First Quarter 2015 Results TRANSCRIPT

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Presentation

Operator

Thank you for standing by, ladies and gentlemen, and welcome to the Syngenta Q1 2015 sales trading statement conference 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 will need to press star one on your telephone.

I must advise you that today's call is being recorded on Friday April 17, 2015. I'd now like to hand the call over to your speaker today, Jennifer Gough. Please go ahead.

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 publicly available filings with the U.S. SEC for information about such risks and uncertainties.

And 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.

The headline sales number we announced this morning reflects a strong headwind from exchange rates, with the dollar strengthening against virtually all currencies. We were particularly affected by the dollar strength against both the Euro and emerging market currencies. As a consequence reported sales were down 14 percent. However, as we have been able to manage the currency impact on earnings, John will be giving more detail on this in a moment.

At constant exchange rates, integrated sales were up 1 percent, helped by significant price increases in the CIS to offset the sharp currency depreciation in those countries. These price increases more than offset a 7 percent volume decline in the quarter. In Europe volumes held up well despite the CIS turbulence and a very strong quarter in 2014. In North America, on the other hand, we saw a delayed start to the season and declines in specific areas which John will explain in a moment.   After strong performances at the end of last year Latin America and Asia Pacific were also lower. However, Elatus continued to perform well in Brazil.

In February we signalled a volatile currency and more difficult crop price environment for 2015 and indeed this is proving to be the case. In this context our focus on risk management is paying off, as evidenced by the price increases we have achieved. Equally important is our focus on cost efficiency and profitability, which underpins our earnings outlook for the full year.

Let me now hand over to John for more detail on the quarter and the outlook. John.

John Ramsay

Thank you Mike.

Please turn now to the business update by region on slide 4, starting with North America where the outturn in the first quarter was disappointing with sales 16 percent lower. The adverse performance did result partly from the planned reduction of our glyphosate business. Excluding this, sales were down 13 percent. In addition, seed care sales were lower, largely in Canada, where the industry was oversupplied following significant contraction of the cereals market. Seeds sales reflected lower royalty income and the expectation of further reduction in corn acreage in the current commodity price environment. Looking ahead we are now entering the main season for our leading herbicide portfolio and we are focused on maximizing that opportunity in weather conditions more favorable than last year.

In our largest region – Europe, Africa and the Middle East – performance was strong with constant currency sales 15 percent higher, demonstrating successful management of volatile CIS markets. The fungicide portfolio performed well across the region with solid volume growth in most products and markets. Central and Northern Europe showed good momentum with broad-based growth in crop protection.

Lower Asia Pacific sales were partly attributable to the phase out of paraquat, following a regulatory change in China. Sales in Japan reverted to normal phasing, having been elevated in the first quarter in 2014 due to a consumption tax change. The impact of lower rice acreage associated with government intervention in Thailand was partly offset by further expansion of GroMore protocols in South Asia. I am pleased that in an environment of emerging market currency depreciation we successfully implemented broad based price increases in the region.

In Latin America, sales were 11 percent lower. Risk management in Venezuela caused a significant sales decline for the quarter, but I anticipate these sales will catch up over the remainder of the year. In Brazil and Argentina, low insect pressure led to substantially lower applications of insecticides, and in Brazil, corn seed sales were affected by lower second season acreage.

I would like to come back to our performance in Europe with a more detailed overview on slide 5.

The headline constant currency performance of 15 percent in Europe, Africa and the Middle East was significantly impacted by currency-related pricing measures.

The substantial CIS currency depreciation was largely offset through price increases. At the same time our focus on risk management continues to serve us well – as at the end of March we have successfully collected 100 percent of 2014 Ukraine receivables, and 96 percent of those in Russia.

Excluding the CIS, sales in Europe were up 2 percent at constant exchange rates versus a strong first quarter in 2014.

In the other emerging markets, crop protection performance was good, especially in Africa and the Middle East. This was partly offset by the impact of cold and wet conditions in South East Europe which delayed planting and reduced seed sales.

The lower sales in France were primarily a result of selective herbicide orders in the fourth quarter of last year. In other Western European markets growth was led by crop protection.

Slide 6. Crop protection sales were up 1 percent on a constant exchange rate basis.

Selective herbicides increased 6 percent, with good volume growth and price increases in the CIS more than offsetting lower sales in France and North America.

Non-selective herbicides were down 30 percent as a result of the continued reduction in TOUCHDOWN volumes and regulatory change in China impacting liquid formulations of paraquat.

Fungicides demonstrated broad based volume growth in Europe. In Latin America, adoption continued for ELATUS, though this is, of course, the tail end of the season.

The negative sales development in Insecticides was due to limited pest pressure in both Brazil and Argentina. In Seedcare the 11 percent reduction was largely the result of the channel in Canada working through the high levels of inventory for the cereals market.

Please turn to slide 7 for Seeds, where the first quarter sales were unchanged at constant exchange rates.

