(3,938)	(3,448)	(14.21%)
Free Cash Flow	7,214	6,270	15.05%
	Jun-2018	Sep-2017	Var %
Quick Ratio	0.10x	0.02x	n/m
Current Ratio	0.21x	0.12x	n/m
Total Assets / Equity	3.22x	2.9x	n/m

n/m: not meaningful

Figures in this release are subject to rounding discrepancies

*EBITDA (add back plant depreciation of ₦5.75 billion for 9M 2017 and 2018 included in Cost of Sales)

Commenting on the performance for the period, Mr. Onajite Okoloko, Group CEO, stated “Notore recorded ₦20.58 billion in revenue in the nine-month period under review. Though representing a 20.32% Y-o-Y decline to prior year revenue, this was largely due to sub-optimal capacity utilisation of the existing plant. We have now secured funding to carry out the required turn-around maintenance (“TAM”) program of the plant, which is expected to be completed by the third quarter of 2019. This will enable the plant produce urea at its nameplate capacity of 1,500 MTPD, significantly above the 53% average capacity utilisation in the nine-month period to June 2018. We expect that the plant’s utilisation capacity will increase to a minimum of 90% after the TAM, positively impacting revenue on a like-for-like basis.

Notore has extensive Local and International distribution channels which guarantee that the Company sells all the fertiliser it produces. In addition to being the leading player in the fertiliser industry in Nigeria, and leveraging the inherent growth within agriculture, Notore’s key strength lies in its significant potential to significantly expand its operations and diversify its revenues due to its favourable location within a prolific gas hub and access to a jetty, which guarantees easy export of any products manufactured in the facility. The Brownfield status of the plant and available land mass creates expansion opportunities with reduced construction costs and risks. Our recent Listing by Introduction on the Mainboard of the Nigerian Stock Exchange provides access to an expanded capital pool to drive the Company’s strategic growth objectives”.

Operational Developments

Production

- Urea production depends largely on the availability of natural gas and mechanical reliability of the plant. Notore enjoyed uninterrupted supply of natural gas (the main feedstock in the production of urea) to its facilities during the period under review.
- The plant achieved a capacity utilisation of 53% of its nameplate capacity during the period, averaging 795 MTPD compared to 1500 MTPD due to mechanical reliability issues.
- Mechanical reliability issues, which the plant experienced after many unexpected thermal cycles in 2013 and 2014 resulting from the disruption in supply of natural gas to the plant are being remedied and TAM activities are expected to be completed by Q3 2019. The TAM program will restore the plant to its nameplate capacity.
- The plant achieved its highest monthly capacity utilisation, 83%, in October 2017 and its lowest, 21%, in April 2018. The low capacity utilisation in April 2018 was caused by unexpected downtime from the gas turbine generator.

Management

- The Group has a robust management structure with requisite experience, competency and skills set and the management is supported by a high-performance workforce. The Group maintained its key management staff during the period and expects to continually improve its workforce skill set.

Quality Management System / Health, Safety and Environment

- Notore operates in an eco-friendly and safe environment that enhances operational sustainability.
- Notore operates in compliance with all legal and statutory requirements

Relationship with Host Communities

- Notore has a cordial relationship with its host communities as it sees the communities as its first line of defence. Consequently, the Company has never experienced any physical disruption to its operations since it commenced commercial production in 2010. Furthermore, Notore is actively involved in corporate social responsibility activities for its host communities.

Financial Review

Revenue declined by 20.32% Y-o-Y mainly due to approximately 18% reduction in production of urea for the nine-month period under review as highlighted in the table below:

	9M 2018	9M 2017	9M Plant Capacity*
Urea Produced	198,467 MT	240,946 MT	375,000 MT
Urea Sold	198,752 MT	229,225 MT	n.a.
Local Sales	198,752 MT	206,052 MT	n.a.
Export Sales	nil	23,173 MT	n.a.

