ISAGRO – a Holdisa S.r.l. company

Consolidated financial statements as at and for the six months ended 30 June 2005

BOARD OF DIRECTORS

Chairman and C.E.O.
Giorgio Basile

Vice-Chairmen
Aldo Marsegaglia
Lucio Zuccarello

Directors
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BOARD OF STATUTORY AUDITORS

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EXTERNAL AUDITING COMPANY

Reconta Ernst & Young S.p.A.

BOARD OF DIRECTORS' REPORT

Shareholders,

The consolidated half-yearly report of your Group as at 30 June, 2005, recorded 7.371 million Euro **net profits**, after 3.069 million Euro amortisation and 5.700 million Euro provisions for taxes.

Note that starting with the half-yearly data as at 30 June, 2005, your Group has adopted International Accounting Standards (IAS) at a consolidated level. Consequently, in order to guarantee proper comparison between data as at 30 June, 2005, and data for the same period of 2004 (prepared at the time according to Italian Accounting Principles), the latter have been duly reclassified in order to bring them in line with said International Accounting Standards (see reconciliation as of 30/06/04 attached herewith). The Quarterly Report as at 30 June, 2005, in particular, contains extensive information on the methods of transition from Italian Accounting Principles to International Accounting Standards, including an explanation of the changes in the opening consolidated financial statements as at 1 January, 2005, and on reclassifications and adjustments in the data itself as at 30 June, 2005.

The data as at 30 June, 2004, reclassified in this manner have also been further adjusted to take into account the IRES (income tax) rate for the parent company, Isagro S.p.A., effectively applied at the end of 2004 (33%), rather than the reduced rate (20%), granted by D.L. n° 269/03 for the newly listed companies, used during 2004 to estimate tax charges for the first half of 2004. The European Commission has declared, beginning 2005, such reduced tax rate not in line with the European Directives thus bringing back the tax rate to 33%.

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Consolidated revenues increased from 94.005 million Euro pro forma for the first half of 2004 to 115.780 million Euro for the first half of 2005 (+ 23.2%), whereas consolidated EBITDA reached 20.074 million Euro as at 30/06/2005, a 9.1% increase compared with the 18.398 million Euro pro forma for the first half of 2004. In this regard, it should also be noted that EBITDA for the first half of 2004 included non recurrent incomes and charges for 4.588 million Euro, compared with non recurrent charges of 0.338 million Euro as at 30 June, 2005, which, according to I.A.S., must be included in the Gross Operating Margin.

The EBIT as at 30 June, 2005, reached 17.005 million Euro, a 37.2% increase compared with the 12.390 million Euro pro forma for the first half of 2004, which, however, also included, in addition to the non recurrent incomes already mentioned, non recurrent charges. of 3.028 million Euro

Millions of Euro	**30 June, 2005** ***final***	**30 June, 2004** ***pro-forma****	***Difference***
REVENUES	**115.780**	**94.005**	***+ 23.2%***
EBITDA (G.O.M.)	**20.074**	**18.398**	***+ 9.1%***
EBIT (Operating result)	**17.005**	**12.390**	***+ 37.2%***
NET RESULTS	**7.371**	**6.469**	***+ 13.9%***
Income not included in P&L but directly credited to equity (IAS 32-39)	*0.876*	-	*n.d.*

* *Pro-forma for IAS and IRES rate (at 33%)*

In the case of the Net results for the period, it should be noted that, by virtue of the application of I.A.S. from 1st January, 2005, profits from derivatives (both to cover exchange rates and raw material purchases, namely copper) with contracts in progress at 31 December, 2004, but not yet realised at that date – since they fall due in 2005 and therefore are not included in the 2004 Financial Statements, in accordance with the Italian Accounting Principles adopted at the time – have not even been entered in the data on the financial statements for the first half of 2005, since they are directly credited to equity, as of January 1, 2005. . Consequently the equity as of January 1st 2005 has been increased by Euro 0,876 million without passing it through the P&L of the same year

Net financial payables increased, at the moment of the normal seasonal peak deriving from the nature of business of agrochemicals, from 77.028 million Euro pro-forma at 30/06/2004 to 75.878 million Euro at 30/06/2005, with an improvement, over the 12 months (July 2004 – June 2005), of 1.150 million Euro (1.5%), thereby generating a free cash flow of 4.990 million Euro for the period, including dividends paid to shareholders in the second half of 2005 and despite the presence of the aforementioned increase in revenues.

Compared with the values at January 1st 2005 (68,849 million Euro), Net financial debt at 30/06/2005 also increased by 11.029 million Euro, as a consequence of conservative payment made of Euro 7,328 millions related to the interpretation provided by the Tax Authority (Agenzia delle Entrate) in relation to the fiscal treatment of the income deriving from the restatement of the balance sheet subsequent to the implementation of the new Civil Code (dispute is expected to be ruled within October current year), coupled with the seasonal increase in working capital.

The improvements in operating results compared with the first half of 2004 pro-forma basically occurred as a result of the following two favourable events:

- sales of Tetraconazole in the USA, for the protection of soybean crops (against the fungicidal disease “Asian Soybean Rust”);
- further extraction of value from the company branches acquired in 2001, which contributed positively to the results of your Group. In particular, mention should be made of the following:
  - (a) a further important contribution in terms of the production synergies generated by the Panoli plant (India), in relation to production of the intermediate product M-Alcohol, obtaining important levels of efficiency in the production costs of the fungicide Tetraconazole, with prospects of further growth;
  - (b) a growth in sales of cupric products, for which your Group is a market leader world-wide, which increased by just under 10% in the first 6 months of 2005.

These positive factors were only partially offset by (i) further strengthening of the Euro against the US dollar (devalued by around 5% compared with the first half of 2004), which penalised your Group compared with the first half of 2004, and (ii) a large amount of stock in South America at the start of the

year (formed the previous year as a result of weather conditions which were unfavourable to the use of agrochemicals), which negatively influenced sales in the area in the first six months.
It is also confirmed, in compliance with the requirements of IAS, that the pro forma EBITDA for the first half of 2004 consolidate non recurrent incomes and charges of 4.588 million Euro, compared with a negative value of 0.338 million Euro for the first half of 2005.

The **cash flow** (Net result + amortisation + provisions) generated in the first half of 2005 totalled 11.634 million Euro, a 9.6% increase compared with the 10.618 million Euro pro-forma for the first half of 2004 which, however, as already said before, included a non-recurrent component of income of 4.826 million Euro (included in the EBITDA) which, net of non recurrent charges (3.028 million Euro), positively influenced the consolidated *cash flow* by 1.798 million Euro before tax.

In the case of development of three new chemical-synthesis molecules owned by the Group (the fungicide IR6141, the herbicide IR5878 and the fungicide IR5885), the relative costs sustained during the first half of 2005 have been capitalised. Also with reference to products IR6141, IR5878 and IR5885, despite the lengthier bureaucratic process for registration in the various countries (due to internal organisational reasons of the national institutions concerned), their marketing will commence in 2006, 2007 and 2008 respectively.

The agrochemical market

During the first half of 2005, the agrochemicals market showed signs confirming a continuation of the trend for recovery which started in 2004. The results made public by the leading companies in the sector and processed by the Phillips McDougall market survey company in US dollars, do, in fact, show an average increase of 5.3% compared with the same period of 2004 and the forecast for 2005 as a whole remains reasonably positive.

Analysing the principal elements which characterised the first six months of the year, it should be noted that, along stock levels along the distribution chain on certain markets were lower than the previous year, poor weather conditions led to a general reduction, on important markets, in use of agrochemicals.

In detail:

(i) in Asia, the delayed arrival of the monsoon season and the consequent drought negatively characterised the start of 2005 in India, Thailand and Vietnam; this drought was followed in the former two countries by torrential rains; in Japan, on the other hand, despite a slight reduction in the area of rice crops, the leading companies recorded a good level of sales;

(ii) important areas of Australia suffered from a lack of water, although the impact on the yield of the major crops and on acquisition of production factors was actually limited;

(iii) in Europe, the drought mainly affected countries in Southern Europe, such as Spain, Portugal and Italy, limiting consumption of fungicides in particular. The UK and several countries in Eastern Europe (including Poland and Russia), on the other hand, suffered from persistently lower temperatures than normal seasonal temperatures. More generally, consumption of agrochemicals in Europe was affected by the return of the so-called "set-aside" quota (subsidised removal of sowable land from production) from 5% to 10%. However, the impact on sales of agrochemicals is expected to remain relatively modest, since the least-used land with the lowest consumption of production factors has been left fallow.

The North American market generally went against the trends, despite an increase in the USA in the portion sowed with GM crops (Genetically Modified, which has an impact on consumption of herbicides and insecticides) and the consequent use of gliphosates. In fact, whilst competition from low-priced generic products over recent years (gliphosate is the most widely sold product in the USA and has not been protected by a patent for years) has contributed to reducing the global value of the US market, the prices of the product have now settled sufficiently and the impact of growth in GM crops was therefore not as important as in the past.

The area sown with wheat, maize, rape and cotton crops increased on average, offsetting the reduction in soybean (source: USDA). Consequently, while the results for 2004 decreased slightly compared with the previous year, the forecasts for 2005 appear reasonably positive.

The good results in North America generally offset the trend in Latin America, which has so far failed to confirm its role as a driving force during 2004. Worthy of mention in particular is the effect of revaluation of the Brazilian currency against the US dollar, which slowed down exports and reduced the propensity to spend of Brazilian farmers, combining with the general conditions of drought in the south of the country. Sales in Argentina, on the other hand, which were mainly of fungicides and gliphosates, were good.

At worldwide level, the trend in cultivated area was mainly positive for the main crops during the first half of 2005. Comparison with the same period of 2004 shows slight increases in maize, rice, rape and cotton, with a slight reduction in cereals. The data on cultivated area needs, in any case, to be updated with the results for sowing in the countries of Latin America, which mainly starts in the last quarter.

It should also be mentioned that the leading companies have indicated significant increases in sales of new products. This data, which is a sign of general opening up of the market towards gradual replacement of the most obsolete molecules with others with a more innovative profile, consequently leads to replacement of the least profitable products and allows better maintaining of price levels and profitability in the agrochemicals system.

<u>Income statement – Summary data</u>

Revenues for the first half of 2005, totalling 115.780 million Euro as already indicated, increased by 23.2% compared with those for the first half of 2004 pro-forma (94.005 million Euro), due to combination of the following elements:

- on the one hand, in a favourable sense, the aforementioned start of sales of the Group-owned fungicide Tetraconazole in the USA, for use on soybean crops against Asian Soybean Rust (for around 28 million USD), as well as the higher sales of cupric synthesis products for development of penetration of granule forms (“WG” – Wettable Granules), launched in 2004;
- on the other, in an unfavourable sense, the effects of further devaluation of the US dollar against the Euro and lower sales in Brazil due to the aforementioned high stocks at the start of the year.

With reference, in particular, to **sales of Tetraconazole** for use on soybean on the North American market, newly formed, it should be noted that, mainly as a result of weather conditions unfavourable to the spread of Asian Soybean Rust at the beginning of the season and despite subsequent, potentially favourable conditions to this spreading during the season, the degree of infection observed in soybean crops in the USA confounded forecasts at the start of the year. Asian Soybean Rust, whose spores withstood the harsh winter between 2004 and 2005 in the more temperate southern states of the USA, was seen only in these southern states, which, however, represent less than 5% of the total soybean produced in the country each year.

Millions of Euro	At 30.06.2005 Final (IAS)	At 30.06.2004 Pro-forma*	*Differences*
Revenues from sales and services	**115,780**	**94,005**	***23,2%***
Changes in inventories of products	4,897	3,375	
Changes in inventories of work in progress	-	-	
Increases through in-house production of fixed assets	1,421	1,859	
Other revenues and income	2,676	7,616	
Consumption of materials and external services	(89,006)	(73,712)	
Provisions to the reserve for bad debts	(0,556)	(0,725)	
Personnel costs	(14,500)	(13,576)	
Provisions for bonuses	(0,638)	(0,444)	
Gross operating margin (EBITDA)	**20,074**	**18,398**	***9,1%***
% on Revenues	*17,3%*	*19,6%*	
Amortization			
-R&D	(0,532)	(0,689)	
- others	(2,537)	(2,291)	
Writedown of fixed assets	-	(3,028)	
Operating result (EBIT)	**17,005**	**12,390**	***37,2%***
% on Revenues	*14,7%*	*13,2%*	
Financial charges	(4,240)	(0,400)	
Writedown/revaluation of investments	0,004	(0,027)	
Pre-tax profits	**12,769**	**11,963**	***6,7%***
% on Revenues	*11,0%*	*12,7%*	
Current taxes	(5,915)	(5,658)	
Deferred taxes	0,215	0,142	
Net results deriving from assets due to be eliminated	0,385	0,136	
(Profits)/losses of minority interests	(0,083)	(0,114)	
Group profits/(losses)	**7,371**	**6,469**	***13,9%***
% on Revenues	*6,4%*	*6,9%*	
Additional net reserve directly to Shareholders' Equity and not passing through the I/S, as per IAS 32-39	0,876	-	
Pro-forma net results without IAS 32-39	***8,247***	***6,469***	***27,5%***
%on Revenues	*7,1%*	*6,9%*	

** Pro-forma for IAS and IRES rate of 33% rather than 20% (applied on 30 June, 2004, but then adjusted with retroactive effect on 31/12/2004)*

In this regard, your subsidiary company Isagro USA has indicated that, according to the best information available, despite the US distributor having sold and delivered a large part of the Tetraconazole purchased from Isagro USA to its own local retailers, a large part of these sales have remained as stock and it is foreseen that this stock will be reabsorbed over the next two years.

For the market in agrochemicals against Asian Soybean Rust in North America to reach a significant size, it is necessary for the spores of the infection to go beyond the 35° parallel, thereby threatening the important plantations in the Central and Northern states (which represent the large part of annual soybean production). In particular, according to a model widely used among experts (which assumes the spores survive the winter each year in the Southern states of the USA), this eventuality would be possible on an annual basis, in "normal" weather conditions, when the prevailing winds push the spores themselves towards the Central and Northern states.

With reference to **personnel costs**, with the exclusion of provisions for bonuses, these totalled 14.500 million Euro in the first half of 2005, constituting an increase of 1.192 million Euro pro-forma compared with 30 June, 2004 (+9.0%). This increase in personnel costs, which is partly structural in nature, as a result of organisational development of Isagro U.S.A., and partly related to the economic situation, due to reworking by the subsidiary company, Isam S.r.l., nonetheless did not have a negative effect on productivity, which, on the contrary, passed from 14.4% to 12.5% of revenues.

EBITDA increased from 18.398 million Euro pro-forma for the first half of 2004 to 20.074 million Euro on 30 June, 2005, showing an improvement over the six months of 1.676 million Euro (+9.1%); excluding the non recurrent incomes and charges and provisions already mentioned, both included, as a result of the I.A.S., in the Gross Operating Margin, EBITDA was 21.606 million Euro, an increase of 6.359 million Euro (+ 41.7%) compared with the 15.247 Euro pro-forma of the first half of 2004.

EBIT reached 17.005 million Euro as at 30 June, 2005, marking a 37.2% increase compared with 12.390 million Euro pro-forma as at 30 June, 2004, although this latter figure incorporated charges of non recurrent nature deriving from writedown of fixed assets totalling 3.028 million Euro. If non recurrent income and charges are excluded, in particular, EBIT for the first half of 2005 (17.343 million Euro) increases by 60.1% compared with the value for the same period of 2004 (10.830 million Euro).

Consolidated **net financial charges** increased from 0.400 million Euro pro-forma at 30 June, 2004, to 4.240 million Euro as at 30 June, 2005, an increase of 3.840 million Euro. This heavy increase in financial charges for the first half of 2005 occurred following losses from Euro/USD exchange rate coverage operations totalling 2.785 million Euro, against earnings of 0.316 million Euro pro-forma in the first half of 2004. The aforementioned losses on the balance sheet for the first half of 2005, which refer to coverage of the imbalance between sales and purchases in US dollars planned for the entire year in the 2005 Budget, derive from the firmly established decision taken (November 2004) to proceed beginning of the year with the coverage of said exchange imbalance shown in the Budget, by effectively freezing the rate at said value. In the case of the management of derivative instruments for the coverage of purchases of raw materials (copper) as at 30 June, 2005, these generated earnings of 1.477 million Euro at 30 June, against a benefit of 1.608 million Euro for the first half of 2004.

As a result of the above, **Pre-tax profits** for the first 6 months of 2005 reached 12.769 million Euro, an increase of 6.7% compared with 11.963 Euro pro-forma for the same period of 2004.

Group profits, in conclusion, have been estimated as 7.371 million Euro, marking a 13.9% improvement compared with 6.469 million Euro pro-forma as at 30 June, 2004.

It should also be noted that, as at 31 December, 2004, as required by Italian Accounting Principles in force at the time, income deriving from swap contracts not yet realised, since it fell due in 2005 (equal to 0.876 million Euro after tax) and to be entered in the balance sheet data in 2005, on the basis of the application procedures of the I.A.S., has not been incorporated into the results as at 30 June, 2005, and passed directly into the Balance Sheet as an increase in Equity.

Balance sheet – Summary data

During the first half of 2005, **Net fixed assets** (fixed assets and investments net of medium/long-term reserves against these fixed assets) increased from 61.691 million Euro pro-forma as at 30 June, 2004, to 73.247 million Euro, thereby marking an increase of Euro 11.556 million (+ 18.7%). This increase is due:

- partly (7.7 million Euro) to continuation of investment activities for development of new Group-owned molecules and for obtaining production synergies at Group plants, net of the relative amortisation for the period;
- partly (3.9 million Euro) from a reduction in net medium/long-term liabilities.

Millions of Euro	**30/06/05** ***final***	**30/06/04** ***pro-forma***	***Differences***	**01/01/05 IAS**	**Memo :31/12/04 ***
Net fixed assets	73.247	61.691	*18.7%*	63,156	63.802
of which: M/L-term liabilities	*(3.483)*	*(7.363)*		*15,120*	*(8.861)*
Net working capital	78.175	81.368	*-3.9%*	72,299	58.931
Employee severance reserve	(6.674)	(6.378)	*4.6%*	6,554	(7.331)
Invested capital	**144.748**	**136.681**	***5.9%***	**128,901**	**115.402**
Covered by					
Equity	**68.870**	**59.653**	***15.5%***	**64,052**	**62.669**
Net financial debts	**75.878**	**77.028**	***-1.5%***	**64,849**	**52.733**
of which M/L-term	*42.861*	*28.264*		*26,812*	*26.329*
Net fin. debts / Equity	***1.10***	***1.29***		***1.01***	***0.84***

* *According to Italian Accounting Principles*

With reference to the first point, in particular, it should be observed that the Inland Revenue Office, in Ministerial Circular no. 27/E of 31 May, 2005, has taken a stand on certain aspects relating to the possibility of non-accounting deduction of R&D costs, although it left several problems relating to reversal of tax-driven adjustments on balance sheets undefined. This led to a situation of objective uncertainty in relation to the tax system to be applied to several items reflected in the financial statements of the parent company Isagro S.p.A. and the associated company Isagro Italia S.r.l. as at 31.12.2004. The parent company Isagro S.p.A. therefore submitted a petition to the Inland Revenue Office on 27 June, 2005, asking for the tax system to be applied to the above situations to be defined. As a precautionary measure – and while waiting to learn the outcome of the petition before submitting the 2004 tax returns (due on 31 October, 2005) – tax liabilities of 7,323 thousand Euro were reclassified in

June under “Current tax liabilities” (previously entered under “Medium/long-term liabilities” and relating to reversal of tax-driven adjustments), then paid to the Revenue Office in June, coupled with the payment of the balance of taxes for 2004.

Net working capital totalled 78.175 million Euro as at 30 June, 2005, a decrease by 3.193 million Euro (- 3.9%), compared with 81.368 million Euro pro-forma as at 30 June, 2004, due to the increase in payables to suppliers following purchases of raw materials for the production of the fungicide Tetraconazole partially off set by the increase of receivables.
It is worth noting that this decrease in Net working capital took place despite the significant increase in Revenues from sales already mentioned, which was reflected, however, in an increase in trade payables limited to 4.865 million Euro.

The Employee Severance Reserve increased from 6.378 million Euro pro-forma as at 30/06/2004 to 6.674 million Euro as at 30/06/2005 (+ 4.6%), due to provisions for the period lower than the needs deriving from the departure of employees.

On the basis of the aforementioned events, **Net invested capital** as at 30 June, 2005, totalled 144.748 million Euro, marking an increase of 8.067 million Euro (+ 5.9%) compared with 30 June, 2004 pro-forma.

The level of **Equity** as at 30/06/2005 was higher compared with 30/06/2004 pro-forma, as a result of Group profits, despite payment of dividends to shareholders (3.840 million Euro) and lower conversion differences, increasing from 59.653 million Euro pro-forma as at 30/06/2004 to 68.870 million Euro as at 30/06/2005 (+ 15.5%).

Net financial payables decreased from 77.028 million Euro pro-forma at 30/06/2004 to 75.878 million Euro as at 30/06/2005, due to the *free cash flow* generated in the period July 2004 – June 2005 (4.990 million Euro prior to payment of dividends on the 2004 results of 3.840 million Euro).

It is also worth emphasising in this case that generation of a positive free cash flow over the 12 months occurred despite the significant investments made and an important increase in sales.

The **ratio between net financial debts / Equity** at 30 June, 2005, as a consequence of the aforementioned analysis, decreased from 1.29 (30/06/2004 pro-forma) to 1.10 (30/06/2005), with Net fixed assets (equal, as said, to 73.247 million Euro) entirely covered by Equity (68.870 million Euro) together with the Employee severance reserve (6.674 million Euro). In contrast, medium/long-term payables (42.861 million Euro) and short-term payables net of liquidity (33.017 million Euro) were used to finance Net working capital. Net short-term financial payables, in particular, as already mentioned above, totalled 42.2% of Net working capital and 39.4% of trade receivables (the latter characterised by an excellent historical profile with regard to proceeds).

Compared with 31 December, 2004 pro-forma, in conclusion, Net financial debts increased by Euro 11,029 millions due to the above said conservative payment to the Tax Authorities of Euro 7,328 millions and to the seasonality of the business.

Main indicators

The table below shows the main economic/financial indicators for your Group.

	30/06/2005 ***final***	**30/06/2004** ***pro-forma***
Profits per share (€)	0.46	0.40
Own means per share (€)	4.30	3.73
Half-yearly ROE (as *at* 30 June)	12.0%	10.8%
Half-yearly ROI (as *at* 30 June)	11.7%	9.1%
(Equity + Severance Fund) / Fixed assets	1.03	1.07
Net short-term fin. debts / Net working capital	0.42	0.60
Short-term fin. debts/ Trade receivables	0.39	0.62

Main events in the first half of 2004

(A): GRANTING OF A "THREE-YEAR AUTHORISATION" FOR SALE OF TETRACONAZOLE FOR USE ON SOYBEAN IN THE U.S.A.

The E.P.A. (Environmental Protection Agency), on the basis of applications for this submitted by various US states, approved the so-called "Section 18" (exemption from registration) in March, 2005, with three-year validity, for the sale of the Group-owned fungicide Tetraconazole in the USA for use on soybean. It should also be noted that the parent company Isagro S.p.A. submitted the dossier necessary to obtain Section 3 (full registration) in August. 2005.

(B): GRANTING OF A "SEVEN-YEAR AUTHORISATION" FOR SALE OF TETRACONAZOLE FOR USE ON SUGAR BEET IN THE U.S.A.

In April, 2005, the E.P.A. (Environmental Protection Agency) issued a "Section 3" registration (with seven-year authorisation) for the sale of the Group-owned fungicide Tetraconazole in the U.S.A., under the Eminent® brand name, for use on sugar beet crops. Tetraconazole, which is highly effective in controlling the sugar beet fungal disease "Cercospora", was sold from 1998 until last year on the basis of annual authorisations (the so-called "Section 18"). During this period, Eminent® became the leading fungicide in the segment, reaching a market share exceeding 50%.

Tetraconazole for use on sugar beet continues to be distributed in the USA exclusively by Sipcam Agro USA, under the Eminent® 125LS brand name.

(C): ACQUISITION OF THE STAKE HELD BY SIPCAM S.P.A. IN ISAGRO RICERCA S.R.L.

Following agreements reached with the partner Sipcam, the parent company Isagro S.p.A. acquired, in June, 2005, the 10% stake held by Sipcam S.p.A. in the company Isagro Ricerca S.r.l., in which Isagro S.p.A. therefore holds a 61% controlling stake as at 30 June, 2005.

This operation formed part of a program of redefinition of current agreements with industrial partners, in line with the policy of gradual strengthening of Isagro along the value chain of the agrochemicals business, also following the acquisitions made in 2001.

(D): DEVELOPMENT OF NEW AGROCHEMICALS

? **IR6141**, or Kiralaxyl® or Benalaxyl-M, an active isomer of Benalaxyl: the registration dossier relating to the active substance is in an advanced phase of assessment by the European authorities for inclusion in Annex I, whereas temporary registration in Italian is expected in time for its marketing in 2006. The long-term toxicology studies needed to obtain authorisation for importing agricultural products treated with kiralaxyl into the USA are currently underway. The trials, aimed at identifying new market opportunities, either in terms of extension of use of the product to additional crops on markets where the registration has already started or geographical extension of the local registrations themselves, continued according to schedule.

? **IR5878**, or Orthosulfamuron, a herbicide for early post-emergency treatment of rice fields: development of this wide-spectrum herbicide continues according to schedule. The studies on the active substance and a representative formula based solely on IR5878 have been completed and the dossiers required for starting the registration procedure at the competent local authorities are currently being prepared. In the geographical areas where sale of the product is planned (principally Italy, Spain, Brazil, China, India and the US), agronomic trials continued, also for the preparation of new formulas combined with other herbicidal active substances capable of responding better to the local agronomic needs (agronomic efficiency tests and sampling of crops treated in order to determine residual levels). Promising potential applications have also emerged from recent trials in Japan, indicating the possibility of commercial development of IR5878 in this country as well.

? **IR5885**, an anti-peronospore fungicide: development of IR5885 is also proceeding according to schedule, with conclusion of the studies on the active substance and a "representative" formula. The relative dossiers to be submitted to the Authorities in order to obtain European registration are therefore being prepared. The objectives of the coming phases of development will be the preparation of a portfolio of formulas with different partners with fungicidal activities – in order to respond better to specific market requirements – and completion of the registration dossiers needed for their marketing.

? **IR6396**, a herbicide for controlling large-leaf weeds: the pre-commercial development of this new herbicide was decided in September, 2004, after an agronomic trial conducted in 2001-03 which highlighted the high efficiency and a wide spectrum of application. In the first half of 2005, further agronomic trials were conducted on this molecule to define the methods of use better (dosages and application times), in order to direct subsequent studies on environmental impact, planned for the second half of the year. The data collected also confirmed the potential of IR6396 as a herbicide for controlling weeds attacking cereals and other crops with a high economic interest.