Corn and soybean sales were 9 percent lower partly as a result of the change to our distribution model in the US, to focus on the Dealer Channel. As expected, royalty income was lower due to the non-repeat of prior year milestone payments. Looking at the full season, we expect VIPTERA to continue to account for more than 30 percent of the portfolio in 2015.

Diverse field crops sales were 15 percent higher, benefitting from price increases in the CIS. The magnitude of these price increases though, has seen some growers opting for locally sourced genetics, resulting in volume reduction. In South East Europe, cold and wet conditions resulted in delayed planting of spring crops.

And finally Vegetables. Lower sales of sweet corn in Brazil and China were partly offset by good growth momentum in developed markets both in North America and Europe.

Please turn to slide 8.

The chart shows currency movements versus the US dollar since 2013. For 2015 the chart is based on monthly data, and the increased currency volatility is clearly evident.

Overall I am pleased that in the first quarter we successfully offset around 75 percent of total emerging market currency depreciation, through determined implementation of price increases.

In the case of the Euro and Swiss Franc movements, EBITDA is protected through hedged positions.

Nonetheless, on the basis of current exchange rates – taking into account the continued appreciation of the US dollar opposite most currencies, as well as the increased volatility we have seen – I now project a full year currency headwind of around 130 million dollars, excluding the CIS. I also anticipate net financial expense to be slightly higher as a result of increased hedging activity.

Turning to slide 9 for a brief word on our operational efficiency program.

It is a little over a year since we launched the program and since then we have made good progress on implementation, with targeted cost savings across the company now starting to materialize. Overall savings delivery of 265 million dollars in 2015 is firmly on track.

With regard to restructuring charges, the AOL program is by far the most significant activity, but in addition, our prior savings program is nearing completion, and there will be some smaller impacts from integration related activities.

When taken together I expect a total pre-tax charge of around 300 million dollars with an associated cash outflow of around 270 million dollars in 2015.

I will conclude with the outlook on slide 10.

In an environment of currency and crop price volatility we have demonstrated our ability to successfully manage risk. As the key northern hemisphere season progresses, we are focused on maximizing the opportunity for our market-leading chemistry in North America.

The delivery of savings from our AOL program is on track as I just mentioned.

We therefore maintain our full year targets of sales unchanged at constant exchange rates, excluding the CIS, and EBITDA around the prior year level.

At the same time, as I mentioned in February, the tax rate is likely to be higher.

I also expect substantial free cash flow generation before acquisitions.

Longer term, our focus is 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.

Through the integrated strategy we expect to drive above market growth supported by a track record of continued expansion and leadership in emerging markets. A strong portfolio of new products is of course critical and also here we are well positioned. For a bit more detail on that I will now hand you back to Mike.

Mike Mack

Thanks John. New products will indeed continue to be a driver of above market growth over the long term. Slide 11 is a reminder of the crop protection pipeline chart that we shared with you in February. Of the total peak sales potential of over 2.9 billion dollars, 640 million dollars was realized last year, leaving significant potential in front of us.   Let me now give you an update on two of the products. Slide 12.

With ELATUS now firmly established on soybean in Brazil, we are looking ahead to the major opportunity represented by cereals in Europe. We have already conducted over 600 trials in the EU focusing on both wheat and barley. The chart top-left shows you the yield advantage conferred in over 70 percent of those cases versus the current standard across all major diseases. We expect registration in the EU in 2016, and a US registration later this year.

Turning now to slide 13 and to ACURON, our new corn herbicide for which we expect to make the first sales later this year. The chart shows that in more than 150 university trials, ACURON easily outperformed the leading competitor solutions. By combining four active ingredients with three different modes of action, ACURON will help growers manage major resistant weeds such as ragweed. Its launch will complement our current Early Season Weed Management offer, which combines traits and herbicides to combat yield loss.

Let me now give you an update on ENOGEN on Slide 14.

With the launch this year of an ethanol grain quality solution we are now incorporating crop protection into our ENOGEN trait platform. This supplies growers of ENOGEN corn with a crop protection protocol resulting in superior kernel quality, enabling them to receive a 10 cents per bushel premium for their grain.

In the meantime ENOGEN corn seed has increased its reach to nine commercial plants and acres are expected to double this year. The introduction alongside ENOGEN of the CELLERATE technology, which first became commercial nine months ago, has allowed plant output to qualify as cellulosic, and this year the first plant passed the one million gallon milestone for cellulosic ethanol.

I’d like to conclude now on slide 15 with a reminder of the growth trajectory for crop protection which we showed you in February. We’ve expanded the chart to show the recent evolution of the conventional and GM seeds markets, which have a combined value of over 40 billion dollars – still considerably smaller than crop protection at over 63 billion dollars. With the pace of GM growth having considerably slowed, this is unlikely to change. It reinforces our view that crop protection will continue to play a paramount role in raising agricultural yields globally. In the developed markets the focus will be on innovation and resistance management, while in emerging markets adoption and intensification are the key drivers.

