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Clarifications on CLSA Analyst Report on Olam dated 21st February 2011

We refer to CLSA's Analyst Report on Olam dated 21st February 2011 containing adverse comments on some issues to which we feel we should respond. Olam as a policy does not comment on analyst's reports regarding the company. There are currently around 21 analysts covering Olam (please refer to **Appendix 1** for the current list of Olam's analyst coverage) and on an average they issue four reports a year after each quarterly results announcement and additional reports covering any major announcements the Company makes from time to time. We respect the important role that analysts play and we strive to provide investors information about the Company in a timely and transparent manner to enable them to assess and model the Company's prospects.

CLSA's report raises three issues:

1) Nigerian export incentives.

2) Reporting differences between unaudited (Results Announcements) versus audited annual accounts (Annual Report).

3) Negative EVA or Economic Profit (EP).

Nigerian export incentives

The report raises two questions with regard to Nigerian export incentives, namely:

1) **How important are Nigerian export incentives to Olam's earnings? &**

2) **What is the 'sustainability' of Olam's profitability if Nigerian export incentives are withdrawn?**

The report estimates that Nigerian incentives account for 30% - 40% of Olam's profits. This attribution is incorrect. During the last three years, Olam had booked export incentives from Nigeria as follows:

(in S$' m)	FY2008	FY2009	FY2010
Nigerian Export Incentives booked	60.1	89.2	84.5
Nigerian Export Sales Revenue	396.8	432.1	577.7
Nigeria Incentives booked as % of Nigerian Export Revenue	**15.1%**	**20.6%**	**14.6%**
Olam Consolidated Revenue	8,111.9	8,587.9	10,455.0
Nigerian Incentives booked as % of Consolidated Revenue	**0.7%**	**1.0%**	**0.8%**

When we receive export incentives in Nigeria which are recorded separately as a line item in our P&L, 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.

Nigerian export incentives are applicable to all market participants who meet the eligibility criteria that are set out for this purpose. **Currently, there are over 200 exporters that receive EEG incentives in Nigeria. In every product that Olam exports from Nigeria, there would be 4 or 5 other exporters that would have a similar rating for EEG and therefore have the same incentive structure as Olam.** CLSA's contention that the company eligibility rating alone determines the EEG incentive rate or the assertion that Olam alone enjoys this incentive slab is incorrect. It is a combination of company eligibility rating and the nature of product exported. As an example, the scheme today has a different incentive rate for cocoa bean exports versus cocoa butter exports.

We have observed over time in both Nigeria and the other seven countries (collectively Nigeria, India, Poland, European Union, Argentina, Brazil, Vietnam and South Africa) where we receive export incentives that these are priced in by market participants and largely passed through to our growers and in some cases, to customers. This principle has been clearly established in countries that have instituted these incentives for a period and then subsequently withdrawn them like in India where our margins have remained stable before and after the incentive regime change. Based on our experience, **we believe that our margins will remain largely stable even if these export incentives are withdrawn or changed as procurement prices would locally adjust to reflect any change in incentives.** (Please refer to **Appendix 2** for an example).

As is well known, the roots of Olam's business are in Nigeria, where we believe we are the country's largest non oil exporter. However, today the Company is very well diversified across 65 countries with Nigeria's share of our total assets invested and total profits being in single digits.

Please refer to **Appendix 3** for a brief background and history of Nigerian Export Incentives.

<u>Reporting differences between Results Announcement (unaudited) versus Annual Report (AR)</u>

We would like to clarify that the 'reporting differences' being highlighted in the CLSA report between the Unaudited financial statements (presented at Results Announcement) and the Annual Report are presentation differences between the Accounts of various subsidiaries and their eventual treatment in the Group consolidation and/or reclassiciation between line items in the Group Accounts. At the time of the Results Announcement (unaudited) the auditors have 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 may be occasions for further refinement and re-classification in the course of the preparation of the detailed Notes to Accounts. All these changes are reviewed by the auditors and presented to the Board Audit Committee for consideration and approval before finalization of AR.

We can 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.**

The CLSA report has highlighted some examples of reporting differences which we believe are incorrect. We would like to provide specific clarifications for the main points that have been raised by CLSA.

