



Olam International Limited

Management Discussion and Analysis

Results for the period ended June 30, 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 Second Quarter and Six Months ended June 30, 2018 lodged on SGXNET on August 14, 2018.

MANAGEMENT DISCUSSION AND ANALYSIS

Results for the Second Quarter (“Q2 2018”) and Six Months ended June 30, 2018 (“H1 2018”)

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Key Highlights

Financial Performance

S\$ million	H1 2018	H1 2017	% Change	Q2 2018	Q2 2017	% Change
Volume ('000 MT)	13,606.6	8,939.8	52.2	6,641.4	4,478.1	48.3
Revenue	13,724.6	12,324.7	11.4	7,429.2	6,520.5	13.9
Net gain/(loss) in fair value of biological assets	(9.8)	(1.6)	503.5	(5.7)	0.4	n.m.
EBITDA	676.0	772.3	(12.5)	307.9	373.7	(17.6)
Depreciation & Amortisation	(188.7)	(183.7)	2.7	(93.0)	(95.1)	(2.2)
Net Finance costs	(201.7)	(258.0)	(21.8)	(114.4)	(118.4)	(3.4)
Taxation	(47.1)	(54.1)	(12.9)	(17.1)	(20.2)	(15.3)
Exceptional items	(2.1)	(6.3)	(66.7)	2.6	(6.3)	n.m.
PAT	236.4	270.1	(12.5)	86.0	133.6	(35.7)
PATMI	251.9	291.5	(13.6)	94.0	147.7	(36.4)
Operational PATMI	254.0	297.8	(14.7)	91.4	154.0	(40.6)

- ❖ **Profit After Tax and Minority Interests (PATMI) declined 13.6% to S\$251.9 million in H1 2018** against a strong performance in the previous corresponding period (H1 2017: S\$291.5 million).
- ❖ **Operational Profit After Taxes and Minority Interests (PATMI excluding exceptional items) was lower by 14.7% to S\$254.0 million (H1 2017: S\$297.8 million).**
- ❖ **Overall EBITDA decreased by 12.5% to S\$676.0 million in H1 2018 (H1 2017: S\$772.3 million)** on reduced EBITDA across all segments when compared against the strong performance in H1 2017.
- ❖ **Sales volume rose 52.2% in H1 2018** with a significant increase in Grains trading volumes.
- ❖ **Net finance costs decreased to S\$201.7 million in H1 2018** due to higher finance income and a significantly lower net debt, offset by higher interest rates, as compared with S\$258.0 million in H1 2017.
- ❖ **Depreciation and amortisation was marginally higher at S\$188.7 million in H1 2018 (H1 2017: S\$183.7 million)** in line with an enlarged fixed asset base.
- ❖ These results included a **net loss of S\$9.8 million for H1 2018** on the **fair valuation of upstream dairy assets** (H1 2017: -\$1.6 million).

- ❖ We incurred gross **cash Capex of S\$439.4 million in H1 2018** (H1 2017: S\$479.3 million) for meeting ongoing Capex commitments during this period. **Including disposals and divestments, net Capex was S\$170.5 million** in H1 2018 compared with H1 2017 of S\$436.7 million.
- ❖ **Free Cash Flow to Equity (FCFE) for H1 2018 was negative S\$167.0 million** (H1 2017: - S\$12.8 million) due to higher working capital usage during the first half, partly offset by reduced Capex, divestments and lower interest paid.
- ❖ **Net gearing stood at 1.46 times at June 30, 2018** compared to 1.97 times as at June 30, 2017.
- ❖ The Board of Directors has declared an **interim dividend of 3.5 cents per share for H1 2018** (H1 2017: 3.5 cents).

Financing

- ❖ 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 with 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.
- ❖ Post H1 2018, in July 2018, Olam's wholly owned subsidiary Olam Americas Inc. successfully priced a US\$100.0 million issuance of five-year fixed rate notes via a private placement at a fixed coupon of 4.35%.

