

Olam International Limited

Management Discussion and Analysis

Results for the period ended March 31, 2017




This Management Discussion and Analysis (MD&A) should be read and understood only in conjunction with the full text of Olam International Limited's Financial Statements for the First Quarter ended March 31, 2017 lodged on SGXNET on May 15, 2017

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MANAGEMENT DISCUSSION AND ANALYSIS

Results for the First Quarter ended March 31, 2017 ("Q1 2017")

Contents

Key Highlights

Financial Performance

SGD Mn

	Q1 2017	Q1 2016	% Change
Volume ('000 MT)	4,461.7	2,965.5	50.5
Revenue	5,804.2	4,761.4	21.9
Net gain/(loss) in fair value of biological assets	(2.0)	(5.3)	(62.3)
EBITDA	**398.6**	**332.8**	**19.8**
Depreciation & Amortisation	(88.6)	(80.5)	10.1
Net Finance costs	(139.6)	(99.4)	40.4
Taxation	(34.0)	(31.0)	9.7
Exceptional items	-	(12.5)	n.m.
PAT	136.5	109.4	24.7
PATMI	**143.9**	**113.6**	**26.6**
Operational PATMI	**143.9**	**126.1**	**14.1**

- **Profit After Tax and Minority Interests (PATMI) increased 26.6%** to **S$143.9 million in Q1 2017** (Q1 2016: S$113.6 million) as improved Earnings Before Interest, Tax, Depreciation, and Amortisation (EBITDA) offset higher depreciation and amortisation, and net finance charges.

- **Operational Profit After Taxes and Minority Interests** (PATMI excluding exceptional items) **grew by 14.1% to S$143.9 million** (Q1 2016: S$126.1 million).

- **EBITDA rose by 19.8% to S$398.6 million in Q1 2017** (Q1 2016: S$332.8 million) as three of our five segments – **Edible Nuts, Spices & Vegetable Ingredients** (**up 72.1% from S$80.2 million to S$138.0 million**), **Food Staples and Packaged Foods** (**up 38.0% from S$85.7 million to S$118.3 million**) and **Commodity Financial Services (CFS)** segments (up from S$3.5 million loss to S$5.1 million) – showed healthy growth and compensated for the reduced contributions from the **Confectionery and Beverage Ingredients** (**down 28.7% from S$105.2 million to S$75.0 million**) and **Industrial Raw Materials** (**down 4.6% from S$65.2 million to S$62.2 million**) segments.

- **Sales volume jumped 50.5%** compared with Q1 2016 mainly due to opportunistic trading volumes in Grains during the quarter.

- **Net finance costs** (excluding the one-time charge on the buyback of bonds) **increased to S$139.6 million in Q1 2017 (**Q1 2016: S$99.4 million) due to a larger invested capital base, an increase in benchmark interest rates as well as an increase in higher-cost local currency borrowings to mitigate the impact of currency devaluation in certain geographies.

- **Depreciation and amortisation increased to S$88.6 million** in Q1 2017 (Q1 2016: S$80.5 million) on an enlarged fixed asset base after the completion of various acquisitions made in 2016.

- These results included a **net loss of S$2.0 million** for Q1 2017 on the **fair valuation of upstream dairy assets** (Q1 2016: S$5.3 million loss).

- We incurred gross **cash capital expenditure (Capex) of S$218.5 million** in Q1 2017 (Q1 2016: S$451.1 million) for meeting ongoing Capex commitments during this period. **Net of disposals**, we invested cash of **S$185.2 million** in Q1 2017 (Q1 2016: S$444.3 million).

- We generated positive **Free Cash Flow to Firm (FCFF) of S$134.9 million** due to higher net operating cash flow and reduced Capex in Q1 2017.

- **Net gearing stood at 1.98 times** at March 31, 2017 compared to 1.99 times as at December 31, 2016.

Financing

- In February 2017, Olam announced its intention to **call back the outstanding 7.0% Perpetual Capital Securities of S$235.8 million** in the open market between March 1, 2017 and March 7, 2017 at par value including accrued distributions. It also announced its intention to exercise its option to redeem any outstanding Securities as of September 1, 2017 at par including accrued distributions. As at March 31, 2017, the outstanding Securities stood at S$235.8 million.

- In March 2017, Olam announced that it has issued **US$300.0 million of 5 years and 10 months senior unsecured notes due 2023** under its US$5.0 billion Euro Medium Term Note Programme at 99.37 of their principal amount and priced at a fixed coupon of 4.375%.

- In late March 2017, Olam issued **¥5.7 billion (approximately US$50.0 million) senior unsecured notes due 2022** at 98.0% of their principal amount and priced at a fixed yen coupon of 0.47%.

Outlook and Prospects

Despite macro-economic uncertainties likely to continue into 2017, Olam believes its diversified and well-balanced portfolio with leadership positions in many segments provides a resilient platform to navigate current challenges in the commodity markets. While Olam continues to execute on its 2016-2018 Strategic Plan and pursue growth in its priority clusters, it remains focused on turning around underperforming businesses, ensuring gestating businesses reach full potential and achieving positive free cash flow.

