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O32.SI - Q1 2014 Olam International Ltd Analyst Briefing

EVENT DATE/TIME: NOVEMBER 14, 2013 / 9:30AM GMT

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PRESENTATION

Aditya Renjen - *Olam International Ltd - General Manager, IR*

Good evening, ladies and gentlemen. Welcome to Olam's first-quarter FY14 results briefing. Let me start by introducing the team from Olam. To my left is Sunny Verghese, Group Managing Director and CEO; to his left is Shekhar Anantharaman, Executive Director Finance and Business Development; and to the far left is Muthukumar, President Corporate Finance. I'm Aditya from the Investor Relations team.

We'll start off this evening by a presentation by Shekhar. After which we will open the floor for questions. So those joining us via the webcast, they can post their questions online at any time. So thank you, and over to you, Shekhar.

Anantharaman Shekhar - *Olam International Ltd - Executive Director Finance & Business Development*

Thank you, Aditya, and welcome, ladies and gentlemen to our first quarter briefing for the financial year. So I will assume that the usual disclaimers are read and understood and move straight to the agenda that we hope to cover in the next 30 odd minutes. So I would like to focus firstly on the highlights for this quarter. It's been 4 months into the new year so we would like to spend some time with the key highlights, both financial as well as qualitative.

And then move to a quick strategic recap, looking at what this quarter means for the strategic plan that we announced in April, which is about 7 months into the strategic plan, and how we are faring and what's the progress on the various -- on the core key priorities and the six pathways that we identified. We'll then spend a little bit time on the consolidated financial performance and then focus on the summary.

One thing that you would all notice with the results that you are all glancing through as we talk is the changes that we have made as we had talked about. So this is part of a journey wherein we are trying to improve the overall communication, simplify our communication as well as ensure that our business is focused on the right metrics, the communication focuses on those metrics, and we are able to explain the business and improve the understanding of our business.

And to that effect in this particular -- starting from this quarter, we have a new MD&A, which is -- which you see in your packs, which explains the business around the metrics that we have identified in our strategic plan. The MASNET is also slightly different, and you will also find that this presentation again focuses on the same metrics.

So the intent here to focus action as well as focus the communication on the metric that really matter and simplify our overall communication and make it more transparent and make it more understandable, putting the business in its right perspective.

So we will -- must say that this is the start of a journey. We have sought a lot of feedback before implementing this new communication pack, and I'm sure at the end of this and going forward we will improve this based on your feedback.

So with regard to the first quarter, I think the first key thing is our first quarter, as you all know, is our quietest quarter. But it's been a good steady start to the year and we are quite pleased that both in terms of profit performance as well as cash flow performance we are moving around the milestone that we have set for ourselves. We have an EBITDA growth of roughly 12% and PATMI growth of about 6%.

And equally pleasing is the fact that the free cash flow generation for this quarter is a positive number. But more than the number itself, it is a significant improvement over the previous quarter of last year. So on the twin objectives that we have highlighted in our strategic plan of pursuing both profitable growth as well as improving our cash flow generation, we think that the quarter will provide some milestones, although it is one quarter in -- for the year and the rest of the year is still ahead. But it's a good start to the year.

We are also pleased with some of the more boring, mundane stuff, but which is very important to continue to deliver on this performance. And the first part is an improved operating efficiency and you'll note that the, in terms of overhead growth it's a significantly reduced pace of growth compared to what we have -- you've seen in the past.

With the mix of acquisitions and the investment that we were making towards our strategic plan, we had been growing overheads in the high teens, and you'll see in this quarter and going forward that that pace of overhead growth will come down. And this is on the basis of a lot of sustained cost management initiatives that we are implementing across the Company.

You also see reduced pace of CapEx as per what we announced. So it's reduced compared to what we were spending, but it's still an incremental SGD1.5 billion that we expect to spend over the next 3 years. So we are focused on implementing that revised CapEx program, but it's certainly reduced compared to the CapEx that we were implementing over the last 3 odd years.

Lastly, another key metric that we are focused on is to ensure that the net gearing doesn't -- remains within a ceiling of 2 that we have set out in the strategic plan period, and we are pleased to announce that at the end of this quarter we are below that 2 times gearing that we have set out.

Last but not the least, we have made two announcements post the quarter end; one, which is a disposal of a gin in Australia, and more recently as of last night, the sale and lease-back of the Australian almond orchard. And both these are critical pieces in the journey that we identified and the key priority that we identified in the strategic plan.

So overall terms, good steady start, reasonable set of financials for quarter one and good progress towards the key strategic plan priority. So I'll move straight to just providing, encapsulating the actions that we have taken towards the 6 key pathways that we had identified in the strategic plan 6 months ago.

A lot of you and a lot of other investors have spoken to us and feeling a bit impatient about the progress along these priorities. And it's tough to convert each of these priorities into action overnight. I can assure you that we have been working hard on each one of these priorities, each one of these pathways. And if you look at for an overall basis what we have achieved so far, we certainly believe that a significant improvement in cash flow generation, as you will see in the number. We certainly believe that in terms of reduction of gearing we are below the norm that we have set for -- our revised norm that we have set for ourselves.

So we are looking at optimizing the shape of our portfolio, reducing the complexity. There have been four business units which have been restructured quite comprehensively and 27 profit centers that have been shut down. And there is a lot of action that have been taken to better improve the understanding of our business amongst our key stakeholders which includes Investor Days, which includes field visits and which includes the revised reporting format that we are launching from this quarter.

On an overall number basis, because lot of analysts are here, so you'd like a number, the five key initiates that we have concluded and announced so far have overall terms released, it will release a cash of SGD370 million and a gain on these five initiatives of SGD95 million.

So two points here; one, five asset disposals that we have done, two of which are sale and lease-back nature and three are asset -- two are asset disposals of non-core asset and one is a divestment of 25% stake, which is the noodle -- of the noodles business. It means these five which were key priorities for us in the strategic plan we have actually concluded an ability to reduce our balance sheet by SGD400 million, SGD370 million odd. But more importantly, reaffirm the value of these assets and the value that we have added to these assets after we acquired them. So we are quite pleased with that outcome along those priorities that we identified.

