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Muddy Waters, LLC
November 30, 2012

Muddy Waters is Unimpressed with Olam's Response;
We Will Pay for Olam's Debt to be Rated

Olam's response to our November 27th report is remarkable in that, despite being 45 pages long, it fastidiously avoids addressing the vast majority of our points. The response is essentially a waste of toner, as much of it consists of canned presentation slides and consultant drivel. Where Olam's response attempts to be substantive, it contains numerous instances of irrelevant information, factual inaccuracies, misleading statements, and mischaracterizations of our report. However, the response does demonstrate Olam's continuing deluded denial of its fiscal problems. It seems the Titanic is still heading full steam toward the iceberg.

- We hereby make a bona fide offer to pay for Olam to have one of its public debt issues rated by S&P. It is Olam that suggested investors analyze the Company per a 12-year old research piece on agricultural commodity inventories by Standard & Poor's. We believe that Olam should not stop there though. The Company has never before had a debt rating, and having Olam's debt rated by S&P would be an important step toward improving the Company's transparency. Because we will pay the expense, Olam has no good reason not to have a rating.

- Olam's response to our criticism of the Crown Flour Mill acquisition resoundingly affirms our thesis that Olam's acquisitions are destroying value at an alarming rate. Olam states that CFM is one of its best performing acquisitions. If CFM is the high water mark, investors should brace for impact. Olam also cites the growth in CFM's SGD revenue from FY2009 to FY2011 as evidence of a successful turnaround. The problem is that the increased revenue came almost exclusively from inflation in wheat prices and increases in the value of the SGD relative to the NGN. CFM's FY2011 PAT margin declined from 2.5% to only 0.9%.

- Olam is using Ernst &Young to deflect questions about its accounting; however, E&Y is irrelevant to the issues. Many corporate collapses and frauds had top tier auditors, including Sino-Forest, which was also audited by E&Y.

- In its 45-page response, Olam responded to only one of the 79 unexplained accounting revisions (totaling over S$2.7 billion in absolute value) we identified in Olam's historical Statements of Cash Flows. We do not quite know what to make of its response though. Olam is essentially admitting that its initial Statement of Cash Flows failed to include a significant amount of transaction

costs, and that its auditor likely spotted the problem. This answer only serves to reinforce our thesis that Olam's accounting functions are at best incompetent.

- Shareholders might have reason to worry that senior management could be facing margin calls (that could cause it to liquidate Olam shares) because it possibly pledged significant numbers of shares. Mr. Verghese refused to answer a question about share pledges on a recent conference call, so management's motivation for its fierce salvo against Muddy Waters is possibly not transparent. On the other hand, Muddy Waters has always been transparent about our economic incentives. We do, however, draw the line at being called "manipulators" and being accused of acting in concert with a group of hedge funds to drive down the price of Olam's shares. Mr. Verghese's statements accusing us of this behavior are defamatory, and we demand a full retraction and apology. We reserve the right to pursue legal action against him and Olam for these baseless statements.

Muddy Waters will Pay for Olam's Debt to be Rated

Given that Olam has thus far refused to have it or its debt rated, Muddy Waters finds quixotic its citation of Standard & Poor's debt research in support of its purported liquidity. Muddy Waters does not believe that Olam should have it both ways. Olam's public debt should be rated. Muddy Waters hereby offers to pay for one series of straight debt to be rated by S&P.

Olam's investors will benefit from the substantially increased transparency this rating will provide. In our view, it is Olam's duty to have its unsecured debt rated because it has reacted our criticisms by increasing its CapEx spending forecast, and thereby increased its risk profile.

Olam now has no good reason to avoid having its debt rated. Should it continue to refuse a rating, investors should wonder whether the Company is worried that a rating would mortally wound it by making clear that the market has been underpricing its risk.

Olam may accept our offer at any time before December 5, 2012 at 17:00 Singapore time by emailing: info@muddywatersresearch.com, or by issuing a press release stating that it accepts our offer.

Crown Flour Mill – the High Water Mark (Man the Lifeboats!)

