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PRESENTATION

Chow Hung Hoeng - *Olam International Limited - Associate GM*

Good morning ladies and gentleman. Welcome to Olam International's results briefing for the quarter ended December 31 last year and for the first half period ended December last year as well. Today is a very important day, not just because we announce our results, but also it is Valentine's Day, obviously you know all of that. It is Valentine's Day for both the east and the west. So for those who celebrate Chinese New Year, a very happy Chinese New Year to you, in the year of the horse.

Without any further delay I would like to introduce the panel of speakers for this morning's briefing. As you know our Group Managing Director and CEO, Sunny Verghese, who is seated at the extreme right of the table. On his right is our Executive Director for Finance and Business Development A Shekhar. On his right is N Muthukumar, the President for Corporate Finance in Olam International. I'm Hung Hoeng from Investor Relations.

I'm just showing you the cautionary note on forward-looking statements on the screen and I'll take it as read. Please be reminded that the briefing will be webcast and then we will have questions at the end of the presentation. Shekhar will come to present the results for today on highlights, the consolidated financial performance, the progress and our strategy development and its execution as well as the key takeaways for today's briefing and then we'll kick off Q&A then. Let me invite Shekhar to the stand to do the presentation right now, thank you.

Shekhar Anantharaman - *Olam International Limited - Executive Director, Finance and Business Development*

Thank you Hung Hoeng and good morning to you all. Thanks for joining us today. Like Hung Hoeng mentioned a happy valentine's day to all of you and we can kind of claim to win our first brownie point by doing this event in the morning rather than the evening, which is a little bit of self-interest as well as hopefully we won't be the reason for any problems at home.

So the (inaudible) presentation as usual a few highlights of the first half, followed by analysis of the consolidated first half results. A short progress update on our strategy execution and a few key takeaways, then we be happy to answer your questions after that.

Moving on straight to the highlights. Really the focus of the entire organisation, each business unit as well as a company as a whole has been on two things and that is really the highlight for this half. The first is on ensuring that we saw an improved trajectory on our operating performance in each of the business segments for the various investments that they have already made, extracting full value out of investments made, improving the margins from our mid stream and upstream investments and really that's been one clear area where we have shown some poof.

The second area has been really on the cash flow generation and meeting our twin objectives of both generating profitable growth as well as cash flow generation. The second key focus has been on ensuring that we have a very tight watch on invested capital in each segment and for the Company as a whole and you will see clear proof in the operating performance on how we optimise the working capital usage et cetera.

And obviously then there is operating performance on maintaining our overhead growth and there has been a rapid phase of expansion over the last five, six years wherein our overheads have grown quite heavily, where we were investing up (inaudible - technical difficult) upfront and the third area where you will clearly see operating performance improvement and operating efficiencies is in how that overhead growth has moderated.

So the real focus for this presentation, a lot of time is going to be spent on the operating performance and how we believe that we are headed in the right trajectory. I just want to caution that don't look for the proof of the entire three-year strategic plan in the first half -- the first half and the smaller half of the first financial of our plan. But based on what I hope you'll see in the operating results in this first half, you'll get enough proof points for looking at how you think these next few quarters and next few years will develop.

The second part is about the key strategic initiatives that we have planned for and by which we wanted to raise SGD1.5 billion in cash over the three year period. Again there has been significant progress, well ahead of our plan which we would again like to highlight. So (inaudible - technical difficulty) is a fairly progress on the strategic initiatives which will enable us meet the planned objectives over the three years.

So on the operating performance itself, the first primary focus is really growing absolute EBITDA. Absolute EBITDA, trying to grow that without a commensurating increase in invested capital. So we have had very tight watch on our working capital and working capital optimization which you will see has come down compared to this period last year, which is our peak season.

You'll see that this EBITDA growth has been generated on a lower volume of almost 5.3%. So a growth of 5.4% in EBITDA and absolute EBITDA on a lower volume is clearly shows the margin improvement that we are getting on various upstream and midstream investment that we already put in place. And that's an area where we are going to focus on which is extracting and improving our margins and improving our operating efficiencies both in terms of overheads as well as working capital efficiency going forward.

On the volume growth, well you see a headline dip in volumes. This has to be put in context to the 72% growth that we saw in the last -- in the first half of last year. Primarily which we had singled out even then is a fairly record an exceptional kind of volume growth, primarily led by the grains and to lesser extent the rice business because of some aspects of Russian export ban et cetera. So there was a lot of volume that we generated in the first half of last year. So this 5.3% [degrowth] (corrected by company after the call) is in regard to that, except 72% growth in the prior period.

The second aspect clearly where we have deliberately reduced volumes in areas where we have restructured our businesses that have been five business platform which have been restructured, 27 profit centers, wherein we have taken -- where there was lesser return or a low margin businesses we have, dropped from each of our business platforms. So there is some deliberate volume reduction that we have done. But predominantly most of the platforms there is good volume growth as well as they're either maintaining or growing their volumes across the various platforms that are where we are investing to grow.

So on an overall basis while the volume growth has been -- volume has been lower by 5.3%, we are very happy with that situation and we believe that as we go along you will see the volume pick up on various platforms and more importantly the margin improvement that are happening will generate -- enable us generate the earnings growth that we want, which is really the focus for all of us.

In terms of the operational PATMI, net of exceptionals, you will see it's flat to a marginal decline. There are three aspects I would like to highlight. One is the depreciation and amortisation. Obviously there has been a growth in our fixed assets and there a large depreciation and amortisation just kicking in compared to the previous half. It's almost about SGD27 million increase. But some of these investments are still not yielding, are either partly contributing or not contributing at all. As EBITDAs start kicking in from these investments we expect that to add to earnings growth.

The finance cost you'll note, while we have increased our CapEx between this time last year and now, the working capital has significantly reduced, almost by SGD500 million plus reduction in working capital, enabling us keep the net finance costs almost constant for this period.

And the last part is, which you remember last year in the first half, there was a lower tax provision in which we have corrected this year from the first half itself and that has resulted in about SGD10 million increased tax. So put together these have led to a flat kind of operational PATMI for the first half.

But the first half is a smaller half. Some of these fixed costs, whether it's overheads, depreciation, amortisation, finance costs and tax, they are pretty fixed in nature and we expect the second half as the volume and EBITDAs kick in for the second half you will see potential for earnings growth and you will feel fairly comfortable with the trajectory that we have had in the first half in that regard.

For those of you who treat bio gain slightly differently, just want to call out that we have a net loss on re-evaluation of our biological assets of SGD12 million, compared to the SGD32 million profit that was there in the first half of last year. Obviously on a PAT basis we have always maintained that this doesn't impact because there are costs that we are booking.

But the key thing here that we would like to highlight is that the negatives are really coming from the maturing profile of the Australian almond orchards and as you are all aware that they are all in their sixth and seventh year now and that is therefore -- and therefore there was significant bio gain on those orchards while they were maturing between the third year and seventh year. And now since they are fully matured and fully contributing you will see a negative bio gain emerging which we expect to continue in the second half of this year also.

So [net of] Aussie orchards, the others have some positive bio gains which are still there, but on an overall basis it's a negative for the first half and likely to remain in -- that will be required to be -- we expect it to be lower as compared to the full year also.

So from beyond EBITDA growth and the margin improvement and the operating efficiencies that we had on overheads as well as working capital there has been clearly a moderation in our overall fixed capital investment which was fairly large and rapid over the last four years. You will see almost a 44% reduction in moderation in the -- compared to prior period at about SGD262 million. You are also aware that over the strategic plan period we have looked at overall CapEx of SGD1.5 billion and we are tracking on course for that.

