syngenta

First Quarter 2014 Sales TRANSCRIPT

Contents

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Presentation

Operator

Ladies and gentlemen, thank you for standing by and welcome to the Syngenta Q1 2014 sales trading statement conference call. At this time, all participant lines 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 keypad. I must advise today's conference is being recorded on Wednesday, April 16, 2014 and I would now like to hand the conference over to your speaker today, Jennifer Gough. Please go ahead.

Jennifer Gough

Good morning and welcome to the call. You'll find today's presentation on our website. As usual this presentation contains forward-looking statements which may be subject to risks and uncertainties which could cause the actual results to differ materially from the statements.

Here on the call today are Mike Mack, CEO and John Ramsay. I'll now hand you over to Mike and he'll start the presentation.

Mike Mack

Thank you Jennifer. Good morning ladies and gentlemen. I'm battling the last chapter of a cold here and ask for your forbearance if my voice diminishes a bit during the call. I'd like to start with an overview of the first quarter numbers now on slide 3.

Sales of $4.7bn were up 2 percent in reported terms. At constant exchange rates growth was 5 percent. For the integrated business this represented a 2 percent increase in volume with prices 3 percent higher. We saw a strong start to the season in Europe where growth more than outweighed a decline in North America as the weather delayed plantings there. Emerging markets once again showed double-digit growth at constant exchange rates. A key product highlight for us was the registration of Elatus in Brazil at the end of February. This will allow us to make a full launch for the next soybean season beginning in September.

Turning now to the development of integrated sales by region on slide 4, starting with North America. Prolonged cold temperatures across the corn belt prevented growers from planting crops, leading to a reduction in early purchases of crop protection. In addition, the ongoing drought in California is having an impact on insecticides and fungicide consumption in the horticulture segment. In Canada conditions have been more favorable and we've seen sustained Seedcare growth, reflecting adoption of our new product Vibrance.

In contrast to the weather in the US, Europe has experienced a mild winter and early spring which have spurred demand across the portfolio. In Western Europe notable contributions came from Iberia and Italy where the implementation of our integrated strategy is enabling us to outperform as these markets emerge from the economic downturn. Growth continues to be dynamic in the CIS. Currency movement though for these countries was negative in the quarter but were partly offset through higher prices.

Asia-Pacific saw broad-based sales momentum across developed and emerging markets. In Australia, we saw good distributor support for our early season offers and rainfall further boosted herbicide sales. Growth in China and South Asia was close to 30 percent driven in particular by technology adoption in rice and vegetables.

Finally, in Latin America, the pace of growth improved compared with the fourth quarter of 2013 despite dry conditions in Brazil and Argentina and lower second season corn acreage. We resumed selling in Venezuela as dollars became available for imports of our products there.

All in all, a solid outturn for the first quarter measured against a strong first quarter in 2013. As growers have proven in the past, there is substantial scope for the North American season to catch up now over the coming weeks.

Let me hand you now over to John for a more detailed review of the quarter.

John Ramsay

Well, thanks Mike and please turn now to crop protection sales on slide 5. The 6 percent increase in overall sales was split equally between volume and price. In Selective herbicides the early season drove double-digit growth in Europe with our portfolio performing particularly well on cereals and corn, and this more than offset a decline in North America. Growth in the other regions was also positive.

In Non-selective herbicides growth came from Gramoxone notably in Asia-Pacific. And we've deliberately constrained volumes of Touchdown to take account of its low profitability and of credit risk in Argentina. Glyphosate prices for now remain higher than a year ago.

Fungicides growth came primarily from early demand across Europe. We also saw double-digit growth in Latin America with increased use on cotton. In Asia-Pacific sales of Amistar technology in China doubled with the expansion on rice and vegetables.

Insecticides sales were up 11 percent with the further expansion of Durivo in Latin America. In the northern hemisphere strong growth in Europe largely offset a decline in North America due to the California drought.

Seedcare sales were lower following the suspension of neonicotinoid usage on many crops in the EU, which took effect on 1 December, 2013. In addition, lower corn acres contributed to a decline in Latin American sales.

On slide 6, shown in green on the chart, are new products launched within the last five years. Sales of these products increased by 85 percent in the quarter. And Durivo, while still growing fast, is now in its seventh year and going forward will no longer be included in the reporting on new products.

Clariva and Fortenza are both new seedcare launches this year. Clariva is a biological control for soybean cyst nematode stemming from the acquisition of Pasteuria in 2012. Fortenza is a broad-spectrum insecticide with potential on multiple crops.

Outlined in orange you can see the three new SDHI fungicides, all of which are gathering momentum this year. The combined peak sales potential of these three products alone is around $1bn. The largest contribution will come from Elatus, a breakthrough solution for soybean rust about which Mike will say more in a moment.

Turning now to seeds on slide 7. Corn and soybean sales were unchanged overall and also in North America where planting decisions have been delayed. The impact of lower corn acreage in Latin America was offset by growth in Europe and Asia-Pacific. A key driver for Diverse field crops remains the technification of sunflower in the CIS. And this was partly offset by acreage declines in other European countries. Excluding the divestment of Dulcinea, Vegetable sales were up 9 percent with continuing recovery in developed countries and the rapid expansion in the emerging markets.

Let me now move on to the impact of currency movements in the first quarter. Slide 8. The chart shows the depreciation of emerging market currencies versus the dollar and particularly the sharp decline in CIS currencies. In Ukraine, as in Brazil, our business is dollarized and we have systematically recovered a significant part of the currency loss through price increases. In Russia, however, pricing is in local currency and the ability to effect price increases mid season is very limited.

