



Olam International Limited

Investment in Greenfield Oil Palm Plantations in Gabon

15th November 2010 | Singapore



Recap: In our 2009 corporate strategy, we articulated the intent of **scaling up** our **W. Africa Palm** presence

Our governing objective is to maximise long term intrinsic value for our continuing shareholders
Pursue 3 key drivers: 1) Open up Capital Spreads (ROE-KE, ROIC-WACC); 2) Increase the Rate of Return on Capital and 3) Sustain duration of growth

**On strategy,
on plan**

Vision

To be the leading global supply chain manager and processor of agri-commodities

- Serving growers and customers globally
- Pursuing select scalable & attractive niches in upstream (plantations/farming) and mid-stream (value added processing)
- Capitalising on our emerging markets expertise

Goals

• Pursuing select scalable & attractive niches in upstream (plantations/farming)

• Be widely recognised as a responsible and sustainable value creator

Strategic thrusts

Invest to achieve integrated value chain leadership

Coffee, Edible Nuts,
W. Africa Palm

Selectively expand into attractive value chain adjacencies

Cocoa, Sugar, Rice,
Dairy, Spices &
Dehydrates, Grains &
Rubber

Optimise and extract full value from core

Cotton, Sesame, Pulses,
Timber

Build on latent assets

Packaged Foods Business (PFB) in W. Africa,
Commodity Financial Services (CFS), Agri-Inputs (fertiliser)

Downsize/exit/prune unattractive activities

Select product origins and profit centres

W. Africa Palm

Enablers

Excellence in execution

- Institutionalise Program Management capabilities
- Acquire capabilities in upstream plantation/farm management & midstream VA processing
- Complexity management
- Scalable IT, Risk, Control & Compliance systems

M&A effectiveness

- Actively build M&A pipeline and develop prioritisation
- Deepen due diligence capabilities
- Institutionalise best-in-class integration practices

Capital efficacy

- Strengthen capital structure and build financial flexibility
- Continuously improve overhead and capital productivity

People & Values

- Continue to grow global talent pool
- Deepen entrepreneurial culture
- Continue to embed stretch and ambition
- Create ownership culture
- Build empowered teams

Our participation to date has validated our strategy to **expand our presence in palm plantations**

- In-line with **2009 corporate strategy**, Olam is stepping up its participation in West Africa palm
- Olam entered into the SIFCA JV in 2007; improved performance has **increased our confidence to invest in large scale palm plantations in West Africa**
 - **Yields can be improved** through best plantation management practices – improvement **of >30%**
 - **Labour can be trained to improve productivity**
 - It is possible to achieve **efficiencies in estate and milling costs**
- Olam is confident of assembling a **capable team to develop Palm greenfield in Gabon**

We are now further **expanding** our **upstream Palm presence**: Highlights of **Gabon investment**

Investment overview

- **70/30 Joint venture between Olam and Republic of Gabon** to commit **300K Ha land bank** for **RSPO compliant** palm plantation; **50K Ha** to be developed in Phase 1
- **Planting** to start in **early 2012** with targeted **completion by 2016**
- Expected FFB yields of up to **26MT/Ha**
- **Duty free CPO exports to EU**; regional West Africa trade

Government commitment to support Palm

- Securing **land bank of 300K Ha** provides profitable scaling opportunities
- **Income Tax holiday for 16 years** from FY11
- **Exemption from VAT/duties** on machinery and inputs; further VAT exemption on gas, oil and fertilisers

Investment and returns

- **Total investment of ~US\$236M** to be largely spent over first seven years; **Olam's equity share is 70% or ~US\$83M**
- To be financed on **1-1.5:1 Debt/Equity ratio**
- **EBITDA of US\$100-120M ; EBITDA margin ~50-60%** at peak productivity
- **Equity IRR: 24 - 29%; Avg. ROE: 35-40%**

Strong fundamentals for Palm plantations; Our investment is based on a set of **guiding principles**

A

Palm is the fastest growing vegetable oil with multiple end uses

B

Part of Olam's upstream expansion strategy

C

Access to sizeable land bank and achieving competitive cost position

Upstream Palm an attractive opportunity but Olam's participation subject to satisfying evaluation criteria



Opportunity assessment guiding principles

1

Strong ability to win on industry success factors

2

Clear potential for sizeable excess returns

3

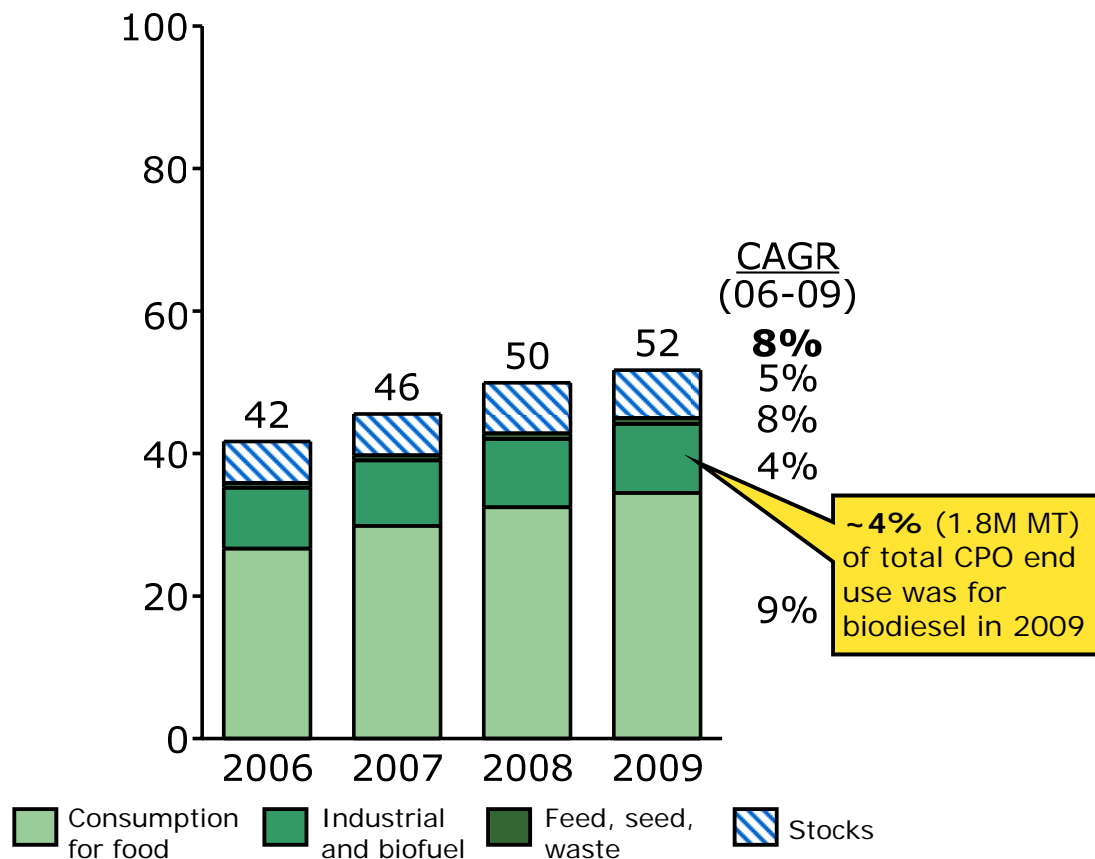
Risks are sufficiently mitigated

A Demand: Plenty of headroom for demand growth driven by increasing need for food and biofuels

