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NEWS RELEASE

OLAM INTERNATIONAL TO INVEST US\$128.4M IN PORT-BASED SUGAR REFINERY AND WHEAT MILLING FACILITY THROUGH STRATEGIC PARTNERSHIP WITH THE MODANDOLA GROUP IN NIGERIA

- **Olam will invest US\$91.0 million, through a 49:51 joint venture with Modandola Group (MG), one of sub-saharan Africa's leading diversified business groups, to set up a port-based sugar refinery in Nigeria**
- **Olam will acquire a 49% stake in Standard Flour Mills for US\$32.5 million, and invest a further US\$4.9 million to increase capacity**

Singapore, September 15, 2008 – Olam International Limited (“Olam” or “the Group”), a leading global, integrated supply chain manager of agricultural products and food ingredients, today announced that it has entered into a strategic partnership with the Modandola Group (MG) for investments in sugar refining and wheat milling businesses in Nigeria. Olam will make two investments totalling US\$128.4 million in Nigeria through its partnership with MG:

- 1 Olam will form a 49:51 joint venture (JV) company with MG and invest US\$91.0 million for a 49% stake in the joint venture which will set up a 750,000-tonne per annum capacity sugar refinery with a captive port in Lagos;
- 2 Olam will acquire a 49% stake in Standard Flour Mills (SFM), currently owned by MG, for US\$32.5 million. Olam will invest an additional US\$4.9 million to raise SFM's operating capacity from 1,200 to 2,000 tonnes per day.

Started in the 1950s, MG is today one of Sub-Saharan Africa's leading diversified business groups with broad interests across several industries including industrial & commercial real estate investments, manufacturing, flour milling, shipping, port management and agriculture. With sizeable port land and access to jetty facilities,



MG will be instrumental in obtaining the necessary concession, port land access and licences for the sugar refinery.

Sunny Verghese, Olam's Group Managing Director and CEO, said: "Olam has accumulated a significant operating experience in Nigeria as a company as well as from our main sponsor, the Kewalram Chanrai Group. Olam is the number one non-oil exporter in Nigeria as we source, process, export and distribute multiple products including cashew, sesame, coffee, cocoa, rice, dairy products, packaged foods, cotton and timber. We believe we now have the capacity and capabilities to expand our value chain participation in some of these businesses and enter into new adjacent products, beginning with our investments in sugar refining and wheat milling."

MG's Chairman Sir Chief Bode Akindele said: "Olam has grown from a single product in Nigeria to a large multi-national with a diversified product portfolio of 16 products and operations across 56 countries today. We believe Olam's global network of suppliers, extensive marketing and distribution in many of these countries, and its capabilities in managing risk in futures-traded products will serve our sugar and wheat businesses well into the future, capturing the high profit and growth potential available in this country."

The strategic partnership brings together the complementary strengths of Olam and MG to create a unique combination of skills in global sourcing and origination, manufacturing, port management, deep operating experience in the local environment, pan-Africa distribution, systems and risk management, and therefore a strong, sustainable competitive advantage in sugar and wheat in Nigeria.

Sugar Refinery Joint Venture

Olam and MG, through their JV company, will jointly set up and operate the port-based sugar refinery at a total capital cost of US\$190 million to be phased over three years from FY2009 to FY2011.

Under the terms of the joint venture agreement, Olam has an option to increase its stake in the JV to 51% at market value after three years from the commissioning of the refinery post the achievement of certain pre-agreed operational milestones.



Olam will undertake project management for setting up the refinery and will be responsible for the overall management of the refinery, including production, sales and marketing, distribution, systems and capital management.

MG will be responsible for all local management and support activities, such as sourcing of local workforce and industrial relations.

Investment Rationale

Olam has indicated that its strategic growth path for Sugar is to expand its value chain participation by building a configuration of sugar milling and refining assets globally. Investments in refining assets will focus on large consuming markets that are import-dependent and deficit-prone with regulatory conditions offering high economic rents to be extracted.

Nigeria is the largest consumer of sugar in Africa, excluding South Africa. The country's consumption has grown annually at a rate of 7.0% since 2003 to 1.5 million tonnes in 2007. Per capita consumption is currently at only 8.4 kilogrammes, one of the lowest in the world. With steady population growth and growing disposable incomes, annual consumption of sugar is expected to cross the 2 million metric tonne mark in the next five years.

Approximately 80% of annual demand is met by four local refineries with the balance 20% or 300,000 tonnes being met through direct imports of refined sugar. The Nigerian government encourages local value addition by maintaining a duty differential of 50% between imports of refined sugar and raw sugar and granting five-year tax holidays to refineries. (The tariff differential between imports of refined sugar and raw sugar from the Economic Community of West African States (ECOWAS) and other countries is 15%). These trading conditions coupled with a high degree of concentration and low utilisation of capacities by the local refineries support a persistent differential between local and import parity prices of refined sugar. The gap between demand and supply is expected to increase, giving room for the proposed JV to participate in this growing market.



The addressable market also extends to ECOWAS and the rest of Africa. ECOWAS, excluding Nigeria, imports 1.0 million tonnes of refined sugar annually due to the lack of local refining capacity and its per capita consumption and income profile is similar to Nigeria.

Apart from high market potential, Olam is leveraging its own unique strengths in origination, sales and distribution, risk management and logistics, through this investment to significantly lower execution risks and enhance its chances of success while expanding its sugar value chain.

Additionally, setting up a port-based sugar refinery in partnership with MG who has suitable port concessions not only overcomes a critical constraint in an environment where such concessions are limited but also offers a significant competitive advantage in logistics and handling as compared to setting up an in-land facility.