? **Copper products**: Isagro is working on three types of copper-based fungicides, represented by Oxychloride, Hydroxide and Bordeaux mixture. In particular, geographical development of two new cupric products is continuing: (i) a copper oxychloride formulated using a specific technology called WG (*Wettable Granules*) and (ii) a special copper oxychloride and copper hydroxide based co-formulate (Airone®). Both the aforementioned products are characterised by lower application dosages and by a reliable and competitive agronomic effectiveness. In particular, WG Oxychloride was launched on the Italian market in this six month period, whilst the trial activities needed to obtain registration in Brazil and on other important South American markets continue. The planned development actions also continued according to schedule in Europe (France, Czech Republic, Slovakia, Portugal, Greece and Hungary), Asia (Turkey) and Africa (Kenya), with the objective of replacing in the medium-term the existing powder formulas (the so-called "WP" – *Wettable Powder*), with a benefit in terms of profitability.

? **Biological products**:

i. ***Microbiological products***: in the first half of 2005, performance of the studies required for European review continued and compilation of the dossier on the Remedier® product continued. Also in relation to Remedier®, an application was submitted for local registration to the competent Italian authorities;

ii. ***Pheromones***: registration applications for the principal target markets (France, Austria and Portugal) have been completed for the Ecodian CP system and submitted for examination.

iii. ***Bio-stimulants:*** after launching of Siapton X and Ergovit XL on the Italian market, which took place in 2004 with good technical results, the aforementioned new products are the subject of validation in extensive areas, in order to assess local potential and therefore take any decisions on its possible commercial development.

(E): Favourable conclusion of arbitration with Proquimicos

The board of arbitration called to decide on the claim for compensation of damages allegedly suffered by the Columbian company Proquimicos (quantified as 11 million US $) rejected this claim for compensation and therefore expressed a decision in favour of Isagro.

With reference to both this point (E) and the previous point (B), Isagro had indicated to the Market two possible risks for the Group, namely (i) the risk of non-renewal of exemption from registration/non-issue of authorisation for the sale of the Group-owned fungicide Tetraconazole in the United States for use on sugar beet and (ii) the risk of the board of arbitration accepting the claim for damages of Proquimicos. In both its official documents and various road shows and conference calls – Isagro also qualified the possibility of each of these risks occurring as “highly improbable”, as events subsequently proved them to be.

(F): Incorporation of Isagro Colombia

In May, 2005, the subsidiary company Isagro Colombia was incorporated, an initiative which follows the previous incorporation of the subsidiary companies Isagro Argentina and Isagro Brazil and opening of a branch in Cuba.

This company will be responsible, in the short-term, for guaranteeing protection of intellectual know how through direct holding in the country of the registrations on Isagro products (with reference to existing products, currently owned by the local distributor) and, in the medium/long-term, for allowing optimisation at local level of the sales strategy and support of development of sales of the Group’s products.

Human resources

The effective workforce as at 30/06/2005 totalled 823 employees, an increase of 5 compared with 30 June, 2004, due to the impact of the increase in the number of workers at the Panoli plant, partially offset by a decrease in the number of office workers. Compared with 31 December, 2004, the increase is attributable, on the other hand, both to the aforementioned increase in workers at the plant in India, but also to the usual intra-annual impact of seasonal workers, principally at the subsidiary company, Isam S.r.l.

Workforce	as at 30/06/05	as at 30/06/04	*as at 31/12/04*
Managers/Executives	44	38	*39*
Middle managers	142	139	*144*
Office workers*	357	367	*353*
Workers	190	188	*169*
Seasonal workers	90	86	*14*
Total	**823**	**818**	***719***

** Includes "Special qualifications"*

Judicial procedures

DE.DI.CA S.r.l. di Giordano Paolo Emilio and Paolo Emilio Giordano

In the writ of summons dated 7 May, 2003, DE.DI.CA. S.a.s. di Paolo Emilio Giordano and Mr. Paolo Emilio Giordano summoned FitoFormula S.r.l., Siapa S.r.l. and Isagro Italia S.r.l. (as well as Caffaro S.r.l.) before Milan Court, with reference to a company lease agreement signed on 30 March, 2000, between DE.DI.CA. and Caffaro (subsequently transferred to FitoFormula S.r.l.) and other business agreements linked with the company lease agreement (subsequently transferred to FitoFormula S.r.l., Siapa S.p.A. and Isagro Italia S.p.A.).

The claimants requested (i) compensation of alleged damages following withdrawal of FitoFormula S.r.l. from the company lease agreement and alleged unlawful interruption of the business agreements linked with said company lease contract, as well as for alleged non-conformance of the industrial shed with safety regulations and (ii) compensation of unspecified damages allegedly suffered by Mr. Paolo Emilio Giordano in relation to several problems linked with subordinate employment as an employee of Caffaro.

The damages have been quantified by the other party as 2,000,000 € for DE.DI.CA. and 150,000 € for Mr. Giordano.

FitoFormula S.r.l., Isagro Italia S.p.A. and Siapa S.p.A. appeared before the court on 8 October, 2003, preliminarily requesting:

1. ascertaining of invalidity of the summons, due to the indeterminate nature of the claim and/or ordering of conversion of the proceedings, since the case falls within the sphere of those contemplated by art. 447/bis of the Italian Code of Civil Procedure;
2. rejection of the other party's claims;
3. by way of counter-claim, sentencing of DE.DI.CA. to payment of 100,600 € for non-payment of severance to employees and for non-payment of rent.

The case, which was mistakenly brought before the Labour Court, was transferred to the ordinary court in the order dated 5 November, 2003.

At the hearing on 31 March, 2004, the case was interrupted due to the merger of FitoFormula S.r.l. into Isagro S.p.A..

In the resumed writ of summons of 14 January, 2005, De.Di.Ca. requested resumption of the proceedings before Milan Court.

During the subsequent hearing, initially scheduled for 12 April, 2005, at Milan Court, but then adjourned until 7 June, 2005, the judge did not admit the testimonial evidence requested by DE.DI.CA, rejecting the expert witness's report and admitting, on the other hand, questioning of the legal representative of DE.DI.CA. and witnesses requested by ISAGRO, adjourning the hearing until 1 February, 2006, for taking of the oral evidence.

For the proceedings pending before Rome Court, the examining magistrate granted in favour of Isagro the temporarily executive order against DE.DI.CA. for 18,577.88 Euro. Issuing of the same order is also awaited for SIAPA (for 59,496.00 Euro).

As things stand, it is not possible to formulate any assessment on the final outcome of this dispute. After consulting its attorneys on this, Isagro is of the opinion that, in the current situation, there are no elements on the basis of which a risk of the defendant companies losing the case can be deemed to exist.

Shares held by directors, auditors and general managers

In compliance with the regulations enforcing Legislative Decree 52/98, issued by the Consob (Stock Exchange Commission) in resolution no. 11971/99, the table below shows the shares held as at 30 June, 2004, by directors, auditors and general managers in the company and its subsidiary companies, as well as by spouses from which they are not legally separated and minor offspring, and the relative changes for the period.

NAME AND SURNAME	COMPANY IN WHICH STAKE IS HELD	NUMBER OF SHARES HELD AT THE END OF THE PREVIOUS YEAR (as at 31.12.2004)	NUMBER OF SHARES ACQUIRED IN THE FIRST HALF OF 2005	NUMBER OF SHARES SOLD IN THE FIRST HALF OF 2005	NUMBER OF SHARES HELD as at 30.06.2005
Giorgio Basile	Isagro S.p.A.	37.000	0	37.000	0
Mauro Bontempelli	Isagro S.p.A.	0	0	0	0
Bernardino Bosio	Isagro S.p.A.	0	0	0	0
Ambrogio Caccia Dominioni	Isagro S.p.A.	0	0	0	0
Maria Camilla Filippini Battistelli (wife of Dr Giorgio Basile)	Isagro S.p.A.	12.000	0	12.000	0
Alessandro Mariani	Isagro S.p.A.	25.364	0	6.000	19.364
Aldo Marsegaglia	Isagro S.p.A.	0	0	0	0
Carlo Porcari	Isagro S.p.A.	0	0	0	0
Francesca Pucillo (wife of Dr. Lucio Zuccarello)	Isagro S.p.A.	2.700	0	1.500	1.200
Tomaso Quattrin	Isagro S.p.A.	0	0	0	0
Giuseppe Rapisarda	Isagro S.p.A.	36.000	14.000	0	50.000
Vittorio Serafino	Isagro S.p.A.	0	0	0	0
Alberto Stefani	Isagro S.p.A.	7.000	1.000	7.000	1.000
Renato Ugo	Isagro S.p.A.	0	0	0	0
Lucio Zuccarello	Isagro S.p.A.	2.100	0	1.500	600
Roberto Capone	Isagro S.p.A.	0	0	0	0
Franco Caramanti	Isagro S.p.A.	0	0	0	0
Filippo Cova	Isagro S.p.A.	0	0	0	0
Guido Sampietro	Isagro S.p.A.	0	0	0	0
Carlo Ticozzi Valerio	Isagro S.p.A.	0	0	0	0
Total	**Isagro S.p.A.**	**122.164**	**15.000**	**65.000**	**72.164**

Subsequent events

After the date of closure of accounts as at 30 June, 2005, your parent company, Isagro S.p.A.:

- set up a new, wholly owned subsidiary, Isagro Japan Ltd., in August 2005;
- following agreements between the parties, will proceed with purchase, by 15 December, 2005, with effect from 31 December, 2005, both of the 19% stake held by Arysta LifeScience Corporation and of

the 5% stake held by Arysta LifeScience North America Corporation (formerly Arvesta Corporation) in Isagro Ricerca S.r.l., in which Isagro S.p.A. will therefore hold an 85% controlling stake.

For both the aforementioned events, the comments made in this report on similar operations concluded respectively with Sipcam and with incorporation of Isagro Colombia apply, as part of the policy of gradual strengthening along the chain of value of the agrochemicals business being pursued by Isagro.

On 3 October, an agreement was also signed for consensual termination of the manufacturing account agreement between Caffaro S.p.A. and Isagro S.p.A..

Objectives for the second half of 2005

During the second half of 2005, your Group will focus its activities on reaching the following objectives:

1. continuation of the program of development of new agrochemicals and, in particular, of four new chemical-synthesis molecules (of which three are due on the market in the three-year period 2006-08);
2. continuation of the program of rationalisation of commercial and production structures deriving from acquisitions made over recent years in Italy;
3. completion of the Bussi plant and commencement of work on the M-Alcohol production line at the Panoli plant (India);
4. scouting activities aimed at growth operations for external lines.

Trends at the end of 2005

Trends at the end of 2005 indicate an improvement in Net results compared with 31 December, 2004, in compliance with the objectives communicated to the Market, despite poorer performance on the South American market compared to the previous year, due to the drought during the last campaign, and the consequent current high levels of stock.

The Board of Directors

Milan, 12 October, 2005

Annex 1:

Analysis of income

(amounts in thousands of Euro)	At 30.06.2005 Final (IAS)	At 30.06.2004 Pro-forma*	*Differences*
Revenues from sales and services	**115.780**	**94.005**	***23,2%***
Changes in inventories of products	4.897	3.375	
Changes in inventories of work in progress	0	0	
Increases through in-house production of fixed assets	1.421	1.859	
Other revenues and income	2.676	7.616	
Consumption of materials and external services	(89.006)	(73.712)	
Provisions	(556)	(725)	
Added value	**35.212**	**32.418**	***8,6%***
% on Revenues	*30,4%*	*34,5%*	
Personnel costs	(14.500)	(13.576)	*6,8%*
Provisions for bonuses	(638)	(444)	
Gross operating margin (EBITDA)	**20.074**	**18.398**	***9,1%***
% on Revenues	*17,3%*	*19,6%*	
Amortization of			
:- R&D costs	(532)	(689)	
- others	(2.537)	(2.291)	
Writedown of fixed assets	0	(3.028)	
Operating result (EBIT)	**17.005**	**12.390**	***37,2%***
% on Revenues	*14,7%*	*13,2%*	
Financial charges	(4.240)	(400)	
Writedown/revaluation of investments	4	(27)	
Pre-tax profits	**12.769**	**11.963**	***6,7%***
% on Revenues	*11,0%*	*12,7%*	
Current taxes	(5.915)	(5.658)	
Deferred taxes	215	142	
Net results deriving from assets due to be eliminated	385	136	
(Profits)/losses of minority interests	(83)	(114)	
Group profits/(losses)	**7.371**	**6.469**	***13,9%***
% on Revenues	*6,4%*	*6,9%*	
Additional net reserve directly to Shareholders' Equity and not passing through the I/S, as per IAS 32-39	876	0	

** Pro-forma for IAS and IRES rate of 33% rather than 20% (applied at 30 June, 2004 but then adjusted with retroactive effect on 31/12/2004)*

Annex 2:

Analysis of assets and liabilities

(amounts in thousands of Euro)	30.06.2005 Final	30.06.2004 Pro-forma*		*Memo:* *31.12.2004 final*	30.06.2004 *final*
Net fixed assets					
Goodwill	3.405	3.401	*0,1%*	*2.446*	2.927
Other intangible assets	40.449	34.209	*18,2%*	*39.895*	36.844
Tangible assets	32.581	31.274	*4,2%*	*29.870*	30.346
Financial assets	295	170	*73,5%*	*452*	474
Other medium/long-term assets	8.791	5.827	*50,9%*	*0*	0
Medium/long-term liabilities	(12.274)	(13.190)	*-6,9%*	*(8.861)*	(6.150)
TOTAL NET FIXED ASSETS	**73.247**	**61.691**	***18,7%***	***63.802***	**64.441**
Net working capital					
Inventories	46.002	47.483	*-3,1%*	*38.305*	47.483
Work in progress	4.406	3.191	*38,1%*	*3.219*	2.584
Trade receivables	83.898	78.525	*6,8%*	*63.385*	77.750
Other operating assets	13.153	9.134	*44,0%*	*11.373*	13.137
Trade payables	(54.048)	(42.199)	*28,1%*	*(37.691)*	(41.362)
Reserves for current risks and charges	(7.088)	(5.321)	*33,2%*	*(4.857)*	(7.527)
Other operating liabilities	(8.148)	(9.445)	*-13,7%*	*(14.803)*	(13.149)
TOTAL NET WORKING CAPITAL	**78.175**	**81.368**	***-3,9%***	***58.931***	**78.916**
INVESTED	**151.422**	**143.059**	***5,8%***	***122.733***	**143.357**
Employee Severance Reserve	**(6.674)**	**(6.378)**	***4,6%***	***(7.331)***	**(7.269)**
NET INVESTED	**144.748**	**136.681**	***5,9%***	***115.402***	**136.088**
	39,4%				
covered by:					
Own capital					
Share capital paid up	16.000	16.000	*0,0%*	*16.000*	16.000
Reserves and profits/losses carried forward	46.523	38.614	*20,5%*	*32.903*	32.903
Conversion reserve (difference)	(1.623)	(2.304)	*-29,6%*	*(2.904)*	(2.306)
Capital and reserves of minority interests	599	373	*60,6%*	*277*	108
Group profits (losses) for the period	7.371	6.970	*5,8%*	*16.393*	12.772
Total own capital	**68.870**	**59.653**	***15,5%***	***62.669***	**59.477**
Net financial indebtedness					
Medium/long-term :					
- banks	27.381	12.698	*115,6%*	*11.662*	12.911
- banks for subsidized loan	7.624	8.674	*-12,1%*	*7.982*	8.674
- MIUR for subsidized loan	7.119	6.508	*9,4%*	*6.685*	6.508
- other financial liabilities	737	384	*91,9%*	*0*	0
Total medium/long-term loans	**42.861**	**28.264**	***51,6%***	***26.329***	**28.093**
Short-term					
- banks	43.670	60.587	*-27,9%*	*42.479*	60.587
- banks for subsidized loan	667	803	*-16,9%*	*678*	803
- MIUR for subsidized loan	973	400	*143,3%*	*942*	400
- factoring companies and others	(131)	284	*-146,1%*	*602*	284
- other financial liabilities (assets)	(1.488)	(3.004)	*-50,5%*	*0*	0
Total short-term payables	**43.691**	**59.070**	***-26,0%***	***44.701***	**62.074**
Cash/bank current accounts	**(10.674)**	**(10.306)**	***3,6%***	***(18.297)***	**(13.556)**
Total net financial position	**75.878**	**77.028**	***-1,5%***	***52.733***	**76.611**
Total	**144.748**	**136.681**	***5,9%***	***115.402***	**136.088**
"Debt/Equity" ratio	***1,10***	***1,29***		***0,84***	***1,29***

** Pro-forma for IAS and IRES rate of 33% rather than 20% (applied at 30 June, 2004 but then adjusted with retroactive effect on 31/12/2004)*

Annex 3:

Analysis of Cash Flows (Page 1 of 2)

C) CASH FLOW STATEMENT

	€/000	June 30, 2005	June 30, 2004
A	**Cash - Opening balance**	**18.297**	**13.797**
	Operations		
	Net group result	6.383	12.540
	Depreciation & amortisation	3.914	3.700
	Write-off of fixed assets	0	3.028
	Provisions to risk funds	763	848
	Allowances to deferred/current taxes funds	5.787	5.614
	Allowances to Personnel fund	663	647
B	**Cash-flow**	**17.510**	**26.377**
	Gains/(losses) from sale of tangible assets	(526)	64
	Gains/(losses) from sale of financial assets	25	41
	Vietti Reform extraordinary (income)	0	(6.725)
	Indemnisation from minority shareholders	0	(5.081)
	Financial charge from divestment of minority shareholders	60	0
	Net variation of net current assets	(9.674)	(19.904)
	Net variation other assets/liabilities	(7.288)	1.898
	Employ of Personnel fund	(594)	(1.173)
	Employ of other funds	(9.691)	(1.343)
C	**Other variations of the period**	**(27.688)**	**(32.223)**
D=B+C	**Cash flow from current activities**	**(10.178)**	**(5.846)**
	Investment activities		
	(Investments)/divestments intangible assets	(4.095)	(3.645)
	(Investments)/divestments tangible assets	(1.737)	(1.789)
	Cash in/(out) from minority participations	(5)	(275)
	Cash in from minority shareholder	0	5.200
	(Investments)/divestments financial assets	(104)	29
E	**Cash flow from investments**	**(5.941)**	**(480)**

Annex 3:

Analysis of Cash Flows (Page 2 of 2)

	€/000	June 30, 2005	June 30, 2004
	Financing activities		
	Payment of dividends	(3.840)	(1.715)
	Increase/(decrease) of M/L term debt towards banks	14.885	(2.820)
	Increase/(decrease) of M/L term debt towards other subjects	434	3.315
	Increase/(decrease) of short term debt towards banks	(2.339)	7.919
	Increase/(decrease) of short term debt towards other subjects	(702)	(877)
	Variations of financial credits versus participated companies	0	0
F	**Cash flow from financing**	**8.438**	**5.822**
G	**Translational adjustments**	**40**	**263**
H=D+E+F+G	**Net cash flow of the period**	**(7.641)**	**(241)**
I=A+H	**Cash - Closing balance**	**10.656**	**13.556**

CONSOLIDATED FINANCIAL STATEMENTS

- Consolidated balance sheet
- Consolidated income statement
- Statement of changes in consolidated equity
- Consolidated cash-flow statement

CONSOLIDATED BALANCE SHEET

(in thousands of euros)	Notes	30.06.2005	31.12.2004	30.06.2004
NON-CURRENT ASSETS				
Property, plant and equipment	1	32.581	30.762	31.274
Intangible assets	2	40.449	37.643	34.200
Goodwill	3	3.405	3.392	3.401
Investments valued with the net equity method	4	295	163	137
Investments in other companies		-	-	33
Receivables and other non-current assets	5	2.720	1.221	772
Deferred tax benefits	6	6.070	5.095	5.055
TOTAL NON-CURRENT ASSETS		**85.520**	**78.276**	**74.872**
CURRENT ASSETS				
Inventories	7	46.002	38.305	46.891
Work in progress	8	4.406	3.529	3.191
Trade receivables	9	83.898	63.925	78.525
Other assets and other receivables	10	6.207	4.897	5.664
Tax receivables	11	6.946	2.220	3.472
Financial receivables and other current financial assets	12	261	283	3.524
Financial assets – derivatives	13	1.805	323	-
Cash and cash equivalents	14	10.676	18.323	10.306
TOTAL CURRENT ASSETS		**160.201**	**131.805**	**151.573**
Assets held for sale		-	-	601
TOTAL ASSETS		**245.721**	**210.081**	**227.046**
EQUITY				
Share capital		16.000	16.000	16.000
Reserves		25.517	22.209	19.937
Profit carried forward, and for the period		26.754	24.499	23.343
Group equity	15	**68.271**	**62.708**	**59.280**
Minority interests in equity	16	**599**	**468**	**373**
TOTAL EQUITY		**68.870**	**63.176**	**59.653**
NON-CURRENT LIABILITIES				
Financial payables and other non-current financial liabilitie	17	42.289	26.347	28.064
Financial liabilities – derivatives	13	572	465	200
Employee benefits – employee severance indemnity	18	6.674	6.554	6.378
Non-current provisions	19	148	149	156
Deferred tax expenses	6	2.521	8.570	7.349
Other non-current liabilities	20	9.605	5.969	5.686
TOTAL NON-CURRENT LIABILITIES		**61.809**	**48.054**	**47.833**
CURRENT LIABILITIES				
Financial payables and other current financial liabilities	17	45.584	45.316	62.538
Financial liabilities – derivatives	13	175	67	56
Trade payables	21	54.048	38.183	42.199
Current provisions	22	1.782	3.478	891
Tax payables	23	6.675	3.606	6.796
Other liabilities and miscellaneous payables	24	6.778	8.201	7.080
TOTAL CURRENT LIABILITIES		**115.042**	**98.851**	**119.560**
TOTAL LIABILITIES		**176.851**	**146.905**	**167.393**
TOTAL EQUITY AND LIABILITIES		**245.721**	**210.081**	**227.046**

CONSOLIDATED INCOME STATEMENT

(in thousand euros)	Note	1st semester 2005	Esercizio 2004	1st semester 2004
Sales	25	115.780	183.297	94.005
Other operative revenues	26	2.676	10.114	7.616
Totale		**118.456**	**193.411**	**101.621**
Raw materials and others	27	(60.796)	(87.983)	(50.740)
Costs for services	28	(27.036)	(42.291)	(21.349)
Cost for personnel	29	(15.138)	(27.950)	(14.020)
Other operative costs	30	(1.731)	(5.044)	(1.955)
Change in finished goods and goods in process	31	4.897	(4.806)	2.982
Costs for capitalized internal works	32	1.421	3.463	1.859
Gross margine (EBITDA)		**20.073**	**28.800**	**18.398**
Amortization and depreciation:				
- Depreciation of tangible assets	33	(2.025)	(3.587)	(1.844)
- Amortization of intangible assets	33	(1.043)	(2.351)	(1.136)
Impairment of fixed assets	34	-	(3.085)	(3.028)
Operating profit (EBIT)		**17.005**	**19.777**	**12.390**
Net financial income (charges)	35	(4.240)	24	(400)
Profits (losses) from associates	36	4	(2)	(27)
Profit (loss) before tax		**12.769**	**19.799**	**11.963**
Income taxes	37	(5.700)	(8.890)	(5.015)
Net profit (loss) from continuing operations		**7.069**	**10.909**	**6.948**
Net profit for the year from discontinued operations	38	385	295	136
Net profit (loss)		**7.454**	**11.204**	**7.084**
Profit (loss) of third-party interests		**(83)**	**(209)**	**(114)**
Profit (loss) by the Isagro Group		**7.371**	**10.995**	**6.970**
Earnings per share				
- basic, for profit for the period		0,46	0,69	0,44
- basic, for profit from continuing operations		0,44	0,68	0,43
- diluted, for profit for the period		0,46	0,69	0,44
- diluted, for profit from continuing operations		0,44	0,68	0,43

Statement of changes in consolidated equity, 1st semester 2004

(in thousands of Euros)	Group equity: Issued share capital	Reserves: Share premium account	Reserves: Hedging reserve	Reserves: Reserves (differences) in translation	Reserves: Other reserves	Reserves: Total	Profits carried forward and for the period	Total	Minority interests in equity	Total equity
Balance as at 31 December 2003	16.000	14.170	0	(2.569)	7.934	19.535	18.113	53.648	584	54.232
Changes over the period										
Profit (loss) from operations hedging transactions	0	0	0	0	0	0	0	0	0	0
Translation difference	0	0	0	262	0	262	0	262	0	262
Profit (loss) for the period recognised to equity	0	0	0	262	0	262	0	262	0	262
Profit (loss) for the period	0	0	0	0	0	0	6.970	6.970	114	7.084
Profit (loss) for the period Total	0	0	0	262	0	262	6.970	7.232	114	7.346
Dividends	0	0	0	0	0	0	(1.600)	(1.600)	(115)	(1.715)
Changes to reserves	0	0	0	0	140	140	(140)	0	0	0
Other changes	0	0	0	0	0	0	0	0	(210)	(210)
Total changes over the period	0	0	0	262	140	402	5.230	5.632	(211)	5.421
Balance as at 30 June 2004	16.000	14.170	0	(2.307)	8.074	19.937	23.343	59.280	373	59.653

Statement of changes in consolidated equity, 1st semester 2005

(in thousands of euros)	Group equity: Issued share capital	Reserves: Share premium account	Reserves: Hedging difference	Reserves: Reserves (differences) in translation	Reserves: Other Reserves	Reserves: Total	Uses carried forward and over the period	Total	Minority interes in equity	Total equity
Balance as at 31 December 2004	16.000	14.170	0	(2.904)	10.943	22.209	24.499	62.708	468	63.176
Introduction of IAS 32 and 39	0	0	0	0	0	0	876	876	0	876
Balance as at 1 January 2005	16.000	14.170	0	(2.904)	10.943	22.209	25.375	63.584	468	64.052
Changes over the period										
Profit (loss) from operations hedging transactions	0	0	(123)	0	0	(123)	0	(123)	0	(123)
Translation difference	0	0	0	1.279	0	1.279	0	1.279	0	1.279
Profit (loss) for the period recognised to equity	0	0	(123)	1.279	0	1.156	0	1.156	0	1.156
Profit (loss) for the period	0	0	0	0	0	0	7.371	7.371	83	7.454
Profit (loss) for the period Total	0	0	(123)	1.279	0	1.156	7.371	8.527	83	8.610
Dividends	0	0	0	0	0	0	(3.840)	(3.840)	0	(3.840)
Changes to reserves	0	0	0	0	2.152	2.152	(2.152)	0	0	0
Other changes	0	0	0	0	0	0	0	0	48	48
Total changes over the period	0	0	(123)	1.279	2.152	3.308	1.379	4.687	131	4.818
Balance as at 30 June 2005	16.000	14.170	(123)	(1.625)	13.095	25.517	26.754	68.271	599	68.870

CONSOLIDATED CASH-FLOW STATEMENT

(in thousands of euros)	Notes	1st Semester 2005	1st Semester 2004
Initial cash balance	14	**18.323**	**9.740**
Operating activities			
Profit for the period from continuing operations		**7.069**	**6.948**
Amortisation of property, plant and equipment	33	2.025	1.844
Amortisation of intangible assets	33	1.043	1.136
Impairment of fixed assets	34	0	3.028
Provisions to reserves (including employee severance)		1.303	760
Capital losses (gains) on disposals of property, plant and equipment		47	64
Extraordinary expenditure (income) from indemnity from minority shareholders		0	(5.135)
Acquisition charges for change in possession of subsidiaries		53	0
Net interest to financial institutions and leasing companies		1.652	2.084
Financial expenses (income) from derivative instruments		4.448	(1.296)
Result from investments valued with net equity method	36	(4)	27
Income taxes	37	5.700	5.015
Cash flows from operating activities		*23.336*	*14.475*
(Increase)/decrease in accounts receivable paper		(18.902)	(18.918)
(Increase)/decrease in inventories and work in progress		(7.644)	(5.906)
Increase (decrease) in trade payables		13.317	5.074
Net change in tax payables/receivables		(344)	1.648
Net change in other assets/liabilities		1.127	1.452
Use of reserves (including employee severance)		(2.342)	(2.311)
Net interest paid to financial financial institutions and leasing companies		(1.753)	(2.115)
Cash flows from derivative instruments		(4.591)	1.574
Income taxes paid		(15.241)	(240)
Cashflow from operations in the period		**(13.037)**	**(5.267)**
Investments			
(Investments)/divestments of intangible fixed assets		(3.821)	(3.599)
(Investments)/divestments of property, plant and equipment		(2.950)	(2.058)
(Investments)/divestments of companies	4	(128)	(2)
Price obtained for sales of intangible assets		43	27
Compensation for departure of minority shareholders		0	5.200
Divestment of financial assets		0	805
Payment for change to possession of subsidiaries		(5)	(275)
Cashflow from investment operations in the period		**(6.861)**	**98**

(in thousands of euros)		1st Semester 2005	1st Semester 2004
Financing			
Increase (decrease) in current and non-current financial payables		15.995	7.291
Increase (decrease) in financial receivables		22	108
Distributions of dividends		(3.840)	(1.715)
Payment to shareholders for increase in share capital		0	0
Cashflow from financing operations in the period		**12.177**	**5.684**
Cashflow from discontinuing operations operations	38	**950**	**215**
Change in translation difference		**(876)**	**(164)**
Cash flows for the period		**(7.647)**	**566**
Cash-on-hand closing balance	14	**10.676**	**10.306**

NOTES TO THE FINANCIAL STATEMENTS

GENERAL INFORMATION

1. Information regarding the Isagro group of companies

Isagro S.p.A. (the "**Company**" or "**Isagro**") is a company with a separate legal personality, incorporated in accordance with the laws of Italy. The Company, its subsidiaries and the companies of which it has joint control (together, the "**Isagro Group**") operates in the fields of research, intellectual property management, the development, production, marketing and distribution of agropharmaceuticals, and in the field of environmental services.

