

Olam International Limited

Management Discussion and Analysis

Results for the period ended March 31, 2018



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, 2018 lodged on SGXNET on May 14, 2018.

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MANAGEMENT DISCUSSION AND ANALYSIS

Results for the First Quarter ended March 31, 2018 ("Q1 2018")

Contents

Key Highlights

Financial Performance

S$ million	Q1 2018	Q1 2017	% Change
Volume ('000 MT)	6,965.2	4,461.7	56.1
Revenue	6,295.4	5,804.2	8.5
Net loss in fair value of biological assets	(4.1)	(2.0)	106.8
EBITDA	**368.1**	**398.6**	**(7.7)**
Depreciation & Amortisation	(95.7)	(88.6)	8.0
Net Finance costs	(87.4)	(139.6)	(37.4)
Taxation	(30.0)	(34.0)	(11.8)
Exceptional items	(4.7)	-	n.m.
PAT	150.4	136.5	10.2
PATMI	**157.9**	**143.9**	**9.8**
Operational PATMI	**162.6**	**143.9**	**13.0**

- **Profit After Tax and Minority Interests (PATMI) increased 9.8%** to **S$157.9 million in Q1 2018** (Q1 2017: S$143.9 million) on lower net finance costs and taxation.

- **Operational Profit After Taxes and Minority Interests** (PATMI excluding exceptional items) **grew by 13.0% to S$162.6 million** (Q1 2017: S$143.9 million).

- **EBITDA declined by 7.7% to S$368.1 million in Q1 2018** (Q1 2017: S$398.6 million) as EBITDA from all segments except **Industrial Raw Materials** (**up 6.4%** from S$62.2 million to S$66.2 million) were lower than the same period in the prior year. **Edible Nuts, Spices & Vegetable Ingredients** was **marginally down 1.6%** from S$138.0 million to S$135.8 million); **Confectionery & Beverage Ingredients was down 18.4%** from S$75.0 million to S$61.2 million; **Food Staples & Packaged Foods was down 15.1%** from S$118.3 million to S$100.4 million and **Commodity Financial Services (CFS) was marginally down** from S$5.1 million to S$4.5 million.

- **Sales volume rose by a significant 56.1%** compared with Q1 2017 mainly due to higher trading volumes in Grains during the quarter.

- **Net finance costs decreased to S$87.4 million in Q1 2018** from S$139.6 million in Q1 2017. This was largely a result of lower net debt and changes in borrowings mix as compared with a year ago.

- **Depreciation and amortisation increased to S$95.7 million in Q1 2018** (Q1 2017: S$88.6 million) on a slightly enlarged fixed asset base.

- These results included a **net loss of S$4.1 million for Q1 2018** on the **fair valuation of upstream dairy assets** (Q1 2017: -S$2.0 million).

- We incurred gross **cash Capex of S$221.6 million in Q1 2018** (Q1 2017: S$218.5 million) for meeting ongoing Capex commitments during this period. **Including disposals and divestments**, there was a **net cash inflow of S$29.5 million** in Q1 2018 compared with Q1 2017 when there as a net Capex of S$185.2 million.

- **Free Cash Flow to Equity (FCFE) for Q1 2018 was negative S$409.2 million** (Q1 2017: negative S$41.5 million) due to higher working capital usage during this quarter, partly offset by reduced Capex, divestments and lower interest paid.

- **Net gearing stood at 1.49 times at March 31, 2018** compared to 1.98 times as at March 31, 2017.

Financing

Debt

- In March 2018, Olam secured a three-year sustainability-linked revolving credit facility, aggregating US$500.0 million, with Olam Treasury Pte Ltd, a 100% subsidiary of Olam as co-borrower to the facility. This is Asia's first sustainability-linked club loan – one that has multiple banks issuing the loan together and in collaboration with the borrower on achieving sustainability targets. The targets are based on a pre-set environmental, social and governance (ESG) metrics, which will be tested annually. If the targets are achieved, the interest rate on the facility will be subsequently reduced.

