

focus



Dear Shareholders,

the first few months of 2015 were characterised by two major events on our development path: publication of the 2014 results, growing as forecast in the 2014-2018 Business Plan, and the inauguration of our Research Center in Novara, located in the area of the historic complex of the Istituto Guido Donegani. In 2014 the revenues from crop protection products increased by around 11%, with the net financial indebtedness halved from approximately €54 million in 2013 to roughly €30 million. This turnover growth also continued in the first quarter of 2015, with consolidated sales up 8% on the same period of the last year and likewise EBITDA and EBIT recording improvements compared to 2014. The Research Center we inaugurated at the beginning of April was later defined “the Italian home of global research for crop protection products” because since it was founded, Isagro’s vocation has been one of discovery. Novara will catalyse around €40 million in investments — out of a total of €60 million in R&D investments and €80 million allocated — over the next four years. This is consistent with a development plan that should take us from the current €150 million in revenues to €200 million in 2018, with significant profits. Isagro is committed to discover new molecules to confirm the Italian capacity to “do research”

despite dimensions (and consequently resources) being substantially lower than those of the major international competitors. We continue to follow the model of an independent, autonomous small global player and we like to do so in the belief that the innovative method we have chosen for our operations can act as a trailblazer for the entire Italian enterprise system. This system — which to survive in the next few years must return to a steady pace of growth — is centred on five thousand medium-sized enterprises that researcher Fulvio Coltorti, for many years the manager of Mediobanca’s Research Department, has defined as the Fourth Capitalism: medium size, family owned, strong internationalisation and, large capacity for innovation. All these features are similar to those of Isagro, which unlike many others, is listed on the Stock Exchange and continues to form partnerships and to innovate through research. We are convinced that major results are achievable through this operating method and we continue to work with passion and dedication to reach those milestones we have set.

In thanking you for taking the time to read this newsletter, please accept my best wishes.

Giorgio Basile

Close-up

April 13th, 2015: Isagro Research Center opening ceremony



Around the world, ‘Made in Italy’ isn’t just fashion and design, Made in Italy is also chemical discovery. In Italy, innovative research can count upon a long tradition of success stories and creative content that is the envy of the entire world. So, from today the new Isagro Research Center has become a symbol of this Italian excellence and above all a symbol of continuity of ‘Italian know-how’ in chemicals for agriculture”.

This was declared by the Isagro Chairman, Giorgio Basile, on April 13th this year, the date of the inauguration of the Isagro Research Center in Novara which was defined, and not loosely, as “The Italian home of global research for crop protection products” (La Repubblica, April 14th, 2015).

Clear skies heralded a festive day for our company: in the 9,400 square metres of the Center welcoming 200 guests from the business sector, universities, associates and — last but not least — from local, national and European institutions. Playing hosts, alongside **Giorgio Basile**, were the entire 70-strong staff of Novara headed by the Research Center Director, **Luca Fusarini**. With their help the doors of

the greenhouses, laboratories and production department opened to many friends, representatives of Italian research in the sector, business partners and — not least — to the Authorities that were able to see the core of our work and understand the difficult and complex operations involved every day in identifying new molecules and verifying the efficacy of new products.

Attending the event were: **Patrizia Toia**, Member of the European Parliament and Deputy Chairman of the Industry, Research and Energy Committee; **Matteo Besozzi**, Chairman of the Novara Provincial Government; **Andrea Ballarè**, Mayor of Novara and **Mauro Chiassarini**, Deputy Chairman of Federchimica. This front row followed the inaugural events step by step. In particular, the presentation provided by **Giorgio Basile** and **Luca Fusarini** with their precise reports: the first outlining the market scenarios and the chronology of Isagro’s evolution over the years as a small global player based on innovative research; the second dedicated to the history, success stories and challenges of investing in research and development. Acting as moderator was the Director of AgroNotizie **Ivano Valmori**.

To safeguard or increase crop yields in agriculture. This is Isagro's objective. If it is true that a harvest loses around 40 per cent of its production due to "inevitable" reasons, then of the remaining 60 per cent approximately half is guaranteed by the use of crop protection products. Believing in this wager is **Patrizia Toia**, Member of the European Parliament and Deputy Chairman of the Industry, Research and Energy Committee. The MEP said: "This center and all Isagro activities are perfectly in line with the European projects that aim for a 'Union of innovation'. The Horizon Project, for which the European Union is planning €80 billion in financing from now until 2020, is a strong demonstration of Europe's commitment. Isagro sets an example for all of Italy: here they invest, they have ideas, develop them and take them out into the world. So, Italy has to get busy as well: it has to offer ideas and solutions. It can no longer, as in the past, shy away from issues such as discovery, innovation and best practices".

