



**Olam International Limited**

**Acquisition of 24.99% stake in  
Dairy Trust Limited**

08 July 2008

Singapore



**The Brand Behind The Brands**

## Forward looking statements

*This presentation may contain statements regarding the business of Olam International Limited ('Olam') and its subsidiaries ('Group') and Dairy Trust Limited ('DTL') and its subsidiaries ('DTL Group') that are of a forward looking nature and are therefore based on management's assumptions about future developments.*

*Such forward looking statements are intended to be identified by words such as 'believe', 'estimate', 'intend', 'may', 'will', 'expect', and 'project' and similar expressions as they relate to the Group and DTL. Forward-looking statements involve certain risks and uncertainties because they relate to future events. Actual results may vary materially from those targeted, expected or projected due to several factors.*

*Potential risks and uncertainties includes such factors as general economic conditions, foreign exchange fluctuations, interest rate changes, commodity price fluctuations and regulatory developments. The reader and/or listener is cautioned to not unduly rely on these forward-looking statements. We do not undertake any duty to publish any update or revision of any forward looking statements.*

# Speakers

***Andrew Talley***

**Director, Dairy Trust Limited**

***Sunny Verghese***

**Group Managing Director & CEO, Olam**

***Mark Fankhauser***

**CEO, Dairy Trust Limited**

***Vivek Verma***

**MD, Global Product Head - Coffee & Dairy  
Products, Olam**

# Presentation Outline

- ❖ Transaction Overview
- ❖ Olam's Dairy Strategy
- ❖ NZ Dairy industry and DTL
- ❖ Strategic Fit
  - ❖ Olam's perspective
  - ❖ DTL's perspective
- ❖ Financial Impact
- ❖ Q&A

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# Transaction Overview

<b>Transaction</b>	<ul style="list-style-type: none"> <li>▪ Acquisition of 24.99% stake in DTL, one of New Zealand's largest dairy processors</li> <li>▪ Stake to be acquired through a combination of subscription to new shares and purchase of existing shares from Dairy Investment Fund Limited</li> <li>▪ Olam's 19.9% stake in DTL's subsidiary Open Country Cheese (OCC) to be tendered into DTL's open offer for OCC</li> </ul>
<b>Call Option</b>	<ul style="list-style-type: none"> <li>▪ At completion, Olam may need to scale down its stake purchase to ensure overall overseas investment in DTL stays at &lt;25%, a requirement under the Overseas Investment Act (OIA)</li> <li>▪ In the above event, Olam will have a call option to subsequently enhance its stake to 24.99% after obtaining OIO approval</li> </ul>
<b>Intention to enhance stake</b>	<ul style="list-style-type: none"> <li>▪ Post completion of the transaction, Olam intends to apply to the OIO for increasing its stake in DTL to around 30%</li> </ul>
<b>Consideration</b>	<ul style="list-style-type: none"> <li>▪ Aggregate investment including initial OCC outlay is NZ\$ 101.05 million (US\$ 76.80 million)</li> <li>▪ Current investment outlay is NZ\$ 77.11 million (US\$58.60 million)</li> <li>▪ NZ\$57.11 million payable on completion and NZ\$20 million payable on December 1, 2008</li> <li>▪ An additional estimated investment of NZ\$ 17.35 million will be made if stake is increased to 30%</li> </ul>
<b>Financing</b>	<ul style="list-style-type: none"> <li>▪ Acquisition to be funded through internal accruals and borrowings</li> </ul>
<b>Closure</b>	<ul style="list-style-type: none"> <li>▪ Subject to customary closing conditions, including approval of Dairy Trust shareholders</li> <li>▪ Transaction expected to close within 6 – 8 weeks</li> </ul>