The Isagro Group's registered office is at Via Caldera 21, Milan, Italy.

The Company is listed in the Star segment of the Milan Stock Exchange.

2. Compliance with International Accounting Standards and International Financial Reporting Standards

Following the entry into force of Regulation (EC) No 1606/2002 on the application of international accounting standards, the consolidated financial statements of the Isagro Group as at and for the six months ended 30 June 2005 have been prepared in accordance with the provisions of article 81 of the Issuers' Regulations, CONSOB Regulation No. 11971/1999 as amended, in accordance with International Accounting Standard No. 34, on Interim Financial Reporting.

The Isagro Group has adopted the IAS-IFRS international accounting standards from the financial year ending 31 December 2005, with a date for the transition to IFRS of 1 January 2004; the financial statements as at and for the six months ended 30 June 2005 represents the first set of statements the Isagro Group has prepared in accordance with IFRS. The last set of consolidated financial statements to be prepared in accordance with Italian accounting standards was that as at and for the year ended 31 December 2004.

The non-consolidated financial statements as at and for the year ended 31 December 2005 will be prepared in accordance with Italian accounting standards. It should be noted also that the financial statements of Isagro S.p.A. as at and for the six months ended 30 June 2005 have been prepared in accordance with Italian accounting standards.

The consolidated financial statements and the notes thereto have been prepared in accordance with the IAS/IFRS current as their date of preparation and the interpretations developed by the International Financial Reporting Interpretations Committee (IFRIC). It is assumed that these standards shall be current also at the time of the preparation of the consolidated financial statements as at and for the year ended 31 December 2005. However, they may not be the same with those in effect as at such date, by reason either of new approaches adopted by the European Commission with regard to their standardisation, or of the issuance of new standards or interpretation by the relevant bodies.

In these semi-annual financial statements, the comparative information for the corresponding period in 2004 has been recalculated in accordance with international accounting standards. The effects of the adoption of IFRS on the information as at and for the period ended 30 June 2004, prepared and published at the time in accordance with Italian accounting standards, are set forth in a schedule hereto, while for the effects upon the information as at and for the year ended 31 December 2004 please see our separate publication, *Transition to the International Accounting Principles (IAS/IFRS)*, published on 4 August 2005.

Please see that publication also for details of the effects of the adoption of IFRS on the balance sheet of the Isagro Group as at the transition date, 1 January 2004, on the income statement for the year ended 31 December 2004, and on the elections made at the time of the standards' first application.

It should be noted, finally, that the valuation methods detailed in these semi-annual financial statements have been applied also in the preparation of the balance sheet and income statement as at and for the periods ended 30 June 2004 and 31 December 2004, with the sole exception of IAS 32 and IAS 39, regarding the disclosure and presentation, and recognition and measurement, of financial instruments. These latter standards have been applied as from 1 January 2005, as permitted under IFRS 1.

Basis of presentation

The consolidated financial statements comprise the balance sheet, income statement, cash-flow statement, details of changes in consolidated net assets, and the notes to the financial statements.

In particular:

- on the balance sheet, current and non-current assets and liabilities are stated separately;
- on the income statement, the breakdown of costs is made based on the nature of the costs;
- the cash-flow statement is reported using the indirect method; and cash-flows of foreign subsidiaries have been reported using average exchange rates.

All of the financial information set forth in the financial statements and in the notes hereto are expressed in thousands of Euros, except where specified otherwise.

Approval of the semi-annual financial statements

The financial statements of the Isagro Group as at and for the six months ended 30 June 2005 were approved by the Board of Directors of Isagro S.p.A. on 12 October 2005.

Use of estimates

The preparation of the semi-annual financial statements of the Isagro Group requires certain estimates and assumptions to be made, affecting the assets and liabilities on the balance sheet and on the information regarding potential assets and liabilities as at the relevant date: consequently the results set forth below may vary from such estimates.

In particular, estimates are used in calculating the allowances for doubtful accounts, for inventory obsolescence, depreciation, amortisation, employee benefits, taxes and other allowances. The estimates and assumptions made are revisited periodically and the effects of any changes made are reflected in the income statement.

Information regarding the sector

The primary frame of reference for the information regarding the sector that the Isagro Group has adopted is geographical, based on the location of the assets; secondarily, the information is divided by the sector in which the business operates.

A geographical segment is defined as a part of the Isagro Group, capable of separate identification, which supplies products or services to a particular economic area that is subject to risks and benefits different from those that characterise other geographical segments.

Management of financial risk: aims and criteria

In the conduct of its business, the Isagro Group is exposed to a number of different market risks and in particular risks relating to variations in interest rates, exchange rates and commodity prices, the risks relating to credit positions, and those connected with liquidity.

Derivative contracts are thus entered into to hedge against risks both for particular transactions and overall indebtedness, in order to minimise such risks, through instruments offered by the markets.

In particular, two forms of hedge are used: (a) transactions that, in accordance with risk management policies, meet the requirements laid down by accounting standards for their treatment as hedge accounting, are designated "hedges"; and (b) transactions that, although arranged with an intention to hedge, do not meet the requirements laid down by accounting standards for such treatment, are treated as for trading.

Isagro does not enter into derivative contracts for speculative purposes.

Financial assets and liabilities for derivative instruments are classified as:

- *cash-flow hedge derivatives*, regarding the hedging of the risk of variations in cash-flow connected with certain long- and medium-term floating-rate financing, and exchange rate risk, with particular reference to the Japanese Yen.
- *trading derivatives*, regarding the hedging of interest rate, exchange rate and commodity pricing risks but which do not meet the formal requirements of IAS 39 for them to be accounted for as hedges for specific assets, liabilities, commitments or future transactions.

Fair value is calculated in the following manner:

a) for instruments traded on regulated markets, by using their official prices; and

b) for instruments not listed on regulated markets, by updated the expected cash-flows to the market interest rate curve as at the reference date, and converting amounts in non-euro currency at the exchange rates as at the end of the period, as supplied by the European Central Bank.

c) for agreements relating to commodities, using list prices for the same instruments where these are available, whether from regulated or non-regulated markets.

Management of interest rate risks

A number of different kinds of derivative contract are used in order to reduce the amount of debt subject to variations in interest rates, in particular interest rate swaps and interest rate collars.

These contracts are arranged in two manners:

✍ with a notional that partially hedges against the debt that is subject to variations in interest rates, with an identical maturity date as the underlying financial liability, so that any variation in fair value and/or in the cash-flows expected from the contract is balanced by a corresponding variation in the fair value and/or the cash-flows expected from the underlying arrangement; or

✍ with a notional that partially hedges against the debt that is subject to variations in interest rates, and with a maturity date that does not necessarily coincide with that for the underlying financial liability, so that any variation in fair value and/or in the cash-flows expected from the contract are balanced only partially by a corresponding variation in the fair value and/or the cash-flows expected from the underlying arrangement.

As at 30 June 2005, after taking into consideration the derivative contracts on interest rates, approximately 50 per cent. of borrowing may be considered to be at fixed rates.

Management of exchange rate risks

In order to reduce exchange rate risk arising out of expected foreign currency cash-flows (in, particularly, US Dollars, Japanese Yen and Indian Rupees) a number of different kinds of exchange rate derivative contracts are used, especially forward contracts and options.

These contracts are also typically arranged with a notional amount and/or a maturity date that is the same as that of the expected cash-flow, so that any variation in the forecasted cash-flows from such contracts, arising out of a possible appreciation or depreciation of the Euro against the other currencies, is entirely balanced by a corresponding variation in the forecasted cash-flows from the underlying transaction.

Management of commodity price risks

Futures contracts are used in order the risk from movements in the prices of the commodity metal copper, which is fundamental to the production of copper-based fungicides.

Management of liquidity risks

The Isagro Group's exposure to liquidity risks is considered to be limited and consequently no transactions are conducted to specifically hedge against such risks.

Management of credit risks

The Isagro Group's exposure to credit risks, taking into consideration the nature of its business, the concentration of its business with its clients, and the nature of those clients, is considered to be limited and consequently no transactions are conducted to specifically hedge against such risks other than the usual forms of security for credit such as, for example, letters of credit, both confirmed and unconfirmed. In some cases, but in relation to limited amounts, use is made of credit support from SACE [the Italian export credit agency].

ACCOUNTING STANDARDS AND VALUATION METHODS

Consolidation methods

The consolidated semi-annual financial statements includes the financial statements of Isagro S.p.A., its subsidiaries and companies of which it has joint control (as joint ventures). A company is considered a subsidiary where the Isagro Group has the power, directly or indirectly, to govern its financial and operating policies so as to obtain benefits from its activities.

The semi-annual financial statements have been prepared on the basis of the financial statements prepared by the individual companies. With regard to the company Isagro Asia Agrochemicals Limited, financial statements are prepared as at and for the period ended 30 June, since that company's financial year ends on 31 March.

The financial statements of the subsidiaries within the scope of consolidation are consolidated by full consolidation, which provides for the inclusion in full of all the items in the financial statements, regardless of the percentage of equity stake held by the Isagro Group, and the elimination of intragroup transactions and unrealised gains.

The book value of the equity investments is eliminated against the corresponding fraction of net assets of the subsidiaries, attributing to the individual items among the assts and liabilities their current value as at the reference date and identifying any contingent liabilities. Any remaining difference, if positive, is recorded among the non-current assets as goodwill, and if negative, is allocated to the income statement.

Where the equity investment is less than 100 per cent., that part of profits and net assets pertaining to third parties is identified.

Subsidiaries are consolidated as from the date on which control passes to the Isagro Group and cease to be consolidated from the date on which the Isagro Group ceases to have such control. Where there is a loss of control of a company within the scope of consolidation, the consolidated financial statements include the results for the full year in proportion with the period in which the Isagro Group maintained control.

Companies subject to joint control are consolidated using proportionate consolidation, which provides for the inclusion in the consolidated financial statements of the assets, liabilities, income and expenses of joint ventures line by line, in an amount in proportion to the share the venturer holds in the company.

<u>Scope of consolidation</u>

- *Companies consolidated in full:*

ISAGRO S.p.A. (holding company for the Isagro Group)

Registered office at Via Caldera 21, Milan – share capital of Euro 16,000,000.

The company operates in the field of research, intellectual property management, development, production, marketing and distribution of agropharmaceuticals.

AGRIFORMULA S.r.l.

Registered office at Via Caldera 21, Milan – share capital of Euro 515,000, held entirely by Isagro S.p.A.

The company operates in the field of agropharmaceutical chemistry.

ISAGRO ARGENTINA LTDA.

Registered office at República Árabe Siria 3208, Buenos Aires, Argentina – share capital of ARS 10,000, held 95 per cent. by Isagro S.p.A. and 5 per cent. by Isagro España SL.

The company is involved in the promotion of Isagro’s commercial presence within Argentina and the development of new products.

ISAGRO ASIA AGROCHEMICALS LTD

Registered office at 101/102, Ground Floor, Solitaire Corporate Park, Mumbai, India – share capital of INR 101,700,000, held 96% by Isagro S.p.A.

The company operates in the field of the development, production, distribution and marketing of agropharmaceuticals.

ISAGRO BIOFARMING S.r.l.

Registered office at Via Caldera 21, Milan – share capital of Euro 90,000, held entirely by Isagro S.p.A.

The company operates in the field of the research, production, marketing and distribution of chemicals and natural products for agricultural and civil use.

ISAGRO BRASIL LTDA

Registered office at Ruam Dom Josè de Barros, 177, São Paulo, State of São Paulo, Brazil – share capital of BRL 209,293, held 99 per cent. by Isagro S.p.A. and 1 per cent. by Isagro España SL.

The company is involved in the promotion of Isagro’s commercial presence within Brazil and the development of new products.

ISAGRO ESPANA SL

Registered office at 17 Calle Castello, Madrid, Spain – share capital of Euro 120,200, held entirely by Isagro S.p.A.

The company operates in the development and distribution of agropharmaceutical products in the Spanish market.

ISAGRO FRANCE Sarl

Registered office at 119-bis rue de Colombes, Asnières, France - share capital of Euro 650,000, held entirely by Isagro S.p.A.

The company operates in the development, production, marketing and distribution of Isagro products in the French market.

ISAGRO HELLAS LTD

Registered office at Pindou Street 51, Moschato, Athens, Greece - share capital of Euro 18,000, held entirely by Isagro S.p.A.

The company is involved in the promotion of Isagro’s commercial presence within Greece and the Eastern Mediterranean.

ISAGRO RICERCA S.r.l.

Registered office at Via Caldera 21, Milan - share capital of Euro 30,000, held 61 per cent. by Isagro S.p.A. (51 per cent. as at 31 December 2004).

The company operates in the field of forefront research which seeks to identify new agropharmaceuticals, and in the development of the products it identifies.

On 7 June 2005 Isagro S.p.A. acquired 10 per cent. of the company’s share capital from Sipcam S.p.A., for a price of Euro 5 thousand, increasing the stake it holds from 51 to 61 per cent.

ISAGRO USA INC

Registered office at 1209 Orange Street, Wilmington, Delaware, USA – share capital of USD 500,000, held entirely by Isagro S.p.A.

The company is involved in the development, production, marketing and distribution of Isagro products in the United States of America.

ISAM S.r.l.

Registered office at Via Caldera 21, Milan - share capital of Euro 95,000, held 51 per cent. by Isagro S.p.A.

The company’s operation are in the tending of public and private parks and gardens, and civil and industrial weed control.

ISAGRO AUSTRALIA PTY LTD

Registered office at 10 Shelley Street, Sydney, Australia – share capital of AUD 215,000, held entirely by Isagro S.p.A. The company operates in the management of Isagro product registrations in Australia.

ISAGRO NEW ZEALAND PTY LTD

Registered office at 18 Viaduct Harbour Avenue, Auckland, New Zealand – share capital of NZD 40,100, held entirely by Isagro S.p.A. The company operates in the management of Isagro product registrations in New Zealand.

- *Companies consolidated by proportionate consolidation:*

ISAGRO ITALIA S.r.l.

Registered office at Via Caldera 21, Milan – share capital of Euro 1,000.000, held 50 per cent. by Isagro S.p.A.

The company operates in the field of the production, marketing and distribution of agropharmaceuticals within Italy.

SIAPA S.r.l.

Registered office at Via Caldera 21, Milan – share capital of Euro 1,000,000, held entirely by Isagro Italia S.r.l.

The company operates in the field of the production and distribution of agropharmaceuticals within Italy.

<u>Conversion of financial statements expressed in other currencies</u>

The presentation currency adopted by the Isagro Group is the Euro.

As at the closing date, the financial statements of the foreign companies with a functional currency other than the Euro are converted into the presentation currency as follows:

- assets and liabilities are converted using the exchange rate as at the closing date;
- items on the income statement are converted using the average exchange rate for the financial year, or period; and
- items among the net assets are converted at historical exchange rates, maintaining any stratification of the reserves.

Exchange differences that emerge from this process of conversion are carried directly to net assets, and shown separately under the item, *Foreign exchange differences (reserve)*.

The rates applied for the conversion of the subsidiaries' financial statements are set forth in the following table.

Company	Exchange rate as at 30.06.2005	Average exchange rate in the first half of 2005	Exchange rate as at 31.12.2004	Exchange rate as at 30.06.2004	Average exchange rate in the first half of 2004
Isagro Asia (Indian Rupee)	52,6268	56,1088	59,7404	55,8687	55,3045
Isagro USA (US Dollar)	1,2092	1,2855	1,3621	1,2155	1,2275
Isagro New Zealand (NZ Dollar)	1,7387	1,79502	1,8871	1,9210	1,8844
Isagro Australia (Australian Dollar)	1,5885	1,6634	1,7459	1,7554	1,6610
Isagro Argentina (Argentine Peso)	3,4995	3,7431	4,0381	N/A	N/A
Isagro Brasil (Brazilian Real)	2,8476	3,3134	3,6728	3,7832	3,6421

Valuation methods

The financial statements as at and for the six months ended 30 June 2005 have been prepared in accordance with the cost principle with the exception of financial assets held for trading and financial derivatives, which are valued based on their fair value. This value represents the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm’s length transaction.

Property, plant and equipment

Property, plant and equipment, which may be recorded in the financial statements as assets only if it is probable that the future economic benefits associated with the asset will flow to the enterprise and if the cost of the asset can be measured reliably, is recorded at its historical cost and shown in the balance sheet net of any allowance for depreciation and any impairment.

In particular, the cost of a tangible fixed asset, acquired from third parties or generated internally, includes costs of direct attribution and all costs necessary to bring the asset to working condition for the use for which it was acquired. If the payment for the purchase of the asset is deferred beyond normal payment terms, its cost is represented by the price for an equivalent cash sum: the difference between this value and the aggregate payment is allocated as a financial charge in the period of the payment extension.

The initial value of the asset is increased by the current value of any costs for dismantling and removing the asset and restoring the site from which the asset is removed, where there is an constructive or legal obligation in that regard. Against the capitalised charge, a liability will be allocated to the allowance for risks.

Maintenance and repair expenses are not capitalised, but shown in the income statement for the relevant period.

Costs incurred after initial recognition – improvements, modernisation, expansion, and so on – are recorded as assets and only if it is probable that the future economic benefits associated with these will flow to the enterprise, and they form identifiable assets, or parts of assets. If the expenses are instead classifiable as maintenance costs, they are allocated to the income statement at the time they are incurred.

Depreciation, which begins when the assets becomes available for use, and is calculated on a straight-line basis over the useful life of the asset. The useful life generally attributed to the various categories of assets is as follows:

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

Land, which typically has an unlimited useful life, is not subject to depreciation.

Spare parts and small pieces of equipment kept for maintenance purposes are recorded as inventory and calculated as a cost at the time of their use. Major spare parts and stand-by equipment are recorded as property, plant and equipment when an entity expects to use them during more than one period.

The book value of property, plant and equipment is subject to impairment testing, where events or changes in positions suggest that the book value may no longer be recovered. If there is an indication of this kind, and the book value exceeds the presumed recoverable value, the assets or the units generating cash inflows are written down to reflect their realisation value, being the higher of their net selling price and its value in use. In determining its value in use, the future cash inflows are made current using a discount rate before tax that reflects the current estimate of the market cost of money, based on the time and the specific risks attached to the asset. Where an asset does not generate cash inflows that are largely independent, the realisation value is calculated in relation to the unit generating cash inflows to which the asset belongs. Losses of value are recorded on the income statement under “Loss of value of intangible assets”.

Property, plant and equipment acquired through business combinations is recorded at its market value, generally determined by an expert assessment. If it is not possible to determine that value, because the asset is of a kind that is rarely subject to sale, the book value is estimated by the depreciated replacement cost or expected income method.

Investment property

Investment property is real property held to earn rentals or for capital appreciation. The investment is measured at cost, including any costs ancillary to its acquisition, and is shown in the balance sheet net of any allowance for depreciation and any impairment losses.

Land and buildings acquired through business combinations are shown at their market value, usually determined by an expert assessment.

Intangible assets

Intangible assets may only be capitalised if they are identifiable assets that will generate future economic benefits, and are initially booked at their purchase cost, increased by any ancillary costs, and the direct costs necessary to preparing the asset for use. Assets acquired through business combinations are however recorded at their fair value at the date of their acquisition.

If the payment for the purchase of the asset is deferred beyond normal payment terms, its cost is represented by the price for an equivalent cash sum: the difference between this value and the aggregate payment is allocated as a financial charge in the period of the payment extension.

Assets generated internally, with the exception of development costs, cannot be recognised as intangible assets. A development asset results from the translation of research findings and other knowledge into a well-settled programme for the production of new materials, products or processes.

The cost of an intangible cost generated internally includes all the directly attributable costs necessary to the creation, production and preparation of the asset for it to be capable of operating in the management.

After their initial recognition, intangible assets are recorded on the balance sheet at cost net of accumulated depreciation, calculated on a straight-line basis based on the estimated useful life of the asset, and enduring impairment losses. If, however, an intangible asset has an indefinite useful life it should not be amortised, but periodically tested to identify any impairment losses.

The useful life generally attributed to the various categories of assets with a definite useful life is as follows:

- concessions and licences:	from 5 to 10 years
- intangible assets under development:	from 5 to 15 years
- trade marks:	from 5 to 10 years
- payments for non-competition agreement:	the duration of the obligation
- other assets (software)	5 years

Amortisation begins when the asset is available for use, or when it is in the position and condition necessary for it to be able to operate in the manner intended by management.

The book value of intangible assets is subject to impairment testing, where events or changes in positions suggest that the book value may no longer be recovered. If there is a suggestion of this kind, and the value exceeds the presumed recoverable value, the assets are written down to reflect their recoverable value. This value is the greater of the net selling price of the asset, and its value in use. For the calculation of that value, please see the section on Property, Plant and Equipment.

Research and development costs

Research costs for the ordinary defence of products and production processes and innovative research costs are allocated to the income statement in the financial period in which they are incurred.

The costs of research and development regards projects for the development of new proprietary products and new formulations, and the commercial development (tests in the field and experiments) of third-party products for which the Isagro Group has obtained distribution rights. These costs include expenses incurred in meeting the requirements of EC Directive 414/91/EEC, concerning the placing of plant protection products on the market, in that these go to extend the useful life of some products that have already been distributed, and thus are capable of generating future economic benefits in excess of the normal level of return originally attributed to the product to which the development activity relates.

In particular, the costs relating to projects regarding proprietary products are capitalised only until such time as authorisation is obtained for the marketing and distribution of the products arising under those projects, in at least one of the areas that are commercially strategic for the Isagro Group, that is, Western Europe, the Far East, and North America, while costs relating to the commercial development are capitalised only until such time as authorisation is obtained for the marketing and distribution of the products in the countries for which the Isagro Group has acquired the distribution rights.

Projects under development are amortised on a straight-line basis over their estimated useful life. Amortisation begins from the moment at which the asset, process or resulting know-how becomes available for economic exploitation. Projects currently being amortised have been attributed a useful life of not more than five years.

For as long as the development is not completed, the main projects underway are subjected to an impairment test on an annual basis, with any impairment surplus allocated to the income statement.

Goodwill

Goodwill acquired in a business acquisition or combination is initially booked at cost, as the excess of the cost of the business combination over the acquirer's share of the net fair values of the identifiable assets, liabilities and contingent liabilities. After its initial recognition, goodwill is valued at cost, subject to any accumulated impairment losses. Goodwill is not amortised, but subjected to an impairment test on an annual basis, with any impairment surplus allocated to the income statement.

Goodwill deriving from acquisitions made prior to 1 January 2004 is recorded at the value at which is was recorded in the last financial statements prepared in accordance with the previous accounting standards (as at and for the year ended 31 December 2003).

Investments in associates

Investments in associates are valued using the net equity method. These are companies in which the Isagro Group has significant influence but not control or joint control. More particularly, there is an assumption of significant influence where there is a direct or indirect holding of 20 per cent. or more of the votes exercisable at shareholders' meetings.

In applying the equity method the most recent available financial statements of the associate are used. Where the closing dates for the financial statements of the investor and the associate differ, the associate prepares financial statements as at the closing date of the investor's financial statements. The financial statements used for valuing the investment are prepared in accordance with IAS/IFRS international accounting standards.

Investments in associates are valued by the equity method, recording an amount equal to the corresponding fraction of the equity shown on the financial statements approved by the associates themselves, after adjustments required by the principles in accordance with which the consolidated financial statements are prepared.

The carrying amount includes any increased costs paid, attributable to goodwill.

Following the application of the equity method, the need to identify any impairment of the value of the investment when the carrying amount is greater than the estimated recoverable amount, is assessed.

When an associate records an adjustment which is recognised directly in the associate's equity, the Isagro Group's share of changes is also recognised directly in equity by the investor, with disclosure in the statement of changes in equity.

Financial assets

Financial assets are initially recognised at cost, including any costs accessory to their acquisition, which represents the fair value of the consideration paid. Purchases and sales of financial assets are recognised using the trading date, that is to say, the date on which the Isagro Group assumed the commitment to acquire the assets. Subsequent to initial recognition, financial assets are measured in relation to the use to which they are to be put, as follows.

Financial assets held for trading

These are financial assets acquired in order to generate a profit from short-term fluctuations in price. After their initial recognition, such assets are measured at fair value with profits or losses thereon recognised in the income statement.

Where they are securities widely traded on regulated markets, fair value is determined with reference to the list price as at the financial statements' closing date. Where no market price is available for the investments, fair value is determined based on the current market value of another financial instrument that is substantially the same, or calculated based on the cash inflows expected from the net assets underlying the investment.

Investments held to maturity

These are financial assets other than derivatives that provide for fixed or variable payments, with a fixed maturity, that the Isagro Group has the firm intention and ability to hold to maturity.

After the initial recognition, such assets are measured at their amortised cost, using the effective interest method, the effective interest rate being the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument. The amortised cost is calculated taking into account any discounts or premiums, that are accounted for over the whole period of time up to maturity.

Loan assets

These are accounted for in the same way as investments held to maturity.

Financial assets available for sale

This category includes financial assets not falling within the above categories. It includes, for example, equity instruments acquired without intending to resell them in the short term (known as investments in other companies), or long-dated government bonds acquired in order to be held as part of the business's assets, but without the intention to hold them to maturity.

After their initial recognition, such assets are measured at fair value with profits or losses shown in a specific item in the net equity, provided that they have not been sold and until it is established that they have suffered an impairment, in which cases the profits or losses accumulated to such date are recognised in the income statement.