Strategic Plan Update

During H1 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 sold its entire 50.0% interest in Nauvu Investments ("Nauvu") to Wilmar International ("Wilmar") for 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 sold 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.
- ❖ In May 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.
- ❖ In June 2018, the Company acquired 100.0% interest in Ruyat Oil Limited ("Ruyat") for an aggregate consideration of US\$4.4 million. Ruyat is incorporated in Nigeria with principal activities in sourcing of crude vegetable oil, refining and marketing of refined, bleached and deodorised Olein.

Outlook and Prospects

While global markets are experiencing heightened 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 H2 2018 and pursue growth in its prioritised platforms. 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	H1 2018	H1 2017	% Change	Q2 2018	Q2 2017	% Change
Volume ('000 MT)	13,606.6	8,939.8	52.2	6,641.4	4,478.1	48.3
Revenue	13,724.6	12,324.7	11.4	7,429.2	6,520.5	13.9
Other income [^]	12.7	23.0	(44.8)	5.6	11.1	(49.5)
Cost of sales	(12,293.9)	(11,023.5)	11.5	(6,659.9)	(5,815.3)	14.5
Overhead expenses [^]	(640.6)	(545.5)	17.4	(333.8)	(280.5)	19.0
Other operating expenses	(144.3)	(24.3)	493.8	(142.5)	(79.0)	80.4
Net (loss) / gain in fair value of biological assets	(9.8)	(1.6)	503.5	(5.7)	0.4	n.m.
Share of results from jointly controlled entities and associates	27.3	19.5	39.9	15.0	16.5	(9.2)
EBITDA[^]	676.0	772.3	(12.5)	307.9	373.7	(17.6)
EBITDA %	4.9%	6.3%		4.1%	5.7%	
Depreciation & amortisation	(188.7)	(183.7)	2.7	(93.0)	(95.1)	(2.2)
EBIT[^]	487.3	588.6	(17.2)	214.9	278.6	(22.9)
Exceptional items	(2.1)	(6.3)	(66.7)	2.6	(6.3)	n.m.
Net Finance costs	(201.7)	(258.0)	(21.8)	(114.4)	(118.4)	(3.4)
PBT[^]	283.5	324.2	(12.6)	103.1	153.8	(33.0)
Taxation [^]	(47.1)	(54.1)	(12.9)	(17.1)	(20.2)	(15.3)
PAT	236.4	270.1	(12.5)	86.0	133.6	(35.7)
PAT %	1.7%	2.2%		1.2%	2.0%	
Non-controlling interests	(15.5)	(21.4)	(27.6)	(8.0)	(14.1)	(43.5)
PATMI	251.9	291.5	(13.6)	94.0	147.7	(36.4)
PATMI %	1.8%	2.4%		1.3%	2.3%	
Operational PATMI	254.0	297.8	(14.7)	91.4	154.0	(40.6)
Operational PATMI %	1.9%	2.4%		1.2%	2.4%	

[^]Excluding exceptional items

Sales Volume

Volume grew 52.2% mainly due to higher trading volumes in Grains during H1 2018.

Revenue

Revenue increased by a modest 11.4% because the increased trading volumes from Grains have a lower selling price than that of other commodities in the portfolio.

Other Income

Other income (excluding exceptional items) was S\$12.7 million (H1 2017: S\$23 million).

Cost of Sales

The change in cost of sales normally follows the corresponding change in revenue for a given period. In H1 2018, cost of sales increased by 11.5%, consistent with the rate of revenue increase.

Overhead Expenses

Overhead expenses rose 17.4% to S\$640.6 million in H1 2018 (H1 2017: S\$545.5 million) on account of investments in new corporate growth initiatives, such as digitalisation and sustainability-based solutions, including AtSource.

Other Operating Expenses

Other operating expenses amounted to S\$144.3 million in H1 2018 versus S\$24.3 million in H1 2017. This was mainly due to unrealised foreign exchange losses recorded following significant devaluation of local currencies against the US dollar, namely the Brazilian Real, Indian Rupee, Turkish Lira and Argentinean Peso.

