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Half Year 2022 Olam Group Limited Earnings Presentation

EVENT DATE/TIME: AUGUST 12, 2022 / 2:30AM GMT

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PRESENTATION

Hung Hoeng Chow ***Olam Group Limited - General Manager of IR***

Good morning to all the ladies and gentlemen in this room and to those who are virtually present with us for the live web cast of our half year results briefing for the period ended June 30th, 2022. I'm Hung Hoeng of Olam Group Investor Relations. And along with our senior management team here led by our Group Co-Founder and CEO, Sunny Verghese; Group CFO, N. Muthukumar; as well as the CEO of OFI, Olam Food Ingredients, A. Shekhar.

We would like to extend a very warm welcome to all of you for joining us in announcing our half year results. We are pleased that at this time, we are able to meet more of our stakeholders today face to face to not only show and tell you about our achievements, but also to share with you our reorganization story, how it is gradually reshaping Olam to create greater value for our shareholders and stakeholders.

Muthu will begin our story by taking us through the consolidated Olam Group financial results. We will also discuss the operating and financial results for each of the 3 new operating groups, beginning with OFI, which will be told by its CEO, Shekhar. Sunny, as CEO of Olam Agri will take over and share the performance of Olam Agri, as well as of the remaining Olam Group businesses. He will also share his views on the business outlook and prospects, as well as the progress we have made so far on the reorganization before wrapping up today's presentation with key takeaways.

Please stay on for questions and answers. You may now actually post your questions on the web cast, which we will address during the Q&A session. For those that are here with us in the room, you may well to -- may wish to scan the QR code to access the presentation if you wish to look at your own portable devices. I will pause here and request Muthu to begin his presentation. Thank you very much.

Neelamani Muthukumar ***Olam Group Limited - MD & Group CFO***

Thank you, Hung Hoeng. Good morning, ladies and gentlemen, a warm welcome once again to Olam Group's first half '22 financial results presentation. Delighted to see you all in person after more than 2 years of doing meeting most of you virtually. It is indeed -- we all have to be grateful that we have successfully navigated the pandemic and coming back to normalcy, and we hope to emerge stronger, as a community, and a clear representation, a testimony of the same is Olam Group's first half '22 results.

So at a glance, we have delivered 22.5 million tonnes, a marginal increase of 0.5%, but more importantly, our revenues grew 25% to SGD28.4 billion. Operational PATMI, up 8% at SGD472 million, and EBIT, which is the key operational metric that we track and report, stood at SGD802 million, a 25% increase on -- against H1 of 2021. We have generated a very healthy free cash flow of SGD466 million, a positive change of 800 -- more than SGD800 million on a year-on-year basis.

Our reported PATMI stood at SGD429 million, more or less consistent with what we had reported in the first half of 2021. And in spite of a secular increase in commodity prices, which started in the second half of 2021 and continued till the June 2022, we have been able to manage to keep the gearing at check through a very disciplined working capital management and very well-paced CapEx investments.

EBIT grew 25% to SGD802 million, with very strong performance from Olam Agri, which grew its EBIT by roughly 50%. OFI delivered an EBIT of SGD265 million despite significant challenges due to cost price inflation and Shekhar, when he's presenting the segmental performance will be taking us through that how OFI has very well navigated these significant headwinds, especially in the first half of 2022.

Our operational PATMI is up 8.2% to SGD472 million despite a significant increase in interest costs, as well as higher provision for taxation. Very strong free cash flow to equity and free cash flow to firm -- and as I had discussed about it, this is through very disciplined working capital management, strong operating performance leading to cash generation as well as very well-paced CapEx investments.

Robust cash position of SGD6.4 billion and ample liquidity in terms of SGD24.3 billion of overall working lending facilities and having significant headroom of roughly SGD5.2 billion, as at the end of June 2022.

Working capital cycle time has been kept on check, as I had talked about, clearly, with very well disciplined working capital management across our portfolio in spite of significant increase in commodity prices that we had witnessed in the first half of 2022. Stable gearing at 1.73x compared to 1.6x this time last year. And I'm pleased to announce that our Board of Directors have declared an interim dividend of SGD0.04 for the first half.

In terms of consolidated results by operating group, first in volume, an overall 22.5 million tonnes, out of which roughly Olam Agri contributed 90% of the volumes, OFI contributing 8% and the Remaining Group contributing 2.2%. Revenues of SGD25 billion. And here again, Olam Agri contributed roughly 69%, with OFI contributing 28.5% and the rest by the Remaining Olam Group.

In terms of EBIT, 76% contributed by Olam Agri, 33% by OFI and the remaining negative -- marginal negative loss from the Remaining Operating Group. Overall, invested capital stood at roughly SGD20 billion. Here, OFI constitutes roughly 59% and Olam Agri constitutes 26%, with 16% from the Remaining Operating Group.

Sales volume more or less flat on a year-on-year basis at 22.5 million tonnes. There were marginal increases in OFI of roughly 55,000 tonnes and 100,000 tonnes increase in Olam Agri. And as expected, as we have been divesting our identified de prioritized assets, volumes in the Remaining Group have come down.

EBIT increased by 25% to SGD802 million at the Group level, with OFI marginally lower on a year-on-year basis, primarily due to higher depreciation and amortization after the significant acquisition of Olde Thompson that we did in the second half of last year. However, Olam Agri has performed very well and has delivered -- contributed a year-on-year increase of SGD201 million, with the Remaining Olam Group more or less stable in terms of EBIT contribution on a year-on-year overall contributing to SGD800 million of EBIT.

Operational PATMI grew 8.2% to SGD473 million. This in spite of strong contribution of EBIT at SGD160 million increase on a year-on-year basis, significant increase in net finance cost of SGD73 million, higher taxation provision because of the reorganization, we have had continuing cost tax dis-synergies that we will have in both the operating groups, OFI and Olam Agri and that has led to higher provision of taxes.

And there were some exceptional items that we had booked in terms of our accelerated PSA for our employees on account of the top-hatting that we did in changing the Olam International Limited, as a listed entity to Olam Group Limited, which has now become the listed entity. The second is continuing separation costs that we are incurring on account of the reorganization that has significantly completed now. That has contributed an overall reported PATMI of SGD429 million and an operational PATMI of SGD473 million for the Group.

A 11% increase in the invested capital, primarily due to increase in working capital, as we had seen a secular increase in commodity prices in most of the products in our portfolio. Otherwise, we have been able to manage and -- with a very disciplined approach on working capital to keep the net debt to equity at check at 1.73x, marginally higher than the December 2021 position.

Positive free cash flow of SGD466 million on the FCFE basis and SGD720 million at the free cash flow to firm basis, and primarily, we have seen strong operating cash flow earnings in the first half, contributing to SGD224 million. Changes in working capital contributing to a negative SGD600 million and a marginal increase in tax paid, but significant [decrease] (corrected by the company after the call) in

CapEx investments, primarily as I talked about, OFI had made 3 acquisitions between the [first and second half of 2021] (corrected by the company after the call), the major investment being the acquisition of Olde Thompson, the spices private label business in the U.S. And that had led to a positive free cash flow to equity of SGD466 million and a positive free cash flow to firm of SGD720 million at the Group level.

We have very strong liquidity position, and we thank all our banking partners, who are present here and present remotely for their continued support through the reorganization and also now supporting us in reorganizing the debt and putting it in the respective operating groups for our continued growth prospects.

With that, I will hand over to Shekhar, the CEO of OFI to present the OFI operating performance and financial performance for the first half of 2022. Over to you, Shekhar.

Shekhar Anantharaman ***- CEO & Executive Director of Olam Food Ingredients***

Thank you, Muthu, and a good day to all of you. Great to see you all in person and to all those joining us online, a good day to you, too. So I'm pleased to take you through the OFI operating results just as a recap, which we have been sharing since we reorganized in 2020. OFI is comprised of 5 integrated product platforms in cocoa, coffee, nuts, dairy and spices. And across these platforms, we are delivering to very large, attractive growing end use markets, the bakery, confectionery, beverage, snacking and culinary, which as you can just imagine, these products are a significant part of.

And we are delivering across to a large set of large CPGs, multinational CPGs, the regional brands, which are growing, the large format and small format retailers, as well as the food service companies. So it's a business which is a fairly substantive business with roughly SGD15 billion, SGD14 billion in sales, about SGD1.15 billion in EBITDA and SGD800 million in EBIT. These were the results as per FY '21, which was also a very strong year for OFI based on the recovery from COVID.

So for the business of today, we are really going to focus on H1 and the outlook for the year. And H1 -- in H1 OFI overall grew about 3% in volume and about 22% in revenue, as Muthu was highlighting earlier. And obviously, that shows the impact of higher input prices, both the raw material, as well as the costs that have been hitting everybody in the industry. So -- but at an operating level in terms of contracts, manufacturing shipments, we performed to plan in terms of the volume growth that we were anticipating.

The impact has been on EBIT in the first half, which is down by about 12%. But this has to be seen in the context of a very strong first half in '21. So coming out of COVID, it was a very strong performance then. And so even as we started the year, we were expecting a more benign growth for the first half. But notwithstanding that, there was another aspect, which was the war, which was unanticipated and unexpected and a tragic -- and it had its tragic consequences for everybody in the industry.

