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PRESENTATION

Aditya Renjen - *Olam International Limited - VP of Treasury & IR*

Thank you, ladies and gentlemen, and welcome to Olam International Results Briefing for the Quarter and Half Year Ended 30 June 2017. A warm welcome to the Olam Learning Academy.

Let me start by introducing the management team from Olam. To my right is Sunny Verghese, Co-Founder and Group CEO; to his right is A. Shekhar, Executive Director and Group COO; and to the far right is Muthukumar, President and Group CFO.

And we'll start today with a welcome address from Sunny to welcome you all to our new premise, the Olam Learning Academy.

Sunny George Verghese - *Olam International Limited - Co-Founder, Group CEO and Executive Director*

Thank you, Aditya.

Good morning, and welcome to our new home in Marina One. As most of you who have been following Olam all these years, you know that we were in Suntec City for almost 22 years. So it was a big decision for us to move. And the primary motivation for that move was in Suntec when we came in, in '96. We were 26 people in the first year, and we are now about 330 people. So as we grew our business significantly both in terms of top line, we were SGD 330 million company at that point in time in Year 1 when we moved, we are now roughly $21 billion, and we have grown in terms of manpower. And as a result, we were operating other 4 floors in Suntec City, which was not very effective or efficient for real collaboration, even in this digital age. So meeting somebody over coffee or sitting across them in a pantry makes a big difference in getting to know all the people in the company and also to facilitate collaboration. So one of the main drivers for us to move was we wanted to go to a place where we could all be on one floor, and therefore, be a little bit more enabling environment -- create a more enabling environment for collaboration.

So we moved, and we were the first tenants in this building like we were the -- amongst the first tenants in Suntec as well. We've now happily got a few neighbors, and we're expecting more and more people to come into Marina One East Tower where we are at this point in time over the course of the next 6 months and a lot more coming in next year.

So a very quick introduction to this building, and I'm not a salesman for Marina One development. But useful to note that this is a mixed development. It has got 2 office towers, the East Tower, where we are; and the West Tower that is currently being commissioned. It'll be ready probably next year. And they are 2 30-story prime Grade A office buildings, 1.88 million square feet. And then we also have 2 residential towers that are coming up, 34 stories each. And most importantly, what attracted us was The Heart, which is going to be one of the most green sanctuaries in Singapore in a built-up area. So Kathryn Gustafson, the lady who -- the American landscape architect who designed the Gardens by the Bay is the one who is designing and the landscape architect for The Heart, which is also a retail podium. So in 6 months' time, you will see more activity here as the retail podium also starts to build out.

Very quickly, you're all sitting here today in the 19th floor of Olam's offices where we have a learning academy. Most of us sit on the 20th floor, all the 330 of us. This is mainly for the learning academy. And also our asset management business, which has to be Chinese walled from the Olam business Invenio, which is our subsidiary, is also housed on the 19th floor.

So why did we set up a learning academy? Very briefly, the objective was, was to compound learning across the organization and to build a critical capability, the key capabilities and the competitive advantage in areas that are critical and aligned to our strategy. So for example, as you know, we have in the recent past, in the last 6, 7 years, invested significantly in upstream in becoming a major plantations company across many of our commodities. So we are in many tree crop plantations that includes palm and rubber but also coffee and cocoa and almonds and pistachios and walnuts and black pepper. We have in broad acre row crop farming. And that includes many grains and all seeds, crops, rice, peanuts, et cetera, across the world. We're also in dairy farming both pasture-based as well as feed-based dairy farming in Russia and Uruguay. And we are also in forest concessions.

So one of the new capabilities and competencies that we want to build is to become the world's best planter. Because we are now amongst the largest corporate farmers globally, and we can only be successful if you're really good in terms of plantation management skills.

So one of the things that the learning academy will do is to build those new capabilities that are critical to our strategy. That includes training capability, manufacturing capability, risk management capability, plantation and farming capability, et cetera, also digital capability and also embedding and designing the -- designing and embedding the sustainability chip. Because at the heart, we believe that sustainability will be a big deal, and we want to be differentiated in that context as well. The second is to grow and develop our talent by giving them opportunities to master the skill over the course of each year through continuous learning. So we want all our Olam employees to have opportunities to master their skill, and this learning academy will facilitate that process. Thirdly, we want to institutionalize and reinforce Olam's culture and values. As you go around this floor, you will see the Olam Way, our business model exhibition. And that is basically to remind everybody in Olam about how we compete, how we win, how we grow and how we succeed in the marketplace, what are the elements that allow us to do that. And the heart of it is to know who we are, and that's really about our spirit and our values and our culture. So we expect this learning academy to serve that objective of reinforcing and institutionalizing Olam's values and culture.