Olam has validated our off-the-rails acquisition and CapEx thesis in its response regarding the Crown Flour Mill acquisition.

- Olam stated that Crown Flour Mills is "one of the best performing acquisitions of Olam to date…" in response to our showing that CFM has been burning operating and free cash, and generated only a FY2011 PAT margin of only 0.9%.[1] Olam could scarcely have made a stronger case for its acquisition strategy being value destructive.

- Management has also emphasized that our analysis does not take into account the value of the synergies between Olam's wheat sourcing operation and CFM. Such synergies are likely short-lived. The flour milling industry in Nigeria is undergoing a major change – one that will diminish any competitive advantages that Olam's global procurement and logistics systems might be able to provide.

  The Government of Nigeria (GON) is implementing an aggressive import substitution policy by forcing millers to use locally grown Casava. Other wheat flour substitutes are also being explored. This will commence in 2012 with a 10% cassava flour inclusion rate, and is expected to increase steadily to 40% by 2015. The government also plans to introduce fiscal incentives to stimulate increased domestic production and processing of cassava.[2] Effective July 20, 2012 the import duty on wheat increased from 5% to 20%.[3] The result is that production capacity at the mills is dropping, and according to a local Nigerian wheat expert, business projections of increasing growth and capacity expansions of the flour milling industry are "slowly being killed by [Government of Nigeria]."

- Olam lauds itself on the "successful implementation of a turnaround plan" for CFM because its revenue grew 37.3% between FY2009 and FY2011.[4] This is greatly misleading. CFM's revenue increase was driven almost exclusively by rising wheat and flour prices, and the appreciation of the SGD. The sale price of flour in Nigeria increased approximately 30% between 2009 and 2011 (from NGN 4,000 to NGN 5,200 per 50 kg bag).[5] These increases were driven by increases in the cost of inputs (i.e., wheat), and were not driven by demand. From December 2009 to June 2011, prices for US Hard Red Winter Wheat increased 58.2% from US$206.25 / MT to US$326.43. In addition, the SGD appreciated against the NGN 17.7% during this time.[6] CFM's net margin declined from 2.5% during the first six months Olam owned it (ending June 30, 2010) to 0.9% for

[1] Olam Response, p. 27.
[2] http://gain.fas.usda.gov/Recent%20GAIN%20Publications/Grain%20and%20Feed%20Annual_Lagos_Nigeria_4-17-2012.pdf
[3] http://gain.fas.usda.gov/Recent%20GAIN%20Publications/Nigeria%20Introduces%20Levy%20on%20Wheat%20Grain%20_Lagos_Nigeria_8-31-2012.pdf
[4] Olam Response p. 26.
[5] Flour prices are set by an oligopoly, and even under this pricing regime, CFM struggles to earn a profit.
[6] From NGN 106.4 to NGN 125.2.

FY2011. Given Olam's numerous acquisitions of poorly performing assets, investors should be gravely concerned about the returns on their capital.

- Olam calls "totally irrelevant" our showing that Olam massively overpaid for CFM's PP&E. Olam says the acquired assets "get the job done".[7] This completely incorrect (and almost improper) rationale would hold that an operable 1992 Mercedes should be worth just as much as – if not more than – a 2012 Honda. The values of acquired PP&E are indicative of many critical factors, including their capacity, useful lives, and expected maintenance costs. That Olam made this statement is another too-strange-for-fiction moment involving this Company.

Our analysis of the CFM acquisition is based on extensive field research in Lagos, Nigeria, and through obtaining and analyzing CFM's Nigerian Corporate Affairs Commission audited financial statements. Mr. Verghese has acknowledged that we sent investigators to various Olam business and project sites throughout Africa. This is an acknowledgment of the quality and depth of our research into Olam.

The E&Y Crutch

"[The accounts] had been reviewed and scrubbed quarterly since they were put in place by Arthur Andersen. We thought all that had become history, and it was now news."
- Former Enron Corp. Chairman Kenneth Lay during his 2006 criminal trial

Olam is using Ernst & Young as a crutch, rather than attempting to provide substantive answers to issues we and other analysts have raised. Auditors repeatedly fail to ensure that financial statements are free of misleading figures or fraud. Auditors certainly do not critique the wisdom of their clients' CapEx and capital structures.