Summary of Financial and Operating Results

Profit and Loss Analysis

SGD Mn

	Q1 2017	Q1 2016	% Change
Volume ('000 MT)	**4,461.7**	**2,965.5**	**50.5**
Revenue	**5,804.2**	**4,761.4**	**21.9**
Other Income^	11.9	**11.1**	7.2
Cost of sales^	(5,208.2)	**(4,155.3)**	25.3
Overhead expenses^	(265.0)	**(256.0)**	3.5
Other operating expenses	54.7	**(22.5)**	n.m.
Net gain/(loss) in fair value of biological assets	(2.0)	**(5.3)**	(62.3)
Share of results from jointly controlled entities and associates	3.0	**(0.6)**	n.m.
EBITDA^	**398.6**	**332.8**	**19.8**
EBITDA %	6.9%	7.0%	
Depreciation & Amortisation	(88.6)	**(80.5)**	10.1
EBIT	310.0	**252.3**	22.9
Exceptional items	-	**(12.5)**	n.m.
Net Finance costs^	(139.6)	**(99.4)**	40.4
PBT	170.5	140.4	21.4
Taxation^	(34.0)	**(31.0)**	9.7
PAT	**136.5**	**109.4**	**24.7**
PAT %	2.4%	2.3%	
Non-controlling interests	(7.4)	**(4.2)**	76.2
PATMI	**143.9**	**113.6**	**26.6**
PATMI %	2.5%	2.4%	
Operational PATMI	**143.9**	**126.1**	**14.1**
Operational PATMI %	2.5%	2.6%	

^Excluding exceptional items

Sales Volume

Volume grew 50.5% mainly due to opportunistic trading volumes in Grains during Q1 2017.

Revenue

Revenue increased by 21.9% mainly on higher volumes, with price increases in some commodities, such as coffee, almonds and cotton, offset by lower prices across other commodities in the portfolio.

Other Income

Other income (excluding exceptional items) was higher by S$0.8 million due to higher miscellaneous income as compared with the prior corresponding period.

Cost of Sales

The change in cost of sales normally follows the corresponding change in revenue for a given period. In Q1 2017, while revenue increased by 21.9%, cost of sales increased by 25.3% due to currency appreciation in some countries against the US dollar. This increase in cost of sales was offset by a corresponding increase in unrealised foreign exchange gains which were recorded under Other Operating Expenses.

Overhead Expenses

Overhead expenses increased by 3.5% to S$265.0 million in Q1 2017 (Q1 2016: S$256.0 million) after the completion of various acquisitions during 2016, including the Brooks Peanut Company (Brooks) in Q3 2016.

Other Operating Expenses

Other operating expenses amounted to a net gain of S$54.7 million in Q1 2017, primarily due to unrealised foreign exchange gains booked as a result of currency appreciation in some countries against the US dollar. These gains offset a corresponding negative impact on Cost of Sales.

Net Changes in Fair Value of Biological Assets

There was a reduction in net loss from fair valuation of upstream dairy assets from S$5.3 million in Q1 2016 to S$2.0 million in Q1 2017.

Share of Results from Jointly Controlled Entities and Associates

Share of results from jointly controlled entities and associates improved from a S$0.6 million loss in Q1 2016 to positive S$3.0 million in Q1 2017. This was mainly due to improvement in contribution from SIFCA.

EBITDA

EBITDA improved by a healthy 19.8% to S$398.6 million in Q1 2017. Three of the five segments, namely Edible Nuts, Spices & Vegetable Ingredients, Food Staples & Packaged Foods and CFS reported higher EBITDA, offsetting lower contributions from the Confectionery & Beverage Ingredients and Industrial Raw Materials, Ag Logistics & Infrastructure segments.

Depreciation and Amortisation

Depreciation and amortisation expenses increased from S$80.5 million in Q1 2016 to S$88.6 million in Q1 2017 due to an enlarged fixed asset base following the completion of various acquisitions during 2016, including Brooks.

Finance Costs

Net finance costs increased from S$99.4 million in Q1 2016 to S$139.6 million in Q1 2017. This was a result of a higher invested capital base, an increase in benchmark interest rates as well as an increase in higher-cost local currency borrowings to mitigate the impact of currency devaluation in certain geographies.

Taxation

Tax expenses rose marginally from S$31.0 in Q1 2016 to S$34.0 million in Q1 2017.

Non-controlling Interest

Non-controlling interest primarily comprised the minority share of results from Olam Palm Gabon (OPG), Olam Rubber Gabon and Caraway (Packaged Foods). Q1 2017 recorded a larger loss of S$7.4 million (Q1 2016: S$4.2 million loss) which came mostly from OPG.

Exceptional Items

The Q1 2016 results included a net exceptional loss of S$12.5 million. There were no such losses in Q1 2017.

PATMI

PATMI increased 26.6% from S$113.6 million in Q1 2016 to S$143.9 million in Q1 2017 as a result of improved EBITDA, which offset the higher depreciation and amortisation, and net finance charges.

Operational PATMI

Operational PATMI (excluding exceptional items) grew by 14.1% over the prior corresponding period.