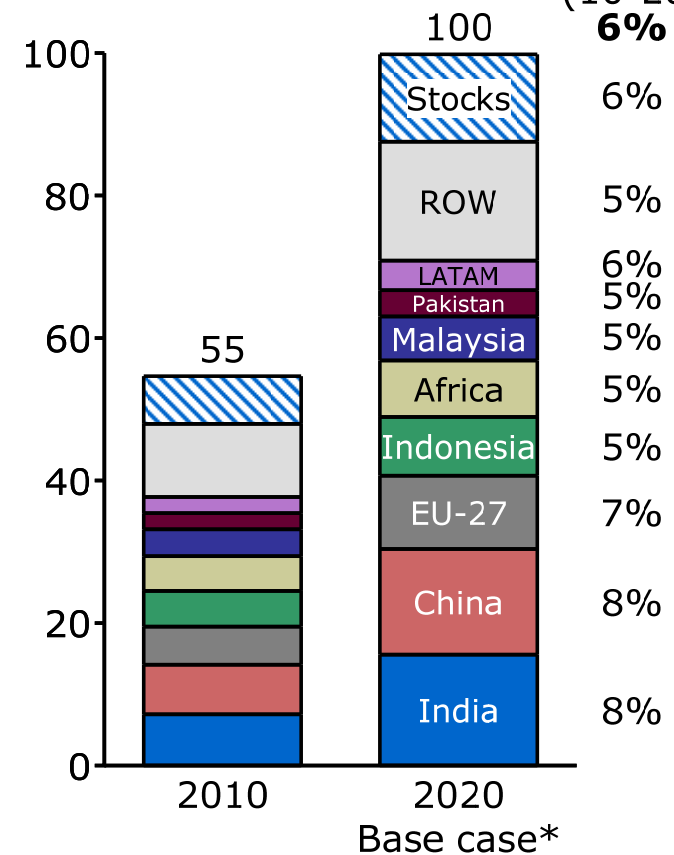
High growth to continue as Palm is still viewed favourably...

...as an edible oil in developing and industrial/biofuel in developed mkts

CPO by end use (M MT)

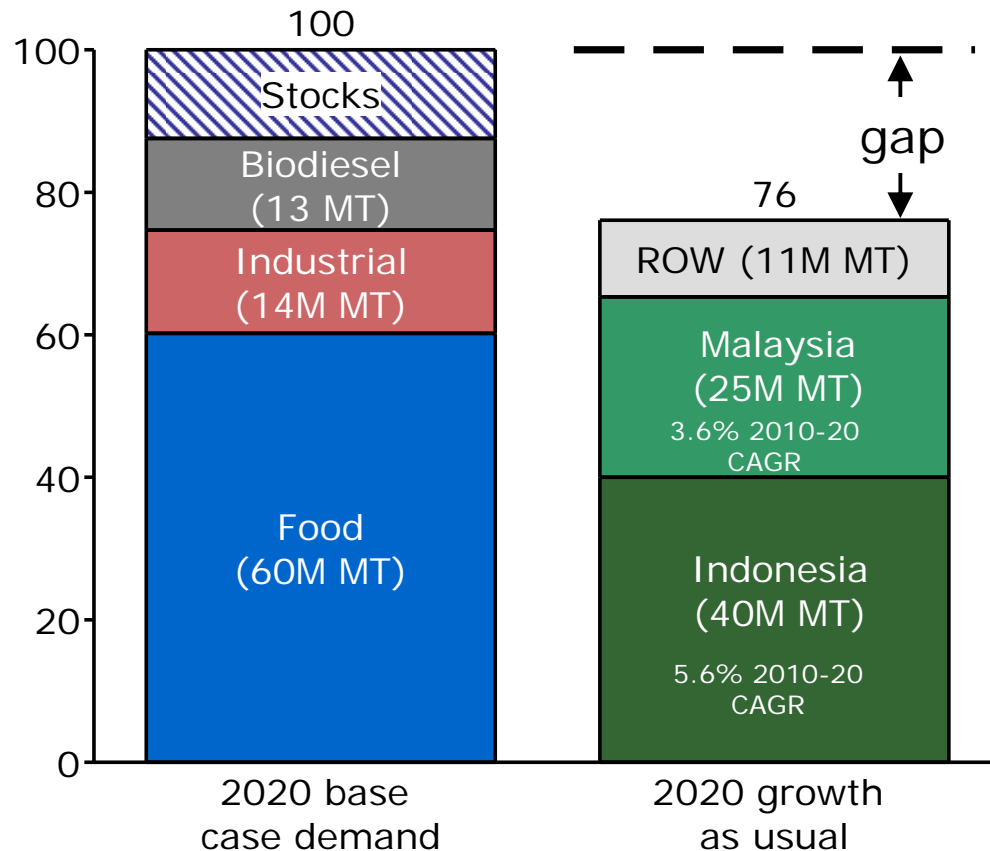


CPO demand by region (M MT) **CAGR (10-20)**



A Supply: SE Asia has room to grow as lead supplier, but the **industry** will need new growing areas

CPO supply and demand (M MT)



Factors that can bridge the gap

① Established origins:

- Malaysia: Improved yields due to replanting
- Indonesia: New planting in Kalimantan, improved yields due to replanting