A mix of what we have done on generating higher operating cash flows, lower working capital, moderating down the CapEx flows as well as some of the strategic initiatives that you already completed, has led to an improvement in all the cash flow metrics across the board and we will just look at that.

We feel quite confident and this is kind of the peak of our procurement seasons and every year December and March are normally our peak balance sheets. And over the second half we would expect the balance sheet size, at least on the working capital to come down assuming prices remain constant and feel very comfortable that we will be able to meet our target of being FCFF positive for the full year.

So, from an operating performance basis, hitting absolute EBITDA growth, ensuring improvement in margins, looking at working capital optimization, looking at CapEx reduction and looking at ensuring that we generate positive cash flows at a lower gearing and managing this combination, we feel that we are headed in the right trajectory, lots still to do, lots still to happen in the second half. But we feel fairly confident based on this set of results that we are headed in the right trajectory.

On the strategic initiatives which are beyond the business as usual, we have had -- we have announced a stream of 10 specific initiatives, distinct initiatives, put together which will release almost SGD500 million in cash, SGD445 million in cash, upon completion. A bulk of this has already been completed with the recent almond completion which was announced earlier this week. Most of this, almost 75% of this is already completed and will show up in the results by Q3 and the balance, few initiatives that are been announced will certainly close before Q4 of this year.

So against a plan of releasing SGD1.5 billion through specific strategy initiatives that we had for the three year period, by the end of the first half of the first year, we have completed predominantly almost one-third of that and more importantly, that this has not been a fire sale. This has created a P&L gain of SGD76 million as well as an addition to reserves of SGD14 million. So put together therefore this divestment or partial divestments are a sale and lease back kind of optimization has actually resulted in a gain.

So therefore these assets were really good quality assets and the market has recognised the value of that assets and even when we have been divesting them, either because they were non-core or because you wanted to optimise the usage of fixed capital investment or because you wanted to partially divest and remain as majority owners of the areas that you wanted to co-share risk with other partners.

So that's kind of the key highlights. So even if any of you want to leave the room now, that is the story of the first half. I hope you'll carry that away with you. So moving on to the consolidated financial performance itself, most of the numbers are available in terms of the details in P&L. But I've already talked about the lower volume and the revenue is really a little bit because of the softer commodity prices as well as the lower volumes.

The EBITDA growth is really the key find, growing [at] (corrected by company after the call) 5.4% and excluding the exceptional items that led to a slight decline in our overall PATMI, operational PATMI.

In terms of the points, further points beyond what I have already probably mentioned, talked about bio fair value changes turning negative and the higher depreciation and amortisation. The net finance costs you will see have remained flat for the half. In terms of exceptional items, last year in the first half we had a gain in the sale of the US Almond sale and lease back, which was about SGD27 million and this year we have had a small gain on account of the sale of the Dirranbandi Gin in Australia which is about SGD5.9 million. So those are the two exceptional items for both the periods.

The last part that you will note is that the minority interest has been a greater loss this year. The minority interests are a set of joint ventures we're in like Rusmolco, Invenio Holdings, the Olam Palm and Olam Gabon, (inaudible) et cetera. So put together there's been an increase in loss predominantly driven by the underperformance in Rusmolco which I'll talk about in the segmentals. But that's kind of again calling out that minority interest change compared to the prior period.

Moving to the segmentals, on a snapshot basis, the overall growth we have talked about in terms of mix between the various segments, you will see a significant improvement in the percentage share of edible nuts and SVI segment. Clearly two BUs, which we also presented in our investor day six months ago, both have had fairly significant investment in the past few years, but areas all now fairly and solidly contributing. So you'll see a big chunk of change in the percentage share that nuts and spices have as compared to the overall EBITDA.

The confectionery and beverage ingredients as well as the IRM segment, pretty much hold their own. And the reduction that you see is in the food staples in terms of percentage overall share of EBITDA, which is primarily because last year there was a fairly significant increase in that segment because of the huge volume increase that happened.

So in terms of invested capital also, there's on a broad base SGD1 billion increase in fixed capital and SGD500 million reduction in working capital which has led to a SGD500 million increase on a like-for-like, period-to-period comparison in terms of total invested capital.

Getting into the details, you will see that the MD&A has a last four year trend. We have just grabbed in the presentation last year versus the first half of last year and the first half of this year. So in the nuts and spices segment there has been a significant growth on a half-to-half comparison, almost 25% growth. Based on current trajectory, we expect that there will be good growth over last year also before the end of the year.

Most of the business platforms in the segment are performing very well. We need to call out Almonds which has had a fairly significant -- we are up to full production in Australia as well as the pricing is also very robust right now and we expect that to remain for the next 12 to 18 months. So Almonds is a big contributor. Tomatoes which was a big loss last year has turned the corner and is therefore another big chunk of the growth compared to last year is coming from the loss in Tomatoes turning to a profit and that business also now looks on good ground.

Onions and garlic have performed very well in the vegetable ingredients business as well as the pepper business is just more a second half business. They're all on very good ground. So this whole segment has got fairly large volume and value drivers, which are performing well.

The two call outs here on the negative side have been the Argentinean peanut business, both because of yield impact of last year's drought as well as a price drop that happened consequently and the combination of that -- again, which is something that we have discussed in the first quarter also, or end of last year also.

That is one negative for the year. The second is the cashew mechanization processing operation in Nigeria, which is well below our expectation and, finally, because of the raw seed quality -- and in the mechanization process it's not yielding the results that we anticipated because the (inaudible) has a very peculiar problem of a very sticky ester in the skin that is causing us to either operate at very low capacities or operate at low productivities.

So that's an area which is of concern, which we are addressing. There are various technical teams working on it to see whether we can set that right. Beyond that, this is a segment which is hitting the right trajectory. In terms of invested capital you'll see a significant increase in working capital. On fixed capital there's not much further investments here. The working capital increase has been because of higher prices across most of the commodities in this segment.

Moving on to confectionery and beverage ingredients, steady growth in EBITDA, driven both by the cocoa supply chain, as well as the mid stream processing in coffee. Coffee supply chain, first half, has been lower volumes and slightly lower margins because of the extreme low prices that coffee was experiencing, which has been there for a while. In the recent last six weeks you will have seen that the coffee prices have moved up quite a bit. We expect those margins and the volume can be fairly well positioned in Central South America, as well as in the key Robusta origins to capitalize on what we expect to be a better half in the -- a better second half.

So a lot of investments in this segment, both in terms of cocoa processing, the acquisition of Seda Solubles -- which happened end of last year, first half -- as well as coffee plantations. You'll see a significant jump in the fixed asset investment in this segment and some jump in working capital, predominantly led by increase in cocoa prices, offset partially by the coffee price increase, so from an invested capital basis, these are peak seasons, both for coffee and cocoa, and we expect that the second half -- the supply chain part of the business will really be kicking in. The soluble coffee part of the business is doing well. There is obviously the cocoa processing investment as well as the coffee plantations which are still not contributing, but they will start contributing and, therefore, we are building up for a better growth in this segment for the next year and the year after -- years after.

Looking at the food staples and packaged foods, this is the first drop. Again, the drop has to be seen in conjunction -- last year, compared to the prior year, we moved EBITDAs from SGD278 million to SGD415 million. So there was a significant jump in EBITDA last year compared -- and a large chunk of that growth was also in the first half. So this first half comparison has to be seen in that context of what was an exceptional prior period.

In this business, while the grain and rice volumes are lower -- but grain milling has been a very exceptional result. Sugar refining, which was -- sugar was an area that we had restructured last year. That has been performing very well. Therefore you see large refining margin that has -- the refining business, as well as the trading business is doing very well.