Investments in equity instruments that do not have a market price quoted on an active market, and of which the fair value cannot be reliably determined, are measured at cost.

Inventories

Inventories are measured as the lesser of their cost and their presumed realisable value, represented by the estimated ordinary selling price, less the estimated cost of completion and of sale.

The cost of inventories may not be recoverable if they are damaged, if they have become obsolete, or if their selling prices have decreased. In this case, inventories are written down to their net realisable value on the basis of a measurement made item by item and the amount of the write-down is identified as a cost in the financial period in which the write-down occurs.

The cost of inventories includes the costs of their acquisition, conversion and other costs incurred in bringing the inventories to their present location and condition.

The method used for determining the cost of inventories is a weighted average cost, including initial inventories.

Work in progress (orders)

Work in progress is measured under the percentage-of-completion method. This method provides that revenues and costs of orders are recognised as revenues and costs, respectively, in proportion to the stage of completion of contract activity as at the closing date.

The methods used by the Isagro Group for determining the stage of completion of a contract are as follows:

- the proportion between the contract costs incurred for works completed as at the closing date and the estimated total costs of the contract;
- inspections of the work completed; and
- completion of a physical quantity of the contract work.

When the outcome cannot be reliably estimated, contract revenues may only be recognised only to the extent that contract costs incurred are expected to be

recoverable and contract costs are expensed in the financial period in which they are incurred.
The amount of advances received from customers and amounts invoiced as the works advance are recorded as a direct reduction of the amount of orders in the financial statements.

Trade and other receivables

Trade and other receivables are initially recognised at cost, that is, at the fair value of the consideration to be received in the course of the transaction. Subsequently receivables that have a pre-established maturity are measured at their amortised cost, using the effective interest method, while receivables without a fixed maturity are measured at cost.
Short-term receivables, on which the accrual of interest has not been agreed, are measured at their original amount. The fair value of long-term receivables is established by discounting future cash-flows: the discount is recorded as financial income over the term of the receivable to maturity.
Receivables are shown in the financial statements net of provisions for impairment.

Cash and cash equivalents

Cash includes cash on hand and short-term and demand bank deposits, that is, with an original anticipated maturity of not more than three months.
Cash equivalents are short-term, highly liquid investments in financial instruments that are readily convertible and feature higher returns than demand bank deposits (for example, public securities). They do not include temporary investments in equity instruments because of the volatility and variability of their values.

Trade and other payables

Trade payables and other payables are initially recognised at cost, that is, the fair value of the consideration in the course of the transaction. Subsequently payables that have a pre-established maturity are measured at their amortised cost, using the effective interest method, while payables without a fixed maturity are measured at cost.
Short-term payables, on which the accrual of interest has not been agreed, are measured at their original amount. The fair value of long-term payables is

established by discounting future cash-flows: the discount is accounted for as a financial charge over the term of the payable to maturity.

Loans

Loans are initially recognised at cost, corresponding to the fair value of the consideration received, net of charges ancillary to the acquisition of the loan.

After the initial recognition, loans are measured at amortised cost, using the effective interest method.

Conversion of items in foreign currency

Transactions in foreign currency are initially recognised at the exchange rate as at the date of the transaction. Exchange differences that occur in the course of the financial period, upon receipt of receivables or the payment of payables in foreign currency, are recorded in the income statement.

As at the closing date, the monetary assets and liabilities denominated in foreign currency – comprising money held or assets or liabilities to be received or paid in a fixed and determinable amount of money, are translated into the reference functional currency at the exchange rate as at the closing date, recording any exchange difference on the income statement.

Non-monetary items expressed in foreign currency are translated into the functional currency using the exchange rate current as at the date of the transaction, or the original historical exchange rate. Non-monetary items recorded at fair value are translated using the exchange rate as at the date such fair value was determined. When a gain or loss from a non-monetary item is recognised directly in equity, any foreign exchange component of that gain or loss is also recognised directly in equity. When, on the other hand, a gain or loss from a non-monetary item is recognised in the income statement, any foreign exchange component of that gain or loss is also recognised in the income statement.

The functional currencies used by the companies of the Isagro Group are the currencies of the countries in which they have their registered offices.

Provisions for contingencies and other liabilities

Provisions for contingencies and other liabilities, which comprises liabilities that are of uncertain timing or amount, are made when:

- there is a present obligation (by law, or constructively) as a result of past events;
- settlement of the obligation is likely to result in an outflow of economic resources;
- a reliable estimate of the amount of the obligation may be made.

The amount recorded as a provision represents the best estimate of the expenditure required to settle the present obligation at the balance sheet date. If the discounting of the amount of money is significant, provisions are determined by discounting the expected future cash-flows using a pre-tax discount rate that reflects the current market assessments of the time value of money and the risks specific to the liability. When making the discount, the increase of the provision due to the passage of time is recorded as a financial charge.

Contingent liabilities are not recognised on the balance sheet.

Employee benefits

Short-term employee benefits, being those payable within twelve months of the end of the financial period in which the employees rendered their services, are recognised as a cost and as a liability in the undiscounted amount of the benefits to be paid in respect of service rendered by employees. Long-term benefits, such as remuneration to be paid more than twelve months after the end of the financial period in which the service has been rendered, are recognised as liabilities in the amount of the current value of the benefits as at the balance sheet date.

Benefits due after the end of the employment, such as pension and life insurance benefits, are divided into defined contribution plans and defined benefit plans, depending on the nature of the plan. In a defined contribution plan, the legal or constructive obligation upon the enterprise is limited to the amount of the contributions paid; and consequently the actuarial and investment risk fall upon the employee. By contrast, in defined benefit plans the obligation upon the enterprise comprises the concession and assurance of the benefits agreed with the employees: and consequently the actuarial and investment risk fall upon the enterprise.

Under IAS 19, employee severance indemnities may be classified as defined benefit plans.

Where there is a defined contribution plan, the enterprise records the contributions that are payable as liabilities and as a cost. If such contributions do not fall due wholly within twelve months after the end of the period in which the employees render the related service, they are discounted using the yield on government bonds. Accounting for defined benefit plans, by contrast, involves the following steps:

- using actuarial techniques to make a reliable estimate of the amount of benefit that employees have earned in return for their service in the current and prior periods; this requires the determination of how much benefit is attributable to the current and prior periods and the making of estimates about demographic variables (such as employee turnover) and financial variables (such as future increases in salaries) that will influence the cost of the benefits;
- discounting those benefits using the projected unit credit method in order to determine the present value of the defined benefit obligation and the current service cost, using as discount rate the yield of government bonds;
- determining of the current value of any plan assets;
- determining the amount of actuarial gains and losses; and
- determining the resulting gain or loss, where a plan is modified or settled.

The amount recorded as the liability for defined benefits is the current value of the obligation as at the closing date of the financial statements, net of the current value of any plan assets. The amount to be recognised as a cost on the income statement comprises the following items:

- the cost regarding current service;
- interest cost;
- actuarial profits or losses; and
- the expected return on any plan assets.

In particular, the Isagro Group has decided not to use the “corridor” approach and to recognise profits and losses arising out of changes to the actuarial assumptions directly to the income statement.

Employee severance liabilities are recognised as liabilities and costs when the enterprise is committed to terminating the employment of an employee or group of employees before their normal retirement date or to providing termination benefits as a result of an offer made in order to encourage voluntary redundancy.

Leases

Finance leases, under which substantially all the risks and rewards incident to ownership of the leased asset are transferred to the Isagro Group, require the measurement of the value of the leased asset, and a financial liability towards the lessor at the fair value of the leased asset, or, if lower, the present value of the lease payments, discounted at the interest rate implicit in the lease. Lease payments are apportioned between principal and interest, allocated so as to produce a constant rate of interest on the remaining balance of the liability. Finance charges are deducted on the income statement.

The leased asset is amortised using methods similar to those used for owned assets.

Leases under which, by contrast, the lessor retains substantially all the risks and benefits incidental to ownership are classified as operating leases. The payments under such agreements are deducted on the income statement.

Revenues

Revenues are measured at the current value of the consideration received or receivable. They are recognised to the extent that it is likely that the economic benefits will flow to the Isagro Group and that the revenue can be measured reliably.

Sales of assets

Income is recognised where the Isagro Group has transferred the significant risks and rewards associated with ownership of the asset and has relinquished the level of involvement usually associated with ownership and effective control over the goods.

Provision of services

The revenues are recognised with reference to the stage of completion of the contract as at the financial statements' closing date. When the outcome of the provision of services cannot be reliably estimated, revenues may only be recognised only to the extent that the costs incurred are expected to be recoverable.

The stage of completion is made through an assessment of the work performed or by the proportion of estimated total costs that have been incurred.

Interest

Interest income are recognised on a time proportion basis using the effective interest method;

Royalties

Royalties are recognised on an accruals basis, in accordance with the content of the relevant agreement.

Dividends

Dividends are recognised when the shareholder's right to receive payment is established.

Public grants

Public grants are recognised at fair value where there is a reasonable certainty that they will be received and that all the conditions to their receipt have been satisfied.

When the grants are matched to cost components (for example, grants allocated to the period), they are recognised as *Other operating revenues*, but over the various periods so as to match them with the related costs for which they are intended to compensate, on a systematic basis.

When the grants are matched to assets (for example, grants for plant or for intangible assets under development) fair value is recorded among the long-term liabilities and gradually moved to the income statement as other operating revenue, in proportion with the relevant asset's useful life and thus in the periods in which depreciation on those assets is charged to the income statement.

Financial expenses

Financial expenses are recognised as a cost in the period in which they accrue.

Costs of purchasing supplies of goods and services

These are recognised to the income statement in accordance with the time-proportion method and result in decreases in economic benefits, which take effect in the form of economic outflows or in a reduction of the value of assets or in increases of liabilities.

Taxes on revenues (current taxes, taxes paid in advance, and deferred taxes)

Current tax for the period is determined on the basis of realistic forecast of the tax charges to be settled, in application of current fiscal legislation in the individual countries, and are shown under the item *Tax payables*, net of any advance payments made.

If the advance payments made and the amounts receivable from previous periods are higher than the taxes due, the net amount receivable from the Italian treasury is recorded under *Tax receivables*.

The Isagro Group recognises deferred tax assets and liabilities resulting from temporary differences arising between the carrying amounts of assets and liabilities in the financial statements and their tax bases, and from such differences in the amounts of assets and liabilities arising from consolidation adjustments.

In particular, for all taxable temporary differences a deferred tax liability is recognised, unless such liability arises out of the initial recognition of goodwill. Such a liability is shown in the financial statements under *Deferred taxes*. For all deductible temporary differences, a deferred tax asset is recognised to the extent that it is probable that taxable income will be realised against which the deductible temporary difference may be set. Also when there are tax losses or tax receivables carried forward, a deferred tax asset is recognised to the extent that it is probable that suitable future taxable income will be available. Such an asset is shown in the financial statements under deferred tax assets.

The amount shown in the financial statements for deferred tax assets is reviewed at the end of each period and reduced to the extent that it is no longer likely that sufficient taxable profits will be available in the future to enable the receivable to be employed.

Deferred tax assets and liabilities are calculated using the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on the tax rates that are current or substantively current at the closing date of the financial statements.

Current and deferred taxes are recognised in the income statement as a charge or revenue for the period. However, current and deferred taxes must be deducted from or credited to equity if the taxes arise from elements that are themselves credited to or deducted directly from equity.

Derecognition of a financial asset

Cancellation of a financial asset occurs when the Isagro Group relinquishes control of the contractual rights connected with the asset, and normally this occurs when the rights specified in the contract have been exercised, have expired or are transferred to third parties. Consequently, when the Isagro Group has retained control of the contractual rights connected with the asset, derecognition of the asset is precluded. This occurs, essentially, when:

- the transferor has the right or obligation to repurchase the transferred asset;
- the transferor retains substantially all the risks and benefits; or
- the transferor supplies security for all the risks relating to the transferred asset.

By contrast, if the transferee is able to obtain the benefits of the transferred asset, that is, it is free to sell or pledge the whole of the fair value of the transferred asset, the transferor must remove the asset from its balance sheet.

Where there is a transfer, the difference between the carrying amount of the transferred asset and the sum of the consideration received, and any previous adjustment to reflect the fair value of the asset, that has been recognised in equity, is included in the income statement for the period.

Derivatives

Derivative instruments are accounted for at their market value, i.e. at fair value. This amount is determined with reference to public quotations of the relevant instrument’s price. Where no quoted market price is available, the Isagro Group makes reference to current market values of other instruments that are substantially the same, or the valuation supplied by the credit institutions from whom the financial instrument was acquired.

In particular:

- the fair value of the currency futures contracts and domestic currency swaps is calculated with reference to the current forward exchange rates with similar maturities;
- the fair value of interest rate swap contracts is determined by calculated the current differential – fixed rate compared with floating rate – for the expected future cash-flows, taking into account expected changes to the reference interest rates; and

- the market value of the commodities futures contracts is determined with reference to the current forward values for agreements with similar maturities.

A derivative may be acquired for the purposes of trading or as a hedging instrument.

Gains and losses of value connected with derivatives acquired for the purposes of trading are included in the income statement.

Derivatives acquired as hedging instruments are accounted for using “hedge accounting”, meaning as an offset on the income statement to the hedged items, only when the derivatives meet specific requirements.

In particular:

- at the inception of the hedge, there must be formal documentation of the hedging relationship and of the risk management policies and objectives, and the strategy by which the hedge is to be made;
- at the inception of the hedge, the effectiveness of the hedge must be confirmed, in its ability to offset changes in the fair value or the financial flows attributable to the hedged risk; and
- the effectiveness of the hedge must be assessed on an ongoing basis and the derivative must be highly effective for the whole of its life.

For accounting purposes, hedging transactions are classified as “fair value hedges” if the risk being hedged is a change in the market value of the underlying asset or liability; or, as “cash-flow hedges”, if the risk being hedged is the variability of cash-flows relating to existing assets or liabilities or a future transaction.

With regard to fair value hedges, profits and losses arising out of the changes to their fair value are accounted for in the income statement.

With regard to cash-flow hedges, profits and losses arising out of changes to the value of the hedging instrument are recognised to equity for the effective part, and any ineffective portion is immediately recognised in the income statement. When the hedged item is an irrevocable commitment that is to result in the creation of an asset or liability, the profit or loss originally allocated to equity is carried as an adjustment to the amount of the asset or liability at the time this is recognised. For all the other cash-flow hedges, the profit or loss allocated to equity is carried to the income statement at the time at which the hedged transaction affects the income statement.

If a derivative instrument is acquired for the purposes of hedging and not for the purposes of trading, but does not meet the requirements for hedge accounting described above, the profits or losses arising from the change in its fair value must be allocated to the income statement.

Discontinuing operations

Non-current assets and groups of assets and liabilities, the carrying value of which is to be recovered principally through sale rather than through their continuing use, are presented separately from other assets and liabilities on the balance sheet. Operations classified in this part of the balance sheet are measured at the lesser of their carrying value and the fair value less the foreseeable costs of sale. Any losses are recognised directly on the income statement.

Earnings per share

The basic earnings per share is calculated by dividing the portion of profit or loss of the Isagro Group by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is calculated by adjusting the weighted average number of shares, assuming the subscription of all the potential shares arising from the conversion of bonds and the exercise of warrants, when these have been issued by the holding entity.

INFORMATION RELATING TO THE BALANCE SHEET

1. Tangible Assets – 32.581 (30,762)

The Isagro Group's tangible assets, and the changes thereto, are summarised in the following table.

Composition	31.12.2004			Variation	30.06.2005		
	Historical cost	Depreciation allowance	Book value		Historical cost	Depreciation allowance	Book value
Land	2,067	0	2,067	124	2,191	0	2,191
Buildings:							
- owned assets	9,602	(1,207)	8,395	(264)	9,526	(1,395)	8,131
- improvements to assets owned by third parties	353	(262)	91	75	458	(292)	166
	9,955	(1,469)	8,486	(189)	9,984	(1,687)	8,297
Plant and machinery:							
- owned assets	23,537	(7,809)	15,728	(406)	24,577	(9,255)	15,322
- assets subject to finance leasing	230	(165)	65	(15)	230	(180)	50
- improvements to assets owned by third parties	12	(5)	7	(1)	12	(6)	6
	23,779	(7,979)	15,800	(422)	24,819	(9,441)	15,378
Equipment:							
- owned assets	3,473	(2,413)	1,060	22	3,755	(2,673)	1,082
- assets subject to finance leasing	828	(250)	578	(47)	830	(299)	531
- improvements to assets owned by third parties	70	(24)	46	(7)	70	(31)	39
	4,371	(2,687)	1,684	(32)	4,655	(3,003)	1,652
Other assets:							
- Furniture and fittings	712	(345)	367	(24)	725	(382)	343
- motor vehicles	177	(79)	98	(8)	191	(101)	90
- data processors	1,651	(990)	661	63	1,851	(1,127)	724
- improvements to assets owned by third parties	175	(123)	52	(17)	175	(140)	35
	2,715	(1,537)	1,178	14	2,942	(1,750)	1,192
Fixed assets in progress and advances	1,547	0	1,547	2,324	3,871	0	3,871
Total	44,434	(13,672)	30,762	1,819	48,462	(15,881)	32,581

Movements In the six months	Conversion difference (historical cost)	Purchases	Reclassifications (historical cost)	Alienations	Conversion difference provision	Amortisation	Use of amortisation provision	Total variation
Land	124	0	0	0	0	0	0	124
Buildings:								
- owned assets	343	25	14	(458)	(37)	(234)	83	(264)
- improvements to assets owned by third parties	1	104	0	0	(1)	(29)	0	75
	344	129	14	(458)	(38)	(263)	83	(189)
Plant and machinery:								
- owned assets	1,011	84	27	(82)	(262)	(1,213)	29	(406)
- assets subject to finance leasing	0	0	0	0	0	(15)	0	(15)
- improvements to assets owned by third parties	0	0	0	0	0	(1)	0	(1)
	1,011	84	27	(82)	(262)	(1,229)	29	(422)
Equipment:								
- owned assets	45	229	13	(5)	(14)	(247)	1	22
- assets subject to finance leasing	0	47	0	(45)	0	(73)	24	(47)
- improvements to assets owned by third parties	0	0	0	0	0	(7)	0	(7)
	45	276	13	(50)	(14)	(327)	25	(32)
other assets:								
- Furniture and fittings	5	8	0	0	0	(37)	0	(24)
- motor vehicles	9	11	0	(6)	(3)	(19)	0	(8)
- - data processors	25	185	1	(11)	(8)	(133)	4	63
- improvements to assets owned by third parties	0	0	0	0	0	(17)	0	(17)
	39	204	1	(17)	(11)	(206)	4	14
Fixed assets under construction and down payments	6	2,373	(55)	0	0	0	0	2,324
Total	1,569	3,066	0	(607)	(325)	(2,025)	141	1,819

Agreements regarding assets subject to finance leases are characterised by the presence of an option for the purchase of the assets upon expiry and the absence of restrictions imposed upon the Isagro Group, such as limitations upon its ability to enter into further lease agreements or the taking on of new financing.

The principal changes that occurred over the six-month period regarded an increase in fixed assets under construction, and the assignment by the holding entity Isagro S.p.A. of a building used as a warehouse and for services, located in the municipality of Foggia, at a value of Euro 950 thousand; the capital gain resultant from that transaction (of Euro 574 thousand) is recorded on the income statement under *Net income from discontinued operations*.

The item fixed assets under construction, in the amount of Euro 3,871 thousand, regards essentially work in progress by Isagro S.p.A., and in particular:

- ? the construction of a new research centre (in the amount of Euro 464 thousand), in the buildings located within the *Polo Chimico* in the municipality of Novara; and
- ? the construction, on an area located in the municipality of Bussi sul Tirino (Pescara), of a new plant for the production of Tetraconazole (Euro 2,880 thousand).

The land on which the Bussi plant is located is held by the company Solvay Solexis S.p.A. and Isagro has acquired the rights to occupy the surface thereof for a period of 99 years from 1 January 2005.

The contractually agreed consideration for the grant of such surface rights is Euro 799 thousand, all of which has been already invoiced to Isagro by Solvay Solexis in the first half of 2005. The payment thereof is in annual instalments of Euro 8 thousand per annum, to be paid on or before 30 June of each year.

The contract granting the surface right has been classified as an operating lease, as Isagro has not acquired substantially all the risks and benefits incidental to ownership. The right has been recorded among the tangible assets (surface rights) in the balance sheet of the holding entity, with a corresponding liability under the item, *Suppliers*.

The liability arising from the registration of the invoice for the consideration has not been classified as a financial liability as it does not fall within the definition of financial liability under IAS 32, paragraph 11.

The amount of the lease fees are recognised on a straight-line basis, as a cost at the time they are incurred over the course of the agreement.

As at 30 June 2005, there were contractual commitments in place with third-party suppliers, regarding the performance of works in relation to the Bussi plant, for a total amount of Euro 870 thousand.

2. Intangible Assets – 40,449 (37,643)

The Isagro Group’s intangible assets, and the changes thereto, are summarised in the following table.

Composition	31.12.2004 Historical cost	31.12.2004 Depreciation allowance	31.12.2004 Value on balance sheet	Variation	30.06.2005 Historical cost	30.06.2005 Depreciation allowance	30.06.2005 Value on balance sheet
Development costs:							
- IR 5885 fungicide	11,482	0	11,482	1,245	12,727	0	12,727
- IR 5878 herbicide	13,860	0	13,860	1,024	14,884	0	14,884
- IR 6141 fungicide	6,997	0	6,997	722	7,719	0	7,719
- Remedier	452	0	452	36	488	0	488
- pheromones	391	(77)	314	(39)	391	(116)	275
- new insecticides	690	(315)	375	0	690	(315)	375
- commercial development Third-party products	199	(11)	188	19	224	(17)	207
- extraordinary defensive measures	4,677	(2,738)	1,939	(295)	4,869	(3,225)	1,644
	38,748	(3,141)	35,607	2,712	41,992	(3,673)	38,319
Patents	0	0	0	0	0	0	0
Concessions, licences, Trade marks and similar rights	3,269	(1,665)	1,604	208	3,845	(2,033)	1,812
Others:							
- agreed consideration for Non-competition agreements	1,059	(687)	372	(106)	1,150	(884)	266
- others	101	(41)	60	(8)	102	(50)	52
	1,160	(728)	432	(114)	1,252	(934)	318
	43,177	(5,534)	37,643	2,806	47,089	(6,640)	40,449

Changes over the period	Conversion difference (historical cost)	Acquisitions/ capitalisations	Alienations	Conversion difference (prior depreciation)	Depreciation write-downs	Use of amortisation Depreciation allowance	Variation variation
Development costs:							
- IR 5885 fungicide	0	1,245	0	0	0	0	1,245
- IR 5878 herbicide	0	1,024	0	0	0	0	1,024
- IR 6141 fungicide	0	722	0	0	0	0	722
- Remedier	0	36	0	0	0	0	36
- pheromones	0	0	0	0	(39)	0	(39)
- new insecticides	0	0	0	0	0	0	0
- commercial development Third-party products	0	25	0	0	(6)	0	19
- extraordinary defensive measures	0	192	0	0	(487)	0	(295)
	0	3,244	0	0	(532)	0	2,712
Patents	0	0	0	0	0	0	0
Concessions, licences, Trade marks and similar rights	0	576	0	0	(368)	0	208
Others:							
- agreed consideration for non-competition agreements	91	0	0	(63)	(134)	0	(106)
Others	0	1	0	0	(9)	0	(8)
	91	1	0	(63)	(143)	0	(114)
	91	3,821	0	(63)	(1,043)	0	2,806

The increase in development costs (shown in the column, *Capitalisations*) may be attributed, for Euro 3,052 thousand, to costs incurred for projects for the development of new products, and for Euro 192 thousand to costs relating to extraordinary defensive measures taken in compliance with Directive 414/91/EEC, for the products Benalaxyl, Tetraconazole, and the copper-based products.

Increases in the period may be related essentially to the pursuit of three projects begun in previous financial periods. More particularly:

- IR 5878 herbicide Euro 1,024 thousand
- IR 5885 fungicide Euro 1,245 thousand
- IR 6141 fungicide Euro 722 thousand.

Marketing and distribution is expected to begin, in relation to the IR 6141 project in 2006, in relation to the IR 5878 project in 2007, and in relation to the IR 5885 project, in 2008.

As provided under IAS 36, the Isagro group of companies conducts tests annually for the presence of enduring losses of value in the principal development projects, since these are intangible assets not yet available for use (i.e., impairment testing).

These tests are conducted by comparing the carrying amount of the various projects with their recoverable amount. This amount is estimated by using a discounted cash-flow model, under which the value in use of an asset is determined by estimating the future cash-flows and the application of an appropriate discount rate, being the weighted average cost of capital.

The principal measures employed in determining the recoverable value of the Isagro Group's three principal development projects are set forth below.

<u>Business assumption</u>

The analysis is made with reference to the business databases used in the preparation of the consolidated business plan approved by Isagro's board of directors on 11 November 2004. In addition, for the IR 5878 and IR 5885 projects such data regard a technical due diligence process by an external consultancy firm.

<u>Timeframe considered</u>

For the purposes of estimating expected cash-flows, a useful life of 15 years has been established for the various projects. That value reflects the average expected commercial life of a new agrochemical held in terms of the protection of the intellectual property relating thereto. The cash-flows have been determined in a precise manner up to 2012; from 2013, the 2012 sales and margins are considered to decrease, year on year, by 2 per cent.

Economic and financial indicators

The principal reference measures are set forth below.

	IR 6141	IR 5878	IR 5885
- Inflation	3.00%	3.00%	3.00%
- Financial structure			
(Debts/Assets)	0.31	0.23	0.28
- WACC	8.83%	9.50%	9.07%

Determining WACC

In determining the weighted average cost of capital, use has been made, for the cost of borrowing, the average prospective cost of the financial debts of Isagro, being 4.50 per cent., while for the cost of its own equity the Capital Asset Pricing model is used, applying:

- one, as the beta factor;
- as the risk-free rate of return, 3.9 per cent.;
- as the risk premium, 7.50 per cent. This value is high, and conservatively so, in order to discount the risk that may be associated with the launch of new products, reasonably higher than that associated with projects that have already been completed.

On the basis of the impairment tests performed, no loss of value has been encountered to date in relation to development.

The item, *Concessions, licences, trade marks and similar rights*, of Euro 1,812 thousand, comprises the following:

- licences for the use of new software and adaptations thereof	1,200
- registration and distribution rights for agropharmaceuticals	305
- trade marks and similar rights	263
- licences for the use of new agropharmaceuticals	44.

The items, *Registration and distribution rights for agropharmaceuticals* regards, in the amount of Euro 105 thousand, the purchase in 2004 from Sipcam S.p.A. of certain agropharmaceutical registrations for South Africa, and in the amount of Euro 100 thousand, the purchase in 2003 from Bayer Cropscience Deutschland of rights for the distribution in Germany of a Tetraconazole-based product.

The item *Trade marks and similar rights*, regards, for Euro 225 thousand, the purchase in 2003 of the right to use the trading name Caffaro in relation to certain

categories of agropharmaceuticals. This right is amortised over a period of ten years.
The increase in the item *Concessions, licences, trademarks and similar rights*, in the acquisitions column, of Euro 576 thousand, relates to expenses incurred in relation to the licences for the use of new computer programs and the purchase of various software licences.

