



2019

CONSOLIDATED FINANCIAL STATEMENTS



2019

Isagro S.p.A.

A company directed and coordinated
by Holdisa S.r.l.

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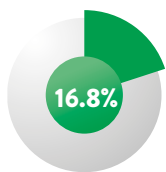
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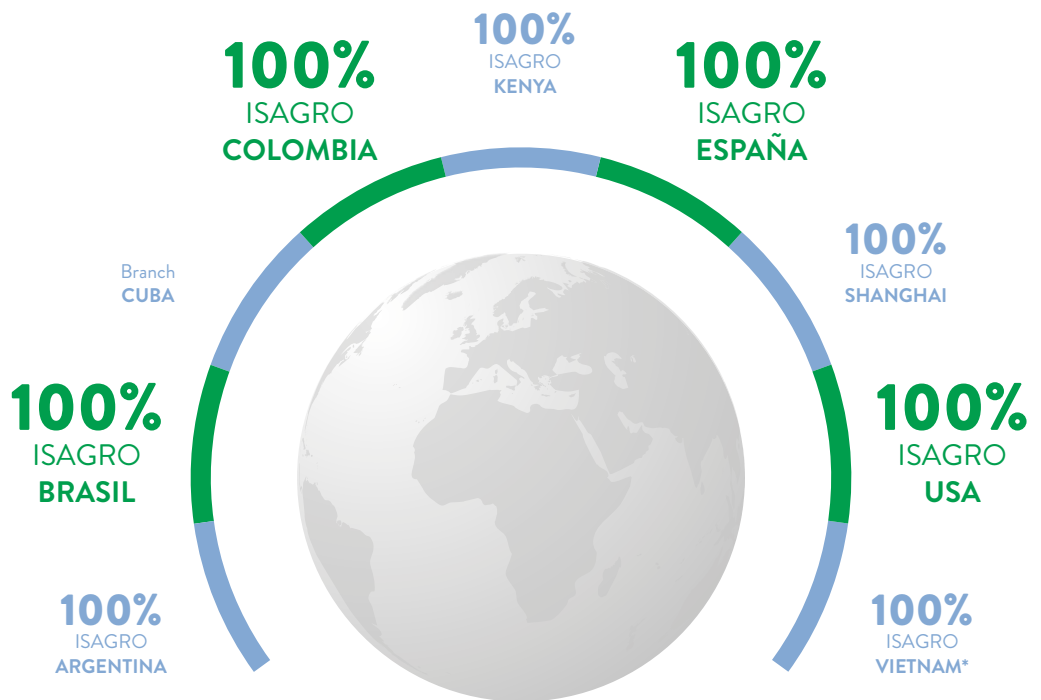
GROUP STRUCTURE

December 2019*

- Direct distribution
- Indirect distribution



of the Italian company Arterra Bioscience is owned by Isagro



Isagro also operates in:

- AUSTRALIA
- CHILE
- MEXICO
- SOUTH AFRICA

with locally registered companies

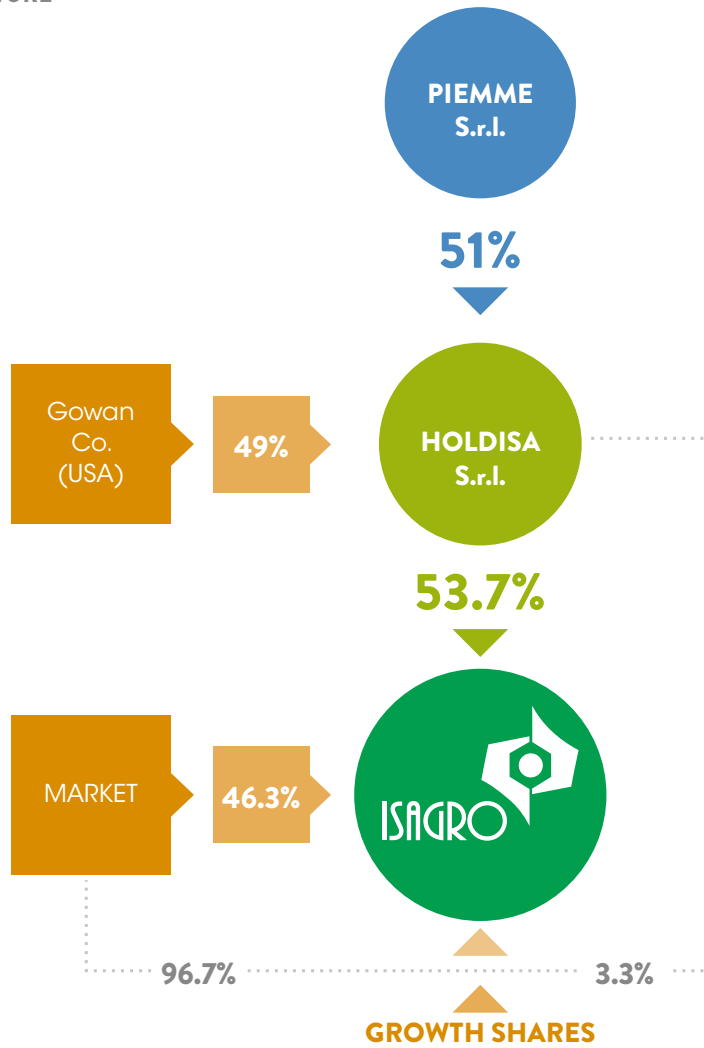


*Controlled indirectly by Isagro Singapore in liquidation



**CONTROLLING STRUCTURE
OF ISAGRO S.p.A.**

December 2019



BOARD OF DIRECTORS

Chairman and Chief Executive Officer

Giorgio Basile

Deputy Chair

Maurizio Basile

Directors

Riccardo Basile

Roberto Bonetti

Enrica Maria Ghia

Silvia Lazzeretti

Marcella Elvira Antonietta Logli

Giuseppe Persano Adorno

Erwin Paul Walter Rauhe

Angelo Zaccari

Margherita Zambon

BOARD OF STATUTORY AUDITORS

Chairman

Roberto Cassader

Statutory Auditors

Silvia Baroffio

Filippo Maria Cova

INDEPENDENT AUDITORS

Deloitte & Touche S.p.A.



2019 CONSOLIDATED FINANCIAL STATEMENTS

DIRECTORS' MANAGEMENT REPORT

Dear Shareholders,

The Consolidated Financial Statements of your Group at December 31, 2019 show, at Income Statement level, **Revenues** for € 105.4 million (compared to 124.8 million in 2018 “re-stated” to also consider for that year the financial results of Isagro (Asia) Agrochemicals Private Limited (“Isagro Asia”), sold on December 27, 2019, among the Discontinued Operations), a negative **EBITDA** for € 2.6 million (compared to the positive “re-stated” value of 9.3 million in 2018) and a **Net Loss** for € 13.9 million (compared to the “re-stated” profit of 0.4 million in 2018).

From the financial point of view, at December 31, 2019 your Group had **Net Financial Debts** of € 34.4 million (compared to € 45.1 million at December 31, 2018), of which € 4.5 million due to the application of the new accounting standard *IFRS 16 - Leases*, the provisions of which took effect from January 1, 2019, and a **debt/equity** ratio of 0.38. Excluding the component deriving from the application of the new accounting standard, the Net Financial Debts at December 31, 2019 totaled € 29.9 million, with a **debt/equity** ratio of 0.33. Said Net Financial Debts, however, (i) result entirely from the Net Current Assets (€ 41.9 million), with Equity (€ 91.0 million) that contributes to funding said assets for around € 7.5 million, and (ii) include medium-term loans maturing at more than one year for an amount equal to € 31.0 million (compared to 36.6 million at December 31, 2018).

With reference to cash flows, your Group generated in 2019, excluding the effect of IFRS 16, a positive free cash flow of € 15.2 million, represented:

- for 32.0 million, by the net consolidated cash flow deriving from the sale of Isagro Asia, resulting from the price component collected on December 27, 2019, equal to € 46.2 million (which does not include the effects defined by contract relating to the price adjustment mechanism with reference to the Net Current Assets (i.e. true-up adjustment) at the closing date, definition of which concluded in April 2020), net of the NFP owed to Isagro Asia at December 31, 2018, equal to € 14.2 million;
- for -16.8 million, by the operating cash flow for the year, which includes an increase in Net working capital of € 0.7 million using the same scope as 2018.

As mentioned previously, on December 27, 2019 the Isagro Group, as part of the redefinition of its business model, completed the sale of the former fully controlled company Isagro (Asia) Agrochemicals Private Limited (“Isagro Asia”), active in the formulation and distribution of generic organic chemicals in India, in addition to chemical synthesis for third parties, to PI Industries Ltd, an Indian company listed on the BSE. The value of the transaction net of withholding tax was equal to around € 52.1 million, the sum paid at the closing date with the exception of approximately € 5.9 million subject to an “escrow fund”, to be released on the basis of contractual agreements, the definition of which, for the amount of the escrow fund relative to the true-up adjustment, took place on April 9, 2020. For further information, please see the Explanatory Notes to the Consolidated Financial Statements of the Isagro Group.

Consistently with the above, the consolidated data for the 2019 financial year have been prepared and are represented in line with the accounting standard IFRS 5, i.e. by highlighting the financial results of Isagro Asia for the period between January 1 and December 27, 2019 as part of the Discontinued Operations. The same accounting standard requires that the data from the financial year prior to the year in question be “re-stated” on the basis of the same criterion at Income Statement level only: nevertheless, due to requirements for a correct comparison that allows for the effects of this sale to be understood, this Report will also contains analyses in respect of the “re-stated” Balance Sheet at December 31, 2018. For further details, please see the Explanatory Notes to the Consolidated Financial Statements of the Isagro Group.

With reference to the redefinition of its business model, note that the Isagro Group, after previously communicating its strategic decision to no longer invest in the research and development of new molecules of chemical origin, is actively working on a new strategic model that will have a specific focus on the development of market positions and products of biological origin, including through external growth operations. This business model redefinition will be funded through extraordinary operations intended to bring to light, through the sale of certain chemical assets, components of value that the Directors believe are not currently adequately expressed at accounting level. The change to the business model will also be accompanied by the necessary measures for organization and structure redefinition.

In fact, the experience in recent years confirms that the failure to express the value relative to the intellectual property tied to the products and molecules of chemical origin against the “book” value resides in Isagro’s limited size, both at organization/structure and financial level, which prevent an adequate development of the inventions compared to what larger operators with adequate distribution capacity would be able to do, which, over time, have experienced sharp saturation at world level through M&A operations. In this context, the Isagro Group believes it can create value for its stakeholders with greater efficiency by concentrating its strategic development in the sector of products of biological origin (a growing sector where the average size of operators is much smaller than the chemical sector, with the possibility for the Isagro Group to develop the product portfolio already available and expand it through acquisitions). Select products of chemical origin, therefore, will be kept in the portfolio with the goal of integrated pest management and/or cash cow.

Consistently with the redefinition of the business model as mentioned above, following the closure of the 2019 financial year the Isagro Board of Directors approved the acceptance of a binding offer from the American company FMC Corporation, which took effect on the evening of May 5 following the communication of the approval by the FMC Board, for the acquisition by FMC of the intellectual property relative to *Fluindapyr* at the price of € 55 million. The closing, with the simultaneous payment of the indicated price, is to take place by September 30 and is subject, in particular, to the authorization of the European Antitrust Authority and to the signing of specific commercial agreements.

Fluindapyr, whose consolidated book value for Isagro at December 31, 2019 is equal to € 25.2 million, is a broad-spectrum fungicide belonging to the innovative “SDHi” fungicide class and is expected to be marketed during the current year. This molecule has been co-developed by Isagro and FMC (which is therefore already a co-owner of 50% of the molecule) since 2012. The Isagro Group will use the income arising from the sale of *Fluindapyr* to support the aforementioned redefinition of its business model.

At market level, 2019 was characterized:

- in **Europe**, by a tougher regulatory framework in addition to adverse weather conditions, and with specific reference to the Italian market, by stock at the beginning of the year held with a major distributor of the Group, which it then needed to dispose of during 2019, limiting repurchases for the period;

- in **North America**, by extreme weather conditions (strong snowfall followed by flooding and drought) which caused delays to the start of the sowing season, reduction in growing acreage and limitation to the production and quality of yield with the consequent need for distributors and farmers to consume existing stocks before making new purchases;
- in **South America**, by a significant growth in the market, in the presence of a robust demand for new products (due to the phenomenon of resistance to diseases of the current products on the market) and an increase in the competition of Brazilian farming as a whole (following the increase in customs duties of American products to China which favored exports from South America in that country).

As a reflection of the above, in reference to *Phillips McDougall* and *AgroPages* indications, in 2019 the world market was considered substantially stable compared to the previous year, with a marginal growth of around 0.4% in USD and a total value of \$ 57.8 billion at supplier level, albeit with varying dynamics in the different geographical areas.

In the context of the above market situation, the Isagro Group, which mainly sells to national distributors and which due to its size has no controlled sales structures unless in select markets, was particularly affected, as mentioned, by the requirement of two of its major customers, one in the United States and another in Italy, to limit purchases in the period in order to consume existing stocks at the start of the year – stock which is usually constituted to tackle the subsequent campaign.

In this context, the Group recorded lower sales of crop protection products in 2019 compared to 2018:

- in North America, for around € 10 million essentially concentrated on the customer Gowan;
- in Italy, for around € 6 million essentially concentrated on the customer Sumitomo Chemical, partially offset by higher sales in Europe for around € 2 million.

As of January 1, 2019, Isagro has applied the new accounting standard *IFRS 16 – Leases*, which establishes a single model for recognizing and measuring operating and financial leasing contracts and which provides for recognition of the asset involved in the lease in the Balance Sheet assets, with a corresponding increase in the NFP. At Income Statement level, application of the new accounting standard led to a reduction in the item “Costs for services”, which, up to now, included the costs of operating leases, with a consequent increase in the amount of EBITDA, and an increase in depreciation and amorti-

zation (to reflect the portion pertaining to the period of the asset involved in the lease) and financial expenses (to reflect the portion of implicit interest). The results at December 31, 2019 therefore reflect the effects of this new accounting standard. For more details about the application of IFRS 16 and its impact on the Consolidated Financial Statements at December 31, 2019, please see the extensive information reported in the relative Explanatory Notes.

EVOLUTION OF THE CROP PROTECTION PRODUCTS MARKET

In reference to *Phillips McDougall* and *AgroPages* indications, in 2019 the crop protection market on a global level experienced a difficult period where multiple economic, climate and political factors influenced its growth. Again according to *Phillips McDougall* and *AgroPages* indications, in 2019 the world market was considered substantially stable compared to the previous year, with a marginal growth of around 0.4% in USD and a total value of \$ 57.8 billion at supplier level, albeit with varying dynamics in the different geographical areas. Factors such as the leveling of prices following the peak in prices of generic products from China (an increase that drove growth of the market in 2018) and the strengthening of the dollar further limited the growth of the market at global level. In terms of size, in 2019 the Asia Pacific region confirmed its position as top world region followed by Latin America, Europe, North America, the Middle East, and Africa. From the perspective of market performance in the various geographical sectors, significant growth was recorded in Latin America, while all the other areas recorded a drop which proved to be particularly significant in North America and Europe.

With regard to the performance of specific markets, and again with reference to *Phillips McDougall* and *AgroPages* indications, we can note that:

- in **Europe**, the market suffered a sharp drop in the main period of consumption for crop protection products (spring and summer) due to dry conditions that had a negative impact especially on the fungicides market, a sector in which Isagro is currently particularly exposed. In addition, the tougher regulatory framework that caused the phase-out of various products, and Brexit, contributed to the negative performance of the European market, which, according to *Phillips McDougall* estimates, recorded a drop of around 6% in USD, with an overall value of approximately \$ 11.3 billion (v.s. \$ 12.0 billion in 2018);
- in **North America**, the market was impacted negatively by extreme weather conditions in the USA (very cold winter with heavy snowfall followed by unprecedented flooding), and in Canada (drought). This led to a delay in sowing with consequent reduction in the application of crop protection products, especially initial treatments, and limited the production and quality of yield. In addition, trade tensions with China (increased customs duties on soy imported to China from the USA) led to a significant reduction in the export of agricultural commodities, an increase in stock levels and a drop in prices. On the basis of *Phillips McDougall* estimates, in 2019 the market registered a drop of around 10% in USD, with an overall value of \$ 10.4 billion (v.s. \$ 11.6 billion in 2018);
- in **South America**, the market recorded growth. In Brazil and Argentina in particular, soy and corn crops contributed to this performance thanks to the increase of arable acreage and in spite of adverse weather factors (drought) that caused delays to the start of the season and to pre-season applications. These weather conditions contributed to the creation of stock held with the distribution channels at the end of the year in Brazil. Furthermore, trade tensions between USA and China favored the markets in South America by rendering them more competitive and led to an increase in the soy-growing acreage, particularly in Brazil (+4%/ +5%) and Argentina (+3%). According to the *Phillips McDougall* estimates, in 2019 the market in South America grew by around 18% in USD, for a total value of \$ 16.7 billion (v.s. \$ 14.2 billion in 2018). The area's main market is Brazil, with a value of approximately \$ 10 billion (equal to around 60% of the entire area);
- with reference to **Asia and the Pacific**, *Phillips McDougall* estimates a drop in the market of around 2% in USD, with an overall value of \$ 17.2 billion (v.s. \$ 17.5 billion in 2018). In particular:
 - in India, unfavorable weather conditions were recorded, with drought followed by flooding. There was support for the prices of all agricultural products from the government, which encouraged farmers to increase investments in crop protection;
 - in China, the regulatory bodies continued to put pressure on environmental issues with consequent reduction in internal production capacity and simultaneous increase in production costs. The government is seeking to reduce dependency on imports, including following the trade tensions during the year with the USA. Sales in US dollars in the region are estimated to have decreased by around 2%;
 - in Australia, serious drought conditions were recorded which negatively impacted the crop protection products market.

- in the **Middle East and Africa**, *Phillips McDougall* estimates a drop in the market of around 2% in USD, with an overall value of \$ 2.2 billion. North Africa suffered a dry season throughout the year which limited the consumption of crop protection products. On the other hand, growth was recorded on high-value crops such as mango and avocado in the Sub-Saharan area.

INCOME STATEMENT – SUMMARY DATA

Consolidated **revenues** in 2019 amounted to € 105.4 million, a decrease, net of rounding, of € 19.5 million compared to € 124.8 million in 2018. This negative change is attributable to the combined effect of:

- lower Revenues from the sale of Crop Protection Products for € 13.8 million and lower Revenues from the sale of Services, such as toll manufacturing, for € 1.3 million;
- lower Revenues from M/L Agreements of € 4.4 million.

With reference to the changes relative to the Revenues from sales of Crop Protection Products compared to 2018, the lower level of turnover, equal, as mentioned, to € 13.8 million, is mainly attributable to lower sales of copper-based products and Tetraconazole made by the Parent Company Isagro S.p.A. in Italy to the customer Sumitomo for € 6.9 million and in the United States to the customer Gowan for € 9.1 million, including due to de-stocking requirements on the part of these distributors, partially offset by increased sales of copper-based products and Kiralaxyl in Europe for € 1.8 million. With regard to the breakdown of revenues of only Crop Protection Products by geographic area, we can note that in 2019:

- sales in Italy accounted for approximately 19% of turnover (compared to 22% in 2018), for a total of € 18.9 million (down by € 6.0 million compared to 2018);
- sales in other European countries accounted for approximately 46% of turnover (compared to 38% in 2018), for a total of € 45.5 million (up by € 1.8 million compared to 2018);
- sales in the Americas accounted for approximately 20% of turnover (compared to 27% in 2018), for a total of € 20.1 million (down by € 10.4 million compared to 2018);
- sales in Asia accounted for approximately 7% of turnover (compared to 6% in 2018), for a total of € 7.3 million (up by € 0.3 million compared to 2018);
- sales in the Rest of the World accounted for approximately 8% of turnover (compared to 7% in 2018), for a total of € 8.1 million (up by € 0.5 million compared to 2018).

Following the application of accounting standard IFRS 9 – Financial Instruments as of January 1, 2018, the Revenues include earnings and losses arising from hedging against exchange risk (domestic currency swaps) on sales in currency other than the Euro. It should also be recalled that, as explained in more detail below, Isagro’s policy and procedures provide for the Company hedging the exchange rate risk (and in particular the risk associated with the US dollar) of the Parent Company Isagro S.p.A. prospective net exposure of the year freezing its exchange rate at the figure in the annual budget.

In relative terms, therefore, the Isagro Group is confirmed as a strongly foreign-oriented group, with a percentage of turnover in the period from crop protection products achieved outside Italy of approximately 81%, up compared to the 78% in 2018.

(€ 000)	FINANCIAL YEAR 2019		Change	FINANCIAL YEAR 2018	
Italy	18,880	19.0%	-24.2%	24,921	22.0%
Rest of Europe	45,522	45.8%	+4.2%	43,688	38.6%
Americas	20,122	20.3%	-34.0%	30,485	27.0%
Asia	7,261	7.3%	+3.3%	7,027	6.2%
Rest of the World	8,147	-8.2%	+6.5%	7,648	6.8%
Gains/ (losses) DCS IFRS 9	(630)	-0.6%	ns	(656)	-0.6%
Crop protection products sub-total	99,302	100%	-12.2%	113,113	100%
Other products and services	6,067		-48.3%	11,725	
Consolidated Revenues	105,369		-15.6%	124,838	

Table 1: Consolidated Revenues by Geographical Area

During 2019, the Isagro Group carried on its Research, Innovation & Development activity incurring total costs of € 14.0 million (compared to € 12.3 million in 2018) of which € 5.3 million capitalized (compared to capitalization of € 5.4 million in 2018), attributable to (a) continuation of co-development with FMC Corporation of the proprietary molecule *Fluindapyr* (an “SDHi”-class broad-spectrum fungicide), the development phase for which concluded in 2019, (b) development of the new products/formulations, (c) extraordinary protection of proprietary products, and (d) activities for new registrations on a global basis. The 2019 Income Statement, therefore, was affected by higher research, innovation & development costs booked, compared to the same period in 2018 for € 1.8 million.

(€ 000)	FINANCIAL YEAR 2019	FINANCIAL YEAR 2018*	DIFFERENCES	
Revenues	105,369	124,838	-19,469	-15.6%
<i>of which: from M/L Agreements**</i>	3,117	7,478	-4,361	
Memo: Labor costs and provisions for bonuses	(25,735)	(26,124)	+389	
EBITDA	(2,618)	9,293	-11,911	N/S
<i>% of Revenues</i>	-2.5%	7.4%		
Depreciation and amortization:				
- tangible assets	(2,622)	(2,786)	+164	
- intangible assets	(6,552)	(5,897)	-655	
- rights of use IFRS 16	(910)	-	-910	
- write-down of tangible and intangible assets	(1,034)	(265)	-769	
EBIT	(13,736)	345	-14,081	N/S
<i>% of Revenues</i>	-13.0%	0.3%		
Interest, fees and financial discounts	632	(1,029)	+1,661	
Losses on foreign exchange and derivatives	(569)	(908)	+339	
Revaluations of equity investments	191	200	-9	
Result before taxes	(13,482)	(1,392)	-12,090	N/S
Current and deferred taxes	(1,568)	(1,364)	-204	
Profit of the Group from Continuing Operations	(15,050)	(2,756)	-12,294	N/S
Net result from Discontinued Operations	1,143	3,119	-1,976	
Net profit/(loss)	(13,907)	363	-14,270	N/S

Table 2: Consolidated Income Statement - Summary Data

* Data relative to the 2018 financial year "re-stated" for the accounting standard IFRS 5

** These figures contribute for the same amount to EBITDA, EBIT and Profit/(Loss) before taxes

EBITDA for 2019 was negative for € -2.6 million, down by € 11.9 million compared to the positive value of 9.3 million in 2018, with margins on Revenues increasing as a result from 7.4% to -2.5%.

This decrease in EBITDA is due to:

- lower margins relative to Revenues from M/L Agreements for € 4.4 million;
- lower margins from sales of Crop Protection Products and Services for € 6.2 million;
- higher R&D costs charged to the Income Statement for around € 1.8 million;
- higher provisions relative to adjusted entries in the assets for around € 1.9 million;

partially offset by lower overheads and labor costs and by the effect of the first-time application of IFRS 16 for a total € 2.4 million (specifically, the total effect of IFRS 16 on the 2019 Income Statement was equal to € 0.9 million).

In 2019, Isagro incurred **Personnel costs** for € 25.7 million, down by € 0.4 million compared to the figure of € 26.1 million at December 31, 2018. This change is the result of (i) lower provisions for bonuses and a decrease in wages and salaries owing to the reduction in personnel in the workforce in the Parent Company Isagro S.p.A. (mainly due to retirements following the entry into force of the new reform and a flow of voluntary terminations) for a total of around € 1.0 million, partially offset by (ii) high-

er expenses for early retirement incentives for around € 0.6 million for the Parent Company Isagro S.p.A. and incurred following the agreed and consensual termination of employment with certain executives.

Depreciation, amortization and impairment for the period amounted to € 11.1 million, up by € 2.2 million compared to € 8.9 million recorded at December 31, 2018. This increase is attributable to the effect of IFRS 16 for € 0.9 million, the write-downs of intangible assets relative to Chlorothalonil (this latter product excluded from the re-registrations in Europe, as described in better detail in the section "Significant events in 2019") and Tetraconazole (following assessments made on the probability of failure to re-register the fungicide Tetraconazole in Europe) for € 0.8 million, and the increase in amortization for € 0.5 million.

As a reflection of the items commented on above, your Group closed 2019 with a **negative Operating profit** ("**EBIT**") of € 13.7 million, down by € 14.0 million compared to the marginally positive figure of € 0.3 million in the 2018 financial year.

At financial operations level, in 2019 your Group recorded **Net financial income** for a total € 0.3 million compared to the Net financial charges of € 1.7 million in 2018, as a combined effect of:

- lower **Interest, commission and financial charges** for € 1.7 million, substantially due to the inclusion in that item in 2019 of the fair value of € 2.1 million attributed to the shares of the company Arterra Bioscience S.p.A. at the time of listing on the AIM market, as described in further detail in the section “Significant events in 2019”, entirely incremental compared to 2018; the entirety of the financial charges and commission net of financial income excluding the aforementioned item, on the other hand, was equal to € 1.5 million in 2019, compared to the value of € 1.0 million in 2018, mainly due to (i) an increase in average interest rates on a higher stock of financial debt during the year, namely before the collection of the price for the sale of Isagro Asia, which took place in December 2019, as well as (ii) the component of financial charges associated with the first-time adoption of the new accounting standard IFRS 16 and (iii) lower capitalization of charges and bank commission on medium/long-term loans for research projects;
- lower **Losses on foreign exchange and derivatives** for € 0.3 million, mainly due to the Parent Company Isagro S.p.A. and attributable to the positive effect of the hedging on the Indian Rupee, against which Isagro has a “short position”.

It should be remembered that the Isagro Group operates on several markets internationally and many trade relations are managed in currencies other than the Euro, mainly in US dollars. Consequently, the Parent Company Isagro S.p.A., in compliance with its “Financial Risk Management Policy” designed to “make safe” the exchange rate of the budget, arranges USD exchange rate risk hedges, using its forecast exposure for the year as indicated by the currency budget in US Dollars as the reference basis.

With regard to the hedging transactions carried out by the Group, it should also be noted that these refer exclusively to operational transactions and are not in any way speculative.

The consolidated **Profit before taxes** was therefore a loss for € 13.5 million, down by € 12.1 million compared to the loss of € 1.4 million in 2018.

At the level of fiscal management, **Current and deferred taxes** at December 31, 2019 were € 1.6 million, up by € 0.2 million compared to the figure of € 1.4 million at December 31, 2018, albeit in the presence of a consolidated loss. Despite the presence of a negative result before taxes, the relative high tax burden is due to the mix of the results before taxes of the Group companies and the relative tax allocations, with the Parent Company Isagro S.p.A. and the subsidiary Isagro USA which recorded tax losses of € 10.8 million and € 2.6 million respectively, without, for reasons of prudence, allocating deferred tax assets for said tax losses. Furthermore, the Parent Company has, for reasons of prudence linked to their future recoverability throughout the time frame of the Plan, written down around € 450 thousand of deferred tax assets allocated to earlier tax losses.

The **Net profit/(loss) of assets held for sale**, equal to € 1.1 million, refers to the combination of the net result for the period of the former subsidiary Isagro Asia for the period between January 1 and December 27, 2019 (equal to a loss of € 40 thousand) and the capital gain at consolidated level deriving from the sale of said investment on December 27, 2019 (equal to € 1.1 million net of taxes).

As a consequence of what is explained above, your Group ended 2019 with a **Net loss** of € 13.9 million, down by € 14.3 million compared to the profit of € 0.4 million in 2018.



BALANCE SHEET – SUMMARY DATA

From a financial point of view, consolidated **Net Invested Capital** at December 31, 2019 amounted to € 125.4 million, down by € 14.5 million compared to the € 139.9 million at December 31, 2018, incorporating for € 4.4 million the effects of the first-time application of the accounting standard *IFRS 16 – Leases*. In this regard, it is noted how, excluding for opportunity to compare this item, the Net invested capital at December 31, 2019 would be lower

- **Goodwill and Other intangible assets**, equal to a total € 50.5 million at December 31, 2019, down by € 2.3 million compared to December 31, 2018, mainly as a reflection of a volume of capitalizations of R&D costs lower than the amortization and depreciation for the year. In this regard, during the year the Isagro Group completed the development phase of the broad-spectrum fungicide *Fluindapyr* with consequent reduction in the relative investments, the depreciation process

(€ 000)	Dec. 31, 2019	Dec. 31, 2018	Differences		Dec. 31, 2018 re-stated
Net fixed assets	81,945	83,895	-1,950	-2.3%	79,091
<i>of which:</i>					
Goodwill and Other intangible assets	50,535	52,818	-2,283		52,613
Tangible assets	15,585	19,228	-3,643		16,322
Rights of use IFRS 16	4,421	-	+4,421		-
Financial assets	4,176	593	+3,583		593
Other m/l-term assets and liabilities	7,228	11,256	-4,028		9,563
Net working capital	41,937	55,224	-13,287	-24.1%	41,191
<i>of which:</i>					
Inventories	40,853	48,097	-7,244		38,450
Trade payables	(26,143)	(32,696)	+6,553		(24,461)
Trade receivables	27,227	39,823	-12,596		27,202
Other current assets and liabilities and current provisions	3,409	3,212	+197	N/S	(181)
Severance Indemnity Fund (SIF)	(1,877)	(2,384)	+507	-21.3%	(2,073)
Net invested capital	125,414	139,947	-14,533	-10.4%	118,028
Financial assets and liabilities held for sale	-	-	-	-	21,919
Total	125,414	139,947	-14,533	-10.4%	139,947
<i>Financed by:</i>					
Equity	91,020	94,830	-3,810	-4.0%	94,830
Net Financial Position	34,394	45,117	-10,723	-23.8%	59,273
<i>of which:</i>					
<i>M/L-term debts:</i>					
Financial liabilities – IFRS 16	4,522	-	+4,522		-
Net Financial Position assets held for sale	-	-	-		(14,156)
Debt/Equity Ratio	0.38	0.48			0.48
Total	125,414	139,947	-14,533	-10.4%	139,947

Table 3: Consolidated Balance Sheet – Summary Data

than that at December 31, 2018 by around € 18.9 million. On the other hand, with reference to the comparison against the “re-stated” figures at December 31, 2018, the consolidated Net invested capital at the end of 2019 has increased by € 7.4 million considering the effect of IFRS 16 and by € 3.0 million if excluding said effect.

Net fixed assets at December 31, 2019 amounted to € 81.9 million, recording a reduction of € 2.0 million compared to the € 83.9 million of December 31, 2018.

These increases are mainly due to the changes that took place in the items relating to:

- **rights of use IFRS 16**, equal to a total € 4.4 million at December 31, 2019 and absent at December 31, 2018. In this regard, we reiterate the first-time application of this standard from January 1, 2019;

for which also began in December 2019. Furthermore, during 2019 the costs incurred in relation to investments pertaining to ongoing sales authorizations were written down, alongside the write-downs previously mentioned with reference to Tetraconazole and Chlorothalonil for around € 1.0 million; in addition, the effect of the deconsolidation of the Isagro Asia assets relative to this item was equal to € 0.2 million;

- **tangible assets**, equal to a total € 15.6 million at December 31, 2019, down by € 3.6 million compared to December 31, 2018, of which 0.7 million for lower investments for the period compared to the level of the relative amortizations and € 2.9 million arising from the deconsolidation of the Isagro Asia assets;

- **financial assets**, equal to a total € 4.2 million at December 31, 2019, up by € 3.6 million compared to December 31, 2018, prevalently due to the effect of the recognition of the fair value in the item “other investments” of Arterra Bioscience S.p.A. for € 4 million following its listing on the AIM market (as described in the section “Significant events in 2019”);
- **other medium/long-term assets and liabilities**, equal to a total € 7.2 million at December 31, 2019, down by € 4.1 million compared to December 31, 2018, owing substantially to (i) the dynamics in the reallocation of installments pursuant to M/L Agreements due in the next 12 months among short-term assets, (ii) the reclassification of deferred tax assets pertaining to Isagro Asia among the Discontinued Operations, and (iii) the partial write-down of deferred tax assets allocated to the tax losses of previous years by the Parent Company Isagro S.p.A.

Net working capital at December 31, 2019 totaled € 41.9 million, down by € 13.2 million compared to December 31, 2018, mainly due to the effect of the sale of Isagro Asia: the Net working capital at the end of 2019 if compared with the same “re-stated” figure at December 31, 2018 is indeed higher for € 0.7 million.

More specifically:

- **Inventories** at December 31, 2019 compared to December 31, 2018 decreased by € 7.2 million, while compared to the “re-stated” figure at December 31, 2018 increased by 2.4 million, mainly due to the increase of the storage of finished products (particularly Isagro Brasil) compared to the sales envisaged for 2020;
- **Trade payables** at December 31, 2019 compared to December 31, 2018 decreased by € 6.6 million, while compared to the “re-stated” figure at December 31, 2018 increased by 1.7 million, prevalently against the aforementioned increase of inventories;
- **Trade receivables** at December 31, 2019 compared to December 31, 2018 decreased by € 12.6 million, whereas compared to the “re-stated” figure at December 31, 2018 remained substantially unchanged, as a result, on the one hand, of the higher sales made by the Parent Company Isagro S.p.A. in the final quarter of 2019 compared to the same period of the previous year (partially offset by the effects of an increased use of non-recourse factoring) and the reallocation of the current quotas of receivables pertaining to the M/L Agreements and, on the other hand, of the decrease in sales of Isagro Brasil and Isagro U.S.A., Inc.

As far as the **Severance Indemnity Fund** is concerned, it was € 1.9 million at December 31, 2019, down by € 0.5 million compared to the figure of € 2.4 million at December 31, 2018, and by 0.2 million compared to the “re-stated” value of 2.1 million at December 31, 2018. The decrease is consistent with the reduction in staff in the workforce that took place in the reporting period. For further information, please see the section “Human Resources”.

In terms of sources of financing, consolidated **Equity** at December 31, 2019 totaled € 91.0 million, down by € 3.8 million compared to the 94.8 million recorded at December 31, 2018, mainly due to the effect of (i) the changes to the Net profit/(loss) for the period, (ii) the decrease in the translation reserve mainly relative to the items of the former subsidiary Isagro Asia, and (iii) the measurement at FVTOCI of the shares held in the subsidiary Arterra Bioscience S.p.A.

The consolidated **Net Financial Position (NFP)** at June 31, 2019 thus amounted to € 34.4 million, down by € 10.7 million compared to the € 45.1 million at December 31, 2018.

As previously highlighted, the relative free cash flow for the period, equal to € 15.2 million excluding the effect of the first-time application of IFRS 16 for € 4.5 million, breaks down as follows:

- for € 32.0 million, the combined effect of part of the price for the sale of Isagro Asia collected on December 27, 2019 (equal to € 46.2 million) net of the deconsolidation of the NFP owed to Isagro Asia at December 31, 2018 (equal to € 14.2 million), and
- for € -16.8 million, the negative operating cash flow for the year, which includes an increase in the Working capital of € 0.7 million compared to the “re-stated” figure at December 31, 2018.

The Net Financial Position at December 31, 2019, which includes, as mentioned, the effects of the first-time application of IFRS 16, is represented for € 28.6 million by the quotas relative to medium/long-term loans repayable after December 31, 2020. Said medium/long-term financing operations were performed by the Parent Company Isagro S.p.A. with a view to optimizing the cost of medium/long-term borrowing and seeking greater alignment between the timing of the investments undertaken—particularly those relating to development of the new “SDHi”-class broad spectrum fungicide *Fluindapyr*—and that of the sources of finance supporting these investments, leaving the short-term lines as a “liquidity reserve”, in the absence of extraordinary operations. In this regard, Isa-

gro has continued to monitor with attention the evolutions related to the status of the monetary policies of the ECB, whose QE (Quantitative Easing) ended at the start of 2019 with a consequent slowdown in the granting of new medium/long-term loans replacing those maturing, and the evolutions related to public finance policies, which could affect the costs of procuring debt capital. In this context, during 2019, new loans of € 16.2 million were taken out, to replace those due to mature.

Following the completion of the sale of Isagro Asia on December 27, 2019 and the simultaneous payment of € 46.2 million as sale price net of the portion held in escrow and the withholding tax paid to the Indian authorities, Isagro presents at December 31, 2019 a consolidated liquidity of over € 46 million, which, due to the limited time available, was unavailable even in part for the closure of the short-term bank credit facilities still in place at the end of the year, an event which nevertheless took place at the start of 2020 with the repayment of the short-term bank credit facilities for an amount equal to around € 18 million at the level of the Parent Company Isagro S.p.A.

Lastly, in light of the above, the consolidated **debt/equity** ratio (i.e. the ratio between Net Financial Position and Equity) came to 0.38 at December 31, 2019 (or to 0.33 net of the effect of IFRS 16) compared to the value of 0.48 recorded at December 31, 2018.

CASH FLOWS – SUMMARY DATA

At December 31, 2019, a free cash flow of € 15.2 million was generated, net of the effect of IFRS 16 (compared to a free cash flow of € 1.1 million at December 31, 2018), deriving for € 13.2 million from a reduction in Net working capital and for 2.0 million from the positive operating cash flow.

(€ 000)	FINANCIAL YEAR 2019	FINANCIAL YEAR 2018
Net profit/(loss)	(13,907)	363
+ Depreciation, amortization and impairment	11,118	8,948
Gross Cash Flow	(2,789)	9,311
- Investments	(7,956)	(8,055)
- Dividend distribution	-	-
± Other changes*	12,703	(450)
Free Cash Flow before Δ NWC	1,958	806
Δ NWC	13,287	298
Free Cash Flow	15,245	1,104
Memo: effect of IFRS 16**	(4,522)	-
Change in NFP	10,723	1,104

Table 4: Summary of Cash Flows

* Includes, among other things, the changes relative to the translation reserve of Isagro Asia, to the receivables from M/L Agreements and to provisions for taxes

** Non-cash component

MAIN FINANCIAL INDICATORS

The table below shows the key financial indicators of the Isagro Group.

	2019	2018**
Average No. of shares outstanding* (000)	37,860	38,410
Basic earnings/(loss) per share* (€)	(0.37)	0.01
Equity per share* (€)	2.40	2.47
R.O.E.	-15.3%	0.4%
R.O.I.	-11.0%	0.2%
Net Financial Position / EBITDA	(13.14)	4.85

Table 5: Main Financial Indicators

*Excluding 295,036 treasury growth shares in 2018 and 865,057 treasury growth shares in 2019
** Income Statement restated to IFRS 5

With reference to the main financial indicators, in 2019 there was a loss per share of 0.37 compared to the earnings per share in 2018 of 0.01. In the same way, there was a deterioration in R.O.E. (Return On Equity), of -15.3%, compared to +0.4% in 2018, and a deterioration of R.O.I. (Return On Investment), which went from 0.2% in 2018 to -11.0% at December 31, 2019, as the balance between the combined effects of a reduction in operating profit, on the one hand, and a decrease in Net Invested Capital, on the other.

The ratio between the Net Financial Position and EBITDA worsened slightly from the figure of 4.85 in 2018 to -13.14 at December 31, 2019, as a result, on the one hand, of the decrease in EBITDA (from the positive figure of 9.3 million in 2018 to the negative figure of 2.6 in 2019) and, on the other hand, of the improvement in the NFP on the previous year by approximately 24%. The structures of financial covenants on a consolidated basis provided by the existing medium/long-term loan contracts, therefore, were observed at December 31, 2019.

RESULTS OF THE PARENT COMPANY ISAGRO S.P.A.

In order to better represent the Group's financial performance and position as well as strategic results, it was deemed appropriate to present the main items relating to the Parent Company Isagro S.p.A. as well, which does not only provide coordination and strategic guidance, as the Group's holding company, but also acts as a research, production, marketing and sales centre.

Therefore, with reference to the 2019 results of Isagro S.p.A., they are represented by:

- **Revenues** of € 94.7 million, down by 18.9 million (-17%) compared to € 113.6 million in 2018;
- negative **EBITDA** of € 3.2 million, down by € 10.9 million compared to € 7.7 million in 2018;
- a **Net profit** of around € 17.2 million compared to the loss of 5.9 million in 2018, which prevalently reflects the effects arising from the sale of Isagro Asia on December 27, 2019.

RESEARCH, INNOVATION AND DEVELOPMENT ACTIVITIES

During 2019, Isagro incurred Research, Innovation & Development costs totaling € 14.0 million, of which € 5.3 million were capitalized against investments for development, registration and the extraordinary protection of proprietary products worldwide. During 2018, these expenses amounted to € 12.3 million, of which € 5.4 million were capitalized.

A) RESEARCH AND INNOVATION

The research activity conducted by the Group focused on a number of work lines aimed at obtaining new candidates for development. It is recalled that at the start of 2018, the management team approved the proposal for the stage 2 development program of a new molecule that in 2017 obtained the qualification of “worthy of development”.

The research activities performed in 2019 focused on:

- a new series of broad-spectrum fungicides, additional with respect to that belonging to the SDHi class whose development started in 2012. The projects continued regularly and all the activities of the current phase of stage 1 were performed successfully, permitting the advancement of the projects. The 2018 activity plan implemented at the Novara Research Centre featured several lines of value:
 - new chemical structure with probable innovative Mode of Action, for which the main target as of today is Asian Soybean Rust, the potential market for which has a value of approximately US\$ 2 billion and is concentrated in South America. Among the 97 molecules studied, only a few candidates were selected and promoted to stage 1.2. Among these, two emerged for their extremely active profile. In the first quarter of 2019, the experimental formulations for these two candidates were inserted into a small number of initial phase field trials (RET 1) in Brazil. The results, obtained in highly strict testing conditions, were valid. In addition, other opportunities were

studied for the fungal diseases of cereals: in relation to this, the same experimental formulations were inserted into a program of initial phase field trials for cereals in Europe, the results of which exclude the continuation for these uses. An initial project review in September, however, defined the continuation of the field activities for Brazil starting from October: this phase will be decisive for the final evaluation of the 2 molecules selected including in terms of cost/efficacy. In the final quarter of 2019, the experimental protocols of the field trials were finalized and implemented, which envisaged the evaluation of the efficacy, in areas with medium and high pressure of soybean rust, of the 2 molecules alone and in an extemporaneous compound with possible DMI (triazoles) and SDHi fungicide partners. The trials still underway will be completed by the first quarter of 2020;

- new competitive chemical structure, for which two continuation strategies have been outlined, with production up to now of more than 100 molecules studied in stage 1.1 (screening stage). In strategy 1, we have managed to identify a molecule with valid performance and a broad spectrum of action which will be the subject of internal formulation and efficacy studies at the Novara Research Centre. Strategy 2, especially broad and complex, has shown the gradual emergence of candidates, for which selection criteria for high performance are applied. Stage 1.1 has not been completed; however, we believe that this series of research is very significant for both the potential wideness of spectrum and the level of effectiveness. The screening activity at the Novara Research Centre for the selection of the best molecules also continued in the third and fourth quarters of 2019, with the synthesis of over 60 new molecules and the identification of three new lines of products that showed an efficacy equal to the best products of reference on the targets subject to screening.

Finally, for the assessment of this florid research activity on innovative fungicides, the Novara Research Centre has constituted and finalized effective assessment techniques never used before;

- new candidates to combat soil parasites. The validity of the “Nematicide” stage 2 molecule has been confirmed. For this, several third-party companies have also expressed potential interest. In addition, although in an earlier phase, research on other differential lines is continuing with the objective of

creating an area of strategic strength for Isagro in this segment. The activities carried out in the period involved the production of the necessary quantities of 3 molecules for the preparation of the experimental formulation to be tested in initial field trials under the control of the Novara Research Centre. The activities in the fourth quarter of 2019, on the other hand, were focused on the completion of the efficacy profile of Nematicide stage 2 with promising field results from Brazil on major crops such as soy, cotton, and sugar cane. In tandem, the early research lines have produced in total over 170 new molecules, including some which look particularly promising for meeting the most recent regulatory and market requirements;

- new series of herbicides for arable crops. Two research lines were identified during 2017. Of these one had already expressed in 2018 two candidates of potential value for an intermediate step of stage 1. The studies conducted last year led to the selection of a single valid candidate for selective weed-killing with corn and soy, and this was the subject of broader assessment to consolidate stage 1.2 with a view to possible promotion to the final stage. In the first quarter, the field trials and the identification of the field trials under our strict control were scheduled. Though the drought conditions initially posed some cause for concern, the experimental season then proved to be very favorable for the evaluation of the pre-emergence herbicide candidate with a high level of success. During the third quarter, the analysis of the experimental field data confirmed some interesting areas for potential use for corn and soy, and in the fourth quarter, the general outline of the product was completed, confirming the proposal for promotion to stage 1.3 with relative action plan. The second line is in an earlier stage, and it will be better assessed as stage 1.1 during 2020.

Studies continued, in accordance with the objectives and timing of the projects, for the identification of new copper-based formulations capable of acting at a lower dosage and with a broader spectrum than those already on the market. It is recalled that, at the end of 2018, a broader innovation program was launched internally, aiming at substantial technological innovation. During the fourth quarter, including thanks to the collaboration with the University of Eastern Piedmont, the biological, analytical and industrial feasibility aspects were studied, which led to the identification of some new candidates to undergo the optimization phase.

For the assessment of new products with biostimulant action, alone or in combination with other molecules:

- a new formula found to be interesting in the “first profile” studies moved positively on to the stage of pre-commercial assessment in 2018 and the field activities in support/preparation for the launch on the market envisaged in 2019 were carried out. In the final quarter, the technical and commercial profile of the product was finalized and disclosed to the customers;
- profile studies for second-generation formulas had found some candidates in 2018 that responded to the agreed commercial objectives. During 2019, work continued for optimization, in preparation for a pre-commercial stage in 2020. In the final quarter, the assessment of the greenhouse efficacy continued for the earliest product lines and the data of the field trials for the new products in pre-commercial stage were processed.

B) PRODUCT DEVELOPMENT

The main development activities carried out since the start of the year are highlighted below.

Fluindapyr (or Succinate Dehydrogenase inhibitor or SDHi, formerly IR9792) – broad-spectrum fungicide

In 2018, the activity was particularly concentrated on the completion of the regulatory studies on the active ingredient and the representative formulation necessary for filing the registration dossier for inclusion in *Annex I* of the technical active ingredient in the European Union, with the relative documentation consequently sent to the Rapporteur Member State (Germany) and to the Co-rapporteur State (Italy) at the beginning of October in the same year. In April 2019, the positive response arrived on the completeness of that *dossier*. This was then sent to all Member States, to the EFSA (*European Food Safety Authority*) and to the European Commission, and the assessment process by the Rapporteur Member State is underway.

On April 5, 2019 the application was sent for the authorization of *Fluindapyr* and relative representative formulated product in the United Kingdom. Due to this country's exit from Europe, the application is understood as a national assessment for a new active ingredient.

The program of the field and processing trials destined for completion of the effective registration dossier (BAD = Biological Assessment Dossier) is also continuing for the single formulations and compounds envisaged for the market in Europe. The program of the trials has concluded, while the BAD is pending conclusion by the end of 2020. In tandem, studies are underway to complete the “toxicological” dossier of

two compounds for which an application will be sent for registration in the EU.

The entire plan was scheduled and contractualized with the CROs (*Contract Research Organizations*) of the various countries in Europe on the basis of the objective to produce data for the BAD.

In China field trials of the formulated product containing two active ingredients are continuing, and this testing will be completed in 2020.

In addition, the latest environmental impact studies are being repeated in order to complete the dossier for the submission scheduled in 2020.

In Brazil, after the filing of the dossier on the active ingredient and two formulations in 2018, trials had begun on a third formulation containing three active ingredients and the *dossier* is expected to be filed in the first half of 2020. The assessment/study activity involving other solutions is continuing on the basis of the objectives and of any commercial agreements. It is also noted that in April 2019, the MAPA (Brazilian Ministry for Agriculture) had published an initial priority list of products that it intends to propose for “fast track” (faster registration procedure), which did not feature *Fluindapyr*. In this respect, at the start of May 2019, an appeal was made to the MAPA, and in July, the priority list was revised to include *Fluindapyr*. In preparation for the start of the assessment by the authorities, the latter were sent, between the end of October and the start of November 2019, the summary and analysis document of the toxicological dossier which had been prepared by the external consultant (*PATE document*). The testing program of field trials in Argentina is also continuing, with the compound containing two active ingredients, and this will be completed in the first half of 2020. For this compound, the necessary studies were planned for 2019 for the completion of the registration dossier, which made it possible to complete the submission of that dossier in December and will make it possible to submit that of the formulated product in 2020. Other projects are being launched for registration, in other countries of the “Southern Cone”, of the same compound, in particular in Paraguay, where registration was achieved on December 4, 2019 (thus beginning the process of amortization of *Fluindapyr*), in Uruguay and Bolivia, where the submission of the *dossier* is expected by the third quarter of 2020. On February 28, the *application* of the *dossier* for the technical active ingredient was also submitted in India with the objective of achieving authorization for *Export*: this authorization was achieved in the second quarter of 2019. In India, an initial phase of field trials was also launched.

Tetraconazole – a broad spectrum fungicide

The activity was principally concentrated on the coordination of the finalization activities for the studies necessary to renew the approval of the active ingredient in the European Union, also including the relations with the *regulatory* consultant for the compilation of the *dossier* for the renewal (sent to the authorities on June 26, 2019). The *dossier* was submitted to the Rapporteur Member State (France) and to the Co-rapporteur (Germany) for the renewal of the approval in the European Union and on October 2, the “*completeness check*” was received and confirmation arrived for the admissibility of the *dossier* from the Rapporteur Member State (France). The *dossier* was then sent to all member states, the EFSA, and the European Commission, in accordance with the regulations. Subsequently, the activity focused on the “*monitoring*” of the studies (still ongoing) that will be included in the *dossier* over the coming months, as agreed with the Rapporteur Member State.

In particular, these studies concerned:

- the continuation of the activities for the finalization of the registration dossiers for the Tetraconazole/Azoxystrobin compound in Malaysia and Pakistan;
- the finalization of the registration dossiers for the Tetraconazole/Azoxystrobin compound in Kenya and Ecuador, and for the Tetraconazole/sulfur compound in Turkey;
- the submission of the registration dossier for Tetraconazole 125 g/L ME in Kenya, and the application for extension of the label of the same formulation in Greece;
- the planning of the registration processes in the EU via Mutual Recognition (“straight” formulations in the Central area of the European Union);
- the obtainment of registration for the extension of use of Tetraconazole in Canada on extensive crops;
- the follow-up of the Import Tolerance project in Korea for which submission to the authorities is expected by the first quarter of 2020;
- the obtainment of registration of Tetraconazole 125 g/L ME on cereals in the Czech Republic and the label extension of Eminent on flaxseed in Belgium;
- the conclusion of the label extension process for the Tetraconazole/Azoxystrobin formulation in Brazil (inclusion of use on coffee);
- the registration of the Tetraconazole/Azoxystrobin formulation in Paraguay.

Copper-based products

With reference to copper-based products, the main activities were as follows:

- follow-up of the re-registration processes of formulations in Europe (STEP 2 of the European review process) and globally;
- preparation and subsequent submission of the dossier for the renewal of the registrations of the copper-based formulations in Europe (19 formulations and 141 registrations), and globally;
- preparation of the dossier for the registration of Cuprocaffaro 50 WP in Tunisia and Bordeaux mixture 20 WP in Thailand;
- preparation of the dossier for the registration of Airone SC/Grifon SC in South Korea, Macedonia, Pakistan, and Serbia, and of Badge WG in Lebanon;
- participation in the European Copper Task Force's follow-up for the renewal of Copper salts approval at European level;
- registration of the Airone SC/Grifon SC formulation in Brazil (two clones for soy), Germany, Hungary, Portugal, Bulgaria, and Greece;
- registration of the Badge WG/Airone WG formulation in Germany, Romania (Coprantol Duo clone), Spain, Hungary, Portugal, Bulgaria, and Greece;
- obtainment of the FIBL certification in Germany for the use of Airone SC/WG in organic farming;
- registration of the Coprantol Duo formulation (clone of Cuprocol Duo) and of the Badge SC and Grifon SC formulations (clones of Airone SC) in France;
- registration of the Airone SC formulation in Paraguay;
- preparation of the dossiers for the registration of Airone WG and Airone SC in Kenya;
- preparation and submission of the dossier for the registration of the Airone SC formulation in Uruguay.

Kiralaxyl (or Benalaxyl-M, formerly IR6141) – active isomer of Benalaxyl

The development activity focused, inter alia, on the following projects:

- follow-up to review the document for the reassessment of the available toxicological studies on Kiralaxyl;
- follow-up of the re-registration process in EU member states for all formulations containing Kiralaxyl registered in Europe (“STEP 2”), after inclusion in Annex 1 of Regulation (EC) 1107/2009;
- support for Isagro Colombia for the submission of the dossier for registering Fantic Star in Ecuador and Peru;
- follow-up of the project for registering Fantic M WP in Pakistan;
- coordination with Gowan for registration activities in support of development of the business of Kiralaxyl-based formulations in the European Union;
- the preparation of the dossier for the review by the

European Union of the maximum residue limits pursuant to Article 12 of the European Regulation;

- follow-up and preparation of the supplementary documentation required by the French authorities (Reporting Table) for zonal registration of the Fantic A product (Benalaxyl-M + Airone) in Southern Europe;
- preparation of the dossier for registration of the Fantic A product (Benalaxyl-M + Airone) in Turkey;
- preparation of the documentation and the support to the locals for the preparation of the dossier for registration of the Fantic A product (Benalaxyl-M + Airone) in Argentina;
- coordination activity for preparation of the dossier according to the new European format for defense of the Fantic A product;
- coordination with Adama for registration activities in support of development of the business of Kiralaxyl-based Seed Treatment formulations;
- follow-up and preparation of the supplementary documentation required by the authorities in support of the registration of Fantic Star and Fantic M in Brazil.

Fumigant

As regards the fumigant Dominus, the main activities were:

- continuation of support activities for obtaining registration in California (USA), Algeria, Egypt, Jordan, Iran, Kenya, and South Korea;
- continuation of support activities for obtaining authorization to produce in India and export technical and formulated AITC;
- follow-up of the activities for performance of the studies necessary to obtain the registration of the new formulation AITC 20 in the USA;
- follow-up of the activities for the equivalence request of three new Chinese sources and a new Indian source of the technical AITC active ingredient for the United States;
- authorization to use Dominus on peppers and cloves in Turkey.

It should be remembered, in addition, that Dominus has already obtained federal registration as a biofumigant in the USA and that California, for which specific registration is expected in 2020, represents its main reference market.

Biostimulants, microbiological products, pheromones

The monitoring activity related to the authorization processes, which are underway and aimed at supporting the business, continued. Full registration of Siapton was obtained in 2018 in China (it previously held temporary registration). Again in China, the new

Ergostim XG, with ad hoc formulation, had excellent results on the local market.