In terms of details on the six specific pathways, the CapEx has been scaled down as for the revised SGD1.5 billion plan in the next 3 years. And you will note that in this quarter it's about 25% lower than what it was in Q1 of last year. On the area of optimizing balance sheet, we have announced two transactions, the Australia almond sale and lease-back as well as the US, which was announced previously in last year. In terms of unlocking value from our assets there have been two divestments, the sale of the basmati rice mill as well as the sale of the cotton gin more recently as well as the divestment of 25% stake in -- to Sanyo Food.

So put together these priorities pathways two and three is the SGD370 million in cash generation as well as SGD95 million odd in gains that we are, we have fortified.

In terms of the shape and optimizing the shape of the portfolio, I already mentioned four BUs have been restructured quite comprehensively and two of those have already started delivering results, both sugar and the dairy supply chain have both started delivering results in this new form and format. And the wood products and the CFS business are on their way to start delivering hopefully soon in the revised format.

And again, in terms of improving operating efficiencies, well, these things take time and this is a journey that we have started. But we're pleased to see that there are results even in this quarter for you to take back with you.

And in terms of specific actions we've taken, in terms of stakeholder communication, we have already held Investor Days for four BUs; we've had a field visit with where some of you have joined us on to Gabon and Nigeria; and then the changes that we have made starting today. And hopefully all this will help in improving the key messaging around our business.

So on all the six pathways there has been progress. There is beyond this a lot of actions happening on various priorities. And obviously as and when we are concluding those specific and whatever is announceable we will be sharing that with you. So please rest assured that we remain focused on our total strategic plan that we've announced and we will remain focused in the coming quarters in showing you milestones again the same.

Since the sale and lease-back of the Australian almond just concluded yesterday, we just like to take a couple of minutes on this transaction which we think is extremely -- we're very pleased with the outcome. Firstly, the sales consideration of AUD200 million will help us reduce debt and improve our cash flows for the current year. We expect the transaction to get completed in the early part of Q3. So this will be something that will impact this particular year.

There is a one-time post-tax gain of AUD45 million expected, which is again -- will hit the books this year. And this reiterates the value. We believe we bought these assets at very competitive values 4 years ago, but the assets were quite distressed. And the value today at which we have been able to sell these assets to very select investors shows the amount of effort that's gone in and the quality of effort that's gone in to improve the value of these assets.

And the trees have been nursed back to health. You all remember that the first couple of years we struggled with the yields where the trees had been distressed because of the drought as well as the financial difficulty that the previous owner had. But we have done a lot over the last 4 years and today the orchard -- this value at which we have been able to sell this particular asset shows the value that we have created -- we have bought at as well as what we have added to these assets over the last 4 years.

We like to reiterate that we have continued complete right over the complete harvest of all these assets. So therefore, the profit flow that we have as well as what we expect at peak maturity from these orchards for the rest of productive life of these assets will still accrue to Olam. And hence that is a very important part of this whole mechanism and we believe that in being able to negotiate a yield and lease rental to the investors which gives them a yield that they are comfortable with and which is lower than our cost of debt, as well as reducing some of the depreciation that we will have on these assets, it is a win-win for both the investors as well as for Olam. And that is really what is the most pleasing part about this whole transaction.

Consequently, there will be a significant improvement in our returns. We expect our returns on the same assets because of the reduction in the overall investment and the maintenance of our profit to be at least 25% better that what we are yielding today, and that's about a 600 basis point improvement in ROE. So it's a fairly significant impact on our EBITDA/IC as well as the overall returns to the Company.

Lastly, it's a very strong endorsement by a set of investors with whom we believe we can build a long-term partnership, not only in Australia, but also in other parts of the world for other such investments that we have made or can make in the future.

So we are very pleased with the quality of investors that we have been able to attract. And it's a consortium of investors, all of them which have deep pockets and a very strong view on the agri sector and their appetite for the agri sector.

So basically that's the structure of the transaction. If there are any questions, we'll obviously take that offline. But this is an important transaction, an important priority that we had outlined in our strategic plan. We are pleased that we have brought it to fruition within the first 6 months.

Moving forward to the consolidated financial statements, and we're just going to focus on four or five key messages here. The first, which is a snapshot summary, we have roughly flat volume compared to the Q1 of last year. I must remind that Q1 of last year was a 98% growth over the previous quarter. So it was a very significant quarter last year because of the grains and the rice volumes that increased quite significantly, which we had talked about last year.

And so we are happy to be able to maintain that volume. There has been volume growth in all segments except the grains and the rice segments and the rice businesses. But all other segments are therefore showing good growth and we expect that to grow -- to continue over the next three quarters.

In terms of revenue, you see a fall. But that's true because that's a reflection of the commodity prices which have all pretty much been -- headed southwards except one segment, which is the edible nut segment, all other segments have had fairly significant drop in prices. But as you are aware, sales prices move up and down and that's not really what's important. Our key value drivers are the volumes and the margins that we extract by our participation in the value chain.

So because of the margin expansion that we have been able extract from the investments that we have made in the midstream and the upstream market, as well as in the core supply chain that continues to work very well, you see a 12% increase in EBITDA despite flat volumes and a 8% reduction in revenue, so which contributes to a PATMI of 6% growth over last year, SGD45 million absolute size of PATMI.

If you look at the -- it's a busy slide, so I just want to focus on three or four lines here; and you all have these numbers with you. The PATMI growth if you try to break down, so first component of that apart from the -- which contributes to the EBITDA growth is the reduction in the rate of overhead expenses that I mentioned. And that's something that we expect to focus on and keep going on at it over the next quarters in the coming year.

For those of you who are focused on the biogains line, there is a reduction in biogains because of the maturity profile of the assets. So as we have maintained consistently, that we don't treat biogains separately because we're also charging off all the costs. So for those of you who consistently remove it, we hope that you will consider these results as without those biogains as well as with those biogains.

As far as the associates' contribution is concerned, it's slightly lower because of SIFCA, both CPO prices as well as rubber prices being lower. So it's slightly lower. And there is a higher depreciation charge because of the -- as compared to the previous quarter because of the almost SGD1 billion of fixed asset investment that have happened over the last 12 months.

There's a slightly higher tax provision and we've been more conservative. Although by the end of the year we expect to be having an effective tax rate lower, certainly lower than last year. But at this point in time on a quarter on quarter it's a higher tax provision.

So on a overall basis those are what have contributed, but really EBITDA and driving that EBITDA growth in the coming quarters which will really help us deliver the profit and the PATMI targets for the rest of the year.