Echoing this sentiment and focusing on innovation first and foremost in the chemical field and in biosciences was the Mayor of Novara, **Andrea Ballarè**: "Isagro has implemented a project that fits perfectly in that sustainable chemicals hub that represents one of point through which the city is going to develop the surrounding area. Isagro has made the investment and it is our job to enhance and promote it: given all the historic companies that are closing, here we have one that — vice versa — focuses on innovation and grows. We have believed in this project from the outset, just as we did with the Autoimmune diseases centre that is becoming established just down the road from here".

Italian research on Italian territory. Since the beginning, Isagro's decision found a major supporter in the Chairman of the Novara Provincial Government, **Matteo Besozzi**: "The driving strength of the Isagro project resonates throughout the Novara area".

The bond between Isagro and the area of Novara has a long history: Isagro is the direct descendant first of the Montecatini tradition and of Montedison after that. It's sufficient to consider the locations: the Research Center is in Via Giacomo Fauser, in the area adjacent to the Istituto Guido Donegani.



Fauser and Donegani, two "Italian geniuses" to which the world owes decisive discoveries in chemistry.

The legacy handed down to us by Fauser and Donegani crossed the decades of the last century and continues into this. It is no mere chance that Novara is becoming a sustainable development hub because Isagro's "neighbours" are the Eni Research Center and Novamont. The hub, as Isagro hopes, should be able to replicate in Novara and the rest of the country. As Mr. Basile said: "On this important day, we would like to send out a strong, clear message: keeping your head and your heart in Italy can be done; the tools and strategies to make it happen do exist. Isagro is a perfect case in point. Our approach, based on investments in research and partnerships, at the same time maintaining corporate control through innovative financial instruments such as Development Shares, can also be adopted by others. Not only chemical companies, of course, but also Italian excellence in the engineering, textiles, automotive, fashion and other industries. Wherever Italian creativity is alive and well, recognised and appreciated worldwide".

2014: a year of milestones



As Winston Churchill once said, “To improve is to change; to be perfect is to change often”. We in Isagro have always taken this saying literally. So 2014 was a year of profound change, and the first effects have already been seen in the year’s financial statements, approved by the Board of Directors a few weeks ago and now published. In fact, 2014 saw major growth in our basic business, i.e. crop protection product sales and services. Revenues amounted to 143.9 million (+10.9% on 2013 and in line with the 2014-2018 Business Plan, which forecasts over €200 million in turnover) and EBITDA stood at €10.5 million. The results of the new Licensing strategy were also seen in 2014, generating revenues of around €2 million: a good starting point. Taking everything into consideration, total revenues were €145.9 million and EBITDA €12.5 million. This gave pre-tax results of €0.9 million (compared to €0.3 million the previous year) and a net loss of €0.9 million (compared to the €4.3 million loss of 2013). The net financial position records indebtedness of €29.7 million, a modest figure compared to turnover (the D/E ratio is roughly 0.3), and a clear improvement on the €53.9 million debt recorded the previous year.

Results, which have been reached in a year characterized by important changes for and from Isagro viewpoint:

- **operational**, with a stronger focus on “market and customer”, enhancement of the Research, Innovation & Development and the Marketing & Sales teams and the development of Basic Business sales, also through synergies created by the business partner Gowan, with Basic Business operating results greater than those of the Business Plan;
 - **financial**, with the success of the share capital increase for €29 million, of which over half contributed by the “control system”;
 - **corporate governance**, with simplification of the Group control structure implemented after the share capital increase.
- There is therefore a deep discontinuity compared to the past. In particular, the new business model makes Isagro the co-developer of new active ingredients with a global market potential and/or requiring a high level of investments (see the agreement with FMC for SDHi). But the company is also a developer of selected specialities, semi-specialities and generics, and the licensor and long-term supplier of proprietary active ingredients. For Isagro, Licensing is a highly significant new business. So even though we have spoken of it on other occasions (and in this newsletter), it is still worth commenting briefly on this issue. Licensing is a new way of exploiting Isagro’s intellectual property. In fact, if on the one hand Isagro invests directly in research and development on new molecules, on the other it is not of a sufficient size to operate directly on all the markets where the intellectual property could potentially result in sales. In this respect, the new Licensing business area
- **strategic**, with implementation of the five new Strategic Guidelines, particularly as regards the relaunch of the growth plan based on developing the sales of proprietary products, continued co-development of the new broad spectrum fungicide SDHi and growth of the Licensing Business area;



