Olam dismisses Muddy Waters report findings

"Everyone is entitled to their own opinions, but they are not entitled to their own facts"
Senator Daniel Patrick Moynihan (1927-2003)

The Muddy Waters report on Olam was published on the afternoon of Tuesday 27th November in Singapore. We refute the report's allegations which are false and misleading. Our rebuttal to the 133 page report demonstrates the lack of substance in the claims. Our message to Carson Block ("CB") and Muddy Waters ("MW") is therefore clear - this time the mud won't stick.

We believe that the report's assertions are motivated to distract and create panic amongst our continuing shareholders, bond holders and creditors, to enable Carson Block and his associates to benefit from their short positions in Olam securities – a strategy of shouting fire in a crowded room.

We will continue to vigorously defend the reputation of the company. We intend to pursue our rights to take appropriate action and claim damages for the unfounded allegations.

We wish to provide here our response to the major allegations by MW and the conclusions in their report.

In summary:

- **SOLVENCY: Olam faces no risk of insolvency. We have proactively planned for an appropriate capital structure and raised the requisite equity and debt to meet our investment plans. We have sufficient liquidity to pursue our current business as well as future investment plans.**

- **ACCOUNTING RELATED ASSERTIONS: Our financial statements and accounting policies strictly follow and adhere to the Singapore Financial Reporting Standards ("SFRS"). Gains generated by accounting for negative goodwill in certain acquisitions are treated as 'exceptional' which are one-off in nature and are excluded when reporting the core operational profits of the company**

- **BUSINESS MODEL: Our differentiated strategy is working, is yielding the intended results, and has helped us build leadership positions in many of our businesses. Therefore we intend to stay the course.**

- **ACQUISITIONS AND CAPEX: Both organic Capex and M&A plans are an outcome of a conscious and deliberate strategy which has been well articulated and constantly refreshed. We have a proven track record of unlocking value through acquisitions and pursuing profitable organic growth.**

SOLVENCY

OLAM FACES NO RISK OF INSOLVENCY. WE HAVE PROACTIVELY PLANNED FOR AN APPROPRIATE CAPITAL STRUCTURE AND RAISED THE REQUISITE EQUITY AND DEBT TO MEET OUR INVESTMENT PLANS. WE HAVE SUFFICIENT LIQUIDITY TO PURSUE OUR CURRENT BUSINESS AS WELL AS FUTURE INVESTMENT PLANS

Various assumptions have been made and conclusions drawn on our cash position, debt repayment schedule, and solvency situation.

In order to assess the Balance Sheet of agricultural commodity merchants and processors, it is important to understand the quality of their current assets. In this regard, we would like to quote from a recent S&P article (dated April 2012) on adjustments of Readily Marketable Inventories (RMI) or Liquid Hedged Inventories (LHI):

How does Standard & Poor's adjust companies' reported debt balances for liquid agricultural merchandising inventories when evaluating credit measures?

Standard & Poor's Ratings Services' approach to analyzing agricultural commodity inventories recognizes the liquid nature of these assets*. We view this unique strength as an important offset to the industry's earnings volatility, and it is a key factor in our assessment of financial risk. The characteristics of many agricultural inventories, such as tobacco, sugar, and grains, are quite different from inventories in other industrial sectors. In the agricultural sector, merchandisers usually buy and sell these commodity assets "as is" as part of their physical trading or basis trading operations.* ***Furthermore, agricultural inventories tend to be exceptionally liquid because their homogenous nature makes them truly fungible and, thus, easily hedged in the commodity futures market. These inventories also generally turn quite rapidly, supporting cash flows and greatly diminishing the risk of an inventory write-down. In our opinion, this liquidity contributes to financial flexibility. Because of these characteristics, we believe that liquid assets (hedgeable grain and commodity inventories) should be treated distinctly from other financial accounts, and we adjust the various measures of credit protection accordingly. For credit evaluation purposes, Standard & Poor's standard calculation of leverage ratios does not include short-term debt incurred to finance hedged, liquid inventories. Debt leverage, therefore, takes into account all long-term debt and only that amount of short-term debt that an issuer uses to finance assets other than hedged grain and commodity inventories****. A conservatively financed company would generally have an excess of liquid assets over short-term debt at all times. In this way, in the event of a severe tightening of available short-term credit, a company could liquidate fungible inventories in the normal course of operations and use the funds to pay short-term borrowings as they come due. If a company uses short-term debt to finance highly liquid inventories, then we make a distinction between interest expense on the short-term debt and interest expense on long-term debt. Since companies typically include these inventory carrying charges in their development of commodity selling prices, they are, for analytical purposes, a cost of goods sold, and we do not include them in our calculation of pretax interest coverage. We add back these interest expenses as a cost of sale, thus reducing operating income.*

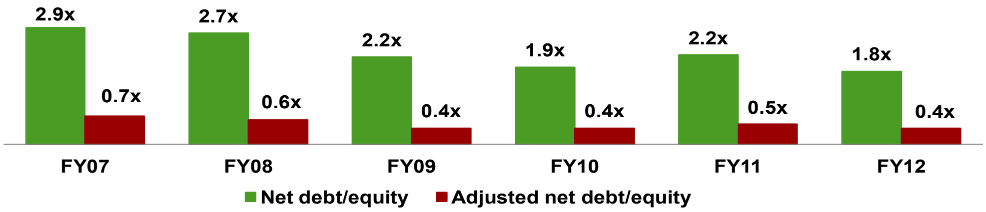
Please refer to **Appendix 1** titled "**S&P Research on Analyzing Agricultural Inventories**" for their detailed methodology in this regard.

At Olam, a large part of our working capital is used to fund LHI which meet four qualifying conditions: non perishability, limited obsolescence risk, hedged or sold forward, and liquid. These inventories and secured receivables are therefore liquid assets and are regarded as near cash.

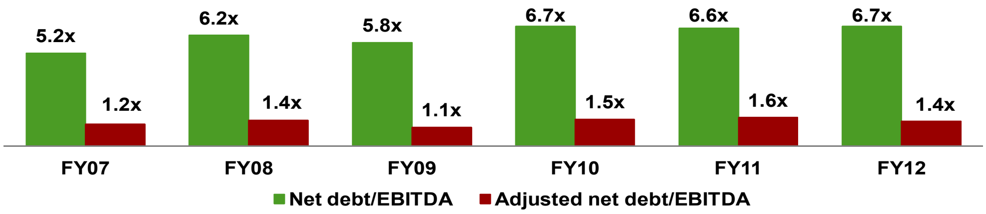
Based on this treatment, our adjusted net debt to equity and net debt to EBITDA is given in the chart below, as well as the operating cash flow adjusted for Liquid Hedged Inventories.

Adjusted Net Debt to Equity and Adjusted Net Debt to EBITDA ratios

Net debt to equity[1] and adjusted net debt[2,3] to equity[1] (x)



Net debt to EBITDA and adjusted net debt[3] to EBITDA



1. Before fair value adjustment reserves
2. Liquid assets: Cash, bank balances and fixed deposits + RMI + secured receivables (trade receivables secured by letters of credit or documents of title)
3. Adjusted net debt: Total debt – liquid assets. Debt does not include bank lines.
4. For the last 12 months ended 31 March

Positive operating cash flows after adjusting for Liquid Hedged Inventories

Cash flow summary (S$mm)

As reported	FY07	FY08	FY09	FY10	FY11	FY12
Operating cash flow before working capital changes	**285**	**369**	**346**	**461**	**811**	**894**
Changes in working capital	**(310)**	**(874)**	**268**	**(1,099)**	**(2,095)**	**(308)**
Increase in inventories	(143)	(454)	(187)	(621)	(1,153)	(610)
Decrease/(increase) in receivables and other current assets	(193)	(428)	218	(449)	(1,227)	590
Decrease/(increase) in advance payments to suppliers	(95)	(117)	95	29	(11)	(106)
Increase in payables and other current liabilities	121	125	142	(58)	296	(182)
Operating cash flow after working capital changes	**(25)**	**(505)**	**614**	**(638)**	**(1,284)**	**586**
Adjustment for increase in RMI[1]	108	608	105	581	829	744
Adjustment for increase in secured receivables[2]	57	145	24	231	521	(1)
Adjusted operating cash flow after working capital changes	**140**	**248**	**743**	**174**	**66**	**1,329**

1. RMI: inventories that are liquid, hedged, or sold forward
2. Secured receivables: receivables secured by letters of credit or documents of title

Adjusting for liquid inventories and secured receivables, we typically maintain positive operating cash flows

With this background, we would like to clarify the other issues on Solvency raised below:

MW CLAIM: "As of September 30, 2012, Olam had S$1.38 billion in cash and short-term fixed deposits, and S$3.75 billion in borrowings due within the next 12 months. Our model shows that Olam could have to raise or refinance as much as S$4.6 billion over the next 12 months in order to stay solvent"

The assumptions and conclusions drawn on our solvency position are incorrect. As at 30 September, 2012, we had cash of S$1.38 billion, short term working capital of S$6.36 billion and long term fixed assets of S$4.5 billion. It should be noted that approximately S$5.01 billion out of the short term working capital is held in the form of Readily Marketable Inventories (S$3.71 billion) and secured receivables (S$1.3 billion), which will get converted into cash and will be available for funding fresh working capital.

The source of funding was through equity of S$3.45 billion, long term debt of S$4.61 billion and short term debt of S$3.75 billion. Post Q1 FY2013, we have raised additional long term debt of S$500 million. Between equity and long term debt, we therefore have a total of S$8.55 billion covering fixed assets of S$4.5 billion. We have been deliberate about raising additional long term debt in advance of our debt refinancing requirements as well as to meet our planned capex/acquisitions. We believe we have more than enough capacity to meet our repayment obligations of S$1.5 billion in the next 12 months, as well as our likely capex of S$1-1.25 billion in the same period.

In addition to this we have unutilized short term working capital lines of S$4.3 billion which are available to fund our on-going working capital requirements, with enough scope for taking care of the anticipated volume increase and any commodity price changes.

The Net debt to equity was 1.81 X as at the end of FY2012 and now stands at 2.03 X at the end of Q1 FY2013. This is at one of the lowest levels in our history and after removing RMI and secured receivables, we are at an adjusted net debt to equity of 0.37 X and 0.57 X respectively for the same period.

We believe that even without raising any further debt we can easily meet our debt repayment obligations and pursue our planned Capex, in addition to meeting the on-going working capital needs. We also have the option of phasing out some of our fixed capital investments if the debt markets completely dry up for some reason.

MW CLAIM: "Brokers position: S$602.2 million of the cash balance appears to come from Olam withdrawing significant margin from its brokerage accounts"

Margin account movements are mainly correlated with the net position on the hedges with brokers and commodity price changes on the underlying. Draw down from broker accounts can be done only when excess cash is available in our accounts with brokers. Cash availability in broker accounts is the direct result of reduction in commodity prices, against our corresponding short position on the exchange. Withdrawals from margin accounts can therefore only take place if the positions are in the money and hence it's misleading to suggest that "…Olam drew down its margin accounts just before the end of the quarter in order to appear to be more liquid than it really is…". It shows a lack of understanding of how a hedge account actually works.

MW CLAIM: "Olam also had S$445.7 million of overdrafts as of the FY2012"

These are routine short term working capital loans. Banks in several countries refer to short term working capital facilities as 'bank overdrafts'. This does not mean that we are 'overdrawing' on our current account balances. These loans are drawn by our subsidiaries in local currencies mainly to avoid exposure to foreign currency fluctuations and are held for very short periods in the nature of 'cash in transit' to fund on-going operations. We have clarified in the Annual Report (AR) that interest rates could range from 1-22% and would be a function of the devaluation rate in the local currency also. Real interest rates on these loans (net of currency depreciation) would be competitive.

ACCOUNTING RELATED ASSERTIONS

OUR FINANCIAL STATEMENTS AND ACCOUNTING POLICIES STRICTLY FOLLOW AND ADHERE TO THE SINGAPORE FINANCIAL REPORTING STANDARDS ("SFRS"). GAINS GENERATED BY ACCOUNTING OF NEGATIVE GOODWILL IN CERTAIN ACQUISITIONS ARE TREATED AS 'EXCEPTIONAL' WHICH ARE ONE-OFF IN NATURE AND ARE EXCLUDED WHEN REPORTING THE CORE OPERATIONAL PROFITS OF THE COMPANY.

We reaffirm that our financial statements and accounting policies follow and adhere to the Singapore Financial Reporting Standards ("SFRS"). We would also like to reiterate that our financial statements have been subject to annual audits by E&Y. E&Y have also stated in their letter dated 22 November 2012 to our Board of Directors that:

"The consolidated financial statements issued by Olam were prepared in accordance with SFRS. Our audits were conducted in accordance with Singapore Standard on Auditing. Our latest statutory audit was in respect of the consolidated financial statements of Olam for the year ended 30 June 2012. Our audit report for those financial statements, which was issued on 28 September 2012, was not qualified or otherwise modified in any respect and our opinion was that Olam's consolidated financial statements gave a true and fair view of its state of affairs and financial results for the year then ended. Our audit report on Olam's consolidated financial statements for the prior years for which we had acted as auditors, issued on various dates, were similarly not qualified or otherwise modified. We stand by our audit opinion on the consolidated financial statements of Olam."

However as previously stated in our release dated 23 February 2011, there were a few instances of reporting differences between the unaudited financial statements and the Annual Report ("AR") which were on account of presentation differences between the accounts of various subsidiaries and their eventual treatment in the Group consolidation and/or reclassification between line items in the Group accounts. At the time of the results announcement (unaudited) the auditors had substantially reviewed the consolidation package of the subsidiaries and the MASNET announcement at the Group level and satisfied themselves with the reported results of the Group. Subsequent to the results announcement, in the process of the preparation of the AR there were occasions where further refinement and re-classification in the course of the preparation of the detailed notes to accounts were made. All these changes were reviewed by the auditors and presented to the Board Audit Committee for consideration and approval before finalization of the AR.

We can re-confirm that there have been no changes to the P&L in any year between the unaudited Financials and the AR. It is important to note that any material changes in financial statements between the unaudited and audited version need to be approved by the auditors, Board Audit Committee and the Board of Directors and a public disclosure via SGX has to be made. There has not been a need for us to make such a statement since listing in 2005.

We have since strengthened our consolidation processes and procedures to ensure that such instances of reclassification are minimized which is clearly reflected in our financial statements for FY 2011 and FY2012.