A) **<u>Differences in Cash Balances</u>**:

FY 2007

Closing Cash & Cash Equivalents (Unaudited) : S$206.02 million
Closing Cash & Cash Equivalents as per AR : S$187.64 million

Difference is due to S$18.38 million of Bank overdraft netted off against Cash Equivalents in AR whereas at the at the time of unaudited announcement the same had been presented as short term Loans from Banks

FY 2008

Closing Cash & Cash Equivalents (Unaudited) : S$212.93 million
Closing Cash & Cash Equivalents as per AR : S$164.30 million

Difference is due to S$48.64 million of Bank overdraft netted off against Cash Equivalents in AR whereas at the at the time of unaudited announcement the same had been presented as short term Loans from Banks

These differences were primarily due to differential treatment at the subsidiaries level which have to be re-presented at the consolidated Group level.

The differences relate to the presentation of Cash and Cash Equivalents for the purpose of the Cash Flow Statements and are not adjustments to the Balance Sheet.

B. **CAPEX changes in cash flow - FY 2010**

Purchase of Property & Equipment (unaudited) : S$65.39 million
Purchase of Property & Equipment as per AR : S$171.22 million

The change within the cash flow statement pertains to reclassification between "Purchase of Property and Equipment" and "Acquisitions of Assets as a Business Combination". It is pertinent to note that there is no change in Balance Sheet in this regard.

This reclassification has NO impact on depreciation and/or profits.

C. **Margin account with Brokers - FY 2008**

Unaudited	Annual Report	Reclass from Other Current Liabilities
S$264.04 m	S$254.27 m	(S$9.77 m)

This is again a reclassification difference between Results Announcement (unaudited) and AR. We maintain multiple accounts with same brokers which might have both debit and credit balances. In this particular instance, at the time of Results Announcement (unaudited), only Debit balances were taken into consideration in the "Margin Account with Brokers" and Credit Balances were classified under "Other Current Liabilities" whereas in the AR, Credit balances were netted off against Debit balances lying with the same brokers.

D. **Changes to Comparatives in the Explanatory notes for Cost of Goods Sold (COGS) – FY 2008/2009**

It has been highlighted that there is a difference of S$69.9 million in COGS between AR of FY 2008 and as reported in AR of FY 2009 for FY 2008. We would like to clarify that the total COGS amount **has not changed** and the line items disclosed in the Explanatory notes is not a complete schedule but includes only major items namely, realized loss on derivates, export incentives, FX gains etc. In this particular instance for FY 2008, some subsidiaries had classified COGS net of export incentives, and hence

the COGS explanatory note only showed S$2.17 million. In the explanatory notes in the AR for FY 2009, the comparative statement showed the export incentives separately (both for 2008 and 2009), and detailed the amount for FY 2008 as S$72.09 million. Since this amount was already netted off in the COGS for 2008, there was no impact on the COGS or P&L.

The Company is required to follow IFRS 1 which requires it to prepare its financial statements using the accrual basis of accounting. This is disclosed in the accounting policies adopted by the Company (refer page 93 of AR FY2010). Therefore adopting cash based accounting as suggested by CLSA is not a choice for the Company. In adopting accrual accounting, the Company and its auditors assess if there is reasonable assurance that the export incentive amounts that are being accrued will be recovered. In the case of the Nigerian export incentives, there has been no instance of non recovery of export incentives in Nigeria since inception of the scheme in 1986.

E. **Difference in fair value adjustment in Statement of Changes in Comprehensive Income (SOCI)**

This is a re-classification within the line items in SOCI namely:

(Figs in S$'m)	Unaudited	Annual Report	Change
Net (Loss)/Gain on Fair Value Changes during the period	(36.1)	(88.3)	(52.2)
Recognised in the P&L account on occurrence of hedged transactions	(31.1)	19.9	51.0
Foreign currency translation adjustment	82.6	81.4	1.2
Net difference			Nil

All the differences between the unaudited accounts and AR that have been referred to in the CLSA's Report, are essentially re-classification changes between subsidiary accounts in different jurisdictions as compared to Group consolidation; and/or re-classification between line items within the Group accounts. However this does not lead to any inaccuracy in reported profits, net assets or point to any lack of internal controls as has been stated in the CLSA report. **None of these adjustments have any P&L impact.**

We would like to assure our investors that we have established accounting and audit processes to ensure accuracy of reported numbers and have an obligation to disclose material changes if any were to arise at a later date before or after the AR is published. We believe in transparent disclosure and strive to have high standards in this regard.