Moving to segmentals, and just for giving you a snapshot of the EBITDA across those -- our operating segments, which is a growth of 12% that we talked about, you'll notice that this is being done on an invested capital which is more or less flat and between FY13 and now. And you'll see as we go along to each segment that while fixed capital investments have grown between last year this time and now, the working capital has pretty much remained flat. And that's an important message that we want to leave all of you.

We expect this EBITDA growth to continue, but we would not be looking at increasing the invested capital the way it has been in the last few years. Both there will be some increases in fixed capital based on the plan that we have drawn up, working capital also there will be some increase based on volume and prices, but it will not -- we expect the EBITDA growth to be better than the increase -- the rate of increase in the invested capital all other things being equal.

So moving to the four segments. Nuts, Spices and Vegetable Ingredients segment has had a very good start to the year. This segment has grown EBITDA quite appreciably over the last 4 years. And in this slide we are trying to give you the last 4 years as well as the quarter-on-quarter comparison. And you'll notice that there's almost a 25% increase in EBITDA on a quarter-on-quarter basis, and almost one-third of the last year's EBITDA already booked into -- in quarter one itself.

Primary drivers have been almonds, which have had a very good volume, good pricing on the upstream side. They've had a very good start. The onion business, the garlic business in the US. The tomato business which was underperforming in the previous last 2 years has also had a good turnaround and has got off to a good start.

The hazelnut business is again operating at almost full capacity now. So almost across the board in the segment there has been a good start to the year. The only two businesses which are kind of probably not tracking fully, one is the peanut business because of the upstream Argentina business. Rest of the peanut business is doing very well. And the cashew business, wherein the new mechanical factories are still not reaching full potential. So therefore those are probably the only two drags in the segment, otherwise it has got off to a very good start.

When you look at the invested capital, you'll see that this business has had quite a lot of investment over the last 4 years in fixed capital. The working capital has pretty much remained flat. And between the end of FY13 as well as now, again, working capital is more or less flat and fixed capital also more or less flat.

So we expect this business to be throwing out some cash for us, not as much investment. Of course there will be more investment in working capital to match the growth. But we would expect the EBITDA growth to be ahead of the curve and we'll extract full value for these investments that we have made.

Moving to the Confectionary and Beverage Ingredients, this is a quiet quarter for this segment and the business has yet to happen. For both cocoa and coffee the seasons are all ahead. So while some procurement has started and cocoa is off to a good start with the procurement season in West Africa, but coffee seasons are all ahead and have to happen.

The investments we have made in upstream coffee plantations, cocoa plantations as well as midstream and soluble coffee both in terms of our greenfield in Vietnam and the Seda acquisition are all going very well. The cocoa new plant in Ivory Coast is also on target on time and will expect to go into trial production in the first quarter of next year.

So a lot of margin improvements in this segment, a lot of fixed assets improvement, investment just in the last year. They're all out there for us to extract value from. So a good start to the quarter, but probably a lot left in the next three quarters still yet to happen.

Food Staples and Packaged Foods has had -- last couple of years have been quite spectacular in terms of EBITDA growth, in terms of the investment that we have made across the six products that constitute the segment. And in comparison, we have had a slow start to the year, this year. But this is on top of an exceptional last quarter last year -- exceptional first quarter last year.

So we see EBITDA as moving at a slower pace here, but this is off a very good quarter -- prior period comparison. You will see that this is one segment in which we have done significant amount of working capital optimization compared to the previous year and we expect that in terms of working capital this business will be using lesser as well as -- but without hurting its EBITDA generation capacity.

We have a very good trajectory on the wheat flour mills, which have been completed, the expansion in both Nigeria and Ghana has been completed. The packaged food businesses are also off to a good start. The Indonesian sugar refinery is doing very well. The supply chain business in palm, in dairy, in sugar, which has been in its new restructured form, are all tracking quite well.

There is obviously a lot of gestation in the palm plantation wherein a lot of fixed capital is getting still invested. Obviously, that won't be delivering in this -- immediately. But in overall terms we are quite hopeful that this segment will catch up in the coming three quarters. And with the tapering out of some of the investments -- investment that we have been putting into this business, we'll see improved EBITDA/IC margins in the coming quarters.

Last, but not the least, Industrial Raw Materials, this is probably the place where the first quarter is very insignificant. It's a 32% absolute increase quarter on quarter, but in terms of what needs to happen in the rest of the year, it's a very insignificant part. But the good news here is that the quarter is off to a good start. It has had two challenging years in the last couple of years. It's off to a good start, volumes and margins.

The wood products business has had a lot of restructuring done last year and there is a little bit more to go this year. So that is going to be -- but we have achieved significant reduction in the overheads in wood products of something like SGD60 million, SGD65 million down to almost half of it to SGD32 million. So again in its restructured form we expect that business to start delivering.

The fertilizer trading volumes have been slightly low as compared to previous years, but otherwise -- as compared to the previous year. But on overall basis, the -- we have done a lot in terms of working capital optimization in this segment also and you will see that the working capital has reduced over SGD200 million compared to even the start of the year as well as compared to the previous year. So again, that's the four segments.

The fifth segment which has not done well, which we didn't put in the slide, but you'll see in the numbers that you all have is CFS segment. We restructured the segment, the business into two separate parts; the funds business as well as the market-making and vol-trading business.

It's been a tough start to the year with an operating EBITDA loss, some because of the restructuring that we have done, and some because of overall market conditions. So we will be keeping a tight focus on this business. In overall terms, it's not extremely material to the overall size of our EBITDA expected for the year, but we are going to be keeping a tight watch on that business and the business in its new form we believe will start delivering in the coming quarters.

That's the segmental overview, moving to cash and cash flow, which is a primary focus. In the annual results we had talked about the last 4 years of trajectory in the improvement in cash flow that we have focused on and we are pleased to say that on all the key things that we can impact, which is the cash flow from operations, there has been an improvement, the changes in working capital.

If you see the extent of working capital increase that happened in Q1 of last year versus what has happened this year, well, there was a slight increase, but there has been a significant lesser use of capital, working capital, the tax paid is marginally higher and the capital -- the CapEx investments have been almost 25% lower.

So put together, for this quarter there is a positive free cash flow to firm and negative free cash flow to the equity holders. But even in the FCFE you'll see a significant trajectory change between what was there last quarter -- last year this quarter. And so I think the important part here is not the absolute value of the free cash flow that we are generating, it's the significant trajectory and improvement that we are creating, and that's what is an important thing for us.

