



Bayer CropScience Limited

49th Annual Report
January - December 2006
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Bayer

At Bayer CropScience, our vision is to be a leading partner in providing innovative products and combined solutions for the production of quality food, feed and fiber to meet the global challenges of tomorrow. We strive to build long term, consistent, predictable and mutually beneficial partnerships with our customers and stakeholders, and aim to generate value through innovation.

It is our key priority to conduct our business responsibly, fulfill our commitment to Sustainable Development and achieve long-term growth with superior financial returns.

Bayer CropScience is one of the world's leading innovative crop science companies in the areas of crop protection, non-agricultural pest control, seeds and plant biotechnology.

We offer an outstanding range of products and extensive service backup for modern, sustainable agriculture and for non-agricultural application.

At Bayer CropScience, we aim at creating value for the agricultural and food sector while recognizing our responsibility for a careful approach to natural resource management, environmental protection and the sustainable development of society.

Bayer CropScience is a customer oriented company, committed to a partnership approach, through products and services that provide clear benefits to our customers. We are one of the global leaders in research and development and are determined to build our growth on innovation.



Crop Protection

Develops and markets high-performance, trusted and innovative fungicides, herbicides, insecticides and seed treatment products.

Environmental Science

Offers solutions to control pests and weeds efficiently and to improve the quality of life of non-crop professional users and consumers.

BioScience

Uses plant biotechnology and conventional breeding to offer sustainable, high value solutions for agriculture, nutrition, health and biomaterials.

Confidor®

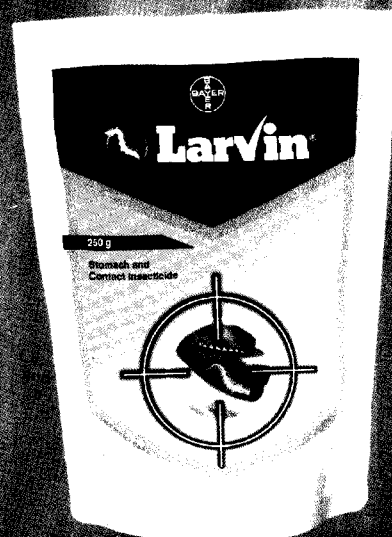
- Biggest brand in the Indian industry
- Most trusted for sucking pest in variety of crops



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Larvin®

- Unique brand with Ovicidal, Larvicide & adulticidal properties
- The best Spodoptera killer available in the market



REGENT

- Effective against and by severe cane diseases for effective control
- Promotes root development and growth in rice
- Farmers' prosperity partner

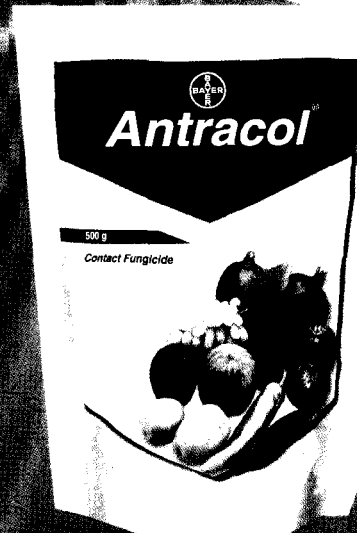


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ANTRACOL

- Modern broad spectrum fungicide
- Used on large number of crops like apple, grape, coconut, rice and vegetables



Directors' Report

Dear Members,

Your Directors have pleasure in presenting the Forty-Ninth Annual Report on the business and operations of the Company together with the audited Statements of Accounts along with the Report of the Auditors for the year ended 31st December, 2006.

FINANCIAL PERFORMANCE:

Rs. Million		
Particulars	2006	2005
Sales and Operating Income	8,487.88	7,952.18
Other Income	327.27	269.40
Total Income	8,815.15	8,221.58
Profit before Interest and Depreciation, Prior Period, Exceptional Items and Taxation	1,266.97	1,116.06
Less: Interest	85.33	74.35
Profit before Depreciation, Prior Period, Exceptional Items and Taxation	1,181.64	1,041.71
Less: Depreciation (including Amortisation and impairment)	286.92	225.74
Profit for the year before Prior Period, Exceptional Items and Taxation	894.72	815.97
Add/(Less): Prior Period and Exceptional Items (Net)	(4.19)	(69.13)
Profit for the Year Before Tax	890.53	746.84
Less: Provision for Taxation on Income	312.00	295.85
Less: Provision for Deferred Tax	(10.66)	50.23
Less: Provision for Fringe Benefit Tax	20.61	29.29
Profit for the Year After Tax	568.58	371.47
Add: Profit & Loss balance Brought Forward	1,618.42	1,383.18
Amount available for Appropriation	2,187.00	1,754.65
Appropriations:		
Proposed Dividend	94.80	86.90
Provision for Taxation on Proposed Dividend	16.11	12.19
Transferred to General Reserve	56.86	37.14
Profit & Loss Balance Carried Forward	2,019.23	1,618.42

Operations:

The Company's profit after tax increased to Rs. 568.58 million this year as compared to Rs. 371.47 million in the last year, an increase of 53%.