*Expected urea volume that the plant is supposed to produce in nine months based on its nameplate capacity of 1500MTPD.

The price of Urea in the local market has been relatively stable in 2017 and 2018; hovering about ₦110,000 and ₦100,000 factory gate price per metric tonne in planting season and off-planting season respectively. The local market price of urea was more attractive than the export market price by approximately 40% during the period under review. The export market price has experienced approximately 20% volatility during the same period, hovering about US\$250 per metric tonne (inclusive of freight logistics if exporting from Nigeria).

Nigerian fertiliser demand is quite robust; consequently, Notore was able to sell all that it produced locally during the period under review. Demand is expected to continue to grow because of the Federal Government's agenda to use agriculture as one of the keys to unlock the diversification of the Nigerian economy.

Gross profit was up 14.20% Y-o-Y to ₦8.16 billion. This was driven by an exceptional item valued at ₦3.91 billion, which reduced the cost of sales. The exceptional item is in respect of the Export Expansion Grant confirmed receivable from the Federal Government of Nigeria on the cumulative export sales made by Notore between 2011 and 2016. These claims have been verified by the Federal Government and are awaiting settlement via promissory notes under the Federal Government's Promissory Note Payment Programme. This resulted in a **gross profit margin** of 39.65%, up 1,200 bps Y-o-Y.

Notore's cost of sales is well within its control. Natural gas accounts for approximately 80% of the cost of sales of urea fertiliser and Notore benefits from a 20-year fixed Gas Supply and Purchase Agreement priced at US\$1.50/mmbtu, which was signed in March 2016.

EBITDA margin was 47.54% (9M2017: 39.04%). EBITDA of ₦9.79 billion for the period under review, was 2.96% lower Y-o-Y. This was driven by a 34.02% Y-o-Y increase in operating expenses as a result of increase in administrative expenses (+28.31% Y-o-Y) - partly due to increase in employee benefits during the period, as well as selling and distribution expenses (+ 117.53%) to promote local sales during the off-planting season.

Net Finance Cost declined marginally by 1.21% to ₦7.69 billion during the Nine Month Period Ended June 2018 (9M 2017: ₦7.78 billion).

The Company recorded a loss before tax of ₦3.94 billion, relative to loss of ₦3.45 billion in the year ago period.

Free Cash flow increased by 15.05% Y-o-Y to ₦7.21 billion. The Y-o-Y increase in the cash outflow resulted primarily from a lower outflow from working capital of ₦0.39 billion in the period under review compared to ₦4.02 billion in the year ago period. In addition, investment activities increased by 626.48% to ₦2.36 billion (9M 2017: ₦0.32 billion) driven by the purchase of property, plant and equipment.

Post Balance Sheet Event - Conversion of Short Term Loans to Long Term Loans - On 13 July 2018, after the reporting date, Notore received approval from its bankers for the refinancing of ₦46.73 billion from short term loans into long term loans with a 7-year tenor and 1-year moratorium on principal repayment. The event would have changed the debt profile as shown below (under Post refinancing) as at period ended 30 June 2018:

	Pre - Refinancing	Post - Refinancing
Long Term Borrowing (₦' million)	21,687	68,417
Current Borrowing (₦' million)	53,919	7,190
Total Borrowing (₦' million)	75,607	75,607

It is expected that the refinancing will free up additional cash flow for financing working capital for the business.

Outlook

The dynamics for the fertiliser industry remain quite favourable as highlighted below:

- Nigeria has about 34 million hectares of arable land (FAO, 2017) requiring a minimum of 7 million MT of NPK & Urea fertilisers annually.
- Fast growing cash crops segment with a minimum 1.2 million MT annual demand of crop specialty blends locally.
- Rising importation of fertilisers by Neighbouring West African markets from Nigeria (estimated at approximately 500,000 MT annually).

- Robust seeds demand to improve yields to meet rising demand for rice paddy to feed growing local rice meals; maize and sorghum seeds in scarce supply to meet farmer needs to deliver on annual flour mills and breweries grain demands.