Net Changes in Fair Value of Biological Assets

There was an increase in net loss from fair valuation of upstream dairy assets from S\$1.6 million in H1 2017 to S\$9.8 million in H1 2018.

Share of Results from Jointly Controlled Entities and Associates

Share of results from jointly controlled entities and associates was up from S\$19.5 million in H1 2017 to S\$27.3 million in H1 2018. This was on account of our Indonesian sugar refining unit PT DUS which became an associate from January 2018 and its income helped offset the impact of the reduction in contribution from the sale of our stake in Nauvu.

EBITDA

EBITDA came down 12.5% to S\$676.0 million in H1 2018 on reduced contribution from all segments.

Depreciation and Amortisation

Depreciation and amortisation expenses had a marginal increase from S\$183.7 million in H1 2017 to S\$188.7 million in H1 2018 due to a slightly enlarged fixed asset base.

Finance Costs

Net finance costs went down from S\$258.0 million in H1 2017 to S\$201.7 million in H1 2018 due to higher finance income and lower net debt, partly offset by higher interest rates.

Taxation

Tax expenses decreased from S\$54.1 million in H1 2017 to S\$47.1 million on lower earnings and change in earnings mix in H1 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). H1 2018 recorded a lower loss of S\$15.5 million (H1 2017: -S\$21.4 million). The losses from OPG arising from higher period costs charged on its partially yielding plantations were compensated by the improved contribution from the Packaged Foods business in Africa.

Exceptional Items

The H1 2018 results included a net exceptional loss of S\$2.1 million (H1 2017: -S\$6.3 million). This loss was mainly a result of cumulative foreign exchange differences that were recognised on the disposal of our stake in Nauvu, partly offset by gains from assets sales.

S\$ million	H1 2018	H1 2017	Q2 2018	Q2 2017
Sale of SVI asset (land) in US	13.7	-	0.1	-
Sale of PT ACE	5.7	-	0.1	-
Sale of Café Enrista brand	2.6	-	2.6	-
SVI Wage agreement settlement	-	(6.3)	-	(6.3)
Sale of 50% stake in Nauvu	(24.1)	-	(0.2)	-
Exceptional Items	(2.1)	(6.3)	2.6	(6.3)

PATMI

PATMI declined 13.6% to S\$251.9 million compared with a strong H1 2017 base of S\$291.5 million.

Operational PATMI

Operational PATMI (PATMI excluding exceptional items) was lower by 14.7% at S\$254.0 million (H1 2017: S\$297.8 million).

Balance Sheet Analysis¹

S\$ million	30-Jun-18	31-Dec-17	Change	30-Jun-17	Change vs Jun 17
Uses of Capital					
Fixed Capital	8,388.5	8,633.2	(244.7)	8,280.6	107.9
Working Capital	7,646.4	7,280.3	366.1	8,851.8	(1,205.4)
Cash	2,426.3	1,986.4	439.9	2,038.0	388.3
Others	559.9	309.0	250.9	226.9	333.0
Total	19,021.1	18,208.9	812.2	19,397.3	(376.2)
Sources of Capital					
Equity & Reserves	6,801.1	6,574.4	226.7	5,856.5	944.6
Non-controlling interests	163.2	177.4	(14.2)	211.2	(48.0)
Short term debt	4,140.3	4,660.2	(519.9)	5,686.5	(1,546.2)
Long term debt	8,219.9	6,927.7	1,292.2	7,883.3	336.6
Fair value reserve	(303.4)	(130.8)	(172.6)	(240.2)	(63.2)
Total	19,021.1	18,208.9	812.2	19,397.3	(376.2)

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

As of June 30, 2018, our total assets² of S\$19.0 billion comprised S\$8.4 billion of fixed assets, S\$7.6 billion of working capital and S\$2.4 billion of cash. These were funded by S\$6.8 billion of equity, S\$4.1 billion of short term debt and S\$8.2 billion of long term debt.

