



Bayer CropScience

Bayer CropScience Limited

Speech of the Chairman

Dr. Vijay Mallya

Delivered at the

Forty Seventh Annual General Meeting

of the Company held on

Wednesday, 22nd June, 2005



Speech of the Chairman

Ladies and Gentlemen,

On behalf of the Board of Bayer CropScience Limited, I extend a warm welcome to all of you for the 47th Annual General Meeting of your Company.

The performance of the Indian economy in 2005-06 has so far exceeded expectations formed at the beginning of the year. The year began on a promising note with buoyant industrial growth and forecast of a normal rainfall. As per the Budget 2005 estimates, the GDP is slated to grow by 8.1% for the financial year 2005-06 as compared to 8.2% in the previous year.

Overall performance of the Indian economy is robust on all the macroeconomic indicators. Despite a setback to the agriculture economy, GDP growth rate was consistent with last year's performance. By the end of 2004, Indian foreign exchange reserves reached an estimated level of US\$ 129 billion in excess of total external debt of US\$ 114 billion. In the past two years, India has shown more than 20% growth rate in exports and in 2004, it reached a high of 25.6%.

In 2004, India for the first time experienced the effects of a Tsunami which caused wide spread damage to life and property in the Andaman & Nicobar islands and more than 2000 kms of coast line in Tamil Nadu, Kerala, Andhra Pradesh and Pondicherry.

Agriculture

The year 2004 witnessed a delayed monsoon during the Kharif season. The average rainfall for the country in 2004 was 87% as compared to 105% in the previous year. Overall the southern part of India experienced better rainfall distribution as compared to the northern states. Due to this, the agriculture sector did not do as well as expected.

In 2004, non-food grain agriculture comprising of cotton, fruit and vegetable showed a buoyant performance, leading to decrease in the importance of food grains in the agriculture economy.

The overall agricultural growth is estimated at 1.1% for 2005-06 as compared to 9.6% for the previous year. Current share of agriculture in GDP is 21%, which has declined by as much as 3.5 percentage points since 2001-02. India exports



of agricultural products are approximately US\$ 7500 million which is twice the value of the imports.

Agriculture in India has evolved over a period of time and there have been significant achievements which confirm that agriculture will continue to play a pivotal role in the Indian Economy. There has been a vast improvement in agriculture mechanization since the 1970s and post 2000 this increase has been primarily in the developing states of Uttar Pradesh, Madhya Pradesh and West Bengal.

A significant thrust is being given to develop the non-food grains agriculture sector. The Government has started Vishesh Krishi Upaj Yojana to boost exports of non-food grains produce and in the year to come, is expected to create new avenues for the agri-inputs industry. In 2005, the Government has announced a comprehensive policy which envisages a 30% increase in agriculture credit and doubling the credit flow to the sector in 3 years which will contribute to further development of agriculture within the country.

Agrochemical Industry

In 2004, the size of the agrochemical industry was estimated at Rs. 39,000 million up by 12% over the previous year. Major growth came from cotton insecticides and seed treatment (15% over the last year), whereas herbicides showed a marginal increase of 2%, while fungicides remained flat.

Faster replacement of high value new chemistries over conventional agrochemicals has led to higher industry growth.

During the year 2004, the Ministry of Agriculture made the local MRL (Maximum Residue Limits) fixation mandatory. Consequently registration of new products was held up, affecting the entire industry adversely.

Bayer CropScience Limited

The total gross turnover for the year ended 31st December 2004 amounted to Rs. 8,244.54 million and your Company continued to maintain its leadership position.

In the year 2004, uneven distribution of rainfall, intense price competition from generics and a delay in launching new products affected the crop protection business primarily in the Northern markets.

Price realization of one of the key molecules of the company – Imidacloprid, both in formulation and seed treatment segment was lower compared to last year, due



to intense price competition from low cost manufacturers and from imports at substantially low prices.

The Company's plan of launching 4 new products could not materialize on account of the delay in registration which resulted in non achievement of planned revenues.

Your company initiated a restructuring exercise within the organization and a decentralized structure was established to drive the profit centre' concept.