And so the inflationary pressures because of the war, and especially, I'd like to call out the energy impact on sold contracts. And in Europe, it had a different impact, in Asia, it's been different. So this has impacted manufacturing units and the cost -- cost of which we have taken in H1, whereas the pricing impact of that are beginning to start flowing through in the latter part of Q2, as well as will flow through in H2 and beyond.

So that has been the big tailwind. Some part of this drop compared to last year, as Muthu was talking about earlier is also on account of higher depreciation and amortization. Roughly half of this drop that you see is on higher depreciation and amortization on investments that we did in last year, both acquired as well as the organic investments. The full impact of which will obviously flow through the coming periods. So that is something that we are not really worried about. That's just a matter of timing, and that will get as said in itself.

But against all these headwinds, what we are very pleased with is the resilience of the integrated platforms and how many of these businesses have really performed even better than expectations during this period, more reassuring, and that's what we carry as a optimism of this business, the resilience of this business is the broad-based support we have been getting from our customers, as we engage with the repricing of these costs, which are real for everybody. And therefore, that is something that we have been engaging with from April onwards. And we see that in terms of being able to get back to our margins in the revised contracts that we have done already and are doing. And as these pace of repricing, as well as margin recovery improves in the second half, we believe that the impact of the cost that we had to take in H1 on the sold contracts will -- will correct itself.

So we feel quite confident as we are in second half and now well into second half that the EBIT impact that we have taken both on account of higher depreciation and amortization, as well as the surge in energy costs will correct itself, is already correcting itself, and we see that coming up in H2. So that's the big picture. Against this, I'll talk about when I talk to the segments about very strong performances by many of the platforms and in many parts of the businesses, but this was the big picture.

A word on the invested capital. I talked about a 22% increase in revenues. So against that, we have been very, very disciplined in managing our invested capital, which grew by about 7% against a 22% increase in revenues. So again, that is a focus that has been -- you have seen over the past many years, and it's a focus that should continue forever because we are really focused on the business, managing working capital and a productive use of our fixed assets, and that will continue to be a focus for the entire business.

Global sourcing, which had a good performance, roughly about 7% increase in volumes, 27% increase in prices and 18% increase in EBIT. So again, the nature of the business is such that the pass-through and input raw material price increases and cost happens much faster and quicker, and so that is what has characterized this performance in first half.

Again, very, very strong performances from the dairy part of the business, the green coffee part of the business, the other parts, the origination parts or other products. And despite the fact that almonds, which is the upstream operations in Almond, which is a part of global sourcing for us, faced lower prices despite the impact of that, the overall segment has performed quite well. So we're quite pleased with that performance, and more importantly, the navigation of the volatility that every product has faced, the macroeconomic uncertainty has weighed on the supply/demand fundamentals. So in -- within the OFI portfolio, we saw a very strong surge in coffee prices and a fall in recent times in cocoa despite the fact that the supply/demand fundamentals are very strong, but the macroeconomic uncertainty has not led to the kind of price increases that one would have otherwise anticipated.

I talked about almonds, which have been facing very poor prices despite all the cost increases that have actually happened, the energy cost increases, the labor cost increases, as well as the impact of drought in California. None of that is still showing up in those prices. So it's been a fairly volatile price across the portfolio. But again, we are quite pleased with the performance that the global sourcing teams have managed this volatility, managed the supply chain disruptions and executed on plan and delivered quite good results during this period. And again, even more so on -- despite the overall impact on prices across the portfolio, the working capital has been managed very well, which is a significant part of this business -- of the segment.

Moving on to Ingredients & Solutions, which is where bulk of the impact that was impact that I talked about, obviously, the depreciation and amortization is felt in the manufacturing part, which is part of this segment. And that's one part of it. And again, the energy impact has, again, been felt entirely by this segment and borne by this segment.

So this segment has seen that EBIT drop in prices, but the EBIT drop on -- because of the cost increases. But we see very strong recovery in margin, as well as we reprice the contracts with our customers, and we believe that this -- the growth in the segment for what we have invested, not just in prior years and certainly in 2021, you will see the results of that flowing through.

And we feel quite confident, as we have already entered H2, and we feel very well positioned to end the year on a strong note. Again, the invested capital has been in this segment is more in line with the revenue growth in this segment of roughly about 12.5% and evenly split between fixed capital and working capital, which has been managed quite well.

So last bit I'd like to say is that, that is the first half, and that has been a very, very volatile first half with all the macroeconomic uncertainties of the war, inflation, et cetera, which has flown through. But we feel very strong about the prospects of the business, what we have invested for, what we are building as we speak. And we do not feel that there is any change in the medium-term guidance in terms of volume growth, as well as EBIT growth that we have indicated earlier.

In terms of the growth framework, we stay absolutely focused on extracting value from all the investments we have made, ensuring that we focus with all our customers, but even more so the strategic customers, where we are increasingly doing the cross-sell and upsell, which will be reflected in the margins going forward.

One important aspect is the cost competitiveness. I think the cost increase has been felt by the whole world and is being accepted by the whole world. But in the discussion that we are having with our customers, we see real support, which is a validation of the portfolio's resilience, the ability to deliver security of supply, security of traceable, sustainable supply in a cost competitive manner, providing solutions to our customers to make alternative cost, whether it's on raw material, alternative raw materials, alternative ingredients, alternative packaging and a variety of other solutions that we are discussing to ensure that not only do we retain our cost competitiveness, but also offer those cost-competitive solutions to our customers and providing that with increasing amount of innovation and sustainability across the chain.

So we feel -- I'd like to convey that assurance about the business is on course, is on stream and also reflected in the fact that we are investing behind the strategy that we have chosen. You would have seen 2 investments that we announced just after the close of the first half. One was private label roaster in Canada, which also supplies to the U.S., a very strong business with a very strong sustainability focused packaging, novel packaging, which is quite in demand with the retailers in North America, and which will fit in very well with the sustainable, traceable supply chain that we have in coffee. And so that's a very niche business, and we are very pleased to have the entire team joining us from July 5th.

Similarly, we have also done an acquisition in Germany of nuts, again, private label retailer, a private label player supplying to retailers in Europe. And again, which fits in perfectly with the focus on private label and the sustainable, traceable supply chain that we have built in the nuts business. So both these acquisitions are a reflection of the channel expansion, the product extension that we have been focused on improving the margins, improving the returns, as we build OFI towards future.

And with that, I'll hand over to Sunny to take us through great performance by Olam Agri.

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

Thank you, Shekhar.

Good morning, ladies and gentlemen. I think before I start with the Olam Agri results, it might be useful to spend a minute or 2 on giving you the context and background of the first half performance for Olam Agri. It will apply partially to OFI as well, and Shekhar has articulated that backdrop, but also give us a sense for what the likely prospects for Olam Agri and the Olam Group looks like at this point in time for the second half of the year and for the full year.

So we entered this year with very significant developments, as far as macroeconomic changes were concerned, but also as far as the beginning of the fracturing of the global geopolitical environment as well. And much of that has played out in the first half, and there are still significant uncertainties with regard to both geopolitics and macroeconomic conditions going forward as well.

So we started with shipment disruptions and supply chain disruptions, which we've been experiencing for the last 2.5 years induced by the pandemic. While that has now substantially healed, but because China has imposed hard lock down and continues with its hard lock down policies and China being a major part of the global supply chain that has continued supply chain disruptions even into the first half of this year and likely to continue in the second half, unless, of course, China changes its policy, which is very unlikely.

We also saw rising costs and, therefore, rising inflation starting sometime during the course of last year's second half, but has remained stubborn and ratcheted up and is the highest inflations -- inflation trajectory that we have seen in the last 40 years. That continues to be the case. And although, we saw some positive green shoots in the last inflation print in the U.S., but whether inflation -- core inflation is going to subside and headline inflation is going to subside is still uncertain. And this has therefore resulted in very rapidly tightening financial conditions with almost all central banks with the exception of China and India, for example, are increasing interest rates very significantly.

The forecast is that the federal -- despite the news that we saw 2 days ago, Fed is likely to do another 75 basis point hike in the next round, September and potentially a 50% in November, followed by a couple of 25% hikes going into the first half of 2023. So -- and we are seeing also the Fed and other central banks do a lot of quantitative easing, removing that liquidity and also sharp quantitative tapering, while they're trying to transition this without disrupting markets, et cetera. But I think between the policy choices that they have of taming inflation and sacrificing growth, even at the risk of cooling the economy by tipping it into a recession, I think the policy choice is not quite clear that they will be willing to accept the cost of a recession.

And therefore, if you look at the next half, we expect that global growth will slow down, as it has already been now happening in the last quarter, but likely to accelerate over the course of the second half. And that will be in line with what the World Bank and IMF have recently in their June reports, brought down global growth quite sharply from their April update. So the slowing economies.

And then we have clearly a significant fracturing of global geopolitics. I think the world is getting divided into blocks, and that will impact global trade and contestability of global trade. And we can see many policy actions that governments are taking which are mostly misguided. More than 27 countries in the first half of this year have imposed various tariff and non-tariff barriers on free trade. And just in the food and ag sector, about 27% of all global calories consumed now is impacted by policy in my view, mistakes that governments are doing to address the food security issue and exacerbating the problem across the globe.