NON-CASH ACCOUNTING GAINS

In their report, MW has repeatedly asserted that non-cash accounting gains ("NCAGs"), particularly negative goodwill and biological gains are a significant portion of Olam's PAT (37.9% from FY 2010 through FY2012). Our response to these specific assertions is given below.

Negative Goodwill

MW CLAIM: "Much of Olam's negative goodwill comes from it revaluing assets at the time of acquisition, rather than acquiring them below their book value"

MW claims that much of the negative goodwill arises not from buying assets below book value but by "its own upward revaluation of asset values". To us, this shows a **shocking lack of understanding of basic accounting standards on the part of the "experts" hired by MW** as part of their three month full-time research on Olam.

How is Goodwill generated?

Goodwill, which arises as a result of a difference between the purchase price and the fair value (as opposed to the book value) of the acquired business / asset is recognized in the profit and loss statement/Balance Sheet after due verification by the Company's auditors, Ernst & Young LLP ("E&Y"). This accounting treatment is mandatory under SFRS 103 (Business Combinations) and requires the Company to undertake a Purchase Price Allocation ("PPA") exercise which is carried out by an independent third party valuer and reviewed by E&Y. The fair value of the acquired business/assets is not required to be reflected in the acquiree's financial statements but in the Group's consolidated financial statements instead. The outcome of the PPA exercise forms the basis for accounting of these acquisitions which then results in the recognition of goodwill which could be positive or negative.

How does Olam treat negative goodwill?

Olam has consistently and explicitly reported any gains generated by the accounting of negative goodwill as **"exceptional", which is one-off in nature**, and has **excluded these when reporting the core operational profits** of the Company. By the exclusion of such gains from our operating profit, **Olam has not sought, nor received any enhancement of our operational profits**. Further, this and any other non-operational income does not form part of our strategic plan target of US$1Bn PAT in FY2016.

Does Olam acquire assets only to generate negative goodwill?

MW seems to allude that Olam sought to acquire assets for the sole purpose of generating negative goodwill and enhancing profits. **This could not be further from the truth**. In the past few years, Olam saw an opportunity post the global financial crisis of acting counter-cyclically and acquiring assets and businesses at a deep discount to their fair value – as a result, some acquisitions resulted in a negative goodwill (worth noting that many others resulted in a positive goodwill). All the acquisitions, without exception, that resulted in a negative goodwill were part of our publically disclosed strategic plan and were "on-strategy" (in line with our stated strategy) and "on-plan". As the business sentiment improved towards FY2011 and FY2012, the acquisitions were done closer to, or at a premium to their fair values which resulted in lesser negative goodwill and/or positive goodwill.

As mentioned above, while MW has consistently harped on Negative Goodwill, they failed to talk about several acquisitions that resulted in a positive goodwill as well. Some of these transactions are summarized below:

2011 - 12		2010 - 11		2009 - 10		2007 - 08		2006 - 07	
Assets/ Subsidiaries Acquired	(S$ m)	Assets/ Subsidiaries Acquired	(S$ m)	Assets/ Subsidiaries Acquired	(S$ m)	Assets/ Subsidiaries Acquired	(S$ m)	Assets/ Subsidiaries Acquired	(S$ m)
Hemarus Industries Limited	2.3	Britannia Food Ingredients Holdings Limited and Britannia Storage and Distribution Limited	7.5	Dunavant Mozambique and Algodao du Vale du Zambigi	3.8	Queensland Cotton Holdings	16.0	Universal Blanchers, L.L.C	76.1
Titanium Holding Company S.A. (OK Foods Limited)	29.7					Naarden Agro Products B.V.	2.2		
Progida Group	11.8					Hong Kong Key Foods ("KFI") Limited	9.3		
Macao Commodities Trading, S.L.	5.5								
Others (M&M Wools (Australia) Pty Ltd)	2.5								
Total Goodwill	**51.8**	**Total Goodwill**	**7.5**	**Total Goodwill**	**3.8**	**Total Goodwill**	**27.5**	**Total Goodwill**	**76.1**

How has negative goodwill increased as a result of re-classification?
MW states that S$118.2 million of negative goodwill in Olam's FY2010 Annual Report was S$29.2 million higher than the negative goodwill recorded in the SGXNET announcement in Q4 FY2010. "In other words, Olam somehow realized after reporting results that the assets were worth even more than it had previously thought."

This assertion is totally incorrect as MW is comparing a GROSS number of S$118 million which was stated in the Annual report to a NET number of S$87.6 million in the Q4 FY2010 SGXNET. The difference between the two is clearly explained on page 13 of Q4 FY2010 SGXNET, "During the period, the Company has completed the Purchase Price Allocation ("PPA") exercise for the recently acquired tomato paste manufacturing facility (OTP) in California and the Almond Orchards in Australia. This exercise resulted in an aggregate exceptional gain of S$87.6 million in the form of negative goodwill (net of transactional and related expenses of S$29.1 million and a one off impairment charges for certain ginning assets in the USA amounting to S$1.4 million)". Thus, 87.6 + 29.1 + 1.4 = 118!

MW CLAIM: "Negative goodwill on tt Timber acquisition"
As explained above, Olam consistently applies the guidelines under SFRS 103 for fair valuing the acquired assets/businesses by independently conducting a PPA exercise. The reason for the negative goodwill was mainly on account of the intangible assets of tt Timber (forestry concessions).

Under the accounting policy adopted for valuation of intangible assets by DLH as stated in page 29 of their Annual Report, they reflected these concessions at historical cost. Their policy specifically stated that "Other intangible assets, including intangible assets acquired in connection with business combinations, covering certification costs and forest concessions, are measured at cost less accumulated depreciation and impairment losses"

Considering that Olam had consistently followed the practice of fair valuing all acquired businesses / assets (including intangibles), the same practice was also applied to the tt Timber acquisition.

BIOLOGICAL ASSETS VALUATION

SFRS 41 prescribes the accounting treatment for biological assets (a living animal or plant) during the process of biological transformation (processes of growth, degeneration, production and procreation) and for the initial measurement of agricultural produce (the harvested product of the entity's biological assets) at the point of harvest.

It prescribes principles for recognition and measurement of biological assets and agricultural produce, and accounting of the associated gains and losses that arise as a result. It does not apply to the processing and eventual sale of agricultural produce after the point of harvest, nor the sale of biological assets. Please refer to Appendix 2 for more details in this regard.

OLAM'S VIEW ON DISCLOSURE OF BIOLOGICAL GAINS

Olam's Biological Assets consist of:

- Plantations (Tree crops) viz. Almond orchards, coffee plantations
- Annual crops viz. cotton, onions, tomatoes and other vegetables
- Livestock viz. dairy cattle

Fair value determination

The fair value of biological assets (other than annual crops and livestock) is estimated with reference to a professional valuation using the present value of expected net cash flows from the biological assets.

The valuations are based on following significant assumptions:

(i) The average life of trees for plantations has been taken up to 15 to 25 years;
(ii) Rates considered for discounting future cash flows range between 12% and 13% per annum;
(iii) Annual rate of inflation ranging from 0% to 4% per annum;
(iv) Location, soil type and infrastructure for determining estimated yield; and
(v) Market price of the biological assets dependent on the prevailing market price of the products after harvest.

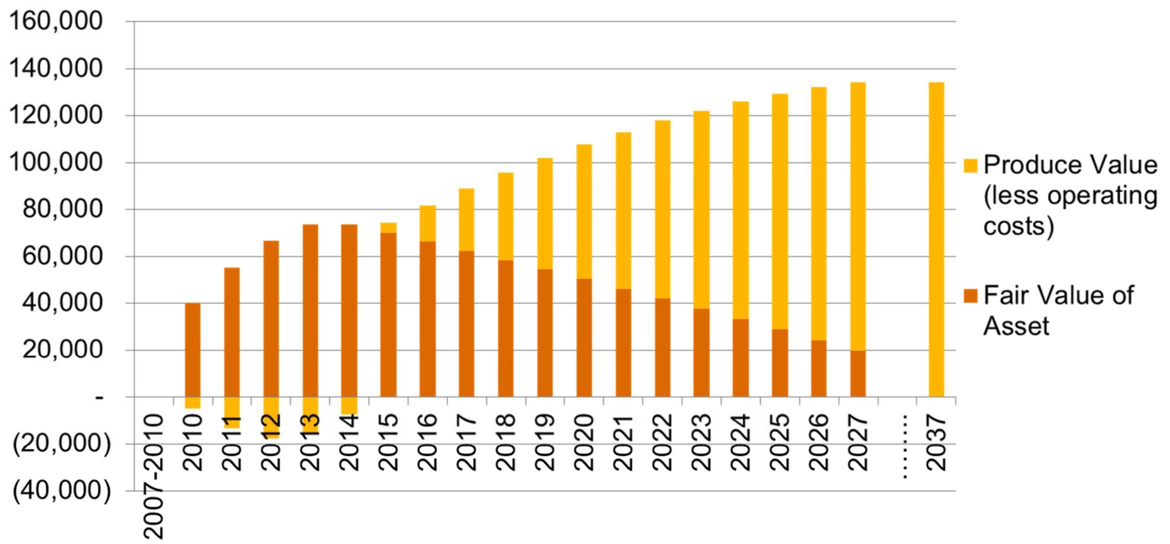
The annual crops have been valued using adjusted cost, which is the estimate of the yield and cost of the crop at harvest discounted for the remaining time to harvest, which approximates fair value.

The fair value of livestock is determined based on valuations by an independent professional valuer using market prices of livestock of similar age, breed and generic merit.

Given SFRS 41 is a fairly new standard, not adopted universally and is still not fully understood, some market participants often excluded biological gains from the profits of companies following SFRS 41. The intent is to make companies comparable across regions and standards by excluding biological gains, but the outcome is just the opposite. The below illustration should clarify the issue:

Period	Period starting date	Duration	Significant event	Value of the biological asset at end of the period (after harvest)	Value of the agriculture products harvested	Value creation during the period
Immature period	2007	0-3 years	Field preparation, planting, fertilizing and maintenance	Accumulated costs for field preparation, planting, fertilizing and maintenance, capitalization of borrowing costs, indirect costs allocated.	-	Minimum transformation has taken place
Mature period	2010	After 3 year	Almond trees become commercially productive and available for harvest	DCF for harvest from years 3 to 30	-	Most of the value of the biological asset will be "created" during this period, however discounted to present value.
	2010	3rd year	First year of harvest	DCF for harvest from years 4 to 30.	First year of harvest	The value of the plantation will gradually be transferred to the produce and eventually recognized as sales / COGS. If we only consider net in the P&L, essentially we are only recognizing the unwinding of discount and return during these periods.
	2011	4th year	Second year of harvest	DCF for harvest from years 5 to 30	Second year of Harvest	
	⋮	⋮	⋮	⋮	⋮	
	2037	30th year	Final harvest	Nil	Final year of harvest	

The way the above scenario would play out in the financial statement is as follows:



As seen above, the Fair Value of the biological asset reduces to zero over the lifetime of the asset.

COMMUNICATION CHALLENGES

Changes in the fair value of Biological Assets can arise from two reasons:

a) Change in the productive capacity of the biological asset or
b) Changes to the assumptions used in the Fair Valuation model

The resulting change in the biological asset value will result in a Biological Gain or Loss which gets reported in the Profit and Loss account for the period under review.

However, at Olam we believe it is imperative to make a distinction between the two – the change due to (a) is "Operational" in nature since it has risen from active management of the biological transformation by better farming practices, application of fertilizer, better harvesting etc. On the contrary, changes due to (b) are considered "Non Operational" in nature since they arise solely from a change in the fair value model assumptions and other changes external to Olam arising from a change in say the long term price of the commodity, or changes in the discount rates etc.

While SFRS 41 does not require this disclosure, Olam voluntarily discloses how much of the reported biological gain during a period was Operational vs. Non-Operational.

It is also pertinent to note that the Fair Value Gains on Biological assets reported in the Profit and Loss Account is gross of tax and the income tax computed as part of the valuation methodology is included under "Income tax expense" head in the profit and loss account. The rates of income tax can vary between 25% - 35% depending on the various jurisdictions in which the biological assets are located.

While Fair value gains on biological assets is generally viewed as "Non cash" and excluded from the core operational profits by the investor community, we wish to highlight the following:

- All our plantations are not yet fully mature and hence have not yet attained the full yield potential.

- However the costs for managing the biological assets are incurred in cash and fully charged off in the profit and loss account as period costs.

BALANCE SHEET: OUR STRONG BALANCE SHEET HELPS US PURSUE OUR WELL DEFINED AND CLEARLY ARTICULATED STRATEGY

Olam has been explicit that the current strategic plan cycle (FY2010 to FY2016) involves selective investments in upstream and midstream segments of the value chain. The Company has also, openly and transparently communicated that given the front-loaded nature of the investments, the Company would be free cash flow negative till FY2015 while the investments complete their gestation phase and start generating cash flows.

The Company was well prepared to embark on this strategy and had pre-emptively built an appropriate balance sheet structure supported both by equity (which was raised in 2011) and diversified debt (across bank bilateral lines, syndicated facilities and debt capital markets) of varying tenors to support the longer term nature of the investments being made. As of 30 September 2012, we have ample liquidity (both cash in hand as well as near-cash sold/hedged inventory and secured receivables), un-drawn lines from banks as well as debt headroom reflected by leverage levels which are well below our bank covenants as well as internal gearing targets to continue on the path of execution of our strategic plan.

With this background, the assertion that Olam's capex is "off-the-rails" does not hold merit as the Company is well "on track" towards achieving its stated goals.

Specifically, MW's assertions are centered on two themes:

MW CLAIMS: "Total acquisition consideration exceeds actual payments by S$571 million"

It is important to understand the timing difference that exists between the announcement of a transaction and the subsequent cash outflow that occurs at the time of closing. For instance, the UAP sugar mill acquisition was announced as of 30 June 2012, but since the transaction had not closed as on that date, the cash outflow had not taken place. This is not what we would consider to be "missing capex".

Secondly, acquisition consideration is not always discharged in cash. The purchase consideration can be paid either in cash or via assuming the debt of the acquired company. In the case of transactions like Progida (Turkey), Hemarus (India), Olam has assumed the debt of the acquired entity and this fact is clearly reflected in the Annual Reports of the Company. Thus NONE of the capex is missing as alluded to in the MW report.