And finally, we want this to be also a forum for brainstorming critical business challenges that impact Olam. And we have a Quest X Series, where we bring in top leaders from around the world to come and talk to our senior leadership team on critical challenges that face the business and finding creative, innovative solutions for that. We also have Quest I, which is about internal leaders and managers in the company sharing their learning experience. And even in the first month that we have been here, we have had, firstly, a talk by Dr. Michael Schluter from Cambridge who has written books on relational capital, who came and spoke to us about that. And then a few weeks ago, we had Professor Bhaskar Chakravorti who teaches at the Fletcher School to come and talk to us about digitalization and innovation as well as the link between is a digital planet an inclusive planet, so about how sustainability and digitalization can also go hand-in-hand. So these are examples of how we want to use the learning academy as a forum to brainstorm critical business issues that we face.

So as far as the learning academy is concerned, we will have 3 pillars in which we will be developing our training and development programs. One is the leadership pillar, where we are looking to develop the leadership capacity of the Olam employees across the world. And this will be milestone programs at different stages of their career development, including management trainees, which is what we call Building the Future Leaders program, but also at different stages of the career in Olam. We have various milestone leadership programs. The second part of the leadership pillar training programs are really about creating high-performance teams because it is not only about developing individual leaders but also how they can work together in bringing together a high-performance team in each of our businesses, geographies or functions. And finally, it's also about developing coaches and mentors. These 3 major initiatives will be part of our leadership pillar of the Olam learning academy. The second pillar is really on building functional excellence in plantations management, in factory and production management, in manufacturing and technical services, in risk and trading. So various functional skills would be the second pillar that we will focus on. And the last pillar will be really institutionalizing the Olam way, which is about our core process training. It's about a business model training, advanced business model training, value and culture workshops. So these will be the 3 main pillars, which will be the focus of the Olam Learning Academy.

In terms of pedagogy, we will be using both classroom training. But more importantly, most of the training that Olam does is with an Olam chip and will be very action-biased and focused on the real world and real jobs that our people are performing. We also have a virtual learning platform as well, where people are provided training and developmental inputs through online instruction medium, and that includes self-assessments and everything else as well. About 70% of our faculty will be internal, and about 30% of the faculty will be external.

So having told you what the Olam Learning Academy is expected to do, I just want to spend a couple of quick minutes on the Olam Way and our business model. As you know, as you walk through this and go to your refreshment after the program and before the program, you would've seen on the walls a description and a outlining of the Olam Way, which is really about our business model, and our business model is divided into 4 parts.

The first part is about how we set direction, and in setting direction, there are really 4 elements to our business model in how we set direction. The first piece is really understanding and defining the opportunity of our business, so we say defining the size of prize. And the agricultural commodity complex, as you know, from a farm gate production value is a USD 6.1 trillion complex, and it is growing at roughly 2%, 2.5% a year. So it is a significant opportunity, growth is modest, but very steady and very predictable.

The second element of our business model is, what is our purpose? And our purpose is to reimagine global agriculture. It might sound a bit trite and a little bit hackneyed phrase, but what we mean by defining global agriculture is we need to increase full production by 100% on a crop basis by 2050 to feed a 9.5 billion population or we need to increase crop production by 70% on a calorific value basis. And that means in the next 33 years, we need to double what we have achieved through the entire course of mankind. So that's a tough challenge, but it's becoming more complex because we have to do it within certain planetary boundaries. We have to do it with less water, less land, less carbon emissions. So there are 9 planetary boundaries. And we have to try and achieve doubling of crop production over the next 33 years under those 9 planetary boundaries, which makes it even more difficult and challenging.

The third element of our business model is our governing objective in terms of why are we in the business and why do we exist, and that is to maximize long-term intrinsic value for our continuing owners. It's not about maximizing top line or bottom line. There's big difference between profits and value. At Olam, you're focused on building long-term intrinsic value for our continuing owners. And in order to do that, we have to do 3 things. We have to open up capital spreads between our return and the cost of capital. We have to increase the rate of profitable growth, and we have to sustain the growth for as long a period as possible. And that's our governing objective.

And finally, in setting the direction in the Olam Way, the last piece is our vision or ambitionary aspiration, what do you want to become in a certain period of time. And our goal is, the next 23 years, we are 27 years old now, by 2040, we will be roughly 50 years old, and our ambition is by 2040, we want to be the world's most differentiated and most valuable global agri business.

So these 4 elements of the Olam Way is what we call setting the direction for the company. The next 4 elements of the Olam Way is all about where do we want to participate or where do we play and how do we win, and that's all about strategy. So it's about: what competencies and capabilities do we need to win? What is a competitive strategy? What is a portfolio strategy? And what is a growth strategy? So the competencies and capabilities that we're using to win are some business-specific competencies in origination, in trading, in risk management, some growth-enabling competencies in M&A, in strategic investments and business development, in building attracting building and motivating people, so it's about our HR capability, and it's about our capital structure innovation capability in terms of being able to raise the capital that's required to support our business. These are all what we call growth-enabling competencies and skills.