Balance Sheet Analysis

SGD Mn

	31-Mar-17	31-Dec-16	Change vs Dec 16	31-Mar-16	Change vs Mar 16	31-Mar-2016 (assuming PPA exercise completed)	Change vs Mar 16 (assuming PPA exercise completed)
Uses of Capital							
Fixed Capital	8,315.2	8,169.5	145.7	6,680.0	1,635.2	7,345.8	969.4
Working Capital	8,559.0	8,517.7	41.3	8,397.7	161.3	8,376.2	182.8
Cash	2,643.7	2,144.0	499.7	1,600.5	1,043.2	1,600.5	1,043.2
Others	336.0	473.5	(137.5)	580.8	(244.8)	(63.5)	399.5
Total	**19,853.9**	**19,304.7**	**549.2**	**17,259.0**	**2,594.9**	**17,259.0**	**2,594.9**
Sources of Capital							
Equity & Reserves	5,796.6	5,797.1	(0.5)	5,275.5	521.1	5,275.5	521.1
Non-controlling interests	222.4	235.9	(13.5)	231.2	(8.8)	231.2	(8.8)
Short term debt	5,612.2	5,983.0	(370.8)	5,564.6	47.6	5,564.6	47.6
Long term debt	8,505.3	7,687.5	817.8	6,412.7	2,092.6	6,412.7	2,092.6
Fair value reserve	(282.6)	(398.8)	116.2	(225.0)	(57.6)	(225.0)	(57.6)
Total	**19,853.9**	**19,304.7**	**549.2**	**17,259.0**	**2,594.9**	**17,259.0**	**2,594.9**

Others are deferred tax assets and liabilities, other non-current assets, derivative financial instruments (assets and liabilities) and provision for taxation.

As of March 31, 2017, our total assets[1] of S$19.9 billion comprised S$8.3 billion of fixed assets, S$8.6 billion of working capital and S$2.6 billion of cash. These were funded by S$5.8 billion of equity, S$5.6 billion of short-term debt and S$8.5 billion of long-term debt.

Compared with March 31, 2016, the S$2.6 billion increase in overall balance sheet size was primarily due to the completion of various acquisitions and Capex investments made over the past year. Adjusting for the impact of the Purchase Price Allocation (PPA) exercise completed in Q4 2016 for the acquisitions made during 2015 and 2016, the net increase in fixed capital would be S$969.4 million instead of S$1.6 billion.

Compared with December 31, 2016, overall balance sheet grew by S$549.2 million with committed Capex investments made in Q1 2017 and higher cash balances.

Working Capital

SGD Mn

	31-Mar-17	31-Dec-16	Change vs Dec 16	31-Mar-16	Change vs Mar 16	31-Mar-2016 (assuming PPA exercise completed)	Change vs Mar 16 (assuming PPA exercise completed)
Stock	7,739.4	7,414.3	325.1	6,672.5	1,066.9	6,672.5	1,066.9
Advance to suppliers	641.3	880.6	(239.3)	767.5	(126.2)	767.5	(126.2)
Receivables	1,799.1	1,656.4	142.7	1,454.3	344.8	1,454.3	344.8
Trade creditors	(2,121.4)	(2,201.4)	80.0	(1,745.1)	(376.3)	(1,745.1)	(376.3)
Others	500.6	767.8	(267.2)	1,248.5	(747.9)	1,227.0	(726.4)
Working Capital	**8,559.0**	**8,517.7**	**41.3**	**8,397.7**	**161.3**	**8,376.2**	**182.8**

Others include other current assets, changes to margin accounts with brokers and other current liabilities.

[1] Total assets are net of trade payables and accruals, derivative financial instruments (current liabilities), provision for taxation, other current liabilities and deferred tax liabilities.

The overall working capital increased by S$41.3 million compared with end-December 2016. However, compared with March 31, 2016 and adjusting for the impact of the PPA exercise, the net increase in working capital would be S$182.8 million instead of S$161.3 million.

days

	31-Mar-17	31-Dec-16	Change vs Dec 16	31-Mar-16	Change vs Mar 16
Stock	137	147	(10)	145	(8)
Advance to suppliers	11	17	(6)	16	(5)
Receivables	28	29	(1)	27	1
Trade creditors	(37)	(43)	6	(38)	1
Total cash cycle	**139**	**150**	**(11)**	**150**	**(11)**

Our overall working capital cycle came down from 150 days as at March 31, 2016 and December 31, 2016 to 139 days as at March 31, 2017. This was a result of lower inventory days and reduced supplier advances offset by shorter trade creditor days.

Cash Flow Analysis

SGD Mn

Cash Flow Summary	Q1 2017	Q1 2016	Y-o-Y
Operating Cash flow (before Interest & Tax)	401.8	345.4	56.4
Changes in Working Capital	(74.7)	(35.5)	(39.2)
Net Operating Cash Flow	**327.1**	**309.9**	**17.2**
Tax paid	(7.0)	(21.6)	14.6
Capex/ Investments	(185.2)	(444.3)	259.1
Free cash flow to firm (FCFF)	**134.9**	**(156.0)**	**290.9**
Net interest paid	(176.4)	(127.8)	(48.6)
Free cash flow to equity (FCFE)	**(41.5)**	**(283.8)**	**242.3**

We generated higher net operating cash flow of S$327.1 million in Q1 2017 versus S$309.9 million in Q1 2016. Net Capex came down by S$259.1 million to S$185.2 million which comprised mainly continued investments in upstream and midstream assets as committed earlier. Free Cash Flow to Firm (FCFF) turned positive to S$134.9 million in Q1 2017 primarily due to the higher net operating cash flow and lower Capex incurred during the quarter. Although still negative, Free Cash Flow to Equity (FCFE) improved by S$242.3 million from a year ago and delivered a lower negative of S$41.5 million in Q1 2017.