Most importantly, though, we are the only company with the science enabling us to compete across this entire market, now worth more than 100 billion dollars. We look forward to demonstrating this to you at our R&D Day in September.

In the meantime, that concludes our presentation this morning and I'll now open up the call for questions. Operator?

Questions and Answers

Operator

Thank you. We will now begin the question and answer session. If you would like to ask a question, please press star one and wait for your name to be announced. If you wish to cancel that request, just press the hash key.

Your first question comes from the line of Paul Walsh. Please go ahead.

Paul Walsh – Morgan Stanley

Good morning, guys, and thank you very much for taking the time to answer a couple of questions that I had. I was just wanting to talk about the long-term sales targets. Obviously with the currency headwinds that are in situ right now, I just wanted to hear what your latest thoughts were around the long-term targets on top line? And I'm also curious to know whether or not you think you've lost any share given the volume development in the first quarter.

My second question just on the royalty income. Can you just give us some numbers around what you're expecting royalty income to be this year versus last year?

And my final question. In terms of the EBITDA guidance, what does broadly mean? Does that mean at the same level or are you thinking slightly lower than last year, which gets incorporated in the word broadly? And judging from the comments around higher financial charges for hedging costs, should we expect earnings pre exceptionals and restructuring to actually be down year on year? Thanks very much.

Mike Mack

Thanks. Good morning, Paul. Look, I'll take the first two questions. First on your long term, the short answer is certainly nothing has changed since February. The quarter, as John indicated earlier, got off to a pleasing start, certainly in Europe relative to a strong comp that we had to deal with from last year. And we feel very good about what we're able to accomplish in the CIS and Russia given the difficult environment there.

North America, how goes the weather in the start of the season is very important to us, and it was very late last year. This year, if I could just here reflect on where things are the second week of April, it looks like things have broken over there. And by broken I do mean that it's underway. So I think it's going to be rather more normal, if I could give a forecast of that, in North America.

So with respect to the long term, despite commodity prices being down, growers are doing what they do every single year. So, yes, the long term looks as we've said it will be, 2015 shaping up to be a somewhat more challenging year perhaps than the last five.

You ask about share, and look, the Q1 versus Q2 is very difficult to call that, beyond to say that we're pleased with the product introduction of ELATUS last year. That's going to help us again in Latin America. ACURON, which is going to be – we hope to have that registration within a number of weeks, give us a lot of encouragement that expanding our crop protection market share this year and over the coming years is something that is very much in hand given the productivity of the pipeline right in front of us. So all's full on ahead.

John on the royalty income and the EBITDA guidance?

John Ramsay

Yes. We'll maybe just deal with the earnings point first, Paul. In terms of just the word broadly, basically we're using that in the context of being able to estimate figures with the year ahead of us and the currency volatility and goodness knows what. Broadly is meant to mean that it's going to be at year's level and any difference doesn't materially matter within the context of being able to estimate so far into the year.

Insofar as bottom line earnings are concerned, with that guidance in terms of EBITDA broadly at last year's level, then we would find the earnings would be down because we have said that the tax charge would be higher and NFE, as I mentioned in my text, is going to be slightly higher as a consequence of the extra activity we're putting into hedging.

So far as the royalties are concerned, I'd say it's going to be about – in the area of about $160m best estimate. A lot depends on how well we do with our GLG business. That is expected to do quite well as they take up new hybrids. But working on the basis of around $160m.

Mike Mack

Thanks, Paul.

Paul Walsh – Morgan Stanley

And can you just remind me what it was last year, guys, sorry, on the royalty side?

John Ramsay

It was a bit higher last year.

Paul Walsh – Morgan Stanley

A bit higher.

John Ramsay

One of the factors affecting the first quarter, which I mentioned in the text as well, was a milestone payment received in royalties last year, which is affecting the North American figures, is one of the reasons for the variance on North America, which won't be repeated.

Paul Walsh – Morgan Stanley

And just, sorry, a quick follow-up question from me. Are you seeing customers in Brazil wanting invoicing in local currencies at the moment? We've heard one or two companies suggesting that farmers are pushing for local currency invoicing. Are you guys seeing any of that?

John Ramsay

Well I think you just – let's be technically correct what we mean here. In Brazil we invoice – the industry does invoice in local currency. One doesn't invoice in dollars as perhaps you do in Argentina, for example.

But what I think is meant here is that the question as to whether the Brazilian grower is prepared to withstand the Real local currency price increase associated with the dollar pricing. And that is always the challenge in Brazil. As you know we work towards dollar pricing, but price lists will ultimately be issued in Reals. And it's a question – it's a pricing question at the end of the day, to what extent the market is prepared to withstand pricing increases.

But look, the devaluation of the Real has a positive impact on those growers who have got access to export. So there is a big chunk of the market for which the growers are receiving dollar income, which gives us some confidence of being able to push prices through.

