THOMSON REUTERS STREETEVENTS

EDITED TRANSCRIPT

O32.SI - Q3 2014 Olam International Ltd Results Briefing

EVENT DATE/TIME: MAY 15, 2014 / 2:30AM GMT

THOMSON REUTERS

CORPORATE PARTICIPANTS

Hung Hoeng *Olam International Ltd. - IR*

Anantharaman Shekhar *Olam International Ltd. - Executive Director of Finance and Business Development*

Sunny Verghese *Olam International Ltd. - Group Managing Director and CEO*

Neelamani Muthukumar *Olam International Ltd. - President of Corporate Affairs and Finance*

CONFERENCE CALL PARTICIPANTS

Thilan Wickramasinghe *HSBC - Analyst*

Rujun Shen *Reuters - Media*

Abhijit Attavar *Jefferies - Analyst*

Adrian Foulger *Standard Chartered - Analyst*

Patrick Yau *Citigroup - Analyst*

Jeremy Grant *Financial Times - Media*

Tan Huileng *Dow Jones - Media*

PRESENTATION

Operator

Good morning, ladies and gentlemen. Welcome to Olam International's third-quarter results announcement briefing. I'm Hung Hoeng, from Investor Relations. I'm sure you're familiar with most of us. But I would still like to proceed with the introduction of our speakers for today's announcement briefing.

Seated on the extreme left is our Group Managing Director and CEO, Sunny Verghese. On his right is our Group CFO and Finance -- Executive Director for Finance and Business Development, A. Shekhar. And on his right is President for Corporate Affairs and Finance, N. Muthukumar. You're all familiar with all of us, and so I hope you're at ease at the briefing.

I would just like to remind you that the unconditional cash offer for Olam is underway. And we have been cautioned to be very cautious about giving forward-looking statements on the Company. And we appreciate your understanding that you would focus your attention on the results for the nine months and for the quarter. And we'll be happy to take questions or any question that is relating to the industry, to the operating environment, on current environment, but without any reference to forward-looking circumstances for us and the impact on Olam specifically.

So with that understanding, I would like to then start off the presentation by inviting Shekhar to the floor to take us through the results for the first nine months and for the quarter. Shekhar.

Anantharaman Shekhar - *Olam International Ltd. - Executive Director of Finance and Business Development*

Thanks, Hung Hoeng. And good morning, ladies and gentlemen. Thanks for joining us today for our Q3 results briefing. As you're aware, this is this the first year -- the transition year of our three-year strategic plan that we announced last year. And we are pleased to say that the nine months have progressed as we had planned. And we are quite pleased to be here, to share with you the results and the business highlights.

As is the norm, the agenda will include a few key business highlights, the overall financial performance, as well as the segmental performance and a few key takeaways. Just to reinforce what Hung Hoeng has already said, because there was an interesting development towards the end of this quarter three, with the VGO announced by Temasek and its concerted parties. Whatever questions you might have on the offer will have to be kept at abeyance.

And we can -- all we can do is address you to or direct you to the offeree circular that Board has already issued last month. And whatever we want to say with regard to the offer is contained in that offeree circular. So we'll focus this presentation, as well as the next 20 to 30 minutes on the business highlights of the first nine months, and Q3 in particular.

So really three major points I want to start off with. The first is that the last three months, as well as the nine months for this first year of our strategic plan, we're quite pleased with the progress that we have made across the multiple strategic initiatives, the four key objectives and the six pathways that we have outlined.

And in overall terms, there have been 12 initiatives that have been announced. Put together, they have the potential -- they have actually released almost SGD400m and a potential to release SGD550m in cash, give us a P&L gain of SGD110m-odd and an addition to our capital reserves of roughly SGD35m.

I think the important thing to note here is these are 12 discrete, different initiatives that have been done across multiple geographies, multiple BUs, part of our strategic plan for those particular BUs and regions. And apart from one initiative out of the 12, wherein we are restructuring the Gabon timber business and exiting at a loss, all the other 11 initiatives have resulted in some gain to P&L, apart from the release of cash itself, some gain to P&L.

Some of these are divestment of core assets -- or non-core assets, sorry. And some of these pertain to optimization of our balance sheet. And some of these are unlocking value and looking at strategic partnership, wherein we can enlarge by -- enlarge the pie in some business platforms or projects.

So on overall terms, this is better than what we had anticipated when we -- in terms of the plan that we had laid out last year. And we are quite pleased with this progress, at this stage of the first nine months of this year.

The second aspect I want to talk about is the overall earnings. And again, pleased to announce that in terms of our overall PATMI, we have an 89% growth for the nine-month period. This includes an exceptional gain that I'll just kind of break down and talk about in a minute. But even with that, it's an overall 89% growth in PATMI.

Net of exceptionals -- excluding the exceptionals, we see a good steady progress in EBITDA across all business segments, except one. And there's improved EBITDA performance, which we are pleased with. And this EBITDA performance, again, in light of the fact that it is on the basis of lower volumes compared to the previous period, again shows that improving operating efficiencies, improving margins, across various business segments.

So there's the second aspect that we are quite pleased with. Obviously, the operational PATMI has been lower for the nine-month period, even though the EBITDA has been higher. And that's primarily on account of depreciation charges of almost SGD45m for this period and about SGD20m in tax provisions that have been made.

So obviously, the investments that we have made 'til last year, and including this year, the depreciation and amortizing charges are charges for projects which are still not fully yielding. And in overall terms, the operational PATMI, while it's lower, it's quite on plan for the nine-month period, and in line with our expectations.

The last part, which I want to just touch upon is the improved cash flow generation. We had talked about accelerating our positive free cash flow to firm during this year. And we are on target, in terms of the various elements of free cash flow that we can manage and deliver on. There is better operating cash flow for the period. There is lower CapEx, almost by one-third of what we were investing last year. There is improved cash flow, obviously, from the divestment.

The only place where the numbers have not gone exactly as we anticipated for the Q3 has been on changes to working capital because of significant price increases during this quarter, which again I'll talk about. But net of all the price increases also, there is improved cash flow generation, compared to last year. And we feel quite pleased with that.