② Development of **new origins**

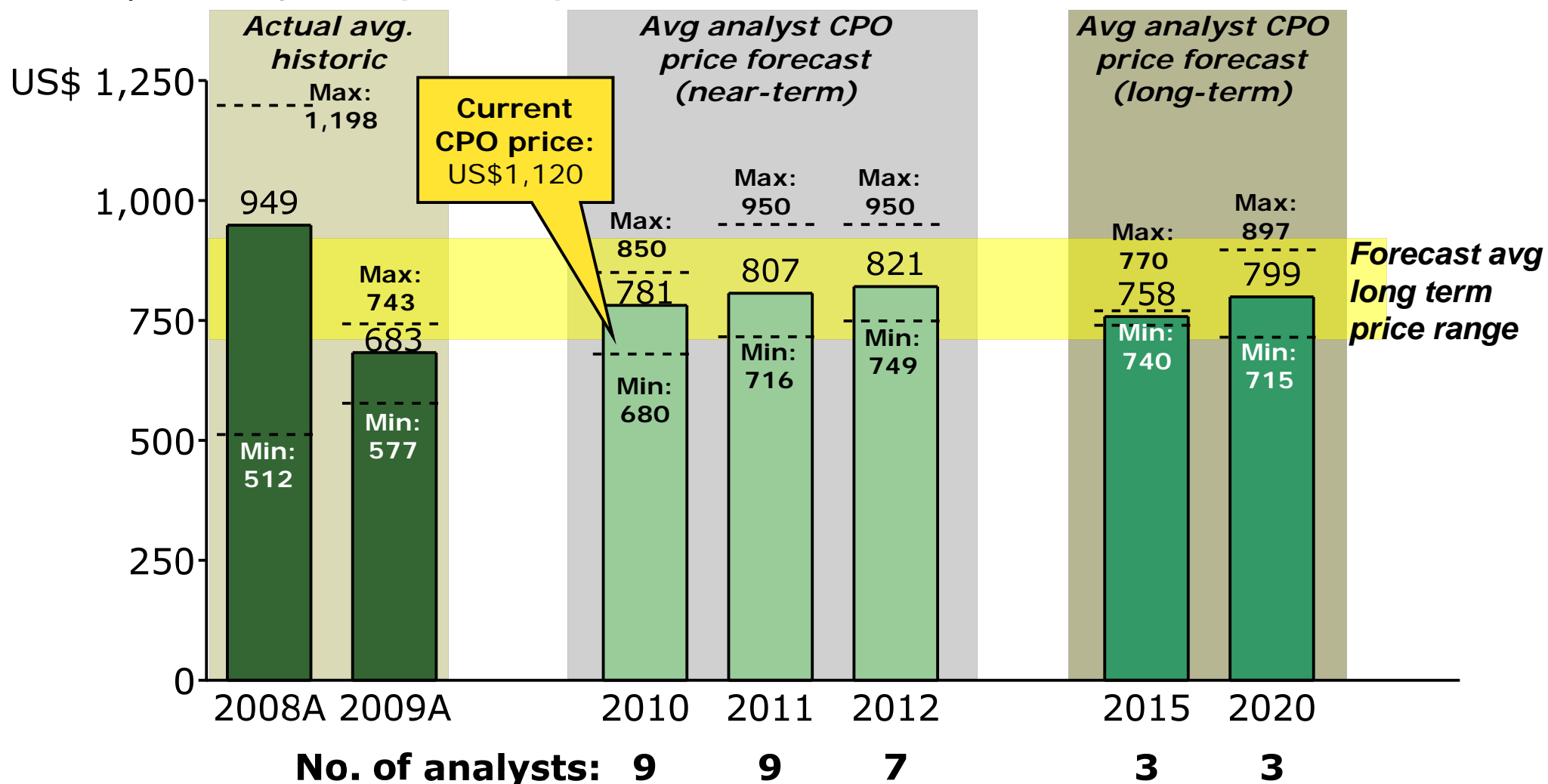
- Africa: Gabon, Nigeria, Cameroon, Liberia, DRC, etc.
- LATAM: Brazil, Columbia, Venezuela
- SE Asia: Thailand, PNG, other Indochina

Olam now has access to **scalable prime land** with **suitable agro-climatic conditions**

~US\$20B in investment required to fill the gap

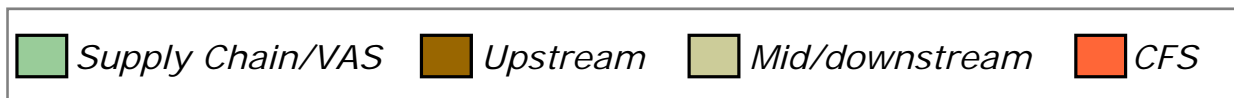
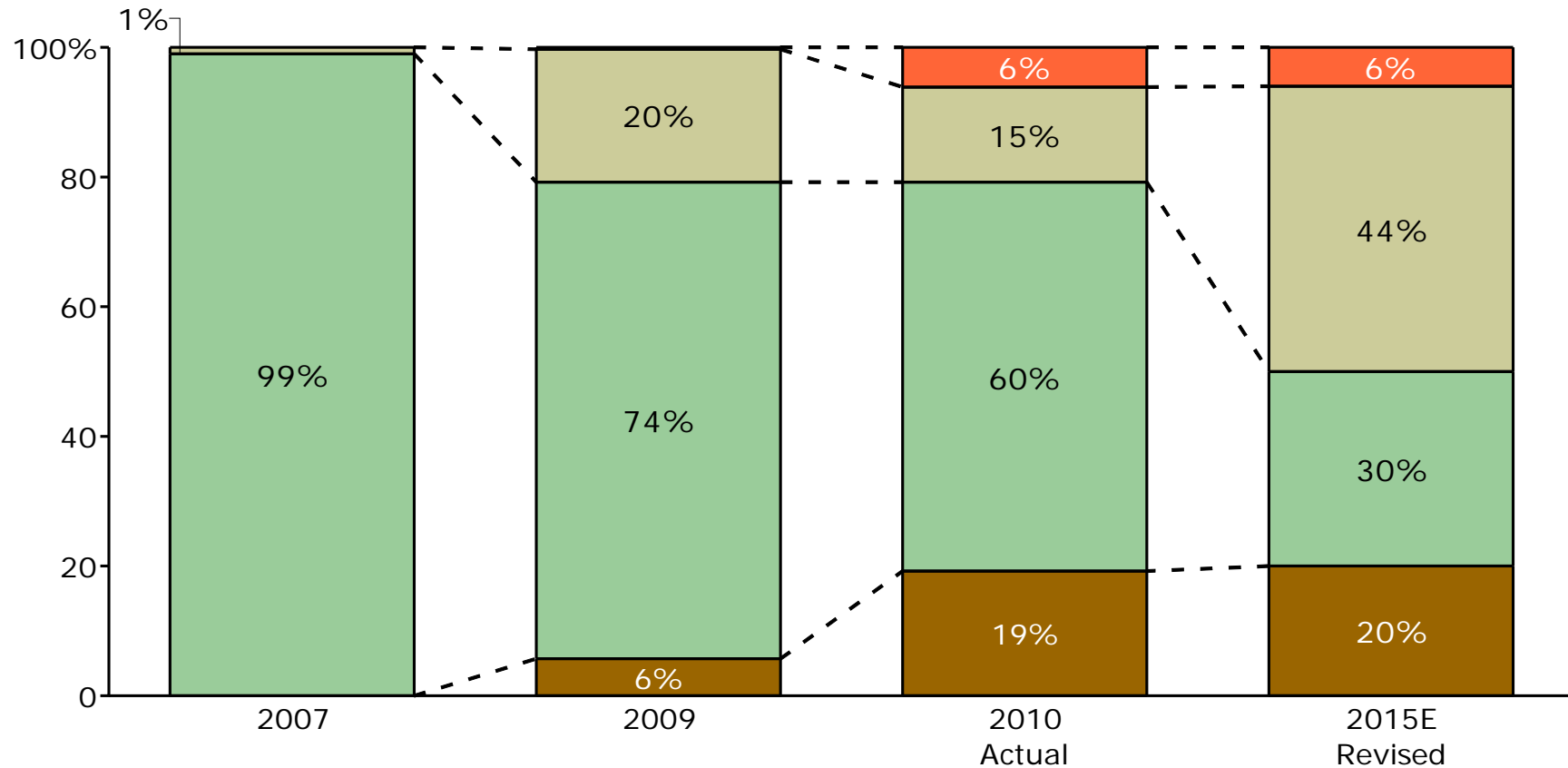
B Price: CPO prices forecast to remain strong within the long-term avg. price range of US\$700–900/MT

Crude palm oil prices (US\$/ton)



B Significant inroads made in entering more profitable parts of the value chain

Olam PBT breakdown by value chain



B Upstream portfolio mostly contributing assets; palm one of the two gestating crops

Currently contributing



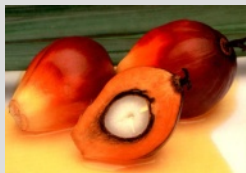
Almonds in Australia & the US



Cotton in IVC and Mozambique



Peanuts & soybeans in Argentina



Palm in IVC (SIFCA)



Rubber in IVC, Ghana & Nigeria (SIFCA)