The packaged food business, as well as the dairy supply chain business -- which was, again, underperforming in the last few years -- has all had quite a solid improvement and progress. The reduction is somewhat because of the grain and the rice volumes, which were high last year, as well underperformance in the dairy upstream business, which still remains of concern to us. This is primarily in the Rusmolco. In the Rusmolco we have had a very strange situation -- the second year of our operation, after we acquired a 75% stake.

Last year we were head to the bad drought, and this year we are head to the very unseasonal rain during harvesting season. That has impacted yields as well as quality, and hence -- and which, again, we had pointed out that there had been unseasonal rains, but the harvesting finished in November and December, and you have seen a fairly significant impact on both the value of our grain farming business. This will have some continuing impact in terms of feed costs for the dairy farm in the second half, so that is clearly an area which is of concern, an area which we expect to do a lot of focus on in trying to correct.

NZFSU, while -- on a much better platform compared to the prior years, but still slightly under our budget. Again, an area which we feel that, by next year, we should be on track, but Rusmolco might take us one to two years compared to -- we might be one to two years behind plan as compared to our investment thesis.

So that's as far as the platform is concerned. It has a lot of investment that has happened. To call out some of -- grain milling, packaged foods, rice farming, palm plantations -- a lot of which are not still yielding, but have -- will create a tremendous platform for growth, going forward. So this is a business that we have invested for.

You will see almost a SGD500 million increase in fixed capital investment in this, compared to last year, but we have done a very significant amount of working capital optimization, a lot of supply credit which was possible in products like grains, rice, sugar et cetera, so a lot of capital optimization has been done with the large supply credit which you will see in the balance sheet also, which has -- compared to last year this time.

That's enabled us to ensure that the total invested capital is more or less in line with what it was prior year. So this business -- while you see a EBITDA drop, but a lot happening in this business on a first half to first half basis, and a lot to look forward to in this segment as we go along.

Last, but not the least, the IRM segment has struggled in the last few years because of the cotton business, which -- and we are pleased to say that that is on a good track. Both volumes and margins have improved. One big reason for the improved EBITDA performance in this segment is driven by cotton. The other businesses in the segment are relatively low key for this half.

Again, in cotton, a huge amount of working capital optimization has been done. We were carrying a large amount of inventory in the prior period. All that has changed. If you see, again, a big chunk of working capital optimization in this business and not much increase in -- and the increase in fixed capital is really coming from the rubber plantations, which are obviously still not fully yielding.

So again, from a first half basis, quite a large -- quite a good performance but, obviously, a large chunk is a second half part, so a lot needs to be done in the second half in this segment to get where we expect to get.

So that's a brief overview in terms of some of the things that are working well, some of the things that are tracking well and some which are not in each of the segments. Moving on to what we think is a fairly significant operating performance improvement on the cash flows. You will see, right from operating cash flows, the changes in working capital, as well -- net operating cash flow line, CapEx reduction, as well as free cash flow to firm and equityholders -- there is a significant improvement in trajectory.

This is at a time when we are in our peak seasons, so we feel quite comfortable that we will be able to meet our FCFF positive from 2014 and beyond, and we are focused on ensuring that happens while we grow our earnings as well as our EBITDAs.

In terms of gearing, again, if you see this time last year on a seasonality basis, mostly our gearings are at their lowest at the end of the year, in June. Increase during December and March, and then come down again in June, which has been the historical trend. So as compared to June, the gearing has gone up a bit, but as compared to this time last year -- which is in the peak season -- gearing has come down significantly from 2.21 times to 2.06 times. We feel quite comfortable, based on the current mix, that we will be able to keep it within the two by the end of the year.

From a liquidity perspective, fairly solid. We've got cash of SGD1.2 billion, a lot of unutilized short term bank lines, enough to take care of any short term or long term working capital -- long term fixed assets requirement -- and a fairly well balanced and diversified debt portfolio. So that's the view on the operating performance and the consolidated financials in the first half.

Moving on to a snapshot on the strategy execution, four key objectives, six pathways that we have outlined. We'd like to ensure that while we really improve the operating results, we also focus on delivering again this plan. Going through the six pathways quickly, the pace of investments -- CapEx investments we have talked about. There's a clear moderation in that.

There is an optimization of balance sheet initiatives like the sale and lease back, as well as various working capital initiatives we have taken, bond repurchase where we have done a higher debt replaced with a lower cost debt. All these are significant activities that are happening on optimizing our balance sheet.

In terms of pursuing initiatives to unlock intrinsic value there are two buckets. (1) we are selling non-core assets wherein we are not, probably, the best owners of those assets -- things like the Dirranbandi gin or the Basmati rice mill. Then there are areas where we are wanting to invite partners and co-sharers so that we can have a lesser share, but of a larger pie, which is areas like the Sanyo deal or even the OCDL where we are reducing our stake, but still ensuring that we get a big toll processing contract, which will really be a large contributor to our supply chain business.

So a mix of this has again -- there's been a -- I'll just summarize the kind of initiatives that have happened and the impact it has. Again, a lot of activity here, and still some areas where we are working on which is still not announced so far.

In terms of optimizing the shape and reducing the complexity, 27 profit centers which we talked about at the start of the year itself. Then on the strategic plan we had -- all those have been cleared up. You will have seen a recent announcement on our getting out of Gabon timber, which was another area that we identified for restructuring.

So while there is a one off loss there -- but it will tremendously reduce our overheads, going forward, as well as, obviously, working capital and fixed capital.

So the improvement in operating efficiencies, both in terms of net finance cost, both in terms of operating overheads and the reduction in operating overheads -- again, I've talked about. In terms of stakeholder communication, again, a journey that will never end, but we are ensuring that through the investor days, through the new MD&A, through the visits that some of you have accompanied us to Africa -- we are improving, hopefully, the understanding of our business and being able to address some of the key concerns that our stakeholders might have.

So on all six pathways a lot of activity, but in just summarizing, the impact of -- the big ticket impact that I think we should understand of what has already happened in terms of what has been -- we have announced five initiatives. They were also completed by the end of first half. Put together, have released cash of SGD135 million, increased P&L by SGD36 million and added to our reserves of SGD14 million. These are the five initiatives that we have discussed in the past, and all five initiatives are now completed and done by the first half.

The initiatives that are -- been announced, but expected to be completed, and amongst this the Australian element has been completed this week, so a big chunk of these five initiatives already done and dusted. There are three other initiatives that yet need to be closed and will be done by Q3, Q4. These initiatives, put together, will release cash of over SGD300 million, add to our P&L by SGD40 million and add to our reserves as well SGD2 million.

So, put together, initiatives that we have completed and announced -- and are announced, which will certainly be in our -- will hit our books in Q3 or Q4 -- there is a total cash release of SGD445 million, a P&L gain of SGD76 million and a further addition to our reserves of SGD16 million, which we feel is a fairly significant -- tracking well above what we are anticipated. There are a few other initiatives that we are still working on which, hopefully, will enable us more than meet the objectives that we set out in the three year strategic plan.

So to bring it all together, I guess, like I said, what I hope you'll see in the proof points is the focus on improving our operating performance, extracting full value for investments already made, optimizing our balance sheet and optimizing our usage of invested capital and extracting profitable growth and cash flow generation, which is really the primary focus and that will continue.

This is being done within the ambit of the three year strategic plan and it is finally the first half of the first year and the smaller half at that. Therefore there are a lot of things to be done but we feel quite comfortable with the progress in the first half that we are on track and you will see the impact of this, some flowing through the second half and some flowing through the next few years.