- Olam also secured medium term financing facilities, aggregating US$163.0 million from the Asian Development Bank and Japan International Cooperation Agency. The facilities consist of two tranches: (i) a US$83.0 million five-year facility and (ii) a US$80.0 million seven-year facility. Proceeds from the facilities will be applied towards Capex and working capital requirements of the Company and subsidiaries in Vietnam, Indonesia, Timor-Leste and Papua New Guinea.

Equity and public float

- Between January 1, 2018 and warrants expiry on January 29, 2018, additional warrants were exercised and converted into ordinary shares, increasing equity by S$71.8 million.

- Post the expiry of warrants and the vesting and release of shares under the Olam Share Grant Plan, as of April 2, 2018, the free float was 10.27%, satisfying the requirement under Rule 723 of the Listing Manual, where at least 10% of the Company's ordinary shares are in the hands of the public.

Strategic Plan Update

During Q1 2018, Olam entered into the following transactions:

- In January 2018, Olam acquired a 30.0% stake in Vietnam's second largest cashew processor Long Son Joint Stock Company ("Long Son") for US$20.0 million. The transaction allows Olam to secure higher volumes for marketing of kernels to meet increased demand in Asia.

- In March 2018, Olam disposed of its entire 50.0% interest in Nauvu Investments ("Nauvu") to Wilmar International ("Wilmar") for up to US$148.0 million. Prior to the disposal, Nauvu was a 50:50 joint venture between Olam and Wilmar which held investments in the SIFCA Group.

- Olam also disposed of its wholly owned subsidiary PT ACE Dalle Kokoa Manufaktur ("PT ACE"), a company incorporated in Indonesia which held land as primary asset, to PT Mega Khatulistiwa Propertindo, for approximately US$14.0 million.

Post Q1 2018, Olam acquired 100.0% interest in Inversiones Andinas J&V S.A.C ("Andinas") for US$3.5 million. Incorporated in Peru, Andina is involved in origination, processing, packaging and marketing of quinoa and chia, which become new adjacent products to Olam's Edible Nuts portfolio. Olam also acquired 60.0% interest in Cotontchad SN, a state-owned company with exclusive rights to procure, process and sell Chadian cotton and by-products, for US$16.5 million.

Outlook and Prospects

While global markets continue to experience political and economic uncertainties, Olam believes its diversified and well-balanced portfolio provides a resilient platform to navigate the challenges in both the global economy and commodity markets. Olam will continue to execute on its 2016-2018 Strategic Plan in 2018 and pursue growth in its prioritised platforms while putting sustainability at the heart of its business. It remains focused on turning around underperforming businesses, ensuring gestating businesses reach full potential and delivering positive free cash flow.

Summary of Financial and Operating Results

Profit and Loss Analysis

S$ million	Q1 2018	Q1 2017	% Change
Volume ('000 MT)	**6,965.2**	**4,461.7**	**56.1**
Revenue	**6,295.4**	**5,804.2**	**8.5**
Other income^	7.1	11.9	(40.3)
Cost of sales^	(5,634.0)	(5,208.2)	8.2
Overhead expenses^	(306.8)	(265.0)	15.8
Other operating expenses^	(1.8)	54.7	n.m.
Net loss in fair value of biological assets	(4.1)	(2.0)	106.8
Share of results from jointly controlled entities and associates	12.3	3.0	307.4
EBITDA^	**368.1**	**398.6**	**(7.7)**
EBITDA %	5.8%	6.9%	
Depreciation & amortisation	(95.7)	(88.6)	8.0
EBIT^	**272.4**	**310.0**	**(12.1)**
Exceptional items	(4.7)	0.0	n.m.
Net Finance costs	(87.4)	(139.6)	(37.4)
PBT^	**180.4**	**170.5**	**5.8**
Taxation^	(30.0)	(34.0)	(11.8)
PAT	**150.4**	**136.5**	**10.2**
PAT %	2.4%	2.4%	
Non-controlling interests	(7.5)	(7.4)	2.6
PATMI	**157.9**	**143.9**	**9.8**
PATMI %	2.5%	2.5%	
Operational PATMI^	**162.6**	**143.9**	**13.0**
Operational PATMI %	2.6%	2.5%	

^Excluding exceptional items

Sales Volume

Volume grew 56.1% mainly due to higher trading volumes in Grains during Q1 2018.