Dividend:

The Board of Directors is pleased to recommend the payment of dividend of Rs. 2.40 per Equity Share of Rs. 10/- each for the year ended 31st December, 2006 subject to the approval of members (previous year Rs. 2.20 per Equity Share of Rs. 10/- each). The proposed dividend will absorb a sum of Rs. 94.80 million. The Register of Members will remain closed from 29th May, 2007 to 15th June, 2007 both days inclusive.

Exports:

The Company is a recognised Export House. The export turnover during the year was Rs. 1,233.30 million compared to Rs. 867.76 million achieved during the preceding year.

Public Deposits:

The Company discontinued its Fixed Deposit Scheme in the year 2003. A sum of Rs. 7,50,000/- relating to 21 deposits remained unclaimed as on 31st December, 2006. No interest is payable on such unclaimed deposits after the maturity dates.



Directors' Report (Contd.)

Insurance:

The Company's assets continue to be adequately insured against the risk of fire, riot, earthquake, terrorism and the risk of loss of profits, among other things.

In addition to this coverage, a Statutory Public Liability Insurance Policy has been taken to cover public liability arising out of industrial accidents. Also, all the employees are covered against the risk of hospitalisation and personal accident.

Subsidiary:

The Board of the subsidiary company comprises Mr. Stephan Gerlich as Chairman, Mr. D. C. Shroff, Mr. K. R. V. Subrahmanian as Independent Directors, Ms. Christiane Kunze and Mr. Praveen Singh.

The audited statement of accounts of the Subsidiary Company for the year ended 31st December, 2006 together with Reports of the Directors and the Auditors and the statement pursuant to Section 212 of the Companies Act, 1956 are attached.

The audited Consolidated Accounts and Cash Flow Statement, comprising of the Company and its wholly owned subsidiary, Bayer Polychem (India) Limited form part of this report. The Consolidated Accounts have been prepared in accordance with the Accounting Standards (AS)-21 Consolidated Financial Statement issued by the Institute of Chartered Accountants of India in this regard.

Directors' Responsibility Statement:

Pursuant to the provisions of Section 217 (2AA) of the Companies Act, 1956, the Directors confirm that, to the best of their knowledge and belief:

1. in the preparation of the annual accounts, the applicable accounting standards have been followed;
2. appropriate accounting policies have been selected and applied consistently, and such judgements and estimates have been made that are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company as on 31st December, 2006 and of the profit of the Company for the year ended on 31st December, 2006;
3. proper and sufficient care has been taken for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 1956, for safeguarding the assets of the company and for preventing and detecting fraud and other irregularities; and
4. the annual accounts have been prepared on a going concern basis.

Responsible Care and Quality:

Your Company accords high priority to health, safety and environment.

Your Company has achieved a landmark of "Zero Reportable Injuries" in the year 2006. This is the third consecutive year the company has achieved zero reportable injuries. This includes all the three Manufacturing Units at Thane, Himatnagar and Ankleshwar. The Company also celebrated National Safety Day and Fire Prevention Day with various activities throughout that week to spread greater awareness amongst employees.

Your Company, covering all the Manufacturing Units, all India business operations and supporting services, were audited on Quality Management System by TUV India Pvt. Ltd. and the Company was recommended continuance of the ISO 9001:2000 certificate with inclusion of Development activities.

The Environmental Management System for Ankleshwar was audited by TUV and TUV recommended recertification with upgradation from ISO 14001:1996 to ISO 14001:2004.

TUV and DNV conducted Surveillance Audit of Environmental Management System at Himatnagar & Thane respectively and recommended continuance of ISO 14001:2004 Certificate.

Continual improvement and sustainability resulted in conservation of energy, reduction in waste generation and recycling of resources and cost savings.

Social Responsibility:

Your Company remains committed to Social Responsibility by continuing to be involved in community projects.

Training on emergency preparedness was imparted to Sub-Officers from National Fire Service College, who visited our plant in June and December 2006. Teachers from Children Welfare Canteen High School and Jr. College, Yari Road, Versova visited our Tower Biology and Incinerator Plant in October 2006. Pharma aspirants from Dr. V. N. Bedekar Institute of Management Studies who came to Thane factory for an industrial visit appreciated our facilities.

Our Security and Emergency personnel helped to extinguish fire in the premises of Nicholas Piramal, the neighbouring company in November 2006.

The Company donated school uniforms to needy children and furniture to schools and surgical instruments to Balkum civil hospital. An AIDS Awareness Programme was conducted in December for the drivers.