Critical Success Factors

Critical success factors of this investment are cost leadership and efficiency. Olam and MG believe that the twin factors are within their reach for these key reasons:

- 1 Access to adequate and reliable source of raw material: Olam has strong, direct sourcing presence in major raw sugar exporting countries, including Brazil where it pre-finances and procures from over two dozen leading mills.
- 2 Economies of scale: Approximately 80% of refined sugar demand comes from the wholesale/retail segment while the balance is from the food and beverage sector. Being Nigeria's largest rice supplier to the wholesale/retail market, Olam has a strong sales and distribution network covering most of the country's major cities and towns to promote sales and market share, thus giving rise to the opportunity to scale up production.
- 3 Superior cost structure from lower handling costs due to the access to strategic port assets and Olam's and MG's knowledge and experience in port logistics in Nigeria.



- 4 Process efficiency by installing the latest technology available in sugar production which reduces energy consumption and gives the JV a processing cost advantage.

Wheat Milling Joint Venture

Incorporated in 1982, SFM owns one of Nigeria's largest wheat milling facilities which is located close to the main ports in Lagos. Olam has a similar option to increase its stake in SFM to 51% in three years after achieving mutually agreed operating milestones. Olam will also take a lead role in sourcing wheat and managing the day-to-day operations of the wheat mill.

Investment Rationale

Olam has indicated its intention to enter into new, attractive product adjacencies in the grains complex, such as wheat, canola and barley in addition to its rice business, where there is a high degree of customer sharing, channel sharing and capability sharing. Olam has the capacity to market and distribute wheat through its well-established distribution networks in Africa, which imports 32 million tonnes of wheat or 60% of its consumption and accounts for 26% of global wheat trade. Olam therefore believes that regional leadership for wheat in Africa can be achieved by building a configuration of port-based milling assets in import dependent countries with growing wheat products consumption.

Nigeria is the third largest wheat importer in Africa, importing some 4 million tonnes in 2006/7. Backed by high population growth and rapid urbanisation, Nigeria is one of the fastest growing markets for wheat with annual per capita consumption increasing from 7 kilogrammes in 1992 to 25 kilogrammes in 2007, still less than half of global average. The high growth potential available in this market is further compounded by the ban on the import of wheat flour, and flour-based products, which enables the commercial viability of the local wheat milling industry.

Olam's investment in wheat milling in large destination markets with significant demand-supply gap such as Nigeria (where 90% of demand is met through imports) is therefore consistent with this strategy. Successful execution in this country will



help pave the way for Olam to scale up its wheat business to the rest of Africa and achieve regional leadership in wheat in Africa over time.

Given that competition is restricted to local millers with low capacity utilisation and lack of suitable port concessions continues to be a major constraint, Olam believes that its entry strategy is best executed through acquisition of an existing mill with strategic port assets. SFM is a strategic fit given the location of its mill, its port concessions and potential to increase production capacity up to 2,000 tonnes per day.

Critical Success Factors

Critical for the success of this investment is an efficient cost structure, high quality of output and extensive sales reach.

Supported by Olam's existing operations in major wheat exporting countries and strong distribution presence throughout Nigeria, SFM will gain access to adequate and reliable supplies of raw material and then potentially scale up its operations to meet growing demand.

Olam and MG will jointly commit a further estimated US\$30 million in capital expenditure (Olam's equity share being US\$4.9 million) in phases to raise utilisation rates to its current rated capacity of 1,200 tonnes per day in the first year and then to 2,000 tonnes per day by the second year. The investment will also help improve the quality of output through better maintenance.

Like the sugar refinery project, SFM will be able to achieve a superior cost structure with higher economies of scale and lower logistics and handling costs.



Financial Impact

The sugar refinery is expected to be commissioned in January 2011. The refinery is expected to operate at full capacity of 750,000 tonnes per year by Year 3 (FY2013 and thereafter) and deliver revenues of approximately US\$ 415 million. EBITDA margins and net margins are expected to reach around 21% and 13% respectively. Olam's share of its earnings after acquisition interest cost is estimated at approximately US\$30 million in Year 3.

The wheat mill is expected to produce about 355,500 tonnes of flour and generate revenues of approximately US\$270 million at steady state in Year 3 (FY2011) with EBITDA and net margins of around 13% and 4-5% respectively. Olam's share of profits by Year 3 is expected to be approximately US\$7 million after acquisition interest.

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About Olam International Limited

Olam is a leading global integrated supply chain manager of agricultural products and food ingredients, sourcing 16 products with a direct presence in 56 countries and supplying them to over 6,500 customers in more than 60 destination markets. With direct sourcing and processing in most major producing countries for its various products, Olam has built a global leadership position in many of its businesses, including cocoa, coffee, cashew, sesame, rice, cotton and teak wood. Headquartered in Singapore and listed on the SGX-ST on February 11, 2005, Olam currently ranks among the top 40 largest listed companies in Singapore in terms of market capitalisation and is a component stock in the Straits Times Index (STI), MSCI Singapore Free, S&P Agribusiness Index and DAXglobal Agribusiness Index. More information on Olam can be found at www.olamonline.com.



About Modandola Group

Modandola Group (MG) is one of Sub-Saharan Africa's leading diversified business groups contributing to the dynamic growth and development of Nigeria. MG began its operations in the early 1950s and grew into a diversified enterprise comprising industrial & commercial real estate investments, finance, flour milling, agriculture, packaging, shipping, transportation, advertising and general services. MG has close associations with international organisations, which provide vital back-up services, research and development as well as technical expertise essential for the activities of all the companies in the Group. With experience in various fields, MG offers the best and most diverse platform to foreign investors and technical partners seeking to widen their portfolios in sub-saharan Africa.

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