So a lot of it is back to the boring dull stuff. I mentioned this in the first quarter. It's really about focus on operating performance, focus on a few initiatives that make a difference to the targets that we have set in the strategic plan and stay tuned for further news in that regard. So thank you and we'll take your questions.

QUESTIONS AND ANSWERS

Chow Hung Hoeng - *Olam International Limited - Associate GM*

Thank you Shekhar for the presentation. We will kick off the question and answer session. Please be reminded that this briefing is being webcast and if you would like to ask a question please tell us your name and where you come from and take the microphone from one of our colleagues at the back. Yes Patrick?

Patrick Yau - *Citi - Analyst*

Morning. Thank you Shekhar for the presentation. I have one question which is really on slide 15. If I look at the metric that you've kind of put yourself in which is really EBITDA over invested capital there is almost like a one percentage point decrease in that segment. There's also a very sharp increase by almost SGD500 million in the investments in fixed capital.

So I do understand it as a compression with a cycle because of the issues you highlighted in grain and rice but because of the sharp increase in fixed assets is that going to be a trend that we'll also see in the second half where you get a hit in terms of high depreciation as the investment kick in? It looks like rice and grain which were very, very good last year will probably have a much more normal year this year. So this segment is going to actually be fairly impacted in terms of the EBITDA over IC metric for the full year.

Shekhar Anantharaman - *Olam International Limited - Executive Director, Finance and Business Development*

I guess what the EBITDA over IC metric in general makes sense only on an annual basis or an annualized basis because investment is pretty much, at least the fixed capital investments remain fixed, working capital will go up based on seasonality but the full year EBITDA over average invested capital will be a much different number compared to what you see today where you've only got the half year EBITDA in the calculation that you just mentioned.

So our view is that there is going to be some aspects of fixed capital investment in this business which will probably not yield this year it will be part of our partly contributing or not contributing part, but we have done a significant part of working capital optimization which you see in the reduction and working capital. So on an overall basis assuming we track close to where we expect the year end EBITDAs to be, the EBITDA by IC for the segment you will see and improvement in the second half.

Patrick Yau - *Citi - Analyst*

Thank you.

Chow Hung Hoeng - *Olam International Limited - Associate GM*

Abhijit?

Abhijit Attavar - *Jeffries - Analyst*

Congratulations on a good set of results but I wish to focus only on the bad parts. Specifically on the same food staples and packaged foods business it's a low EBITDA to IC, I can clearly see that. Even on an annualized basis it's probably going to be 10% to 11% as I can annualize it from here. The packaged foods business is a clearly a higher ROIC business -- doesn't require too much capital. So a lot of the other investments seems to be underperforming. So can you give us a sense of exactly how much Rusmolco is dragging down this business? Give us some metrics.

Secondly, you said you optimized working capital here and you mentioned something about getting most suppliers' credit. Is that the way the working capital has been optimized, because that's replacing one set of borrowings by a different kind of credit and not only optimizing the supply chain?

Sunny Verghese - *Olam International Limited - Group Managing Director and CEO*

So I think firstly to just answer the early part of your question which is how the segments' component BUs are doing. Such as with the grains business is concerned we have a milling business and we have a supply chain trading business. Of the milling business it is doing exceptionally well as Shekhar mentioned in his presentation and in the restructuring that we have done for the grains business we are getting a disproportionate amount of capital to the milling side of business.

But as you know our milling strategy is only to be focused in milling in Africa and we've got two mills in Nigeria where we have doubled capacity. We've got the mill in Ghana. We've got now a mill that is going to be commissioned in Senegal in the coming month by March. We've got a mill in construction in Cameroon. We are likely to increase capacities in these mills after the first or 18 months post commissioning.

So focus will be to continue to invest in the expanding capacity of existing mills that we are invested and adding new mills in Africa. So although milling globally has got a fairly low EBITDA to invested capital or return on invested capital margin, where we are putting up our mills the margins are significantly higher than what you would see in North America, Europe or even in Asia. So that is the strategy for the grains business.

We will continue to be engaged in logistics but we will downsize our trading activities. Now the supplier credit that you are talking about is not the main way of reducing working capital. It is really resizing the business and eliminating the working capital intensive part of the businesses where the trading margins are small and therefore where the returns are not as good as the returns that we see on the milling side.

On the rice business there is currently some issues in volatility with regard to what's happening in Thailand and also what is happening in Nigeria with regard to government policies. But it is a business where we have a very unique position because most of the demand are the 30-odd million tons of rice that is globally traded and a third of it goes into Africa where we have very significant market leading positions linking and leveraging the sourcing and origination that we have in India and in Vietnam and in Thailand and in China and linking that with our presence in these markets we are able to differentiate ourselves and build a market leading business.

So what you see happening in rice this first half is more cyclical not structural. Long term we believe that we will continue to have a market leading and a valuable business in rice. The other important part of the rice strategy is that we have gone upstream into farming -- again an extremely profitable operation. That investment is partially gestating, and that is in Nigeria and next year will become fully contributing. Therefore you'll see a change in the contribution from the upstream rice business from there.

The packaged foods business, as you rightly identified, is got a very different margin structure and there in the first several years that we've been building to invest and grow the business we have been focused on two things -- building the route to market because in Africa these are not modern detailed formats. So the retail formats are very traditional, unorganized retail formats. So the key to success is if we can get the route to market established, which typically is very path dependent, and it takes a long time to establish. So we have taken six years to establish a really solid route to market.

Then we have also simultaneously delivered various categories and developed our skills in customizing products based on unique consumer insights and we have developed market research in Africa. So that is a very valuable business and you are right the market structure there is different.

But it had quite significant investments in the past. For our next three year plan we don't believe there is a incremental capital investment required to meet the growth ambitions that we have in the packaged foods business and that will almost double in size both top line and bottom line. Bottom line it will triple and top line it will double in the next three years. So that is the package for the business.

Then we have a gestating business which is palm. In palm, most of our focus in investment capital has gone upstream into our plantation activities in Gabon, and that is still gestating not partially contributing. Next year we will get the first yields on the first plantation that we have planted. The second big investment that we have is through the joint venture with Wilmar and SIFCA. So those are the upstream investments. SIFCA fully contributing whereas Olam Palm Gabon is gestating still. So that is on the palm side.

Then there's dairy. And in dairy the big story for us is that we have over the last two years restructured and particularly last year the supply chain business that Shekhar mentioned in his presentation the supply chain business is running exceptionally well for us. The midstream processing manufacturing business both with OCDL in New Zealand where we have trimmed our stake but got a very valuable food processing contract.

The reason I'm getting into midstream processing in dairy in New Zealand is that we wanted supply. There was no way we could secure supply unless we owned a processing asset. That is the reason why we got into that OCDL investment. So that investment is to secure supply and secure the supply for the tolling arrangement and therefore we have trimmed our stake there. That business, OCDL, is now doing quite well as OCDL when the toll processing contract for us is incredibly valuable.

Then we invested in the vegetable fat-filled facility in Malaysia which has done exceptionally well. So the midstream is working, the supply chain is working. The piece that we need to fix is the upstream dairy farming operations. That has taken more gestation to really start contributing than we expected. So in Rusmolco, Shekhar mentioned to you that we have some issues.

The first issue is really weather-related issues, which is out of our control but even into going upstream when you grow you're taking agricultural risk. We try and diversify our business as much as possible mitigated through getting involved in irrigation and trying as much to cultivate, to irrigation methods. If there's a water shortage even irrigation gets sort of impacted.

So this year the agricultural risk in Rusmolco has materialized. Also there are operational issues which we need to fix in terms of our execution on the Rusmolco side. So the rest of the year, as Shekhar has guided, Rusmolco will have a tough year this year.