We are experiencing a period of unusually high exchange rate volatility and indeed some currencies have begun to recover in recent weeks. We are wherever possible mitigating the currency impact through price increases. However, based on the first quarter movements, we expect the full-year currency impact on EBITDA, net of price increases, to be around $100m compared with our earlier forecast of $50m. And this impact will be concentrated in the first half of the year. Demand remains robust in all the countries indicated on the chart and, thanks to our active risk management, receivables continue to be well controlled.

Now a word on our longer term funding, slide 9. We were active in the bond markets in the first quarter with two eurobond and three Swiss franc issues. The bars on the chart represent our bond issues with the various coupon rates at the top of the bars. Under the bars are the maturities, with the new maturities marked in dark grey. If you look at the left hand side of the chart, you see that these issuances replace bonds maturing in the period 2013 to 2015. The fact that we were able to enhance our debt maturity profile at attractive rates attests to our balance sheet strength and credit quality.

I'll now hand you back to Mike.

Mike Mack

Thank you John. Slide 10. We've also been active on the acquisition front in the purchase of PSB announced last week. PSB is a leading Italian durum wheat seed company with 30 percent of the Italian market. Its varieties are grown on more than 330,000 hectares in the Mediterranean countries and it has leading experience in breeding and producing durum wheat varieties. The production of high quality wheat is vital for the Italian pasta industry and with this acquisition we will accelerate innovation in Italy while driving international expansion.

We've already experienced the value chain engagement in durum wheat through the Grano Armando partnership with Baronia, a leading Italian pasta producer. The protocols that we offer to participating growers have enabled them to increase yield by close to 20 percent. In addition, the proportion of their production reaching the targeted level of protein content has dramatically increased as shown in orange on the charts. The PSB acquisition will complement our existing portfolio of cereal seeds and expand our ability to meet increasing food industry demand for high quality pasta production.

Turn now please to slide 11. Also last week we announced a collaboration which represents a breakthrough in the production of cellulosic fuel and which will significantly increase ethanol plant productivity.

We are licensing in Adding Cellulosic Ethanol, a new process for ethanol plants known as ACE, which allows ethanol to be extracted from the corn kernel fiber. ACE will be combined with our unique corn output trait Enogen and will lead to a significant increase in the $0.08 to $0.11 per gallon savings already conferred by Enogen.

The combined offer is expected to deliver a 17 percent increase in ethanol production and corn oil extraction, which most plants now undertake to supplement their ethanol revenue stream, it will increase by 200 percent. Dried distillers grains, the by-product used for animal feed, will also benefit through a higher protein content. The result will be a substantial increase in ethanol plant sustainability and profitability.

QCCP, who developed the technology, will commence using it next month at their plant in Galva, Iowa, which is one of the early Enogen plants. We plan to start licensing to other plants in 2015 and expect that this will significantly accelerate Enogen adoption.

Slide 12. Before concluding, let me return to Elatus, based on the active ingredient, Solatenol. The launch of this product gives Latin American growers a new tool to control soybean rust, a disease which has cost $20bn in crop losses since it first emerged in 2001.

Resistance to triazole chemistries has been growing and the introduction of SDHI fungicides has become necessary in order to combat this.

The chart on the left shows you that not only does Elatus outperform the standard treatment, it also outperforms the competitor offer. In addition, the interval required between applications is 7 to 10 days longer, which gives growers greater flexibility in the timing of sprays and improved efficiency. Solatenol has also demonstrated outstanding performance against diseases in a number of other crops and regulatory submissions have been made in North America and the EU.

Let me conclude now with the full year outlook on slide 13. In the second quarter we expect to see business in North America in full swing and further growth in Europe. As we look ahead to the second half, we expect the launch of Elatus to have a significant positive impact in Latin America.

On this basis we're confident we can achieve our target of full year integrated sales growth of 6 percent at constant exchange rates. As signaled in February, lower seeds costs will result in improvement in the gross margin for the full year. R&D expense will be at the upper end of the 9 to 10 percent range, but overall we will maintain our focus on operating cost efficiency. Currencies, for the reasons John has just described, are expected to have a negative impact of around $100m on EBITDA. Our forecast for free cash flow before acquisitions remains unchanged at $1.5bn.

That concludes our presentation this morning and I would like to now open the call to questions. Operator?

Questions and Answers

Operator

Once again, that is star one to ask a question. Christian Faitz, Macquarie.

Christian Faitz – Macquarie

Yes sir. Good morning. Thanks for taking my question or questions. First of all, can you tell us how Q2 developed so far in terms of weather trends in both NAFTA as well as the EU?

How is the relatively dry weather in Europe impacting your fungicide sales, if at all?

And would you believe a shortened US season due to the prolonged winter leads to fewer spraying applications?

And then I guess you explained why the Seedcare sales are down due to the neonicotinoids. Can you put a bit more granularity to that?

And then lastly, can you walk us through your hedging strategies regarding emerging market currencies? Especially would you consider factoring in USD in Russia going forward, and is that at all possible? Thank you.

Mike Mack

Morning Christian. I'll just start perhaps with the neonic file and say a word about the sprays in North America, and have John pick up your other questions.

