



Bayer CropScience Limited

Speech of the Chairman

Pankaj Patel

Delivered at the

**58th Annual General Meeting held on
Monday, September 12, 2016**

Ladies and Gentlemen,

Welcome to the 58th Annual General Meeting of Bayer CropScience Limited.

The global macroeconomic landscape is currently going through an uncertain phase which is characterized by weak growth of world output. Contributors to the situation have been declining prices of a number of commodities, turbulent financial markets, and volatile exchange rates. Even in these trying and uncertain circumstances, India's growth story has largely remained positive on the strength of domestic consumption, and the country has registered a robust and steady pace of economic growth in 2015-16.

Though the Indian agriculture sector has made considerable progress in the past few decades, it has still primarily remained dependent on monsoon rains. This sector experienced two years of low growth on account of two consecutive years of deficient south-west monsoon (June-September) rainfall, the only fourth such occurrence during the last 115 years (source: National Council of Applied Economic Research). The post monsoon (October-December) rains also turned out to be below normal. These successive droughts have resulted in decline of production of food grains and oil-seeds by 0.5 per cent and 4.1 per cent respectively; while the production of fruits and vegetables has increased marginally.

The agriculture sector employs 55% of the Indian workforce and remains a high priority sector for the Union Government. The Government announced a number of policy initiatives to boost manufacturing, improve sanitation, reduce red tape and increase foreign investments. The key themes of the Union budget 2015-16 were Irrigation, Higher Farm Income, Rural Infrastructure & Fertilizer Subsidy. The Government allocated ₹ 170 Billion (including ₹ 125 Billion for Pradhan Mantri Krishi Sinchai Yojana) for irrigation in FY17 vs. ₹ 53 Billion in FY16, a total irrigation allocation of ₹ 865 Billion over next the 5 years (vs. ₹ 500 Billion earlier) and a Long term Irrigation Fund with corpus of ₹ 200 Billion.

The Government has set a target to double the Farm income by 2022. MGNREGA allocation was increased to ₹ 385 Billion (₹ 400 Billion in FY16). There was allocation for ₹ 55 Billion for Crop Insurance Scheme, Interest subvention of ₹ 150 Billion to reduce burden of loan repayment and Agri credit target at ₹ 9 Trillion (vs. ₹ 8.5 Trillion in FY16).

There was allocation to rural road infrastructure under the Pradhan Mantri Gram Sadak Yojana (PMGSY) at ₹ 190 Billion. Including state contribution, total allocation to this project is at ₹ 270 Billion.

The APMC (Agriculture Produce Market Committee) structure was overhauled with a Unified Agriculture Marketing Scheme, to create a common e-market to cover 585 APMCs. Amendments in APMC Acts were also encouraged.

The priority for the government remains increasing productivity, enhancing the supply chain infrastructure and improving the realization of produce to the farmer by facilitating value chain partnerships. The above initiatives, coupled with private sector participation are expected to boost the growth of Indian Agriculture in 2016.

Against the backdrop of a not so good agriculture season, we have good results to report for 2015-16. For the year ended March 31, 2016, Bayer CropScience Limited registered a Total Revenue of ₹ 38,186 Million and Profit After Tax of ₹ 3,009 Million. The Board has recommended a dividend of ₹ 17 per equity share of ₹ 10 each.

Agriculture Sector Outlook

The agriculture outlook is shaped by various factors - internal and external - directly or indirectly impacting the agriculture production which include: weather, price, environment, input supply, demand conditions, supply bottlenecks, trading environment and external factors. The expected improved performance of the economy and the increased purchasing power should help in generating increased demand for high value products such as milk and milk products, fruits and vegetables and meat. The supply side bottlenecks include logistics, inadequate cold storage facilities, and lack of processing facilities that continue to hurt supply and availability of food items such as pulses and perishable food products such as vegetables (mainly onion and potato) and fruits.

The Government has undertaken a few structural reforms in the areas of irrigation, labor availability (inclusion of agri activities in MNRGA), supply chain (online agri trading platform across India) and soil quality (soil health cards). More are on anvil with Niti Aayog recommending some big-bang, yet achievable reforms such as liberalization of land lease market and shift from 'MSP-based (Minimum Support Price)' system to 'Price Deficiency Payment'. These initiatives should auger well for Indian Agriculture in the future. Integrated state level agricultural markets, with the National Agricultural Market, would minimize the number of intermediaries and lead to higher realizations for the farmers.