Compared with December 31, 2017, overall balance sheet grew by S\$812.2 million arising from a larger working capital and cash position.

Compared with June 30, 2017, the overall balance sheet size came down by S\$376.2 million largely from the reduction in working capital.

Working Capital

S\$ million	30-Jun-18	31-Dec-17	Change	30-Jun-17	Change vs Jun 17
Stock	6,739.5	6,044.7	694.8	7,457.8	(718.3)
Advance to suppliers	789.8	743.5	46.3	555.0	234.8
Receivables	2,031.2	1,901.9	129.3	1,862.0	169.2
Trade creditors	(2,556.6)	(2,184.4)	(372.2)	(1,863.6)	(693.0)
Others	642.5	774.6	(132.1)	840.6	(198.1)
Working Capital	7,646.4	7,280.3	366.1	8,851.8	(1,205.4)

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

¹ The Company's balance sheet includes reserves created on account of the restructuring of the US business earlier held by Queensland Cotton Australia which have been reversed at the Group level (to be read in conjunction with Page 3 of SGXNET Financial Statements for H1 2018).

² 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\$366.1 million compared with December 31, 2017. This was caused by higher inventory levels and higher commodity prices. However, compared with June 30, 2017, working capital fell by S\$1205.4 million due to inventory reduction and optimisation initiatives.

Days	30-Jun-18	31-Dec-17	Change	30-Jun-17	Change vs Jun 17
Stock	99	93	6	123	(24)
Advance to suppliers	11	11	-	9	2
Receivables	27	26	1	27	-
Trade creditors	(37)	(33)	(4)	(30)	(7)
Total cash cycle	100	97	3	129	(29)

Our overall working capital cycle marginally increased from 97 days as at December 31, 2017 to 100 days as at June 30, 2018. This however compares favourably with 129 days a year ago due to the positive impact of inventory optimisation initiatives, lower commodity prices and better trade creditor days.

Debt, Liquidity and Gearing

S\$ million	30-Jun-18	31-Dec-17	Change	30-Jun-17	Change vs Jun 17
Gross debt	12,360.3	11,587.9	772.4	13,569.8	(1,209.5)
Less: Cash	2,426.3	1,986.4	439.9	2,038.0	388.3
Net debt	9,934.0	9,601.5	332.5	11,531.8	(1,597.8)
Less: Readily marketable inventory	5,816.2	4,539.6	1,276.6	5,451.7	364.5
Less: Secured receivables	1,595.3	1,714.8	(119.5)	1,309.7	285.6
Adjusted net debt	2,522.5	3,347.1	(824.6)	4,770.4	(2,247.9)
Equity (before FV adj reserves)	6,801.1	6,574.4	226.7	5,856.5	944.6
Net debt / Equity (Basic)	1.46	1.46	0.00	1.97	(0.51)
Net debt / Equity (Adjusted)	0.37	0.51	(0.14)	0.81	(0.44)

Net debt was significantly down by S\$1.6 billion as compared with June 30, 2017. This was a result of lower working capital, lower gross Capex, cash from divestments and the conversion of warrants into equity. Net gearing improved from 1.97 times a year ago to 1.46 times as at June 30, 2018.

However, compared with December 31, 2017, net debt increased by S\$332.5 million primarily due to higher working capital utilisation. As equity position improved, net gearing as at June 30, 2018 remained unchanged at 1.46 times.

Of the S\$6.7 billion inventory position, approximately 86.3% 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\$2.0 billion in trade receivables, approximately 78.5% 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 0.37 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\$18.5 billion in available liquidity as at June 30, 2018, including unutilised bank lines of S\$8.7 billion.