The item, *Consideration for non-competition agreements*, in the amount of Euro 1,150 thousand (its historical cost) is included among the other intangible assets, and regards:

? for Euro 760 thousand, the amount paid in 2001 by the subsidiary Isagro Asia Agrochemicals Limited for the acquisition of the business division for the production and marketing and distribution of agropharmaceuticals of the Indian company RPG Life Science. In particular, the latter company, against payment of the said amount, gave a commitment not to undertake any economic activity conflicting or competing with that of the division that had been assigned, for a period of five years. The amount, compared with the amount as at 31 December 2004, has increased by Euro 91 thousand following the change in the value of the Indian rupee against the Euro. As at 30 June 2005, the residual value is Euro 203 thousand.

? Euro 390 thousand relates to an amount paid in the year ended 31 December 2002 to the former minority shareholders of Isagro BioFarming S.r.l., as consideration for a commitment not to compete with the company's business. Such expenses are amortised based on the duration of the obligation, or from 20 December 2002 to 20 December 2005. As at 30 June 2005, the residual amount is Euro 63 thousand.

3. Goodwill – 3,405 (3,392)

Goodwill, acquired through business combinations and allocated under IAS 36 to groups of cash-generating units (CGU's), is divided as follows.

- the former Isagro Copper (now merged into Isagro S.p.A.) Euro 1,222 thousand. This CGU was involved in the production, and marketing and distribution, of copper-based agropharmaceuticals.

- Siapa – Euro 1,185 thousand

  This CGU operates in the field of the production and distribution of agropharmaceuticals within Italy.
- Isagro BioFarming – Euro 461 thousand

  This CGU operates in the field of the research, production, marketing and distribution of chemicals and natural products for agricultural and civilian use.
- Isagro Asia Agrochemicals – Euro 293 thousand

  This CGU operates in the field of the production, distribution, and marketing, of agropharmaceuticals principally within India.
- Tetraco (now merged into Isagro S.p.A.) – Euro 209 thousand.

  This CGU was involved in the production, and marketing and distribution, of Tetraconazole.
- FitoFormula (now merged into Isagro S.p.A.) – Euro 20 thousand
- Isam – Euro 15 thousand.

The change compared with the position as at 31 December 2004, of Euro 13 thousand, regards goodwill relating to the subsidiary Isagro Asia Agrochemicals Limited and is the result of changes in the value of the Indian Rupee against the Euro.

Goodwill, in accordance with international accounting standards, is not subject to amortisation, but rather to an annual impairment test (for the presence of enduring losses of value), determined by compared the carrying amount of the unit to which the goodwill has been allocated with the recoverable amount or its value in use, corresponding to the value obtained from discounting the cash-flows produced by the relevant cash generating unit, using as a discount rate the weighted average cost of capital.

The principal measures used in determining the recoverable amount of the units for which the carrying amount of goodwill is significant, namely the former Isagro Copper and the Siapa CGU's, are described below.

Timeframe considered

A period of five years has been used for the cash-flow projections of the Siapa unit, and eight years for the former Isagro Copper unit.

Economic and financial indicators

The principal reference measures are set forth below.

	Isagro Copper	Siapa
Inflation	3.00%	3.00%
Financial structure		
(Debts/Assets)	0.50	0.75
WACC	5.96%	4.61%

Determining WACC

In determining the weighted average cost of capital, use has been made, for the cost of borrowing, for the former Isagro Copper unit, the average prospective cost of Isagro's borrowings, being 4.50 per cent., while for the Siapa unit the average medium- to long-term cost for that company of 4.71 per cent. For the cost of equity, the capital asset pricing model has been used, employing:

- one, as the beta factor;
- as the risk-free rate of return, 3.9 per cent.; and
- as the risk premium, 5 per cent.

Based on the tests that were performed, no impairment has been encountered to date.

4. Investments valued with the net equity method – 295 (163)

The Isagro Group owns the following investments in associates, not quoted on any regulated market, the value of which has been adjusted to net equity shown on the balance sheets as at 30 June 2005:

List of investments	Description of business	Company holding the investments	Stake held (%) (%)	Carrying amount
Associates: Siamer S.r.l. – Milan Share capital: Euro 104,000	Marketing and distribution of agricultural fertilisers	Isagro S.p.A.	50.00	161
Reiver Int'l sarl - Casablanca (Morocco) Share capital: MAD 2,400,000	Distribution of agropharmaceuticals	Isagro S.p.A.	27.92	0
Arterra Bioscience S.r.l. – Naples Share capital: Euro 137,500	Research into biology and molecular genetics	Isagro S.p.A.	22.00	134
Total				295

Changes over the period in investments in associates, valued using the net equity method, are set forth in the following table.

Composition	Amount as at 31.12.2004	Changes over the period					Amount as at 30.06.2005
		Acquisitions (Alienations) Increases: (decreases)	Conversion difference	Write-downs	Revaluations	Variation Total	
Associates:							
- Siamer S.r.l.	147	0	0	0	14	14	161
- Reiver Int'l sarl	16	0	0	(16)	0	(16)	0
- Arterra Bioscience S.r.l.	0	128	0	0	6	134	134
Total	163	128	0	(16)	20	132	295

Over the course of the six-month period, Isagro S.p.A. made a purchase of 22 per cent. of the share capital of Arterra Bioscience S.r.l., a research company active in biology and molecular genetics. The Isagro Group has entered into a collaboration agreement with that company of a term of five years, under which the company will conduct research with a view to identifying new agropharmaceuticals.

The write-down of the investment in Reiver International Sarl was made based on the indications in the balance sheet of the company that had been received by Isagro's management, it not having been possible to date to obtain official information from the company.

The carrying amounts of the investments in Siamer S.r.l. and Arterra Bioscience S.r.l. includes goodwill of Euro 90 thousand and Euro 96 thousand, for which as at 30 June 2005 no impairment was identified.

The financial statements of the associates are summarised in the following tables.

Balance sheet

	30.06.2005	31.12.2004
Siamer S.r.l.		
Assets:	7,576	8,555
Liabilities:	(7,434)	(8,441)
Net equity	142	114
Reiver Int'l sarl		
Assets:	-	645
Liabilities:	-	(590)
Net equity	-	55
Arterra Bioscience S.r.l.		
Assets:	311	-
Liabilities:	(138)	-
Net equity	173	-

Financial information

	Six months ended 30 June 2005	Six months ended 30 June 2004
Siamer S.r.l.		
Revenues	4,736	5,471
Profit (loss) for the period	27	(53)
Arterra Bioscience S.r.l.		
Revenues	167	-
Profit (loss) for the period	27	-

5. Receivables and other non-current assets – 2,720 (1,221)

Composition	31.12.2004	Variation Total	30.06.2005
Receivables and other non-current assets			
Prepaid expenses	122	1,499	1,621
- taxes paid on account for employment severance	307	(20)	287
- guarantee deposits	565	(35)	530
- tax receivables	227	55	282
	1,221	1,499	2,720

The item *Prepaid expenses* comprises:

? Euro 265 thousand of prepaid commissions paid by the holding entity Isagro S.p.A. to Unicredit Banca Impresa (to an original value of Euro 300 thousand) following the grant by the said bank of a guarantee commitment, maturing in 2012, to Solvay Solexis S.p.A., up to a maximum amount of Euro 8,040 thousand and an annual maximum guaranteed amount of Euro 1,340 thousand, as security for performance of the obligations connected with a multi-year supply agreement of a raw material necessary for production of Tetraconazole;

? Euro 1,356 thousand (of which Euro 143 million falls due within twelve months) of the residual amount of the prepaid expense, calculated over a period of ten years, connected with ancillary obligations under a contract for the processing of Tetraconazole made between Isagro USA Inc. and Dupont de Nemours & Co., which provides for the payment by Isagro USA of up to USD 2,025 thousand, to be paid in semi-annual instalments over four years beginning in 2005, for the use over the period 2004-2014 of a new plant for the production and packaging of Tetraconazole constructed by Dupont de Nemours. For the discounting of the outstanding trade payable a discount rate of 6.70 per cent. has been used.

The change to the item, *Taxes paid on account for employment severance* (article 3 of Law No. 662 of 23 December 1996, as amended) related to the difference between the increase due to the financial revaluation for the period (Euro 4 thousand) and the decrease that arose out of its use, against IRPEF (income tax) and other taxes paid by companies of the Isagro Group (Euro 24 thousand).

Guarantee deposits, on which interest accrues, relates to payments made to various suppliers and creditors as security for the performance of obligations connected with dealings of a commercial nature.

The item *Tax receivables* relates to the medium- and long-term portion of the export incentives of the subsidiary Isagro Asia Agrochemicals Limited, which may be used for the payment of custom duties.

6. Deferred tax assets and liabilities – 3,549 (-3,475)

Taxes paid in advance – 6,070 (5,095)

Deferred taxes – 2,521 (8,570)

Composition	Value on the balance sheet 31.12.2004	IAS 32/39	01/01/2005	Variation over the period					Value on the balance sheet 30.06.2005
				Reclassifications	Other changes	Provisions	Uses	Total variation	
Taxes paid in advance	5,095	0	5,095	283	698	1,129	(1,135)	975	6,070
Deferred taxes	(8,570)	(432)	(9,002)	(283)	7,143	(915)	536	6,481	(2,521)
Total	(3,475)	(432)	(3,907)	0	7,841	214	(599)	7,456	3,549

As mentioned above, the Isagro Group has decided to apply IAS 32 and 39 as from 1 January 2005. Consequently on that date the fair value of the derivative contracts not recorded in the 2004 financial statements was recognised and the tax effect in relation thereto (see Note 13).

The temporary differences between taxable amount and non-consolidated income that have resulted in deferred tax assets and liabilities are set forth in the following table.

Temporary differences	Deferred tax assets/liabilities 1.01.05		Changes to assets		Charged to the income statement		Deferred tax assets/liabilities 30.06.05	
	Taxable	Tax	Reclassifications	Other changes	Uses	Provisions	Taxable	Tax
Taxes paid in advance								
- tax losses	624	214	35	10	(258)	52	160	53
- Provisions to taxed reserves	4,134	1,032	0	395	(585)	368	3,542	1,210
- taxed write-downs	1,049	309	201	73	(116)	0	1,274	467
- R&D grants	4,315	1,608	(157)	0	0	193	4,415	1,644
- elimination of prior depreciation	1,898	707	0	0	(95)	0	1,642	612
- intragroup profits	2,831	879	212	202	(49)	444	4,532	1,688
- others	959	346	0	10	(32)	72	1,091	396
Total taxes paid in advance	15,810	5,095	291	690	(1,135)	1,129	16,656	6,070
Deferred taxes								
- tax depreciation	22,064	8,119	236	(7,153)	(54)	167	3,538	1,315
- adjustments for fair value derivative instruments	1,308	432	0	0	(327)	487	1,793	592
- tax provisions	777	255	0	0	(34)	16	726	237
- intragroup profits	(297)	(55)	55	0	0	0	0	0
- others	696	251	0	2	(121)	245	1,037	377
Total deferred taxes	24,548	9,002	291	(7,151)	(536)	915	7,094	2,521
TOTAL	**(8,738)**	**(3,907)**	**0**	**7,841**	**(599)**	**214**	**9,562**	**3,549**

More particularly, the item *Other changes* regards:

- in an amount of Euro 686 thousand, the reclassification to taxes paid in advance of a part of the tax reserve for litigation, created on 31 December 2004 in relation to an EU-Italian dispute regarding the application by the holding entity Isagro S.p.A. of the concessionary rate of IRES (corporation tax) rather than the ordinary rate of 33 per cent., following confirmation by the European Commission of its denial of the application of a reduced tax rate for newly-listed companies (see Note 22);
- in the amount of Euro 7,328 thousand, the reclassification to tax payables (with subsequent payment to the Treasury) of the deferred tax liabilities that arose in relation to the problems surrounding the deductibility of the amortisation of development costs. In the financial statements as at and for the year ended 2004, following introduction of the prohibition upon the making of adjustments to amounts and reserves solely by application of fiscal legislation, the holding entity Isagro S.p.A. and the associate Isagro Italia S.r.l., ensured the elimination of the effects of tax interference regarding the application of tax legislation. In

particular, as an exception to the Isagro Group’s accounting standards, in order to make use of their tax deductibility development costs are amortised from the period in which they are occurred, independent of the date on which the project will come into economic use. In the financial statements as at and for the year ended 31 December 2004, on the one hand the historical cost of development expenses was restored to 31 December 2003, creating untaxed extraordinary income, and the consequent allocation in the balance sheet of a provision for deferred tax liabilities, and on the other the off-balance sheet deduction of the amortisation amounts regarding such expenses from the period ended 31 December 2004.

The Italian Revenue Agency, in its Ministerial Circular No. 27/E of 31 May 2005, confirmed that it was possible to make off-balance sheet deductions of the amortisation of tangible and intangible assets, without taking any position with regard to development costs. This meant that for reasons of prudence in order to avoid any dispute with the tax authorities, the aforementioned extraordinary income was taxed and the amortisation amounts not deducted, with the consequent payment in June of the taxes set aside in 2004 under the provision for deferred tax liabilities.

The holding entity Isagro S.p.A. in any event formally raised the issue with the Revenue Agency on 27 June 2005, in order to determine with certainty:

- how to treat the extraordinary income recorded in the financial statements as at and for the year ended 31 December 2004 as a result of the elimination of these prior tax effects; and
- how to complete the tax deduction of the remaining amortisation of the development expenses incurred in periods prior to 2004.

The deferred tax assets and deferred tax liabilities comprise Euro 2,667 thousand and Euro 1,527 thousand available for periods after the following period.

It should be noted also that no provision has been made for Euro 507 thousand of deferred tax assets by the subsidiary AgriFormula S.r.l., with regard to the write-down of property, plant and equipment and provisions made to the reserves for early-retirement incentives and the provision for legal expenses, because of difficulties in the timing of their recovery in future financial periods in light of the radical resizing of the subsidiary's production.

7. Inventories – 46,002 (38,305)

Composition	31.12.2004	Changes over the period					Total variation	30.06.2005
		Increases decreases	Write-downs/ Provisions to fund for write-downs of inventory	Conversion difference	Other variations	Use of allowance for write-downs of inventory		
Raw materials Supplies and consumables	13,335	1,890	0	316	0	0	2,206	15,541
Work in progress and semi-finished goods	634	83	0	91	0	0	174	808
Finished goods	24,249	4,471	(310)	512	0	653	5,326	29,575
Payments on account	87	(9)	0	0	0	0	(9)	78
Total	38,305	6,435	(310)	919	0	653	7,697	46,002

The value of inventories is net of the provision for the adjustment of the value of inventory, in an amount of Euro 962 thousand, regarding obsolete goods and goods requiring reworking. As at 31 December 2004 the provision amounted to Euro 1,305 thousand, of which Euro 653 thousand was used against write-downs and the destruction of obsolete goods.

The increase in the inventories of raw materials and finished goods may be attributed largely to the creation of stocks of Tetraconazole and copper-based products in light of sales expected in the second half of the year.

The value of inventories recognised in the income statement for the first half, gross of changes to the provision for the adjustment of the value of inventories, is Euro 1,890 thousand for raw materials and Euro 4,554 thousand for semi-finished products, finished products and goods.

8. Work in progress – 4,406 (3,529)

Work in progress under contract regards orders from the subsidiary Isam S.r.l., in relation to environmental services provided both to public and private entities.

The amount shown on the balance sheet is net of advance payments received from the customers, in an amount of Euro 4,749 thousand (Euro 3,246 thousand as at 31 December 2004).

The aggregate amount of costs incurred in relation to orders in progress in the six months ended 30 June 2005 is Euro 8,618 thousand. Consequently the progressive amount at such date of the profits recognised in relation to such orders is Euro 537 thousand.

9. Amounts due from customers – 83,898 (63,925)

Composition	Value on the balance sheet 31.12.2004	Increase/ repayments	Other variations	Write-downs/ provisions to depreciation reserve	Use of provisions for write-downs	Total variation	Value on the balance sheet 30.06.2005
Amounts due from customers	66,803	20,276	0	(129)	0	20,147	86,950
- provision for write-down of receivables	(2,319)	0	(42)	(121)	124	(39)	(2,358)
- provision for write-down of interests on delayed payments	(559)	0	0	(140)	5	(135)	(694)
	63,925	20,276	(42)	(390)	129	19,973	83,898

Amounts due from customers are not wholly comparable with the amounts as at 31 December 2004, following application of IAS 32 and 39 as from 1 January 2005. The Isagro Group put in place over the course of the year ended 31 December 2004 a number of assignments of receivables without recourse, which did not fully meet the requirements of international accounting standards for the derecognition of the assets from the balance sheet. The value of such assignments, the effects of which for accounting purposes were cancelled on 1 January 2005, amounted to Euro 12,891 thousand.

If this factor is taken into account, the positive change in amounts due from customers, compared with 1 January 2005, is in fact Euro 7,082 thousand, and is caused partly by the seasonality of the Isagro Group’s business, in particular with regard to its domestic market, and the increase in turnover attributable to increased sales of Tetraconazole in the United States.

The provision for bad and doubtful debts, which as at 31 December 2004 amounted to Euro 2,319 thousand, was used over the period in an amount of Euro 124 thousand. In addition, the fund increased by Euro 121 thousand as a result of provisions made over the period. The column *Other variations* regards translation differences for the depreciation allowance of the subsidiary Isagro Asia Agrochemicals Limited.

In addition, provision is made for interests on delayed payments, where customers delay payment. As at 30 June 2005, there was Euro 934 thousand of such amounts receivable, against which, for reasons of prudence, a provision was made of Euro 694 thousand.

The amounts due from customers also include amounts due to Isagro Italia S.r.l. and Siapa S.r.l., of Euro 4,117 thousand and Euro 2,918 thousand respectively, and to the associate Reiver International Sarl of Euro 186 thousand. With regard to the amounts due from related parties, please see Note 42.

The following table sets forth a division of amounts due from customers by geographical area, based on the location of the customers.

Italy	57,864
Other European countries	10,326
Central Asia and Oceania	1,121
Americas	10,435
Far East	1,240
Middle East	1,310
Africa	1,602
Total	83,898

The average contractual period for payment of trade receivables is set forth in the following table.

Italy	200 days
outside Italy	120 days

10. Other assets and other receivables – 6,207 (4,897)

Composition	31.12.2004	Total variation	30.06.2005
Accounts receivable			
- Ministry for Education (Italy)	1,610	(419)	1,191
- Ministry for Production (Italy)	178	0	178
- royalties	849	822	1,671
- advances to suppliers and debtors	177	(113)	64
- employees	98	215	313
- recovered research costs	65	(65)	0
- guarantee deposits	69	(39)	30
- others	1,495	702	2,197
	4,541	1,103	5,644
Prepaid expenses:			
- marketing services	72	(36)	36
- leasing and maintenance fees	69	(69)	0
- Insurance	182	107	289
- Membership contributions	0	87	87
Others	33	118	151
	356	207	563
Total	4,897	1,310	6,207

The amount of Euro 1,191 thousand due from the Italian Ministry of Education relates to grants made without repayment obligations on research projects, and comprised the following.

- IR 5885 566
- PNR Tema 4 230
- PNR Tema 6 385
- Other projects 10

Over the period, the Isagro Group has received grants of Euro 474 thousand, of which Euro 207 thousand in relation to project IR 5878 and Euro 267 thousand for project IR 5885.

The remaining amount due, of Euro 178 thousand, from the Ministry of Production, relates to the outstanding amount (out of an original amount of Euro 357 thousand) of a grant on account of plant, obtained by Isagro S.p.A. in relation to the construction, within the production facilities in Adria, of a new plant for the making of copper-based products as water-dispersible granules.

The item *Royalties*, in an amount of Euro 1,671 thousand, relates to amounts due to Isagro S.p.A. from Makhteshim Agan Industries Limited, for revenues related to the grant of marketing and distribution rights for the product Novaluron, which is owned by Isagro S.p.A.

The item *Others* includes amounts due from Isagro Italia S.r.l. and Siapa S.r.l., of Euro 258 thousand and Euro 347 thousand respectively, regarding services provided by Isagro S.p.A. and the recovery of personnel and other costs, amounts due from the associate Siamer S.r.l. of Euro 310 thousand, regarding intermediation income.

11. Tax receivables – 6,946 (2,220)

Composition	31.12.2004	Total variation	30.06.2005
- Tax receivables:			
Export incentives	682	195	877
- VAT credits	1,258	491	1,749
- direct taxes	280	4,040	4,320
	2,220	4,726	6,946

The change over the previous period is to be attributed principally to advance payments of direct taxes made in June, of approximately Euro 4,200 thousand.

12. Financial receivables and other current financial assets – 261 (283)

Composition	31.12.2004	Total variation	30.06.2005
- financial receivables	253	5	258
- financial assets held for trading	30	(27)	3
	283	(22)	261

The item *Financial receivables* regards short-term financing granted by the company Semag S.r.l. (a minority shareholder of the subsidiary Isam S.r.l.) on which interest accrues at the three-months Euribor rate plus a spread of 1 per cent. per annum. The amount stated in the balance sheet is net of a write-down for impairment made in previous periods of Euro 86 thousand.

13. Financial assets and liabilities by way of derivatives – 1,058 (-209)

Current financial assets – 1,805 (323)

Non-current financial liabilities – 572 (465)

Current financial liabilities – 175 (67)

Description of derivative instrument	31.12.2004	IAS 32/39	1.01.05	variations	30.06.2005
Current financial assets:					
- currency	19	992	1,011	(999)	12
- commodities (copper)	304	316	620	1,173	1,793
	323	1,308	1,631	174	1,805
Non-current financial liabilities:					
- interest rates	(465)	0	(465)	(107)	(572)
Current financial liabilities:					
- currency	(67)	0	(67)	(108)	(175)
Total	(209)	1,308	1,099	(41)	1,058

As mentioned above, the Isagro Group has decided to apply IAS 32 and 39 as from 1 January 2005. Consequently on that date the fair value of the derivative contracts not recorded in the 2004 financial statements was recognised in that they did not relate directly to assets or liabilities on the balance sheet, and were characterised by a positive fair value that could not be recorded as an asset in that it would not have been in accordance with the principle of prudence under Italian accounting standards.

The following table sets forth the kinds of derivative contracts in place as at 30 June 2005.

Nature of derivative contract	Fair value as at 30 June 2005
Cash-flow hedge derivatives	
- interest rate	(121)
- currency	(63)
	(184)
Trading derivatives:	
- interest rates	(451)
- currency	(100)
- commodities (copper)	1,793
	1,242
Total	1,058

Cash-flow hedge derivatives regards:

- for the interest rate portion, the hedging of interest rate risk on medium- and long-term financing at floating rates, so that these are converted into fixed-rate financing; and

- for the currency portion, the hedging of Euro/Yen exchange rate risk with reference to future planned acquisitions of raw materials for the production of Tetraconazole.

In accordance with international accounting standards, the portion of profit or loss relating to the valuation of such derivatives (mark to market) has been recognised, net of the tax effect thereof of Euro 61 thousand, directly to equity, the effectiveness of the hedge provided by such instruments having been shown.

The principal features of the cash-flow hedge derivatives are set forth below.

Interest rate swaps

Counterparty:	Date entered into	Start date	Maturity date	Fixed interest rate (per annum)	Notional amount (Euros, in thousands)	Fair value (Euros, in thousands)
BRE	16/06/2005	20/06/2005	31/03/2010	2.77%	4,750	(53)
SAN PAOLO IMI	27/06/2005	30/06/2005	31/03/2010	2.88%	2,375	(33)
BANCA INTESA	23/06/2005	30/06/2005	31/03/2010	2.92%	2,375	(35)
Total					9,500	(121)

Currency derivatives

Counterparty:	Currency	Description	Date entered into	Maturity date:	Exchange rate	Notional amount (Currency, in thousands)	Fair value (Euros, in thousands)
INTERBANCA	JPY	Forward purchase	01/06/2005	13/12/2005	131.27	55,800	(5)
INTERBANCA	JPY	Forward purchase	01/06/2005	12/01/2006	131.02	74,400	(6)
INTERBANCA	JPY	Forward purchase	01/06/2005	13/02/2006	130.81	55,800	(5)
INTERBANCA	JPY	Forward purchase	01/06/2005	13/03/2006	130.61	74,400	(6)
INTERBANCA	JPY	Forward purchase	01/06/2005	12/04/2006	130.37	49,600	(12)
INTERBANCA	JPY	Knock-In option	01/06/2005	13/12/2005	-	55,800	(6)
INTERBANCA	JPY	Knock-In option	01/06/2005	12/01/2006	-	74,400	(8)
INTERBANCA	JPY	Knock-In option	01/06/2005	13/02/2006	-	55,800	(5)
INTERBANCA	JPY	Knock-In option	01/06/2005	13/03/2006	-	74,400	(6)
INTERBANCA	JPY	Knock-In option	01/06/2005	12/04/2006	-	49,600	(4)
Total						620,000	(63)

Interest rate swap contracts have been entered into so as to partially convert from a floating rate to a fixed rate a financing arrangement granted to Isagro by a syndicate of banks led by Centrobanca. The principal features of that agreement are set forth below.

- Nominal value	15 ,000 thousand euros
- date of drawdown	31 March 2005
- duration	5 years
- repayment	quarterly instalments in arrears, from 30 June 2005 to 31 March 2010
- Outstanding amount	14,250
- Interest rate	Three-months Euribor plus a spread of 1.20 per cent.

Currency derivatives known as knock-in options are currency options that may be exercised at maturity in the following manner:

- if the EUR-JPY exchange rate at maturity is higher than 136.00, Isagro will be obliged to buy Yen at the strike exchange rate of 130,00;
- if the EUR-JPY exchange rate at maturity is lower than 129.20, Isagro will buy Yen at the strike exchange rate of 129.20; and
- if the exchange rate at maturity is between 129.20 and 136, no option will be exercised.

The objective behind these contracts is to hedge against possible fluctuations in the EUR-JPY exchange rate with reference to purchases of raw materials (particularly, M-Alcohol).

Trading derivatives comprise transactions that, although put in place with the intention of hedging, do not fully satisfy the requirements of international accounting standards for them to be accounted for under hedge accounting rules.

These derivatives comprise:

- for the interest rates portion, contracts intended indirectly to convert medium- and long-term financing from floating rate to fixed rate debt;
- for the currency portion, forward contracts relating to spot sales of US Dollars and Indian Rupees and purchases of Japanese Yen, intended to limit the effect of exchange rate fluctuations on part of the Isagro Group’s trade receivables and payables denominated in such currencies; and
- for the commodity portion, contracts for the forward purchase of copper, entered into to limit exposure to fluctuations in the market price of this strategic raw material.

The principal features of the trading derivatives are set forth below.