Revenue

Revenue increased by a modest 8.5% as increased volumes were from Grains which have lower selling price than other commodities in the portfolio. In addition, certain commodities, including almonds, coffee, sugar and palm, experienced lower prices in Q1 2018 compared to a year ago.

Other Income

Other income (excluding exceptional items) was lower by S$4.8 million when compared to the previous corresponding quarter.

Cost of Sales

The change in cost of sales normally follows the corresponding change in revenue for a given period. In Q1 2018, cost of sales increased by 8.2%, consistent with the rate of revenue increase.

Overhead Expenses

Overhead expenses increased 15.8% to S$306.8 million in Q1 2018 compared with Q1 2017 as this follows a full year's consolidation impact of costs through 2017 (Q1 2017: S$265.0 million; Q4 2017: S$380.6 million).

Other Operating Expenses

Other operating expenses was S$1.8 million in Q1 2018 versus a net gain of S$54.7 million in Q1 2017, which was on account of unrealised foreign exchange gains booked as a result of currency appreciation in some countries against the US dollar.

Net Changes in Fair Value of Biological Assets

There was an increase in net loss from fair valuation of upstream dairy assets from S$2.0 million in Q1 2017 to S$4.1 million in Q1 2018.

Share of Results from Jointly Controlled Entities and Associates

Share of results from jointly controlled entities and associates quadrupled from S$3.0 million in Q1 2017 to S$12.3 million in Q1 2018. This was mainly due to growth in contribution from GSEZ which had new income streams from recently commissioned port operations.

EBITDA

EBITDA came down 7.7% to S$368.1 million in Q1 2018. All segments but Industrial Raw Materials, Ag Logistics & Infrastructure had lower EBITDA contribution compared with Q1 2017.

Depreciation and Amortisation

Depreciation and amortisation expenses increased from S$88.6 million in Q1 2017 to S$95.7 million in Q1 2018 on a slightly enlarged fixed asset base.

Finance Costs

Net finance costs came down from S$139.6 million in Q1 2017 to S$87.4 million in Q1 2018. This was mainly a result of lower debt levels and changes in borrowings mix as compared with the year before.

Taxation

Tax expenses decreased from S$34.0 in Q1 2017 to S$30.0 million in Q1 2018.

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 2018 recorded a marginal higher loss of S$7.5 million (Q1 2017: -S$7.4 million) which came mostly from OPG.

Exceptional Items

The Q1 2018 results included a net exceptional loss of S$4.7 million (Q1 2017: Nil). This loss was mainly a result of cumulative foreign exchange differences that were recognised on the disposal of our 50.0% stake in Nauvu.

S$ million	**Q1 2018**	**Q1 2017**
Sale of SVI asset (land) in US	13.6	-
Sale of PT ACE	5.7	-
Sale of 50% stake in Nauvu	(24.0)	-
Exceptional Items	**(4.7)**	**-**

PATMI

PATMI increased 9.8% from S$143.9 million in Q1 2017 to S$157.9 million in Q1 2018 as a result of reduced net finance charges and lower taxation.

Operational PATMI

Operational PATMI (excluding exceptional items) grew by 13.0% over the prior corresponding period.