Directors' Report (Contd.)

Material Developments during the year:

During the year, the Company has reviewed the future earnings of its cash generating units in pursuance of Accounting Standard 28 – Impairment of Assets ("AS 28") issued by the Institute of Chartered Accountants of India. The Company has announced planned cessation of manufacturing and related activities at the Thane plant in the course of year 2007. Accordingly the Company has provided for impairment loss of Rs. 68,278 ('000s) on the buildings utilised to manufacture healthcare products at Thane. The carrying amount of the said assets exceeds the recoverable amount which is the net selling price of the said assets. The net selling price has been determined on the basis of valuation carried out by an independent valuer.

With the vision of broadening needs of the enlightened customers of tomorrow and providing them with a complete seed to harvest solution, your Company has embarked upon a project for distribution of agricultural seeds through our channels. Accordingly, the Company changed the Object Clause of the Memorandum of Association of the Company by obtaining the approval of the shareholders through Postal Ballot. In order to capitalize on the strong seed portfolio (predominantly Rice, Cotton and Millet) of our group companies Bayer BioScience Private Limited (BBSPL) [formerly Proagro Seed Company Private Limited] and Hybrid Rice International Private Limited (HRI), BCSL has successfully commenced distribution of these agricultural seeds from 1st January, 2007. For this purpose, the Company has entered into a Sale and Distribution Agreements with BBSPL & HRI with effect from 1st January, 2007 to store, promote, sell and distribute variety of seeds developed, produced, manufactured or imported by BBSPL and HRI.

Pursuant to an agreement dated 29th August, 2006 between Bayer CropScience AG, Germany and United Phosphorus Limited, India for divestment of certain crop protection products globally, the Company has recorded its share of income of Rs. 79,500 ('000s) as per the report from an independent valuer for the intellectual property rights for its Oxydemeton-methyl (ODM) business.

Pursuant to the Global divestment of Diagnostics business to Siemens AG, Germany, the Company's investment in the shares of Bayer Diagnostics India Limited will be transferred at a consideration of Rs. 180,811 ('000s) in accordance with the guidelines on pricing under SEBI (Substantial Acquisition of Shares and Takeover) Regulations, 1997, subject to necessary approvals.

Conservation of Energy, Technology Absorption and Foreign Exchange Earnings and Outgo:

The information required under Section 217(1)(e) of the Companies Act, 1956 read with the Companies (Disclosure of Particulars in the Report of the Board of Directors) Rules, 1988 with respect to these matters forms part of this Report and is annexed hereto.

Human Resources:

Orientation Centres have been conducted thereby establishing employee potential verification process. Bayer CropScience Personnel Organisation Conference (top management meeting to identify key employees and develop succession and retention plans) was conducted which has resulted in clear career plans for identified high potential employees.

Investment in Training and Development of employees was intensified with several programs conducted both internally and in collaboration with premier management institutes.

Information pursuant to Section 217(2A) of the Companies Act, 1956:

The particulars as prescribed by Section 217(2A) of the Companies Act, 1956 read along with the Companies (Particulars of Employees) Rules, 1975, as amended are set out as an annexure to the Directors' Report.

Code of Business Conduct & Whistle Blower Policy:

In compliance with Clause 49 of the Listing Agreement with the Bombay Stock Exchange Limited, the Company has formulated a Code of Conduct for Directors, Code of Business Conduct for employees and Whistle Blower Policy. For more details kindly refer to the report of Corporate Governance.

Corporate Governance:

Your Company believes in transparency and has always maintained a high level of Corporate Governance. As required by Clause 49 of the Listing Agreement, a detailed report on Corporate Governance is given as an Annexure to this Report. The Company is in full compliance with the requirements and disclosures that have to be made in this regard. The Certificate from a Company Secretary in whole-time practice confirming compliance of the Corporate Governance requirements by the Company is attached to the report on Corporate Governance.

Management Discussion and Analysis Report:

A detailed review of operations, performance and future outlook of the Company is given separately under the head Management Discussion and Analysis Report.



Directors' Report (Contd.)

Directors:

Mr. Johannes Dietsch and Mr. Sharad M. Kulkarni retire by rotation and, being eligible, offer themselves for re-appointment. Details of Directors are given under Corporate Governance. Mr. Raj Kaul was appointed as a Director in the casual vacancy caused due to the resignation of Mr. Willy Scherf with effect from 14th September, 2004. He holds office till the ensuing Annual General Meeting as a director appointed in casual vacancy and being eligible, offers himself for re-appointment.

Ms. Christiane Kunze has been appointed as whole-time director with effect from 1st April, 2006.

Mr. Y. H. Malegam resigned from the Board with effect from 11th September, 2006. The Company has immensely benefited from the knowledge and experience of Mr. Malegam. The Directors wish to place on record their appreciation for the valuable contribution made by Mr. Malegam during his tenure as Director on the Board.