Cash Flow Analysis

S\$ million	H1 2018	H1 2017	YoY
Operating Cash flow (before Interest & Tax)	685.7	756.3	(70.6)
Changes in Working Capital	(388.1)	(35.1)	(353.0)
Net Operating Cash Flow	297.6	721.2	(423.6)
Tax paid	(90.5)	(45.1)	(45.4)
Capex/ Investments	(170.5)	(436.7)	266.2
Free cash flow to firm (FCFF)	36.6	239.4	(202.8)
Net interest paid	(203.6)	(252.2)	48.6
Free cash flow to equity (FCFE)	(167.0)	(12.8)	(154.2)

Net operating cash flow was impacted by higher working capital usage during H1 2018. This led to a lower but positive Free Cash Flow to Firm (FCFF) of S\$36.6 million (H1 2017: S\$239.4 million), helped by reduced Capex and divestments. FCFE for H1 2018 ended at a negative S\$167.0 million (H1 2017: -\$12.8 million).

Segmental Review and Analysis

For Q2 2018

Segment	Sales Volume ('000 MT)		Revenue		EBITDA		Invested Capital (IC)		
	Q2 2018	Q2 2017	Q2 2018	Q2 2017	Q2 2018	Q2 2017	30-Jun-18	31-Dec-17	30-Jun-17
Edible Nuts, Spices and Vegetable Ingredients	428.7	398.3	1,183.4	1,142.9	100.9	117.0	4,090.5	3,603.9	3,425.0
Confectionery and Beverage Ingredients	437.5	552.7	1,684.8	2,241.0	117.1	111.6	4,763.3	5,347.0	6,434.7
Food Staples and Packaged Foods	5,172.8	2,981.7	3,299.4	1,971.5	66.9	99.4	5,035.2	4,678.3	4,839.3
Food Category	6,039.0	3,932.7	6,167.6	5,355.4	284.9	328.0	13,889.0	13,629.2	14,699.0
Industrial Raw Materials, Ag Logistics & Infrastructure	602.4	545.4	1,261.6	1,165.1	27.9	44.3	1,933.8	2,104.9	2,129.7
Commodity Financial Services (CFS)	N.A.	N.A.	-	-	(4.9)	1.2	173.7	98.3	91.1
Non-Food Category	602.4	545.4	1,261.6	1,165.1	23.0	45.5	2,107.5	2,203.2	2,220.8
Total	6,641.4	4,478.1	7,429.2	6,520.5	307.9	373.7	15,996.5	15,832.4	16,919.8

Notes:

IC excludes:

(a) Gabon Fertiliser Project (30-Jun-18: S\$248.1 million, 31-Dec-17: S\$248.0 million, 30-Jun-17: S\$237.1 million), and

(b) Long Term Investment (30-Jun-18: S\$214.1 million, 31-Dec-17: S\$257.5 million, 30-Jun-17: S\$220.4 million)

For H1 2018

Segment	Sales Volume ('000 MT)		Revenue		EBITDA		Invested Capital (IC)		
	H1 2018	H1 2017	H1 2018	H1 2017	H1 2018	H1 2017	30-Jun-18	31-Dec-17	30-Jun-17
S\$ million									
Edible Nuts, Spices and Vegetable Ingredients	774.3	768.5	2,057.9	2,054.2	236.7	255.1	4,090.5	3,603.9	3,425.0
Confectionery and Beverage Ingredients	933.7	1,058.9	3,554.7	4,330.3	178.3	186.7	4,763.3	5,347.0	6,434.7
Food Staples and Packaged Foods	10,818.2	6,128.3	5,947.1	3,947.3	167.3	217.7	5,035.2	4,678.3	4,839.3
Food Category	12,526.2	7,955.7	11,559.7	10,331.8	582.3	659.5	13,889.0	13,629.2	14,699.0
Industrial Raw Materials, Ag Logistics & Infrastructure	1,080.4	984.1	2,164.9	1,992.9	94.1	106.5	1,933.8	2,104.9	2,129.7
Commodity Financial Services (CFS)	N.A.	N.A.	-	-	(0.4)	6.3	173.7	98.3	91.1
Non-Food Category	1,080.4	984.1	2,164.9	1,992.9	93.7	112.8	2,107.5	2,203.2	2,220.8
Total	13,606.6	8,939.8	13,724.6	12,324.7	676.0	772.3	15,996.5	15,832.4	16,919.8