So principally, again, like I keep saying, even if you want to exit the room now, these are the (technical difficulty) I hope you'll take away, in terms of continued progress and good progress on our strategic plan execution, a reasonable set of earnings results, both on overall PATMI, as well as operational PATMI, and improved cash flow generation, which is the highlight of this nine-month period.

On the strategic plan execution, just providing a snapshot, like I was mentioning, there's a 33% -- we had talked about reducing the pace of our capital investment. We have done that. We have done that. We are about 33% lower than where we were.

And as has been the factor for the last three quarters, we are highlighting the -- all the initiatives. There are nine completed initiatives since we announced the strategic plan. There are six out of these which have flown through the nine-month results. There are three more which have been announced, which are likely to be completed by Q4. And the aggregate impact of this is the SGD550m of cash release, SGD110m of P&L and SGD35m to our capital reserves.

And just in terms of the specifics of the deal, I won't talk about what you already -- these are the three, the US Almonds, the NZFSU buyback. And the Basmati was announced last year and completed last year. These six have flown through the current year, out of which two flew through in the first half.

And there are four, specifically the almond plantation sale and lease back, which released cash of SGD235m and had a SGD63m gain, and the divestment in -- of our joint venture in Canada, the sale of assets in Gabon, and the repurchase of bonds and perpetuals, which is what has flown through this current period.

And the three initiatives which we have announced but which are likely to get completed during the next three months or the last quarter are the OCDL stake. We have talked about in our announcement that the stake -- there is a minimum 10% divestment. But there is an offer open, and we can't talk about how that offer will pan out at this stage.

The divestment of the stakes to the Republic of Gabon, by which we are now holding 60% in both the palm and rubber plantation. Both are projects that we feel strongly about, where we remain the majority shareholder and operator. But there is a release and there is a co-sharing of risk and return with the ROG for -- because they believe these are two very important strategic projects for the country.

And the last is the sale and leaseback of a dairy farmland in Uruguay that we announced quite recently. And again, it's a part -- it's about one-third of the total acreage that we have. And this helps us consolidate our dairy farms into the central and eastern region, as well as take away some part of the fixed asset intensity. And again, the value that we have realized for this land is something which is much better than what was our carrying value.

So those are the key strategic initiatives which provide a summary of what we have accomplished in the last nine months, or since our announcement of our strategic plan.

Moving on to the financial performance. So in terms of highlights, part of which that I've already talked through, there is a reduction in volume. We have been focused this year across all our business segments on extracting full value for existing investments, focusing not on just volume growth, but looking at real value growth. And that has meant that the overall volume is slightly lower. The revenues are also slightly lower, more so because of our product mix, while prices have gone up for some of the higher-priced commodities. But overall product mix has meant that the revenues are also slightly lower.

EBITDA has grown, as has the overall PATMI, while operational PATMI is reduced. The key numbers that I would like to kind of point out are the fact that the EBITDA growth of 3%, to about SGD900m is on -- after excluding -- after including a loss -- a bioloss of SGD20m, compared to a gain of SGD50m, which was there [nine months] (corrected by company after the call). So all of -- for all of you who kind of strip this number, please ensure that you strip this consistently.

And the operational PATMI, the changes from EBITDA to the operational PATMI number are effectively on three counts. Net finance cost has pretty much remained flat, higher depreciation, almost SGD45m, and higher tax charges of SGD20m. Last year you will remember that we had a big tax change in Q4. This year the tax provisions have been made according to the changed mix -- geographical mix and tax mix that we anticipated. So therefore, on a nine-month basis, we are about SGD20m higher than the previous nine months.

So those are the key numbers in the overall P&L. The big number for this quarter, as well as for this nine-month period is the exceptional gain. It's a split of six items. The Gin sale was already there in the first half. The sale and leaseback, again, announced in the first half but has been consummated, which has led to a SGD63m gain.

The sale of timber assets that we announced in the first week of January was really -- there are two timber assets that we have in Gabon. We have restructured the timber business, as we've highlighted earlier, as part of the strategic plan. And this was an asset which has been sold to a Chinese consortium. And there is an exit and restructuring cost that we have taken. But we believe that this will save us, going forward, almost this amount of overhead saving per annum. And we believe that this will make the timber business even more robust. So while this is a loss for this period, it is something that we had a plan for and something that we are pleased to have executed.

The repurchase of bonds was a small gain. The big number is really the fair valuation of PureCircle. As you're all aware, that this was an investment we made about four or five years ago. In the last four or five months, as the market has recognized the value in that business, the market prices for this investment, which is a listed company on the AIM in London has reflected this value. A lot of you have talked about this as one of the hidden gems in Olam's balance sheet. And we have discussed this also in the last quarter.

However, on account of two things, one was the fact that our share -- we were diluted down to 18.6% because of a new shareholder who had taken up a higher stake in this -- in the company, as well as stepping down of Sunny from the board, we cannot any longer treat this as an associate, and therefore have to fair value the current value of this into our books, as of March. And this will be something which will cause a little bit of volatility, in terms of change to the market price of the scrip every quarter which will go into our - up or down will be adjusted against our results.

So this is bringing the value into the P&L, what was otherwise out there, in terms of the market value of our investment. They still remain, the pieces for this business, and our investment still remains very strong. We still remain very confident about the prospects of this company. And therefore, we are holding this. Notwithstanding this accounting change, we still hold onto our investment, for the future.

The last part, which was an unanticipated loss and a write-off, unfortunately, is really on the Laos plantation, led by two aspects. One, there was a land title dispute for part of the hectares that were already planted, consequent to which we have agreed to return that land. Expenses incurred on that land have therefore got to be written off. We are being given alternative land by the government, in view of the land that we had already planted. But there will be a write-off, the cost that we have incurred on this land.

The second, probably more substantive aspect of this write-off is that these plantations were our first coffee plantations. We had, for the initial nursery material, taken a lot of third-party material because we could not have set up our own nurseries, right in the start. And the plantings that are now reaching between two and three years age now, we found that while the tree health was looking good from the outside, the yields were sub-par. And so, we have now instituted factors across all our agri plantations, as well as agri units of getting visiting agents to look at -- external consultants to look at the health of the trees and the soil, etc., twice a year.