We've managed to achieve in the first quarter 2 percent real price increase in Latin America. Clearly the biggest part of the season is ahead of us. But we're determined to operate as best we can and get some dollar price increases and see how it goes.

Paul Walsh – Morgan Stanley

Thank you very much, guys.

Mike Mack

Thank you, Paul. Operator?

Operator

The next question comes from the line of Tony Jones. Please ask your question.

Tony Jones – Redburn

Morning, everybody. I've got three. Firstly guidance on cash flow to be substantial. And I think on Bloomberg there's some reference to it being over $1bn. How confident are you with Q1 volume erratic that there's not some net working capital drag on that?

Second question on price. Could you tell us on an underlying basis what price increases were in the different regions? And should we be modeling price up around 1 percent on an underlying basis into Q2?

And then third question. The reference to change in distribution in North America, is that part of the savings plan or something else that you want to address? And could you provide a bit more detail? Thank you.

Mike Mack

Look, I think, Tony, I'll take the change in distribution and John can pick up on the cash flow and the price by region. I think during the full year – the full-year results in February, we made claim that we were going to really focus our corn seed business on the technologies that were very relevant to us, where we had a distinctive competitive advantage, for example in the ARTESIAN drought optimization trait as well as of course for ENOGEN, which continues to be very pleasing for us.

And that the expansion of our branded corn seed business in the traditional crop protection retail distribution channel was not evolving as we had hoped it would at one time. However, we've been much more successful in the direct sales model which we call the dealer channel and that we were going to be focusing on that. And that's what we're doing.

Now you're asking whether or not that is in pursuit of cost savings. Within the context of the AOL program, we are rather returning to focusing our crop protection business through traditional retail and our corn seed business through traditional dealer.

By the way, that dealer channel is one that has historically been the channel that we've used in North America. So this was a little bit of a refocus back to where it had been in pursuit of market share evolution. And with that is going to come some cost savings. But the real deliverable on that is execution and focus on expanding our business in each of crop protection and seeds.

John, cash flow and pricing?

John Ramsay

Yes, Tony. On cash flow, first of all, I think if we get our sales numbers then it's going to drop through to EBITDA and it's going to drop through to cash flow. So I think the question really is around managing the inventory and perhaps the receivables. I think last year we showed excellent management of inventory and that's continuing into this year. You always run a risk with the Latin American seed, and if we've got any inventory differences at this time we can largely work them through. But as you get into the decision-making midyear for Latin America you have to make a firm judgment about that. But I think we're well on top of the inventory management.

Receivables, as I've said a couple of times on recent calls, receivables are proving more difficult. I think we're doing very well in CIS. I mentioned in my text that we've collected 100 percent in Ukraine from last season, 96 percent in Russia. And it's right at the top of our agenda in managing that. Latin America receivables will be more challenging, there's no doubt about that. But I think in terms of our track record, we've got a pretty good track record of managing it. But we're conscious of the risks there and managing it to the best of our ability.

So far as pricing is concerned, I think the headline, excluding the CIS price increase we mentioned, is about 1 percent across the four regions for chemicals. We're working on the basis that the pricing trends that we've managed to establish in the first quarter continue into the second quarter.

Pricing by region, we're up 2 percent in Europe. We're up – excluding CIS again, we're up 2 percent in Latin America. We're up 2 percent in Asia. We're down 2 percent in the U.S.

But importantly, I'll just say a few words about that, the question has always been, given the high levels of in channel inventory which are just beginning to clear in North America, is there a pricing risk?

That minus 2 percent doesn't represent any new pricing impact; it's representative of an adjustment to fungicide pricing – there was a competitive move late last year. And that's that just following through into this year. Importantly North America, there has been no negative pricing this season as a consequence of the high inventories. And we'd expect those inventories to start moving as we speak.

Tony Jones – Redburn

Great. Thanks very much.

Operator

The next question comes from the line of Jeremy Redenius.

Jeremy Redenius - Sanford Bernstein

Hi. This is Jeremy Redenius from Bernstein. Thanks for taking the questions. Firstly, it's quite a substantial volume decline in the first quarter, and I do recognize it's just a quarter. How do you think about that? How do you plan to make up for that later in the year such that you can come in line with this EBITDA guidance you're setting? What will be the key drivers behind that?

And then second, with the change in the channel model in North America, is that a drag that really takes you the full year to implement this year? Or is that something that we've seen the negative impact of in Q1 and things will be on track for Q2 and beyond?

And then thirdly, just looking at Europe, there's been some changes in the CAP system here. And I've noticed especially there are new greening provisions and ecological focus area provisions. That looks like they might take a little land out of production, or at least change how it's used. And I'm wondering if you're seeing any impact on that business already this year or you would expect any impact on your business? Thanks very much.

