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PRESENTATION

Hung Hoeng Chow ***- Olam International Ltd. - Associate General Manager, IR***

Good morning, and welcome to Olam International's announcement and briefing on the quarter ended December 2014. This is for the quarter ending December 2014 and for the six months from July to December 2014. And, as usual, we are happy to have the management team on board presenting the results and discussing the results over Q&A.

Let me start by introducing the management team. Seated on the extreme right at the table it's our co-founder, Group Managing Director and CEO, Sunny Verghese, and on his right is our Executive Director for Finance and Business Development, A. Shekhar. And in turn on his right is President of Group Finance, N. Muthukumar. You're familiar with all of them. And myself, Hung Hoeng from Investor Relations.

Just before we start we want to bring your attention to the safe harbor clause that is in this notice here.

We will go through the highlights of the financial statements of the financial results, and the key takeaways, and all this will be presented by A. Shekhar. So without any further delay let me invite him on stage to do so.

A. Shekhar ***- Olam International Ltd. - Executive Director, Finance and Business Development***

Good morning, ladies and gentlemen, and thanks for joining us today. I'll go through the usual format of our presentation and talking through a few key highlights for this period, and then go through a little bit of detail in financial statements, both balance sheet, segmentals -- P&L, balance sheet and segmentals, and then we will take the Q&A after that.

So it's been a very interesting, exciting quarter. We have had steady improved underlying performance across most of our businesses including the prioritized platforms as well as some of the platforms where we engaged in restructuring and discontinued operations also.

So there's been strong underlying performance which we are very pleased with.

There have been challenges in two of our businesses that have hurt the first half, which is the hazelnuts and the Uruguay dairy farming business which we had signaled also in the Q1.

The hazelnuts part of the challenge is pretty much done but it has impacted our first half. Whereas, the dairy farming in Uruguay is probably still something that we are working on and will probably have some continued adverse impact.

The big other thing that has happened during this quarter is really, starting with the oil price fall, the massive currency [devaluation] (corrected by company after the call), and here it is about -- it's an unprecedented currency volatility in the fact that it was sharp, it was rapid, and it was across markets.

So, almost every company working on a global basis, every multinational is facing some part of the impact. For us, normal devaluation and managing that is par for the course because we run our business as a US dollar -- US dollar functional currency.

So, we have had positive impact. We had some negative impact and net adverse impact of this for this period is about SGD30 million, and I'll talk a little bit more about that.

And we are quite pleased with, obviously, the fact that the underlying performance has been good.

The progress on our strategic plan and various initiatives that we had highlighted in terms of release of cash, improvements and balance sheet optimization, a whole set of financing initiatives to improve both -- optimize both our tenure and cost, we have had very good progress on, so we're very pleased with that.

We're also pleased with the two announcements that we made towards the end of the quarter, end of last year, which is [we believe] two very strong strategic opportunities that we have got in our prioritized platforms, both the ADM acquisition as well as the McCleskey Mills acquisition in peanuts which we have also concluded in January.

So these two acquisitions, if anything, provide us an even greater strategic footprint and a competitive position in two of our prioritized platforms which we are, again, very pleased with.

So, on an overall basis, when we look at this period from a financial results basis, we are down 10% on a reported earnings basis with a mix of good progress across most of our platforms with a couple of challenging platforms, and the most important part being the adverse impact of currency volatility which has certainly affected us, which is something that we are focused on, we are managing on a day-to-day basis, and it is not something that's going to go away, but we feel we are quite well positioned to manage the impact of that going forward.

On the balance sheet and cash flow, pleased to confirm that for the period we have a positive free cash flow generated both by operating cash flow from the businesses as well as a reduction in working capital, reduction in the pace of new CapEx investments, as well as divestment cash flows which has led to an operating cash flow -- free cash flow positive.

The reduced financing charges, again for this period, almost SGD30 million down from the same period previous year, is also contributing to a better trajectory on the FCFE.

Clearly some of the acquisitions that we have announced are going to create a negative free cash flow for the second half.

However, we feel quite positive that, on the free cash flow as well as gearing targets, we should be on course in FY16 as we had indicated in our strategic plan objectives.

So, on an overall basis, there has been strong progress on all the various strategic initiatives, the balance sheet optimization, and we are on track, as far as operational free cash flow targets are concerned, as well as gearing targets are concerned.

The last part which is an announcement that we made in January, but I'd like to highlight that, and for those of you who thought that we had made a mistake about highlights H2 2014, that is going to be our H2 going forward because we are moving to a Jan-Dec financial year close, based on the consolidation requirements of Temasek, our majority shareholder now.

And, this year, July 2014 to December 2015 will be an 18-month transition year. But going forward we will be reporting our results, our financial year will be a Jan-Dec period.

So, for the six month ended December 2014, it is now going to be our second half, H2, and that's why we are signaling that as H2 and H1 2015 will be Jan-June 2015. So that'll be the nomenclature going forward so that there's no confusion on that.

So, moving to the P&L analysis for the [second] (corrected by company after the call) half or H2 2015, volumes are down about 11%.

A big chunk is from discontinued or restructured businesses, the biggest being in the grains business where we sold our stakes to Mitsubishi in Australia, in South Africa. Reduced volumes obviously out of Ukraine because of the continuing political problems there; the discontinued operations in Gabon in timber; rice in Ivory Coast, cashew processing in Nigeria.

Operations which were contributing a positive EBITDA last year but operations that were not meeting our return norms or not meeting where we felt that the margins were not good enough for us to continue, or we didn't have a competitive position for us to continue.

So those parts of the discontinued operations which are a fairly deliberate part of our strategic plan, have created a loss in volume. But on the other hand, we see continuing growth in our prioritized platforms.

So on an overall basis, while this will be a year wherein we will lose, we have lost some volumes and there'll be some reduction in the second half too, it's volume -- we are not really focused on the volume growth part or the loss in volume from these operations.