Last year, about 16% -- sorry, 14% of world's calories were impacted by government policy for imposing tariff and non-tariff barriers. So we think this trend will continue because people are all focused on food security solutions, food security is big going a very big thing. And as you know, in the advanced economies, food consumption expenditure, as a part of total consumption expenditure is roughly between 8% and 15%, whereas in developing economies, it is between 30% and 70%. So the poorer countries, the total outlay on consumption of consumption expenditure on food expenditure is much higher than the emerging developing economies.

So governments are extremely clear that governments can fall if food price inflation, which is a basic necessity is uncontrolled and resulting in severe food and security and many more people going hungry, many more people falling below the poverty line. So we have to keep this in context when we are talking about the results and performance of the first half, but more importantly, the outlook for the second half as well.

And of course, then we have the unknowable unknown in terms of how long the Russia-Ukraine conflict will last, whether it's going to be a short, sharp affair, whether it's going to be meandering affair over time or it's going to be a prolonged aggressive war for some time to come. Nobody knows. And we've already seen the cyber rattling over Taiwan and China and the U.S. and all of the recent developments that we have seen. And therefore, the fracturing of global geopolitics will have an important impact on all businesses and their fortunes.

With that, I want to just go to the Olam Agri highlights, but since these are all newly created operating groups and entities, it is useful for us to remind you all of how we have organized Olam Agri. So Olam Agri is organized into two platforms. There's a food and feed platform. And secondly, there is a fiber, ag industrial and ag services platform. Within these 2 platforms, we have 3 reporting segments. In food and feed, we have 2 reporting segments: Food and Feed, Origination and Merchandising segment; and the Food and Feed processing and value-added segment. And finally, we have the Fiber, Agri-Industrials and Ag Services segment, as a third segment, so 3 reporting segments.

Within those 3 reporting segments, we have 9 business units, and we have 12 SBUs. We've had broad-based performance across the 2 platforms, the 3 reporting segments, the 9 BUs and the 12 SBUs. So it is very broad-based out performance for the first half of this year, which follows from spectacular 2021, full year 2021. As we explained to you when we last met, we mentioned that the 2021 being such a strong year, we had significantly lower numbers for our budgets for 2022, but we have beaten last year, and we have also, therefore, significantly beaten the revised -- the budgets that we set out for the beginning of the year.

What does Olam Agri, in terms of size, scape -- scope and scale. So Olam Agri operates in roughly 30 countries. It has about 9,000 odd employees. It had revenues of SGD31.3 billion in FY '21. The revenues have grown at about 26% in the first half of this year. Hardly any volume growth because we have lost a lot of volumes, as a result of the disruption from the Ukraine and Baltic seaports, Russia, Ukraine shipments this is in the first half of the year. So we had significantly lower volumes compared to last year. But overall, other parts of the Olam Agri business grew. So volumes grew by 0.5% despite that. But revenues because commodity prices have gone through the roof, revenues grew at about 26% for Olam Agri in the first half of this year.

In 2021, we had SGD31.3 billion in revenues. In 2021, we traded about 41 million tonnes. Against that, in the first half of this year, we have traded or handled about [20.2] (corrected by the company after the call) million tonnes. We have more than 50 manufacturing plants and facilities. This is a very highly capital-efficient business. So last year, we had close to 16% [EBIT] (corrected by the company after the call) to IC, Invested Capital. And we had ROE of about 45% last year. So highly capital-efficient, high-return business.

If you look at last year's EBITDA, it was SGD930 million. This year's first half EBITDA is about SGD718 million. So we are almost 77% of the full year EBITDA of last year, which was a fantastic year for us.

In terms of EBIT, we have delivered last year full year of SGD753 million against which the first half year delivered SGD608 million, that is roughly 80% of last year's full year EBIT.

So with that, let's just go into the overall performance. As you see, our EBIT operating profit has grown from SGD408 million by almost 50% to SGD609 million. And out of the SGD609 million, the Food and Feed Origination and Merchandising segment, which is in blue here grew significantly to deliver EBIT -- operating profit of SGD229 million in the first half, and that is 38% of the share of EBIT that Olam Agri has generated.

Food and Feed Processing and Value-Added segment has contributed 29%, roughly SGD177 million of EBIT for the first half of the year. And the fiber, Ag-Industrial and Ag Services segment has delivered SGD203 million of operating profits, which is about 33% of the total operating profits. So operating profits have grown 49.4% to SGD609 million, which, as I mentioned a bit earlier, is roughly 70% -- sorry, roughly 80% of the full year [EBIT] (corrected by the company after the call) of last year.

But most importantly, margins have improved by 50%. So our average margin last year in EBIT per tonne, operating profit per tonne was $20. It has gone to $30 in the first half of this year. So that's a 50% growth in margins, which is why we've had such a strong performance. However, against this performance, we have to also understand there has been significant cost inflation.

So we've had depreciation and amortization go up by 14% compared to last year -- sorry, 24% compared to last year, about US$14 million was the impact of increased depreciation and amortization largely on account of the right-of-use assets coming from the leasing of some additional vessels for our ship and freight operations. That right-of-use assets contributed much of the increase in D&A for the first half for this business.

There is a significant increase in interest costs, about 52% -- 53% increase in interest costs compared to last year, not interest rates, interest expenses compared to last year. This is largely on account of the fact that our revenues grew by 26%. Therefore, our working capital grew by about 24%. As a result, we had to incur higher interest expenses, but interest rates also went up, and therefore, some part of that increase was because of interest rates going up.

And thirdly, we had a significant increase, almost doubling of our tax provisions. So compared to last year's tax provision versus this year's tax provision, the tax provision is almost 100% higher than what we had provided for last year first half. Part of this is because of the restructuring and the impact of the restructuring that now these are all separate independent entities and tax management that these different entities would be necessarily having, therefore, higher effective tax rate than we have had in the past.

The other thing to note is, although we've had the Food and Feed Origination and Merchandising segment contribute to SGD229 million EBIT or 39% of the EBIT of Olam Agri, it only takes 17% of our invested capital. So that segment is the most capital-efficient segment. It takes only 17%. The Food and Feed Processing and Value-Added segment, which contributes about [SGD177] (corrected by the company after the call) million EBIT, 29% of the total EBIT takes 49% of our invested capital. So that obviously is the asset-intense piece of our business.

Overall, the Olam Agri business is an asset-light business. But within that, one of the segments is a more asset-intense business because we have a lot of fixed assets in that business, particularly in the destination markets, where we do a lot of wheat milling, pasta manufacturing, ginning and so many other things that we do there. And in the Food -- in the Fiber, Agri-Industrial and Ag Services segment, which contributes 33% of our EBIT, it roughly takes 34% of our invested capital.

So if you now go to the 3 main sub segments. So first, if you look at the Food and Feed Origination and Merchandising segment, we grew operating profits at 58% from SGD145 million in the prior year to SGD229 million this year. But more importantly, we grew operating profit per tonne, margins per tonne from $9 a tonne to $14 a tonne, which is almost a 55% increase in margin per tonne.

We've had significant growth in invested capital, as you see in the right-hand side of this box, where working capital particularly drove a 204% increase in invested capital in this segment for the first half of this year. It was broad-based performance in that segment across all the BUs and SBUs. Every BU and SBU without exception, had a significant growth compared to the first half.

In the Processing and Value-Added segment, we grew operating profit by 36% from SGD130 million to SGD177 million, but margins grew from $57 per tonne to $85 per tonne. So there is a 49% improvement in margins per tonne. Invested capital grew at 45.3%. But overall, it is in line with the growth in that business.

And then in the last segment, the Fiber, Agri-Industrial and Ag Services segment, we grew operating profit by 54% from SGD132 million to SGD203 million, and we grew margins from $111 per tonne to $167 per tonne, which is roughly a 50% improvement in margins. So the underlying themes on not significant volume growth, significant revenue growth because of price inflation, significant growth in EBITDA and EBIT and significant growth in margin would be the key recurring themes for Olam Agri's performance in the first half of this year.

So with that, just want to summarize the Olam Agri business in terms of key highlights and takeaways, the financial performance and highlights I've already described. I want to now look at just summarizing what are the other strengths of the Olam Agri business.

So firstly, we are now very strategically positioned as a food security play. So countries like Singapore, which imports 95% of its food, countries like the Kingdom of Saudi Arabia, which imports 70% to 75% of its food and many other countries around the world, which are very food import dependent, we have become well positioned as food security play given our global origination footprint in food staples, primary essential food items that you need to survive.

As a result, it is also relatively more recession resistant. These are not discretionary food, high-value food. These are very basic staples, foods, very difficult to substitute. And therefore, holds up well from a demand standpoint across cycles, whether it's a recession, whether it's growth, people need to eat. However, there are uncertainties about the supply side because weather-related disruptions can cause significant price volatility, whereas demand side is far more predictable.

So today, we are in a massive weather market. So we had a bad June and the corn crop plantings in the Northern Hemisphere got severely impacted. The plantings were delayed. We had a fantastic July. So in June, markets were really up. In July, the weather was very good. Markets are down. The first 2 weeks of August, weather has really turned for the worse. Yes. So right now, we are in a weather market across all geographies.