And then we also have a network of assets and privileged assets that we are building around the world. We have 2.4 million hectares of land under which we grow 21 different crops across the northern and southern hemisphere. That's a huge asset for us. We have 69,800 employees that create our organizational advantage, which is a big asset for us. We have 204 manufacturing and processing factories across these countries, which is another privileged asset for us.

And the final capability that we have built is really our stakeholder relationship skills, whether it is with farmers, we have 4.3 million farmers in our network; whether it's our customers, we have 22,800 customers in our network; whether it's our shareholders; whether it's the debt holders; our creditors; the civil society communities; NGOs; all of these stakeholders. And that's the last capability that we have.

So these are the 4 capabilities we have. So there's a one part of how do we win, our core competencies. The second part of how do we win is our portfolio strategy, where do we allocate capital, and what businesses do we want to be in. So as all of you know, we have classified our portfolio of 47 products that we supply and deliver to our customers into 18 platforms. Six of these platforms are what we call Cluster 1 platforms, which we have prioritized for accelerated investments and development that includes our edible nuts business, our cocoa business, our coffee business, our grains business, our cotton business and our spices and vegetable ingredients business. There are many businesses in our Cluster 2, which are -- which we're investing in. But they're still gestating, and they will take time to mature. And there are businesses that are smaller for us but very high-return businesses which we want to maintain. And there are few businesses in Cluster 4 which we would like to deconsolidate and monetize partially as we go along.

And finally, in terms of portfolio strategy, we look at Africa as a separate vertical because we believe that we have a competitive advantage in operating in that environment. And given that Africa is 65% of the world's arable land that is left, it is a focus area for Olam.

Now that's our portfolio strategy.

Our competitive strategy in terms of how we compete with the competitors, our suppliers, with the customers in terms of how do we try and claim and capture a higher share of the value in the profit pool is at the origination or at the supply end, we want to out origin our competition by buying from the lowest level of aggregation possible. And at the customer end, we want to differentiate ourselves by providing them value-added solutions and services, whether it's organically certified or other kinds of certified raw materials, traceability guarantees or it's about vendor managed inventory solutions or risk management solutions. All of these are value-added solutions and services that we provide to a customer at the customer end, which allows us to differentiate ourselves. So by out originating our competition at the producing end and by providing these value-added solutions and services at the customer end, we differentiate our business.

And finally, it's about our growth strategy, the logic for growth. We grow by identifying what we call adjacent possibilities or opportunities around the core business, and we define an adjacency as an opportunity that shares customers or costs or channels or capabilities with our existing businesses. And that is our edible nuts business, started as a cashew business and as today, migrated into being a peanut business and an almond business and a hazelnut business and a pistachio and walnut business, because we were selling cashews for the same set of customers to whom we are supplying now pistachios and walnuts and hazelnuts and almonds. And that is what we mean by trying to expand or grow by finding those adjacent possibilities. So the logic for growth for us is to find these adjacencies, and then the risk of execution as you migrate into those adjacencies is small.

Having now decided how to play, where to play and how to win, the last 2 elements of our business model is about knowing who we are, and that's really about our values and our spirit. And we have 6 values, and as you go around here, you will see those 6 values, one of which is being an entrepreneurial company. We are, at the end of the day, a combination and collection of entrepreneurs. Embedding stretch and ambition is another value. Mutual respect and teamwork is another value. Partnership -- building effective partnerships is a value for us. We have 6 values. And a spirit of that of being an insurgent. We are only a 27-year-old company. We're a late entrant to this industry. Many of our competitors have been around 200 years or more, and therefore, we can't do things business-as-usual. We have to do things differently, creatively, innovatively to really compete and build leadership in this industry. And that's our spirit.

And the final element of our business model is how do we engage and motivate our teams. And we do it simply by 3 things. The first thing is that we give our teams a sense of autonomy and that they are part of a self-directed team, and that's a huge motivation for people in Olam. We have 18 platforms, as I mentioned, 47 business units and over 350 profit centers. Every Profit Center Head knows that this business has been loaned to him and this business is his, and that sense of autonomy and being in control and being a part of a self-directed team is a huge part of our motivational architecture.

Second thing that we do to motivate and engage our teams is to give them opportunities to master their skill and become better at what they are doing. So every year, people in Olam are challenged to say, "Do they believe they've become a better trader, a better manager, a better leader, a better farm manager, a better factory manager than they were a year ago?" And what has the company done in giving them opportunities and experiences during the course of the year that allows them to magnify and master their skill? That is the second pillar of our motivational architecture.