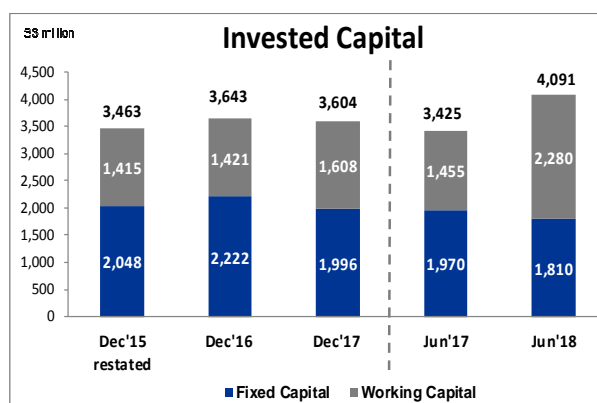
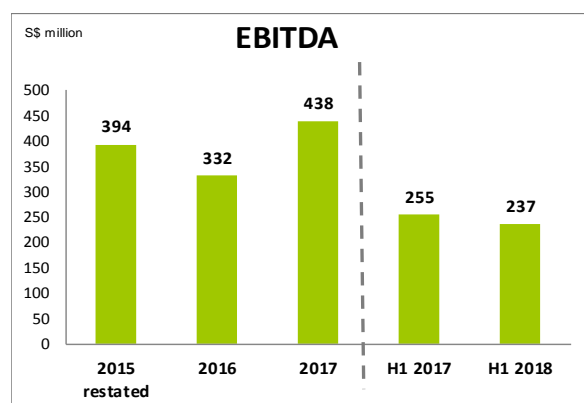
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(b) Long Term Investment (30-Jun-18: S\$214.1 million, 31-Dec-17: S\$257.5 million, 30-Jun-17: S\$220.4 million)

Edible Nuts, Spices & Vegetable Ingredients



The Edible Nuts, Spices & Vegetable Ingredients segment had a modest year-on-year volume growth of 0.8% in H1 2018. This came from Edible Nuts, mainly in cashew, hazelnuts and almonds.

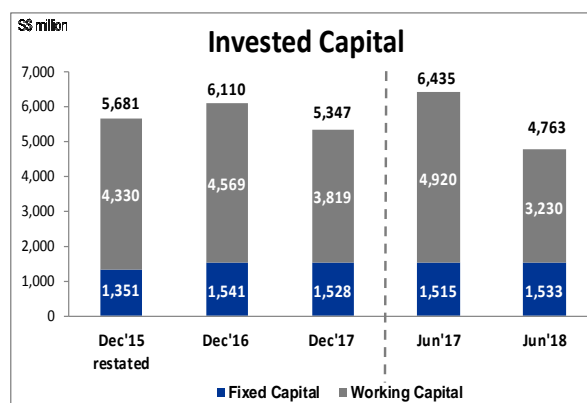
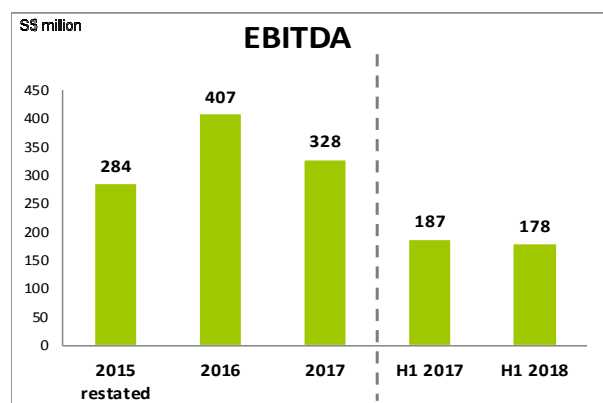
Revenues grew marginally at 0.2% in line with volume growth during the period.