Debt, Liquidity and Gearing

SGD Mn

	31-Mar-17	31-Dec-16	Change vs Dec 16	31-Mar-16	Change vs Mar 16
Gross debt	14,117.5	13,670.5	447.0	11,977.4	2,140.1
Less: Cash	2,643.7	2,144.0	499.7	1,600.5	1,043.2
Net debt	11,473.8	11,526.5	(52.7)	10,376.9	1,096.9
Less: Readily marketable inventory	5,773.6	5,909.2	(135.6)	5,097.8	675.8
Less: Secured receivables	1,107.0	1,381.4	(274.4)	1,102.4	4.6
Adjusted net debt	4,593.2	4,235.9	357.3	4,176.7	416.5
Equity (before FV adj reserves)	5,796.6	5,797.1	(0.5)	5,275.5	521.1
Net debt / Equity (Basic)	**1.98**	**1.99**	**(0.01)**	**1.97**	**0.01**
Net debt / Equity (Adjusted)	**0.79**	**0.73**	**0.06**	**0.79**	**0.00**

Despite higher gross debt incurred due to committed Capex investments made in Q1 2017, net debt came down by S$52.7 million as compared with December 31, 2016 mainly because of higher cash balances. Compared with March 31, 2016, net debt increased by S$1.1 billion primarily due to the completion of various acquisitions and Capex investments made over the past year.

Net gearing as at March 31, 2017 of 1.98 times remained largely unchanged from the gearing levels as at March 31, 2016 and December 31, 2016.

Of the S$7.7 billion inventory position, approximately 74.6% or S$5.8 billion were readily marketable inventories (RMI) that were liquid, hedged and/or sold forward, operating as near-cash assets on our balance sheet. In addition, of the S$1.8 billion in trade receivables, approximately 61.5% were secured. Typically, at any given point, about 75-85% of inventory is hedged and/or sold forward and 60-70% of receivables are supported by letters of credit or documents through banks. Adjusting for RMI and secured receivables, our net gearing would be 0.79 times, reflecting the true indebtedness of our Company.

We maintained sufficient liquidity to meet our working capital and capital expenditure requirements, with a total of S$17.3 billion in available liquidity as at March 31, 2017, including unutilised bank lines of S$7.8 billion.

Segmental Review and Analysis

For Q1 2017

SGD Mn

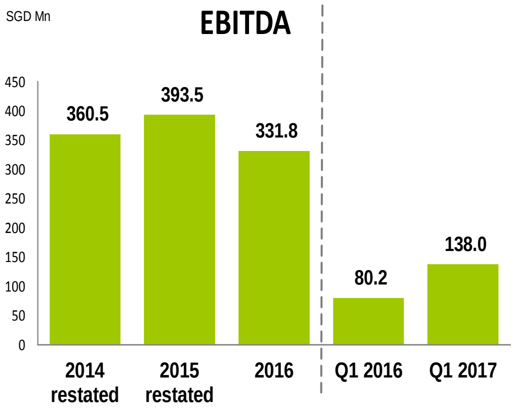
Segment	Sales Volume ('000 MT)		Revenue		EBITDA		Invested Capital (IC)		
	Q1 2017	Q1 2016	Q1 2017	Q1 2016	Q1 2017	Q1 2016	31-Mar-17	31-Dec-16	31-Mar-16
Edible Nuts, Spices and Vegetable Ingredients	370.2	300.4	911.3	766.8	138.0	80.2	3,701.4	3,642.7	3,237.3
Confectionery and Beverage Ingredients	506.2	533.1	2,089.3	2,250.7	75.0	105.2	6,397.2	6,109.5	5,785.4
Food Staples and Packaged Foods	3,146.6	1,792.4	1,975.7	1,201.4	118.3	85.7	4,660.2	4,522.1	3,313.9
Food Category	**4,023.0**	**2,625.9**	**4,976.3**	**4,218.9**	**331.3**	**271.1**	**14,758.8**	**14,274.3**	**12,336.6**
Industrial Raw Materials, Ag Logistics & Infrastructure	438.7	339.7	827.7	542.6	62.2	65.2	2,091.3	2,220.9	1,844.9
Commodity Financial Services (CFS)	N.A.	N.A.	0.0	0.0	5.1	(3.5)	114.3	153.8	60.2
Non-Food Category	**438.7**	**339.7**	**827.7**	**542.6**	**67.3**	**61.7**	**2,205.6**	**2,374.7**	**1,905.1**
Total	**4,461.7**	**2,965.5**	**5,804.0**	**4,761.4**	**398.6**	**332.8**	**16,964.4**	**16,649.0**	**14,241.6**

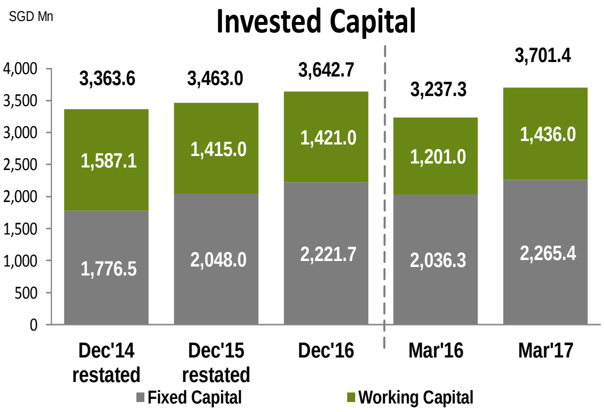
Note: IC excludes:

(a) Gabon Fertiliser Project (31-Mar-17: S$223.3 million, 31-Dec-16: S$ 224.8 million, 31-Mar-16: S$ 211.6 million), and

(b) Long Term Investment (31-Mar-17: S$ 172.7 million, 31-Dec-16: S$ 148.4 million, 31-Mar-16: S$ 236.4 million)

Edible Nuts, Spices & Vegetable Ingredients





The Edible Nuts, Spices & Vegetable Ingredients segment registered a year-on-year volume growth of 23.2% in Q1 2017. While most products within this segment reported a growth in volume, the overall increase came mainly from Edible Nuts, particularly peanuts, which had the benefit of the results from Brooks during the current quarter, as well as cashew and almonds.