And based on these visits, we realized that there was potentially a bent root or a forked root problem in a lot of the trees, primarily because of planting material and planting procedures. And we had to do an extensive survey, in terms of actually plucking out for each, almost 15,000 trees, just to see what's the ratio of the tree health to the problem on the root, and realize now that there is -- if we continue to invest in these trees as is, we will get some yields, but they will be sub-par for the full life of the orchard. And what is -- economically makes more sense is to replant these trees, which is really the cost of the write-off that we are taking.

We believe that now, based on the nurseries that we developed, the kind of planting material we have developed, based on our coffee plantations now globally, we believe now we have the right kind of planting material and understand the procedures, and replanting these trees. And the economics of this project still remain robust. If anything, with the change in coffee prices there, we can -- they look even better.

But even based on historical prices and historical IT (Investment Thesis), even based on the higher cost, this project still makes sense and we'd like to continue to replant these trees. But at this point in time, it's unfortunate that we'll have to take this write-off. That's a write-off that we are recognizing more out of prudence in this quarter itself. But would like to reassure you that the changes that have been made to the coffee plantations across the globe, in all the other locations, as well as in Laos, we feel quite confident that the project will go on, with revised planting material and revised procedures put in place.

So that's the six items put together, which contribute to the SGD300m for the nine-month period and the SGD293m for the quarter.

So, moving from the P&L to the cash flow, as you're aware that ever since we announced the strategic plan, we have maintained very clearly that we are focused on getting FCFF positive by the end of FY14. And we have been looking at elements that we can control and elements that we can address. This includes operating cash flow, the working capital changes, the tax, as well as CapEx, including both gross CapEx, cash CapEx, as well as divestments.

Pleased to say that on the operating cash flow, as well as the CapEx, and investments, and the cash flow from divestments, we have done very well. And on the CapEx, we have probably done better than what we anticipated.

On the working capital, as of first half, we were tracking better than last year. Based on the various working capital optimizations we had done on a comparative first half to first half basis, we are almost about SGD240m odd better than what it was in the previous year. However, in this particular quarter, that has moved quite dramatically to the other side, so almost a SGD600m move, in terms of changes to working capital, on a like-for-like basis predominantly because of price changes and almost -- a lot in the confectionery and beverage ingredients primarily because of 60% odd move in coffee prices.

And you'll see that in a short while in the segmentals, that you see a significant shift between Q2 and Q3 in terms of overall working capital deployment, especially in this segment and that is something that we have always talked about that we will be able to look at getting to manage -- we can manage the volumes, we can manage the asset turn, we can manage the operating efficiencies, but we can't manage for price.

And so, that's the situation as of end of Q3. You're all aware that Q2 and Q3 are our biggest quarters, so we normally have our maximum peak working capital during Q2 and Q3 and, which comes off in Q4. So, Q4 is normally based on normal seasons, based on our shipments will be quarters wherein the working capital normally would come down as per se historical, but there might be some impact of these prices continuing at these current levels, which might not give us the full impact that normally we'll see during this period.

And just to kind of drive home and provide you a snapshot of the working capital as it's moved over the last four quarters and the changes to prices. So, if you see compared to Q3 of last year and Q3 now, net of these price increases, we're almost maintaining our working capital. Which means that despite these, all the other working capital initiatives that we have done and you'll see that in a couple of segments, wherein we have done significant working capital optimization to offset the significant increase in prices and if you look at the year-on-year price difference, almost 25% to 30% move has happened in these four commodities, which are all high price commodities also.

If you look at the change between Q2 and Q3 which is what I was highlighting earlier, we have almost moved working capital by SGD600m in this quarter and a significant part of that has been because of the coffee price increase which as you're all aware is almost 60% in this quarter itself.

And if you see last year, between Q3 and Q4, the working capital comes down quite sharply based on the normal shipment and normal seasonality of the business. So, we can't predict what will happen in Q4 of this year, but this basically provides us kind of a snapshot on how working capital has moved between Q3 of last year and now, between -- difference change between Q2 and Q3 for this year. And we will see how Q4 pans out and whether the usual seasonality plays out.

So, that's really an area which we are on top of doing various things and you'll see the impact that has been created in the first nine months across various segments when you get into the segmentals.

The last part on the balance sheet that I'd like to talk about is the gearing. The gearing -- one of the key objectives is to keep gearing under 2 during the three-year period. We are around that, even at these high prices and in this peak season, at 2.03. It is significantly lower where we were this time last year. So, net of prices and net of this time last year were significantly lower than that, but obviously higher than where we were end of June which is again, usual seasonality.

In terms of our liquidity position, very strong liquidity almost SGD12b against the SGD9.5b of debt of which SGD3.7m is short term debt. Over the past few years, and based on the earlier strategic plan and based on our CapEx plan, we have raised a lot of medium-term and long-term funds. Towards the end of this year once we complete our budgeting exercise for next year, we'll be looking at both tenure mix as well as the cost mix of our overall debt and we expect to make some changes which we will announce as and when we get there later this year.

So, also we are tracking a significant change to our secondary bond yields which has happened post the announcement of offer and we will see how our bond as well as our bank debt is worked through post the offer and then decide in terms of what kind of tenure mix and what kind of cost mix we are more comfortable with going forward.

So, moving to the last section which is the segmental EBITDA and IC. On an overall basis, EBITDA has grown to SGD900m whereas IC has across these segments grown almost about SGD900m predominately because of working capital in a few segments.

So starting with the first segment, the nuts and spices segment has been a segment which has done very well last year and the first nine months is progressing also quite well. So, there is a good sharp move in the nine months period on EBITDA. Very strong performance by almonds as well as onions, dehydrated onions. And better than last year performances in peanuts and tomatoes.

Really the drag on this segment has been on cashew and specifically the Nigerian mechanical cashew project which has gone -- we had talked about it in the end of Q2. There is a specific problem with the peeling in Nigerian cashew which means that the mechanical yields are not anywhere close to what we had anticipated and that's potentially a structural problem with the raw seeds, compounded by the fact that we are not allowed to import as per local regulations any raw seeds from other origins which can be processed there. Hence, we are looking at various options on how you want to kind of restructure that business and once we decide on our plans, we will come back to you on that.