The second strength of this business is it is a very differentiated business from the rest of the industry, which is why it has got market-leading capital returns, efficiencies and market-leading ROEs. Average ROE for our industry is about 8%, 9%. We are at 45%, 50%. And therefore, it's very differentiated in the asset-light nature of this business. Only 1 of the 3 segments is very asset-intense. And we chose deliberately to invest in asset-intense businesses only in the destination markets to give us complete flexibility to source from the most competitive origins.

So we have shied away from investing significant assets in producing countries because today, Brazil will be competitive, tomorrow, Argentina will be competitive, the next day, it is Canada or North America or Russia or Ukraine or India or Australia and sometimes other countries. So we don't want to be committed withstanding still high fixed cost strategy in the producing countries to give us the maximum flexibility to source from the most cost-competitive origin.

This is very different from all our competitors, who have massive assets in the producing countries, therefore, are compelled to put through capacity and utilize capacity irrespective whether the origin is the most viable and competitive origin in that season.

The second is that we are seen by the industry as truly independent. Unlike our other businesses in the Olam Group, where we source and originate directly from the farm gate or the lowest level of aggregation possible, which means we have competitors to all the origin exporters. In the Olam Agri business, we are their partners. So we don't compete with the origin exporters by going to the farm gate and competing with them for market share in the volumes that are produced in the producing countries. So they see us, as totally independent.

Most of our competitors compete with the origin exporters in the origin, and therefore, they are both their competitors in the origin and also their customers. So if they can find somebody, who's as good as them, but is not competing with them in the origin, we get a higher share of the wallet. Our market shares in Olam Agri from nothing has grown to what it is today, primarily as a result of the origin exporter seeing us as not a competitor, but as a partner. So we provide them liquidity, we provide them funding, we provide them risk management, we provide them off take, and we provide them liquidity anytime that they want.

At the destination markets, our customers see us as independent because all our competitors have massive processing facilities and downstream activities in the destination markets. So all our competitors will be in China crushing soybean for example. We don't have any crushing plants there. A large part of the Chinese crushing industry is controlled by Chinese customers.

So when Chinese customers see us as competing with them and also being their supplier, we will get guarded share of their volumes or wallet. But because we are not seen as their competitors, we get a higher share of the market, and that is the reason why we've been able to grow as fast. So it's a very differentiated model.

The third is we have clearly identified significant pathways to continue profitable growth because one of the big questions in everybody's mind is, okay, we had a great year in 2019, 2020, 2021, but market conditions have been generally favorable for this industry and the sector. So is there a flash in the pan? Is this cyclical? What is your maintainable earnings? What can you sustain in terms of growth?

So I would say that there have been tailwinds in 2021, and those tailwinds continued in 2022. And therefore, if you look at through the cycle earnings potential of this business, it will probably be lower than what it has been in 2021 and 2022, but it's significantly higher than what we had originally envisaged in our last 6-year plan. So in the last 6-year plan, which is ending in 2025, we have beaten that 2025 numbers this year already. So we are ahead of what our forecast and plans were. And even if you correct for tailwinds in terms of favorable market and trading conditions, our absolute level of performance is a step order higher than where we started off 6 years ago when we were developing the plan.

Of course, we have like OFI and the rest of the Olam Group highly experienced, capable and most importantly, engaged team with real ownership mentality. They don't see this as a business, where they're working for as employees. They see this as a business that they own. And that makes a big difference in how they make decisions and investment choices and capital allocation decisions, as owners rather than as managers trying to build an empire or plant flags.

And finally, most importantly, we have a market-leading sustainability track record being a leader in this field, while we pursue our objectives of having a business that is climate positive, nature-positive and livelihood positive. So I would say that these are the key features of the Olam Agri business.

Moving on to the last segment, which is about -- before we get into prospects and reorganization is the Remaining Olam Group. I think most of you would have monitored our developments in terms of the restructuring and the reorganization. but I think the most confusing piece, OFI was clear to understand, Olam Agri was clear to understand, you didn't know what the Remaining Olam Group consisted of.

So I just wanted to reemphasize, the Remaining Olam Group has now 3 operating entities. The first operating entity is Olam Global Holdco, OGH. These warehouses and houses 3 kinds of assets. First is exit assets. In the 2019 to '24 strategic plan, we had announced that we will exit 28 assets. Out of the 28, we are now left with 5 assets to exit. These 5 assets, we will responsibly divest over a period of time next 12 -- next 18 months to 24 months.

The second kind of asset in Olam -- in OGH is what we call are gestating assets. We have 3 gestating assets. And our role there is to nurture these gestating assets and partially or fully monetize gestating assets. So out of the 3 assets, one is our Infrastructure & Logistics business. We had 3 verticals there. In the first half of this year, we have sold our residual stake and remaining stake in 2 out of these 3 verticals within the Infrastructure & Logistics business, which is our ARISE integrated industrial platform business, which is a special economic zone business and also the ARISE infrastructure services business. Both these we have 100% sold out, and we have got now no residual ownership in those 2.

We are in the process of finding a strategic investor buyer of our 32.4% stake in the remaining infrastructure & logistics vertical, which is the ports and logistics business, which is highly successful profitable business, but we don't think it is core to Olam's future. So that also we will monetize.

Then we are left with 2 gestating assets, which is OPG, Olam Palm Gabon, which is gestating and will become mature, fully mature in 2024. And we will continue to invest to take it to full maturity. And then we have the packaged foods or the Caraway business, which is Africa consumer business. And then now, we also have Rusmolco, which is our dairy farming and ag farming operations in Russia, which we have now reorganized into OGH, but that's a continuing business, which we'll continue to invest in and grow that business.

The second aspect of -- and in the first half, in addition to what I said about ARISE IIP and ARISE IS sale, we also sold all our remaining stake in PureCircle, which is now called Ingredion to Ingredion, which has become the majority shareholder. So we now have exited the PureCircle investment, as well in the first half of this year.

The second part of the remaining Olam business is what we call Olam Ventures. This is what I would call OFI is the new Olam, Olam Ventures also the new Olam. So this is all about sustainability and digital start-up businesses that we are investing and incubating. Over the last 2.5 years, we have incubated 6 businesses. They are at different stages of incubation. Jiva and Terrascope are more advanced. Jiva is already generating in the first half. $30 million of GMV sales revenues in that business. So it's already well past series A round of funding at this point in time for that business.

Terrascope has got good traction and will start generating revenues from early next year. The other 4 incubations, Re is also revenue generating, but it is in a later stage of development. And Adva and Sustain It are also in earlier stages of development. But Olam Ventures will be the incubator and the foundry to develop these unique -- this new start-up digital and sustainability start-up businesses, consistent with the purpose and meeting certain boundary conditions.

But what we are also saying is that we will need to have the visibility and certainty of funding the new incubations. And therefore, we will look at bringing in the right partners at the Olam Ventures level to provide us the certainty and visibility of funding because the Olam Ventures business in the past was drawing down from the cash flows of OFI and Olam Agri, which were the 2 cash cows, generating the cash in the Company, while some part of that was incubating these new ventures. But now with OFI being carved out and separated and Olam Agri being carved out and separated with new shareholders [there is no change to OFI shareholders -- which continues to be 100% owned by Olam Group Limited, as corrected by the Company](added by company after the call)and new boards and everything else, Olam Ventures will no more have access to the cash flows of the OFI business or the Olam Agri business, and we'll have to raise capital to support its future growth needs.

And finally, we have the Olam Technology and Business Services solutions, which is basically our IT and IT-related services business, and our digital services business, our shared offices and shared services business. That is now a separate company. It entered into a 10-year long-term service agreement with OFI and with Olam Agri. And it has now got the mandate to start developing third-party business and to pivot that business from an IT legacy business to a more value-added digital services business.

An IT legacy business trades at 2x multiple in terms of valuation, but digital services business can trade between 8x and 15x revenues in terms of. So in the next 3 years, we will fully pivot that business, OTBS, into a true digital services company, which will unlock further value for the current shareholders. This, we have already repeated in the past in terms of what are the filters and criteria and boundary conditions, what are the 6 engines that we are currently incubating, so I won't repeat all of that stuff.

So now if you look at the financial performance of the remaining Olam Group, it has been worse by 9.1%. These numbers are small, so the percentage decreases are quite exaggerated. So we had a loss last year at the EBIT level, operating profit level of SGD66 million. That loss has grown by another SGD6 million in the first half of this year to SGD72 million. That's a 9% worsening of the P&L from last year first half to this year first half.

Invested capital has come down. Revenues have come down because the divested business revenues have now been foregone [revenues increased as corrected by the Company](added by company after the call). And the invested capital has come down because we have raised capital by selling some of the exit assets. So invested capital has come down by 8% between last year and this year from SGD3.5 billion to SGD3.2 billion.

I want to move to the final 2 segments of this presentation. First is business outlook and prospects, I won't spend too much time on this because we have already, Shekhar and I in the respective segments given a view on that. This is just a consolidated view for the Olam Group, as a whole. So one thing that we are seeing is the significant demand growth rate and pickup we saw in H2, which was a sharp uptrend has slowed down somewhat, as we are fighting with stagflationary issues, tightening financial conditions, slowing global growth and potentially recession in some countries and markets.