Your Company increased its market share from 25% to 33% in the Environmental Science business. This growth was despite the severe competition in the Vector control segment. During 2005, Bayer intends to launch a new chemistry product, Ficam, as a resistance management tool for control of adult mosquitoes. In the Insecticide Treated Nets segment, the market will demand Long Lasting Insecticide Treated Nets (LLIN) and Bayer is poised to launch K-O TAB 123 in this segment. To grow in the Professional Pest Control (PPC) segment, Bayer has restructured itself to better focus and ultimately achieve a leadership position. Bayer has recently launched the Maxforce range and Responsar in the PPC segment, and all these brands and are doing well.

The Bayer Group worldwide, in its role as a responsible corporate citizen continues to be a firm and active supporter in humanitarian causes, in the countries that it operates in. As soon as the Company received news of the catastrophic impact of the ocean quake resulting in the Tsunami waves, it immediately requested its local offices to ascertain what kind of aid was required and where, in order to provide people with appropriate, effective relief. Bayer in India, provided medicines and supplies worth Rs. 11 million to help the Tsunami victims in India and Sri Lanka.

In addition, Bayer's staff in India spontaneously donated one day's salary to the relief effort, with the Company contributing an equal amount. Donations of medicines, water purification tablets, milk powder etc. were also sent to the victims in India as well as in Sri Lanka.

Bayer CropScience AG

Bayer CropScience AG is a global leader in crop protection and non-agricultural pest control. The company, with its highly effective products, pioneering innovations and keen customer focus, is aiming for further growth in the future. Its three business groups – Crop Protection, Environmental Science and BioScience, achieved sales of EUR 6 billion in 2004. Bayer CropScience plans to assume leading positions in all the key segments of the agriculture market - crop protection, green biotechnology and seeds. These segments will increasingly



converge and support each other. Bayer is thus pointing the way towards sustained growth and market leadership in the field of crop science.

Future Outlook

Over the past few years, India has chosen for itself a path of high growth through economic reforms, which clearly benefited the country. But it will be difficult to achieve the targeted growth of 8% GDP unless agricultural growth is doubled from the present rate of 1.8%. Since more than 70% of the population lives in rural India, it is imperative to increase agricultural growth and make the sector more efficient. India needs a fundamental re-direction of agricultural growth patterns by moving away from cereal-based production to diversified productions in horticulture, poultry, floriculture, etc. Indian states need legislative and policy changes to allow more diversified growth.

Your company is well prepared to move according to the pace of technology on account of a strong base in research and development and has products in the pipeline to overcome these challenges.

Increasing scarcity of farm labour and higher importance of fruits and vegetables will be the main drivers of growth for the agrochemical industry. In future, therefore, growth is mainly dependent on Fungicides, Herbicides and Seed treatment chemicals.

Your company will focus in increasing revenues from non-cotton segments viz. rice, wheat and vegetables, migration to new chemistries and will consolidate its position in cereal herbicides segments.

In the year 2005, your Company expects registrations of 4 new products which were pending with the Central Insecticide Board in 2004. This shall bring in additional revenues from new crop-pest segments.

31% of revenue of Indian crop protection industry is dependent on cotton insecticides, which is undergoing various changes due to the introduction of genetically modified crops. Genetically modified crops are self sufficient in providing protection during the crucial phase of plant growth thereby reducing the need for use of agrochemicals. This may lead to a shift in the entire pest control scenario and could create opportunities in non-genetically modified crops and on pests for which controlling genes have not yet been developed.

With stricter environmental norms being put in place by the authorities, it is expected that smaller players in technical grade manufacturing, will have to improve their infrastructure, giving a level playing field to companies like Bayer.



Until the complete implementation of the Patent Act, low price manufacturers will compete and affect the price realizations of the research based companies. The crop protection industry in general is a seasonal industry and is highly dependent on the monsoon.

Prospects for the current year will depend on the progress of the monsoon and its distribution. In the market place, your Company is the clear leader and will continue in its quest to enhance this position.

Before concluding, I would like to acknowledge the excellent support provided by Bayer AG, Bayer CropScience AG, Bayer CropScience GmbH and Bayer CropScience SA during the year.

I would also like to place on record my gratitude to my colleagues on the Board, for their help and assistance. I also thank our Shareholders, Banks, Financial Institutions, Distributors and farmers who have supported our efforts.

Finally, I thank all employees of the Company for their dedication and continuing contribution.

Dr. Vijay Mallya
Chairman

Mumbai
22nd June, 2005

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