First, nothing's changed really on the neonic file since it was announced last year. The ban started in December of 2013. To the extent that there was any positive development, a couple of countries have applied for and received what are known as derogations. A derogation is where you essentially ask the authorities of the country -- can I have special permission to use this product after all? Romania sought and got themselves a derogation for Cruiser.

And I guess the relevance of that, first of all, in and of itself it doesn't have any relevance on changing the ban, which is going to last for two years and of course we're fighting that. But what it does suggest is that farmers are finding some of their voice and the importance of this tool in their toolbox is something that's really deeply felt by them.

There is the potential for these derogations to gain a little bit more momentum. But as we said last year, the impact on us was $60m gross impact per year and that that would be offset by the reuse of some older chemistries. And so something on the order of magnitude of $30m per year in Europe feels about right.

With respect to neonics in the rest of the world, nothing has changed. In fact, if anything, more of the governments who'd been asked to take a look at that had been coming out more in defence of that.

With regard to the sprays in North America, our big business of course is the pre-emergent herbicide business and farmers have shown in the past that the cold can go well into, well, late April and very much into May before any of that has an impact. It is warming up over there and at this point in time, although it hasn't started, we would be calling for really normal development of the pre-emergent market.

With respect to the other big spray that would go on, it's fungicide, way too early to tell here because the farmers have experienced late planting before in the past. California, as we mentioned, some of those sprays will not go down and we're calling for the impact on that to be, I don't know, circa $20m to $30m at this point of time of sprays that won't happen in North America.

John, Christian had four others. I won't repeat them let's hope you wrote them down.

John Ramsay

I think you've covered the main thrust of the questions about the significance of the weather on North America and in Europe so I don't think it's necessary to add too much to that unless you want to come back, Christian. But I'll deal with the hedging point that you raised in terms of emerging markets.

We have a hedging policy which basically tries to hedge progressively through our year for the following year against EBITDA. But one has to say that fundamentally in emerging markets then it's quite challenging to get full hedging largely because of the cost and certainly in some markets just the sheer unavailability of a liquid market to hedge. So our strategy is more about managing these markets really well in terms of risk management, in terms of how we manage the ForEx going into the markets, how we manage the credit risk and particularly opposite currency to look at pricing.

So you'll see in the commentaries that we've provided, in Ukraine we've seen or across CIS we've seen very significant currency erosion in the first quarter. Now our defence against that has been very much to get prices up so in Ukraine I expect that we should recover something like about two thirds of the currency loss this year and the rest in the next season. In Russia, however, it's more difficult because of the way the market works and the contracts are made in local pricing at the beginning of the year. But nevertheless I would expect as we go into the next season in Russia again to be looking at the dollar impact and recovering any currency losses.

As you know, hedging has only got a temporary impact anyway so the fundamental in these markets is about how you manage risk.

Christian Faitz – Macquarie

Okay. Great. Thanks.

Mike Mack

Thank you. Operator?

Operator

Patrick Lambert, Nomura.

Patrick Lambert - Nomura

Good morning. Congrats for this good start of the year. A few questions. First on the, a little bit more color on the corn, your expectation for corn seeds in this year in terms of split of trait -- Enogen, Duracade, Viptera -- and your comments on where we are on Chinese approval, if you can say anything about that.

Second question, what makes you confident that North America momentum has gathered in terms of crop protection? Can you give us a little bit of a feel of April orders in CP?

Third one on neonicotinoids. I remember that the impact was about $70m of sales. Is that still the case? Do you think you, with Romania derogations and maybe some others, you can lower that number and how much Force will compensate for that?

And the last one on sugarcane. Can you update us a little bit on the technology stabilization for [Plene]? Thanks.

Mike Mack

The corn seed one, Patrick, your voice was breaking up a bit, but the corn seed one sounded a bit along the lines of tell us a little bit about the trait development over there in the US.

Patrick Lambert - Nomura

Yes it is. Yes it is. The portfolio, what you see you can achieve this year in terms of split, Duracade, Enogen –

Mike Mack

Okay. So I'll just update you on the -- first of all from a regulatory point of view because I think you mentioned China. From a regulatory point of view nothing has changed over there. We continue to await approval, but we have nothing final. I think it is fair to say at this point in time that we don't have -- that we will not have any approval before the start of the season. That's for sure.

Nothing has changed since we last spoke about this in February either about the order book. By the order book I meant demand for Viptera was strong. That hasn't changed. And by the way we won't know the final chapter on all of that until Q3 of course after the corn returns are done and the dust has settled on the whole season, but the order for that has remained broadly unchanged since the beginning of the year. Viptera as a percentage of the portfolio is about 30 percent and it controls of course an important insect and that is in quite good demand.

Duracade is in its introductory year, its launch year, and it, for all intents and purposes, is and has been completely sold out. It's going to go on to between 250,000 and 300,000 acres. And as you might recall, Patrick, we implemented a growers' stewardship program with Gavilon, which is going to put that Duracade into the hands of local elevators. And farmers have appreciated that and that all is going fine.

And Enogen of course represents, as I said in that slide towards the end of my presentation, represents a real big opportunity because it continues -- ethanol, corn ethanol continues to represent 30 percent or so of the corn crops. So it's a unique trait and we've got now a modeling place where we connect the Enogen trait to Syngenta corn seed as well as Syngenta crop protection chemicals. So all of that represents the strategy as such is unfolding as we wanted.

The Chinese headwinds of course are completely -- they're not helping. But I think over time of course we should expect that to be opening up quite a bit.