And the final pillar of our motivational architecture is to really provide them with purpose. Nobody is going to get very excited by selling more tonnage of cocoa or coffee or rice or sugar or edible nuts that we are in. They want -- if they're going to spend 1/3 or more of their waking life in a company, they want that to mean something for them. They want it to have some purpose and some meaning. And that is why for us the third big piece of the motivational architecture is to give people some meaning for the work that they're doing. And because our purpose is to reimagine global agriculture, we believe that Olam will play some part in helping achieve the big cause of problem that we are trying to solve on how can the world produce more food to produce a growing population within the planetary boundaries.

Thank you very much, and I'll now hand over to Muthu to talk to you about our quarter 2 and first half results.

Neelamani Muthukumar - *Olam International Limited - President and Group CFO*

Good morning, ladies and gentlemen. Welcome, once again, to the Q2 and H1 2017 results.

As Sunny was talking about our core purpose, about reimagining agriculture supply chain and how challenging and difficult it'll be for us, I think it'll be equally difficult, and if not challenging, for me to succeed such an eloquent address. And I'll try my best.

So we had a fantastic first half 2017, with our PATMI growing 27.5% to SGD291.5 million. More importantly, our key operational metric, which is our operational PATMI, growing a healthy 24% despite higher depreciation and amortization and finance costs. We had a good Q1 at 20% growth but very -- a stronger Q2, with our operational PATMI growing 34% to SGD154 million as compared to SGD115 million this time last year. Our EBITDA grew 19% to SGD772 million, up from SGD648 million. Growth in all segments except confection and beverage, which had a marginal decline given CFS coming to the party, could deliver a SGD6.3 million EBITDA as compared to a SGD0.9 million this time last year. We continue to deliver higher free cash flow to firm, up at SGD239 million compared to SGD191 million. And finally, the Board of Directors is pleased to declare an interim dividend of SGD0.035 ordinary dividend as compared to SGD0.03, which was declared as an interim dividend for the first half of 2016.

Moving on to P&L analysis. The volume grew a healthy 39%, and our revenue grew a healthy 27% with growth across all segments, with edible nuts and confectionery and beverages all growing 5%; with IRM, industry raw materials, ag logistics growing at 20%; and more importantly, Food Staples and Packaged Food business segment growing more than 200%. And the volumes primarily grew on account of trading volumes in grains and edible oils, and that is impacted positively for us and reflecting on a 19% EBITDA growth and a 24% operational PATMI growth.

You will see clearly that the net finance cost has grown from SGD191 million to SGD258 million, up 35%, primarily on account of 4 reasons. We had a volume growth of 39%, a revenue growth of 27%. As indicated in Q1, our benchmark interest rates have risen by more than 100 basis. And also, there has been an increase in higher cost local borrowings to mitigate currency volatility in some of our emerging market operations.

Overall, as I indicated, our EBITDA grew a healthy 19% to SGD772 million with growth in almost all segments except confectionery and beverage, while our invested capital grew almost SGD3 billion during this period.

Moving on to segmental analysis. Edible Nuts actually led the entire growth in this first half with a 42.4% increase in EBITDA, primarily deriving from cashew, peanuts, almonds and sesame, with cashews supported by high -- continued high prices, peanuts doing well in all the 3 operations in the U.S., whether it's the Universal Blanchers, McCleskey Mills, and the recently acquired Brooks shelling plant in the U.S., which was acquired in the middle of last year.

Almonds, which had a negative impact of lowering prices in 2016, had recovered smartly and has delivered more than first half of 2016, supported by strong delivery from sesame business as well.

We had indicated in Q1 that the tomato processing business in U.S. has faced some market headwinds because of higher supply and lower -- and weaker demand. And that continues to underperform, and we believe that, that situation will continue for the rest of the year. Compared to end June of 2016, our invested capital in this segment grew SGD403 million. Higher working capital is because of higher cashew prices and also higher volume. And fixed capital, primarily due to the acquisition of the Brooks peanut shelling plant that we did in the second half of last year.

Moving on to confectionery and beverage ingredients. This is primarily 2 businesses, cocoa and coffee. Coffee business did -- had a good start in H1 2016 but had a better start in H1 2017 and grew on a year-on-year basis, both on the green coffee business as well as on the soluble coffee business, where we have in Vietnam as well as in Spain. We are also in the process of expanding our facilities in both Vietnam and Spain, and those will come on stream somewhere in the second half of this year and early part of next year.

As part of the cocoa business is concerned, in Q1, we had -- because of coming from a strong deficit of crop in 2016 moving onto a very strong excess supply in 2017, we had a steep decline in cocoa prices starting somewhere in late October of 2016, wherein from -- somewhere around 2,500 pounds, it dropped to close to 1,500 pounds in the second quarter of this year. That steep decline led to very tough trading and supply chain marketing conditions, and that had led to some part of underperformance in a comparative business, wherein cocoa had a very strong first half in 2016. However, the cocoa processing business continues to do well, and we are able to track all customers which were -- erstwhile had moved on because ADM had a reduced focus on the cocoa business for the last 3 years, and that is heartening for us. And the combo ratios continue to be steady, and we look forward to a better second half for cocoa.