Interest rate derivatives

Counterparty:	Nature of contract	Date entered into	Start date	Expiry date	Notional amount (Euros, in thousands)	Fair value (Euros, in thousands)
CARIPARMA	Cap floater swap	27/02/2003	03/03/2003	03/03/2008	2,500	(76)
BANCA AGRICOLA MANTOVANA	Performing growth swap	16/07/2003	31/07/2003	30/06/2008	3,000	(70)
BANCA AGRICOLA MANTOVANA	Performing growth swap	23/11/2003	31/01/2003	30/12/2007	5,000	(188)
SANPAOLO IMI	IRS with knock-out barrier	23/06/2003	25/06/2003	25/08/2008	2,500	(117)
Total					13,000	(451)

In particular:

- under the first contract, a cap floater swap, provides that Isagro should pay a different fixed interest rate each year (with a minimum of 2.10 per cent. for the first year and a maximum of 3.20 per cent. for the fifth year) and receives a floating rate of three-months Euribor. if from the third year on, USD Libor is more than 6 per cent., Isagro pays three-months Libor;
- under the second contract, a performing growth swap, provides that Isagro should pay a different fixed interest rate each year (with a minimum of 2 per cent. for the first year and a maximum of 3.30 per cent. for the fifth year) and receives a floating rate of three-months Euribor. If from the second year on, three-months USD Libor is over a certain threshold (a minimum of 4.50 per cent. for the second year and a maximum of 5.50 per cent. for the fifth year), Isagro pays three-months Libor;
- under the third contract, a performing growth swap, provides that Isagro should pay a different fixed interest rate each year (with a minimum of 2.00 per cent. for the first year and a maximum of 3.80 per cent. for the fifth year) and receives a floating rate of three-months Euribor. If from the second year on, three-months USD Libor is over a certain amount (a minimum of 5.50 per cent. for the second year and a maximum of 6.50 per cent. for the fifth year), Isagro pays three-months Libor; and
- under the fourth contract, an interest rate swap with a knock-out barrier, provides that Isagro should pay a different fixed interest rate each year (with a minimum of 2.50 per cent. for the first year and a maximum of 4 per cent. for

the fifth year) and receives a floating rate of three-months Euribor. If six-months USD Libor is above a certain value (which varies from 6 to 6.50 per cent. across the years) Isagro is to pay six-months Libor.

Currency derivatives

Counterparty:	Currency	Nature of contract	Date entered into	Expiry Date:	Notional amount (Currency, in thousands)	Fair value (Euros, in thousands)
BANCA INTESA	USD	Forward sale	June 2005	30/09/2005	3,800	(10)
BRE	USD	Forward sale	June 2005	30/09/2005	1,000	(1)
INTERBANCA	USD	Forward sale	June 2005	30/09/2005	5,000	(10)
BANCA DI ROMA	USD	Forward sale	June 2005	30/09/2005	1,000	(2)
BANCA AGRICOLA MANTOVANA	USD	Forward sale	June 2005	30/09/2005	1,000	(2)
BARCLAYS CAPITAL	USD	Forward sale	June 2005	30/09/2005	6,000	(5)
MONTE PASCHI SIENA	USD	Forward sale	June 2005	30/09/2005	4,000	(1)
SANPAOLO IMI	USD	Forward sale	June 2005	30/09/2005	3,000	(1)
BANCA POP. COMM. IND.	USD	Forward sale	June 2005	30/09/2005	5,000	(6)
SOCIETE GENERALE	USD	Forward sale	June 2005	30/09/2005	13,000	12
DEUTSCHE BANK	USD	Forward sale	June 2005	30/09/2005	3,000	(6)
FORTIS BANK	USD	Forward sale	June 2005	30/09/2005	3,000	(2)
BANCA INTESA	USD	Forward purchase	June 2005	29/07/2005	257	0
					49,057	(34)
SOCIETE GENERALE	INR	Forward sale	June 2005	29/09/2005	124,407	(33)
INTERBANCA	JPY	Forward purchase	May 2005	30/09/2005	60,000	(2)
BNL	JPY	Forward purchase	June 2005	30/09/2005	182,773	(10)
BANCA INTESA	JPY	Forward purchase	June 2005	30/09/2005	60,000	(3)
SOCIETE GENERALE	JPY	Forward purchase	June 2005	30/09/2005	30,000	(18)
					332,773	(33)
Total						(100)

Commodity derivatives (copper)

Counterparty:	Quantity hedged (in tonnes)	Date entered into	Expiry Date:	Strike price (in Euros)	Aggregate value (Euros, in thousands)	Fair value (Euros, in thousands)
SEMPRA METALS LTD	100	28/10/2004	02/08/2005	1,984	198	89
SEMPRA METALS LTD	100	28/10/2004	02/09/2005	1,984	198	82
SEMPRA METALS LTD	100	31/12/2004	02/09/2005	2,045	205	76
SEMPRA METALS LTD	100	08/12/2004	02/09/2005	2,004	200	80
SEMPRA METALS LTD	100	08/12/2004	02/09/2005	2,000	200	80
SEMPRA METALS LTD	100	28/10/2004	04/10/2005	1,981	198	76
SEMPRA METALS LTD	100	03/12/2004	04/10/2005	2,045	205	70
SEMPRA METALS LTD	100	08/12/2004	04/10/2005	2,004	200	74
SEMPRA METALS LTD	100	08/12/2004	04/10/2005	2,000	200	74
SEMPRA METALS LTD	300	20/10/2004	02/11/2005	2,002	603	204
SEMPRA METALS LTD	100	03/12/2004	02/11/2005	2,045	204	64
SEMPRA METALS LTD	100	08/12/2004	02/11/2005	2,004	200	68
SEMPRA METALS LTD	100	08/12/2004	02/11/2005	2,000	200	68
SEMPRA METALS LTD	300	20/10/2004	02/12/2005	1,981	594	189
SEMPRA METALS LTD	300	20/10/2004	04/01/2006	1,961	588	179
SEMPRA METALS LTD	300	30/11/2004	04/01/2006	1,989	597	170
SEMPRA METALS LTD	300	14/10/2004	02/03/2006	1,933	580	148
Total					5.370	1.793

With regard to the method used to determine the fair value of the derivative instruments, please see the description set forth in the section on the accounting methods.

14. Cash and cash equivalents – 10,676 (18,323)

Composition	31.12.2004	Total variation	30.06.2005
Bank deposits:			
Bank demand deposits	13,849	(3,850)	9,999
- foreign currency deposits	343	26	369
- conditional deposits	1,942	(1,942)	0
- accounts that are unavailable	2,153	(1,873)	280
	18,287	(7,639)	10,648
Cash and cash equivalents	36	(8)	28
Total	18,323	(7,647)	10,676

Demand deposits and foreign currency deposits accrue interest at a floating rate. The average interest rate on the Isagro Group’s bank and foreign currency deposits as at 30 June 2005 is 1.3 per cent. annum.

The item *Foreign currency deposits* includes the value in Euros of a demand deposit of USD 421 thousand.

The item *Accounts that are unavailable* regards receivables accounted for as at 30 June 2005 and to be available, in terms of value, in the early days of July.

The cash is not encumbered by any restriction limiting its free use.

Fair value of cash is, as at 30 June 2005, the book value thereof.

For the purposes of the cash-flow statement, the item *Cash* matches the same item in the balance sheet.

15. Group equity – 68,271 (62,708)

The share capital of the holding entity Isagro S.p.A. of Euro 16,000,000, entirely subscribed and paid, comprises 16,000,000 ordinary shares of Euro 1 each.

No new shares were issued over the course of the period.

The item *Reserves,* of Euro 25,517 thousand, comprises the following:

- share premium account	14,170
- hedging reserve	(123)
- translation difference	(1,625)
- other reserves:	
*merger surplus	7,025
* reserve for grants pursuant to Law 488	2,870
* legal reserve	3,200
	13.095

In particular:

- the share premium account is recognised net of costs incurred by the holding entity in relation to the share capital increase of 2003, as part of the admission of the shares to listing on the Milan stock exchange. These costs amount, net of the tax effect of Euro 910 thousand, to Euro 1,536 thousand;
- the reserve for grants pursuant to Law 488 regards the holding entity obtaining a grant on account of plant, against which profits and reserves are encumbered as security for the performance of the obligations connected therewith.

Details of changes to the hedging reserve, which includes adjustments to fair value of some yen-currency forward contracts and interest rate swaps, which are classified as cash-flow hedges (see Note 13):

Currency derivatives

Adjustment to fair value as at 30 June 2005	(63)
Tax effect allocated directly to equity	21
	(42)

Interest rate derivatives

Adjustment to fair value as at 30 June 2005	(121)
Tax effect allocated directly to equity	40
	(81)
Total hedging reserve	(123)

The item *Translation difference* comprises exchange differences arising out of the translation of the financial statements of the foreign subsidiaries.

Please see the statement of changes in consolidated equity for a description of changes in the period.

16. Minority interests – 599 (468)

Please see the statement of changes in consolidated equity for a description of changes in the period.

It should be noted that the income for minority interests does not include the result for the period of Isagro Asia Agrochemicals Limited, which belongs to the minority shareholder Simest S.p.A. (4 per cent.), in that it has been contractually excluded from having to cover any losses by the company or from participating in any profits.

The line item *Other changes* in the aforementioned statement (of Euro 48 thousand) regards principally the effects on the capital and reserves for minority interests, of the purchase of 10 per cent. of Isagro Ricerca S.r.l.

17. Current and non-current financial liabilities – 87,873 (71,663)

Non-current financial liabilities – 42,289 (26,347)

Current financial liabilities – 45,584 (45,316)

The following table sets forth changes in current and non-current financial liabilities.

Composition	31.12.2004	Effect of application of IAS 32/39	01/01/2005	Total variation	30.06.2005
Current financial liabilities:					
- banks	44,823	11,417	56,240	(14,494)	41,746
- other lenders	283	1,474	1,757	1,939	3,696
- obligations under finance leases	210	0	210	(68)	142
	45,316	12,891	58,207	(12,623)	45,584
Non-current financial liabilities:					
- banks	19,468	0	19,468	15,537	35,005
- other lenders	6,685	0	6,685	434	7,119
- obligations under finance leases	194	0	194	(29)	165
	26,347	0	26,347	15,942	42,289
Total	71,663	12,891	84,554	3,319	87,873

The Isagro Group makes without-recourse assignments of receivables which features an excess, which may or may not be withheld by the assignee, as security for the receipt in full of the receivables; or by the Isagro Group retaining management of the transferred assets; or by its retaining the risk of fluctuation in the current value of the future cash-flows of the assigned receivables.

The introduction of IAS 32 and 39, as from 1 January 2005, has meant it has not been possible to derecognise the trade receivables connected with such transactions from the balance sheet, with a consequent increase in trade receivables and current financial liabilities, in an amount of Euro 12,891 thousand.

The following table sets forth a breakdown of the current financial liabilities, by their nature.

Composition	Amount	Interest rate (average effective, in per cent.)	Maturity
- Current account overdraft	323	6.114%	on demand
- import financing	2,558	2.54%	on demand
- export financing	2,575	2.438%	on demand
- advances against invoices	13,320	2.992%	on demand
- factoring	4,784	3.127%	on demand
- advances against cash orders	1,240	2.294%	at maturity of the cash orders
- standby credit facilities	14,836	2.815%	2005-2006
- finance leasing	142	7.184%	2005-2006
- short-term portions of medium- and long-term financing and accruals thereon	5,806	*	*
Total	45,584		

* the features of these facilities are described in a separate table.

The average yield of the Isagro Group’s short-term financing is 2.88 per cent.

The holding entity Isagro S.p.A. has provided the following guarantees regarding the grant of credit facilities, including short-term facilities, in the interest of associates and joint ventures:

- Euro 5,461 thousand against guarantees issued in the interest of the associate Siapa S.r.l., held 50 per cent.;
- Euro 11,500 thousand against guarantees issued in the interest of the associate Isagro Italia S.r.l., held 50 per cent.; and
- Euro 500 thousand, against guarantees issued to Unicredit Banca d’Impresa, in the interest of the associate Siapa S.r.l., held 50 per cent.

The associate Isagro Italia S.r.l. has provided guarantees for the grant of credit facilities to the subsidiary Siapa S.r.l., for a total amount of Euro 13,601 thousand.

The company Sumitomo Chemical Co. Ltd, which holds a stake of 50 per cent. in Isagro Italia S.r.l., has granted guarantees to the associate Isagro Italia S.r.l., for the grant of credit facilities, for a proportional amount of Euro 5,000 thousand (which represents 50 per cent. of the aggregate value of the guarantees).

The table set forth below summarises the financing granted to the Isagro Group, divided by currency.

Value of the financing	Amount (in thousands of euros)	Amount (in currency (in thousands))	Interest rate (average effective, in per cent.)
(in Euros)	86,203	86,203	2.26%
US Dollars	532	500	4.44%
Indian Rupees	954	50,000	8.05%
Japanese Yen	184	25,701	0.5%
Total	87,873		

The Isagro Group’s indebtedness, subdivided by maturity, with the exception of finance leases, is set forth in the following table.

	Debts divided by maturity						
	Within one year	2 years	3 years	4 years	5 years	More than 5 years	Total
Debts to banks:							
- floating rate	41,746	14,561	5,530	5,471	4,750	357	72,415
- fixed rate	0	281	625	669	715	2,046	4,336
Total debts to banks:	41,746	14,842	6,155	6,140	5,465	2,403	76,751
Debts to other lenders							
- floating rate	2,722	0	0	0	0	0	2,722
- fixed rate	974	721	1,054	1,579	1,055	2,710	8,093
Total other lenders	3,696	721	1,054	1,579	1,055	2,710	10,815
Total	45,442	15,563	7,209	7,719	6,520	5,113	87,566

The finance leases have an average maturity of three years. Future payment arising under finance leases, in addition to the current value of the net payments arising under the leases, are set forth in the following table.

	Fees	Current value of the fees
One year or less	157	142
One to five years	177	165
	334	307

The medium- and long-term financing facilities granted to the holding entity Isagro S.p.A. and the other companies of the Isagro Group are summarised in the following table.

Granted to ISAGRO S.p.A.:	Amount
Syndicated facility led by Centrobanca, for a term of five years and repayable in quarterly instalments in arrears by 31 March 2010, at an interest rate of three-months Euribor plus a spread of 1.20 per cent. per annum. Commission for early repayment: 0.25 per cent. as a one-off payment on the amount repaid early.	14,250
Facility granted by Interbanca, for a term of five years and repayable in semi-annual instalments in arrears by 31 March 2010, at an interest rate of six-months Euribor plus a spread of 1 per cent. per annum. Early repayment possible after 18 months, without commission. The company has made advance payment of commissions and taxes on this facility, in an amount of Euro 13 thousand.	4,987

Facility at a concessionary rate granted by Unicredit Banca Mediocredito, for a term of eight years (of which one year is for use, pre-amortisation) and repayable in semi-annual instalments in arrears by 30 September 2010, at an interest rate of six-months Euribor plus a spread of 1.30 per cent. per annum. Early repayment possible after 18 months, upon commission of 1 per cent. in the first three years, and of 0.50 per cent. between three and five years. The Company receives a contribution on account of interest from Simest S.p.A., at an annual rate of 2.9532 per cent.	3,928
Facility granted by MPS banca d'impresa, for a term of five years (including one year of pre-amortisation), repayable in increasing semi-annual instalments in arrears by 31 March 2010, at an interest rate of six-months Euribor plus a spread of 1.40 per cent. per annum. Commission for early repayment: 0.50 per cent. as a one-off payment on the amount repaid early. The company has made advance payment of commissions and taxes on this facility, in an amount of Euro 13 thousand.	2,987
Facility at a concessionary rate granted by Centrobanca, for a term of ten years (of which four years of use, pre-amortisation) and repayable in increasing semi-annual instalments in arrears by 1 July 2012, at an interest rate of 6.65 per cent. per annum. Early repayment possible after 18 months, upon commission of 0.50 per cent. paid as a lump sum, of the amount repaid early. The Company receives a contribution, on account of interest, from the Italian Ministry of Education, at an annual rate of 2.49 per cent. and has made advance payment of commissions and taxes in an amount of Euro 74 thousand.	4,336
Facility granted by Sanpaolo IMI, for a term of ten years (of which four years of use, pre-amortisation) and repayable in increasing semi-annual instalments in arrears by 1 July 2006, at an interest rate of 3.70 per cent. per annum. This facility is secured by a guarantee granted by Manisa S.r.l., a company that indirectly controls Isagro S.p.A.	452
Facility granted by Sanpaolo IMI, for a term of eight years (of which three years of use, pre-amortisation) and repayable in increasing semi-annual instalments in arrears by 1 July 2007, at an interest rate of 2 per cent. per annum.	5,223
Facility granted by Sanpaolo IMI, for a term of eight years (of which three years of use, pre-amortisation) and repayable in increasing semi-annual instalments in arrears by 1 January 2010, at an interest rate of 2 per cent. per annum.	2,117
Portions of medium- and long-term stand-by credit facilities that mature on 5 October 2006, at an average rate of 2.598 per cent.	1,500
Granted to other companies of the Isagro Group:	
Facility granted by Cassa di Risparmio di Parma e Piacenza, to Isagro Italia S.r.l., for a term of 36 months and repayable in semi-annual instalments in arrears on or before 13 September 2007, at an interest rate based on the average rate of Euribor in the previous month plus a spread of 0.60 per cent. per annum.	420
Facility granted by Sanpaolo IMI to Isagro BioFarming S.r.l., for a term of ten years (of which three years of pre-amortisation) and repayable in increasing semi-annual instalments in arrears by 1 July 2006, at an interest rate of 3.70 per cent. per annum.	71
Facility granted by Sanpaolo IMI to Isagro BioFarming S.r.l., for a term of eight years and repayable in increasing semi-annual instalments in arrears by 1 July 2011, at an interest rate of 2 per cent. per annum.	134
Portions of medium- and long-term stand-by credit facilities granted to Isagro Italia S.r.l. that mature on 13 October 2006, at an average rate of 3.237 per cent. The company has made advance payment of commissions and taxes on this facility, in an amount of Euro 24 thousand.	7,476
Total loan facilities	**47,881**
- Obligations under finance leases	165
– short-term portions of medium- and long-term financing (on account of principal)	(5,757)
TOTAL NON-CURRENT FINANCIAL LIABILITIES	**42,289**

In particular, the following facilities have been granted with commitments to comply with certain covenants as to cash-flow and the balance sheet:

- financing granted by Unicredit Banca Mediocredito to Isagro S.p.A. Euro 3,928 thousand.
- syndicated facility led by Centrobanca, to Isagro S.p.A. Euro 14,250 thousand.
- syndicated facility, led by Banca Nazionale del Lavoro, granted to Isagro Italia S.r.l., and mentioned in the stand-by credit facilities (Euro 7,500 thousand).

As at 30 June 2005, the Isagro Group has complied with the requirements of such facilities.

As at 30 June 2005, the Isagro Group has agreed credit facilities in place for a total of Euro 160,163 thousand, as set forth in the following table.

Credit facilities from banks	Euro 137,563 thousand
Credit facilities from factors	Euro 22,600 thousand

18. Employee benefits (employee severance indemnity, or TFR) – 6,674 (6,554)

The table set forth below shows changes to the provision for employee severance indemnities, known as *TFR*, which may be classed, under IAS 19, as post-employment benefits in a defined benefit plan.

Changes over the period	
Amount as at 31 December 2004	6,554
Cost of employee benefits	540
Liquidations	(420)
Amount as at 30 June 2005	6,674

The cost of the plan, included on the income statement, comprises the following:

	Six months ended 30 June 2005	Six months ended 30 June 2004
Current cost of pension plan	326	308
Financial costs of the obligation assumed	138	134
Actuarial losses (profits)	76	(430)
Total	540	12

It should be noted that the current cost of the plan, and the actuarial losses (profits), are recorded in the balance sheet as personnel costs, while the financial element is included among the financial costs of the period.

The principal assumptions used in determining the obligations arising out of the Isagro Group's *TFR* pension plan, which applied also to the period ended 31 December 2004, were as follows:

- discount rate:	4.5%
- the rate of increase in pay-outs:	3.0%
- employee turnover rate:	3.0%
- rate of inflation:	2.0%.

The Isagro Group participates also in pension funds which, under IAS 19, are post-employment benefit plan of a defined contribution kind. In relation to these plans, the Isagro Group has no obligation to make further payments once the contributions have been paid.

The cost of such plans, included under personnel costs, in the first half of 2005 was Euro 172 thousand (compared with Euro 159 thousand in the first half of 2004).

19. Non-current provisions – 148 (149)

This item includes the value of the additional customer indemnity provision, to be paid, in accordance with the law, to trade agents if their mandate should cease.

The change to the provision in the period was as follows:

- Amount as at 31 December 2004	149
- Provisions	9
- Uses	(10)
- Amount as at 30 June 2005	148

Although this is a medium- to long-term provision, it has not been discounted in that the effects would not be very significant.

20. Other non-current liabilities – 9,605 (5,969)

Composition	31.12.2004	Total Total	30.06.2005
Payables:			
- guarantee deposits received from clients	569	99	668
- others	0	0	0
	569	99	668
Deferred income:			
- grants without repayment obligations, for plant	339	(18)	321
- grants without repayment obligations, for R&D costs	5,061	55	5,116
- Solvay Solexis contract	0	3,500	3,500
others	0	0	0
	5,400	3,537	8,937
Total	5,969	3,636	9,605

The item *Guarantee deposits received from clients* regards payments received from customers of the subsidiary Isagro Asia Agrochemicals Ltd, as security for the performance of obligations connected with agreements for the sale and purchase of agropharmaceuticals. Interest accrues on these deposits at an average rate of 10 per cent. per annum.

The item *Grants without repayment obligations, for R&D costs* relates to grants that accrued through to 30 June 2005 from the Ministry of Education in relation to uncompleted development projects and for which the amortisation has yet to begin.

More particularly, this item comprises:

- project IR 6141 846
- project IR 5878 2,100
- project IR 5885 2,170.

The item, *Grants without repayment obligations, for plant*, includes the residual amount of a public grant for plant that Isagro obtained (in an original amount of Euro 357 thousand) in relation to the construction, within the facilities in Adria, of a new plant for the making of copper-based products in water-dispersible granules. The grant is recognised on a time-proportion basis, based on the useful life of the related plant.

The item *Solvay Solexis contract* refers to the advance payment due to the company Solvay Solexis S.p.A. in relation to Isagro's commitment to purchase certain quantities of raw materials necessary for the production of Tetraconazole in the period 2006-2011. The agreement further provides Isagro to build a plant for the production of Tetraconazole, and the plant is under construction in the Bussi sul Tirino facility on land belonging to Solvay Solexis (please see the paragraph on property, plant and equipment for further details).

21. Trade payables – 54,048 (38,183)

The change in trade payables (an increase of Euro 15,865 thousand) is the result, on the one hand, of an increase in purchases of raw materials used in the production of both copper-based products and Tetraconazole, and on the other, an increase in the remuneration for the processing required to obtain the latter product, stocks of which have risen in the expectation of sales in the second half of the financial year.

Trade payables includes amounts payable to associates Siapa S.r.l., in an amount of Euro 71 thousand, Isagro Italia S.r.l., in an amount of Euro 50 thousand, and Arterra Bioscience S.r.l., in an amount of Euro 50 thousand. With regard to the amounts payable to related parties, please see Note 42.

The following table sets forth a division of trade payables by geographical area, based on the location of the supplier.

✍ Italy	32,758
✍ Other European countries	7,196
✍ Central Asia and Oceania	4,973
✍ Americas	6,161
✍ Far East	2,368
✍ Middle East	584
✍ Africa	8
Total	54,048

Trade payables have an average maturity of approximately 90 days.

22. Current provisions – 1,782 (3,478)

A breakdown of current provisions, and the changes thereto, are set forth in the following table.

Composition	Value on the balance sheet 31.12.2004	Variation over the period					Value on the balance sheet 30.06.2005
		Conversion difference	Reclassifications and other changes	Provisions	Uses	Total Total	
Current provisions:							
- provision for tax disputes	1,040	0	686	0	(1,229)	(543)	497
- provision for early retirement incentives and mobility costs	523	0	0	0	(259)	(259)	264
- provision for health and safety/destruction of goods	167	0	0	70	(155)	(85)	82
- provision for product guarantees	2	0	0	0	0	0	2
- provision for legal risk	100	0	0	0	0	0	100
- provision for customer bonuses	140	0	0	46	(92)	(46)	94
- provision for bonuses to employees and management	1,506	5	0	638	(1,406)	(763)	743
Total	3,478	5	686	754	(3,141)	(1,696)	1,782

The item, *Provision for tax disputes* relates to the EU-Italian dispute regarding the application by the holding entity Isagro S.p.A. of the concessionary rate of IRES (corporation tax) for newly-listed companies, rather than the ordinary rate of 33 per cent., granted under Law Decree No. 269/2003 for the tax years 2003 and 2004. The European Commission has declared the provision unlawful and brought an action against the Italian government and consequently, for reasons of prudence, in preparing the financial statements as at and for the year ended 31 December 2004 a provision was created, based on the effects on current taxes and the deferred tax assets that would follow from the concession not being recognised.

Following the European Commission’s ruling on 16 March 2005, it was confirmed that such a reduced tax rate could not be applied to newly-listed companies.

Consequently, there was on the hand a reclassification of an amount of Euro 686 thousand to taxes paid in advance and on the other use of the residual provision, in an amount of Euro 1,229 thousand, against an increased payment of current taxes due for the year 2004. The remaining provision includes therefore the increased payment of current taxes expected for the financial year 2003 to be paid, without payment of any fine, at the tax authority’s demand.

With regard to other provisions:

- the provision for early retirement incentives and mobility costs covers those costs that are to be incurred for the mobility procedures and incentives for early retirement that form part of a restructuring programme in which the organisational structure of some companies of the Isagro Group (Isagro, Agriformula S.r.l. and Siapa S.r.l.) are involved;

- the provision for health and safety/destruction of goods regards costs to be incurred for the adjustment of production plants of the holding entity Isagro S.p.A. and the disposal of residues from processing and packaging;
- the provision for legal risk is allocated against liabilities that might arise from legal disputes with employees;
- the provision for customer bonuses regards costs to be incurred for the purchase of in-kind bonuses to be provided to Italian customers in relation to the achievement of certain turnover objectives; and
- the provision for bonuses to employees and management represents an estimate, based on the results for the period, of the annual production bonuses to be paid to employees of the Isagro Group.

It should be noted that it is very likely that such provisions will be used in full by the end of the first half of 2006.

23. Tax payables – 6,675 (3,606)

Composition	31.12.2004	Total variation	30.06.2005
Tax payables:			
- to the revenue, as w/holdings	677	(122)	555
- to the revenue, as taxes and VAT	2.917	2.940	5.857
- others	12	251	263
	3.606	3.069	6.675

Of the item, to the revenue, as taxes and VAT, Euro 5,217 thousand regards amounts of current taxes for the period that have been set aside.

The change compared with the position as at 31 December 2004 is essentially the result of the figure as at 30 June 2005 not being reduced by advance payments for 2005, of approximately Euro 4,200 thousand, such amount being included under tax liabilities. In fact, liabilities for direct taxes and advance payments made are only reconciled at the end of the year when there is greater certainty as to the amount that actually must be paid to the revenue service.

24. Other liabilities and miscellaneous payables – 6,778 (8,201)

Composition	31.12.2004	Total variation	30.06.2005
Payables:			
- to social security agencies	1.400	192	1.592
- to agents and middlemen	1.803	46	1.849
- to employees	1.487	751	2.238
- advances from customers	1.667	(1.667)	0
- bid guarantees	562	(562)	0
- others	1.176	(186)	990
	8.095	(1.426)	6.669
Deferred income:			
- default Interest	33	(5)	28
- safety works	57	(14)	43
- others	16	22	38
	106	3	109
Total	8.201	(1.423)	6.778

The amounts payable to employees regards accrued holidays, additional salary payments and expenses incurred.

The item *Safety works* refers to income arising by the reallocation to Bayer Cropscience Italia S.r.l. of costs incurred in having plant meet current safety standards, which were performed in 2001 and capitalised as property, plant and equipment, within the production facilities of AgriFormula S.r.l. The income has been recognised on the basis of the amortisation period for the plant in question.