Our business is seasonal and there will be volatility in sometimes in prices and therefore working capital utilization. So we can't pinpoint, predict it. We can assure you that we are focused on all the things that we can manage to ensure that this heads in the positive direction and stays there.

The balance sheet and gearing, I mentioned is pretty much maintained and maintained below 2. Net of RMIs, we are at an adjusted gearing of 0.57 which we feel very comfortable about and that provides us ample debt capacity in case we do need it.

More importantly, the liquidity is solid. Between cash of SGD1.2 billion, the near cash items of RMI hedge inventory and secured receivables of roughly about SGD5 billion and unutilized bank lines of roughly SGD5.5 billion. We have almost SGD12 billion of liquidity to cover total debt of SGD8.5 billion; SGD3 billion in short-term and SGD5.5 billion in long-term.

So to meet our operating requirements, working capital requirements, CapEx requirements as well as any debt repayments, we have an ample liquidity, and more than ample liquidity. We are also pleased with the diversified nature of the debt that we have. And also more importantly in this quarter we have raised incremental debt, refinanced, both with the -- with IFC coming back and looking at project finance for prior projects as well as 5-year revolving facility in the US, $400 million.

So put together, we were very pleased to raise this at very comparative rates, better than what we were doing last year. And this bodes well for our overall debt cost as well as the diversified nature of our debt.

And as far as the cash-to-cash cycle is concerned, there is a marginal change. We are in peak -- peak season or we are entering into our peak season, so obviously our -- both our advance to suppliers and inventories are high. But we're quite pleased to see that we have been getting a lot of supplier credit and on an overall basis the cash-to-cash cycle remains almost constant between where it was last year.

So to summarize and the key takeaways that we hope you will leave with; first, it's a good start, it's a steady start to the year and we are very pleased that we are striking the right notes on both the objectives of profit growth as well as free cash flow generation. We are making very good progress and we hope that with the snapshot of the strategy recap that I presented you will see that we are making good progress on all the key pathways that we have identified.

The balance sheet remains strong, the liquidity position remains strong, gearing remains within levels that we are comfortable with. We've dramatically enhanced our stakeholder communication over the last 6 months, and we would welcome your feedback to see what are the existing gaps and how we can keep closing them as we go further. And this particular quarter's results are hopefully one more step in that direction.

In the end, I think it's all about execution, and that's a dull, boring, mundane stuff. And that's what we expect to be doing for the rest of the year and for the years to come. And it's really extracting full value for investments that we have made, focused on executing properly against the revised CapEx plan that we have. So we are not getting -- we going to be investing SGD1.5 billion to look at new growth or to complete some of the initiatives that we have started.

We are looking to extract full operating efficiencies, working capital optimization, all the other balance sheet optimization. And that's really what we will be focused on. And we hope that this quarter one result gives you a bit of a flavor of that focus. And we'll be happy to take any questions that you have. Thank you.

QUESTIONS AND ANSWERS

Aditya Renjen - *Olam International Ltd - General Manager, IR*

Thanks, Shekhar. We are now open for questions. If you have a question, raise your hand and a mic will be brought to you.

Philip Wickham - *HSBC - Analyst*

Yes, I know you with your increasing use of --

Aditya Renjen - *Olam International Ltd - General Manager, IR*

Can you just identify yourself please?

Philip Wickham - *HSBC - Analyst*

I'm sorry. This is Philip Wickham from HSBC. I know that you are using an increasing amount of sale and lease-back of assets, but I'm just wondering what was your operating lease charge in this quarter and prior years? I just want to get a gauge of how it's changing. And second, is there any guidance for your operating lease charge for the full year?

Anantharaman Shekhar - *Olam International Ltd - Executive Director Finance & Business Development*

Well, we have announced these two particular transactions. The second one is yet to be consummated, so therefore there is no operating lease charge that has started for that. What we can say right now is that the operating lease charge is going to be -- is lower in our long-term debt for equivalent tenures, and hence we expect to maintain the profitability on this -- on these transactions net of the lease charge and the difference in the cost of debt.

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

So the lease rental that we are paying is lower than the interest cost we are paying on the debt supporting those assets. So we will be having some net benefit on that score. Secondly, as Shekhar already outlined, we would have significantly lower capital intensity. In the case of the Australian almond orchard we will release AUD200 million of cash. And in the case of the US assets we released about SGD65 million of cash.

That will allow us to significantly enhance our returns. In this example, in Australia, it's a 600 basis point increase in return on equity and a 25% improvement on our return on invested capital. And most importantly, we still have access to the same production economics. So the profitability with the lease option and without the lease option in the case of the Australian asset that we just sold and leased-back will be slightly better than if we owned all the assets ourselves because of the saving in depreciation which will not be a charge for us now. So it will be slightly better to that extent compared to owning those assets and managing those assets.

And finally, as a subsidiary benefit, we are also booking a capital gain. As Shekhar has mentioned, on the five assets that we have disposed off two we have sold out and divested. And two we have done a sale and lease-back, which is the orchards in the US and the orchards in Australia. And one is a JV where we have partially sold on our stake in the noodles business in our packaged foods segment to Sanyo.

Totally we will release about SGD369 million of cash. We will book capital gains of SGD97 million, of which SGD38 million has already been booked in the past quarter and about SGD58 million is still to be booked, which will be booked as the transaction is complete. So we believe that this is a win-win situation both for us and for the potential investors who now own these assets and who are leasing it to us in terms of returns for them.

So the exact quantum of what was the lease charge last quarter, we will come back to you. There's only one asset that has been leased and that we have incurred the lease rent to last quarter. The rest will be only incurred in the future once the transaction completes in Australia. Follow-up question?

Philip Wickham - *HSBC - Analyst*

(Inaudible) probably operating lease arrangements, is that right? They're not --

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

Yes, they are all operating lease arrangements.

Philip Wickham - *HSBC - Analyst*

Thank you.

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

Because all the land price appreciation from here on will go to the new owner. We only have right in the Australian -- in the US case we own the trees and the produce from the trees. In Australia's case we own the produce from the trees.

Tanuj Shori - *Nomura - Analyst*

Tanuj from Nomura, three quick questions. On sale and lease-back, like almonds are obviously one of the potential assets which you had previously highlighted as (inaudible). Any other asset which you could clearly demarcate which could go through the same route? That is one.