The invested capital had increased by SGD870 million as compared to June 2016, primarily because of higher working capital due to higher coffee prices and volume. And fixed capital asset explained earlier is because of continued expansion for soluble coffee facility, both in Spain and Vietnam.

Moving on to Food Staples and Packaged Food business. EBITDA grew at 31.5%, with most platforms performing better than H1 2016. Grains platform led the growth with both origination, trading and milling business, which are doing very well, especially in Nigeria, where in post-acquisition of our wheat milling assets from BUA in early 2016. That has continued to do very well both in the Crown Flour Mills as well as the BUA wheat milling assets. The other wheat milling assets in Ghana, Senegal and Cameroon also have picked up smartly. And trading business has dramatically increased volumes, which had resulted in an overall portfolio growth of 39% volume growth in the first half of this year. Rice business has been steady. Edible oils business, which has both trading business as well as the midstream refining business in Mozambique are doing well. Sugar business is steady. Dairy business has done very well. But Uruguay upstream business is tracking very well on all operation parameters and narrowing the losses that they had from 2016, and we hope to have a breakeven EBITDA by end of this year. The Rusmolco upstream business in Russia is doing very well, both on the agri side as well as in the dairy side. And the supply chain business continues to perform well where it picked up in 2016, supported by some increase in dairy prices as well.

The Packaged Foods business is challenged due to sudden appreciation of local currency in Nigeria, the naira to a dollar. And that had faced some headwinds, but we believe that the business both on the biscuits, confectionery business are positioned very well. The Ranona business, which had an unfortunate fire event in the second quarter of last year, we had rebuilt the facility, and it is onstream to come into commercial production the second half of this year. And coupled with that, we believe the Packaged Foods business will perform better in the second half of this year.

The invested capital had grown SGD1.7 billion this year in the first half as compared to June 2016, primarily because higher sales drove higher working capital. Also, fixed capital was up, mainly due to committed and continued investment in this platform, primarily on animal feed mills and hatchery business in Nigeria, which is expected to come onstream in the second half of this year; the wheat milling capacity expansion in Ghana and Nigeria; and our continued investments in upstream palm in Gabon.

Moving on to Industrial Raw Materials, Ag Logistics and Infrastructure segment. This had a steady first half, with EBITDA increasing by 1.2% on the back of higher contribution from Gabon SEZ. Gabon SEZ, we had invested in 2 port facilities in Gabon. And one of the facility has come onstream, and that has already started to deliver strongly, and that is impacting the bottom line also favorably. With cotton, even though we had a 21% higher throughput in terms of volume and a 50% increase on revenue, had some margin pressures because of steep increase in prices but had a very good performance in terms of operation parameters, with wood products facing some continued headwinds in India, post demonetization of rupee, which happened in the last quarter of last year. However, our Republic of Congo business, the hardwood timber business continues to perform well.

Moving on to balance sheet and cash flow. Our balance sheet grew almost SGD2.75 billion on a year-on-year basis, SGD2.5 billion to SGD19.4 billion, primarily with fixed capital at SGD8.3 billion and working capital at SGD8.9 billion. And with both equity and reserves growing at a healthy SGD915 million during this period. You may wish to know that while on a straight-line basis, the change on fixed capital looks to be at SGD2 billion. But this is on account of non-completion purchase price allocation for the 3 investments, the 3 acquisitions that we did in 2016, including the ADM cocoa, the BUA wheat milling assets and the Brooks peanut-shelling assets that we did. The completion of PPA was -- happened in the last quarter of 2016. If you have to assume on a pro forma basis this purchase price allocation exercise had completed in June of last year, the actual increase in fixed assets would've been only SGD1.4 billion and with SGD400 million coming in the first half of this year and roughly about $1 billion coming in the second half of last year. So that's very important for us to notice that we are very focused on only investing in committed and continued investments on the fixed capital basis, and we are also looking at working capital productivity. You would like to also note that despite an increase of 39% increase in volumes as well as 27% of revenue, we have been able to keep their working capital more or less steady on a December to June basis due to a slew of working capital optimization initiatives that we have embarked on as a company.

During this first half, we have also done several firsts in terms of debt refinancing programs. First, we did the first-ever revolving credit facility in Europe of $1 billion, comprising of 3 tranches of 1, 2, 3 years. We also, in July, did the SGD 350 million of perpetual securities bearing 5.5% for first 5 years with a step-up. And heartening to see that the tap of $50 million, which we did almost close the end of July, was at effective rate of 5.43%, even lower than the initial 5.5% that we had issued. We have continued to tap the private placement market in Japan, and we did 2 of these facilities. And we also recently completed the first-ever samurai 3-year loan, which is roughly $222 million in the Japanese market.