OFI, as Shekhar explained very clearly anticipates improved margins and EBIT in the second half compared to the first half as revised pass-through pricing decisions are implemented in the market and with the customers, particularly in the value-added ingredients and solutions segment. As far as Olam Agri is concerned, we expect to deliver better year-on-year results. We have delivered significantly better first-half results. But for the full year, our guidance is that we will deliver full year better year-on-year results given the start that we've had in the first half and some of the headwinds that we see in the second half and have confidence in navigating that, we are reasonably confident that we will have growth year-on-year compared to last year's very high performance as well.

In terms of interest rate impacts and growth in working capital requirements as a result of higher prices, while prices have begun to modulate, stabilize a bit, we still think it will remain slightly elevated for different commodities in both OFI and Olam Agri, and that will mean higher working capital and higher interest expenses, but also because we see significantly higher or significantly regular cadence of substantial rate hikes by the Fed and to get to the terminal rate of about 3.5%, 3.75% that they're targeting now at the end of this rate hiking cycle by middle of 2023, we will see increased interest expense precious. And therefore, managing our capital and capital efficiency in a very disciplined way would be a critical aspect of how successful we are in delivering the financial outcomes for the full year.

Fourthly, we had roughly SGD100 million of separation costs and restructuring expenses that we booked in 2021. We will have additional separation and restructuring costs in 2022, but it will be significantly lower than the SGD100 million that we booked in 2021. So -- and finally, what we want to say is, overall, given the H1 results and barring any massive negative surprises on geopolitical developments or pandemics, we are cautiously optimistic for the group as a whole for the full year 2022 compared to the full year 2021.

Just a quick update and summary on the reorganization of Olam. So what are the main developments in the first half that we need to brief you on. Firstly, as all of you know, we have completed substantially the carve-out and separation of the five new operating groups, OFI, Olam Agri, OGH, Olam Ventures and OTBS. So that has been successfully done. Secondly, at this point in time, the Olam Group Limited, which was -- we had delisted OIL, which is now part of OFI and listed Olam Group Limited, which now owns 100% of OFI, owns 100% of Olam Agri, owns 100% of OGH, 100% of Olam Ventures and 100% of OTBS. That is the current structure. We are unlocking value in Olam Agri. Firstly, through the announcement we made towards the end of March, that we have attracted a strategic substantial minority investor SALIC. And they took a 35.4% stake, invested USD1.24 billion. Value Olam Agri at equity valuation of $3.5 billion. If you look at Olam Agri share price now, that is almost 80% of the combined market capitalization of the Olam Group. And we are hoping that transaction will complete in Q4. And in which case, we will be able to right size the capital structure of the remaining OGH by reducing its debt and rightsizing its capital structure.

And I already mentioned that the shares of Olam Group Limited is already listed. We will continue to keep -- so this is now the structure. So Olam Group Limited, OGL owns 100% of OFI, will own -- after SALIC's deal is completed, we'll own 64.6% of Olam Agri with SALIC owning 35.4%. Right now, we own 100% as the deal is not yet complete. And it will own 100% of Olam Ventures, OGH, and OTBS.

What are the next steps for each of these three major operating groups? So as far as OFI is concerned, as Shekhar mentioned, it remains committed and fully prepared to pursue an IPO and demerger, pending market conditions with a primary listing as envisaged announced on the premium segment of the London Stock Exchange and a concurrent listing in Singapore. So there is no change to that. We are fully prepared and ready as soon as market conditions are more conducive, we will pull the trigger. As far as Olam Agri is concerned, our first focus is to complete the SALIC transaction. It is on schedule, on plan, and we hope we'll be able to complete that before Q4 of this year. We are also, as we had announced and in the EGM secured the authorization of our shareholders to potentially raise another 10% of secondary share sale in Olam Agri, either by way of a private placement or as a secondary sale in a potential Olam Agri IPO. So we want all of the full flexibility for this portfolio of options. First, an OFI IPO followed by completion of SALIC, followed by a potential Olam Agri IPO, and we want to be fully prepared and ready and based on market conditions and everything else to pull the trigger in whatever sequence on any of these portfolios of options that we are developing.

And finally, for the Olam Remaining Group, we will continue to responsibly divest our remaining five exit assets and partially or fully monetize some of our gestating assets and continue to invest and grow our Russian Rusmolco business. We will also evaluate various strategic options, as I mentioned, to bring in the right investors and partners for Olam Ventures. And in a few years' time, once we make the migration of our Technology and Business Service Solutions business to a digital services business from a legacy IT business, we will look at bringing in other partners to then further accelerate the growth of that business.

So just to summarize in terms of the key takeaways in today's session. Firstly, we want to continue to share with you that the reorganization is working for us. Although our share prices have not changed and we didn't expect it to change because we had to address the IPO and demerger and listing of OFI, IPO demerger, listing of Olam Agri, that's when the full value will be illuminated. And all that will happen as soon as market conditions allow us to implement that. So the reorganization has led to much more simplicity in the portfolio, much sharper focus, better management of these operating groups, which has helped us to deliver the outsized financial performance since the reorganization last year and this year in particular. And once these become truly demerged, spun off independent entities, they will all have substantial growth prospects and bright independent futures ahead of them.

Second, significant focus in executing the reorganization plan. The delay in the IPOs is not because of any idiosyncratic performance or other issues with regards to the respective operating groups. -- OFI's performance compared to its peers and compared to the headwinds it had to face is a very strong performance, and we are very pleased that we have navigated all these conditions and delivered this kind of -- or will deliver this kind of performance. So the reason that the IPO could not happen last year in Europe, there were 77 IPOs. This year, there has been two with an offer -- with public offer raising capital, only two, right? We have seen elevated volatilities on all stock markets and exchanges from a historical 18% to 20% implied volatility, volatility in S&P and NASDAQ is now about 42% and volatility in the European markets are about 41%. So these are historically high volatilities. And we also have no IPOs happening of any size and consequence in most markets compared to the prior year. So OFI is therefore ready and prepared and has all the performance to back it to do a successful IPO, but markets have to come back, and it can turn quite quickly. So we have to just be ready and prepared and committed to do it when markets are better. And now we will also focus on completing SALIC, but also explore raising of that additional secondary sale, either via Olam Agri IPO or via a private placement, both options are all available to us. So the group remains positive on our growth prospects based on all that I've said, I don't want to repeat it again. So we are cautiously optimistic about our prospects for the year. There are details in the appendixes on SBYs and some of the financials, which you can read at your leisure. With this, I think we are happy to open it up for questions.

QUESTIONS AND ANSWERS

Hung Hoeng Chow ***Olam Group Limited - General Manager of IR***

Thank you, Muthu, Shekar and Sunny for the presentation. We will now have the questions from the floor. (Operator Instructions) Yes, Alfred.

Alfred Cang ***Bloomberg - Journalist***

Congrats to your earnings -- my first question is about the OFI IPO. So regarding what we just talked about the uncertainty in the second half. Is that a message that the IPO is not likely to happen in the second half of this year? And what do you hear from your underwriting banks about a possible time for the London IPO?

The second question is about the operation. So we know there's a huge price volatility for commodities in the first half. So what does the rate books look like for Olam? What's the hedging strategy right now? And in your opinion, what products in your portfolio, will see the volatility risks for the remainder of this year?

Shekhar Anantharaman ***- CEO & Executive Director of Olam Food Ingredients***

Maybe if I start on the first question, -- so let's be very clear. The IPO is a long process and an IPO is a process in time. So we are absolutely prepared for it. All the investor engagement, all the preparation in terms of regulatory, we are absolutely ready. And we can -- we were ready for the first half of '22 as was planned, but obviously, unanticipated events took over. And we remain ready, whether it's in second half of this year or first half of next year, time will tell. And nobody today can predict that no bank, no investor, nobody can really predict that. So -- but it's also important to say that the IPO is just an event. What we are really preparing the business is for a long-term growth prospects that we see in OFI, and that is the whole process of reorganization. And IPO, we're not looking at an IPO to raise cash tomorrow or to fund investments. So we will find the right moment where the markets are right for us to conduct an IPO. We've got a set of banks and a set of investors who are patient, and we are very competent to do it at an appropriate time in the market.

To your second question, I'll just probably talk a bit from the way we are looking at it in OFI, but then hand over to Sunny to talk about others. -- Volatility in our business is a given, and we have been managing that across our portfolio, across all products, across all the operating entities always. So the input raw material prices, I think that is par for the course and no different now compared to what we have faced in the past or what we will face in the future. What is probably very strange in these recent times has been that there's been an inflationary pressure across all aspects, labor, energy, freight, packaging. So everything has gone up, and that's inflationary pressure that's kind of seeping through the market across all sectors, not just the food and beverage sector, across all sectors.

And that's got to be managed in terms of effective pricing of these costs, effective management of these costs in the first place, effective alternatives that we are developing in each of these areas and then repricing of that with our customers and onwards with their consumers. So that's an elaborate process, a process that we have managed in the past. The process, this is significantly more intensive because of the sudden unexpected and across-the-board increase in prices. That is really what we are contending with now. But based on everything that we had been doing over the last three months and after the initial shock of the war, from April onwards. We have been having very robust discussions and that process of cost recovery, margin recovery or cost optimization has started across the portfolio, and we are quite confident that, that will continue and that will replace back to anticipated margins. So that's how we are looking at at OFI, and that's -- and the situation is equal for everybody. And if anything, it shows the resilience of the portfolio and our ability to offer alternative choices to our customers. And that is really where we see the big plus for our portfolio.