Dairy in Uruguay



Rice in Nigeria & Mozambique



Timber in Gabon and Mozambique

Gestating



Coffee in Laos



Palm in Gabon

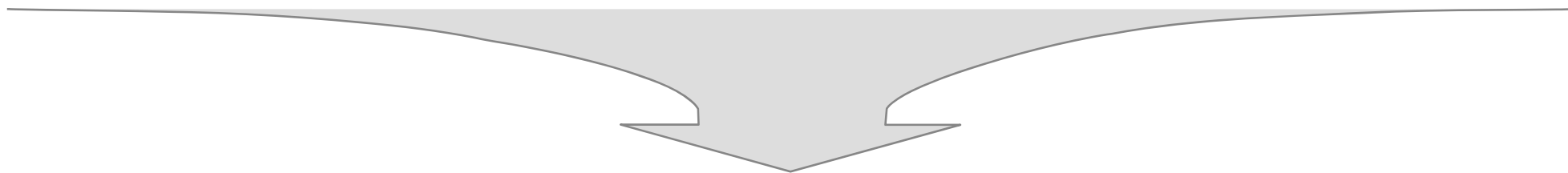


Balanced between immediate cash flow and long term contributors

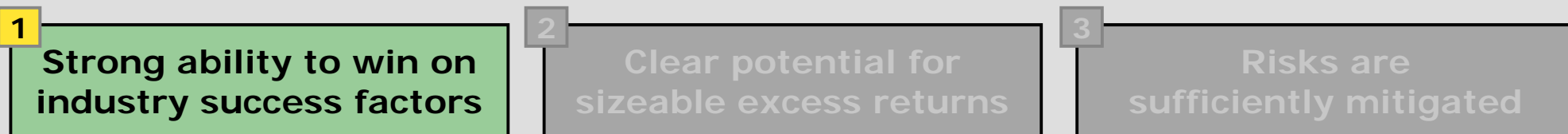
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Upstream Palm an attractive opportunity but Olam's participation subject to satisfying evaluation criteria



Opportunity assessment guiding principles



Investment opportunity satisfies **key success factors**

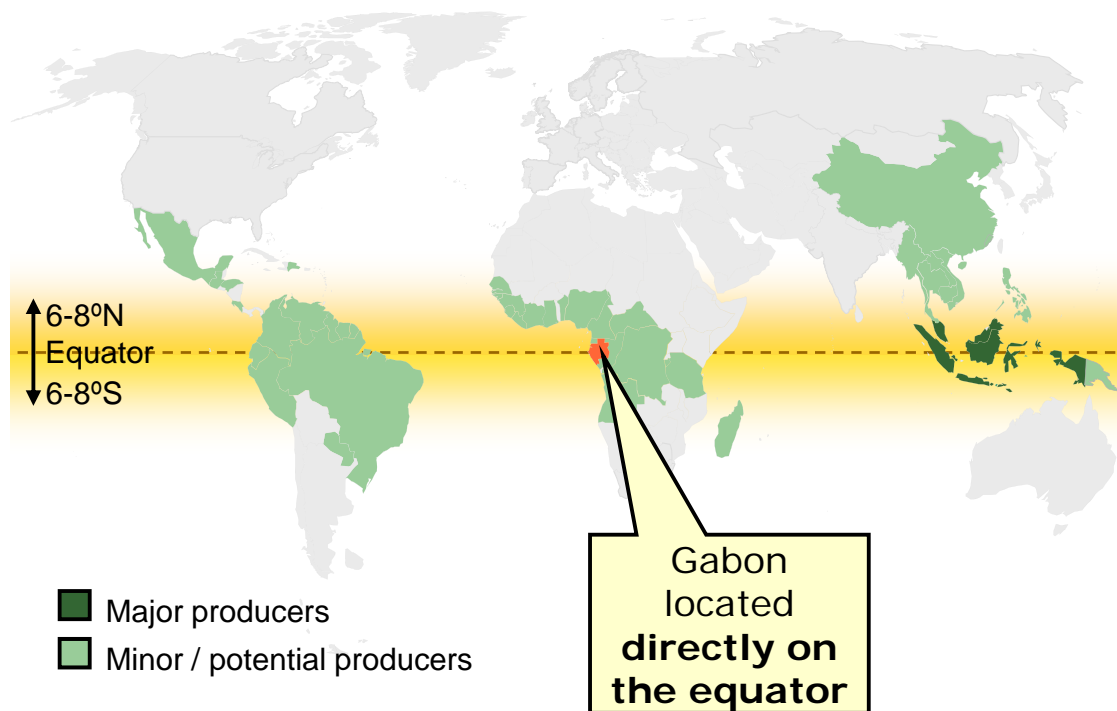
Key success factors	Criteria	Comments
	1 Land availability and favourable agro-climatic conditions	<ul style="list-style-type: none"> • Access to 300K Ha of sizable, contiguous land in favourable agro climatic conditions for growing Palm • Expected yields of up to 26 MT/Ha FFB
	2 Licensing and local community support	<ul style="list-style-type: none"> • No licensing or community issues envisaged; small holder program planned after phase I
	3 Labour availability at comparable rates	<ul style="list-style-type: none"> • Availability of labour due to long existing tradition in upstream industries • Labour costs likely to face fewer inflationary pressures than SE Asia
	4 Cost competitiveness and market access	<ul style="list-style-type: none"> • Project and operating costs are comparable to SE Asia • Proximity to growing EU and African markets
	5 Environmental sustainability	<ul style="list-style-type: none"> • RSPO certification would provide superior market access
	6 Plantation management expertise	<ul style="list-style-type: none"> • Assembling experienced team; support from experts • Existing internal expertise in upstream

1
2

Olam's 300K Ha bank of **suitable land** in Gabon offers an increasingly **rare opportunity**

Limited areas where Palm can be grown

Large greenfield land tracts increasingly difficult to find



Forest moratorium to stymie palm

*"Indonesia's plans to halt forest clearing will slow the aggressive expansion of plantations.. leading to **higher cost**"*

Reuters (Aug 2010)

Demand for palm oil fuels land-grabbing

*"Since 2006, **632 communities [in Indonesia]** have clashed with palm oil operators - lack of **community consultation**, required as part of a project's EIA"*

Reuters (6 Jul 2010)

Palm oil in [some West African countries]:

*"Govt is very supportive...but investors **have not been able to overcome local issues**"*

Palm expert (Sep 2010)

Source: Industry reports

3

SE Asia facing labour shortages and wage inflation; Gabon **relatively** less affected

Malaysia palm oil reliant on imported labour, but foreign workers now getting better pay at home

Wage rates in West Africa are comparable and relatively stable; sufficient labour available