But bar the cashew, the business has overall, the segment across has performed very well for the nine month period. You'll see fixed asset investments are almost flattened out, a lot of the investments happened in the last three years, but working capital has gone up quite sharply in this segment, primarily on almond and tomato prices, but also onion, garlic as well as pepper prices are all firm and much higher than where it was last year. But a significant price increase has happened in almond and tomatoes prices which is what we are highlighting here.

Moving on to the next segment, the Confectionery and Beverage Ingredients, which is primarily cocoa and coffee business. Again, the business is tracking on plan for the nine-month period, with improved EBITDA. The coffee business had lower margins in the first half, but with an increased pricing and changes to that both in terms of liquidity as well as margins, it has improved quite a bit during Q3. The cocoa business continues again with a strong performance. We have commenced initial commercial shipments out of the cocoa processing plant so that is good and that provides us a good mix of both bean as well as product capacity. We are also progressing well on the soluble coffee part of the business as well as in the other plantations bar the Laos coffee write-off that we talked about.

Now here, the real story is about the working capital and the change in working capital. So working capital for the prior years and if you remember our EBITDA by IC guidance for this segment was always that prices have been low for cocoa and coffee in the prior years, but there has been a significant change, so while there has been some amount of fixed asset investment in the cocoa processing, soluble coffee as well plantation business, but the significant change in IC is really on working capital and probably a majority of this has been contributed in Q3 primarily coming from coffee, although cocoa has also gone up a bit.

So this is a part that we'll need to really look at how to manage. We don't intend to lose market share. We believe that we are very uniquely positioned in these two segments. So, while working capital prices will go up and come down, so we will -- our attempt would be to kind of optimize whatever is in our control but not lose market share and we see a lot of opportunity in this business, but it will certainly impact the IC for this segment as well as the EBITDA by IC, the margins on the segment, and the returns on the segment.

Moving on to the Food Staples and Packaged Foods, this has a few different aspects that I'd like to highlight. Firstly, this segment performed exceptionally well last year and there was a significant growth in volume as well as EBITDA in the prior year, in fact almost SGD415m EBITDA. Even in the first half we had talked about EBITDAs coming off this year and that has continued in Q3 also.

There are three aspects of the business which are performing very well. The grain milling business is doing exceptionally well both in Nigeria, in both mills and the expansion has gone off well. And the other new mills that are coming up in Senegal and Cameroon are also on course. The packaged foods business is doing well, the sugar milling business is doing well, the dairy supply chain business is doing well, but the three areas which are of concern and which are certainly pulling down the results of the segment are firstly, the grains and rice trading volumes as well as margins. Rice on account of very poor prices and continuously falling prices and grains, specifically in terms of the recent volatility, which has hurt a lot of other industry participants also, but primarily in terms of our volumes and margins in Australia as well as the Black Sea ports, it has been much lower and that is one area that we have to watch carefully.

The second area is really related not to this segment but has had a specific impact on three products in this segment which is the sharp devaluation of the Ghana cedi. So when we met for Q2 results, we had talked about that we are watching that something closely. Now Ghana cedi has devalued from something like GHS2 to a $1 to almost GHS2.65, GHS2.70. Ghana is an import-based business for us, impacts our grain milling business, our wheat milling business, our packaged foods business as well as our rice business. So in all these three businesses, the local prices have not moved in tandem, although they are moving up, but they've not moved in tandem. So there is a knock on EBITDA in terms of margins that we are taking. So, again a lot of work happening in Ghana. Cedi seems to be stabilizing. The government is also putting a lot of efforts to stabilize the cedi, but that's again, for the nine-month period that is a much lower margin across these three segments from Ghana alone.

And then the last business which continues to have is the dairy upstream, but more so the Russian Rusmolco business. We had talked about the impact of monsoon on both on the agri crop, in the first half as well as the continued impact of that on the feed cost and the feed availability for the dairy part of it in the second half. So that continues to be one drag. The second is really the herd growth as well as the yields are not progressing -- are below plan. So, clearly Rusmolco is an area where there is a lot of effort, significant management attention being given and that's an area that we will keep you informed of.

New Zealand dairy in Uruguay is doing much better than last year, slightly still below our expectations for this year, but in both Rusmolco and Uruguay we have been helped by strong dairy prices, which have given us a little bit of cushion from the lower operating yields and perimeters that we are facing.

So those are three areas that we'd just like to highlight. Beyond that, on all the other parts of the business, the palm, the dairy supply chain, the wheat milling, the packaged foods business, there is strong progress equally and there is significant progress in the way we have optimized working capital in this particularly segment. So a big reduction in this segment from SGD1.4bn to SGD1.1bn, almost SGD300m of reduction. There is a significant fixed asset investment which are in all the projects that have been announced prior, which is the wheat milling, the palm plantations in Gabon, the rice palm in Nigeria are all areas which were projects that were started off in the prior year which are continuing CapEx, they are all greenfield plantations and our processing units, wherein a lot of the fixed asset investments for this year, where we have spent CapEx has gone into.

So, that as far as this segment is concerned and moving on to the last and final, the Industrial Raw Materials segment. Lot of restructuring here on the timber business that we have talked about in the past. The cotton business which had a couple of very tough years and certainly a very tough last year also has improved probably say similar volumes, but much better margins, so that is contributing to the good EBITDA growth in the segment. Significant working capital optimization, both in cotton as well as the reduction in timber as well as fertilizer which has led to a significant reduction in working capital in this segment, and fixed asset investment in this segment are primarily in the rubber plantation in Gabon and a little bit in SEZ.

So that's this last segment, and so, to quickly bring this all together. Clearly, the first nine months of the first year of the strategic plan, quite pleased to the progress on overall strategic initiatives on the key objectives as well as all each of the six pathways. Good steady financial performance for the quarter and for the nine-month period, lot of things yet to do. Some of the concerns that have been there for the first nine months and might potentially impact results in the future have been talked about, but we are on top of that, in overall terms quite pleased with the operating performance during this period.