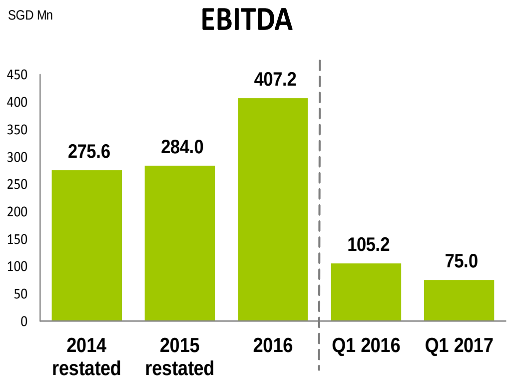
Revenues increased 18.8% mainly on account of these higher volumes as well as higher prices of cashew and almonds compared with Q1 2016.

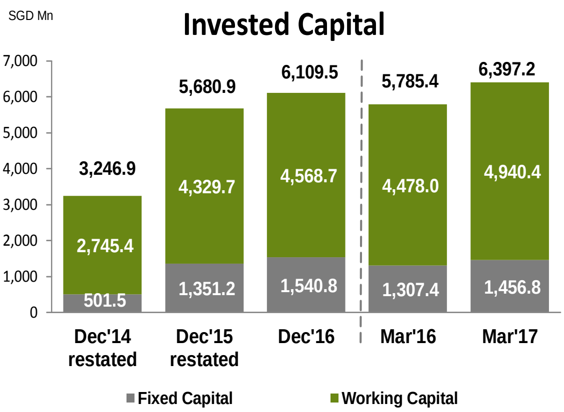
EBITDA grew by a significant 72.1% in Q1 2017. This result was mainly driven by improved contribution from peanuts, cashew and almonds. Almonds did better as volumes grew and prices improved well over the prior Q1 and remained steady. The cashew business enjoyed favourable market conditions, which supported its volume and margin growth during the quarter. However, these conditions are not expected to continue into the rest of the year.

The tomato processing business continued to experience headwinds due to the weak demand and over-supply conditions from the previous season. The adverse impact is expected to continue into the rest of 2017. Excluding the tomato processing business, the Spices & Vegetable Ingredients platform continued to contribute well for the segment.

Invested capital in the segment rose by S$464.1 million as compared with March 31, 2016, with increases in both working and fixed capital. Higher volumes and prices led to the rise in working capital while the growth in fixed capital resulted mainly from the acquisition of Brooks.

Confectionery & Beverage Ingredients





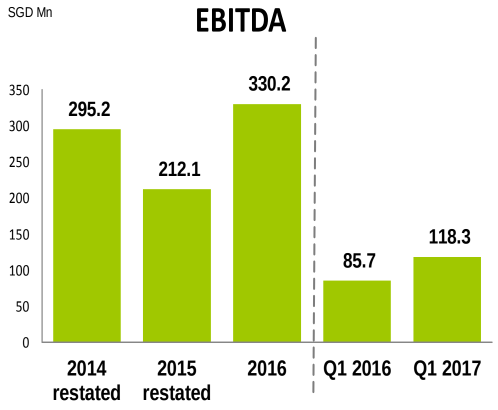
The Confectionery & Beverage Ingredients segment recorded a 5.0% reduction in volumes. Although Coffee volumes were up, overall segment volumes were dragged down by lower Cocoa supply chain volumes as most of these became captive feedstock for in-house processing.

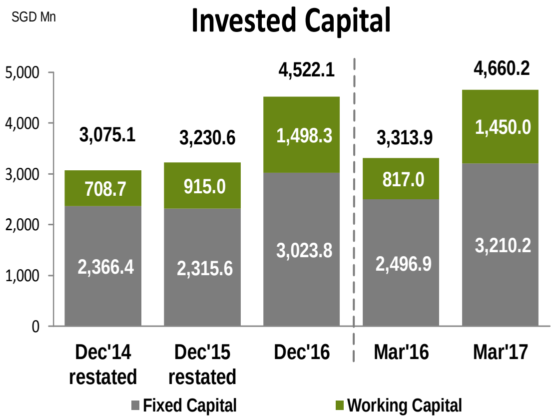
Revenues decreased by 7.2% compared with the prior corresponding period mainly because of lower volumes as well as lower cocoa prices, which were partly offset by the increase in coffee prices.

The Coffee platform delivered higher EBITDA than the prior Q1 with better contribution from both green coffee supply chain and trading as well as the soluble coffee businesses. Cocoa supply chain and trading, on the other hand, faced significant headwinds and margin pressures due to sharp market movements in late 2016 and early 2017. This caused overall segment EBITDA to fall by 28.7% during the quarter.

Invested capital in this segment increased by S$611.8 million as compared with March 31, 2016 primarily due to higher working capital from higher Coffee volumes and prices. Fixed capital also increased with the expansion of our soluble coffee capacity and plantation acreage across Zambia, Brazil, Tanzania and Laos.