On an EBITDA basis I'd really like to focus on, firstly, the currency impact, and the currency impact our estimate is, there is a net adverse impact for the first half for about SGD30 million.

And, if you look at the negative impact of currency, in terms of unrealized ForEx loss which has flown through this half, you'll see that under our other operating expenses, where we always recognize it, it's a much larger amount of almost [SGD180 million] loss, and that's across -- devaluation across multiple geographies. The big operations where we have had devaluation are Brazil, Australia, Nigeria, Russia and to a lesser extent Indonesia, Turkey, Columbia, Mozambique, etc.

So, wherever we have predominantly export-led operations, our impact has been very neutral to positive because while the currency devalues and we are funding at US dollar, there is a concurrent positive impact, in terms of the cost of our commodity, either inventory or cost of goods sold.

So, on most of our export operation -- so if you see the biggest devaluation, that's been probably Brazil and Australia, which are entirely export-led operations, and there, there is no adverse impact, we have got higher margins in the stock which enables us to offset the currency devaluation.

But wherever we have import operations, our domestic businesses which are funded in US dollar, even if you're holding stock, we take the entire impact of the currency devaluation into our books and our ability to make up that, so to speak, loss, will depend on how the margins adjust locally.

So there's always a lead lag and especially when you see a rapid devaluation of this kind, there will always be some lead lag and hence that is a part that is really something that you can't hedge out, the only way to hedge out is stop sales and -- or look at local borrowing, which are obviously also at an interest cost at 20%, 22% in some of these geographies, which is also a cost.

So the effective net adverse impact is really coming out of the import distribution or local domestic business operations, primarily Nigeria, Russia, to a lesser extent Mozambique, etc., wherein we see this impact. Some part of this is unrealized, so it could be made up based on prices and some part of it will depend on how prices adjust in the coming months.

So it's something that we're on top of, it's something that we feel it is -- in a normal course, it's par for the course, because we have been working in these geographies for a long time. On the export side, we are not really worried about because we can move very quickly. On the import side, there will be some continuing impact that we'll stay on top of and we'll run with reduced exposures for the time being.

So offsetting the EBITDA loss which has happened because of currency, dairy and hazelnuts, is the positive underlying growth across all our other platforms; most of the other platforms have grown and when we talk about the segments I'll spend some time on that.

There's also, for those of you who focus on the biological gain, there is a SGD28 million loss this year, primarily coming out of our matured almond plantations against a SGD12 million loss in the same period last year.

There's been positive reduction in our net finance cost by almost SGD30 million, which has made up for some part of the EBITDA difference from last year. As well as amortizations also - depreciation/amortizations are also lower by about SGD5 million.

So on an overall basis, our reported PAT is down about 10% and our operational PAT is down about 20%. Net of bio, it's down about 10% again.

Moving onto the snapshot of our EBITDA that we have already talked about on overall invested capital, you'll see that fixed capital is almost flat from June as well as from December of last year. So while we have reduced the pace of new CapEx investment, net of depreciation, as well as divestments, we are more or less flat.

So, therefore, one significant part of our objectives outlined in the strategic plan, which was about reducing the pace of new CapEx, as well as divestments; both that we stay on course. Similarly, on the working capital, while there was an increase and this is our peak season; Q2, December and March quarters are our peak procurement seasons, so you -- but where you compare it with June, normally you would see a working capital -- quite a large working capital increase between June and Dec, this time you don't see that.

Some part of it is because of lower prices in some of our commodities, but a lot of it is also because of balance sheet optimization, the working capital optimization and you'll see that in our cycle time and cash-to-cash cycles also reflected in that.

So, there is a strong focus on the balance sheet, both in terms of fixed capital and working capital, which has enabled us to hold this, even though EBITDA is down because of some other factors that we mentioned.

Moving onto the segment, if you look at the Nuts, Spices & Vegetable segment, we have had continuing strong performance from almonds. A very good performance this time from the vegetable dehydrate business in the US. Tomato business is again, which was loss-making in the prior period, has also turned positive and headed in the right direction. The peanut business is steady.

The two real negatives in this segment were the hazelnuts which we can say that is well behind us now; we can't make up on the volume because it's still a short crop and the new crop will come in July 2015, but whatever we are -- fresh business we are doing, we are doing at good margins, so we can't make up for what's already happened in the first half, but the business is on course.

And more importantly, in the industry a lot of people have taken a lot of pain this time and we are better positioned than most going forward within the industry. So it was a -- the problem won't go away for the last half, but I think we are better positioned to move forward on that.

On the -- so, the cashew business, again this is something that we decided to get out of, the cashew -- partially get out of the Nigeria processing -- mechanical processing business. So again that's hurt our volumes as well as EBITDA a bit, but again it's business that we wanted to get out of, so those are the two negatives. Otherwise, from the segmental perspective, the segment is well positioned; it's obviously one of our prioritized segments, both nuts as well as SVI, and we feel quite good about where we are positioned.

If you look at the fixed capital, again because of various initiatives as well as reduction on the pace of capacity, fixed capital is more or less flat from December, as certainly as well as June. A lot of activity on the working capital optimization despite very high prices in almonds, tomatoes, pepper, hazelnuts, etc. There has been a lot of optimization also done on working capital here, which has enabled us to reduce our working capital quite significantly. So on an overall basis, that's the snapshot of the segment.

Moving onto Confectionery & Beverage, again two very important segments for us; coffee and cocoa. We have discussed the significant increase in prices in coffee as well as cocoa over the last 12-odd months. Both businesses we are very well positioned from a competitive position of course, but also going into their peak season, in some parts the seasons have already started, we are well positioned going forward. It's been an on-target first half for us and we are well positioned.

We see we are quite friendly towards pricing, both in cocoa and coffee, so there could be enhancements in working capital over the coming months. But -- and some part of the big chunk of increase in working capital because of prices has already happened if you see between December and now, but between June and now it's kind of stayed more or less flat, but we'll see how things progress. There could be incremental working capital here, but we certainly feel quite positive about the business and the margins and our position to be able to capture those margins as the seasons come by.