In addition, the registrations for Siapton and Goleador were obtained in Vietnam and the product package intended for distribution in Italy was widened, including Ergovit Stim, Tamarack, and Aminogreen (the latter two also included in the fertilizer register).

At the end of September, a second brand was registered for Siapton in Paraguay: Clarus. In Romania, a provisional authorization was obtained for the sale of the biostimulant Aminoplant. Definitive registration is expected by the first quarter of 2020.

Preparatory activities continued for obtainment of the authorization for sale of the new Premio fertilizer above all in non-EU countries (such as India and China). In particular, for China, ad hoc formulations were developed containing Ca (calcium), in order to meet the local registration requirements, and the submission for the registration was made at the end of 2019. Registration was obtained in Brazil.

Of the products with specific action on the soil, inoculum of mycorrhizal fungi that make use of the waste material of the Remedier production process, a line of new products was developed, Biocross Plus, Biocross Eva and Biocross Tria, all included in the fertilizer register. A new "Biocross" is also being developed for fertilizing seeds.

On June 25, 2019, the new EU Regulation on fertilizers, **Fertilising Products Regulation (FPR) (EU) 2019/1009**, was published in the Official Journal. As of July 15, 2019, the date of entry into force of the Regulation, the European Commission has the possibility to adopt its own powers of mandate for the implementation of the regulation and to amend Regulation EC 1107/2009 (in order to exclude biostimulants from the scope of application of the regulation on crop protection products) and Regulation CE 1069/2009 (in order to establish the end point of the fertilizing products). Between the new elections of the European Parliament and the necessary implementations, the new regulation will be fully applicable as of July 16, 2022.

As regards pheromones, the application for the registration of the Ecodian CT formulation (for containment of the main lepidopterans of the chestnut tree) in Italy was sent together with the request to include the active ingredient in *Annex 1* on July 6, 2019. In September 2019, the request was received to send the dossier to the Body appointed by the Ministry for the assessment and the final authorization is expected in the third quarter of 2020. Registration of Ecodian CP in Spain was obtained in June 2019. The process for renewal of inclusion in *Annex 1* of *Trichoderma asperellum* and *Trichoderma gamsii* is continuing with comments and documentation to the Rapporteur Member State (Sweden). The authorization of these active in-

gredients was extended in Europe until April 2020 with Regulation of January 31, 2019 (2019/168).

A new combipack (two individual packets in one box) is ready for sale containing Ecofox (*Trichoderma gamsii* and *Trichoderma asperellum*-based formulation) and activator Activite (which enables a faster and more efficient germination of the *Trichoderma* spores and improves product performance).

In addition, the dossier for obtaining registration of Remedier in Kenya and for mutual recognition in Cyprus was sent.

In November 2019, the dossier was submitted for adversary extension (chocolate spot of pear trees) for Radix Soil in Italy following the phytoiatric emergency in the fruit areas in Emilia Romagna in recent years. Registration was obtained in January 2020 and includes insertion in the production guidelines of pear trees.

C) REGISTRATIONS OBTAINED

During 2019, 54 new authorizations for sale were obtained, 24 of which for copper-based formulations (Airon), of which 20 in the European Union, 2 in Brazil (for use on soy against Asian Rust in that country), 1 in Paraguay, and 1 in Syria. Among other things, we note (i) the obtainment of registration for *Fluindapyr* and a second brand for Siapton (Clarus) in Paraguay, (ii) the obtainment of registration for the Kiralaxyl + copper oxychloride + copper hydroxide compound (FANTIC A) in Spain, Portugal, and Greece, (iii) the obtainment of registration for Remedier on tomatoes in Tunisia, (iv) the obtainment of the authorization to sell Goleador and Siapton in Vietnam and for a second formulation identical to Siapton in Paraguay.

SIGNIFICANT EVENTS IN 2019

A) SALE OF THE INVESTMENT IN ISAGRO ASIA

On December 27, 2019, as a follow-up to the communication on September 12 and November 14 of last year, the Isagro Group finalized the sale of the fully controlled company Isagro Asia to the company PI Industries Ltd. (unrelated party of Isagro).

The value of the transaction net of withholding tax amounts to around € 52.1 million, a sum entirely paid on December 27 with the exception of around € 5.9 million, subject to an escrow fund at HSBC India, to be released on the basis of contractual agreements. From this escrow fund, therefore, in April 2020 around an additional € 2.7 million was paid to Isagro S.p.A., as described in further detail in the section on Events subsequent to the end of the year.

Isagro Asia, with a workforce of around 270 employees, is a company based in Mumbai and active in the formulation and distribution of generic organic chemicals in India, in addition to chemical synthesis for

third parties. With reference to the overall figures from 2018, Isagro Asia generated Revenues for around € 37 million and a Net profit of around € 3 million, with a Shareholders' Equity of around € 36 million and Net cash worth around € 14 million. Again with reference to the 2018 figures, the total assets of Isagro Asia, net of the consolidation accounts, represented 21.64% of the total assets of the Isagro Group.

As part of the agreements relative to this transaction, which were also concluded with the desire to maintain the intercompany collaboration relations consolidated over the years with Isagro Asia, ancillary contracts were signed for the supply, distribution, and assignment of preferential rights, the fair value of which at December 31, 2019 totaled approximately € 1.9 million.

The sale, as previously communicated, is part of the process to change the Isagro business model, and the relative income contributed to the reduction of the net financial debt of the Isagro Group at December 31, 2019.

B) TERMINATION OF EMPLOYMENT RELATIONSHIP OF THE GENERAL MANAGER

On November 15, 2019, Isagro signed an agreement with Davide Ceper regarding the consensual termination of the employment relationship and of the office of General Manager, with effect from November 18, 2019.

Pursuant to this agreement, on December 27, 2019 the Company paid Davide Ceper the final remuneration due by law and contract associated with the role of Executive, quantified as € 623 gross as severance indemnity, in addition to the overall gross sum of € 195 thousand as an early retirement incentive.

It is also specified that Davide Ceper—as part of the long-term incentive and retention plan intended for Isagro top management (approved by the Board of Directors on March 13, 2018 and by the Shareholders' Meeting on April 24, 2018)—was the beneficiary of 160,000 Growth Shares, for which, given the early termination of the employment relationship, he had not accrued the right of assignment.

It is noted that, at the date of signing the agreement, Davide Ceper stated that he held neither Ordinary Shares nor Growth Shares in Isagro.

The agreement for the termination of the relationships with Davide Ceper, brought to the attention of the Board of Directors and of the Board of Statutory Auditors of Isagro on November 15, 2019, though qualifying as a related-party transaction, did not require the issue of an opinion by the Independent Administrators Committee since the indemnity agreed with the director is consistent with the criteria indicated in the Re-

muneration Policy of Isagro (approved by the Board of Directors, with the approval of the Appointments and Remuneration Committee, and on which the Shareholders' Meeting on April 30, 2019 had expressed a favorable vote).

C) LISTING OF ARTERRA BIOSCIENCE

On October 28, 2019, the Ordinary Shares of Arterra Bioscience were admitted for trading on the AIM segment of Borsa Italiana S.p.A. Following the IPO, the investment held by Isagro, which continues to hold 1,101,880 Ordinary Shares, is equal to 16.8% of the share capital of Arterra Bioscience. The IPO was completed at a price of € 2.6, while the year-end value was € 3.79 per share, the effects of which are reflected in the Shareholders' Equity of the Isagro Group. The investment of Isagro S.p.A. is subject to lock-up for a period of 24 months. For further details, please refer to the Explanatory Notes to this Report.

D) DISTRIBUTION AGREEMENT WITH GOWAN COMPANY LLC OF OCTOBER 18, 2013

With reference to and following the discount request in January 2018 by Gowan Company, communicated in previous reports, to which you are referred, on July 2, 2019 the New York Arbitration Chamber notified Isagro of an arbitration award, which established the following:

1. Gowan's request for recognition of a Net Margin equal to 30% of the price paid retroactively was rejected, as was any relative claim for damages;
2. it declared Isagro S.p.A. as party to the case (a declaration that nevertheless had no practical repercussions on the Parent Company);
3. it clarified that clause 3(d) of the Domark 230 Distribution Contract must be applied as of the annual definition, and before September 1, of the prices for the subsequent season with express exclusion of the subsequent and retroactive price adjustments;
4. it declared its lack of jurisdiction to rule on the counterclaim of Isagro USA regarding the recognition of a receivable relative to sales made towards the company Basf for approximately \$ 220,000;
5. it allocated the expenses and legal costs to both parties.

E) WITHDRAWAL OF FRAMEWORK AGREEMENT WITH GOWAN

On June 25, 2018, the Parent Company Isagro S.p.A. and Piemme S.r.l. (following the resolution of the Board of Directors, after a favorable opinion from the Independent Administrators Committee under the terms of the procedure that governs related-party transactions) had informed Gowan Company LLC—

with advance notice of 6 months—that it was withdrawing from the permanent contract entitled the “Framework Agreement”, signed on July 30, 2013 by Piemme, Isagro and Gowan, considering it no longer in line with Isagro’s interests. On March 18, 2019, Gowan had notified Isagro and Piemme of a request for arbitration before the Swiss Chambers’ Arbitration Institution to oppose this withdrawal. In particular, Gowan had requested the following:

- to declare the ineffectiveness of the withdrawal notices sent by Isagro and Piemme;
- to declare the validity and effectiveness of the Framework Agreement;
- to declare the obligation of Isagro to respect the clause establishing the “first refusal right” (art. 6 of the Framework Agreement);
- to declare Isagro and Piemme as liable for violation of the Framework Agreement since they had demonstrated the desire to no longer comply with the obligations therein, and, accordingly, to grant Gowan the right to claim for current and future damages incurred, including equity (nevertheless never quantified).

Following the notice of the above, Gowan’s legal counsel had suggested that Isagro and Piemme make an appeal to an Arbitration Committee of 3 arbitrators instead of only one (as envisaged in the arbitration clause of the Framework Agreement). Isagro and Piemme, through their legal counsel, had accepted this proposal provided that the seat of the arbitration be transferred to Milan. Following the agreement made in this sense, Isagro and Piemme, with their respective legal counsel, on April 15, 2019, had filed their first defensive argument, objecting to all of Gowan’s requests, designating their arbitrator and reserving the right to attach additional arguments in support of their rationale, once the Arbitration Committee had been formed.

Isagro and Piemme had filed their defense on May 29, 2019. In addition, the ICC (Italian International Chamber of Commerce) had appointed the two arbitrators designated by the parties to nominate the president. Subsequently, the parties requested that the Arbitration Committee suspend the terms of the arbitration procedure until September 6, 2019.

On August 2, the parties jointly sent the Arbitration Committee notice of a successful settlement agreement and consequent waiver of the ongoing arbitration, each party revoking its claims, as described in further detail in the section “Changes to Gowan-Isagro-Piemme agreements”. On August 5, the ICC, following receipt of this communication, closed the aforementioned arbitration procedure.

F) CHANGES TO GOWAN-ISAGRO-PIEMME AGREEMENTS

In July 2019, a settlement agreement was signed involving Gowan (related party), Isagro, and Piemme, which led to:

- the cancellation of the arbitration on the Framework Agreement with waiver of any additional claim in relation to it (note: requested by Gowan following the withdrawal exercised by Isagro in June 2018). In addition, each party bears the legal costs and expenses relative to the arbitration procedure for their respective remit;
- the change to the express termination clause envisaged in the existing distribution agreements (signed with Gowan in 2013), all expiring on December 31, 2026, independently of any event involving the shareholding of Gowan in Holdisa (change of control in Isagro).

Isagro, pursuant to the CONSOB Regulation on Related Parties, initiated the Procedure adopted by it. The transaction in question, therefore, was approved by the Board of Directors of Isagro at the meeting on July 31, 2019, subject to the favorable opinion expressed by the company’s Independent Administrators Committee.

G) APPROVAL OF THE 2018 FINANCIAL STATEMENTS AND APPOINTMENT OF THE NEW BOARD OF STATUTORY AUDITORS

On April 30, 2019, the Shareholders’ Meeting of the Parent Company Isagro S.p.A.:

- examined the consolidated data and the 2018 non-Financial Statement of the Isagro Group and approved the 2018 Financial Statements of Isagro S.p.A., accompanied by the Directors’ Management Report, as approved by Isagro’s Board of Directors on March 13, 2019 and already disclosed to the Market. To hedge the loss for the year of Isagro S.p.A. for € 5,944,018, the “Merger surplus” item was used;
- appointed the new Board of Statutory Auditors, which will remain in office for three years and in any case until the date that the Shareholders’ Meeting approves the annual financial statements at December 31, 2021. The new Board of Statutory Auditors is now formed of the following members:

Statutory Auditors:

- Roberto Cassader (Chairman) – proposed by the minority shareholder Mediolanum Gestione Fondi SGR;
- Silvia Baroffio – proposed by the majority shareholder Holdisa S.r.l.;
- Filippo Cova – proposed by the majority shareholder Holdisa S.r.l.;

Substitute Auditors:

- Marco Giuliani – proposed by the majority share-

holder Holdisa S.r.l.;

- Sonia Peron – proposed by the minority shareholder Mediolanum Gestione Fondi SGR.

Again, on that date, the Shareholders' Meeting resolved in favor of the Remuneration Report—first section—drawn up under the terms of art. 123-ter of Italian Legislative Decree no. 58/1998. In addition, the Board of February 28, 2019 assessed, pursuant to art. 3 of the Corporate Governance Code of listed companies, the necessary requisites of independence of Enrica Maria Ghia, Marcella Elvira Antonietta Logli, Giuseppe Persano Adorno, Erwin Paul Walter Rauhe and Angelo Zaccari, as independent directors.

H) PHASE-OUT OF CHLOROTHALONIL IN EUROPE

On March 25, 2019, the Standing Committee on Plants, Animals, Food & Feed (SCOPAF) of the European Commission voted in favor of the proposal not to renew the approval in the Union of the fungicide active ingredient Chlorothalonil. On April 29, 2019 the European Commission issued the relative Regulation that established the withdrawal of the registrations of products containing Chlorothalonil by November 20, 2019, with the possibility for end users to consume existing stocks before May 20, 2020. In this respect, Isagro does not produce the active ingredient Chlorothalonil, but uses it as a compound in some formulations of the proprietary fungicide Tetraconazole, which turned over approximately € 3.4 million in 2018 and approximately € 1.2 million in 2019. The phase-out of Chlorothalonil in Europe led to Isagro making a write-down in 2019 of fixed assets for € 0.4 million.

I) 2018-2021 RETENTION AND INCENTIVE PLAN AND AUTHORIZATION OF THE PURCHASE OF GROWTH SHARES AND THE SALE OF ORDINARY TREASURY SHARES

The Shareholders' Meeting, at the proposal of the Board of Directors of March 13, 2018, had approved the long-term Retention and Incentive Plan named "2018-2021 Restricted Shares and Performance Shares Plan", initially communicated as one of the events subsequent to the quarterly report on operations at March 31, 2018 and among the events for the year in the quarterly report on operations at March 31, 2019 (latest updates), to which you are referred. At the reporting date, Isagro, through Banca Leonardo, made the purchase of 890,000 Growth Shares (of a maximum of 1,000,000 shares) at the average price of € 1.2607, partly financing it through the sale of 50,000 Ordinary Shares already held.

J) INCLUSION OF FLUINDAPYR INTO THE FAST TRACK PROCEDURE IN BRAZIL

In July 2019, following the appeal by Isagro against the

non-inclusion in the priority list, the MAPA (Brazilian Ministry for Agriculture) added *Fluindapyr* to the list of products that it intends to propose for "fast track" (faster registration procedure).

EVENTS SUBSEQUENT TO DECEMBER 31, 2019

A) LIQUIDATION OF ISAGRO POLAND

On January 13, 2020, the liquidation process of Isagro Poland concluded. The closing process of the company, fully controlled by the Parent Company Isagro S.p.A., had been initiated on January 11, 2019.

B) POSSIBLE IMPACTS OF THE HEALTH CRISIS

The recent global health crisis cause by Covid-19, declared in March as a worldwide pandemic by the World Health Organization, with the consequent ongoing lockdown in most of the advanced and developing economies, is also likely to have effects on industrial agriculture, and in particular on the crop protection sector, depending on the duration of the crisis and the effectiveness of the monetary and fiscal policies implemented by the central banks and national governments.

It is estimated that a non-prolonged phase of this crisis, with activities returning to a reduced "new normality" just before summer, and monetary/fiscal policies that lead to a substantial recovery to pre-crisis levels in the next 12-18 months, simultaneously supporting the recovery of employment and disposable income, and in a context of substantial endurance of prices of the main agricultural commodities, may slightly affect industrial agriculture and, as a result, the crop protection products market. These minor effects may be represented, in terms of supply, by temporary shortages of some production input (especially chemical intermediates and building blocks manufactured in China) and, in terms of demand, by temporary reductions in the purchase flows of agricultural commodities for food and industrial uses, in any case with temporary effects on volumes and prices.

If, on the other hand, the above health crisis were to continue for much longer, in a situation in which the monetary and fiscal policies proved to be inadequate to support the level of income and employment, there could be wider effects on industrial agriculture, with drops in the prices of agricultural commodities and consequent pressure on volumes and prices of higher-content crop protection products.

The Isagro plants were not subject to lockdown since they fall under an Ateco code forming part of the activities defined as "strategic" by government measures. At all Isagro Group sites, incentives for employees to

work from home have been successful for all functions able to do so, thereby allowing for a significant reduction in staff presence at the office even before this was required by the relative government decrees.

Critical events linked to possible procurement difficulties arising from the closure of production plants of some suppliers (mainly foreign) are closely and promptly monitored, as are issues associated with the movement of goods.

As of today, it is nevertheless difficult to implement specific provisions given the context of notable uncertainty in the set of hypotheses to be monitored. Scenario analyses undertaken internally, however, indicate that:

- in the January-June 2020 period, no significant effects are expected on the sales and margins of the Group compared to 2019, given the business structure of Isagro, which mainly sells to national distributors that, in turn, specifically to avoid shortages of production inputs, are making purchases for the period without a “wait-and-see” attitude. In this respect, therefore, the preliminary figures relative to the first quarter of 2020 indicate (i) a consolidated turnover of products and services growing by over 10% compared to the first quarter of 2019, and (ii) a higher level of collections of the Parent Company Isagro S.p.A. by over 20% compared to the corresponding previous period, albeit in the usual context of seasonal increase in the net financial position compared to December 31;
- during the 2nd half of the year, and prospectively, in 2021, there may be effects in particular in terms of reduction in sales volumes and/or containment of prices, depending on the changes in the external scenario as explained above. In a particularly unfavorable scenario, with the best information currently available, Isagro’s management has estimated a maximum risk of up to € 8 million in lower sales, up to € 3 million of lower contribution margins / EBITDA, and up to € 2.7 million of lower Net profit/(loss) for 2020 (nevertheless, if this materializes, it will be concentrated in the second half of the year), and a maximum risk of up to € 12 million in lower sales, up to € 4.5 million in lower contribution margins / EBITDA, and up to € 4.3 million in Net profit/(loss) in 2021 (mainly in the first 9 months). The impact of the aforementioned maximum risk estimates for sales and margins in 2020 and 2021 in terms of decreased cash flows in the individual years can be quantified, net of the relative effects of changes to working capital, as up to € -0.7 and -3.3 million respectively, with a maximum risk of “cumulated” impact on the Shareholders’ Equity for € -2.7 million

in 2020 and for € -7 million in 2021. The maximum risk of “cumulated” impact estimated on the NFP is, on the other hand, equal to € 0.7 million (as debt) at December 31, 2020 and € 4.0 million (as debt) at December 31, 2021. This sensitivity analysis, which therefore includes unfavorable inputs compared to the results expected by the consolidated 2020-2025 Business Plan (approved by the Board of Directors on May 6, 2020), is such, including at maximum risk, that it does not jeopardize the financial covenants (regarding the medium/long-term loans of Isagro) as a whole for these years. In relation to these numbers, however, and with reference to the topic of going concern, the financial resources generated at the end of 2019 following the sale of Isagro Asia, alongside the bank credit facilities available at December 31, 2019 to the Parent Company Isagro S.p.A., for around € 41 million, the facilitated conditions of access to credit and additional extraordinary operations being implemented (sale of *Fluidapyr*, the closing of which is estimated to take place by September 30) and defined, currently guarantee the bases for going concern. Lastly, the binding offer is not subject to “termination” clauses associated with COVID-19.

C) BUSSI SUL TIRINO, NOVARA AND GALLIERA TEMPORARY LAY-OFFS

On April 3, at Confindustria Chieti Pescara, the trade union agreement was signed on recourse to a period of suspension of production activities at the site in Bussi sul Tirino, with support from the CIGO (Cassa Integrazione Guadagni Ordinaria - Ordinary Redundancy Fund) for the COVID-19 emergency envisaged by Decree Law of March 18, 2020, for a total of 9 weeks with activation from April 6, 2020 and duration up to June 7, 2020.

The reasons that made the recourse to the CIGO necessary are attributable to the health emergency relating to the spread of COVID-19, following the various Decrees issued by the Italian Prime Minister and regional orders, with which various restrictions were approved to limit the risk of infection, and for an issue associated with the procurement of raw materials.

On March 23, 2020, following communication to the local trade unions, the CIGO (Cassa Integrazione Guadagni Ordinaria - Ordinary Redundancy Fund) was activated for the COVID-19 emergency envisaged by Decree Law of March 18, 2020 for the Novara Research Centre and Galliera sites.

The reasons that made the recourse to the CIGO necessary are attributable to the health emergency relating to the spread of COVID-19, following the various De-

crees issued by the Italian Prime Minister and regional orders, with which various restrictions were approved to limit the risk of infection, such as the suspension of activities not required for production. The expected duration is for a maximum of 9 weeks with activation from March 23, 2020 until May 24, 2020.

D) INITIAL COLLECTIONS FROM ESCROW FUND FOR ISAGRO ASIA SALE

At the start of this April, Isagro and PI Industries reached an Agreement on the release of part of the escrow fund formed on December 27, 2019 at HSBC India relating to the adjustments of the sale price of Isagro Asia (“true-up adjustments”), on the basis of which, during the same month, Isagro collected approximately € 1.7 million. In addition, again in April, HSBC India paid Isagro an additional € 1 million pertaining to an initial *tranche* of local value-added tax (“GST”) refunded to Isagro Asia by the Indian Revenue Service, which, in the same way, was subject to the escrow fund.

At the reporting date, therefore, Isagro has collected approximately € 2.7 million of the approximately € 5.9 million total held in escrow.

BINDING OFFER FOR FLUINDAPYR

Consistent with the redefinition of the business model, the Isagro Board of Directors approved the acceptance of a binding offer from the North American company FMC Corporation, which took effect on the evening of May 5 following the communication of the approval by the FMC Board, for the acquisition by FMC of *Fluindapyr* at the price of € 55 million. The closing, with the simultaneous payment of the aforementioned price, is to take place by September 30 and is subject, in particular, to the authorization of the European Antitrust Authority and to the signing of specific commercial agreements.

Fluindapyr, whose consolidated book value for Isagro at December 31, 2019 is equal to € 25.2 million, is a broad-spectrum fungicide belonging to the innovative “SDHi” fungicide class and is expected to be marketed during the current year. This molecule has been co-developed by Isagro and FMC (which is therefore already a co-owner of 50% of the molecule) since 2012. Isagro intends to use the income arising from the sale of *Fluindapyr* to support said redefinition of its business model.

HUMAN RESOURCES

The actual workforce at December 31, 2019 of the Isagro Group came to 343 employees, as summarized in the following table.

The decrease in workforce at December 31, 2019 compared to December 31, 2018 is essentially due to the

Number of employees	Dec. 31, 2019	Dec. 31, 2018	Difference
Executives	37	54	-17
Middle Managers	83	137	-54
White-collar workers*	153	355	-202
Blue-collar workers	70	88	-18
Total	343	643	-291

Table 5: Number of Isagro employees

*Includes the workers with special skill level

change in the scope of reference following the sale of Isagro Asia on December 27, 2019. For further information, please see the section “Significant events in 2019”.

The decrease is attributable to:

- decreases of 277 employees owing to the sale of Isagro Asia;
- decreases of 27 employees at Isagro S.p.A. mainly as a result of retirement following the entry into force of the new reform, and due to a flow of voluntary terminations generated by a labor market once more offering significant opportunities for growth;
- increases of 13 employees in the foreign subsidiaries, attributable essentially to the expansion of the commercial area of Isagro Colombia.

In the context of the corporate organization:

- the Project Management Office was created with the objective of analyzing, adjusting and developing the operational processes. This activity communicates transversally with the company functions involved in such processes, redefining roles and responsibilities within them;
- resources already present in the Group were appointed Adria Plant Manager and Bussi sul Tirino Plant Manager;
- in November, the Head of Marketing & Product Management returned to Mumbai after secondment at the Milan site, following receipt of the binding offer for the sale of Isagro Asia (as mentioned, then finalized on December 27, 2019);
- in the 2nd half of the year, the General Manager and the Group Director Research, Innovation & Development left the company.

The High Performance Organization (HPO) project, initiated in the previous year, was suspended in the final months of 2019 pending the redefinition of the business strategy.

During 2019 relations with the Trade Unions were constructive, allowing the achievement of excellent results within the sphere of industrial relations management.

The main activities were:

- sharing and definition of specific agreements on working hours, which adopt all flexibility opportunities offered by the National Labor Contracts; This made it possible to implement at the industrial sites the changes in working hours that became necessary to guarantee the various production requirements and to optimize the overall corporate organization;
- the sharing of training and coaching programs for implementation of the generational change and the definition of new multi-functional professional figures.

In December, a national coordination meeting of Trade Union Representatives at all levels (national, regional and site-specific single trade-union representation) was organized at Assolombarda with the Company's Management to inform the parties about changes in the company situation and future forecasts.

SELECTION AND TRAINING

In accordance with the annual plan implemented in all the operating units, training activities continued regarding Quality, Safety and Environment, learning foreign languages (English and Spanish) and specific technical training for specialist professional skills.

Individual training and development plans have also been implemented for particular professional figures who have been appointed new duties within the corporate organization.

CONSOLIDATED NON-FINANCIAL REPORT

The Consolidated Non-Financial Report of Isagro S.p.A., referred to financial year 2019, prepared under the terms of Italian Legislative Decree 254/16, constitutes a separate report with respect to the present Report on Operations, as provided for in art. 5, paragraph 3, letter b) of Italian Legislative Decree 254/16, and is available on the website www.isagro.com, in the "Sustainability" section.

ORGANIZATION, MANAGEMENT AND CONTROL MODEL PURSUANT TO ITALIAN LEGISLATIVE DECREE 231/2001

The Board of Directors of Isagro S.p.A. approved, on September 5, 2018, an updated version of the Organization, Management and Control Model pursuant to Italian Legislative Decree 231/2001 (hereinafter also "Model"), incorporating the most recent legislative changes on the subject and the changes made to the organizational structure.

On the same date, the Governing Body also approved the revised version of the Group's Code of Ethics, an integral part of the Model, to make existing rules of conduct and principle of behavior consistent with regulatory changes and with reference best practices.

In light of the legislative changes regarding the administrative liability of entities at the start of 2020, Isagro will shortly launch a risk assessment and consequent update of the Model (and Group Code of Ethics) in order to include the introduction of the new offenses introduced in the body of the Decree.

The task of monitoring the operations and compliance with the Model and arranging its updating was assigned to the Oversight Committee, in office until the approval of the Financial Statements at December 31, 2020.

CORPORATE GOVERNANCE CODE AND REPORT

Isagro S.p.A. has adopted the Corporate Governance Code of listed companies as its point of reference for an effective Corporate Governance structure.

On January 31, 2020, the Corporate Governance Committee defined a new version of the Corporate Governance Code, the contents of which were brought to the attention of the Board of Directors at the meeting on February 11, 2020.

Isagro will apply the new version of the Code starting from the first financial year after December 31, 2020, disclosing this to the market in the Corporate Governance Report published in 2022.

For a detailed description of the corporate governance structure, please refer to the Corporate Governance Report available at the registered office, on the company's website (www.isagro.com - Corporate Governance section) and on the website of Borsa Italiana (www.borsaitaliana.it).

LEGAL PROCEEDINGS

With reference to the ongoing legal proceedings, for which no significant updates are reported in respect of the information as at December 31, 2018, with the exception of the information reported in the previous section "Significant events in 2019", please refer to the specific section in the Explanatory Notes.

TRANSACTIONS WITH RELATED PARTIES

Transactions with related parties, including intercompany transactions and those with Gowan, cannot be defined as atypical and/or unusual transactions and form part of the normal business of the Group companies. These transactions are carried out at arm's length, taking into account the characteristics of the goods and services traded.

For further information about the transactions concluded with Gowan, please see the section "Significant events in 2019".

As regards the economic and equity effects of relations with related parties, please see the information provided

in the Explanatory Notes to this annual Report.

OBSERVATIONS ON THE FINANCIAL PROFILE AND THE GOING CONCERN ASSUMPTION

At December 31, 2019, your Group had a solid and balanced financial structure, with a **debt/equity ratio** of 0.38 – equal to 0.33 without effect of IFRS 16 – (compared to the figure of 0.48 at December 31, 2018), Own Funds of € 91.0 million (compared to the figure of € 94.8 million at December 31, 2018) and current liquidity of more than € 46 million.

Moreover, during 2019, the Parent Company Isagro S.p.A. obtained new medium/long-term loans of € 16.2 million, which extended the average duration of the debt at low cost.

Isagro intends to guarantee the repayment of the medium/long-term debts due in 2020 and the operating cash requirements in the period of transition towards the new business model through the liquidity at December 31, 2019, alongside the access, if considered necessary, to possible new medium/long-term credit facilities to replace those expiring, the use of short-term bank credit facilities of a financial nature and to support the working capital, and/or to income arising from extraordinary transactions consistent with the redefinition of the business model considered probable by the Directors and nonetheless dependent on the performance of ongoing negotiations. These include the sale of *Fluindapyr*, the closing for which is expected—as mentioned—to take place by September 30 of the current year.

With reference to the ongoing pandemic, the Group's management is continuing to monitor closely any impacts of the phenomenon in question on the most significant hypotheses and assumptions at the basis of the main estimates reflected in the financial statements, with particular reference to revenue recognition, the onset of impairment indicators on goodwill and intangible assets, in addition to changes in the liquidity situation, taking account of the uncertainty around the impact and duration of the effects attributable to the health emergency on the performance of the sector in which the Group operates. In this regard, as confirmed with specific recommendations issued on March 11 and 12, 2020 by the ESMA and CONSOB respectively, the significant events in question pertaining to said pandemic do not impact the determination of results or the shareholders' equity of the consolidated and separate financial statements at December 31, 2019, since these are “non-adjusting events”, according to international accounting standard IAS 10, since only on January 30, 2020 did the WHO declare the existence of an international emergency (in spite of the first information about the infection in China dating back to the end of 2019).

It is recalled that IAS 10 requires that indication be given of the nature of the event that took place following the closure of the financial year and of the estimate of the associated effects on the financial statements; if, in particular circumstances, due to the unpredictability of the phenomenon's outcomes, the impact estimate cannot be reliably quantified, or it is impossible to do so, the notes to the financial statements must provide adequate illustration of this, taking into consideration the situation of general uncertainty caused by the phenomenon.

In this context, it is important to reiterate the profound uncertainty associated with the spread and duration of the pandemic in question, and, in consideration of the continuous evolution of the phenomenon, it is particularly complex to predict its effects, including on economic activities at macro and micro level. This leads to high complexity and uncertainty of the estimates made by management, whose assumptions and basic hypotheses may require revisiting and updating over the coming months, including rather significantly, following changes in events not under its control. In the context of the assessment of the potential effects attributable to the spread of the coronavirus pandemic, the level of complexity and uncertainty of the estimates is unprecedented and unlike any other, involving potentially numerous aspects such as:

- the possibility of different persistence and extent of the infection in the various areas of Italy;
- the different time frames of spread and extent of the infection in various European countries and worldwide (first and foremost, USA and India);
- the lack of visibility regarding the overall duration of the infection, and, above all, the associated containment measures;
- the particular difficulty of predicting the time frames and extent of recovery of national and global economies, both at macro and micro level, once the emergency is over.

On the basis of the foregoing, the Group's management, as reported in the previous section “Events subsequent to December 31, 2019 – Possible impacts of the health crisis”, conducted an analysis to identify the areas of potential biggest impact in terms of financial information for the Group, and, consequently, developed various possible economic and financial scenarios on the basis of the information available and the reasonably formulated forecasts at present, albeit in a context of significant uncertainty, to which you are referred.

In light of the more detailed information available at March 31, 2020, to hedge the liquidity risk, the following is noted:

- the positive current account balances of the Parent

Company Isagro S.p.A. total around € 14 million;

- there are unused short-term credit facilities for over € 50 million, considering the maximum ceilings granted for the various types of credit.

Therefore, taking into account the above, alongside the information in the previous section “Events subsequent to December 31, 2019 – Possible impacts of the health crisis” and on the basis of the more detailed information currently available, it is considered that, at least over the next 12 months, there are no reasonable liquidity risks, i.e. risks pertaining to the capacity to repay the debt, borne by the Group, thereby confirming how these Financial Statements at December 31, 2019 have been prepared on a going concern basis.

USE OF ESTIMATES

The preparation of the consolidated financial statements requires estimates and assumptions that affect the reported amounts of the assets and liabilities, and the disclosure relating to contingent assets and liabilities as at the reporting date. Consequently, the results actually achieved could then differ from said estimates.

The estimates are used in order to recognize the provisions for doubtful debts and inventory obsolescence, as well as depreciation and amortization, impairment losses, employee benefits, tax and other provisions. The purpose of the estimate is to determine of the fair value related to the performance obligations identified in contracts that provide for several services, typically attributable to M/L Agreements, like the one signed during the first half of 2019 by Isagro and AQL Agroquímicos de Levante, or to the “ancillary” performance obligations related to the contract of sale of Isagro Asia, which took place on December 27, 2019. The estimates and assumptions are periodically reviewed and the effects of any changes are reflected in the Income Statement.

PROSPECTS

With reference to the current year, Isagro expects, before the possible effects deriving from the recent global health crisis (as widely reported throughout this Report), a level of sales of products and services substantially in line with that of 2019. Therefore, it is comforting that the preliminary data for the first quarter of 2020 indicate a growth in sales of products and services of over 10% compared to the first quarter of 2019.

The Net profit/(loss) expected in 2020, in turn, will depend greatly on extraordinary transactions consistent with the process to redefine the business model, with particular reference to the sale of *Fluindapyr*, the closing

for which is expected to take place by September 30.

COMMENTS ON THE STOCK MARKET VALUE OF ISAGRO SHARES

With reference to the prices of Ordinary Shares and Growth Shares of Isagro on the “S.T.A.R.” segment of the Stock Market managed by Borsa Italiana S.p.A., we consider it appropriate to note that:

1. the total market capitalization of Isagro at April 29, 2020, i.e., considering the capitalization of both Ordinary Shares and Growth Shares, amounted to 36% of the book value of Equity at December 31, 2019, which, in turn, in the opinion of Isagro’s management, provides a lower value with regard to the real net market value of your Group’s assets. The total market capitalization of Isagro at December 31, 2019, on the other hand, amounted to 48% of the book value of Equity at December 31, 2019. This gap between the book value of the Shareholders’ Equity compared to the Stock Market capitalization, in addition to the above information, is also reflected, in management’s opinion, in the unsatisfactory balance of the Group’s economic results, current and in the recent past, with consequent lack of distribution of a dividend, factors which as a whole have contributed to depressing the stock performance of both Isagro Ordinary Shares and Growth Shares by the market.
2. the average discount applied by the Market to the Growth Shares with respect to the Ordinary Shares, equal to 36% at April 29, 2020, in the opinion of the Company’s management is not justified from an economic/financial standpoint.

In relation to the above, the ongoing strategic and commercial development projects, alongside the extraordinary transactions considered probable by the Directors and nevertheless dependent on the performance of



ongoing negotiations, will make it possible in coming years to transfer a large part of the “embedded” value to Income Statement results and cash flows, thus not recognizing, in the future, the current surplus of Equity compared to Stock Market capitalization as an asset impairment indicator.

With reference to the second point referred to at the start of this section, it should be recalled that Growth Shares, issued by Isagro in May 2014, are a new class of Special Shares, specially tailored for companies having a Controlling Subject (in Isagro’s case, Piemme S.r.l.), that (i) in the absence of the voting right provide an extra-dividend with respect to Ordinary Shares (20% for Isagro), when

a dividend for these shares is resolved, and (ii) envisage an innovative protection mechanism for the investor, according to which, if the Controlling Subject loses control, and in the event of any compulsory public offer (OPA), the Growth Shares are automatically converted into Ordinary Shares. Furthermore, Isagro Growth Shares are characterized by a free float amounting to approximately 13.7 million shares, compared with 11.4 million Ordinary Shares, which makes them more liquid than the latter. Based on the afore-mentioned reasons, the management deems there is not rational justification, thus based on economic/ financial considerations, for the existence of a spread to the detriment of the Growth Shares.

Annex 1
RECLASSIFIED CONSOLIDATED INCOME STATEMENT

(€ 000)	Financial Year 2019	Financial Year 2018*	Differences	
Revenues from sales and services	105,369	124,838	-19,469	-15.6%
Other revenues and income	2,151	2,592	-441	
Consumption of materials and external services	(86,661)	(93,197)	+6,536	
Changes in product inventories	3,338	(353)	+3,691	
Costs capitalized for internal work	1,192	1,945	-753	
Allowances and provisions	(2,272)	(408)	-1,864	
Labor costs	(24,942)	(25,198)	+256	
Bonus accruals	(793)	(926)	+133	
EBITDA	(2,618)	9,293	-11,911	N/S
<i>% of Revenues</i>	-2.5%	7.4%		
Depreciation and amortization:				
- tangible assets	(2,622)	(2,786)	+164	
- intangible assets	(6,552)	(5,897)	-655	
- rights of use IFRS 16	(910)	-	-910	
- write-down of tangible and intangible assets	(1,034)	(265)	-769	
EBIT	(13,736)	345	-14,081	N/S
<i>% of Revenues</i>	-13.0%	0.3%		
Interest, fees and financial discounts	632	(1,029)	+1,661	
Losses on foreign exchange and derivatives	(569)	(908)	+339	
Revaluations of equity investments	191	200	-9	
Results before taxes	(13,482)	(1,392)	-12,090	N/S
Current and deferred taxes	(1,568)	(1,364)	-204	
Profit of the Group from Continuing Operations	(15,050)	(2,756)	-12,294	N/S
Net profit/Net result from Discontinued Operations	1,143	3,119	-1,976	
Net result	(13,907)	363	-14,270	N/S

*Data relative to the 2018 financial year “re-stated” for the standard IFRS 5

Annex 2

RECLASSIFIED CONSOLIDATED BALANCE SHEET

(€ 000)	Dec. 31, 2019	Dec. 31, 2018	Differences	Dec. 31, 2018 re-stated	
Net fixed assets					
Goodwill	3,148	3,308	-160	3,134	
Other intangible assets	47,387	49,510	-2,123	49,479	
Tangible assets	15,585	19,228	-3,643	16,322	
Rights of use IFRS 16	4,421	-	+4,421	-	
Financial assets	4,176	593	+3,583	593	
Other medium/long-term assets and liabilities	7,228	11,256	-4,028	9,563	
Total net fixed assets	81,945	83,895	-1,950	-2.3%	79,091
Net current assets					
Inventories	40,853	48,097	-7,244	38,450	
Trade receivables	27,227	39,823	-12,596	27,202	
Trade payables	(26,143)	(32,696)	+6,553	(24,461)	
Subtotal of Net Working Capital	41,937	55,224	-13,287	41,191	
Current provisions	(1,781)	(1,151)	-630	(1,127)	
Other current assets and liabilities	5,190	4,363	+827	946	
Subtotal of Other assets and liabilities	3,409	3,212	+197	(181)	
Total net current assets	45,346	58,436	-13,090	-22.4%	41,010
Invested capital	127,291	142,331	-15,040	-10.6%	120,101
Severance Indemnity Fund (SIF)	(1,877)	(2,384)	+507	-21.3%	(2,073)
Net invested capital	125,414	139,947	-14,533	-10.4%	118,028
Non-financial assets and liabilities held for sale	-	-	-		21,919
Total	125,414	139,947	-14,533	-10.4%	139,947
<i>financed by:</i>					
Equity					
Capital stock	24,961	24,961	-	24,961	
Reserves and retained earnings	81,084	79,820	+1,264	79,820	
Translation reserve	(1,118)	(10,314)	+9,196	(1,152)	
Translation reserve for Discontinued Operations	-	-	-	(9,162)	
Profit/(Loss) of the Group	(13,907)	363	-14,270	363	
Total equity	91,020	94,830	-3,810	-4.0%	94,830
Net Financial Position					
<i>Medium/long term debts:</i>					
- due to banks	28,615	37,855	-9,240	37,855	
- due to other lenders	1,133	1,254	-121	1,254	
- financial liabilities – IFRS 16	3,709	-	+3,709	-	
- other financial assets/(liabilities) and IRS and trading derivatives	(2,473)	(2,497)	+24	(2,497)	
Total medium/long-term debts	30,984	36,612	-5,628	-15.4%	36,612
<i>Short-term debts:</i>					
- due to banks	47,328	38,511	+8,817	38,511	
- due to other lenders	1,793	1,738	+55	1,738	
- financial liabilities – IFRS 16	813	-	+813	-	
- other financial assets/(liabilities) and IRS and trading derivatives	57	(13,825)	+13,882	(24)	
Total short-term debts	49,991	26,424	+23,567	+89.2%	40,225
Cash and cash equivalents/bank deposits	(46,581)	(17,919)	-28,662	+160.0%	(17,564)
Total Net Financial Position	34,394	45,117	-10,723	-23.8%	59,273
Net Financial Position assets held for sale	-	-	-		(14,156)
Total	125,414	139,947	-14,533	-10.4%	139,947

Annex 3

CONSOLIDATED CASH-FLOW STATEMENT

(€ 000)	Dec. 31, 2019	Dec. 31, 2018
Opening cash and cash equivalents (at January 1)*	17,919	31,701
<i>Operating activities</i>		
Net profit/(loss) from Continuing Operations	(15,050)	(2,756)
Net profit/(loss) from Discontinued Operations	1,143	3,119
- Depreciation of tangible assets	3,005	3,405
- Amortization of intangible assets	6,566	5,911
- Amortization of rights of use IFRS 16	1,449	-
- Write-downs of tangible and intangible assets	1,034	265
- Provisions to reserves (including severance indemnity fund)	1,351	1,138
- Provisions for the incentive and retention plan	242	215
- Net capital gains on disposal of tangible and intangible assets	(374)	(313)
- Capital gain from sale of Discontinued Operations	(5,984)	-
- Fair value of equity investments in other companies	(2,147)	-
- Interest income from assets held for trading	-	(900)
- Net interest expenses paid to financial institutions and leasing companies	1,539	1,446
- Financial losses from derivatives	695	2,113
- Share of profit/(loss) of equity-accounted investees	(191)	(200)
- Income taxes from Continuing Operations	1,568	2,734
- Income taxes from Discontinued Operations	4,835	-
Cash flow from current operations	(319)	16,177
- Decrease in trade receivables**	(862)	795
- Increase in inventories**	(2,140)	(3,253)
- Increase in trade payables**	2,512	1,968
- Net change in other assets/liabilities	1,398	842
- Use of provisions (including severance indemnity fund)	(1,697)	(2,242)
- Net interest expenses due to financial institutions and leasing companies paid	(1,475)	(1,452)
- Cash flow from derivatives	(972)	(1,824)
- Income taxes paid***	(5,538)	(1,767)
Cash-flow from/(for) operating activities	(9,093)	9,244
<i>Investment activities</i>		
- Investments in intangible assets	(5,680)	(5,710)
- Investments in tangible assets	(2,276)	(2,345)
- Net sale price on disposal of tangible and intangible assets	641	434
- Cash flow generated from sale of Discontinued Operations	46,768	-
- Dividends collected from associated companies	66	44
- Cash flow from assets held for trading	799	(12,725)
Cash flow from/(for) investment activities	40,318	(20,302)
<i>Financing activities</i>		
- Contracting of non-current financial debt	16,242	22,184
- Repayment of non-current financial debt	(27,521)	(26,391)
- Repayment of liabilities for leases	(1,220)	-
- Contracting/(repayment) of current financial payables**	10,146	5,209
- Increase in financial receivables and tied deposits	-	(2,503)
- Purchase of treasury Growth Shares	(272)	(846)
- Sale of treasury Ordinary Shares	-	78
Cash-flow from financing activities	(2,625)	(2,269)
Change in translation difference	62	(455)
Cash-Flow for the period	28,662	(13,782)
Closing cash and cash equivalents (at December 31)	46,581	17,919
of which related to:		
Continuing operations	46,581	17,564
Discontinued Operations	-	355

(*) includes the cash and cash equivalents of the Discontinued Operations.

(**) The net change in the item is different from that presented in the Explanatory Notes due to foreign exchange adjustments.

(***) The taxes paid include € 5,164 thousand related to tax withholdings paid on the sale price of Isagro Asia

**RECONCILIATION OF ISAGRO S.P.A.'S PROFIT/(LOSS) AND SHAREHOLDERS' EQUITY
WITH THE CONSOLIDATED FIGURES**

(€ 000)	2019		2018	
	Profit/Loss	Shareholders' Equity	Profit/Loss	Shareholders' Equity
Parent Isagro S.p.A.	17,162	93,917	(5,944)	75,781
Intragroup profits	919	(4,300)	940	(5,792)
Tax effect on intragroup profits	(31)	1,447	(159)	1,651
Profit/reserves of consolidated companies	(30,937)	1,074	6,220	33,503
Intragroup dividends	(1,020)	-	(694)	-
Exchange diff. arising on translation of foreign currency financial statements	-	(1,118)	-	(10,314)
Total Isagro Group	(13,907)	91,020	363	94,830
(Profit)/Loss attributable to non-controlling interests	-	-	-	-
Total Consolidated Financial Statements	(13,907)	91,020	363	94,830

EXPLANATORY NOTES ON THE ALTERNATIVE PERFORMANCE INDICATORS

In compliance with the ESMA recommendation on alternative performance indicators (ESMA/2015/1415), the reclassified statements presented in this Directors' Management Report contain certain differences in terminology used and in the degree of detail compared to the official statements presented in the following tables.

The reclassified Consolidated Income Statement, provided in Annex 1, introduces in particular the notion of **EBITDA**, which in the Consolidated Income Statement equates to the Gross Operating Profit.

The reclassified Balance Sheet, as provided in Annex 2, was prepared on the basis of items recognized in the corresponding sections of the Consolidated Balance Sheet, and introduces the following items:

- **Net fixed assets**, given by the difference between, on one hand, the aggregate of the items "Tangible assets", "Intangible assets", "Rights of use", "Goodwill", "Financial assets", "Non-current receivables and other assets", "Deferred tax assets", and, on the other hand, the aggregate of the items "Deferred tax liabilities", "Non-current provisions", and "Other non-current liabilities";
- **Net current assets**, given by the difference between, on one hand, the aggregate of the items "Inventories", "Trade receivables", "Other current assets and receivables", and "Tax receivables" and, on the other hand, the aggregate of "Trade payables", "Current provisions", "Tax payables" and "Other current liabilities and payables";
- **Invested capital**, given by the algebraic sum of "Net fixed capital" and "Net working capital";
- **Net invested capital**, given by the algebraic sum of "Invested capital" and "Employee benefits - Severance indemnity fund".

With reference to the paragraph "Cash flows – summary data" of the present Report, we can note that:

- **Investments** corresponds to the "Cash flow from investment activities" indicated in the Cash-Flow Statement;
- **Net Working Capital (NWC)** is given by the sum of "Inventories", "Trade receivables" and "Trade payables";
- **Free cash flow (FCF)** is given by the difference in the item "Net financial position" in the reference periods considered in the analysis.

Lastly, in reference to the "Main indicators" section of this Report, it should be noted that:

- **Basic earnings per share:** calculated by dividing the consolidated «Net profit/(loss) for the year» by the average number of Isagro S.p.A. shares outstanding during the year, excluding treasury shares held by the issuer itself. The average number of outstanding shares, excluding treasury shares, during 2019, was 37,859,822;
- **Equity per share:** calculated by dividing "Equity" by the average number of shares outstanding of the issuer Isagro S.p.A., excluding treasury shares held by the issuer itself;
- **R.O.E. (or Return on Equity)** is the ratio of "Net profit/loss" to "Equity" at the reporting date;
- **R.O.I. (or Return on Investments)** is the ratio of "EBIT" and "Net invested capital";
- **Net financial position/EBITDA** is calculated by dividing the "Net financial position" at the reporting date by "EBITDA" for the period.

ATTESTATION UNDER THE TERMS OF ARTICLE 15 OF CONSOB REGULATION 20249/2017

Under the terms of Article 2.6.2, paragraph 15 of the Regulation on markets organized and managed by Borsa Italiana S.p.A., Isagro S.p.A. declares that the requirements set forth under Article 15, paragraphs a), b) and c) of CONSOB Regulation no. 20249/2017 are fulfilled for subsidiaries established and regulated by the laws of countries that are not member states of the European Union.

ATTESTATION UNDER THE TERMS OF ARTICLE 16 OF CONSOB REGULATION 20249/2017

Under the terms of Article 2.6.2, paragraph 13 of the Regulation on Markets organized and managed by Borsa Italiana S.p.A., Isagro S.p.A. declares that the Company's shares are validly admitted to trading, as the inhibitory conditions pursuant to Article 16 of CONSOB Regulation no. 20249/2017 do not apply.

INFORMATION UNDER THE TERMS OF ARTICLES 70 AND 71 OF CONSOB REGULATION 11971/99 (ISSUERS REGULATION)

On September 25, 2012, pursuant to Article 3 of CONSOB Resolution no. 18079 of January 20, 2012, the Board of Directors of Isagro S.p.A. resolved to apply the opt-out provision under Articles 70, paragraph 8, and 71, paragraph 1-bis of the Issuers' Regulation. Therefore, Isagro utilized the option to opt out from the requirement to publish the disclosure documents required for significant mergers, spin-offs, share capital increases through contribution of assets in kind, acquisitions or disposals.

CERTIFICATION OF THE FINANCIAL REPORTING MANAGER

The Financial Reporting Manager, Mr. Ruggero Gambini, hereby certifies, pursuant to art.154-bis, paragraph 2 of the Consolidated Law on Finance, that the financial information in the Consolidated Financial Statements at December 31, 2019 is consistent with the entries in the accounting books and records.





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CONSOLIDATED FINANCIAL STATEMENTS

BALANCE SHEET

(in thousands of Euro)	Notes	Dec. 31, 2019	of which related parties	Dec. 31, 2018	of which related parties
NON-CURRENT ASSETS					
Tangible assets	1	15,585	-	19,228	-
Intangible Assets	2	47,387	-	49,510	-
Rights of use	3	4,421	-	-	-
Goodwill	4	3,148	-	3,308	-
Equity-accounted investees	5	-	-	593	-
Equity investments in other companies	5	4,176	-	-	-
Non-current receivables and other assets	6	2,837	1,907	4,262	2,832
Financial receivables and other non-current financial assets	7	2,503	-	2,503	-
Financial assets - derivatives	14	6	-	35	-
Deferred tax assets	8	6,181	-	8,658	-
TOTAL NON-CURRENT ASSETS		86,244		88,097	
CURRENT ASSETS					
Inventories	9	40,853	-	48,097	-
Trade receivables	10	27,227	2,669	39,823	5,022
Other current assets and receivables	11	7,658	473	7,178	10
Tax receivables	12	1,205	-	2,384	-
Current financial receivables and other financial assets	13	-	-	13,796	-
Financial assets - derivatives	14	191	-	213	-
Cash and cash equivalents	15	46,581	-	17,919	-
TOTAL CURRENT ASSETS		123,715		129,410	
Non-current assets held for sale and Discontinued Operations		-		-	
TOTAL ASSETS		209,959		217,507	
SHAREHOLDERS' EQUITY					
Capital		24,961		24,961	
Reserves		48,909		44,625	
Retained earnings and profit for the year		17,150		25,244	
Equity attributable to owners of the parent	16	91,020		94,830	
Equity attributable to non-controlling interests		-		-	
TOTAL SHAREHOLDERS' EQUITY		91,020		94,830	
NON-CURRENT LIABILITIES					
Non-current financial payables and other financial liabilities	17	33,457	-	39,109	
Financial liabilities - derivatives	14	36	-	41	
Employee Benefits - Severance indemnity fund	18	1,877	-	2,384	
Deferred tax liabilities	8	660	-	918	
Other non-current liabilities	19	1,130	-	746	
TOTAL NON-CURRENT LIABILITIES		37,160		43,198	
CURRENT LIABILITIES					
Current financial payables and other financial liabilities	17	49,934	-	40,249	-
Financial liabilities - derivatives	14	121	-	134	-
Trade payables	20	26,143	246	32,696	231
Current provisions	21	1,781	-	1,151	-
Tax payables	22	109	-	1,132	-
Other current liabilities and payables	23	3,691	-	4,117	-
TOTAL CURRENT LIABILITIES		81,779		79,479	
TOTAL LIABILITIES		118,939		122,677	
Liabilities associated with Discontinued Operations		-		-	
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY'		209,959		217,507	

INCOME STATEMENT

(in thousands of Euro)	Notes	2019	<i>of which related parties</i>	2018 (*)	<i>of which related parties</i>
Revenue from Contracts with Customers	25	105,369	11,565	124,838	19,737
Other operating revenues	26	2,151	490	2,592	570
Total revenues		107,520		127,430	
Raw materials and consumables used	27	(62,189)	(323)	(67,069)	(614)
Costs for services	28	(22,723)	-	(24,276)	-
Personnel costs	29	(25,735)	-	(26,124)	-
Write-downs/write-backs of trade receivables and other receivables	30	(686)	-	239	-
Other operating costs	31	(2,448)	(4)	(2,196)	-
Change in inventories of finished products and work in progress	32	2,451	-	(656)	-
Costs capitalized for internal work	33	1,192	-	1,945	-
EBITDA		(2,618)		9,293	
Depreciation and amortization:					
- Depreciation of tangible assets	34	(2,622)	-	(2,786)	-
- Amortization of intangible assets	34	(6,552)	-	(5,897)	-
- Amortization of rights of use	34	(910)	-	-	-
- Write-downs of tangible and intangible assets	35	(1,034)	-	(265)	-
Operating profit/(loss)		(13,736)		345	
Financial income	36	2,300	23	272	10
Borrowing Costs	36	(1,722)	-	(1,349)	-
Gains/(losses) on foreign exchange and financial derivatives	36	(515)	-	(860)	-
Profit/(loss) from associates		191	-	200	-
Loss before taxes		(13,482)		(1,392)	
Income Taxes	37	(1,568)	-	(1,364)	-
Net profit/(loss) from Continuing Operations		(15,050)		(2,756)	
Net profit/(loss) from Discontinued Operations	38	1,143	-	3,119	-
Net profit/(loss)		(13,907)		363	
Attributable to:					
Owners of the Parent		(13,907)		363	
Non-controlling interests		-		-	
Earnings per share (in Euro):	40	2,019		2,018	
Earnings per share (basic = diluted)					
Ordinary Share		(0.367)		0.009	
Growth Share		(0.367)		0.011	

(*) the figures for the 2018 financial year relating to the Discontinued Operations were reclassified following the application of the standard IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations" to the item "Net profit/(loss) from Discontinued Operations".