To ensure the sustainability of its revenue model, Notore has well-developed and structured commercial capabilities, including, but not limited to:

- Fully automated field sales teams driving end-to-end demand generation and fulfilment across over 700 Local Government Areas in Nigeria.
- 40 redistribution vans traverse over 2,000 rural farming communities, building distribution footprints and enhancing faster farmer accessibility to Notore products.
- Over 6,000 direct and indirect Notore extension service staff embedded in rural farming communities driving farming awareness on modern best practice and inputs application to enhance fertiliser adoption.
- A network of 58 commercial farms and off-takers, delivering 10-15% of annual sales.
- Effective collaboration with foremost non-government organisations, donor agencies and key government agencies and parastatals (NIRSAL¹, NAERLS², State Agricultural Development Projects, etc.) to improve economic conditions for smallholder farmers across the Nigeria.

Notore is very well positioned to maintain its leadership in the agro-allied and chemicals industry within Nigeria in the long term. Some of its key competitive advantages include:

- Access to a reliable abundant gas field which is 14km away from Notore's facilities.
- Strong brand image and leading fertiliser quality.
- Robust fertiliser distribution network across Nigeria.
- Ownership of a dedicated private jetty with direct port status for export and import at its convenience and reasonable/controlled logistics cost.
- 560 hectares of land; about 80% of this is available for business expansion activities.
- Free Zone Developer Status with its attendant tax incentives specifically for export-oriented businesses.

In the short term, Notore intends to:

- Conclude the TAM activities of the plant in Q3 2019. This will optimise the existing plant to nameplate capacity of 1500mtpd.
- Deepen its fertiliser distribution channels and expand its agricultural extension services network into neighbouring countries.
- Set up and commission a 2000 MTPD NPK blending facility by Q4 2018.
- Introduce NPK and specialty fertiliser blends into the market by Q4 2018.
- Conclude Early Works/Front End Engineering Design for fertiliser expansion project (Train II – Ammonia/Methanol and Urea) by Q3 2019.

¹ Nigeria Incentive-Based Risk Sharing System for Agricultural Lending

² National Agricultural Extension and Research Liaison Service

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- In conjunction with the Federal Government, commence activities on the dredging of the Notore Channel to 8.5-meter draft to allow larger vessels of 25,000MT size berth at Notore Jetty.

In the medium term, Notore plans to:

- Conclude the construction of Train II Project by Q4 2022.
- Expand Notore Seeds Limited business by Q2 2020.
- Establish Notore as a gas hub and logistics service provider by leveraging on Notore's access to abundant gas, its 560 hectares land, and its free trade zone developer status.
- Secure long-term strategic investments for other agro allied/petrochemical business lines.

Notice of Conference Call

The Group Chief Executive Officer, Mr. Onajite Okoloko, the Group Chief Financial Officer, Mr. Femi Agbaje, and the Group Financial Controller, Mr. Bola Tolujo, will host a conference call for investors and analysts on Thursday 9th August 2018 at 14:00 (Lagos) / 15:00 (Johannesburg) / 14:00 (London) / 09:00 (New York) to discuss the June 9M 2018 Unaudited Financial Results and other business developments.

An Introductory Investor Presentation will be made available in the morning on the day of the conference call at www.notore.com/investorrelations. This should be read in conjunction with the Nine Month 2018 results press release also available at www.notore.com/investorrelations.

Dial-in information

Please dial in 10 minutes before the scheduled start time to register your attendance. Dial-in numbers for the call are as follows:

Nigeria: +234 (0)18889001 or +234 (0)14405182

UK: +44 (0)20 7043 4129

South Africa: 0800 982 759

USA: 1-213-325-3283

Passcode: 645952 #

Please use this link for online registration for the conference call:

[Notore Chemical Industries Plc 9M 2018 Results Conference Call](#)

Note: Due to regional restrictions some participants may receive Operator assistance when joining this conference call and will not be automatically connected.