Moving on to cash flow analysis. We continue to grow our operating cash flow before interest and tax of SGD95 million, up to SGD756 million. You can see that the changes in working capital is just a SGD35 million increase as compared to a 39% increase in volumes and a 27% increase in revenues, again reiterating that the company is focused on working capital productivity and continue to focus to ensure that we deliver higher free cash flow to firm and also target a free cash flow from the equity of breakeven or better. So we are -- while we are still at SGD12.8 million negative on a first half year basis, it'll be important to see that for Q2, we had actually delivered a SGD28 million positive free cash flow to equity, and that is the trajectory that we wanted to highlight here.

Moving onto gearing. Our gearing is on a basic -- on a net debt to equity basic is at 1.97x. More importantly, our net debt-to-equity adjusted basis, adjusting for readily marketable inventories and secured receivables is at a healthy 0.81x. And most of you, our fellow bankers here, would know that our covenants are 4.5x to 1. So we are very well covered, and we are in a comfortable position. Our liquidity position remains very comfortable with unutilized bank lines of SGD7.4 billion with a total available liquidity of SGD16 billion, with short-term facilities of SGD5.7 billion and the long-term facilities of close to SGD7.9 billion on a 60-40 basis.

And finally, in summary. A very strong EBITDA and operation PATMI growth in H1 2017, of 19% EBITDA growth and a 24% operational PATMI growth. More importantly, in Q2, we have grown 34% of operational PATMI growth, up from SGD115 million to SGD154 million. We are continuing to focus on turning around our underperforming businesses. The upstream Uruguay is performing all well in all operational parameters. Our -- we are focusing on our tomato processing business in U.S., and all efforts are there to turn around the business. And we are also looking at several initiatives that I briefly discussed about, our packaged food branding business in Nigeria. And all these 3 businesses we are focused on turning around as early as possible. And while also focusing on our gestating businesses in terms of our plantation business, whether that's in palm or rubber or in almonds or in coffee. And finally, clearly focused on delivering positive free cash flow both to firm and to equity. We're also focused on executing our strategic plan, and we'll continue to pursue growth in our prioritized platforms.

Thank you.

Aditya Renjen - *Olam International Limited - VP of Treasury & IR*

Thanks, Muthu. We're now open to questions.

QUESTIONS AND ANSWERS

Aditya Renjen - *Olam International Limited - VP of Treasury & IR*

(Operator Instructions) Special prize for who goes first. All right. Right here please.

Aradhana Aravindan - *Reuters*

Aradhana from Reuters. This for more a general comment from Sunny about how the outlook for global trade has evolved over the past year. In the beginning of the year, sentiment and mood was quite negative. Have you seen that change now that we've gone past the half year?

Sunny George Verghese - *Olam International Limited - Co-Founder, Group CEO and Executive Director*

So global trade growth has declined post the global financial crisis quite dramatically from the period pre the global financial crisis. And we were beginning to see as there was some kind of synchronized recovery across the globe, albeit below trend recovery. Global trade was beginning to pick up, and then there was a lot of uncertainty created by what was being said in the U.S. about trade protectionism. However, the facts are that global trade is actually picking up in line with growth and global economy and GDP. So we hope that will continue, but there are worries about increasing protectionist tendencies, and that could have impact both on global growth. So if, for example, NAFTA or the Mexican import duties or the import duties in China as contemplated by the current Trump administration is actually implemented, then that could impact U.S. growth by about 0.7, 0.8 percentage points in the GDP, and that could have a big impact globally as well. We hope that doesn't happen.

Aditya Renjen - *Olam International Limited - VP of Treasury & IR*

Thank you. So while we're waiting, I got one question from the web. This is from Anuradha of Bloomberg. It's mentioned that Olam was looking forward to a better second half for cocoa. And a couple of sub questions by, when will this recovery happen? Why will it happen? And what is our outlook on cocoa prices and demand?

Shekhar Anantharaman - *Olam International Limited - Group COO & Executive Director*

As far as business is concerned, the cocoa industry has been rocked with very high prices last year, which were exaggerated on the upside. And since October, like Muthu was mentioning, the prices have been falling and again exaggerated a bit on the downside, too. So that period of volatility has, as usual, created a little bit of impact from the supply chain part of the business, which is really what Muthu was pointing out, which hurt our first half performance, predominantly Q1 performance. So we've already seen Q2 that stabilizing. And the second half in cocoa, especially with the West African crops ahead, will be a larger part of the business. So we expect the supply with prices now trading in a more sensible range, and we would expect the supply chain business to perform as usual going forward. Volumes also look to be good because the crops are good. The processing business has maintained its viability. It was very good the whole of last year, even the first half has been pretty decent. So we expect both with continuing processing viability as well as supply chain improvement, the second half to be -- we expect to be better all, other things being equal. As far as cocoa prices are concerned, our current estimate based on where we stand is that it's going to be a range of 1,400, 1,500 and 1,700 pounds. There is now more of a consensus that there is a surplus this year compared to just around 275,000 to 300,000 deficit of last year. That's moved to 400,000 to 450,000 surplus for this year. So considering that, we expect the prices of already adjusted to that fact, and at this point in time are looking forward to the West African crops, and we expect prices to be a range bound within this 200-pound range.