The importance of sustainable agriculture, higher crop yields and quality in producing sufficient food on a limited amount of land, will increase in years to come. Therefore, the outlook for companies providing Crop Protection, Seeds and other agri-inputs continues to be positive.

Innovation-driven companies will achieve better consolidation in terms of value capture. Better quality molecules, hybrid seeds and the range of other products well-suited for high-value agriculture will ensure growth. Swelling farm incomes, encouraged by good commodity prices, will further encourage farmers to spend on qualitative inputs for achieving higher yields, better quality and a more favorable return on investment. Increasing labour shortage and its ever increasing cost will drive mechanization in agriculture. Farmers will look for mechanized solutions in the area of various agricultural operations.

Expansion of the processing industry and modern retail will also propel consumer demand for newer, better products which will increase crop diversification. This will help farmers leverage the latest technologies and crop varieties to meet changing demand patterns. This will also drive employment opportunities in rural areas. While the government has taken proactive steps to give remunerative prices to farmers, the full benefit will flow to them with the strengthening of procurement and improved distribution systems.

Agrochemical Industry

Increasing demand of food grains and declining farmlands in India have increased pressure on farm yield improvement and reduction in crop losses due to pest attacks. The crop protection market has experienced strong growth in the past and is expected to grow at a healthy rate in future. Nearly 30% of the potential yield across crops in India is lost to insects, diseases and weeds. Hence, pesticides play a crucial role in protecting crops from these biotic stress factors. The consumption of pesticides in India although low, has been gaining strong foothold primarily against the backdrop of growing farmer awareness, increasing income levels, and alternates to monsoons, government initiatives, self-sufficiency in food grains and other factors. This trend is expected to continue and the consumption of agri inputs will be further fuelled by factors such as growing farmer awareness, hybridization, increasing farmer income, increasing demand for food, increased focus on R&D, expansion of contract farming and GDP growth.

Despite the strong growth drivers, the Indian agrochemicals industry faces challenges in terms of low awareness among farmers (only 25-30% of the farmers are aware of agrochemical products and their usage). With large number of end users spread across the geography, managing inventory and distribution costs is a challenge for industry players. Effectiveness of the current supply chain management (SCM) practices in agrochemicals is another area of concern for the industry. Companies face issues due to seasonal nature of demand, unpredictability of pest attacks and high dependence on monsoons.

There is also a need to encourage R&D and ease registration processes for development of new molecules. Companies need to relook at strengthening their strategies to improve their distribution reach and provide the knowledge about agronomic practices to farmers. This will increase the productivity levels of farmers and will make farming a profitable venture.

Bayer CropScience Limited – Today and Tomorrow

In our pursuit to provide best solutions to farmers for the production of high quality food, feed and fibre, Bayer CropScience Limited has been constantly striving to innovate. Today we are a formidable brand across various categories amongst India's farming community.

Bayer CropScience Limited enjoys a unique position in the market because of its capability to offer new innovative products, technologies, processes, services and business models.

Bayer CropScience Limited aims to enhance its Crop Protection portfolio by innovating and focusing on integrated Crop Protection solutions. In line with our commitment to sustainable agriculture, we are constantly working to develop user-friendly and more environmentally compatible formulations.

Key focus areas of Bayer's CropScience division's global research and development are: yield improvement, stress tolerance and improving plant health. Globally, the Crop Science division has collaborations with premier research institutes to drive research on key staple crops such as rice and wheat.

Innovations in developing integrated spray programs have been able to differentiate Bayer CropScience Limited from the competition. The Company has been strengthening its flagship program "Bayer Labhsutra" year on year. With this programme, we demonstrate the benefits of Bayer's innovative products on the fields for the farmers.

In 2015-16, Bayer CropScience Limited further consolidated its knowledge and expertise on innovative farming technologies which helped gain an edge over competition and develop new solutions for Indian framers. Labour scarcity and its increased cost has become a major driver for adoption of technology in agricultural operations. Mechanical Transplantation of Rice, Mechanical picking of cotton and promoting the concept of seed treatment with 'Seed Treatment' machines are some of the key projects where we see a great future in coming years.