Balance Sheet Analysis

S$ million	**31-Mar-18**	**31-Dec-17**	**Change vs Dec 17**	**31-Mar-17**	**Change vs Mar 17**
Uses of Capital					
Fixed Capital	8,534.6	8,633.2	(98.6)	8,315.2	219.4
Working Capital	7,926.5	7,280.3	646.2	8,559.0	(632.5)
Cash	1,863.5	1,986.4	(122.9)	2,643.7	(780.2)
Others	210.1	309.0	(98.9)	336.0	(125.9)
Total	**18,534.7**	**18,208.9**	**325.8**	**19,853.9**	**(1,319.2)**
Sources of Capital					
Equity & Reserves	6,706.9	6,574.4	132.5	5,796.6	910.3
Non-controlling interests	168.3	177.4	(9.1)	222.4	(54.1)
Short term debt	4,175.4	4,660.2	(484.8)	5,612.2	(1,436.8)
Long term debt	7,671.2	6,927.7	743.5	8,505.3	(834.1)
Fair value reserve	(187.1)	(130.8)	(56.3)	(282.6)	95.5
Total	**18,534.7**	**18,208.9**	**325.8**	**19,853.9**	**(1,319.2)**

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, 2018, our total assets[1] of S$18.5 billion comprised S$8.5 billion of fixed assets, S$7.9 billion of working capital and S$1.9 billion of cash. These were funded by S$6.7 billion of equity, S$4.2 billion of short-term debt and S$7.7 billion of long-term debt.

Compared with December 31, 2017, overall balance sheet grew by S$325.8 million mainly from working capital increases.

Compared with March 31, 2017, the overall balance sheet size was significantly smaller by S$1.3 billion with a major reduction in working capital over the past year.

Working Capital

S$ million	31-Mar-18	31-Dec-17	Change vs Dec 17	31-Mar-17	Change vs Mar 17
Stock	6,338.1	6,044.7	293.4	7,739.4	(1,401.3)
Advance to suppliers	779.2	743.5	35.7	641.3	137.9
Receivables	1,998.7	1,901.9	96.8	1,799.1	199.6
Trade creditors	(2,105.8)	(2,184.4)	78.6	(2,121.4)	15.6
Others	916.3	774.6	141.7	500.6	415.7
Working Capital	**7,926.5**	**7,280.3**	**646.2**	**8,559.0**	**(632.5)**

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

The overall working capital increased by S$646.2 million compared with December 31, 2017. This was caused by higher inventory levels and higher commodity prices. However, compared with March 31, 2017, working capital fell by S$632.5 million due to inventory reduction and optimisation initiatives.

Days	31-Mar-18	31-Dec-17	Change vs Dec 17	31-Mar-17	Change vs Mar 17
Stock	103	93	10	137	(34)
Advance to suppliers	12	11	1	11	1
Receivables	28	26	2	28	-
Trade creditors	(34)	(33)	(1)	(37)	3
Total cash cycle	**109**	**97**	**12**	**139**	**(30)**

Our overall working capital cycle came down from 139 days as at March 31, 2017 to 109 days as at March 31, 2018 resulting from lower inventory days. However, compared with December 31, 2017, the total cash cycle time increased as we entered into its peak procurement season.

[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.

Cash Flow Analysis

S$ million	Q1 2018	Q1 2017	YoY
Operating Cash flow (before Interest & Tax)	373.8	401.8	(28.0)
Changes in Working Capital	(687.0)	(74.7)	(612.3)
Net Operating Cash Flow	**(313.1)**	**327.1**	**(640.2)**
Tax paid	(23.2)	(7.0)	(16.2)
Capex/ Investments	29.5	(185.2)	214.7
Free cash flow to firm (FCFF)	**(306.8)**	**134.9**	**(441.7)**
Net interest paid	(102.4)	(176.4)	74.0
Free cash flow to equity (FCFE)	**(409.2)**	**(41.5)**	**(367.7)**

Net operating cash flow was impacted by higher working capital usage during Q1 2018, leading to a negative Free Cash Flow to Firm (FCFF) of S$306.8 million (Q1 2017: S$134.9 million) despite lower Capex and divestments. FCFE for Q1 2018 was negative S$409.2 million (Q1 2017: -S$41.5 million) due to higher working capital usage during this quarter, partly offset by reduced Capex, divestments and lower interest paid.