The detailed response to the table is attached below:

** The lot of differences could be explained by reading annual report notes to accounts :*

					S $ 000
FY 12					
Acquisitions	**Cashoutflow as per annual report**	**Company press releases and analyst persection of cash outflows on acquisitions**	**Gap**	**Explained**	**Remark**
Almond Orchards	29,159	41,441	(12,282)	(12,282)	No press release was issued as it was below our announcement threshold. Cash outflow pertains to the acquisition of the asset
Vallabhdas Kanji Limited	22,216	22,882	(666)	-	Exchange difference
Hemarus Industries Limited	9,678	93,815	(84,137)	(81,000)	81 M S $ debt taken over on acquisition.
Titanium Holding Limited	229,732	212,290	17,442	17,442	Difference is on account of working capital adjustment at closing
Progida	-	48,306	(48,306)	(45,000)	45 M S $ debt taken over on acquisition.
Macao	14,817	25,424	(10,607)	(10,607)	FY 12 Annual Report (Note 11): Total consideration paid of 21.0 M S$.
Milky Projects - Rusmolco	8,460	95,340	(86,880)	(84,000)	FY 12 Annual Report (Note 11): S $ 77.6 M was fresh equity invested by Olam in Rusmalco. The final consideration was S$6.4 M lower than the announced EV
Others - Wool + Trusty Foods +	28,737	-	28,737	28,737	No press release was issued as it was below our announcement threshold.
UAP	-	163,731	(163,731)	(163,731)	FY 12 Annual Report (Note 38): Acquisition has not been completed
Kayass	-	84,545	(84,545)	(84,545)	FY 12 Annual Report (Note 38): Acquisition has not been completed
Total	**342,799**	**787,774**	**(444,975)**	**(434,986)**	

FY 11					
Acquisitions	**Cashoutflow as per annual report**	**Company press releases and analyst persection of cash outflows on acquisitions**	**Gap**	**Explained**	**Remark**
TT Timber	51,530	48,659	2,871	2,871	Exchange difference
Britannia	23,109	61,750	(38,641)	-	Purchase consideration was discharged by a combination of cash consideration, Debt, net working capital and completion profit.
NZFSU	93,700	165,490	(71,790)	(71,790)	93.7 M S $ paid towards acquisition of 59.53 % of NZFSU in FY2011
US Almond Orchards	74,263	69,778	4,485	4,485	Exchange difference
Gilroy Foods & Flavours	312,561	308,750	3,811	3,811	Exchange difference
Total	**555,163**	**654,427**	**(99,264)**	**(60,623)**	

S $ 000

FY 10					
Acquisitions	**Cashoutflow as per annual report**	**Company press releases and analyst persection of cash outflows on acquisitions**	**Gap**	**Explained**	**Remark**
SK Foods	54,721	54,027	694		Exchange difference
Almond Orchards	389,574	358,793	30,781		Cash consideration was US$277.7 Mn which matches the cash outflow as per the annual report
Crown Flour Mills	86,018	149,058	(63,040)		Announced value of $150Mn is EV. Paid by $70Mn in cash and bank loans assumed of $80Mn
Dunavant + Algoda	3,440	-	3,440		No press release was issued as it was below our announcement threshold
Total	**533,753**	**561,878**	**(28,125)**		

S $ 000

FY 09					
Acquisitions	**Cashoutflow as per annual report**	**Company press releases and analyst persection of cash outflows on acquisitions**	**Gap**	**Explained**	**Remark**
IMC	15,911	14,555	1,356		Exchange difference
Total	**15,911**	**14,555**	**1,356**		

MW CLAIMS: "We cannot account for cumulative $996.2 million in booked but unattributed Capex over the last four years"

MW seems to conclude that "Olam is pursuing more greenfield projects than investors realize", and state that in the 2012 Annual Report, there is a "distinct lack of disclosure" for the S$875 million cash outflow for the purchase of property, plant and equipment, leading according to MW to a total "unattributable Capex" of S$996 million over the last four years.

Olam has been explicit not only on its capex strategy, but has also notified the markets on every material investment.

Further, Olam also states in its quarterly financial results the projects towards which capital expenditure has been spent during the quarter. So evidently for MW to state that the capex cannot be accounted is not true.

We wish to provide the detailed break-up of the incremental capex spend of S$875 million in FY2012 which should dismiss this unwarranted assertion:

Fixed assets addition FY 12		
Country	SGD Mn	Projects
Gabon	339.2	Palm, Fertilizer, SEZ
Nigeria	89.9	CFM, Cashew Mech, Tomato Sachet, Rice Farming
Ghana	65.3	Wheat Mill, PFB
Australia	79.3	Cotton Gin, Wool, Grain elevator, Almonds
Uruguay	49.4	NZFSU
Vietnam	56.4	Soluble Coffee, Spices grinding, Cashew processing
USA	32.6	Almonds, Maintenance capex
Malaysia	19.9	Dairy processing
Ivory Coast	37.3	Cocoa processing, Mechanical cashew, Dairy processing
Mozambique	16.7	Palm Refinery, Cotton gin, Cashew processing
Argentina	10.9	Peanut processing
India	10.0	Maintenance capex
Republic of Congo	6.5	Timber co-gen
Others	61.6	
Total	**874.9**	

Nigeria Export Incentives

MW CLAIM: "The Nigerian export subsidies (called "EEGs") have been particularly controversial, with allegations of corruption within the program. Nigeria stops issuing the grants every few years when the program becomes politically problematic"

This statement is incorrect. Nigeria first introduced export incentives in 1986. From 2000, the scheme was changed from a cash grant to a Negotiable Duty Credit Certificate (NDCC) which can be used to pay import duties for one's own imports or traded in the secondary market to other importers. From 2001, the scheme was changed to make it a product specific scheme with differing incentive rates for different products as well as for different levels of local value addition or manufacturing. This regime was again revised in 2006 (but with retrospective effect from 2005) to include two separate criteria, including a product specific criteria and a company eligibility rating based on various parameters and remains active till date. Further, this scheme does not mandate any direct investment into the country as a pre-requisite for eligibility.

MW CLAIM: "Olam has denied that EEGs are material to its profits (…). We question Olam's assertions"

We receive export incentives in Nigeria for two broad activities (a) basic sourcing and export of agricultural raw materials and (b) for export for value-added products from Nigeria.

In the case of (a) due to the intense competition for scarce raw material (In 2011 there were >200 beneficiary companies who received EEG under the scheme), we have to pass on almost all of this to our suppliers thereby increasing our cost of procurement. Therefore, what is recorded as export incentives does not directly flow down to our profits. In the case of (b) the incentive is intended to offset the higher cost of operations in Nigeria arising from infrastructural deficiency (eg. Lack of power supply, fuel shortages, logistics bottlenecks etc.). In this case as well, the offset is intended to make Nigeria a cost competitive exporter of value-added agri commodities rather than a source of profits for the exporter.

MW CLAIM: "There is a backlog of approximately NGN100 billion that is yet to be paid by the Nigerian government"

Olam has consistently received its EEG in the form of NDCCs since the scheme has been in force. In FY2012 Olam has received S$114 million worth of export incentives and subsidies, clearly reflecting the continuity of the scheme.

MW CLAIM: "Nigerian Customs Service quota for duty collection leads to widening of NDCC discounts from 5% to 20%"

While the discounts do vary depending on the demand and supply of NDCCs, Olam by virtue of being a significant importer of agri-commodities such as rice, wheat and packaged foods has the flexibility of using NDCCS for captive use. Further, market-linked discounts are provided upfront at the time of recording the export incentives in our books.

Recent media reports have stated "the Nigerian Customs Service ("NCS") says it has not stopped the utilisation of the certificates for settlements, but is only embarking on close monitoring, to check abuse. This, it says is typified by importation of other raw materials that are either not contributing to the growth of the economy, or checking importation of contraband goods.

"I am not aware of any restriction or stoppage of the use of the certificates, but what we are doing is close monitoring, to stop abuse of the policy. We are only monitoring the implementation to ensure that it is in line with the objectives of the scheme," said Wale Adeniyi, National public relations officer, Nigeria Customs Service." (http://www.businessdayonline.com/NG/index.php/news/76-hot-topic/48114-banks-pressure-exporters-as-customs-rejects-credit-certificates)

Level 3 derivatives

MW claim: "The higher Level 3 balance in 2011 may be justifiable; however, it is interesting and worth noting that the derivative net liability balance of S$468.4 million60 for Level 1 and 2 is netted out by a new Level 3 net asset balance of S$491.2 million, which left Olam with its first net asset derivative balance of S$22.8 million on open derivative positions."

As stated by MW in their own report, some outstanding physical contracts were classified as Level 3 in FY2011 and FY2012 largely on account of lack of independent price discovery mechanism driven by extreme price volatility, mainly in cotton. Level 3 classification is commonly adopted in our industry.

MW claim: "The extraordinary increase in sensitivity from S$3.8 million per +/- 1% in 2011 to S$12.2 million despite a decline in overall value of the Level 3 derivatives"

The increase in sensitivity is on account of an overall increases in the volume of outstanding physical contracts that were fair valued in FY2012 vis-à-vis FY2011.

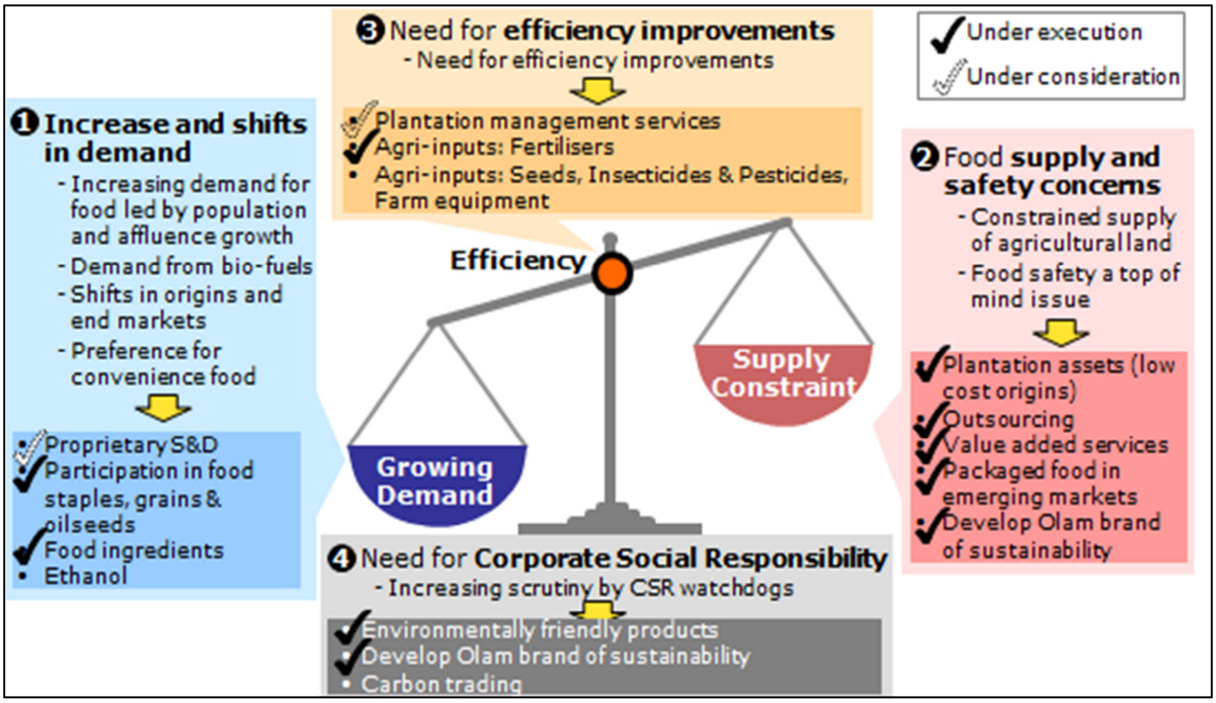
BUSINESS MODEL

OUR DIFFERENTIATED STRATEGY IS WORKING, IS YIELDING THE INTENDED RESULTS, AND HAS HELPED US BUILD LEADERSHIP POSITIONS IN MANY OF OUR BUSINESSES. THEREFORE WE INTEND THE STAY THE COURSE.

MW CLAIM: "Olam's trading business appears to be a failing business model"

We have been in this business for 23 years now. For 17 years, we have pursued an asset-lite strategy focusing on the supply chain part of the business - sourcing & origination, primary processing, logistics, trading and risk management. We have a differentiated core supply chain business built on superior origination skills by going to the farm gate and building an extensive network of 3.5 million farmers. We have also de-commoditised this business by offering value added services and building a network of 12,300 customers. This fixed asset light part of the portfolio continues to witness strong growth. Net contribution has increased from $469M in FY2009 to $956M in FY2012. This is a 27% CAGR growth over the last 3 years and is reflective of the continuing strength of this business.

Our strategic planning exercise in 2009 identified a number of attractive growth opportunities across the value chain that would place us ahead of agri-megatrends. Our expansion into upstream and mid/downstream is part of this well-thought through strategy.



Our upstream participation is differentiated, providing us a strategic hedge in cost-competitive producing origins. Our midstream participation and selective value chain integration would help us gain: security of supply/quality; purchasing, logistical and manufacturing scale effects, while our limited downstream expansion offers demand visibility.

We are committed to our strategy that we believe is differentiated:

I. Our competitive advantage is driven off a unique portfolio and a proven delivery model

Our uniquely shaped portfolio is a result of:

a) Our focus on a single commodity asset class (agri-complex): Given the growing imbalance between the supply and demand for food ingredients and agriculture raw materials, agri will remain an attractive industry with strong growth prospects
b) Well-balanced and diversified portfolio: across 16 platforms and 65 countries with no platform or country dominating our revenues, earnings or investments
c) Defensible position: Of the 16 platforms that we are in, the top 10 players in our industry do not compete with us in 6 of those and we have only one competitor in three others
d) Selective integration across the value chain: We have selectively integrated upstream in plantations and farming across 19 commodities in 22 countries where we believe we have a cost structure below the marginal cost producer's cost of production that will allow us to be viable across commodity pricing cycles. Nobody else in the industry has this upstream profile
e) Leadership positions: We are a global leader in 6 out of the 16 platforms and a regional leader in 5 others

If MW had even asked our competitors, they would have got a good sense of how effective our strategy has been in building leadership positions in the industry.

Our differentiated model rests on four key elements:

a) A differentiated core supply chain business: Our superior origination skills enable us to out-origin our competition by sourcing directly from farm gate having 3.5 million grower relationships. We have built a network of 12, 300 customers and de-commoditised the business by offering highly value added services like risk management solutions, inventor managed inventory solutions, proprietary market intelligence etc.