The second upstream dairy farming operation that we have is in Uruguay. There we are probably another year away from becoming profitable. So this year also will be a loss year in New Zealand. But as you can see on the world dairy prices, dairy industry market structures if you look at all the dairy companies now out of China, they are trading at 50 and 60 times multiples because there's a real shortage of supply, vis a vis growing demand and the shift in dietary habits to protein and fat-based diets, and the fat really comes from dairy products.

So we see long term structurally it being a very good business to be in but it has taken a lot to get it right. So we will definitely get it right in Uruguay by next year. Rusmolco will struggle for this year and next year as well before it starts really contributing.

Unidentified Participant

(inaudible - microphone inaccessible)

Chow Hung Hoeng - *Olam International Limited - Associate GM*

Abhijit can you use the microphone please, thank you.

Abhijit Attavar - *Jeffries - Analyst*

Can you give a sense of how much did Rusmolco drag down your numbers this half so we get a sense of how much it could turn down and impact your numbers?

Sunny Verghese - *Olam International Limited - Group Managing Director and CEO*

So there are various minority interests within that. So there are seven or eight investments that we have had -- we've got minority interests. But it's fair to say that a large part of the losses that we have had from minorities is attributable to the Rusmolco this first half.

Abhijit Attavar - *Jeffries - Analyst*

Just one follow up question. You have a target of positive cash to firm this year. Does that just come from operational cash flows or does it include the 10 initiatives and the divestments you have in the cash flows (inaudible) from that?

Sunny Verghese - *Olam International Limited - Group Managing Director and CEO*

So free cash flow when we said we would complete free cash flow positive this year we said we would become free cash flow positive to firm. Eventually we want to become free cash flow through equity. That is what we are focused on. So when we talk more free cash flow we're talking about CapEx and working capital all included. So to include all of the one off divestments et cetera that we are doing as well to get that free cash flow positive number.

Yes, Thilan?

Chow Hung Hoeng - *Olam International Limited - Associate GM*

Thilan?

Thilan Wickramasinghe - *HSBC - Analyst*

Thilan from HSBC. Just three questions from me. In the US tomato business have margins fully normalized or can we actually see any more upside there? The second question is on your almonds business. Can you give a sense of what the breakdown is between how much of the contribution is coming from prices and volumes? Thirdly, on coffee, when can we see some recovery there?

Sunny Verghese - *Olam International Limited - Group Managing Director and CEO*

So on the tomato side of the business, firstly, the margins have improved this year, largely on account of the fact that there is an overall significant reduction in the Chinese crop. China was the biggest exporter globally. There was a drop in production in the US but not that significant.

As a result, from a supply and demand point of view, from stock to end use ratio et cetera, it has been a bullish market in tomato paste overall in the last season. We expect that to worsen going forward because, as most of you know, there is a drought in California now and California really grows most of the tomatoes in the US paste manufacturing, and you there expect a significantly lower crop in the next season, next planting season.

That will have some impact on how much capacity utilization will be there in the next season. Hopefully, some of the increased costs for raw material that would result as a result of the shortage will be made up by increased pricing power because of the structural deficit situation in the tomato paste business.

So the tomato paste business this year has been good for us. We expect it to continue to remain strong despite the drought that will drop volumes and drop the total availability of tomatoes.

On the second part, which is almonds, you will notice that we've had a fairly significant shift in this first half result, second quarter result, on change in fair gain of biological assets. It has swung with a negative SGD44 million difference from last year. Most of that is from almonds so in almonds, so as the plantations are mature in Australia we are now giving up some of the biological asset gains that we have booked in the past. But despite that, as Shekhar mentioned, we've had a blockbuster year in almonds.

The reason is firstly operating performance improvements, so yields and that is partly biological, because as you go from year four to year five to year six to year seven maturity you're not getting the full-year potential, so that is one. But we are probably, because of our husbandry practices on how we manage the estates, we have also got good productivity.

Second is there has been significant work done by the team in reducing costs, cash costs of production, so in various areas, including (inaudible) production and water costs, partly on account of the fact that temporary water prices were much lower and we had taken a position on that temporary which already used up cash cost of production as well. Then one element of the contribution has been high almond prices, so to the extent we remain long, we have benefited from high almond prices as well. So it is a combination of that.

But if you remove almond price moves it still would have been extremely profitable because productivity was higher, yields were higher, costs of production was also lower, and processing costs as well because we now internalize processing. In the past till last year we were outsourcing processing to Select Harvests, then we set up our own processing facility and there is a significant gain and reduction in costs as we own the facility now. Which will continue into the future as well.

The third issue that you raised was coffee. Coffee, again, has various elements to its business. We've got upstream plantation business where we have plantation activities in Brazil, in Zambia, in Tanzania, in Ethiopia, in Laos. We have some problem in Laos but in all the other locations we are tracking as per plan in terms of where we are on those plantations.

Then we have a second piece of the business, which is soluble coffee manufacturing. We have a large plant in Vietnam where we have tripled capacity and we have acquired Seda in Spain. Now soluble coffee is also tracking and doing better than planned. Particularly in the manufacturing conversion operation of this kind when raw material prices are low, the midstream processor makes a lot of money. So that is what is happening in the soluble coffee business.

Then you have the supply chain, which has been steady. We maintain global leadership in the supply chain business in coffee and that will continue.

Specifically in terms of coffee prices, as you know coffee price touched a historical low and is now beginning to recover, largely driven by weather related phenomenon so there has been an exceptionally dry period in January and February in Brazil. That is likely to reduce the next crop from 57 million to 60 million bags, estimated to in our view closer to the 50-51 million. So that has been reflected and particularly in mild Arabicas, which is both in Central America as well as in Brazil. Structurally, we believe that the demand and supply fundamentals are now in favor of a firming market.

All is not lost as far as the weather is concerned. There could still be rains and there's still scope for rains to come in. But there's also a risk of frost and all of those issues are there. So structurally, the Arabica market, we are friendly to the market now. Robusta market we are neutral. So in terms of price recovery in the coffee business, that has already happened. Prices have moved 40% in the last six weeks in coffee as a result of this weather related scare.

Thilan Wickramasinghe *- HSBC - Analyst*

Thanks.

Chow Hung Hoeng - *Olam International Limited - Associate GM*

Sorry, but I think there's a question from Philip.

Philip Wickham - *HSBC - Analyst*

Hi, it's Philip Wickham from HSBC Credit. I just have a quick question regarding your operating lease expenses for the period. I was wondering if you could maybe disclose that because I know you do it on an annual basis. Or if you can't, can you give us some guidance on what it would be for the full year? I mean, I assume it's going to be growing quite rapidly because of all the sale and leaseback arrangements that you're doing.

Sunny Verghese - *Olam International Limited - Group Managing Director and CEO*

Yes. So the almond transaction we've just completed, so the lease will start now being payable from now on.

Shekhar, do you have an estimate of what their operating lease will be overall?

Shekhar Anantharaman - *Olam International Limited - Executive Director, Finance and Business Development*

In terms of overall cost it will move from finance cost to a lease cost so therefore we don't expect the total impact on P&L to be significant in any form and manner. So of course, once we start paying it, which we'll start from now, it will be visible in our books.

But it's not a -- in terms of impact of operating lease cost versus impact on finance cost, it will be neutralized. It actually will be slightly positive.

Philip Wickham - *HSBC - Analyst*

Right, but your balance sheet will be changed, though, from that, right? Because the financial lease will come off your balance sheet.

Shekhar Anantharaman - *Olam International Limited - Executive Director, Finance and Business Development*

Right.

Philip Wickham - *HSBC - Analyst*

Right.