# Transaction Overview – Salient Terms and Conditions

<b>Marketing Agreement</b>	<ul style="list-style-type: none"><li>▪ Olam to have a long term marketing agreement for an escalating percentage of DTL's production volumes</li></ul>
<b>Board Representation</b>	<ul style="list-style-type: none"><li>▪ Olam shall have the right to appoint 2 directors on the Board of DTL</li></ul>
<b>Role in Management</b>	<ul style="list-style-type: none"><li>▪ Olam shall have the ability to depute or second executives to DTL for mutually agreed management roles</li></ul>
<b>Role in Policy Formulation</b>	<ul style="list-style-type: none"><li>▪ Dairy Trust has invited Olam to play an active role in the formulation of sales &amp; marketing policies as well as risk management framework &amp; policies</li></ul>
<b>Anti-dilution</b>	<ul style="list-style-type: none"><li>▪ In the event of fresh issue of securities, Olam will have an option to subscribe to the requisite number of shares so as to maintain its pre-issue holding</li></ul>

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# First phase of dairy strategy successfully executed

## Niche Market Leadership

- Capitalize on knowledge and distribution strength in Africa



Leadership positions built in most markets in Africa

## Niche Origin Leadership

- Establish strong positions in origins with low production cost and high degree of fragmentation to support African markets



Leadership positions built in origination out of East Europe, South America and South Asia



*Phase I of strategy successfully executed with Olam now one of the top ten global dairy trade houses*

# Investment catalyses the next phase of our Dairy Strategy

## Niche Market Leadership

- Strategy to capitalize on knowledge and distribution strength in Africa



Leadership positions built in most markets in Africa

## Niche Origin Leadership

- Establish strong positions in origins with low production cost and high degree of fragmentation to support African markets



Leadership positions built in origination out of East Europe, South America and South Asia

## Participation in Major Global Trade Flows

- ❖ **Participate in major trade flows**
  - ❖ Own distribution in key dairy markets
  - ❖ Building consistent supply sources in key growing dairy regions – U.S. and Oceania



Significant import and distribution operations set up in Russia and China – two of the largest dairy markets in the world

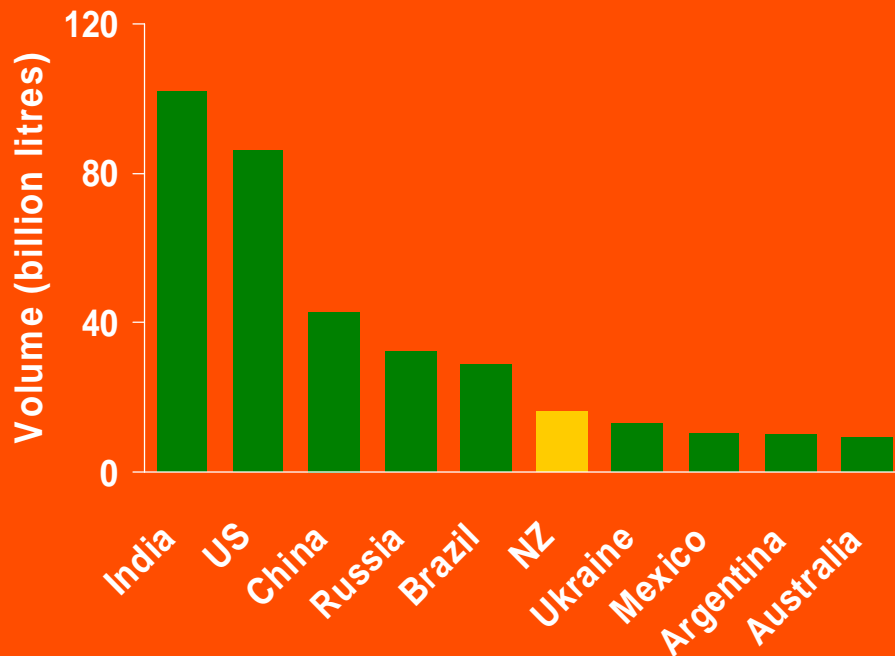
Investment in DTL provides consistent supply source for existing distribution markets and allows us to accelerate our marketing efforts in Asia, the largest importing block in the world

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# New Zealand: Large, growing, low-cost producer