And finally, I think the important thing is that, this is a transition year, but we are not -- we are focused on making selective investments in the platforms that we have chosen for growth and we feel that very clearly, if you look at competitive -- competition in the sector that we operate in, we feel that we are improving our competitive position, we are backing businesses that we want to back, backing projects that we want to back and therefore feel quite pleased that at the end of this transitional period of the strategic plan, there is a good growth out there for us to participate in.

So thank you and we'll take any questions you have on this.

QUESTIONS AND ANSWERS

Hung Hoeng - *Olam International Ltd. - IR*

Thank you, Shekhar, for the presentation. I'd like to just say this again that since the voluntary unconditional cash offer for Olam is still underway, under the takeover code, we'll not be able to comment on the offer itself and its implications on Olam, and as well not be able to give any forward-looking statements on the company until after the offer is closed. So, with this in mind, I hope you would just hold on to your questions. If your questions are on the takeover per se, hold that till after May 23 which is the closing date of the offer. Otherwise, we'd be happy to take any questions that's relating to the results and we'd like you to focus on the results for this briefing today.

If anyone who will like to ask first question, Thilan, yes.

Could you please give us your name and -- Thilan and please continue.

Thilan Wickramasinghe - *HSBC - Analyst*

Thilan from HSBC. Given the sort of success you've had in the last three quarters in implementing your strategic plan, as a management, when would be the first sort of instance where you would actually look to revisit this plan? And are there any specific areas that you would like to refocus on within that context? That's my first question.

The second question is on the Nigerian mechanical cashew processing plant. How has this -- what has happened for this to go off plan and what alternatives are there in terms of fixing before then taking a write-down?

Sunny Verghese - *Olam International Ltd. - Group Managing Director and CEO*

On the first question which is about when we would revisit the plan, as we mentioned to you when we announced the plan in April of 2013, that we have a process where we annually refresh our plan. So, we will obviously make a public comment only if those plans have changed. But every year as a process, we refresh our strategic plan. Right now we are in the midst of completing the first year of the three-year plan that we announced in April 2013 and it was the first year, we've got two more years to go for the plan to get over. If, after we complete our process of strategy review, there are any changes to that plan, then obviously we will make that public. But if it is staying on course with that plan, then there would be no public statement about the plan itself.

Are there other triggers that could persuade us to change our plan? That as you know, the VGO is underway and based on how the VGO ends, we will see whether there is a need to further refine that plan or otherwise. But as a process, we look at our plan every year. We are very pleased with the progress as Shekhar mentioned at the end of the first year in terms of the strategic initiatives that we had outlined for execution, the cash that we wanted to release, the twin objectives of pursuing profitable growth as well as generating -- accelerating generation of free cash flow, are still the objectives and within that the six pathways that we had identified to getting there, we are very pleased that we are tracking ahead of that plan at this point of time of the three-year phase of that plan.

On the second question about Nigerian mechanical cashew processing, I think the key issue there is the Nigerian raw cashew nut has testa, so if you look at the raw nut, there is a hard out exterior shell, and you've got to shell it and crack it to get to the kernel. That kernel is enveloped in a skin called the testa and you have to peel the testa out. Now, in some varieties in Nigeria, most of Nigerian production, the testa adheres very closely with the kernel. And therefore all of the technologies that are available to loosen the testa, in the case of the Nigerian raw nut makes it even more difficult to do that efficiently. You will peel the testa, but you might break the kernel and as you know, between a whole kernel and a broken kernel, there is a big value difference. And Nigerian government has taken the view that they will not allow the import of raw nuts from other countries. So we can only process with the local raw nuts.

So given that problem, we believe that even if we address some of the other issues that surround that plant, structurally over the long term, it will still track below our IT. But the same plan works extremely well in Ivory Coast, works very well in Vietnam, works very well in India. So, our plan is to try and transfer this facility to a location where the raw nut quality is such that we can get to the yield and outcomes that we had assumed in our IT. So over the next quarter, the last quarter of this financial year, we will look at what our options are and make a final determination in terms of the future of that project, but currently that is a key challenge that it is facing.

Hung Hoeng - *Olam International Ltd. - IR*

There's a question in front.

Rujun Shen - *Reuters - Media*

Rujun Shen from Reuters. I have a question about your Vietnam operations. Was just wondering if any of it has been affected by the rioting in recent days and if not, are you taking any precautions and if business is running as normal? Thank you.

Sunny Verghese - *Olam International Ltd. - Group Managing Director and CEO*

At the moment, there has been no impact on any of our manufacturing facilities in Vietnam. Tight -- security has been tightened across all our plants in Vietnam and not just in terms of our own direct security, but it is also about the export zones, etc. that we have located our factories in. There has been significant heightened security that the government is now providing as well. But as of this moment, there has been no direct impact on any of our manufacturing locations, and we have multiple facilities in Vietnam.

Hung Hoeng - *Olam International Ltd. - IR*

Yes, Abhijit.

Abhijit Attavar - *Jefferies - Analyst*

Yes, hi, Abhijit from Jefferies. Just want to drill down more on the question about reviewing your strategic plan. Just focusing what areas do you think you might want to review it, because so far it's been good on free cash flows and cash flow generation, but maybe a slowdown a bit on your EBITDA growth. So, do you see a need to change your capital spend to drive more growth and is that the area where you would want to shift around a bit? So, just wanted to get a flavor on that.

Sunny Verghese - *Olam International Ltd. - Group Managing Director and CEO*

When we do our annual refresh, all of the parameters that you mentioned are inputs that we consider before we craft the strategic plans for the next few years. So all that will be considered. At this point in time, we are pleased with how we are executing the strategic plan that we announced in April of 2013 and we will stay the course unless our assessment shows that we need to now change course.

So, all that outcome that you see today that Shekhar outlined is quite deliberate. So our volumes have come down. Our volumes have come down in projects where we are restructuring and where we want the volumes to come down. So volumes have come down in the grains trading business, where we wanted the volumes to be lower. Volumes have come down in our sugar trading business, where we wanted the volumes to come down. Volumes have come down in our wood product business, where we wanted to restructure the business and the volumes have come down as a result of that. So all of the volume decreases that we see are deliberate areas where we want to degrow that business or reemphasize a different part of the value chain in that business unit where we want to focus and prioritize our investment dollars.

