Clarifications on the Merrill Lynch Research Report on Olam dated 25th March 2008

We refer to Merrill Lynch's (ML) research report on Olam released today where they raised the following issues:

1. High net gearing / Leverage in which they made 3 points:

   1.1 Current leverage is high
   1.2 Interest coverage ratio is only 1.7x
   1.3 Structural de-leveraging may be necessary

2. Reduction in growth associated with de-leveraging.

3. Un-hedged inventory equal to 50% of equity

4. Aggressive accounting policy

   4.1 Impact of fair value reserves resulting in swings in equity

We respect the independence and integrity of the analyst community covering Olam. We do not generally issue any public comment on any analyst research report on Olam. We however feel that it would be useful to clarify some of the conclusion drawn and interpretations made in this report to enable our investors to make more informed assessment of the same.

1. Leverage

1.1 ML's View: current leverage is high

Clarification:

Olam's nominal gearing on a **Net Debt : Equity** basis as at the half year ended 31st December 2007 was **4.60x**. However, it is important to understand the quality of this gearing. Much of Olam's debt is short term, transactional and self liquidating in nature funding highly liquid hedged inventories and receivables. Rating agencies' approach to analyzing agricultural commodity inventories recognizes the strong liquidity of these assets primarily because they are fungible and hedgeable in the commodity futures markets, turn rapidly, are non perishable in nature with no erosion in inventory value post hedging, thus supporting cashflows and eliminating the risk of inventory write down. These liquid hedged inventories are therefore considered near cash. This liquidity significantly contributes to financial flexibility.

Therefore, from a credit evaluation and leverage standpoint, the right approach is to eliminate liquid, hedged or readily marketable inventories from the gearing computation while removing the short term debt incurred to finance these liquid hedged inventories for the calculation of leverage ratios. Adjusted leverage or gearing in this model takes into account all long term debt and only that amount of short term debt that is used to finance assets other than liquid hedged commodity inventories.

The central issue here is that 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 proceeds be used to pay short term borrowings as they become due.

In Olam, 86% of the Total Assets as on 31st December 2007 was in Current Assets, mainly in inventories and receivables. On an average 80% to 85% of our inventory is sold forward or hedged using financial derivatives. About 65% to 75% of our receivables are collectable against letters of credit or on a DP basis where the title documents are given only against payment. Olam's **adjusted gearing** or intrinsic indebtedness is only **1.66x after goodwill adjustment** and is even lower at **1.35x before goodwill adjustment**.

	FY2005 June'05	FY2006 June'06	FY2007 June'07	H1 FY2007 Dec'06	H1 FY2008 Dec'07
Total Debt	1,450,747	1,476,832	1,919,886	1,799,077	2,380,658
Less: Cash	165,367	296,241	237,608	248,463	285,039
Net Debt	1,285,380	1,180,591	1,682,278	1,550,615	2,095,619
Less: Marketable/Liquid hedged inventories	891,647	829,374	937,542	1,010,154	1,040,389
Less: Receivables	453,127	285,941	342,830	277,863	301,021
Net Debt after adjusting for liquid current assets	(59,394)	65,275	401,906	262,598	754,209
Equity after adjustment of Goodwill	498,250	530,017	480,367	511,372	455,126
Net Debt to Equity	**2.58**	**2.23**	**3.45**	**3.03**	**4.60**
Adjusted Net Debt to Equity	**(0.12)**	**0.12**	**0.83**	**0.51**	**1.66**

Goodwill			**103,208**		**103,208**
Equity before Goodwill	**498,250**	**530,017**	**583,575**	**511,372**	**558,334**
Adjusted Debt to Equity (before Goodwill)	**(0.12)**	**0.12**	**0.69**	**0.51**	**1.35**

1.2 ML's View: Interest coverage ratio is only 1.7x

Clarification:

We have an interest coverage ratio with the banks of 1.5x. We have been comfortably above this norm at all times and this **was 1.7x as at the half year ended 31st December 2007**. However, using the Rating Agencies' Approach of adjusting for liquid hedged inventories, the impact of this analysis on the interest coverage is also quite pronounced. Since short term self liquidating debt is used to finance highly liquid inventories, a distinction should be made between the interest expense on such debt financing liquid hedged inventories and interest expense on long term debt financing fixed and other long term assets. Since the inventory carrying charges in terms of interest expenses is included in our commodity selling prices and is always a pass-through cost (see table below), they are for analytical purposes a part of the Cost of Goods Sold and therefore should not be included in the calculation of pre tax interest coverage reflecting the true liquidity of these liquid current assets. The adjusted interest coverage for 31st December 2007 improves from 1.70x nominal interest coverage to 3.12x. Similarly for the full year ended 30th June 2007, the interest coverage improves from 2.10x on a nominal basis to 4.10x on an adjusted basis. Similarly the Current Ratio improves from 1.61x to 2.56x and the Quick Ratio from 1.04x to 2.32x for the half year ended 31st December 2007 on this basis.

	2004-05 June'05	2005-06 June'06	2006-07 June'07	H1 FY2007 Dec'06	H1 FY2008 Dec'07
Volume	2,553,326	3,172,184	3,772,820	1,816,400	2,337,000
Revenue	3,369,237	4,361,101	5,455,508	2,367,500	3,325,000
Gross Contribution	228,942	343,063	489,694	197,400	305,900
GC / Ton	90	108	130	109	131
Interest	49,344	83,624	138,254	65,802	100,237
Interest per ton	19	26	37	36	43
Net Contribution	179,598	259,439	351,441	131,598	205,663
NC per ton	70	82	93	72	88
Interest Coverage	**2.50**	**2.29**	**1.91**	**1.65**	**1.53**

As can be seen from the historical numbers, as the interest cost per ton went up mainly as a result of the rate increases, we have been effectively able to pass the same on to the customers. This is reflected in NC per ton going up from S$70 per ton in FY2005 to S$93 per ton in FY2007. The same results can be seen for H1 FY2008 as compared to H1 FY2007, where the NC per ton went up to S$88 per ton from S$72 per ton despite interest cost increasing to S$43 per ton in H1 FY2008 from S$36 per ton in H1 FY2007.

1.3 ML's View: Structural de-leveraging may be necessary

Clarification:

Olam had total banking facilities of US$3.026 billion as at 31st December 2007. In the 3rd Quarter January to March 2008, we have put an additional US$300 million of banking facilities. All our banking facilities that have come up for renewal during the last 6 months have all been renewed.

We were only using about 54.3% of our available banking facilities as of 31st December 2007. Only 46% of our total banking facilities are covenanted with a Net Debt : Equity Covenant of 5:1 and interest coverage of 1.5x. 54% of our total banking limits currently have no covenants. We typically keep enough margin of safety to support increased working capital requirements in the event commodity prices going up and/or to be able to service margin call requirements in the event of increased commodity price volatility. We have grown revenues at 40.4% during the first 6 months of this financial year ending 31st December 2007 without experiencing any strain on the working capital required to support this growth. We have also comfortably met all margin call requirements despite the heightened volatility in commodity markets during this quarter.

We do not expect to be required to structurally de-lever our balance sheet given our business model and the perspective on leverage described in section 1.1 of this note.

However, as part of our forward planning and as announced at our interim results briefing in February 2008, we had clearly indicated our intentions to raise additional equity capital and we are assessing various alternatives for completing such capital raising to support the next phase of our growth.

2. ML's View: Reduction in growth associated with de-leveraging.

Clarification:

We do not as a policy give quarterly or annual guidance but have been explicit about our medium term objectives. We would like to reiterate our medium term target of growing our top line between 16% to 20% CAGR over the next 2 three year cycles (next 6 years) while growing bottom line or after tax earnings by 25% to 30% CAGR over this period.

We are confident about our prospects for the rest of FY2008 ending 30th June 2008.

We are in an attractive industry with a unique competitive position. The key success determinant in our industry today is control over supply and our farm gate sourcing model gives us delivery and fulfillment capability that few of our competitors can match.

We would however de-lever for creating further debt capacity to fund future growth. We have adequate capital resources to support our growth over the next 12 to 15 months.

Our supply chain model also ensures predictability of earnings despite significant market volatility.

At this juncture, we do not see any basis for the revision of our medium term (next 6 years) growth forecast.