North America about sprays, at the risk of quick repetition, we've been here before. We've been -- in many years as a matter of fact where the main part of the season doesn't open up until well into May. So I have again every confidence that this is going to be, although a bit late, it won't be so late as to make it exceptional.

John.

John Ramsay

I think your next question, Patrick, was on the neonicotinoids and the number for the full-year impact is about $75m. So you're right in that respect and we don't see that being any different. In the first quarter we did have some impact of that already coming into the first quarter. But the Seedcare numbers were also impacted by the lower acres in Latin American corn and some of the delay in the start up of the season in North America. But the number for the full year as a consequence of the suspension is about $75m.

Just your point on Force, I think in the first quarter about two thirds of the European loss of neonicotinoids has been made up by Force.

And I think your final question was any news on the new technology in sugarcane in Brazil. Basically, nothing more to report. I think we're very much still in line with our plans that we set out last December.

Patrick Lambert - Nomura

Alright, which means that you'll be updating us very soon on the feasibility of the [cutting] -- the ramp-up of the [cutting], right?

John Ramsay

Yes, we will be doing that, Patrick.

Patrick Lambert - Nomura

Okay. Good. Thanks.

Mike Mack

Thank you.

Operator

Jeremy Redenius, Sanford Bernstein.

Jeremy Redenius - Sanford Bernstein

Hi. It's Jeremy Redenius from Sanford Bernstein. Thanks for taking my questions. First of all, could you talk a little bit more about the pricing you saw in crop protection chemicals? If I understood correctly, it was up about 3 percent year over year. Is there any particular region or product lines that contributed to that?

And also is that as potentially margin accretive as it seems at first glance?

And then secondly, with seeds pricing, could you talk about the seeds price and volumes that you saw? Thank you.

John Ramsay

Jeremy, just on pricing, crop protection pricing quarter one was up 3 percent, as was reported. Just to understand that within that there's about 0.5 percent which is due to glyphosate which we'd like to just keep on one side. And currency, I talked about our response to the CIS currency decline has been about putting prices up, so if we take that out that's another 0.5 percent. So you can say the underlying crop protection price increase in the quarter is 2 percent. And so I think we would say that this gives us a good base to retain our target for the full year of between 1 percent and 2 percent. And yes, that should be, apart from those two factors of glyphosate and currency that should be margin accretive.

And I believe the seeds price increases in the quarter were 2 percent and pretty widespread in crop protection. In seeds, pricing in corn and soya has not been particularly high, but pricing's spread across the other crops.

Jeremy Redenius - Sanford Bernstein

And so within crop protection could you describe like any particular regions or types of products that were particularly strong with pricing?

John Ramsay

It's pretty wide -- it's pretty broad-based, Jeremy, actually when you look at it. It's across all the regions. All the regions have got price increases. And it's pretty widespread across the product range. There's a few notable products, but frankly it's broad-based in terms of the targets that we've set.

Jeremy Redenius - Sanford Bernstein

And, sorry, one more follow-up on that. Any particular change in strategy towards pricing then because pricing is stronger this quarter and volumes are a little bit weaker than maybe what we've seen over the past few years?

John Ramsay

I think this is probably a deeper question than now. We've always been looking to get price increases. The industry hasn't been particularly great collectively in terms of getting a lot of price increases. But I think in recent years you've seen the recognition that as the expansion in the emerging markets continues, the level of cost increases, the level of volatility. And as our competitors are all looking at the same market conditions as us and I just think commercial reality recognizes that we should get some compensation for our cost increases. And that's what we're doing.

Jeremy Redenius - Sanford Bernstein

Okay. Thank you very much.

Operator

Virginie Boucher-Ferte, Deutsche Bank.

Virginie Boucher-Ferte – Deutsche Bank

Yes, good morning. I've got three quick questions left. First of all, just to follow up on pricing, is there any mix effect, positive mix effect which has captured in this pricing figure?

I also would like to know on SDHI, I think you said during the presentation that the peak sales potential for this chemistry was above $1bn. And I think I remember it was over $850m before. Could you please confirm I'm talking about the same chemistry?

And last, do you expect any royalties on Viptera this year because I think some of your licensees should start selling seeds including Viptera and, if so, could you please quantify them? Thank you very much.

John Ramsay

Okay. Well, just on the pricing first of all, Virginie, I think the simple answer is the numbers that you have we've quoted and the numbers I spoke to in respect of the previous question do not include mix effect. We try as best we can to exclude that in terms of our pricing reported numbers.

In terms of SDHI, I believe we're talking about the same group of chemicals insofar as the total for that group is greater than $1bn.

I don't have a number for Viptera royalties but there will be Viptera royalties in our royalty number for this year. We're up on royalties in the first quarter and we're expecting to be up in the full year to about $200m compared to I think about $180m last year. And there will be a contribution from Viptera in those numbers, but I don't have a precise number in my mind.

Virginie Boucher-Ferte – Deutsche Bank

Okay. Thanks. And just to be clear on SDHI, you've increased the peak sales potential from $850m to above $1b?

John Ramsay

Yes, we've increased the total from $850m before, yes, to over $1bn. That's correct.

Mike Mack

But, Virginie, the reason for that is we've got more potential based on Vibrance, which is Seedcare. Had great start to that in Canada and the performance to date is really spectacular. So that of course is an SDHI and that's where the growth versus the last time we spoke about this will come from.