Food Staples & Packaged Foods



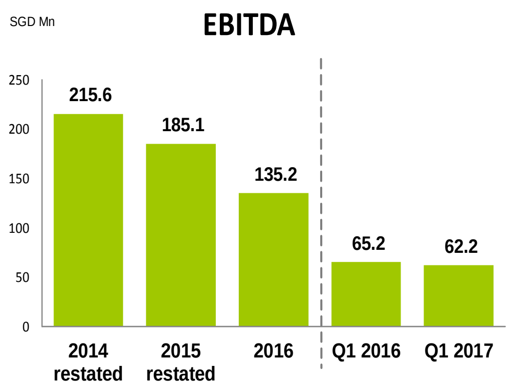


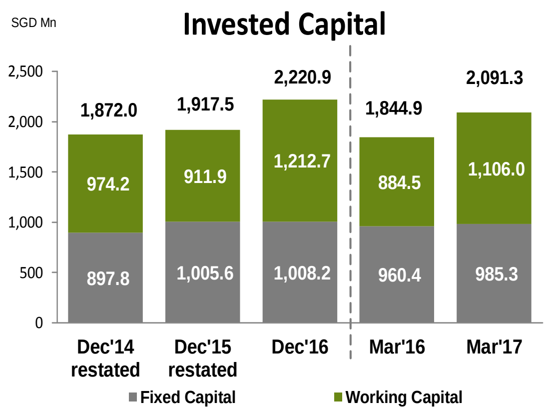
Food Staples & Packaged Foods segment volumes surged by 75.6%, largely driven by the growth in Grains' trading volumes. This led to a revenue growth of 64.4% during the quarter.

Overall segment EBITDA rose 38.0% with each platform recording an improvement in EBITDA over the prior Q1. Grains was a key driver of this growth – both origination and trading as well as its wheat milling operations in West Africa continued to deliver growth in EBITDA. The Dairy farming operation in Uruguay reported improved operating metrics, resulting in reduced losses this quarter. OPG recorded losses in Q1 2017 on account of period costs booked on partially yielding plantations. Despite losses from OPG, Palm performed well overall because of better results from its investment in SIFCA as well as improved performance from its trading and refining operations. Packaged Foods also posted slightly higher EBITDA as it experienced lesser impact from local currency fluctuation.

Overall invested capital increased by S$1.3 billion versus March 31, 2016. Higher volumes and improved dairy prices drove up working capital. The construction of animal feed mills and hatchery in Nigeria, expansion of wheat milling capacity in Ghana, and continued investments in Palm plantations in Gabon were reasons behind the growth in fixed capital.

Industrial Raw Materials, Ag Logistics & Infrastructure





The Industrial Raw Materials, Ag Logistics & Infrastructure volumes grew by 29.1% as a result of larger Cotton volumes in Q1 2017.

Revenues increased by 52.5% on higher volumes as well as higher cotton prices during the quarter.

Despite the increase in revenue, EBITDA declined 4.6%. Wood Products underperformed against the previous corresponding period due to continued sluggish demand in India, offsetting the growth in contribution from Cotton.

Compared with March 31, 2016, overall invested capital went up by S$246.4 million as a result of increased working capital due to higher volume and cotton prices. Fixed capital increased with continued investments in upstream Rubber plantations in Gabon.

Commodity Financial Services

The CFS business had a good start in Q1 2017 with S$5.1 million in EBITDA versus a loss of S$3.5 million a year ago.

Compared with March 31, 2016, invested capital in this segment increased by S$54.1 million with most of it deployed in the funds business.

Annexure

SGXNET Financial Statements and MD&A Reconciliation

The table below summarises the differences between the financial statements on SGXNET and MD&A due to adjustments for exceptional items.

SGD Mn

	Q1 2017	Q1 2016
Other Income^	**11.9**	**11.1**
Other Income	11.9	11.1
Less: Exceptional items	-	-
Cost of sales^	**(5,208.2)**	**(4,155.3)**
Cost of sales	(5,208.2)	(4,155.3)
Less: Exceptional items	-	-
Overhead expenses^	**(265.0)**	**(256.0)**
Other operating expenses^	**54.7**	**(22.5)**
Other expenses	(210.3)	(278.6)
Less: Exceptional items	-	-
Net Finance costs^	**(139.6)**	**(99.4)**
Finance income	6.9	8.5
Finance costs	(146.5)	(120.4)
Less: Exceptional items	-	(12.5)
		-
Taxation^	**(34.0)**	**(31.0)**
Income tax expense	(34.0)	(31.0)
Less: Exceptional items	-	-

^ as stated in MD&A

Business Model and Strategy

Olam's business is built on a strong foundation as a fully integrated supply chain manager and processor of agricultural products and food ingredients, with operations across 16 platforms in 70 countries. As a supply chain manager, Olam is engaged in the sourcing of a wide range of agricultural commodities from the producing countries and the processing, warehousing, transporting, shipping, distributing and marketing of these products right up to the factory gate of our customers in the destination markets. We also manage risk at each stage of the supply chain. From our inception in 1989, we have evolved from a single country, single product trader to a multi-country, multi-product supply chain manager.

In that process of evolution and development, the Olam business model has grown both in depth as well as breadth, pursuing selected value chain adjacencies which both complement and enhance our core supply chain model.