STATEMENT OF OTHER COMPREHENSIVE INCOME

(in thousands of Euro)	Notes	2019	2018
Net profit/(loss)		(13,907)	363
Components that will be subsequently reclassified in the profit/(loss) for the year:			
Change in translation reserve (difference)		137	(1,545)
Net profit/(loss) on Cash Flow Hedging:			
- <i>Interest Rate Swaps</i>		6	(54)
- <i>Commodity futures</i>		82	(60)
- <i>Currency forwards</i>		(322)	(212)
		(234)	(326)
Income taxes (*)		(71)	88
		(305)	(238)
Net gain/(loss) on costs for hedging transactions:			
- <i>Currency forwards</i>		(24)	413
Income taxes (*)		80	(115)
		56	298
Total	16	(112)	(1,485)
Components that will not be reclassified in the profit/(loss) for the year:			
Profit/(loss) related to equity investments measured at fair value through OCI		1,311	-
Actuarial profit/(loss) for defined benefit plans		(155)	(3)
Income taxes (*)		24	3
		(131)	-
Total	16	1,180	-
Other Comprehensive Income		1,068	(1,485)
Total Comprehensive Income		(12,839)	(1,122)
Attributable to:			
Owners of the Parent		(12,839)	(1,122)
Non-controlling interests		-	-

(*) The Parent Company Isagro S.p.A. did not recognize further deferred tax assets/liabilities during the year, recording only the use of balances earlier than December 31, 2018.

CASH-FLOW STATEMENT

(in thousands of Euro)	Notes	2019	2018
Cash and cash equivalents - opening balance*	15	17,919	31,701
Operating activities			
Net loss from Continuing Operations		(15,050)	(2,756)
Net profit/(loss) from Discontinued Operations		1,143	3,119
- Depreciation of tangible assets	1	3,005	3,405
- Amortization of intangible assets	2	6,566	5,911
- Amortization of rights of use	3	1,449	-
- Write-downs of tangible and intangible assets	36	1,034	265
- Provisions (including severance indemnity fund)	28.29	1,351	1,138
- Provisions for the incentive and retention plan	29	242	215
- Net capital gains on disposal of tangible and intangible assets	26.31	(374)	(313)
- Capital gain from sale of Discontinued Operations	38	(5,984)	-
- Fair value of equity investments in other companies	36	(2,147)	-
- Interest income and other income from assets held for trading	36	-	(900)
- Net interest expenses paid to financial institutions and leasing companies	36	1,539	1,446
- Financial losses from derivatives	36	695	2,113
- Share of profit/(loss) of equity-accounted investees		(191)	(200)
- Income taxes from Continuing Operations	37	1,568	2,734
- Income taxes from Discontinued Operations	38	4,835	-
Cash flow from current operations		(319)	16,177
- (Increase)/decrease in trade receivables	10(**)	(862)	795
- Increase in inventories	9(**)	(2,140)	(3,253)
- Increase in trade payables	20(**)	2,512	1,968
- Net change in other assets/liabilities		1,398	842
- Use of provisions (including severance indemnity fund)	18.21	(1,697)	(2,242)
- Net interest expenses due to financial institutions and leasing companies paid		(1,475)	(1,452)
- Cash flow from derivatives		(972)	(1,824)
- Income taxes paid (***)		(5,538)	(1,767)
Cash-flow from/for operating activities		(9,093)	9,244
Investment activities			
- Investments in intangible assets	2	(5,680)	(5,710)
- Investments in tangible assets	1	(2,276)	(2,345)
- Sale price on disposal of tangible and intangible fixed assets	1.2	641	434
- Cash flow generated from sale of Discontinued Operations (net of cash and cash equivalents)		46,768	-
- Dividends collected from associated companies		66	44
- Cash flow from/for assets held for trading		799	(12,725)
Cash flow from/for investment activities		40,318	(20,302)
Financing activities (****)			
- Contracting of non-current financial debt		16,242	22,184
- Repayment of non-current financial debt		(27,521)	(26,391)
- Repayment of financial liabilities for leases		(1,220)	-
- Contracting/(repayment) of current financial payables	17(**)	10,146	5,209
- Increase in financial receivables and tied deposits	7	-	(2,503)
- Purchase of treasury Growth Shares	16	(272)	(846)
- Sale of treasury Ordinary Shares		-	78
Cash flow for financing activities		(2,625)	(2,269)
Change in translation difference		62	(455)
Cash flow for the period		28,662	(13,782)
Cash and cash equivalents - closing balance		46,581	17,919
of which related to:			
Continuing operations		46,581	17,564
Discontinued Operations		-	355

(*) includes the cash and cash equivalents of the Discontinued Operations.

(**) The net change in the item is different from that presented in the Explanatory Notes due to foreign exchange adjustments.

(***) The taxes paid include € 5,164 thousand related to tax withholdings paid on the sale price of Isagro Asia.

(****) The reconciliation statement required by Regulation (EU) 2017/1990, which amended the accounting standard IAS 7, was presented in Note 17 to which you are referred.

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY IN 2018

(in thousands of Euro)	Equity attributable to owners of the Parent										Equity attributable to non-controlling interests	Total shareholders' equity
	Issued share capital	Share premium reserve	Reserves					Total	Retained earnings and profit for the period	Total		
			Translation (difference) reserve	Cash Flow Hedging reserve	Cost of hedging reserve	Other reserves	Total					
Balance at Dec. 31, 2017	24,961	44,910	(8,769)	(19)	-	10,541	46,663	27,682	99,306	-	99,306	
Effect of IFRS 9	-	-	-	-	-	-	-	(2,801)	(2,801)	-	(2,801)	
Balance at Jan. 1, 2018	24,961	44,910	(8,769)	(19)	-	10,541	46,663	24,881	96,505	-	96,505	
Changes for the period:												
Profit for the period	-	-	-	-	-	-	-	363	363	-	363	
Other Comprehensive Income	-	-	(1,545)	(238)	298	-	(1,485)	-	(1,485)	-	(1,485)	
Total comprehensive income	-	-	(1,545)	(238)	298	-	(1,485)	363	(1,122)	-	(1,122)	
Purchase of own Growth Shares	-	-	-	-	-	(846)	(846)	-	(846)	-	(846)	
Sales of own Ordinary Shares	-	-	-	-	-	78	78	-	78	-	78	
Incentive and retention plan	-	-	-	-	-	215	215	-	215	-	215	
Total changes in the period	-	-	(1,545)	(238)	298	(553)	(2,038)	363	(1,675)	-	(1,675)	
Balance at Dec. 31, 2018	24,961	44,910	(10,314)	(257)	298	9,988	44,625	25,244	94,830	-	94,830	

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY IN 2019

(in thousands of Euro)	Equity attributable to owners of the Parent										Equity attributable to non-controlling interests	Total shareholders' equity
	Issued share capital	Share premium reserve	Reserves					Total	Retained earnings and profit for the period	Total		
			Translation (difference) reserve	Cash Flow Hedging reserve	Cost of hedging reserve	FVTOCI reserve	Other reserves					
Balance at Dec. 31, 2018	24,961	44,910	(10,314)	(257)	298	-	9,988	44,625	25,244	94,830	-	94,830
Changes for the period:												
Loss for the period	-	-	-	-	-	-	-	-	(13,907)	(13,907)	-	(13,907)
Other Comprehensive Income	-	-	137	(305)	56	1,311	-	1,199	(131)	1,068	-	1,068
Total Comprehensive Income	-	-	137	(305)	56	1,311	-	1,199	(14,038)	(12,839)	-	(12,839)
Hedging of loss in previous year	-	-	-	-	-	-	(5,944)	(5,944)	5,944	-	-	-
Purchase of own Growth Shares	-	-	-	-	-	-	(272)	(272)	-	(272)	-	(272)
Incentive and retention plan	-	-	-	-	-	-	242	242	-	242	-	242
Other changes	-	-	9,059	-	-	-	-	9,059	-	9,059	-	9,059
Total changes in the period	-	-	9,196	(305)	56	1,311	(5,974)	4,284	(8,094)	(3,810)	-	(3,810)
Balance at Dec. 31, 2019	24,961	44,910	(1,118)	(562)	354	1,311	4,014	48,909	17,150	91,020	-	91,020

An aerial photograph of a lush green cornfield. The rows of corn plants are dense and vibrant. In the lower right quadrant, a person wearing a red and white plaid shirt and a straw hat stands among the plants. The lighting is warm, suggesting late afternoon or early morning, with a soft glow on the right side of the image.

3

EXPLANATORY NOTES

EXPLANATORY NOTES

GENERAL INFORMATION

Reporting entity

Isagro S.p.A. is a corporate body organized in accordance with the legal system of the Italian Republic. Isagro S.p.A. and its subsidiaries (hereinafter, the “Isagro Group”) are active in the research, management of Intellectual Property rights, development, manufacturing, marketing and distribution of crop protection products. The Group’s registered office is at Via Caldera 21, Milan, Italy.

Isagro S.p.A. is listed on the STAR segment of the Milan Stock Exchange.

Publication of the Consolidated Financial Statements

The publication of the Isagro Group’s Consolidated Financial Statements as at December 31, 2019 was authorized by the Board of Directors on May 6, 2020.

Compliance with the IFRSs

The Isagro Group’s Consolidated Financial Statements at December 31, 2019 were prepared in compliance with the International Financial Reporting Standards (IFRS) adopted by the European Union as of that date, and with the measures issued in implementation of art. 9 of Italian Legislative Decree no. 38/2005. The international accounting standards approved by the European Commission as of the date of preparation of the Consolidated Financial Statements are listed in Note 51, to which you are referred.

Discontinued Operations

In the context of redefinition of the Isagro Group’s business model, as well as reported in the Report on Operations:

- On December 27, 2019, Isagro S.p.A. sold its investment in the Indian company Isagro (Asia) Agrochemicals Pvt. Ltd. (“Isagro Asia”), equal to 99.99% of the share capital, to the Indian company PI Industries Limited for an amount of 4,553,192 thousand Indian Rupees (equal to approximately € 57,267 thousand);
- On December 27, 2019, Isagro España S.L. sold its investment in the Indian company Isagro (Asia) Agrochemicals Pvt. Ltd., equal to 0.01% of the share capital, to the Indian company PI Life Science Research Limited for an amount of 306 thousand Indian Rupees (equal to approximately € 4 thousand).

Pursuant to IFRS 5, the sales listed are classified as Discontinued Operations, the results of which, shown separately from those of the activities in operation, are illustrated in Note 38.

Basis of presentation

The Consolidated Financial Statements comprise the Balance Sheet, the Income Statement, the Statement of other Comprehensive Income, the Cash-Flow Statement, the Statement of Changes in Shareholders’ Equity, and the Explanatory Notes.

In particular:

- current and non-current assets and liabilities have been stated separately in the Balance Sheet. Current assets are those expected to be realized, sold or consumed during ordinary operations or within the twelve months after the end of the year; current liabilities are those for which settlement is expected as part of ordinary operations or within the twelve months following year end;
- in the Income Statement, the analysis of the costs is carried out on the basis of their nature; please note the “EBITDA” aggregates that include all the revenue and cost components except for the amortization and depreciation and impairments of tangible and intangible assets, the financial operations and income taxes and “EBIT”, which includes all cost and revenue components except financial operations and income taxes;
- the indirect method is used for the Cash-Flow Statement. The average exchange rates for the period were used for translating the cash flows of foreign subsidiaries.

With reference to CONSOB Resolution no. 15519 of July 27, 2006 on Financial Statements, special sections are included to illustrate significant related-party transactions, together with specific items of profit or loss, to highlight any significant non-recurring transactions carried out in the ordinary course of business.

All amounts reported in the Financial Statements and the Explanatory Notes are presented in thousands of Euro, unless otherwise indicated.

In addition, the representation of the sale transactions described above (Discontinued Operations) led to the following:

- the cost and revenues entries relating to the Discontinued Operations were reclassified in the item “Net profit/(loss) from Discontinued Operations” in the Income Statement;
- the cash flows relating to the Discontinued Operations were represented in the notes to the financial statements;
- as set out by accounting standard IFRS 5 “Non-current Assets Held for Sale and Discontinued Operations”; for

comparison purposes a restatement was carried out for the Income Statement related to the 2018 financial year, which also highlights for that year the revenue and cost items relating to the Discontinued Operations in the item “Net profit/(loss) from Discontinued Operations”.

The Isagro Group, in order to highlight the economic and financial effects of the Discontinued Operations regarding elimination of the intercompany relations between continuing and Discontinued Operations, eliminated the effects of the intercompany transactions according to the following method (“as if” method):

1. if the economic and/or financial transaction between the continuing and Discontinued Operations (i.e. between Isagro S.p.A. and Isagro Asia) continues even after the sale, the intercompany relations pertaining to this transaction are eliminated at the level of Discontinued Operations;
2. if the economic and/or financial transaction between the continuing and Discontinued Operations (i.e. between Isagro S.p.A. and Isagro Asia) does not continue after the sale, the intercompany relations pertaining to this transaction are eliminated at the level of Continuing Operations; this way, the results reflect the transactions in the way in which they would take place following the sale. In section 38 of these Explanatory Notes, to which you are referred, detail is provided of the contents of the items related to the Discontinued Operations.

Going concern

At December 31, 2019, your Group had a solid and balanced financial structure, with a **debt/equity ratio** of 0.38 – equal to 0.33 without effect of IFRS 16 – (compared to the figure of 0.48 at December 31, 2018), Own Funds of € 91.0 million (compared to the figure of € 94.8 million at December 31, 2018) and current liquidity of more than € 46 million.

Moreover, during 2019, the Parent Company Isagro S.p.A. obtained new medium/long-term loans of € 16.2 million, which extended the average duration of the debt at low cost.

Isagro intends to guarantee the repayment of the medium/long-term debts due in 2020 and the operating cash requirements in the period of transition towards the new business model through the liquidity at December 31, 2019, alongside the access, if considered necessary, to possible new medium/long-term credit facilities to replace those expiring, the use of short-term bank credit facilities of a financial nature and to support the working capital and/or to income arising from extraordinary transactions consistent with the redefinition of the business model considered probable by the Directors and nonetheless dependent on the performance of ongoing negotiations. These include the sale of Fluidapyr, the

closing for which is expected—as mentioned—to take place by September 30 of the current year.

With reference to the ongoing pandemic, the Group’s management is continuing to monitor closely any impacts of the phenomenon in question on the most significant hypotheses and assumptions at the basis of the main estimates reflected in the financial statements, with particular reference to revenue recognition, the onset of impairment indicators on goodwill and intangible assets, in addition to changes in the liquidity situation, taking account of the uncertainty around the impact and duration of the effects attributable to the health emergency on the performance of the sector in which the Group operates.

In this regard, as confirmed with specific recommendations issued on March 11 and 12, 2020 by the ESMA and CONSOB respectively, the significant events in question pertaining to said pandemic do not impact the determination of results or the shareholders’ equity of the consolidated and separate financial statements at December 31, 2019, since these are “non-adjusting events”, according to international accounting standard IAS 10, since only on January 30, 2020 did the WHO declare the existence of an international emergency (in spite of the first information about the infection in China dating back to the end of 2019).

It is recalled that IAS 10 requires that indication be given of the nature of the event that took place following the closure of the financial year and of the estimate of the associated effects on the financial statements; if, in particular circumstances, due to the unpredictability of the phenomenon’s outcomes, the impact estimate cannot be reliably quantified, or it is impossible to do so, the notes to the financial statements must provide adequate illustration of this, taking into consideration the situation of general uncertainty caused by the phenomenon.

In this context, it is important to reiterate the profound uncertainty associated with the spread and duration of the pandemic in question, and, in consideration of the continuous evolution of the phenomenon, it is particularly complex to predict its effects, including on economic activities at macro and micro level. This leads to high complexity and uncertainty of the estimates made by management, whose assumptions and basic hypotheses may require revisiting and updating over the coming months, including rather significantly, following changes in events not under its control.

In the context of the assessment of the potential effects attributable to the spread of the coronavirus pandemic, the level of complexity and uncertainty of the estimates is unprecedented and unlike any other, involving potentially numerous aspects such as:

- the possibility of different persistence and extent of the infection in the various areas of Italy;
- the different time frames of spread and extent of the infection in various European countries and world-

wide (first and foremost, USA and India);

- the lack of visibility regarding the overall duration of the infection, and, above all, the associated containment measures;
- the particular difficulty of predicting the time frames and extent of recovery of national and global economies, both at macro and micro level, once the emergency is over.

On the basis of the foregoing, the Group's management, as reported in the previous section "Events subsequent to December 31, 2019 – Possible impacts of the health crisis", conducted an analysis to identify the areas of potential biggest impact in terms of financial information for the Group, and, consequently, developed various possible economic and financial scenarios on the basis of the information available and the reasonably formulated forecasts at present, albeit in a context of significant uncertainty, to which you are referred.

In light of the more detailed information available at March 31, 2020, to hedge the liquidity risk, the following is noted:

- the positive current account balances of the Parent Company Isagro S.p.A. total around € 14 million;
- there are unused short-term credit facilities for over € 50 million, considering the maximum ceilings granted for the various types of credit.

Therefore, taking into account the above, alongside the information in the previous section "Events subsequent to December 31, 2019 – Possible impacts of the health crisis" and on the basis of the more detailed information currently available, it is considered that, at least over the next 12 months, there are no reasonable liquidity risks, i.e. risks pertaining to the capacity to repay the debt, borne by the Group, thereby confirming how these Financial Statements at December 31, 2019 have been prepared on a going concern basis.

Segment Reporting

The Group's operating segments, in accordance with IFRS 8 - Operating Segments, are identified in the organizational geographical areas from which the Group may earn revenues and incur expenses, whose results are regularly reviewed by the Group's chief operating decision makers to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

ACCOUNTING POLICIES, BASIS OF CONSOLIDATION AND MEASUREMENT CRITERIA

The accounting standards, basis of consolidation and measurement criteria adopted in preparing the Financial Statements are consistent with those used for the previous year's statements, with the exception of what is explained in the following paragraph.

Accounting standards, amendments and interpretations applied as from January 1, 2019

As required by IAS 8 (Accounting Policies, Changes in Accounting Estimates and Errors) the impact of new standards or interpretations on the Consolidated Financial Statements are indicated below. These standards were applied for the first time by the Group starting from January 1, 2019:

- On October 31, 2017, with Regulation no. 1986/2017, the European Commission endorsed the accounting standard IFRS 16 – Leases, which replaced IAS 17 – Leases, as well as the interpretations IFRIC 4 Determining Whether an Arrangement Contains a Lease, SIC-15 Operating Leases – Incentives and SIC-27 Evaluating the Substance of Transactions in the Legal Form of a Lease.

The new standard provides a new definition of lease and introduces a criterion based on control (right of use) over an asset to distinguish leasing contracts from service contracts, identifying the following discriminating factors: identification of the asset, the substantive right of substitution of the asset, the substantive right to economically benefit from use of the asset and the right to oversee the use of the underlying asset of the contract.

The standard establishes a single model for recognizing and measuring leasing contracts for the lessee, which provides for recognition of the asset involved in the lease, including an operating lease, in the balance sheet assets with a financial debt as a counter-item. On the contrary, the standard does not introduce significant changes for lessors. Specifically, application of the new standard entails for the lessor:

- a. recognition of the right to use the asset and the corresponding financial debt in the Balance Sheet at the present value of the amounts payable for use of the asset and not yet paid;
- b. recognition in the Income Statement of the depreciation of the right-of-use asset and of the interest of the liability deriving from the lease;
- c. division in the Cash-Flow Statement of the total amount paid between principal (recognized in the cash flow used in financing activities) and interest (recognized in the cash flow used in operating activities).

Consequently, at the level of the Income Statement, application of the new standard entails a reduction in the item "Costs for services", which, up to December 31, 2018, included the costs of operating leases, with a consequent increase in the amount of EBITDA, and an increase in depreciation, amortization and financial expenses.

The Isagro Group chose to apply the new accounting standard by using the "modified retrospective approach", according to the provisions of paragraphs C7-C13 of IFRS 16; the application of this method made it possible for

the Group not to recalculate the economic situation for the comparative period, which, for these contracts, as mentioned, required the recognition of the lease payments pertaining to the year in the item “Costs for services”. The different accounting method does not in any case have any significant impacts in terms of comparability between the two periods of the main economic results presented.

In particular, for leasing contracts previously classified as operating, this method involves accounting for:

- a. a financial liability, equal to the present value of the future payments remaining at the transition date, discounted using for each contract the incremental borrowing rate applicable at the transition date;
- b. a right of use equal to the value of the financial liability at the transition date, net of any prepaid expenses/ accrued liabilities referring to the lease and reported in the balance sheet at the transition date.

As a result of the introduction of the new standard in the Income Statement from January 1, 2019, the quotas of amortization of the rights of use are reported, determined on the basis of the lease terms defined taking into account the assessments made on the probability of renewal, as are the quotas pertaining to the financial expenses associated with the liabilities.

The liabilities for leases were discounted applying the incremental borrowing rate of January 1, 2019; the weighted average rate was 4.1%.

In determining the lease term for the various contracts, in addition to the non-cancellable period contractually provided for, the effects of the extension or early termination clauses were considered, the exercise of which was considered reasonably certain. Specifically for real estate, this assessment considered the specific facts and circumstances of each case, while for the other asset categories (vehicles and equipment), the exercise of any extension or early termination clauses was considered improbable in view of the practice usually followed.

In adopting IFRS 16, for short-term leases (IFRS 16:5 (a)) with a duration of not more than 12 months and for leases involving low-value assets (IFRS 16:5 (b)), where the value of the underlying assets, when new, does not exceed € 5,000, the Isagro Group opted for recognition in the Income Statement of the leasing expenses on a straight-line basis, without recognizing the financial liability of the lease and the related right of use. The practical expedient that makes it possible to classify contracts that expire within 12 months from the transition date as short-term leases, however, was not used on transition. Finally, IFRS 16 provides for a further practical expedient that allows the lessee not to separate the lease components, providing the option of recording the lease com-

ponents and the corresponding non-lease components as a single contract. However, the Isagro Group did not use this expedient.

The contracts for which the exemption was applied mainly fall under the category of “printers”.

Equity and economic effects of the application of the new accounting standard

The table below shows the estimated impacts on the Balance Sheet deriving from the adoption of IFRS 16 at the transition date (January 1, 2019):

The amount of the item “Property, plant and equipment – Leased assets” refers to laboratory equipment of the

	amounts in thousands of euro
Assets	
- Right of use “Land and buildings”	5,380
- Right of use “Equipment”	312
- Right of use “Motor vehicles”	707
- Property, plant and equipment - Leased assets	(143)
- Other non-current assets	(454)
- Other current assets (deferred income)	(87)
	5,715
Liabilities	
- Non-current financial liabilities	4,554
- Current financial liabilities	1,194
- Trade payables	(33)
	5,715

Parent Company Isagro S.p.A. for which, at December 31, 2018, financial leasing contracts existed, while the amount of the item “Other non-current assets” refers to the residual value at December 31, 2018 of the payment already made at that date relating to the right, held by the former subsidiary Isagro (Asia) Agrochemicals Pvt. Ltd., to occupy for a period of 99 years, the land on which the Panoli facility stands. These amounts were reclassified at January 1, 2019 to the items “Right of use “Equipment”” and “Right of use “Land and buildings”” respectively. With reference to the transition rules, the Isagro Group also made use of a practical expedient, available in the event of opting for the “modified retrospective approach”, which provides for the use of the information available on the transition date to determine the lease term, with particular reference to the exercise of extension or early termination options.

The transition to IFRS 16 introduces some elements of professional judgment which entail the definition of

some accounting policies and the use of assumptions and estimates in relation to the lease term and the definition of the incremental borrowing rate. The main ones are summarized below:

- the Isagro Group decided not to apply IFRS 16 for contracts containing a lease with an intangible asset as the underlying asset since no cases of this are present;
- Lease term.

The Isagro Group analyzed all the lease contracts, defining for each of them the lease term, given by the “non-cancellable” period together with the effects of any extension or early termination clauses, the exercise of which was considered reasonably certain. Specifically for real estate, this assessment considered the facts and specific circumstances of each activity. For the contracts with automatic renewals for an annual period (or less), the Isagro Group defined as an accounting policy the estimate of the lease term as an average duration of 2 years, based on the historical evidence and on the assessment of the renewal period considered “reasonably certain”, in the presence of penalties, in the broad sense, that are more than insignificant for the lessor in terminating the contract. In the case of real estate lease agreements with multi-year renewals dependent on both parties, the Group assessed the facts and specific circumstances, in addition to the penalties, considered in the broad sense, arising from a potential conclusion of the contract, in order to determine the lease term. As regards the other categories of assets, mainly company cars, forklifts, and equipment, the Isagro Group has generally considered it not to be possible to exercise any extension or early termination clauses in consideration of the practice usually followed.

- Definition of the incremental borrowing rate.
Given that in the majority of lease agreements signed by the companies of the Isagro Group, there is no implicit interest rate, in determining the discounting rate (incremental borrowing rate) the starting point was the risk-free rate of each country where the contracts were signed, with maturities commensurate to the term of the various contracts, to which was added a spread expressing the credit risk of the contracting company.

Reconciliation with leasing commitments

In order to provide an additional aid for understanding the impacts arising from the first-time application of the standard, as below, as provided for by section C12 of IFRS 16, the reconciliation between the future commitments related to operating lease contracts indicated in Note 41 of the Consolidated Financial Statements at December

	amounts in thousands of euro
- Commitments for operating leases at December 31, 2018	8,527
- Installments for low-value leases and others	(83)
- Amount of non-lease components	(1,327)
- Commitments for operating leases at December 31, 2018 to be discounted	7,117
- Discounting effect	(1,369)
Incremental liabilities for transition to IFRS 16 at January 1, 2019	5,748

31, 2018, and the liabilities for leasing reported in the Balance Sheet at January 1, 2019, is shown:

In relation to the Consolidated Income Statement for the 2019 financial year for Continuing Operations, the adoption of the new accounting standard led to:

- an increase in the EBITDA of € 938 thousand;
- an increase in the EBIT of € 27 thousand;
- a decrease in the Profit/(Loss) before taxes of € 102 thousand; and
- an increase in the Net loss of € 74 thousand.

Lastly, it is noted that the Consolidated Financial Statements at December 31, 2019 include “Rights of use”, net of the amortization for the period, for € 4,421 thousand and “Financial liabilities for leases” for € 4,522 thousand, of which € 3,709 thousand recognized in the “Non-current financial payables” and € 813 thousand in “Current financial payables”.

- On March 22, 2018, by means of Regulation no. 498/2018, the European Commission endorsed the amendment to IFRS 9 - Financial Instruments. The amendment specifies that a debt instrument that provides for an early repayment option could have the features of contractual cash flows (“SPPI test”) and, consequently, could be measured at amortized cost or fair value through other comprehensive income also if the “reasonable additional compensation” provided for in the event of prepayment is “negative compensation” for the lender. The adoption of this amendment had no effect on the Isagro Group’s Consolidated Financial Statements.
- On October 23, 2018, with Regulation no. 1595/2018, the European Commission endorsed the interpretation IFRIC 23 - Uncertainty over Income Tax Treatments. The interpretation requires that an entity analyze the uncertain tax treatments (individually or as a whole) by always assuming that the tax authority will examine the amounts in question, and will have full knowledge of all relevant information when doing so. If the entity concludes that it is not probable that the

tax authority will accept the tax treatment followed, the entity must reflect the effect of the uncertainty in the measurement of its current and deferred income taxes. In addition, the document does not contain any new disclosure obligations but stresses that the entity must establish whether it will be necessary to provide information on the management's considerations and related to the uncertainty inherent in accounting for taxes, in accordance with the provisions of IAS 1. The adoption of this interpretation had no effect on the Isagro Group's Consolidated Financial Statements.

- On February 8, 2019, by means of Regulation no. 237/2019, the European Commission endorsed the amendment to IAS 28 - Investments in Associates and Joint Ventures. This amendment specifies the need to apply IFRS 9, including the requirements linked to impairment, to other long-term interests in associates and joint-ventures for which the equity method is not applied. The adoption of this amendment had no effect on the Isagro Group's Consolidated Financial Statements.
- On March 13, 2019, with Regulation no. 402/2019, the European Commission endorsed the amendment to the accounting standard IAS 19 – Employee Benefits, which clarifies that an entity must recognize a change (for example a curtailment or a settlement) to a defined-benefit plan. The amendments require the entity to update its assumptions and remeasure the net liability or asset deriving from the plan. The amendments clarify that after the occurrence of such an event, an entity must use updated assumptions to measure the current service cost and the interest for the rest of the period of reference after the event. The adoption of this amendment had no effect on the Isagro Group's Consolidated Financial Statements.
- On March 14, 2019, with Regulation no. 412/2019, the European Commission endorsed the amendments to some standards, in the context of the annual process of improving them. The main amendments pertain to:
 - IFRS 3 Business Combinations and IFRS 11 Joint Arrangements: the amendment clarifies that at the moment in which an entity obtains control over a business that represents a joint-operation, it must remeasure the interest held previously in this business. This process is, instead, not provided for in the event of obtainment of joint control.
 - IAS 12 Income Taxes: the amendment clarifies that all the tax effects associated with dividends (including payments on financial instruments classified in Shareholders' Equity) should be accounted for in a way consistent with the transaction that generated these profits (Income Statement, OCI or Shareholders' Equity).

- IAS 23 Borrowing costs: the amendment clarifies that in the case of loans that remain in being even after the qualifying asset of reference is already ready for use or for sale, these become part of the set of loans used to calculate the borrowing costs.

The adoption of these amendments had no effect on the Isagro Group's Consolidated Financial Statements.

New standards and interpretations adopted by the European Union but not yet in force

As required by IAS 8 (Accounting Policies, Changes in Accounting Estimates and Errors) the potential impact of new standards or interpretations on the Company's Financial Statements are indicated below. These standards were not applied early.

- On November 29, 2019, by means of Regulation no. 2075/2019, the European Commission endorsed the amendment to the "References to the Conceptual Framework in IFRS Standards".

The Conceptual Framework defines the fundamental concepts for financial reporting and guides the Board in the development of the IFRS standards. The document helps to guarantee that the standards are conceptually consistent and that similar transactions are treated in the same way, so as to provide useful information to investors, lenders, and other creditors. The amendment is effective for periods beginning January 1, 2020 or thereafter, but early application is permitted.

The Isagro Group decided not to adopt this amendment earlier than required.

The Directors do not expect any significant effects on the Consolidated Financial Statements of the Isagro Group.

- On January 15, 2020, by means of Regulation no. 34/2020, the European Commission endorsed the amendment named "Amendments to IFRS 9, IAS 39 and IFRS 7: Interest Rate Benchmark Reform", which amends some of the requisites for application of hedge accounting, providing temporary derogations to them, in order to mitigate the impact deriving from the uncertainty of the IBOR reform (still ongoing) on future cash flows in the period preceding its completion. The amendment also requires that companies provide further information in the financial statements about their hedging relations that are directly affected by the uncertainties generated by the reform, and to which the aforementioned derogations are applied. The amendment is effective for periods beginning January 1, 2020 or thereafter, but early application is permitted.

The Isagro Group decided not to adopt this amendment earlier than required. The Directors do not expect any significant effects on the Consolidated Financial Statements of the Isagro Group.

IFRS accounting standards, amendments and interpretations not yet endorsed by the European Union

At the reporting date, the competent bodies of the European Union have not yet completed the endorsement process necessary for adoption of the amendments and standards described below.

- On September 11, 2014, the IASB published the amendment to **IFRS 10 and IAS 28 Sales or Contribution of Assets between an Investor and its Associate or Joint Venture**. The document was published for the purpose of settling the current conflict between IAS 28 and IFRS 10. In accordance with IAS 28, the gain or loss deriving from the disposal or transfer of a non-monetary asset to a joint venture or to an associate in exchange for a holding in the share capital of the latter is limited to the holding held in the joint venture or associate by the other investors extraneous to the transaction. By contrast, IFRS 10 prescribes recognition of the entire gain or loss in the event of loss of control over a subsidiary, even if the entity retains a non-controlling interest, also including in this category the sale or contribution of a subsidiary to a joint venture or associate. The amendments introduced envisage that in a disposal/contribution of an asset or of a subsidiary to a joint venture or to an associate, the extent of the gain or the loss to be recognized in the Financial Statements of the transferor/contributor depends on the fact that the assets or the subsidiary company transferred/contributed represent or otherwise a business, in the sense envisaged by IFRS 3. If the assets or the subsidiary transferred/contributed represent a business, the entity must recognize the gain or the loss on the entire holding previously owned; whilst, otherwise, the portion of gain or loss relating to the stake still held by the entity must be eliminated. At present the IASB has suspended the application of this amendment.

The Directors do not expect any significant effects on the Consolidated Financial Statements of the Isagro Group following adoption of this standard.

- On October 22, 2018 the IASB published the document **“Definition of a Business (Amendments to IFRS 3)”** which provides some clarifications on the definition of business for the purposes of correct application of the standard IFRS 3. Specifically, the amendment clarifies that, while a business usually produces an output, the presence of an output is not strictly necessary for identifying a business in the presence of an integrated set of activities/processes and assets. However,

to meet the definition of business, an integrated set of activities/processes and assets must include, as a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs. To this end, the IASB has replaced the term “ability to create outputs” with “ability to contribute to the creation of outputs” to clarify that a business can exist also without the presence of all the inputs and processes necessary to create an output. The amendment also introduced a test (“concentration test”), optional for the entity, to determine whether a set of activities/processes and assets acquired is not a business. If the test is positive, the set of activities/processes and assets acquired does not constitute a business, and the standard does not require additional checks. If the test is negative, the entity must perform further analysis on the activities/processes and assets acquired to identify the presence of a business. To this end, the amendment added numerous illustrative examples to the standard IFRS 3 in order to help to understand the practical application of the new definition of business in specific cases. The amendments apply to all business combinations and acquisitions of assets after January 1, 2020, but early adoption is allowed. The Directors do not expect any significant effects on the Consolidated Financial Statements of the Isagro Group following adoption of this standard.

- On October 31, 2018, the IASB published the document **“Definition of Material (Amendments to IAS 1 and IAS 8)”** which introduced a change to the definition of “material” contained in the standards *IAS 1 – Presentation of Financial Statements* and *IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors*. The aim of this amendment was to make the definition of “material” more specific and to introduce the concept of “obscured information” alongside the concepts of omitted or misstated information already present in the two amended standards. The amendment clarifies that information is “obscured” if it has been described in such a way that would have a similar effect on the primary reader as omitting or misstating the information. The amendments introduced by the document apply to all transactions subsequent to January 1, 2020.

The Directors do not expect any significant effects on the Consolidated Financial Statements of the Isagro Group following adoption of this standard.

Uncertainty in the use of estimates

Preparation of the Consolidated Financial Statements and the relative notes in application of the IFRS requires the management to make estimates and assumptions that affect the reported amounts of the assets and liabilities, and the disclosure relating to contingent assets and

liabilities at the reporting date. Consequently, the results actually achieved could differ from these estimates.

In particular, the estimates are used in order to recognize provisions for doubtful debts and inventory obsolescence, depreciation and amortization, impairment losses, employee benefits, tax and other provisions alongside the determination of the fair value related to the performance obligations identified in contracts that provide for several services, typically attributable to M/L Agreements, like the one signed during the first half of 2019 by Isagro and AQL Agroquímicos de Levante.

In addition, in preparing the Consolidated Financial Statements, the Directors made a significant judgment in the assessment of the “ancillary” performance obligations to the sale contract of Isagro (Asia) Agrochemicals Pvt. Ltd. In order to determine the capital gain of the sale, the Directors also calculated, as a percentage, the proportion of the performance obligations on the total price. The main assumptions regarding the future and the main causes for uncertainty in the estimate at the closing date of the financial year that present a significant risk of giving rise to significant adjustments to the book values of the assets and liabilities by the following financial year are shown below.

Bad debt provision

Trade and other receivables are shown in the financial statements net of provisions for impairment losses, determined based on the principle of expected credit loss, according to which it is no longer necessary for an event of financial difficulty of the debtor to occur before recognizing in the financial statements the value of the expected losses. This model provides for the impairment test being performed considering the entire life of the receivable according to a forward-looking logic, which uses historical, current and also prospective data in the assessment process.

In particular, using the simplified approach provided for in IFRS 9, the Isagro Group constructed a “provision matrix” to identify the probabilities of default, which is based, for historical data, on the average credit losses of the last three years, to which is added a percentage of risk in order to take into account prospective (forward-looking) probabilities of default. This matrix is then applied to the aging of the receivables, constructed by maturity band and by geographical areas, at the reporting date, and it is updated every year. In addition, ad hoc analyses and specific estimates are performed to determine the expected losses of certain categories of receivables, including receivables in dispute and receivables deriving from M/L Agreements.

Inventory write-down provision

The allowance for inventory obsolescence reflects management’s estimate of impairment losses expected from the various Group companies, based on both historical experience and the expected trend in prices for crop protection products during 2020, particularly for those products whose realizable value is linked to the commodity prices.

Intangible Assets and Goodwill: Impairment test

The Isagro Group carries out impairment testing at least annually, on preparing the Financial Statements at December 31. As is described in greater detail below, impairment tests are performed on the assets pertaining to the CGUs being tested, including assets with indefinite useful life (goodwill) and intangible assets with finite useful life not yet available for use, as well as intangible assets already available for use and property, plant and equipment pertaining to the CGUs identified.

As explained in detail below, intangible assets not yet available for use essentially refer to registration expenses incurred for authorizations to sell formulations relating to the Group’s major proprietary products (see Note 2).

As these assets are essentially registrations not yet obtained, the cash flows used for the purpose of calculating the recoverable values within the impairment test and reflected in the plan of the various Group companies, including subsequently in the consolidated Business Plan, are those specifically and precisely defined for each project.

In defining the value in use of the CGUs subject to impairment, the Isagro Group carried out its analyses on the basis of the consolidated 2020-2025 Business Plan approved by the Board of Directors on May 6, 2020.

The reliability of the impairment test and, consequently, whether or not the amounts recognized as assets for these items are confirmed is tied to realization of the forecasts of the Business Plan, which, although it represents a forward-looking statement subject to uncertainty, is deemed reasonable and feasible by the Directors.

The Directors, as a result of the tests carried out, did not deem it necessary to recognize any further impairment losses pursuant to IAS 36, regarding the Group’s major assets.

Also for goodwill, the Directors deemed that no write-downs were necessary in view of the test performed, based on the expected cash flows reflected in the Consolidated Business Plan.

In fact, the write-downs recognized in the Financial Statements refer i) for € 430 thousand to the write-down of the residual book value of the costs incurred in relation to the authorizations for sale of crop protection products, in the process of being obtained, containing the fungicide Chlo-

rothalonil, which was not renewed at European level, ii) for € 327 thousand to the write-down of the book value of the costs incurred in relation to the authorizations for sale of crop protection products in the process of being obtained, and of costs to develop new formulations, in Europe only, containing the fungicide Tetraconazole, for which the Directors do not consider it probable that re-registration will be obtained at European level, and iii) for € 277 thousand to the write-down of the residual book value of the costs incurred in relation to the authorizations for sale of other crop protection products, in the process of being obtained, the continuation of which was not deemed cost-effective by the Group.

Regarding goodwill, it should be noted that about 50% of this item refers to the CGU "Isagro Colombia", for which management has developed an additional impairment test to verify the recoverability of said goodwill. The considerations set out are described in Note 4.

Note that the calculation of the recoverable value of intangible assets available and not yet available for use, of goodwill, and of the relevant tangible assets, calls for management's discretion and the use of estimates, particularly as regards calculation of the interest rate (WACC) used to discount future cash flows, also as the benchmark rates of the financial markets are highly erratic and fluctuating. In addition, the recoverability of these amounts is subject to the aforementioned consolidated 2020-2025 Business Plan, and is affected also by uncontrollable external variables (in particular weather conditions, the times necessary and the probabilities of obtaining authorizations for the sale of new products). Consequently, it cannot be excluded that the future trend in various factors, including developments in the challenging global economic and financial context, worsened by the current worldwide health crisis caused by COVID-19, might call for a write-down of these items of the Financial Statements. The Group's management will continuously monitor the circumstances and events that could bring about such a result.

Deferred tax assets

At December 31, 2019, the Isagro Group's Financial Statements recognized deferred tax assets for unused tax losses carried forward amounting to approximately € 3.5 million, together with € 2.7 million for deductible temporary differences. In recognizing and assessing the recoverability of these deferred tax assets, the consolidated 2020-2025 Business Plan approved by the Board of Directors of Isagro on May 6, 2020, was taken into consideration by the Directors. In particular, this Business Plan provides for future taxable incomes that include the effects arising

from some structured extraordinary operations, the implementation of which is deemed probable by the Directors, and such that guarantee the recoverability of the aforementioned deferred tax assets, as provided by the redefinition of the Isagro business model (for further details, please refer to the Report on Operations).

However, it cannot be ruled out a priori that the emergence of economic and/or financial crises, or the continuation of the recent health crisis due to COVID-19 (for which the Group's Management has carried out sensitivity analyses involving the unfavorable inputs on the results of the Business Plan, nevertheless such that do not compromise the recoverability of the assets in question), in addition to a delay in the expected time frames to conclude the above extraordinary operations, could render doubtful the times and procedures forecast for the recoverability of these Financial Statement items. The Group's management will continuously monitor the circumstances and events that could bring about such a result.

Consolidation scope

The consolidation scope includes the Financial Statements of at December 31, 2019 of Isagro S.p.A. and its subsidiaries.

Pursuant to IFRS 10, companies are considered to be controlled if the Group simultaneously has the following three elements:

- a. power over the company;
- b. exposure or rights to variable returns deriving from its involvement in the investee;
- c. the ability to use its power to influence the amount of such variable returns.

For a list of companies included in the scope of consolidation, reference should be made to Note 51.

Compared to the situation at December 31, 2018 no changes occurred in the consolidation scope other than the sale of the investment held in Isagro (Asia) Agrochemicals Pvt. Ltd., described in Note 38, to which you are referred. It is also noted that, as of October 24, 2019, the company Arterra Bioscience S.p.A. (formerly Arterra Bioscience S.r.l.) is no longer an associate company since the interest held by the Parent Company Isagro S.p.A. decreased to below 20% (which, by contract, is considered the percentage for exercising a notable influence) following the listing of its shares on the AIM stock market; for further details, please refer to Note 5.

Translation of foreign currency financial statements

The presentation currency adopted by the Group is the Euro, which is also the functional currency of the Parent Company Isagro S.p.A.



At the end of the reporting period, the Financial Statements of foreign operations with a functional currency other than the Euro are translated into the presentation currency in accordance with the following procedures:

- assets and liabilities are translated using the exchange rate in force as at the reporting date;
- revenues and costs are translated at the average exchange rate for the reporting period;
- equity components are translated at historical exchange rates, maintaining the existing stratification (if any) of reserves.

Exchange differences arising on translation are recognized in the statement of Other Comprehensive Income and accumulated in a separate component of Shareholders' Equity (Translation reserve or difference) until disposal of the foreign operation.

The Balance Sheet and the economic result of a foreign company whose functional currency is the currency of a hyperinflationary economy are instead translated into euro using the exchange rate in force at the reporting date. An economy is considered hyperinflationary when the cumulative inflation rate over a period of three years exceeds or comes close to 100%.

Hyperinflation in Argentina

In Argentina, following a long period of observation of inflation rates and other indicators, a unanimous consensus was reached on the existence of a hyperinflationary economy starting from July 1, 2018. It follows that all companies operating in Argentina, starting from that date, are obliged to apply the accounting standard "IAS 29 – Financial Reporting in Hyperinflationary Economies" in preparing financial reports.

It is worth noting however that the effects deriving from application of the standard on the Group's results, taking into account the low economic and financial figures of the Argentinean subsidiary, proved to be completely negligible.

The exchange rates applied on translation of the Financial Statements of the companies included in the scope of consolidation are listed in the table below:

Currency	Exchange rate at Dec. 31, 2019	Average exchange rate 2019	Exchange rate at Dec. 31, 2018	Average exchange rate 2018
Australian Dollar	1.5995	1.6109	1.622	1.5797
Singapore Dollar	1.5111	1.5273	1.5591	1.5926
US Dollar	1.1234	1.1195	1.145	1.181
Vietnamese Dong	26,033	26,003	26,547	27,180
Argentine Peso	67.2749	67.2749	43.1593	43.1593
Chilean Peso	844.86	786.89	794.37	756.94
Colombian Peso	3,688.66	3,674.52	3,721.81	3,486.74
Mexican Peso	21.2202	21.5565	22.4921	22.7054
South African Rand	15.7773	16.1757	16.4594	15.6186
Brazilian Real	4.5157	4.4134	4.444	4.3085
Chinese Renminbi (Yuan)	7.8205	7.7355	7.8751	7.8081
Indian Rupee	N/S	78.8361	79.7298	80.7332
Kenyan shilling	113.8986	114.2168	116.6284	119.638
Polish Zloty	4.2568	4.2976	4.3014	4.2615

Earnings Per Share

Basic earnings per share are calculated by dividing profit or loss attributable to the Group by the weighted average number of shares outstanding during the period. For the purpose of calculating the diluted earnings per share, the weighted average number of shares is modified assuming that all convertible instruments are converted and all warrants are exercised, should these have been issued by the Parent Company.

Assets held for sale and Discontinued Operations

Non-current assets and disposal groups whose carrying amount will be recovered principally through a sale transaction rather than continuing use are presented separately from other assets and liabilities in the Balance Sheet. These assets are measured at the lower of carrying amount and fair value less costs to sell. Any subsequent impairment losses are recognized as a direct deduction from non-current assets through profit or loss. The corresponding amounts of the previous year are not reclassified.

A Discontinued Operation is a component of a company that either has been disposed of or is classified as held for sale, and:

- represents a separate major line of business or geographical area of operations;
- is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations;
- or is a subsidiary acquired exclusively with a view to resale.

The post-tax profit or loss of Discontinued Operations is disclosed separately in profit or loss. The corresponding amounts of the previous year are reclassified and presented separately in profit or loss for comparative purposes. Value adjustments on receivables from the selling price of the aforementioned discontinued assets are likewise recognized in the Income Statement; in the years subsequent to the sale, these value adjustments will be adjusted on the basis of changes in the estimates of enforceability.

Measurement criteria

The Consolidated Financial Statements have been prepared on a historical cost basis, except for some financial instruments, the measurement for which, pursuant to IFRS 9 and IFRS 13, was made at fair value, as described below. This value is the price that would be received for the sale of an asset or that would be paid for the transfer of a liability in a regular transaction in the main (or most advantageous) market as at the measurement date, at current market conditions, regardless of whether that price is directly observable or is estimated using another measurement technique.

Business Combinations

Business combinations are accounted for using the acquisition method. Under this method, the consideration transferred in a business combination is measured at fair value, calculated as the sum of the acquisition-date fair values of the assets transferred and liabilities assumed by the Group, and the equity instruments issued by the acquirer in exchange for control of the company acquired. The transactions costs are recognized in the Income Statement at the time they are incurred.

Goodwill is measured as the excess of the aggregate of consideration transferred in the business combination, the amount of any non-controlling interests in the acquiree, and the acquisition-date fair value of the acquirer's previously held equity interest in the acquiree over the net of the acquisition-date amounts of the identifiable assets acquired and the net liabilities assumed.

Any contingent consideration is measured at the acquisition-date fair value and recognized as part of the consid-

eration transferred in the business combination for the purpose of measuring goodwill. Any subsequent changes in fair value, qualifying as adjustments made during the measurement period, are retrospectively included in goodwill. Changes in fair value qualifying as adjustments made during the measurement period are those resulting from new information about facts and circumstances that existed as of the acquisition date but obtained during the measurement period, which shall not exceed one year from the acquisition date.

In a business combination achieved in stages, the Group's previously held equity interest in the acquiree is remeasured at fair value at the date control is acquired, and any resulting gain or loss is recognized in profit or loss. Any amounts resulting from the previously held equity interest, and recognized in Other Comprehensive Income, are reclassified to profit or loss as if the equity interest had been disposed of.

Tangible assets

Tangible assets items, which can be stated in the Financial Statements as assets if, and only if, it is probable that the future economic benefits associated with them will flow to the company and if their cost can be reliably determined, are recorded at historical cost and stated in the Financial Statements net of the related accumulated depreciation and any losses in value.

In detail, the cost of a tangible assets item, acquired from third parties or constructed on a time and material basis, includes directly attributable charges and all the costs necessary for bringing the assets onstream for the use for which they were acquired. If payment for the purchase of the asset is deferred beyond the normal credit terms, its cost is represented by the equivalent cash price.

The opening value of the asset is increased by the current value of any costs for the demolition and removal of the assets or restoration of the site where the asset is located, if a legal or implicit obligation in this sense exists. Therefore a liability will be recorded for a risk provision against this capitalized charge.

Maintenance and repair costs are not capitalized, but are recorded in the Income Statement in the period they pertain to.

Costs incurred after initial recognition – improvements, modernization and expansion costs, etc. – are recognized as assets if, and only if, it is probable that future economic benefits associated with them will flow to the company and they result in identifiable assets or if they concern expenditures aimed at extending the asset's useful life or increasing its productive capacity, or even improving the quality of the products obtained by the asset. If these expenses qualify as maintenance costs, they will be recognized in profit or loss as incurred.

Depreciation begins when the asset is available for use and is calculated on a straight-line basis with reference to the asset's estimated useful life. The useful life generally assigned to the various asset categories is as follows:

- buildings: 19 to 30 years
- plant and machinery: 10 to 11 years
- equipment: 3 to 7 years
- other assets: 5 to 6 years.

Land, which as a rule has an unlimited useful life, is not depreciated.

Spare parts and small items of equipment for maintenance are recognized as inventories and recorded at cost at the time they are used. Nevertheless, spare parts worth significant amounts and equipment provided which is available in stock (stand-by equipment) are recognized as fixed assets when they are expected to be used for more than one accounting period.

The book value of tangible assets is subject to an impairment test so as to detect any losses in value when events or changed circumstances indicate that the book value cannot be recovered. If there is any indication that the asset may be impaired, and if the carrying amount is greater than the estimated recoverable amount, the asset or the cash-generating unit is written down to recoverable amount, which is the higher of fair value less costs to sell and value in use. When defining the value in use, the future cash flows are discounted back using a pre-tax discount rate which reflects the current market estimate of the cost of money placed in relation to the timescale and specific risks of the asset. In relation to assets which do not generate fully independent cash flows, the realizable value is determined in relation to the cash flow generating unit to which the asset belongs. Impairment losses are recorded in the Income Statement under the item "Impairment of tangible and intangible assets".

Intangible Assets

Intangible assets, which can be capitalized only if they are identifiable assets which will generate future economic benefits, are initially recognized in the Financial Statements at purchase cost, increased by any additional charges and the direct costs necessary for preparing the asset for its use. However, assets acquired in a business combination are recognized at their acquisition-date fair value.

Assets generated internally, with the exception of development costs and expenses incurred in obtaining the authorizations to market crop protection products, are not recorded as intangible assets. Development activities involve the conversion of research inventions and other knowledge in a well-defined plan for the production of new materials, products or processes.

The cost of an intangible asset created internally includes all the directly attributable costs necessary for creating, producing and preparing the asset so that it is able to operate in the manner agreed upon by company management. With regard to the capitalization of any financial charges associated with intangible assets, reference should be made to the description later in this report under the related measurement criterion.

After initial recognition, intangible assets are recorded in the Financial Statements at cost net of the total amortization charges, calculated on a straight-line basis with reference to the estimated useful life of the asset and the accumulated losses due to impairment. However, if an intangible asset has an unspecified useful life it is not amortized, but periodically subject to adequacy analysis for the purpose of stating any impairment.

The useful life generally assigned to the various categories of assets with finite useful life is as follows:

- concessions and licenses: 5 to 10 years
- authorizations for sale (registrations) of crop protection products: term of the concession
- product know-how: 15 years
- process know-how: 5 years
- costs of "extraordinary protection": 5 to 15 years
- trademarks: 5 to 10 years
- patents: term of the legal protection
- other assets (software): 5 years

Amortization commences when the assets are available for use, or when they are in a position and in the condition necessary in order to operate in the manner agreed upon by company management.

The book value of intangible assets is subject to an impairment test so as to detect any losses in value when events or changed circumstances indicate that the book value cannot be recovered. If indication of this type exists, and in the event that the value exceeds the estimated realizable value, the assets are written down so as to reflect their realizable value. This value coincides with the net sales price of the assets or the value in use, whichever is the higher. When defining the value in use, the future cash flows are discounted back using a pre-tax discount rate which reflects the current market estimate of the cost of money placed in relation to the timescale and specific risks of the asset. In relation to assets which do not generate fully independent cash flows, the realizable value is determined in relation to the cash flow generating unit to which the asset belongs. Impairment

losses are recorded in the Income Statement under the item “Impairment of tangible and intangible assets”.

Product research, development and registration costs

Research costs for the ordinary protection of products and production processes, and the costs for innovative research, are recognized in the Income Statement in the period when they are incurred.

Development costs, recorded in the Financial Statements under intangible assets, refer to projects for the development of new proprietary products (active ingredients), new formulations and new production processes.

When the development project is concluded, and results in a process available for economic use, or in a product know-how, the related expenditure is reclassified to “product know-how” or “process know-how” and amortized on a straight line basis over its estimated useful life, which shall not exceed 15 years. The conclusion of the development process of new proprietary products (active ingredients) coincides with obtainment of a statement of completeness (the “completeness check”) from the competent authority and/or with obtainment of the first authorization to sell the formulation containing the active ingredient.

Product registration costs reflect internal and external costs incurred to obtain or renew the authorization from the different local authorities to market the products deriving from the development activities and /or to extend such authorizations to other crops or to other uses of the product. These costs are recognized as intangible assets under “assets under development” until an authorization to market is obtained, and they are then reclassified under “Registrations” and amortized based on the term of the concession, which may be for a maximum of ten years. Until the development activities, and/or the registration activities for any resulting products, are completed, the main projects underway will be tested for impairment at least annually, in accordance with the methods described in the Explanatory Notes, recognizing in profit or loss any excess in the carrying amount.

These costs also include the expenses for “extraordinary protection”, incurred in order to increase the useful life, i.e. the marketing period, of products already existing in the market and thus capable of generating future economic benefits higher than the level of return originally attributed to the product underlying the development activity. These costs are normally amortized over a period of a minimum 5 years to a maximum 15 years, based on the estimated product lifecycle.

Goodwill

Goodwill acquired in a business combination is initially measured at the acquisition-date fair value of the consideration transferred and is allocated to the various CGUs identified at that date. After initial recognition, the goodwill is measured at cost, and decreased only by any accumulated losses in value. In fact, goodwill is not amortized, but impairment testing is performed at least annually. Any impairment is recognized in the Income Statement, according to the methods described in the Explanatory Notes.

Impairment of tangible assets, intangible assets, and goodwill

At least annually, and each time the Consolidated Financial Statements for the year are drawn up, the Company reviews the book value of its tangible and intangible assets, and goodwill, to check whether there are any indications that these assets have sustained reductions in value. The recoverable value is identified as the fair value net of the sales costs or the value in use, whichever is higher, where the latter is calculated as the current value of the estimated cash flows referring to the asset or to the cash generating unit to which it belongs, discounted in consideration of a specific discounting rate, of the future cash flows referring to the asset, or to the cash generating unit to which it belongs. If the recoverable amount of an asset (or a cash generating unit) is lower than its book value, the latter is reduced to the lesser recoverable value. The impairment is immediately recognized in the Income Statement.

Afterwards, if the impairment of an asset ceases or is reduced, the book value of the asset, except for goodwill, is increased up to the new estimate of the recoverable value (which cannot exceed the value that would have been determined had no impairment loss been entered). Reversing of the impairment loss is immediately recognized in the Income Statement. Based on what is set out above, the assets and cash generating units (CGUs) representing the smallest identifiable group of assets able to generate largely independent cash flows in were identified in the Financial Statements. Goodwill was unfailingly allocated to the cash generating units from which benefits connected with the business combinations that generated it are expected.

The CGUs were identified with the same criteria as last year.