Virginie Boucher-Ferte – Deutsche Bank

Okay. Great. Thank you very much.

Mike Mack

Thank you Virginie.

Operator

Martin Roediger, Kepler Cheuvreux.

Martin Roediger - Kepler Cheuvreux

Yes, I have also three questions. First, on the target for 2015 regarding sales, in your annual report you basically reiterate your sales target, which is $17.45bn including lawn and garden and $16.65bn excluding lawn and garden. So assuming you achieve the 6 percent organic sales growth for the integrated offering this year, you need quite substantial double-digit top line growth next year to achieve your sales target. So what makes you confident to achieve that sales target for 2015?

And in that regard a follow-up question, would you be able to reach your EBITDA margin target for 2015, which means the lower end of the 22 percent to 24 percent range, in case you miss your sales target for 2015, i.e. because of a lack of leverage effect?

And the third question, can you talk a little bit more about the Amistar technology expansion in China. You mentioned Amistar sales doubled in China on the expansion of rice and vegetables. Is that more volume-driven or is it license income, because I thought that you cooperate with generic companies? And maybe you can update us about how important China is for you in terms of sales.

Mike Mack

Maybe I can start with just a perspective on the sales evolution. Yes, we always have expected some acceleration in 2015. We've never predicted currencies and of course currencies look set to weigh this year. But I think all you have to do is look over the past and if you take a broad look over the past 14 years of Syngenta's life, and particularly the last now three and half since we've announced our integrated strategy, sales don't come in, in completely level terms.

After the first few years of our integrated strategy we were a full 1 percent ahead of the 8 percent compound annual growth rate that we forecast for our sales. 6 percent seemed advisable this year in view of some of the lower economic performance around the world in economies and somewhat lower crop prices. But the double digit -- the business of catching the double-digit increase in sales in 2015, no, is not necessary in order for us to get to the EBITDA improvement that we had set for ourselves. It's essentially a non-repeat of some of the one-offs that we had last year. That, combined with operating leverage, is going to put us on a footing to do that.

I think that with respect to Amistar in China, China's a big country. We are several hundred million dollars of crop protection chemical sales. We're substantially smaller than that in our seeds business. And this against the backdrop of a huge agricultural economy, one that is attempting to modernize very quickly. And the potential, if and when they do that, the potential for us to have a large addressable market is going to get really big.

But with the current portfolio there, as good as it is, it's small relative to the rest of the Syngenta footprint around the world. And China does represent an opportunity, but relative to all of the emerging markets, it's just a piece of that. John, anything else to add? Okay.

Does that square it?

Martin Roediger - Kepler Cheuvreux

The question about volume or volume-driven or license income driven, China?

John Ramsay

Yes, it's volume driven. Well, while it's volume-driven, we're expanding our own market there into new markets which haven't previously had access to this technology.

Martin Roediger - Kepler Cheuvreux

Thank you.

Operator

Andrew Benson, Citigroup.

Andrew Benson - Citi

Yes, thanks very much. Andrew Benson here. Just some small things. On Ukraine, can you just talk about how you're managing credit risk?

I was quite interested in what you were saying on the new development of Enogen and perhaps if can you dimensionalize the commercial opportunity and some sort of timeframe for achieving that?

I didn't really understand what you were saying on Touchdown, that you were reducing sales because they were low margin or something like that. So perhaps if you can just give some more clarity, both on Touchdown and on the non-selective herbicides overall please?

Mike Mack

John, maybe you can come back to the Ukraine in a second. I think -- good morning Andrew.

I think the bottom line really on Touchdown is just obviously it's a big compound in the global scheme of agriculture. It's a big number for us, $800m, nearly $900m, and it is by far the lowest margin of any of the branded products that we offer.

And I think what you're hearing us say is we're absolutely focused on being sure that as that product gets bigger in terms of sales, that we're doing everything we can to maximize either the pull-through of our seeds or the pull-through of other high-margin chemistry, but that we're very much managing Touchdown's growth with the mind to being sure that we just don't dilute the earnings quite frankly through the growth of glyphosate as an agricultural non-selective herbicide.

On Enogen, as I said, the current economics of the plant, the plant being the ethanol plant, looks set to be somewhere between $0.08 to $0.11 per gallon of profitability improvement.

And the potential for ACE technology -- and remember this is now only running in one plant, in QCCP, and in QCCP it's running, but this is the place where we've developed it with them -- the potential seems set to be that we can double the economics of the profitability of a plant in all of these various streams, the corn oil extract, the energy use, the overall throughput as well as the value of the dried distillers grains at the end. And if we can double the profitability of a plant then that would substantially enhance the overall utility of Enogen, the corn trait, and ACE, the technology, in ethanol plants.

And of course it's a big end use and as we this year get this ACE plus Enogen technology developed out a bit further we're going to be in a position to be able to give you a little bit more of a straight edge on that. But for us it's an exciting development and puts more clearly the potential of Enogen to begin to move the market share of our corn seed business over the coming years.

John, Ukraine?

John Ramsay

Maybe just a quick supplemental on Touchdown, Andrew, as well. In addition to the profitability point, we've also got -- a large market has been Argentina. And one of the challenges we're managing there, and managing it quite well, is getting the ForEx for imports and it doesn't make a lot of sense to be using up whatever good offices we have in accessing ForEx for Touchdown. So it's another angle to it there.