Shekhar Anantharaman - *Olam International Limited - Executive Director, Finance and Business Development*

So the balance sheet will be significantly better in terms of the fixed costs going off our balance sheet, and therefore returns from our return perspective will be significantly better.

But from a P&L perspective, we don't expect it to add to the cost, it will probably be better -- we'll be better off.

Philip Wickham - *HSBC - Analyst*

Great, thanks.

Chow Hung Hoeng - *Olam International Limited - Associate GM*

Chuck.

Chuck Spencer - *Morgan Stanley - Analyst*

Chuck Spencer from Morgan Stanley. Just switching gears to your cash release initiatives, you have this successful stake in PureCircle, which I think is worth now more than 10% of your market cap. It's not contributing to earnings but it has a lot of value. What's the plan there?

Sunny Verghese - *Olam International Limited - Group Managing Director and CEO*

We obviously can't be specific about our individual assets and our individual investments but you're right in saying that PureCircle has done exceptionally well now from a share price performance point of view. But more important than a share price performance point of view is its operating performance and the key strategic milestones it is meeting.

So firstly, it has won patents for several new products, so its profile of the various products that it's offering now is unparalleled in the industry. So nobody else is anywhere near that. So I think they have a clear five, six year advantage and some of these patents they own, so I think they will have even more of an advantage in terms of those product suites.

So in the past their focus was only developing 100% calorie reduction products. Now they're 100%, 30%, 50% and 100% calorie reduction products. So that is one. Secondly, in the past - I don't know when we last spoke to you about PureCircle trials that were being conducted at that point in time, 7 -- 135 to 150 trials. Now there are more than in excess of 2000 trials being done.

Most of you know that Coca-Cola launched a new brand called Coke Life in Argentina made from this ingredient and in Argentina they position it as a 50% calorie reduction product. In Chile, because of regulatory reasons, they've presented it as a 35% calorie reduction product. Market reports are that it is doing very well so that could be a major catalyst in PureCircle's fortunes.

Pepsi has also launched Pepsi Next first in Australia. They've extended it to France and the UK now. Following the quarterly results and announcements of these companies, like Coke, Pepsi, and the study was DPSG's announcements where they're all doing trials with this ingredient to come up -- because what they have in the carbonated soft drink manufacturers are having an issue with diet colas and diet CSD drinks.

Actually it's degrowing by 2% to 3% because consumers are beginning to get worried about the long-term consequences of using artificial sweeteners, whether it's aspartame or saccharine or whatever. Therefore that category is degrowing. Therefore the CSD manufacturers and the other food and beverage manufacturers are really looking for something that is natural, something that has no long-term health effects and something that is good, as a replacer for HFCS, high fructose corn syrup, or sugar or even artificial sweeteners.

So operationally, we see that the Company is doing much better strategically, because it's hitting various milestones that are relevant to us. From a share price point of view it is doing extremely well, so we're very pleased with our investment. We can't obviously answer what we want to do with that investment. You know broadly what our strategy is. If you look at the nature of the 10 divestments that we have made, all those 10 divestments really saw the -- so if you look at that list that was there. Can we just put that list back?

So if you look at that list there sale and lease back of almond orchards in the US was one. There's not going to be an impact on P&L for us. We are going to maintain our earnings capacity from that investment. We are going to reduce our asset intensity. So there's not going to be any sacrifice to future earnings growth by selling and leasing back the almond orchards in the US. The same applies to selling and leasing back the almond orchards in Australia. We protect our earnings capacity from that investment but we reduce our asset intensity, we improve our returns, and we have control on the produce and the flow from those investments.

The partial divestment of OCDL stake, through the tolling contract we have secured a supply of the volumes that we want, a very contract for us. That is really why we wanted to have that investment. Having secured that, really, this releases cash for us.

Divestment from Olam Lansing, it was not contributing to earnings, it was early days and we realized that in order to really be competitive in the deregulated Canadian market you need significant additional investment in logistics assets, which we are not prepared now to make under the revised strategy that we have. So there was no point in having a small investment or a marginal investment there, and that's why we exited that investment as well.

So if you look at the next slide, you will see the same thing there. So the sale and lease-back or the things that we have done, we have done very, very targeted, very clear about what is the -- firstly, does it fit in strategically. The first thing you might ask is if it doesn't fit in strategically, why the hell was it in your portfolio in the first place. But company circumstances change, life changes, your priorities change and you've got to relook at your portfolio on a continuing basis, and that's what we are doing.

So we will continue to look at all our investments and it's not just PureCircle, it could be our edible nuts business, it could be our packaged foods business, it could be our cocoa business, our coffee business. We continuously look at all our investments to say are we the best owners to hold this business for the long-term, and when we make the determination it is not, or, there is a better option to maximize shareholder value, we will act.

But so far, at this point in time, we can confirm to you that PureCircle is being doing very well. Yes, it is about 11% of our market cap. Yes, at this point in time it's now contributing to our bottom line. We are very pleased for the strategic progress it is making and we are very pleased with the operational progress it is making.

Chuck Spencer - *Morgan Stanley - Analyst*

I'll have one more if I can. There's been quite a lot of volatility in emerging market currencies.

Can you give us some insights into the impact that that might have on future quarterly results?

Sunny Verghese - *Olam International Limited - Group Managing Director and CEO*

Yes. So I think it is a big factor now in terms of the Fed taper and the consequence on emerging markets in terms of their currencies, and particularly in countries where they have growing current account deficits, high fiscal deficits and where their economic growth, GDP growth, is slowing down, and this includes India and Brazil and Indonesia and Turkey and Mexico and all of these countries, you have major pressure on the currencies.

But in countries like China, where growth is slowing down but they have very high current account surpluses and also fiscal surpluses, the currency's not under the same pressure. So we have two consequences, as we mentioned even in the last briefing. In countries where we've got an export dominated portfolio, where we're primarily exporting from those countries, on a transactional basis, our devaluing currency helps us. It helps us from the fact that there is a lag between when local prices and local currencies adjust to the change in exchange rates. So there is a period when the margins are exceptionally higher before the adjustment finally takes place.

So typically, you're more competitive on an export portfolio when there is a devaluation of the local currency, vis-a-vis the US dollar, which is where the currency in which we've paid in our functional currency as well.

But in countries where we're importing and there's a local currency devaluation, that is negative for us. So we are experiencing the headwind today for example in Ghana, where we are primarily an import portfolio. We have very little exports and that is unique in our portfolio. In most countries we'd be dominantly exporting from the producing countries where we are present, and Ghana is an exception where because cocoa's controlled by the government and we can't as private people export it, we can only buy the cocoa and deliver it to the government. We don't have really big export flows or export revenues.

So Ghana is a good example of that. We will have transactional pressures and transactional currency issues, whereas in the exporting countries we will stand to gain.

But whether it's an exporting country or an importing country for us, if there is a devaluation of the currency it will have translational impact on our balance sheet. When we convert our investments in that country at the end of every period, on a translational basis we'll have an impact.

That's very difficult to hedge. You can hedge it through making sure your liabilities are in the right currency to match the assets that you have invested in those countries. But at the end of every period, you will have to mark-to-market and you will have -- not to mark-to-market, you will have to value your assets and liabilities at the new exchange rate and that can result in that translational impact which would be directly impacting your results.

So yes, it is a tough period but mostly it's beneficial for us. In some markets, it is detrimental to us. But overall, I think the impact will be positive.

Chow Hung Hoeng - *Olam International Limited - Associate GM*

Any questions from the floor? Yes Conrad.