Debt, Liquidity and Gearing

S$ million	31-Mar-18	31-Dec-17	Change vs Dec 17	31-Mar-17	Change vs Mar 17
Gross debt	11,846.7	11,587.9	258.8	14,117.5	(2,270.8)
Less: Cash	1,863.5	1,986.4	(122.9)	2,643.7	(780.2)
Net debt	9,983.2	9,601.5	381.7	11,473.8	(1,490.6)
Less: Readily marketable inventory	5,235.3	4,539.6	695.7	5,773.6	(538.3)
Less: Secured receivables	1,592.0	1,714.8	(122.8)	1,107.0	485.0
Adjusted net debt	3,155.9	3,347.1	(191.2)	4,593.2	(1,437.3)
Equity (before FV adj reserves)	6,706.9	6,574.4	132.5	5,796.6	910.3
Net debt / Equity (Basic)	**1.49**	**1.46**	**0.03**	**1.98**	**(0.49)**
Net debt / Equity (Adjusted)	**0.47**	**0.51**	**(0.04)**	**0.79**	**(0.32)**

Net debt was significantly down by S$1,490.6 million as compared with March 31, 2017. This was a result of lower working capital, lower gross Capex, cash from divestments and the conversion of warrants into equity. Net gearing therefore fell from 1.98 times a year ago to 1.49 times by March 31, 2018.

However, compared with December 31, 2017, net debt increased by S$381.7 million primarily due to higher working capital utilisation. This led to a marginally higher net gearing of 1.49 times compared with 1.46 times as at December 31, 2017.

Of the S$6.3 billion inventory position, approximately 82.6% or S$5.2 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$2.0 billion in trade receivables, approximately 79.7% 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 0.47 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$17.1 billion in available liquidity as at March 31, 2018, including unutilised bank lines of S$8.4 billion.

Segmental Review and Analysis

For Q1 2018

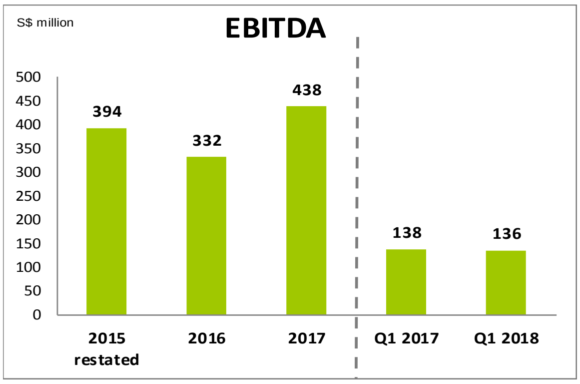
Segment	Sales Volume ('000 MT)		Revenue		EBITDA		Invested Capital (IC)		
S$ million	**Q1 2018**	**Q1 2017**	**Q1 2018**	**Q1 2017**	**Q1 2018**	**Q1 2017**	**31-Mar-18**	**31-Dec-17**	**31-Mar-17**
Edible Nuts, Spices and Vegetable Ingredients	345.6	370.2	874.5	911.3	135.8	138.0	4,040.4	3,603.9	3,701.4
Confectionery and Beverage Ingredients	496.2	506.2	1,869.9	2,089.3	61.2	75.0	5,267.6	5,347.0	6,397.2
Food Staples and Packaged Foods	5,645.4	3,146.6	2,647.6	1,975.7	100.4	118.3	4,849.1	4,678.3	4,660.2
Food Category	**6,487.2**	**4,023.0**	**5,392.0**	**4,976.3**	**297.4**	**331.3**	**14,157.1**	**13,629.2**	**14,758.8**
Industrial Raw Materials, Ag Logistics & Infrastructure	478.0	438.7	903.4	827.7	66.2	62.2	1,879.2	2,104.9	2,091.3
Commodity Financial Services (CFS)	N.A.	N.A.	-	-	4.5	5.1	130.6	98.3	114.3
Non-Food Category	**478.0**	**438.7**	**903.4**	**827.7**	**70.7**	**67.3**	**2,009.8**	**2,203.2**	**2,205.6**
Total	**6,965.2**	**4,461.8**	**6,295.4**	**5,804.2**	**368.1**	**398.6**	**16,166.9**	**15,832.4**	**16,964.4**