A summary table is presented below showing the values of the tangible and intangible assets and the goodwill allocated to the individual CGUs identified by the Group’s Management:

Cash Generating Units	Assets with a finite useful life			Assets with an indefinite useful life		Total
	Tangible assets	Intangible Assets		Goodwill		
		not yet available for use	already available for use			
Kiralaxyl (IR 6141)	219	1,391	4,666	-	6,276	
Organic and biostimulant products	2,117	316	693	461	3,587	
Pyrethroids	226	105	254	-	585	
Fumigants	-	2,344	2,686	-	5,030	
Tetraconazole	3,149	401	4,094	209	7,853	
Copper	4,979	847	3,285	886	9,997	
Fluindapyr (SDHi)	-	2,834	22,356	-	25,190	
Total	10,690	8,238	38,034	1,556	58,518	

The assessment process of the recoverability of the amounts recognized in the assets of the Consolidated Financial Statements by the Group's Management, with reference to the CGUs "Kiralaxyl (IR6141)", "Organic and biostimulant products", "Pyrethroids", and "Fumigants", was carried out through determination of the value in use. The details of the tangible and intangible assets, and goodwill, pertaining to the aforementioned CGUs are shown below:

Cash Generating Units	Assets with a finite useful life			Assets with an indefinite useful life		Total
	Tangible assets	Intangible Assets		Goodwill		
		not yet available for use	already available for use			
Kiralaxyl (IR 6141)	219	1,391	4,666	-	6,276	
Organic and biostimulant products	2,117	316	693	461	3,587	
Pyrethroids	226	105	254	-	585	
Fumigants	-	2,344	2,686	-	5,030	
Total	2,562	4,156	8,299	461	15,478	

The Group then tested, through determination of the value in use, a value of Intangible Assets equal to € 12,916 thousand (including Goodwill) on a total of € 50,535 thousand (including Goodwill), with a percentage of 26% and tangible assets equal to € 2,562 thousand on a total of € 15,585 thousand, with a percentage of 16%.

On the other hand, with reference to the CGUs "Tetraconazole", "Copper" and "Fluindapyr", the assessment process on the recoverability of the amounts recognized to the assets of the financial statements by Management was conducted through comparison with the market value (fair value).

The details of the tangible and intangible assets, and goodwill, pertaining to the aforementioned CGUs are shown below:



Cash Generating Units	Assets with a finite useful life			Assets with an indefinite useful life		TOTAL
	Tangible assets	Intangible Assets		Goodwill		
		not yet available for use	already available for use			
Tetraconazole	3,149	401	4,094	209	7,853	
Copper	4,979	847	3,285	886	9,997	
Fluindapyr (SDHi)	-	2,834	22,356	-	25,190	
Total	8,128	4,082	29,735	1,095	43,040	

In particular, as regards “Fluindapyr (SDHi)”, the assessment was based on the price contained in the binding offer (equal to € 55 million) sent by the American company FMC to the Parent Company Isagro S.p.A. on April 8, 2020, accepted by the Board of Directors of Isagro and which was approved by the Board of the American company on May 5, 2020. The amount of the binding offer, also net of an estimate relating to the sale costs, is found to be much higher than the book value of the relative CGU “Fluindapyr”.

As regards the CGUs “Tetraconazole” and “Copper”, on the other hand, reference was made to the estimate reports developed by an independent expert prepared for the Independent Administrators Committee (“IAC”) and, indirectly, for the Board of Directors of Isagro, which provide an estimate of the fair value of these CGUs at December 31, 2019, based on the operating and current market conditions at that date. The fair value is understood as the price at which the CGUs subject to assessment could be traded at the date of reference between independent and justified parties, which operate in an informed manner and without being exposed to particular pressures (obligations to buy and sell).

The objective of the expert’s task was to provide the IAC (and therefore indirectly the Board of Directors of Isagro), with data, elements and useful references for the performance of its own autonomous assessment aimed at the decision regarding the sale of said business branches, for which a non-binding offer of purchase higher than the book values of the assets pertaining to the CGUs in question was received in 2019.

In particular, the value of the “Copper” business branch (which refers to the CGU “Copper”) was calculated by the independent expert using the discounted cash flow method, and, as a control method, the multiples method: the value of this branch was defined in the range of between € 58 and 63 million. Considering the mean of these values, net of the initial working capital equal to € 11 million—the latter qualifying according to the Group’s

practice as “Net Financial Position” in the event that the working capital is funded by debt capital—a fair value of € 49.5 million is reached, which, also considering a possible estimate of related sale costs, is found to be much higher than the book value of the CGU.

The value of the “Tetraconazole” branch (which refers to the CGU “Tetraconazole”) was calculated in the same way by the independent expert using the discounted cash flow method, and, as a control method, the multiples method: the value of this branch was defined in the range of between € 45 and 50 million. Considering the mean of these values, net of the initial working capital equal to € 15 million—the latter qualifying according to the Group’s practice as “Net Financial Position” in the event that the working capital is funded by debt capital—a fair value of € 32.5 million is reached, which, also considering an estimate of related sale costs, is found to be much higher than the book value of the CGU.

In addition to the above, in line with the information described in the joint document published by the Bank of Italy, CONSOB and ISVAP on the application of IAS/IFRS no. 4 of March 3, 2010, an “additional aspect that must be underlined is the requirement for the Directors to make adequate considerations regarding the existence of external signs of impairment, such as, for example, those expressed by the financial market, as the presence of a market capitalization of the company significantly lower than the accounting Shareholders’ Equity. In this context, the Directors must seek out the reasons for any differences that may arise between the “external” assessments and the result reached by the impairment procedure. This analysis—required by IAS 36, par. 12, letter (d)—must be duly documented as part of said procedure”.

With reference to the above, the Isagro S.p.A. stock, for which the Ordinary Shares and Growth Shares are listed on the STAR segment managed by Borsa Italiana S.p.A., reported at December 31, 2019 a market capitalization equal to approximately € 43.7 million, lower than the value of Consolidated Shareholders’ Equity of € 91.0 million.

The Directors of Isagro believe that this gap between the book value of the Shareholders' Equity and the Stock Exchange capitalization is reflected in: *i)* the unsatisfactory balance of the Group's economic results, current and in the recent past, with consequent lack of distribution of a dividend, factors which as a whole have contributed to depress the stock performance of both Isagro Ordinary Shares and Growth Shares by the market; *ii)* "lower" value expressed in the "book" value compared to the real net market value of the Isagro Group's assets.

Nevertheless, where a gap exists in the verification of the book value of the Consolidated Shareholders' Equity at December 31, 2019 compared to the Stock Market capitalization, it is noted that the value of the fixed assets of the Group are all pertaining to the CGU subject to the first level impairment test for which the recoverable values (calculated as the value in use or fair value) to which reference was made, are higher than the respective book values. It is also reported how the recoverable value is in line with the book value for the current assets.

Financial assets

At the moment of initial recognition, financial assets are entered at their fair value plus the costs directly attributable to their acquisition and are classified in one of the categories described below on the basis of the following elements:

- the company's business model for the management of financial assets;
- the characteristics related to the contractual cash flows of the financial assets.

In particular, by "business model" is meant the method with which the asset is managed, that is, if it is held for the sole purpose of collecting the related contractual cash flows ("hold" model), or to resell ("sell" model), or both to collect the cash flows and to sell the asset ("hold and sell" model).

Financial assets measured at amortized cost

Financial assets are included in this category if both of the following conditions are met:

- they are held in the context of a "hold" business model, and
- the contractual terms provide for certain given cash flows represented only by payments of the principal and of the interest on the principal to be repaid.

These assets are subsequently measured using the effective interest method, that is applying the effective interest rate that represents the rate that exactly discounts the future payments or collections, estimated along the expected life of the financial asset, to its amortized cost. The gains or losses deriving from write-offs, changes or impairment of the financial asset are recognized in the Income Statement.

Financial assets measured at fair value recognized in "Other Comprehensive Income"

Financial assets are included in this category if both the following conditions are met:

- they are held in a "hold and sell" business model, and
- the contractual terms provide for certain given cash flows represented only by payments of the principal and of the interest on the principal to be repaid.

The gain or loss deriving from measurement at fair value of these financial instruments must be recognized in "Other Comprehensive Income" (with the exception of gains or losses due to impairment and gains or losses on exchange rates that are recognized in the Income Statement), until the financial asset is derecognized or reclassified. The interest calculated applying the criterion of effective interest is recognized in the profit for the year.

Investments in equity instruments which are not held for trading can be included in this category at the time of their initial recognition. The gain or loss deriving from their measurement is recognized in "Other Comprehensive Income" and is not reclassified to the Income Statement when the financial asset is derecognized. The dividends related to these instruments are recognized in the Income Statement.

This context includes the investment in the company Arterra Bioscience S.p.A., an equity investment recognized among the associate companies at the closing date of the previous financial year, which at December 31, 2019 was recognized to the "Other investments"; for further information, please refer to Note 5.

Financial assets measured at fair value recognized in profit (or loss) for the year

This category comprises financial assets not included in the previous ones, among which are financial assets held for trading ("sell" model) and investments in equity instruments for which the option was not taken to include them in the previous class. In particular, a financial instrument is considered "held for trading" if purchased for the purpose of selling it or re-buying it after a short time. Derivative financial instruments are also included in this category, unless they are designated as hedging instruments.

The gain or loss deriving from measurement at fair value of these financial assets is recognized in profit (or loss) for the year.

Impairment of financial assets

For financial assets included in the first two categories (with the sole exception of any equity instruments included in the category of assets measured at fair value) provisions are recognized to cover the losses. These are calculated on the basis of the expected credit loss (ECL) model, using information that is supportable, available without unreasonable expenses or efforts, which includes histori-

cal, current and prospective data. These losses are based on the difference between the contractually payable cash flows and the cash flows that the company expects to receive, discounted at the original interest rate.

The estimate for the provisions to cover losses must correspond to the losses expected along the entire life of the receivable if the credit risk of the financial instrument has increased significantly after initial recognition. Otherwise, the measurement of the provisions must be based on the expected losses in the twelve months following the reporting date.

For trade receivables, a simplified approach is applied, as described in the paragraph “Trade and other receivables”.

Treasury shares

Treasury shares are recognized at cost and are booked, at the time of purchase, as a reduction of Shareholders’ Equity. The economic effects deriving from any subsequent sales are recognized directly in Shareholders’ Equity.

Inventories

Inventories are measured at the lower between cost and the net estimated realizable value, represented by the normal estimated sales prices, net of finalization or selling costs.

The cost of inventories may not be recoverable if they are damaged, if they become obsolete or if their selling prices have decreased: in this case, inventories are written down to their net realizable value on the basis of an assessment made on a line-by-line basis and the amount of the write-down is recorded as a cost in the period it is made.

The cost of inventories includes purchase costs, conversion costs and other costs incurred in order for the inventories to reach their current location and conditions.

The method used for determining the cost of inventories is that of the weighted average cost, inclusive of opening inventories.

Trade and other receivables

Trade and other receivables are included in the category of “Financial assets measured at amortized cost”, already illustrated in the paragraph “Financial assets”, which contains a description of the related measurement criteria.

For initial recognition of short-term trade receivables, which do not contain a significant financial component, the fair value is measured based on the price related to the commercial transaction. For medium/long-term receivables, which instead contain a significant financial component, at the time of initial recognition, the fair value is determined discounting the expected cash flows at the effective interest rate.

Trade receivables are presented in the financial statements net of provisions for expected impairment losses, which are determined on the basis of a simplified approach that provides for the possibility of recognizing the expected losses along the life of the receivable without having to identify any changes in the credit risk of the debtor. A “provision matrix” was therefore constructed on the basis of past experience (that is on losses of previous periods), but opportunely adjusted to take into account additional and prospective risk factors, in order to include in the assessment the future probability of default of the debtor. This additional risk factor was determined taking into consideration, on the one hand, the aging of the receivables and, on the other hand, the geographical region of the debtor.

Cash and cash equivalents

Cash includes cash on hand as well as on-demand and short-term bank deposits, i.e. those with an original envisaged maturity of no more than three months.

Cash equivalents include temporary cash surpluses invested in financial instruments with higher returns compared to demand bank deposits (e.g. government securities) and which can be readily liquidated. They cannot include temporary investments in equity instruments due to the volatility and variability of their values.

Trade and other payables

Payables are measured at amortized cost and, at the time of initial recognition, are booked at their fair value.

For initial recognition of short-term trade payables, which do not contain a significant financial component, the fair value is measured based on the price related to the commercial transaction. For medium/long-term payables, which instead contain a significant financial component, at the time of initial recognition, the fair value is determined discounting the expected cash flows at the effective interest rate.

Financial liabilities

At the time of initial recognition, financial liabilities are booked at their fair value, net of the ancillary expenses directly related to their acquisition.

After initial recognition, financial liabilities are measured at amortized cost, using the effective interest method, unless they are financial liabilities held for trading, which are instead measured at fair value recognized in profit (or loss) for the year. This latter category includes derivative financial instruments that have not been designated as hedging instruments under the terms of the accounting standard IFRS 9.

Provisions for risks and charges

Provisions for risks and charges, which include liabilities whose timing and extent are unknown, are provided when:

- there is a current obligation (legal or implied) which is the result of a past event;
- it is probable that an outlay of resources will be necessary to meet the obligation;
- a reliable estimate can be made of the amount of the obligation.

The amount recorded as a provision represents the best estimate of the outlay required for meeting the obligation existing as at the period end date. If the effect of the discounting back of the value of the cash is significant, the provisions are determined by discounting back the expected future cash flows at a pre-tax discount rate which represents the current market valuation of the cost of money in relation to time and, if appropriate, the specific risks of the liabilities. When discounting back is carried out, the increase in the provisions due to the passage of time is treated as a financial charge.

Contingent liabilities, instead, are not recognized in the Financial Statements.

With reference to the provisions for “participation bonus and manager and director bonuses”, the Group records this amount - in line with the previous year - in the item “Current provisions” since they are approved and finalized by the Shareholders’ Meeting following approval of the Financial Statements.

Employee Benefits

Benefits after the termination of the employment relationship are established on the basis of plans which, in relation to their characteristics, are separated into defined-contribution plans and defined-benefit plans.

With regard to defined-contribution plans, the company’s obligation is limited to the payment of the contributions agreed with the employees and is determined on the basis of the contributions due at period end, less any amounts already paid.

In defined-benefit plans, the amount accounted for as a net liability (or asset) is determined using the actuarial technique of the “Projected Unit Credit Method” and is equal to: (a) the present value of the defined-benefit obligation at the reporting date; (b) plus any actuarial gains (less any actuarial losses); (c) less any social security costs relating to past work services not yet recorded; (d) less the fair value at the reporting date of the assets serving the plan (if any) beyond which the obligations must be directly discharged. The actuarial gains and losses coming from re-measurement of the assets and

liabilities following the change in the financial actuarial and/or demographic assumptions, and the yield of the assets serving the plan (except for the amounts included in net interest), are recognized under “Other Comprehensive Income” and are directly reflected in the “Retained earnings” without subsequent reclassification to “Profit/(loss) for the year” items.

In defined-benefit plans the cost recorded under the “Profit/(loss) for the year” is the same as the algebraic sum of the following elements: (a) social security costs relating to current employment services; (b) net interest deriving from the increase in the liability consequent to the passage of time; (c) social security costs relating to past employment services; (d) the effect of any reductions or discharges of the plan.

Until December 31, 2006, the severance indemnity fund of Italian companies was considered as a defined-benefit plan. This was changed by Italian Law No. 296 of December 27, 2006 (Finance Law 2007) and subsequent Decrees and Regulations that were issued in the first few months of 2007. In light of these changes, and in particular with reference to companies with at least 50 employees, this is now considered a defined-benefit plan only for the amounts which accrued until January 1, 2007 (and which have not been settled on the reporting date), while after this date it is considered a defined-contribution plan.

Share-Based Payment

Under the terms of IFRS 2, personnel costs include the cost of any incentive plans with share-based payment. The cost of the incentive is determined based on the fair value of the attributable instruments and to the forecast of the number of shares that will effectively be assigned; the portion accruing to the year is determined *pro-rata temporis* along the vesting period, that is the period running from the attribution date (the “grant date”) and the assignment date, and is recognized as counter-item to the shareholders’ equity reserves.

The fair value of the shares underlying the incentive plan is determined at the grant date, taking into account the forecasts regarding the achievement of any performance parameters associated with market conditions and is not subject to adjustment in subsequent financial years. When attainment of the benefit is also connected to conditions other than those of the market (for example seniority in service and non-market conditions of performance), the estimate related to these conditions is reflected by adjusting, along the vesting period, the number of shares expected to be effectively assigned.

Lease contracts

Lease contracts, which in exchange for a fee grant the right to control the use of a specific asset for a period of time, at the start date imply recognition by the lessor of an asset (right of use) and of a financial liability for an amount equal to the current value of the payments due for the use of the asset. Given that in the majority of lease agreements signed, there is no implicit interest rate, in determining the discounting rate the starting point was the risk-free rate of each country where the contracts were signed, with maturities commensurate to the term of the various contracts, to which was added a spread expressing the credit risk of the contracting company.

The right of use is depreciated systematically at the shorter between the lease term and the residual life of the underlying asset. If the lease contract transfers ownership of the related asset or the cost of the right of use reflects the company's intention to exercise the purchase option, the related right of use is depreciated along the entire useful life of the asset. The depreciation starts from the beginning of the lease.

Following the initial recognition, the financial liability for the lease is increased through recognition in the Income Statement of the interest for the period and decreased on the basis of the payments made.

The Group recalculates the value of the financial liability for the lease (and adjusts the value of the corresponding right of use) if:

- the duration of the lease changes or there is a change in the assessment of the exercise of the subscription right; in this case, the liability for the lease is redetermined by discounting the new payments of the lease at the revised discounting rate;
- the value of the lease payments changes following changes in the indexes or rates; in these cases, the lease liability is redetermined by discounting the new lease payments at the initial discounting rate (unless the payments due as per the lease contract change following fluctuation in interest rates, in which case a revised discounting rate must be used);
- a lease contract has been amended or the amendment does not fall under one of the cases for the separate recognition of the lease contract. In these cases, the lease liability is redetermined by discounting the new lease payments at the revised interest rate.

For short-term leases, i.e. of a duration no longer than 12 months, and for low-value assets, i.e. those in which the value of the underlying assets does not exceed € 5,000, the option was taken to recognize the payments due to the Income Statement on a straight-line basis.

For more information about the first-time application of the standard, please see the section "Accounting standards, amendments and interpretations applied as from January 1, 2019".

Translation of foreign currency balances

Foreign currency transactions are initially recognized using the exchange rate which is applicable on the transaction date. Exchange differences arising during the period, when foreign currency receivables are collected and payables paid, are recognized in profit or loss.

At the end of the accounting period, the monetary assets and liabilities denominated in foreign currency - comprising cash on hand and assets and liabilities to be received or paid in fixed and determinable cash amounts - are converted into the reporting currency using the exchange rate in force as at the period end date, with recognition of any exchange difference generated in the Income Statement.

Non-monetary items expressed in foreign currency are converted into the reporting currency using the exchange rate in force as at the transaction date, or the original historic exchange rate. Non-monetary elements recorded at fair value are converted using the exchange rate in force as at the date this value was determined.

The functional currencies adopted by the various companies of the Isagro Group correspond to the currencies of the countries where the registered offices of such companies are located.

Revenues

Revenues are recognized at the time, or gradually as, the entity fulfills the obligation to perform for customers, transferring to them the goods or services promised, and are booked for an amount that reflects the consideration to which the entity believes it has a right in exchange for transferring the goods or services to the customer.

The goods or services promised are considered transferred when, or gradually as, the customer acquires control over them. Control over the goods or services means the ability to decide the use of the goods or services and the ability to substantially draw all the remaining benefits from them. Transfer of control over goods or services may occur at a certain time or over a period of time.

In determining the price of the transaction, the amount of the consideration is adjusted to take into account the effects of the time value of money if the payment terms agreed offer the entity or the customer a significant benefit. This adjustment is not made if the company expects that the time gap between the time of transfer of the goods or services and the time of payment will not exceed one year.

If the consideration promised in the contract with the customer includes a variable amount (for example quantity bonuses, discounts, incentives or other similar elements), the entity must estimate the amount of the consideration to which it will have the right in exchange for transferring the goods or services promised to the customer.

Sale of goods

Revenues deriving from the sale of goods are recognized when control of the goods is transferred to the customer. In order to determine whether the transfer has taken place, it is necessary to assess whether the customer has acquired ownership of the goods, whether possession has been transferred, whether the customer is already required at that time to pay for the goods, and whether the customer has the right to the significant risks and benefits of ownership of the goods. Specifically, for sales of crop protection products and raw materials, the revenues can be recognized at the time of shipment or at the time the goods are delivered to the customer.

Provision of services

Revenues related to the provision of services are recognized at the time, or gradually as, the entity fulfills the obligation to perform in for the customer. When the obligation is fulfilled over time, the entity recognizes the revenues gradually while the service is being performed, assessing its progress towards complete fulfillment of the obligation to perform.

The adequate methods for assessing progress include methods based on outputs and methods based on inputs. For toll manufacturing, revenues are recognized based on the ratio between quantities produced and total quantities to be produced.

Concessions of licenses

A license confers on the customer rights over the entity's intellectual property. For the purposes of recognizing revenues related to concession of licenses, it is necessary to determine whether the license is transferred to the customer on a specific date or over a period of time. To this end, it is necessary to determine whether the customer is given one or the other of the following rights:

- right of access to the entity's intellectual property, as it exists over the period of the license; or
- right of use of the entity's intellectual property, as it exists at the time the license is granted.

The entity's promise to grant a license is by nature a promise to grant the right of access to the its intellectual property if the following conditions are met:

- the contract prescribes that the entity must carry out activities that will have a significant impact on the intellectual property over which the customer claims rights;
- the rights granted by the license expose the customer directly to the positive or negative consequences of the entity's activities, and
- these activities do not simultaneously determine the transfer of the goods or services to the client.

In this case, the entity accounts for the revenue related to concession of the license as an obligation to be fulfilled over time. If instead these criteria are not met, the entity's promise is by nature a promise to grant the right to use the intellectual property as it exists at the time it is granted to the customer, who may decide on the use of the license and substantially draw all the remaining benefits from it at the time the license is transferred to it. The promise to confer the right to use the intellectual property, in this latter case, is considered an obligation to be fulfilled at a specific date with consequent recognition of the revenue related to the action of granting the license.

Interest

Interest is recorded on an accrual basis, using the effective interest rate method.

Royalties

These are recorded on an accrual basis, in accordance with the provisions of the related agreement.

Dividends

These are recorded when the right to receive the payment arises.

Government grants

Government grants are recorded at fair value when reasonable certainty exists that they will be received and that all the conditions referring to them have been satisfied.

When the grants are linked to cost components (for example operating grants) they are recorded under the item "Other operating revenues" but spread out systematically over several accounting periods so that the revenues are proportional to the costs which they are intended to offset.

When, on the contrary, grants are linked to assets (for instance, grants for plant or grants for intangible assets being developed) they are deducted directly from the book value of such assets and are thus recognized, during the useful life of the asset to be amortized, in the Income Statement as income, by directly decreasing the amortizing cost.

Borrowing Costs

Financial charges directly attributable to the acquisition, construction or production of tangible and intangible assets which take a substantial period of time to get ready for their intended use, are capitalized as part of the cost of the assets.

All other financial charges are recognized as costs accrued in the year when they are incurred.

Costs for the purchase of goods and the provision of services

These are recorded in the Income Statement on an accrual basis and involve decreases in economic benefits, in the form of outgoing cash flows or the reduction in value of assets or the incurring of liabilities.

Income taxes (current taxes, deferred tax assets and liabilities)

Current taxes are calculated on the basis of a realistic forecast of the tax liabilities to be paid, in accordance with tax legislation in force in the individual countries, and are stated in the item "Tax payables" net of the advances paid.

If the advances paid and any credits from previous accounting periods are greater than the taxes payable, the net receivable due from the tax authorities is recorded under the item "Tax receivables".

The Group recognizes deferred tax assets and liabilities for temporary differences between the carrying amount of assets and liabilities in the Balance Sheet and their tax bases, as well as for any difference in the carrying amount of assets and liabilities arising on consolidation adjustments.

Specifically, a deferred tax liability is recorded for all taxable temporary differences, save when such liability derives from the original recognition of the goodwill. This liability is stated in the Financial Statements under the item "Deferred tax liabilities". Conversely, a deferred tax asset is recognized for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilized. A deferred tax asset is also recorded in the presence of tax losses or tax credits carried forward, to the extent that it is probable that sufficient future assessable income will be available. This asset is stated in the Financial Statements under "Deferred tax assets".

The value to be stated in the Financial Statements for deferred tax assets is reviewed at the end of each accounting period and is reduced to the extent that it is no longer probable that sufficient income for tax purposes will be available in the future for this tax credit to be used.

Deferred tax assets and liabilities must be calculated using the tax rates which are expected to be applicable in the period when the asset will be generated or the liability discharged, on the basis of current tax rates or those effectively in force at reporting date.

Current and deferred taxes are recorded in the Income Statement as a charge or as income for the period. However, current and deferred taxes must be debited or credited directly in Shareholders' Equity or in the Statement of other Comprehensive Income if they relate to items recorded directly in these items.

Derecognition of a financial asset

A financial asset is derecognized when the Group no longer has control over the contractual rights associated with the asset. This normally occurs when the rights specified in the contract are exercised, when they expire, or when they are transferred to third parties. Consequently, when it emerges that the Group has retained control over the contractual rights associated with the asset, the latter cannot be removed from the Balance Sheet. This essentially takes place:

- when the transferor has the right or the obligation to repurchase the transferred asset;
- when the transferor essentially maintains all the risks and benefits;
- when the transferor provides guarantees for all the risks relating to the transferred asset.

Conversely, if the transferee has the ability to obtain the rewards of the transferred asset, or is free to sell or utilize the entire fair value of the transferred asset, the transferor shall remove the asset from its Balance Sheet.

In the event of a transfer, the difference between the book value of the transferred assets and the sum total of the payments received and any previous adjustment which reflects the fair value of that asset, which has been accumulated under Shareholders' Equity, is included in the Income Statement for the period.

It should be noted that in relation to the factoring of non-recourse trade receivables, under some contracts the maximum default risk assumed by the factor is governed by the so-called credit ceiling. Appropriate effectiveness tests are therefore conducted on these transactions to verify that the risks and rewards have been substantially transferred.

Derivative instruments and hedge accounting

Derivatives are measured at fair value, which IFRS 13 defines as the price that would be received for the sale of an asset or that would be paid for the transfer of a liability in a regular transaction between market operators on the date of measurement. This value is calculated with reference to the public quoted price of the instrument. When

a quoted market price is not available, reference is made to the current market value of other instruments that are substantially identical or appropriate measurement techniques that consider a premium for counterparty risk are used. These techniques are described in the Explanatory Notes, in the paragraph on derivatives.

A financial instrument can be acquired for trading purposes or hedging purposes.

The gains or losses on valuation related to derivatives purchased for trading purposes are recognized in the Income Statement in profit/(loss) for the year, while the derivatives purchased for hedging purposes are recognized according to hedge accounting, the objective of which is to present in the Financial Statements the effect of the entity's risk management activities that use financial instruments to manage the exposures deriving from particular risks that could affect the profit for the year. For hedge accounting purposes only assets, liabilities, irrevocable commitments and highly probable planned transactions involving a party external to the entity that prepares the financial statements can be designated as hedged items. If a derivative financial instrument is purchased for hedging and not trading purposes but does not have the requirements described below to be accounted for according to hedge accounting, it is accounted for according to the rules established for financial instruments held for trading, with recognition of the related gains or losses in the separate Income Statement.

For the entity to be able to use hedge accounting, at the start of hedging there must be formal documentation that describes the hedging relationship, the corporate risk management goals and the strategy followed to put the hedging in place. In particular, the documentation must include identification of the hedging instrument, the hedged item, the nature of the risk hedged and how the entity will assess whether the hedging relationship meets the effectiveness requirements of the hedging. These requirements are met if:

- there is a financial relationship between the hedged item and the hedging instrument;
- the effect of credit risk does not prevail over the changes in value resulting from the financial relationship;
- the hedging ratio of the hedging relationship is the same as that resulting from the amount of the hedged item that the entity effectively hedges and the amount of the hedging instrument that the entity uses effectively to hedge this quantity of hedged item.

There are three types of hedging relationships:

- fair value hedges: hedging of the exposure against changes in the fair value of the recognized asset or liability or unrecognized irrevocable commitment, or

a component of this item, which pertains a particular risk and could affect the profit for the year;

- cash flow hedges: hedging of the exposure against the variability of cash flows pertaining to a particular risk associated with all the assets or liabilities recognized, or a component of them, or to a highly probable planned transaction that could affect the profit for the year;
- hedges of a Net Investment in a Foreign Operation, as defined by IAS 21.

Given that the Isagro Group only makes cash flow hedging transactions, only the accounting methods related to this category are illustrated below.

Cash flow hedging

In cash flow hedging, the effective part of the gains or losses of the hedging instrument is recognized in "Other Comprehensive Income", going into a specific shareholders' equity reserve, while the ineffective part is recognized in the income statement in profit for the year. The Shareholders' Equity reserve is then adjusted to the lower between the gains (or losses) accumulated on the hedging instrument and the accumulated change in the fair value of the hedged item since the start of the hedging.

The amounts accumulated in the cash flow hedging reserve must then be accounted for based on the nature of the underlying transaction being hedged. In fact, if the hedged transaction subsequently entails the recognition of a non-financial asset or liability, the reserve is derecognized, recognizing as a counter-item a higher or lower initial value of the asset or liability recognized, while, in all other cases, the amount of the reserve must be reclassified in the profit/(loss) for the year as a reclassification adjustment in the same year the expected cash flows hedged have an effect on the profit for the year.

Finally, if the hedging relationship ceases and no future hedged cash flows are expected, the amount of the reserve must be reclassified to profit/(loss) for the year as a reclassification adjustment.

INFORMATION ON THE BALANCE SHEET

Following the reclassification of the assets and liabilities of the Discontinued Operations provided by IFRS 5, the statement of financial position is not directly comparable with the previous year. In order to make this comparison significant, it is necessary to add the values shown in the various notes in the column "Reclassification to Discontinued Operations" to the financial statement items at December 31, 2019.

1. Tangible assets – 15,585

The breakdown and summary changes in tangible assets are described in the following tables:

Breakdown	Dec. 31, 2018			Change	Dec. 31, 2019		
	Historical cost	Amortization	Book value		Historical cost	Amortization	Book value
Land	1,053	-	1,053	-	1,053	-	-
Buildings:							
- owned assets	18,660	(11,218)	7,442	(1,601)	16,962	(11,121)	5,841
- improvements on third-party assets	148	(33)	115	(115)	-	-	-
	18,808	(11,251)	7,557	(1,716)	16,962	(11,121)	5,841
Plant and machinery:							
- owned assets	42,831	(35,658)	7,173	(1,322)	34,606	(28,755)	5,851
- grants capital	(357)	357	-	-	(357)	357	-
	42,474	(35,301)	7,173	(1,322)	34,249	(28,398)	5,851
Equipment:							
- owned assets	5,514	(4,839)	675	(103)	5,551	(4,979)	572
- leased assets	353	(210)	143	(143)	-	-	-
	5,867	(5,049)	818	(246)	5,551	(4,979)	572
Other assets:							
- furniture and fittings	1,284	(1,042)	242	(62)	1,202	(1,022)	180
- motor vehicles	213	(66)	147	(98)	104	(55)	49
- data processors	3,377	(2,829)	548	(74)	3,361	(2,887)	474
	4,874	(3,937)	937	(234)	4,667	(3,964)	703
Fixed assets under development and payments on account							
- owned assets	1,690	-	1,690	(125)	1,565	-	1,565
	1,690	-	1,690	(125)	1,565	-	1,565
Total	74,766	(55,538)	19,228	(3,643)	64,047	(48,462)	15,585



Changes for the period	Translation differences (hist. cost)	Purchases	Reclassifications (hist. cost)	Disposals	Translation difference (deprec. prov.)	Depreciation and amortization	Use of deprec. prov.	Reclassifications (deprec. prov.)	Reclassification to "Discontinued Operations"	Total change
Land	-	-	-	-	-	-	-	-	-	-
Buildings:										
- owned assets	1	159	442	(12)	-	(938)	-	-	(1,253)	(1,601)
- improvements on third-party assets	-	-	-	-	-	(32)	-	-	(83)	(115)
	1	159	442	(12)	-	(970)	-	-	(1,336)	(1,716)
Plant and machinery:										
- owned assets	11	349	960	(713)	(8)	(1,542)	680	-	(1,059)	(1,322)
	11	349	960	(713)	(8)	(1,542)	680	-	(1,059)	(1,322)
Equipment:										
- owned assets	1	33	379	(71)	(1)	(169)	55	(255)	(75)	(103)
- leased assets	-	-	(353)	-	-	-	-	210	-	(143)
	1	33	26	(71)	(1)	(169)	55	(45)	(75)	(246)
Other assets:										
- furniture and fittings	1	5	11	(22)	(1)	(48)	22	-	(30)	(62)
- motor vehicles	1	-	-	(16)	-	(24)	-	-	(59)	(98)
- data processors	1	240	-	(30)	(1)	(252)	27	-	(59)	(74)
	3	245	11	(68)	(2)	(324)	49	-	(148)	(234)
Fixed assets under development and payments on account										
- owned assets	-	1,490	(1,439)	-	-	-	-	-	(176)	(125)
	-	1,490	(1,439)	-	-	-	-	-	(176)	(125)
Total	16	2,276	-	(864)	(11)	(3,005)	784	(45)	(2,794)	(3,643)

The main changes during the year refer to:

- the completion, at the Adria production site of the Parent Company Isagro S.p.A., of investments in new systems (reactor, oxidizer, tank) dedicated to the production of technical oxochlorides in the "copper connection" section; the historical cost of these investments equal to € 347 thousand, already entirely present at December 31, 2018 in the item "Assets under development", was reclassified during the current financial year to the items "plant and machinery" for € 339 thousand and "buildings" for € 8 thousand;
- completion of investments to increase plant efficiency and the level of safety of the Adria and Aprilia production sites of the Parent Company; the conclusion of these projects led to an increase in the historic cost of the item "buildings" for € 254 thousand and of the item "plant and machinery" for € 740 thousand; at December 31, 2018 these investments were posted under "assets under development" for € 670 thousand;
- the reclassification, following the introduction on January 1, 2019, of the new accounting standard *IFRS 16 – Leases*, to the item "Rights of use" of the residual value, equal to € 143 thousand, of laboratory equipment acquired under financial leasing in 2014 for the Parent Company's Novara Research Centre;
- disposals of obsolete plant and machinery no longer available for use at the Adria and Aprilia production sites led to a decrease in the historical cost of the item

“plant and machinery” for € 539 thousand and the recognition of a capital loss equal to € 21 thousand.

The item “Assets under development”, amounting to € 1,565 thousand, essentially comprises:

- the acquisition of new machinery at the Adria site (€ 612 thousand), in particular a mill dedicated to the production of paste products (€ 286 thousand), a rotating filter for the production of technical oxychlorides (€ 172 thousand), and a new packaging line (€ 53 thousand); in addition, at December 31, 2019, in relation to these investments, there are contractual obligations in being with the suppliers of the goods for € 556 thousand;

- investments made to increase the efficiency of the systems and the safety of the industrial buildings in the Aprilia production site (€ 667 thousand).

No endogenous and exogenous impairment indicators were identified during the year, as also confirmed by the results of the impairment tests carried out as part of the tests on goodwill which, for the sake of completeness, also include the tangible assets which can be allocated to the specific CGUs.

2. Intangible assets – 47,387

The breakdown and summary changes in intangible assets during the year are described in the following tables:

Breakdown	Dec. 31, 2018			Change	Dec. 31, 2019		
	Historical cost	Amortization	Book value		Historical cost	Amortization	Book value
Product development costs:							
- SDHi (Fluindapyr)	21,150	-	21,150	(21,147)	3	-	3
- new formulations	1,272	-	1,272	747	2,019	-	2,019
	22,422	-	22,422	(20,400)	2,022	-	2,022
Process development costs	-	-	-	42	42	-	42
Product know-how:							
- SDHi (Fluindapyr)	-	-	-	21,898	22,020	(122)	21,898
- fungicide IR 6141	10,196	(8,330)	1,866	(680)	10,196	(9,010)	1,186
- insecticides and fungicides	1,207	(334)	873	(231)	1,207	(565)	642
- Remedier	773	(656)	117	(51)	773	(707)	66
- biostimulants and fumigants	2,743	(598)	2,145	(179)	2,743	(777)	1,966
	14,919	(9,918)	5,001	20,757	36,939	(11,181)	25,758
Process know-how	793	(365)	428	(186)	792	(550)	242
Extraordinary protection	6,387	(3,199)	3,188	(26)	8,021	(4,859)	3,162
Patents, licenses, trademarks and registrations	25,222	(14,338)	10,884	(1,505)	26,930	(17,551)	9,379
Other:							
- commercial relations	639	(623)	16	(16)	639	(639)	-
- software	906	(429)	477	44	1,179	(658)	521
	1,545	(1,052)	493	28	1,818	(1,297)	521
Fixed assets under development and payments on account							
- registrations	7,049	-	7,049	(833)	6,216	-	6,216
- other assets under development	45	-	45	-	45	-	45
	7,094	-	7,094	(833)	6,261	-	6,261
Total	78,382	(28,872)	49,510	(2,123)	82,825	(35,438)	47,387

Changes for the period	Translation difference	Acquisitions / capitalizations	Reclassifications and other changes	Depreciation and amortization / Impairment (*)	Reclassification to "Discontinued Operations"	Total change
Product development costs:						
- SDHi (Fluindapyr)	-	873	(22,020)	-	-	(21,147)
- new formulations	-	1,145	-	(398)	-	747
	-	2,018	(22,020)	(398)	-	(20,400)
Process development costs	-	42	-	-	-	42
Product know-how:						
- SDHi (Fluindapyr)	-	-	22,020	(122)	-	21,898
- fungicide IR 6141	-	-	-	(680)	-	(680)
- insecticides and fungicides	-	-	-	(231)	-	(231)
- Remedier	-	-	-	(51)	-	(51)
- biostimulants and fumigants	-	-	-	(179)	-	(179)
	-	-	22,020	(1,263)	-	20,757
Process know-how	(1)	-	-	(185)	-	(186)
Extraordinary protection	(1)	1,822	(187)	(1,660)	-	(26)
Patents, licenses, trademarks and registrations	-	325	1,383	(3,213)	-	(1,505)
Other:						
- commercial relations	-	-	-	(16)	-	(16)
- software	2	228	60	(229)	(17)	44
	2	228	60	(245)	(17)	28
Fixed assets under development and payments on account:						
- registrations	1	1,185	(1,383)	(636)	-	(833)
- other assets under development	-	60	(60)	-	-	-
	1	1,245	(1,443)	(636)	-	(833)
Total	1	5,680	(187)	(7,600)	(17)	(2,123)

(*) made up of € 6,566 thousand regarding amortization and € 1,034 thousand regarding write-downs

The Group's intangible assets include "assets not yet available for use" for a total value of € 8,325 thousand, which essentially comprise:

- € 2,019 thousand in development costs incurred for launching the development phase of new formulations of crop protection products;
- € 6,261 thousand for "Assets under development" which mainly refer to registration costs incurred to obtain authorization to sell formulations of the Group's main proprietary products in various countries.

It should be noted how, during the year, the obtainment of new authorizations to sell led to the reclassification from "assets under development" to "registrations", triggering the beginning of the amortization period, for an amount equal to € 1,383 thousand. In addition, during the year, following the completion of the development

phase of the SDHi class fungicide named *Fluindapyr*, for which in 2012 a co-development agreement was signed with the American company FMC Corporation, a reclassification was carried out, with consequent start of the depreciation period, for an amount equal to € 22,020 thousand from the item "development costs" to the item "product know-how".

"Extraordinary protection", amounting to € 3,162 thousand, refers to costs incurred by the Group to extend the useful life (i.e. the shelf-life) of certain products already on the market and also includes expenses incurred in order to comply with the requirements of EU regulations. In particular, the increase for the period, equal to € 1,822 thousand, refers for € 1,251 thousand to the studies required by the European Union for the renewal of the registrations of some fungicide formulations.

During the year, the assessments of the state of technical progress of current projects and of the results obtained to date were reviewed; critical issues emerged with reference to certain assets that proved to be either no longer usable or uneconomical to use for the Group. Subsequently, pursuant to IAS 38, the costs incurred in relation to investments regarding authorizations to sell that are being obtained for a total of € 1,034 thousand were fully written off, of which € 430 thousand relating to the non-renewal of the fungicide Chlorothalonil in the European Union, € 327 thousand relative to the re-registration of Tetraconazole in Europe, not considered probable by the Directors of Isagro, and € 277 thousand in relation to the authorizations to sell that are being obtained for other products.

The residual value of the item “patents, licenses, trademarks, registrations and similar rights”, amounting to € 9,379 thousand, comprises:

- registrations of crop protection products 8,314
- trademarks, patents and licenses 1,065.

Impairment test

According to the provisions of IAS 36, the Isagro Group conducts at least annual impairment tests, while preparing the Financial Statements at December 31, on the Group’s assets allocated to the Cash Generating Units (CGUs) of reference, in the case that the individual assets do not produce independent incoming cash flows.

In particular, the recoverability of the products in development and registrations that are being obtained is checked, since these are Group intangible assets not yet available for use.

It should be noted that also the total carrying amounts of product and process know-how, as well as of patents and registrations obtained, classifiable as assets with “finite useful life”, are tested for impairment at least annually, as they are closely related to assets not yet available for use, and cannot therefore be measured independently. If the product assessed is part of a CGU, to which a portion of the Group’s goodwill has been allocated, the recoverable amount of the entire CGU is estimated. For further information, reference should be made to Note 4.



The following table highlights the value of the intangible assets grouped according to all of the above:

ASSETS WITH A FINITE USEFUL LIFE			
	Assets not yet available for use	Assets already available for use	Total book value
Research and Development Activities:			
- Kiralaxyl (IR6141)	1,391	4,666	6,057
- Tetraconazole	401	4,094	4,495
- Organic and biostimulant products	316	693	1,009
- Copper	847	3,285	4,132
- SDHi (Fluindapyr)	2,834	22,356	25,190
- Pyrethroids	105	254	359
- Fumigants	2,344	2,686	5,030
- Others	42	507	549
	8,280	38,541	46,821
Other intangible assets:			
- Software	45	521	566
	45	521	566
Total	8,325	39,062	47,387

As extensively covered in the previous section “*Impairment of tangible assets, intangible assets, and goodwill*”, the impairment test was carried out by comparing the book value of each CGU with its recoverable value, deriving for some CGUs from the calculation of the value in use, and for other CGUs from the comparison with the fair value. In particular, with reference to the molecules “Kiralaxyl (IR 6141)”, “Organic and biostimulant products”, “Fumigants”, and “Pyrethroids”, the value in use was calculated using the “Discounted Cash Flow” model which estimates the value in use of an asset on the basis of the discounting of future cash flows at an appropriate rate, coinciding with the weighted average cost of capital (WACC).

The main hypotheses made in the estimate of the value in use, for the purposes of calculating the related recoverable value of the above molecules, are indicated below.

Business assumptions

The analysis was carried out on the basis of the consolidated 2020-2025 Business Plan, approved on May 6, 2020 by the Board of Directors of Isagro. This Business Plan is based on assumptions considered reasonably realistic by the management with the exception of the impacts connected with uncontrollable external variables represented by the effective obtainment times and probabilities of the registrations, and by weather variables. Of the assumptions at the basis of the impairment tests carried out, the compound average growth rates (CAGR) of the

turnover and the EBITDA are shown below, with reference to the clear periods used in the test for each of the CGUs in question.

	Kiralaxyl (IR 6141)	Pyrethroids	Fumigants	Organic and biostimulant products
Revenues	7%	7%	5%	9%
EBITDA	6%	6%	4%	14%

Time scale considered

For the purposes of estimating the cash flows expected for the various products, a clear time scale of 6 years (corresponding to the period of the 2020-2025 Plan) was considered for the “Pyrethroids” and the “Organic and biostimulant products”, extending this time scale to a total of 14 years for “Fumigants” and “Kiralaxyl (IR 6141)”, i.e. until 2033.

At the end of this time horizon, the perpetuity method (Gordon Growth Model) was used to calculate the terminal value, using a normalized cash flow calculated on the basis of the following main assumptions:

- EBITDA equal to that of the last year of the Plan;
- investments equal to amortization and coinciding with the amortization of the last year of the Plan;
- zero change in current assets, in consideration of zero growth;
- the Growth rate considered in the calculation is zero.

Economic-financial parameters

The main reference parameters are indicated below:

	Kiralaxyl (IR 6141)	Pyrethroids	Fumigants	Organic and biostimulant products
- Financial structure (Liabilities/Assets)	0.41	0.41	0.41	0.41
- WACC	9%	9%	9.7%	9%

Estimated WACC

The following assumptions were used for the purpose of calculating the weighted average cost of capital:

Cost of Debt

For the cost of debt before the tax effect, the cost calculated on the basis of the Isagro Group’s expected Interest Coverage Ratio was used.

Cost of Equity

The Capital Asset Pricing Model was used to calculate the cost of equity.

The main assumptions underlying the application of this model are:

	Kiralaxyl (IR 6141)	Pyrethroids	Fumigants	Organic and biostimulant products
- levered Beta equal to	1.34	1.34	1.34	1.34
- risk-free rate	3.5%	3.5%	3.5%	3.5%
- market risk premium	6.7%	6.7%	6.7%	6.7%
- a size and additional risk premium equal to	2%	2%	3.22%	2%

In particular, consistent with the guidelines issued by the O.I.V. (Italian Valuation Board), reference was made to an unconditional adjusted approach that tends to reflect country risk in the risk-free rate in the following scenarios:

Risk-free rate: assumed to be equal to the weighted average of the returns of Government Bonds of countries where the Isagro Group operates; in particular, the gross effective average return of the last twelve months as at the reference date of the Government Bonds of each country outside the Euro area, with ten-year maturity, was taken. As a weighting factor, the revenues from the sales recorded in each country were selected. For the countries in the Euro area, rates normalized by the monetary policies implemented by the Central Banks were estimated; these rates were calculated using the risk-free rate of a mature economy, specifically the USA, which was then corrected to take account of inflation in the specific country and increased by a premium for the risk of each individual market using the Credit Default Spread of the specific country net of the United States;

Levered beta: estimated on the basis of the average unlevered beta of the panel of comparable listed companies;

Market risk premium: calculated as the weighted average of the Market Risk Premiums of the countries where the Isagro Group operates, considering revenues as the weighting factor;

Size and additional risk premium: to consider the smaller size of the Isagro Group with respect to comparable companies included in the calculation of the beta, a premium was estimated for the size risk considering as criterion of comparison the 2019 revenues, adding a premium for the additional risk of some CGUs in order to express the specific risk profile of various projects/molecules in relation to the different degrees of uncertainty of the expected cash flows or stage of progress of the registration.

The cost of equity is therefore equal to 14.5% for “Kiralaxyl (IR 6141)”, for “Pyrethroids” and for “Organic and biostimulant products”, whereas it is 15.8% for “Fumigants”.

Weight of equity and debt

A normalized relationship was used for the weight of equity and others' funds (debt), as this was considered the Group's target structure.

WACC

Based on the above assumptions, the following rates were determined:

	Kiralaxyl (IR 6141)	Pyrethroids	Fumigants	Organic and biostimulant products
- WACC	9%	9%	9.7%	9%

Compared to the WACCs used in the previous year, an average increase of approximately 40 basis points was observed.

Main results

According to the impairment tests performed, approved by the Board of Directors of Isagro on May 6, 2020, the Directors have found no impairment loss and therefore deemed that no write-down was necessary.

Sensitivity analysis

As required by IAS 36 and by the O.I.V. guidelines on impairment test, the Group conducted sensitivity analysis on the recoverable value of the above molecules, an-

alyzing the effect of a change in the discount rate used to discount the expected cash flows, together with the sensitivity analysis conducted on the EBITDA. This analysis was performed to examine the effects of a potential volatility of expected flows, and particularly in what range - in terms of equivalent discount rate - failure to implement the Business Plan, or the lengthening of registration times or weather variables, could affect the impairment test results.

In particular, the sensitivity analysis carried out on the molecules "Kiralaxyl (IR 6141)", "Organic and biostimulant products", "Pyrethroids", and "Fumigants", maintaining the main hypotheses underlying the Business Plan and varying the WACC and the EBITDA, showed no particular criticalities, tending to confirm the soundness of the test results, although with the uncertainty deriving from the dependence of the forward-looking data on the previously mentioned external factors.

The calculation of the break-even WACC is shown below, alongside the reduction in terms of percentage of the EBITDA value for the aforementioned molecules.

	EBITDA	WACC
Kiralaxyl (IR 6141)	6%	9.9%
Organic and biostimulant products	68%	42.1%
Fumigants	49%	19.7%
Pyrethroids	75%	71.8%

As a result of the worldwide health crisis caused by COVID-19, the Group's Directors developed an additional sensitivity analysis with more aggressive inputs, considering the maximum risk of impact of said health crisis on turnover, margins and net profit/(loss) at Isagro Group level; this risk was translated to the individual CGUs proportionally to the impact of their turnover on the total turnover for the Group. In particular, the most conservative scenario envisages a reduction in the consolidated revenues for the 2020 financial year by around 8% and for 2021 by 11%, hypothesizing a substantial lack of change in estimated fixed costs and investments planned for those years.

The differential impact in terms of value in use by discounting the cash flows affected by these reductions and maintaining the hypotheses of constructing the WACC did not lead to any criticalities for the CGUs in question. These sensitivity analyses were discussed and approved by the Board of Directors on May 6, 2020.

With reference to the CGUs "Tetraconazole", "Copper" and "Fluindapyr (SDHi)", the assessment process on the recoverability of the amounts recognized to the assets of the Consolidated Financial Statements by Management was conducted, as mentioned, using the market value (fair value).



In particular, as regards “Fluindapyr (SDHi)”, the measurement is based on the price contained in the binding offer, equal to € 55 million, sent by the American company FMC Corporation to the Parent Company Isagro S.p.A., while as regards the CGUs “Tetraconazole” and “Copper” on the other hand, reference was made to the estimate reports prepared by an independent expert appointed by the Isagro Board of Directors, for the purposes of performing its own autonomous assessment aimed at the decision regarding the sale of said business branches, for which a non-binding offer of purchase was received in 2019, the price of which exceeded the book values at December 31, 2019 of the two CGUs mentioned previously. Both the amount related to the aforementioned binding offer received and the results of the appraisals, including in consideration of any sale cost estimates, lead to fair values that are much higher than the book values pertaining to the CGUs.

As reported in the previous section, “*Impairment of tangible assets, intangible assets, and goodwill*”, the amounts of the business branches “Tetraconazole” and “Copper” (which refer to the CGUs “Tetraconazole” and “Copper”), were calculated by the independent expert using the Discounted Cash Flow approach, and, as a control method, the multiples method.

The main hypotheses made in the estimate of the value in use, for the purposes of calculating the related recoverable value of the aforementioned molecules, are indicated below.

Business assumptions

The assumptions at the basis of the measurement made in terms of the compound average growth rates (CAGR) of the turnover and the EBITDA were as follows:

	Copper	Tetraconazole
Revenues	4%	-6%
EBITDA	8%	-6%

Time scale considered

For the purposes of estimating the expected cash flows, the independent expert considered a clear time scale of six years (2020-2025). At the end of this clear time scale, for the purposes of calculating the “terminal value”, the perpetuity method was used. The growth rate considered in the calculation was 1.9% for the “Copper” business branch and 3.1% for the “Tetraconazole” business branch.

WACC

The WACCs used by the independent expert were as follows:

	Copper	Tetraconazole
- WACC	9.7%	9.7%

Sensitivity analysis

The independent expert also conducted sensitivity analyses on the results of the estimate reports carried out, deriving from a possible worsening in the market variables (WACC and growth rate), which showed how the fair value calculated in this way is still higher than the book value at December 31, 2019 of these business branches, in all the scenarios considered.

The independent expert also conducted sensitivity analyses on the results of the estimate reports carried out, also deriving from a possible worsening in the expected cash flows, which showed how the fair value calculated in this way is still higher than the book value at December 31, 2019 of these business branches, in all the scenarios considered. The unfavorable scenario considered by the independent expert is in line with the scenarios hypothesized by the Directors due to the possible impacts of COVID-19.

3. Rights of use – 4,421

The breakdown and summary changes in rights of use during the year are described in the following table:

Changes for the period	Jan. 1, 2019 IFRS 16	Acquisition	Early repayments	Other changes	Depreciation and amortization	Translation difference	Reclassification to “Discontinued Operations”	Dec. 31, 2019
Rights of use:								
Land	627	32	-	-	(8)	1	(448)	204
Buildings	4,753	212	(74)	10	(797)	1	(545)	3,560
Vehicles	707	359	(58)	-	(488)	1	-	521
Equipment	312	78	(98)	-	(156)	-	-	136
Total	6,399	681	(230)	10	(1,449)	3	(993)	4,421

The item includes, pursuant to the new accounting standard *IFRS 16 – Leases*, the residual value of the rights of use of the assets held by the Group through operating and financial leases. The right of use of the assets, comprised of the initial value of the liability deriving from the lease contract, is recognized in the financial statements net of the amortization and depreciation calculated systematically at the lease term or the residual life of the underlying asset, whichever is lower.

The item “Land” refers to the residual value of the right of use, for a period of 99 years starting from 2005, by the Parent Company Isagro S.p.A., of an area located in the municipality of Bussi sul Tirino (PE) owned by the company Solvay Solexis S.p.A. in addition to the right to occupy, for a period of 84 years starting from 2019, an additional area facing the one described previously.

The item “Buildings” refers for € 3,343 thousand to the right of use of offices and related outbuildings of the headquarters of the Parent Company Isagro S.p.A. This value was calculated over a duration of twelve years, including the optional of renewal of the contract, exercise of which was assessed to be reasonably certain by the Directors at the reporting date.

Lastly, the depreciation of the vehicles granted for business and personal use to the Group employees, equal to € 270 thousand, was classified in the Income Statement to the item “Personnel costs”.

4. Goodwill – 3,148

The breakdown and the changes in this item compared with the previous year are shown in the following table.

- “Copper”	the CGU refers to the business of copper-based products, their production at the Adria (RO) plant and their worldwide distribution
- “Organic products”	the CGU refers to the organic product business, their production at the Novara plant and their worldwide distribution
- “Tetraconazole”	the CGU refers to the business of the fungicide Tetraconazole
- Isagro Colombia S.A.S.	the CGU refers to crop protection product marketing activities in Colombia and in South America

In compliance with international accounting standards, goodwill is not amortized but rather subjected to annual impairment tests, calculated by comparing the book value of the unit to which the goodwill was allocated to the recoverable value.

The Group carried out the impairment test by comparing the book value of each CGU with its recoverable value, deriving for some CGUs from the calculation of the value in use, and for other CGUs from the comparison with the fair value.

As regards the results of that test, including those deriving from the sensitivity analyses carried out by Management, please refer to the contents of the previous section, “Impairment of tangible assets, intangible assets,

CGU description	Value at Dec. 31, 2018	Changes over the period					Change at Dec. 31, 2019
		Translation difference	Acquisitions/sales	Write-downs	Reclassification to “Discontinued Operations”	Total change	
- “Copper”	886	-	-	-	-	-	886
- “Organic products”	461	-	-	-	-	-	461
- Isagro Asia Agrochemicals	174	-	-	-	(174)	(174)	-
- “Tetraconazole”	209	-	-	-	-	-	209
- Isagro Colombia S.A.S.	1,558	14	-	-	-	14	1,572
- “Other”	20	-	-	-	-	-	20
Total	3,308	14	-	-	(174)	(160)	3,148

Goodwill, acquired in business combinations, was allocated to the Cash Generating Units (CGUs) listed and described in the table below:

and goodwill” and to Note 2.

On the other hand, with reference to the CGU “Isagro Colombia S.A.S.”, the main hypotheses made in the esti-

mate of the value in use, for the purposes of calculating the related value of the assets of the above molecules, are indicated below.

Time scale considered

For the cash flow projection, a clear time scale of 6 years was considered, corresponding to the Isagro Colombia S.A.S. Plan prepared by local management in collaboration with the Group Management and subsequently included in the consolidated 2020-2025 Business Plan approved by the Board of Directors of Isagro on May 6, 2020. This plan is based on assumptions considered reasonably realistic by the management with the exception of the impacts connected with uncontrollable external variables represented by the effective obtainment times of the registrations and by weather variables.