Mike Mack

Sure. Thanks. I'll take the – first of all the CAP. You're right to point out that the potential is for it to have more – to have an impact on the overall acreage. But we're not anticipating that that's going to be a material impact in our long-term plan. And short term, of course, it hasn't been implemented a great deal.

What farmers are mostly concerned about, because what – if there is a strategic threat around this, is it's the, well, the greening of the economic policies around agriculture and to what extent is that going to have an impact on the regulatory environment.

So for us it's a little bit of a precursor to how far are we going to continue to green the regulatory environment here. But the acreage, as such, is – would pale in comparison, for example, to an early spring on any given year and the new registration, for example, for Solatenol in France and in Germany.

Turning to the U.S., Jeremy, the short answer is, look, this – it really is an evolution in a way. As we look back over the last 10 years, the mix of our channel between the traditional dealer channel, which is direct for corn seed, and retail for us has always been a 75 percent direct and a 25 percent retail. It's always been a 75 percent/25 percent mix. And it is – and that's where it is right now.

By focusing on this, what we're effectively doing, and this is a decision we took last year, is a lot of the effort that we put into getting our traditional crop protection sales people suited up to be able to sell corn and soybean, they did that very effectively and that was good. But that investment is not paying off with market share evolution so we are just de-emphasizing that. And it's not going to be something that is going to be a significant increase in savings, as such, but it is going to help to focus our business and ensure that we don't continue to make an over-investment in training the traditional crop protection people in the retail channel for our corn and soybean seed sales. I hope that's helpful.

John, how are we going to catch up on EBITDA guidance when the first quarter is – well, having disappointed by 7 percent?

John Ramsay

Yes, Jeremy. Thanks for the question. I think you answered it yourself insofar as you said it, it's only a quarter. And I think therein lies the answer. We've only done 35 percent, typically 35 percent, the North American business done in first quarter, 45 percent of Europe. All of LatAm is still ahead of us and we'll see growth in Asia. But I think the most significant point is in North America because of the volume shortfall in the first quarter.

Look, what we're faced with here is a slow start. And, to be frank – our caution around managing channel inventories. But compared to last year, we're now looking, as best one can tell, at what is looking like a normal weather season.

You may recall last year we had a very prolonged cold spell well into the second quarter. And, as you know that impacts our very strong pre-emergent herbicide portfolio for which we have got a strong market position. And that market declined substantially last year because the season was so late.

And as best one can do across the North American region, it's looking like reasonable and normal weather conditions so we'd expect to get a bounce back in that area as Q2 progresses.

Jeremy Redenius - Sanford Bernstein

Yes. And just perhaps to follow up on North America, so it was – we had, let's say, a delayed season in Q1 last year as well. And now you've said it's a delayed season this year. Am I missing something about why it's down so much in the first quarter of this year? I can understand how Q2 could be better this year on a very easy comp, but Q1 this year I thought would have had a very easy comp as well.

John Ramsay

Well the thing about Q1 in North America is it is all fiction. It's all movement of product into distribution. And it can vary substantially around the choice one makes. But look, we've been very cautious about making sure that channel inventory is not oversupplied. And it has been very wet. You do it on a five-year average basis, you'll see very clearly that the levels of planting to date are substantially down.

I don't think there's anything to worry about here; it's just that it is slow. And as long as the weather persists and starts to kick off in the way that one – it looks like at the moment, Q2 will be fine.

Jeremy Redenius - Sanford Bernstein

OK. Great. Thank you very much for that.

Mike Mack

Thank you. Operator?

Operator

Thank you. The next question comes from the line of Sophie Jourdier.

Sophie Jourdier – Liberum

Morning. Thank you. Three questions as well, please. The first one is a bit pernickety, so sorry about it, but just going back to the EBITDA guidance for the year. It's unchanged. But of course the currency headwind has worsened by $30m since the full-year results.

It looks like your cost savings target is unchanged. I just wondered whether there was anything else getting better. I know you had been looking for raw material and seed cost – seed production cost to be down $100m. Is that still the same? Or is it just simply that you see, in the context of things, $30m doesn't really matter? That's the first question.

A second question just on tax. Can you just remind us what the guidance is for the rate this year?

And then finally back to the prices and volumes. I wondered whether you could split it between seeds and crop protection and if it make sense to strip out the CIS effect. Thank you.

John Ramsay

OK, Sophie. Thanks for the questions. Maybe just on the last one, the – excluding CIS, crop protection prices are up 1 percent in total, excluding glyphosate as well. And then in seeds, excluding CIS, prices are flat overall and you've got some mix in the regions

Tax estimating around 18 percent in 2015.

You're right, the currency number I estimated at the full-year results was about $100m. Now I'm saying $130m at EBITDA level. Frankly, I'm really pleased with this given the – you can see 14 percent top-line impact. And that might diminish a bit as we progress, or it will diminish a bit as we progress through 2015. But still to make – to get to a bottom-line impact of $130m is going to be a very good achievement.