Moving on to food staples and packaged foods. I guess there are six BUs within this segment and always there are lots of moving parts.

So the businesses that are doing very well; the grains business, post some parts of the discontinued operations that happened last year in Australia and South Africa; the wheat milling business in West Africa doing very well; the Russian grains export trading business, again, did very well for the first half; Ukraine obviously has been more or less no activity there. But otherwise the wheat milling in West Africa and Russian grain business has done well and well positioned.

Sugar trading, rice distribution businesses, both of which were restructured in the prior period, again off to a good start; first half has been very good. We have been really hit in this segment by the dairy farming in Uruguay, which we have talked about, as well as now, this currency devaluation specifically in Nigeria to a great extent which impacts packaged foods and grains, rice and dairy distribution. So that's an area that we really are looking at quite actively and it's certainly a source of concern for the first half.

And Russia, so far the prices -- local prices have adjusted primarily because of an import ban also, so the local prices have adjusted, but we'll have to see how the ruble continues to devalue and we'll have to look at.

So Nigeria and Russia are clearly areas which have impacted this -- the import domestic business in Nigeria and Russia has impacted the segmental performance, but we need to keep a close watch on that going forward too.

The segment has had significant fixed and working capital optimization. A lot of the divestments that have happened in this segment compared to last year this time, the grains divestment, the dairy divestment in Ivory Coast as well as Uruguay, has again reduced fixed capital in this business.

Working capital has also been optimized, some again because of pricing, but also because of specific actions that have been taken on receivables and supplier credit, etc.

So again, the business looks much better while the EBITDA fall has happened; some part deliberate, some part because of recent currency volatility and operational issues in Uruguay. But we believe that the parts of the business that are prioritized where -- we have -- restructuring is complete, are well positioned going forward to make a part of this as well as grow further.

Industrial Raw Materials, again this is a very small part -- it's less than 30% of this segment. Cotton looks well positioned, timber post-restructuring has performed very well in the first half. And rubber, of course, is still evolving; there's a lot of investments continuing in our rubber plantations in Gabon. But on an overall basis, this segment is pretty much on course and it's a second-half segment and we'll see how that goes.

The fixed capital investment in this segment are primarily rubber and a little bit in SEZ. And again, working capital, both because of prices -- lower prices in cotton and rubber, as well as all the other working capital optimization schemes have again brought down working capital lower than where we were in June. So that's a snapshot of our segmentals.

Moving forward to the balance sheet, starting with the cash flow and then the balance sheet.

So, for the first half, there is a positive free cash flow, FCFF, at SGD75 million. But more importantly, what really we focus on always is the trajectory, which is helped by the operating cash flow, the changes in working capital, the reduction in fixed capital investments as well as the divestments. A mix of that is what is contributing, and, therefore, that's really -- each of those activities are really what drives our ability to achieve getting to a free cash flow positive and staying there.

And again, I'd like to reiterate that the two new acquisitions will have impact for FY15, but we believe by FY16, based on what they will contribute and what the rest of the businesses will contribute, we should be -- we still maintain our objective of being free cash flow to firm positive in FY16 and stay there sustainably going forward.

Again, net interest reduction also ensures that the trajectory for FCFE is also quite positive for the period, and we will stay focused on ensuring that we continue to reduce and optimize our debt cost and debt tenors.

On gearing, we are within the objective of what we have highlighted in the strategic plan. We have stayed there, in terms of just operating at or below 2 times net gearing, net debt to equity. Normally, between our December quarter and March quarter, our gearing goes up because it's our procurement season. This year a mix of what we have done on the working capital, as well as lower prices, we are at just above where we were, end of June, well below what we were last December this time.

So that's again, therefore, tracking along what we had said in our strategic plan objectives.

As far as the debt mix, a lot of activity on this, as you're all aware. And immediately, post VGO, we had done a -- we had paid back a lot of our bank borrowings as well as syndicated loans. And whatever we could -- higher cost borrowing we could retire, we had retired. And we have done an RCF for $2.2 billion in November this year, with the backing of all our banking partners, all our major partners. We were able to convert that into committed one, two, three year revolving facility of $2.5 billion].

We have also refinanced the Australian five-year dollar loan, again at much better pricing. And, post December, we have done a small private placement. We are getting a lot of enquiries now for private placement on the bond side, which again are at well below our current secondaries, which are also otherwise tracking quite well, despite all the volatility in the bond pricing and spreads.

So overall, in terms of where we are headed, where we were end of December, we are quite comfortable with the revised mix of committed secured funding, the tenors which are heading in a more optimum level based on our expected cash flows, expected fixed capital, as well as working capital investments.

And then we have announced, post December, a call back of our most expensive bonds, the rights bonds as they are called. And that should, again, reduce some part. There will be some part of the high cost that we're carrying on our borrowings until December. So that, as you would remember, was 6.75% coupon bond, which are issued at 95%.

So, obviously, we can now fund that for like tenor at 4.5%. So there's clearly -- it made sense for us to call back at the first available option. All the people who have participated in those bonds, obviously, have made a very tidy return on this. But this will again bring down some part of the optimization of tenor, as well as cost, in the coming quarters.

Although there will be a one-off charge in terms of what we'll pay to buy these bonds back, as well as a one-off charge in terms of one-off -- charging off of unamortized expenses on this bond, which will happen in Q3.

There is ample liquidity, we are sitting on a lot of cash, obviously, because it's our procurement peak season, but we have lots of liquidity in terms of undrawn lines, both on the short end as well as -- our liquid hedged inventory is around similar levels that it has -- that' we've maintained between 80% and 85%.

So, overall, I think it is fairly challenging macroeconomic volatility; a lot of currency volatility, which is more important for us to manage very carefully. But we feel quite confident that we are well positioned, and most of our prioritized platforms are well positioned in terms of performance so far, as well as where we stand, going forward.