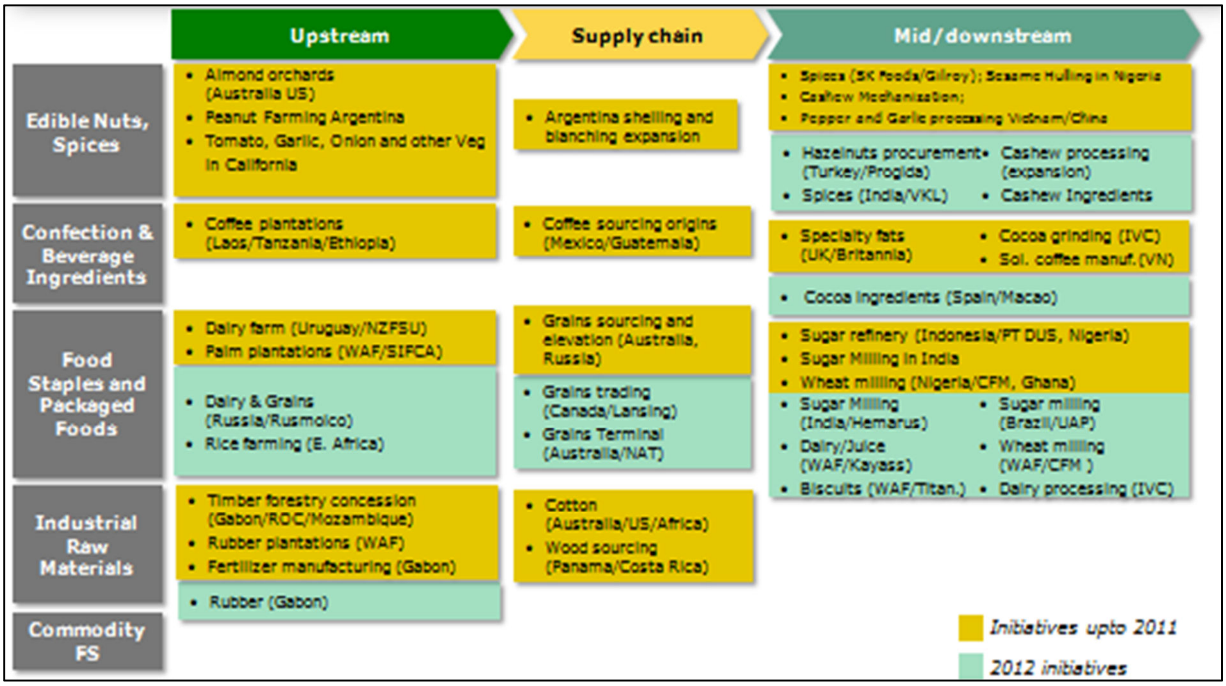
b) Deep emerging market expertise: 80% of the 65 countries where we are present are emerging markets. Over time, we have built extensive and strong networks and deep insights in these countries

c) Scalable adjacency based growth formula (illustrated later)

d) Organisational advantage based on building an entrepreneurial and empowered culture. Our 750 Global Assignee Talent Pool (GATP) managers carry our DNA and business model and deftly transfer it to adjacent new businesses. This makes growth routine and reflexive, allowing us to replicate and build a scalable business

II. Our investments so far have been in line with our strategy

Today, we are present in 5 categories across 16 diversified platforms. Our investments over the past 3 years have helped us achieve a successful and significant transformation. We have stayed true to our governing objective, made investments to back our strategic plan, strengthened our balance sheet to support those investments, acquired critical new capabilities and built a strong management team to execute on the plan. The following chart highlights some of the key investments and growth initiatives implemented in the last three years of the plan that have transformed our portfolio shape.



All investments are in line with our stated strategy. Twenty-eight out of 33 announced investments are performing at or above plan, as shown in the tables below.

Legend

Strong ● Weak ○

S. No	Platform	Value chain	Company	Strategic impact	Performance - Plan vs actual
1	Natural Fibre	Core	Queensland Cotton Holdings	Created a top 3 player in Cotton	Above plan
2	Edible nuts	Midstream/ downstream	Universal Blanchers	Largest peanut blancher globally	Above plan
3	Spices	Midstream/ downstream	Key Foods Ingredients Group	Entry into dehydrated garlic (top 3 suppliers)	Above plan
4	Dairy	Midstream/ downstream	Naarden Agro Products B.V.	Entry into casein (10% of global market share)	At plan
5	Sugar	Midstream/ downstream	PT Dharmapala Usaha Sukses	Entry into large market with growing sugar deficit	Above plan
6	Coffee	Midstream/ downstream	Greenfield Investment - Integrated Soluble Coffee Manufacturing	Significant sourcing and cost synergies	Above plan

S. No	Platform	Value chain	Company	Strategic impact	Performance - Plan vs actual
7	Rubber & Palm Oil	Upstream/Mid stream	Investments in Palm Oil and Rubber Assets in Africa (JV with Wilmar acquires SIFCA group to form NewCo)	Entry into rubber and palm in Africa	Above plan
8	Sweeteners	Midstream/ downstream	Pure Circle	Leading supplier of high intensity sweetener with first mover advantage	Below plan (market value of shareholding higher than acquisition cost)
9	Dairy	Midstream/ downstream	Dairy Trust Ltd	Largest private processor in NZ (largest dairy	Below plan
10	Grains	Midstream/ downstream	Standard Flour Mills(SFM) of Modandola Group	Not completed	
11	Spice and vegetable ingredients	Midstream/ downstream	De Francesco	Expand portfolio offering of spices and dehydrates	Above plan
12	Natural Fibre	Core	Cotton Ginning Assets, IVC	Build integrated cotton operations in a major exporting country	Above plan

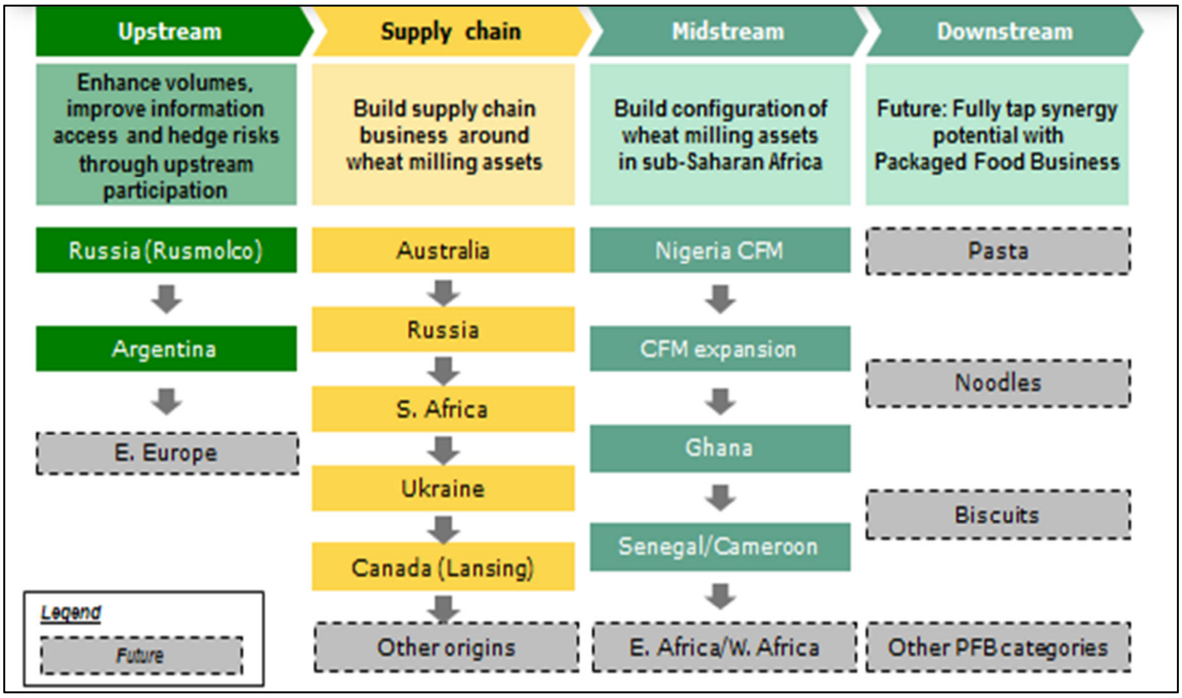
S. No	Platform	Value chain	Company	Strategic impact	Performance - Plan vs actual
13	Spice and vegetable ingredients	Midstream/ downstream	Tomato processing assets of SK Foods	Adjacency expansion with leadership position	Below plan
14	Edible nuts	Upstream	Almond Orchards of Timbercorp limited	Adjacency expansion with immediate scale	Above plan
15	Sugar	Midstream/ downstream	Giridharilal Sugar And Allied Industries	Entry into milling in a large producing country	Below plan
16	Edible nuts	Upstream	Timbercorp Primary Infrastructure Fund almond orchards and associated PWRs	Adjacency expansion with immediate scale	Above plan
17	Grains	Midstream/ downstream	Crown Flour Mills limited	Port based asset in a large market	Above plan
18	Grains	Midstream/ downstream	Greenfield Investment in wheat milling, Ghana	Port based asset in a large market	Above plan
19	Spice and vegetable ingredients	Midstream/ downstream	Gilroy Foods from ConAgra Foods Food Ingredients Company	Industry leadership position with differentiated product portfolio	Above plan

S. No	Platform	Value chain	Company	Strategic impact	Performance - Plan vs actual
20	Dairy	Upstream	NZ Farming Systems Uruguay	Establish foothold in dairy farming at a cost competitive location	Below plan
21	Cocoa	Midstream/ downstream	Greenfield Cocoa processing factory, IVC	Under construction	
22	Fertilizers	Midstream/ downstream	Greenfield Urea manufacturing facility in Gabon	Still in planning phase	
23	Palm	Upstream	Green field oil palm plantations in Gabon (JV with Gabon)	Entry into large scale palm plantation	At plan
24	Sugar	Midstream/ downstream	Greenfiled sugar refinery (JV with Lababidi Group)	Not completed	
25	Wood products	Upstream	tt Timber International	Access to large sustainable forest concessions	At plan
26	Cocoa	Midstream/ downstream	Brittania Food Ingredients (BFI) and Brittania Storage and Distribution (BSD)	Integrate cocoa supply chain; synergies with existing business	Above plan

S. No	Platform	Value chain	Company	Strategic impact	Performance - Plan vs actual
27	Sugar	Midstream/ downstream	Hemarus Industries Limited (HIL)	Stronger milling position in a large producing country	At plan
28	Spice and vegetable ingredients	Midstream/ downstream	VKL	Accelerate entry into chili and turmeric product segments	At plan
29	Edible Nuts	Midstream/ downstream	Progida Group	Entry into a new nut category - Hazelnuts	Above plan
30	Cocoa	Midstream/ downstream	Macao Commodity Trading	Entry into Spanish and large Iberian market	At plan
31	Dairy, Grains	Upstream	Rusmolco partnership	Establish strong foot hold in large dairy market and key agri origin	At plan
32	Packaged Foods	Midstream/ downstream	Titanium Holding	Leadership position in biscuits and candies in Nigeria	Above plan
33	Rubber	Upstream	Greenfield rubber plantations in Gabon	Entry into large scale rubber plantation in Africa	At plan

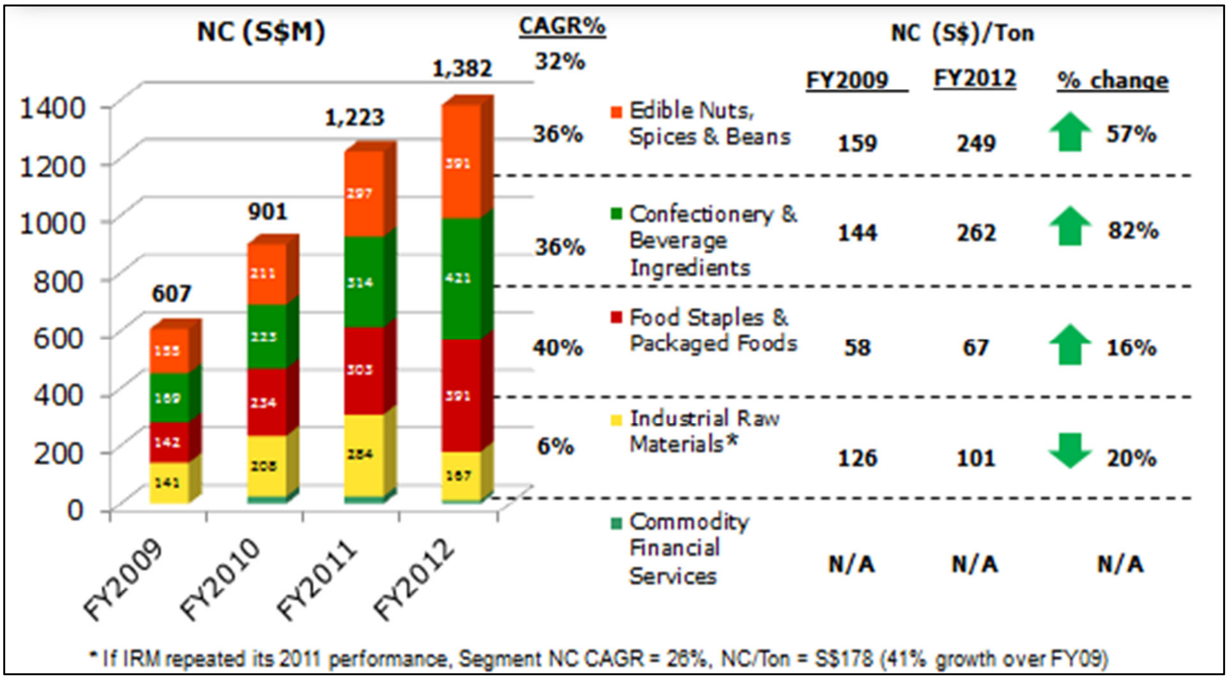
S. No	Platform	Value chain	Company	Strategic impact	Performance - Plan vs actual
34	Sugar	Midstream/ downstream	Usina Acucareira Passos (UAP)	Expect completion by Dec 12/Jan 13	
35	Packaged foods	Midstream/ downstream	Kayass Enterprises	High quality dairy products and beverages manufacturing facilities	At plan
36	Grains	Core	Lansing	Meaningful position in Canadian grains market	At plan
37	Coffee	Upstream	Northern Coffee Corporation	Largest coffee estate in Zambia	At plan
38	Palm	Midstream/ downstream	Acacia Investments	Strong position in palm refining and distribution in Africa	At plan