So, -- but -- so if you look at the strategic plan, we have said that there are five businesses where we want to invest and grow disproportionately and those five businesses are the cocoa business, the coffee business, the edible nuts business, the spices and vegetable ingredients business and the grains milling business. In each of these five businesses, we have invested significantly over the last year and more importantly, in all of them we have grown volumes.

Then there were two businesses where we said we will optimize in terms of already having substantially invested over the last four years and we want to now extract full value from the investments that we already committed to those businesses and that included the natural fibers businesses, the cotton and wool business as well as the rice business. So, there we were really not looking for significant volume growth and therefore we wanted to maintain our volumes in those two businesses and that's what we are doing.

And there were three businesses where we said we want to restructure and that was the wood products business, the sugar business, which we have now -- restructured and the dairy business which we have now significantly restructured.

There were two businesses that we -- three businesses that we identified where we said these are businesses with quite significant capital investment, has long gestations, very attractive from an economic standpoint for the company, but we would like to co-share the investment risk and bring in investment partners. So those are businesses where we said we will sell down stake, bring in JV partners as we will still be majority owners and run the business, but we would like people to co-share that investment risk and participate along with us. And we will therefore grow those three franchises or those three platforms through partnerships and that was the palm business, the rubber business and the packaged foods business.

In each of that you have seen some examples of where we are partnering. So, in the palm and rubber business, as you know last quarter we informed that we sold our 20% stake in rubber business further down. We now have 60% of the rubber business. And we sold a 10% stake in a palm upstream business and now we own 60% of that business as well. That's one example. In the packaged foods business we sold our stake in one of the categories, in the noodles category to Sanyo. That's another example.

So, we are basically executing that strategic plan. There were two platforms where we said we want to deconsolidate. Again, economically very attractive, but very large ticket size in terms of CapEx and very long gestation and those businesses, given the capital intensity and the gestation profile, we want to still be invested in those businesses, but we don't necessarily need to own majority of that. We will have joint control and we'll effectively deconsolidate those two businesses from our balance sheet. And that is the GFC business, the Gabon fertilizer project and the SEZ business.

So we are on track on all of these things and making solid progress. Now if we see that there is emerging opportunity that is different, if we see that our constraints in terms of capital, etc. are different, those will be essential inputs when we do our annual strategy refresh exercise. And we will tweak and change the plans based on all of those emerging realities. At this point in time today, at the end of March, we have nothing more to say about a new plan or a new focus or a new direction.

Abhijit Attavar - *Jefferies - Analyst*

Just very quickly want to touch upon the volume thing that you talked about, you deemphasized volumes in areas where you did not want to be in. But actually, your volumes have grown -- have come down in the edible nuts business which is your most profitable segment. So was there a conscious decision to conserve working capital?

And secondly, actually your volumes have grown in the food grains business which has been not very profitable for you at all. How do you see the turnaround happening in the food grains business? What caused this low profit return and how are you going to change that?

Sunny Verghese - *Olam International Ltd. - Group Managing Director and CEO*

So, I think very good point. So the first issue is that, within business units where we want to grow, the growth target is basically we want to grow earnings. So we may decide that the most valuable part of the in edible nuts example that you gave, the most valuable part is upstream almond production, right for example. So we are disproportionately investing upstream in almond production and not really emphasizing almond trading as much.

So, I think for us when we are talking about profitable growth now, we are really talking about earnings growth and therefore changing the shape of the portfolio in terms of identifying where is the profit pool in each of our business unit, is it domiciled upstream in the plantation side, is it domiciled in the supply chain trading side, is it in the midstream portion of it or is it in the downstream portion of it. And then we are allocating capital and making investment choices by focusing on those parts of the value chain where the size of the prize is attractive and where we believe we clearly can win.

So I think going forward, we won't be too focused on volumes. The simple example that I gave you in answering your first question is very clearly we are saying that we don't want to grow our grains trading volumes. We want to dramatically grow our grains milling volumes, because we see disproportionate returns in milling. And all this is governed by the overall constraints that we are trying to optimize for. So, trading will include more working capital, obviously milling would include more fixed capital, but you can't put up as many projects. Trading business is a little bit more relatively more easy.

So we are looking at what is the capital intensity, what is the risk intensity, what is the overhead intensity of each of the BUs that we are investing, where is the size of prize, where is the attractive market, do we have winnability and the strategy that we have outlined to you in April is nuanced taking into account all of this.

But as we have always told you, strategy is never cast in stone. This is a three-year plan. At this point in time, we are pleased in the traction we are getting in executing the plan. We believe we are headed in the right direction. If, however, any of the constraints change, if the opportunities change, then obviously this plan will also change.

Abhijit Attavar - *Jefferies - Analyst*

Thank you.

Hung Hoeng - *Olam International Ltd. - IR*

Thank you for questions, Adrian. Can you wait for the microphone, please? Thank you.

Adrian Foulger - *Standard Chartered - Analyst*

Sorry, yes, Adrian Foulger at Standard Chartered. Just a little bit of a follow-on, if I just look at the food grouping, so the beverages and beverage ingredients side, and look at the working capital rise, you said you wanted to continue to participate and not give up share, not give up volume.

Is the lack of margin that you are achieving, is that just a timing issue or is there something structurally wrong with the way you put a very big lump of capital, but not the return yet.

Sunny Verghese - *Olam International Ltd. - Group Managing Director and CEO*

Yes, yes, it is both those factors. So in the cocoa business we are investing midstream and cocoa processing. So we have committed significant capital in setting up a 60,000 tonne cocoa processing grinding facility in Cote d'Ivoire. We've just commenced trial production. We'll get into commercial production in a couple of months' time. So that's an example of an asset that we've invested which is still not yielding, which is the second point that you sort of raised.

But in the cocoa business we believe that we have global leadership position in terms of our footprint in origination and trading, our trading skills are propriety market intelligence skills, the way we have incorporated sustainability which has very, very significant benefit to our customers. So all our chocolate manufacturers really want to source sustainable cocoa free from child labor, sustainable cocoa which is organic or which is traceable, which is customized grades and quality. So all of that stuff and we are clearly leaders in that globally. So that is a business that we want to grow for sure.