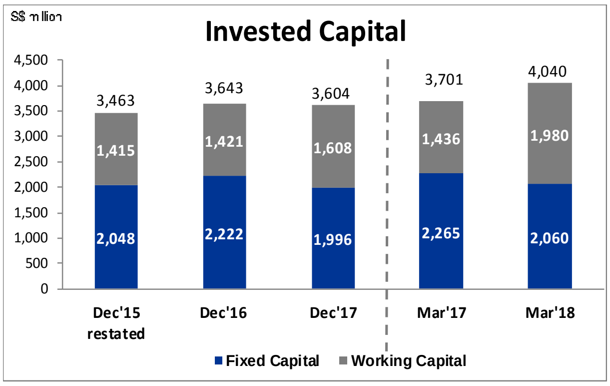
Note: IC excludes:

(a) Gabon Fertiliser Project (31-Mar-18: S$251.0 million, 31-Dec-17: S$ 248.0 million, 31-Mar-17: S$ 223.3 million), and

(b) Long Term Investment (31-Mar-18: S$ 206.6 million, 31-Dec-17: S$ 257.5 million, 31-Mar-17: S$ 172.7 million)

Edible Nuts, Spices & Vegetable Ingredients





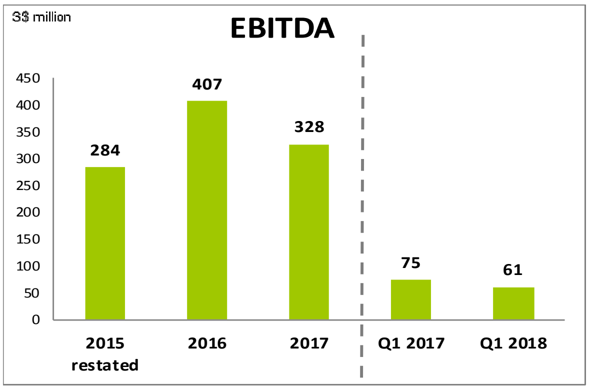
The Edible Nuts, Spices & Vegetable Ingredients segment registered a year-on-year volume reduction of 6.6% in Q1 2018. The reduction in volumes came mainly from peanuts.

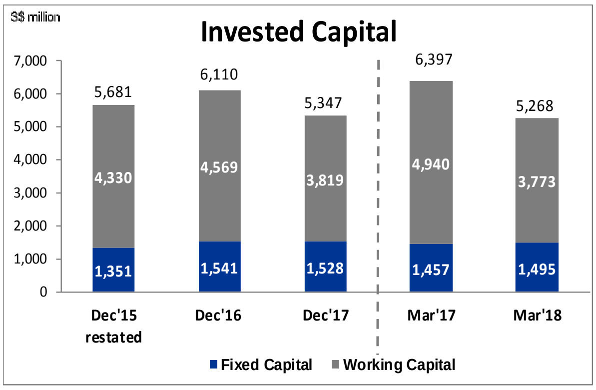
Revenues fell by 4.0% mainly due to lower volumes compared with Q1 2017.

EBITDA was lower marginally by 1.6% in Q1 2018 as compared with a strong set of results in Q1 2017. In particular, the Edible Nuts platform had the benefit of higher almond volumes and prices as well as favourable market conditions for the cashew business in Q1 2017. The Spices & Vegetable Ingredients (SVI) had a steady EBITDA as the dehydrates and spices business performed well while the tomato processing business continued to be impacted by difficult market conditions.