is founded on granting licence rights to third parties for the development of products based on Isagro's proprietary active ingredients, against recognition of an upfront payment. In addition, Isagro aims to finalise medium/long-term supply agreements with the licence holders for these active ingredients, thereby increasing the options for generating value from our own inventions. An important contract was thus signed with the Japanese multinational Arysta in November 2013. Arysta acquired user rights on an Isagro active ingredient — the Tetraconazole fungicide — for the development a new mixture, against the payment of €10 million to Isagro. In parallel, Isagro and Arysta signed a fifteen-year supply agreement for Tetraconazole. So Isagro was not only able to benefit from the upfront payment, but also from the loyalty of a key customer in the long term, ensuring additional sales volumes.

A few words with...

Luca Fusarini, Group Director Research, Innovation & Development



Investments in the Research Center: €7 million invested in the Isagro Research Center in Novara. 9,400 square metres in total, occupied by 2,250 square metres of laboratories (including offices and storage areas), 1,370 square metres of greenhouses (including the Cells and the MEF garden), 750 square metres of production sites. 70 staff. These are the

numbers for the new Isagro Research Centre. But the numbers alone are not sufficient to explain the nature, history and future of the “Italian home of global research for crop protection products”. Luca Fusarini, Isagro's Director of Research, Innovation & Development plays Virgil for us.

Why do you think the media has defined the Isagro Research Center as the “Italian home of global research for crop protection products”?

Because when they entered here they captured the most profound aspect of this centre. It is creative and open. Creative because here they harvest the results and our greatest skills in discovering new substances and in the development of certain steps on their road to the market. Open because not only the market demand for crop protection and for improving crop yields, but also the innovative responses converge here. The output from the

Research Center in Novara includes our own fully-independent solutions and those developed in business partnerships, which are then consolidated through co-development projects and/or global distribution strategies.

Let's stay with discovery for a moment. Discovery is a percentage of the vast range of Isagro research operations. What is the underlying model for your research?

Isagro's vocation has always been one of discovery, or in other words research designed to find new molecules to protect plants. But, proud as we are about our specific nature and uniqueness, we don't presume we can invent everything on our own and, above all, we are happy to not want to develop everything on our own. This is why, in addition to defending its independence, Isagro actively cooperates with and lends its staff to the world of research, universities, public research



centres and, not least, to private companies with missions similar to ours. We are immersed in a network of creative relations that allow us – and always will allow us – to gather stimuli and to co-develop projects also proposed by other centres of excellence, in Italy and anywhere in the world. Our ultimate aim is to produce innovation, which the complex agricultural industry increasingly needs. Innovation isn't the workload of a single unit; it is the result of joint strengths and effort.

At Isagro we have drawn this conclusion over the years, through continuous fine-tuning of the business strategies. This without ever losing sight of our errors and limitations. And this is why the Research Center is one of the “core drivers” in Isagro's overall strategic changes. We



make science and know-how available to the pursuit of three new Isagro roles: co-developer of new active ingredients with global market potential and/or requiring a high level of investments. Through **co-development** Isagro “shares” the fruits of its inventions, easing the burden of direct investments and at the same time expanding the basis for extraction and exploitation of the value of its inventions; **independent developer** of selected specialities, semi-specialities and generic products for local markets and/or needing limited investments (among which products for bio-solutions); **licensor/long-term supplier** of proprietary active ingredients.

So the future is clearly laid out. Can you tell us which molecule symbolises this new strategy?

Without doubt the co-development standard bearer is the new SDHi-class broad spectrum fungicide which we hope can access the markets from 2020 onwards. SDHi was “born” here in

Novara, but through a contract signed in 2012 with the US company FMC we are working on the more extensive dossier that will see our fungicide take off globally. We will retain the rights in countries and markets of primary strategic interest. SDHi will be followed by a new molecule which should enter development stage from 2017. For the future of Research and Development, in the four-year period 2015-2018 Isagro will invest around €50 million. In addition to the two molecules mentioned previously, this

conspicuous investment will be used for development of the new fumigating agent for the US market and Mediterranean countries, for new registrations of proprietary products and for the regulatory protection of proprietary products. As regards these last two aspects, the Research Center's role will also be that of preparing effective, transparent dossiers to allow national and international authorities to release marketing authorisation for the various markets involved.