The second is the coffee business in that segment and the coffee business as you know, we started with one upstream investment in Laos. Then we have subsequently invested in Ghana -- sorry in Tanzania, in Zambia, in Ethiopia and in Brazil. So now we've got five plantation investments that we have invested in concurrently. They are all in the early stages. They are all still immature. So we will see for the investments that we are making now and will continue to make significant potential earnings upside as they go through the gestating profile and become mature.

In coffee, we are invested in the midstream processing assets. So we invested in the soluble coffee manufacturing facility in Vietnam. Last year we trebled the capacity. There will be triple the capacity there. And then we acquired Seda Solubles in Spain, which almost has the same capacity as our enhanced capacity in Vietnam. So we now have very significant midstream player. But those investments will take some more time to start really contributing and delivering the earnings that we expect from them. But the supply chain business is still a market-leading business in coffee as well.

So these businesses, we will continue to invest. We cannot anticipate what prices coffee will be at or cocoa will be at and therefore, for a certain throughput capacity in terms of procurement footprint, we might end up having twice the working capital that we have planned for or half the working capital that we have planned for and that's a function of prices. But as long as we are generating more than our cost of capital and earning a return on that increased working capital intensity if prices go up, obviously reduced working capital intensity if prices go down, we are okay with that.

But we are not now really focused or obsessed with headline volume growth. We are focused and obsessed with profitable bottom-line growth and that can come from integration in the value chain, so on the same volume, you can dramatically increase your margins based on how selectively you are integrated in the attractive parts for the value chain.

Hung Hoeng - *Olam International Ltd. - IR*

(technical difficulties) hold on, Shekhar.

Anantharaman Shekhar - *Olam International Ltd. - Executive Director of Finance and Business Development*

Hi. The point I was making on the holding on to market share was really that we -- still we don't see a reduction in margin. The margins whether you take gross margins or on EBITDA are still there, even the coffee and cocoa business except that in the recent times, there has been a significant increase in the new stock that we are buying and therefore working capital has gone up. So, we don't just want to say therefore, we want to be free cash flow and therefore we won't invest in working capital and stop buying where there is margin to be made. So we want to retain a certain volume where we feel that the returns are commensurate with our expectations, we'd like to retain that volume, but we're not just going for just volume growth also with margins getting thinner and thinner and just increasing our investments for potential absolute margin.

Adrian Foulger - *Standard Chartered - Analyst*

The inference from that comment is you'd expect margins to improve as we go into fourth quarter as the high inventory washes through, and you get a return on having to fund that inventory.

Anantharaman Shekhar - *Olam International Ltd. - Executive Director of Finance and Business Development*

The percentages might not be the same, which you know as always so there, but within the margins trade within a certain range, and that will certainly we hope that, but more importantly, the intrinsic margin that we are trying to build in these businesses going forward, with the fixed asset investment that we have done, those are all also very pleasing, because that will make a structural change in the margin structure going forward.

Hung Hoeng - *Olam International Ltd. - IR*

Questions at the back, Patrick.

Patrick Yau - *Citigroup - Analyst*

Hi, thank you for taking my question. Patrick here from Citi. I have a question on the breakdown of your debt structure where I notice an increase in short-term debt to roughly 40% from maybe 34% a year back. Are you now at the optimal level in terms of your balance between long versus short term debt. That's my first question.

The second question, if I may, will be to ask a question on PureCircle which noting the plan to deleverage and PureCircle being now an investment. Isn't that sort of a low hanging fruit in terms of deploying of proceeds and helping with the strategy of reducing debt for the firm?

Sunny Verghese - *Olam International Ltd. - Group Managing Director and CEO*

I'll probably take the second question and Shekhar will take the first question on the debt mix. So on PureCircle, we have made this investment for various reasons and as you can see the reason that PureCircle has been reclassified as an asset available for sale is because we don't meet the two critical conditions to keep it as an investment held for long term, because we are now less than 20%. You need to be at 20%. We are less than 20% as Shekhar mentioned because there was a placement done by the company to a party who has now become the largest shareholder of the company, so we have at about 18.3% or 18.6%.

And the second was that we should have some influence and control over the company and that influence and control was exerted through my being on the board. So now that we are below the 20% and we don't have the same influence and control over the company, we have to fair value that investment and the fair valuation has resulted in a gain. We are not saying that we putting up that asset for sale.

Obviously we cannot publicly speculate on any part of our portfolio except in whatever we have already made a decision and there is a Board-sanctioned position that this is how we are headed and all of that is already public what we want to do with the portfolio overall. But we will actively be managing our portfolio. Some of you in the past said that we only know how to invest; we don't know how to divest. So you have seen that we have divested 12 or 13 assets in the last year or so. So, we can be as aggressive in investing and as aggressive in divesting. So, we don't -- but we will manage that portfolio very actively. We cannot give you today or make any speculative judgment today about what we will do to the portfolio going forward.

We believe in the prospects of PureCircle. We likely believe in the prospects of cocoa business or our coffee business or our grains milling business or our packaged foods business. But every year we are looking at all of these businesses and seeing whether we are the rightful owners of these businesses or whether we should increase our investment in these businesses, whether we should reduce our investment in these businesses or whether we should divest these businesses. That is something that we will do across the portfolio on a regular basis. But right now this quarter, the event is basically that we have to fair value that investment and we have invested well and that is reflected in the fair value gain that we see.

Anantharaman Shekhar - *Olam International Ltd. - Executive Director of Finance and Business Development*

Probably just segueing that into the -- into your first question. We certainly won't like to divest just for the sake of divesting or for the sake of reducing gearing or reducing debt, because a lot -- all the divestment plans are based on what we believe is valid either it's a non-core asset in which you can divest or it's unlocking value in participating for the future. So PureCircle is one of the assets that we strongly believe in and therefore would not like to divest just to reduce debt like you are indicating to generate free cash flow.