We have made some very specific -- taken some very specific steps to back growth, so we are not just talking about restructuring divestment, we are also, equally, looking at how we position ourselves for growing in the future through the acquisitions. But we're doing it in bigger, larger, prioritized platforms, so we're quite pleased with that. And we'll see how we can turn those numbers into our financial performance in the coming quarters and years.

So, we'll stay focused on the strategic plan objectives that we announced for FY16, in terms of gearing, in terms of reducing the pace of CapEx, in terms of delivering free cash flow. And delivering growth, going forward, while we manage the macroeconomic uncertainty, which is, potentially, likely to continue in 2015. But we are on top of it, and we'll stay on top of it.

Thank you and we'll take your questions.

QUESTION AND ANSWER

Hung Hoeng Chow *- Olam International Ltd. - Associate General Manager, IR*

Thank you, Shekhar. Let us start with the first question. Please raise your hands and the microphone will be brought to you. Let us know who you are as well. Yes, at the back. Yes, Mervin.

Mervin Song *- DBS Bank - Analyst*

Mervin, DBS. Just a couple of questions. First one, traditionally you have a stronger second half, in terms of seasonal boost, do you expect that to occur again, given the volatility of currencies and the like? And maybe some updates on Gabon. Thanks.

Sunny Verghese *- Olam International Ltd. - Co-Founder, Group MD & CEO*

So, firstly, our previous second half is now -- and the new year-end, will be our first half. And, traditionally, the seasonality that we have seen in the past should continue.

So I think, on a currency neutral basis, as we can see, the currencies have remained volatile, even into January and February, particularly in the oil economies, because of low oil prices, Nigeria, Russia, etc., being good examples.

So, on a currency neutral basis, we expect the next six months to be better than the first six months.

On the GFC in Gabon, I think, there is little to add, nothing that is announceable that we can state today. But, as we have mentioned to you in the past, we are freezing our CapEx on the project until we can bring in a strategic investor that'll allow us to deconsolidate this business.

There will be some increases in total investment in the project, because we'll be continuing to incur interest costs on the investments already made, and we also will keep our core fertilizer team in place, who are professionals with deep experience. And we think, once we restart the project work, we will need all of them. So the overheads on the fertilizer project will continue.

We have got more interest than in the past, if we can say, about progress from the last briefing that we have had, we have now more parties interested in looking at the project, and there are at least two more parties from the previous quarter who have started due diligence work on the project.

But we have nothing that is in an announceable state, so there is no additional information beyond that.

Hung Hoeng Chow *- Olam International Ltd. - Associate General Manager, IR*

Patrick?

Patrick Yau *- Citi - Analyst*

Thank you, Sunny. Just a question on how the Company intends to address or minimize the risk from having further volatility in currencies, in oil producing economies. Because there's actually quite a large hit, SGD30 million. And it doesn't look as if we're done with the volatility. So what are the plans to mitigate the negative impact from these sort of changes?

Sunny Verghese *- Olam International Ltd. - Co-Founder, Group MD & CEO*

I'll request Shekhar to take this up and then I'll come back with some final comments on that, yes.

A. Shekhar *- Olam International Ltd. - Executive Director, Finance and Business Development*

So I think the currency volatility is a part of life, and we have to manage that on a day-to-day basis.

And if you look at the impact for us, where we are really not able to hedge entirely. On the export side even if you are funding on a dollar business, as soon as you've bought stocks you're pretty much held and the currency exposure is liquidated, and any movement after that will be reflected in the cost of sales or the inventory value.

On the import side, even if you have stocks which are funded on a dollar basis, it depends on the local market prices to adjust, and there's always some lead lag.

So on the import and domestic distribution side, even if you are hedged, your only two options are don't sell until the prices adjust fully to the currency, or secondly borrow it -- cover it with local borrowing which becomes also a cost that you take upfront.

So we have already taken all of the steps, especially in places like Nigeria and Russia, wherever we can move to local borrowing, and at cost efficient which kind of -- on a cost efficient basis, we have moved to local borrowing, we have reduced our time, we are obviously raising prices as much as we can. But there will always be some lead lag, and some difference in the adjustment of pricing which, therefore, will reflect in lower margins in these economies.

To the point about continuing concern, yes Nigeria and Russia probably are the two areas that we feel, certainly because of the political situation, as well as the impact on these two economies because of oil, there is continuing uncertainty. But we'll have to manage that, and we're trying to reduce our exposures as much as possible. But it's not possible to eliminate it, neither predict some part on the import and distribution side, how it will flow through.

But on the export side -- and if you see there are 26 countries where we have had significant devaluation during this period, but we are pretty much managed that, as par for the course, the biggest devaluation has been Australia and Brazil where we have seen no negative adverse impact.

So it's really in the residual parts of the import domestic distribution where we have this continuing impact.

Sunny Verghese *- Olam International Ltd. - Co-Founder, Group MD & CEO*

So broadly the countries that we are in can be bucketed into two categories, one is where there are deep forward foreign exchange markets. So in those countries, like the two that Shekhar just mentioned, Australia and Brazil while there has been devaluation, they are very deep forward markets and therefore you can hedge that exposure out.

And then there are countries in our portfolio which have a very shallow forward foreign exchange markets, and therefore your ability to hedge forward is going to be limited. You can alternatively use the non-deliverable forward markets offshore to hedge that exposure, but that is also a fairly shallow market, and you cannot use that market to hedge out your entire exposure.

So the way we manage our business to guard against this is first we remain diversified, so as Shekhar said we are in 65 countries, 26 countries had devaluations this year, some of it like Brazil and Australia are hedgeable currencies, deep liquid forward foreign exchange markets, so we can lay off that risk. In the other places we manage that exposure very carefully in terms of the amount, in extent of the exposure that we have.

So if you are going to be buying from a country, cocoa or coffee, or any other products that we source, we will keep the prepayment advances that we send to those countries for very short tenures. So we'll give them at best one week's worth of advances to procure that commodity.