EBITDA fell by 7.2% in H1 2018 when compared with the strong results in H1 2017. The Edible Nuts platform had performed well in the previous corresponding period with higher almond volumes and prices, and favourable market conditions for cashew. During this period under review, while cashew, almonds and hazelnuts performed well, the peanut farming business in Argentina suffered from drought conditions and currency devaluation, leading to an overall reduction in EBITDA for the Edible Nuts platform.

Excluding the tomato processing business, Spices & Vegetable Ingredients (SVI) reported a steady EBITDA as the dehydrates and spices business enjoyed a good start in H1 2018.

Invested capital in the segment rose by S\$665.5 million as compared with June 30, 2017. This was mainly because of the increase in working capital arising from higher inventory levels in almonds, cashew and dehydrates. On the other hand, 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.

Confectionery & Beverage Ingredients



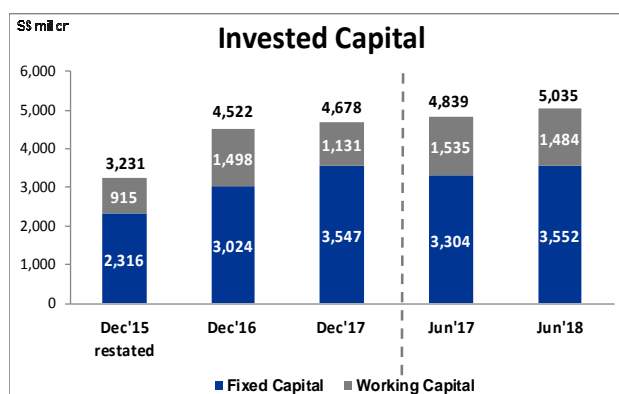
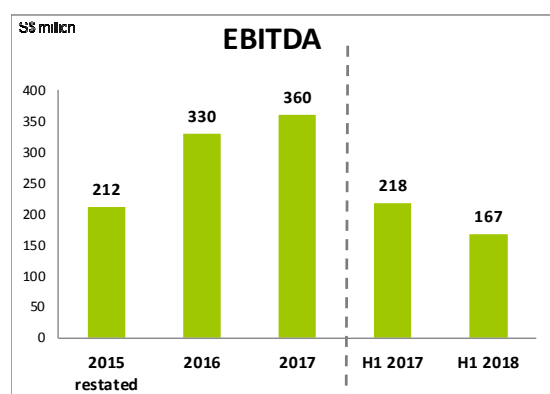
The Confectionery & Beverage Ingredients segment recorded a 11.8% reduction in volumes in H1 2018 mainly on account of Cocoa.

Revenues decreased by 17.9% compared with the prior corresponding period on lower volumes as well as significantly lower coffee prices.

EBITDA declined by 4.5% during H1 2018. Unlike H1 2017 when Coffee had an excellent first half performance while the Cocoa supply chain and trading business suffered headwinds and margins pressures, the two platforms had differential performance in H1 2018. Both Cocoa supply chain and processing performed very well, compensating for the significantly weaker results from Coffee as the difficult market conditions which started in Q4 2017 continued to impact the Coffee supply chain business adversely throughout the first half of this year. Soluble coffee, on the other hand, continued to do very well, with its increased capacity fully sold out in H1 2018.

Invested capital in this segment eased substantially by S\$1,671.4 million as compared with June 30, 2017 primarily due to the impact of working capital optimisation, lower coffee prices and reduction of inventory holding period by selling at spot or near term prices. Fixed capital increased with expansion in soluble coffee capacity in Vietnam and Spain.