Negative EVA or Economic Profit (EP)

The CLSA Report says that Olam is generating negative EVAs or EP. This is also incorrect. EP generated by Olam in the last three years is as follows:

(Figs in S$'m)	FY2008	FY2009	FY2010
BOP Equity before FV adjustment reserve	583.6	964.3	1,225.8
Profit After Tax	167.7	252.0	359.7
ROE (BOP_E)	28.7%	26.1%	29.3%
EVA / EP	**109.3**	**155.6**	**237.2**
ROIC (Avg. Invested Capital)	13.2	14.7	14.0
WACC	6.9	8.4	7.2
Capital Spread	6.3	6.3	6.8

Given the Equity Spread and Total Capital Spread generated, the Company cannot be generating negative EVA.

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Appendix 1

	Brokerage		
1.	BoA Merrill Lynch	Sell	2.00
2.	CIMB	Neutral	3.30
3.	CLSA	Sell	1.60
4.	Credit Suisse	Outperform	4.20
5.	DAIWA	Buy	3.72
6.	DBSVickers	Buy	3.70
7.	Deutsche	Hold	3.60
8.	Goldman	Neutral	3.30
9.	HSBC	Overweight	3.63
10.	IIFL	Buy	4.43
11.	JP Morgan	Overweight	3.70
12.	Kim Eng	Buy	4.10
13.	Macquarie	Outperform	3.30
14.	Morgan Stanley	Overweight	3.78
15.	Nomura	Buy	3.90
16.	OCBC	Buy	3.53
17.	OSK-DMG	Neutral	3.70
18.	RBS	Buy	4.05
19.	Standard Chartered	Outperform	3.60
20.	UBS	Neutral	3.20
21.	UOBKH	Buy	3.90
	Mean consensus		**3.54**

Appendix 2

Nigerian Export Incentive: Cotton Example

As an example, if we take our cotton exports from Nigeria, the incentive regime applicable to cotton has changed 3 times. During the period 1990 to 1999, cotton enjoyed a 4% cash grant export incentive at which time the farmer received approximately 60% of the FOB value. When the export incentive regime for cotton changed to 40% based on non-cash negotiable duty credit certificate during the period 2000 to 2005 the farmer was paid between 90% and 95% of the FOB value and when the export incentives for cotton were reduced between 2006 and 2010 to 10%, the farmer approximately received 70% of the FOB value.

Appendix 3

Background & Brief History of Nigerian Export Incentives

Nigeria first introduced export incentives in 1986 vide its Export (Incentives and Miscellaneous Provisions) Act of 1986. The Export Expansion Grant (EEG) scheme including all its subsequent amendments was launched to promote non oil exports from Nigeria (to reduce its dependence on oil exports) and to promote value added (manufactured) exports. For the period 1986 to 1999, the export incentive was a cash grant of 4% for all non oil exports value irrespective of the commodity or extent of value addition. From 2000, the scheme was changed from a cash grant to a Negotiable Duty Credit Certificate (NDCC). This can be used to pay import duties for one's own imports or traded in the secondary market to other importers. During this period the non cash export grant varied from 10% to 40%. From 2001, the scheme was again 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. Based on products, extent of value add and company eligibility rating, Nigerian export incentives today vary between 5% and 30% based on the product, degree of value added and company rating combination. This regime is currently applicable although there are reports the Nigerian Government may further revise the incentive basis post the elections due in April 2011.

About Olam International Limited

Olam International is a leading global integrated supply chain manager and processor of agricultural products and food ingredients, sourcing 20 products with a direct presence in 65 countries and supplying them to over 11,100 customers. 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 wood products. 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 the DAXglobal Agribusiness Index. Olam is the only Singapore firm to be named in the 2009 and 2010 Forbes Asia Fabulous 50, an annual list of 50 big-cap and most profitable firms in the region. It is also 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. More information on Olam can be found at www.olamonline.com.

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