So we will take a one week exchange risk, at the end of that one week they will have procured the stock, and the moment it is in our warehouse we dollarize the stock and extinguish the currency exposure.

And then in addition to this, there are basically three ways currency devaluation volatility can impact us, and one of the transmission mechanisms is on exports, and as Shekhar mentioned, in exports it'll be a neutral to a positive scenario for us during devaluation.

In the case of imports, this is where Shekhar mentioned the second transmission impact, is where we are importing and distributing in those countries.

So if you're going to be importing and distributing versus your locally sourcing, manufacturing and distributing, locally sourcing, manufacturing and distributing, you're buying everything in the local currency, selling everything in the local currency, there's very little exposure.

But if you're importing and then manufacturing, or adding value and then distributing, then till the local prices adjust for the devaluation, you will be for that period having an adverse impact, and that you have to again manage through limiting those exposures and diversifying their exposures across countries.

Why Shekhar has particularly highlighted Russia and Nigeria is Russia, while there were liquid, fairly deep forward foreign exchange markets, with what happened in Russia in the last year or so those markets are almost dry now and therefore you need to manage your exposures very, very carefully there.

And we see that in January it was worse for Russia, even after December, and in Nigeria as well there are some additional factors beyond the fact that oil prices are low, and therefore Nigeria's balance of payments and everything else will be under pressure, and therefore negative net terms of trade, and therefore pressure on the currency, including fiscal deficits, sluggish growth.

But more important in Nigeria it has been compounded by two other issues. One is the Boko Haram trouble in the north, which is an extremist terror group, the Government and the military has not been very successful in containing them. So that is one issue which has blocked off some markets in the north for access.

And the second part is Nigeria is going through an election, and the election that is due this week is now being postponed, and there are a lot of issues surrounding that election. And it is a very closely fought election, so whoever comes into power, the losing party is going to create as much trouble as possible.

So, things as far as the macroeconomic situation is concerned, and therefore the potential impact on the naira is uncertain, and is likely to remain uncertain for a while. And therefore we are very, very focused on managing and limiting our exposures.

But we cannot completely have zero exposures; we will have residual exposures despite everything that we can do to control that.

The third transmission effect on currency is really on the translational side, and that is really how you restate all your assets and liabilities at the end of the period. And if the exchange rate between your functional currency and your domestic currencies change, then you will have translation impacts as well.

I think every multinational that operates in multiple countries, as you can see the results of Nestle, and Procter & Gamble, and Unilever, and Caterpillar, and Dow, and DuPont, and everybody has had this problem, and they all manage it differently and that is why to remove all that noise, all these FMCG companies have a practice of reporting everything on a currency neutral basis.

But we are highlighting to you what that impact is, and we will be concerned about Nigeria going forward, the next six months, we will be concerned about Russia. And I think on all other places, either the hedgeable deep liquid markets for ForEx, or we have a balance between our exports and imports and then we can internally create that hedge ourselves, we should be in a position of managing most of their jurisdictions.

Patrick Yau - ***Citi - Analyst***

Just a quick small follow up, I think you have given a good elaboration on the exact effect -- the impact on FX.

But what about the impact of much poorer purchasing power, maybe the volume growth that you expect, in terms of your packaged food business, is going to start to come under pressure because the purchasing power for the locals have now been diminished?

Sunny Verghese - ***Olam International Ltd. - Co-Founder, Group MD & CEO***

Yes, it's a very good point. So I think if you look at food staples, so Africa for us is very important for -- in the nature of the category of countries you are identifying where there's a growing consumption of food staples which is rice, which is wheat flour, etc. We don't see any demand erosion there because that demand is fairly predictable and is fairly stable, and those are essential items that people have to consume.

On the higher value-added branded goods pricing power would be an issue, and if you choose to increase prices quickly and rapidly you could have demand erosion. And that is the reason why Shekhar mentioned that there would be a lead lag between raw material import costs, because of devaluation going up, and your ability to increase prices immediately. So you will take a few months before the market adjusts to that.

However, those markets are growing very rapidly, so instead of growing at double digits, high double digits, it might moderate to mid-teens, or low double-digit growth, but that growth is still attractive even, as you mentioned quite rightly that there would be some demand erosion because there will be some resistance from consumers. Particularly in the discretionary consumption items. So that impact will be there.

Hung Hoeng Chow - ***Olam International Ltd. - Associate General Manager, IR***

Chuck.

Chuck Spencer - ***Morgan Stanley - Analyst***

Chuck Spencer, Morgan Stanley. A few follow-up questions if I could on FX. You've given us the net number of SGD30 million, can you help us unbundle that a little bit? It may be the gross losses offsetting the gross profit, and then how does that gross loss break down by Nigeria, Russia, this unbundling of that if you could?

A. Shekhar - ***Olam International Ltd. - Executive Director, Finance and Business Development***

So I can't unbundle it country-wise unfortunately, but I can help direct. If you see the net unrealized foreign exchange loss which is given under our other operating income which is where it's always there, that's almost about SGD180 million loss compared to the prior period.

A big chunk of this has been made up across various countries based on a higher or lower cost of sales, which means effectively higher margin. And the net impact our estimate is at SGD30 million, and which is predominantly, and I would say 70%, 80% is led because of the, import distribution countries, [wherein] Nigeria, Russia, Mozambique, Ghana, etc., are all part of those countries.

But to be very precise, because this is what we are calling it as lower margins that have flown through compared to what we would have anticipated because the local prices didn't adjust. So it's tough to precisely demarcate that, but that's broadly the area. And you'll see the difference in the incremental margin during this period in our cost of sales vis-a-vis the sales growth.

Chuck Spencer - ***Morgan Stanley - Analyst***

Looking at the naira in the first quarter, or the spot, today has actually accelerated its devaluation. In fact, if we assume that the first quarter average would be settled at somewhere near spot, it looks like the devaluation would double what it was in the fourth quarter versus the third. So should we anticipate this FX charge could be double in the coming quarter?