## 2008 Milk Production by Country



<sup>1</sup> Source: Industry estimates

✦ New Zealand is the **world's sixth largest dairy producer** with an estimated milk production of 15.9 billion litres in 2008 (Source: FAPRI)

✦ Production expected to grow at 2-3% p.a. over the medium term

✦ **One of the lowest cost producers** of milk in the world

✦ Pasture grazing form of feeding cows rather than complex feed supplements

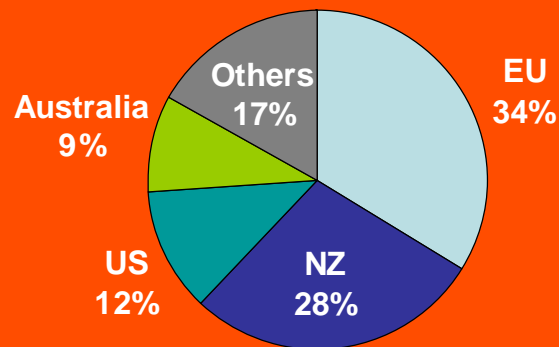
✦ Efficient farming methods and systems

✦ Globally competitive on processing costs

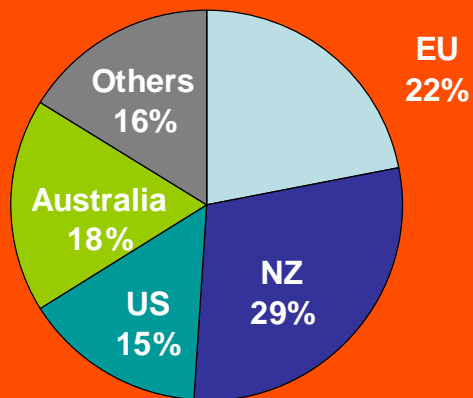
✦ Cost competitiveness and a small consumption base have enabled New Zealand to become the **largest dairy exporter in the world**

# New Zealand: Pre-eminent position in world trade

## Major Exporters<sup>1</sup>



## Sources of Asian Imports<sup>1</sup>



- ❖ World's **largest exporter** of dairy products with a 28% share of total exports
  - ❖ Exports 95% of its produce (Australia exports less than 60%)
- ❖ **Foremost supplier to Asia** – New Zealand accounts for 29% of Asian dairy imports
- ❖ Enjoys advantage over other exporters as it has **Free Trade Agreements (FTA) with large importing countries**
  - ❖ FTAs give New Zealand preferential access to these geographies through lower tariffs or fixed quotas
- ❖ Also a **significant exporter to the Middle East and Africa**, both of whom account for 13%-14% of world trade
  - ❖ NZ's share of imports into Africa and Middle East is approximately 14% and 25% respectively

<sup>1</sup> Source: Industry estimates

# New Zealand Dairy Industry – Major Players

## Fonterra Co-operative Group

- ❖ New Zealand's largest dairy organization, processing 14 billion litres of milk (>90% of NZ milk production)
- ❖ Has over 10,000 farmer suppliers

## Other Co-operatives

- ❖ Other co-operatives include Westland and Tatua
- ❖ Westland (2.6% market share) and Tatua (1% market share) are much smaller than Fonterra

## Private Players

- ❖ OCC, established in 2004 as the first private sector player, has a 1.5% market share
- ❖ Other recent private sector entrants include New Zealand Dairies and Synlait, both single location operations with 1-1.5% market share each