Labour woes hit palm oil

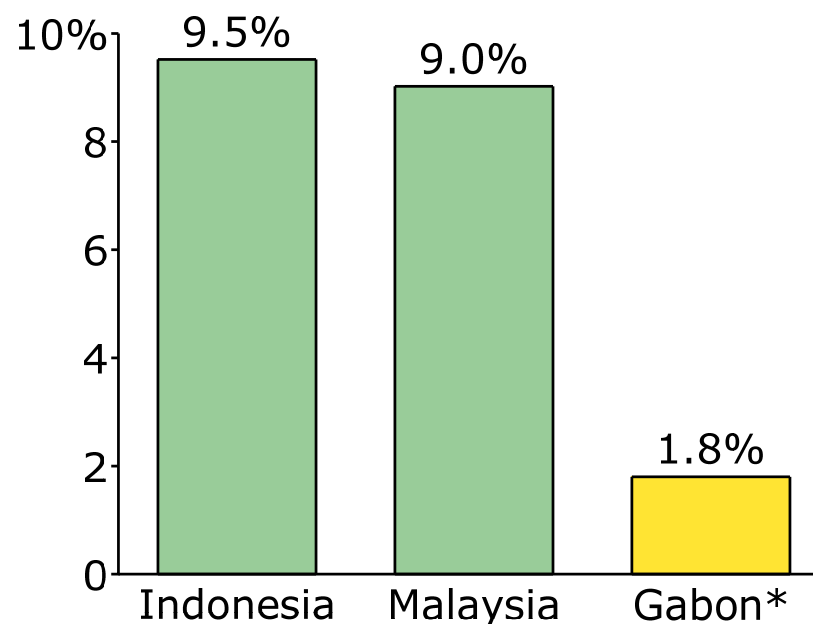
*"Malaysia, the world's No. 2 palm oil producer, will miss its output target of 18.1 million tonnes because of a **shortage of foreign labour** even as yields recover..."*

The Star Online (4 Mar 2010)

Labour shortage to hit Malaysia's palm output *"MPOB Chairman Sabri Ahmad said Indonesian plantation workers **make better pay at home** ...while employers in Malaysia have trouble hiring..."*

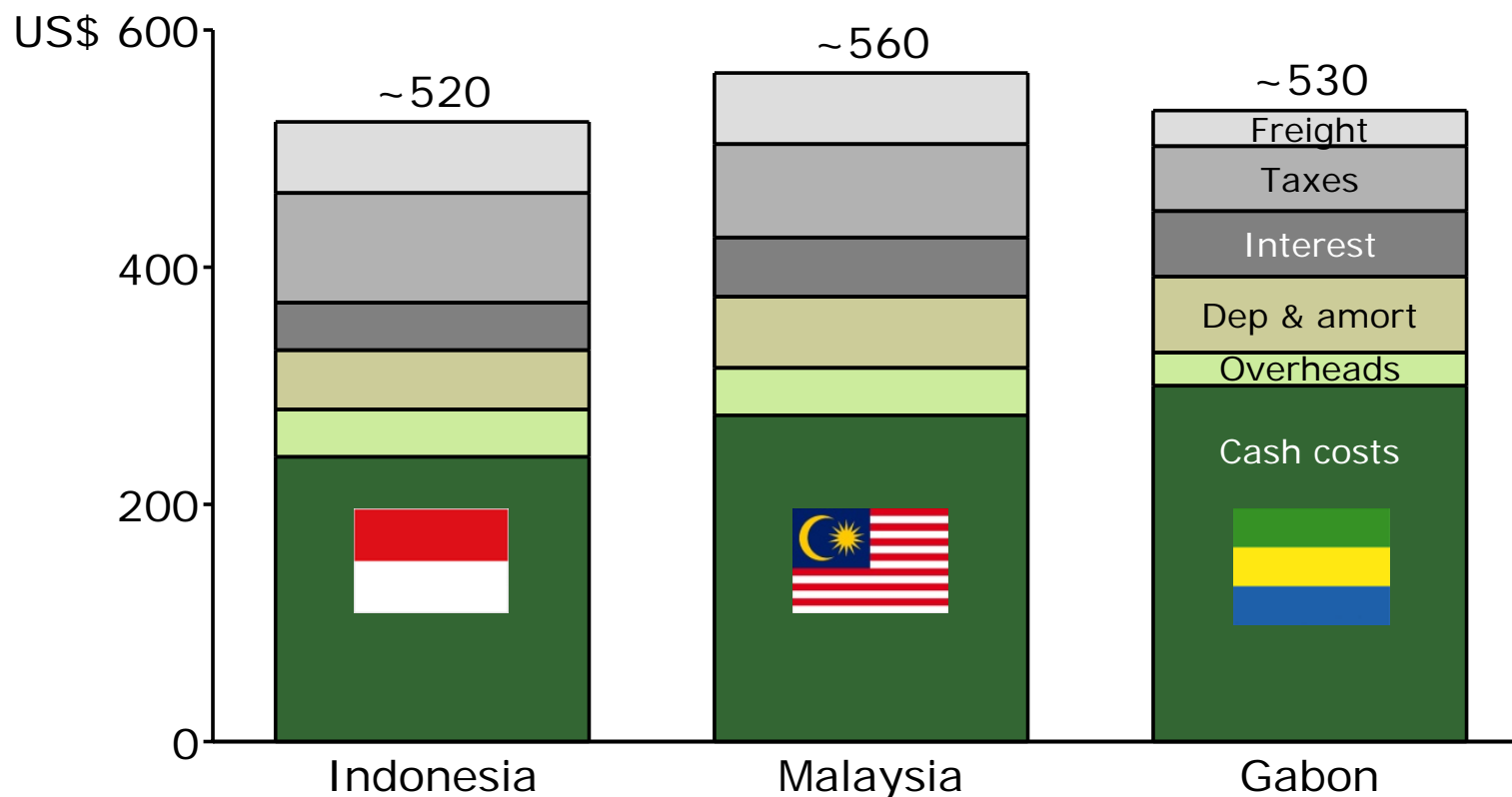
Reuters (3 Mar 2010)

Wage inflation rate, avg. 2000-2010



Total costs will be competitive with established origins

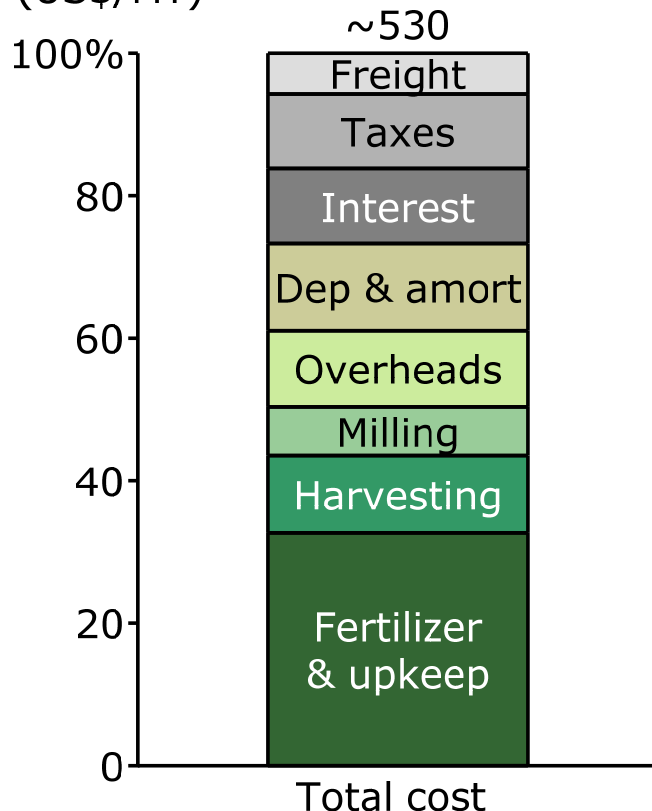
Total costs including tax and freight
(US\$ / MT)



Note: Indonesia imposes an export tax of 1.5% if CPO prices reach US\$700/MT, 3% if US\$751-800 and scaling up to a maximum of 25% at US\$1,250
Source: Industry reports