The reason we've been able to do so is the push on prices. And particularly in CIS, where we've managed – the team there have managed to get prices up by something around 80 percent of the currency devaluation. So $30m and keeping the guidance the same I think was driving the question, I don't see $30m as that material in the overall sum of the moving parts when you're trying to estimate EBITDA at this time of the year.

Frankly I think it might actually do a bit better in CIS. It's one place where we'd be expecting to do a bit better. But it's broadly within the round of the estimates that we're making.

Sophie Jourdier – Liberum

OK. Thank you very much.

Operator

Thank you. The next question comes from the line of Andrew Benson.

Andrew Benson – Citi

Yes. Thanks very much. Perhaps just for completeness, the additional financial charges that you now expect associated with hedging, you said they were higher. I don't know whether you could give us that detail as well.

I just want to come back to Jeremy's question because you've talked here about low pest pressure in Brazil. You've talked about high seed stocks in Canada. You've talked about accelerated phase-out of paraquat in China, withdrawal from glyphosate.

So you've talked about a number of specific issues, which don't appear likely to unwind, which have contributed to the poor first quarter. And the question is how are you going to make that up? And you've just said you hope that the weather would be normal.

So I just want to perhaps push you a little bit harder on the specifics of how you intend to accelerate the growth to make up for those specific shortfalls, if you could, please.

John Ramsay

OK. Just firstly, Andrew, on the financial expenses, it's simply a question of the hedging costs as we hedge in some of these markets with the relative interest rate differentials. What you end up doing is you end up paying more expense for the hedging.

You also have leakage in terms of the intercompany balances when you're shipping into Ukraine, shipping into Russia, then we basically hedge that. If you have movements in that, those currencies between the point of shipping and the point of remission out of the country, then you do get a variance which goes into our net financial expense. And the biggest impact there is Ukraine. You just can't hedge, although the market is now –.

Andrew Benson – Citi

Yes. I just wondered what you thought the number was going to be.

John Ramsay

Oh well it should have been that simple then. It's going to be about $230m.

Andrew Benson – Citi

Thanks.

John Ramsay

OK. Coming to the question though, yes, there's been a few specifics which have affected the first quarter. But the answer lies fundamentally in is that 70 percent of our season, the whole season across the world, is still ahead of us. We're seeing very strong performance in Europe.

And we expect to reverse the Q1 decline in Asia; that's for specific reasons. In Japan we had a tax change there; that will reverse. And Latin America is fundamentally all ahead of us. There's only about $0.5b of sales in Latin America in the first quarter,

So the thing that one would have to focus on in answering the question is about the North American market. We've always said when we spoke at the full year, the biggest question that we have is about how the North American market will perform. Unfortunately, at the end of the first quarter, you're just getting into the season. And I think what we're saying is, given what we can see today in terms of weather prospects, then it's looking like it's going to be a normal season. And we're working on that basis. And that basically is the answer.

Andrew Benson – Citi

Actually, if I can ask in a slightly different way then. You don't intend to offer any higher rebates in exchange for securing volumes?

John Ramsay

Definitely not.

Andrew Benson – Citi

OK. Thanks very much.

Operator

The next question comes from the line of Virginie Boucher-Ferte.

Virginie Boucher-Ferte – Deutsche Bank

Good morning. Thank you very much. I've got a few questions. First of all, on the leverage improvement program, the $265m savings, could you please talk about the phasing of these savings in H1 versus H2?

My second question is on Solatenol. You mentioned earlier the regulatory approval of Solatenol in France and Germany. Could you please update us on the status of that and when you expect to launch Solatenol in these two countries?

And my last question is on royalties. Given the deals you've signed with Monsanto and DuPont, VIPTERA, shall we expect any milestone payment in the coming quarters? Is also – is the corn rootworm deal with DuPont on MIR604 still ongoing, because I remember that you used to have $50m milestone payments every year associated with this deal?

And last on the trade front. Could you please update us on the regulatory situation with regard to DURACADE in China? Thank you very much.

Mike Mack

Look, I'll take the two registration points, Virginie, and John can pick up on AOL and the milestone in the various royalty payments.

The update on DURACADE is the files are in the hands of the Chinese authorities, and that is nothing short of ongoing. And I wouldn't handicap at this point in time when we would receive that.

With respect to Solatenol, it also is ongoing. Everything to date is fine and normal. And we expect the registration for that, at this point in time, in 2016, hopefully as early as the fourth quarter. But I can't guarantee that.

John, on the AOL phasing and the royalties?

John Ramsay

Yes, Virginie. On the AOL phasing, I think, broadly speaking, we'd expect something like a third of the savings in H1 and two-thirds in H2, as best as I can estimate. They will be more back-end-dominated than front-end-dominated, but I think that would be a reasonable basis to work on.

As far as the royalties are concerned, I think the dynamic on royalties this year is that we'll have lower milestone payments but we'll have probably higher GLG, our Greenleaf outlet, where we get license income, should be higher because we are picking up new hybrids, including VIPTERA actually, which will bring through higher royalty income this year.