## DTL

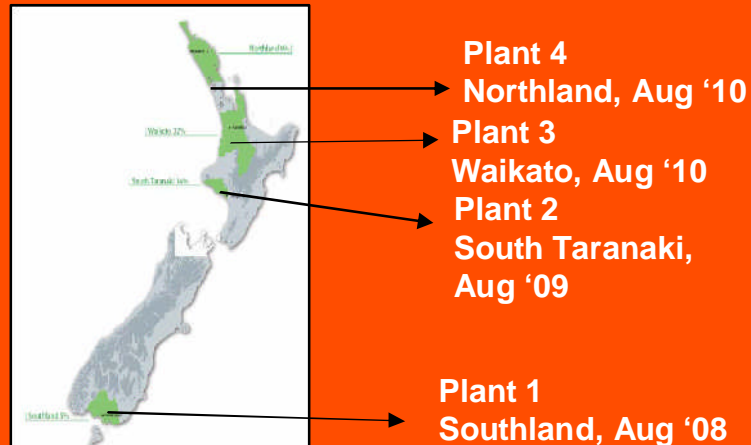
- ❖ DTL is the newest player, and holds a majority stake in OCC
- ❖ DTL/OCC combine expected to process over 450 million litres of milk (3% market share) in the coming season

# Dairy Trust – An Overview

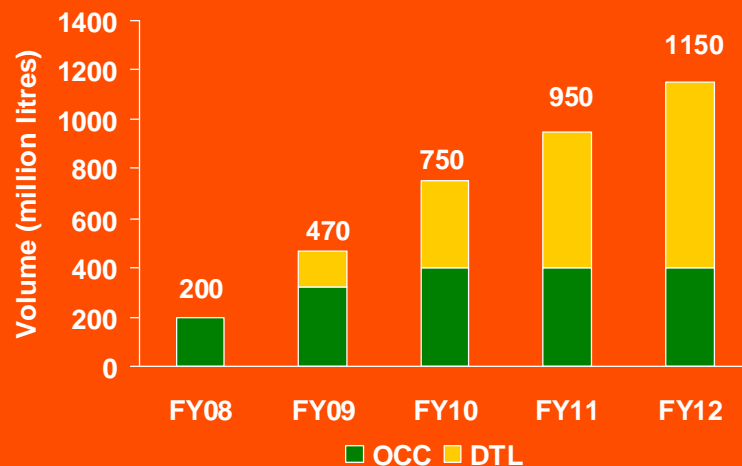
- ✿ DTL is positioning itself to become **New Zealand's second largest dairy processing company**
- ✿ DTL was **incorporated in 2007 by AFFCO**, a company majority owned by the Talley Group; AFFCO is New Zealand's only listed meat processing company
- ✿ DTL **intends to develop a large scale, nationwide presence** at a low cost and in the least time through investment in greenfield sites as well as shareholdings in strong companies operating in the dairy sector
- ✿ DTL currently **holds a 52.4% stake in Open Country Cheese (OCC)**, New Zealand's first private sector dairy processing company
  - ✿ OCC produces cheese, butter oil and a range of milk and whey powders, which are both sold nationally and internationally
  - ✿ **OCC** processed 200 million litres of milk in the FY07/08 season and is constructing a new milk powder plant which **will enhance its processing capacity to over 400 million litres of milk**; the new powder plant will be commissioned by September 2008
  - ✿ **For the coming season, OCC has contracted 320 million litres of milk from around 200 independent farmers**

# Dairy Trust – Greenfield Plans

## Proposed Plant Locations



## Projected Milk Processing Volume



- ✦ DTL **intends to establish itself as a long term participant** in the New Zealand dairy industry with a national footprint
- ✦ Towards this end, it plans to set up facilities with a **total milk processing capacity of 800-900 million litres** in the first phase
  - ✦ **First plant** at Invercargill, Southland ready for **commissioning in August 2008**, with a rated capacity of 200-225 million litres
  - ✦ Identified and **secured three other sites along with the resource consents** for setting up plants of similar capacity **in New Zealand's key milk producing regions**, i.e. Waikato (30%), Taranaki (16%), and Northland (9%)
- ✦ DTL/OCC's current plants **use Niro's latest IFD technology thereby lowering initial capital and maintenance costs**
  - ✦ DTL has secured exclusivity for use of this technology in New Zealand for the next four years



# Dairy Trust - Partner Profile

## Likely post-transaction shareholding

Shareholder	% Stake
AFFCO <sup>1</sup>	35.46%
Talleys Group	17.04%
Olam	24.99%
DIFL	10.14%
Balle Brothers	4.24%
WDFL	2.94%
Others	5.19%