Fertilizer & upkeep and labour costs are the biggest cost drivers

Gabon cash cost of production (US\$/MT)

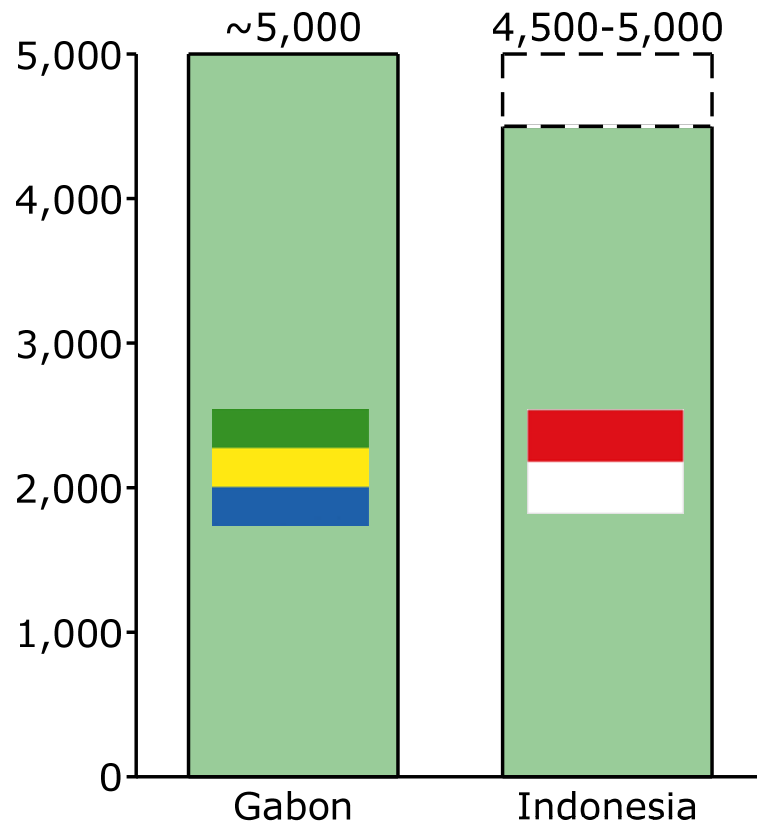


• Gabon's cost comparability driven by:

- Productivity:** Yields up to 26MT FFB per hectare
- Wage:** Current differential with Indonesia to be offset by inflation
- Fertilizer:** Access through own sources at competitive prices
- Overheads:** G&A cost synergies with other businesses
- Concessions:** VAT and import duty waivers
- Depreciation & amortization:** Land at no cost
- Taxes:** Tax holiday for 16 years
- Freight:** US\$30 to Europe

Development costs comparable to Indonesian standards

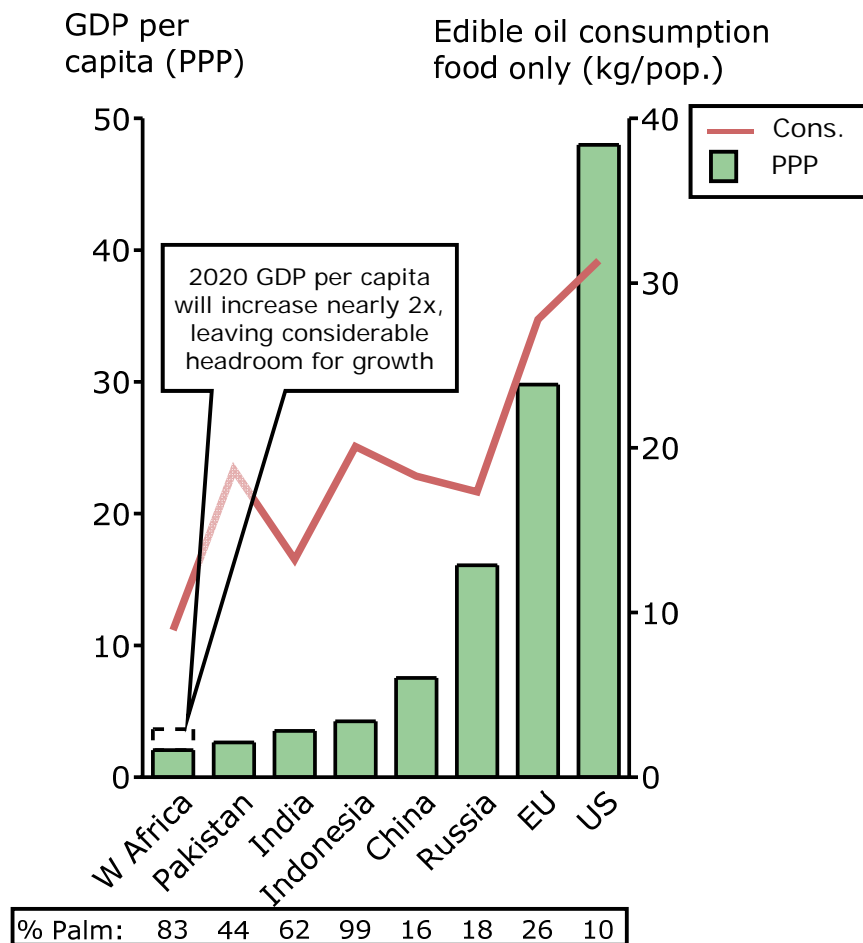
CAPEX (US\$ per hectare)



- **Land acquisition costs:** Free land vs. ~US\$250-500 per hectare in Indonesia
- **Land clearing costs:** Degraded, flat land – lower development costs
- **Other concessions:** Customs duties, VAT waiver

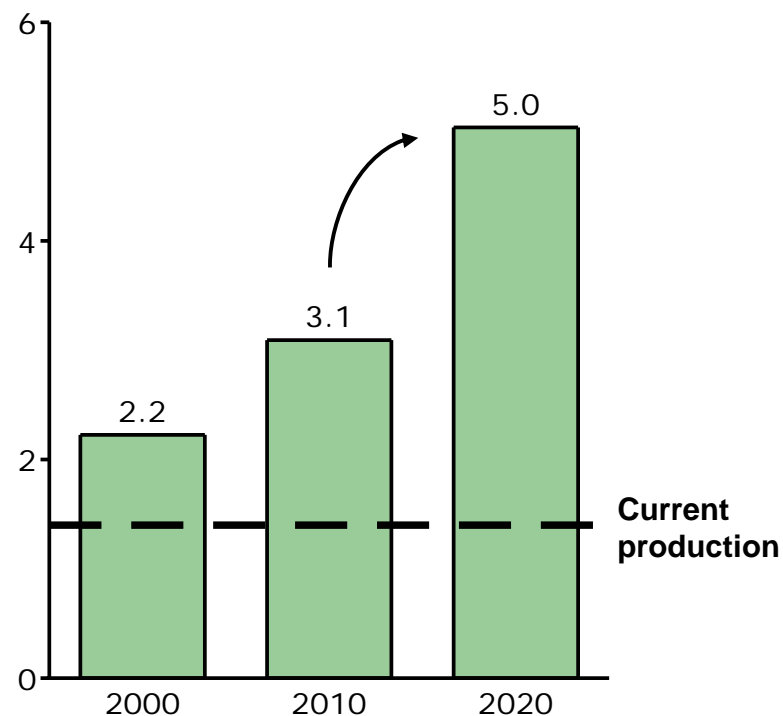
Rising GDP will drive **West African demand growth**, making it a sizable opportunity