Zoom

L'accordo di blu e verde an original musical composition for Isagro

Ilya Prigogine, winner of the Nobel prize for chemistry in 1977, wrote "Scientific knowledge (...) can be discovered nowadays as a poetic listening about nature and, simultaneously the natural process itself, and start a process of production and invention, forming an open world and a productive and inventive process". Associating research with nature is the Isagro mission that plays such an active role in the open, productive and inventive world hoped for by the celebrated scientist. It is from here that Isagro's idea came to launch a competition for an original musical composition evoking the importance of taking care of our planet and the central role of scientific research in the Earth's well-being, the underlying factor in the company's business strategy. The competition sprang to life from a partnership - of many years, now - with the **Paganini Music Festival of Carro** (La Spezia) organised by the ONLUS association **Società dei Concerti**, of which Isagro is the main sponsor. The jury, chaired by **Bruno Fiorentini**, artistic director of **Società dei Concerti**, announced the winner to be *L'accordo di blu e verde* composed by **Tatiana Pavlova**.

performance of the competition-winning piece. *L'accordo in blu e verde* reflects all the themes dear to Pavlova's heart: minimalism, a romantic setting and Russian music culture.



Tatiana Pavlova was born in Moscow on June 4th, 1963. She was encouraged by her parents to study music, beginning at the tender age of three. From age five to twenty-four she frequented the Gnessin School of Music in Moscow, graduating with honours in both her degree and her masters. She perfected her studies under D. Paperno and Paul Badura-Skoda. She earned her honours degree in oboe, also studying harpsichord and organ. In parallel to her artistic career all over the world, she also teaches. She has won prizes in national and international competitions, both as performer and composer. She is currently working on two albums: Vol. II of Sergei Rachmaninoff's Complete Works for Solo Piano and a CD of her own music. She also collaborates with the author Dacia Maraini, as pianist and composer for her theatrical performances.

Pavlova's composition was selected among twenty or so other entries to win. So the cutting of the ribbon to inaugurate the Isagro Research Centre in Novara was accompanied by a

First quarter of 2015

In a business sector such as that in which Isagro operates, by tradition the first quarter of the year is never representative of the performance for the year. Having said this, **the results are definitely good**. Isagro recorded turnover of **€44.7 million**, up **€3.3 million (+8%)** on the **€41.4 million** of the same period last year. EBITDA amounted to **€5.6 million**, an increase of **€0.4 million (+7%)** compared to the **€5.2 million** as at March 31st, 2014.

The Isagro growth in revenues was achieved in a context of a general increase in turnover for almost all the key products marketed by the Group and is mainly attributable to:

- the strong increase in copper-based product sales, especially in Italy, also as a result of the distribution-side partnership with Gowan that began in 2014;
- the growth in turnover generated by the subsidiary Isagro Asia, also due to the strengthening of the Indian Rupee (the accounting currency of Isagro (Asia) Agrochemicals Pvt. Ltd.) against the Euro.

Performance of the share

The downtrend that had characterised the performance of both Isagro share classes (Ordinary Shares and Growth Shares) towards the end of last year continued in the first few days of 2015, bringing the prices of both shares to their all-time lows of €1.38 for the Ordinary Shares (January 15th, 2015) and €1.22 for the Growth Shares (January 6th, 2015). There was an inversion in the trend from the second half of January however with prices and trading rising gradually to reach the highest figures so far for 2015 on April 13th, i.e. €2.07 for the Ordinary Shares and €1.42 for the Growth Shares. From the second half of April both Isagro shares went through a progressive downtrend as happened at the beginning of the year: in particular Growth Shares, on May 27th, reached its all-time low of €1.18. Nevertheless, note that neither share saw an even growth rate. In fact, while the Ordinary Shares appreciated by around 23% in the first four months of 2015, the Growth Shares remained substantially steady (+1%). Consequently, the spread between the two shares — which was in January 15% on average, with a 10% minimum — gradually widened, recording an average value of 30% in May with a peak of 34%. As already mentioned quite a few times, this does not find a plausible explanation from a financial point of view. Lastly, note that Isagro's mid cap in the first five months of 2015 was €61 million, approximately 60% of Group equity as at March 31st, 2015.