<sup>1</sup> AFFCO is majority owned by the Talley family

## Talleys Group

- ✦ Control and own majority of DTL through group companies AFFCO and Talleys Group
- ✦ One of NZ's leading and successful business groups with interests in diverse sectors viz. seafood, frozen produce, meat processing and dairy
- ✦ Brings to DTL the knowledge and experience required to run a competitive agri-business

## Dairy Investment Fund Limited (DIFL)

- ✦ Private equity investor specialising in NZ's dairy sector
- ✦ Management team brings strong commercial knowledge derived from its long-standing industry experience

## Balle Brothers

- ✦ Large, family run agri-business operating in NZ with activities across several sectors including dairy, meat and vegetables

## Waipahi Dairy Farms Limited (WDFL)

- ✦ Owned by Mr. Grant Paterson, one of NZ's largest farmers
- ✦ Enjoys immense credibility with farmers and has been the driving force behind DTL contracting 150 million litres milk supply in its first year

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# New Zealand – An attractive option for investment in the dairy industry

## Low-cost Producer and Largest Exporter

- ✿ Natural pasture based farming
- ✿ High productivity at farm level
- ✿ 28% of current world trade – share expected to further increase

## High growth in Milk Production

- ✿ Steady growth of 2.5-3% per annum expected - faster growth in the immediate future
- ✿ Growth on account of conversion from sheep, beef and forestry as well as intensive farm practices

## Efficient Infrastructure & Regulatory Environment

- ✿ Government supportive of dairy farming and exports
- ✿ 95% of production is exported

## Proximity to Asian markets

- ✿ Asia is the largest and fastest growing dairy importing block
- ✿ Shorter delivery times and favourable freight economics give New Zealand a significant advantage

# Investment in an existing player a more viable New Zealand entry strategy

## Winning farmer confidence

- ✿ Dairy industry dominated by co-operatives
- ✿ Farmers are apprehensive of corporate competition
- ✿ Winning farmer confidence (for milk supply) is a significant challenge for a foreign corporate; local credibility is essential

## Environment Regulations

- ✿ Extensive regulation and strict enforcement make securing land and resource consents a challenging and time-consuming activity

## Operating Environment

- ✿ Given its large contribution to the economy, dairy is a sensitive industry in New Zealand
- ✿ Recent experience suggests standalone foreign ownership enhances execution and regulatory risks



**Investment in an existing local player represents a practical and speedy mode of participation**

## DTL/OCC combine best amongst non-Fonterra players in New Zealand

- ✦ Only player with the likely **scale and geographic spread** to present a credible alternative to Fonterra
  - ✦ DTL/OCC would be the second largest dairy processor in the coming season
  - ✦ Post completion of its greenfield plans, DTL would be at least 3-4 times the size of its nearest competitor
- ✦ Business structured to achieve best **capital and overhead productivity** in the NZ dairy industry
  - ✦ Exclusive access in NZ to low-cost, efficient state-of-the-art technology from Niro, global leader in dairy technology
- ✦ Enjoys **trust and credibility with farming community** through the Talley Group and other founding shareholders' presence in primary agri industries
- ✦ Well placed to **speedily execute its expansion plans**
  - ✦ Long-gestation regulatory approvals in place, enabling fastest time-to-market for any greenfield venture till date
- ✦ **Strong and experienced management team** with deep expertise in manufacturing and dairy industry

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# DTL's Perspective

- ❖ Initial strategy after establishment
  - ❖ To set up milk supply sites
  - ❖ Construct and commission first plant site
  - ❖ Contract milk supply
  - ❖ Acquire a controlling stake in OCC
  - ❖ Attract a high caliber management team
- ❖ In parallel, we signaled an intention to review and determine an appropriate capital structure during the next twelve months.
- ❖ Consistent with the founding shareholders, we sought an active business partner, who would complement existing DTL strengths