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

Yes. Thank you, Shekhar. So on the first question, Shekhar has answered it exhaustively, -- what we are focused on is to make sure that OFI is fully prepared and ready and committed to do an IPO as soon as based on market conditions. We are also developing the option for a private placement, additional 10% capital raise for Olam Agri to further deleverage OGL's balance sheet and support OGL's growth going forward. We are also getting ready for a potential option of an Olam Agri IPO as well. So we will be fully prepared with this portfolio of options to choose from as and when market conditions allow us to trigger that. But Shekhar's message is very important. That IPO, et cetera, is an important event to allow these scripts to start trading separately and not have an average rating in multiple, et cetera, but OFI be a much higher multiple and so on and so forth. So we would like to do that. So it's an important event, but it is not our endgame. Our endgame is that is a means to the end. OFI will become a very successful, very large, very profitable, very efficient value-added ingredients and solutions, food ingredients and solutions business that is right in the sweet spot of the -- of plant-based natural on-trend food ingredients and raw materials. So IPO is an important event and thing, but it's only a means to the long-term reason why we are doing an IPO.

Similarly, for Olam Agri, bringing in SALIC, which is focused on food security and seeing us as the best partner to enable them to achieve that objective, opens up a dramatic potential for us, not just in the Kingdom of Saudi Arabia, but across the Gulf Cooperation Council region. And whenever Olam Agrin does an IPO, et cetera, it will give it further fuel for growth as we'll raise a lot more capital into Olam Agri to make that happen.

On your second question, OFI's Shekhar has explained to you the potential impact of rising prices, et cetera. We believe that this consensus view that commodity prices will only go one way and this inflation will continue forever, it is far more nuanced than that. So for example, we started last year, commodity prices going up with a few important drivers. The first reason the commodity prices went up was weather-related disruptions leading to disruptions in supply. Then we had significant cost price inflation because crude oil prices went up, gas prices went up. As a result, fertilizer costs went up and went up dramatically. Then we had the entire pesticide complex, fungicide, herbicide, insecticides, all dependent on petroleum derivatives, prices go up. Then we had seed costs go up. So -- and then we had diesel prices go up, which affects all the factorization and all the operations on the farm and also the on-farm storage, off-farm storage, transportation between on-farm and off-farm. All of that cost and prices went up, right? As a result, many investors and funds started putting on the inflation trade because they know the commodity prices are uncorrelated with equity prices and bond prices and everything else. So there was a huge inflation hedge play that investors put on.

In April, for example, in the grains and oilseeds markets, corn, wheat, and soybean, we had 840,000 net long positions put on by managed money. So that was a wall of capital that came into the commodity markets as inflation hedge. Then in February, we had the Russia-Ukraine war. They migrated from an inflation play hedge to a war premium hedge, -- that nobody knew what the war was going to be short. Nobody expected it. Every analyst and everybody, including our own company, we submitted a report to our Board on what we thought were the three, four possible scenarios the war. And the least probability we gave was for a full-scale invasion, right? And I have talked to other CEOs, they all said exactly the same thing. The fact that there will be a full-scale invasion had the least probability scenario outcome. So when the war broke out, everybody knew that there will be significant disruptions in food flows and everything else, and they put on additional position as far as that is concerned. But if you look at the fundamentals, today, they are reversing that play. From 840,000 contracts in April, it has now come down to under 200,000 contracts. So wall of money came in, and a wall of money has gone out. And that showed how in July, commodity prices all came off, including oil, including gas, but all metals, minerals, ores as well as all the agri complex.

Now they will have to -- they'll probably put a recession play because the balance of probabilities is we're going to enter a recession. So the net long position will shift to a net short position. And therefore, that will douse our fundamentals. If you take wheat, for example, this year, we have the heaviest balance sheet on -- in the last 10 years in terms of wheat stocks around the world. But typically, the wheat stocks around the world, which is very heavy today. So fundamentally, wheat prices should be even lower. But because of the war risk premium and the inflation premium, et cetera, wheat prices have diverse from the fundamentals, but also because of the supply chain disruption, because we typically have 14% of wheat stocks in any year in Ukraine and Russia. This year, against the 14% historical 10-year average, we now have 40% of our wheat stocks stuck in Ukraine and Russia. In order to solve the world's requirement of wheat, we need to export a minimum of 48 million tonnes from Russia and Ukraine, 38 million from Russia and 10 million tonnes of wheat from Ukraine. -- Against a 5-year average of 54, 55 million tonnes that these two countries were exporting. Now when will that happen? That will happen if the shipment corridor from Ukraine that are just opening up and gradually and slowly, will ramp up to allow that exports. Secondly, shipping lines have to be willing to go to these countries. It is now very expensive, long delays. So most ships don't want Russia, Ukraine load port mandate.

Thirdly, even if they're willing to go there, insurance premiums have ratcheted up because of the sanctions and everything else. Most insurers are not insuring this. Without the insurance, you can't have the vessels to ship this thing out. Then even if all this is in line, you need to be able to pay the Russians -- right? And we have many bankers sitting in this room. These bankers know that food is not a sanctioned item. It's not a sanction list, but no bank is willing to do any trade with Russia, even the non-sanctioned items. So even theoretically, you can buy, et cetera, banks are saying why bother with this hassle. We just don't want to fund Russia because we don't want any risk of funding Russia. So that also has happened. So many things have to happen. But the most important thing is the rest of the world is about 71 million tonnes of wheat stock now. We are asking the rest of the world because of the problems in Russia and Ukraine, to draw down that stock to 51 million tonnes, which will be the lowest ever in history. So the rest of the world is not willing to draw down the stock to 50 million tonnes against the 71 million tonnes. We will have a different consequence and problem. But when the war premium goes away, and we saw that flashes of all that in the last month, market will trade on fundamentals, or as we call it, when the tourist money exits some markets, the market will trade more on fundamentals. But right now, it is various other technical factors that is impacting it, but that's the reality of life, and we need to.

Therefore, managing this with skills. So when you ask the question, what are you going to do about it? How are you going to hedge, et cetera. This is daily dynamic, not daily dynamic, hourly, right? And we have to be prepared to switch up positions on a dime. We can't be wedded to anything as the Fed keeps repeating - we are data-dependent. So we are also data dependent. But it requires a lot of skill, it requires a lot of discipline, it requires a lot of controls to successfully navigate this.

Unidentified Analyst

First, congratulations for that good set of numbers in this challenging macroeconomic conditions. I understand that both Olam Food as well as Olam Agri, both the groups are actually operating under the same macroeconomic conditions like a very wonderful previous year inflationary pressures, geopolitical situation and et cetera. But there is on a relative basis compared to the previous year, there is actually opposite results. So just curious to understand what are those unique futures or differentiating futures, factors, which have affected the result in that opposite direction compared to the previous year?

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

I didn't understand what you said -- what do you mean by the opposite direction? Olam Agri and OFI had a very strong first half last year, right? And OFI has had a slightly lower first half than last year, not very big, but slightly lower first half than last year, for which Shekhar has given you the main drivers and contributing factors, including fuel price inflation, et cetera, OFI has more than 100 large manufacturing plants around the world. All the energy is from fossil fuels, most of it, right? So energy costs go up and you've got forward contract commitments to fulfill, then you will have that cost price inflation, which you can, over time, pass to the market and to the customers, and that's what Shekhar's saying that in the second half, he is confident that we will be able to price that in and pass it. Olam Agri had a great first half in 2021, even better first half this year. So that is not moving in opposite directions. So I didn't understand what you meant by moving in opposite directions.

Unidentified Analyst

Basically, my thing is that, yes, Olam Agri -- yes, Olam Agri has actually posted something like good growth in the bottom line. And Olam OFI has actually...

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

So that is why we should recognize that the reason that we take this restructuring is we believe that OFI and Olam Agri are completely different propositions, right? OFI is more value-added ingredient solutions business. There's more innovation, more R&D, more differentiation, higher margins business. Therefore, it has a very different equity story. It will have a different set of customers and a different set of suppliers and different investors who like the theme and want to play in that theme. Olam Agri is a very different business. It is fundamentally an agri-business for food staples or essential food, feed, and clothing, right? And rubber business and our wood business is also about shelter. So food, feed, clothing, shelter, this is what our business -- the Olam Agri business is all about. So it's a different business proposition, should attract different investors, completely different customers, complete -- yes, and a completely different set of investors. So countries that are importing food have high food security issues. They are the ones who are very keen on the Olam Agri business. If that was not the case, we would have been one business today. Over 33 years, we have now realized that we have the capacity now to develop different investor bases that are -- they are more natural owners of the OFI business separately, the Olam Agri separately, the Olam Ventures business separately, the OTBS business separately. It's not the same investors who's interested in all of us. So there is -- we have to get used to the fact that the trajectory of OFI will be different. There will be another year when Olam Agri's performance will be lower, OFI's performance would be hitting the ball out of the park, but that is because it's a different business with different dynamics and different drivers like Olam Agri.