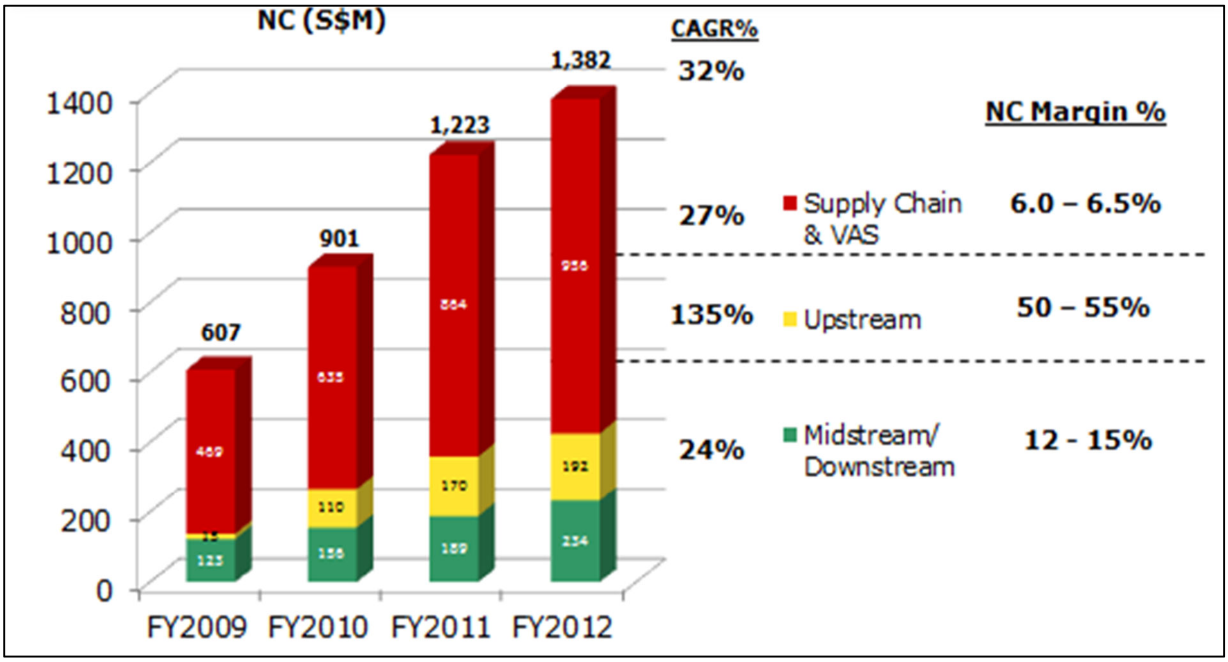
For example, we invested behind and built a niche, profitable grains business in a complex that is dominated by the 'ABCDs' owning key chokepoints and tradeflows. Our strategy as a new entrant was to (i) participate in structurally attractive, wheat milling opportunities in sub-Saharan Africa where we had a differentiated access, superior risk management capabilities and access to talent; (ii) build an origination & trading business around the milling assets in less contested, new origins like Russia, Ukraine and Australia; and (iii) selectively enter upstream in low cost, high yielding origins as a strategic hedge. This strategy has resulted in us reaching 2Million MT in volumes in 3 years. We are now the top 3 exporter in Russia and top 5 out of Ukraine. The chart below illustrates our path



III. Our strategy has and continues to yield results

The mix of business units and selective value chain participation has enhanced our market position and extended our competitive advantage. These are favourably impacting our financial results as shown in the sustained Net Contribution (NC) growth across all our business units and value chain segments.



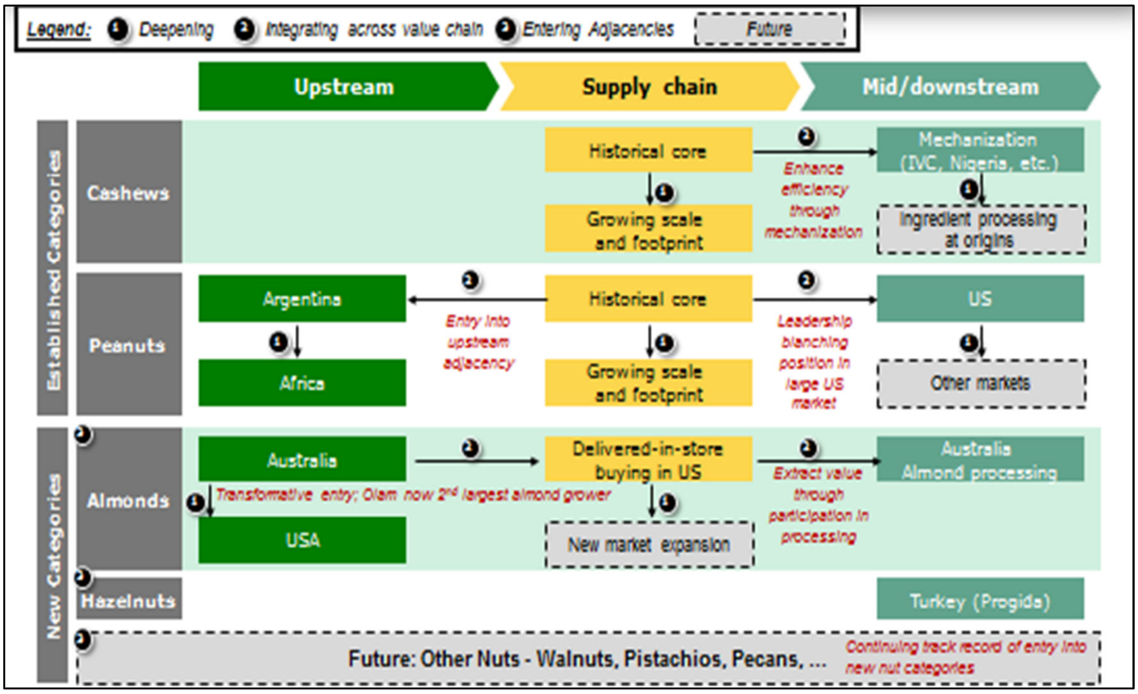


IV. **With a differentiated strategy and a proven track record, we are confident of achieving our goal of maximizing long term intrinsic value for our continuing shareholders**

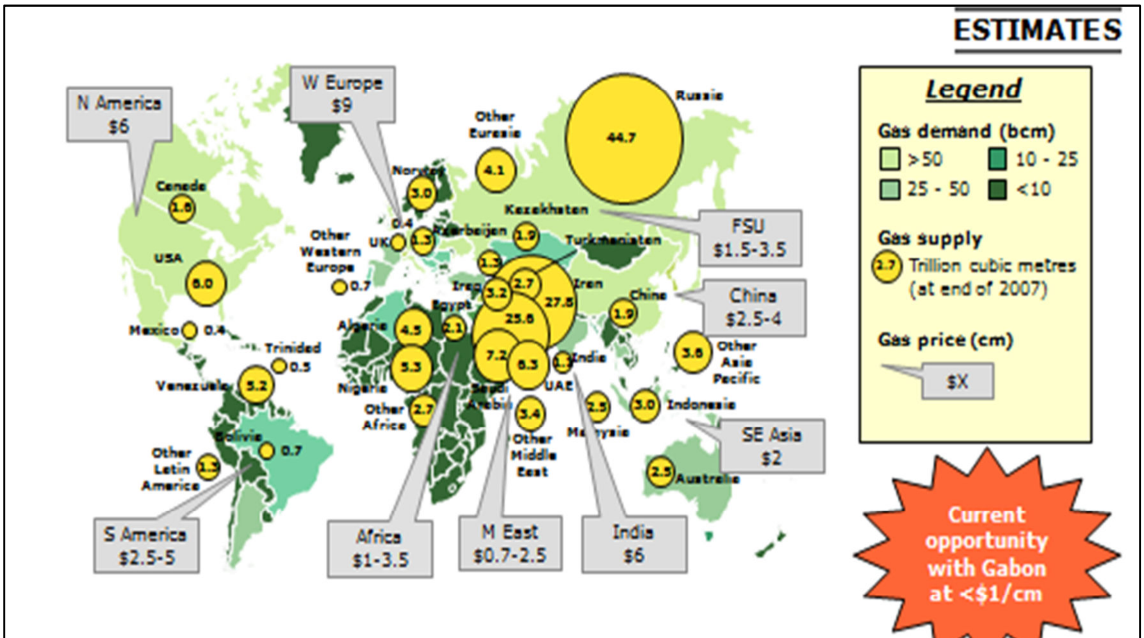
In 2009, we announced a goal of increasing our intrinsic value by 3-4x over the next two 3-year cycles. In order to maximize value, we have, are and will impact three drivers:

(a) Open up the capital spread: We have been pursuing this through: (i) selectively integrating upstream into excess return plantation and farming initiatives (eg. Almond Orchards in Australia); (ii) selectively integrating into midstream manufacturing and processing assets (eg. Onion & garlic dehydrates in our SVI platform); and (iii) building choke points in our supply chain business (eg. cotton ginning capacity we have built in core origins like Australia, US and Brazil)

(b) Increase the rate of profitable growth: We have a repeatable model that allows us to find adjacent business opportunities that shares suppliers, customers, channels, costs or capabilities. Our profitable growth model for a platform is predicated on: (i) expanding into new origins; (ii) increasing our share of wallet with our customers; (iii) entering into attractive value chain adjacencies; and (iv) improving margins through value added services. For example, in our edible nuts platform we started off by focusing on cashews and peanuts. Expanding into various key origins, we built global leadership positions in our historical core of trading & origination. We then entered into the mid-stream processing space to capture a greater portion of the profit pool. Having successfully executed on that, we have now branched out into other attractive edible nut categories like Almonds and Hazels. This will allow us to have global integrated value chain leadership in the edible nuts. The chart below illustrates our growth model in edible nuts.



In addition, we are successfully leveraging our latent assets and capabilities to pursue growth through new businesses. Participation in agri-inputs (fertilizers), a relatively new platform was announced as part of our 2009 strategy with a view to leverage our resource access and grower relationships. In Gabon, we now have access to the one of the cheapest sources of natural gas which will help us be extremely cost-competitive in the Urea complex. Chart below illustrates our competitive advantage and excess-return potential in Gabon.



Note: Contract renewals in the Middle East are estimated to be above US$2.5; some gas contracts could be indexed to fertilizer prices
Source: Industry research

(c) Increase the duration of growth: We have been consciously seeding Horizon II (2016-2021) growth, balancing it with Horizon I (2011-2016) profit aspiration. Our investments in Gabon palm plantations, an alternate cost-competitive origin to supply constrained South East Asian origins is a step in that direction.

This strong early momentum, together with the investments already committed for future growth, gives us the confidence that we are well on track towards our FY2016 goals: US$1BN PAT, 3-4x increase in intrinsic value and NPAT margin of >4%.

ACQUISITIONS AND M&A

BOTH ORGANIC CAPEX AND M&A PLANS ARE AN OUTCOME OF A CONSCIOUS AND DELIBERATE STRATEGY WHICH HAS BEEN WELL ARTICULATED AND CONSTANTLY REFRESHED. WE HAVE A PROVEN TRACK RECORD OF UNLOCKING VALUE THROUGH ACQUISITIONS.

For example, we have two M&A deals which have performed extremely well and have created a transformational impact in the competitive position of the respective BU's / platforms: Queensland Cotton (QCH) for natural fibres and Crown Flour Mills (CFM) for grains – both of which have been dismissed as problems by MW.

MW's central thesis in their report is that they "believe that Olam's fatal flaw, and one of its best kept secrets, is that its Capex projects seem to be a fiscal black hole"

We provide below clarification on the 'issues' raised on MW's report regarding olam's "problem" acquisitions**:**

- Crown Flour Mills
- Queensland Cotton
- SK Foods
- NZFSU
- Rusmolco
- Ghana Flour Mill
- Kayass
- Nasarawa Rice Farm
- Gabon Urea Fertilizer Project

Crown Flour Mills (CFM)

The MW report raises four issues with respect to Olam's acquisition of Crown Flour Mill ("CFM") in Nigeria:

1. Poor condition of manufacturing facilities and assets at time of acquisition
2. Olam's potentially overpaying for the assets in terms of transaction valuation
3. CFM's poor profitability track record prior to Olam acquisition
4. CFM's performance post Olam acquisition

MW CLAIM: Poor condition of manufacturing facilities and assets at time of acquisition

The acquired CFM business comprised two mill complexes – Tin Can Island and Warri. The total installed capacity of CFM at the time of acquisition was 1,550 MT per day, breakdown of which is outlined below:

Installed Capacity	**At the time of acquisition**		**Current**	
MT / day	**Tin Can**	**Warri**	**Tin Can**	**Warri**
Mill A	200	300	240	300
Mill B	400	250	420	250
Mill C	400	NA	420	NA
Total	**1,000**	**550**	**1,080**	**550**

Based on 280 days production per year assumption as used in the MW report, installed capacity of 1,550 MT / day translates into an annual production capacity of 434,400 MT.

We were aware of the fact that the machinery was not in the best state of up keep at the time of acquisition and required certain maintenance expenditure. However these mills, manufactured by Buhler, the global leader in milling machinery, were clearly in running condition. With a total incremental capital expenditure of US$5.6m, Olam refurbished the existing machinery and expanded the capacity at Tin Can Mill complex from 1,000 MT/ day to 1,080 Mt/day as summarized in the table above.

Further, CFM did have a Mill D which was defunct at the time of acquisition in a building within the Tin Can Mill complex. The capacity of this mill was neither considered at the time of acquisition nor used to date. Olam now has demolished the building in order to install new mills to expand its capacity. This expansion comprises a new Mill D and E at Tin Can and new Mill C at Warri with capacities of 250 MT / day each. This will increase the total milling capacity of CFM by an additional 750 MT / day.

In this regard, photographs on page 56 of the report are factually incorrect - Area B highlighted as New Construction was part of the complex acquired and hence not new construction at all. Area C highlighted construction in progress relates to expansion work in progress started in FY 2012 highlighted above.

As per MW report (Page 63), FY2011 total annual flour production stands at 257,367 MT which implies quantity of wheat milled of 330,000 MT and in FY2010 6 month flour production was 137,594 tons implying wheat milled of 176,402 MT. This translates into an FY 2011 capacity utilisation of 76%, which is above Nigeria average as well as our investment forecasts prepared at the time of acquisition. The question that one must ask is how outdated, obsolete and allegedly poor state of plant and equipment allowed us to mill more than 500,000 MT of wheat (@ >75% capacity utilisation) within the first 18 months of our acquisition.