DuPont's an ongoing volume-related arrangement now. And yes, we are continuing to receive cash payments for that. As you know some years ago, as a consequence of the accounting treatment, we recognized it from an income statement point of view. But the cash receipts do continue and will continue in future years as well.

Virginie Boucher-Ferte – Deutsche Bank

OK. Thanks. Just on Solatenol, so did you say that you expect to have the approval by the end of the year and launch it in 2016 in part of Europe for the 2016 growing season?

Mike Mack

Yes, that is the nub of the question, isn't it. In an ideal world we will be able to participate in the 2016 western hemisphere wheat fungicide spraying season with that product. But I wouldn't want to get ourselves overcommitted to that at this point in time because we don't have the registration. What I can say is so far all of the milestones that we need to hit for gaining that registration are still in hand. But that would be ideal if we could get into the 2016 season.

Virginie Boucher-Ferte – Deutsche Bank

OK. Thank you very much.

Operator

The next question comes from the line of Thomas Gilbert.

Thomas Gilbert – UBS

Thank you very much. Good morning, Mike, John and Jennifer. Two questions. On ACURON, can you elaborate on the intellectual property situation? You say four active ingredients, three different modes of action. Is that all your intellectual property, so 100 percent ownership of Syngenta?

And the second question is on seed care, seed treatment. You reference the channel overhang in Canada. Can you just remind us the U.S. situation, seed care?

Is the Q1 season for seed care in the U.S. done? And can we conclude from your comments that the development in volume for U.S. seed care is in line with acreage expectations in United States and not more or worse or better than that? Is that the right thing to conclude? Thank you.

Mike Mack

Good morning, Thomas. For those people who haven't followed this, there's a bit of a skirmish between the University of Toledo, who has made claims that they have some IP related to one of our products. We disagree.

That matter probably will find its way into a court because that's where it's headed. The Company isn't concerned about its IP position on that in the least. And that's – I don't know what more I can say about it than that.

John, the Canada versus the U.S. on seed care for the 2015 season?

John Ramsay

Well I think you mentioned the variance in Canada, which is the largest contributor to the seed care variance. And in fact it accounts for almost all of it. It's down about – in North America we're down about $50m in the first quarter and the largest proportion of that is in Canada. I think U.S. is down a bit within that as well. But I think there's only something like a relatively small amount of the seed care sales, probably total North America something like a third of the annual sales done in the first quarter.

It will be affected a bit by the further move from soybean to corn. But at the end of the year I'd expect seed care probably to be a bit down in the United States. But the main variance is in Canada.

Thomas Gilbert – UBS

Yes. OK. Very clear. Thank you.

Mike Mack

Thank you, Thomas. Operator?

Operator

The next question comes from the line of Laurence Alexander.

Laurence Alexander – Jefferies

Good morning. Two quick ones. First, as you look towards the bridge for 2016, do you still think raw materials can reach about $150m tailwind? And do you think the inventory channel overhang you've alluded to will be completely worked through?

And secondly, on the GMO side, are you seeing value capture equations still stable at around a third of the yield gain created? Or are you getting more pushback given slower growth rates, farmers looking to trade down in seeds and more traits being launched by different companies? So are you seeing more competitive pressure on the GMO side as you look at ACURON pricing?

Mike Mack

To be clear, you said Acuron? Did I understand you said GMO and then you said Acuron?

Laurence Alexander – Jefferies

Sorry. Just on the GMO side of your pipeline, are you seeing –?

Mike Mack

Right. Sure. With respect to genetically modified trades, and then ACURON, of course, is a crop protection chemical product. But the overarching – these are different product lines, of course. But the overarching question, which is do we see the value capture model changing in the greater scheme of things, which is what a farmer wants in order to pick up a new technology? No, I don't see that basic relationship changing.

What is true though is as commodity prices come down, two things happen, and they've always happened. So 2015 isn't any different. The first thing that happens is – a grower's propensity to try new things is going to be a bit more pressured because they need to be satisfied that it's going to help them, and help them in a lower commodity price environment, is something that is more difficult when they are in a risk-management posture. But with respect to the technologies that they know, because they know them already, then their propensity to do tomorrow and next year what they're already familiar with is unchanged.

So I think all you have to do is look at the Q1 volumes in Europe and the weather pattern in the U.S. to understand that $4 corn versus $8 corn, a lot of the very, very basic inputs and the way they think about farming is unchanged. Their value capture demand though is – this model is the same for crop protection as it is for GMO trades.

Asking about whether or not farmers are willing to trade down, when they do reduce their inputs, for whatever reason, if they've been successful with that, they may go for that again, which is why you're seeing some farmers trading down from triple stack to doubles in the U.S. if they feel like the pest pressure for that next trait isn't something that is going to be – is going to have a big payback.

But I don't think there's anything new, as such, in the model. And the willingness of farmers to try new products and to invest in their crops is as robust at $4 corn as it was at $8 corn.

