



syngenta

Full Year 2014 Results TRANSCRIPT

Contents

Corporate participants	3
Presentation	4
Questions and Answers	17

Corporate participants

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John Ramsay

Syngenta – Chief Financial Officer

Presentation

Operator

Ladies and gentlemen, thank you for standing by and welcome to the Syngenta full-year 2014 results call. At this time all participants are in a listen-only mode. There will be a presentation followed by a question-and-answer session at which time if you wish to ask a question you'll need to press star one on your telephone.

I must advise you today's call is being recorded today, Wednesday, 4 February, 2015. I would now like to hand over to your first speaker, Jennifer Gough. Please go ahead madam.

Jennifer Gough

Good morning and welcome to the call. Today's presentation is hosted by Mike Mack, CEO, and John Ramsay, CFO. Slides to accompany the presentation are available on our Web site, syngenta.com.

The presentation contains forward-looking statements, which may be subject to risks and uncertainties, causing the actual results to differ materially from these statements. We refer you to Syngenta's publically-available filings with the U.S. SEC for information about such risks and uncertainties.

I'll now hand you over to Mike, who will begin the presentation on slide number 3.

Mike Mack

Thank you Jennifer. Good morning Ladies and Gentlemen. I'm pleased to report that in 2014, despite some challenges in terms of weather and crop prices, we met our target of 6 percent growth in integrated sales at constant exchange rates. This performance reflected a strong fourth quarter with growth of 12 percent. Excluding glyphosate, which we are deliberately reducing sales in, the integrated business was up 7 percent for the full year. A key success was the launch of our new fungicide ELATUS in Brazil, for which sales exceeded the ambitious target we set for ourselves of 300 million dollars.

Overall the emerging markets achieved double digit growth for the fifth consecutive year. We were able to achieve substantial volume growth in all emerging market regions accompanied by price increases in those countries which saw currency depreciation. However, the impact of currency on earnings was still negative and we also experienced an adverse mix effect,

linked in part to the decline in corn acres in the Americas. As a result profitability was below our expectations. While our emerging market growth trajectory inevitably brings exposure to currency volatility, we know there's a lot we can do to improve profitability. The announcement in November of actions relating to our Accelerating Operational Leverage program illustrates our determination to drive this improvement.

Slide 4. The chart on the left reminds you of the significant yield advantage which ELATUS brings compared with both standard products and the competitor SDHI. Growers are now experiencing for themselves ELATUS' unrivalled performance against soybean rust. Taking account of product delivered but not yet consumed, sales were actually around 380 million dollars. We have thus reversed the share loss we experienced in the Brazilian fungicide market last season.

We expect Solatenol approvals for a variety of crops in the US and the EU to come through now over the next two years. This, on top of the success on soybean in Latin America, has enabled us to increase our estimate of peak sales for this product from over 500 million dollars to one billion dollars, confirming its status as a major blockbuster.

Please turn now to the business update by region on slide 5, starting with North America, where the outturn was disappointing. The delayed US season in the first half reduced both the window of application for pre-emergent herbicides as well as the insect pressure. In Canada, cereals acreage planted was down by around 10 percent and then there were further losses due to flooding. Lower corn acres in the US affected both crop protection and seeds, with the impact only partly offset by lower value soybean sales. Our corn technology continued to perform well in the field however, and AGRISURE VIPTERA, for which we received Chinese import approval in December, remained at around 30 percent of our portfolio.

Europe, Africa and the Middle East had an exceptional year, with growth in both developed and emerging markets. The CIS was resilient in the face of major geopolitical uncertainty. Our integrated HYVIDO barley offer expanded rapidly across a number of markets and our new SDHI fungicides strengthened their position in Western Europe.

Asia Pacific showed broad-based growth, again in both developed and emerging markets. AMISTAR expanded in CHINA and rapid adoption of our integrated Vegetables protocols continued.

In Latin America sales growth was 15 percent excluding glyphosate, this being historically by far the largest region for TOUCHDOWN. We saw a strong fourth quarter performance despite a delay in the season due to irregular rainfall. As you've seen, ELATUS made an outstanding contribution, and sales of insecticides were also strong, owing to increased caterpillar pressure.

Slide 6. As we further develop our integrated strategy by region, we continue to build on the fundamental strengths that supported the launch of the strategy in the first place, namely: global leadership in crop protection, the most diverse seeds platform in the industry, and crop-based strategies supported by excellence in marketing. We continue to refine and build our marketing models based on our experience over the last four years, and the Accelerating Operational Leverage program will bring a new level of efficiency as well as closer customer relationships.

I am not going to touch on all the regional tick points on the slide but will just call out a few of them. In North America, a clear focus is the reinforcement of our leading crop protection business through innovation and expertise in resistance management. We also see considerable opportunity for seeds based on our proprietary corn traits, including VIPTERA, DURACADE and ENOGEN, and on our investment in our seed advisor network.

In Europe, Africa and the Middle East, our success in barley is paving the way for hybrid wheat, while our sunflower business shows just how seeds leadership can generate additional crop protection sales.

In Asia Pacific, with the Vietnamese market now opening up for our corn traits, we have the opportunity to leverage our technology investment while expanding local corn solutions.

And finally Latin America, where ELATUS is just one part of our high yield soybean solutions, and where a new registration just received for AVICTA will expand the scope of our integrated pest management solutions.

Preliminary market share data show that we gained share in three out of four regions in 2014. This shows that the integrated strategy is gaining traction, with strong products built into local solutions that deliver value to growers globally.

And with that I will hand you over to John for a detailed review of the financials. John.

John Ramsay

Good morning.

Let me take you through the key points starting on slide 8.

Group sales were up 3 percent at 15.1 billion dollars. At constant exchange rates sales were up 5 percent, comprising 2 percent volume and 3 percent price.

EBITDA was 1 percent higher at 2.9 billion dollars with a margin of 19.3 percent. At constant exchange rates the margin was higher at 20.0 percent.

Net income at 1.6 billion dollars was 2 percent lower.

Earnings per Share, stated before restructuring and impairment, were 1 percent higher at 19 dollars and 42 cents.

We are proposing a 10 percent increase in the dividend to 11 Francs per share which is a 6 percent increase in US dollars, at end January exchange rates.

Free cash flow before acquisitions for the year was 1.2 billion dollars.

Cash flow return on investment at 11 percent was marginally below our target.

Please turn to slide 9 to understand our sales progression.

Price contributed 446 million dollars. This figure includes the price contributions from our solo glyphosate product, TOUCHDOWN, as well as increases in CIS to offset currency depreciation. Excluding these components the underlying price increase for the year was around 2 percent.

The volume bars show the broadly equal contributions from Europe and Latin America. Performance in Asia Pacific was also solid. These strong performances were partly offset by the decline in North America.

Despite the lower sales in North America we met our target of 6 percent growth at constant exchange rates for the integrated business. And I believe, this firmly demonstrates the underlying resilience of our broad portfolio.

Lawn and Garden sales were flat for the year owing largely to a weak consumer environment in developed markets.

The negative impact of currency on the top line was 339 million dollars.