A. Shekhar - ***Olam International Ltd. - Executive Director, Finance and Business Development***

Not doubled because firstly it's not just Nigeria, it's a mix of other countries. But just when you talk about first quarter and second quarter, just so that I understand the question properly, the naira has really started moving post October, mid-October, October 20 or so. So between July and five years prior to that naira was a rock solid strong currency, so it just didn't move.

So between October 20 it has moved until December, and then between December and now there's been a little bit more devaluation. We really don't know where it will end, in March or in June. And a big chunk of the devaluation, this one-off rapid slide which almost happened kind of almost overnight, or in a couple of weeks, has happened.

A lot of the prices have started adjusting, especially in the bulk commodities, the wheat and the rice. In the other, in the packaged food, it will probably be a longer duration. So we'll have to see how we manage that as much as what happens to the currency. So there is -- what happens to the currency, we can't really do much about. We have to see how we manage it.

Chuck Spencer - ***Morgan Stanley - Analyst***

The fourth quarter average for the naira is [1.73] about versus the third quarter at [1.60]. Right now it's [2.06] or something thereabouts. So it's worse in the coming quarter.

A. Shekhar - ***Olam International Ltd. - Executive Director, Finance and Business Development***

Yes.

Chuck Spencer - ***Morgan Stanley - Analyst***

Okay. Shifting to underperforming assets, if I could, we didn't hear as much about Russian dairy in terms of underperforming. Are you starting to see some turn there?

Sunny Verghese - ***Olam International Ltd. - Co-Founder, Group MD & CEO***

So the Russian dairy business, as we already guided you in the last quarter, has performed quite well and is likely to end well above plan. So I think that operation has definitely turned around, both in terms of the operating parameters.

We've also been helped by the fact that we sell -- we don't export Russian dairy products at this moment, it's entirely for the domestic market. The domestic prices have been very high also because of the ban that the Russian Government has imposed on import of milk products from Europe and other countries that have sanctioned it.

So there are two elements to the Russian dairy performance, one is the underlying improvement in operational performance, which includes improved pregnancy rates; improved cows and milk; improved productivity per cow; reduced feed costs. So all of that has been positive, less mortality, so better animal health. And then we have got a boost because of very high local Russian prices. All the international prices of dairy products have crashed, Russian prices have gone the other way round and that has helped.

Chuck Spencer - ***Morgan Stanley - Analyst***

Okay, good to hear, thank you.

Hung Hoeng Chow - ***Olam International Ltd. - Associate General Manager, IR***

Chris.

Christopher Sanda - ***Phillips - Analyst***

I get the idea of the lead lag of how prices have to adjust but, Sunny, you've been through several currency adjustments. Can you give us a little bit of color as far as, what happened last time there was a major currency devaluation? And did it create a shock to basically create some distress to boost up the margins once things stabilized.

Sunny Verghese - ***Olam International Ltd. - Co-Founder, Group MD & CEO***

So typically in the past our experience has been that currency devaluation is very country specific. And based on the current account surplus, a deficit situation in the country, the fiscal deficit or surplus situation in the country, the growth trajectory in the country and the negative or positive net terms of trade in that country, we can fairly anticipate and predict what will happen to currency and we can manage it.

So for example, last year we've had a significant devaluation in Ghana, but it impacted us only in one country. This is the first time that we have seen, because of global macro, a plunge in oil prices impacting all oil currencies.

But more importantly, some of the other macro conditions globally in terms of very sluggish growth, or a divergent pace of growth in the US versus the rest of the world, a huge deflationary situation in most parts of the world and slowing growth in most parts of the world, this kind of concurrent sharp devaluation across multiple countries, I don't think any of us have seen, including the major multinational companies who are in a hundred or more countries. Proctor & Gamble is one that they will have an impact on their bottom line of $1.4 billion this year just on account of currency.

So if you look at the currency neutral numbers versus actual currency impacted numbers, they are very significantly different.

So how do you manage that risk? So firstly, obviously, you need to be hedged in terms of the countries that you're operating in. And secondly you need to be hedged in terms of the trade flows and the balance in the trade flows between exports and imports. Thirdly, you need to participate in parts of the value chain where you have some pricing power. And fourthly you should have really good skill in the way you manage this.

So what Shekhar mentioned, in terms of segregating some of the numbers for Chuck, is that for this kind of currency exposure that has materialized, if you didn't navigate that with skill for our scale and scope the impact would have been significantly more. So this is pretty unusual, of having 26 countries concurrently devalue at the same time.

So throughout our history we've had different countries in different years, but that is isolated to that country, and it is not really a very broad-based phenomenon. Now it is a very broad-based phenomenon. There's also this tendency now in countries to start competitively devaluing, and that is why the US this week and last week are shouting at the top of their voices, warning all the countries. And the treasury secretary has particularly -- come out and warned the countries that if they aggressively devalue their currency because it's now beginning to impact US exporters.

So I think there is a tendency now, given the deflationary environment facing most countries, whether it's in Japan or in other parts of the world, or even Australia, they would love to devalue their currencies and they have succeeded in doing it. And that is a big boost to their exporters, and if they are export-dependent economies more than import-dependent economies that is a soft, easy way of resolving some of the tough structural changes that they have to make, and this will give them some breathing time.

And that is also a worry that countries will try and come out of the deflationary situation, or slow growth situation, by competitively devaluing their currencies, and we have to be aware and prepared for that.

So I think we've got good skill, I think we've got good experience in managing it. But you're not going to -- as all of you know our policy on currency is to stay neutral. Our source of profits is not about benefiting from taking a view on the currencies, we don't take a view on the currencies. But in all the markets that we are present we don't have fully hedgeable markets. So we have to -- so in Nigeria, for example, in response to Chuck's question, one additional point is that we can use the NDF markets. So there's a very -- there's a growing NDF market now in London, for example, for the Nigerian naira, so you'll use it.