There was a question, John, on raw materials.

John Ramsay

Raw material cost, yes – related to the oil price. And the short answer is yes – what we said was that given the move of the price of oil from around $100 a barrel to closer to $50 and now trading between the $50, $60 range, then we should see, from where it was at $100, we should see $150m benefit in 2016. And that continues to be the case.

The equation we work on is roughly that for every $10 movement in the price of a barrel of oil, it's about a $30m – slightly above $30m, benefit to us on a broad portfolio basis. So given it's moved around $50, then that would be $150m.

Laurence Alexander – Jefferies

OK. Thank you. And then just to clarify one comment you made earlier, is ENOGEN winning incremental share or are you just converting existing customers?

Mike Mack

With ENOGEN, our relationship is twofold. It's first with the ethanol plant, where once they go with the ENOGEN grain, they would run it fulltime. And so that – once they convert that, then the agreement with them is that they would be pulling in Syngenta corn acres, presumably nearby the plant. And on those corn acres, those growers have agreed to grow their crop using our crop protection and our seed care products.

So the penetration that we would have in the ENOGEN plant, in the vicinity of the ENOGEN plant would go up. And to the extent that our business today is circa 8 percent, then the market share penetration in the environment of that ethanol plant would absolutely go up. Yes.

Laurence Alexander – Jefferies

Thank you.

Operator

The next question comes from the line of John Klein.

John Klein – Berenberg

Yes. Hi, there. Good morning. Thanks for talking my questions. Would you be able to give us a bit of an indication of the underlying growth rate in Latin America if I would exclude ELATUS? So how much did it spill over into the first quarter of ELATUS sales?

And then secondly, in the presentation it says that the share of Viptera is now larger than 30 percent on you corn seeds portfolio. Has that changed? If I compare that to last year and the year before, I had the feeling it used to be higher in the past.

And then thirdly, on working capital and inventory management for the second half of the year, what will be the FX impact that you're seeing on your inventory and working-capital positions towards the end of the year? Thank you.

Mike Mack

Good morning, John. The short answer to Viptera is, no, it's unchanged. 30 percent is where it was in the portfolio before. And demand for that product is strong within our product line, of course, from licensees.

John, on fungicide?

John Ramsay

Yes, on ELATUS, we did – Latin American fungicides are strong actually in the first quarter. I think ELATUS sales are up about $25m in the quarter on zero last year.

And importantly to understand we also had strong sales of azoxystrobin because we've now positioned that at the back end in terms of the growers' application. And that was also strong in the first quarter.

Your question on working capital and ForEx is incredibly difficult to answer, John. And it depends very much on exchange rates and the movement of inventory as you progress towards the year end as to what exactly it's going to be. And with the volatility on CIS in terms of estimate just exactly where top line is going to be on a reported basis is quite a challenge.

But look, it's certainly going to be down. The ForEx will be taking the inventory levels down quite significantly. But sales will be down quite significantly as well because of currency. What that does exactly to ratios, I'm not sure. But we'd expect to see an underlying improvement in our inventory ratio if everything works to plan.

John Klein – Berenberg

OK. Thank you.

Mike Mack

Operator, a final question?

Operator

The final question comes from the line of Christian Faitz.

Christian Faitz – Kepler

Yes. Thanks for taking my questions. Just one small question remaining or one topic. Can you give us an idea on how volumes developed in Eastern Europe and what are your volume expectations in that region for the rest of this season? Thanks.

John Ramsay

Well the biggest part of Eastern Europe is CIS, not exclusively. We're doing quite well in the central area, Poland, et cetera. But I think your comment probably refers particularly to CIS.

The volume position there is – look, in both Russia and Ukraine, a little bit of color for you, in both Russia and Ukraine, agriculture remains extremely strong. Absolutely no doubt about it. And that's – I think you can see that with the way in which we've managed to sustain price increases of the magnitude I mentioned earlier.

There is a difference between chemicals and seeds, because most of the chemicals in both markets of Russia and Ukraine are imported. So therefore there is – the competition is largely in the same position as ourselves. And indeed, the generic companies are finding it incredibly difficult to operate at all in Ukraine and there is a reduction in generic volumes there.

So in crop protection, volumes are up significantly. In seeds, the volumes are down because what we have there is competition from local seed producers. And at times like this when we're putting prices up because we're importing, then the local producers are really able to offer much lower local pricing. But as I say, overall I think we're pleased with our overall performance in CIS given the difficult environment we're faced with.

Christian Faitz – Kepler

Thank you. Thanks.

Mike Mack

Thanks for your question. Ladies and gentlemen, thank you for joining the call again. And if you have any further questions, I know you'll call Jennifer Gough or Lars Oestergaard Investor Relations. And look forward to updating you on the second quarter during the call in July.

Have a great day. Thanks.

Operator

Thank you. That does conclude our conference for today.

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