Wee Kuang Tay ***CGS-CIMB Securities - Analyst***

I have quite a long list, but I'll try to pick out the important ones first. Yes. So firstly, I mean, it seems like the external funding, either through a stake sale or fund raising that Olam has planned for both OFI and OGA is required to reduce our gearing levels. Therefore, given your current net gearing level is at about 1.73x, is it likely that we should be expecting gearing levels to remain at the same levels? I mean, considering the fact that you have on a backdrop of a rising interest rate environment, which is kind of eroding your profitability in the short term.

Neelamani Muthukumar ***Olam Group Limited - MD & Group CFO***

So primarily interest rate increases are a given. But what we remain committed is to have a stronger discipline on working capital management, which in Sunny's key takeaways was one of the important ones that will help us to deliver on better financial results for 2022. So while we have -- while the interest rates will go up and that will have an impact on the net finance costs, our ability to pass through the cost increases are also fairly high. So while in some cases, it may be at a lag, like what Shekhar had explained in terms of the cost price, cost inflation, and interest cost inflation that can be passed through. In some of our businesses, it is literally without any lag. So on an overall basis, we believe that some of the interest rate increases impact will be substantially passed through in our businesses so that the net impact of this will be marginal.

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

So just to answer your question from what I understood it as in addition to what Muthu has just said, is that the purpose of raising capital, secondary capital at Olam Agri and potentially when OFI does an IPO, they might also raise a secondary capital is to address the -- and right size the capital structure of [OGH] (corrected by the company after the call), but more importantly, to allow [OGH] (corrected by the company after the call) to develop an independent future, for which we want to raise some growth capital at [OGH] (corrected by the company after the call). So given the gestating nature of many assets in [OGH] (corrected by the company after the call) and the start up nature of the Olam Venture business and the growth nature of the OTBS business, it is not really about rightsizing the capital sector in terms of trying to be -- having as less debt in [OGH] (corrected by the company after the call) as possible, but also to allow [OGH] (corrected by the company after the call) the flexibility and financial freedom to be able to grow its business as well. So I think we should keep that the objective is not just reduced gearing. We have already completed a detailed debt restructuring exercise with Muthu and team has done a phenomenal job of now innovating our debt to the different operating groups, getting all the bondholders' consent and all the bankers' consent, and we got 100% consent from all our creditors to have successfully created the -- completed the debt restructuring.

Now there will be different targeted gearings for these different entities. OFI, based on its peer averages and the nature of its business will -- has a targeted gearing structure, so as Olam Agri, so as OGH, and not all of this will be the same. So the consolidated gearing, we will stay within that 2x net debt to EBITDA, and we will stay at the current credit metrics as for the overall group is concerned. But what is more relevant is when OFI is independent and Olam Agri is independent -- independent means, they're already independent in the way they manage and run the business. But in terms of actually spun-off, delisted -- I mean, spun-off, demerged entities, they will have a capital structure, which is appropriate for that business. Olam Agri will have a capital structure appropriate for its business, and OGH will have a capital structure appropriate for us.

Shekhar Anantharaman ***- CEO & Executive Director of Olam Food Ingredients***

I just want to clarify that, that is 2x net debt to equity, not net debt to EBITDA at a group level.

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

I wish, sorry, 2x net debt to equity.

Wee Kuang Tay ***CGS-CIMB Securities - Analyst***

Two questions OGA. So given a strong showing for OGA in the first half, we could probably point out that SALIC got the long end of the stick for the stake sale so -- could we reasonably say that for the remaining 10% stake that you're looking to divest, could be done at a better price?

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

That would be our desire.

So it depends on what the investors see. Is it almost a concurrent capital raise? And is it a capital raise tagged along with the solid valuation in terms? Or is this a completely different investment proposal at a much higher valuation because of the performance trajectory of the business. That is a matter of the interest in that secondary sale, stake sale and the pricing tension that we can, therefore, create is there's a lot of people who want to invest.

Wee Kuang Tay ***CGS-CIMB Securities - Analyst***

Okay. And a follow-up -- just a second question on OGA -- just management just share with us roughly the profile of your customers across your food and feed business as well as the agri industrial and agri services business.

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

Yes. So for our --, it depends on the -- each SBU. So if you take, for example, one of the 12 SBUs say, wheat milling and pasta manufacturing. It will be -- for wheat milling, the customers are either bread manufacturers or bread producers. So we provide bread flour, which has to be of a certain quality, higher quality, then there are pasta manufacturers to whom we deliver our pasta flour. So they will be our customers. They're all B2B customers. And then we have noodle flour because we produce noodle flour. So there will be noodle manufacturing companies who are our customers. And then there is biscuit flour, a big part of the use of wheat flour is in biscuit manufacturing. So in each of these countries where we have wheat milling facilities, all the leading biscuit manufacturers or noodle manufacturers or pasta manufacturers or bread producers will depend on us because we have very high market shares in these countries will depend on us for that supply. So for each of these subsegments, the customer profile will be different. So for our Animal Feeds business, we produce three kinds of animal feed products. So one, we supply poultry feed. In poultry feed, we supply broiler feed and we supply layer feed. So layer feed goes to the egg producers and broiler feed goes to the poultry producers. And then we supply improved genetics in terms of day-old-chicks. So we bring the day-old-chicks and have hatcheries to -- or breeding farms to sell the day-old-chicks along with the feed to our layer producers or broiler producers, and then we have fish feed, which goes to fish feed farmers. We supply the fish feed to fish feed farmers. So we have, I think, about 11,000 customers. I can't remember exactly, and the customers are different for each of these things.

Wee Kuang Tay ***CGS-CIMB Securities - Analyst***

So can I just confirm that most of them are businesses and maybe SALIC...

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

Yes. So there are -- most of them are businesses, except for some exceptions. So for example, pasta, we supply branded pasta flour directly to consumers through retail or through wholesale. Rice downstream brands, about, I would say, 40% of our business in rice, actually more, is branded packaged rice. So that goes directly B2C. Whereas in the cotton business, everything goes to textile mills. So we have 800, 900 textile mills in China, Indonesia, Vietnam, Bangladesh, India, who are our customers.

Wee Kuang Tay ***CGS-CIMB Securities - Analyst***

Or maybe a better way to put it will be how much of it may be related to something like a sovereign fund?

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

Sovereigns?

Wee Kuang Tay ***CGS-CIMB Securities - Analyst***

Yes. Like similar to SALIC.

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

So we sell a lot -- Yes. So it depends on the country and the structure. So in Egypt, all grain imports are controlled by government monopolies. So we sell to GASC and all the government monopolies, and there'll be different government monopolies for wheat and potentially for corn and potentially for rice or something else. In China, a lot of cotton imports is done by state-owned enterprises. In the Kingdom of Saudi Arabia, wheat imports is done by SAGO. Barley imports is through -- they are all government parastatals. So in different countries, different regimes exists. So you will deal with the government, state-owned enterprises, you'll deal with private trade where private trade is allowed to both.

Wee Kuang Tay ***CGS-CIMB Securities - Analyst***

So moving on maybe for OFI. The Ingredients and Solutions EBIT margins fell quite drastically in the first half. And so for this part of the business, would you say that in a given period, EBIT margins could potentially go into negative region? Or should we look at the margin compression to be considered one of the most extenuating conditions. So if you want to normalize it, we should look at it on a full year basis?

Shekhar Anantharaman ***- CEO & Executive Director of Olam Food Ingredients***

If you look at the last five years, and that's probably the best way for which data is now public, you will see that the margins have been continuously growing in the Ingredient Solutions segment. So this is the first time where you got a reduction, not just the total EBIT, but also the EBIT margin and EBIT return. So therefore, clearly, Ingredient Solution is a place where we have been investing in and continue to invest in and which is where we see the biggest growth in OFI. So there is no doubt about that. You take it as EBIT growth, EBIT returns or EBIT margin. What we have outlined and even if you take the H1, the volume growth and revenue growth has been as per what we would expect in this business. So therefore, that also -- so the business is performing the way it's got to be performing, executing against customers and customer contracts. You've seen a specific area where you have had this big chunk of depreciation and monetization investments made end of last year for which full returns had not started flowing in. And you've seen the sudden impact. And we had just called out energy cost. That is -- the rest of the costs have gone up, but we have been able to price that in the usual course of business. So the energy cost impact, which is sudden and hit obviously all the manufacturing units. That's really where the impact is. We've taken that in the first half. We're already repricing that fully and getting back to margins that we anticipate in the contract we have signed in Q2 and as we are signing and repricing it going forward. There will be some lead-lag. So I don't think we should read too much into where this is. We feel quite confident that if anything, this business is even better positioned with all that's happening with all the macro trends that's happening and what the customers need in terms of alternative solutions, we are even better positioned. So therefore, the margin recovery and EBIT growth recovery, both we feel quite confident.

Wee Kuang Tay ***CGS-CIMB Securities - Analyst***

So just to talk about the contract renegotiations that you're talking about, given that most of it should come in the second half. Is there a way for the management to kind of structure the recontract such that it is more spread out across the year? Or is it just the nature of the business that it happens in the second half of the year?