Business model evolution

The evolution of our business model over recent years has led us to develop new competencies as we pursued our strategic goals, including the capabilities to identify, execute and integrate attractive acquisition opportunities in selected countries. These initiatives are carefully selected to be within or adjacent to our core value chain activities. Successfully completed transactions have addressed opportunities in the upstream (plantation and farming), midstream (manufacturing/ processing) and downstream parts of the value chain.

Building on existing and new capabilities, we have expanded upstream selectively into plantation ownership and management (perennial crops), farming (annual crops), dairy farming and forest concessions management. These opportunities, both organic and inorganic, have been pursued in countries that have a comparative advantage to produce these commodities relatively better and at relatively lower costs on a sustainable basis.

Selective investments across the value chain

Pursuit of this strategy has led us to invest selectively in almond orchards in Australia and US, pistachio and walnut orchards in the US, peanut farming in Argentina, pepper plantations in Vietnam and Brazil, Coffee plantations in Laos, Tanzania, Zambia and Brazil, Cocoa plantation in Indonesia, Rice farming in Nigeria, Palm and Rubber plantations in Gabon, Dairy farming in Uruguay and Russia, and the development of tropical hard wood forest concessions in the Republic of Congo (ROC).

Similarly, in the midstream part of the value chain, we have pursued initiatives in value-added processing and manufacturing activities, such as peanut shelling in the US, mechanical processing of cashews in Côte d'Ivoire, hazelnut processing in Turkey and Georgia, spice grinding in Vietnam, soluble Coffee manufacturing in Vietnam and Spain, Cocoa processing in Côte d'Ivoire, Germany, Netherlands, Singapore, Canada, Ghana and Nigeria, and wheat milling in Nigeria, Ghana, Senegal and Cameroon.

Downstream progress has been reflected in the initiatives completed in Packaged Foods distribution in West Africa and the successful development of our own consumer brands in the food category, which capitalise on our intimate knowledge of African markets, operations, brands, and consumers. This downstream activity also builds on capabilities in the management of food supply chains and on the common distribution pipeline that we have built for related commodity products (including Rice, Sugar, wheat and Dairy) in West Africa. Initiatives in this segment include biscuits and candy manufacturing and downstream distribution in Nigeria and Ghana, juice and dairy beverages in Nigeria, instant noodles, seasonings, tomato paste distribution in Nigeria and selective West African markets.

In addition, Olam has diversified into three adjacent businesses which build on latent assets and capabilities developed over the last 26 years – the Commodity Financial Services business (CFS), fertiliser manufacturing and the development of agricultural logistics and infrastructure, such as special economic zones, warehouses, silos and ports.

2016-2018 Strategic Plan

For the 2016-2018 Strategic Plan, Olam used six criteria to inform its judgement on how to prioritise its portfolio and the basis for making key investment choices and capital allocation decisions between the various businesses:

1) Address areas where performance has been inconsistent or has not met expectations;
2) Double down on strong businesses to scale up and strengthen leadership positions;
3) Focus new investments on areas where we have the highest winnability and returns;
4) Streamline business portfolio and release cash from divestments;
5) Find the right investment balance between contributing and gestating businesses; and
6) Assess and manage portfolio risks.

Based on this approach, Olam has prioritised its portfolio into five clusters as described below. Each platform in the five clusters has mapped out specific strategic pathways that it intends to execute over the next two three-year cycles.

1) Cluster 1 contains the six prioritised platforms – Edible Nuts, Cocoa, Grains, Coffee, Cotton and Spices and Vegetable Ingredients, all of which are in attractive markets where the Group has a strong competitive position. It intends to accelerate its investments in these six platforms to build global leadership.

2) Cluster 2 consists of seven platforms – Packaged Foods, Edible Oils, Rubber, Dairy, Risk Management Solutions, Market-making, Volatility Trading and Asset Management, Trade and Structured Finance – all of which are in attractive markets, but the Group's investments in these platforms are still gestating and therefore the model is still to be proven. The Group intends to scale up these platforms once it has more proof of concept.

3) Cluster 3 consists of three platforms – Rice, Wood, Sugar and Sweeteners which are smaller businesses (in terms of size of profit) for the Group, but with very high returns.

4) Cluster 4 consists of two platforms – Fertiliser and GSEZ that are non-core, and therefore the Group intends to deconsolidate these businesses and partially monetise these investments at the appropriate time.

5) Cluster 5 – prioritise and focus on Africa as a separate vertical, by leveraging the region as a globally competitive supply source, supplying food staples and ingredients into Africa, participating in its consumer story and investing in Africa's agricultural logistics and infrastructure.

Growing responsibly

'Growing Responsibly' describes how we do business. It is embedded within our entire business framework and we believe that it is only by doing business 'the right way' that we can create long-term sustainable value for us and all our stakeholders. We are working towards achieving end-to-end sustainable supply chains by 2020. This means ensuring our staff are equipped to make the right choices, respecting people and natural resources. Small-scale farmers sit at the heart of what we do – we source from four million smallholders. In 2010, The Olam Livelihood Charter (OLC) was launched to set a benchmark for projects that incorporate all of our eight Charter principles of Finance, Improved Yield, Labour Practices, Market Access, Quality, Traceability, Social Investment and Environmental Impact.

A unique and entrepreneurial culture

One of the major factors that sets Olam apart is our unique culture: we think and act as owner-managers, focused both on the realisation of short-term results and the creation of long-term value for our stakeholders. A fully aligned organisational structure, culture and long-term compensation system support these objectives.