But it's still a very small market, and still a shallow market. It is growing, you can lay off some of the exposure, but you can't lay off all the exposure. And, therefore, you will say that instead of giving a week's worth of advance to Nigeria, you'll now give them a bi-weekly advance so you take a three day exposure, a four day exposure rather than taking a whole week's exposure. So that's how you can manage this better.

Hung Hoeng Chow *- Olam International Ltd. - Associate General Manager, IR*

Yes, Philip.

Philip Wickham *- HSBC Fixed Income - Analyst*

[Philip Wickham], HSBC Fixed Income. Sorry to hammer on again about the FX side, but I'm just trying to figure out the average FX impact you're saying the unrealized gains or losses, were in the other income -- sorry, the other expenses during the period. But I can't seem to find the figure, even in your cash flow statement there's no add-back in terms of a non-cash charge relating to this.

Could you just walk me through that? Because it's grown quite significantly. I was wondering what the charge is you're taking.

A. Shekhar *- Olam International Ltd. - Executive Director, Finance and Business Development*

So, most of the impact is in cost of sales credit -- cost of goods sold credit. In terms of unrealized, wherever we have sold the goods, it'll be either be in reduced inventory cost, or in cost of sales -- cost of goods sold, and that's how the second impact of the unrealized ForEx gain will be reflected.

Sunny Verghese *- Olam International Ltd. - Co-Founder, Group MD & CEO*

So, if you see the change in cost of goods sold compared to the last period, you will see the compensatory impact there, which is why we are -- so, you have, as Shekhar mentioned, in the other operating expenses SGD170-odd-million impact and you will see a gain in cost of goods sold -- a reduction in cost of goods sold. And the net difference between the two is what we believe is about SGD30 million which has impacted our P&L this quarter.

Philip Wickham *- HSBC Fixed Income - Analyst*

Okay, great, thank you. And then just two other quick questions. I'm just wondering, what is the current size of your unutilized credit facilities right now at your disposal? And, two, what was your operating lease expenses during the six-month period? Thank you.

A. Shekhar *- Olam International Ltd. - Executive Director, Finance and Business Development*

The operating lease expenses on an annualized basis is around SGD20 million, so I would say for the first half it would be about SGD10-odd-million. And predominantly coming out of our lease-back plantations, ignoring any warehouse rental kind of operating leases.

And the second question was unutilized borrowing and we have more than sufficient -- more than SGD5 billion of unutilized facilities, if we want to use. But really we are focused on the short term. We keep that as a buffer for our short-term -- any increase in working capital because of pricing, margin lines, etc.

Sunny Verghese *- Olam International Ltd. - Co-Founder, Group MD & CEO*

We have about SGD6.6 billion of facilities that we can draw down on and we have about SGD3.9 billion of readily marketable inventories and about SGD1 billion of secured receivables. So, if you see slide 20 that Shekhar presented, the total available liquidity is about SGD13 billion, SGD13.4 billion.

Hung Hoeng Chow *- Olam International Ltd. - Associate General Manager, IR*

We'll pause here for a second and take some questions online. We have two questions here. The first one is, given there's a commodity down cycle affecting the entire industry, how will this affect you going forward? Are there any products in your commodities complex that you expect will buck this trend?

Sunny Verghese *- Olam International Ltd. - Co-Founder, Group MD & CEO*

Yes. Firstly, the commodity complex is not a homogenous asset class, as you have known in the past. So, clearly, on the energy side we are seeing a significant down cycle. So, all of us know about the oil price story and gas story as well -- natural gas story as well.

On the metals and minerals and ore side, again, we are seeing a very, very deep down cycle. Both these asset classes are very directly linked to global economy. So, if there is a slowdown in global economy, these are all very recession-sensitive commodity asset classes, you will see those asset classes then in a deep decline.

In agriculture the story is slightly mixed. You have recession-sensitive commodities like the high-value commodities or the discretionary commodities and then you have the regular staples, etc., where the demand is very predictable and it's not really very recession-sensitive. But throughout history price direction for agricultural commodities as an asset class is not so much a function of demand but is very, very predictable. Unlike energy or unlike other things, it's very, very predictable. It is always about supply.

So, the story of the last 200 years of commodity history is always about the weather and if there is supply disruption, which nobody can predict, and that will result in how the price direction is going to be headed for those commodities.

So, within our portfolio today you see the cereal and grains complex, where because of corn and wheat and soya bean flowing out of everybody's ears with massive crops in Brazil and Argentina, North America, Europe, etc., those prices are in a deep down cycle.

But if you see the permanent tree crops, let's take the example of cocoa or coffee, they're trading at their historical highs and in some cases, like almonds, trading at their lifetime highs. So, coffee, for example, we believe that the Brazilian new crop will be 49 million bags. We have revised our estimates down from 51 million.

We believe the total Arabica crop globally will have a deficit this year of 4 million to 5 million bags and next year of 5 million to 6 million bags. We believe Robusta deficit will be about 3 million to 4 million bags.

We, therefore, see, for the first time in a long time, coffee end-use ratios will dip to 28%. So, last year coffee end use ratios were about 35%, 36%. So, if you look at a 7% move in end-use ratios, that is a clear trigger for which way coffee prices are headed. And that is why, in the last one month you have seen the coffee market try to breach that 1.65/1.60 level and it made, I think, about 20 attempts in the last 30 trading sessions and it didn't pierce that level.

So, as the market begins to realize the tightness, we will be seeing coffee prices rally further. The last time end-use ratios were at 28%, we had coffee prices trade at $3. Coffee prices are now trading at about $1.65. The last time it was at 28% it traded at $3.

And if you look at the spec gross long position, this is the lowest that they have been in the last year. And if you look at the spec gross short position, this is the highest it has been in the last year. So, we feel that coffee prices will continue to firm and we are very friendly to the coffee market.

Similarly in cocoa, the market has probably not yet factored in -- there has been a 9% reported decline in grindings in the October/December fourth quarter but that does not include the unreported numbers of grinds in Africa, for example, in Cote D'Ivoire and in Ghana where significant additional capacities have come.