Cost Audit:

In accordance with the directive received from the Central Government, every year, an audit of the cost accounts relating to Insecticides manufactured by the Company is required to be conducted by an auditor with the requisite qualifications as prescribed under Section 233B of the Companies Act, 1956.

The Company is also required to conduct cost audit of Pharmaceutical Formulations since the Company is doing the job work for Bayer Polychem (India) Limited.

Your Board has appointed M/s. N. I. Mehta & Co., qualified Cost Accountants for the conduct of the audit of Insecticides and Pharmaceutical Formulations for the year ending 31st December, 2007. M/s. N. I. Mehta & Co. have been the Cost Auditors of the Company for the past several years. The requisite approval for their appointment is awaited.

Auditors:

M/s. Price Waterhouse, Chartered Accountants, retire as Statutory Auditors at the conclusion of the ensuing Annual General Meeting and are eligible for re-appointment. The Audit Committee recommends the re-appointment of M/s. Price Waterhouse, as Auditors for the year 2007. The Company has received a letter from the retiring Auditors to the effect that their appointment as Statutory Auditors, if made, would be within the limits prescribed under Section 224 (1B) of the Companies Act, 1956.

Members are requested to consider and re-appoint M/s. Price Waterhouse, Chartered Accountants, as the Statutory Auditors of the Company for the year 2007.

Acknowledgements:

The Board of Directors place on record its sincere appreciation for the dedicated services rendered by employees at all levels and the constructive co-operation extended by the staff & union. Your Directors would like to express their grateful appreciation for the assistance and support extended by all government authorities, auditors, financial institutions, banks, shareholders, suppliers and other business associates. We also acknowledge the continual support and guidance from Bayer AG – the parent company.

For and on behalf of the Board of Directors

DR. VIJAY MALLYA
Chairman

Mumbai, 26th March, 2007



Annexure to the Directors' Report (Annexure I) (Contd.)

	Current Year (Jan. 1, 2006 - Dec. 31, 2006)	Previous Year (Jan. 1, 2005 - Dec. 31, 2005)
2. Coal (specify quality and where used):		
Quantity (tonnes)	N.A.	N.A.
Total cost (Rs.)	N.A.	N.A.
Average cost (Rs.)	N.A.	N.A.
3. Furnace oil + LSHS: Thane Plant*		
Quantity (Kl)	262	672
Total amount (Rs. Million)	5.52	9.33
Average rate (Rs./Kl)	21,086	15,431
4. Other fuels : Thane Plant*		
Quantity (kgs.) – Briquette	1,674,873	1,555,000
Total cost (Rs. Million)	5.52	4.58
Rate/unit (Rs.)	3.30	2.95
5. Other fuels : Ankleshwar Plant***		
Quantity (Sm ³) – Natural Gas	1,880,557	1,634,493
Total cost (Rs. Million)	18.10	14.40
Rate/unit (Rs.)	9.63	8.81

B. Consumption per unit of production

Since the Company is a multi-divisional unit, producing a variety of products, proper allocation of energy cannot be ascertained.

* Figures of Thane Plant

** Figures of Himatnagar Plant

*** Figures of Ankleshwar Plant

II. TECHNOLOGY ABSORPTION

Efforts made in technology absorption as per Form B hereunder:

FORM B

A. Research and Development (R & D)

1. Specific Areas:

- (a) As a Company which strives for innovation and providing innovative tailor made solutions for the farmers pest problems the development wing of Bayer CropScience evaluated 39 innovative molecules in various agricultural and horticultural crops and pest segments and could identify a number of compounds which could meet the demands of the changing and dynamic pest scenario especially after introduction of Genetically Modified based Bt-Cotton in the country.

In line with the changing trends towards contract farming and corporate retailing the Company has taken initiatives in crops like cotton, fresh fruits and vegetables to provide guidance and inputs not only on plant protection but also efficient crop management that could lead to enhancement of productivity, quality and provide an opportunity to tap the huge export potential in the globally driven economy.

- (b) Upholding the Bayer tradition, in 2006 too, the Company could secure registrations for a few Research & Development based new molecules in Crop Protection. These technologically advanced products, with innovative, farmer friendly and safe packaging systems, are **Admire 70 WG** – a broad spectrum insecticide for the control of a range of dreaded sucking pests in Rice and Cotton and **Monceren 250 SC** – a specialized fungicide to combat one of the most challenging sheath blight disease in Rice.

The year, however, was difficult from product registration point of view for various reasons. Nevertheless, the Company was able to submit an application for registration of yet another new strategically advantageous insecticide **Ethiprole 10 SC**, to combat the futuristic menace of resistant Brown Plant Hopper insect on Rice.