Slide 10 provides you with an overview of the major movements in EBITDA for the year.

The volume contribution of 118 million dollars was largely offset by adverse mix. In particular, corn acreage reduction in the Americas, as well as the low overall commodity price led to a reduction in high margin Seedcare sales to other seed producers and key accounts. Price, net of TOUCHDOWN and CIS contribution, amounted to 296 million dollars.

Savings from our current operational efficiency program contributed 115 million dollars.

The positive contribution from cost of goods sold includes 240 million dollars benefit from the lower seeds production cost. This benefit was partly offset by a 110 million dollar charge; with crop protection plants running below capacity to generate the substantial reduction in inventory we have achieved in 2014.

Cost inflation of 170 million dollars came mainly from emerging markets, and represents an increase of around 3 percent on the total cost base including fixed production costs.

Growth investments to support the integrated strategy amounted to 160 million dollars, of which around 100 was in R&D.

Currency, at 90 million dollars, net of CIS price recovery, was slightly better than my expectation at the half year.

The main elements included in "Other" are shown in the box on the chart. The Employee variable compensation of 115 million dollars reflected better performance versus targets than in 2013. The other components, including a 130 million dollar pension gain, were largely non-recurring items.

Overall, EBITDA was up 1 percent to 2.9 billion dollars with a reported margin of 19.3 percent.

On the next two slides I will take you through the evolution of sales and profitability across the 4 regions. The currency impact I highlighted was a significant feature of the reported margin evolution which you see on the slides. The impact was adverse in all regions except Latin America.

Let me start with the Northern hemisphere regions on slide 11.

Europe, Africa and the Middle East benefitted from an early spring which drove increased crop protection intensity across the region. In the European Union the suspension of neonicotinoids led to lower sales of CRUISER which were partly substituted by sales of older chemistry. Determined price action, in particular in the CIS, partly offset the impact of currency depreciation.

The North American margin includes the negative impact of significantly lower volumes. At the same time, last season saw a significant shift from corn to soybeans for which our seeds profitability is lower. Lower seeds costs partly offset these adverse effects.

Turning now to the other regions on slide 12 starting with Latin America.

As Mike already mentioned, the ELATUS launch in Brazil was a tremendous success. However, as with all new products, first year sales are margin dilutive. Conversely, the strategic decision to reduce sales in the low margin solo glyphosate market resulted in lower sales of TOUCHDOWN, and this benefitted margins. Growth in high margin insecticide volumes also had a beneficial impact on profitability. Overall, this enabled the business to absorb growth investments.

In Asia Pacific, price increases largely offset currency weakness in the emerging markets. The rice market in ASEAN was challenging owing to government intervention to reduce stocks. Vegetables however showed good growth.

Please turn to slide 13.

Lawn and Garden sales were up 1 percent. Good growth in the Turf and Landscape business was offset by lower sales of Flowers as a result of the late spring in North America and a subdued Eurozone consumer environment.

The currency impact on the EBITDA margin was 190 basis points. On a constant currency basis the 2014 margin was higher at 23.3 percent.

Our strategy of streamlining the business and focusing on elite genetics and high value chemistry has resulted in increased business quality. With 2014 once again above target, despite adverse currency, I am confident the margin will remain above our 20 percent target.

Slide 14. Crop protection sales were up 6 percent. On an adjusted basis, excluding the impact of glyphosate, sales increased 8 percent, matching our average growth rate since 2009.

Selective herbicides increased 3 percent, with strong growth in Europe where a mild winter led to increased weed pressure. This more than offset the impact of the weakness in North America.

Non-selective herbicides were down 4 percent as a result of the decision to reduce TOUCHDOWN volumes. The reduction was partly offset by double digit growth in GRAMOXONE with strong demand in particular in ASEAN.

Fungicides, with the ELATUS sales target successfully achieved, were up 17 percent. The business also showed good growth across most products, in particular SEGURIS and AMISTAR in Europe.

In insecticides, growth of 10 percent was broad based. Brazil saw high levels of insect pressure and this helped DURIVO global sales to exceed the original target of 400 million dollars, more than offsetting lower Insecticide sales in North America.

Seed care sales were 6 percent lower. VIBRANCE continued its rapid expansion with sales up almost 50 percent. This growth was offset by lower sales to other seed companies in the Americas and also in the European Union following the neonicotinoid suspension.

Sales of new products more than tripled to 640 million dollars supported by the ELATUS success. Excluding ELATUS, the growth rate on new product sales was well above 60 percent.

Please turn to slide 15. Reported Seeds sales were 2 percent higher. On an adjusted basis, excluding acquisitions and divestments, sales were 3 percent higher.

Corn and soybean sales were up 4 percent overall. The acreage shift caused corn sales to be slightly lower, but this was more than offset by higher soybean sales. Our new proprietary corn rootworm trait DURACADE registered first sales in the USA under the "Right to Grow" program.

Diverse field crops sales were 4 percent higher. Strong growth in Hyvido hybrid barley seed sales in the European Union was partly offset by lower sunflower sales due to reduced acreage in South East Europe and also by lower sugar beet sales.

And finally Vegetables, where sales were 5 percent lower, but up 6 percent adjusted for the Dulcinea divestment. Growth was led by the emerging markets of Asia Pacific and Europe. Excluding Dulcinea, sales in North America were up 3 percent and Western Europe also increased sales.

Slide 16 gives you the bridge from operating income to earnings per share.

Operating income of 2.3 billion dollars was 2 percent higher.

Net financial expense at 217 million dollars was slightly higher with increased hedging volume and emerging market currency volatility.

The tax rate was unchanged from the 2013 level at 15 percent. For 2015 I would expect the tax rate to be somewhat higher.

Restructuring costs were higher at 168 million dollars as the first AOL charges totaling 63 million dollars before tax were recognized.

Earnings per share were 1 percent higher at 19 dollars and 42 cents.

Free cash flow now on slide 17.

Working capital outflow of 322 million dollars was substantially lower year on year. The box on the right shows the effect of our strong focus on inventory management. The 6 percent reduction, of which 2 percent is attributable to currency, was well ahead of our target.

As I signalled on the Q3 call, the late season and lower liquidity levels in Latin America together with the strong Q4 in Europe resulted in higher receivables, which were partly offset by some higher invoice discounting. Given the current operating environment we have also reinforced our rigorous risk management in emerging markets, ensuring, for example, collections in CIS above prior year levels.

The accounts payable balance as a percent of sales was lower reflecting currency effects, lower inventory and a lower level of early payments in the US.

Capital expenditure, including expenditure on intangibles, continued at a similar level to last year and totaled 717 million dollars. Investments are mainly to meet growing demand in emerging markets as well as to support new active ingredient launches.

Cash flow under net restructuring and disposals, at 79 million dollars, was slightly lower than prior year with the current operating efficiency program coming to an end. Financing, tax and other amounted to 636 million dollars, which is higher than the income statement charge as a result of timing differences.

Free cash flow before acquisitions of 1.2 billion dollars was over 600 million dollars better than prior year. Acquisition expenditure of 89 million dollars was lower than last year.