Two, in food staples, like last year obviously we saw the volume inflection because of grains trading and everything. I just wanted to understand have you seen the proper inflection already or this year potentially there are some new geographies or how that business could ramp up. The packaged foods and the food staples volume, especially the grain trading volume.

And third, in the commodity financial services, Shekhar talked about restructuring market volatility and (inaudible) what do you mean by that?

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

On the first question, most of the sale and lease-back that we are considering, we are considering in the upstream assets. So the two examples of what we have done is in almonds. And these are fairly unique, in a sense landmark kind of structures, which have been put in place. There are pastoral funds which invest in agricultural assets, but this kind of structure is I think quite path-breaking to have done and I'm sure this will open up a new asset class for potential investors interested in a yield kind of product.

So there are other plantation assets that we have. We have dairy farming assets, we have palm plantation assets, we have rubber plantation assets. So these are all amenable to now replicating this template and the structure that we have completed in almond. I can't be specific about which of our properties we are considering there. But obviously we are working on a few more such transactions as we have mentioned in our announcement that this provides now a useful template to consider similar structures in our upstream part of our business.

On the second question about food staples and packaged foods, there will be a decline in volumes in grains because we are changing the models in some of the participating origins. So in terms of volumes because you saw in the last 2 years there has been a rapid growth in the grains business, and a significant change in volume growth in that segment came driven by the growth in grains volume.

So volume in the segment is likely to decline this year. But if you look at the four or five platforms in that segment, which is grains, which is rice, which is packaged foods business, sugar business, most of these businesses from a bottom line performance this year and apart from grains and a little bit in rice, the other segments, other categories and platforms in that segment will grow both volumes and earnings. So we would expect to have reasonably good year in this segment for the full year.

The third question of yours which was about the CFS business, as Shekhar mentioned, we have restructured that business into two divisions. One is the funds management business, where as you know we have a fund that is now got third-party capital also involved, which is Ektimo, which is a relative value fund. And as we have mentioned during the past, there are other funds that we are doing capital trials for, fundamental fund. If those capital trials work out the way we plan it to, then we will go to the market to raise capitals for that fund.

The fund management business has now been segregated and they're housed under a different structure. And then the market-making and vol-trading business and the risk management solutions business will be the other business within the CFS. The first business, the fund business is a regulated business from MAS. The second, the market-making, vol-trading and RMS is not regulated by the MAS, but has obviously got to be compliant with exchange rules in various exchanges where we do that activity, market-making activity.

We also restructured the business as a result in terms of total costs. So in the market-making and vol-trading business and RMS business we've reduced overhead cost by about 33% from last year by aggregating the team in two locations compared to the four locations that they were present in last year. So there are various things that were done to reduce overheads by about 33%.

The reason why we are in the CFS business is because from a return point of view, from a quality of income, risk adjusted income point of view these are very attractive businesses. The MMVT, RMS business we've been learning for 10 years, mostly internally as a captive and in the recent past in the form that it is there now. And in 9 out of the 10 years it has been fairly positive. In 8 out of the 10 years it has been PBT positive. It has a much higher -- for every dollar of risk capital VAR it has the best return on a VAR-to-return basis.

Only this year it had been PBT negative, and last year it was book value positive, PBT negative. But each year it has been significantly PBT positive and it has also given us the best returns. Very little working capital involved, no fixed capital involved. There is only overhead capital and it has got a very high return to risk capital.

So we will have to just accept a down year, 1 in 10, and we are confident that this business going forward will be a very attractive risk-return profile and therefore we will continue to remain invested with the restructuring.

Unidentified Audience Member

[Steven], Barclays. You mentioned about some investment initiatives over the next few years. So question is that could you outline some of these initiatives and how will this be funded?

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

Yes. So unfortunately we cannot identify the investments and can't be specific about that. But what Shekhar mentioned is that the next 3-year plan is the total CapEx spend of SGD1.5 billion compared to the roughly SGD3.5 billion that we spent in the last 3-year period. So we are reducing our CapEx rate by more than 50% compared to the last 3-year period.

All of those investments that we plan to make, while I can't be specific about each of those investments, will all be on strategy, on plan. So we're not going to be getting into a new business or doing any investments that is off strategy or off plan. So it will be as Shekhar mentioned briefly in the grains thing, the food staple segment, that we are invested in a new wheat mill in Senegal, a new wheat mill in Cameroon in addition to the existing wheat mill in Nigeria which we have more than tripled capacity in and the wheat mill in Ghana. So it will be exactly those kinds of investments which will strengthen our core business, which is on strategy and on plan.

So in the first quarter of this year we have spent roughly SGD150 million in CapEx in similar such investments, and that is roughly SGD52 million lower than what we had spent in the first quarter of last year. So last year we spent more than SGD1 billion in CapEx; this year we will spend half of that.

Unidentified Audience Member

You fund it internally, by internal funds or --?

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

Yes, yes, yes, there will be no equity raising to fund this. So it will come from our internal accrual.

Unidentified Audience Member

Thank you.

Unidentified Audience Member

This is [Kenneth] from [Merrill]. I just want to ask, your revenue dropped by 9 odd percent, but then --

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

Sorry?

Unidentified Audience Member

Your revenue, but then your --

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

Yes, 7.9%, yes.

Unidentified Audience Member

Yes, 7.9%. But then your cost of goods sold actually fell by more than 9%. Why is that so? Your --

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

Cost of goods sold decreased by more than 9%?

Unidentified Audience Member

Yes. It should come more than 9%. Is it because of your aggregating two things together on one location, is it one of them?

Second question, what's the progress on your Gabon urea fertilization plant?

And the third question, how much have you spent year-to-date? (Inaudible).

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

Yes. Well, I think on the first question about revenue and cost of goods sold, we are not, as we have mentioned to you in the past, really very focused on revenues. We are focused on volumes because the drivers to our profitability are volume growth, margin per ton growth, absolute dollar per ton margin growth, rather than percentage margin, because we're not in control of commodity prices. If cocoa prices are trading today at [USD1,000] (Company corrected after the conference call) and we make, say, USD100 a ton we make 10% margin. Tomorrow cocoa prices could be trading at USD2,000 a ton, we will still make USD100 per ton, but that becomes a margin now of 5%.

So we're not really concerned about the top line numbers. So what we are looking at is how do we find ways to grow our volumes that we supply to our customers, and for every ton that we supply how do we improve our margin per ton. That growth in margin per ton comes from the supply chain margin, which is the origination margin, the distribution margin, the trading margin. But it also comes from enhancing that margin by going upstream in the plantation, the farming, which gives you a pickup in that margin. Or going midstream into manufacturing or processing, that gives us one of the pickup in the margin.