Of the assumptions at the basis of the impairment test carried out, the compound average growth rates of the turnover and the EBITDA are shown below, with reference to the clear period used in the test:

- Revenues: CAGR of 5%;
- EBITDA: CAGR of 6%.

The perpetuity method (Gordon Growth Model) was used to calculate the terminal value, referring to a normalized cash flow calculated on the basis of the following main assumptions:

- EBITDA equal to that of the last year of the Plan;
- investments equal to amortization and coinciding with the last year of the Plan;
- zero change in current assets in consideration of stable growth;
- growth rate of zero.

Economic-financial parameters

The main reference parameters are indicated below:

	Isagro Colombia S.A.S.	“Organic products”
Financial structure (Liabilities/Assets)	0.41	0.41
WACC	11.2%	9%

Estimated WACC

The following assumptions were used for the purpose of calculating the weighted average cost of capital:

	Isagro Colombia S.A.S.	“Organic products”
Cost of debt	0.9%	1%
Cost of equity	18.3%	14.5%

Cost of Debt

For the cost of debt before the tax effect, the cost calculated on the basis of the Isagro Group’s Interest Coverage Ratio was used.

Cost of Equity

The Capital Asset Pricing Model was used to calculate the cost of equity.

The main assumptions underlying the application of this model are:

	Isagro Colombia S.A.S.	“Organic products”
Levered Beta	1.30	1.34
Risk-free rate	4.1%	3.5%
Market risk premium	7.7%	6.7%
Additional risk premium	4.2%	2%

In particular, consistent with the guidelines issued by the O.I.V. (Italian Valuation Board), reference was made to an unconditional adjusted approach that tends to reflect country risk in the risk-free rate in the following scenarios:

Risk-free rate: was determined using the gross effective average return of the last twelve months at the reference date of US Government Bonds, corrected to take into account the inflation of Colombia and increased by a premium for the risk of each market using the Credit Default Spread of Colombia net of the United States;

Levered beta: estimated on the basis of the average unlevered beta of the panel of comparable listed companies;

Market risk premium: country specific;

Size and additional risk premium: to consider the smaller size of the Isagro Group with respect to comparable companies included in the calculation of the beta, a premium was estimated for the size risk considering as criterion of comparison the 2019 revenues, adding a premium for the additional risk of some CGUs in order to express the specific risk profile of various projects/molecules in relation to the different degrees of uncertainty of the expected cash flows or stage of progress of the registration.

WACC

Based on the above assumptions, the following rates were determined:

	Isagro Colombia S.A.S.	“Organic products”
WACC	11.2%	9%

Compared to the previous financial year, the WACC decreased by 40 basis points.

Main results

On the basis of the impairment test carried out, approved by the Board of Directors on May 6, 2020, there was no impairment in the assets pertaining to that CGU, and, therefore, no write-down was made.

Sensitivity analysis

As required by the O.I.V. guidelines on impairment, the Group conducted sensitivity analysis of the recoverable value of the aforementioned CGU, analyzing the effect of a change in the discount rate used to discount the expected cash flows, together with the sensitivity analysis conducted on the “net sales”. This analysis was performed to examine the effects of a potentially stronger volatility of expected flows, and particularly in what range - in terms of equivalent discount rate - failure to implement planned action could affect the impairment test results. In particular, the sensitivity analysis performed maintaining the assumptions underlying the 2020-2025 plan and changing the WACC and the “net sales” did not reveal particular critical issues, tending to confirm the soundness of the test results.

The calculation of the break-even WACC is shown below, alongside the reduction in terms of percentage of the EBITDA value for the CGU “Isagro Colombia S.A.S.” subject to the impairment test.

	EBITDA	WACC
Isagro Colombia S.A.S.	17%	14.2%

As a result of the worldwide health crisis caused by COVID-19, the Group’s Directors also developed an additional sensitivity analysis with more aggressive inputs for the CGU “Isagro Colombia S.A.S.”, considering the

maximum risk of impact of said health crisis on turnover, margins and net profit/(loss) at Isagro Group level; this risk was translated to the CGU “Isagro Colombia S.A.S.” proportionally to the impact of its turnover on the total turnover for the Group. In particular, the most conservative scenario envisages a reduction in the Isagro Group revenues for the 2020 financial year by around 8% and for 2021 by 11%, hypothesizing a substantial lack of change in estimated fixed costs and investments planned for those years.

The differential impact in terms of value in use by discounting the cash flows and maintaining the hypotheses of constructing the WACC did not lead to any criticalities, resulting in the value in use of the CGU always being higher than the book value.

These sensitivity analyses were discussed by the Board of Directors on May 6, 2020.

5. Equity investments in other companies – 4,176

During the 2019 financial year, the company Arterra Bioscience (“Arterra”), for admission to the listing of its capital on the AIM Italia/Mercato Alternativo del Capitale market, underwent transformation from an S.r.l. to an S.p.A.: following this operation, which did not change the percent of the interest held by the Parent Company Isagro S.p.A. in Arterra (22%), Isagro held 1,101,880 shares. On October 24, 2019, following the admission to listing and trading of its shares on the AIM, Arterra placed 2,208,000 Ordinary Shares; since the Parent Company Isagro S.p.A. did not subscribe to any additional shareholding, its stake reduced to 16.8%—and therefore below the 20%, which, by contract, is considered the percentage to exercise a notable interest, the basis for classification of an interest held as an associate—and, consequently reclassified the equity investment in Arterra from the item “associates” to the item “other investments”.

Breakdown	Value at Dec. 31, 2018	Changes over the period					Value at Dec. 31, 2019
		Acquisitions (Disposals) Increases (Decreases)	Revaluations	Reclassifications	Fair value adjustment	Total change	
Investments in associates:							
- Arterra Bioscience S.r.l.	593	(66)	191	(718)	-	(593)	-
	593	(66)	191	(718)	-	(593)	-
other companies:							
- Arterra Bioscience S.p.A.	-	-	-	718	3,458	4,176	4,176
Total	593	(66)	191	-	3,458	3,583	4,176

Accounting standard IFRS 9 requires that financial assets other than equity investments in subsidiaries and associates be measured at fair value, and, therefore, the Parent Company Isagro S.p.A. calculated the fair value of the investment in Arterra at the date of the IPO, which came to € 2,865 thousand, using the placement price (€ 2.60 per share); comparing the fair value at the date of the placement with the book value at that date, equal to € 718 thousand, determined an earning of € 2,147 thousand, recognized to the item “financial income”.

At December 31, 2019, the Arterra share listing came to € 3.79 and, consequently, the fair value of the shares was equal to € 4,176 thousand, with an increase, compared to the fair value at the date of the IPO, of € 1,311 thousand which was recognized to the “Other Comprehensive Income”. As a matter of fact, the Directors of the Parent Company Isagro S.p.A., in accordance with the provisions of section 5.7.5 of IFRS 9, chose to present the subsequent changes in fair value of the stock in the “Other Comprehensive Income”.

In addition, in consideration of the COVID-19 emergency and its potential repercussions on the fair value of the Arterra stock, at May 4, 2020, the Arterra share listing came to € 3.48 and, consequently, the fair value of the shares was equal to € 3,835 thousand, with a decrease compared to the fair value at December 31, 2019 of € 341 thousand.

6. Non-current receivables and other assets – 2,837

The item “know-how usage licenses” refers:

- for € 1,907 thousand to the present value of the non-current portion of the receivable relating to the upfront payment granted to the Parent Company Isagro S.p.A. by the British company Gowan Crop Protection Limited (related party), definitively and non-repeatably, following the signing, in November 2016, of an agreement for the exclusive granting of the right to develop, register, produce, and market, in Europe, mixtures based on the Parent Company Isagro S.p.A. proprietary active ingredient Kiralaxyl. The contract states that the price agreed of € 5,250 thousand, the present value of which was calculated discounting to the present the expected cash flows at a rate agreed by the parties of 2%, must be paid, together with the interest accrued, in six annual installments, of which the first of € 500 thousand was received in December 2017, the second of € 750 thousand was received in November 2018, and the third of € 1,000 thousand was received in November 2019, while the remaining three installments of € 1,000 thousand each are scheduled to be paid on November 30 of the three years 2020-2022. The current portion of the present value of the receivable, equal to € 982 thousand, was recognized under “trade receivables”;
- for € 750 thousand to the non-current portion of the receivable related to the upfront payment of a total € 2,500 thousand paid to the Parent Company Isagro S.p.A. by the Spanish company AQL Agroquímicos de Levante S.A., definitively and non-repeatably, following the signing, in March 2019, of an agreement for, among other things, the granting of the exclusive right to use the data related to the Parent Company Isagro S.p.A.’s proprietary biofumigant *Allyl Isothiocyanate*, for the development and obtainment of registrations as well as for the production and marketing of products and/or compounds in a number of countries; the contract states that the price agreed must be paid as follows:
 - € 1,500 thousand in four installments of € 375 thousand each in the months of April, June, September, and November 2019, which have all been paid;
 - € 1,000 thousand in four annual installments of € 250 thousand each starting from November 20, 2020 and on which interest accrues at the EURIBOR 12-month rate + 2% spread.

Breakdown	Book values Dec. 31, 2018	Increases / Decreases	Reclassification to “Discontinued operations”	Book values Dec. 31, 2019
Non-current receivables and other assets:				
- guarantee deposits	618	36	(581)	73
- know-how usage licenses	3,121	(357)	-	2,764
- prepaid expenses	454	(454)	-	-
- tax	69	(12)	(57)	-
Total	4,262	(787)	(638)	2,837



The current portion of the receivable, equal to € 263 thousand, was recognized under “trade receivables” and refers to the portion due in November 2020, inclusive of the related interest. For further details about the aforementioned agreement, please refer to Note 25.

- for € 107 thousand to the non-current portion of the present value of the receivable related to the upfront payment of a total € 200 thousand, of which € 20 thousand already paid in January 2017 and discounted using the Euribor 3-month rate + 2.71%, paid to the Parent Company Isagro S.p.A. by the American company Suterra LLC definitively and non-repeatably following the signing of an agreement, with a duration of eleven years starting from January 1, 2017, for the granting of the right to use the data related to the insecticide Deltametrina, an Isagro proprietary active ingredient, for the production of its own products intended to attract and eliminate insects, which will be marketed in the European Union, Morocco, Israel, Tunisia, Lebanon, Mexico, Argentina, Australia, and South Africa. This agreement also states that the Parent Company must provide Suterra with the active ingredient necessary for the production of its own product throughout the entire duration of the contract. The contract stated

that the residual payment had to be made when the initial registration of a Suterra formulation with an Isagro active ingredient was obtained, in annual installments of € 20 thousand each on December 1 of each year. The current portion of the receivable, equal to € 60 thousand, was recognized under “trade receivables”. For further details about the aforementioned agreement, please refer to Note 25.

7. Financial receivables and other current financial assets – 2,503

The item refers to a medium/long-term tied current account on which interest accrues at a rate of 0.001% per year, which the Parent Company Isagro S.p.A. opened at UniCredit S.p.A. This deposit, which will expire on June 27, 2023, was established as a pledge in favor of the credit institution following the concession, by the latter, of a guarantee for a total of € 7,586 thousand requested by the company Arysta LifeScience Inc. as counterparty of the M/L Agreement described in Note 25, to which you are referred.

8. Deferred tax assets and liabilities – 5,521

Deferred tax assets – 6,181

Deferred tax liabilities – 660

Breakdown	Book values Dec. 31, 2018	Changes over the period					Book values Dec. 31, 2019
		Provision	Use	Other changes	Reclassification to “Discontinued Operations”	Total change	
Deferred tax assets	8,658	255	(684)	(1,086)	(962)	(2,477)	6,181
Deferred tax liabilities	(918)	(3)	224	37	-	258	(660)
Total	7,740	252	(460)	(1,049)	(962)	(2,219)	5,521

The temporary differences between the tax base and statutory profit that led to the recognition of deferred tax assets and liabilities are shown in the table below:

Temporary differences	Deferred tax assets/ liabilities Dec. 31, 2018		Transfers to Income Statement			Change in equity	Reclassifi- cation to “Discontinued Operations”	Deferred tax assets/ liabilities Dec. 31, 2019	
	Taxable base	Taxation	Provision	Use	Other changes	Translation difference and other changes		Taxable base	Taxation
<u>Deferred tax assets</u>									
- tax losses	16,370	3,925	1	(1)	(451)	1	-	14,505	3,475
- allocations to taxed provisions	10,562	2,339	168	(385)	(497)	6	(869)	2,851	762
- grants related to R&D	142	40	-	(14)	-	-	-	90	26
- intragroup profits	5,817	1,655	86	(142)	(62)	-	(93)	5,251	1,444
- other	2,690	699	-	(142)	-	(83)	-	1,789	474
Total deferred tax assets	35,581	8,658	255	(684)	(1,010)	(76)	(962)	24,486	6,181
<u>Deferred tax liabilities</u>									
- amortization/deprecia- tion for tax purposes	2,611	728	3	(218)	54	-	-	1,850	567
- fair value of assets from business combinations	17	6	-	(6)	-	-	-	-	-
- dividends from subsidiaries									
- other	686	184	-	-	-	(91)	-	361	93
Total deferred tax liabilities	3,314	918	3	(224)	54	(91)	-	2,211	660
Total	32,267	7,740	252	(460)	(1,064)	15	(962)	22,275	5,521

The item “Deferred tax assets” includes € 3,475 thousand related to tax losses (of which € 3,472 thousand referring to the parent Isagro S.p.A.), € 1,444 thousand referring to the tax effect of the elimination of intra-group profits and € 762 thousand relating to taxed risk and expense provisions.

The column “Other changes” refers to the write-down, for € 450 thousand, of deferred tax assets allocated by the Parent Company Isagro S.p.A. on the tax losses for previous financial years deemed non-recoverable on the basis of the future taxable incomes expected in the time frame of the 2020-2025 Plan of Isagro S.p.A.

In recognizing and assessing the recoverability of these deferred tax assets, the consolidated 2020-2025 Business Plan approved by the Board of Directors of Isagro on May 6, 2020, was taken into consideration by the Directors. In particular, this Business Plan provides for future taxable incomes that include the effects arising from some structured extraordinary operations, the implementation of which is deemed probable by the Directors, and such that guarantee the recoverability of the aforementioned deferred tax assets, as provided by the redefinition of the Isagro business model. These include that deriving from the sale to the American company FMC Corporation of the know-how, registrations, patents and trademarks pertaining to the fungicide *Fluindapyr* (SDHi class), for

which Isagro had received and approved a binding offer subject to the approval of the Board of Directors of FMC Corporation, on May 5, 2020.

However, it cannot be ruled out a priori that the emergence of economic and/or financial crises, or the continuation of the recent health crisis due to COVID-19 (for which Management has carried out sensitivity analyses involving the unfavorable inputs on the results of the Plan, nevertheless such that do not compromise the recoverability of the assets in question), in addition to a delay in the expected time frames to conclude the above extraordinary operations, could render doubtful the times and procedures forecast for the recoverability of these Financial Statement items. The management will continuously monitor the circumstances and events that may bring about such a result.

It is also disclosed that at December 31, 2019 there are unrecognized deferred tax assets relating to tax losses for the period and for previous years, for a total value of € 7,543 thousand, of which € 2,155 thousand relating to the subsidiary Isagro USA, Inc. and € 5,388 thousand relating to the Parent Company Isagro S.p.A. Taking this into account, note that the Parent Company’s overall tax losses at December 31, 2019, amounted to € 36,920 thousand, in relation to which deferred tax assets were recognized for only € 3,472 thousand, corresponding to € 14,469 thousand in tax losses retained.

The item “Deferred tax liabilities” includes € 567 thousand for misalignment between the statutory and tax depreciation and amortization of tangible and intangible assets and refers essentially to capitalization and amortization of development costs for new products of the Parent Company Isagro S.p.A.

Deferred tax assets and liabilities include € 2,108 thousand and € 340 thousand, respectively, which on the basis of the consolidated Business Plan are likely to be reversed beyond the next year.

9. Inventories – 40,853

The increase in the value of inventories, before reclassification to the Discontinued Operations, is attributable to



Breakdown	Book values Dec. 31, 2018	Changes over the period					Total change	Book values Dec. 31, 2019
		Increases/ decreases	Write-downs/ alloc. to inventory write-down provision	Translation difference and other changes	Use of inventory write-down provision	Reclassifica- tion to “Dis- continued Operations”		
Raw and ancillary materials and consumables	17,354	(781)	(380)	13	331	(4,171)	(4,988)	12,366
Products being processed and semi-finished goods	576	(240)	-	3	-	(339)	(576)	-
Finished products and goods	30,036	3,956	(887)	26	39	(4,916)	(1,782)	28,254
Payments on account	131	102	-	-	-	-	102	233
Total	48,097	3,037	(1,267)	42	370	(9,426)	(7,244)	40,853

the Continuing Operations for € 3,264 thousand, while a decrease of € 227 thousand is recognized, attributable to the Discontinued Operations.

The increase in the inventories of finished products is essentially due to the subsidiary Isagro Brasil Ltda to handle the sales that should have taken place in the final quarter of 2019, but which actually took place only in the first quarter of 2020, as a result of unfavorable weather conditions for the development of fungal diseases that affected the final part of the year.

Inventories include goods, for a value of € 388 thousand, stored at the warehouse of the French plant of Arysta LifeScience to guarantee the obligations set out in the “License, development, distribution and supply” agreement that the Parent Company Isagro S.p.A. concluded with Arysta LifeScience Corporation in 2013. It should be noted that, in keeping with what is contractually provided for, in January and November 2019 the Parent Company Isagro S.p.A. transferred to Italy part of the aforementioned stock.

Inventories are net of the allowance for inventory obsolescence amounting to € 2,111 thousand, related to goods either obsolete or to be re-processed. The provision recorded increases totaling € 1,267 thousand and utilization amounting to € 370 thousand during the year.

10. Trade receivables – 27,227

The trade receivables show, before reclassifications to the Discontinued Operations, an increase of € 1,898 thousand; this increase is essentially the result of:

- an increase in the receivables of the Parent Company Isagro S.p.A. for € 2,200 thousand and of the subsidiary Isagro Colombia S.A.S. for € 185 thousand;
- a decrease in the receivables of subsidiaries Isagro Brasil for € 773 thousand and Isagro USA Inc. for € 820 thousand;
- an increase in the receivables of the former subsidiary Isagro (Asia) Agrochemicals Pvt. Ltd.

It should be noted that the increase in receivables of the Parent Company Isagro S.p.A. is attributable to the

Breakdown	Book values Dec. 31, 2018	Changes over the period						Book values Dec. 31, 2019
		Increases/ decreases	Translation difference and other changes	Write-downs/ alloc. to write-down provision	Use of write-down provision	Reclassifica- tion to “Dis- continued Operations”	Total change	
Trade receivables	46,540	1,898	-	(661)	-	(15,308)	(14,071)	32,469
- bad debt provision	(6,075)	-	(8)	(978)	666	1,832	1,512	(4,563)
- bad debt provision def. int.	(642)	-	-	(126)	89	-	(37)	(679)
Total	39,823	1,898	(8)	(1,765)	755	(13,476)	(12,596)	27,227

sales that were carried out during the final quarter; as a whole, the decreases in trade receivables are a result of the lower sales made in 2019, the reasons for which are explained in Note 25.

The change in the trade receivables was also influenced by the non-recourse sale operations, falling due beyond the reporting date, carried out by the Parent Company Isagro S.p.A.; as a matter of fact, these operations involved receivables for € 13,165 thousand, an increase on the € 9,640 thousand falling due beyond December 31, 2018. Trade receivables include the current portions of non-current receivables related to M/L Agreements for a total of € 1,606 thousand (€ 1,280 thousand at December 31, 2018).

The item “allocations to the bad debt provision”, equal to € 978 thousand, essentially involved:

- the Parent Company Isagro S.p.A. for € 696 thousand; this allocation became necessary following a worsening in the payment profile of a number of customers, which led to a displacement in the related receivables in the highest-risk maturity bands, and a worsening in the default rate related to the Americas;
- for € 185 thousand the former subsidiary Isagro (Asia) Agrochemicals Pvt. Ltd.; this allocation became necessary in order to adjust the value of the fund following the total write-down of the trade receivables maturing more than three years ago for an amount of € 572 thousand;
- the subsidiary Isagro Brasil for € 59 thousand; following a worsening in the payment profile of a number of customers, with the displacement in the related receivables in highest-risk maturity bands, and a worsening in the default rate related to the Americas.

The item “use” of provisions for impairment of receivables, equal to € 666 thousand, involved for € 572 thousand the former subsidiary Isagro (Asia) Agrochemicals Pvt. Ltd. and for € 94 thousand the release made by the

subsidiary Isagro Colombia S.A.S., in that the analysis carried out according to accounting standard IFRS 9 showed a surplus in the value of the fund at December 31, 2018 owing to the decrease in the amount of receivables past due in the highest-risk bands.

Interest on arrears was recognized for delays in payment from customers. A € 679 thousand provision was made for these receivables.

As regards the total trade receivables due from related parties, please refer to Note 43.

Here below is the breakdown of trade receivables by geographical area based on the customer’s location:

• Italy	2,529
• Other European countries	8,250
• Central Asia and Oceania	1,183
• Americas	15,119
• Far East	2,048
• Middle East	1,294
• Africa	2,046
Total	32,469

The average contractual maturity of trade receivables is the following:

- Italy 156 days
- Foreign countries 84 days.

Of the trade receivables presented in the financial statements there are no receivables due beyond 12 months.

The table below shows the analysis of trade receivables past due but not impaired at the consolidated reporting date:

Breakdown	Not yet due	Past due but not impaired					Total receivables
		< 30 days	31-60 days	61-90 days	91-120 days	>120 days	
At December 31, 2019	22,828	2,416	321	231	179	1,252	27,227
At December 31, 2018	27,511	3,222	2,441	1,811	426	4,412	39,823

Of the trade receivables “not yet due”, there are € 159 thousand in receivables with commercial conditions that were renegotiated and which otherwise would have been included among the “receivables past due but not impaired” in the “< 30 days” band.

11. Other current assets and receivables– 7,658

Breakdown	Book values Dec. 31, 2018	Increases / Decreases	Reclassification to “Discontinued Operations”	Book values Dec. 31, 2019
Other assets and receivables:				
- grants	27	-	-	27
- advance payments to suppliers and debtors	868	(512)	(33)	323
- employees	95	28	(47)	76
- export incentives	207	(36)	(171)	-
- due from tax authorities for VAT and other taxes	4,000	605	(3,626)	979
- receivables for “guaranteed minimum margins”	-	467	-	467
- escrow account	-	5,886	-	5,886
- others and prepaid expenses	2,325	156	(250)	2,231
	7,522	6,594	(4,127)	9,989
- bad debt provision	(344)	(1,987)	-	(2,331)
Total	7,178	4,607	(4,127)	7,658

The increase in the item is essentially attributable to the residual amount, deposited with an escrow agent by the Indian company PI Industries Limited, related to the sale of the equity investment in the subsidiary Isagro (Asia) Agrochemicals Pvt. Ltd., which took place on December 27, 2019, details of which can be found in Note 38. It should be noted that the Parent Company Isagro S.p.A. made an allocation to provisions for the impairment of other receivables for a total € 2,000 thousand, of which € 1,531 thousand in relation to the lower receivable deriving from the “true-up adjustment” and € 469 thousand in relation to the probable lower collections from a tax receivable related to the GST (Goods and Service Tax) due to the former subsidiary Isagro (Asia) Agrochemicals Pvt. Ltd.

“Advance payments to suppliers and debtors” relate to payments on account made to suppliers over the period, especially for services pertaining to research activities. The item “due from tax authorities for VAT and other tax-

es” essentially refers to the VAT credit pertaining to the Parent Company Isagro S.p.A.

The item “receivables for guaranteed minimum margins” refers to the estimate of the amount that the British company Gowan Crop Protection Ltd (related party) must pay to the Parent Company Isagro S.p.A. following the failure to achieve the sales margins required by contract for the products based on Kiralaxyl, an Isagro proprietary fungicide, of which the British company became an exclusive distributor in the European market on the basis of an M/L Agreement signed in 2016.

The item “other” essentially involves: i) for € 280 thousand, the recovery, by the Parent Company Isagro S.p.A. in relation to Sipcam Agro USA, of part of the costs incurred in the previous financial years relating to a number of studies on the molecule Tetraconazole, following the signing of an agreement to share the expenses incurred for the renewal of the registration of the technical product in the United States; ii) for € 471 thousand, the

recovery of the research and development costs incurred by the Parent Company Isagro S.p.A. in relation to the American company FMC Corporation, on the basis of a co-development agreement between the two companies of a new fungicide; and iii) for € 23 thousand, the recovery of costs incurred by the Parent Company Isagro S.p.A. in Brazil in relation to Arysta LifeScience, on the basis of a distribution agreement signed in 2017. Prepaid expenses, amounting to € 405 thousand, are also included in this item.

During the year, the Parent Company Isagro S.p.A. made use due to surplus of the provisions for the impairment of other receivables for € 13 thousand since there was a surplus in the value of the fund at December 31, 2018 owing to the collection of receivables previously written off. These receivables are due within the next year. The table below, which does not include prepaid expenses, shows the analysis of other receivables past due but not impaired at the reporting date:

Breakdown	Not yet due	Past due but not impaired					Total receivables
		< 30 days	31-60 days	61-90 days	91-120 days	>120 days	
At December 31, 2019	2,776	3,981	-	476	-	20	7,253
At December 31, 2018	6,350	-	69	-	-	25	6,444

12. Tax receivables – 1,205

Breakdown	Book values Dec. 31, 2018	Changes over the period			Book values Dec. 31, 2019
		Increases/decreases	Reclassification to “Discontinued Operations”	Total change	
Tax receivables:					
- direct taxes	2,384	(659)	(520)	(1,179)	1,205
Total	2,384	(659)	(520)	(1,179)	1,205

The accounting item refers essentially to the credits for direct taxes of the Parent Company Isagro S.p.A. (€ 985 thousand, of which € 521 thousand relating to the tax credit “A.C.E. – Aiuto alla crescita economica”, Aid for Economic Growth).

Furthermore, following the definition of the final sale price of the investment in Isagro Asia, which took place on April 4, 2020 and led to the recognition of a reduction in the price of around € 1,743 thousand, the Parent Company Isagro S.p.A. recognized a receivable in relation to the Indian tax authority for € 167 thousand, corresponding to the withholding paid in excess on the basis of the price defined at the closing date.

13. Financial receivables and other current financial assets – 0

The item, which at December 31, 2018 totaled € 13,796 thousand, referred to the investment made by the Indian subsidiary Isagro (Asia) Agrochemicals Pvt. Ltd. in mutual funds held for trading in order to remunerate adequately temporary liquidity surpluses; the value at December 27, 2019, equal to € 13,022 thousand, was reclassified to the item “Discontinued Operations”.

14. Financial assets and liabilities for derivatives – 40

Non-current financial assets – 6

Current financial assets – 191

Non-current financial liabilities – 36

Current financial liabilities – 121

The values of the financial assets and liabilities for derivatives coincide with their fair value, which accounting standard IFRS 13 defines as the price that would be received for the sale of an asset or that would be paid for the transfer of a liability in a regular transaction between market operators on the date of measurement. Since a quoted price for the type of financial instruments the Group uses is not available, suitable measurement techniques based on the discounting of expected cash flows in connection with ownership of the derivatives were used. Such measurement particularly required the inclusion of an adjustment factor for so-called default risk, referring to the counterparty for the financial assets and the credit risk of the Group for the financial liabilities (so-called own credit risk).

The following tables disclose the types of derivative contracts in being at December 31, 2019.

Description of derivatives	Book values Dec. 31, 2018	Increases/ decreases	Book values Dec. 31, 2019
Non-current financial assets:			
- interest rate	35	(29)	6
	35	(29)	6
Current financial assets:			
- exchange rate	213	(61)	152
- interest rate	-	4	4
- commodity	-	35	35
	213	(22)	191
Non-current financial liabilities:			
- interest rate	(41)	5	(36)
	(41)	5	(36)
Current financial liabilities:			
- exchange rate	(1)	(59)	(60)
- interest rate	(74)	26	(48)
- commodity	(59)	46	(13)
	(134)	13	(121)
Total	73	(33)	40

Description of derivatives	Fair value at Dec. 31, 2019
“Cash flow hedging” derivatives:	
- interest rate	(74)
- exchange rate	105
- commodity (copper)	22
	53
Trading derivatives:	
- exchange rate	(13)
	(13)
Total	40

“Cash flow hedging” derivatives regard:

- hedging of the interest rate risk of medium/long-term loans at floating rate in order to transform them into fixed-rate loans. In particular, the accounting item refers to measurement of “interest rate swap” derivatives destined to hedge the fluctuation of interest expense flows related to three floating-rate loans, described in the table below:

Characteristics of derivatives

Signing date	Maturity date	BANK	Fixed interest rate (annual)	Residual notional amount Euro/000	Fair Value (Euro)/000
05/12/2017	05/31/2021	UNICREDIT	0.17%	2,270	(11)
06/29/2018	06/30/2023	CARIPARMA	0.18%	4,200	(37)
06/28/2018	06/30/2023	BANCO BPM	0.15%	3,905	(36)
05/29/2019	06/30/2023	BANCO BPM	0.12%	3,507	10
Total				13,882	(74)

Characteristics of related loans

Disbursement date	Maturity date	Residual amount Euro/000	Floating interest rate (annual)
05/12/2017	05/31/2021	2,270	E6M/365 (floor-0.95%)
06/29/2018	06/30/2023	4,200	E6M/360
06/28/2018	06/30/2023	3,905	E3M/360 with floor of -1.15%
06/29/2019	06/30/2023	3,507	E3M/360 with floor of -1.15%
Total		13,882	

- the hedging of the risk of changes in the euro/US dollar, euro/Brazilian real and euro/Indian rupee exchange rates, related to operations for sales and purchases of goods and services in currency, through the signing of forward and non-deliverable forward contracts. As the hedging relationship is maintained until collection of the trade receivable related to the sale transaction or until payment of the trade payable related to the purchase transaction, the economic effects of these derivatives are for a part recognized as an adjustment of revenues or acquisitions and in part among “Gains/ (losses) on foreign exchange and financial derivatives”. The characteristics of these instruments are described in the table below:

Contract type	Currency	Average exchange rate	Notional value (Currency / 000)	Fair value (Euro/000)
Forward – Purchase	INR/EUR	81.76	127,295	33
Forward – Sale	INR/EUR	80.25	(135,000)	1
Forward – Sale	USD/EUR	1.12	(17,800)	90
Forward – Sale	BRL/EUR	4.53	(25,424)	(19)
Total				105

- hedging of the risk of fluctuation of the purchase price of the raw material “copper”, through future purchases of copper by means of swaps, which are entered into at the time a sales order for copper-based products is acquired for which a future purchase of the raw material “copper” will be made. The hedges created are recognized adjusting the purchases item and then proportionally distributed between the cost of sold products and the final inventories on the basis of the quantities consumed.



The characteristics of these instruments are described in the table below:

Contract type	Quantity hedged (ton)	Strike price (Euro)	Notional value (Euro/000)	Fair value (Euro/000)
Commodity swap - purchase	368	5,337	2,121	22
Total	368		2,121	22

As provided for in the international accounting standards, the portion of gain or loss related to the measurement of these derivatives regarding hedged transactions not yet carried out was recognized, net of the related tax effect, among Other Comprehensive Income and will subsequently be booked to the income statement in keeping with the hedged item.

The effects on the Separate Income Statement and on the Statement of other Comprehensive Income (OCI) of the hedging transactions described above are summarized, under the terms of IFRS 7, in the table below:

	Change in the fair value of the hedging instrument recognized in O.C.I. (Cash Flow Hedging)	Cost of hedging recognized in O.C.I.	Amount reclassified from the hedging reserve (Cash Flow Hedging) to the Separate Income Statement in the following accounting items			Amount reclassified from the reserve for cost of the hedging to the Separate Income Statement in the following accounting items		
			Revenues	Purchases	Financial components	Revenues	Purchases	Financial components
Cash flow hedging:								
- highly probably operations for sales and purchases of raw materials and/or products in currency	(990)	(52)	278	(70)	461	352	(243)	(81)
- copper purchases	132	-	-	(50)	-	-	-	-
- loans with floating rate	(50)	-	-	-	54	-	-	-

“Trading” derivatives refer to transactions that do not meet international accounting standard requirements for the application of hedge accounting.

These derivatives regard futures contracts on currencies related to forward purchases of American dollars, described in the table below:

Contract type	Currency	Average exchange rate	Notional value (Currency/000)	Fair value (Euro/000)
Forward – Purchase	USD/COP	3,367.00	915	(13)
Total				13

The measurement techniques used to calculate the fair value of derivative contracts are explained below:

- **Foreign exchange rates:** discounted cash flow method, where the expected cash flows to discount have been estimated on the basis of the difference between the forward exchange rates seen in the curve of market rates at the reporting date and the contractual forward exchange rates; discounting was calculated on the basis of the zero coupon curve at December 31, 2019, appropriately adjusted to consider the premium connected with the default risk;
- **Copper:** discounted cash flow method, where the expected cash flows to discount have been estimated on the basis of the difference between the expected future value of the average price of copper on the London Metal Exchange (L.M.E.) and the contractually agreed fixed price; discounting was calculated on the basis of the zero coupon curve at December 31, 2019, opportunely adjusted to consider the premium connected with the default risk;
- **Interest rates:** discounted cash flow method, where the expected cash flows to discount have been estimated on the basis of the difference between the forward interest rates seen in the curve of market rates at the reporting date and the contractual forward interest rates; discounting was calculated on the basis of the zero coupon curve at December 31, 2019, opportunely adjusted to consider the premium connected with the default risk;

Information required by IFRS 7 and IFRS 13 is included under Note 41.

15. Cash and cash equivalents – 46,581

Cash and cash equivalents (bank deposits and cash on hand) as at December 31, 2019 respectively refer to the Parent Company Isagro S.p.A. for € 44,465 thousand and the subsidiaries for € 2,116 thousand.

The increase in cash compared to December 31, 2018, is substantially attributable to the collection, in December 2019, of part of the sale price of the investment in Isagro (Asia) Agrochemicals Pvt. Ltd., for which details can be found in Note 38. Demand deposits are floating-rate deposits. The average interest rate on bank and foreign currency deposits of the Group at December 31, 2019 was 0.01% per year.

We can note that for the purposes of the Cash-Flow Statement, the item “cash and cash equivalents” coincides with the respective item in the Balance Sheet.

Breakdown	Book values Dec. 31, 2018	Increases / decreases	Reclassification to “Discontinued Operations”	Book values Dec. 31, 2019
Bank deposits:				
- demand deposits	17,906	29,992	(1,327)	46,571
	17,906	29,992	(1,327)	46,571
Cash on hand	13	-	(3)	10
Total	17,919	29,992	(1,330)	46,581

16. Equity attributable to owners of the parent – 91,020

The breakdown of and changes in equity attributable to owners of the parent are explained in the “Consolidated Statement of Changes in Shareholders’ Equity in 2019”. The share capital of the Parent Company Isagro S.p.A. amounted to € 24,961 thousand at December 31, 2019, fully subscribed and paid up, and comprised 24,549,960 Ordinary Shares and 14,174,919 Growth Shares, which are included in a new class of special shares whose characteristics are described below. The item “Reserves”, amounting to € 48,909 thousand, comprises:

• Share premium reserve	44,910
• Cash flow hedging reserve	(562)
• Cost of hedging reserve	354
• Reserve for shares measured at FVTOCI	1,311
• Translation difference of the Continuing Operations	(1,118)
• Other reserves:	
◦ merger surplus	1,079
◦ legal reserve	3,680
◦ treasury shares	(1,202)
◦ top manager retention plan	457
	4,014
• Total	48,909

The “share premium reserve” is recognized net of the costs incurred by the Parent Company Isagro S.p.A. in relation to the share capital increase operations carried out in previous years. These costs, net of the tax effect of € 1,228 thousand, amounted to € 2,356 thousand.

In relation to the item “Treasury shares”, during the year 206,756 growth treasury shares were purchased for a value of € 272 thousand, intended to service the “Long-term incentive and retention plan” reserved for the top managers of the Parent Company Isagro S.p.A. and described in Note 29, to which you are referred. The cost of the incentives, amounting at December 31, 2019 to € 242 thousand, was recognized under the item “Personnel costs” as a counter-item to a Shareholders’ Equity reserve. The item also includes € 84 thousand relating to the capital loss made in 2018 and recognized directly among the Shareholders’ Equity reserves, following the sale of 50,000 ordinary treasury shares.

The item “merger surplus” was used during the year by the Parent Company Isagro S.p.A. for € 5,944 thousand to fully hedge the loss for the previous year.

The changes in the item “Cash flow hedging reserve” are illustrated below. This item contains the amount recognized in the Statement of other Comprehensive Income of gains and losses related to cash flow hedging transactions, deriving from interest rate swap, commodity future and currency forward contracts (see Note 14). The accumulated gains and losses are then released to the Income Statement when the hedged transaction has an impact on the Group’s Income Statement:

Cash flow hedging reserve	Interest	Commodities	Currency	Total
Amount at December 31, 2018	(60)	(43)	(153)	(256)
Gains/(Losses) generated during the year	(50)	132	(990)	(908)
(Gains)/Losses reclassified to Income Statement	54	(50)	669	673
Tax effect	(1)	(16)	(54)	(71)
Amount at December 31, 2019	(57)	23	(528)	(562)

The “Cost of hedging” reserve includes the effects of the change in the fair value of the forward element of “currency forward” contracts following the decision of the Parent Company Isagro S.p.A. to designate as hedging instrument only the change in the spot element of the forward contract, excluding from it therefore the forward

element. However, this latter regards a hedged item related to a certain operation/transaction because, in relation to the type of hedging put in place to manage exchange rate risk, the nature of the hedged item is an operation for which the forward element is classified as a cost. Also in this case, the gains and losses accumulated in the reserve are then released to the Income Statement when the hedged transaction has an impact on the Company’s Income Statement. The table below shows the changes in the reserve during the year:

“Cost of hedging” reserve	
Amount at December 31, 2018	298
Losses generated during the year	(52)
Losses reclassified to Income Statement	28
Tax effect	80
Amount at December 31, 2019	354

The reserve “for shares measured at FVTOCI” was established during the year and includes the measurement at fair value of the shares of Arterra Bioscience S.p.A.; as a matter of fact, as described in Note 5, to which you are referred for the description of the listing operation, the Directors of the Parent Company Isagro S.p.A., in accordance with the provisions of section 5.7.5 of IFRS 9, chose to present the changes in fair value of the stock subsequent to the listing date in the “Other Comprehensive Income”.

Prudentially, no deferred tax effect was recognized.

Characteristics of “Growth Shares”

The rights and characteristics of the Growth Shares issued by the Parent Company Isagro S.p.A. are summarized below. These shares were admitted to trading on the STAR segment of the Electronic Stock Market of Borsa Italiana, where the company’s Ordinary Shares are also listed.

No voting rights

Pursuant to article 7 of the Company’s Articles of Associations, the “Growth Shares” are without voting rights in Shareholders’ Meetings, while, pursuant to article 14 of the Company’s Articles of Association, they have a voting right in the special Shareholders’ Meetings for owners of “Growth Shares”, pursuant to regulations and legal majority rules. In particular, resolutions affecting the rights of the “Growth Shares” must be approved by the aforesaid special Shareholders’ Meeting.

Privilege in the profit distribution

Pursuant to article 24 of the Company's Articles of Association, net profit resulting from the Financial Statements, duly approved by the Shareholders' Meeting, after deducting 5% for the legal reserve, until reaching the threshold set by law, will be distributed according to decisions made by the Shareholders' Meeting. "Growth Shares" have a privilege on profit distribution decided by the Shareholders' Meeting, for amounts available as from the year ended December 31, 2014. The dividend, in fact, must be made so that each "Growth Share" has a total dividend increased by 20% with respect to the dividend assigned to Ordinary Shares. In the event of distribution of any other reserves, "Growth Shares" will have the same rights as Ordinary Shares.

Conversion into Ordinary Shares

All "Growth Shares" are automatically converted into Ordinary Shares, with a one-to-one ratio, if Piemme S.r.l., which currently heads the Isagro Group's chain of control, directly or indirectly reduces its interest to below 50%, or if one or more parties are required to launch a mandatory public offer, to which the holders of growth shares can then subscribe as a result of their shares being converted into ordinary shares with voting rights. Moreover, "Growth Shares" will be converted in the event a voluntary offer is called for which the offerer who, at the close of the offer, would exceed the 30% limit set out by law, is not obliged to call for a subsequent offer, and when the holding Holdisa S.r.l. subscribed to this offer with a number of Ordinary Shares sufficient to reduce its equity investment to below 50%.

17. Current and non-current financial payables – 83,391

Current financial payables – 49,934

Non-current financial payables – 33,457

The following table illustrates changes in current and non-current financial payables:

Compared to January 1, 2019, i.e. following the introduction of the accounting standard IFRS 16—which provides for a new method of accounting for lease contracts (for a more in-depth analysis of the effects of this adoption, please refer to the contents of the section "Accounting standards, amendments and interpretations applied as from January 1, 2019")—the item shows a decrease of € 1,130 thousand. Current payables due to banks, other lenders and leases as at December 31, 2019 include the current portion of medium/long term loans, amounting to € 24,111 thousand.

The table below shows the composition of consolidated financial payables broken down by type of relationship.

Breakdown	Amount	effective average interest rate %	effective average interest rate %
- current account overdraft	323	0.32%	on request
- import financing	8,483	2.21%	on request
- export financing	9,667	0.19%	on request
- accounts receivable financing	1,476	0.98%	on invoice due date
- stand-by and revocable lines of credit	5,874	0.65%	on request
- other medium/long-term loans	53,046	1.44%	(*)
- leasing	4,522	3.01%	
Total	83,391		

(*) the characteristics of the other medium/long-term loans are described below

The average interest rate on bank loans (in Euro, US Dollars, Colombian Pesos, and Brazilian Reals), except for financial leases, is 1.30%.

The characteristics of the main medium/long-term loans granted to the Parent Company Isagro S.p.A. are summarized in the following table. The balances of the residual debt at December 31, 2019 include both the short-term portions of the loans described, included in the Financial Statements under current financial liabilities, and the accrued interest.

Breakdown	Book value Dec. 31, 2018	Effect of IFRS 16	Book values Jan. 1, 2019	Increases / Decreases	Reclassification to "Discontinued Operations"	Book values Dec. 31, 2019
Current financial payables:						
- banks	38,511	-	38,511	8,817	-	47,328
- other lenders	1,683	-	1,683	110	-	1,793
- leasing	55	1,194	1,249	(198)	(238)	813
	40,249	1,194	41,443	8,729	(238)	49,934
Non-current financial payables:						
- banks	37,855	-	37,855	(9,240)	-	28,615
- other lenders	1,254	-	1,254	(121)	-	1,133
- leasing	-	4,554	4,554	(498)	(347)	3,709
	39,109	4,554	43,663	(9,859)	(347)	33,457
Total	79,358	5,748	85,106	(1,130)	(585)	83,391

Amounts in thousands of euro

Existing loans at December 31, 2018

Loan granted by Banca Mediocredito Italiano with a duration of 5 years, repayable in quarterly payments starting from 2015 and requiring compliance with covenants.	600
Loan granted by BPER (Banca Popolare dell'Emilia Romagna) with a duration of 42 months, repayable in half-yearly payments starting in 2017 and requiring compliance with covenants.	1,026
Loan granted by Banca del Mezzogiorno with a duration of 5 years, repayable in half-yearly payments starting from 2016 and requiring compliance with covenants.	1,498
Loan granted by Banco Popolare with a duration of 4 years, repayable in half-yearly payments starting from 2017.	750
Loan granted by Banca Popolare Commercio & Industria with a duration of 4 years, repayable in quarterly payments starting from 2016 and requiring compliance with covenants.	649
Loan granted by UBI Banca with a duration of 99 months, repayable in half-yearly payments starting from 2021.	239
Subsidized loan granted by Cassa Depositi e Prestiti in relation to the research project "Use of bio-IT platforms to identify new crop protection products", with a duration of 99 months, repayable in half-yearly payments starting from 2017.	1,450
Loan granted by Iccrea Bancalmpresa with a duration of 4 years, repayable in quarterly payments starting from 2017. S.A.C.E. issued a guarantee on this loan for € 656 thousand.	1,247
Loan granted by Deutsche Bank with a duration of 48 months, repayable in half-yearly payments starting in 2016 and requiring compliance with covenants.	187
Loan granted by Banca CARIGE Italia with a duration of 4 years, repayable in half-yearly payments starting from 2017.	509
Loan granted by UniCredit with a duration of 48 months, repayable in half-yearly payments starting in 2017 and requiring compliance with covenants.	2,268
Loan granted by Banca Nazionale del Lavoro with a duration of 48 months, repayable in quarterly payments starting in 2017 and requiring compliance with covenants.	1,516
Loan granted by Banca Mediocredito Italiano with a duration of 4 years, repayable in half-yearly payments starting from 2017 and requiring compliance with covenants.	1,125
Loan granted by Banca Popolare del Lazio with a duration of 3 years, repayable in quarterly payments starting from 2018.	674
Loan granted by UBI Banca with a duration of 4 years, repayable in quarterly payments starting from 2018 and requiring compliance with covenants.	2,529
Loan granted by Bank CARIGE with a duration of 4 years, repayable in half-yearly payments starting from 2018.	1,264
Loan granted by Banca di Credito Cooperativo di Carate Brianza with a duration of 4 years, repayable in quarterly payments starting from 2018.	863
Loan granted by Cassa Centrale Raiffeisen dell'Alto Adige with a duration of 5 years, repayable in half-yearly payments starting from 2017 and requiring compliance with covenants.	1,520
Loan granted by Credito Valtellinese with a duration of 48 months, repayable in quarterly payments starting from 2018 and requiring compliance with covenants.	1,139
Loan granted by Banca Popolare di Milano with a duration of 36 months, repayable in monthly payments starting from 2018.	606
Loan granted by Banca Monte dei Paschi di Siena with a duration of 5 years, repayable in half-yearly payments starting from 2019 and requiring compliance with covenants.	4,365
Loan granted by Banco BPM with a duration of 5 years, repayable in quarterly payments starting from 2019 and requiring compliance with covenants.	3,898
Loan granted by Banca Crédit Agricole Cariparma with a duration of 5 years, repayable in half-yearly payments starting from 2018 and requiring compliance with covenants.	4,181
Loan granted by Banca di Credito Cooperativo di Caravaggio, Adda e Cremasco with a duration of 4 years, repayable in quarterly payments starting from 2019 and requiring compliance with covenants.	1,830
Subsidized loan granted by Banca del Mezzogiorno – Mediocredito Centrale in relation to the first S.A.L. (Stage of Progress Report) of the research project entitled "Defending agricultural production against abiotic stresses (drought, salinity, heat, cold) using products of natural origin", with a duration of 8 years, repayable in six-monthly installments starting from 2019.	172
Loan granted by Iccrea Bancalmpresa with a duration of 4 years, repayable in half-yearly payments starting from 2018 and requiring compliance with covenants.	3,225
Loans obtained in 2019	
Loan granted by Unicredit with a duration of 4 years, repayable in quarterly payments starting from 2019 and requiring compliance with covenants.	2,448
Loan granted by Banca Mediocredito Italiano with a duration of 4 years, repayable in quarterly payments starting from 2019 and requiring compliance with covenants.	2,430
Loan granted by Banco BPM with a duration of 4 years, repayable in quarterly payments starting from 2019 and requiring compliance with covenants.	3,498
Loan granted by Banca Popolare di Sondrio with a duration of 4 years, repayable in quarterly payments starting from 2019.	2,996
Loan granted by Banca del Mezzogiorno – Mediocredito Centrale with a duration of 3 years, repayable in quarterly payments starting from 2019 and requiring compliance with covenants.	1,671

During 2019, the Parent Company Isagro S.p.A. obtained new medium/long-term loans from banks and other lenders for a total € 16,242 thousand.

The covenants to be complied with for a number of the aforementioned loans are described later in this report.

The main events, whose occurrence gives the financing institution the right to withdraw from the agreement, are as follows:

Loan granted by Banca Popolare di Sondrio (disbursed in 2019):

- if the Parent Company Isagro S.p.A. withheld payables for taxes, levies, and services of any nature in relation to the receivable of the lending institution;
- if events occur that negatively impact the capital, financial or economic situation of the Parent Company Isagro S.p.A. in such a way as jeopardize the achievement of the lending institution's receivables;
- if the Parent Company Isagro S.p.A. is subject to protests, seizure of bank assets or enforcement orders or bankruptcy proceedings, judicial restraints or liens;
- if the Parent Company Isagro S.p.A. does not make the payment of the installment within 15 days from the due date.

In addition:

the Parent Company Isagro S.p.A., for the entire duration of the loan and until its full repayment, is obligated to: i) immediately notify the lending institution, by means of registered letter with proof of receipt, of any circumstance or event that might substantially change its capital situation; ii) inform the lending institution of any new medium- and long-term loans requested from other institutions or entities; iii) refrain from changing or ceasing its main activity.

Loan granted by Banca del Mezzogiorno-Mediocredito Centrale S.p.A. (disbursed in 2019):

- the Parent Company Isagro S.p.A. uses the loan for purposes other than those for which it was granted;
- the Parent Company Isagro S.p.A. fails to pay even one installment and does not remedy this within 30 days from communication of this non-fulfillment;
- it is found that one or more of the declarations issued by the parent company Isagro S.p.A. is not true and incomplete or a substantial discrepancy is found in the genuine legal, technical, financial, corporate, capital, economic or proprietary situation of Isagro S.p.A. or of its subsidiaries compared to that resulting from the documentation provided;
- the Parent Company Isagro S.p.A. has ceased, interrupted or substantially changed its core business, or one of the situations set out by articles 2446, 2447, 2842-bis, and 2482-ter of the Italian Civil Code applies;
- enforcement proceedings are launched or seizure orders or judicial restraints are executed on the assets of the Parent Company Isagro S.p.A. for amounts totaling over € 500 thousand.

In addition:

the Parent Company Isagro S.p.A., for the entire duration of the loan and until its full repayment, is obligated to: i) immediately notify the lending institution of any circumstance or event that might substantially change its capital situation; ii) refrain from making amendments to the by-laws that might lead to substantial changes to its purpose or to the business carried out; iii) refrain from transferring its headquarters overseas; iv) refrain from implementing operations of any kind on speculative financial instruments; v) refrain from taking out intercompany loans with its holding companies; vi) refrain from recording or allowing the recording of restraints on its real estate assets.

Loans granted by UniCredit S.p.A. (already existing at December 31, 2018 and disbursed in 2019):

- the Parent Company Isagro S.p.A. uses the loans for purposes other than those for which it was granted;

- the Parent Company Isagro S.p.A. does not arrange the full and prompt payment of even one loan repayment installment;
- the Parent Company Isagro S.p.A. is subject to enforcement orders or seizure of bank assets or if there is an objective risk detrimental to the loan;
- the Parent Company Isagro S.p.A. or one of its subsidiaries fails to pay one of its financial debts on the due date.
- the Parent Company Isagro S.p.A. does not observe either of the equity and economic parameters ().

Loan granted by Banca Popolare Commercio & Industria (already existing at December 31, 2018):

- the Parent Company Isagro S.p.A. fails to pay a loan repayment installment within ten days of the due date;
- the Parent Company Isagro S.p.A. is subject to enforcement orders or seizure of bank assets, becomes subject to a legal order to pay, bankruptcy and/or injunction proceedings, protests or other detrimental events that diminish the company's financial and economic position by amounts exceeding € 500 thousand.
- the Parent Company Isagro S.p.A. or one of its subsidiaries, associates or parents fails to pay one of its debts of more than € 100 thousand on the due date.

In addition:

- unless written consent is provided by the lender, the Parent Company Isagro S.p.A. cannot: i) amend its corporate purpose in such a way as to result in a substantial change in the business activities conducted; ii) transfer its registered office to another country; iii) pledge its registered property and securities against a loan granted by third parties after signing the agreement for this loan, whilst pledges of goods may be offered in favor of its customers as part of the Licensing business and sureties or surety policies in favor of its suppliers as is common commercial practice; iv) grant right of pre-emption on repayment of the capital; v) take action that gives rise to a change in corporate control or implement mergers, spin-offs, demergers or other transactions involving the majority of the capital; vi) distribute dividends and capital reserves or make investments of any nature to an extent that both covenants are not satisfied and likewise if the consolidated debt/equity ratio is higher than 1.5 and the debt/EBITDA ratio is higher than 4.5; vii) initiate voluntary liquidation proceedings.

Loan granted by Banca Mediocredito Italiano (already existing at December 31, 2018 and disbursed in 2019):

- the Parent Company Isagro S.p.A. does not observe the obligations assumed in relation to the lender for reasons other than the present contract;
- the documentation produced or the declarations made by the Parent Company Isagro S.p.A. turn out to be untrue;
- the Parent Company Isagro S.p.A. i) does not give inform the lender promptly of any event regarding itself or other companies in the group of which it is a part, for which there is an obligation to communicate to the public pursuant to Italian Legislative Decree no. 58 of February 24, 1998 and to part III, title II, of the implementing regulation concerning rules for issuers pursuant to CONSOB resolution no. 11971 of May 14, 1999 as amended; ii) does not send to the lender by July 31 of each year a declaration containing certain data related to the Consolidated Financial Statements of the Isagro Group; iii) does not provide to the lender all the documents provided for in sections IV and V of part III, title II, chapter II of the CONSOB regulation mentioned in point i);
- the Parent Company Isagro S.p.A. does not use the loan exclusively to implement the project financed;
- the lender is informed of restraints, attachments or judicial mortgages on assets owned by the Parent Company Isagro S.p.A.;
- Piemme S.r.l., which currently controls indirectly the Parent Company Isagro S.p.A., sells to third parties its equity investment which ensures indirect control before the lender's receivables deriving from the loan have been settled and without prior consent from Isagro S.p.A.;

- the lender is informed of non-fulfillment of obligations of a credit or financial nature or of guarantees assumed by the Parent Company Isagro S.p.A. In relation to other banks in the group to which the lender belongs or any other entity;
- the lender has been informed, including through the press, of facts which could, in its judgment, compromise, delay or suspend implementation of the project financed;
- the Parent Company Isagro S.p.A. does not observe both of the equity and economic parameters (covenants) described below and no remedy is made within thirty days from the date of notification by the lending bank.

Loan granted by BPER (Banca Popolare dell'Emilia Romagna) (already existing at December 31, 2018):

- the Parent Company Isagro S.p.A. does not pay an installment or interest in full and on time;
- the Parent Company Isagro S.p.A. does not notify the lender of any changes to the form of the company, changes in share capital, bond issues, changes in the shareholders that currently have indirect control of the Parent Company Isagro S.p.A., and facts that may otherwise change the current juridical, capital, financial and economic situation of the borrower;
- the Parent Company Isagro S.p.A. does not intervene at any time in the stipulation of every deed required by the lender for the ratification, validation, rectification of the loan agreement or individual parts thereof;
- the Parent Company Isagro S.p.A. is subjected to protests or carries out any action that diminishes its capital, financial or economic situation that can thus have substantially prejudicial effects, according to the reasonable judgment of the lender, on the Parent Company's ability to fulfill the contractual obligations for amounts above € 500 thousand, or is subjected to any bankruptcy proceedings;
- the Parent Company Isagro S.p.A. does not observe both of the equity and economic parameters (covenants) described below.