Slide 18.

Our confidence in terms of future free cash flow generation is shown by the proposed increase in the dividend of 10 percent in Swiss francs and 6 percent in US dollars at end January exchange rates

With the slow-down in earnings growth in 2013 and 2014 this dividend policy represents a payout ratio of around 60 percent and has had a leveraging effect on the balance sheet with gearing now at 27 percent compared with 24 percent one year ago.

Despite this increase, our balance sheet continues to be strong and this allows us to maintain flexibility for acquisitions and tactical share buybacks as well as to manage market and fiscal volatility.

And finally, we remain committed to a progressive dividend policy.

Now – with the recent volatility both in the currency and crude oil commodity markets – I will cover these topics in more detail than usual starting with slide 19.

The chart shows the period of currency volatility since 2012.

Switzerland is the location of our largest global production site as well as the head office and one of three major global R&D centers. As a result, Swiss franc costs are about 13 percent of total group costs including manufacturing. The Swiss franc accounts for only about 1 percent of group sales which gives rise to a substantial short position.

Similarly, a substantial production base in the United Kingdom leads to a short position in Sterling, although this is less pronounced.

Brazil is the location of our main formulation and packaging plant servicing most of Latin America. Sales in Brazil in 2014 almost matched those of the United States but with the majority of sales dollarized, we operate with a net short position in Brazilian Reals.

In other emerging market currencies we generally have long positions, and this includes the CIS where sales account for around 5 percent of group sales, but the local cost base is small. You can see the extreme volatility of the Ruble and Hryvnia on the chart. As a result we are now leading the industry in adopting US dollar pricing in the region.

Sales and costs in Euros are more or less balanced on a full year basis although sales are weighted to the first half.

On the basis of current exchange rates, my expectation for 2015 is for a headwind of around 100 million dollars. This excludes CIS where I expect price increases to substantially offset the currency impact. This headwind arises largely as a result of weak emerging market currencies. Impact from the recent Swiss Franc appreciation will be limited as this year's exposure is largely hedged.

Please turn to slide 20 for an overview of how the price of oil affects us. Raw materials and purchased active ingredients of 4.2 billion dollars constitute the majority of total Crop Protection COGS of 6.3 billion dollars in 2014.

The combination of average raw material lead times of around 4 months and our inventory lead time of around 8 months results in an overall 12 month lag in pass through to COGS.

Given the current sales mix, we estimate the EBITDA sensitivity to oil price movements to be around 30 million dollars per 10 dollar movement in the price of a barrel of oil.

The lead time means the benefit in 2015 will be limited to about 50 million dollars. In 2016, assuming oil prices hold at current level, I would expect a more significant benefit of around 150 million dollars, broadly offsetting the Swiss Franc headwind resulting from the recent appreciation.

On slide 21 I will take you through the key margin drivers as we see them for 2015.

At the sales level our assumption in the current commodity price environment is that volume will be unchanged versus last year. Mix is likely to be broadly neutral in 2015 as the impact of continued acreage shift from corn to soybeans will be offset by further reduction in solo glyphosate volumes and an improved ELATUS margin. We continue to target price increases which will partially offset emerging market currency depreciation.

COGS will benefit from a further reduction in seeds costs and the first limited benefits from the fall in oil prices will begin to come through toward the end of 2015. Together, I anticipate these factors will contribute around 100 million dollars to EBITDA. General cost inflation, largely arising in emerging markets, will continue at a similar level to 2014. Having reached the end of our integrated strategy transformation, incremental growth investments will be very small.

The pension gain realized in 2014 will not repeat. However, savings from our efficiency program, launched one year ago, will contribute materially in 2015.

As I just described – with all currencies, except the Swiss Franc, now weaker against the dollar, I expect a headwind of around 100 million dollars excluding CIS.

To sum up, I currently expect 2015 sales, at constant exchange rates, and EBITDA to be around the 2014 level with substantial free cash flow generation.

On slide 22 I should like to remind you of the key elements of our operational leverage program.

In our communication in November we confirmed that we are on track to deliver significant savings starting with 265 million dollars in 2015 and you can see this in the chart on the left.

To the right of the chart I have listed just some of the initiatives we are pursuing under each of the three pillars. Many of these are already well advanced, and though I shall not cover

each in detail today, I will continue to provide you with regular updates as the overall program progresses.

The program, at its conclusion in 2018, is expected to contribute around 1 billion dollars to EBITDA, or roughly a 5 percentage point improvement in margin. It will also liberate working capital of around 600 million dollars.

The next two slides show relative profitability at the gross margin level for our crop protection and seeds businesses, with an overview of the main portfolio drivers for each. Slide 23.

Overall, the crop protection business generated a gross margin of 46 percent in 2014. Gross margin by product line is shown at the budgeted standard cost.

You can see that selective herbicides, insecticides and fungicides all enjoy high margins. Non selective herbicides are smaller with much lower profitability due to glyphosate. The strategic decision to reduce solo glyphosate sales will result in a reduction in sales of around 150 million dollars both in 2015 and 2016, with a further mix benefit from our focus on higher margin glyphosate mixes.

Our global leadership in Fungicides is reflected in the size and profitability of this business. The scale-up of ELATUS and launch of other major pipeline products will support Fungicide margins further.

We also expect ongoing growth in our high margin insecticide portfolio, including DURIVO.

These portfolio mix effects, together with benefits from our AOL program, will drive margin improvement in our Crop Protection business in coming years.

Turning now to Seeds on slide 24.

The Seeds business generated 45 percent gross margin in 2014 and we have a number of initiatives under way that will substantially improve the margin of the seeds business by 2018.

I have distinguished corn in North America from corn in the Rest of the World. The higher North American margins reflect the commercialization of our proprietary corn traits in the US. Corn trait royalties also contribute to the North American margin, and the most recent example is a milestone payment relating to the licensing of VIPTERA to Monsanto. Looking ahead we will maximize the opportunity of our distinctive corn traits such as Agrisure ARTESIAN and ENOGEN and will take advantage of increasing trait adoption in Asia Pacific and Latin America.

The soybean gross margin is lower than corn primarily because we in-license our trait platform – the R&D expenditure is consequently also lower. For soybeans in Latin America, a new business partner model and the incorporation of a new insect control trait will improve margins.

In Diverse Field Crops we expect sunflower to benefit from continued grower adoption of high value genetics and ongoing roll out of advanced native trait weed control solutions.

Cereals will benefit from the expansion of HYVIDO hybrid barley as well as innovative partnerships with downstream food chain players, and we expect continued growth in high margin Vegetables.

And finally, of course, substantial improvement in Seeds margins is a major pillar within our AOL program.

Let me now hand you back to Mike.

Mike Mack

Thanks John. Please turn to slide 26.