3. ML's View: Un-hedged inventory equal to 50% of equity

Clarification:

Historically between 80% to 85% of our inventory is sold forward or hedged using financial derivatives. The balance 10 % to 15% of our inventory is unsold and/or un-hedged. These unsold positions are largely in our cash products (products which do not have futures markets). We quantify this exposure using Value at Risk (VAR) model. The computation of VAR factors historical volatility over a long term price series with some over-weighting for the price trends in the near term. Regular stress testing is done for this exposure on a continuing basis to determine our exposure at any point in time. The historical VAR for this un-hedged position varied from 0.76% to 1.09% of our equity over the last 3 years as shown in the table below:

(in S$)	FY2005	FY2006	FY2007
Inventories	**1,019,000**	**1,013,000**	**1,163,000**
% of inventories Sold forward	**87.50%**	**81.80%**	**80.60%**
Value of unsold Inventory	**127,375**	**184,366**	**225,622**
VAR on Unsold Inventory	**3,800**	**4,490**	**6,360**
Equity (Before Fair Value Adjustment)	**498,250**	**530,017**	**583,575**
VAR / Equity	**0.76%**	**0.85%**	**1.09%**

As can be seen from the above table, if the risks on our open exposures on the 10% to 15% of unsold / un-hedged inventories were to materialise, the company would have only risked 1.09% of its equity and not 36% or 50% of equity as inferred in the report.

One of the important reasons for the predictability of Olam's earnings model has been its participation in this industry as a supply chain manager and not as a proprietary directional commodity trader making it a relatively low risk model.

4. Aggressive accounting policy

4.1 ML's View: Impact of fair value reserves resulting in swings in equity

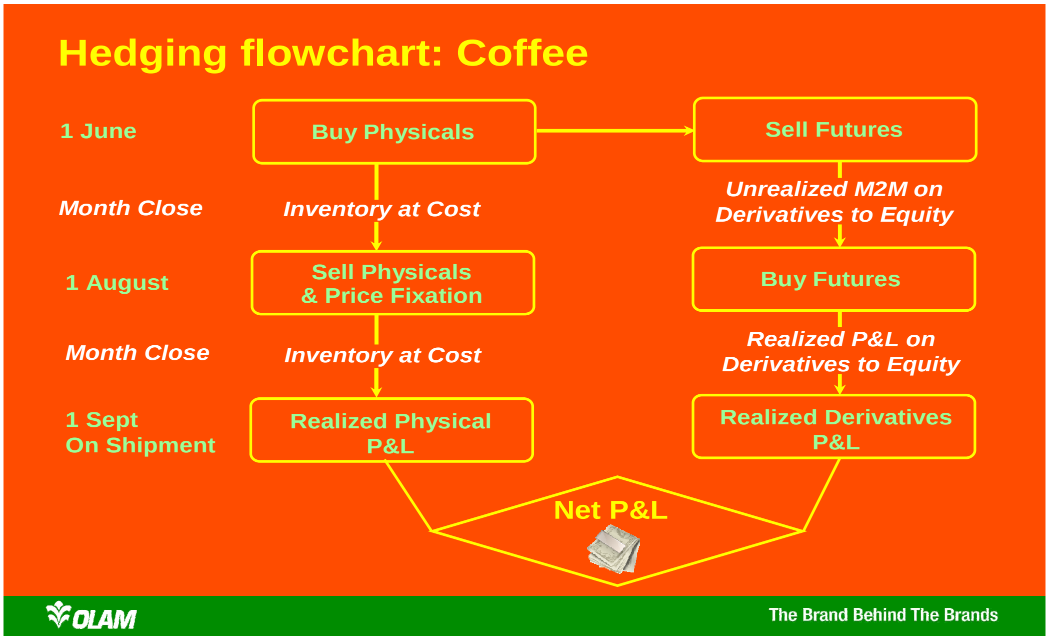
Clarification:

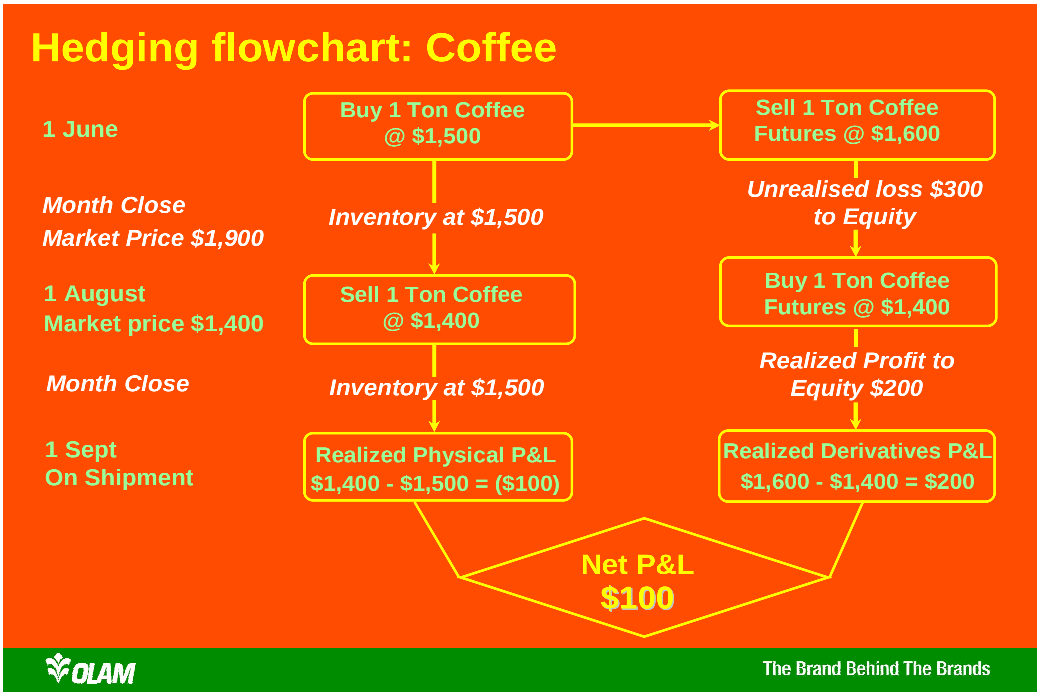
The report concluded the 'fair value reserve wipes S$156 million off shareholders equity'. Fair Value adjustment of derivative contracts is as per the new FRS39 accounting standard which was applicable to us from July 2005.

The company uses futures and options to hedge the price exposure on the underlying physical commodities that it supplies to its customers. It is to be noted that the underlying for these futures and option contracts are the physical commodity inventory itself. For example, we hedge the physical cocoa inventory using cocoa futures traded in LIFFE or NYBOT. In these circumstances, the physical cocoa can be delivered to the exchange against these futures contracts. Therefore the hedge effectiveness is maintained at all times. While the accounting treatment requires us to fair value the derivative instruments, the inventories these instruments are hedging are carried at book value. Any profit or loss on the fair valuation of derivatives are fully compensated by the increase / decrease in the realizable value of the inventory, and therefore have little / no impact on the profitability. Further we would like to emphasize that every quarter the auditors review the hedge effectiveness and satisfy themselves that proper treatment has been given under the provisions of FRS 39. However, any gains or losses arising from changes in fair value of these derivative instruments that do not qualify for hedge accounting is taken to the profit and loss account for the period.

The report has not linked the fair value on the derivative instruments with the increase in the corresponding inventory value of the underlying assets and is incorrect to attribute this as aggressive accounting. This is the correct way of accounting for derivative instruments which are used as hedges for the underlying physical transaction as per FRS39. Similarly if the fair value adjustment reserve was a gain, this would not improve our equity position or change our leverage favorably.

For further clarity, we are attaching 2 slides from our FY2007 Full Year Results Briefing that provided a flow chart describing how the hedging happens and how fair value adjustment reserves are created.





4. **ML's View: The troubled acquisition of Queensland Cotton (QCH) also highlighted the risk of the company's acquisition strategy and led partly to the de-rating of the stock.**

Clarification:

Olam has announced 8 acquisition transactions in the last 12 months, of which 6 have been completed. Of this, 5 have been earnings accretive in the first year itself exceeding expectations. In the case of QCH, due to the severe drought in Australia and as anticipated, the company will incur a loss in the current year. Having integrated QCH over the last 6 months, we remain confident that the maintainable earnings of QCH is likely to be higher than what was factored into our deal thesis. All the transactions has been significantly value accretive. We therefore believe that our acquisition strategy will form a key engine for growth over the next 2 three year cycles.