Aditya Renjen - *Olam International Limited - VP of Treasury & IR*

Okay. Thanks, Shekhar. Anymore from the floor? If not, we can go to one more from the web. This is from OCBC. Muthu, you mentioned that working capital has already been optimized in first half '17. Can you provide some examples? And what is the outlook for the second half?

Neelamani Muthukumar - *Olam International Limited - President and Group CFO*

So primarily, there are -- as I told you, the volumes have gone up by 39%. And also, if you look at the volume, it's 2.5 million tonnes increase on a year-on-year business. And also, roughly SGD2.5 billion of turnover, top line growing on a year-on-year basis. So obviously, there is greater capital employed. And with some of our commodities having faced increasing prices whether it is looking at coffee, whether it is in cotton, whether it is in dairy, in spite of increasing prices in some commodities and also a significant increase in volumes, the natural outlook would have been that our working capital utilization would have been that much higher. But clearly, if you look at whether it is on our overall cash conversion cycle, our inventory days are down from 223 days. Our overall cash conversion cycle is also down from 150 days to an average of 120 days. We believe that you'll be -- our expectation would be that we will there somewhere around that kind of a cash conversion cycle time overall. And all of which, whether it is reduced receivables number of days or whether it's reduced inventory days, clearly focused on in every aspect of the value chain of our various commodities. How can we eke out operational efficiencies? And that is what we have been focused on, in this year, and especially on our Cluster 1 businesses, which roughly accounts for 85% of our overall working capital utilization. And that, we believe we'll continue to focus on in delivering operational efficiency in each of these working capital elements, be it inventory, receivables or advances to suppliers.

Aditya Renjen - *Olam International Limited - VP of Treasury & IR*

Okay. Thanks, Muthu. There is a follow-up from OCBC. On the covenant question, what does the -- so firstly, it's checking whether it is 4.5 or 4x. So it's 4x. But what does this covenant pertain to in terms of facilities. That's question 1. Question 2, how many of the unutilized bank lines are committed? And Question 3, how much does working capital to typically change within a quarter?

Shekhar Anantharaman - *Olam International Limited - Group COO & Executive Director*

Okay. So the covenant is net debt-to-equity, so that's the first question. The second question on liquidity. Most of the liquidity lines we keep. Most of our debt capital lines are obviously drawn. Most of our committed lines are also drawn. So a lot of the unutilized facilities will be on the uncommitted bilateral lines. And the third question was...

Aditya Renjen - *Olam International Limited - VP of Treasury & IR*

How much is working capital typically change within a quarter?

Shekhar Anantharaman - *Olam International Limited - Group COO & Executive Director*

Yes. Working capital will change based on both seasonality, so there will be changes between quarter-to-quarter depending on the crop seasons as well as pricing. Some amount could also get delayed based on our shipment plan and our order plan against that, so it's tough to predict. But normally, we would see our first half, our current first half, to be roughly 55% of our annual turnover, and the second half being 45%. But it is different between platforms and different between segments.

Aditya Renjen - *Olam International Limited - VP of Treasury & IR*

And just to clarify on the covenant question. This applied typically to our syndicated bank loans. Our debt capital market portfolio is covenant-free, and most of the bilateral lines are also without the year-end covenant.

Sunny, here's one for you. What's your outlook on -- this is from Anuradha of Bloomberg. What is your outlook on palm oil production in Malaysia and Indo in second half? Second question is your view on the base of production recovery. And the third part is, where do you see palm oil futures trading between now until the end of the year?

Sunny George Verghese - *Olam International Limited - Co-Founder, Group CEO and Executive Director*

So our house view is that there'll be a fairly strong recovery in palm oil production both in Malaysia and Indonesia. We expect the Malaysian crop this year to be at about 19.7 million tonnes, and we expect the Indonesian crop to end up at 35.2 million tonnes. And that is probably somewhere slightly below the midpoint of the consensus forecast there is out in the market today as well as palm is concerned. We see some recovery in demand. But as you all know, the government of India has just this week, I think -- or last week, just announced the increase in import duties, and I think which will have some impact on demand for both the CPO as well as olein. They've increased import duties for CPO by about roughly 7%. That makes import duty on CPO 15% now, so it's almost doubled. And they've also increased the import duty on olein, and the increase will now probably take the import duties to about 22%, 22.5%. That could have some dampening effect on demand. But otherwise, I think palm oil -- bean oil spreads have also tightened quite a bit, and that would also have some impact on demand as well, given where the palm oil bean oil spreads today are. In terms of prices, if I could give you a precise range, I wouldn't be sitting here. But nevertheless, we believe that the prices are likely to be more biased with the downside once the strong pickup in production numbers become more apparent and the rationing impact of the increased import duties in an important market like India will work its way through. Thank you.