The impact of low commodity prices on our crop protection business has been the predominant question posed to us over the last 12 months. For sure there is some impact and we are taking account of that into our guidance for 2015. However, many of the products we sell are essential inputs, without which growers incur unacceptable yield losses. Moreover, when growers around the world pare back expenditure, output inevitably suffers, leading of course then to a recovery in crop prices. This is what happened in the early years of the last decade as shown on the chart, and it resulted in a robust recovery which gathered momentum then from 2006. It was around about this time that the emerging market productivity drive started to gather pace, as governments in these countries became more aware of the need to increase production to meet growing local demand. In developed markets, increasing weed, disease and insect pressure continued to spur a crop protection market which some commentators had declared moribund.

If we look now at the more recent past, a dip in 2009, occasioned by a combination of the financial crisis and the weather, was followed by rapid recovery. 2013 and 2014 were years of exceptionally favorable weather conditions in the northern hemisphere resulting in high global production of the major crops which has now been reflected in declining crop prices. It is our view that, given the inherent weather variability, these high levels of production will not be sustained over time. Meanwhile demand continues to grow steadily at around 1.5 percent per annum, most notably in the emerging markets which continue to be the major growth driver for our industry.

If you turn to slide 27, where you can see that these markets now account for over 50 percent of our sales. Expansion has been achieved without diluting margins in either EAME or Asia Pacific, both of which have increased over time. The margin in Latin America remains below average, but with scope for improvement as ELATUS now expands and our exposure to commodity glyphosate is reduced.

The early success of the integrated strategy in many areas reflects a broad portfolio and our ability to provide tailored offers on a crop by crop basis

As I already mentioned, managing short term volatility is an inseparable consequence of having a large emerging market presence. We have a proven track record in this respect and our experience is standing us in good stead in the current environment.

Longer term, the potential for our business in the emerging markets is undiminished, with the significant yield gaps compared with developed markets driving ongoing technology adoption and intensification.

Let me now turn now to our longer term sales target on slide 28.

On the left hand chart you see our eight key crops with 2014 sales and the pipeline targets we set for 2020, adding up to 25 billion dollars. These targets have encountered significant currency headwinds since they were set, added to which the reduction in glyphosate sales over the period will have a negative impact of close to half a billion dollars. Nevertheless, five of the eight crops remain on track to achieve their pipeline targets in 2020.

In the case of Cereals and Soybean, this follows strong performances in 2014 driven by innovation. Corn sales last year were down reflecting lower acreage in the Americas but longer term, trait expansion, resistance management and emerging markets all represent significant upside. In Diverse Field Crops and Vegetables, we have successfully built integrated offers around our leading seeds portfolios

While Rice and Specialty crops both grew sales in 2014, these targets now look stretched within the 2020 timeframe. Sugar cane has seen rapid growth of 34 percent CAGR between 2010 and 2013, but in 2014 crop protection sales stalled, due to drought and low profitability at Brazilian ethanol mills. However, we continued to make significant gains in market share. The targeted introduction of new PLENE for commercial planting in 2017 represents significant upside potential, but is not expected fully to offset these recent headwinds.

We continue to see significant growth potential in all eight strategic crops. Taking account of the currency headwinds, however, and taking a realistic view of the current year, we now expect to reach 25 billion dollars in sales early in the next decade.

Slide 29. Innovation underpins our multi-crop strategy and our ability to leverage it across crops will increase our return on R&D. The chart shows you recent launches marked in green and future launches in orange. On the right hand side you see the peak sales potential for each new product. In addition to the 500 million dollar increase for ELATUS, we have also now revised up our expectation for VIBRANCE – from 300 million to 500 million dollars.

We look forward to demonstrating our innovation potential and showing our updated pipelines at our R&D Day in Switzerland on 16th September this year.

Let me now conclude with slide 30.

The progress we have made in 2014 has strengthened our conviction that the integrated strategy will help drive above market growth. As I've shown you, the ongoing contribution of new products and our strong emerging market presence are components for success.

Of equal importance is our focus on achieving greater profitability through operational leverage. This, together with a resumption of top line growth, should enable us to achieve the targeted EBITDA margin of 24 to 26 percent in 2018.

The Accelerating Operational Leverage program also entails a further reduction in working capital which will contribute to strong free cash flow generation over the period. This in turn will allow us to continue increasing the cash return to shareholders.

That concludes our presentation today. I would like to now open up the call for questions.

Questions and Answers

Operator

Thank you. Ladies and gentlemen, we'll now begin the question-and-answer session. If you wish to ask a question, please press star one on your telephone and wait for your name to be announced. You can cancel this request by pressing the hash key.

Your first question comes from the line of Rakesh Patel of Goldman Sachs. Please go ahead.

Rakesh Patel – Goldman Sachs

Hi there. Good morning. Just a couple of questions from me. First of all, I wondered if you could talk a little bit about the free cash flow drivers for 2015 and the comparative relative to 2014. It seems difficult to try and drive more improvement in working capital, but perhaps I'm wrong and just say what we could think about there, and the absence of growth investments in 2015. It should – is it fair to then say that should take you to about \$1 billion in free cash flow generation?

And then secondly, just on Elatus, peak sales now looking quite substantially ahead of where you were thinking about previously. Thinking about the operating leverage, you talked about margin being around Group average in year two. Should we now expect that to be well above Group average, just given those leverage effects?

And then finally, in the CIS it's interesting to see that you have been able to still drive price increases to offset FX. I wondered if that was now encountering any resistance from your customers, given it would be the second year of substantial price increases for a grower. Thanks very much.

John Ramsay

Rakesh, just on the – yes, OK. First of all, the free cash flow, I think, yes, we've done – I think we're pretty pleased with the performance in terms of the inventory drive in 2014 and therefore it's right to think that we won't get it as much out of that. But we'd still like to be targeting an improvement in inventory as a percentage of sales, excluding the impact of currency. But the underlying impact should continue to improve and overall I think we should be targeting another 1 percent in 2015.

We have to continue to manage the receivables well. As I've mentioned a couple of times on calls now, that liquidity is more difficult than it was 18 months, two years ago and we have to

continue to drive our management of receivables. But I see no reason why free cash flow in 2015 shouldn't be above \$1 billion, as you suggest.

Elatius Group margin, the margin I think should be around the Group average in 2015, and then improving beyond that in 2016 and beyond.

CIS is a good question. I think in terms of 2014 I think we can say that we've been quite successful in getting prices up in Ukraine, with something like 80 percent of the currency devaluation occurring being offset by prices.

Now it's more difficult in Russia. The difference between Russia and Ukraine is that Ukraine is largely, the grain from Ukraine is largely an export market and therefore growers are having access to foreign currency. So it becomes easier to get price increases there. In Russia only about 30 percent of the grain is actually exported; it's more domesticized. But, as you probably know, the currency devaluation more recently has been much more of the ruble than the hryvnia.

So we are entering the 2015 season with the intent of pushing up prices in both Russia and Ukraine to compensate. It is more challenging in Russia, but prices are going up. I think the question is to what extent will they go up and this is going to very much depend on competition and how the market responds. And we have to appreciate that some of our customers are thinking more in euros than dollars. But prices are going up and we'll do our best to get as much out of it in terms of compensating for the currency effects as we can.

Rakesh Patel – Goldman Sachs

That's great. Thank you very much.

Operator

Your next question comes from the line of Paul Walsh of Morgan Stanley. Please go ahead.