A replay of the call will be available for 7 days from 9 August 2018 at:

Nigeria: +234 (0)18889001 or +234 (0)14405182

UK: +44 (0)20 7043 4129

South Africa: 0800 982 759

USA: 1-213-325-3283

PIN: 981661 #

In addition, an audio recording of the conference call will be available on the investor relations section of the website on the day of the call, while the transcript will be available on the website a maximum of 48 - 72 hours after the call.

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9M 2018 Income Statement

(All amounts are in thousands of Naira, unless otherwise stated)

Note	Group		Company		
	Nine months 30 June 2018	Nine months 30 June 2017	Nine months 30 June 2018	Nine months 30 June 2017	
	N'000	N'000	N'000	N'000	
Revenue	7	20,583,647	25,833,761	20,583,647	25,833,761
Cost of sales	8	(12,422,154)	(18,689,491)	(12,426,889)	(18,734,335)
Gross profit		8,161,494	7,144,271	8,156,759	7,099,427
Administrative expenses	9a	(4,126,225)	(3,215,898)	(4,043,103)	(3,126,914)
Selling and distribution expenses	9b	(478,404)	(219,927)	(478,404)	(219,927)
Other income	10	193,189	360,032	193,189	360,032
Operating profit		3,750,054	4,068,477	3,828,441	4,112,617
Finance income	11	4,172	178	4,172	178
Finance cost	11	(7,693,579)	(7,783,955)	(7,693,579)	(7,783,955)
Finance costs - (net)	11	(7,689,407)	(7,783,777)	(7,689,407)	(7,783,777)
Loss before income tax		(3,939,353)	(3,715,300)	(3,860,967)	(3,671,160)
Income tax		-	-	-	-
Profit/(loss) for the period		(3,939,353)	(3,715,300)	(3,860,967)	(3,671,160)
Other comprehensive income:					
Items that may be subsequently reclassified to profit or loss					
Currency translation difference		1,169	267,315	-	-
Total items that may be reclassified to profit or loss		1,169	267,315	-	-
Other comprehensive income / (loss) for the period- net of tax		1,169	267,315	-	-
Total comprehensive profit / (loss) for the period		(3,938,184)	(3,447,984)	(3,860,967)	(3,671,160)
Total comprehensive profit /(loss) for the year attributable to:					
Equity holders of the parent company		(3,938,184)	(3,447,984)	(3,860,967)	(3,671,160)
Non controlling interest		-	-	-	-
Earnings per share for loss attributable to the equity holders of the company					
Basic EPS (Naira)	13	(2.44)	(2.30)	(2.40)	(2.28)

Balance sheet as at end June 2018 and end September 2017

(All amounts are in thousands of Naira, unless otherwise stated)