Business Segmentation and Reporting

We organise Olam's operations into five business segments and three value chain segments for reporting purposes. The distribution of the 18 platforms across the business segments and the activities across the value chain segments are given below:

5 Business Segments	18 Platforms
Edible Nuts, Spices and Vegetable Ingredients	1) Edible Nuts (cashew, peanuts, almonds, hazelnuts, pistachios, walnuts, sesame and beans including pulses, lentils and peas) 2) Spices and Vegetable Ingredients (including pepper, onion, garlic, capsicums and tomato)
Confectionery and Beverage Ingredients	3) Cocoa 4) Coffee
Food Staples and Packaged Foods	5) Rice 6) Sugar and Sweeteners 7) Grains and Animal Feed 8) Edible Oils 9) Dairy 10) Packaged Foods
Industrial Raw Materials, Ag Logistics & Infrastructure (formerly known as Industrial Raw Materials)	11) Cotton 12) Wood Products 13) Rubber 14) Fertiliser 15) Gabon Special Economic Zone (GSEZ including ports and infrastructure)
Commodity Financial Services (CFS)	16) Risk Management Solutions 17) Market-making, Volatility Trading and Asset Management 18) Trade and Structured Finance

Note: The Q1 2016 and Q1 2017 results for the CFS segment do not include those of Trade and Structured Finance.

3 Value Chain Segments	Value Chain Activity
Supply Chain	Includes all activities connected with origination, sourcing, primary processing, logistics, trading, marketing (including value-added services) and risk management of agricultural products and the CFS segment
Upstream	Includes all activities relating to farming (annual row crops), plantations (perennial tree crops), Dairy farming and forest concessions
Midstream & Downstream	Includes all activities relating to secondary processing, contract manufacturing, branded distribution, private label activities and Ag logistics and Infrastructure

The production of agricultural products is seasonal in nature. The seasonality of the products in our global portfolio depends on the location of the producing country. The harvesting season for most of the agricultural products for countries situated in the northern hemisphere generally falls between October and March. Countries in the southern hemisphere have harvesting seasons between April and September.

It is also not unusual to experience both delays, as well as early starts, to the harvesting seasons in these countries in a particular year, based on weather patterns. In addition to an early or delayed harvesting season, the precise timing and size of arrivals of these products can also vary based on the farmers' selling decisions; these are mainly a function of the farmers' view on prices and inventory holding capacity. The majority of our origins are located in the northern hemisphere. Consequently, our earnings tend to be relatively higher in the first half of the year (January to June) compared to the second half of the year (July to December).

Based on this seasonality, we have observed the distribution of our earnings in prior periods follow the schedule below:

Q1 Jan - March	Q2 Apr – June	**1st Half Jan – June**	Q3 July - Sept	Q4 Oct - Dec	**2nd Half July – Dec**
35 – 40%	25 – 30%	**60 – 70%**	5 – 10%	25 – 30%	**30 – 40%**

Key Definitions

Sales Volume: Sale of goods in metric tonne (MT) equivalent. There are no associated volumes for CFS and GSEZ platforms.

Revenue: Sale of goods and services

Other Income: Includes sale of scrap materials, commissions and claims income and fair value gain on investments held for trading. Negative goodwill, gain on sale of assets and other non-recurring, exceptional items which are part of Other Income in the Profit & Loss statement on SGXNET are classified as Exceptional Items in the MD&A.

Cost of Sales: Cost of goods sold, shipping and logistics, commissions and claims expenses and the net measurement of derivative assets

Overhead Expenses: Employee benefit costs, manufacturing overheads, travel expenses and other direct expenses

Other Operating Expenses: Unrealised foreign exchange gain/loss and other expenses

Net changes in fair value of biological assets: Records changes in the fair value of agricultural produce growing on bearer plants and livestock

Exceptional Items: One-off, non-recurring items, including negative goodwill and related transaction costs, gain/loss on sale of assets/business, gain/loss on buyback of bonds, impairment loss, finance charges on pre-payment of loans and non-recurring business restructuring expenses. Tax expenses associated with these items are also presented as Exceptional Items.

EBITDA: Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA) which includes minority interest and excludes Exceptional Items

PAT: Net profit after tax

PATMI: PAT less minority interest

Operational PATMI: PATMI excluding Exceptional Items

Total Assets: Total assets are net of trade payables and accruals, derivative financial instruments (current liabilities), provision for taxation, other current liabilities and deferred tax liabilities.

Invested Capital (IC): Excludes cash and bank balances, deferred tax assets, fixed deposits, other current/non-current assets (other than option premiums payable/receivable) and fair value of derivative assets on bonds

EBITDA/IC: EBITDA on average invested capital based on beginning and end-of-period invested capital

Net Gearing: Ratio of Net Debt (gross debt less cash) to Equity (before fair value adjustment reserves)

Net Gearing (adjusted): Net gearing adjusted for readily marketable inventories that are liquid, hedged and/or sold forward, operating as near-cash assets on the balance sheet, and secured receivables are supported by letters of credit or documents through banks

Free Cash Flow to Firm (FCFF): Operating cash flow less changes in working capital, cash taxes, capital expenditures and investments

Free Cash Flow to Equity (FCFE): FCFF less net interest paid

Note: *Due to rounding, numbers presented throughout this document may not add up precisely to the totals provided and percentages may not precisely reflect the absolute figures.*