Paul Walsh – Morgan Stanley

Yes, morning. Thanks very much gentlemen. Just two questions from me. John, if I can, just some clarification around the FX developments in 2015. I think you guys have said an effect of \$100 million excluding CIS. You just talked about price increases there at CIS and I guess that's going to come down to how much you can recover. But still, on balance, you would expect not to be able to recover all of the FX headwinds?

And then just secondly, presumably that \$100 million doesn't include the transactional effects on the business from the stronger Swiss franc so I was wondering if you had a thought on the transactional elements of the Swiss franc strengthening as well or if indeed that is included in the \$100 million, I don't know?

And just secondly on Viptera, clearly now you've got Chinese export approvals in place. I've noted that Cargill is now taking Viptera grain as well. And I just wanted to know what your expectations were for Viptera in 2015, if you could get that back on track, so to speak?

Mike Mack

Good morning Paul. It's Mike. I'll take the Viptera and John can cover the FX. Let's not forget that when we make our crop plan for corn seed that's sold now in this 2014/15 season, that decision is taken way back in April. So we took the decision on how much Viptera to grow for our product line in the context of not being able to make any concrete projection on exactly when that Chinese registration would come through.

And, as you remember, back when we were talking about this on the Q1 we said we did not think that the absence of the Chinese registration would have an impact on our sales, and indeed it didn't. The product itself continues to perform very well and it's got high demand precisely for that reason. And for 2014/15 season right now is underway, we regard the elevators that are taking Viptera as just evidence of the fact that grain is flowing and business is underway. But it's been underway last year as well.

So do I expect a pick up in Viptera? We continue to see the evolution of that product on the basis of the product performance. And the Chinese situation has not had a material impact on our sales either last year or this year.

John, on FX?

John Ramsay

Yes, Paul, look, let me say the \$100 million figure that I mentioned in terms of the currency impact is wrapping everything up excluding the CIS. So it does include the Swiss franc insofar as transaction effects are concerned on the income statement. I'll come back to the Swiss franc in a minute just to provide a little bit more understanding.

But let me just come back to the CIS because it's important to understand. The reason for excluding CIS from that \$100 million guidance is because it's becoming, given the rates of devaluation, it's becoming absolutely absurd to talk in terms of currency and CER, as we've always done traditionally, because we'll be talking 20 percent CER differences and offset by currency. So what I thought would be more useful to your understanding is that we exclude CIS and talk about that separately. So the \$100 million is everything except CIS.

So far as CIS is concerned, in relation to my answer to Rakesh, we're trying to push up prices. Now the question is fundamentally agriculture in both Russia and Ukraine is fundamentally sound. The underlying business is sound. It's all about managing the fiscal consequences. As I say, in Ukraine I'm confident that we'll get a high percentage of the devaluation recovered in pricing. In Russia it remains to be seen because this is a new experience for the Russians in terms of the fact the market is more domesticized. But I do expect that we'll do – we'll get a substantial proportion there and, as I say, it will depend on competition what we get.

Now there's going to be a volume impact clearly associated with that and we have to anticipate that overall CIS, when you take volume, price and currency, is going to be down in profit terms 2015 on 2014. And we've taken account of that in terms of targeting the constant EBITDA going into 2015.

Let me just say a few words about the Swiss franc so it's clear. The Swiss franc we're largely hedged this year and we're currently looking at, say, a rate of around 90 rappen to the dollar. If we're to – basically what would happen in 2016 of course is if current exchange rates remain where they are then all that would happen is that those hedges would roll off. So at current exchange rates you'd still only see probably around \$50 million rolling off in 2016. Of course the value of the appreciation was significant on the day that the Swiss National Bank abandoned the peg, but fortunately we were largely hedged.

Paul Walsh – Morgan Stanley

OK. So that's essentially pushing the – assuming spot rates prevail, I guess who knows, but it essentially pushes that as an issue through to 2016, which is why you've said that will be broadly compensated, again if oil prices stay where they stay, by the reduction in your raw material costs. So the \$100 million doesn't actually have a huge amount of transaction in it because that effectively is pushed out to 2016?

John Ramsay

Yes, I think you've got it. What I'm saying is that if current exchange rates stayed where they are at 90 rappen to the dollar going into 2016 you'd see our hedges fall away in 2016 and that would be a difference of about \$50 million year on year.

Paul Walsh – Morgan Stanley

OK. That's brilliant. Thank you very much.

Operator

Your next question comes from the line of Tony Jones of Redburn. Please go ahead..

Tony Jones – Redburn

Morning. I've got three questions. Firstly, back on pricing, John talked about that for CIS, but is there anything you can say about it going into North America as well for 2015 and any help on whether consensus at basically zero price gain is about right?

Secondly, I also think John said there was a milestone payment for Viptera licensing. I think that was in this year. Could you help us with what that number was so we can account for it for next year?

And then for the EBITDA bridge, on the growth investments and some of the other effects. So compensation, pensions and some of the losses, what of those will reoccur in the coming year?

And then on growth investments, should we assume the 5 percent increase you had this year, is it a similar pace of expansion or is it going to be much less? Thank you.

John Ramsay

On the EBITDA bridge, Tony, what we're saying is I think the major – well, I think so far as growth investments are concerned we've basically been on a three-year investment phase here and for 2015 growth investments are going to be very small as we had targeted some time ago in terms of coming to this juncture. So we wouldn't see on a 2015/2014 bridge any significant amount for growth investments.

I think the important carryover impact that's worth stressing so far as that bridge is concerned going into 2015 is the pension. And basically if you could just – what's happening on the pension differences? And the background to these pension differences, as we've been aware, we've been seeing unrelenting drop in interest rates for many, many years now, which pushes up the benefit obligation. So we have over the last couple of years been looking very closely at the benefits and looking at ways in which we can mitigate the impact on the benefit obligation.

So in 2014 we had something like \$170 million benefit which was made up of about \$140 million from the U.K., \$30 million from the Netherlands, so \$170 million. The \$130 million you see on the chart is net of the pension benefit we had in 2013 which was in Switzerland, which was I think on the 2013 bridge. So the net impact year on year is \$130 million. Going into 2015 then the \$170 million is the relevant figure, which is the U.K. and the Netherlands, which won't reoccur. But there's some other one-off items totaling about \$50 million. So I'd say on a net basis there's about \$120 million coming from that box which is the net difference when you look at a 2015 to a 2014 bridge.

I think so far as Viptera is concerned I did mention a license income which was associated with I think getting the Chinese registration, but it's a small tens of million number, that type of level.

Pricing generally. Look, the industry has been successful in getting price increases in the last number of years, including getting price increases in North America last year in quite difficult circumstances. We will be looking wherever we can to push prices. I think probably the region that's going to be most difficult is going to be North America and I think we have to work on the basis that it's going to be challenging to get price increases in North America. But given where we've come from, we will be looking for every opportunity. We'll see where we get to in Asia and Latin America but North America, Tony, I think is going to be quite challenged for price increases.