Edible oil consumption for food trends along with GDP growth

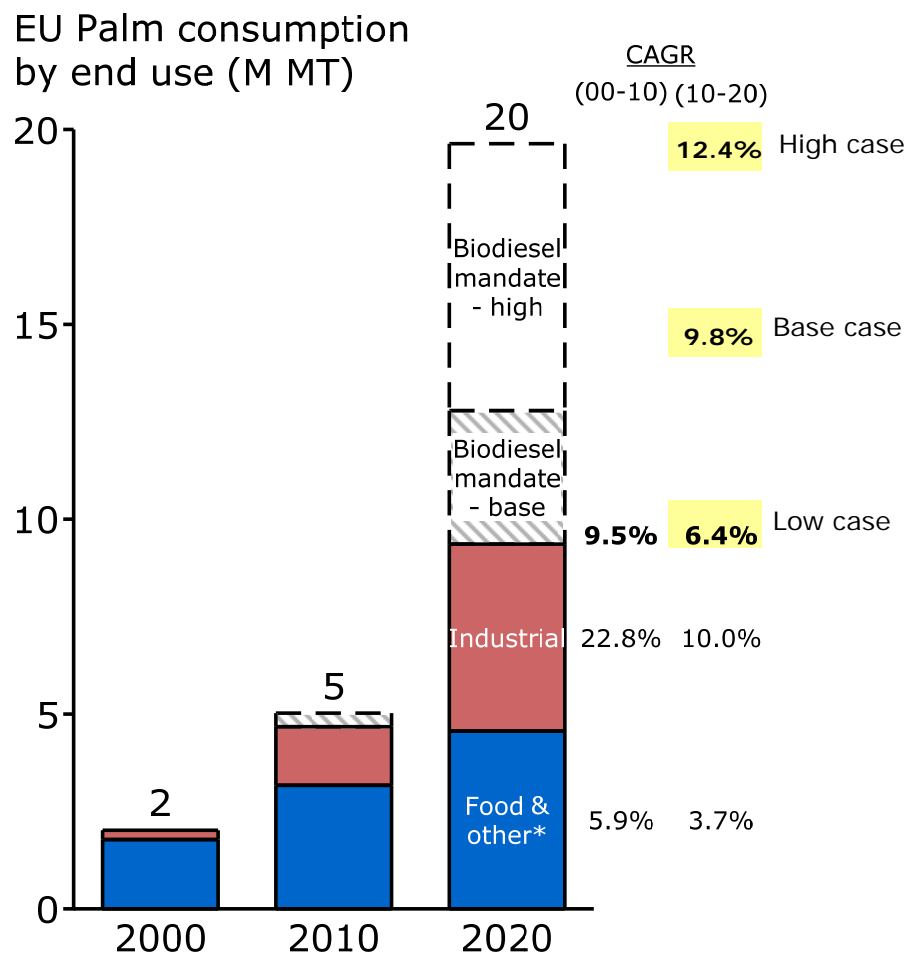


~2M MT in additional demand for palm oil by 2020

West African palm oil consumption (M MT)



EU market will easily absorb Olam's supply; biofuel mandates would provide even further upside



Note: *Feed, waste and other
Source: Industry reports

- **85% of EU palm imports** are from Malaysia/Indo, but increased demand from India and China will put pressure on supply
- Palm is **likely to be covered by EU mandate** given MPOB report showing emissions savings **far greater than the required 35%**

"[The EU trade official] found our study compelling and told us that the mandate should cover palm by the middle of 2011."

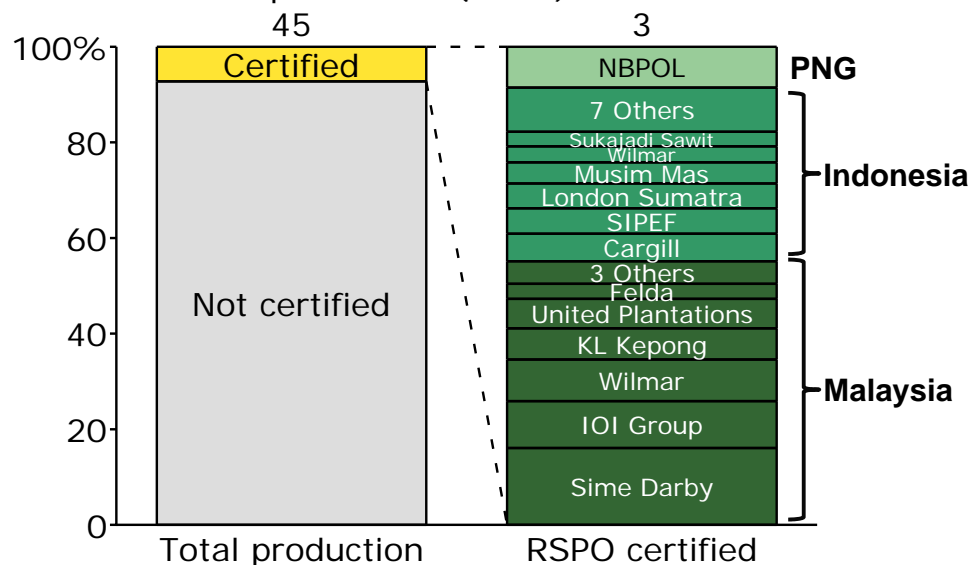
Senior Fellow, MPOB

- **Even without the mandate, EU is still a large and growing market**
- 75% of imports are CPO; **zero custom duty for imports from Gabon vs. 4%**
- **RSPO certification** increasingly important; Gabon plantation will meet requirements

RSPO certification would provide superior market access

Only 7% of palm oil RSPO certified, making it a competitive advantage

Worldwide CPO production (M MT)



“Structural increase in demand for sustainable palm oil”

Major food players switching to RSPO only palm:



Gabon plantation is well positioned to be fully RSPO compliant

- Land not to be cleared until **environmental impact & high conversion value assessments** are complete
 - Initial assessment looks positive, as plantation is entirely located on **degraded land**
- In addition, Olam's mill will be compliant given the **methane capture** and **effluent treatment** to be installed