If you net off that, then the decline in grindings was about minus 4% instead of the minus 9% that was reported. And if you look at what was quarter 3 grindings, quarter 3 grindings were much, much above trend.

So, what happened was there was excessive grinding in quarter 3 and that has fed into the pipeline and therefore grindings in quarter 4 declined. And if you then look at what is happening in the weather and in the principal growing regions, Africa is going through one of its worst Harmattans that we have seen since we have been there.

Harmattan is these dry winds that blow in from the Sahara which has got -- it increases temperature and it is a dust storm and it affects, clearly, production.

So, Ghana is going to have a 200,000 tonne decline in production. So, it had a crop last year of 960,000 tonnes, almost 1 million tonnes. It's going to come down to about 750,000 tonnes/760,000 tonnes. So, our house estimate is that we will see a deficit this year of 120,000 tonnes, which means again we will see stock use ratios going into fairly precarious levels

And that is why you saw in December -- while we saw the grinding numbers in January, you saw the cocoa market sold off somewhat. And then there was, it pierced a few technical levels. So, there was system liquidation, the shorts -- I mean, the long liquidation from the system funds. But we believe that the cocoa market is priced to go even further higher.

Almond prices, for example, are trading at a lifetime high. The objective estimate from the US California -- from the almond world, was that we will see a crop this year of about 2.1 billion pounds. All of the processing has happened. The total estimate now is about 1.8 billion. We believe the crop will end at about 1.85 billion pounds.

And even with 2 billion pounds being priced in, almond prices are at a historical high. Pistachio prices are at a historical high. Walnut prices have declined because of an excess crop in China. China has become suddenly a big producer of walnuts. So, it is not a uniform asset class. It's not a homogenous asset class. You have to be very nuanced about understanding the balance sheet for each of these commodities and if you have an exposure you have to trade that intelligently and skillfully.

Hung Hoeng Chow - ***Olam International Ltd. - Associate General Manager, IR***

Right. The second question is regarding the relative performance of Olam International versus peers in your industry amid this down cycle. So, some have bumper years and we have experienced a lower income. What have you got to say? What's your comment on this?

Sunny Verghese - ***Olam International Ltd. - Co-Founder, Group MD & CEO***

So, firstly, we're all not very comparable. We all have different portfolios, different shapes of our portfolios. So, the ABCDs are very large in the grains and oilseeds complex. So, if you look at ADM, Bunge, Cargill and Dreyfus, their principal category would be grains and oilseeds. We have a very minor presence in grains and oilseeds.

Most of the supply chain guys, traders in grains and oilseed this year should have made money hand over fist because there was surplus crop flowing out of every producing country, so their asset utilizations were at their peak and, more importantly, crush margins in North America, Brazil, anywhere in China improved considerably over the past.

So, full asset utilizations, massive crops, they could leverage that well. And that's why you saw fairly significant improvements in earnings that Cargill announced and ADM announced but both Cargill and ADM's earnings should also be seen in contrast to a very poor corresponding prior period but they have had significant growth in earnings.

Bunge has reported less strong results yesterday and we've all seen Wilmar's results as well and I think it's a story of mixed parts.

I think for all of those guys who are involved in the sugar business, which is another mainstream category, it is still -- everybody's bleeding and everybody's losing money. They're losing less money than they lost the prior year.

So, everybody's showing numbers which are probably half of last year's losses but they're still big losses in the sugar industry because the cycle is still in a very deep down cycle and if you've got farming and production assets and milling assets, then you have a negative adverse exposure to that scenario.

So, really, our portfolios are not comparable. So, Olam is very different from these commodity companies in four or five ways. We are clearly different because we are focused on niche commodity categories. So, nine out of our 16 platforms are in niche commodity categories where the majors don't really participate.

So, whether it's edible nuts, whether it's spices and vegetable ingredients, whether it's dairy, whether it's cocoa, whether it's coffee, whether it's packaged foods business, these are businesses that are very niche and we have a leadership position in these niche commodities. So, our portfolio profile is not the same as the other guys.

Secondly, in the mainstream categories like in palm and rubber and in -- sorry, like in palm and like in sugar and like in grains, which are mainstream commodity categories, we participate in a very, very niche way. So, in grains we are focused on African milling and in Black Sea origination and trading. Very niche.

In palm we have focused on plantations in Africa, which is the bigger part of our strategy. And then a midstream refining business in Africa and then a trading business which is more global, but it is a very niche strategy in palm. So, in the mainstream categories, we follow a very defensible, very niche strategy.

Thirdly, we out-origin our competition because you buy at the farm gate or from the village level agents or the farmer cooperatives. So, we out-origin our competition.

Fourthly, we are different because of the customer and we offer very many value-added services, not just the physical commodities. We offer certifications, organic certification or traceability guarantees or customized grades of qualities or vendor managed inventory solutions or risk management solutions.

And, finally, we are different from our competitors because of the shape of our portfolio and how we are exposed to upstream. So, we are the world's largest farmer today. We grow 20 crops in 24 countries. Nobody else has invested upstream in that form and manner.

The jury is still out because a lot of our upstream investments are gestating. But we believe that gives us a significant competitive advantage once these gestating investments come on-stream because we carefully picked the countries where we will invest, where we believe that we'll have a cost advantage and therefore benefit from that going forward.

So, while it is important for all of you as analysts to compare us, really our business models are very different and we are really not comparable. I might as well be in the aeronautical industry and probably more comparable than commodities in comparing with the other commodity companies.

Hung Hoeng Chow - ***Olam International Ltd. - Associate General Manager, IR***

Right. Any more questions? I thought I saw a hand put up at the back. If there are no questions, thank you very much for your attendance. And Happy New Year for this year as well as ahead for the Year of the Goat. Thank you.

Sunny Verghese - ***Olam International Ltd. - Co-Founder, Group MD & CEO***

Thank you.

A. Shekhar - ***Olam International Ltd. - Executive Director, Finance and Business Development***

Thank you.

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