Tony Jones – Redburn

OK. That's very helpful and I appreciate the clarity on all the questions. Just a very quick follow-up on that last one then on the pricing, if North America is very challenging, should we be modeling then that pricing or mix at least is down? Does that seem reasonable for the year?

John Ramsay

I'd be more flat, we'd anticipate.

Tony Jones – Redburn

OK. Great. Thanks very much.

Mike Mack

Thank you Tony. Operator?

Operator

Your next question comes from the line of Andrew Stott of Bank of America. Please go ahead.

Andrew Stott – BoAML

Morning all. It was actually coming on to mix as well and a similar question, but I was intrigued by the flat mix comment for 2015 because if you look at your helpful bubble chart, which was slide 23, just confirming that big gap between insecticides, fungicides and the herbicides portfolio, I'm just thinking theoretically if you have volumes flat for the Group but you're still getting this ramp in ELATUS, plus, from what I understand, the insecticide market in Europe could be big this year because of the problems you've had post the neonic ban, could you not be in a scenario ultimately where actually you get gross margins up on flat volume?

Or, and this is really my question – sorry it's a bit long-winded – or is it the case that as ELATUS scales up it's still a below average gross margin product?

John Ramsay

We're anticipating ELATUS margins to be close to the Group average in 2015 and given where we've come from in 2014 then, yes, you would expect that to be incremental improvement in mix; that's absolutely correct. And we'd expect some further mix improvement in the phase-out of the solo glyphosate.

Just being a little bit cautious, Andrew, because we are likely to see a further reduction in corn acres going to soybean, as we've seen in 2014. That is negative for us. And growth in emerging markets is slightly negative as a general point, although it's correct that the insecticides and fungicides do better. So we've seen negative mix impact for the last couple of years and we'd see mix being less of an issue, with the potential for upside, as we go into 2015. But at the moment I'd like to just be a bit cautious given particularly those moves out of corn to soybean.

Andrew Stott – BoAML

Sure. And would it be possible to comment on my thought process there around the neonic ban and the impact that's having on the European cereal market in particular? Because I've been reading a lot about this, that you've got fairly significant insect pressure now. Is that accurate?

Mike Mack

Andrew, you say is it accurate to characterize that, there's increased insect pressure for example on winter oilseed rape and farmer damage, absolutely. It's real and it's meaningful. The open question is the extent to which some of the member states may further pressurize

the E.U. on reconsidering this. Remember it was a two-year ban. We're not anticipating that this ban will get any wider and nor are we saying that we're in a position to say that that ban will be reversed.

What we do know is every piece of scientific evidence that is credible suggests that this isn't tied to bees, the bee health, as has been – as some people have averred. And we're going to push with every ounce of our energy to get this thing reversed. So this year 2014 was the year where the ban was felt most acutely and going forward we hope that we can see that back again, that neonic. Did I answer your question?

Andrew Stott – BoAML

Yes, perfect. Thanks.

Mike Mack

Thank you

Operator

Your next question comes from the line of Christian Faitz with Kepler Cheuvreux. Please go ahead.

Christian Faitz – Kepler Cheuvreux

Yes sir. Good morning. Thanks for taking my two questions. First of all, given that your H1 2014 sales in crop protection in the U.S. were heavily impacted by adverse weather, would it be fair to assume an improvement in H1 2015 in North America just on the volume side, assuming more normal weather conditions this year?

And then second, can you in any way comment on the legal situation with respect to the Viptera-related lawsuits in the U.S.? Thank you.

Mike Mack

Thank you Christian. I'll just take both of those quickly. No, I can't comment anymore on the legal matter in the U.S. beyond what you've already heard, which is we don't – we do think

they're without merit. We will defend it vigorously and my expectation is that will continue to be, if not a multi-years process, it's certainly is going to – I don't expect that that will be resolved any time soon.

And with respect to the spring, we were disappointed in 2014. It was a late spring. We've got the leading line of pre-emergent herbicides and the weather went against us. But you also know that corn acres were down and that featured as well. John mentioned that we're expecting corn acres themselves to not necessarily have a rebound but Mother Nature is still going to have a role to play on that to some extent. The crop price evolution has got some time to go before that begins and if it's an early spring then it is entirely possible that we could have a little bit more of a mix uplift on the acre basis relative to 2014, yes.

So we'll as ever keep our fingers crossed that the weather holds up for an early spring, which favors acres that we've got.

Christian Faitz – Kepler Cheuvreux

OK. Thanks a lot.

Operator

Your next question comes from the line of Sophie Jourdier of Liberum. Please go ahead.

Sophie Jourdier – Liberum

Yes, morning. Three quick questions I hope. First of all, I just wondered, those bubble charts you gave and highlighting the low gross margin in soybean seeds, is there anything you can do over the next few years to increase the soybean seed gross margin? That's the first question.

Second question, I just wonder whether you could tell us what the royalty, overall license and royalty revenues were for seeds in 2014 and how you expect those to progress in 2015?

And then finally you mentioned in the release and your comments this morning that hybrid barley was going very well and I think you've also mentioned that you were making progress in hybrid wheat. I just wondered whether you could update us a bit on both of those?
Thanks.

Mike Mack

Good morning Sophie. I think on the soybean seed – and I'll ask John to take you through the royalty in 2014 and 2015 – on soybean seed what I would say is we've made no secret of the fact that we're a Monsanto licensee, both in North and South America. And as some – and as a licensee, as some of that, the product changes, and here I'm specifically referring to Intacta in South America, that represents a bigger revenue opportunity both for the trait originator, Monsanto, as well as their licensee. So that's one thing.

The second is with our independent business partnering model in South America we've got more opportunity to shift some of the production costs of those soybeans that we sell to our distributor partners and that can help us a bit on the gross margin. As John mentioned during his remarks, remember the lower gross margin is also helped on the operating income basis by less R&D. So those are the things that come to mind.

Of course in North America we very much go to market, as we do in South America, together with corn. So the opportunity to leverage the commercial dimension of this is covered well within the operational leverage program that we mentioned.

John, on the royalty income assumptions for 2014 and 2015?

John Ramsay

Yes, Sophie, I think in 2014 the total royalty income was about \$180 million. And I suspect actually it could be down in 2015 because the majority of the royalty income, not all of it but the majority, does come from corn volumes. And if corn volumes come down then we get less from third parties. So I would expect perhaps it to be down.

And indeed the license payment I referred to in the presentation was a milestone payment. The actual volume receipts associated with that agreement will be in future years and ramp up to – they'll take a few years to ramp up in terms of volume. So it's going to be probably down in 2015.

Mike Mack

And, Sophie, you asked a question about the hybrid barley. Hybrid barley, it's \$65 million, is up substantially, some 70 percent from last year. And of course we've said for a while now this was going to be our big ramp-up year and it's going really well agronomically.

The hybrid wheat, the point this morning was just to point out that the technological breakthrough that we've had with hybridizing barley is something that we've been able to carry over into the wheat crop. It's still – we've demonstrated proof of concept; we'll tell you more about that later on in the year.