Invested capital in the segment rose by S$339.0 million as compared with March 31, 2017. Fixed capital decreased with the sale of edible nuts farmland and an SVI asset in the US, which was partly offset by the investment into Long Son. Working capital however increased as inventory levels of almonds and cashew rose during the quarter.

Confectionery & Beverage Ingredients





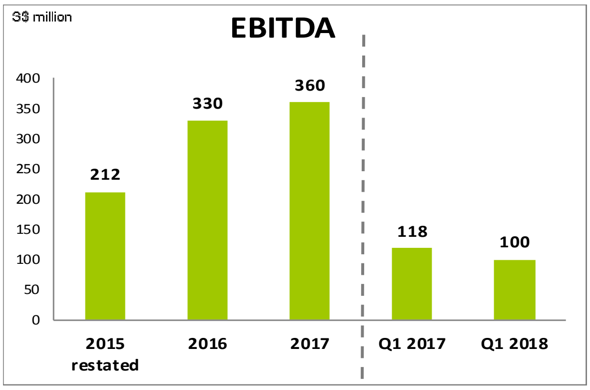
The Confectionery & Beverage Ingredients segment recorded a 2.0% reduction in volumes mainly caused by the timing difference in arrivals of cocoa beans.

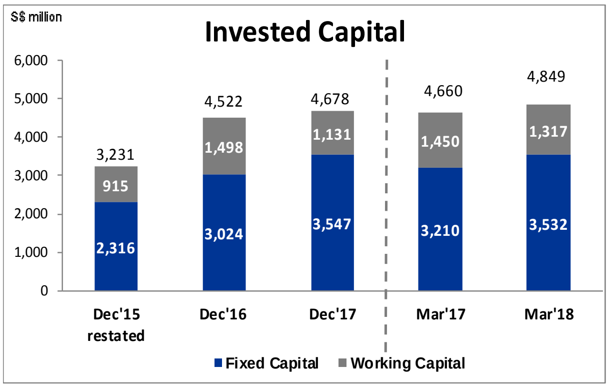
Revenues decreased by 10.5% compared with the prior corresponding period on lower volumes as well as lower prices.

EBITDA was impacted by 18.4% during the quarter mainly due to significantly lower contribution from the Coffee platform in Q1 2018, as compared with last year when Coffee had an excellent performance. The platform continued to experience tough market conditions amid a short crop across major origins since the second half of 2017. Cocoa processing continued to perform well in Q1 2018 whilst supply chain and trading performed better than the prior year when it had faced difficult trading conditions.

Invested capital in this segment came off substantially by S$1,129.6 million as compared with March 31, 2017 primarily due to the impact of working capital optimisation and lower prices.

Food Staples & Packaged Foods



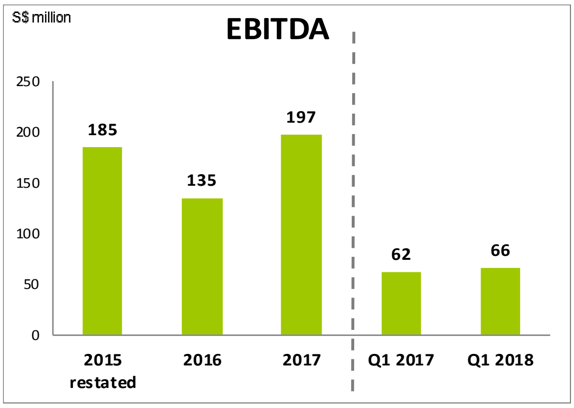


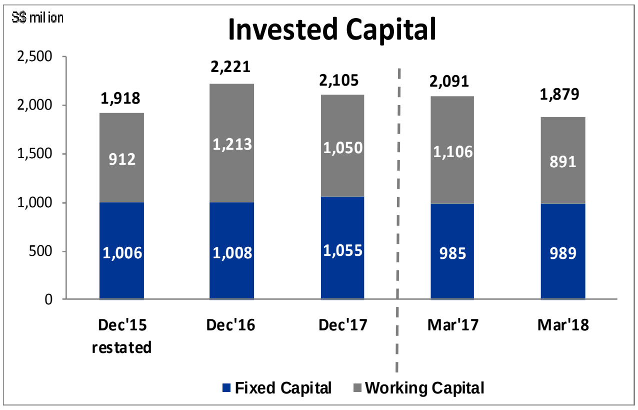
Food Staples & Packaged Foods segment volumes surged by 79.4%, largely driven by the growth in Grains' trading volumes. This led to a revenue growth of 34.0% for the quarter.