So far as Ukraine is concerned and credit, you're right to ask the question about this because one of the consequences of the situation we find ourselves in, in Ukraine is reduced liquidity. It has always been short of liquidity but these events with the political situation with Russia have exacerbated that. So it's critically important we manage credit very well.

We have for some years, and we've been taking specific action really to ensure that we're choosing our customers well. This is a fundamental of any credit risk management, and we have been doing that over the years and developing partnerships and building businesses of companies there, distributors, who are keen to work with us and build the business as the market grows.

But we do have quite tight policies so we do have a considerable amount of advance pay, about 40 percent advance pay, and we manage it very well. I think the evidence for that is that we have collected 100 percent of the 2013 sales; not a single dollar was lost in collections in Ukraine. So quite a credit to the team but it is something we have to continue to manage really well.

Andrew Benson - Citi

Thanks very much.

Mike Mack

Thank you Andrew. Operator?

Operator

Paul Walsh, Morgan Stanley.

Paul Walsh - Morgan Stanley

Thanks very much. It's Paul at Morgan Stanley. Morning gentlemen. Just a couple of questions from my side. Could you just give some guidance with regards to the reduction in seed costs that you're going to see this year? I think in total a combination of the absence of the write-down and the lower seed costs were going to add $240m to EBITDA this year, so somewhere around the $70m for seed costs. Can you split that between the impact in the first and the second half for me?

And secondly, just coming back to some of the comments around pricing, it seems like there's a bit more of an industry-wide push to use pricing as a mechanism to keep margins up. How are you feeling about share developments through the first quarter and moving into the second quarter? That's it. Thank you from my side.

Mike Mack

Pardon me. I'll just -- good morning Paul. Maybe I'll take the share development and ask John to comment further on seed cost breakdown first and second half, and pricing.

As is always during the Q1 it's extremely difficult to talk about share evolution. For example, in North America at this point in time the season hasn't gotten underway and I would only say about North America on that score, we don't really know that until, on the seed side of the business until Q3, and on the crop protection side of the business we've got a bit of the sense of that by the time we get around to H1.

But we've got the leading herbicide product line. We've got a great fungicide offer. As I said earlier, about the corn soybean seed. What I like is that our business is increasingly traited to what the market is looking for here. More insect control, more refuge in a bag. Of course, no surprise, the China situation has not helped the evolution, further evolution of Viptera, but again time will tell about that.

In Europe, again it's off to a great start and I like our sales evolution so far. None of our major competitors have come out with their numbers yet so I think it's still early days to make a call on that. But overall, terribly pleased, of course you could imagine this, to receive the Solatenol registration, and some of these new products like Vibrance have given us a real bounce and looking forward to getting on with the balance of the year.

Paul Walsh - Morgan Stanley

And just on that, Mike, the bottom line is you're still pretty confident of taking that 50 basis points of share as part of the longer-term growth targets?

Mike Mack

Yes, sure. When we came out with that -- two things about that, Paul. First of all, we said it was part of a $25bn sales target and along the way of course the market has been bigger than what we anticipated as we look back over the last now almost three years. When we set this $25bn target, 8 percent was embedded in there and people said, well, in order for you to get that 8 percent it's going to have to be a share gain and the market's going to have to be something like, the overall market something like 6 percent or 7 percent.

So the market has beaten it and given us a little bit of headroom on the share evolution, but the last couple of years in the context of some of our major competitors, and here I'm referring to the chemical space, having some of the new SDHI products, and we're just now coming into those ourselves. And we were getting ourselves re-traited on refuge in a bag and so some of those things the last couple of years that were always going to be a bit more difficult for share evolution are now behind us.

So, yes, for sure, we aim to grow our market share in this business on the back of integrated offers, but more importantly on the back of new products that are coming out across the crops and seeds and traits, as well as chemicals of course.

John?

John Ramsay

Your second question was about the seed costs and trying to get a split between the first half and second half. There were two components to that $240m round number. One component was seeds write-off which we recognized in the second half of 2013. So therefore the comparable will be affected in the second half of that $170m amount. The other $170m amount was essentially due to, the largest part due to the prior year drought in terms of increasing the costs in North America largely but not exclusively and some Latin American costs. And I'd say that that is about two thirds half one, one third half two.

Paul Walsh - Morgan Stanley

One third half two. And just as an extension of that question, if we're talking about a 2 percent real price increase across the portfolio this year, we're essentially year on year looking at a pretty decent uplift to EBITDA from that. You talked at the full year numbers about the increased R&D cost, the employee cost, and now you've given us some more guidance on the FX hit. Most of that is going to get offset by the price increases if that's sustainable for the rest of the year, no?

John Ramsay

Yes I think there's some moving parts here, largely the currencies which have changed. But I think we said at the full year that we would be anticipating a slight increase in EBITDA margin and that remains our view. After the higher R&D and the higher employee costs, we'd expect still, for the reasons you've said in terms of lower seed costs and pricing, we'd have that slightly higher EBITDA margin. Now currencies will impact that but at this stage we're still saying that, yes.

Paul Walsh - Morgan Stanley

Okay. Thank you very much.

John Ramsay

Thank you Paul. Good day.

Operator

Andrew Stott, Bank of America - Merrill Lynch.

Andrew Stott - Bank of America - Merrill Lynch

Yes, good morning. The first question is sort of a general one on the wheat price. It's been an amazing run in the last couple of months and I realize that year on year I guess there's not been an enormous amount of inflation. But I'm interested how that has impacted the mood of the market then and what you're seeing in your own momentum. So maybe give me an idea of the shape of Q1 and whether you've seen an acceleration through it.