Shekhar Anantharaman ***- CEO & Executive Director of Olam Food Ingredients***

I think if you look at the contracting, especially in the Ingredient Solutions, large CPGs or smaller CPGs, retailers, et cetera, we do sell between 6 and 18 months forward, 18 months is probably the outlier. But normally 6 to 12 months would be very normal. And that contracting is happening. We also have lots of customers where in its indexed to raw material cost or indexed to some major cost items. So that's also happening. So when we are doing recontracting, even more people even customers and we ourselves don't want to take a disproportionate risk. Who knows the prices could go up, could come off. So we are working with our customers to ensure that we get a fair share of our margin that we are working off and they get better transparency on prices that have gone up or can come down. And so it's -- for us, it's not -- we're not trying to trade against the customer. We are trying to work with them to get the best value ingredient solutions to them. and it is priced according to whatever raw material cost, energy cost, labor costs and so on and so forth. So the contracting structures have not changed. Tenders have not changed. We are being more precise in terms of transparent discussion on the cost increases that have happened. And equally, the costs come off, we will provide the same thing because what we are interested is really protecting our base margins, which customers understand.

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

I don't want you to be confused that we are renegotiating our contracts. We honor our contracts. What Shekhar talking about is new contracts. When you enter into new contracts, we will price in all these cost increases. And he believes he's confident that we can price in increases. But all our existing outstanding contracts, we will honor all of them. We don't renegotiate contracts.

Wee Kuang Tay ***CGS-CIMB Securities - Analyst***

I mean when it's up for renewal?

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

Yes, when it is up for renewal, correct.

Wee Kuang Tay ***CGS-CIMB Securities - Analyst***

Correct. I understand. Okay. So just a last question from me. Can you share with us how Olde Thompson integration has been? Is there more synergies to be generated? And if you could share what is the EBIT margin for Olde Thompson prior to the acquisition? Because if we are looking at the ingredient peers like McCormick seems to be in the mid-teens. So we're wondering if that is what we should be looking at?

Shekhar Anantharaman ***- CEO & Executive Director of Olam Food Ingredients***

I don't want to get into -- we don't break down EBIT margins per operation. What's important to understand is that what are the investment thesis. The investment thesis was that Olde Thompson had very strong retail presence in America. They're the largest private label retailer in America. And that business has grown. So we have added SKUs to existing retailer that we acquired. We have added new retailers. We've added some large retailers that are not present in Olde Thompson. So from a customer synergy perspective, we are seeing a lot of receptiveness for the integrated business, which brings in sustainable, traceable capacity at the back end across the whole range of spices, not just the raw spices but also in the blends and grinds that we can do at origin and destination. So that's the first thing. And that synergy is working well and we see that as something that we'll even push further.

The second area was the cost ability for us to in-source out of the raw material. And that's the other part of the synergy. Obviously, when we acquired them, they came with a lot of forward contracts, both sold and bought. So it took a bit of time for us to start in-sourcing. But increasingly, from this season as they -- we are looking at in-sourcing a significant more percentage of Olde Thompson's requirements. And as we sell more, we are also in-sourcing and therefore, that is a cost synergy for the integrated platform. The last bit is on various other costs as well as cross-selling that we can do across the portfolio, which takes more time because it's not just about -- but we have already integrated the sales force, the customer services teams, warehousing teams in land transit, things that we could do quickly. But to cross-sell more products across our portfolio, we will need to build the capacity to pack and sell that. That was expected to take three to five years. But there, again, bringing the Olde Thomson customers, the OFI customer that existed bringing them all together across our product platforms is also happening.

So we feel very good about the changes that are happening and the way the synergies and the extraction of synergies in these three buckets are there. What's really impacted the last year, and that's been obviously the significant increase in costs we've gone through that many times. So obviously, the cost and the lead-lag in sales pricing is what we are working through. So the -- but in the new contracts again to ensure that there's no confusion, on recontracting -- the new contract that we are signing or the new SKU that we are now bringing to customers, we are seeing EBIT margins even better than what we inherited from Olde Thompson when we bought them. So that's probably what I'll leave it at.

Hung Hoeng Chow ***Olam Group Limited - General Manager of IR***

Some questions have come through the webcast. Most of them have been answered already. But there's one question relating to inflation, which just has been the hot topic of late. Would you like to expand on what are the actions that you plan to be taking to manage the effects of inflation and also the supply chain disruptions, -- perhaps Shekhar, you can talk about the alternative solutions that you mentioned and also Sunny or Muthu, you want to talk about how you have innovative solutions to manage the supply chain disruptions.

Shekhar Anantharaman ***- CEO & Executive Director of Olam Food Ingredients***

Yes. beyond the things that we have repeated now probably a few times. In terms of alternative solutions with customers, the way we are progressing it is that every customer is looking -- if it's a brand owner or a retail looking at their weights, they're looking at their ingredients, looking at the applications, looking at alternative ingredients, looking at packaging, looking at freight costs, et cetera, et cetera. So there are many elements of the cost, not just the input raw material itself. So that's where we are having these detailed discussions on what can we do to optimize A: to the consumer that we give the consumer the same value that they're looking for tasty, flavorful healthy, sustainable, traceable material that we all as consumers want without dramatically increasing the price and value proposition to the customers. So that's really where the conversations are. So in the different applications that we are now putting on with our customers in terms of alternative ingredients or mix of ingredients looking at maintaining the taste and flavor profile, but providing these alternative ingredients, alternative packaging, reducing waste across the chain and seeing what we can do better with the customer, managing their supply chains differently from the way they used to manage buying from different suppliers, consolidating their purchases in a very different form, putting together a very different inland transit modes to deliver to them a mix of portfolio. A variety of small, small things, but these are all very critical because that's the best way we can manage to optimize the cost across the chain for them and for us. And those are -- that's the way because the cost -- we can't change the cost that has already happened, but we can manage the cost far more effectively going forward. And that's how we are looking at working on -- and I think the rest, we've probably answered already.

Simon Jong ***DBS Bank Ltd., Research Division - Head of Credit Research & Analyst***

Simon from DBS. I just have two. I just wanted to ask if you can provide a refresh for us whether there was any impact in terms of sanctions with regards to Russia. And if you can quantify that for us? And the second question is, is it reasonable to say that working capital requirements have increased given the tightening monetary conditions that you mentioned? And then if that is a reasonable assumption, then can you share with us how does the group intend to address these tightening working capital conditions?

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

So on the first part of your question, as far as Russia is concerned, we have different businesses in Russia. We have dairy farming operation there, and ag farming operation there. That business has been impacted in the first half by the -- against the trend, significant appreciation of the Russian Ruble. Beginning of the year, it was RUB84 to the Euro. And end of June, it was RUB53.4 to the Euro. Everybody was expecting the Russian Ruble to crash significantly when the war started but at the high prices of gas and crude oil and all the other coal and other resources that Russia exports, it beat all those expectations. So we have some translation losses appearing as a result of that in our dairy farming operations in Russia in the first half. We would expect some of that will be reversed in the second half because everybody is now pricing on the basis of the current exchange rates and the forward rates that are currently quoted in the market for that business. We've had an opportunity loss. So we have 2,000 employees in Russia. We have about 170-odd employees in Ukraine. Both from Russia and Ukraine, our volumes in the first half have been significantly lower. And we've had some force majeures declared on us, which has had some consequential costs and expenses for us. But it is not very material, as you can see to the numbers that we have just announced for the first half. What happens in the second half is really about the other factors that I mentioned, whether the shipment corridors will come back quickly or they will gradually come back or they will get reversed. And whether shipping lines are willing to go there, whether the insurance is available, whether the banking system will allow payments to Russia and Ukraine, Russia, in particular, for exports of non-sanctioned commodities, are all still uncertainties in people's minds.

Shekhar Anantharaman ***- CEO & Executive Director of Olam Food Ingredients***

Working capital, the second question.

Neelamani Muthukumar ***Olam Group Limited - MD & Group CFO***

So on the working capital. So we do not see any challenge in terms of getting the required requisite working capital that will be required for the business. Because over the years and through various cycles, we have been able to have very strong support from our banking partners. And that is something -- and we have alternate options from the debt capital markets as well to ensure that we are having fixed rates lending support as well. So we do not see any challenge in terms of obtaining the requisite working capital requirements for delivering on our commitments for this year.

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

And Muthu showed in Slide 15 that we are sitting on SGD6.395 billion of cash, so SGD6.4 billion of cash. We have RMIs of SGD6.6 billion, which is readily marketable inventories that can be converted into cash pretty soon. Secured receivables were SGD1.27 [billion] (added by the company after the call) and unutilized bank facilities and lines of SGD10 billion. So we have available liquidity of SGD24 billion with us. So I think we are well covered for any further sharp prices and commodity prices or increased requirements are looking at. So that's on Slide 15 in the presentation.

Hung Hoeng Chow ***Olam Group Limited - General Manager of IR***

Thank you for the question. We've taken up more time than required from you, and we thank you for that. If there are no questions, we would like to say, once again, thank you for your participation, and we will do that again in six months to report to you our full-year results then. And meanwhile, we can all stay around and interact with you.

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

Thank you all very much.