But just a reminder that the wheat crop itself is the largest crop in the world. So the prospect for making the cereals crop quite a big seeds market, a commercial seeds market, is all still in front of us for the next decade. And don't forget of course when you've got a cereals market, you also have a fungicide market, which gives us great confidence about what we're able to accomplish with the fungicide line that we have. So it's very much that small bubble today has a lot of promise of being an attractive and large bubble in the years to come.

Sophie Jourdier – Liberum

Thank you very much.

Mike Mack

Thank you Sophie. Operator?

Operator

Your next question comes from the line of Thomas Gilbert of UBS. Please go ahead.

Thomas Gilbert – UBS

Yes, good morning Jennifer. Good morning gentlemen. Four questions. I'll be quick. And, by the way, thank you very much for some of the new slides; very analyst friendly. First question is on – we know all about the impact of crop prices on the P&L of farmers. Could you just tell us whether – interesting for us probably the balance sheet situation of farmers around the world. Do you see any territories where the farmers have, other than an earnings problem, a balance sheet issue, thinking about Venezuela or any of these countries, or is this largely sound? That's the first question.

The second question is coming back to your market – your guidance for flat sales growth. You say volume and mix is flat. You have price increases, which is obviously a headline organic growth in markets with currency impacts, but you guide flat. So do we have to back out that pricing excluding this is down or do we – or is this reading too much into the coffee here?

The third question is on you mentioned the drought has impacted the sugar cane mills and the sugar business in Brazil and there's been some horror stories going around on water shortage in Sao Paulo and these kind of things. Can you – have you – is the guidance

reflecting more caution on the second half in Latin America or do you see any impacts of the drought in Brazil coming into 2015?

And then the last question is on the tax. The pension gains in the P&L, did they have any impact on the headline tax rate and is that why you're guiding the tax rate up in 2015 or is this completely unrelated, the two things? Thank you.

Mike Mack

Good morning Thomas. I'll just take the sugar cane one and pass it over to John on the balance sheet and the others.

The drought in Sao Paulo, no, that hasn't had an impact on the agronomic zones in terms of the headlines. In other words, the Sao Paulo residents didn't compete with the growers in that respect. We did, however, have an irregular rainfall there and the significance of that was only that the fourth quarter in parts of Brazil got off to a rather late start. But you've seen our results and they are what they are. There's no lingering effect of that irregular rainfall now coming into the January and February. So no to that.

The reason for signaling the drought in sugar cane was merely that it was yet another setback for this industry that had had such high growth rates in the preceding years. And that combined with the whole ethanol pricing environment caused a number of these mills to have to be idled and this slowed the growth rate of our sugar cane business relative to the 2020 targets we have set for ourselves. So we're just pointing out that it was one of a series of things that served to slow that back. But, no, the drought of the last couple of months is not a 2015 signal of any sort.

John, on the balance sheet for farmers?

John Ramsay

Yes, Thomas, OK, starting with the balance sheet position of farmers, yes, I think as I've said a few times now, I think in Latin America, in Brazil there is a tightening of credit. The government had for many years been supporting agriculture and lots of credits around and that is diminishing as well as the crop price impact having some influence on that, although in local currency they are better off than the dollar figures.

So it's something we're watching very closely. I do think our track record in managing in Latin America is particularly good, borne out by the history. And of course it all comes back to the fundamental principles of work with your customers. Because at the end of the day, despite a liquidity issue, they're going to sell their grain and they'll get income. And as long as that income comes through the channel to you, you're typically OK.

And that's very much the principle we're applying in CIS. Clearly they are very tight with the balance sheets in CIS and it's a challenge but the industry has largely funded them. And again, choosing your customers well, the growers will sell the grain and they'll get the income and you'll get paid. Indeed, as I mentioned in the presentation, our collections for both Ukraine and Russia in terms of 2014 sales are ahead of, levels of collections are ahead of where we were this time last year in terms of 2013 sales. So, yes, there is some tightening in CIS and Lat Am but I think we're on the case.

The question of tax I think is a simple one. The pension is not a material impact on the tax rate. The reason I indicated it going up is just that there's different things you can do to the tax rate year on year and you're always running out of some options at times. But generally speaking the world has got increasing tax rates and we just have to reflect that. So we shouldn't place too much emphasis on the pension.

I think you also had a question about the sales being flat. I think perhaps we're getting into a bit too much detail here. What we're trying to convey is that CIS – if you take CIS out, we can deal with that as a separate issue because you're going to have, if you do it in a traditional sense, a currency variance negative and a very positive price variance offsetting that. And it would be rather confusing to talk in terms of CER and their currency, as we've done in the past. So what we were saying was for the rest of the business, excluding CIS, we'd expect more of a flat situation in constant currency.

Thomas Gilbert – UBS

Thank you Mike. Thank you John.

Mike Mack

Thank you. Operator?

Operator

Your next question comes from the line of Ronald Koehler with MainFirst. Please go ahead.

Ronald Koehler – MainFirst

Yes, hello. First question just on the question before again, flat sales in constant exchange rate. I calculate you might have an FX hit of 3 percent to 4 percent. That is now obviously including CIS so therefore it makes it a bit more confusing again. But nevertheless when I

think about US dollar term sales, should I then assume if you are constant in local currency that US dollar reported sales will be down by 3 percent to 4 percent? That's my first question.

The second question, could you provide us the sales figures you achieved last year in Russia and Ukraine to judge a bit the potential impact and the risk? So for both countries obviously separate would help. As you rightly pointed out, Ukraine price increases are easier than in Russia.

The third question is actually on financial expense line. You have now these hedging costs which are quite high for now the second year, and interest expenses are much lower, or your net interest expenses. Is it something which will get repeated over the next years? Is it something which would come down in 2015? Any kind of guidance on the financial expenses line would help. Thank you.

John Ramsay

I don't see the financial expense coming down. The reason is the volatility in the world is not reducing and currency impacts are associated with that and that comes through to the net financial expense either in terms of hedging costs or leakage on our hedging. So volatility is the driver there and that's continuing.

Very quickly on the sales, you can say in 2014 Russian sales about \$450 million, Ukraine sales \$350 million, that order of magnitude. And, yes, you're right, in reported dollar terms sales will be down, maybe a bit higher than what you've said, 3 percent or 4 percent, it could be 5 percent. But it's very difficult given anticipating exchange rates, but you will see reported sales down as a consequence of currency.

Ronald Koehler – MainFirst

OK. Perhaps one add-on question. We talked about the low basis in North America for Q1. We obviously have a high basis for Europe and then weather is a bit colder a bit longer. Is it something which will be a wash in your thought process or how should we think about Q1 development?

John Ramsay

I think you've got the context absolutely right, but trying to anticipate where those factors will be at this stage of the season is very difficult. Yes, Europe is coming off a high base and North America coming off a low base so hopefully there's compensation there. But we have to wait I'm afraid.

Ronald Koehler – MainFirst

Thank you.

Operator

Your next question comes from the line of Patrick Lambert of Nomura. Please go ahead.

Patrick Lambert – Nomura

Hi. Good morning. I have a few questions. I'll try to give them one by one. The first one, on the lawsuit in the U.S., I think you mentioned you couldn't comment too much but are you – do you think of taking any provisions for that over the next few quarters in order to reflect the risk or it's a no-go?