Note	Group		Company		
	Nine months		Nine months		
	30 June 2018	30 Sept 2017	30 June 2018	30 Sept 2017	
	N'000	N'000	N'000	N'000	
Non-current assets					
Property, plant and equipment	14	114,232,076	117,904,939	114,231,212	117,903,625
Investment property	15	21,966,286	21,966,286	21,966,286	21,966,286
Investments in subsidiaries	26	-	-	40,255	40,255
Total non-current assets		136,198,362	139,871,225	136,237,753	139,910,167
Current assets					
Inventories	17	3,336,719	3,127,094	3,336,719	3,127,094
Trade and other receivables	18	7,812,457	3,177,873	7,802,947	3,175,343
Cash at bank and in hand	19	3,176,697	1,039,087	3,168,772	1,030,742
Total current assets		14,325,873	7,344,054	14,308,438	7,333,179
Total assets		150,524,235	147,215,279	150,546,192	147,243,345
Equity					
Ordinary shares	20	806,033	806,033	806,033	806,033
Share premium		27,995,916	27,995,916	27,995,916	27,995,916
Asset revaluation reserves		41,360,539	41,360,539	41,360,539	41,360,539
Foreign currency translation reserve		408,749	407,580	-	-
Retained earnings	21	(23,822,532)	(19,883,179)	(24,026,384)	(20,165,417)
Total equity		46,748,704	50,686,889	46,136,104	49,997,071
Liabilities					
Non-current liabilities					
Borrowings	23	21,687,281	25,246,204	21,687,281	25,246,204
Employee benefit obligation	22	1,036,396	768,753	1,036,396	768,753
Deferred tax liability	12a	11,393,742	11,393,742	11,393,742	11,393,742
Total non-current liabilities		34,117,419	37,408,699	34,117,419	37,408,699
Current liabilities					
Borrowings	23	53,919,323	47,743,688	53,919,323	47,743,688
Trade and other payables	24	15,733,677	11,281,636	16,368,234	11,999,520
Current tax liabilities	12	5,112	94,367	5,112	94,367
Total current liabilities		69,658,112	59,119,691	70,292,669	59,837,575
Total liabilities		103,775,531	96,528,390	104,410,087	97,246,274
Total equity and liabilities		150,524,235	147,215,279	150,546,192	147,243,345

Definition of terms

Gross Profit refers to Revenue minus Cost of sales.

Gross Profit Margin corresponds to Gross Profit as a % of Revenue.

Operating Expenses corresponds to Selling and distribution expenses, Administrative expenses and other operating expenses.

EBITDA corresponds to Earnings Before Interest, Taxes, Depreciation & Amortisation.

EBITDA Margin corresponds to EBITDA as a % of Revenue.

Operating Profit refers to Gross Profit minus Operating Expenses plus Other operating income.

Operating Profit Margin corresponds to Operating Profit as a % of Revenue.

Profit before Tax corresponds to Operating profit minus Net finance (cost)/income and plus share of profit of associates and joint venture using the equity method.

Profit before Tax Margin corresponds to Profit before Tax as a % of Revenue.

Return on Equity corresponds to Annualised Net Profit reported to Total Equity.

Annualised Earnings Per Share is quarterly EPS multiplied by four.

Quick Ratio is defined as Current Assets minus Inventories reported to Current liabilities.

Current Ratio is defined as Current Assets reported to Current liabilities.

Free Cash Flow corresponds to Net cash flow generated from/ (used in) operating activities minus Purchase of property, plant and equipment and Proceeds from sale of property, plant and equipment.

Gearing is defined as Total debt borrowings reported to Total Equity.

Total Assets / Equity is defined as Total Assets reported to Total Equity.

Net Interest cover ratio is defined as Operating Profit reported to net finance costs.

Gross Interest cover ratio is defined as Operating Profit reported to finance costs.

MT is defined as Metric Tonne.

MTPA is defined as Metric Tonnes Per Annum.

MTPD is defined as Metric Tonnes Per Day.

About Notore Chemical Industries Plc

Notore is a vertically integrated agro-allied and chemicals business situated in Onne (near Port Harcourt), Rivers State in South-South Nigeria and is engaged primarily in the production and sale of fertiliser products. Notore's vision is to be the number one company by market share and profitability in our chosen businesses and a significant contributor to the development of Africa and our mission is to enhance the quality of life.

The Group's current business comprises fertiliser production, supply and trading of fertiliser, and power. The Group's primary fertiliser products are granular Urea and Ammonia. The Group operates from its Onne Complex in the heart of the Niger Delta, Africa's most prolific oil and gas producing region.

The Onne Complex is located within the Notore Chemical Industries Free Zone, which provides significant tax benefits and advanced logistics solutions for international distribution of products. The Onne Complex comprises of approximately 560 hectares of land owned by the Group with a 2km of waterfront including the Notore Port and a dedicated jetty (with a capacity to accommodate vessels with a maximum volume of between 10,000 MT and 15,000 MT) owned by the Group. The Notore Port gives the Group easy access to the Atlantic Ocean for easy import of raw materials and export of the Group's products.