Loan granted by Banca del Mezzogiorno (already existing at Monday, December 31, 2018):

- the Parent Company Isagro S.p.A. does not observe both of the equity and economic parameters (covenants) described below;
- there is a loss of control by the shareholder that currently has indirect control of the Parent Company Isagro S.p.A.;
- the Parent Company Isagro S.p.A. has used even just a portion of the loan for different purposes from those for which it was granted and/or has not completed all or part of the financed investment program;
- the Parent Company Isagro S.p.A. fails to pay an installment or interest, unless the payment is carried out no later than 30 days after the notification of the missed payment by the lender;
- the Parent Company Isagro S.p.A. has sold, interrupted or substantially modified its core business;
- the Parent Company Isagro S.p.A. or another company of the Isagro Group have become insolvent;
- the Parent Company Isagro S.p.A. is forced to reduce its own share capital because of losses or the share capital has declined below the legal limit;
- the Parent Company Isagro S.p.A. or another company of the Isagro Group are subjected to bankruptcy proceedings;
- the Parent Company Isagro S.p.A. is placed in voluntary liquidation or its business is transferred to creditors;
- the Parent Company Isagro S.p.A. is subject to enforcement proceedings or seizure orders are executed or judicial distrains are recorded on its assets for total amounts exceeding € 500 thousand, unless such proceedings/order are waived by the creditor taking action within the following 30 days;
- an event occurs whose direct or indirect consequences affect or may affect negatively significantly the legal, financial, economic, capital situation of the Parent Company Isagro S.p.A. or of the Isagro Group, or the ability of Isagro S.p.A. to regularly meet the payment obligations it assumed.

Loan granted by Banco Popolare (already existing at Monday, December 31, 2018):

- the Parent Company Isagro S.p.A. is subject to legal proceedings, protests, seizure of bank assets or enforcement orders, confiscation of assets, registration of legal or judicial distrains for amounts exceeding € 250 thousand which, in the bank's judgment, may prejudice the security of the credit;
- the Parent Company Isagro S.p.A. is subject to bankruptcy proceedings, is placed in liquidation, its assets are transferred to creditors;
- the Parent Company Isagro S.p.A. changes its form, there are changes in the share capital or issues of bonds, there are changes of the shareholders who currently have indirect control of the Company, such as to negatively affect the capital, corporate, financial or economic situation in such a way as jeopardize payment of the lender's receivables;
- the Parent Company Isagro S.p.A. fails to punctually pay all or part of any amount due as a result of the loan and/or of the interest and related accessories;
- the Parent Company Isagro S.p.A. does not allocate the loan for the purposes for which it was granted.

Subsidized loan granted by Cassa Depositi e Prestiti and Loan granted by UBI Banca (already existing at Monday, December 31, 2018):

- the Parent Company Isagro S.p.A. fails, even if only partially and at the prescribed due date, to pay any amount for a period exceeding 180 days;
- the Parent Company Isagro S.p.A. has not produced the technical and accounting documentation attesting to the activities carried out for each work progress report (stato avanzamento lavori), according to the forms and procedures prescribed by the facilitating law, by the decree and by the circular;
- the Parent Company Isagro S.p.A. carries out or participates in mergers, splits or any kind of company restructuring, or carries out extraordinary transactions on its own capital or is subjected to changes of its corporate structure or of its shareholders which entail a decrease of the shareholders' equity declared for the purposes of granting the loan or of its ability to repay the loan;
- the subsidy is fully revoked;
- the Parent Company Isagro S.p.A. i) is subjected to bankruptcy proceedings, ii) all or part of its assets have become subjected to attachments or to proceedings having a similar effect, iii) has initiated actions to renegotiate its own obligations relating to financial debt date or to delay compliance therewith, has reached out of court agreements with its own creditors or has been granted an extension to the fulfillment of the obligations relating to financial debt or the enforcement of guarantees provided in order to guarantee compliance or application of suspension of payments;
- the Shareholders' Equity declared by the Parent Company Isagro S.p.A. at the time the loan was granted decreases substantially as a result of disposals;
- the Parent Company Isagro S.p.A. fails to comply with obligations deriving from other loan agreements and/or financial payables of any kind.

Loan granted by Iccrea Bancalimpresa S.p.A. (existing at December 31, 2018):

- the Parent Company Isagro S.p.A. breaches the loan agreement and has not remedied such breach within 30 days from receipt of the notice from the lender;
- the Parent Company Isagro S.p.A. does not execute in full and on time the payment of two consecutive repayment installments, unless remedy is provided within 30 days from the due date;
- the Parent Company Isagro S.p.A. uses all or part of the loan for different purposes from those for which it was granted;
- the Parent Company Isagro S.p.A. establishes without the prior written agreement of the lender and of the guarantor (S.A.C.E.) liens for amounts exceeding € 5 million, with the sole exception of those established for transactions that by law require collateral and with the previous extension of the collateral to the lender.

Loan granted by Deutsche Bank (already existing at Monday, December 31, 2018):

- the Parent Company Isagro S.p.A. fails to pay two consecutive installments punctually and in full and does not remedy within 15 days from receipt of the written notice from the lender;
 - the Parent Company Isagro S.p.A. does not make amendments to its own articles of association that entail a substantial change of the purpose of the company and/or of its business and/or of control over its management such as to prejudice the bank's receivables;
 - the Parent Company Isagro S.p.A. does not comply with the equity and economic parameters (covenants) described below.
- In addition:
- the Parent Company Isagro S.p.A. shall not carry out mergers, spin-offs, demergers or combinations except between companies of the Isagro Group, or voluntary liquidation procedures, without providing written notice to the lender in advance;
 - the Parent Company Isagro S.p.A. and its subsidiaries shall not reduce their own capital, except in compliance with law obligations;
 - the Parent Company Isagro S.p.A. shall not assume equity interests and shall not enter into joint ventures, association or similar agreements, or stipulate service performance or industrial license agreements, or carry out actions to dispose of its properties, of its companies or of business units that may have such an effect as to substantially change the performance of the business of the company or prejudice the lender's receivables, without providing written notice to the lender in advance;
 - the Parent Company Isagro S.p.A. may not enter into any loan agreements secured by guarantees of any nature, unless such guarantees are extended to the lender.

Loan granted by Banca CARIGE Italia S.p.A. (existing at December 31, 2018):

- there is a change in the composition of the shareholdings that indirectly control the Parent Company Isagro S.p.A. such as to entail the change of the controlling party;
- the Parent Company Isagro S.p.A. does not fully pay even one loan installment or delays payment of the installments;
- the Parent Company Isagro S.p.A. is subjected to insolvency, enforcement, precautionary proceedings or protests, and judicial distraints for a total amount equal to or higher than € 500 thousand;
- an event occurs that in the judgment of the lender compromises the equity, economic or financial situation of the Parent Company Isagro S.p.A. and the ability of complying with the obligations of the Parent Company Isagro S.p.A. on the basis of the lending agreement.

Loan granted by Banca CARIGE S.p.A. (existing at December 31, 2018):

- there is non-payment of even one loan installment or a delay in payment of the installments;
- it has been found that the information and documentation provided to the bank is not true and correct;
- the Parent Company Isagro S.p.A. is subjected to insolvency, enforcement, precautionary proceedings or protests, and judicial distraints for a total amount equal to or higher than € 500 thousand;
- judicial mortgages are registered on assets of the Parent Company Isagro S.p.A. for more than € 200 thousand;
- an event occurs that jeopardizes the capital, economic or financial situation of the Parent Company Isagro S.p.A. compromising consequently its ability to fulfill the obligations deriving from the contract.

Loan granted by Banca Nazionale del Lavoro (existing at Monday, December 31, 2018):

- the Parent Company Isagro S.p.A. fails to pay a loan repayment installment within thirty days of the due date;
- the Parent Company Isagro S.p.A. ceases to perform or communicates in writing that it is ceasing the activities currently performed by it or begins an activity which is substantially different compared to those pursuant to its current corporate purpose;
- the Parent Company Isagro S.p.A. is required to repay any financial payable before the maturity originally provided for following i) the acceleration clause having come into effect and/or ii) termination and/or iii) withdrawal by the creditor or iv) following declaration of

fulfillment of a condition subsequent by the creditor;

- the Parent Company Isagro S.p.A. is made subject to an enforcement procedure on its assets for an amount of more than € 500 thousand, unless Isagro can demonstrate that it has sufficient financial resources to make the payments in relation to which the enforcement procedure has been initiated, or it is demonstrated that the enforcement procedure is clearly groundless;
- any administrative, fiscal or judicial order is issued against the Parent Company Isagro S.p.A. which can determine a significant negative change in the financial situation, capital or revenues and/or may have a significant negative effect on the Isagro's activity such as to jeopardize its ability to fulfill punctually one or more obligations deriving from the loan contract;
- the independent auditing firm expresses a negative opinion on the financial statements of the Parent Company Isagro S.p.A., owing to irregularities found, or issues a declaration on the impossibility of expressing an opinion on the same;
- there is a loss of indirect control over the Parent Company Isagro S.p.A. Jointly held by the members of the Basile family;
- the Parent Company Isagro S.p.A. does not observe both of the equity and economic parameters (covenants) described below;

In addition:

- the Parent Company Isagro S.p.A. may not, except with written consent from the lender, i) constitute or permit the existence of encumbrances regarding the tangible assets or intangible assets and/or present and future receivables; ii) make any changes to its articles of association or deed of incorporation that entail the transformation of the company and/or a substantial change in the corporate purpose and/or transfer of its registered office abroad; iii) cease or modify the nature of its business; iv) reduce its share capital, unless this is required by Law and in any case without affecting the commitment to cover losses according to the provisions of current legislation; v) carry out extraordinary operations such as disposals, demergers, spin-offs and/or contributions, mergers, operations on the capital and other operations provided for in legislations other than Italian law or with economic effects equivalent to those mentioned above.

Loan granted by Banca Popolare del Lazio (existing at Monday, December 31, 2018):

- the Parent Company Isagro S.p.A. does not arrange the full payment of two consecutive installments of the loan;
- actions or facts occur that may entail difficulties in punctual fulfillment of the obligations assumed.

Loan granted by UBI Banca (existing at December 31, 2018):

- the Parent Company Isagro S.p.A. fails to pay a loan repayment installment within ten days of the due date;
- the Parent Company Isagro S.p.A. is subject to enforcement orders or seizure of bank assets, becomes subject to a legal order to pay, bankruptcy and/or injunction proceedings, protests or other detrimental events that diminish the company's financial and economic position by amounts exceeding € 500 thousand.

In addition:

- unless written consent is provided by the lender, the Parent Company Isagro S.p.A. may not: i) amend its corporate purpose in such a way as to result in a substantial change in the business activities conducted; ii) transfer its registered office to another country; iii) pledge its registered property and securities against a loan granted by third parties after signing the agreement for this loan, whilst pledges of goods may be offered in favor of its customers as part of the Licensing business and sureties or surety policies in favor of its suppliers as is common commercial practice; iv) grant right of pre-emption on repayment of the capital; v) take action that gives rise to a change in corporate control or implement mergers, spin-offs, demergers or other transactions involving the majority of the capital; vi) distribute dividends and capital reserves, issue bonds, assume new debt with third parties or make investments of any nature to an extent that both covenants are not satisfied and likewise if the consolidated debt/equity ratio is higher than 1.5 and the debt/EBITDA ratio is higher than 4.5; vii) initiate voluntary liquidation proceedings.

Loan granted by Banca di Credito Cooperativo di Carate Brianza (existing at December 31, 2018):

- any significant change occurs that entails a worsening of the capital and financial conditions of the Parent Company Isagro S.p.A. With prejudicial effects on its ability to fulfill the obligations associated with the loan contract;
- the Parent Company Isagro S.p.A. commits substantial breaches of the law or regulations, with consequent prejudice to its ability to fulfill the obligations associated with the loan contract;
- the Parent Company Isagro S.p.A. makes untrue and/or misleading declarations in relation to the loan contract;
- the Parent Company Isagro S.p.A. ceases to perform its business activity or it begins one that is no longer in keeping with the one currently performed;
- the Parent Company Isagro S.p.A. is made subject to a definitively or provisionally enforceable order, which can have prejudicial effects on its ability to fulfill the obligations associated with the loan contract;
- the Parent Company Isagro S.p.A. does not observe any one of the obligations or formalities deriving from the loan contract and has not remedied this within thirty days from receiving the notice to fulfill from the bank;
- there is a loss of direct or indirect control by the shareholders of Piemme S.r.l. in the Parent Company Isagro S.p.A.;
- the Parent Company Isagro S.p.A. defaults on payment of the obligations deriving from loans granted by other counterparties;
- the Parent Company Isagro S.p.A. becomes insolvent, begins negotiations with its creditors in order to obtain moratoriums or out-of-court arrangements, transfers its assets to creditors or asks to be admitted or is made subject to an arrangement procedure;
- the Parent Company Isagro S.p.A. is made subject to an enforcement procedure, to a seizure order or to a protest for amounts of more than € one million and that may prejudice its ability to fulfill the obligations associated with the loan contract.

Loan granted by Cassa Centrale Raiffeisen dell'Alto Adige S.p.A. (existing at December 31, 2018):

- the Parent Company Isagro S.p.A. i) is subjected to protests, seizure, precautionary, or enforcement procedures, or registration of judicial mortgages for amounts of more than € 500 thousand, ii) draws checks without authorization or with no funds, presents significant or repeated amounts uncovered or unauthorized overdrafts, is in default in relation to other amounts in being at the bank, iii) suffers a significant worsening of its financial conditions.

Loan granted by Credito Valtellinese (existing at Monday, December 31, 2018):

- the Parent Company Isagro S.p.A. does not make or delays payment of the loan installments;
- the Parent Company Isagro S.p.A. does not observe both of the equity and economic parameters (covenants) described below and does not communicate them according to the methods and terms established;
- the Parent Company Isagro S.p.A. is made subject to arrangement procedures;
- there are protested notes, seizures, attachments or legal, judicial or voluntary mortgages are registered for amounts of more than € 2,000 thousand that determine prejudice to the ability of the Parent Company Isagro S.p.A. to fulfill the obligations associated with the loan contract;
- loan contracts in being between the Parent Company Isagro S.p.A. and other lenders are terminated;
- there is a change in the control structure of the Parent Company Isagro S.p.A. or other events or circumstances such as to prejudice its ability to fulfill the obligations associated with the loan contract;
- the Parent Company Isagro S.p.A. does not extend to the lender guarantees and/or privileges on its assets granted to other lenders for similar loans obtained subsequently.

Loan granted by Banca Monte dei Paschi di Siena (already existing at Monday, December 31, 2018):

- the Parent Company Isagro S.p.A. does not fully pay one loan repayment installment;
- the Parent Company Isagro S.p.A. does not fulfill the obligations associated with the loan contract;
- the Parent Company Isagro S.p.A. is subject to protests, seizure of bank assets or enforcement orders or judicial distraints or carries out any act that decreases its amount of equity, cash flow or income.
- the Parent Company Isagro S.p.A. fails to punctually pay all or part of any amount due as a result of the loan and/or of the interest and related accessories;
- the Parent Company Isagro S.p.A. or another company of the Isagro Group is subject to enforcement orders or seizure of bank assets, becomes subject to a legal order to pay, bankruptcy and/or injunction proceedings, protests or other detrimental events that diminish the company's financial and economic position by amounts exceeding € 250 thousand;
- The Parent Company Isagro S.p.A. or one of its subsidiaries, associates or parents fails to pay one of its financial debts of more than € 100 thousand on the due date.

In addition:

- the Parent Company Isagro S.p.A. may not, except with written consent from the lender, i) modify its corporate purpose so as to determine a substantial change in the business activity; ii) transfer its registered office abroad; iii) give as guarantees, only in relation to loans granted by banks and financial institutions after this loan agreement is signed, its registered property and securities, whilst guarantees may be given, with written consent from the lender, in favor of its customers and suppliers for transactions that come within the scope of the Parent Company Isagro S.p.A.'s core business, including Licensing activity; iv) grant rights of preemption in repayment of the principal; v) perform actions that lead to a change in corporate control or merger, demerger and spin-off operations, and other operations concerning the majority of the capital, it being understood that transfers of shares among members of the Basile family will not be considered loss of indirect control of the same, and therefore will not be relevant for the purposes of the present clause; vi) distribute dividends and capital reserves or make investments of any kind of an amount such as to entail non-observance of both the covenants; vii) activate a voluntary liquidation procedure.

Loan granted by Banco BPM (already existing at December 31, 2018 and disbursed in 2019):

- Holdisa S.r.l. and Piemme S.r.l., respectively direct and indirect parent company of the Parent Company Isagro S.p.A., cease i) to hold the majority of the Isagro S.p.A. shares, ii) to hold the power to appoint the majority of directors in Isagro S.p.A. and Holdisa S.r.l., iii) to hold the power to exercise the majority of votes exercisable at extraordinary shareholders' meetings of Isagro S.p.A. and Holdisa S.r.l.;
- the Parent Company Isagro S.p.A. does not comply with both of the economic and financial parameters (covenants) described below;
- the Parent Company Isagro S.p.A. does not make punctual and full payment of any amount due to the bank, if it has not remedied this within 10 business days;
- the Parent Company Isagro S.p.A. uses the loan for a purpose other than that for which it was granted;
- the Parent Company Isagro S.p.A. is made party to any bankruptcy procedure, is declared insolvent or declares that it has become insolvent, enforcement procedures are launched by third parties on assets for amounts of more than € 1,000 thousand, lawsuits, litigation, disputes, or arbitration, administrative or legal procedures are launched that may compromise the prospects for repayment of the loan;
- the Parent Company Isagro S.p.A. does not fulfill financial obligations, other than those covered by the loan contract, for total

amounts of more than 250 thousand.

In addition:

the Parent Company Isagro S.p.A. may not i) amend its articles of association, without prior written consent from the lender, in such a way as to determine prejudice to the legal, capital, financial, economic, administrative or technical situation such as to compromise the prospects for repayment of the loan; ii) suspend, interrupt or change the business currently carried on; iii) resolve to reduce its share capital, except in the case of legal obligations; iv) constitute assets destined for a specific deal; v) grant in favor of other lenders mortgages, mandates to register mortgages or real guarantees on its tangible and intangible assets, and act so that its shares are pledged, without affecting real encumbrances pre-existing at the date on which the loan agreement is signed and those imposed by law or by judicial measures.

Loan granted by Banca Crédit Agricole Cariparma S.p.A. (existing at December 31, 2018):

- the Parent Company Isagro S.p.A. fails to fulfill the obligation to pay any amount due to the lender, unless it remedies this within 10 business days from receiving the written notice to perform;
- the Parent Company Isagro S.p.A. uses the loans for purposes other than those for which the loan was granted;
- the Parent Company Isagro S.p.A. fails to fulfill or does not observe any of the obligations and commitments indicated in the loan contract, unless, compatibly with the nature of the non-fulfillment, it remedies this within 10 business days from receiving the written notice to perform from the lender;
- the Parent Company Isagro S.p.A. does not comply with both of the economic and financial parameters (covenants) described below;
- the Parent Company Isagro S.p.A. and/or one of its subsidiaries fails to pay any amount relating to a financial debt due to banks and/or financial intermediaries within 15 working days from the day it became due and enforceable due to non-fulfillment;
- the Parent Company Isagro S.p.A. fails to punctually pay payables to third parties, other than those indicated in the previous point, unless this has been remedied within 15 business days from receiving the written notice to perform and has no prejudicial effects, in the unchallengeable judgment of the lender, on the company's ability to fulfill the obligations of the present contract;
- the Parent Company Isagro S.p.A. and/or the parent company and/or a subsidiary become insolvent, enter into negotiations with their creditors for the purpose of obtaining grace periods or out-of-court agreements, dispose of assets to their creditors, request to be admitted or are subjected to bankruptcy proceedings, including receivership;
- the Parent Company Isagro S.p.A., and/or Piemme S.r.l., indirect parent company of Isagro S.p.A, and/or a subsidiary are placed in liquidation or are dissolved;
- the Parent Company Isagro S.p.A. and/or a subsidiary are subject to judicial and executive procedures, and, also alternatively among them, urgent enforcement or executive procedures are opened, judicial mortgages are registered, protests are raised, assets are confiscated, judgments, decrees or final judicial orders in general are issued for a single or cumulative amount of more than € 1,000 thousand for the entire duration of the loan and this may have substantially prejudicial effects on the company's ability to fulfill its obligations;
- any significant change occurs in the capital and financial conditions of the Parent Company Isagro S.p.A. and/or of a subsidiary or in their goods, assets and properties, and this may have substantially prejudicial effects on the company's ability to fulfill the obligations of the loan contract;
- the Parent Company Isagro S.p.A. and/or a subsidiary commit substantial violations of laws or primary or secondary legislation that may have substantially prejudicial effects on the company's ability to fulfill the obligations of the loan contract;
- false or misleading statements are made, unless the company has remedied this within 15 business days from receiving the lender's

written notice to perform;

- any authorization, concession, homologation or license, the lack of which may prejudice the performance of the company's business is not renewed, if expired, or revoked;
- the Parent Company Isagro S.p.A. ceases to carry out its current business activities or undertakes business activities which have substantial relevance and are not consistent with those currently carried out;
- a definitively or provisionally enforceable order of any kind is issued by a tax authority against the Parent Company Isagro S.p.A. and/or a subsidiary, on the basis of which the beneficiary must pay a tax, duty, fine or penalty, and which may have substantially prejudicial effects on the beneficiary's ability to fulfill the obligations of the loan contract;
- *de facto* and *de jure* circumstances occur at any time such as to i) prevent the company from exercising the rights or fulfilling the obligations of the present loan contract; ii) determine the cessation, due to legislative changes or adoption of measures by competent authorities, of the legitimacy, effectiveness, validity or enforceability of the obligations assumed by the company; iii) prevent or substantially limit the lender's power to take legal action to protect the rights deriving from the loan contract;
- the independent auditing firm, in its report on the annual and Consolidated Financial Statements, expresses a negative opinion or issues a declaration on the impossibility of expressing an opinion;
- Piemme S.r.l., indirect parent company of the Parent Company Isagro S.p.A., ceases to control, directly or indirectly, an equity interest that makes it the holder of at least 50% plus one of the voting rights exercisable at the shareholders' meeting.

Loan granted by Iccrea Bancalmpresa S.p.A. (existing at December 31, 2018):

- the Parent Company Isagro S.p.A. becomes insolvent or is made party to any arrangement procedure and/or to procedures also of an out-of-court nature with closely analogous effects;
- the Parent Company Isagro S.p.A. does not make in full and on time the payment when due of any amount payable, unless this is remedied within 15 days from the due date;
- the parent company Isagro S.p.A. suspends, interrupts or substantially changes the current business activity;
- a non-fulfillment occurs for more than € 500 thousand that entails, or may entail, the acceleration clause taking effect or may trigger a request for early repayment, also following termination, withdrawal or other things for receivables other than those deriving from the loan contract;
- changes or events occur that modify the current legal, capital, financial, or economic situation of the Parent Company Isagro S.p.A. and that have a substantially prejudicial effect;
- lawsuits, litigation, disputes, or arbitration, administrative or judicial procedures in general, of any kind and with any public or private counterparty, are launched in relation to Isagro S.p.A. and may have a substantially prejudicial effect;
- the Parent Company Isagro S.p.A. does not observe both of the covenants described below and has not taken initiatives to remedy the breach within thirty days from the date of approval of the annual financial statements.

In addition:

the Parent Company Isagro S.p.A. may not i) amend its articles of association, without prior written consent from the lender, in such a way as to determine prejudice to the legal, capital, financial, economic, administrative or technical situation such as to compromise the prospects for repayment of the loan; ii) suspend, interrupt or change the current business activity; iii) resolve to reduce its share capital, except in the case of legal obligation; iv) constitute assets destined for a specific deal; v) be made party to voluntary liquidation procedures vi) grant other lenders mortgages, mandates to register mortgages or real guarantees on its tangible and intangible assets, and act so that its shares are pledged, except for those permitted in writing by the bank; vii) conclude transactions in derivative instruments for speculative purposes.

Loan granted by Banca di Credito Cooperativo di Caravaggio, Adda e Cremasco (existing at December 31, 2018):

- the Parent Company Isagro S.p.A. does not pay punctually and in full even one loan repayment installment;
- Isagro S.p.A. is party to events that have a negative effect on its capital, financial and economic situation and endanger the repayment of the amounts to the bank.

Loan granted by Banca del Mezzogiorno-Mediocredito Centrale S.p.A. (existing at December 31, 2018):

- the absence of one or more admissibility requirements has occurred or documentation is incomplete or irregular due to actions in any way attributable to Isagro S.p.A. and that cannot be remedied;
- the Parent Company Isagro S.p.A. is made party to a bankruptcy procedure;
- the research project for which the subsidized loan was disbursed is not launched, the maximum times determined for implementation of the project are not observed, the research project objectives are not achieved (except in cases of force majeure, chance or other contingent and unpredictable facts and events) or the research project is not carried out;
- the Parent Company Isagro S.p.A. does not transmit the first progress report (Stato Avanzamento Lavori - S.A.L.) within 18 months from the date of disbursement of the loan or does not transmit the final spending documentation within three months from conclusion of the project;
- the Parent Company Isagro S.p.A. does not repay the pre-amortization interest or the loan installments for more than one year.

Current financial payables to other lenders refer for € 317 thousand to the current portion of the subsidized loan granted by Cassa Depositi e Prestiti, already described in the table above, and for € 1,476 thousand to payables to factoring companies in relation to reverse factoring operations.

The item “leasing” refers to the residual value at December 31, 2019 of the current value of the future payments due for the use of the assets, the related right of use for which was recognized in the item “Rights of use”; for further details in relation to the effects deriving from the application of the accounting standard IFRS 16, please refer to Note 3.

The table below summarizes the loans, including those related to the lease, granted to the Group, broken down by currency:

Currency of the loan	Amount in thousands of euro	Amount in currency (thousands)	Effective average interest rate %
Euro	78,957	78,957	1.21%
US Dollars	4,121	4,630	4.47%
Colombian Pesos	259	955,264	6.31%
Brazilian Reals	10	45	8.03%
Chinese Renminbi (yuan)	16	125	0.94%
Vietnamese Dong	2	39,852	0.73%
Argentine Peso	26	1,751	2.57%
Total	83,391		

The debt exposure of the Group broken down by maturity is shown in the table below:

	Payables broken down by maturity						
	Within 1 year	2 years	3 years	4 years	5 years	Over 5 years	Total
Payables due to banks:							
- floating rate	45,159	13,940	9,263	4,081	37	-	72,480
- fixed rate	2,169	1,166	23	23	23	59	3,463
Total Payables due to banks	47,328	15,106	9,286	4,104	60	59	75,943
Payables due to other lenders							
- floating rate	1,476	-	-	-	-	-	1,476
- fixed rate	317	320	323	326	164	-	1,450
Total Other lenders	1,793	320	323	326	164	-	2,926
Leasing							
- fixed rate	813	510	397	359	354	2,089	4,522
Total leases	813	510	397	359	354	2,089	4,522
Total	49,934	15,936	10,006	4,789	578	2,148	83,391

Lastly, it should be noted that, at December 31, 2019, the Group had a number of credit lines outstanding, granted by banks and other financial institutions, totaling € 81,996 thousand (including “trade” facilities for € 64,925 thousand, of which € 28,746 thousand used, and “financial” facilities of € 17,071 thousand, of which € 9,927 thousand used), as shown in the table below:

	Credit lines	
	granted	used
Parent company	75,800	34,506
Subsidiaries	6,196	4,167
Total	81,996	38,673

COVENANTS

In compliance with the CONSOB Communication of July 28, 2006, the loans for which certain equity and economic requirements (covenants) must be satisfied, on a consol-

idated basis, are listed below, together with the features of such requirements. The amounts indicated are expressed gross of commissions and ancillary charges.

Bank	Nominal amount of the loan	Residual amount of the loan	Covenants	Effects
Banca Crédit Agricole Cariparma	€ 6,000	€ 4,182	<ul style="list-style-type: none"> a. ratio between the consolidated net financial debt and the consolidated EBITDA: less than 4.5 for each year as from that ended on December 31, 2018 and until the full repayment of the loan. b. consolidated liability/equity ratio not greater than 1.50 for each year as from that ended on December 31, 2018 and until full repayment of the loan. 	Failure to comply with the two covenants shall result in termination of the loan and repayment of all amounts still due including interest.
Banco BPM	€ 9,000	€ 7,397	<ul style="list-style-type: none"> a. ratio between the consolidated net financial debt and the consolidated EBITDA: less than 4.5 for each year as from that ended on December 31, 2018 and until the full repayment of the loan. b. consolidated liability/equity ratio not greater than 1.50 for each year as from that ended on December 31, 2018 and until full repayment of the loan. 	Failure to comply with the two covenants shall result in termination of the loan and repayment of all amounts still due including interest.
Banca Monte dei Paschi di Siena	€ 5,000	€ 4,365	<ul style="list-style-type: none"> a. ratio between the consolidated net financial debt and the consolidated EBITDA: less than 4.5 for each year as from that ended on December 31, 2018 and until the full repayment of the loan. b. consolidated liability/equity ratio not greater than 1.50 for each year as from that ended on December 31, 2018 and until full repayment of the loan. 	Failure to comply with the two covenants will entail the upward revision of the spread by 0.5% and will also constitute a condition for loan termination loan with consequent repayment of all amounts still due, including interest.
BPER (Banca Popolare dell'Emilia Romagna)	€ 7,000	€ 1,026	<ul style="list-style-type: none"> a. ratio between the consolidated net financial position and consolidated EBITDA: less than 4.5 for each year as from that ended on December 31, 2015 and until the full repayment of the loan. b. ratio between the consolidated net financial position and Consolidated Equity not greater than 1.50 for each year as from that ended on December 31, 2015 and until full repayment of the loan. 	Failure to comply with the two covenants shall result in termination of the loan and repayment of all amounts still due including interest.
UBI Banca/Banca Popolare Commercio & Industria	€ 10,000	€ 3,178	<ul style="list-style-type: none"> a. ratio between the consolidated net financial debt and consolidated EBITDA as from December 31, 2017 and until full repayment of the residual debt: less than 4. b. ratio between the consolidated net financial debt and Consolidated Equity from December 31, 2017 and until full repayment of the residual debt: less than 0.75. 	<p>Failure to satisfy even one of the financial indicators will determine application of the following spreads:</p> <ul style="list-style-type: none"> - with reference to the ratio between net financial debt and EBITDA: <ul style="list-style-type: none"> 1.55% if the ratio is less than 4; 1.80% if the ratio is greater than 4 and less than 4.25; 2.05% if the ratio is greater than 4.25 and less than 4.5; 2.30% if the ratio is greater than 4.5; - with reference to the ratio between net financial debt and equity: <ul style="list-style-type: none"> 1.55% if the ratio is less than 0.75; 1.80% if the ratio is greater than 0.75 and less than 1; 2.05% if the ratio is greater than 1 and less than 1.5;

continues

Bank	Nominal amount of the loan	Residual amount of the loan	Covenants	Effects
				2.30% if the ratio is greater than 1.5. Failure to comply with both covenants with ratios exceeding 4.5 (for the consolidated debt/EBITDA ratio) and 1.5 (for the consolidated debt/equity ratio) shall result in termination of the loan and the repayment of all amounts still due including interest.
Mediocredito Italiano	€ 12,000	€ 4,155	<ul style="list-style-type: none"> a. ratio between consolidated net financial position and consolidated EBITDA from December 31, 2015 and until full repayment of the residual debt: less than 4.5. b. ratio between consolidated net financial position and Consolidated Equity from December 31, 2015 and until full repayment of the residual debt: less than 1.5. 	Failure to comply with the two covenants shall result in termination of the loan and repayment of all amounts still due including interest.
Banca del Mezzogiorno	€ 7,000	€ 3,169	<ul style="list-style-type: none"> a. ratio between consolidated net financial debt and consolidated EBITDA until full repayment of the residual debt: less than 4.5. b. ratio between consolidated net financial debt and Consolidated Equity until full repayment of the residual debt: less than 1.5. 	Failure to comply with the two covenants shall result in termination of the loan and repayment of all amounts still due including interest.
Deutsche Bank	€ 1,000	€ 187	<ul style="list-style-type: none"> a. ratio between consolidated net financial position and consolidated EBITDA until full repayment of the residual debt: less than 4.5. b. ratio between consolidated net financial position and Consolidated Equity until full repayment of the residual debt: less than 1.5. 	Failure to comply with the two covenants shall result in termination of the loan and repayment of all amounts still due including interest.
UniCredit	€ 9,000	€ 4,717	<ul style="list-style-type: none"> a. ratio between consolidated net financial debt and consolidated EBITDA at December 31, 2017 and until full repayment of the residual debt: less than or equal to 4.5. b. ratio between consolidated net financial debt and Consolidated Equity at December 31, 2017 and until full repayment of the residual debt: less than or equal to 1.5. 	Failure to comply with the two covenants shall result in termination of the loan and repayment of all amounts still due including interest.
Banca Nazionale del Lavoro	€ 4,000	€ 2,016	<ul style="list-style-type: none"> a. ratio between consolidated net financial debt and consolidated EBITDA at December 31, 2017 and until full repayment of the residual debt: less than or equal to 4.5. b. ratio between consolidated net financial debt and consolidated equity at December 31, 2017 and until full repayment of the residual debt: less than or equal to 1.5. 	Failure to comply with the two covenants shall result in termination of the loan and repayment of all amounts due including interest.
Cassa Centrale Raiffeisen dell'Alto Adige	€ 3,000	€ 1,520	<ul style="list-style-type: none"> a. ratio between consolidated net financial position and consolidated EBITDA at December 31, 2017 and until full repayment of the residual debt: less than or equal to 4.5. b. ratio between consolidated net financial position and Consolidated Equity at December 31, 2017 and until full repayment of the residual debt: less than or equal to 1.5. 	Failure to comply with one of the covenants will entail an increase of 0.25% in the spread.
Credito Valtellinese	€ 2,000	€ 1,139	<ul style="list-style-type: none"> a. ratio between consolidated net financial position and consolidated EBITDA until full repayment of the residual debt: less than or equal to 4.5. b. ratio between consolidated net financial position and Consolidated Equity until full repayment of the residual debt: less than or equal to 1.5. 	Failure to comply with one of the covenants will entail an increase of 0.25% in the spread. Failure to comply with both the covenants shall result in termination of the loan and repayment of all amounts due including interest.

continues

Bank	Nominal amount of the loan	Residual amount of the loan	Covenants	Effects
Iccrea Bancalmpresa	€ 4,000	€ 3,225	a. ratio between the consolidated net financial debt and the consolidated EBITDA: less than 4.5 for each year as from that ended on Monday, December 31, 2018 and until the full repayment of the loan. b. consolidated liability/equity ratio not greater than 1.50 for each year as from that ended on December 31, 2018 and until full repayment of the loan.	Failure to comply with the two covenants will constitute a condition for termination of the loan with consequent repayment of all amounts still due including interest, unless Isagro S.p.A., within 30 business days from the date of approval of the financial statements has taken initiatives capable of remedying this breach.
Banca di Credito Cooperativo di Caravaggio, Adda e Cremasco	€ 2,000	€ 1,830	a. ratio between consolidated net financial position and consolidated EBITDA until full repayment of the residual debt: less than or equal to 4.5. b. ratio between consolidated net financial position and Consolidated Equity until full repayment of the residual debt: less than or equal to 1.5.	Failure to comply with one of the covenants will entail an increase of 0.25% in the spread.

The assessment of compliance with the aforementioned covenants, which must be carried out on an annual basis, at December 31, 2019 showed non-compliance with the covenant related to the ratio between the consolidated net financial position and consolidated EBITDA, with consequent application of the spread of 2.30% to the loans granted by UBI Banca and an increase in the spread by 0.25% on the loans granted by Cassa Centrale Raiffeisen dell'Alto Adige, Credito Valtellinese, and Banca di Credito Cooperativo di Caravaggio, Adda e Cremasco. Therefore, exclusively the failure to comply with both financial covenants required by the above loan agreements (ratio between NFP/EBITDA and NFP/SE) results in the termination of the related loan agreements, with the acceleration clause taking effect and consequent repayment of all amounts still due, including interest.

It should also be noted that the Directors of the Parent Company Isagro S.p.A. carried out a sensitivity analysis in relation to the compliance with the covenants on a

consolidated basis at December 31, 2020 by considering the NFP/EBITDA and NFP/SE ratio on the basis of the consolidated 2020-2025 Business Plan, and on the basis of the same Business Plan that includes unfavorable inputs for the financial years 2020 and 2021 due to the effects of the international health crisis currently ongoing due to COVID-19, compared to the expected results. The results of this sensitivity analysis, including at its maximum risk, are such that do not jeopardize the financial covenants for these years.

NET FINANCIAL POSITION

As required by CONSOB Communication no. DEM/6064293/2006 of July 28, 2006, and also in accordance with the Recommendation of the ESMA (European Security & Market Authority), formerly the CESR (Committee of European Securities Regulators), of February 10, 2005, the net financial position of the Group as at December 31, 2019 was as follows:

Breakdown	Dec. 31, 2019	Dec. 31, 2018
Bank deposits and cash	(46,581)	(17,919)
Liquidity (A)	(46,581)	(17,919)
Other current financial assets (securities)	-	(13,796)
Current financial receivables and other assets (B)	-	(13,796)
Current payables due to banks	24,347	13,648
Current payables due to other lenders	1,476	1,412
Current portion of non-current financial payables	24,111	25,189
Current financial payables (C)	49,934	40,249
Net current financial debt (A+B+C)	3,353	8,534
Non-current payables due to banks	28,615	37,855
Non-current payables due to other lenders	1,133	1,254
Leasing	3,709	-
Non-current financial payables (D)	33,457	39,109
Net financial debt as per communication from CONSOB DEM/6064293/2006 (A+B+C+D)	36,810	47,643
Other non-current financial assets	(2,503)	(2,503)
Financial assets for trading derivative instruments and IRSs	(12)	(138)
Financial liabilities for trading derivative instruments and IRS	99	115
Net financial debt of the Group	34,394	45,117

The net financial position shows a decrease of € 10,723 thousand compared to December 31, 2018, i.e. before the adoption of the accounting standard IFRS 16 – Leases, which took effect on January 1, 2019 and led to an increase in the financial liabilities of € 5,748 thousand; considering the balance at January 1, 2019, the decrease in the net financial debt would total € 16,471 thousand. This decrease is substantially due to the collection of part of the sale price of the investment in the Indian company Isagro (Asia) Agrochemicals Pvt. Ltd. by the Parent Company Isagro S.p.A. described previously, despite the continuation of investments in intangible assets of the Group, as shown in the Cash-Flow Statement.

RECONCILIATION STATEMENT OF LIABILITIES DERIVING FROM FINANCING ACTIVITIES

As required by IAS 7 (§44A), a statement is presented below containing the reconciliation of the changes in liabilities deriving from financing activities, distinguishing between changes deriving from cash flows and other non-monetary changes.



	Book values Jan. 1, 2019	Cash flow	Other non-monetary changes				Book values Dec. 31, 2019
			Translation differences	Other changes	Reclassification to “Discontin- ued Operations”	Total change	
Financial payables due to banks	76,366	(294)	86	(215)	-	(129)	75,943
Financial payables due to other lenders	2,937	(11)	-	-	-	-	2,926
Leasing	5,803	(667)	2	(31)	(585)	(614)	4,522
Total	85,106	(972)	88	(246)	(585)	(743)	83,391

The column “Other changes” includes the allocation of accrued interest of the financial year.

18. Employee benefits – 1,877

The following table illustrates the change in the severance indemnity fund (SIF) of the Parent Company Isagro S.p.A., which can be classified, as per IAS 19, as a “defined-benefit plan” among “post-employment benefits”. Until December 27, 2019, the item also included the “Gratuity Fund” of the Indian former subsidiary Isagro (Asia) Agrochemicals Pvt. Ltd., which can also be classified, as per IAS 19, as “defined-benefits plans” among “post-employment benefits”, which was reclassified among the Discontinued Operations:

	<u>SIF and other pension funds</u>
Value at Dec. 31, 2018	2,384
Cost of employee benefits	320
Settlements/transfers/payments	(555)
Translation difference	1
Reclassification to “Discontinued Operations”	(273)
Value at Dec. 31, 2019	1,877

Information on the SIF – Severance Indemnity Fund plan

The item “Severance Indemnity Fund” reflects the Group’s residual obligation regarding the indemnity to pay Italian employees when their employment ceases. This indemnity can be partially paid in advance to the employee during his or her working life in certain circumstances. It is an unfunded defined benefit plan only in connection with the indemnity employees accrued up until December 31, 2006. In fact, certain legislative changes turned the severance indemnity fund into a defined contribution plan starting from that date, resulting in the Group paying indemnities that accrued in each year (equal to about 7.41% of the employees’ wages) into outside pension funds.

The actuarial valuations used to calculate the liabilities were made using the Projected Unit Credit Method.

The main demographic and financial assumptions used to measure the obligations at December 31, 2019, were as follows:

	<u>2019</u>	<u>2018</u>
- discounting rate:	0.35%	1.15%
- staff turnover rate:	4.60%	4.60%
- inflation rate:	1.00%	1.50%
- annual rate of increase in severance indemnity fund (SIF):	2.62%	2.62%

The probability of turnover consistent with the historic trend of the phenomenon was used for the staff turnover rate, whereas for the discounting rate it was decided to use the rate of return on AA-rated corporate securities in the Eurozone as reference.

The table below shows the total cost of the severance indemnity fund:

	Breakdown
Financial costs on the obligation	22
Actuarial (gains)/losses	57
Total	79

The actuarial gains and losses coming from re-measurement of the liabilities were recorded in “Other Comprehensive Income” and recognized under Group equity in the item “Retained earnings”. Actuarial losses for the period, € 57 thousand, include gains attributable to changes in the financial assumptions for € 66 thousand and losses attributable to changes in the demographic assumptions for € 9 thousand.

Sensitivity analyses were conducted as regards the option of changing the discounting rate of the obligation from which it emerged that a parameter increase of a quarter of a percentage point would bring about a € 36 thousand decrease in liabilities, while a decrease of a quarter of a percentage point in the rate would bring about an increase in liabilities of € 37 thousand.

The Group also participates in the “pension funds” which, pursuant to IAS 19, can be classified as “defined contribution plans” among “post-employment benefits”. In relation to these plans, the Group has no additional monetary obligations once the contributions have been paid. In the 2019 financial year, the total costs of such plans, included under “personnel costs”, were € 1,006 thousand.

19. Other non-current liabilities – 1,130

Breakdown	Book values Dec. 31, 2018	Increases / decreases	Reclassifi- cation to “Discon- tinued Op- erations”	Book values Dec. 31, 2019
Payables:				
- contractual liabilities	-	1,130	-	1,130
- guarantee deposits from customers	746	(746)	-	-
Total	746	384	-	1,130

The item refers to the medium/long-term contractual liabilities pertaining to revenues arising from the granting to the company P.I. Industries Limited, exclusively and for the duration of ten years, of the right to distribute products currently marketed by Isagro (Asia) Agrochemicals Pvt. Ltd., in addition to the right to distribute products and compounds in the pipeline of the Parent Company Isagro S.p.A., starting from the year 2027, for which the payment has already been made by the counterparty. As a matter of fact, as already mentioned in the section “Consolidation scope”, to which you are referred, the Directors of the Parent Company Isagro S.p.A. carried out an analysis of the performance obligations pertaining to the aforementioned contracts and determined the fair value of these obligations, which was recognized in the item “Other operating revenues”.

This item at December 31, 2018 reflected the amounts paid by certain customers of the former subsidiary Isagro (Asia) Agrochemicals Pvt. Ltd. as guarantee for the performance of obligations connected to sale and purchase agreements for crop protection products.

20. Trade payables – 26,143

Breakdown	Book values Dec. 31, 2018	Increases / decreases	Reclassifi- cation to “Discon- tinued Op- erations”	Book values Dec. 31, 2019
Trade payables	32,696	2,593	(9,146)	26,143
Total	32,696	2,593	(9,146)	26,143

The increase in trade payables, equal to € 2,593 thousand before the reclassifications to the Discontinued Operations, is essentially related to the Parent Company Isagro S.p.A. and to the former subsidiary Isagro (Asia) Agrochemicals Pvt. Ltd. With reference to the Parent Company Isagro S.p.A., this increase is substantially at-

tributable to the acquisitions of copper-based raw materials, made during the final part of 2019, in order to tackle sales in the first few months of 2020.

For the total trade payables due to related parties, reference should be made to Note 43.

Here below is the breakdown of trade payables by geographical area based on the supplier's location:

• Italy	16,108
• Other European countries	4,884
• Central Asia and Oceania	2,829
• Americas	1,717
• Far East	431
• Middle East and Africa	174
Total	26,143

It should be noted that trade payables have an average contractual maturity of approximately:

- Italy 93 days;
- Foreign countries 104 days.

The trade payables are due within the following year.

21. Current provisions – 1,781

The breakdown and changes in current provisions are illustrated in the following table:



Breakdown	Book values		Changes over the period				Book values Dec. 31, 2019
	Dec. 31, 2018	Provision	Use	Other changes	Reclassification to “Discontin- ued Operations”	Total change	
Current provisions							
- expense provision for reclamation works	-	149	-	-	-	149	149
- provision for risk of lawsuits	-	30	-	-	-	30	30
- expense provision for other obligations	-	661	-	-	-	661	661
- prov. for destruction of goods and disposal of obsolete materials	130	140	(122)	-	-	18	148
- provision for employee participation bonus and manager/director bonuses	1,021	814	(1,020)	1	(23)	(228)	793
Total	1,151	1,794	(1,142)	1	(23)	630	1,781

The “expense provision for reclamation works” refers to the maximum amount estimated and agreed by the Parent Company Isagro S.p.A. by means of an agreement with the Municipality of Adria for the conclusion of the reclamation works pertaining to its production site located in that municipality.

The “expense provision for other obligations” refers to the amounts that the Parent Company Isagro S.p.A. estimated to have incurred in relation to a number of obligations arising from the sale contract of the investment in the Indian subsidiary Isagro (Asia) Agrochemicals Pvt. Ltd., for which details can be found in Note 38.

Provisions for “destruction of goods and disposal of obsolete materials” essentially refer to the costs the Parent Company Isagro S.p.A. will incur for the disposal of obsolete materials, necessary to improve logistics and storage conditions at the Aprilia industrial complex.

The “participation bonus and manager/director bonuses” provision is an estimation, based on the results for the year, of the productivity bonuses payable to employees and directors of the Group companies.

We can note that these provisions are very likely to be used during 2020.

22. Tax payables – 109

Breakdown	Book values Dec. 31, 2018	Increases / decreases	Reclassifi- cation to “Discon- tinued Op- erations”	Book values Dec. 31, 2019
Tax payables:				
- due to tax authorities for direct taxes	1,132	(792)	(231)	109
Total	1,132	(792)	(231)	109

The item essentially refers to the payable due to tax authorities for the income taxes of the subsidiary Isagro Colombia S.A.S.

The decrease in the item compared to December 31, 2018 is owing to the payment of the taxes of the former subsidiary Isagro (Asia) Agrochemicals Pvt. Ltd.

23. Other current liabilities and payables – 3,691

Breakdown	Book values Dec. 31, 2018	Increases / decreases	Reclassifi- cation to “Discon- tinued Op- erations”	Book values Dec. 31, 2019
Payables:				
- due to social security institutions	1,236	(105)	(29)	1,102
- due to agents and canvassers	155	28	-	183
- due to employees	940	139	(101)	978
- due to tax authorities for VAT and similar taxes	48	47	-	95
- due to tax authorities for withholdings and other taxes	769	71	(75)	765
- advances from customers (contractual liabilities)	339	(80)	(158)	101
- others	630	640	(803)	467
Total	4,117	740	(1,166)	3,691

The item “advances from customers (contractual liabilities)” includes the current portion of the medium/long-term contractual liabilities pertaining to revenues arising from the granting to the company P.I. Industries Limited, exclusively and for the duration of ten years, of the right to distribute products currently marketed by Isagro (Asia) Agrochemicals Pvt. Ltd., in addition to the right to distribute products and compounds in the pipeline of the Parent Company Isagro S.p.A., starting from the year 2027, for which the payment has already been made by the counterparty; for more details, you are referred to Note 19. This item, at December 31, 2018, comprised the liabilities de-

ripping from contracts with customers of the Indian former subsidiary Isagro (Asia) Agrochemicals Pvt. Ltd. According to the accounting standard IFRS 15, in fact, the revenue deriving from the sale of crop protection products is recognized at the moment of transfer of control over the asset to the customer, which coincides with the transfer of the risks/benefits connected with ownership of the asset, which normally occurs at the moment of shipment or of delivery of the goods to the customer on the basis of the International Commercial Terms (Incoterms) used in the various contracts signed with customers; any payment received before transfer of the risks/benefits connected with ownership of the asset is recognized as a liability deriving from contracts with customers up to the moment of shipment or delivery of the goods to the customer.

Payables due to employees also include amounts for holiday entitlement accrued but not used, additional monthly payments and expense accounts, in addition to € 161 thousand related to the incentive, paid in January 2020, to an executive of the Parent Company Isagro S.p.A. following the termination of the employment.

The item “other” includes € 136 thousand relating to the balance of the food safety grant, which was paid in January 2020, in addition to € 114 thousand relating to the fees of the Independent Auditing Firm.

24. Segment reporting

As already mentioned, the Isagro Group identified its operating segments pursuant to IFRS 8 in the geographical areas from which the Group may earn revenues and incur expenses, whose results are regularly reviewed by the Group’s chief operating decision makers to assess performance and resource allocation decisions, and for which separate accounting figures are available.

The geographical areas that constitute the Group’s operating segments are as follows:

- Europe
- Asia
- North America
- South America.

The Group assesses the performance of its operating segments on the basis of “Operating profit/(loss)”; the revenues of the above segments include revenue deriving both from transactions with third parties and from transactions with other segments, measured at market prices. In the Group’s ordinary course of business, financial income and charges and taxes are recognized by the corporate entity, because they are not related to operating activities.

It should be specified that, following the sale of the investment in Isagro (Asia) Agrochemicals Pvt. Ltd., described above in the section “Consolidation scope” and in Note 38 below—to which you are referred—the information related to the operating segments is shown for the Continuing Operations and, separately, for the Discontinued Operations.

The table below shows the operating results of the operating segments for Continuing Operations for the year 2019:

2019	Continuing Operations					
	Europe Area	Asia Area	North America Area	South America Area	Adjustments	Total
- Crop Protection Products	88,611	-	3,091	7,600	-	99,302
- Other	6,067	-	-	-	-	6,067
Revenue from third parties	94,678	-	3,091	7,600	-	105,369
Intra-segment revenue	6,336	44	208	303	(6,891)	-
Revenues	101,014	44	3,299	7,903	(6,891)	105,369
Operating profit/(loss)	(12,390)	(13)	(1,851)	759	(241)	(13,736)
Financial income						2,300
Borrowing Costs						(1,722)
Gains/(losses) on foreign exchange and fin. derivatives						(515)
Profit/(loss) from associates						191
Loss before taxes						(13,482)
Income Taxes						(1,568)
Net loss from Continuing Operations						(15,050)
Net profit/(loss) from Discontinued Operations						1,143
Net loss						(13,907)
Depreciation and amortization	9,725	27	54	278	-	10,084
Impairment of fixed assets	1,020	-	-	14	-	1,034
Allocations to provisions	1,640	15	58	60	-	1,773
Impairment losses on receivables	684	-	37	(35)	-	686
Severance indemnity fund and similar provisions	79	-	-	-	-	79

The table below shows the operating results of the operating segments for Continuing Operations for the year 2018:

2018	Continuing Operations					
	Europe Area	Asia Area	North America Area	South America Area	Adjustments	Total
- Crop Protection Products	100,833	-	3,973	8,307	-	113,113
- Other	11,725	-	-	-	-	11,725
Revenue from third parties	112,558	-	3,973	8,307	-	124,838
Intra-segment revenue	7,514	182	698	242	(8,636)	-
Revenues	120,072	182	4,671	8,549	(8,636)	124,838
Operating profit/(loss)	535	(15)	(1,071)	925	(29)	345
Financial income						272
Borrowing Costs						(1,349)
Gains/(losses) on foreign exchange and fin. derivatives						(860)
Profit/(loss) from associates						200
Loss before taxes						(1,382)
Income Taxes						(1,364)
Net loss from Continuing Operations						(2,756)
Net profit/(loss) from Discontinued Operations						3,119
Net profit						363
Depreciation and amortization	8,562	1	12	108	-	8,683
Impairment of fixed assets	171	-	-	94	-	265
Allocations to provisions	958	22	-	-	-	980
Impairment losses on receivables	(261)	-	(11)	33	-	(239)
Severance indemnity fund and similar provisions	(12)	-	-	-	-	(12)

As the location of the Group's operations is different from that of customers, the following table shows the breakdown of revenues from Continuing Operations based on the customers' location:

	2019	2018
Italy	19,658	26,644
Europe	50,189	46,021
Americas	20,738	38,105
Africa	4,480	3,275
Middle East	3,667	3,431
Central Asia and Oceania	3,190	2,755
Far East	4,077	5,555
Losses on DCSs	(630)	(948)
Total	105,369	124,838

Intra-group transactions were carried out at arm's length. Compared to 2018, a decrease in turnover is recorded in all operating segments, the reasons for which are shown in Note 24 below; in particular, the reduction in turnover in the "Europe" area, and consequently of the related operating results, is attributable to the lower sales in Italy by the Parent Company Isagro S.p.A., as well as the difficult market situation for copper-based products—with high levels of stock held by distributors—and the recent regulatory restrictions. The item "Other" for the "Europe" area includes € 3,117 thousand of revenues arising from M/L Agreements, of which a description can be found in Note 24, a decrease of € 4,361 thousand compared to 2018.

As a consequence of the aforementioned generalized reduction in revenues in all operating segments, the operating results also decreased in all sectors.

The operating results of the Discontinued Operations were prepared on the basis of the same rules applied for the operating segments of the Continuing Operations.

The table below shows the operating results of the Discontinued Operations for the year 2019 (January 1 - December 27, 2019).

2019	Discontinued Operations		
	Asia Area	Adjustments	Total
- Crop Protection Products	29,844	-	29,844
Revenue from third parties	29,844	-	29,844
Intra-segment revenue	-	-	-
Revenues	29,844	-	29,844
Operating profit/(loss)	(177)	201	24
Financial income			1,044
Borrowing Costs			(296)
Gains/(losses) on foreign exchange and fin. derivatives			(24)
Capital gain			5,984
Pre-tax profit/(loss)			6,732
Income Taxes			(5,589)
Net profit from Discontinued Operations			1,143
Depreciation and amortization	665	-	665
Impairment losses on receivables	185	-	185
Severance indemnity fund and similar provisions	241	-	241

The table below shows the operating results of the Discontinued Operations for the year 2018.

2018	Discontinued Operations		
	Asia Area	Adjustments	Total
- Crop Protection Products	29,264	-	29,264
Revenue from third parties	29,264	-	29,264
Intra-segment revenue	-	-	-
Revenues	29,264	-	29,264
Operating profit/(loss)	3,932	67	3,999
Financial income			1,056
Borrowing Costs			(276)
Gains/(losses) on foreign exchange and fin. derivatives			(290)
Pre-tax profit/(loss)			4,489
Income Taxes			(1,370)
Net profit from Discontinued Operations			3,119
Depreciation and amortization	633	-	633
Impairment losses on receivables	355	-	355
Severance indemnity fund and similar provisions	114	-	114



The tables below show the assets and liabilities of the segments, as well as investments in tangible and intangible assets, at Tuesday, December 31, 2019 and Monday, December 31, 2018:

At December 31, 2019		Continuing Operations					
	Europe Area	Asia Area	North America Area	South America Area	Elimination adjustments	Total	
Segment assets	141,014	209	5,332	10,062	(8,480)	148,137	
Equity investments in other companies						4,176	
Unallocated assets						57,646	
						<u>209,959</u>	
Segment liabilities	32,962	20	308	7,730	(7,258)	33,762	
Unallocated liabilities						85,177	
						<u>118,939</u>	
Investments in Intangible Assets	5,680	-	-	-	-	5,680	
Investments in Tangible Assets	2,001	-	-	3	-	2,004	

At December 31, 2018		Continuing Operations					
	Europe Area	Asia Area	North America Area	South America Area	Elimination adjustments	Total	
Segment assets	135,263	27,353	7,388	6,759	(9,633)	167,130	
Investments in associates	593					593	
Unallocated assets						49,784	
						<u>217,507</u>	
Segment liabilities	30,206	9,973	732	5,798	(6,432)	40,277	
Unallocated liabilities						82,400	
						<u>122,677</u>	
Investments in Intangible Assets	5,702	-	-	8	-	5,710	
Investments in Tangible Assets	1,801	418	22	104	-	2,345	

Segment assets include non-current assets, inventories, trade and other receivables, while tax and financial receivables, equity investments and cash are excluded; the excluded items were recognized as “Unallocated assets”. Liabilities pertaining to each segment do not include tax liabilities and liabilities connected with loans. These excluded amounts were recognized under “Unallocated liabilities”.