MW CLAIM 2: Olam's potentially overpaying for the assets in terms of transaction valuation

At the outset we believe all the assertions made by MW in relation to valuation up lift by previous owner and revaluation post Olam acquisition is totally irrelevant. The value of a milling asset lies in its ability to get the job done, which for CFM has been sufficiently demonstrated in point 1.

As stated in Olam's acquisition announcement January 12, 2010, the total enterprise valuation (EV) of mill is US$87.6m. Based on the installed capacity of 1,550 MT / day, this implies an EV / MT of US$ 202 / MT. It is pertinent to note that the implied entry multiple of Olam's CFM acquisition is below EV / MT of US$ 215 – 472 / MT of a recent comparable transaction in Nigeria earlier this year.

We believe given the port based location of both the mill complexes, available installed capacity at the time of acquisition, expansion potential, platform of entry into Nigeria market and replacement cost of new machinery for a similar capacity, Olam acquired CFM at a reasonable valuation.

MW CLAIM 3: CFM's poor profitability track record prior to Olam acquisition

We were very well aware of CFM's poor financial performance track record. This was driven by low capacity utilisation as well as low manufacturing efficiencies. As stated in MW report page 60, CFM generated revenues of only S$100.6 m to S$157 m per annum over 2006 to 2009.

MW CLAIM 4: CFM's performance post Olam acquisition

As also stated in MW's report page 63, post Olam's acquisition FY2011 revenue was S$215.6 m. This represents a 37.3% increase over FY 2009. Is this not enough proof of a successful implementation of a turnaround plan?

MW alleges that our EBITDA numbers of US$35 m is overstated compared to actual performance of FY2011 and FY2010 (half year). It is pertinent to take note of the following:

- Steady state EBITDA estimate of US$35m pertains to FY2013. Hence FY2011 EBITDA US$11.8m and FY2010 (half year) EBITDA of US$8.2 m is not a like-for-like comparison.

- More importantly the above FY2010 and FY2011 EBITDA numbers completely disregards the profitability on account of wheat procurement, freight management, suppliers' credit and hedging margins. The margins for these activities are not reflected in CFM books as risks arising from such activities are not carried by CFM.

- CFM is actually one of the best performing acquisitions of Olam to date and is generating EBITDA and returns in excess of its investment thesis. Further, it is pertinent to note that wheat milling is a global business with profitability driven by global wheat origination, trading, and ocean freight management as much as processing at the mill complex.

<u>Queensland Cotton (QCH)</u>

In 2006 Queensland Cotton Corporation acquired the Warren, Mungindi and Collymongle cotton gins from Twynam Agriculture. A condition of the sale agreement was that for a specified volume (with a time period cap), Twynam Agricultural had to ensure the cotton production from specific named farms was provided to QCC for both ginning and marketing. The transaction price was $25m with an additional $10m of incentive payments due over a number of years if Twynam delivered certain volumes for ginning to QCC. On acquisition of QCC by Olam as asset was recognised representing the probable bales delivered by Twynam and an offsetting liability was recognised representing the probable incentive payments payable to Twynam. As the bale commitment was necessarily recognised as an asset on acquisition, when these bales were delivered there was minimal profit impact as the asset was written down accordingly.

This period was during a sustained drought in Australia. As a result of this drought, the health of the Murray Darling Basin became a public political issue and in response to this the Federal Government made a decision to purchase Permanent Water Entitlements from irrigators for release of the water for environmental flows. In May 2009, after a number of years of drought, Twynam Agricultural made a decision to sell a number of Permanent Water Entitlements to the government for $303m. This was a commercial decision made independent of Olam. This represented guaranteed cash flow now and represents many years of profits that could be made from producing cotton. The intention of the company was that in wet years, dryland cotton would still be grown. At the time of entering into the agreement the potential sale of permanent water rights on such a scale was not considered a possibility. Additionally, with QCC being the beneficiary of the volume commitment there was no mechanism for this agreement to be reviewed during a QCC change of control. There were terms in the agreement that ensured that if any of the properties were sold that Twynam needed to ensure that new owners continued under the existing terms of the agreement. OIL was fully aware of the terms of this agreement on acquisition, however the size of the commitment by Twynam did not result in it being a "key supplier" and was not material to the financial outcomes of the business. Regardless, the agreement was unable to be renegotiated when QCC was purchased by Olam given the terms entered into by QCC management pre acquisition.

The financial impact of Twynam selling their water was negligible. The company wrote off the bale commitment asset of A$3.1m and released the incentive payment provision of $2.9m. Due to the small volumes that Twynam were providing and the fact that the commitment period was almost at an end, the forward profit impact was also negligible.

Since 2009, as the drought passed the QCC business has ginned and marketing record volumes of cotton and increased its market share from prior to the Olam acquisition. The vast majority of produced cotton in Australia is available to be contracted for ginning and marketing in each crop year. The volume and financial outcomes for the business are not a result of long term commitments for volumes such as Twynams but as a result of relationships, our network of marketing officers, and our attractive prices able to be offered as a result of our risk management practices.

<u>SK Foods/ Olam's Tomato Business</u>

MW CLAIM 1: "Negative goodwill is likely unjustified"

As explained earlier while addressing negative goodwill, fair value assessment of acquired assets is a mandatory requirement under SFRS 103. In this particular instance, the valuation of SK Foods was done by an independent Big 4 accounting firm. The firm determined that the proper basis to value the assets was "value-in-use" since we intended to continue operating the assets in a continuous business operation. They then considered the cost approach, market approach and income approach in their valuation to arrive at the total fair value of the assets which was then reviewed by our auditors.

MW CLAIM 2: "PP&E valuation increased", "contesting tax assessment"

It is not appropriate to compare the fair value of real and tangible personal property for IFRS purposes with those considered for property tax assessments. Property tax assessors utilize changes in asset ownership to reset real and tangible personal property values to their estimate of fair market value regardless of the values assessed for tax purposes of the previous asset owner. Upon our acquisition of the assets, both Kings county and Colusa county assessors reviewed the bankruptcy filings and utilized the documentation and the change in ownership as a basis to conduct an audit. The Kings County assets were valued at approximately US$73 million and the Colusa County assets were valued at approximately US$54 million for a total of approximately $127 million. These values were determined by the assessors without any input from us.

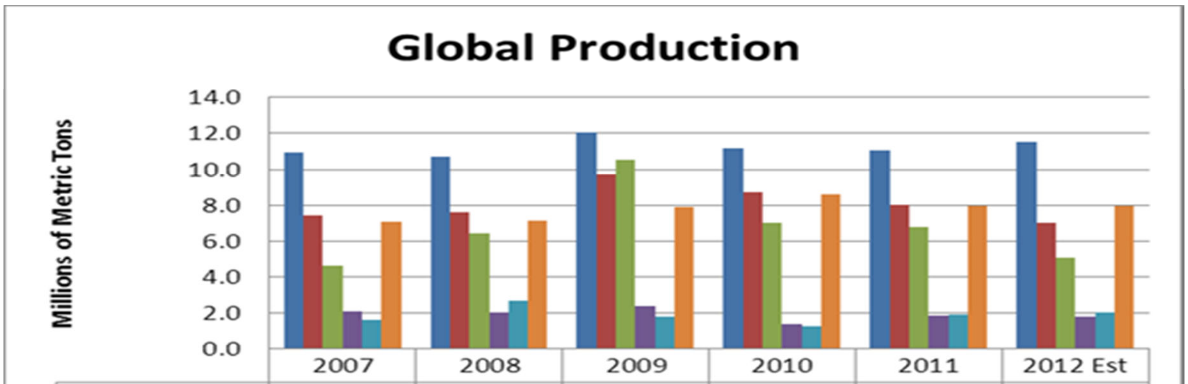
Property taxes are assessed by grouping assets by type by year of acquisition into various tables that depreciate the assets at varying amounts over their useful lives. We decided to file our appeal with both King and Colusa Counties as we determined that each assessor had grouped our assets into the incorrect table which had the effect of depreciating the assets at the incorrect rate, thus overstating the values that were being assessed for property tax purposes. We were advised by legal counsel assisting with the property tax appeals that a common practice is to indicate an opinion of value that was 10% of the assessed value in an effort to expedite the appeals process. We did not propose these values to indicate that we thought the assets were only worth 10% of their assessed value.

It should also be noted that the Muddy Waters report lists only the SK Foods assets of US$80 million for the Lemoore location. RHM Industrial/Specialty Foods, Inc. is a separate legal entity that owned the Williams assets. That filing shows additional book value of fixed assets of $46 million. The two together show total fixed assets book value of $125 million which is in line with our valuation.

MW CLAIM 3: "Assets still underperforming"

The business underperformance in FY2012 was primarily on a temporary market-led demand and supply imbalance and not reflective of sustainable industry margins or our execution capacity.

The following two charts highlight the global supply and demand ("S&D") issues that have been weighing down the industry:



	2007	2008	2009	2010	2011	2012 Est
California	11.0	10.7	12.1	11.2	11.1	11.5
EU Big 3	7.4	7.6	9.7	8.7	8.0	7.0
China	4.6	6.4	10.5	7.0	6.8	5.1
Iran	2.1	2.1	2.4	1.4	1.9	1.8
Turkey	1.7	2.7	1.8	1.3	1.9	2.1
Rest of World	7.1	7.2	7.9	8.6	8.0	8.0

Global S&D has a one to two year lag to flush out inventory levels that are the result of unprecedented production levels. In 2009, the year that Olam purchased the assets of SK Foods, China and the EU experienced their highest production tonnage of processed tomatoes. The above chart shows the return to normalized levels post 2009. The EU production will continue to decline due to the elimination of agricultural subsidies and China has experienced labour cost increases (Chinese harvest is manual as opposed to the mechanized harvest of the US) of 100% in the last five years along with increased transportation costs. The global tomato industry has been under pressure to liquidate the 2009 inventories due to shelf life issues.

During our 3 years of ownership, we have completely changed the business through initiatives such as agricultural improvements (including increasing our internal farming capabilities which reduces our raw tomato cost), proper matching of tomato varieties to production and sales plans, asset improvements/investments, quality changes, increased retail mix (from 22% of business in FY10 to 37% in FY13), long-term contracts (5-10 years) with key customers, increase in higher margin organic/value added business (from 20mm lbs. in FY10 to 55mm in FY13), significantly increasing our export volumes from FY10 to FY13 (to approx. 120mm lbs.), etc. Any efficiency built into the current model reflects these efforts and will not require any additional capital or systemic change in our operations.

Some key data points are:

Self-farming acreage went up from 500 acres in 2011 to 2800 in 2013.
Sales volumes have grown from 285 m LBS in 2010 to 538 m LBS in 2012

NZFSU

The MW report raises three issues with respect to Olam's Investment in NZFSU:

- Accounting disclosure issue with respect to year ending June 2009 and cosy relationships between NZFSU, management company PGG Wrightson and PGG contract companies

- Potentially flawed business plan driven a by New Zealand based dairy farming system, involving predominantly grass feeding, being not viable for a Uruguayan environment

- No improvement on the quality of the management and issues related to recent operating and financial performance and capex requirements

MW CLAIM 1: Accounting disclosure issue with respect to year ending June 2009 and cosy relationships between NZFSU, management company PGG Wrightson and PGG contract companies
This is completely irrelevant to Olam as it occurred under a different management prior to Olam taking control of NZFSU. The issue was known to Olam and NZFSU was investigated for this by NZX and subsequently cleared. Further Olam on gaining control changed the board, got PGG completely out of NZFSU and terminated its management contract.

MW CLAIM 2: Potentially flawed business plan driven a by New Zealand based dairy farming system, involving predominantly grass feeding, being not viable for a Uruguayan environment
The report has offered nothing more than repeating issues raised by Olam to the previous management team during its takeover offer. As an instance, the Olam's public bidder statement dated 6th August 2010 clearly states that ***"In Olam's opinion, the current operational strategy needs significant changes.*** *New Zealand's soil and climatic conditions lead to exceptional levels of grass growth and grass quality compared with most other dairying regions in the Southern Hemisphere. Many dairying countries, including Uruguay, have a more tropical climate and hence are not able to produce either the same quantity or quality of grass as New Zealand. Dairy farms in such countries therefore tend to use higher levels of supplemental feed including grains/concentrates to achieve optimum levels of production."*

Olam's investment thesis was clearly based on this determination that a pure pasture based Dairy model would not work in Uruguay. Since takeover Olam has implemented a hybrid pasture and feed model with significant improvement in operational parameters (this however does mean that cash cost of production in Uruguay will be higher than that in New Zealand. On total cost of production, Uruguay would be amongst the lowest given the lower capital cost of land vs. New Zealand – in particular for the cost at which NZFSU was acquired)

MW CLAIM 3: No improvement on the quality of the management and issues related to recent operating and financial performance and capex requirements
Within three months of assuming control, Olam employed new CEO David Beca based in Uruguay, with significant experience in dairy farming in Australia, New Zealand and South Africa. He brought in best practices, spearheaded the implementation of revised business plan results of which are reflected in the steady improvements in operational performance to date.

YE June		2008	2009	2010	2011	2012	2013B		2016F
Total Dairy Livestock	Number	43,228	49,756	52,867	58,502	71,995	83,091		83,624
Milking Herd **	Number of cows	3,915	10,620	16,430	24,016	32,166	44,949		48,226
Milking Area ***	Hectares	2,473	7,332	11,327	12,619	14,459	15,752		15,752
Milk Production	Million litres	13.4	44.6	68.0	105.3	152.0	220.5		296.0
Milk Production / ha	KgsMS/ha/yr	380	420	420	584	752	980		1,316
Milk Production / cow	KgsMS/cow/yr	240	290	290	307	338	343		430
Cost of Production ****	Cents / litre	*****	53	40	47	42	34		26

** number of average milking cows in herd over year
*** average number of milking hectares over year
**** cost of production = (operating expenses less non-milk operating revenue) / milk production
***** increased from 1 to 12 operating dairies during year so cost of production not interpretable

Note: Olam acquired control in the middle of FY 2011, too late to impact the spring milking flush. Further improvements in 2012 operating performance have been achieved despite adverse weather conditions.

With regards to recent financial performance, as acknowledged in NZFSU's 2012 full year results, it has been behind the business plan formulated post the takeover of NZFSU. While there has been improvement in operational metrics the pace of improvement is slower than expected. However, that has not changed the long term view on profitability and attractiveness of this investment.

<u>Rusmolco</u>

The MW report (Page 79-80) raises two issues with respect to Olam's Rusmolco Investment.