The landscape – even in very recent years – is littered with corporate collapses and frauds that were audited by "Big Four" accounting firms. Of recent note, both KPMG and Deloitte are defendants in lawsuits alleging negligence in their work regarding Autonomy Corp., which is a company Hewlett-Packard Co. acquired last year. Closer to home for Olam investors, Ernst & Young also audited Sino-Forest.

This elite group of accounting firms used to be the "Big Five". The group lost a member after Enron Corp. collapsed. Enron was audited by Arthur Andersen LLP, which issued unqualified audit opinions on Enron's financials that are similar to the ones E&Y issues on Olam's statements.

More to the point, we are unsure that E&Y member firms in some of the least developed countries in the world practice at standards comparable to those of E&Y Singapore. E&Y Lagos audits Olam's Nigerian subsidiaries. The FY2011 E&Y audit report for the Crown Flour Mill smacks of E&Y Lagos's inattention to detail. It has internal inconsistencies that an auditor paying close attention should notice, such as references to

[7] Olam Response, p. 26.

the incorrect financial statement notes. Olam's audit is only as strong as its weakest link. We therefore have reasons to be concerned about the quality of Olam's audits.

The bottom line is that Olam needs to substantively address the accounting problems that riddle its financial statements, and not rely on E&Y as a crutch.

Olam's Accounting is Incompetent at Best

In its 45-page response, Olam responded to only one of the 79 unexplained accounting revisions (totaling over S$2.7 billion in absolute value) we identified in Olam's historical Statements of Cash Flows. The error in the Statement of Cash Flows to which Olam responded might have caused investors to overestimate Olam's profits excluding exceptional items. Olam's response (shown below) is a de facto admission of an accounting error, but without any explanation of how or why it occurred. Given the enormous amount of such revisions, Olam's response only serves to reinforce our thesis that Olam's accounting functions are at best incompetent.

Olam addressed the S$29.2 million discrepancy between the negative goodwill in its Q4 2010 statement (S$89.0 million) and FY2010 Annual Report financial statements (S$118.2 million) by writing the following:

> "This assertion is totally incorrect as MW is comparing a GROSS number of S$118 million which was stated in the Annual report to a NET number of S$87.6 million in the Q4 FY2010 SGXNET. The difference between the two is clearly explained on page 13 of Q4 FY2010 SGXNET, 'During the period, the Company has completed the Purchase Price Allocation ("PPA") exercise for the recently acquired tomato paste manufacturing facility (OTP) in California and the Almond Orchards in Australia. This exercise resulted in an aggregate exceptional gain of S$87.6 million in the form of negative goodwill (net of transactional and related expenses of S$29.1 million and a one off impairment for charges for certain ginning assets in the USA amounting to S$1.4 million)'. Thus, 87.6 + 29.1 + 1.4 = 118!"

The first point is that Olam's Q4 Statement of Cash Flows could have misled investors who were trying to determine how much negative goodwill to subtract in order to calculate profits excluding exceptional items. In the interim filings, only the cash flow statement shows the negative goodwill account. Thus, if an investor were not looking carefully at the footnote, he would have overestimated the profits excluding exceptional items.

The foregoing response from Olam explains what its mistake was, but it does not explain how or why Olam made it. See the following:

Consolidated Cash Flow Statement

for the year ended 30 June 2010

	2010 $'000	2009 $'000
Cash flows from operating activities		
Profit before taxation	**420,195**	258,024
Adjustments for:-		
Share of results from jointly controlled entities	**(15,288)**	(40,411)
Share of results from associate	**2,364**	(703)
Fair value of biological assets	**(53,989)**	(18,952)
Inventories (written back)/written-down (Note 6)	**(405)**	11,248
Allowance for doubtful debts (written back)/written down	**10,064**	19,425
Depreciation of property, plant and equipment	**68,530**	40,532
(Gain)/loss on disposal of property, plant and equipment	**(320)**	909
Gain on convertible bonds buy back	**–**	(100,674)
Net measurement of derivative instruments	**(77,915)**	(61,114)
Negative goodwill arising from acquisition of subsidiary/assets (Note 11)	**(118,200)**	(3,748)
Impairment of fixed assets and intangible assets	**4,796**	14,176
Cost of share-based payment	**12,438**	4,291
Interest income	**(21,689)**	(18,872)
Interest expense	**227,475**	239,179
Amortisation of intangible assets	**3,273**	2,738

However, in the Q4 2010 financials, Olam subtracted out only S$89.0 million:

(in S$'000)	Group Twelve Months Ended		Group Three Months Ended	
	30 Jun 10	30 Jun 09	30 Jun 10	30 Jun 09
Cash flow from operating activities				
Profit before taxation	**420,195**	**258,024**	**131,596**	**37,576**
Adjustments for:				
Share of results from jointly controlled entities / associates	(12,924)	(41,114)	4,448	27,026
Share of results of minority interests	(280)	-	(285)	-
Depreciation of property, plant and equipment	68,530	40,532	24,703	13,229
Gain / (loss) on disposal of property, plant and equipment	(138)	909	-	1,750
Gain on convertible bonds buy back	-	(100,674)	-	(20,138)
Net measurement of derivative instruments	(77,915)	(61,114)	(42,239)	(34,349)
Amortisation of intangible assets	3,273	2,738	1,650	1,550
Impairment of assets	1,403	10,849	1,403	10,849
Cost of share-based payments	12,438	4,291	3,741	-
Interest income	(21,689)	(18,872)	(8,397)	(7,977)
Interest expense	227,475	239,179	35,926	47,563
Negative goodwill arising from acquisitions	(89,039)	(3,748)	7,567	-

PBT was the same in both statements. The Q4 2010 Statement of Cash Flows obviously should have included the transaction costs and impairment charges. That it did not is another example showing that Olam's accounting is incompetent at best.

Transparency and Integrity

Although Mr. Verghese has acknowledged that we did a commendable amount of research by sending investigators to various Olam sites throughout Africa, he has repeatedly called us manipulators and accused us of shouting fire in a crowded room (among other similar descriptors). These allegations are defamatory and are without any merit. The shares we have shorted are a fraction of the number of shares short. We are not working in concert with a group of hedge funds to try to drive the stock price down.[8] Olam has become among the most heavily shorted stocks in Asia on its own (lack of) merit.

We demand a full and prompt retraction of any and all comments Mr. Verghese has made impugning our integrity and an unconditional apology. While we strongly believe in the right to free speech, and its importance to the marketplace, Mr. Verghese's comments have crossed the line – particularly given that Olam was apparently lightning quick to file its own defamation suit against us. We reserve the right to take appropriate legal action against Mr. Verghese and Olam.

While we are partly in this business because we remain appalled by the prevalence of venality and greed among company managements globally, we have always been transparent about our economic incentives. On the front page of every report, we tell investors to assume that we are short. Further, we always call upon investors to do their own due diligence.

But it is not clear that Mr. Verghese is being transparent about his motives. Shareholders might have reason to worry that senior management could be facing margin calls (that could cause it to liquidate Olam shares) because it possibly pledged significant numbers of shares. On Bloomberg, Mr. Verghese is shown as owning 110 million shares; but, in the FY2012 AR, he is shown only 10 million shares,[9] while Citibank Nominee Services is shown owning close to 500 million shares. On a November 20th conference call, Mr. Verghese refused to answer a question from an analyst about whether any members of management have pledged their shares. Mr. Verghese's reply was "I don't think that is anybody's business".

Mr. Verghese: Should shareholders be worried about someone in management getting a substantial management margin call?

[8] Not only are such statements defamatory, but also they illustrate a complete lack of understanding of short selling and investor behavior. Further, the more crowded a position becomes, the harder it is to realize a profit.

[9] FY2012 AR, p. 187.