The decrease in the assets and liabilities of the “Asia” sector compared to those at December 31, 2018 is owing to the sale of Isagro (Asia) Agrochemicals Pvt. Ltd.

The increase in the assets of the “Europe” and “South America” sectors, compared to those at December 31, 2018, is essentially attributable to the introduction, from January 1, 2019, of the new accounting standard IFRS 16, which changed the accounting of lease contracts, for which the right of use is now recognized among the sector assets (€ 4,421 thousand at December 31, 2019).

In addition, again due to application of the accounting standard IFRS 16, there is an increase in the unallocated liabilities following the recognition among the financial payables of the current value of the payments due for leases (€ 4,522 thousand at December 31, 2019).

INFORMATION ON THE INCOME STATEMENT

25. Revenue from Contracts with Customers – 105,369

The breakdown of revenues is described in the table below.

Breakdown	2019			2018		
	ITALY	FOREIGN COUNTRIES	TOTAL	ITALY	FOREIGN COUNTRIES	TOTAL
Revenue from sales of:						
- crop protection products	18,880	80,422	99,302	24,921	88,192	113,113
- raw materials	192	344	536	174	345	519
	19,072	80,766	99,838	25,095	88,537	113,632
Revenue from services:						
- toll manufacturing	543	1,598	2,141	1,536	2,004	3,540
- product protection and development	-	11	11	-	-	-
- M/L Agreements	-	3,117	3,117	-	7,478	7,478
- other	43	219	262	13	175	188
	586	4,945	5,531	1,549	9,657	11,206
Total	19,658	85,711	105,369	26,644	98,194	124,838

The item shows a decrease of € 19,469 thousand, which was essentially determined by a decrease in the revenues from sales of crop protection products and raw materials (€ -13,794 thousand), from lower earnings from futures M/L Agreements (€ -4,361 thousand) and from lower revenues deriving from the formulation activities carried out at the plants in Aprilia (Latina) and Adria (Rovigo) by the Parent Company Isagro S.p.A. (€ -1,399 thousand).

With reference to the sales of crop protection products, during 2019 a decrease in sales was recorded in the Italian market (€ -6 million compared to 2018) and in the foreign market (€ -7.8 million compared to 2018), in particular in the Americas (€ -10.3 million), which were offset by higher sales in Europe (€ +1.8 million). In particular, the lower sales in Italy and the United States were determined by fewer acquisitions made by two major distributors due to de-stocking requirements, whereas the lower sales in Brazil were determined by unfavorable weather conditions for the development of fungal diseases that affected the final part of the year.

With reference to the aforementioned reduction in revenues deriving from formulation activities on behalf of third parties, we note that this reduction was essentially caused by strategic decisions by the management of the Parent Company Isagro S.p.A. to no longer formulate some copper-based products for third parties.

The item “M/L Agreements, futures” refers:

1. for € 2,500 thousand to the upfront payment made to the Parent Company Isagro S.p.A. by the Spanish company AQL Agroquímicos de Levante S.A. in relation to an agreement, with a duration of seven years and

which can be extended, related to the fumigant *Allyl Isothiocyanate* which states the following performance obligations: i) assignment by Isagro to AQL of an exclusive license fee and data access relating to the intellectual property of the fumigant in certain territories, and ii) the commitment, by Isagro, to purchase from AQL certain quantities of technical product at a predefined price. With reference to the first performance obligation, the agreement states that AQL may use the intellectual property related to the fumigant in order to develop, register, formulate, produce, and market exclusively products containing said active ingredient in a number of countries; the one-off fee of € 2,500 thousand, which was recognized among the revenues for the year in the item “M/L Agreements”, the payment of which is expected to take place according to the schedule described below, was deemed by management to be in line with the market value (fair value)—though it is difficult to determine said characteristic value of the type of M/L Agreement—by comparing it to other M/L Agreements signed by Isagro similar to the one in question. The Parent Company Isagro S.p.A. is developing a new formulation of the product with a 20% concentration, for which, once the development and registration process is complete, Isagro will guarantee AQL the right to develop, register, formulate, produce, and market said new formulation; as a fee for the transfer of this right, a royalty of 2.5% will be paid on the sales, which, from Isagro’s experience—for example, the contract signed with the American company Arysta LifeScience, described below, which also provided for a remuneration mechanism based on royalties, alongside the fact that these percentages of roy-

alties are in line with those applied in other exclusive distribution agreements signed by other players in the crop protection sector—would in any case represent the fair value for said potential future right. The collection of the aforementioned upfront payment will take place according to the following schedule:

- € 1,500 thousand was collected in four installments of € 375 thousand each in the months of April, June, September, and November 2019;
- € 1,000 thousand will be collected in four annual payments of € 250 thousand each starting from November 20, 2020 and on which interest accrues at the EURIBOR 12-month rate + 2% spread.

The agreement also states that AQL may make an early payment of the entire portion of € 1,000 thousand, paying only the interest accrued up to the date of that payment. With reference to the second performance obligation, the agreement requires that Isagro purchase from AQL the volumes of technical product and/or formulation at 20% according to the following schedule:

- in the first three years of sale of the product, Isagro is required to purchase at least 80% of its requirements and in any case for an overall amount no less than 500 tons;
- between the fourth and seventh years of sale, at least 50% of its requirements.

Should the parties decide to extend the agreement, between the eighth and tenth years of sale, Isagro must purchase at least 25% of its requirements. It should be noted that the price applied by AQL for the technical product supplies is lower by around 10% than the price currently applied by third-party suppliers for the sale of the same product, and that the future price requested for the formulation is lower by around 28% than the production price that would be applied by third-party suppliers. If Isagro breached the exclusive right in relation to the commercialization and distribution activities of the product in certain territories, AQL would have the right to receive an indemnity modulated on the basis of the residual life of the agreement according to the following outline:

- € 2,500 thousand if the breach occurs in 2020;
- € 1,000 thousand if the breach occurs in 2021-2022;
- € 750 thousand if the breach occurs in 2023-2025.

In the opinion of the Directors of the Parent Company Isagro S.p.A., the occurrence of a breach in the aforementioned exclusive right is a remote possibility.

2. € 450 thousand (equal to 500 thousand US dollars) to an up-front payment that the American company Sipcam Agro USA, Inc. paid to the Parent Company Isagro S.p.A. in exchange for the right to cite to the American registration authorities, in order to obtain authoriza-

tions for the sale of products it owns, the studies related to Tetraconazole owned by Isagro. The contract states that the price agreed will be paid in two installments of 250 thousand US dollars each, of which the first installment falling due on February 29, 2020 (collected on March 12, 2020) and the second on December 31, 2020, including interest calculated at the LIBOR rate + a 3% spread;

3. € 167 thousand to the current value of the upfront payment of € 180 thousand made by the American company Suterra LLC to the Parent Company Isagro S.p.A. for the right to use the data related to the insecticide Deltametrina, an Isagro proprietary active ingredient, for the production of its own products used to attract and eliminate insects, which will be marketed in the European Union, Morocco, Israel, Tunisia, Lebanon, Mexico, Argentina, Australia, and South Africa. This agreement, which was signed in 2016 and has a duration of eleven years, also requires that Isagro provide Suterra with the active ingredient necessary for the production of its own products throughout the entire duration of the contract. The contract provided for an upfront payment totaling € 200 thousand: at the time of signing, Suterra paid the Parent Company Isagro S.p.A. an amount of € 20 thousand, while the remainder (equal to € 180 thousand) was paid upon the obtainment of the first registration of a Suterra formulation with the Isagro active ingredient and is paid in annual installments of € 20 thousand each on December 1 of each year. The Parent Company Isagro S.p.A. discounted this residual payment at the one-year EURIBOR rate + a spread of 2.71%. If there is a serious breach of the agreement by Isagro that is not remedied within forty-five days or there are regulatory changes that no longer make it possible to market products containing Deltametrina as an active ingredient, Suterra would have the right to receive an indemnity modulated on the basis of the residual duration of the agreement; the amount that the Parent Company Isagro S.p.A. would be required to pay, equal to 90% of the upfront payment totaling € 200 thousand (i.e. € 180 thousand) if the breach occurred prior to the start of the second year of the agreement (therefore by 2019), it is calculated in a manner inversely proportionate to the remaining years of the contract; therefore, the percentage of the upfront payment to be paid is calculated by comparing the number of years remaining to the overall duration of eleven years.

The item “M/L Agreements, futures” for the previous year referred to the distribution contract, signed in December 2017 by the Parent Company Isagro S.p.A. and the American company Arysta LifeScience Inc., with a duration of ten years and which could be extended for another five

years, valid only in Brazil, of a compound containing *Fluindapyr*, the Isagro proprietary fungicide still in development. In particular, this contract, the effects of which are produced starting from June 2018 following the cessation of the conditions precedent to which it was subject, provides for the following performance obligations: i) that Arysta shall be designated exclusive distributor for compounds between its active ingredients and *Fluindapyr*, ii) that the same shall be designated non-exclusive distributor for the compound between Tetraconazole and *Fluindapyr*, both Isagro proprietary fungicides, and iii) that Isagro shall provide in Brazil the support necessary for registration of the compounds between *Fluindapyr* and Arysta's active ingredients. The agreement, which also specified that Isagro shall also be Arysta's exclusive supplier for the aforementioned compounds in Brazil, states, with particular reference to the first performance obligation as above, that the American company shall pay Isagro, starting from the first year of distribution of the compounds for which it has exclusive rights, royalties calculated on sales according to the following scheme:

- 4% of total annual sales if these are less than or equal to USD 90 million;
- 3% of total annual sales if these are between USD 90 and 150 million;
- 2% of total annual sales if these are more than USD 150 million.

Although it is difficult to determine given the specific features and uniqueness of the M/L Agreements signed by Isagro, the value of the percentages of the contractually established royalties was considered by the management to be a market value (fair value), because it is in line with the percentages applied in other exclusive distribution agreements signed with other "players" in the sector of crop protection products, Isagro's sector of reference. However, it is stated that Arysta, regardless of the level of sales made, shall pay the Parent Company Isagro S.p.A. the following minimum amounts (minimum annual fees):

- a. USD 1 million to be paid on the first of January of the year after the first marketing of compounds for which Arysta has exclusive rights;
- b. USD 2 million to be paid on the first of January of the year after the payment date indicated in point a) above;
- c. USD 3 million to be paid on the first of January of the year after the payment date indicated in point b) above and for the entire term of the contract.

Regarding the second performance obligation, Isagro's management considered that the margin applied for the supplies of the compounds between Tetraconazole and *Fluindapyr* provided to Arysta is in line with the supplies

of other crop protection products made by Isagro in Brazil.

The one-off fee of USD 9 million paid to the Parent Company Isagro S.p.A. (third performance obligation of the contract), which was recognized among revenues of the year in the item "M/L Agreements" and received at the beginning of July 2018, was considered by the management in line with the market value—although this value characteristic of the type of M/L Agreements is difficult to determine—comparing it with other M/L Agreements signed by from Isagro, analogous to the one in question. The contract also states that, if by June 15, 2021 Isagro manages to obtain in Brazil the first registration of a *Fluindapyr*-based product, Arysta should pay it a further amount, variable between a minimum of zero and a maximum of USD eight million depending on the date on which it is obtained; this event was not reflected in the financial statements because its occurrence was not, as it stands, considered probable by the Parent Company Isagro S.p.A.

The contract also states that Isagro shall be obliged to pay a penalty, up to a maximum of USD nine million in the period 2018-2035, if one of the following events occurs:

- a. there is a change in the controlling shareholdings (direct and indirect) of the Parent Company Isagro S.p.A. up to the date of filing of the registration dossier of Technical *Fluindapyr* in Europe by Isagro (done in October 2018) or in the United States by FMC (co-developer of the active ingredient), the dossier of which has been indicated as complete by the Government Authority (that is presumably by the end of the first half of 2019);
- b. the Parent Company Isagro S.p.A. decides to voluntarily terminate the co-development of the fungicide *Fluindapyr*;
- c. Arysta is denied, for any reason, its exclusive right to distribute the *Fluindapyr*-based compounds.

In the opinion of the Directors of the Parent Company Isagro S.p.A., the occurrence of one of the aforementioned events is a remote possibility.

To guarantee correct fulfillment of the obligations provided for in the contract, UniCredit issued to Arysta a bank guarantee on behalf of the Parent Company Isagro S.p.A., with a duration of five years and which can be extended, up to a total amount of € 7,586 thousand. In turn, Isagro, in order to guarantee its obligations to the bank that issued the guarantee, established € 2,503 thousand as a pledge, deposited in a tied interest-bearing account, already described in Note 7.

26. Other operating revenues – 2,151

The breakdown of other operating revenues is described in the following table.

Breakdown	2019	2018
Recovery of research costs	762	1,696
Insurance compensation	-	24
Capital gains on disposal of fixed assets	425	6
Guaranteed minimum margins	467	530
Recovery of miscellaneous costs and other income	497	336
Total	2,151	2,592

The item “Recovery of research costs” refers:

- for € 440 thousand to the recovery of 50% of the costs incurred by the Parent Company Isagro S.p.A. in relation to the American company FMC Corporation, as a result of the agreement signed between the two companies for the co-development of a new fungicide;
- for € 213 thousand to the fees paid by third-party companies in order to access the scientific data related to the Group proprietary toxicological dossiers;
- for € 58 thousand to the recovery of the costs incurred by the Parent Company Isagro S.p.A. in Brazil in relation to Arysta LifeScience, for research and trial activities commissioned from Isagro for the registration of compounds containing *Fluindapyr*.

The item “Guaranteed minimum margins” refers to the amount that the British company Gowan Crop Protection Ltd. (related party) is required to pay to the Parent Company Isagro S.p.A. on the basis of an agreement signed in 2016. This agreement, besides providing for the exclusive concession of the right to develop, formulate, produce and market for a period of fourteen years in Europe compounds based on Kiralaxyl—an Isagro proprietary fungicide—as already described in Note 6, stated that Gowan was appointed exclusive distributor in Europe of products based on this fungicide. As consideration, the contract attributed to Isagro the payment of a guaranteed minimum margin of € 900 thousand, calculated on the basis of the margins previously obtained by Isagro: therefore, if the margin deriving from sales made in the period September 1 – August 31 for each year of the contract is less than this minimum amount, Gowan must pay Isagro the difference between the margin achieved and the guaranteed minimum amount while, if the margin is higher than this minimum amount, Isagro will have to pay this difference to Gowan.

Following the signing of an agreement to share the expenses incurred for the renewal of the registration of the technical Tetraconazole in the United States, the Parent Company Isagro S.p.A. received from Sipcam Agro USA the amount of US\$ 630 thousand (equal to € 559 thousand) as recovery of part of the costs incurred in previous

years—and recognized in the intangible fixed assets—in relation to a number of studies pertaining to that product; the income was recognized to the item “Capital gains on disposal of fixed assets” net of the proportionate amount of costs already incurred (equal to € 187 thousand).

The item “Other” includes € 320 thousand related to the fair value of the performance obligations pertaining to the contracts signed with PI Industries Limited and related to the portion pertaining to the right of distribution, with a ten-year duration, of products present in Isagro’s portfolio in addition to the maintenance, beyond the expiry of the distribution contract, of the trademarks and intellectual property relating to the products granted in distribution; for a more extensive description of the transaction, please refer to the section “Consolidation scope” and to Note 38.

27. Raw materials and consumables used – 62,189

The breakdown of costs for the purchase of raw materials and consumables is described in the following table.

Breakdown	2019	2018
Raw and ancillary materials, consumables and goods:		
- purchases of raw materials, packaging and crop protection products	60,686	66,380
- purchases of technical materials and those for research activities	884	889
- change in inventories of raw and ancillary materials and consumables	385	(460)
- other purchases	234	260
Total	62,189	67,069

The decrease in the item “purchases of raw materials, packaging and crop protection products” compared to the previous financial year is related to the sharp reduction in turnover of crop protection products compared to 2018. For the total amount of purchases from related parties, please refer to Note 43.



28. Costs for services – 22,723

The breakdown of costs for services is described in the table below:

Breakdown	2019	2018
For services:		
- utilities	3,087	2,762
- technical maintenance	1,058	1,022
- transport and related purchase and sale transaction costs	4,896	6,331
- toll manufacturing	1,486	1,074
- consulting and professional services	3,637	3,652
- services connected to research	2,743	2,599
- IT system	443	435
- marketing costs	816	656
- rents, hire and leases	682	1,347
- lease expense	193	798
- provision for the destruction of goods	140	54
- other services	3,542	3,546
Total	22,723	24,276

The item shows a decrease compared to the previous year of € 1,553 thousand, which is essentially attributable to lower costs of transport and related purchase and sale transaction costs, in turn related to fewer purchases of raw materials and finished products and to lower turnover of crop protection products, as described above. The increase in the item “services connected to research” is essentially attributable to higher costs for ordinary protection and, for some molecules, extraordinary protec-



tion, which was booked in that the Directors of the Parent Company Isagro S.p.A. did not consider the obtainment of some re-registrations of the intellectual property of Isagro S.p.A. probable.

The item “vehicle leasing/rental” includes the component related to the ancillary services pertaining to the rental of vehicles for use by employees of the Isagro Group companies and the Directors of the Parent Company Isagro S.p.A., which, according to the provisions of accounting standard IFRS 16, must not be included in the calculation of the right of use.

For the total amount of costs for services from related parties, please refer to Note 43.

29. Personnel costs – 25,735

The breakdown of personnel costs is described in the following table:

Breakdown	2019	2018
Personnel costs:		
- wages and salaries	15,871	16,581
- social security charges	5,009	5,004
- remuneration component deriving from the long-term incentive and retention plan	242	215
- employee benefits	-	-
- pension funds	1,006	1,013
- provision for bonuses	793	926
- costs for employee services	1,701	1,734
- costs for early retirement incentives	685	266
- other costs	428	385
Total	25,735	26,124

The item is substantially in line with the previous year. The higher costs for early retirement incentives for € 419 thousand are essentially related to the Parent Company Isagro S.p.A. and were incurred following the agreed and consensual termination of employment with some executives.

On March 13, 2018 the Board of Directors of the Parent Company Isagro S.p.A. approved the introduction of an incentive and long-term retention plan (2018-2021) reserved for the Company’s top managers and aimed at ensuring the retention of resources with a high impact on implementation of the business plan and at encouraging orientation to the achievement of long-term objectives. The plan, approved also by the Shareholders’ Meeting on April 24, 2018, was then formally accepted by the Compa-



ny's Group Directors in June 2018.

The plan provides for free assignment to the beneficiaries of the Company's "Growth Shares" for a grand total of 890,000 shares. Consequently, the Shareholders' Meeting also approved the purchase of growth treasury shares in service of the plan.

The shares will be assigned in the following ways:

1. for the first 50% of the shares (so-called Restricted Shares) on the basis of the continuity of the employment relationship modulated as follows:
 - - 12/31/2019: 50% of the shares;
 - - 12/31/2020: 25% of the shares;
 - - 12/31/2021: 25% of the shares;
2. for the remaining 50% of the shares assigned (so-called Performance Shares) the attribution will occur at the end of the plan on the basis of the achievement of four performance objectives, the weight of which is 25% each:
 - a. percentage increase in the price of Isagro ordinary shares between the start and the end of the performance period;
 - b. EBITDA/Revenue ratio as average figure for the four years 2018-2021;
 - c. net Working Capital/Revenue ratio as average figure for the four years;
 - d. net Financial Position/EBITDA ratio as average figure for the four years.

For objectives b), c) and d), the target figure of reference will be calculated as average of the figures of the budget

for 2018 and for the first three years of the 2019 – 2023 Business Plan, which were approved on January 15, 2019. On the basis of the accounting standard IFRS 2, the operation is classified as an incentive plan with share-based payment, settled with equity instruments. According to this standard, the Company receives goods or services from the employee and must therefore recognize the related cost, in personnel costs, for a figure equivalent to the fair value of the goods or services received. In the case of Isagro's incentive plan, the fair value was determined indirectly using the fair value of the "Growth Shares" to be assigned.

The cost of the incentive was therefore determined using the fair value of the attributable instruments and the forecast of the number of shares that will effectively be assigned. The portion accruing during the period is determined *pro-rata temporis* along the vesting period, that is the period in which the conditions for accrual of the rights provided for in the plan must be fulfilled, and is recognized as a counter-item to the Shareholders' Equity reserves (see Note 16).

The fair value of the shares involved in the plan was calculated at the assignment date based on the market prices of the instrument, taking into account the assignment terms for the instrument. The average fair value of the Growth Shares at the date of assignment to the employees was estimated at the time as € 1.16 per share.

Below is the number of employees, broken down by category of Continuing Operation:

	2019 average	2018 average	At Dec. 31, 2019	At Dec. 31, 2018
Executives	41	38	37	37
Middle managers	88	91	83	89
white-collar workers	155	149	149	149
special qualified workers	4	4	4	4
blue-collar workers	92	93	70	78
TOTAL	380	375	343	357

The following table shows the “total” number of employees (Continuing and Discontinued Operations), grouped by category:

	2019 average	2018 average	At Dec. 31, 2019	At Dec. 31, 2018
Executives	57	43	52	54
Middle managers	137	148	131	137
white-collar workers	364	349	353	351
special qualified workers	4	4	4	4
blue-collar workers	105	103	80	88
TOTAL	667	647	620	634

The number of employees of Isagro (Asia) Agrochemicals Pvt. Ltd. (Discontinued Operation) at December 27, 2019, is as follows:

	2019 average	2018 average	At Dec. 31, 2019	At Dec. 31, 2018
Executives	16	5	15	17
Middle managers	49	57	48	48
white-collar workers	209	200	204	202
blue-collar workers	13	10	10	10
TOTAL	287	272	277	277

30. Write-downs/write-backs of trade receivables and other receivables – 686

The breakdown of the item is presented below:

- Allocation to Provisions for the Impairment of Trade Receivables	793
- Use of Provisions for Impairment of Receivables due to surplus	(107)
TOTAL	(686)

Following the introduction from January 1, 2018 of the new accounting standard IFRS 9, the estimate of losses on receivables is made on the basis of the expected credit losses (E.C.L.) model using supportable information, available with available without unreasonable expenses or efforts, which includes historical, current and pro-

spective data; unlike what is provided for in the incurred losses model, prescribed by IAS 39, it is no longer necessary for an event to have occurred before recognizing losses on receivables. To measure expected credit losses a “provision matrix” was constructed, applying percentages differentiated according to the maturity bands of the receivables.

The provisions for the period essentially involved the Parent Company Isagro S.p.A. and the subsidiary Isagro Brasil and were determined by a worsening in the payment profile of a number of customers, which led to a displacement in the related receivables in highest-risk maturity bands, and by a worsening in the default rate of a number of countries, which led to an increase in the write-down percentages.

The use for surplus provisions instead regarded the subsidiary Isagro Colombia S.A.S. for € 94 thousand; this use became necessary in that the analysis carried out pursuant to accounting standard IFRS 9 showed a surplus in

the value of the fund at December 31, 2018 owing to the decrease in the amount of receivables in the highest-risk maturity bands.

31. Other operating costs – 2,448

The breakdown of this item is described in the following table.

Breakdown	2019	2018
- losses on disposal of assets	46	1
- allocations to provisions for sundry risks	179	-
- indirect, production and manufacturing taxes	1,548	1,090
- other operating costs	675	1,105
Total	2,448	2,196

The item “provisions for sundry risks” includes € 149 thousand in relation to the maximum estimation of the costs that the Parent Company Isagro S.p.A. must bear for the conclusion of the reclamation works relating to the production site in Adria (Rovigo).

The item “indirect, production and manufacturing taxes” includes € 273 thousand related to the contribution for food security for the year and € 230 thousand related to the sole municipal tax paid by the Parent Company Isagro S.p.A.

“Other operating costs” for the previous year included € 230 thousand related to the contribution margin paid to the American company Gowan Co. LLC (related party), designated exclusive distributor in the United States for technical Tetraconazole on certain crops, for sales of this product by the Group to other local distributors.

With regard to other operating costs with related parties, please refer to Note 43.

32. Change in inventories of finished products and work in progress – 2,451

The positive change of € 1,153 thousand in product inventories, calculated net of the provision for inventory obsolescence, was calculated as follows:

• Net inventories at January 1, 2019	(38,450)
• Translation difference and other changes	48
• Net inventories at December 31, 2019	40,853
• Total change	2,451

For the comment on this accounting item please see what has already been described in Note no. 9.

33. Costs capitalized for internal work – 1,192

The item refers to the capitalization of personnel costs, overheads and consumption of technical material related to extraordinary protection costs, development expenditure and expenses for registration of the Group’s new products. This item decreased by € 753 thousand compared to the previous year, essentially due to greater use of the Group’s internal resources for innovative research, pre-development, and ordinary and extraordinary protection activities for a number of molecules, which according to the assessments by the Group’s management do not qualify as projects subject to capitalization. Services received from third parties relating to capitalized development projects are deducted directly from “consulting and professional services” under “costs for services”.

34. Depreciation and amortization – 10,084

Depreciation of tangible assets – 2,622

Amortization of intangible assets – 6,552

Amortization of rights of use – 910

Breakdown	2019	2018
Depreciation of tangible assets:		
- buildings:	863	869
- plant and machinery	1,334	1,489
- industrial and commercial equipment	155	213
- furniture and fittings	38	38
- motor vehicles	8	4
- office equipment	224	173
	2,622	2,786
Amortization of intangible assets:		
- extraordinary protection	1,660	1,818
- know-how	1,448	1,268
- patents, licenses, trademarks and registrations	3,213	2,583
- other	231	228
	6,552	5,897
Amortization of the rights of use:		
- Land and buildings	536	-
- Vehicles	218	-
- Equipment	156	-
	910	-
Total	10,084	8,683

35. Write-downs of tangible and intangible assets – 1,034

During the year, following the non-renewal at European level of the fungicide Chlorothalonil, the Parent Company Isagro S.p.A. wrote down the residual book value of the costs incurred for authorizations to sell crop protection products being obtained, and containing said active ingredient, for € 430 thousand.

Following the assessments made on the probability of failure to re-register the fungicide Tetraconazole in Europe, the Parent Company Isagro S.p.A. also wrote off, for € 327 thousand, the costs incurred in relation to the authorizations for the sale of crop protection products being obtained and to the development of new formulations containing said active ingredient.

Lastly, it wrote down the residual book value of € 277 thousand of the costs incurred for authorizations to sell other products being obtained, whose continuation was judged not cost-effective by the Parent Company's Directors.

36. Financial income – 2,300

Financial charges – 1,722

Gains/(losses) on foreign exchange and financial derivatives – -515

Breakdown	2019	2018
Interest income from financial instruments at amortized cost:		
- bank deposits	20	12
- medium-long term loans	102	204
	122	216
Income from financial instruments:		
- adjustments to the fair value of financial instruments	2,147	-
	2,147	-
Others:		
- default interest	6	50
- financial discounts from suppliers	1	6
- interest income on tax and other receivables	5	-
- others	19	-
	31	56
Total	2,300	272

Breakdown	2019	2018
Interest paid to banks and other lenders	(1,407)	(1,243)
Others:		
- interest paid to Tax Authorities	(1)	(16)
- interest paid on employee benefits - severance indemnity	(22)	(21)
- interest paid to suppliers and financial discounts to customers	(62)	(18)
- financial expenses – IFRS 16	(152)	-
- others	(24)	(3)
	(261)	(58)
Gains/(losses) on IRS derivative instruments	(54)	(48)
Total	(1,722)	(1,349)

Breakdown	2019	2018
Foreign currency gains and losses		
- foreign currency gains	737	1,423
- foreign currency losses	(877)	(1,493)
- gains/(losses) on currency forward derivative instruments	(380)	(516)
	(520)	(586)
Derivative financial instruments (trading)		
- exchange rates (currency forwards)	19	(374)
- adjustment to fair value of exchange rates (currency forwards)	(14)	100
	5	(274)
Total	(515)	(860)

The positive overall change compared to the previous year of € 2,000 thousand is substantially related to the positive fair value assigned to the shares of the company Arterra Bioscience S.p.A. at the time of listing on the AIM Italia/Mercato Alternativo del Capitale market, as described in Note 5, to which you are referred; it should be noted that the Directors of the Parent Company Isagro S.p.A., in accordance with the provisions of section 5.7.5 of IFRS 9, chose to present the subsequent changes in fair value of the stock in the "Other Comprehensive Income".

37. Income taxes – 1,568

Breakdown	2019	2018
Consolidated Income Statement		
<i>Current tax:</i>		
- income taxes	574	701
- IRAP	-	23
- use of deferred tax liabilities/deferred tax assets	426	835
- contingent assets and liabilities, taxes on foreign income and tax credits	155	601
	1,155	2,160
<i>Deferred tax assets and liabilities:</i>		
- deferred tax liabilities	3	56
- deferred tax assets	(268)	(859)
- contingent liabilities for deferred tax assets	678	7
	413	(796)
Total income taxes recognized in profit or loss (Continuing Operations)	1,568	1,364
Other Comprehensive Income		
<i>Deferred tax assets and liabilities:</i>		
- tax effect on actuarial gains/losses regarding defined-benefit plans	(24)	9
- tax effect on derivatives (CFHs)	(9)	27
	(33)	36
Total income taxes recognized in equity (Continuing Operations)	(33)	36

The item “Use of deferred tax assets/deferred tax liabilities”, of € 426 thousand, reflects the difference between the use of deferred tax assets of € 650 thousand and the use of deferred tax liabilities of € 224 thousand.

The recognition of deferred tax assets of € 268 thousand refers mainly to the tax benefits expected from the future use of taxed provisions.

The item “contingent assets and liabilities, taxes on foreign income and tax credits”, equal to € 155 thousand, essentially refers to the contingent liability recorded by the parent company Isagro S.p.A. following the decision to write down several withholdings at the source on foreign income in previous years, as the management of the parent company Isagro S.p.A. judged them unrecoverable over the time frame of the 2020-2025 Plan.

The item “contingent liabilities for deferred tax assets”, equal to € 678 thousand, reflects the write-down, for € 450 thousand, of deferred tax assets allocated with reference to part of the tax losses in previous years of the Parent

Company Isagro S.p.A., which the Directors deem unable to recover on the basis of the forecasts of the Isagro S.p.A. Plan; the remainder essentially refers to the effect of the changes in tax rates of certain foreign subsidiaries.

The following table illustrates the reconciliation between the theoretical IRES and IRAP tax rates (24% and 3.90%, respectively) and the effective tax rates, taking into account the effect of deferred tax assets and liabilities. The taxable income relating to the theoretical tax rates, coinciding with the profit/(loss) before tax, was € -13,482 thousand.

	INCOME TAXES	IRAP	TOTAL
	Taxes	Taxes	Taxes
Theoretical taxes	(3,236)	(526)	(3,762)
- increases	2,894	119	3,013
- decreases	(753)	(16)	(769)
- costs not relevant for IRAP purposes	-	(1,426)	(1,426)
- non-allocation of deferred tax assets	3,202	-	3,202
- effect of differences in tax rates	36	-	36
- contingent assets and other changes	838	436	1,274
Effective taxes	2,981	(1,413)	1,568

The increase essentially refers to costs, indirect taxes and non-deductible write-downs, as well as to taxed contingent liabilities, while the decreases are essentially attributable to the benefit of the maxi-amortization related to investments made in 2019. “Costs and revenues not relevant for IRAP purposes” include both the labor costs for employees with fixed-term contracts and provisions and financial charges, since these items are not respectively deductible for the purpose of calculating the regional tax on production activities.

Lastly, it should be reported that the high tax burden recognized despite the presence of a pre-tax loss is due mainly to the presence of the above contingent liabilities. In addition, for reasons of prudence connected with their recoverability, deferred tax assets were not allocated to tax losses for € 3,259 thousand, of which € 2,585 thousand relating to the Parent Company Isagro S.p.A. and € 674 thousand relating to the American subsidiary Isagro USA, Inc.

38. Net profit/(loss) from Discontinued Operations – 1,143

On November 4, 2019, the Parent Company Isagro S.p.A. and the subsidiary Isagro España S.L. signed an agreement with the Indian companies PI Industries Limited and PI Life Science Research Limited for the full transfer of the investment held in the Indian company Isagro (Asia) Agrochemicals Pvt. Ltd., which took effect on December 27, 2019 (closing date); in addition, the Parent Company Isagro S.p.A. and PI Industries Limited also signed distribution, production and supply agreements ancillary to the aforementioned agreement.

The sale price, which is subject to an adjustment mechanism (true-up adjustment), was determined as 4,553 million Indian Rupees (approximately € 57,271 thousand), including the estimation of the Net Current Assets and the Net Financial Position of Isagro Asia at the closing date for an amount equal to 1,098 million Indian Rupees. From this sale price, 410 million Indian Rupees (approximately € 5,164 thousand) were deducted in relation to the withholding applied to the sale price and 472 million Indian Rupees (approximately € 5,937 thousand) were deducted in relation to the amount deposited with the escrow agent, according to the provisions in relation to the true-up adjustment and other conditions defined by contract: therefore, on December 27, 2019, Isagro S.p.A. collected the amount of 3,671 million Indian Rupees (approximately € 46,167 thousand) and Isagro España S.L. collected the amount of 260 thousand Indian Rupees (approximately € 3 thousand).

With reference to the total amount deposited with the escrow agent, Isagro made allocations to a provision for risk to adjust it for a total € 2,000 thousand, also allocating a specific expenses provision connected to some obligations set out by contract for Isagro S.p.A., as shown in Note 21, to which you are referred.

In addition, the part related to the true-up adjustment was released by the escrow agent on April 21, 2020 following the agreement between the parties regarding the calculation of the final sale price (which took place on April 4, 2020), while the remainder will be released once the related obligations have been met.

As required by accounting standard IFRS 15, the Directors of the Parent Company Isagro S.p.A. made a significant judgment in the assessment of all performance obligations pertaining to the Isagro Asia sale contract. In order to determine the capital gain, the Directors also calculated, as a percentage, the proportion of the performance obligations on the total price. The following additional performance obligations were then identified with respect to the transfer of the investment:

1) exclusive right of distribution of the products currently present in Isagro's portfolio;

2) exclusive right of distribution of future products and compounds of Isagro;

3) maintenance, beyond the expiry of the distribution contract, of the trademarks and intellectual property related to the products granted in distribution;

and to which the following fair values were assigned:

1) € 1,208 thousand for the right of exclusive distribution of products present in Isagro's portfolio, which will be booked to the item "Other operating revenues" of the Income Statement of the Isagro Group throughout the duration of the right (10 years);

2) € 266 thousand for the right of exclusive distribution of future Isagro products and compounds, which will be fully booked to the item "Other operating revenues" in the financial year 2027;

3) € 381 thousand for the maintenance, beyond the expiry of the distribution contract, of the trademarks and intellectual property related to the products granted in distribution which was fully recognized in 2019 to the item "Other operating revenues".

Therefore, the portion of the price related to the entire sale of the investment for the Parent Company Isagro S.p.A. booked in 2019 was equal to € 55,412 thousand.

The Parent Company Isagro S.p.A. incurred ancillary costs to the aforementioned transaction directly correlated to the sale of the investment for a total € 2,776 thousand.

Lastly, the Parent Company Isagro S.p.A. has commitments in place for the guarantees issued to the buyer as regards potential future liabilities, for losses or damages related to taxes, the environment, social security and labor. The maximum risk is measured at € 19,344 thousand



and the expiry of the guarantees is to be correlated to time-barring and lapse of the related events.

Pursuant to IFRS 5, the effects deriving from the aforementioned sales are classified as Discontinued Operations and, as required by section 15 of the accounting standard, were calculated as their book value or their fair value net of the sale costs, whichever was lower. This extraordinary operation led to the recognition in the Consolidated Financial Statements of the Isagro Group of a capital gain equal to € 1,149 thousand net of the tax withholdings.

The table below shows the calculation of the capital gain net of consolidated income deriving from the sale of the assets and liabilities of Isagro (Asia) Agrochemicals Pvt. Ltd.

Sale price of Isagro S.p.A. investment	55,412
Net sale price of Isagro España	4
	55,416
Ancillary costs paid for sale of investment	(1,574)
Consolidated net price received	53,842
Ancillary costs unpaid for sale of investment	(1,202)
Adjustment to sale price of investment (true-up) – Isagro S.p.A.	(1,482)
Consolidated net sale price	51,158
Assets related to the Discontinued Operation	(47,479)
Liabilities related to the Discontinued Operation	11,424
Translation difference for the Discontinued Operation	(9,119)
Gross capital gain	5,984
Taxes	(4,835)
Net capital gain	1,149

The “Profit/(loss) from Discontinued Operations” in 2018, in addition to the profit of the former subsidiary Isagro (Asia) Agrochemicals Pvt. Ltd., included € 100 thousand related to the the additional allocations to the bad debt



provision by the Parent Company Isagro S.p.A. based on the communications received from the legal counsel of Sumitomo Chemical Italia S.r.l., who were handling collection of the receivables guaranteed at the time of transfer of the investment in Isagro Italia S.r.l. (now Sumitomo Chemical Italia S.r.l.) in 2011.

The transfer contract provided, in fact, for an indemnity up to € 2,250 thousand in connection with the enforceability of some trade receivables if the portfolio of the sold company if, within three years from the date of closing the transaction, these receivables were not yet collected.

The purchaser had notified the Parent Company Isagro S.p.A. that at December 31, 2013 € 1,750 thousand of the above-mentioned receivables had still not been collected. Therefore, on February 20, 2014, the parties

had agreed that Isagro would have paid this sum to Sumitomo Chemical Co. Ltd by way of guarantee on the obligation to pay the receivables in question, however establishing that if Sumitomo Chemical Italia S.r.l. should collect these receivables by December 31, 2018 the purchaser was required to return the sum deposited for the corresponding amount to Isagro. The payment of the afore-mentioned amount then took place on April 8, 2014. We can note that on April 28, 2017 the Japanese company returned a part, € 121 thousand, of the security deposit following collection of a number of trade receivables. which, added to what had already been received in 2016, takes to € 350 thousand the total amount of the security deposit returned; the value of this deposit, including provisions for impairment, amounted to € 1,400 thousand at December 31, 2018 (this amount at December 31, 2019 is completely hedged by the related write-down provision).

This allocation was classified in the item “Net profit/(loss) from Discontinued Operations”, pursuant to paragraph 35 of IFRS 5, emerging as a price adjustment of the disposal of the equity investment in Isagro Italia (today Sumitomo Chemical Italia S.r.l.) against which a net capital gain of € 8,859 thousand was recognized in the same item of the Income Statement of the Consolidated Financial Statements at December 31, 2011. The financial balancing entry of the allocation was reclassified to decrease the guarantee deposit recorded under non-current receivables. Lastly, as the Parent Company Isagro S.p.A. considered the allocation made as an adjustment to the capital gain relating to the transfer of an investment, it is not tax deductible, as in 2011 the Parent Company subjected the income obtained to a regime of tax benefits (so-called Participation Exemption), which requires taxation of only 5% of the capital gain earned. The following tables detail the assets, liabilities, and the profit/(loss) of the Discontinued Operations, in addition to the cash flows generated/used.



Assets and liabilities of the Discontinued Operations

amounts in thousands of euro	Isagro Asia 12/27/2019
Non-current assets	
Tangible fixed assets	2,794
Intangible fixed assets	17
Rights of use	993
Goodwill	174
Non-current receivables and other assets	638
Deferred tax assets	962
Total non-current assets	5,578
Current assets	
Inventories	9,426
Trade receivables	13,476
Other current assets and receivables	4,127
Tax receivables	520
Current financial assets	13,022
Cash and cash equivalents	1,330
Total current assets	41,901
Total assets from Discontinued Operations	47,479
Non-current liabilities	
Non-current financial payables	347
Employee Benefits - Severance indemnity fund	273
Total non-current liabilities	620
Current liabilities	
Current financial payables	238
Trade payables	9,146
Current provisions	23
Tax payables	231
Other current liabilities	1,166
Total current liabilities	10,804
Total liabilities from Discontinued Operations	11,424

Net profit/(loss) from Discontinued Operations (including capital gain made)

amounts in thousands of Euro	01/01-12/27/2019	2018		
	Isagro Asia	Isagro Asia	Sumitomo Chemical Italia (former Isagro Italia)	Total
Revenue from Contracts with Customers	29,844	29,264	-	29,264
Cost of sold products	(16,700)	(14,785)	-	(14,785)
Other costs	(12,455)	(9,747)	(100)	(9,847)
Operating profit/(loss)	689	4,732	(100)	4,632
Depreciation and amortization	(665)	(633)	-	(633)
Net financial charges	724	490	-	490
Capital gain from Discontinued Operations	5,984	-	-	-
Profit/(Loss) before taxes	6,732	4,589	(100)	4,489
Taxes	(5,589)	(1,370)	-	(1,370)
Net profit/(loss) from Discontinued Operations	1,143	3,219	(100)	3,119

Cash flows generated/used by Discontinued Operations

amounts in thousands of Euro	2019	2018
	Isagro Asia	Isagro Asia
A Net cash flow generated/(used) by operating activities	684	3,987
B Net cash flow generated/(used) by investment activities	527	(13,614)
C Net cash flow generated/(used) by financing activities	(227)	(613)
D Change in the translation reserve	(9)	(687)
E Total cash flow generated/(used) in the period (A+B+C+D)	975	(10,927)
F Cash at the start of the period	355	11,282
G Cash at the end of the period (E+F)	1,330	355

Profit per share from Discontinued Operations

amounts in thousands of Euro	Isagro Asia	Earnings per share (in Euro):	
		2019	2018
Fee received (net of ancillary charges)	48,098	Earnings per share (basic = diluted)	
Cash and cash equivalents transferred	(1,330)	Ordinary Share	0.030
Net cash flow	46,768	Growth Share	0.030
			0.081

39. Distributed dividends

During financial year 2019 no dividends were distributed by the Parent Company Isagro S.p.A.

40. Earnings Per Share

	2019	2018
Earnings per share (basic and diluted)		
Net profit/(loss) for the year attributable to shareholders of the parent (thousands of euro)	(13,907)	363
Average number of Ordinary Shares and Growth Shares (thousands)	37,860	38,410
Earnings per share (basic and diluted) - Ordinary Shares	(0.367)	0.009
Dividend increase for Growth Shares	0.000	0.002
Earnings per share (basic and diluted) - Growth Shares (euro)	(0.367)	0.011
Earnings per share (basic and diluted) from Continuing Operations		
Profit/Loss from Continuing Operations (in thousands of euro)	(15,050)	(2,756)
Average number of Ordinary Shares and Growth Shares (thousands)	37,860	38,410
Earnings per share (basic and diluted) from Continuing Operations - Ordinary Shares	(0.398)	(0.072)
Dividend increase for Growth Shares	0.000	0.000
Earnings per share (basic and diluted) from Continuing Operations - Growth Shares (euro)	(0.398)	(0.072)
Earnings per share (basic and diluted) from Discontinued Operations		
Profit/Loss from Discontinued Operations	1,143	3,119
Average number of Ordinary Shares and Growth Shares (thousands)	37,860	38,410
Earnings per share (basic and diluted) from Discontinued Operations - Ordinary Shares	0.030	0.081
Dividend increase for Growth Shares	0.000	0.000
Earnings per share (basic and diluted) from Discontinued Operations - Growth Shares (euro)	0.030	0.081
	2019	2018
Average number of Ordinary Shares	24,549,960	24,529,671
Average number of Growth Shares	13,309,862	13,879,883
Total	37,859,822	38,409,554

“Basic” net earnings per share are calculated on the average number of Isagro S.p.A. shares outstanding, deducting the average number of treasury shares held, equal to 865,057 in 2019 and 315,325 in 2018.

“Diluted” earnings per share are calculated taking into account, in addition to the average number of shares outstanding, also any shares already resolved, but not yet subscribed. These situations did not occur either in 2019 or in 2018.



41. Fair value: measurement and hierarchical levels

IFRS 13 requires that Balance Sheet items measured at fair value be classified according to a hierarchy of levels that reflects the significance of the inputs used to calculate the fair value. The following levels are distinguished:

- Level 1 – prices (not adjusted) quoted on an active market for assets or liabilities to be assessed;
- Level 2 – inputs other than the quoted prices per the previous point, observable directly (prices) or indirectly (derived from prices) on the market;
- Level 3 – inputs not based on observable market data. The following table shows the assets and liabilities measured at fair value at December 31, 2019 broken down by fair value hierarchy level.

	Level 1	Level 2	Level 3	Total
Assets carried at fair value:				
- fixed financial assets (equity investments in other companies)	4,176	-	-	4,176
- exchange rate derivatives (forward purchase/sale)	-	152	-	152
- derivatives on commodities – copper (future buy)	-	35	-	35
- interest rate derivatives (interest rate swaps)	-	10	-	10
Total financial assets	4,176	197	-	4,373
Financial liabilities carried at fair value:				
- exchange rate derivatives (forward purchase/sale)	-	(60)	-	(60)
- derivatives on commodities - copper (future buy)	-	(13)	-	(13)
- interest rate derivatives (interest rate swaps)	-	(84)	-	(84)
Total financial liabilities	-	(157)	-	(157)

As for the techniques for determining the fair value of the derivatives included in Level 2, please refer to Note no. 14.

In 2019, there were no shifts between Level 1 and Level 2 of fair value measurements, or from Level 3 to other levels and vice versa.

The fair value of (trade and other) receivables due beyond 12 months and loans obtained from banks is summarized in the table below; with reference to receivables deriving from M/L Agreements; they also include the portion due within the following year. Except for what is described in detail in the table below, in the management's opinion the book value of the other assets and liabilities (financial, commercial and other) of the Group is a reasonable approximation of their fair value.



	Book value	Fair Value
Receivables and other assets:		
<i>Receivables measured at amortized cost:</i>		
- Receivables from Gowan Company LLC	2,889	2,891
- Receivables from AQL Agroquímicos de Levante S.A.	1,000	996
- Receivables from Rotam Agrochemical Company Ltd.	301	302
- Receivables from Suterra LLC	167	181
Financial liabilities:		
<i>Financial liabilities measured at amortized cost:</i>		
- Loans from banks - floating rate (current and non-current)	58,635	59,238
- Loans from banks - fixed rate (current and non-current) *	17,308	17,681
- Loans from other lenders - floating rate (current and non-current)	2,926	2,954
- Loans from other lenders - fixed rate (current and non-current)	4,522	4,522
* the floating rate loans granted by UniCredit, Banca Crédito Agricole Cariparma and Banco BPM associated with an interest rate swap contract, for the purposes of the present table, were classified among fixed rate loans		

The determination of the fair value was carried out on a consistent basis with the generally accepted methods, which use valuation models based on the Discounted Cash Flow method; specifically, the Parent Company Isagro S.p.A. used the models in the Bloomberg database. Discounting of the future cash flows of receivables and loans expressed in euro was calculated based on the market zero coupon rates curve at Tuesday, December 31, 2019, obtained from the six-month EURIBOR curve, while discounting of future cash flows of loans expressed in US dollars was calculated on the basis of the market zero coupon rates curve as at Tuesday, December 31, 2019, obtained from the six-month LIBOR. The above-mentioned curves were adjusted to take into account the creditworthiness of Isagro S.p.A. (own credit risk) in the case of loans payable and the creditworthiness of the counterparty (counterparty credit risk) in the case of receivables claimed by the Parent Company Isagro S.p.A. Please also note that, in order to render the fair value of loans comparable with their book value, the related ancillary charges were taken into account. In management's opinion, the aforementioned receivables and payables can be classified in Level 2 of the fair value hierarchy.

OTHER INFORMATION

42. Contingent liabilities, commitments and guarantees

Legal proceedings

Dispute with Gowan Company LLC on the basis of the distribution contract of 18 October 2013

In January 2018 Gowan Company LLC (a related party) asked Isagro S.p.A. to grant it on the basis of the distribution contract signed on October 18, 2013 – following the reduction in the prices of Tetraconazole-based products consequent to entry into the USA of competing products supplied by a Chinese generic company – a “discount” on the price of Domark 230 (a fungicide based on Tetraconazole 230 g/l) already purchased and paid for by Gowan (and by its customers) between the years 2014 and 2017. Isagro promptly replied that the request was groundless, *de facto* and *de jure*. The value of the request made by Gowan Company LLC amounted to approximately USD 1.9 million.

On April 23, 2018, Gowan filed an application for arbitration in the State of New York (at the headquarters of the International Court of Arbitration - notified on April 30, 2018 to the company Isagro USA as counterparty of the distribution contract in question) to obtain an arbitration award for recognition of a Net Margin of 30% on the price paid also retroactively and payment by Isagro USA of the

so-called “discount” on the stock of Domark 230 present in the Gowan warehouses and in those of its customers already purchased and paid.

Isagro USA, after trying to reach a settlement agreement even though it considered Gowan's request groundless, on June 29, 2018 filed at the New York Arbitration Chamber its defensive arguments, appointing on this occasion its arbitrator.

Subsequently, Gowan filed (i) a request for calling Isagro S.p.A. into the case as guarantor of Isagro USA and (ii) a document replying to Isagro USA's defensive arguments. Isagro USA already on August 20, 2018, registered its opposition to calling Isagro S.p.A. into the case. Isagro USA then, within the deadline granted it of September 5 2018, filed further defensive arguments in support of its position, to which Gowan replied again. The Parties also exchanged correspondence on the request/allegations related to the taking of evidence and, on February 28, 2019, filed the statements of the witnesses respectively indicated by them. Each party has until March 15, 2019 for replies. Finally, Gowan filed a further brief in reply to Isagro USA's defensive arguments, changing its monetary request from approximately USD 1.9 million to approximately USD 2.5 million.

On March 29, 2019, before the opposition of Isagro USA, the Arbitration Committee rejected Gowan's request for further damages for approximately USD 0.5 million requested solely in the final statement filed on March 1, 2019, revealing its lateness compared to the initial request. In addition, on April 7, 2019, Gowan, following the total lack of written proof in support of its request, withdrew its request for damages for Affiance (fungicide containing Tetraconazole + Azoxystrobin), quantified as approximately USD 0.3 million, so that Gowan's monetary request decreased to approximately USD 1.7 million. Between April 8 and 10, 2019, the witnesses identified by the parties in the case were heard and the legal counsels of the parties formalized their final comments in light of the results of the witness depositions.

On July 2, 2019, the New York Arbitration Chamber notified the Parent Company Isagro S.p.A. of an arbitration award, which established the following:

1. Gowan's request for recognition of a Net Margin equal to 30% of the price paid retroactively was rejected, as was any relative claim for damages;
2. it declared Isagro S.p.A. as party to the case (a declaration that nevertheless had no practical repercussions on the company);
3. it clarified that clause 3(d) of the Domark[®]230 Distribution Contract must be applied as of the annual definition, and before September 1, of the prices for the subsequent season with express exclusion of the subsequent and retroactive price adjustments;

4. it declared its lack of jurisdiction to rule on the counterclaim of Isagro USA regarding the recognition of a receivable relative to sales made towards the company Basf for approximately US\$ 220 thousand;
5. it allocated the expenses and legal costs to both parties.

Appeal presented by Polven.Re v. Municipality of L'Aquila, ARTA Abruzzo, Province of L'Aquila, Abruzzo Region and Isagro S.p.A. to the Regional Appeals Court (RAC) of L'Aquila for annulment of an executive resolution of the Municipality of L'Aquila.

On March 22, 2018 the company Polven.Re S.r.l. notified an appeal for annulment, after adoption of suitable precautionary measures, of an executive resolution of the Municipality of L'Aquila communicated by certified e-mail on January 22, 2018, on the subject of the “*Contaminated site procedure pursuant to Title V – Part IV of Italian Legislative Decree no. 152/2006 as amended – former AgriFormula facility, Locality Caselle di Bazzano, Municipality of L'Aquila. Acknowledgment of approval of the site-specific risk analysis and conclusion of the proceedings*”, in the part where it orders that, over time, the integrity of the flooring in the factory must be guaranteed by Polven.Re, because, in certain areas, the “indoor dust control” process has not been activated. The appellant also requested compensation for damages suffered by the same for an alleged generic “decrease in value” of the area.

Isagro joined the proceedings, requesting the rejection of the appeal and of the related precautionary plea.

Following the discussion of the precautionary plea in chambers on May 9, 2018, with ordinance no. 105 of May 10, 2018, the RAC decided to accept Polven.Re’s precautionary plea, fixing the hearing for discussion of the merits of the appeal on May 8, 2019.

Following the aforesaid precautionary ordinance, the Municipality of L'Aquila convened, for July 5, 2018, a service conference with the aim of ascertaining what inquiry formalities the public administration has a duty to perform. After an in-depth discussion, in the presence also of Isagro and Polven.Re, the works of the service conference were adjourned to July 18, 2018. On that date the concluding session of the service conference convened on July 5, 2018 was held, in compliance with Precautionary Ordinance no. 105 130/2018, and it was observed by the Municipality and the competent Authorities in attendance that all inquiry activities had already been correctly performed during the proceedings and that, therefore, no further investigations were necessary. Therefore, with Executive Resolution of the Municipality of L'Aquila no. 3518 of October 22, 2018, it was resolved “to confirm, in all its parts, Executive Resolution no. 78/2018” appealed by Polven.Re with the main appeal. Polven.Re, however,

appealed also this latter resolution with an appeal for additional reasons notified on November 28, 2018. The appeal also included a precautionary plea against the measure appealed requesting, substantially, the RAC to grant the precautionary measures considered most suitable to order the Municipality to reconsider the prescription appealed. The precautionary hearing was held on December 19, 2018. Following this hearing the RAC, with Ordinance 270/2018 of December 28 2018 substantially rejected Polven.Re’s precautionary application adjourning, for decision on the appeal, to the hearing on the merits set for May 8, 2019. Subsequently, the President of the Regional Administrative Court for Abruzzo postponed the hearing on the merits to November 6, 2019. Subsequently to the discussion during the hearing on the merits, the RAC Abruzzo, with judgment no. 557/2019 published on November 16, 2019, (i) declared the complaint of the case inapplicable due to lack of standing (as per specific objection raised by Isagro); and (ii) rejected the appeal for additional reasons in that its merits were groundless.

On February 5, 2020, Polven.Re, after notifying it, filed its own appeal at the Council of State, requesting the annulment and/or reform of the first-level judgment, without, however, filing a precautionary plea (intended to suspend the effects of the judgment appealed). Isagro, on March 23, 2020, filed its answer and entry of appearance in the appeal, in defense of its own position. The date for the discussion hearing before the Council of State is yet to be fixed.