Food Staples & Packaged Foods

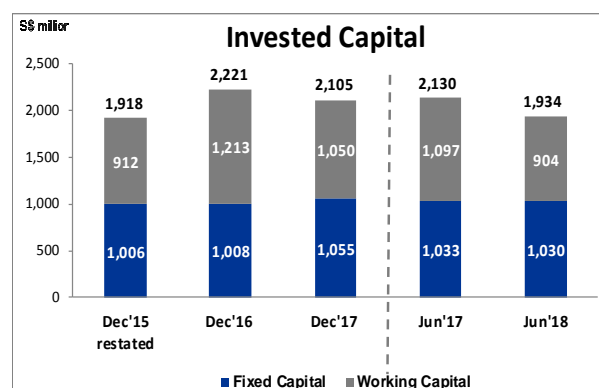
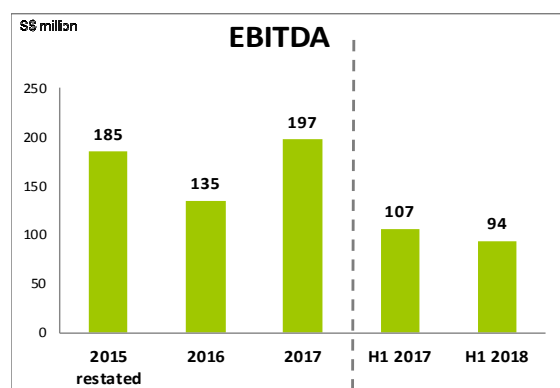


Food Staples & Packaged Foods segment posted a significant volume growth of 76.5%. This was primarily driven by the growth in Grains trading volumes. Similarly, revenues grew by a strong 50.7% in H1 2018.

EBITDA was lower by 23.2% against a very strong H1 2017. During H1 2018, the segment was impacted by the Edible Oils platform which experienced volatile trading conditions, higher period costs in OPG as well as lower income from Nauvu following our sale of the joint venture. While the Rice and Dairy businesses held steady, both the wheat milling and Sugar businesses continued to face some margin pressures. Some of the reduction was also on account of lower contribution due to the sale of 50.0% interest in PT DUS. Packaged Foods performed better with improved EBITDA as the Naira remained stable and market shares improved in both Nigeria and Ghana.

Invested capital was up by S\$195.9 million compared with June 30, 2017. Fixed capital increased as the new animal feed mills and hatcheries were set up in Nigeria and investments in palm plantations continued in Gabon. Less working capital was deployed as optimisation initiatives improved capital efficiency.

Industrial Raw Materials, Ag Logistics & Infrastructure



The Industrial Raw Materials, Ag Logistics & Infrastructure volumes grew 9.8% on higher Cotton throughput in H1 2018.

Revenues were up 8.6% on higher sales volumes and higher cotton prices during the period.

However, EBITDA fell 11.6% on lower contribution from Nauvu (following the sale of the joint venture) and GSEZ, which offset growth from Wood Products. Cotton had a steady contribution during H1 2018.

Compared with June 30, 2017, overall invested capital was lower by S\$195.9 million mainly because of the positive impact from working capital optimisation in Cotton.

Commodity Financial Services

CFS incurred a small loss of S\$0.4 million in EBITDA for H1 2018 (H1 2017: S\$6.3 million).

Compared with June 30, 2017, invested capital in this segment grew by S\$82.6 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	H1 2018	H1 2017	Q2 2018	Q2 2017
Other Income[^]	12.7	23.0	5.6	11.1
Other Income	38.5	23.0	8.5	11.1
Less: Exceptional items	25.8	-	2.9	-
Overhead expenses[^]	(640.6)	(545.5)	(333.8)	(280.5)
Other operating expenses [^]	(144.3)	(24.3)	(142.5)	(79.0)
Other expenses	(809.1)	(576.1)	(476.5)	(365.8)
Less: Exceptional items	(24.2)	(6.3)	(0.2)	(6.3)
Taxation[^]	(47.1)	(54.1)	(17.1)	(20.2)
Income tax expense	(50.8)	(54.1)	(17.2)	(20.2)
Less: Exceptional items	(3.7)	-	(0.1)	-

[^] 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	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

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.