So really what you have to be focused on is in the EBITDA per ton. In the past we used to say NC per ton, because NC was not a good enough measure for the upstream segment and the midstream segment but a very good measure for the supply chain business. But because you are investing more in upstream and midstream, we said EBITDA per ton will capture as a metric all of the various business model that Olam has.

So if you look at the revenues and the cost of sale, you will see that the EBITDA per ton and the EBITDA margins have actually improved. So it doesn't really follow strictly that it has a 7.9% drop in revenues, so they're actually exactly the same drop in cost of goods sold. It is really a function of what are the initiatives you have taken to improve your margins and therefore it could be higher, or if your margins compress, it could be lower.

On the second question that you asked about urea, we have already given you an update the last time. We have made it public that our intention in that business is to deconsolidate that business by selling down our stake from the current 80% that we own, the government owns the balance 20%, to below 50% by bringing in strategic investors who will then exercise joint control and joint management of the business alongside us.

Which means we will only then consolidate and do equity accounting of our investment in that project and not consolidate the whole balance sheet. So we have got two consortiums of potential investors who are in various stages of due diligence. These things, as you know, take time. So we are making good progress. We are pleased with the progress that we are making, but there is nothing that has crystallized in the form of making an announcement of who the new partners are and that we have succeeded in selling down that stake.

But we are making good progress and we are definitely moving towards that objective of selling down that stake and deconsolidating this business.

It is an attractive business, therefore we want to remain invested. So it is not that we're wanting to sell 100% of that business. We want to remain invested because we feel from an economic point of view, from a return point of view it is a very, very attractive project. But from a capital intensity point of view, it is very significant capital investment which we want to now reduce our commitment to. And therefore we will look to consummate this deconsolidation exercise that we have currently embarked on.

On the amount of investment that we've already made, about SGD140 million --

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Anantharaman Shekhar - *Olam International Ltd - Executive Director Finance & Business Development*

SGD141 million.

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

SGD141 million already committed to the project which we have made.

Anantharaman Shekhar - *Olam International Ltd - Executive Director Finance & Business Development*

But a lot of that is in developing the site, and we had announced in the -- when we talked about in the full-year results, that we are dredging and that land site is prepared. So a lot of that in land site preparation and that can be recovered when the site can be utilized by not just for this project but for other projects. It's a very attractive site, so therefore we spend this money with the confidence that that site will have value.

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

So dredging, land filling and getting the site ready for construction is what we have done so far. But preceding that is all the ESIA work that we did, this is the environmental social impact assessment work we did, all the technological work which we did, all the gas due diligence, all the technical due diligence, developing the project scope, getting an EPC contract, all of that stuff is what we have been engaged in.

So we have taken the project to a stage where we can now start construction.

Unidentified Audience Member

Is there a point where you will limit your commitment to the Gabon project because you have spent another SGD35 million in this last 3 month?

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

Yes.

Unidentified Audience Member

Is there a point you will say we'll stop here and wait for milestones or this is --?

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

Yes, I think we will spend up to USD150 million. We've already spent, as Shekhar said SGD141 million. And then we will wait to see whether these milestones are achieved. That will delay the project, but that is fine.

Abhijit Attavar - *Jefferies - Analyst*

I wanted to touch base on that EBITDA per ton comment you made, you said that you are targeting EBITDA per ton. But tomorrow if prices go up your working capital will go up, so the interest related to that EBITDA per ton goes up. So what exactly --

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

EBITDA percentage will change because prices go up and down. EBITDA per ton is fairly sticky, because we're not trading this on a proprietary position directional basis. So what we're trying to capture is an origination margin. What we're trying to capture is the distribution margin. And what we're trying to capture is relative value trading margin. These margins are fairly sticky over a broad range of prices. So whether cocoa is trading at USD1,500 or cocoa is trading at USD2,500, this dollar per ton margin is fairly sticky. But because the prices change the margin will change.

Abhijit Attavar - *Jefferies - Analyst*

Yes, that's the point I'm trying to drive at. I mean if EBITDA per ton is constant tomorrow if prices double, the revenue doubles, the working capital doubles, your interest itself doubles.

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

Yes, that is a fact of our business. So EBITDA doesn't include interest. That's why we say EBITDA per ton will remain constant -- not constant, a precise point number. But it's fairly sticky and it will be in a small range. What will change is the percentage margin, as you rightly pointed out. And PBT margins might change. But EBITDA per ton --

Abhijit Attavar - *Jefferies - Analyst*

(Multiple speaker) seems to imply that (inaudible). I mean this is different from what we inquired previously, that would you pass on the interest cost of --

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

If you have attended all our earlier presentations, we have already said that we prefer a lower market for the precise reason that you are explaining, that the working capital investment is lower. So in Olam's case we don't want a very low market which disincentivizes the farmer to produce more. So if the farmer gets a price which is below the cost of production, then he will not produce or he will go to some other crop.

That is bad for us because then we have less volumes to (inaudible). So we want prices which are remunerative enough that encourages the farmer to plant more. But overall, based on our business model, the lower price we prefer because we have lower investment and because we make an absolute dollar per ton. That's always what we have maintained.

Anantharaman Shekhar - *Olam International Ltd - Executive Director Finance & Business Development*

If I can just add one more point to that, there is -- higher prices mean higher working capital. The interest on working capital and higher carrying charges mostly is a pass through. What we can't recover is really interest on (inaudible) fixed capital.

So as far as the question that you had about the prices, if it is on account of prices and higher working capital and the whole market is going to be passing on the, let's say, cash-to-cash cycle holding time and the interest cost to the -- in the pricing, then we will also be able to recover that part. And in most cases that's why our margins when the prices go up or go down don't change that much on the working capital side. For fixed capital investments you can't recover. If you have not done the volume it's not there.

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

For interest you pass through, but absolute working capital will grow when prices are higher. So your investment grows when prices are higher.

Adrian Foulger - *Standard Chartered - Analyst*

Adrian from Standard Chartered. Just one question about your gearing, which is at 2 times. Well, I just remember into history for the calendar year fourth quarter, your second quarter was typically a ramp up period in terms of working capital. You are already at 1.93 times at the end of this quarter. Should we be expecting it to breach 2 times in the short-term at the end of the year or is that 2 times not going to be reached at all?