EBITDA was down 15.1% compared with a very strong Q1 2017. The platforms within the segment had mixed performance: While Rice and Dairy held steady and the Packaged Foods business started on its road to recovery, Edible Oils had lower contribution and the wheat milling business and Sugar faced margins headwinds during the quarter.

Invested capital increased by S$188.9 million versus March 31, 2017. While working capital decreased with positive impact from optimisation initiatives, fixed capital grew with the new animal feed business in Nigeria and continued investment in palm plantations in Gabon.

Industrial Raw Materials, Ag Logistics & Infrastructure





The Industrial Raw Materials, Ag Logistics & Infrastructure volumes grew by 9.0% as a result of larger Cotton volumes in Q1 2018.

Revenues were also up 9.1% on higher volumes as well as higher cotton prices during the quarter.

EBITDA grew 6.4% on stronger contribution from Cotton and GSEZ while Wood Products' performance remained steady.

Compared with March 31, 2017, overall invested capital fell by S$212.1 million as a result of working capital optimisation in Cotton.

Commodity Financial Services

CFS had a relatively similar start in Q1 2018 with S$4.5 million in EBITDA, as compared with its contribution a year ago (Q1 2017: S$5.1 million).

Compared with March 31, 2017, invested capital in this segment grew by S$16.3 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.

S$ million	Q1 2018	Q1 2017
Other Income^	7.1	11.9
Other Income	30.1	11.9
Less: Exceptional items	23.0	-
Overhead expenses^	(306.8)	(265.0)
Other operating expenses^	(1.8)	54.7
Other expenses	(332.6)	(210.3)
Less: Exceptional items	(24.0)	-
Taxation^	(30.0)	(34.0)
Income tax expense	(33.7)	(34.0)
Less: Exceptional items	(3.7)	-

^ 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 18 platforms in 66 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 had grown both in depth as well as breadth, pursuing selected value chain adjacencies which both complement and enhance our core supply chain model. We have developed 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, 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 28 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 Ag Logistics & Infrastructure 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.

Evolution of Olam's Business Model: Olam 2.0

Olam now has an extensive upstream farming and plantation footprint and our midstream manufacturing footprint has grown 10-fold since we began on the journey to integrate our value chain participation into upstream and midstream expansion. We are recognised as being leaders in sustainability, and our farmer/supplier and customer networks/engagement have given us a global edge in many of our products. All these initiatives and changes combined together has resulted in Olam 1.0 – The Olam Way that forms the basis for the way we lead, organise, compete, grow and succeed in the marketplace – evolving into Olam 2.0.

We have identified six key priorities in Olam 2.0 that will help us stay ahead and make Olam future ready:

1. Focus on drivers of long-term value;
2. Put sustainability at the heart of our business;
3. Build operational excellence as a core competency;
4. Lead industry's digital disruption and transformation;
5. Enhance our culture, values and spirit;
6. Realign and renew our organisation to execute our strategy.

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) Ag Logistics and Infrastructure (including Gabon Special Economic Zone or GSEZ)
Commodity Financial Services (CFS)	16) Risk Management Solutions 17) Market-making, Volatility Trading and Asset Management 18) Trade and Structured Finance

Note: The Q1 2017 results for the CFS segment did 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	**First Half Jan-June**	Q3 Jul-Sep	Q4 Oct-Dec	**Second Half Jul-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 Ag Logistics & Infrastructure 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.*