My second question is on the cash flow guidance. So looking at obviously your statement, you're sticking to that target. I suppose from my side I was thinking a 2 percent volume number is not huge and you'd obviously carried a lot of inventory into the year-end. So -- and of course on top you've got the currency issue, which you raised. So is it fair to assume that that target, if you were to mark to market, you're going to be slightly lower? Is that a fair comment? Thank you.

Mike Mack

Morning Andrew. On the wheat, as is often the case here we get this question about the relationship between crop prices on the one hand and farmers' propensity to spray on the other. From everything that we can tell, the bounce that we've had in fungicide here in Europe is completely driven by the weather and the weather is early pest pressure on fungus and farmers have gotten out after it. That the wheat price has been favorable has just given them that much more encouragement. But the catalyst for it hasn't been the pricing and therefore let's go out and spray some more. An early -- that spring broke early was the predominant reason.

John, on the second?

John Ramsay

Yes, I see the point to your question, Andrew. In so far as the, yes, we did say that the free cash flow target for the year would be about $1.5bn before acquisitions and clearly currency is the major thing that's changed since we last spoke at the full year. The net $50m that we -- of increase in terms of the currency impact, we said $50m negative impact, we're now saying $100m, and that is net of price increases, largely associated with CIS, will impact earnings.

So your question is will it impact cash flow. I think we can still achieve the $1.5bn before acquisitions but, yes, you're right, that currency has eaten into the contingency if you like. But $1.5bn before acquisitions remains our target.

Andrew Stott - Bank of America - Merrill Lynch

If I can come back, John. I suppose my question was more about the volume performance than it was about currency, just thinking about the inventory side of the cash flow target.

John Ramsay

Yes, the inventory, as we've discussed, is the major impact on the cash flow. We built large amount of inventory last year for reasons we've explained, and that's going to reduce this year. But assuming that we get a reasonable season, which we are still assuming, then we are on course to achieve that inventory reduction. There'll be some big decisions made around the middle of the year. As you know, the inventory periods are about seven months and we do have to have a pretty good view of what's happening in Latin America. But subject to making those calls, making good calls in June or July, then we believe that we'll achieve the inventory reduction.

Andrew Stott - Bank of America - Merrill Lynch

Okay. Great.

John Ramsay

Inventory reduction of course, basically what we're talking about is flat inventories. We're essentially not building inventory opposite to the sales growth but that is inherent in the $1.5bn.

Andrew Stott - Bank of America - Merrill Lynch

Yes, okay. Thanks John.

Operator

Laurence Alexander, Jefferies.

Laurence Alexander - Jefferies

Good morning. I have two quick ones. First, on Viptera, has there been any discussion of this year giving your farmers some insurance about if crop gets rejected from China sharing any losses with Syngenta? There's been some discussion in the US about whether that might be one approach to look at.

And secondly on Enogen, can you give an update on the number of plants who are actually trialing Enogen now?

And to clarify the profit capture, are you looking at about a third value capture of the $0.16 to $0.26 profit creation you're talking about or is it going to be a lower value-capture equation?

Mike Mack

First, on the Viptera, I'm not sure I understand, completely understand the question beyond to say that farmers don't have any exposure whatsoever to Chinese corn rejection. When they sell their corn into an elevator, the elevator then sells it on to a grain trader where, if and where there is any financial exposure from a rejection, that's between the two parties, the importer and the exporter of corn. The farmers don't involve themselves in that. So with respect to indemnifying a farmer, backstopping their losses, there's no need for Syngenta to do that because the farmer doesn't have any exposure to that. Does that answer your question?

Laurence Alexander - Jefferies

Yes.

Mike Mack

Okay. And with respect to Enogen, we're in five plants right now, and by being in a plant of course that's a 24-hour a day, 365 day a year basis. It's all day every day. And we have seven additional trials planned this year and this is against the backdrop of an addressable market of the dry grind ethanol method of about 170 plants, to give you some sense for the huge potential of this.

With respect to the value capture, perhaps to oversimplify it, what we have done is because there's value conferred to the ethanol plant through the use of Enogen in a reduction of their overall inputs and more productivity using Enogen because it breaks down more quickly than the competitive mixture would, this is a benefit to them. And in exchange for that benefit we are asking them essentially to buy corn from our corn growers.

And so prior to Enogen the ethanol plant purchasing department would not necessarily preference one farm or one farmer versus another farm or farmer. And what we're asking them to do now is to preference our farmers. And so the value capture for us is that that farmer is growing Syngenta corn, they're using Syngenta crop protection products and of course Syngenta seed treatment on their corn. So it's a perfect arrangement for them and a perfect arrangement for us.

Laurence Alexander - Jefferies

I guess if we can just clarify that because the ACE announcement seems like a very significant change in approach where you're trying to affect the process that they're using as well. Is there a capital outlay on your behalf or is there a value-capture arrangement around the cellulosic components as well that we'll come back to? And can you give us some sense because that seems like a fairly large jump in magnitude if there's a potential profit gain for the producers?

Mike Mack

I'm not sure I understand. You say there's a very large capital outlay for them for Enogen. What they have to do is merely quit using alpha amylase liquid enzyme for their process and instead use our corn. So it's not as if it's a conversion process. It's something that they have to be obviously attentive to doing well, but it doesn't -- it's not a huge capital matter for an ethanol plant to hook up to Enogen. Okay?