Anantharaman Shekhar - *Olam International Ltd - Executive Director Finance & Business Development*

We think that if prices go up and you are in peak procurement season and shipments get delayed or things like that, it can go up. But we believe that on a more cyclical, more structural basis we should be able to retain below 2 times. If you look at the same time last year, it was above 2 times, it was about 2.01 or 2.02 end of Q1 of last year.

So it has moved between 1.8 to 2.25 and we believe that on a structural basis what we are doing will keep it below 2. But there might be blips at a point of time which might take it above 2. But structurally I think we should be able to sustain it.

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

So if there is a maximum run up in prices, then I think we might breach this. But that will be hopefully temporary.

Adrian Foulger - *Standard Chartered - Analyst*

Thank you. Just on cash flow and balance sheet, the -- oh gosh, I lost my train of thought here. Sorry. (Inaudible) result.

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

You can come back. We will take other questions, you can come back.

Charles Spencer - *Morgan Stanley - Analyst*

It's Chuck Spencer from Morgan Stanley. Were there any gains in this quarter from the sale lease-back activities that came through in the P&L?

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

No.

Charles Spencer - *Morgan Stanley - Analyst*

Okay. And --

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

Because the transaction is not yet complete. When it completes it will come through.

Charles Spencer - *Morgan Stanley - Analyst*

And then you'll highlight to us.

Then secondly, when you talk about free cash flow to firm, will you be including the 45 million gain or the 200 million value released when you calculate that net CapEx number?

Anantharaman Shekhar - *Olam International Ltd - Executive Director Finance & Business Development*

Yes, the changes to CapEx will have both investments and divestments and that will be included there, and therefore part of the free cash flow to firm. And which is the conventional way in which it is.

Charles Spencer - *Morgan Stanley - Analyst*

Yes. I guess I'm just wondering, you talk about a gain of 45 million and you talk about a value release of 200 million, which one goes into that net CapEx?

Anantharaman Shekhar - *Olam International Ltd - Executive Director Finance & Business Development*

So 200 million will go into the net CapEx.

Charles Spencer - *Morgan Stanley - Analyst*

Okay. And then looking at the industrial raw materials segment, last year the SEZ project was a major contributor to that. Have you identified how much of that, segment earnings came from that?

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

Actually, in the last year the first quarter SEZ was not a major contributor. So on a quarter-on-quarter basis it's a pretty like, it's a pretty like comparison.

Charles Spencer - *Morgan Stanley - Analyst*

But for the full year it was a major part --

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

For the full year --

Charles Spencer - *Morgan Stanley - Analyst*

Because I remember for the fourth quarter it was a major part.

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

That's right.

Charles Spencer - *Morgan Stanley - Analyst*

So with that project mostly done, could we assume that the industrial raw material seasonality doesn't look like it did last year?

THOMSON REUTERS

Anantharaman Shekhar - *Olam International Ltd - Executive Director Finance & Business Development*

There will be some reduction in Q4, but the SEZ is still expected to contribute this year because there is still some unsold part as well as some of the annuity income that will kick in because now the tenants are going to pay for that. So there will be some income. It will be lower than last year, it's likely to be lower.

So to that extent it will have some marginal impact on the seasonality. Last year was also a very poor year for the other two products, we hope that that will take (multiple speakers).

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

And these are two sources of income, one is selling of these plots, developed land; and the second is the fee income from the utility services. So the utility services fee income will continue and there will be some income that we will get from the balance unsold properties which will flow through this year. It will be lower than last year, but there will be some contribution I think.

Charles Spencer - *Morgan Stanley - Analyst*

Okay. Your guidance on that division is that we shouldn't expect a major shift downward in earnings because of the loss of that contribution last year.

Anantharaman Shekhar - *Olam International Ltd - Executive Director Finance & Business Development*

We would hope not. We believe that the normal business -- the other businesses will be getting back to a normal territory.

Charles Spencer - *Morgan Stanley - Analyst*

Got it. And then finally, the depreciation jumped 40% year on year. It seems a bit more of a greater increase than your SGD1.1 billion of fixed capital investment would suggest. Any further insights there?

Anantharaman Shekhar - *Olam International Ltd - Executive Director Finance & Business Development*

I mean depreciation there is two -- there is a part which is fixed depreciation, which will be charged off every quarter on quarter. But in some cases the manufacturing side there is manufacturing depreciation that gets charged off basis on actual sale and on the basis of use. So in those jurisdictions you will have some differences than the quarterly depreciation. But on overall terms for the year we -- it would pan out.

Charles Spencer - *Morgan Stanley - Analyst*

Okay, thank you.

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

Yes, Pat?

Patrick Yau - *Citi - Analyst*

Thank you. Patrick Yau from Citi. Just a question on -- actually, it's a follow-on, Chuck's question on expenses. You had depreciation growing at about 40%, but yet you are actually reporting expenses of overhead growth of 3%. And I recall that actually that expense piece was actually in the 20s. So could you actually share in terms of what change actually brought this expense trajectory to a much lower level too?

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

So some of these businesses as Shekhar mentioned we have restructured in terms of cost. So one is the wood business, second is the dairy business, third is the sugar business and fourth is the CFS business. So through various sustained cost management initiatives and restructuring we have been able to achieve some operating efficiencies and overhead savings. So that is one.

Secondly, we have reduced our pace of acquisitions. So you will see in every quarter the reason overheads were growing at 20% is that we were consolidating what the newly acquired companies in those quarters. Since that pace of acquisitions has slowed down quite considerably, we are not seeing that same kind of growth. So I think we will now see more overhead growth and this kind of trend line unlike what historically it has been.

Patrick Yau - *Citi - Analyst*

thank you for that. And just to follow on the CapEx guidance, I think Shekhar mentioned about the CapEx, which is around SGD500 million for the year. Does that mean net CapEx or gross CapEx?

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

Gross, Gross CapEx.

Patrick Yau - *Citi - Analyst*

So for example the AUD200 million cash inflows on the almonds, so that would be --

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

So this SGD500 million is actually gross.

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

Gross CapEx, new CapEx.

Patrick Yau - *Citi - Analyst*

Yes, new CapEx.

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

And any divestment would go off that, divestment and depreciation for the year.

Conrad Werner - *Macquarie - Analyst*

It's Conrad from Macquarie. First question just on volumes, I mean, you mentioned that volumes are still a key driver of your business.

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

Yes.