Second question. I think the Q4 for me in Europe was very strong both in crop protection and seeds. Could you comment a little bit on that, on what you see maybe (pre-buying)?

And also your comment on the full-year mix impact, on Europe in particular, I would have thought that it was going to be positive, with sugar beet maybe stable, but vegetables and barley still growing and sunflower coming back. If you could comment in terms of crops, how you see the mix developing for Europe in 2015, would be good.

Also expectations for Duracade next year still increasing and I guess Gavilon is still going on in terms of distribution.

And I think finally, how do you rank M&A in sales in terms of strategic option over the next few years in order to address some of the profitability issues, soybean and corn in particular?

Mike Mack

Patrick, the Duracade first of all. We're targeting about 160,000 to 170,000 acres in 2015. Some of those sales have been made and some will be made as we get closer to the season. So it's ramping up of – because as a leading insect control product in the context of increasing resistance to the existing products, so has tons of potential but it's still early in its product lifecycle.

You ask about the strategic options. I won't go through them one at a time but we will update you a little bit of soybean seeds. But each and every one of these crops, these key seeds properties that we have, they're global, they do share a number of technologies across them but, as John mentioned, the opportunity to improve the gross profit and indeed the net profit

from them exists in every single one of those. So the idea is to make these bubbles bigger and to move them up in the range. And there is dedicated resource behind all of those seeds properties.

John, the others?

John Ramsay

The short answer on lawsuits, Patrick, is that we see these lawsuits as having no merit and we'll be making no provision for any settlement. We do provide for the costs of defense in the income statement but that's a traditional practice.

So your mix impact, I presume in Europe you're talking seeds, I suppose in 2015 you could see a bit of a positive, but I think it's all going to be lost in the overall numbers in terms of the product mix and so on and so forth. But certainly sunflower increase, which was down last year, will be positive for mix in Europe. But I'm not sure we can necessarily ...

Patrick Lambert – Nomura

It's way too early.

John Ramsay

Yes, it's a bit too early and also there's an awful lot of moving parts. But I take your point on sunflower; it's one component, but I wouldn't read too much into it.

Interesting question is quarter four in Europe. It is I think useful to understand there, you can see a headline growth in constant currency in Q4 of 2014 of about 48 percent, and it's clearly very encouraging. There were some factors affecting that in the quarter, such as the CIS pricing, such as acquisitions, the cereal acquisitions that we made last year came in largely in the fourth quarter. And there was also some early campaigns.

If you take those out then the underlying increase in Europe in quarter four was about 20 percent rather than the headline 48 percent. What's behind that is the performance of hybrid barley, the mild weather contributed a bit and I think it's indicative of channel restocking.

Patrick Lambert – Nomura

OK. Great. Thank you.

Mike Mack

Operator, we'll take the final question now.

Operator

Your final question comes from the line of Andrew Benson with Citi. Please go ahead.

Andrew Benson – Citi

Yes, thanks for squeezing me in. Obviously they've virtually all been answered, but the tax rate, if you can give a little bit of guidance on that.

And interest – sorry, dividend cover, you're at 60 percent, where are you prepared to go.

You've stuck with the 2018 margin target yet obviously things are a little bit more challenging last year and this year, just why you think that's achievable still.

And 2020, you've indicated you're going to hit \$25 billion a few years later. I was just wondering what you now expect to achieve in 2020.

Mike Mack

That's a sales question, Andrew, the 2020?

Andrew Benson – Citi

Yes, that's right. Yes.

Mike Mack

I think by just calling out specifically that five of the eight crops remain on track and three of them look a bit stretchy, sugar cane and rice being among them, we're not – so the 2020 target \$25 billion looks stretched and we're not saying what it's going to be in 2020 or precisely where it's going to be in 2021. But the key word there was the resumption of growth.

Let's face it, if we spend together a number of years where growth is very modest and the reason for including that one chart that has a 30-year look-back is these periods of low growth in the industry do always tend to be followed by periods of above average growth. And I can't candy-cap that for you exactly when or how that's going to be.

Weather does play a role in it, but what is predicated in our longer term guidance here, including the achievement of the 24 percent to 26 percent EBITDA margin is a presumption of growth. And exactly how that, when that will come, what that will look like, we can't say because we don't know. But so part of that EBITDA evolution is absolutely in our grip because of the product line that we have in front of us, because of the really clear plans that we have under Accelerating Operational Leverage and frankly the traction that we're getting from the strategy. All that we feel really good about.

But rising tide lifts all boats and we can't say with any precision the market dynamic over the next 48 months, and it matters of course.

John, anything else to ...

John Ramsay

Yes, the other questions, Andrew, I think on the tax rate, I don't know what more to say. The tax rate is a combination of the profit mix, there's some one-offs, and you have to appreciate the world is looking for more, governments are looking for more taxes. So I was just indicating that keeping at a 15 percent rate is a challenge and that we should anticipate it going up a couple of points in future years.

Andrew Benson – Citi

So 17 percent for this year is realistic?

John Ramsay

17 percent for 2015, yes. I'd say 17 percent to 18 percent is realistic. But a lot depends on the profit mix. But, yes, it should be – I think it will be higher than 15 percent; that's clear.

The question on dividend, we don't really think about the dividend necessarily in terms of the cover on the income statement. You've mentioned a figure of 60 percent, which is about right.

It's really about commitment to a progressive dividend on the basis that the cash flow generation will keep pace. And we've had a couple of years now of lower earnings and cash

generation than we had anticipated previously but still confident that we'll come through the cycle and the levels of cash generation will catch up. So not really thinking about it. We're looking at it more in the sense of how we see the broader dynamic for us in the industry developing and what we can do in terms of our ability to generate earnings and cash within that.

The 2018 margin target, I think the reason why we've shown the gross margin slides at the end of my part of the presentation was really to do two things.

One is to enable you and other investors to look and see how we're doing over time because I think you can see from the charts there is some potential, particularly in the seeds business, to do better. And, as we've said through this year now, as the Company has come through its transition in ICS – we're now focused on execution and delivery through this AOL program – the Company's energy is really after this. And I think those charts illustrate that there is potential there. We've got a number of programs in place that we've spoken about and I won't repeat them here.

Now at the end of the day if we're not seeing any growth then it's much more challenging but we'd rather anticipate the markets are going to pick up in growth terms and that will assist. But fundamentally we don't see any reason why, with best endeavours in the program that we have, that that type of margin target is – it should be achievable. That's clear to us. So we're pressing ahead and getting on with it.

Andrew Benson – Citi

Thank you very much.

Mike Mack

Thank you Andrew. And ladies and gentlemen, thank you for joining the call. As ever, if you've got additional questions please call Jennifer Gough or Lars Oestergaard in Investor Relations. And one more time, I hope you will pencil in September 16 here in Switzerland at our Stein research facility for our R&D day. And with that, thank you very much and wish you a pleasant day.

Operator

Thank you. Ladies and gentlemen, that concludes our conference for today. Thank you for participating. You may now disconnect.

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