Aditya Renjen - *Olam International Limited - VP of Treasury & IR*

Thanks, Sunny. Any more questions from the floor? Last chance. Oh yes, (inaudible).

Andrea Soh - *Journalist - BT*

There's been a slew of M&A action in the agri-chemicals sector involving Monsanto, Syngenta and all that. What's the impact of this consolidation on Olam in the agri sector?

Sunny George Verghese - *Olam International Limited - Co-Founder, Group CEO and Executive Director*

I think for the seed companies and the agrochemical companies consolidation will hopefully improve their margins and most likely will improve their margins. For the users, farmers and others who are going to be using these products, they will see increasing pricing because there's more pricing power now because of the consolidation. And if farmer input costs go up, then farmer margins get squeezed. And therefore, farmer might use less inputs depending on how prices will trend. This is a judgment that typically even industries consolidate, they consolidate to seek pricing power and improve producer margins. But when they do that, the user, which is the farmer in this case, will be faced with higher prices. And therefore, if his margins are squeezed, he will apply less of these improved seeds or improved agrochemicals, which would have an impact on the yields and therefore, an impact on prices. How all this would play out, we have to wait and see. But I think in summary, it is positive for the industry, which is the agrochemical seed industry, it is probably negative for farmers, and overall, probably negative for global production.

Andrea Soh - *Journalist - BT*

And because you have said that your upstream is an area you to grow in.

Sunny George Verghese - *Olam International Limited - Co-Founder, Group CEO and Executive Director*

Sorry?

Andrea Soh - *Journalist - BT*

You've said that upstream is an area that Olam wants to grow in.

Sunny George Verghese - *Olam International Limited - Co-Founder, Group CEO and Executive Director*

Which area, sorry?

Andrea Soh - *Journalist - BT*

Upstream. Yes. So that will have a negative impact for you in that area, right?

Sunny George Verghese - *Olam International Limited - Co-Founder, Group CEO and Executive Director*

Yes, but our production will be so tiny that it won't be the -- it is at the aggregate level that'll make a difference. But for us, as a large-scale producer, even with an Olam, our upstream will not account for even 0.5% of our total volumes will be supplied. So the impact will be there for oil producers depending on what the final pricing power extracted by these consolidation would result in. So I don't think it will be a major impact. But overall, at the aggregate, it could be a meaningful impact.

Aditya Renjen - *Olam International Limited - VP of Treasury & IR*

Thank you. So if there are no further questions, then thank you very much for attending. And before we conclude, Sunny would like to say a few words.

Sunny George Verghese - *Olam International Limited - Co-Founder, Group CEO and Executive Director*

Oh, nothing. I just wanted to do -- quickly summarize and conclude by saying that based on the various priorities that we set out for this year, we are pleased to report that we are tracking and doing well against those priorities.

Our first priority was to deliver our annual profit plan and meet our return expectations. And I think base in the first half results, we seem to be well on the way to achieving that first priority.

Our second priority was to become free cash flow positive. And based on the trends in the first half, we hope to be able to achieve that objective as well.

Our third priority was to make sure that all the growth initiatives that we had selectively, particularly in the prioritized Cluster 1 platforms, we are able to execute. And based on what we have done in the first half, we should be able to meet that priority as well.

Our fourth priority was to make a big push into digital because we believe, and we became acutely aware, that the way we produce and consume and live is dramatically being changed by digital -- the digital revolution. So Olam took 3 initiatives in the digital field. One is what we call Olam Direct, and the second is what we call Olam Inside, and the third is what we call Olam Forward. We believe that all of these 3 major digital initiatives that we have taken will be game-changers for us going forward.

The fifth priority that we had was to design and embed a sustainability chip within our businesses and all the products and offerings that we deliver to our customers. So anybody buys cocoa or coffee from us, we want to design and embed a sustainability chip, like the Intel Inside, the Olam Inside concept. They either buy from us, they know what our water foot print is, our carbon foot print is, our waste foot print is, how many farmers did we buy from -- how did we improve the farmers' livelihoods, what kind of microfinancing do you provide your farmers, the social and environmental foot print. So that also, we are making good progress. And we should be able to, by the end of this year, launch, or early next year in the first quarter, launch that sustainability chip Inside concept.

And finally, as Muthu mentioned, the other objective that we had was to become more capital-efficient from a working capital standpoint in particular and from a cost-efficiency standpoint in particular. We've had 2 task forces that are working on extracting more cost efficiencies and capital efficiencies from across our operations, and we are making good progress in that regard.

So overall, we are quite pleased with getting real traction on these 6, 7 major priorities that we had for this year.

Thank you all for attending at our new home, and all our future briefings will be here. Thank you.