Laurence Alexander - Jefferies

Okay. Thank you.

Mike Mack

Thank you. Operator?

Operator

Sophie Jourdier, Liberum Capital.

Sophie Jourdier - Liberum Capital

Yes, morning. I've got a couple as well please. First, just on the seeds business, which I guess the growth was a bit low in the first quarter, and you've talked a lot about corn. Can you just talk about soy and diverse field crops? Perhaps is it just a late start to the season? What are the expectations for those crops on seeds for the rest of the year?

And then second, just a quick one again relating to costs. Growth investments, can you just remind me whether we're looking for another step-up this year? I think it's roughly been about $200m step-up for the last few years. Are we still -- should we still be factoring that in for this year? And thanks.

John Ramsay

Yes, so thanks for the question. I think on seeds, yes, just a broader perspective than what we've discussed to date. Clearly the seeds numbers are affected by the late start in North America and as a consequence then corn and soy is looking flat. But put that in context of a quarter four where we had double-digit growth in corn and soybean in North America. But that's largely associated with the season. We also experienced reduced corn acres in Brazil as a result of the dry conditions. That's affecting the numbers.

In diverse field crops, there's a rotation issue goes on with sunflower which will come back in future years as the rotation reverses. But we're up significantly in sunflower in CIS, up by, I think seeds in CIS are up about 16 percent and a large part of that is sunflower. Elsewhere, ASEAN corn continues to grow very strongly, 20 percent. Vegetables, excluding the disposal of Dulcinea, vegetables are up a strong 9 percent, which is I think quite significant opposite more depressed levels of growth in recent years. And that's largely driven by recovery in Southern European markets and the emerging markets continue to be very strong. So that's broadly the outlook across the whole of the seeds portfolio.

In terms of growth investments then, you're talking this year about a step-up in R&D from close to 9 percent to close to 10 percent and that would be a bit under $200m and maybe a little bit more for marketing. But this step-up is the last year of that three-year plan that we had. But, yes, for 2014 we should be thinking about a step-up in R&D growth investments.

Sophie Jourdier - Liberum Capital

Thank you very much.

Mike Mack

Thank you Sophie. Operator, we'll take the last question at this time.

Operator

Rakesh Patel, Goldman Sachs.

Rakesh Patel - Goldman Sachs

Hi. Good morning. Just a couple of questions left from me. First of all I just wondered, just going back to Enogen, whether you could talk a little bit about the licensing revenue that you expect to start coming through in 2015, perhaps dimensionalize that for us a little bit?

And then secondly, in terms of the SDHI chemistry, obviously you lost a little bit of market share last year. Are you seeing any indications that that's coming back much more strongly and we should see a good reversal of that this year?

And then finally, any update on Devgen now that it's been in your portfolio for over a year now? That would be great. Thanks very much.

Mike Mack

Good morning Rakesh. First on Devgen, going perhaps reverse order here, Devgen was always going to be on the R&D side. That was always going to be a very long investment. By long I mean on the RNAi technology those products won't be in full swing until later part of this decade or early in the subsequent one.

But all, everything that we have learned since the acquisition just makes us more and more pleased that we did it. The rice seed business that we picked up from them is in full swing in India and people are very pleased with it. I know this isn't -- on a somewhat less important front, we named the head of Devgen's business to be the head of our South West Asian business. He's now the new head of India and that is just symptomatic of how well that integration has gone and the ability of that rice seed to pull along some integrated offers.

On SDHI, yes, we are absolutely set to now be on the march to recover some of the share loss from last year. That's going to be a ramp-up of course and we're putting in place some significant investment in our manufacturing facilities to be able to meet the opportunity. And by the opportunity, you saw on the slide that it's not only better than the standard but it's better than the competitive offer. And of course you will have seen that as well with your own eyes when you visited us down in Brazil this last year. And of course that market is still well in front of us but the chemistry will speak for itself.

And on -- just to be sure I understand the licensing question on Enogen, would you restate it?

Rakesh Patel - Goldman Sachs

Yes I just wondered if you could talk about the licensing revenue potential from Enogen going out into 2015, especially given that you've told us now there's an addressable market of around 170 plants?

Mike Mack

Yes, but remember there's two things that are going on here. There's us licensing ACE technology to double down on the profitability of ethanol plants through the use of Enogen. And the way to think about that is it's a licensing fee that's paid to the owners of that ACE technology, but for which we get a benefit by accelerating the implementation of our bio-based -- our biofuel-based strategy for corn. But we don't otherwise license Enogen to anyone else.

So the game for Syngenta is how fast are you going to get into some of these dry grind mills using Enogen technology and, to the extent that this further turbo-charges the Enogen offer, are we going to be able to get more value capture than merely the corn acres that we are going to pull through? And the answer to that is that's still in front of us but we have to sharpen the overall value proposition now for Enogen plus ACE. And that's over to us to now do that and tell you more about that just as soon as we can after some of these trials are completed.

Rakesh Patel - Goldman Sachs

No that's great. Understood. Thanks very much.

Mike Mack

Thank you Rakesh. And ladies and gentlemen, thank you for joining our call. Of course if you have any subsequent questions feel free to call Jennifer or Lars Oestergaard in Investor Relations. And have a great day and talk to you in a couple of months. Thank you.

Operator

Thank you very much. That does conclude our conference for today. Thank you for participating. You may all disconnect.

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