INFORMATION RELATING TO THE INCOME STATEMENT

25. Revenues – 115,780 (94,005)

A breakdown of revenues is set forth in the following table.

Composition	Six months ended 30 June 2005			Six months ended 30 June 2004		
	ITALY	**OUTSIDE ITALY**	**TOTAL**	**ITALY**	**OUTSIDE ITALY**	**TOTAL**
Sales revenues:						
- agropharmaceuticals	38,998	64,738	103,736	38,316	44,163	82,479
- raw materials	359	786	1,145	469	438	907
	39,357	65,524	104,881	38,785	44,601	83,386
Revenues from supplies of services:						
- remuneration for processing	4,577	43	4,620	4,452	63	4,515
- specialist research and sales of scientific information	145	654	799	148	656	804
- defence and development of products	374	16	390	309	117	426
- services for the environment	4,662	0	4,662	4,400	0	4,400
- others	387	41	428	455	19	474
	10,145	754	10,899	9,764	855	10,619
Total	49,502	66,278	115,780	48,549	45,456	94,005

This item shows, compared with the first half of 2004, an increase of Euro 21,775 thousand, principally relating to increased sales of agropharmaceuticals (Euro 21,257 thousand).

More particularly, the increase was due to the development of the proprietary fungicide Tetraconazole in the United States of America – the subsidiary Isagro USA Inc. began marketing and distribution of that product to the distribution company Valent (of the Sumitomo group), for use by North American farmers in controlling the fungal disease Asian rust, which affects soybeans.

The item *Revenues from sales* includes the 50 per cent. of revenues from sales of products and raw materials to the associates Isagro Italia and Siapa, respectively, for Euro 5,016 thousand and Euro 2,976 thousand.

In addition, the item *Revenues from supplies of services* includes the 50 per cent. of remuneration for processing and for the management of deposits and transport for the associates Isagro Italia and Siapa, respectively, for Euro 508 thousand and Euro 1,197 thousand.

26. Other operating revenues – 2,676 (7,616)

A breakdown of other operating revenues is set forth in the following table.

Composition	Six months ended 30 June 2005	Six months ended 30 June 2004
Royalties and similar rights	729	291
Government grants	18	161
Brokerage income	98	144
Leases	70	72
Insurance compensation	73	11
Recovery of processing costs	108	84
- recovered transport costs	383	493
Recovered research costs	0	63
Miscellaneous recovered costs and charges	861	846
Export incentives	248	250
Capital gains on sales of property	16	13
Contractual indemnities	0	5,082
Others	72	106
Total	2,676	7,616

Of the item *Royalties and similar rights*, Euro 717 thousand regards the sale to Makhteshim Agan Industries Limited (formerly Makhteshim Chemical Works Limited) of the right to the development and commercial distribution of the product Novaluron, the patent for which belongs to Isagro S.p.A. Under the terms of the agreement, which expires in the first half of 2010, Makteshim Agan Industries Limited pays Isagro a royalty on sales for all the uses authorised.

The item *Export incentives*, of Euro 248 thousand, regards the subsidiary Isagro Asia Agrochemicals Limited and comprises government incentives to favour the export of products; the incentives may be used for the payment of import duties.

The Isagro Group has recognised in its financial statements the recovery of the following costs and services provided to the associates Isagro Italia and Siapa, in thousands of Euros:

? administrative and managerial assistance	252
? EDP services	143
? Office lets	50
? Transport costs	21
? Others	78

27. Raw materials and consumables used – 60,796 (50,740)

The following table sets forth a breakdown of the purchase costs of raw materials and consumables.

Composition	Six months ended 30 June 2005	Six months ended 30 June 2004
- raw materials, packaging and agropharmaceuticals	61,227	51,212
- technical materials	463	380
- environmental goods and materials	526	459
- materials needed for research	121	150
- changes to inventories of raw materials, supplies, consumables and goods:	(1,890)	(1,790)
- others	349	329
Total	60,796	50,740

This item shows, compared with the first half of 2004, an increase of Euro 10,056 thousand, principally relating to increased purchases of raw materials, packaging and agropharmaceuticals.

In particular, it reflects:

? an increase in purchases of active ingredients strategic to the production of Tetraconazole, a key product for the Isagro Group which recorded much increased sales following the spread in the United States of America and Brazil of Asian soybean rust; and

? an increase in the value of copper purchases made over the first half of 2005, as a result of an increase in that metal’s price.

28. Costs of services and supplies – 27,036 (21,349)

A breakdown of costs for services and supplies is set forth in the following table.

Composition	Six months ended 30 June 2005	Six months ended 30 June 2004
- utilities	2,112	1,881
- technical maintenance	855	722
- supplies for subcontracted work	1,541	1,591
- transport and transaction costs for purchases and sales	8,946	5,522
- processing by third parties	6,018	4,223
- professional advice and services	1,267	1,736
- services and supplies connected with research	1,154	810
- information technology system	461	439
- marketing costs	630	974
- other supplies and services	2,532	2,183
- provision to reserve for destruction of goods	70	0
- provision to additional customer indemnity provision	9	14
- leases, hires, finance leases	961	699
- rents paid	480	555
Total	27,036	21,349

This item shows an increase of Euro 5,687 thousand when compared with the first half of 2004, which is primarily due to:

? the increase in transport and transaction costs for purchases and sales of Euro 3,424 thousand, which was due, on the one hand, to commissions paid by the US subsidiary Isagro USA, Inc. to Sipcam Agro USA for distribution, and on the other, to increased transport and sales costs which closely followed the increased sales of products and increased purchases of raw materials made in the period;

? the increase in the amount of *Processing by third parties*, of Euro 1,795 thousand, which matched the aforementioned increased sales of Tetraconazole, at the facilities of Oxon S.p.A. (in Italy) and Dupont de Nemours (in the United States).

29. Personnel costs – 15,138 (14,020)

A breakdown of personnel costs is set forth in the following table.

Composition	Six months ended 30 June 2005	Six months ended 30 June 2004
- salaries and wages	9,568	9,002
- social security charges	3,142	2,975
- employee severance indemnity	402	(122)
- pension funds	172	159

- provision for employee bonuses	638	503
- costs of services to personnel	1,164	1,195
- costs for early retirement incentives	0	299
- other costs	52	9
Total	15,138	14,020

The following table sets forth the average number of employees by category.

	Average for the six months	**as at 30 June 2005**	**as at 31 December 2004**
- senior management (*directors*)	44	44	39
- middle management (managers)	143	142	144
- office staff	349	351	347
- special categories	6	6	6
- labourers	183	190	169
- seasonal works	93	90	14
TOTAL	**818**	**823**	**719**

The employees of Isagro Italia S.r.l. and Siapa S.r.l. have been taken into consideration at 50 per cent., in that the two companies are consolidated using the proportional method.
The number of employees of the two companies is set forth in the following table.

	Average for the six months	**as at 30 June 2005**	**as at 31 December 2004**
- Isagro Italia S.r.l.	35	35	32
- Siapa S.r.l.	62	62	64

30. Other operating costs – 1,730 (1,967)

A breakdown of other operating costs is set forth in the following table.

Composition	Six months ended 30 June 2005	Six months ended 30 June 2004
- capital losses on sales of property	63	77
- write-downs of bad and doubtful debts	121	295
- provision to customer bonuses	46	22
- indirect taxes on production and manufacturing	948	1,098
- other operating costs	552	475
Total	1,730	1,967

The item indirect taxes on production and manufacturing comprises Euro 643 million regarding taxes on consumption and manufacturing incurred by the Indian subsidiary Isagro Asia Agrochemicals Limited.

31. Changes to stocks of finished products and work in progress – 4,897 (2,982)

The increase in inventories of products, of Euro 4,897 thousand, calculated net of the provision for inventory obsolescence, resulted as set forth in the following table.

-	Net inventories as at 1 January 2005	(24,883)
-	Translation difference	(603)
-	Net inventories as at 30 June 2005	30,383
-	Total change	4,897

32. Capitalised internally generated costs – 1,421 (1,859)

This item, which showed a decrease of Euro 438 thousand over the same period in the previous year, regards the capitalisation of internal costs (labour and general costs of Euro 1,371 thousand and technical material consumed of Euro 50 thousand) regarding development projects (Euro 1,344 thousand) and the construction of new production facilities at the Bussi sul Tirino (Perugia) site (Euro 77 thousand).

Supplies by third parties in relation to capitalised development projects are directly deducted against costs for supplies and services, under professional advice and services.

The capitalisation of development expenses for internally generated work comprised the following:

- IR 5878	450
- IR 5885	698
- IR 6141	98
- development of third-party products	16
- extraordinary defensive measures	82
- Total	1.344

33. Depreciation – 3,068 (2,980)

Amortisation of property, plant and equipment – 2,025 (1,844)

Amortisation of intangible assets – 1,043 (1,136)

Composition	Six months ended 30 June 2005	Six months ended 30 June 2004
Amortisation of property, plant and equipment:		
- buildings:	263	252
- plant and machinery:	1,229	1,126
- industrial and commercial equipment	327	291
- furniture and fittings	49	45
- motor vehicles	19	17
- office machines	138	113
	2,025	1,844
Amortisation of intangible assets:		
- development costs:	532	689
- concessions, licences, trade marks and similar rights	368	292
- others	143	155
	1,043	1,136
Total	3,068	2,980

34. Impairment of fixed assets – 0 (3,028)

In the first half of 2005 there was no impairment of the Isagro Group’s assets, while in the first half of 2004 both development costs and property, plant and equipment were written down, for a total of Euro 3,028 thousand.

The write-down of the tangible assets regarded the termination of the processing agreement between Bayer CropScience S.r.l. and the subsidiary AgriFormula S.r.l., which led to a drop in production volumes such that the plant was not being fully utilised and consequently its value could not be fully recovered through the use and the connected revenue flows that might have been generated.

In addition, because of the intervening reduction in the conditions for the future use of classes of products the development costs of which had already been previously capitalised (Dimethoate and some biological products), such costs were written down in the first half of 2004, by a total of Euro 1,818 thousand.

35. Net financial expenses – 4,240 (400)

Composition	Six months ended 30 June 2005	Six months ended 30 June 2004
Interest income and other similar income:		
- revenues from derivatives (copper commodity derivatives)	0	1,608
- interest accrued on amounts due from customers	250	211
- Interest accrued on bank accounts	57	48
- premiums on forward currency trades	49	74
- revenues from loans to joint ventures	0	0
- financial discounts to suppliers and miscellaneous creditors	69	82
- provision to reserve for write-downs of default interest	(140)	(118)
- profits on currency trades	2,603	549
- others	13	12
	2,901	2,466
Interest costs and similar expenses:		
- costs of derivatives (currency derivatives)	5,288	177
- - costs of derivatives (interest rate derivatives)	22	0
- interest paid to banks	1,012	1,375
- interest paid to other lenders	156	106
- interest to suppliers	32	46
- interest on exchange discount transactions	26	25
- financial discounts	74	67
- commissions paid to banks	413	389
- premiums on forward currency trades	362	53
- interest and commission on factoring transactions	92	227
- costs of discounting trade receivables	45	0
- long-term employee benefits (severance indemnities)	138	134
- financial costs of leasing agreements	10	10
- losses on currency trades	645	100
- others	1	1
	8,316	2,710
- adjustments for fair value of derivatives		
- commodities (copper)	1,477	0
- interest rates	(202)	(100)
- currencies	(100)	(56)
	1,175	(156)
Total	(4,240)	(400)

This item shows, compared with the first half of 2004, an increase of Euro 3,840 thousand, principally relating to increased costs from currency derivatives that emerged in the first half of 2005.

Over the course of the period, the Isagro Group made:

- sales of receivables, against which costs for commissions and interest were recognised, in an amount of Euro 92 thousand; and
- transactions for the divestment of receivables by discounting, which carried a charge of Euro 26 thousand.

For more detail on the use of derivatives, please see Note 13.

36. Profits and losses from associates – 4 (-27)

This item regards the alignment of the value of the investments in associates with the corresponding amounts of equity as at 30 June 2005, and comprises the following:

- Siamer S.r.l.	14
- Reiver Int'l Sarl	(16)
- Arterra Bioscience S.r.l.	6
	4

37. Income taxes – 5,700 (5,015)

Composition	Six months ended 30 June 2005	Six months ended 30 June 2004
Consolidated Income Statement		
Current taxes:		
- income taxes	4,093	3,336
- IRAP (production tax)	1,124	1,017
- use of deferred tax benefits/expenses	599	403
- taxes for previous years	98	(21)
	5,914	4,735
Deferred tax benefits and expenses		
Deferred income tax liabilities	915	1,730
Deferred income tax assets	(1,129)	(1,450)
	(214)	280
Total	5,700	5,015
Consolidated equity		
Current taxes on derivative instruments (cash-flow hedging)	61	0

The aforementioned items are not fully comparable in that the current taxes, deferred income tax liabilities and assets of Isagro S.p.A. have been calculated by applying the ordinary rate of 33 per cent., rather than the concessionary rate of 20 per cent. used in the first half of 2004, following the final ruling by the European Commission on 16 March 2005, confirming the unlawfulness of the introduction of a reduced tax rate for newly-listed companies. If the full rate had been applied in the first half of 2004, the tax charge for the period would have been higher by approximately Euro 500 thousand.

The item *Use of deferred income tax assets/liabilities* is expression of the difference between the use of deferred tax expenses of Euro 1,135 thousand (of which Euro 585 thousand against use of taxed funds) and the use of deferred tax benefits in an amount of Euro 536 thousand.

The allocation of the deferred tax benefits regards Euro 444 thousand of the tax effect of consolidation adjustments, Euro 368 thousand of tax benefits expected from the future use of taxed funds and Euro 193 thousand of temporary differences between the taxable amount and the non-consolidated result of Isagro S.p.A. as a result of grants received free of repayment obligations for development projects, which, under the tax legislation, are taxed upon receipt not on a time-proportion basis.

The table set forth below shows the reconciliation between the theoretical taxes IRES (corporate income tax) and IRAP (production tax), at 33 and 4.25 per cent. respectively, and the effective rates of taxation, after taking into account the deferred tax benefits and expenses.

The taxable amount for the theoretical taxes is calculated as follows:

- Profits before tax from continuing operations: 12,769
- Profits before tax from discontinued operations: 574

- profits before income taxes 13.343

	INCOME TAXES		IRAP (PRODUCTION TAX)		TOTAL	
	Taxes	%	Taxes	%	Taxes	%
Theoretical taxes	4,403	33,00	567	4,25	4,970	37,25
- increases	606	4,54	90	0,67	696	5,22
- decreases	(439)	(3,29)	(135)	(1,01)	(574)	(4,30)
- costs not relevant for the purposes of IRAP	0	0,00	710	5,32	710	5,32
- effects of changes and differences tax rates	130	0,97	58	0,43	188	1,41
- increase for consolidation records without tax effects and other changes	67	0,50	(168)	(1,26)	(101)	(0,76)
Total effective taxes	4,767	35,73	1,122	8,41	5,889	44,14

The item *Costs not relevant for the purposes of IRAP* regards principally the employee labour costs, the provisions, and the Isagro Group's financial expenses and extraordinary expenses, as such items are deductible for the purposes of determining the amount of IRAP.

The item *Total effective taxes*, of Euro 5,889 thousand, regards Euro 5,700 thousand from continuing operations and Euro 189 thousand from discontinued operations and thus included under *Profit from discontinued operations*.

As at 30 June 2005, the deferred tax on the undistributed profits of subsidiaries and associates has not been recognised, either because it is not significant where there has been a distribution of dividends (typically, for the Italian and other European companies) or because the profits may be considered to be permanently reinvested in that the holding entity does not intend to distribute the dividends (typically, for the non-European companies).

38. Profit from discontinued operations – 385 (136)

Over the course of the first half of 2005, Isagro S.p.A. sold a building used as warehousing in the municipality of Foggia, for an amount of Euro 950 thousand.

The results of the transaction were as follows.

- capital gain on sale	574
- direct taxes	(189)
	____
- net result	385
	====

The amounts for 2004 regard the Linea Verdevivo division, which was sold in September to Kollant S.p.A. at a price of Euro 785 thousand.

39. Dividends distributed

The shareholders' meeting of Isagro S.p.A. of 29 April 2005 resolved that part of the profits for the financial year ended 31 December 2004 would be allocated to dividends, in the amount of Euro 0.24 for each of the 16,000,000 ordinary shares issued and thus to a total amount of Euro 3,840 thousand.

OTHER INFORMATION

40. Contingent liabilities, commitments and guarantees

Contingent liabilities

Information regarding possible legal disputes is set forth in the Report on Operations, to which we would refer.

Contingent liabilities connected with guarantees provided by the holding entity in favour of associates and joint ventures in order to obtain bank financing are described in Note 17.

Commitments and guarantees

As at 30 June 2005, the Isagro Group had commitments to purchase and produce raw materials and products to an amount of Euro 36,168 thousand, comprising the following:

- Euro 594 thousand regarding the purchase obligation for the second half of 2005 upon Isagro Italia S.r.l. and Siapa S.r.l. to Dow Agrosciences B.V., for fixed quantities of agropharmaceuticals for marketing and distribution;
- Euro 6,512 thousand regarding the commitment to produce Tetraconazole assumed by the holding entity Isagro S.p.A. with Oxon Italia S.p.A. for the period 2005-2008;
- Euro 16,468 thousand against the commitment by Isagro S.p.A. with Solvay Solexis S.p.A. to purchase the raw material tetrafluoroethylene in the period 2006-2011; and
- Euro 12,594 thousand against the commitment by Isagro USA, Inc. with Dupont de Nemours & Co. to produce Tetraconazole in the period 2005-2014.

The commitments by the holding entity Isagro S.p.A. and the subsidiary Isagro USA Inc. takes place in accordance with measured formulae, subject to indexing.

As at 30 June 2005, the Isagro Group also has the following multi-annual commitments:

- Euro 813 thousand for fees as yet unpaid to the company Solvay Solexis S.p.A. by Isagro S.p.A., in relation to the purchase of the surface rights, for a period of 99 years, over an area located in the municipality of Bussi sul Tirino (Pescara), to be used in the construction of a new plant for the production of Tetraconazole;

- Euro 400 thousand, for a commitment to Simest S.p.A. for the repurchase of its investment in Isagro Asia Agrochemicals, on 30 June 2006; and
- Euro 1,359 thousand for contractual commitments in place as at 30 June 2005, for motor vehicles and third-party goods on hire. Such commitments have an average term of less than three years.

The guarantees received by the Isagro Group are in an amount of Euro 526 thousand and regard guarantees provided by suppliers against obligations arising out of supplies of goods regarding the construction of the plant for the production of copper-based (WG) products (Euro 269 thousand), and bank guarantees issued on behalf of the Isagro Group's customers, as security for trade receivables (Euro 257 thousand).

The other guarantees provided for obligations of the Isagro Group's businesses, in particular guarantees of due performance of contractual obligations, amount to Euro 17,882 thousand. Details of the principal guarantees are provided below.

- guarantee provided by Manisa S.r.l. to Istituto Mobiliare Italiano, as security for the grant of concessionary financing pursuant to Law 46 of 17 February 1982, to Isagro S.p.A. (Euro 2,620 thousand);
- guarantee issued by Banca Popolare Commercio e Industria on behalf of Isagro S.p.A., as security for the advance payment received in relation to the research project, "Research and development of new fungicidal compositions for agricultural use based on a new active ingredient, known as IR 5885, featuring low toxicity and reduced environmental impact" (Euro 456 thousand);
- guarantee issued by Banca Popolare Commercio e Industria in favour of Wormald Italiana S.p.A. on behalf of Isagro S.p.A., as security for any contingencies or liabilities arising out of the sale of the investment in Faro S.r.l.;
- guarantees issued by Banca Popolare Commercio e Industria in favour of the Ministry for Education on behalf of Isagro S.p.A., in relation to the research project, "PNR – Tema 6" (Euro 1,604 thousand);
- guarantee (*fideiussione*) issued by Intesa BCI Rete Comit in favour of Simest S.p.A. as security for the contractual obligations connected with the sale of the investment in Isagro Asia Agrochemicals Limited (Euro 400 thousand); and

- guarantees issued by Banca Popolare Commercio e Industria (Euro 2,820 thousand), Zurich International S.p.A. (Euro 4,088 thousand) and Assicuratrice Edile (Euro 2,448 thousand) against deferred VAT receivables of the Isagro Group and the holding entity, Isagro S.p.A.

41. Information regarding the sector

As described above, the Isagro Group in settling upon the information regarding the sector has primarily used a division by geographical area, based on the location of the businesses, and secondarily a division by business sector.

PRIMARY DESCRIPTION

The geographical segments that have been identified, defined as a part of the Isagro Group, capable of separate identification, which supplies products or services to a particular economic area that is subject to risks and benefits different from those that characterise other geographical segments, are the following.

? Europe

? Asia

? North America

The results of the various geographical segments for the six months ended 30 June 2005 are set forth in the following table.

	Europe segment	Asia segment	North America segment	Adjustments	Consolidated total
Revenues	**121,732**	**9,828**	**26,708**	**(42,488)**	**115,780**
EBITDA	**61,029**	**1,521**	**1,479**	**(43,956)**	**20,073**
EBIT	**14,737**	**933**	**1,471**	**(136)**	**17,005**
Financial expenses					**(4,240)**
Profits/losses from associates	4				**4**
Profit (loss) before tax					**12,769**
Income taxes					**(5,700)**
Net profit (loss) from continuing operations					**7,069**
Net profit from discontinued operations					**385**
Net profit (loss)					**7,454**
(Profit) loss for minority interests					**(83)**
Profit (loss) by the Isagro Group					**7,371**
Infrasegment revenues	40,143	2,345	0	0	**42,488**
Depreciation	2,480	588	8	0	**3,076**
Provisions	736	0	27	0	**763**
Write-downs of bad and doubtful debts	92	29	0	0	**121**
Provisions to severance indemnity fund	540	0	0	0	**540**

The results of the various geographical segments for the six months ended 30 June 2004 are set forth in the following table.

	Europe	Asia segment	North America segment	Adjustments	Consolidated total
Revenues	**112,808**	**9,616**	**7,973**	**(36,392)**	**94,005**
EBITDA	**55,075**	**925**	**364**	**(37,966)**	**18,398**
EBIT	**11,737**	**400**	**364**	**(111)**	**12,390**
Financial expenses					**(400)**
Profits/losses from associates	(27)				**(27)**
Profit (loss) before tax					**11,963**
Income taxes					**(5,015)**
Net profit (loss) from continuing operations					**6,948**
Net profit from discontinued operations					**136**
Net profit (loss)					**7,084**
(Profit) loss for minority interests					**(114)**
Profit (loss) by the Isagro Group					**6,970**
Infrasegment revenues	34,438	1,954	0	0	**36,392**
Depreciation	2,473	525	0	0	**2,998**
Write-downs	3,028	0	0	0	**3,028**
Provisions	748	0	27	0	**775**
Write-downs of bad and doubtful debts	241	54	0	0	**295**
Provision to severance indemnity fund	12	0	0	0	**12**

Given that the Isagro Group's activities are not distributed in the same manner as its clients, the following table sets forth a division of the Isagro Group's revenues divided according to that criterion.

	30/06/2005	30/06/2004
Italy	49,506	48,548
Other European countries	21,890	19,497
Americas	30,936	13,142
Africa	1,367	1,706
Middle East	2,166	2,308
Central Asia & Oceania	4,839	5,377
Far East	5,076	3,427
TOTAL	**115,780**	**94,005**

Infragroup transactions took place on the terms of arm's length transactions.

The assets and the liabilities of the segments as at 30 June 2005, and their investments in tangible and intangible assets as at the same date, are set forth in the following table.

	Europe segment	Asia segment	North America segment	Adjustments	Consolidated
Segment assets	230,550	20,005	13,030	(44,476)	219,109
Investments in associates	295	0	0	0	295
Unshared assets					26,317
					245,721
Segment liabilities	104,924	6,139	13,236	(40,391)	83,908
Unshared liabilities					92,943
					176,851
Investments in intangible assets	3,821	0	0	0	3,821
Investments in tangible assets	3,285	337	43	0	3,665

The assets and the liabilities of the segments as at 31 December 2004, and their investments in tangible and intangible assets as at the same date, are set forth in the following table.

	Europe segment	Asia segment	North America segment	Adjustments	Consolidated
Segment assets	192,220	19,442	3,801	(28,531)	186,932
Investments in associates and joint ventures	163	0	0	0	163
Unshared assets					22,986
					210,081
Segment liabilities	68,184	8,398	3,721	(20,954)	59,349
Unshared liabilities					87,556
					146,905
Investments in tangible assets	8,108	0	0	0	8,108
Investments in tangible assets	2,796	257	13	0	3,066

The segment assets include fixed assets, stocks, trade and other receivables, and exclude receivables of a tax and financial nature, equity investments and cash and cash equivalents.

Segment liabilities exclude tax liabilities, finance lease liabilities and financing liabilities.

The excluded items are shown under the item, *Unshared liabilities*.

SECONDARY DESCRIPTION

For the secondary description, the following business segments were identified:

? Agropharmaceuticals

? Services for the environment

The following tables set forth information by business segment.

- Revenues

	30 June 2005	30 June 2004
Agropharmaceuticals	111,118	89,605
Services for the environment	4,662	4,400
Total	**115,780**	**94,005**

Sales in the segment, *Services for the environment* regarded solely the Italian market.

- Assets:

	30 June 2005	31 December 1994
Agropharmaceuticals	230,792	196,688
Services for the environment	14,929	13,393
Total	**245,721**	**210,081**

- Investments

	30 June 2005	31 December 1994
Agropharmaceuticals	6,767	10,809
Services for the environment	120	365

42. Related party disclosures

There follows a description of transactions with related parties of the Isagro Group, which comprise:

- controlling entities;
- associates;
- entities that have an interest, directly or indirectly, in the share capital of the holding entity, its subsidiaries or holding entities, and presumably has the ability to exercise a dominant influence over the Isagro Group; and
- directors and senior managers with strategic responsibilities.

Dealings with controlling companies (Holdisa, Manisa and Piemme) are limited to the provision of administrative services by the holding entity. In the financial statements as at and for the six months ended 30 June 2005, the effects upon the income statement and balance sheet of such provision is wholly negligible.

The following table sets forth the amounts of income and assets regarding dealings with associates and other connected parties:

DESCRIPTION	Arysta LS group	Arterra Bioscience	Bayer group	Sipcam Phyteurop	Reiver International	Siamer	Sipcam/Oxon group	Sumitomo group
Trade receivables	119	-	525	1,790	185	24	8,693	10,491
Other receivables	2	-	9	-	-	310	18	605
Trade payables	(67)	(50)	(242)	-	-	-	(1,527)	(2,083)
Other payables	-	-	-	-	-	-	(14)	(9)
TOTAL BALANCE SHEET	**54**	**(50)**	**292**	**1,790**	**185**	**334**	**7,170**	**9,004**
costs for goods and materials	(179)	-	(541)	(6)	-	-	(179)	(3,096)
Processing fees	-	-	-	(247)	-	-	(2,261)	-
Costs of services and enjoyment of goods	(2)	(100)	-	(49)	-	(2)	(158)	(67)
Revenues from supplies of goods and services	1,414	-	1,660	3,530	-	-	10,953	30,131
Processing fees	-	-	878	-	-	-	-	1,331
Other operating revenues	1	-	37	-	-	101	-	544
TOTAL INCOME STATEMENT	**1,234**	**(100)**	**2,034**	**3,228**	**-**	**99**	**8,355**	**28,843**

The amounts shown above principally regard dealings of a commercial nature (purchases, sales, and processing fees), where transactions are conducted upon arms' length terms.