The Food Chain Partnership expresses our belief that together with our partners in the food chain, we can build relationships that benefit everyone. Bayer CropScience Limited provides farmers with innovative crop protection products, seeds and services, as well as advice on the optimal use of products and application technologies. These Partnerships also provide traceability and transparency – making ongoing quality improvements possible. Exporters and importers have to consider not only the local quality standards of the producer country, but also those of the export market. As consumers become increasingly food-conscious, retailers face the challenge of maintaining and boosting consumer confidence in the produce they sell.

In last few years, Bayer CropScience Limited started an ambitious project of segmenting close to 3 million farmers of the country. In this exercise, we generated valuable insights which will define our future customer contact landscape.

Innovation-driven companies will achieve better consolidation in terms of value capture. Better quality molecules, hybrid seeds and the range of other products well-suited for high-value agriculture will ensure growth. Increased incomes and better commodity process, as well as more information availability will definitely encourage farmers to look at quality driven options to help them increase yields, optimize investments and enhance their own innovation capacity. Bayer CropScience Limited with strong R&D focus is very well positioned to partner farmers in this journey of achieving higher productivity. With a strong pipeline of products which are aimed at providing comprehensive solutions to diverse farming needs, we are confident of achieving the desired business objectives.

Long Term Outlook

With rising population, increasing disposable incomes and ever increasing food demand, the long term outlook for Indian agriculture remains positive. Demand for food grains has been steadily on the rise in recent years. Higher incomes have also led to a

shift in dietary intake. Consumers are moving towards high value food items like fruits, vegetables, dairy, meat, vegetable oils, coarse grains and wheat.

Transformation of agriculture over the longer term would be necessary as there are changes in composition of demand, increased opportunities of international trade and technology of production, processing and storage. The challenge for Indian agriculture will be to achieve increased production from small farm holdings. While faster growth of the non-farm sector of the economy that requires transfer of labour from farm to non-farm sector may lead to changes in this trend pattern of declining size of holdings, the changes are likely to be gradual. Therefore, the focus on improving productivity in small holdings would be necessary to achieve growth in food production. Encouraging contract farming and lease markets in transparent and enforceable contracts would help in achieving a more viable holding size.

Irrigation is a key driver of increase in crop yields and also in bringing more area under multiple cropping systems. Further increase in irrigated area would depend on maintaining the irrigation infrastructure over the long term, and investments by both public and private sector. Private investments in irrigation would depend on the favourable price environment and market support to the producers. It is expected that policy measures will create a favourable environment for investments in agriculture for both public and private sectors.

While investment in irrigational infrastructure, food chain and marketing of agri-produce remains a critical requirement, the crop protection and seed industry has a lot more to achieve in terms of supporting more and more farmers with innovative solutions.

Innovation and responsibility drive success

Providing food security to everyone is one of the biggest challenges of our times. In order to do that, all resources, men and material have to be leveraged to the best possible extent. In this context, the smallholder farmers which are struggling with low productivity levels should also be brought into the mainstream.

At Bayer CropScience Limited, innovation, sustainability and inclusive growth are an integral part of our business strategies. From product and solution development, selection of partners in procurement, manufacturing and distribution and throughout our internal business and organisational processes, innovation & sustainability are at the core of decision making. We support the principles of sustainable agriculture in

order to overcome challenges such as population growth, the growing demand for food, feed and renewable raw materials, limited natural resources and climate change.

Before I conclude, I would like to acknowledge the excellent support provided by Bayer AG, Bayer CropScience AG, Bayer SAS and Bayer Vapi Private Limited during the year.

I would also like to extend my sincere appreciation to my colleagues on the Board, for their continued help and support. I also thank our Shareholders, Banks, Financial Institutions, distributors and farmers who have supported our efforts.

On behalf of the Board, I would like to thank all employees for their excellent work and their commitment to Bayer CropScience Limited.

Mumbai
September 12, 2016

Pankaj Patel
Chairman
(DIN : 00131852)



Note: This does not purport to be a record of the proceedings of the Annual General Meeting