# DTL's Perspective

- ❖ DTL's existing strengths were
  - ❖ Procurement – Group had demonstrated the ability to attract and enjoy farmer support
  - ❖ Operational footprint – Group had obtained access to suitable sites and technology to be a low cost and efficient processor
- ❖ Clear attribute we sought was a partner which could bring to Dairy Trust market experience, distribution strengths in key markets as well as existing product demand
- ❖ Key complementary strengths of Olam
  - ❖ Experience in managing high growth agri-supply chain businesses
  - ❖ Strong marketing presence and strong ambitions for growth in the sector
  - ❖ Established risk management capability
  - ❖ High capital market credibility



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## Investment to be earnings and value accretive from first year

- ❖ Combined DTL and OCC milk processing volumes expected to reach 1,200 million litres by FY12 (completion of first phase)
- ❖ Group's projected revenue from the sale of cheese, milk powder and other dairy products expected to touch US\$744 million by FY12
- ❖ Significant synergies for Olam expected through a high degree of customer and channel sharing
- ❖ Positive earnings accretion to Olam from Year 1



Investment in DTL would result in a significant positive spread over Olam's cost of equity

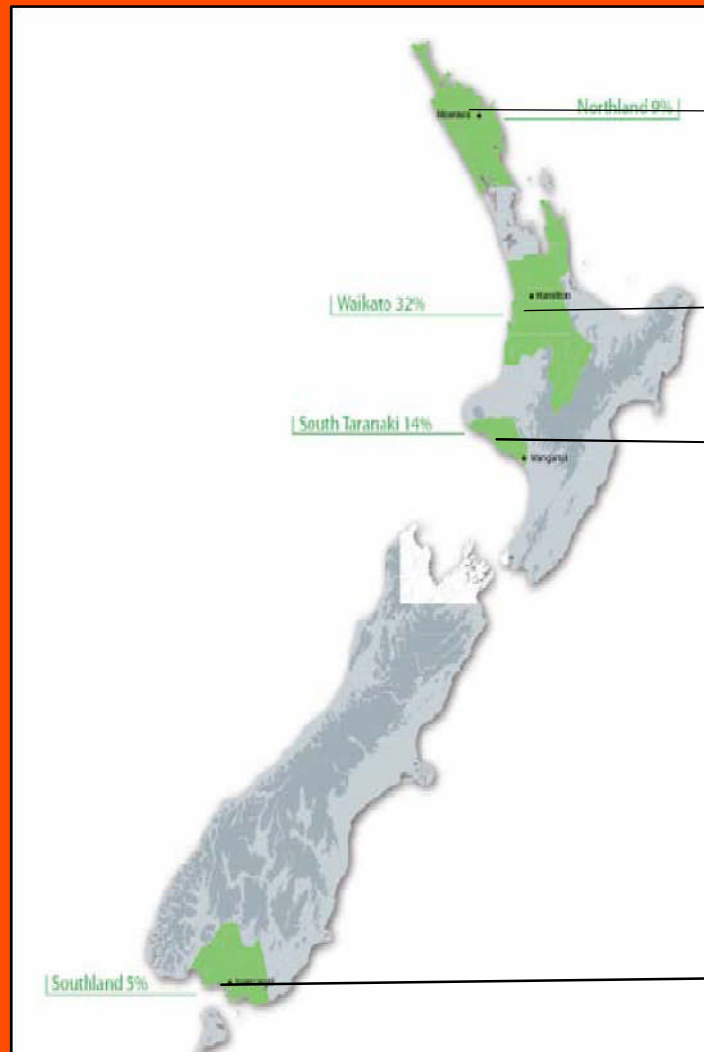
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Thank You



# Dairy Trust – Greenfield Plans



**Plant 4**  
**Northland,**  
**Aug '10**

**Plant 3**  
**Waikato,**  
**Aug '10**

**Plant 2**  
**South Taranaki,**  
**Aug '09**

**Plant 1**  
**Southland,**  
**Aug '08**