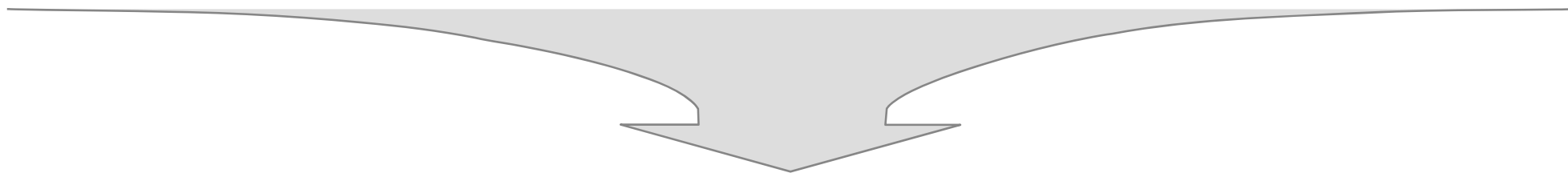


Gabon likely to be 100% RSPO certified

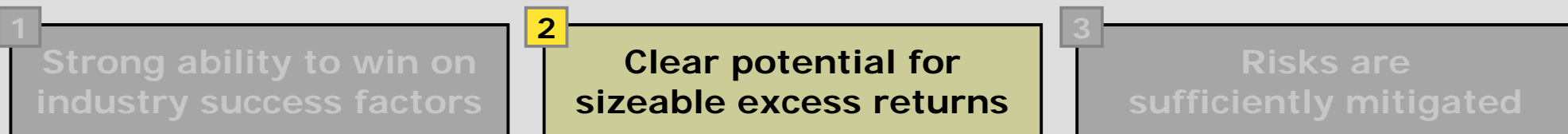
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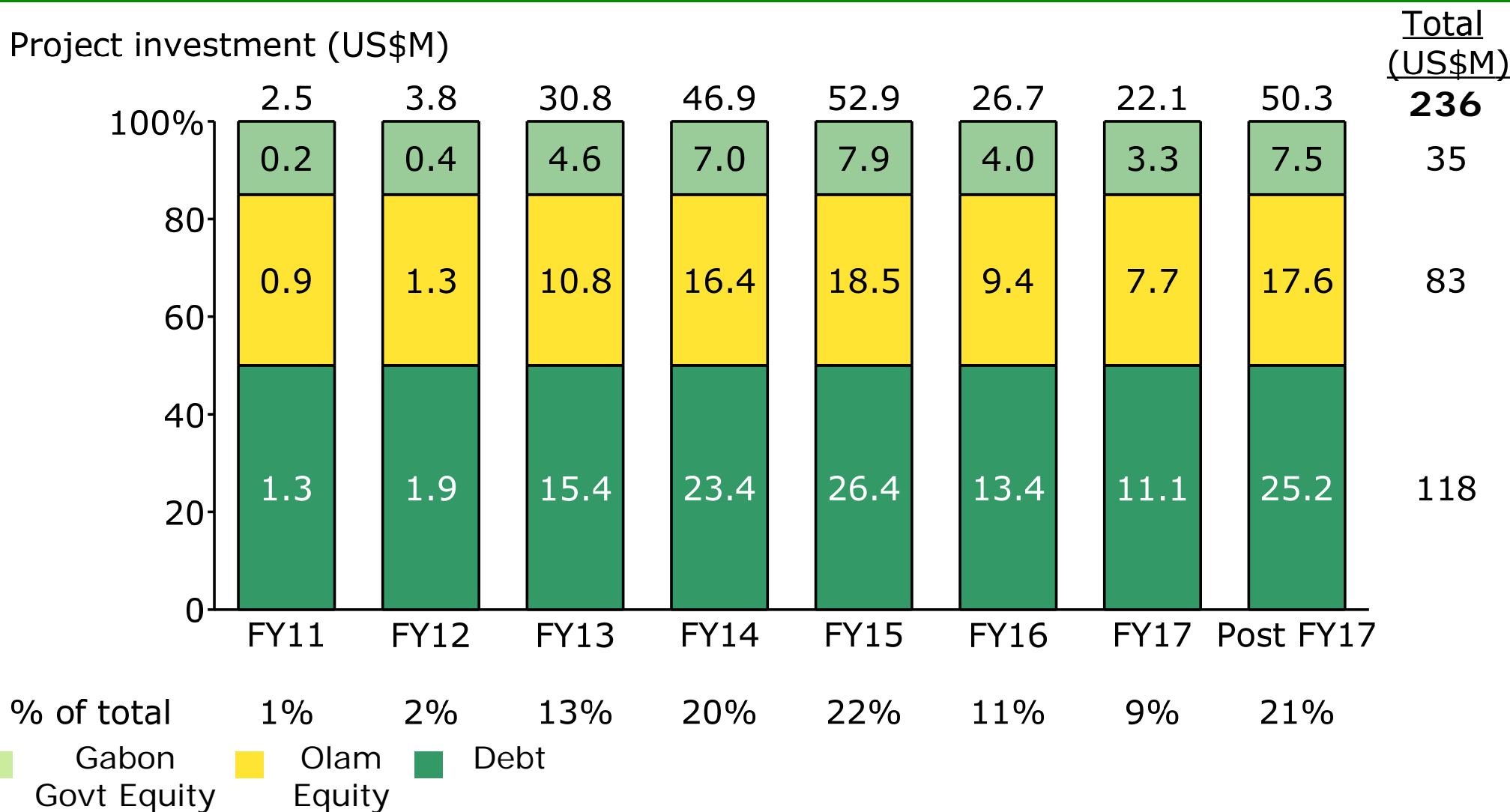
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Opportunity assessment guiding principles



Total development costs of ~US\$236M; Olam equity investment of ~US\$83M



Note: Assumes a debt-equity ratio of 1:1; If the ratio is 1.5:1, then Olam's equity contribution would be US\$66M

Project expected to be **highly profitable**, providing **superior and sizeable excess returns**

	CPO prices (US\$/MT) *			
	650 (600)	715 (665)	800 (750)	900 (850)
Revenues (US\$M)	168	186	210	238
EBITDA (US\$M)	78	97	120	148
EBITDA Margin (%)	46%	52%	57%	62%
Equity IRR (%)	19%	24%	29%	36%
ROE (%)	36%	48%	64%	82%

* X/(Y); where X is CPO price assumption until 2020 and (Y) is after 2020

Note: Metrics are at peak productivity – years FY24 to 28

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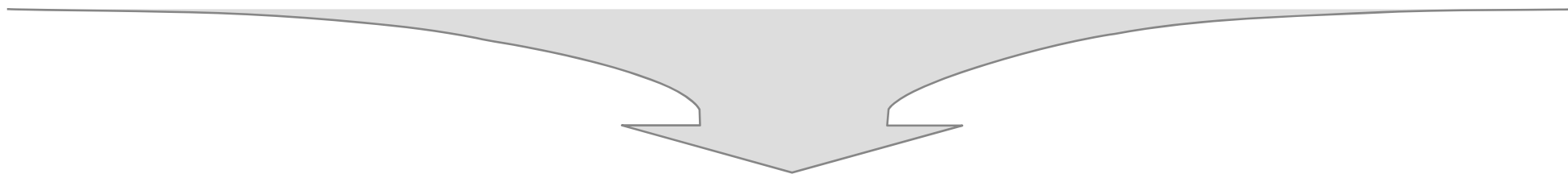
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Risks are sufficiently mitigated

Key risks can be mitigated

Risks	Comments/ mitigation step
1 Risk to yields	<ul style="list-style-type: none">Expected yield of up to 26 FFB MT per hectare in line with experts' assessmentPotential for further upside from water conservation projects and plantation management best practices
2 Cost over-runs and delays	<ul style="list-style-type: none">Assumptions built bottom up5% increase in total project costs impacts IRR by -1.5%5% increase in cash cost of production impacts IRR by -1%
3 Regulatory risk: Exclusion of Palm from EU bio-diesel mandates	<ul style="list-style-type: none">Palm cheapest source of edible oilSufficient demand as a food and oleochemicals source if substitutes get diverted to bio-dieselWest Africa a growing market for edible oils
4 Labour availability and quality	<ul style="list-style-type: none">Availability of skilled local labour due to presence of upstream industries eg. forestryLocal labour to be trained and added in a phased manner; if need be, labour from neighbouring countries can be recruited

Thank you



Thank you