Conrad Werner - *Macquarie - Analyst*

Good to hear again. But they were kind of flattish year-over-year in this quarter. Could you explain some of the reasons why? Should we see some acceleration through the rest of the year? What will be kind of a ballpark guidance for the full year in terms of volume growth?

Then specifically on coffee, last quarter we talked about the disease that was plaguing some of your uptake.

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

Yes.

Conrad Werner - *Macquarie - Analyst*

No mention of that in the MD&A this time around. Is that kind of resolved and has this issue of weak pricing taken its place in a way? What can we expect for coffee business for this year? Thanks.

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

So in terms of volumes three out of our four segments, excluding the CFS segment, which is not volume relevant, the other three out of the four segments there was volume growth, there was EBITDA growth and there was EBITDA per ton growth.

In the food staples and packaged food business there is a lower growth in volumes because the first quarter of last year we had 90 odd percent --

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

97%.

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

97% growth in volumes in the segment because of the ramp up on (inaudible). We have changed our model in Australia, we have changed our model in Canada, et cetera, as a result of which we expect a lower volume growth in the grains business.

So overall, the volume growth for the full year will probably be in the single digits rather than in the double digits that we had. And most of the change in the volume growth trajectory will largely come from the change that we are going to see in the food staples and packaged foods business. But in the first quarter three out of the four segments have grown in volumes.

Conrad Werner - *Macquarie - Analyst*

And then on the food staples you mentioned something in the preamble about you changing the way you're working in the grains, you are being more selective about the business you're doing there. Did I hear that correctly?

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

Yes, yes.

Conrad Werner - *Macquarie - Analyst*

Okay.

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

So because in Australia, for example, we were sourcing grains with the grower and then we were exporting that. But because we didn't have elevation asset the slot that we take for elevating to export will come only when the operators give us those slots. Most of those operators are competitors.

So while they want third-party business to keep full capacity utilization of elevation, they will pick and choose the times when we get (inaudible). So we have invested in our own elevation through the Newcastle terminal which will start being operational from the second half of the coming year.

But as a result of that, we have decided to focus more of our grain origination in Australia for domestic trading rather than for export. There still will be some exports, but the volume of export that we did in the past, we're going to reduce that till we have some kind of matching capacity between our elevation capacity and our sourcing origination capacity. So that is one change as an example of why we believe the grains volumes will come down in the current year.

On your second question about coffee and the la Roya disease in the Central American growing areas and Andean region, that disease is still an issue. So there will be reduction in crops in most of these countries including Guatemala, Honduras, Peru, et cetera, which are affected by it. But it has been compensated for by a huge increase in Colombia and a significant increase in Brazil.

So Colombia's crop this year will be about a 1 million tons more than last year, which is a massive increase. So Colombia will be at about 10 million, 11 million bags -- 10 million bags production. It had gone down when it had its la Roya 5 years ago. The production had collapsed from 12 million bags to about 6 million bags. It has now revived from 6 million to 10 million.

So while rest of Central America is affected by that, there is an increase in supply from Colombia and also a huge increase in Brazil. Brazil has an off-year, on-year crop. And the coming year is going to be another on-year, and therefore there's going to be a significant production growth. So Arabica coffee there is about -- expectation is about 85.5 million, 86 million bags of production. Robusta is expected to about 64 million. So we see quite a burdensome balance sheet both for Arabica and Robusta, which is what is reflected in today's prices.

So this will be the second year where production will exceed consumption. There is good growth in consumption, good growth in demand, but that is bumper crop in some of the key producing countries. So the la Roya in fact has been compensated for by the growth in some of these other countries that they don't have a problem.

It's not the margins, so it is only the volume. So EBITDA has grown there by 25.5%, EBITDA margins in that segment has grown by about 15%. EBITDA per ton has grown and EBITDA overall has grown significantly in that segment. And it has resulted, because of the low prices it has resulted in lower working capital and more cash flow generation.

Conrad Werner - *Macquarie - Analyst*

I guess I'm just going off this comment that but weaker coffee prices could entail margin pressure.

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

No, if the coffee prices go to real low. So when I said that the margins are sticky in a board range of prices, that's true. But if it goes below USD1.00, Arabica prices, then I think it will start beginning to have some impact on the margin. In the first quarter with prices averaging around USD1.06 to USD1.10, EBITDA margins per ton grew and EBITDA overall grew very, very strongly in that segment.

Conrad Werner - *Macquarie - Analyst*

Yes.

Unidentified Audience Member

I have a question on the almond orchard. I understand that almond cultivation is a very water-intensive farming. So I was wondering over the longer term what kind of measures have you put in place to secure more water for this investment?

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

Yes, so we have -- so we have not sold our permanent water rights. So about AUD180 million worth of water rights we still own and it's still in our books, and we won't sell it as long as we are farming it. So the whole idea is that we want to make sure that the plantations are high yielding and generates good profit for us because we manage it well.

But a critical part of managing the plantation well is you need to have visibility and security of water, so which is why we paid a lot of money for securing the permanent water rights and which is why we have not sold that permanent water rights.

But you're right, all farming and all plantation is very management intensive. The difference between a good farmer and a bad farmer, as they say, is a difference of 3 days. So if you're late in planting or late in weeding or late in fertilizing or late in irrigating and you're not precise in how you manage all of that, it can result in a big variance in outcomes and performance.

But that is our expertise and we do that across multiple crops, in multiple geographies and which is the value that we generate in the upstream. So we are good at that. And because our upstream portfolio is diversified across multiple geographies, the weather-related agricultural risk which we cannot manage is to some extent self-compensated by the fact that we're not putting all our eggs in palm in Indonesia. But we are in almond orchard, we are in palm, we are in rubber, we are in the cocoa plantations, we are in coffee plantations, we are in rice farming, we are in peanut farming, we are in grains farming, we are in dairy farming, across 21 countries, in the Northern Hemisphere, in the Southern Hemisphere.

So that's the only way we can manage the agricultural risks. All the other risks are within our control. We can manage it by better management. So we have 90 million megaliters of permanent water rights, security rights, we have the water rights.

Aditya Renjen - *Olam International Ltd - General Manager, IR*

All right. Thank you, ladies and gentlemen. If there are no further questions, that concludes this briefing session.

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

Thank you very much.

Anantharaman Shekhar - *Olam International Ltd - Executive Director Finance & Business Development*

Thanks for your time.

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

Thank you.