MW CLAIM 1: Announced purchase price of "up to" US$75m compared with an actual cash flow of S$8.5m

The announced purchased price, as in most cases, is subject to adjustments to net working capital at closing of the transaction. In this case, irrespective of the net working capital at close, US$ 75m was agreed as a cap on total Olam's investment.

At closing, Olam paid a total S$88.2m (US$ 69.9m) as consideration for the acquisition (page 140 AR 2012), off which S$77.6m injected as new equity and the remaining S$10.6m paid to existing shareholder towards purchase of part of their shareholding.

The MW report very selectively only highlights the actual cash flow of S$8.5m from page 138 AR 2012 which, as clearly stated, refers to cash outflow on acquisition of subsidiary net of cash and cash equivalents acquired. The MW report interestingly does not even refer to the note on Page 140 AR 2012 explaining the total investment amount with respect to the acquisition.

MW CLAIM 2: Olam and Rusmolco's ability to implement the envisaged business plan

Olam has revamped the management team bringing in new hires with significant relevant experience. Rusmolco is still an early stage of implementation, and Olam remains confident of its ability to execute the business plan and deliver forecast performance.

Ghana Flour Mill

MW CLAIM: "Cost overrun of 74.6%"

The revision in the planned capital expenditure was on account of an enhancement of project scope to provide for future capacity expansion. The increased cost was on account of site infrastructure including increased storage silos as well as enhanced civil structures which will reduce the time and capital required for future capacity expansion.

Capacity utilization levels at the facility ranged from between 50% to 70% during the initial period of commercial production. These were on account of running varying setup configurations at the mill as well as matching production output with distribution reach.

The increase in planned investment in Ghana does not reflect a commitment on the part of Olam. Rather, it reflects our intent to evaluate Ghana as an attractive investment destination. Actual commitments will be made only after conducting detailed evaluation of various investment opportunities.

Kayass

MW CLAIM: "Olam's purchase of Kayass Enterprises just before the close of FY2012 is worrying, and its projections for the business approach the absurd"

The acquisition of Kayass was fully coherent with our strategy and presented a clear excess return opportunity that Olam could exploit on the basis of our current strengths in distribution and marketing in Nigeria

- **Attractive categories**: Juices and dairy beverages in Nigeria are attractive and sizeable categories with total market size of US$1.2B, growing at a double digit clip and having high gross margins of 38-45% in juices and 22-27% in dairy beverages.

- **Acquisition as a strategic entry strategy**:

    1. Underperforming asset under prior owners: Primarily driven by high debt burden to finance new plant investment and inability to finance working capital needs due to prior owners' mismanagement.

    2. High quality manufacturing asset: Beverage manufacturing plant is only about two years old and has been built to European standards.

    3. Faster time to market: Setting up a Greenfield facility of this quality requires least 24 to 30 months in our assessment.

- **Olam's ability to add value**: Olam has a strong track record in Packaged Foods Business in Nigeria where we now have one of the strongest distribution and marketing infrastructure. Our brands and products enjoy top 2 positions in 4 categories in Nigeria: Seasoning (MSG) at over 50% market share, Tomato Paste at over 25%, Biscuits at over 16% and Candies at over 24%. We believe that this demonstrated track record of achieving strong market share gains against established market players proves our capability to build market shares in Juice and Dairy beverage categories as well.

In our Investment Thesis assumption, we had factored a very conservative assumption of achieving only 10% market share by year 2016-17 (after considering category growth) to project the estimates of EBITDA of 20% in 2016 and equity IRR of 35%. This is on account of very high gross margin structure of the industry and our ability to execute on the ground in Nigeria. We also derive considerable cost and revenue synergies through shared sales, distribution and marketing operations across our categories. We remain convinced of the strategic merits of this case.

Nasarawa Rice Farm

MW CLAIM 1: "Rice farm in a remote, difficult to access section of Nasarawa State"

The farm is located in middle belt of Nigeria which serves as the food bowl of Nigeria. It is 36 km from Makurdi city, capital of Benue State, with a population of 500,000 and 60 km from the largest grain market, Doma , in Nasarawa state. Both places are accessible by roads that are in reasonable condition.

MW CLAIM 2: "We question the wisdom of such large investments in a region that experiences an intense rainy season, chronic flooding, and suffers from an underdeveloped system of infrastructure"

Fadama land is a lowland basin and a widely used source of crop production. Up to 70% of Nigerian crops are grown in lowlands and are not impacted by frequent floods. Agronomy at the chosen site has been proven with 500 ha of wheat cultivated in this farm in the past. Further, the site also features a dyke protection system. In the last 4 years we have been operating model farms at the site and have not faced any flood event till this current event. The polder protection system around the cultivated areas is built to withstand upto 70.3msl of flood level (a level which was reached first time in this site's history in 2012).

This year's flood has been declared as a 1 in 40 year event (source: NASA) and a 1 in in 100 year event in Nigerian media and is not reflective of normal flood probability over the project life.

Olam has explicitly stated that the main incremental risk of pursing upstream investments is weather. That is one risk factor that cannot be mitigated by management action. It is precisely for this reason that we have not concentrated our upstream investments in any one crop or region. For example, we are pursuing rice farming across both Nigeria and Mozambique, almonds across Australia and the US, coffee across Laos, Ethiopia, Tanzania and Zambia etc. The incremental weather risk, we believe, is more than compensated by the significantly higher return potential which means that even on a risk-adjusted basis, it is financially rewarding to allocate some part of our investment dollars to selective upstream investments. In line with our diversification and risk mitigation strategy, we have further announced that a maximum of 10% of our balance sheet will be invested in upstream farming by FY2016.

Current status on the ground is that the flood waters have receded and we have replanted 400 hectares with planting of an additional 600 hectares planned to be completed during December 2012 / January 2013.

MW CLAIM 3: "We believe it is extremely unlikely Olam can achieve the targeted production levels"

Most countries with a bimodal rainfall pattern and a precipitation level below 1500 mm annually have demonstrated 2 crops per year. In our farm we have just planted the second crop under irrigated condition over 400 Ha. This confirms the feasibility of 2 crops per year at the site and also reflects the minimal damage to the farm infrastructure during the recent floods.

Over the last two years, Olam has conducted extensive testing hybrid seeds through SGAT (Singapore Agri Tech) who have extensive experience in Asia on seed development with high yielding and hybrid varieties, and local varieties through Africa Rice Centre (WARDA) which have yielded 5-6 tons per hectare. This information is also stated in the CGIAR Africa report.

Financial impact of the flood

Olam had planted an area of 400ha and the crop was around 40 days old when it was impacted by the flood. The financial impact has been approximately US300K. More importantly, there has been minimal damage to the infrastructure and we were able to repair the same within 5 days of the water level receding. As on date, the area has already been planted with the second crop.

Pictures of the rice field taken in November 2012 are shown below.

Nasarawa Rice Farm, November 22, 2012

Nasarawa Rice Farm, November 27, 2012

References
http://www.africarice.org/publications/StrategicPlan/AfricaRice_Strategic_Plan_2011-2020.pdf
http://earthobservatory.nasa.gov/IOTD/view.php?id=79404
http://www.businessdayonline.com/NG/index.php/analysis/commentary/46134-the-great-nigerian-2012-flood-pt-2

Gabon Urea Fertilizer Project

There have been various doubts and questions cast over the project – which we would like to clarify as below:

a) We realize the complex nature and size of the project, and as such we have ensured that we provide regular updates on this project, with the most recent one being the Q1 FY2013 results announcement in November, wherein we have addressed some of the issues raised again in the MW report.

b) Olam's Gas supply agreement with Republic of Gabon (ROG) is already in place for a tenor of 25 years on a fixed price basis. ROG in turn has a back to back production sharing agreement with the local Oil & Gas operator - Perenco. Perenco is headquartered in London, and has a large stake in the O&G sector in Gabon. Their commitment to ROG for gas supply is very secure, and they have the infrastructure to service GFC's gas requirements.

c) Gas DD was done by RPS Energy for Olam and GCA for Lender group has established sufficient availability of the gas for the fertilizer project.

d) 2010 GCA report on Gabon gas reserves estimates the gas reserves in Gabon to be >2.3 TCF mid case and not 1 TCF as asserted by MW.

e) Since Gabon has a power surplus, there are no other alternative uses of Gas. Further, a gas flaring regulation is under preparation and is expected to be enacted in the near future.

f) Project execution – We have come a long way since the project was conceived. We have completed the two major activities of Front end engineering design (FEED) as well as the ESIA. IFC and AFDB have already posted the ESIA report in their respective websites. The Open Book Estimate (OBE) is under final review and LSTK will be awarded shortly after that. Due to the delays in OBE/LSTK negotiations, we've already signaled that there is an overall delay and we expect the project to now get commissioned in the first quarter calendar 2016.

g) Tata Chemicals Limited will contribute to Equity only on Financial Closure as per the investment conditions agreed.

h) The current imports of Sub Saharan Africa and South America for urea is 2M MT and 7.5M MT respectively. So even if US stops importing Urea, GFC has a sufficiently large market, which it can service most cost effectively. While we are tracking the recent developments of Shale gas in the US/Canada, we do not expect them to have any significant impact on the liquidity for Gabon urea, or viability of the project.

i) Last, but not the least, the lender's group consisting of major DFIs, ECAs and commercial lenders are still fully aligned behind the project and have completed most of their due diligence – which was a very involved and multi-stakeholder effort over the last 9-10 months.

OTHER CLAIMS

Individuals named:

Perhaps the most egregiously incorrect points made were in regard to various individuals. The Muddy Waters report highlights the legal and commercial difficulties of two individuals who had sold their businesses to Olam. Implying that Salyer's 'racketeering', was in some way related to Olam – placing it as a headline with no matching comment in the table of contents, was an attempt to mislead and distort the facts. The events cited which indeed led to legal proceedings against Mr Salyer in the USA, took place without any association with Olam and before we purchased his businesses.

There was a mention of Mr. Ravikumar, our former CFO, he was a very effective and a long service member of our team and a good friend to Olam. He was not, however, slated to replace the CEO and was not even a member of the main Board. The reasons he left have nothing to do with the reasons tabled and had to do entirely with an exceptionally attractive offer elsewhere, which he took up with our best wishes and full support to him and his family.

To suggest that Scott Salyer or Labbabidi had anything to do with our company, and that Ravi left for any culpable reason whatsoever, are entirely at odds with both fact and reality. In fact Olam has a very unique track record of attracting back a lot of people who left the company to try out other things. We have 15 people in senior managerial positions (Band A-C) who have rejoined the company. Amongst our Global Assignee Talent Pool, for the last three years, our voluntary attrition rates have been 7%, 6.2% and 9.5% respectively and it has been in single digits for the four years preceding that. Our employee engagement scores for the last three employee engagement surveys 82%, 83% and 83% respectively which is in the top decile globally. Olam is the first and only Singapore company to be named in the 2009 lists for the Global Top Companies for Leaders and the Top Companies for Leaders in the Asia Pacific region by Hewitt Associates, the RBL Group and Fortune. Olam also won the 2012 Asian Human Capital Award as the best company in Asia for Human Capital Management.

Responses to pages 92/93 of the Muddy Waters report:

1. Timber Democratic Republic of Congo allegation unsubstantiated

In 2007, Olam Timber was buying from third parties in DRC but had in place appropriate internal systems to ensure our suppliers complied with legality and traceability requirements as well as the laws of the land including payment of all taxes. However, we found that there were a few instances where some of our suppliers managed to deliver their cargoes to us while being in contravention of the internal systems and documentation processes that had been laid out. As a result, we closed down and exited the wood business entirely in DRC. In 2007, Olam purchased the equivalent of 3% of the total country timber supply exported. Additionally, Olam paid $37,400 on behalf of those suppliers that had not paid their taxes.

Olam has since revised its timber strategy to continue its operations under direct 'concession management' to recognised sustainable forestry management standards moving towards certification. Currently 65% of Olam's timber supply chain is FSC certified with the balance in the process of moving to third party certification.

2. Olam's approach to Land Management

Olam is committed to growing our business responsibly. As we move into activities upstream that include farming and plantations, we take great care when acquiring the rights to own or operate on the land through lease/tenure arrangements with national Governments. As a matter of course, it is very unusual for Olam to hold land ownership.

Before any land development starts, we carry out thorough due diligence processes that include Environmental and Social Impact Assessments (ESIA) and High Conservation Value assessments to the highest international standards.

In addition, we undertake community engagement to obtain the free, prior and informed consent of local communities (FPIC) which takes into consideration cultural, spiritual and religious importance of land affected and notes any areas relied on for meeting the basic needs of communities in terms of their own subsistence.

We engage specialist, independent third party environmental and cultural consultants to carry out these assessments on our behalf which usually start with extensive audits on the ground. To ensure robust internal systems, we have developed a full social audit process for all plantations and have continued to successfully be audited against FSC and RSPO NPP requirements.

In the long term, Olam strives to continue to work closely with partners to value natural capital to advise products of improved natural management and develop improved internal systems for investments and monitoring impacts.

3. Granting of land rights in Laos (Update: 3rd October 2012)

This statement details the background and actions taken with regard to a dispute by local villagers, over the granting of land rights in the Paksong District, Laos, where Olam operates a coffee growing subsidiary, Outspan Bolovens.

Olam is committed to growing our business responsibly, applying the highest international standards of best practice in surveying and assessing the social and environmental impact of cultivation of land under our stewardship. A survey of the land in question was conducted according to national laws and regulations and we commenced our development in the belief that there were no issues outstanding. However, in December 2011, an international NGO brought some issues concerning this plantation to our attention so we acted promptly to investigate.

We appointed an international consultancy to define a comprehensive approach and methodology so that we could conduct a thorough audit of the alleged situation. As a result, a dedicated three person team of non-Olam personnel was dispatched to carry out this audit on the ground. The team comprised two Dutch consultants: one in natural resources to focus on land issues; the other a social specialist on community based issues; and the third, a local consultant, to ensure that cultural and gender considerations were handled appropriately.

This team conducted a full review with all local stakeholders, comprising the Government, community leaders, and local farmers. Following the conclusions and recommendations of this stakeholder review, we are currently in a consultation period to seek resolution with the communities. We had hoped this would be completed in 12 weeks but to ensure all voices are heard the consultation is still ongoing.

Amongst the recommendations, we sought the reactivation of the provincial Government-led Committee, which had been established in early 2011 to address any potential local issues concerning plantation developments. This has subsequently been made effective and a local NGO is also advising farmer representatives on the Committee.

In addition, we have appointed a qualified, local community specialist to ensure that we are able to build strong local relationships and contribute to economic development within the area. This includes recently meeting with a local NGO to better understand community perspectives; during that session we were able to respond directly to a number of farmers who had been invited by the NGO.