Conrad Werner - *Macquarie - Analyst*

Thanks. Conrad from Macquarie. So first question just to follow up on the tomato paste issue. When is the next season that you referred to and so when should we see an impact from that? Then the second is on cotton. There are a lot of stockpiles being held in China at the moment and there's talk of those being released at some stage, potentially even the middle of this year. How do you position yourself for the potential impact from that? Thanks.

Sunny Verghese - *Olam International Limited - Group Managing Director and CEO*

So the first one, the next tomato harvest will be in July [2014] (corrected by company after the call), so it will impact financial year 2015, if you have higher raw material costs but we can't pass through. You would expect that with a tomato crop shortage expected those costs will be passed through.

So we are -- so the first thing for us is that now we are contracting with growers to start planning for planting and we are seeing that a lot of growers are saying that there's no water, they won't plant. Tomato is a water hungry crop so we have to make sure that we can get enough growers to plant to meet a certain threshold capacity utilization. But it won't impact in FY 2014 for us. If there is an impact it will happen in FY 2015 for us.

On the second question, which was cotton, yes, so cotton -- you're right, so there is this overhang of stocks in China. If you look at the world cotton balance sheet the end user ratio in terms of the stock to use ratio is now 88%. But really, all of it is in China. In the US, if you look at it, the stock to use ratio is at an almost historical low. So really all of the cotton is in Chinese hands and government hands. When they release it, how they will release it is a matter of conjecture.

The Chinese government is very clear that the cotton growing areas in China are politically very sensitive. Therefore they would like to subsidize cotton growing there, and they did that by offering them prices which were significantly higher than international prices. But now they are seeing that rather than provide them this assistance to pricing, they will provide them direct grower subsidies, which will really mean the same thing.

So the issue is out of the 6.9 million ton crop that is expected in China this year, 5.7 tons or 5.8 million tons is bought by the government, as in those reserves. So it is a question, what happens if they do something. So we have remained hedged on all our positions, so the market while currently is strengthened, largely on account of the surprisingly strong demand and the fact that exports from the US and other major producing countries have been fairly robust, and so we have seen in the last couple of months cotton prices actually strengthened.

So really people are ignoring the stockpile in China and saying that nobody has any control over that except the Chinese government and that is the reason why the world balance sheet is really being looked at as the rest of the world and China separately. And the rest of the world, the balance sheet is not so burdensome. China, the balance sheet is very burdensome. So in order to manage against or mitigate against a sudden release of stocks by the Chinese government you have to remain hedged and you can't really take a large exposure and be exposed to price if that were to eventuate.

Shekhar Anantharaman - *Olam International Limited - Executive Director, Finance and Business Development*

Also, in terms of liquidity capacity outside of the Chinese market because there is that release in the local market in China it will hurt imports of China and so therefore the ability to liquidate in multiple markets, which is where really we have built our sales and distribution strengths. So one is ensuring that you have a price hedge and second is have the marketing capability outside of China.

Conrad Werner - *Macquarie - Analyst*

But I just remember the issue we had in the US where there was a disruption to supply and demand and as much as you tried to hedge, you couldn't completely hedge yourself, so why wouldn't that happen again this time?

Sunny Verghese - *Olam International Limited - Group Managing Director and CEO*

Yes, so that's -- what you're referring to is about-- (multiple speakers) The market structure changes to an invert, which is already the case. July 2014, December 2014 contract is a $0.10 invert now whereas the front two months is a very small invert and May July is actually a carry, but July and December it's an invert. So really, managing that situation is key, so what we are trying to do is to make sure that we can achieve all our sales by July. Otherwise, if that invert persists then either the basis has to improve to allow you to carry that stock, otherwise nobody will be willing to carry that stock.

But we don't want to get into that invert issue or try and -- we want to avoid it as much as we can, which is why we are making all efforts to liquidate most of our positions against the July contract itself. And most of the hedges now roll forward to that period and therefore we will manage that actively. The other way as we mentioned to you in the past is we can use some OTC structures to get hedged on a forward month based on your forward purchases. So there are additional tools from just straightforward how you would hedge the cotton to try and mitigate and minimize that exposure.

Adrian Foulger - *Standard Chartered - Analyst*

Adrian from Standard Chartered. Just two very simple questions. I'm a little bit confused on volume because we had actually quite a strong first quarter and then a weak second quarter. So typically by this time of the year you've got a very good picture of what your year is going to look like. As you say, your working capital has seasonality and you're stocked up. What is your guidance for volume for the full year as a simple question?

And then linked into that for the guidance for earnings, to sort of clarify that, is that excluding this SGD36 million of P&L impact that you're flagging up that's going to come and arise in the second half. So when you're talking about earnings growth, just to clarify, that is ex any P&L impacts from the initiatives that have been announced.

Sunny Verghese - *Olam International Limited - Group Managing Director and CEO*

On the -- sorry, the first question was -- volume, yes. So as Shekhar mentioned in his presentation we have restructured five businesses, cotton, sugar, dairy. So in all of these businesses there are some trade flows and volumes we are deliberately giving up because we feel that the bang for the buck in terms of invested capital in that business, working capital, to generate that volume is not that attractive and we have better options, given our objective to become free cash flow positive et cetera.

So the guidance for this year would be volume -- on the volume front it will be quite subdued and probably lower than last year. So that's on the volume side. On the earnings side, when we talk about operational PATMI it is net of these one-off gains. So these one-off gains will not be the operational PATMI that we are talking about.

Adrian Foulger - *Standard Chartered - Analyst*

Operational earnings?

Sunny Verghese - *Olam International Limited - Group Managing Director and CEO*

Yes, it is in operational earnings.

Adrian Foulger - *Standard Chartered - Analyst*

And the other thing we haven't sort of had a question on, so I'll ask it because somebody has to. Fertilizer in Gabon, where are we?

Sunny Verghese - *Olam International Limited - Group Managing Director and CEO*

I was wondering what's happening. You must be tired of hearing this but we are making good progress. We are continuing to make good progress, so there are potential partners who are different stages of due diligence but it is a complex process. But we are quite pleased with the progress that we are making.

As we told you last time there is a certain amount of capital that we'll commit, until we find other partners to co-share that investment risk we will not be committing further capital from our side. So that is the state, but every investor takes a long time in terms of due diligence and there are multiple due diligences to be done, although there is no project (inaudible) but gas due diligence and environmental due diligence and technical due diligence and all kinds of due diligence.

So each of these guys have appointed 15, 20 consultants each and there are three potential suitors doing due diligence. You have an army of people floating around and doing due diligence and it takes time. So we are wanting to be deliberate about this but we are very clear, we have told you that we want to deconsolidate the business and we want to be below 50% so that we don't have to consolidate that on our balance sheet.

We want to remain invested because we still believe it's a very, very attractive project. Our cost of production will be amongst the lowest in the world. Urea prices can go anywhere but right now urea prices are very, very firm at $450 odd. Our investment thesis is based on $325 urea prices.

So the project is attractive. We continue to remain invested but the investment outlay is very large and therefore our Board has felt that we should co-share that investment risk and sell down our interest and that is the process we are engaged in and I think we will let you know as soon as we have some development. I'm sorry that you are bored with this reply but that's where it is.

Unidentified Participant

(inaudible) from Reuters. You predicted in November correctly that coffee prices will bottom out and it's going up right now, but you mentioned that you are neutral on Robusta. Could you elaborate? Are you saying that the price will be capped at 1883 because of Vietnam's production going up? And the second question is on cocoa. El Nino has been mentioned as one factor that threw out prices recently this week. How bullish are you on cocoa?