The dealings shown as with the Sumitomo group comprise 50 per cent. of the book values of those with Isagro Italia and Siapa.

The following table sets forth the economic benefits received by directors of the holding entity and the senior management of the Isagro Group with strategic responsibilities (the amounts are expressed in Euros).

Person	Description of office held		Remuneration		
	Office held	**Term of office**	**Emoluments for office**	**Bonuses, other incentives and fringe benefits**	**Other compensation**
Directors:					
Giorgio Basile	Chairman	3 years	210,000	102,991	0
Lucio Zuccarello	Deputy Chairman	3 years	105,000	51,500	0
Aldo Marsegaglia	Deputy Chairman	3 years	0	497	50,000
Giuseppe Rapisarda	Managing Director	3 years	15,000	40,123	36,012
Ambrogio Caccia Dominioni	Member of Internal Audit Committee	3 years	6,000	0	0
Tommaso Quattrin	Member of Internal Audit Committee	3 years	10,000	0	0
Renato Ugo	Member of Internal Audit Committee	3 years	4,000	0	32,681
Albino Cima	Director	deceased	500	0	0
Mauro Bontempelli	Director	3 years	2,000	0	0
Bernardino Bosio	Director	3 years	2,000	0	0
Carlo Porcari	Director	3 years	2,000	0	0
Vittorio Serafino	Director	3 years	3,000	0	0
Senior management (directors):					
Alessandro Mariani	Chief Operating Officer	-	51,544	46,192	0
Alberto Stefani	Chief Operating Officer	-	51,792	35,108	0

The Board of Directors of Isagro S.p.A. shall cease to hold office upon the approval of the financial statements as at and for the year ending 31 December 2007.

The Board of Directors

Milan, 12 October 2005

ATTACHMENT

EFFECTS OF ADOPTION OF THE IFRS ON THE FINANCIAL STATEMENTS AT 30 JUNE, 2004.

INCOME STATEMENT AT 30 JUNE, 2004

Reconciliation between national and international accounting principles of the Income Statement at 30 June, 2004, is shown below.

As a result of the reclassifications and adjustments made, which are analysed in the table below, revenues increased from Euro 93,198 thousand to Euro 94,005 thousand and operating profits increased from Euro 5,827 thousand to Euro 12,390 thousand, whereas net profits for the Group decreased from Euro 12,772 thousand to Euro 6,970 thousand. Euro 6,881 thousand of the change in this item is attributable to the effects of the change in the accounting principle linked with the reversal of tax-driven adjustments commented upon in note 9 of the paragraph "Adjustments in value".

The table below has been prepared in compliance with IFRS 1.
According to the IAS/IFRS income statement format adopted by the Isagro Group, a specific line is not included on the balance sheet for the items "provisions" and "writedown of receivables", so these items have been reclassified under services or among the other operating costs, depending on their nature.

	ITALIAN ACCOUNTING PRINCIPLES	RECLASSIFICATIONS		IAS/IFRS ADJUSTMENTS		IAS/IFRS BALANCE SHEET
		Notes	Amounts	Notes	Amounts	
Revenues	93,198	1	310	1	497	94,005
Other operating revenues	2,289	2	5,273	2	54	7,616
Changes in inventories of						

work in progress	1,194		(1,194)		-	-
Changes in inventories of finished products and products under process	2,982		-		-	2,982
Capitalised costs for direct labour	1,859		-		-	1,859
Raw materials, consumables and goods	(51,330)	3	590		-	(50,740)
Personnel costs	(12,661)	4	(1,968)	3	609	(14,020)
Amortisation:						
- Depreciation of tangible assets	(2,926)	5	1,144	4	(62)	(1,844)
- Amortisation of intangible assets	(3,801)	5	1,922	4	743	(1,136)
Losses in value of fixed assets	-	6	(3,028)		-	(3,028)
Writedown of receivables	(296)		296		-	-
- provisions to the reserves for charges and risks	(480)		480		-	-
Use of non-group assets	(1,350)		1,350		-	-
Sundry operating costs	(2,065)		2,065		-	-
Costs for services and work done	(20,786)	7	(659)	5	96	(21,349)
Other operating costs	-	8	(1,955)		-	(1,955)
Operating profits	**5,827**		**4,626**		**1,937**	**12,390**
Net financial (charges)/income	(218)	9	(38)	6	(144)	(400)
Profits (losses) from subsidiary companies	(3)		-	7	3	-
Profits (losses) from associated companies	(43)		-	7	16	(27)
Extraordinary income/(charges)	11,551		(4,826)	9	(6,725)	-
Pre-tax profits	**17,114**		**(238)**		**(4,913)**	**11,963**
Income tax	(4,574)	10	102	8	(543)	(5,015)
Net results deriving from operating assets	**12,540**		**(136)**		**(5,456)**	**6,948**
Net results deriving from assets due to be eliminated	-	11	136		-	136
			-			

Total net results	**12,540**				**(5,456)**	**7,084**
Minority interest portion of (profits)/losses	**232**		-	10	**(346)**	**(114)**
Group profits/(losses)	**12,772**		-		**(5,802)**	**6,970**

EXPLANATORY NOTES

<u>Reclassifications</u>

1. Revenues

The reclassifications in this item, which led to a net increase in revenues of Euro 310 thousand, relate to:

? reclassification of the item “change in inventories of work in progress” (Euro 1,194 thousand);

? the revenues of the first half of 2004 of the VerdeVivo company branch, which was sold during the year, which are reclassified under the item “Net results deriving from assets due to be eliminated” (Euro 832 thousand);

? the extraordinary items relating to revenues which can no longer be entered as an independent item (Euro 61 thousand).

2. Other operating revenues

Reclassifications, which led to an increase in the item of Euro 5,273 thousand, relate to extraordinary income.

In particular, Euro 5,082 thousand relate to contractual allowances paid by Bayer CropScience S.r.l. to Isagro S.p.A. (Euro 2,082 thousand) and to the subsidiary company, AgriFormula S.r.l. (Euro 3,000 thousand).

3. Raw materials, consumables and goods

The cost of goods sold at 30.06.2004, equal to Euro 606 thousand and relating to the Verdevivo company branch, which was sold during the year, has been reclassified under the item “Net results deriving from assets due to be eliminated”.

This item also includes reclassification of extraordinary items, totalling Euro 16 thousand.

4. Personnel costs

The following amounts from extraordinary items and costs for services have been reclassified under this item:

Charges for voluntary redundancies/mobility	937
Use of reserve for voluntary redundancy charges	(613)
Use of reserve for voluntary redundancy charges	(25)
Use of reserve for redundancy bonus	(28)
Variable performance bonus	59
Costs for services relating to personnel	1,195
Others	(1)

	1,524

The provision to the performance bonus and management bonus reserve, which was previously entered on the line “Provisions to reserves for risks and charges”, totalling Euro 444 thousand, has been reclassified under this item.

5. Depreciation

? The costs sustained for improvements made to non-group assets have been reclassified from “Intangible assets” to “Tangible assets”, with consequent reclassification of depreciation of Euro 66 thousand.

? Accessory charges and commission on medium/long-term loans classified under “Other intangible assets” have been deducted from long-term financial liabilities. Consequently, depreciation of this item of Euro 38 thousand has been entered on the line “Financial charges”, since these accessory charges are a component of the initial cost of the loan, which must be taken into account for purposes of its evaluation using the amortised cost method.

? At 30.06.2004, writedown was applied to the development costs of several products, totalling Euro 3,028 thousand, which has been reclassified under the item “Losses in value of fixed assets”.

6. Losses in value of fixed assets

Writedown of Research & Development costs relating to two product classes, totalling Euro 1,818 thousand, and writedown of plant, machinery and industrial equipment, totalling Euro 1,210 thousand, have been reclassified under this item. These writedowns, on the Group’s consolidated financial statements, prepared using Italian accounting principles, are entered, respectively, in the item “Amortisation and Writedowns”.

7. Costs for services and work done

This item includes, in particular, reclassifications of several balance sheet items which, according to the IFRS formats adopted by the Isagro Group, have been aggregated into the item “Costs for services and work done”. In detail:

? Euro 1,350 thousand relating to costs for use of non-group assets;

? Euro (144) thousand relating to customer bonuses and entertainment costs which have been reclassified under the item “Other operating costs”;

? Euro (1,195) thousand relating to costs for personnel services, which are entered under the item “Personnel costs”;

? Euro 14 thousand relating to provisions to the supplementary customer allowance reserve;

? Euro 640 thousand relating to customs charges on purchases, which have been reclassified from the item “Other operating costs”;

? Euro (6) thousand relating to other costs.

8. Other operating costs

This item includes the following reclassifications, totalling Euro 2,595 thousand. In detail:

- ? Euro 296 thousand relating to writedown of receivables;
- ? Euro 22 thousand for provisions to the customer bonus reserve;
- ? Euro 2,065 thousand relating to sundry operating charges;
- ? Euro 144 thousand relating to customer bonuses and entertainment costs previously classified under the item “Costs for services and work done”;
- ? Euro 77 thousand relating to losses on disposal of tangible assets, previously entered among extraordinary items;
- ? Euro (13) thousand relating to use of the reserve for bad debts, due to surplus;
- ? Euro (640) thousand relating to customs charges on purchases which have been reclassified under the item “Costs for services and work done”;
- ? Euro 4 thousand relating to other extraordinary components.

9. Net financial charges

The cost for the period of commission on the medium/long-term loan originally entered under intangible assets (Euro 38 thousand) has been reclassified under financial charges.

10. Income tax

The tax effect relating to the VerdeVivo company branch sold has been reclassified under the item “Net results deriving from assets due to be eliminated” (Euro 81 thousand).

The following have also been reclassified under this item:

Contingent tax gains	(31)
Taxes from previous years	10

11. Net results deriving from assets due to be eliminated

According to IFRS no. 5, it is necessary to indicate the net results deriving from assets due to be eliminated, During 2004, the Group sold off the company branch called VerdeVivo, the economic values of which, at 30.06.2004, were the following:

Revenues	823
Cost of products sold	(606)

Margin	217
Tax effect	(81)

Net results	136

Adjustments in value

1. Revenues

Work in progress on customer orders has been entered using the percentage of completion method, generating a consequent positive effect on revenues of Euro 497 thousand.

2. Other operating revenues

During 2004, Isagro S.p.A. purchased a 37% stake in the share capital of subsidiary company AgriFormula S.r.l., in which it already held a 63% stake, from Bayer Cropscience S.r.l. Redefinition of the value of shareholders' equity of the subsidiary company in accordance with international accounting principles, compared with the value calculated on the basis of Italian accounting principles, has led to a reverse entry of a cost of Euro 54 thousand.

3. Personnel costs

Different entry in accounts of employee benefits determines, on the basis of recalculation of the employee severance reserve using actuarial methods, a lower cost for the social security component, equal to Euro 609 thousand. The financial component of the discounting-back operation has been entered under financial charges.

4. Depreciation and writedowns

- Intangible assets

? The effect of lower amortisation consequent on reverse entry of costs which cannot be capitalised according to the IAS is Euro 269 thousand.

? Amortisation relating to goodwill and consolidation differences, totalling Euro 474 thousand, has been reversed.

- Tangible assets

? Reclassification of improvements to non-group assets from “Intangible assets” to “Tangible assets” has generated a decrease in amortisation of Euro 4 thousand, due to allocation of a useful lifetime to the asset under lease, to which the improvement refers, which is higher than the useful lifetime of improvements as determined by Italian accounting principles.

? Entry of the financial lease through entry under assets on the balance sheet of the leased asset has led to an increase in depreciation of Euro 79 thousand.

? The Group has discorporated the item “Land” from the item “Buildings” and eliminated depreciation applied to “Land”, totalling Euro 13 thousand, since the land has an unlimited lifetime not subject to depreciation.

5. Costs for services and work done

? The different method of entering financial lease contracts compared with Italian accounting principles has led to reverse entry of the costs of lease instalments, included in the item “costs for use of non-group assets”, for a value of Euro 101 thousand.

? Incorporation of the accounting values of the companies Isagro Australia PTY LTD and Isagro New Zealand PTY LTD, consolidated on a line-by-line basis, in accordance with the IAS, has led to greater costs for services of Euro 5 thousand.

6. Net financial charges

? Entry of the financial lease using the financial method has led to an increase in financial charges of Euro 10 thousand.

? Discounting back of the employee severance reserve has generated a figurative financial charge (interest cost) of Euro 134 thousand.

7. Profits (losses) from subsidiary and associated companies

? Elimination of writedowns on investments in the companies Isagro Australia PTY LTD and Isagro New Zealand PTY LTD, since they have been entered on the balance sheet on a line-by-line basis, has had a positive effect of Euro 3 thousand on the results for the year.

? Elimination of the item "amortisation of goodwill" from writedown of the investment in Siamer S.r.l. has had a positive effect of Euro 16 thousand on the results for the period.

8. Income tax

The impact on the item "Income tax" is determined by the tax effects generated by the various IAS adjustments. The individual effects are detailed below.

Reversal of amortisation of formation and expansion costs	100
Improvements to non-group assets	1
Financial lease	4
Reversal of depreciation of land	5
Entry as revenues of work in progress	185
Reversal of amortisation of goodwill/consolidation difference	90
Employee benefits (TFR)	158

	543

9. Reversal of tax-driven adjustments

As better specified in reconcilement of the opening financial statements at 1 January, 2004, elimination of tax interference, according to international accounting principles, must take place through adjustment of profits carried forward, rather than through the income statement, as carried out by the Group on the consolidated financial statements at 30 June, 2004. This therefore led to elimination of extraordinary income of Euro 6,725 thousand, since the effects of the operations have already been reflected in the opening balance sheet for 2004.

The items on the financial statements affected by reversal of tax-driven adjustments are the following

Intangible assets	12,875
Pre-paid taxes	512
Deferred taxes	(4,638)
Other liabilities and sundry payables	(2,024)
Profits carried forward	6,725
- of which:	
Group profits carried forward	6,881
Shareholders' equity of minority interests	(156)

10. Profits belonging to minority interests

Allocation to third parties of the aforementioned adjustments has led to an increase in their share of profits of Euro 346 thousand.

Effects on the consolidated net results at 30 June, 2004: summary table

The table below shows the principal variations in the Group consolidated net results, indicating the adjustments already shown in the previous table by type.

Table showing reconcilement of net results for 2004	
Net results according to Italian accounting principles	**12,540**

1. Costs which cannot be capitalised (intangible assets)	269
2. Goodwill	474
3. Tangible assets	17
4. Employee benefits	475
5. Investments	68
6. Work in progress	497
7. Financial lease	12
	1.812
8. Tax effect	(543)
	1.269
9. Reversal of tax-driven adjustments	(6.725)
IAS/IFRS total adjustments	**(5,456)**
IAS/IFRS total net results	**7,084**
Net results of minority interests according to Italian accounting principles	**(232)**
IAS/IFRS total adjustments on results of minority interests	**346**
Net results of minority interests according to IAS/IFRS	**114**
Net results of the Group according to Italian accounting principles	**12,772**
Difference between Italian Principles and IAS/IFRS – Group net results	**(5,802)**
IAS/IFRS Group net results	**6,970**

BALANCE SHEET AT 30 JUNE, 2004

The table below shows the consolidated balance sheet at 30 June, 2004, reclassified according to the criterion of distinguishing between “current and non-current” assets and liabilities.

BALANCE SHEET	ITALIAN ACCOUNTING PRINCIPLES (IAS-IFRS FORMAT)	RECLASSIFICATIONS		IAS/IFRS ADJUSTMENTS		IAS/IFRS BALANCE SHEET
		Notes	Amounts	Notes	Amounts	
NON-CURRENT ASSETS						
Property, plant, machinery, property investments and land	30,346	2	260	4-5-6	668	31,274
Goodwill	2,927		-	11	474	3,401

Intangible assets	36,844	1-2-6	(482)	1	(2,162)	34,200
Investments stated on an equity basis	121		-	2-10	16	137
Investments in other companies	33		-		-	33
Receivables and other non-current assets	772		-		-	772
Pre-paid taxes	4,250		-	8	805	5,055
TOTAL NON-CURRENT ASSETS	75,293		(222)		(199)	74,872
CURRENT ASSETS						
Inventories	47,483	6	-592		-	46,891
Work in progress	2,584		-	3	607	3,191
Trade receivables	78,525		-		-	78,525
Other assets and sundry receivables	5,742		-	2-4	(78)	5,664
Tax receivables	3,472		-		-	3,472
Financial receivables and other current financial assets	261	5	3,263		-	3,524
Cash and current accounts and equivalent mediums	13,556	5	(3,263)	2	13	10,306
TOTAL CURRENT ASSETS	151,623		-592		542	151,573
Assets due to be eliminated	0	6	601		0	601
TOTAL ASSETS	226,916		(213)		343	227,046
SHAREHOLDERS' EQUITY						
Capital	16,000		-		-	16,000
Reserves	21,472			1	(1,535)	19,937
Profits carried forward and for the period of the Group	21,896		-		(1,447)	23,343
Total	59,368		-		(88)	59,280
Minority interest shareholders' equity	108		-	12	265	373
TOTAL SHAREHOLDERS' EQUITY	59,476		-		177	59,653
NON-CURRENT LIABILITIES						
Financial payables and other non-current financial payables	28,093	1	(213)	4	184	28,064
Financial liabilities for financial instruments						

	-	4	200		-	200
Employee benefits	7,269		-	7	(891)	6,378
Non-current reserves	356	4	(200)		-	156
Deferred taxes	6,647		-	9	702	7,349
Other non-current liabilities	5,686		-		-	5,686
TOTAL NON-CURRENT LIABILITIES	48,051		(213)		(5)	47,833
CURRENT LIABILITIES						
Financial payables and other current financial liabilities	62,335		-	4	203	62,538
Financial liabilities for financial instruments	-	3	56		-	56
Trade payables	42,245		-	4	(46)	42,199
Current reserves	891		-		-	891
Tax liabilities	6,796		-		-	6,796
Other liabilities and sundry payables	7,122	3	(56)	2	14	7,080
TOTAL CURRENT LIABILITIES	119,389		-		171	119,560
TOTAL LIABILITIES	167,440		(213)		166	167,393
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	226,916		(213)		343	227,046

EXPLANATORY NOTES

Reclassifications

1. Accessory charges and commission on medium/long-term loans (Euro 213 thousand), classified among other intangible assets, have been deducted from the relative non-current financial liabilities.
2. Costs sustained for improvements to non-Group assets (Euro 260 thousand), since they possess the requisite of identifiability and separability from the asset to which they refer, have been reclassified from “Intangible assets” to “Tangible assets”.

3. The fair value of *domestic currency swaps* (DCS), included under “Other payables” and totalling Euro 56 thousand, has been reclassified under the item “Financial liabilities for financial instruments”.
4. The reserve for risks relating to *interest rate swap* (IRS) contracts, totalling Euro 200 thousand, has been reclassified under “Non-current financial liabilities for financial instruments”, representing discounting back of the difference between cash flows relating to the loans covered and those of the means of coverage.
5. Bank time deposits falling due beyond three months (Euro 3,263 thousand), originally entered under cash and current accounts, have been reclassified under current financial assets.
6. According to IFRS no. 5, it is necessary to indicate the assets due to be eliminated. The Group has sold the VerdeVivo company branch, whose assets due to be sold, at 30.06.2004, are the following:

Intangible assets	9
Inventories	592

	601

Adjustments in value

1. Several assets (long-term charges) classified as intangible assets, but not possessing the criteria of recognisability laid down by Ias no. 38 for purposes of capitalisation, have been reversed. This relates, in particular, to the net value at 30 June, 2004, of formation and expansion costs (Euro 42 thousand) and of the costs sustained by the parent company Isagro S.p.A. for listing of the company’s shares on the Milan Stock Exchange (Euro 2,120 thousand). As already mentioned in reconcilement of the 2004 opening financial statements, the costs of listing have been deducted from the share premium reserve for their historical cost (Euro 2,446 thousand), net of the tax effect (Euro 910 thousand), since they are linked to the increase in share capital, whereas the effects of the reversal of amortisation for 2003 and the first half of 2004 (Euro 326 thousand), net of the relative tax effect (Euro 121 thousand), have been allocated to the item “Group profits carried forward and for the period”.

2. The Group holds two investments – Isagro Australia and Isagro New Zealand – stated on an equity basis, which have not been consolidated, since they are considered irrelevant for purposes of depicting the Group's equity, financial and economic situation. As already mentioned, this is no longer possible with adoption of international accounting principles and Isagro Australia PTY LTD and Isagro New Zealand PTY LTD are therefore included in the area of consolidation, leading to elimination of the investments, totalling Euro 2 thousand and Euro 1 thousand respectively, as a counter-item to incorporation of the accounting values of the individual companies indicated hereunder.

** Isagro Australia PTY LTD:*

- cash and current accounts	8
- costs for services	3
- sundry payables	8
- payables to parent companies	1

** Isagro New Zealand PTY LTD:*

- cash and current accounts	5
- costs for services	2
- sundry payables	6

Payables to parent companies have therefore been off-set against the respective receivables from subsidiary companies present on the line "Other assets and sundry receivables".

3. Ias no. 11 requires work in progress, including long-term work in progress, to be stated using the percentage of completion method, which requires allocation of the revenues and job margin on the basis of the state of progress report. Annual job contracts which, according to Italian Accounting Principles, were evaluated on the basis of the criterion of completion of the contract, therefore only recognising the revenues and margin on completion of the contract, have consequently been adjusted to revenues (Euro 607 thousand).

4. With application of IAS no. 17, assets purchased through financial lease contracts are entered in accounts as tangible assets, as a counter-item to the relative payable.

The impact of application of this principle at 30 June, 2004, was an increase of Euro 602 thousand in tangible assets, a decrease in trade payables for the lease instalments still to be paid at 30 June, 2004, totalling Euro 46 thousand, an increase in financial liabilities with the lease companies for the capital portion of future instalments, totalling Euro 387 thousand (of which Euro 203 thousand under current financial liabilities) and a decrease in pre-paid expenses of Euro 77 thousand.

5. The Group, in accordance with the rules laid down by Ias no. 16, discorporated the item “Land” from the item “Buildings”. Land has an unlimited useful lifetime and therefore is not subject to depreciation.

   In detail:

   - the value of the land discorporated from the buildings is equal to Euro 188 thousand;
   - the value at 30 June, 2004, of accumulated depreciation for the land is Euro 50 thousand.

   Reversal of depreciation of the item “Land” of the subsidiary company Isagro Asia Agrochemicals Company Pvt Ltd. has generated lower exchange differences of Euro 1 thousand.

6. Reclassification of improvements to non-group assets from “Intangible assets” to “Tangible assets”, relating to assets under financial lease, led to attributing of a longer useful lifetime to the improvements, since they are associated with the lifetime of the asset under lease entered on the balance sheet, which is higher than the average duration of the lease contracts (36 months), on the basis of which depreciation was applied according to Italian accounting principles. The effect of this variation was generation of a higher net value of tangible assets at 30 June, 2004, of Euro 16 thousand.

7. Italian principles require entry of liabilities for the Employee Severance Reserve on the basis of the nominal debt accrued at the date of closure of the financial statements. Ias n.19 classifies the Employee Severance Reserve under “post-employment benefits” of the “defined benefit plan” type. According to this definition, the liability accrued must be evaluated with actuarial criteria, using the

"Projected unit credit method", which involves projection of future outlays on the basis of statistical historical analysis and the demographic curve and financial discounting back of these flows on the basis of a market interest rate. The current value of the Group's Employee Severance Reserve at 30 June, 2004, has therefore decreased by Euro 891 thousand, compared with the corresponding civil accounting value.

8. Adjustments to the item "Pre-paid taxes" refer to the deferred tax effect generated by reversal of assets deriving from application of international accounting principles.
   In particular, the changes which have occurred, totalling Euro 805 thousand, relate to reversal of formation and expansion costs and the relative costs of the listing operation.

9. Adjustments to the item "Deferred taxes" are determined by the deferred tax effect generated by increases in assets or decreases in liabilities consequent upon introduction of the IAS/IFRS.
   In particular, the changes which have emerged, totalling Euro 702 thousand, relate to:

Reversal of prior depreciation of land	19
Reversal of amortisation of goodwill/consolidation differences	90
Evaluation on a percentage-of-completion basis of work in progress	226
Financial lease	67
Amortisation of improvements to non-group assets	5
Employee benefits (Employee Severance Reserve)	295
Total	702

10. In evaluation of the investment in Siamer S.r.l. on an equity basis, amortisation of goodwill totalling Euro 16 thousand has been reversed.

11. The item "Goodwill" is Euro 474 thousand higher than the corresponding civil accounting value, following reversal of amortisation for the first half of 2004. On the basis of the impairment tests carried out, no loss of value has occurred so far on the value of goodwill entered on the consolidated financial statements.

12. Redefinition of shareholders' equity of subsidiary companies on the basis of international accounting principles has led to an increase in the shareholders' equity of minority interests of Euro 265 thousand.

Effects of adoption of international accounting principles on consolidated shareholders' equity: summary table.

The table below shows the principal changes in consolidated shareholders' equity at 30.06.2004:

Total shareholders' equity according to Italian accounting principles	**59,476**
1. Tangible assets	54
2. Goodwill	474
3. Intangible assets	(2,162)
4. Investments	15
5. Work in progress	607
6. Financial lease	195
7. Employee benefits	891
	74
Tax effect	103
Diff. between Italian Principles and IAS/IFRS – total shareholders' equity	177
IAS/IFRS total shareholders' equity	**59,653**
Shareholders' equity of minority interests *according to Italian Accounting Principles*	**108**
Diff. between Italian Principles and IAS/IFRS – shareholders' equity of minority interests	265
IAS/IFRS shareholders' equity of minority interests	**373**
Group shareholders' equity according to *Italian Accounting Principles*	**59,368**
Diff. between Italian Principles and IAS/IFRS –Group shareholders' equity	(88)
IAS/IFRS Group Shareholders' Equity	**59,280**

<u>Effects of adoption of international accounting principles on the net financial position of the Group: summary table.</u>

The table below shows the effects of adoption of international accounting principles, commented upon in the paragraphs above, on the financial position of the Group at 30 June, 2004:

Net financial indebtedness according to Italian accounting principles	**76,611**
1. Reclassification of financial instruments:	
- financial liabilities (domestic currency swaps and swap contracts on commodities)	56
- financial liabilities (interest rate swaps)	200
2. Reduction of medium/long-term liabilities due to application of the amortised cost method	(213)
3. Cash and current accounts of subsidiary companies previously not included in the area of consolidation	(13)
4. Application of Ias 17 (financial lease)	387
	417
Net financial indebtedness according to international accounting principles	**77,028**

Important effects on the 2004 statement of source and application of funds

The principal change, compared with the format of the statement of source and application of funds adopted by the Group, relates to different definition of "Cash and current accounts and equivalent means" which has led to exclusion from this item of several bank time deposits, since they are characterised by a due date beyond three months.

On the basis of the new definition, cash and current accounts and equivalent means decreased by Euro 3,263 thousand in the IFRS representation at 30 June, 2004, since they have been entered under the item "Other current financial assets".

This operation did not influence the level of net financial indebtedness of the Group.