The Group produces Urea and Ammonia and owns a Urea producing plant in Onne, Rivers State with a current annual design production capacity of approximately 500,000 MTPA of Urea and 330,000 MTPA of Ammonia. The Group currently supplies and sells its fertiliser products in all thirty-six (36) States and Abuja, the Federal Capital Territory. The Group trades and exports its manufactured fertiliser products to West Africa, South Africa, South America, and Europe.

For more information visit www.notore.com

Cautionary Note Regarding Forward-Looking Statements

Certain statements and other information included in this news release constitute "forward-looking information" or "forward-looking statements" (collectively, "forward-looking statements") under applicable securities laws (such statements are often accompanied by words such as "anticipate", "forecast", "expect", "believe", "may", "will", "should", "estimate", "intend" or other similar words). All statements in this news release, other than those relating to historical information or current conditions, are forward-looking statements, including, but not limited to: expectations regarding our earnings per share and EBITDA (both consolidated and by segment); capital spending expectations for 2018; expectations regarding performance of our business segments in 2018; our market outlook for 2018, and including anticipated supply and demand for our products and services, expected market and industry conditions with respect to crop fertiliser application rates, planted acres, crop mix, prices and the impact of currency fluctuations;. These forward-looking statements are subject to a number of assumptions, risks and uncertainties, many of which are beyond our control, which could cause actual results to differ materially from such forward-looking statements. As such, undue reliance should not be placed on these

forward-looking statements. All of the forward-looking statements are qualified by the assumptions that are stated or inherent in such forward-looking statements, including the assumptions referred to below and elsewhere in this document. Although Notore believes that these assumptions are reasonable, this list is not exhaustive of the factors that may affect any of the forward-looking statements and the reader should not place an undue reliance on these assumptions and such forward-looking statements. The additional key assumptions that have been made include, among other things, assumptions with respect to Notore's ability to execute on its future business, regulatory and industry conditions will be within the parameters expected by Notore, including with respect to prices, margins, demand, supply, product availability, supplier agreements, availability and cost of labour and interest, exchange and effective tax rates; assumptions with respect to global economic conditions and the accuracy of our market outlook expectations for 2018 and in the future (including as outlined under "Market Outlook"); the adequacy of our cash generated from operations and our ability to access our credit facilities or capital markets for additional sources of financing; ability to achieve our performance targets; the receipt, on time, of all necessary permits, and project approvals with respect to our expansion projects and that we will have the resources necessary to meet the projects' approach. Events or circumstances that could cause actual results to differ materially from those in the forward-looking statements include, but are not limited to: general global economic, market and business conditions; weather conditions, including impacts from regional flooding and/or drought conditions; crop planted acreage, yield and prices; the supply and demand and price levels for our products; governmental and regulatory requirements and actions by governmental authorities, including changes in government policy, changes in other laws or regulations and the interpretation thereof; political risks, including civil unrest, actions by armed groups or conflict and malicious acts including terrorism; the occurrence of a major environmental or safety incident; innovation and security risks related to our systems; counterparty and sovereign risk; delays in completion of turnarounds at our major facility; gas supply interruptions; any significant impairment of the carrying value of certain assets; risks related to reputational loss;; the ability to attract, engage and retain skilled employees and strikes or other forms of work stoppages; and other risk factors including those disclosed in Notore's Listing Memorandum dated 27th July, 2018, related to the Listing By Introduction of Notore to the Main Board of the Nigerian Stock Exchange. For additional information with respect to certain of these risks or factors, reference should be made to the Company's disclosure materials filed from time to time with the Nigerian Stock Exchange as well as the Securities & Exchange Commission in Nigeria. Notore disclaims any intention or obligation to update or revise any forward-looking statements in this document as a result of new information or future events, except as may be required under applicable Nigerian securities laws.