Sunny Verghese - *Olam International Limited - Group Managing Director and CEO*

So just first on the coffee prices. Coffee prices were natural on Robusta prices, largely on account of the fact that there is a very large crop in Vietnam, almost 28 million bags which is our estimate, so that's a very, very large crop. And we have a very big conillon crop in Brazil as well, which has not been as impacted by the dry conditions as the mild Arabica crop has been. So we believe that the arbitrage between the western Arabica coffees will come in and heighten and therefore we are more bullish on Arabica prices and less so on Robusta prices.

On cocoa we are fundamentally quite bullish on the cocoa prices. I think firstly there has been very heavy production and supply. So despite the four million ton crop demand has been surprisingly strong, so grinding figures are up by 3% and consumption figures are up by 3.5%. So despite a very large cocoa crop we expect a deficit of 145,000 tons this year. And that is on top of the deficit we had last year.

So structurally in terms of end use ratios, we are seeing end use ratios come down from 38% to 34% and that is a bullish signal when end use ratios come down to below 35% it is a fairly bullish signal. So we are quite friendly to cocoa prices and cocoa market overall.

Unidentified Participant

Just one last question on the deficit. I think Olam has estimated the 2013-2014 deficit at 185,000 tons?

Sunny Verghese - *Olam International Limited - Group Managing Director and CEO*

Yes, it's 185,000 for this year and 145,000 for last year, 145,000 was 2013 and 185,000 this year.

Unidentified Participant

Any change for this year?

Sunny Verghese - *Olam International Limited - Group Managing Director and CEO*

No, we're maintaining that.

Unidentified Participant

Maintaining that? Okay, thank you.

Chow Hung Hoeng - *Olam International Limited - Associate GM*

If there are no questions from the floor let us take some questions from the webcast audience. A common question has been, you know, the CapEx plan for the year. Essentially can we elaborate the CapEx items that were spent in the first half and what would be the second half and for next year as well?

Shekhar Anantharaman - *Olam International Limited - Executive Director, Finance and Business Development*

In terms of CapEx overall we would probably be along a similar pace as the first half. The primary areas where CapEx has been spent is outlined in each segment but there is cocoa processing, wheat milling, there is the plantations in palm, rubber and coffee, being the primary areas where CapEx was spent in the first half, and some of these are completed, some of these are still ongoing.

For instance, some wheat milling (inaudible) will continue in the second half, certainly plantation, both palm rubber -- all three actually, palm rubber and coffee will continue in the second half. So it will be an investment that we have already started that we will be continuing and completing during the second half. Overall terms, it's expected that we'll be at around the first pace as the first half, (inaudible).

Sunny Verghese - *Olam International Limited - Group Managing Director and CEO*

That will be half the rate of what we invested in the last year and in the last two years, last three years.

Chow Hung Hoeng - *Olam International Limited - Associate GM*

Another common question is on the achievement of positive free cash flow to firm. How would we turnaround to achieve that positive free cash flow to firm by the end of the year?

Shekhar Anantharaman - *Olam International Limited - Executive Director, Finance and Business Development*

Primarily there's no magic wand there. There is operating cash flows which we expect to happen in the second half. Second is changes to working capital wherein we see that at this point in time we would be at our -- normally between December and March we would be at our highest working capital. And then assuming constant prices of course which is not in our control, that should roll down on when the shipments happen in the second half. So thirdly, working capital traditionally has come off in the second half, and then CapEx is what it is. So based on wherewe have a clear view, which is something that we are in control of.

So those are the three levers that we will pull and then there is additional divestment that we have planned for which is going to contribute to that. So if you look at our overall operating cash flows, cash EBITDAsand you can have different views on what that number might be. Look at our CapEx and look at changes to working capital, you can get your own confidence. We feel quite comfortable that unless something very untoward happens we will be generating positive free cash flows for the year to follow.

Chow Hung Hoeng - *Olam International Limited - Associate GM*

There are two questions which are essentially variants of what Thilan and Adrian asked earlier. The first is a very direct question actually. Normalized Q4 is generally equal to 2Q and 3Q is better, adjusted for bio gains or loss for this quarter actually, PAT would be SGD145 million. Does that mean for Olam if we have a normal second half are we looking at a PAT of SGD450 million?

Sunny Verghese - *Olam International Limited - Group Managing Director and CEO*

Simple answer, no. We won't give you any point guidance in terms of what the year will look like. We'll give you all the data for you to make the determination and assessment. Some of you will be conservative, some of you will be optimistic but SGD450 million I will tell you now is not going to happen.

Sunny Verghese - *Olam International Limited - Group Managing Director and CEO*

SGD450 million operational, operational (inaudible) clarify.

Unidentified Participant

(inaudible - microphone inaccessible)

Sunny Verghese - *Olam International Limited - Group Managing Director and CEO*

No, no. You asked what do you mean by the PATMI, but you're talking about operational PATMI, unlikely it will be at SGD450 million.

Chow Hung Hoeng - *Olam International Limited - Associate GM*

Okay. The second question is on margins, EBITDA margin for edible nut spices and the confectionery and beverage ingredients segment, how would they look like for the second half? Will it continue on this trajectory, improve or reduce? And are there any special trading conditions that happened in the first half that would lead to these results?

Shekhar Anantharaman - *Olam International Limited - Executive Director, Finance and Business Development*

Again, I don't want to give a specific point guidance but we don't see anything very special emerging beyond some of the things that have been discussed. Between H2 and H2 we don't see much changes in the EBITDA margin range. For both these we have talked about 11% to 13% kind of per cent range in EBITDA IC. We expect that to sustain for the second half too as EBITDA margins can change up and down, margins from percentage of sales. That can change because of pricing which obviously we can't predict.

Chow Hung Hoeng - *Olam International Limited - Associate GM*

There's still a few more from the webcast audience. One is, can you discuss the rationale for the buyback of Sing dollar bonds recently? And another is regarding the cash flow. Why is there a sharp decline in payables in the second quarter?

Shekhar Anantharaman - *Olam International Limited - Executive Director, Finance and Business Development*

As far as the bond purchase is concerned, as we have stated in our announcement, we felt that the two specific issues that we bought into are grossly dislocated in our opinion and were giving an unnatural pricing in the marketplace. We felt it was a good opportunity for us to participate and buy back and we did. And they were also a replacement of more higher debt with the cheaper financing. It has no cash flow impact but that is a small gain. Obviously we didn't do it for just the gain, but we felt that this pricing would not reflective of our yield overall.

As far as the second question on payables, end of?

Chow Hung Hoeng - *Olam International Limited - Associate GM*

End of quarter 2, for quarter 2.

Shekhar Anantharaman - *Olam International Limited - Executive Director, Finance and Business Development*

Nothing really. One possibility is really because of pricing in some products was reduced but really nothing very significant compared to what we call out. I guess one part is probably because the volume in grains which has reduced there is some amount of payables from a prior period basis. That's low--

Sunny Verghese - *Olam International Limited - Group Managing Director and CEO*

You talk about payables quarter 2 compared to quarter 1 or quarter 2 compared to quarter 2 of last year?

Chow Hung Hoeng - *Olam International Limited - Associate GM*

I think the sharp decline is seen in quarter 2 compared to the previous corresponding quarter of last year.

Shekhar Anantharaman - *Olam International Limited - Executive Director, Finance and Business Development*

Yes, and that could be because of the volume differences. But if it's Q1 to Q2, that's probably just a shipment and buying season issue.

Chow Hung Hoeng - *Olam International Limited - Associate GM*

Any further questions? If we are all happy we would like to bring this briefing to the close and thanks for your attendance, and happy Valentine's Day.

Sunny Verghese - *Olam International Limited - Group Managing Director and CEO*

Thank you.

Shekhar Anantharaman - *Olam International Limited - Executive Director, Finance and Business Development*

Thank you.