If you look at our capital structure, there is more than ample liquidity for us to not be under any cash flow pressures, number one. Two, our gearing target that we had set for year three, we are already around those levels, so therefore there is no gearing pressures of any kind for which we need to take any kind of immediate actions and lastly, the point that you mentioned while the -- at this point of time we are extremely conservatively -- if you look at our debt portfolio, we have a significant chunk of medium and long term debt which is covering our short term working capital.

So, during the last quarter, because the increases were -- because of for short-term working capital, we increased our short-term debt wherein we have a lot of unutilized capacity. We're not increasing our long-term, medium-term debt. If anything, it will come down in terms of percentages, because we're paying a lot of negative carry for the comfort of having that medium-term and long-term. So we'll never get into -- back into a situation like we were pre-2008 where all our debt was short-term debt. We'll have the right mix and we'll have to arrive at the right that we'll natural optimization that we'll do on ongoing basis.

The increase in short-term to long-term is very specific because the increases in working capital were short-term in nature and therefore -- and we have enough unutilized capacity on the short-term, therefore we increase it.

Jeremy Grant - *Financial Times - Media*

Jeremy Grant from FT. Just a sort of broader industry question in terms of what's going on with some of your peers as well, which I am sure you're noticing, Cofco and Noble did this deal the other day to create a joint venture with Noble agri, very much based on the idea that Cofco is trying to get up the value chain in agri business. It seems to be a big theme right now. You obviously are doing that yourself within your own business. How do you see this trend playing out with regard you and the rest of your peers in the industry, I don't know how do you judge what's going on, where is Olam's place in that. And is there a potential transaction you might even do because your potential new owner might even think along those lines based on its relationships with China too. Thanks.

Sunny Verghese - *Olam International Ltd. - Group Managing Director and CEO*

So, I think you're absolutely right about the consolidation trend and that's not new, it's been around for some time and you gave a couple of examples what we've seen in the recent past, Marubeni's acquisition of Gavilon and Glencore's acquisition of Viterra and ADM's yes, with GrainCorp. So there are lots of well-known examples, there are also smaller examples below the radar that happened and I think that trend will continue. So there will be consolidation in this industry I think with the growing imbalance that will be there between supply and demand for food. I think this will be an attractive sector which will attract a lot of capital.

State actors are getting involved now because of food security and other issues and I think that's partially also what we've seen in some of the examples that you mentioned. I can't obviously be specific about whether Olam will shape some of that or will become a victim in that. That's not something that I can speculate, but you know from our past history that we always look to see how we can create more value long-term for our shareholders. So we will always keep an open mind to look at what we can do to profitably grow the business that creates long-term value for our shareholders and all of the things that you talked about would be definitely part of that mix. I cannot today speak on behalf of the new ownership structure that might eventuate post the VGO offer. So that I will leave it to wait for the offer to complete.

Hung Hoeng - *Olam International Ltd. - IR*

Now let`s take a break here. I am sorry, there's a question in the second row first.

Tan Huileng - *Dow Jones - Media*

Hi, Huileng from Dow Jones. I am just wondering now, how has the slowdown in China affected your business in the country?

Sunny Verghese - *Olam International Ltd. - Group Managing Director and CEO*

So, the slowdown in China has had some impact, particularly in our wood business, because China was a very large market for our timber products, both logs as well as for lumber. With the decrease in construction activity in China, because of the slowdown, that market has been witnessing quite sluggish demand for a while. Apart from that, in most of our other product platform, we haven't seen a significant weakening of demand, because some of the raw materials that we serve or we offer in China are very basic food raw materials and it is not very recession sensitive. And therefore it has not really impacted demand in a major way.

I think the areas where demand has come down for our products in China especially in wood, second in rubber, because obviously part of rubber demand, natural rubber demand is towards off-road vehicles that is construction, equipment, cranes and earth moving equipment, etc. Demand for that has gone down and therefore demand for rubber has been impacted. Similarly demand for wool fiber is impacted. So all our industrial raw materials business where China was an important demand generator, that has been impacted a bit, but the biggest impact has been in the wood business. In the rest of the businesses, there has been some slowdown in rubber and cotton but not very material.

Hung Hoeng - *Olam International Ltd. - IR*

We'll take a break here from the floor and take a few questions from the webcast. There's a question relating to our bond yields having tightened at a range of 1.2 to 2 and what have been the discussions with the banks and any indications at the moment for what could potentially be the new kind of interest rates you're expecting.

Anantharaman Shekhar - *Olam International Ltd. - Executive Director of Finance and Business Development*

So again, we won't comment on what it might be. Certainly what is known and obvious to all is that post the VGO, there's been a significant tightening across the entire bond yield curve for all the secondaries, Sing dollar, US dollar, all kind of maturities which have moved between 500 to 800 basis points.

So, we will see how the offer pans out and how the secondary market behaves. There is also an overall, let's say, positive trajectory to the bond market globally and across all bonds not just Olam bonds, obviously they've been significantly moved up after the VGO. So we will look at all our options both in the bank debt market, the syndication market as well as in the bond market across multiple tenures to get the right optimum mix of security, look at the yield curve, interest rates are likely to go up in the next two to three to five years certainly and therefore we'll get the right optimum cost/security that we need to ensure that we can meet our business plans within the overall boundaries that of leverage, that we have laid down. So that's really the way we look at it.

Hung Hoeng - *Olam International Ltd. - IR*

There is a question also on capital expenditure for next quarter, quarter four and then into FY 2015, any indication for these two quarters and the year.

Anantharaman Shekhar - *Olam International Ltd. - Executive Director of Finance and Business Development*

We have highlighted a three-year plan. We are staying within that plan. We haven't given any specific guidance on a quarterly or annual basis, but we would say that certainly we're sure that we'll stay within the three-year guidance that we have said. Nothing very dramatically different is going to happen in Q4.

Hung Hoeng - *Olam International Ltd. - IR*

Right, these are the two questions we have on the webcast. Is there any question from the floor? If no, we would like to bring this session to a close and we thank you for your attendance. There is some refreshment outside. We will invite you to join us for refreshments. Thank you.

Anantharaman Shekhar - *Olam International Ltd. - Executive Director of Finance and Business Development*

Thank you all. Thanks very much.

Sunny Verghese - *Olam International Ltd. - Group Managing Director and CEO*

Thanks very much.