Dispute on the subject of I.P. launched by Syngenta Brazil against Isagro Brasil

On February 19, 2018 Syngenta Brazil reported to Isagro Brasil a summons for alleged breach of patents related to the process of synthesis of Syngenta in Brazil granted respectively on 08/11/2015 (application filed in 2006) and on 02/14/2017 (application filed in 2007) of the active ingredient Azoxystrobin. To bring the case, Syngenta analyzed two batches of Domark Excell and Galileo Excell product sold by Isagro and containing Azoxystrobin, purchased by Isagro from Syngenta on the basis of a supply agreement existing at the moment of purchase. In light of the above, Isagro immediately considered that Syngenta’s requests (among which generic compensation never quantified) were groundless. Additionally, Syngenta had already, at the same time as the start of the proceedings on the merit against Isagro, began two urgent proceedings, *inaudita altera parte* at the Court of the State of São Paulo. These urgent proceedings had both been rejected by the competent court, as it did not find either *fumus bonis juris* or *periculum in mora*. After Isagro joined the case, filing its defensive plea on April 16, 2018 and after the exchange of further defensive pleas, the parties began

to discuss a possible commercial agreement for the supply, by Syngenta to Isagro, of technical Azoxystrobin with the related regulatory support. In order to facilitate the commercial negotiations closing the dispute in question, the parties suspended the case several times starting from the middle of October 2018 up to March 15, 2019. On December 6, 2018 Isagro S.p.A. and Syngenta Crop Protection A.G. signed a Binding Term-Sheet containing the main terms and conditions of the supply contract and access to the data on technical Azoxystrobin for certain countries, on the basis of which the parties also undertook to sign this definitive agreement by February 28, 2019 and, consequently, to renounce the case pending at the Court of the State of São Paulo. After defining the final text of the supply and data support contract on March 11, 2019, the parties will exchange the signed final agreement within the suspension terms of March 15 and by that date will jointly request cancellation of the lawsuit, unless a short extension is agreed between the parties. On March 29, 2019, the parties filed a joint request to withdraw the case and, therefore, the case was removed from the register on that date.

Dispute with Gowan Company LLC regarding withdrawal from the Framework Agreement of July 30, 2013

On March 18, 2019 Gowan Company LLC notified Isagro S.p.A. and Piemme S.r.l. of a request for arbitration before the Swiss Chambers' Arbitration Institution to oppose the withdrawal from the Framework Agreement of July 30, 2013, exercised by Isagro S.p.A. and Piemme S.r.l. in June 2018. In particular, Gowan requested the declaration of the ineffectiveness of the withdrawal exercised by Isagro and Piemme and formulated a claim for current and future damages incurred, including equity. Following notice of the above, Gowan's legal counsel suggested that Isagro and Piemme make an appeal to an Arbitration Committee of 3 arbitrators instead of only one (as envisaged in the arbitration clause of the Framework Agreement). Isagro and Piemme, through their legal counsel, accepted this proposal provided that the seat of the arbitration be transferred to Milan. Following this agreement, Isagro and Piemme, with their respective legal counsel, on April 15, 2019, filed their first defensive argument, objecting to all of Gowan's requests, designating their arbitrator and reserving the right to attach additional arguments in support of their rationale, once the Arbitration Committee was formed. Isagro and Piemme filed their defense on May 29, 2019. In addition, the Swiss Chambers' Arbitration Institution had appointed the two arbitrators designated by the parties to nominate the president.

Subsequently, the parties requested that the Arbitration Committee suspend the terms of the arbitration procedure until July 8, 2019, pending negotiations. The parties subsequently and jointly requested an additional term of suspension of a further 60 days, i.e. until September 6, 2019.

On August 2, 2019, the parties jointly sent the Arbitration Committee a waiver of the ongoing arbitration, each party revoking its claims. On August 5, the Arbitration Committee, following receipt of this communication, closed the aforementioned arbitration procedure.

Tax disputes

Isagro S.p.A.

With regard to the parent Isagro S.p.A., it should be noted that on December 22, 2006, the Italian Revenues Agency, subsequent to a general tax audit for 2003, served the Company with an assessment notice for IRPEG (corporation tax), IRAP and VAT violations, demanding an additional tax payment of € 83,251 plus penalties and interest. Against this measure the Company lodged an appeal which, through several levels of judgment, reached the Supreme Court of Cassation. On November 29, 2017 the Supreme Court of Cassation filed judgment no. 28578/17 on the appeal lodged by the company against the Italian Revenues Agency accepting it partially, annulling the judgment appealed and referring back to the Lombardy Regional Tax Commission differently made up the examination of the breaches not defined.

In particular, the Court accepted some of the objections raised by the Italian Revenues Agency with consequent definition of higher taxes payable by the company of € 68,947.

For the allegations referred back to the judgment of the Lombardy Regional Tax Commission, for which the Italian Revenues Agency would require payment of taxes of € 14,304, we can note that the commission met to discuss the case, following the appeal for resumption proposed by the Company on May 7, 2018, and dealt with the counter-arguments on February 11, 2019. With judgment no. 3174/2019, filed on July 18, 2019, the Lombardy Regional Tax Commission heard Isagro's reasons and on February 28, 2020 disbursed the refund for an amount of € 17,489 (including interest and ancillary charges).

On November 19, 2019, an application for a refund was submitted to the Italian Revenues Agency pursuant to art. 21, paragraph 2 of Legislative Decree no. 546/92 for the repayment of the higher IRES credit and the higher IRAP paid in the 2002 tax period for € 47,513 and € 5,681 respectively, in addition to the interest due by law.



Commitments and guarantees

Following the sale in 2011 of the investment in Isagro Italia S.r.l., now Sumitomo Chemical Italia S.r.l., to Sumitomo Chemical Co. Ltd., the Parent Company Isagro S.p.A. has a commitment in place for the guarantees issued to the buyer as regards potential future liabilities, for losses or damages related to taxes, the environment, social security and labor. The maximum risk is measured at € 7,500 thousand and the expiry of the guarantees is to be correlated to time-barring and lapse of the related events.

At December 31, 2019, the Group also has existing multi-year commitments for € 27 thousand related to the rental of printers (€ 26 thousand) and lease expense (€ 1 thousand). In particular, the future fees due are as follows:

- € 23 thousand within one year;
- € 4 thousand between one and five years.

The third-party guarantees for the Group's commitments amounted to € 8,777, of which € 7,586 thousand related to a surety in favor of Arysta issued on June 27, 2018 following the signing of the commercial agreement for distribution of compounds based on the fungicide *Fluindapyr* in Brazil, already described in Note 24.

Furthermore, following the sale of the investment in Isagro (Asia) Agrochemicals Pvt. Ltd. to the Indian company P.I. Industries Ltd., Isagro S.p.A. has a commitment in place for the guarantees issued to the buyer as regards potential future liabilities, for losses or damages related to taxes, the environment, social security and labor. The

maximum risk is measured at € 19,344 thousand and the expiry of the guarantees is to be correlated to time-barring and lapse of the related events.

The guarantees received and issued in relation to loans are described in Note 17.

43. Related party disclosures

Here below are the Group's transactions with related parties, including:

- parent companies;
- associates;
- entities which hold a direct or indirect interest in the Parent Company, its subsidiaries and its holding companies, and are presumed to have significant influence over the Group. In particular, significant influence is objectively presumed to exist when an entity owns, directly or indirectly, over 10% of the Parent Company, or when it owns over 5% and, at the same time, it has entered into agreements which generate transactions during the year amounting to at least 5% of consolidated sales. These companies are known as "other related parties";
- directors, statutory auditors and key management personnel, and any family members.

The following table highlights the economic and financial amounts relating to transactions with the different categories of related parties:

Income Statement	2019	of which related parties				
		Associates	Subsidiaries	Other related parties	Tot. Related parties	Proportion % on the item
In thousands of Euro						
Revenues	105,369	-	-	11,565	11,565	10.98%
Other operating revenues	2,151	-	23	467	490	22.78%
Raw materials and consumables used	62,189	-	-	323	323	0.52%
Costs for services	22,723	-	-	-	-	0.00%
Other operating costs	2,448	-	-	4	4	0.16%
Financial income	2,300	-	-	23	23	1.00%

Income Statement	2018	of which related parties				
		Company associates	Subsidiaries	Other related parties	Tot. Related parties	Proportion % on the item
In thousands of Euro						
Revenues	124,838	-	-	19,737	19,737	15.81%
Other operating revenues	2,592	-	23	547	570	21.99%
Raw materials and consumables used	67,069	-	-	614	614	0.92%
Costs for services	24,276	-	-	-	-	0.00%
Other operating costs	2,196	-	-	230	230	10.47%
Financial income	272	-	-	10	10	3.68%

Balance Sheet	At 12/31/2019	of which related parties				
		Associates	Subsidiaries	Other related parties	Tot. Related parties	Proportion % on the item
In thousands of Euro						
Non-current receivables and other assets	2,837	-	-	1,907	1,907	67.22%
Trade receivables	27,227	-	-	2,669	2,669	9.80%
Other current assets and receivables	7,658	-	6	467	473	6.18%
Trade payables	26,143	-	-	246	246	0.94%

Balance Sheet	At 12/31/2018	of which related parties				
		Associates	Subsidiaries	Other related parties	Tot. Related parties	Proportion % on the item
In thousands of Euro						
Non-current receivables and other assets	4,262	-	-	2,832	2,832	66.45%
Trade receivables	39,823	-	-	5,022	5,022	12.61%
Other current assets and receivables	7,178	-	7	3	10	0.14%
Trade payables	32,696	-	-	231	231	0.71%

The above amounts, broken down by company in the following tables, essentially refer to commercial relations (purchases and sales of products, M/L agreements, processing, and provision of administrative services), with the transactions carried out at arm's length, have been outlined in the various notes to the Financial Statements. It should be noted that, as described in Note 5, to which

you are referred, on October 24, 2019, following the admission to listing and trading of its shares on the AIM, Arterra Bioscience placed 2,208,000 Ordinary Shares; since the Parent Company Isagro S.p.A. did not subscribe to any additional shareholding, its stake reduced to 16.8%—and therefore below the 20%, which, by contract, is considered the percentage to exercise a notable

interest, the basis for classification of an interest held as an associate—and, consequently, from that date it is no longer considered a related party.

Relations with parents

Relations with the holding companies Piemme and Holdisa are limited to the provision of administrative services by the Parent Company Isagro S.p.A. and occasional financial transactions.

Other operating revenues	2019	2018
Holdisa S.r.l.	14	14
Piemme S.r.l.	9	9
Total	23	23

Other current assets and receivables	2019	2018
Holdisa S.r.l.	4	4
Piemme S.r.l.	2	3
Total	6	7

Relations with other related parties

“Other related parties” refer exclusively to the Gowan Group, which became a related party following its entry, on October 18, 2013, into the share capital of the former indirect parent BasJes Holding S.r.l. (now the direct parent with the name Holdisa S.r.l.) with a 49% stake in the said share capital. The (trade and other) receivables and revenues from the Gowan Group refer both to the sale of crop protection products to companies of the Gowan Group both on the part of the Parent Company Isagro S.p.A. and of the American subsidiary Isagro USA, Inc. and to the upfront payment made in 2016 against the granting, by the Parent Company Isagro S.p.A., of the exclusive right, for fourteen years, to develop, register, formulate, produce and market in Europe mixtures based on Kiralaxyl, for all types of use except for fertilizing seeds. Transactions with the Gowan Group were carried out at arm’s length.

Revenues	2019	2018
Gowan Group	11,565	19,737
Total	11,565	19,737

Other operating revenues	2019	2018
Gowan Group	467	547
Total	467	547

Raw materials used	2019	2018
Gowan Group	323	614
Total	323	614

Other operating costs	2019	2018
Gowan Group	4	230
Total	4	230

Financial income	2019	2018
Gowan Group	23	10
Total	23	10

Non-current receivables and other assets	Dec. 31, 2019	Dec. 31, 2018
Gowan Group	1,907	2,832
Total	1,907	2,832

Trade receivables	Dec. 31, 2019	Dec. 31, 2018
Gowan Group	2,669	5,022
Total	2,669	5,022

Other current assets and receivables	Dec. 31, 2019	Dec. 31, 2018
Gowan Group	467	3
Total	467	3

Trade payables	Dec. 31, 2019	Dec. 31, 2018
Gowan Group	246	231
Total	246	231

Remuneration for Directors and Statutory Auditors

The table below shows the economic benefits for the Directors of the Parent Company, and the members of the Board of Statutory Auditors (amounts in Euro):

Party	Description of office		Remuneration		
	Office held	Duration of office	Emoluments for office	Bonuses, other incentives, and fringe benefits	Other remuneration
<i>Directors:</i>					
Giorgio Basile	Chairman and C.E.O.	3 years	500,000	3,708	-
Maurizio Basile	Deputy Chairman	3 years	90,000	178	-
Riccardo Basile	Director	3 years	20,000	-	-
Roberto Bonetti	Director	3 years	20,000	-	-
Enrica Maria Ghia	Member of the Control, Risk and Sustainability Committee and the Appointments and Remuneration Committee	3 years	27,000	-	-
Silvia Lazzeretti	Director	3 years	20,000	-	-
Marcella Elvira Antonietta Logli	Chairperson of the Control, Risk and Sustainability Committee	3 years	27,500	-	-
Giuseppe Persano Adorno	Member of the Control, Risk and Sustainability Committee and the Appointments and Remuneration Committee	3 years	27,000	-	-
Erwin Paul Walter Rauhe	Lead Independent Director	3 years	25,000	-	-
Angelo Zaccari	Chairperson of the Nomination and Remuneration Committee	3 years	23,000	-	-
Margherita Zambon	Director	3 years	20,000	-	-
<i>Executives with strategic responsibilities:</i>					
Davide Ceper	General Manager until Nov. 17, 2019		224,502	17,046	232,823
<i>Family members of key management personnel (directors or managers):</i>					
Alessandra Basile				-	30,000
<i>Statutory Auditors:</i>					
Roberto Cassader	Chairperson since April 30, 2019	3 years	20,000	-	-
Silvia Baroffio	Statutory Auditor since April 30, 2019	3 years	13,333	-	-
Filippo Maria Cova	Statutory Auditor since April 30, 2019 (former Chairperson)	3 years	23,333	-	-
Giuseppe Bagnasco	Former Auditor		6,667	-	-
Claudia Costanza	Former Auditor		6,667	-	-

It should be noted that the term of office of the Board of Directors of the Parent Company Isagro S.p.A, appointed on April 24, 2018, will end on approval of the Financial Statements as at December 31, 2020, while that of the Board of Statutory Auditors, appointed on Tuesday, April 30, 2019, will end on approval of the Financial Statements as at Friday, December 31, 2021.

44. Financial risk management: objectives and approach

In carrying out its business, Isagro Group is exposed to financial and market risks, specifically:

- a. changes in foreign exchange rates;
- b. changes in interest rates;
- c. changes in the prices of raw materials;

- d. liquidity;
- e. capital management;
- f. credit;
- g. changes in weather conditions and climate change;
- h. cyber risk.

Context

In reference to *Phillips McDougall* and *Agro Pages* indications, in 2019 the crop protection market on a global level experienced a difficult period where multiple economic, climatic and political factors influenced its growth. Again according to *Phillips McDougall* and *Agro Pages* indications, in 2019 the world market was considered substantially stable compared to the previous year, with a marginal growth of around 0.4% and a total value of \$ 57.8 billion at supplier level, albeit with varying dynamics in the different geographical areas. Factors such as the leveling of prices following the peak in prices of generic products from China (an increase that drove growth of the market in 2018) and the strengthening of the dollar further limited the growth of the market at global level. In terms of size, in 2019 the Asia Pacific region confirmed its position as top world region followed by Latin America, Europe, North America, the Middle East, and Africa.

From the perspective of market performance in the various geographical sectors, significant growth was recorded in Latin America, while all the other areas recorded a drop which proved to be particularly significant in North America and Europe.

In the above-mentioned context, the Group operated in order to control the above financial variables by implementing appropriate policies to minimize the aforementioned risks through the use of market instruments or appropriate corporate control policies and policies for the product/market portfolio.

In particular, as regards the use of derivatives, two types of hedging can be identified: (a) transactions which, in compliance with the risk management policies, satisfy the requirements imposed by the accounting principles for the registration in “hedge accounting”, are designated as “hedging transactions”; (b) transactions which, even though they have been carried out as hedges, do not satisfy the requirements provided for by the accounting principles and are classified as “held for trading”. With regard to the hedging transactions carried out by the Group, it should be noted that these refer exclusively to operational transactions and are not in any way speculative. With reference to this, as of January 1, 2018, Isagro began to apply the new standard IFRS 9 – Financial Instruments. Following adoption of this standard, Isagro



partially changed its financial risk management model in relation to changes in exchange rates and changes in the price of the raw material “copper”, creating a new hedge accounting model on the basis of the provisions of the new standard IFRS 9, and providing therefore for the possibility of originating or not originating hedging relationships.

The amounts stated in the comments below refer to the Parent Company Isagro S.p.A., which carries out most of its copper purchases and sales in foreign currencies, mainly US Dollars, Brazilian Reals and Indian Rupees (purchase side). The transactions pertaining to Indian Rupees were made up to December 27, 2019, the date of sale of the subsidiary Isagro Asia to the Indian company PI Industries (transaction described in this Report). With reference to exchange rates, it should be noted that fluctuations in the Euro/Dollar exchange rate may result in changes in the consolidated amounts of the subsidiary Isagro USA; however, these changes cannot be currently quantified, as they are directly related to the actual year-on-year sales of the subsidiary.

a. Exchange rate risk management

The Isagro Group operates on several markets internationally and many trade relations are managed in currencies other than the Euro, mainly in US dollars, the currency of reference for the sales made by the Parent Company Isagro S.p.A. above all on the US markets and reporting currency of the subsidiary Isagro USA, Inc. Although to a lesser extent, the Indian rupee, the Colombian Peso and the Brazilian Real account currencies of Isagro (Asia) Agrochemicals Pvt. Ltd. (a fully controlled subsidiary until December 27, 2019, the date on which it was entirely transferred to PI Industries), Isagro Colombia S.A.S. and Isagro Brasil Ltda. This means that the Group’s assets and liabilities are

exposed to financial risks deriving from the varying exchange rate between the time the trade relation arises and the time the transaction (collection/payment) is finalized. With reference to the Parent Company Isagro S.p.A., sales in US Dollars totaled approximately \$ 19 million in the year ended December 31, 2019 versus purchases in US dollars amounting to approximately \$ 9 million, thus with a balance of approximately \$ 10 million.

In order to reduce the risk tied in particular to the fluctuations of the US Dollar, the Parent Company Isagro S.p.A. carries out natural hedging transactions represented, for example, by loans granted by banks in US Dollars against the transfer of invoices denominated in this currency to said banks) and/or hedging transactions using swap instruments.

Isagro enters into forward and non-deliverable forward contracts to hedge the exchange rate risk of the American dollar and the Brazilian real. In particular, the Parent Company Isagro S.p.A. hedges the net exposure in foreign currency correlated with the expected level of sales (of products and services) budgeted. The establishment of this hedging relationship results in cash flow hedging transactions. The accounting rules of these transactions provide for the derivatives being measured at fair value and recognized among "Other Comprehensive Income" adding therefore to a shareholders' equity reserve (at December 31, 2019, the effect was negative for approximately € 474 thousand before tax effect), allocating them to the Income Statement in keeping with the hedged item, and therefore in part adjusting the revenues earned and in part adjusting gains/losses on exchange rates connected to collection of the receivable. The hedges will remain active until the receivable being hedged is transformed into the accounting currency. Because the underlying hedge is of a commercial nature, the fair value of such hedges is not included in the Group's Net Financial Position.

In the case of events that lead to over-hedging, Isagro has the right to allocate the excess hedging with respect to the net cash flows estimated for the period to the following year, whenever these events have an effect on the Income Statement.

We can note that, at December 31, 2019, the Parent Company Isagro S.p.A. had in being currency swap transactions in US Dollars of approximately 18 million dollars and in Brazilian Reals of approximately 25 million reals, against analogous net receivable positions in the said currencies. Isagro also prepares its Consolidated Financial Statements in Euro, so the

fluctuations of the exchange rates used to convert the financial statement figures of the subsidiaries originally stated in foreign currency might significantly affect the Group's results.

b. Interest rate risk management

At December 31, 2019, the Isagro Group had a Net Financial Position of € 34.4 million, of which € 4.5 million deriving from the application of the new standard *IFRS 16 - Leases*.

The Parent Company Isagro S.p.A. instead had a Net Financial Position of € 30.3 million at December 31, 2019, of which € 4.2 million due to the application of IFRS 16 and € 30.8 million represented by medium/long-term debts, compared to an NFP and medium/long-term debt as at December 31, 2018 of € 55.4 million and € 36.6 million, respectively. Isagro began to apply the new IFRS 16 standard as of January 1, 2019.

Therefore, in the twelve months of 2019 the Parent Company Isagro S.p.A.:

- generated, net of the effect of IFRS 16, a positive cash flow of € 29.2 million, deriving for approximately € 0.9 million from the increase in net working capital and for approximately € 30.1 million from the positive operating cash flow. With particular reference to the aforementioned operating cash generation, it is tied to the effect deriving from the sale of the fully controlled subsidiary Isagro Asia on December 27, 2019. The amount collected was equal to € 46.2 million. Net of this value and of the changes in working capital, therefore, the company would have generated a negative cash flow for € 16.9 million;
- obtained new medium/long-term loans of € 16.2 million, against repayments in the year of € 27.5 million, extending the average duration of the debt at low cost. Most of the financial debts of the Parent Company Isagro S.p.A. in being at December 31, 2019 (considered gross of liquidity), of approximately € 75 million, are remunerated on the basis of a fixed component of spread, of a variable amount according to the nature of the various lines, and a variable component represented generally by 3-month EURIBOR (-0.38 at December 31, 2019), with the exception of € 18.6 million which is remunerated at fixed rate and at variable rate with which specific Interest Rate Swaps are associated (the aim of the IRS fixed rate is to hedge the interest rate risk deriving from the debt exposure indexed at the variable rate).

It is estimated that for each increase of 10 basis points in the cost of debt Isagro would have an incremental negative impact on the 2019 Income Statement of approximately € 82 thousand, to be considered immaterial.

Should the expediency of hedging the interest rate risk be seen with reference to the variable component of these loans, Isagro would use interest swap rate contracts.

These contracts would be set up with a notional value which partly or fully covers the financial indebtedness exposed to interest rate fluctuations, with maturity dates identical to those of the underlying financial liabilities, so that each movement in the fair value and/or in the expected cash flows of such contracts is offset by a corresponding movement in the fair value and/or cash flow expected in the underlying position. These hedges would also be carried out with a perspective of correspondence with the repayment schedule of each loan (hedge accounting). As of December 31, 2019, there were three floating-rate medium/long-term loan contracts with which specific “interest rate swaps” are associated, as well as five contracts entered into directly at fixed rate.

Furthermore, as already reported above, with a view to optimizing the cost of debt at group level and seeking greater alignment between the timing of the investments made and that of the sources of finance supporting these investments, during 2019, the Parent Company Isagro S.p.A. obtained new medium/long-term finance for a total of € 16.2 million—the portion of which due beyond the twelve months after December 31, 2019 amounted to € 4.3 million—in the form of seven medium/long-term loans:

- loan for € 3.0 million, granted in February by Banca Unicredit;
- loan for € 3.0 million, granted in March by Banca Mediocredito;
- low interest rate loan for € 0.2 million disbursed in March through UBI Bank and granted to Isagro S.p.A. for the completion of an investments program approved by the Italian Ministry for Economic Development. The low interest rate loan was initially agreed in 2016 following admission to benefits from the Technology Innovation Fund (TIF) for Isagro S.p.A.’s project, “Use of bio-IT platforms to identify crop protection products”;
- loan for € 1.0 million, granted in April by Banca del Credito Valtellinese;

- loan for € 4.0 million, granted in May by Banco BPM;
- loan for € 3.0 million, granted in May by Banca Popolare di Sondrio;
- loan for € 2.0 million, granted in June by Banca del Mezzogiorno.

c. Change in raw material prices

This risk is essentially limited to fluctuations in the price of the commodity copper, fundamental raw material in the production of fungicides based on this metal. The derivative used is the “commodity swap”. Isagro, in order to manage this risk, puts in place hedges of the needs for copper on the basis of the following procedure:

- fixing of sales prices with customers, typically in the previous quarter for the next quarter;
- preparation of a production plan and identification of the approximate terms for the raw material purchase batches for each individual sale and period;
- drawing up of a report generated by information systems and stating, for each individual order and price, the quantities of equivalent scrap copper and the terms set for purchase on the market and production;
- forward hedging of the quantities required for processing the sales order.

Following the introduction of IFRS 9, at the level of accounting presentation, the hedges put in place before the end of the period are recognized, adjusting the purchases, and proportionally distributed between cost of sold products and final inventories. With reference to Continuing Operations, the fair value will lead to a recognition among “Other Comprehensive Income”, adding therefore to a shareholders’ equity reserve (at Tuesday, December 31, 2019 the effect was positive for approximately € 39 thousand before the tax effect). Because the underlying hedge is of a commercial nature, the fair value of such hedges is not included in the Group’s Net Financial Position.

Nevertheless, the company financial risk management procedure envisages that the CFO, in agreement with the CEO, can assess the advisability of departing from the above-mentioned hedging procedure.

At December 31, 2019, the Parent Company Isagro S.p.A. has in effect forward purchase transactions for 398 tons of copper, of which 318 tons maturing within the first quarter of 2020 and 80 tons maturing in the remaining part of the year.

d. Liquidity risk management

The Group's liquidity is based on a diversification of the sources of bank financing and on a structural mix of the credit lines: "commercial or self-liquidating", medium/long-term loans and finally factoring lines and this in order to be able to use these lines according to the type of needs.

Please note that the Group's debt is concentrated in the Parent Company Isagro S.p.A. and is divided up between a large number of banks with the aim of minimizing counterparty risk.

From an operating perspective, the Group manages the liquidity risk by planning on an annual basis, with a monthly and daily breakdown, the estimated cash inflows and payments. Based on the results of the financial planning, the needs and, consequently, the resources required for the related hedging are identified. Furthermore, a "Financial Report" is prepared on a monthly basis every year. It summarizes the Parent Company Isagro S.p.A.'s final cash flows and prospects at year end, again monthly. An analogous reporting instrument has been applied also to the subsidiaries Isagro (Asia) Agrochemicals Pvt. Ltd. (until the date of December 27, 2019), Isagro Brasil Ltda, Isagro Colombia S.A.S., Isagro España S.L., and Isagro USA, Inc.

The following table summarizes the maturity profile of the Group's liabilities based on the contractual payments not discounted:

At December 31, 2019, the Parent Company Isagro S.p.A. had over € 40 million in various types of unused bank credit facilities.

e. Capital management

The Group's goal is to guarantee a sound credit rating in order to access bank credit on favorable economic terms. It is the policy of the Group, therefore, to have ongoing contacts with all the financial institutions, in order to convey the information (always within the limits established for listed companies) necessary for them to better understand the type of business and the peculiar market situations existing.

f. Credit risk management

In order to limit certain customer/country risks, letter of credit, insurance coverage, factoring on a non-recourse basis or financial discounts for advance payments are used.

To present the risk of trade receivables in the financial statements as well as possible and according to what is provided for in the new accounting standard IFRS 9, in force since January 1, 2018, Isagro determines the impairment of receivables on the basis of the principle of the expected credit loss. Unlike in the incurred losses model, provided for in the former IAS 39, it is no longer necessary for an event to occur before credit losses can be recognized; the new standard specifies, in fact, that impairment must be recognized considering the entire life of the receivable (12 months), using forward-looking logic.

On the basis of the above, the Parent Company Isagro S.p.A. has determined a "provision matrix" that identifies the probabilities of default—determined with reference to the average losses of the three past years (default rate base)—to which is added the for-

Dec. 31, 2019	On demand	< 3 months	3 - 12 months	1 - 5 years	over 5 years	TOTAL
Financial liabilities	15,612	12,674	23,731	31,325	2,138	85,480
Derivatives	-	26	47	84	-	157
Trade payables	4,958	9,463	11,722	-	-	26,143
Tax payables	-	-	109	-	-	109
Other liabilities and payables (*)	3,221	-	468	-	-	3,689
TOTAL	23,791	22,163	36,077	31,409	2,138	115,578

Dec. 31, 2018	On demand	< 3 months	3 - 12 months	1 - 5 years	over 5 years	TOTAL
Financial liabilities	1,629	16,489	23,887	38,853	256	81,114
Derivatives	-	42	18	115	-	175
Trade payables	2,295	9,829	19,161	-	1,411	32,696
Tax payables	-	-	1,132	-	-	1,132
Other liabilities and payables (*)	2,963	-	1,154	-	-	4,117
TOTAL	6,887	26,360	45,352	38,968	1,667	119,234

(*) excluding deferred income and guarantee deposits

ward-looking factor, that is a risk percentage that takes into consideration the prospective probabilities of default. This provision matrix is then applied to the aging of the receivables, constructed by maturity band and by geographical area (including also invoices to be issued and net of the cut-offs for the period).

In addition to the above, specific analyses are carried out to determine the impairment losses for the following types of receivable:

- receivables in litigation and/or already completely written off;
- positions with a specific risk profile;
- other receivables;
- receivables deriving from M/L Agreements (for this type of receivable, the risk factor is considered in the discounting rate applied to the various contracts and reviewed in the event of a change in the debtor's payment profile).

Isagro's policy provides for this provision matrix being updated every year, at the end of the financial year, always taking into consideration - as far as the default rate base is concerned - the average of the three previous years.

For the former subsidiary Isagro (Asia) Agrochemicals Pvt. Ltd., impairment of receivables was always recognized according to the new standard IFRS 9, through determination of a provision matrix calculated at the local level. At December 31, 2019, in accordance with the accounting standard IFRS 5, changes in the trade receivables for the period, before the reclassifications to the Discontinued Operations, were highlighted. For further details, please refer to the specific section of these Explanatory Notes.

As regards the other Group companies, the policy states that the impairment percentages deriving from the provision matrix determined for the Parent Company Isagro S.p.A. must be applied also to the receivables of the subsidiaries—with the exception of the Indian subsidiary—taking as a reference the rates corresponding to the geographical areas they belong to. The table below shows the maximum exposure of the Group to credit risk:

	Dec. 31, 2019	Dec. 31, 2018
Trade receivables	27,227	39,823
Other assets and receivables (excluding deferred income)	10,090	10,252
Tax receivables	1,205	2,384
Financial assets	2,700	16,547
Cash (excluding cash on hand)	46,571	17,906
	87,793	86,912
Guarantees granted to third parties	-	-
Total credit risk	87,793	86,912

g. Changes in weather conditions and climate change

The use of crop protection products is influenced by a high number of factors, including the important role held by weather conditions such as humidity, rainfall, and temperature. Today, the Group's policy is to diversify the markets in which it operates, in order to cover as many markets as possible in both hemispheres. In practice the Group operates in more than 70 countries, either directly (with its own sales networks) or indirectly, through local distributors, in order to minimize the impact of particular weather situations which characterize certain regions/continents. Nevertheless, drought or excess rain conditions extraordinarily affecting several continents/countries at the same time can strongly influence the Group's profitability. More specifically, given the composition of the Group's sales, the weather conditions in Europe (and in particular in Italy), the United States, Brazil and Asia play an important role.

Lastly, with reference to climate change, the Group monitors changes in the general context and seeks to mitigate their impact by covering a greater number of geographical segments, so as to have, where possible, a mitigation of such effects.

Weather conditions that are detrimental to the consumption of crop protection products (especially fungicides, a segment in which Isagro is specifically focused) arising in one or several markets and which are quantitatively significant for Isagro in terms of total turnover, including Italy, Brazil, and the United States, could have significant impacts on the economic and financial results of the Group.

Crop protection products are subject to the risk of bans (including in the form of failing to re-register) or limitations to use (in terms of volumes of active ingredient that can be used per farming season and/or number of applications permitted). With reference to Isagro and to the Group's product portfolio, the above can have *direct* or *indirect* effects. *Direct* effects can include exclusion from the list of active ingredients that can be marketed in the various countries containing molecules marketed by the Group, or limitations to use as mentioned above. In this sense, we are waiting for a decision from the European Union on the re-registration in particular of the active ingredient Tetraconazole, while limitations have already been seen on the market in terms of volumes for copper-based products, the effects of which are already included in the estimates made by Isagro. *Indirect* effects can include bans or limitations on the use of active ingredients used by Isagro in compounds with proprietary products, such as Chlorothalonil. Again in this case, the estimates by Isagro, which has already made the related write-downs, already incorporate this risk, as best as possible with the current information.

h. Cyber risk

The Group is exposed to the risk of a cyber attack causing a significant interruption to operating activities, loss, theft or wrongful appropriation of sensitive data, breach or counterfeiting of company emails and/or the breach of existing privacy laws, with the consequent negative effects of both an economic and reputational nature.

Isagro's ICT infrastructure is continually kept up to date based on the requirements arising from swift technological evolution. Therefore, considering that the proper functioning of ICT is a critical aspect for its business continuity, Isagro has initiated a gradual project across the various company systems to assess threats and the level of resistance of the existing protection systems against cyber attacks, and acts to remedy potential faults encountered.

Though the Group has adopted rigid protocols to protect the data acquired during its operations and regarding the protection of information and privacy, it cannot be overlooked that the occurrence of one or several of the above risks would have negative consequences on business and on the Group's economic, capital, and financial situations, economic results, and prospects. At reporting date, no breaches in Isagro's ICT systems by third parties were recorded.

45. Significant non-recurring events and transactions

No significant non-recurring transactions were carried out during 2019 and 2018.

46. Transactions resulting from atypical and/or unusual operations

Pursuant to CONSOB Communication dated July 28, 2006, it is specified that, in 2019, the Group did not carry out any atypical and/or unusual operations, i.e. operations which, due to the significance, nature of the counterparties, subject of the transaction, pricing procedures and timing of the event, may raise doubts about the accuracy of the information contained in the Financial Statements, the conflict of interest, the protection of the company's assets, or the safeguarding of non-controlling shareholders.

47. Events subsequent to December 31, 2019

A. LIQUIDATION OF ISAGRO POLAND

On January 13, 2020, the liquidation process of Isagro Poland concluded. The closing process of the company, fully controlled by the Parent Company Isagro S.p.A., had been initiated on January 11, 2019.

B. POSSIBLE IMPACTS OF THE HEALTH CRISIS

The recent global health crisis caused by Covid-19, declared in March as a worldwide pandemic by the World Health Organization, with the consequent ongoing lockdown in most of the advanced and developing economies, is also likely to have effects on industrial agriculture, and in particular on the crop protection products sector, depending on the duration of the crisis and the effectiveness of the monetary and fiscal policies implemented by the central banks and national governments.

It is estimated that a non-prolonged phase of this crisis, with activities returning to a reduced "new normality" just before summer, and monetary/fiscal policies that lead to a substantial recovery to pre-crisis levels in the next 12-18 months, simultaneously supporting the recovery of employment and disposable income, and in a context of substantial endurance of prices of the main agricultural commodities, may slightly affect industrial agriculture and, as a result, the crop protection products market. These minor effects may be represented, in terms of supply, by temporary shortages of some production input (especially chemical intermediates and building blocks manufactured in China) and, in terms of demand, by temporary reductions in the purchase flows of agricultural commodities for food and industrial uses, in any case with temporary effects on volumes and prices.

If, on the other hand, the above health crisis were to continue for much longer, in a situation in which the monetary and fiscal policies proved to be inadequate to support the level of income and employment, there could be wider effects on industrial agriculture, with drops in the prices of agricultural commodities and consequent pressure on volumes and prices of higher-content crop protection products.

The Isagro plants were not subject to lockdown since they fall under an Ateco code forming part of the activities defined as "strategic" by government measures. At all Group sites, incentives for employees to work from home have been successful for all functions able to do so, thereby allowing for a significant reduction in staff presence at the office even before this was required by the relative government decrees.

Critical events linked to possible procurement difficulties arising from the closure of production plants of some suppliers (mainly foreign) are closely and promptly monitored, as are issues associated with the movement of goods.

As of today, it is nevertheless difficult, including for Isagro, to implement specific provisions given the context of notable uncertainty in the set of hypotheses to follow. Scenario analyses undertaken internally, however, indicate that:

- in the January-June 2020 period, no significant effects are expected on the sales and margins of the Group compared to 2019, given the business structure of Isagro, which mainly sells to national distributors that, in turn, specifically to avoid shortages of production inputs, are making purchases for the period without a “wait-and-see” attitude. In this respect, therefore, the preliminary figures relative to the first quarter of 2020 indicate (i) a consolidated turnover of products and services growing by over 10% compared to the first quarter of 2019, and (ii) a higher level of collections of the Parent Company Isagro S.p.A. by over 20% compared to the corresponding previous period, albeit in the usual context of seasonal increase in the net financial position compared to December 31;
- during the 2nd half of the year, and prospectively, in 2021, there may be effects in particular in terms of reduction in sales volumes and/or containment of prices, depending on the changes in the external scenario as explained above. In a particularly unfavorable scenario, with the best information currently available, Isagro’s management has estimated a maximum risk of up to € 8 million in lower sales and up to € 3 million of lower contribution margins / EBITDA for 2020 (nevertheless, if this materializes, concentrated in the second half of the year) and a maximum risk of up to € 12 million in lower sales and up to € 4.5 million in lower contribution margins / EBITDA in 2021 (mainly in the first 9 months). The impact of the aforementioned maximum risk estimates for sales and margins in 2020 and 2021 in terms of decreased cash flows in the individual years can be quantified, net of the relative effects of changes to working capital, as up to € -0.7 and € - 3.3 million respectively, with a maximum risk of “cumulated” impact on the Shareholders’ Equity for € -2.7 million in 2020 and for € -7 million in 2021. The maximum risk of “cumulated” impact estimated on the NFP is, therefore, equal to € 0.7 million (as debt) at December 31, 2020 and € 4.0 million (as debt) at December 31, 2021. This sensitivity analysis, which includes unfavorable inputs compared to the results expected by the consolidated 2020-2025 Business Plan is such, including at maximum risk, that it does not jeopardize the financial covenants

determined on a consolidated basis (regarding the medium/long-term loans of Isagro) as a whole for these years.

In relation to these numbers, however, and with reference to the topic of going concern, the financial resources generated at the end of 2019 following the sale of Isagro Asia, alongside the bank credit facilities available at December 31, 2019 for around € 41 million, the facilitated conditions of access to credit and additional extraordinary operations being implemented and defined (sale of *Fluindapyr*, the closing of which is estimated to take place by September 30), currently guarantee the bases for going concern. Lastly, it is reported that the binding offer is not subject to “termination” clauses associated with COVID-19.

C. *BUSSI SUL TIRINO, NOVARA AND GALLIERA TEMPORARY LAY-OFFS*

On April 3, at Confindustria Chieti Pescara, the trade union agreement was signed on recourse to a period of suspension of production activities at the site in Bussi sul Tirino, with support from the CIGO (Cassa Integrazione Guadagni Ordinaria - Ordinary Redundancy Fund) for the COVID-19 emergency envisaged by Decree Law of March 18, 2020, for a total of 9 weeks with activation from April 6, 2020 and duration up to June 7, 2020.

The reasons that made the recourse to the CIGO necessary are attributable to the health emergency relating to the spread of COVID-19, following the various Decrees issued by the Italian Prime Minister and regional orders, with which various restrictions were approved to limit the risk of infection, and for an issue associated with the procurement of raw materials.

On March 23, 2020, following communication to the local trade unions, the CIGO (Cassa Integrazione Guadagni Ordinaria - Ordinary Redundancy Fund) was activated for the COVID-19 emergency envisaged by Decree Law of March 18, 2020 for the Novara Research Centre and Galliera sites.

The reasons that made the recourse to the CIGO necessary are attributable to the health emergency relating to the spread of COVID-19, following the various Decrees issued by the Italian Prime Minister and regional orders, with which various restrictions were approved to limit the risk of infection, such as the suspension of activities not required for production. The expected duration is for a maximum of 9 weeks with activation from March 23, 2020 until May 24, 2020.

D. INITIAL COLLECTIONS FROM ESCROW FUND FOR ISAGRO ASIA SALE

At the start of this April, Isagro and PI Industries reached an Agreement on the release of part of the escrow fund formed on December 27, 2019 at HSBC India relating to the adjustments of the sale price of Isagro Asia (“true-up adjustments”), on the basis of which, during the same month, Isagro collected approximately € 1.7 million. In addition, again in April, HSBC India paid Isagro an additional € 1 million pertaining to an initial *tranche* of local value-added tax (“GST”) refunded to Isagro Asia by the Indian Revenue Service, which, in the same way, was subject to the escrow fund. At the reporting date, therefore, Isagro has collected approximately € 2.7 million of the approximately € 5.9 million total held in escrow.

E. BINDING OFFER FOR FLUINDAPYR

Consistent with the redefinition of the business model, the Isagro Board of Directors approved the acceptance of a binding offer from the North American company FMC Corporation, which took effect on the evening of May 5 following the communication of the approval by the FMC Board, for the acquisition by FMC of *Fluindapyr* at the price of € 55 million. The closing, with the simultaneous payment of the aforementioned price, is to take place by October 31 and is subject, in particular, to the authorization of the European Antitrust Authority and to the signing of specific commercial agreements.

Fluindapyr, whose consolidated book value for Isagro at December 31, 2019 is equal to € 25.2 million, is a broad-spectrum fungicide belonging to the innovative “SDHI” fungicide class and is expected to be marketed during the current year. This molecule has been co-

developed by Isagro and FMC (which is therefore already a co-owner of 50% of the molecule) since 2012. Isagro intends to use the income arising from the sale of *Fluindapyr* to support said redefinition of its business model.

48. Disclosure of independent auditing remuneration

In accordance with the provisions of art. 38, paragraph 1, letter o-*septies*) of Italian Legislative Decree no. 127/1991, the table below illustrates the remuneration for auditing and any other non-audit services provided by Deloitte & Touche S.p.A., and by their partner independent auditors, for the Parent Company Isagro S.p.A. and its subsidiaries.

Type of service	Party providing the service	Recipient	Remuneration (in thousands of euro)
Auditing services	i) Deloitte & Touche S.p.A.	Parent company	159
		Foreign subsidiaries	29
Other services	ii) Deloitte & Touche Network	Foreign subsidiaries	98
		i) Deloitte & Touche S.p.A.	Parent company

49. Transparency of public disbursements under the terms of Art.1, paragraphs 125-129 of Italian Law no. 124/2017

In relation to State aid and/or “*de minimis*” aid received by the Parent Company Isagro S.p.A., we refer you expressly to what is contained and published in the context of the National State Aid Register.

50. List of the international accounting standards approved by the European Commission as of the date of preparation of the Financial Statements

International Accounting Standards	Endorsement regulation
IFRS 1 First-time Adoption of International Financial Reporting Standards (IFRS)	707/2004-2236/2004-2237/2004-2238/2004-211/2005-1751/2005-1864/2005-1910/2005-108/2006-69/2009-1136/2009-662/2010-574/2010-149/2011-1255/2012-301/2013-1361/2014-182/2018
IFRS 2 Share-Based Payment	211/2005-1261/2008-243/2010-244/2010-28/2015-289/2018-2075/2019
IFRS 3 Business Combinations	2236/2004-495/2009-149/2011-1361/2014-28/2015-412/2019-2075/2019
IFRS 4 Insurance Contracts	2236/2004-108/2006-1165/2009-1988/2017
IFRS 5 Non-current Assets Held for Sale and Discontinued Operations	2236/2004-70/2009-243/2010-2343/2015
IFRS 6 Exploration for and Evaluation of Mineral Resources	1910/2005-108/2006-2075/2019
IFRS 7 Financial Instruments: Disclosures	108/2006-1165/2009-574/2010-149/2011-1205/2011-1256/2012-2343/2015-34/2020
IFRS 8 Operating Segments	1358/2007-632/2010-243/2010-28/2015
IFRS 9 Financial Instruments	2067/2016-2395/2017-498/2018-34/2020
IFRS 10 Consolidated Financial Statements	1254/2012-313/2013-1174/2013-1703/2016

International Accounting Standards**Endorsement regulation**

IFRS	11	Joint Arrangements	1254/2012-313/2013-2173/2015-412/2019
IFRS	12	Disclosure of Interests in Other Entities	1254/2012-313/2013-1174/2013-1703/2016-182/2018
IFRS	13	Fair Value Measurement	1255/2012-1361/2014-28/2015
IFRS	15	Revenue from Contracts with Customers	1905/2016-1987/2017
IFRS	16	Leases	1986/2017
IAS	1	Presentation of Financial Statements	2236/2004-2238/2004-1910/2005-108/2006-1274/2008-53/2009-70/2009-243/2010-149/2011-475/2012-301/2013-2406/2015-2075/2019
IAS	2	Inventories	2238/2004
IAS	7	Cash-Flow Statement	1725/2003-2238/2004-243/2010-1990/2017
IAS	8	Accounting Policies, Changes in Accounting Estimates and Errors	2238/2004-70/2009-2075/2019
IAS	10	Events After the Reporting Period	2236/2004-2238/2004-70/2009
IAS	11	Construction Contracts	1725/2003
IAS	12	Income Taxes	1725/2003-2236/2004-2238/2004-211/2005-1255/2012-1989/2017-412/2019
IAS	14	Segment Reporting	1725/2003-2236/2004-2238/2004-108/2006
IAS	16	Tangible assets	2236/2004-2238/2004-211/2005-1910/2005-70/2009-301/2013-28/2015-2113/2015-2231/2015
IAS	17	Leases	2236/2004-2238/2004-108/2006-243/2010
IAS	18	Revenues	1725/2003-2236/2004
IAS	19	Employee Benefits	1725/2003-2236/2004-2238/2004-211/2005-1910/2005-70/2009-475/2012-29/2015-2343/2015-402/2019
IAS	20	Accounting for Government Grants and Disclosure of Government Assistance	1725/2003-2238/2004-70/2009
IAS	21	The Effects of Changes in Foreign Exchange Rates	2238/2004-149/2011
IAS	23	Borrowing Costs	1725/2003-2238/2004-1260/2008-70/2009-412/2019
IAS	24	Related Party Disclosures	2238/2004-1910/2005-632/2010-28/2015
IAS	26	Accounting and Reporting by Retirement Benefit Plans	1725/2003
IAS	27	Separate Financial Statements	2236/2004-2238/2004-69/2009-70/2009-494/2009-149/2011-1254/2012-1174/2013-2441/2015
IAS	28	Investments in associates and joint ventures	2236/2004-2238/2004-70/2009-149/2011-1254/2012-1703/2016-182/2018-237/2019
IAS	29	Financial Reporting in Hyperinflationary Economies	1725/2003-2238/2004-70/2009
IAS	31	Interests In Joint Ventures	2236/2004-2238/2004-70/2009-149/2011-1254/2012
IAS	32	Financial Instruments: Presentation	2236/2004-2237/2004-2238/2004-211/2005-1864/2005-108/2006-53/2009-1293/2009-149/2011-1256/2012-301/2013
IAS	33	Earnings Per Share	2236/2004-2238/2004-211/2005-108/2006
IAS	34	Interim Financial Reporting	1725/2003-2236/2004-2238/2004-70/2009-149/2011-301/2013-2343/2015-2075/2019
IAS	36	Impairment of Assets	2236/2004-2238/2004-70/2009-243/2010-1374/2013
IAS	37	Provisions, Contingent Liabilities and Contingent Assets	1725/2003-2236/2004-2238/2004-2075/2019
IAS	38	Intangible Assets	2236/2004-2238/2004-211/2005-1910/2005-70/2009-243/2010-28/2015-2231/2015-2075/2019
IAS	39	Financial Instruments: Recognition and Measurement	707/2004-2086/2004-2236/2004-211/2005-1751/2005-1864/2005-1910/2005-2106/2005-108/2006-70/2009-1171/2009-243/2010-149/2011-1375/2013-34/2020
IAS	40	Investment Property	2236/2004-2238/2004-70/2009-1361/2014-400/2018
IAS	41	Agriculture	1725/2003-2236/2004-2238/2004-70/2009-2113/2015

Interpretations		Endorsement regulation	
IFRIC	1	Changes in Existing Decommissioning, Restoration and Similar Liabilities	2237/2004
IFRIC	2	Members' Shares in Co-operative Entities and Similar Instruments	1073/2005
IFRIC	4	Determining Whether an Arrangement Contains a Lease	1910/2005
IFRIC	5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds	1910/2005
IFRIC	6	Liabilities Arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment	108/2006
IFRIC	7	Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies	708/2006
IFRIC	8	Scope of IFRS 2	1329/2006
IFRIC	9	Reassessment of Embedded Derivatives	1329/2006-1171/2009-243/2010
IFRIC	10	Interim Financial Reporting and Impairment	610/2007
IFRIC	11	IFRS 2 - Group and Treasury Share Transactions	611/2007
IFRIC	12	Service Concession Arrangements	254/2009-2075/2019
IFRIC	13	Customer Loyalty Programs	1262/2008-149/2011
IFRIC	14	IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction	1263/2008-633/2010-475/2012
IFRIC	15	Agreements for the Construction of Real Estate	636/2009
IFRIC	16	Hedges of a Net Investment in a Foreign Operation	460/2009-243/2010
IFRIC	17	Distribution of Non-Cash Assets to Owners	1142/2009
IFRIC	18	Transfers of Assets from Customers	1164/2009
IFRIC	19	Extinguishing Financial Liabilities with Equity Instruments	662/2010-2075/2019
IFRIC	20	Stripping Costs in the Production Phase of a Surface Mine	1255/2012-2075/2019
IFRIC	21	Levies	634/2014
IFRIC	22	Foreign Currency Transactions and Advance Consideration	519/2018-2075/2019
IFRIC	23	Uncertainty over Income Tax Treatments	1595/2018
SIC	7	Introduction of the Euro	1725/2003-2238/2004
SIC	10	Government Assistance – No Specific Relation to Operating Activities	1725/2003
SIC	12	Consolidation – Special Purpose Entities	1725/2003-2238/2004-1751/2005-1254/2012
SIC	13	Jointly Controlled Entities – Non-Monetary Contributions by Venturers	1725/2003-2238/2004-1254/2012
SIC	15	Operating Leases – Incentives	1725/2003
SIC	25	Income Taxes – Changes in the Tax Status of an Enterprise or its Shareholders	1725/2003-2238/2004
SIC	27	Evaluating the Substance of Transactions Involving the Legal Form of a Lease	1725/2003-2238/2004
SIC	29	Service Concession Arrangements: Disclosures	1725/2003
SIC	31	Revenue – Barter Transactions Involving Advertising Services	1725/2003-2238/2004
SIC	32	Intangible Assets – Web Site Costs	1725/2003-2236/2004-2238/2004-2075/2019

51. Isagro Group companies

Pursuant to CONSOB Resolution no. 11971 of May 14, 1999, as amended (article 126 of the Regulation), the Isagro Group companies and equity-accounted investees are listed below.

The list includes all the companies operating in the crop protection products industry, broken down by consolidation method. The following are also shown for each company: corporate name, business description, registered

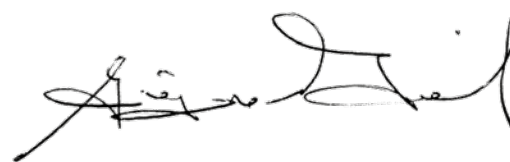
office, country of incorporation, and share capital denominated in the original currency. Furthermore, the list also shows the Group's consolidated share, as well as the ownership interest held by Isagro S.p.A. or any other subsidiaries. The percentage of voting rights in the various Ordinary Shareholders' meetings coincides with the ownership interest.

Corporate name and business description	Registered offices	Country	Share capital	Currency	Consolidated % share of the Group	Investing companies	Investment %
Holding company							
Parent company							
Isagro S.p.A. (R&D, production, marketing of crop protection products)	Milan	Italy	24,961,207.65	EUR	-	-	-
Subsidiaries consolidated using the line-by-line method							
Isagro Agrosolutions Kenya Limited (Management of the registration of crop protection products and commercial development)	Nairobi	Kenya	1,000,000	KES	100%	Isagro S.p.A.	100%
Isagro Argentina Ltd. (Management of the registration of crop protection products and commercial development)	Buenos Aires	Argentina	8,185,825	ARS	100%	Isagro S.p.A. Isagro España S.L.	95% 5%
Isagro Australia Pty Ltd. (Management of the registration of crop protection products)	Sydney	Australia	435,000	AUD	100%	Isagro S.p.A.	100%
Isagro Brasil Ltda (Management of the registration of crop protection products and commercial development)	São Paulo	Brazil	1,307,210	BRL	100%	Isagro S.p.A. Isagro España S.L.	99% 1%
Isagro Chile Ltda (Management of the registration of crop protection products and commercial development)	Santiago	Chile	43,987,670	CLP	100%	Isagro S.p.A. Isagro España S.L.	90% 10%
Isagro Colombia S.A.S. (Distribution of crop protection products)	Cota	Colombia	2,000,000,100	COP	100%	Isagro S.p.A.	100%
Isagro España S.L. (Development and distribution of crop protection products)	Madrid	Spain	120,200	EUR	100%	Isagro S.p.A.	100%
Isagro Mexicana S.A. de C.V. (Management of the registration of crop protection products and commercial development)	Mexico City	Mexico	50,000	MXN	100%	Isagro S.p.A. Isagro U.S.A., Inc.	90% 10%
Isagro Poland Sp. z o.o. in liquidation (Management of the registration of crop protection products and commercial development)	Warsaw	Poland	10,000	PLN	100%	Isagro S.p.A.	100%
Isagro Shanghai Co. Ltd. (Management of the registration of crop protection products and commercial development)	Shanghai	People's Republic of China	235,000	USD	100%	Isagro S.p.A.	100%
Isagro Singapore Pte Ltd. (Management of the registration of crop protection products and commercial development)	Singapore	Singapore	300,000	EUR	100%	Isagro S.p.A.	100%

Corporate name and business description	Registered offices	Country	Share capital	Currency	Consolidated % share of the Group	Investing companies	Investment %
Isagro South Africa Pty Ltd. (Management of the registration of crop protection products and commercial development)	Scottburgh	Republic of South Africa	1,071,000	ZAR	100%	Isagro S.p.A.	100%
Isagro U.S.A., Inc. (Development, production, marketing of crop protection products)	Wilmington	United States	8,720,601	USD	100%	Isagro S.p.A.	100%
Isagro Vietnam Company Limited (Management of the registration of crop protection products and commercial development)	Ho Chi Minh City	Vietnam	1,113,750,000	VND	100%	Isagro Singapore Pte Ltd	100%
Other companies							
Arterra Bioscience S.r.l. (R&D biology & molecular genetics)	Naples	Italy	327,229	EUR		Isagro S.p.A.	16.80%

for The Board of Directors

Giorgio Basile
(Chairman and Chief Executive Officer)



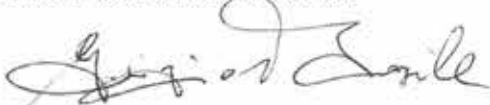
Milan, Wednesday, May 6, 2020

**Certification of the consolidated financial statements pursuant to art. 81-ter of Consob
Regulation no. 11971 of May 14, 1999, as subsequently amended and supplemented**

1. The undersigned, Giorgio Basile, Isagro S.p.A. Chairman and Chief Executive Officer, and Ruggiero Gambini, Manager in charge of preparing corporate financial reports, hereby certify, having also taken into account the provisions of art. 154-bis, subparagraphs 3 and 4, of the Italian Legislative Decree no. 58 of February 24, 1998:
 - the adequacy in relation to the characteristics of the firm and
 - the effective applicationof the administrative and accounting procedures for the preparation of the consolidated financial statements in 201.
2. In this respect no significant matters arose.
3. It is also certified that:
 - 3.1 the consolidated financial statements of Isagro S.p.A. as of December 31, 2019:
 - a) were prepared in accordance with applicable international accounting standards as recognised by the European Community pursuant to European Parliament and of the Council Regulation EC no. 1606/2002 of 19 July 2002;
 - b) correspond to the results documented in the books and accounting records;
 - c) is able to provide a truthful and correct representation of the economic and financial position of the issuer and of all the companies included in the scope of consolidation;
 - 3.2 the report on operation includes a reliable analysis of the performance and the operating result, as well as the position of the issuer and of all the companies included in the scope of consolidation, together with a description of the main risks and uncertainties they are exposed to.

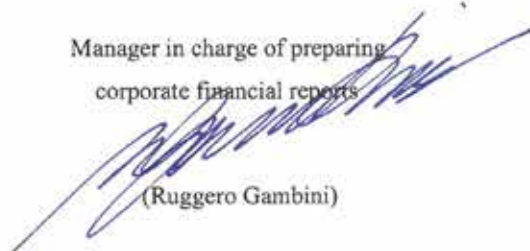
Milan, May 6, 2020

Chairman and Chief Executive Officer



(Giorgio Basile)

Manager in charge of preparing
corporate financial reports



(Ruggiero Gambini)



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