Our community specialist is now visiting each village to listen to individual concerns. Queries and claim submissions can be made directly to Olam, which helps to avoid the often lengthy national government grievance procedures. A clear deadline for our response is given to all enquiries and submissions.

Permissions regarding land development

A specific criticism has been levelled at Olam - that land development commenced on an area beyond the 150 hectares originally granted by the provincial Government, before we had the permissions in place from national Government to plant a larger area.

It had been our understanding that this was the accepted practice - that the decision as to the grant and use of land is made at local level where a survey is done and a map produced and, if no reservations are expressed, it is sent to national Government in order that a certificate can be formally issued. i.e. in local practice, possession of the certificate is merely a formality once the provincial recommendation has been made. Olam is now fully cognisant of the difference between national standards in Laos compared with international practices that we consider appropriate for our work.

4. Olam International's subsidiary CIB – a pioneering REDD+ initiative to realise value from standing forests

Olam International's subsidiary CIB (Congolaise Industrielle des Bois) and the Government of the Republic of Congo (Brazzaville) announce a new Public Private Partnership (PPP) that aims to create a viable commercial framework to realise value from standing forests under the REDD+ scheme in its Pikounda Nord concession. This pioneering pilot is the first commercial deployment of the REDD+ (short for Reducing Emissions from Deforestation and Forest Degradation) option for sustainable forest management in the Congo Basin. Olam International Ltd. acquired forestry company CIB in January 2011. CIB manages 1.4million hectares of concessions in the Republic of Congo (R.O.C.) of which 1.3 million hectares are Forestry Stewardship Council™ (FSC™) certified – to date the largest contiguous FSC™ certified tropical forest concessions in the world. The Pikounda Nord concession which comprises the remaining 92,530 hectares is located in the Sangha region in the heart of the Congo River Basin. The objective of this pilot initiative is to generate alternative revenues from sustainably managed forest landscapes by valuing the forest as a carbon sink and to originate carbon credits for the pre-compliance Voluntary Carbon market. This market is considered best practice and recognised by the global carbon community as able to generate solid and marketable credits.

CIB has initiated a robust consultation process that adheres to the principles of the Free & Prior Informed Consent (FPIC) methodology for this project. In addition, with the continual community engagement across the broader concession area for many years, a good understanding has been reached about the needs of the local community. Pikounda Nord has no human inhabitants but a revenue sharing arrangement will be agreed with the local communities in consultation with the Government of the Republic of Congo.

5. Mozambique cashew processing worker dispute

Payment to processing workers is not simply a minimum wage but productivity linked minimum wage as per the local regulations for the cashew sector. Processing productivity is negotiated and agreed with staff representatives. Thus if a person does not process the minimum output, they will not achieve the minimum wage level.

All other allegations referring to toilets are baseless.

CONCLUSION

This note is to make all our stakeholders aware of the deep bias and inappropriate conclusions that MW/CB have drawn in their "research reports" prepared and distributed by a self-confessed and avowed "short seller", whose purpose is to pursue a profit pathway characterised by an admitted "conflict of interest" (their own words, not ours) vs our pathway of building long term lasting value for all our continuing stakeholders.

Having had the opportunity to study this report overnight, we would like to reiterate our position that the conclusions drawn in the report are without merit. A number of irrelevant statements and photographs, isolated facts taken out of context, unjustified observations and other elements of spurious argument have been woven together to create a false fabric of a story which is neither substantiated by the real facts nor consistent with any credible interpretation with the true and full facts about our company.

APPENDIX 1: "S&P RESEARCH ON ANALYZING AGRICULTURAL INVENTORIES"

The McGraw-Hill Companies

STANDARD &POOR'S RatingsXpress™ Credit Research

RESEARCH

S PDF

Analyzing Agricultural Inventories

Publication date: 10-Nov-2000

Credit Analyst: Jayne M Ross, New York (1) 212-438-7857

Standard & Poor's approach to analyzing agricultural commodity inventories recognizes the strong liquidity of these assets. This unique strength is viewed as an important offset to the industry's earnings volatility, and is a key factor in determining ratings. The characteristics of many agricultural inventories such as tobacco, sugar, and grains are quite different from inventories in other industrial sectors.

For example, sugar inventories benefit from the government's price support program, which sets a floor price. Leaf tobacco processors' inventories are supported by government programs that limit tobacco production and set base prices for different grades of tobacco. In addition, most of these inventories are contractually committed to specific customers, thereby offsetting a portion of a firm's short-term debt. Further, agricultural inventories tend to be exceptionally liquid since their homogenous nature makes them truly fungible and thus easily hedged in the commodity futures market. These inventories also generally turn quite rapidly, thus supporting cash flows and greatly diminishing the risk of an inventory write-down. This liquidity contributes to financial flexibility.

Evaluating Assets

Standard & Poor's approach to analyzing these assets has developed from a thorough study of the business risks associated with the agricultural economy, years of communication with the rated agri-companies, and a close evaluation of their financial statements and financing policies. The conclusions reached are that liquid assets -- hedgeable grain and commodity inventories -- should be analyzed apart from other financial accounts and that the various measures of credit protection be adjusted accordingly. Analysis suggests that all grain and commodity inventories be hedged to the maximum extent possible to reduce the risk of inventory loss. Hedging is achieved in the futures market by establishing an equal but opposite financial position in the same, or very closely related, commodity.

For credit evaluation purposes, short-term debt incurred to finance hedged, liquid inventories is not included in Standard & Poor's normal calculation of leverage ratios. Debt leverage, therefore, takes into account all long-term debt and only that amount of short-term debt that is used to finance assets other than hedged grain and commodity inventories. A conservatively financed company would generally have an excess of liquid assets over short-term debt at all times. In this way, in the event of a severe tightening of available short-term credit, fungible inventories could be liquidated in the normal course of operations and the funds used to pay short-term borrowings as they become due.

Adjusted Financial Statements

In the example (see tables below), recasting the hypothetical USA Grain Co.'s balance sheet to adjust for $1,200 in hedged commodity inventories yields substantial improvement in the acid test and current ratios, and a sharp decline in the debt ratio. This gives a more accurate picture of the credit protection afforded by these inventories. The impact of this type of analysis on earnings protection is also quite pronounced. If short-term debt is used to finance highly liquid inventories, then a distinction should properly be made between interest expense on the short-term debt and interest expense on long-term debt. Since these inventory carrying charges are typically included by companies in their development of commodity selling prices, they are, for analytical purposes, a cost of goods sold and should not be included in the calculation of pretax interest coverage.

In the example, USA Grain's total interest coverage is only 2.2 times (x). If interest on short-term debt is excluded, this ratio rises to 7.0x. Similarly, return on capital improves to 21.9% from 19.6% when short-term debt and related interest expenses are excluded from the calculation.

For companies like Cargill Inc., ConAgra Foods Inc., and tobacco processors, this method of analysis, to the extent determinable, results in a more accurate assessment of financial statements. This procedure also allows for a less complicated approach in the development of long-term debt ratings, and makes the determination of commercial paper ratings more reliant on, and more reflective of, the true liquidity of current assets. Although the effects of these adjustments are discussed in the body of a firm's rating analysis, for purposes of the statistical tables in such analysis, only reported numbers are used for analytical consistency.

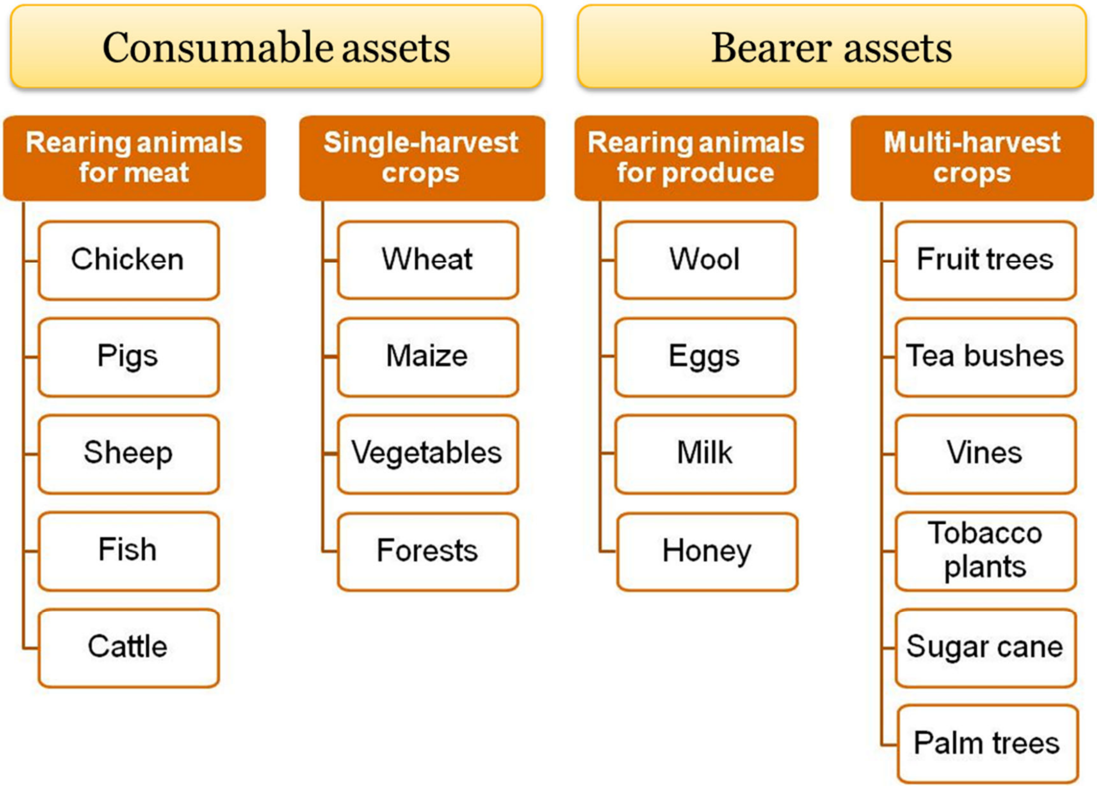
USA Grain Co. (hypothetical company) Balance Sheet

($)	Reported	Adjusted
Assets		
Cash & equivalents	300	300
Accounts receivable	625	625
Inventory	1,400	200
Other	75	75
Total current assets	2,400	1,200
Fixed assets	1,200	1,200
Total assets	3,600	2,400
Liabilities & equity		
Short-term debt	1,200	0
Other	800	800
Total current liabilities	2,000	800
Long-term debt	500	500
Deferred taxes	100	100
Equity	1,000	1,000
Total liabilities & equity	3,600	2,400
Ratios		
Acid test (x)	0.46	1.16
Current ratio (x)	1.19	1.48
Total debt/capitalization (%)	63.0	33.3

USA Grain Co. (hypothetical company) Income Statement

($)	
Revenues	16,400
Cost of goods sold	15,400
Interest expense, short-term debt	200
Selling, general, administrative	350
Depreciation	100
Interest expense, long-term debt	50
Pretax income	300
Taxes	150
Net income	150
Fixed charge coverage (x)	
Total interest expense	2.2
Long-term debt interest expense	7.0
Return on capital (%)	
Including short-term debt & related interest expense	19.6
Excluding short-term debt & related interest expense	21.9
Cash flow/debt (%)	
Short-term debt & long-term debt	14.7
Long-term debt only	50.0

APPENDIX 2: EXAMPLES OF BIOLOGICAL ASSETS



KEY DEFINITIONS:

1. *Agricultural activity* is the management by an entity of the biological transformation of biological assets for sale, into agricultural produce, or into additional biological assets.

   Agricultural activity covers a diverse range of activities; for example, raising livestock, forestry, annual or perennial cropping, cultivating orchards and plantations, floriculture, and aquaculture (including fish farming). Certain common features exist within this diversity:

   - *Capability to change*. Living animals and plants are capable of biological transformation;

   - *Management of change*. Management facilitates biological transformation by enhancing, or at least stabilising, conditions necessary for the process to take place (for example, nutrient levels, moisture, temperature, fertility, and light). Such management distinguishes agricultural activity from other activities. For example, harvesting from unmanaged sources (such as ocean fishing and deforestation) is not agricultural activity; and

- *Measurement of change*. The change in quality (for example, genetic merit, density, ripeness, fat cover, protein content, and fibre strength) or quantity (for example, progeny, weight, cubic metres, fibre length or diameter, and number of buds) brought about by biological transformation is measured and monitored as a routine management function.

2. *Agricultural produce* is the harvested product of the entity's biological assets.
3. A *biological asset* is a living animal or plant.
4. *Biological transformation* comprises the processes of growth, degeneration, production, and procreation that cause qualitative or quantitative changes in a biological asset.

   Biological transformation results in the following types of outcomes:

   - asset changes through (i) growth (an increase in quantity or improvement in quality of an animal or plant), (ii) degeneration (a decrease in the quantity or deterioration in quality of an animal or plant), or (iii) procreation (creation of additional living animals or plants); or
   - production of agricultural produce such as latex, tea leaf, wool, and milk.
5. A *group of biological assets* is an aggregation of similar living animals or plants.
6. *Harvest* is the detachment of produce from a biological asset or the cessation of a biological asset's life processes.

HOW ARE BIOLOGICAL ASSETS VALUED

SFRS 41 is a FAIR VALUE based model. This basis of valuation has two main advantages:

- For assets that have a long life cycle (such as plantations, timber), there is a significant time lapse between planting and first harvest and under the historical cost model, no income is reported until first harvest
- Fair value reflects better current value of the biological assets. As biological transformation takes place, it directly impacts the expected economic benefits from the asset while the historical cost model continues to reflect the asset at its acquisition cost which is often disconnected from its current value

IAS 41 ACROSS THE GLOBE

Accounting boards of various countries around the world have yet to reach a consensus on a universal application of the standard. Accordingly, there are variances in the treatment of biological assets from country to country.
In Singapore, FRS 41 is a MANDATORY standard. A comparison of the standard across some other countries is shown below:

	Singapore	Indonesia	Malaysia	USA	Argentina	Australia	New Zealand
IAS 41 or equivalent	X				X	X	X
Historical cost model		X	X	X			

A few of the companies that adopt FRS 41 (or its equivalent) are:

Jardine Cycle & Carriage, Wilmar, Indofood Agri Resources, Golden Agri-Resources, First Resources, Global Palm Resources, REA Holdings, Anglo-Eastern Plantation, New Britain Palm Oil, Almarai Company, Alpcot Agro, Adecoagro