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STERLING BIOFUELS KICKSTARTS UPSTREAM STRATEGY - ACQUIRES RIGHTS TO DEVELOP OIL PALM PLANTATION

Introduction

Sterling Biofuels International Limited is pleased to announce the acquisition of a 70% stake in a Malaysian company that has development rights over 10,600 acres of land earmarked for an oil palm plantation in Malaysia.

The acquisition is significant as it marks the start of Sterling's participation in various upstream activities within the palm oil/biodiesel value chain. This upstream strategy is important because:

- it will position Sterling to better manage its feedstock requirements and protect itself against future adverse spikes in the price of its palm based feedstock;
- it will eventually enable Sterling to capture the best margins within the palm oil/biodiesel value chain wherever they may occur; and
- it will provide Sterling with a greater degree of feedstock price stability when assessing whether to increase its biodiesel production capacity from its existing 100,000 metric tonnes per annum.

The Acquisition

Sterling, through a newly incorporated wholly owned Malaysian subsidiary, has acquired 70% of the issued capital of UTE Power Sdn Bhd ("UTE") which is controlled by a company listed on the Malaysian MESDAQ market.

UTE has been granted the right to develop 10,600 acres of fertile land owned by a state government body into an oil palm plantation. The development rights are for a period of 60 years with an option to renew for another 30 years.

Under the relevant agreement, UTE will pay to the state government body an agreed annual payment. In return, all proceeds from the plantation will belong to UTE. The first annual payment due on the date of execution of the agreement with the state government body has been paid.

Group Managing Director, CRS Paragash, said "The acquisition represents a unique opportunity to participate upstream in a highly profitable sector of the palm oil/biodiesel value chain without the high start up costs normally associated with an investment in an oil palm plantation. When the plantation matures, it will have the potential of providing the equivalent of 20% of our current feedstock requirements at under RM1,000 (A$346) a tonne compared to the current crude palm oil price of RM2,534 (A$877) a tonne."

While current Malaysian rules on foreign equity ownership restrict Sterling's ownership of UTE to 70%, Sterling will apply for Malaysian regulatory approval for the ability, should it choose to do so, to acquire a further 15% of UTE from the initial promoters. This option to purchase additional equity in the plantation development is exercisable over the next 4 years at an agreed price.

Development of the plantation is subject to Malaysian environmental impact assessment and approval which the Company is confident of obtaining in due course. Sterling has also applied for membership of the Roundtable on Sustainable Palm Oil and intends to comply with the principles for sustainable production and use of palm oil developed by the Roundtable.

Funding of Acquisition

Under the terms of the acquisition of the 70% stake in UTE, Sterling will be responsible for funding the development of the proposed plantation and, hence, only a nominal upfront payment is required for the acquisition of its interest in UTE. Such funding to be arranged by Sterling and provided to UTE for the plantation development will be at market rates and recoverable on a priority basis from future revenues from the plantation. Sterling will have control of UTE management as well as a first right of refusal over any future plantation development rights that the initial promoters may source.

The cost of developing the oil palm plantation (including annual payments to the state government body) is estimated at A$14.9 million spread over 5 years. Of this amount, only A$1.1 million is required in the short term, ie FY2008. This is able to be comfortably funded from Sterling's existing cash reserves.

The balance of the estimated development costs (see table below) are only required over the medium term which allows Sterling sufficient time to assess the options available to fund these costs.

Funding requirements	FY08	FY09	FY10	FY11	FY12	Total
A$'000	1,142	2,782	5,312	4,073	1,617	14,926

While Sterling expects that future cashflows from its biodiesel operations will be sufficient to cover the capital requirements of the proposed development, it may also seek to fund such capital requirements via debt financing. It is considered that debt funding for an asset which will increase in value due to appreciating land values as the plantation is developed, should result in favourable operating and financing ratios in the future.

Given the availability of these funding options and the relatively small capital requirements, Sterling does not expect that an equity capital raising will be required to fund this initiative. This is consistent with the Company's intention of maintaining a tight share capital base and avoiding dilution of existing shareholdings, wherever possible.

Rationale for Acquisition

The acquisition forms an integral part of Sterling's strategy to participate in upstream sectors within the palm oil/biodiesel value chain.

Although the development of the plantation will take 5-6 years (ie for land clearance, planting and maturing of oil palm trees), the acquisition provides Sterling with a foothold in an important segment of the palm oil/biodiesel value chain at a relatively low entry cost. As the plantation will be located some distance away from Sterling's biodiesel plant in Lahad Datu, produce from the plantation may not be directly utilized by the biodiesel plant but instead sold into the market to provide an effective hedge against palm oil price fluctuations.

On this basis and based on current feedstock costs, Sterling's share of the contribution from the plantation (once fully mature) should reduce its overall feedstock costs by up to RM290 (A$100) a tonne. In addition, the Company should experience a significant uplift in the value of the plantation as it progresses in its development and approaches production status.

In addition to locating the biodiesel plant in Sabah where 30% of Malaysian palm oil is produced, Sterling's business model as a palm based biodiesel producer seeks to leverage on the vast experience and expertise of its management team in the various sectors within the palm oil industry. That pool of experience and expertise will ensure the success of the proposed plantation development. This, in turn, will enable Sterling to tap further opportunities in the sector with a view towards self-sufficiency in meeting its feedstock requirements for the biodiesel plant.

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