



ASX/MEDIA ANNOUNCEMENT
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**ACTIONS TAKEN TO RESPOND TO CURRENT CRISIS IN
AUSTRALIAN BIODIESEL SECTOR**

The Board of the Australian Biodiesel Group Limited (ABG) today announced a number of actions to address issues the company faces in common with other producers in the Australian biodiesel industry. Actions being implemented by the company include:

- The sale of ABG's Moree oil crushing mill for a consideration of \$2.64 million. The sale, contracts for which have been signed by the buyers today, will ensure the company remains solvent while it works with Governments and customers to put its biodiesel production on a sound footing. The Moree mill was mothballed in December 2006 and is a non-core asset of the company.
- Reducing overhead costs, including staff and office facilities, to a minimum consistent with remaining a publicly listed company.
- Reducing the number of staff at the company's Narangba biodiesel production facility consistent with the low level of demand for biodiesel projected in the immediate future.
- A decision to only produce biodiesel when doing so improves the company's financial position.
- The continuation of activities to complete the orderly sale of other non-core assets of the company.

The issues facing Australia's biodiesel companies have received considerable publicity recently. Under current market conditions and Government policy settings, the cost of producing biodiesel exceeds the price it can be sold for. ABG will no longer do this. The company will hold its Narangba plant on standby, retaining sufficient skilled operators employed to facilitate a rapid return to production, when demand and costs allow profitable manufacture.

ABG believes there is a good case for the current unsustainable situation to be rectified by Governments adopting policies that are commonplace overseas. The company has taken actions that give ABG the best chance to survive and be ready to respond when changes to the market emerge.

If the production of biodiesel remains uneconomic for an extended period, however, the company will review its position and consider returning any surplus funds to shareholders.

The company will also implement the following initiatives:

- To reduce corporate overheads, Chief Executive Officer, Mr Martin Earp, will shortly end his secondment to ABG Limited and return to Transfield Holdings Pty Ltd. Executive Director, Mr Bevan Dooley, will be appointed as Chief Executive Officer of ABG Limited. The company is highly appreciative of Mr Earp's contribution.
- The ABG Limited corporate office in Sydney will be wound down, with remaining activities managed from the Narangba facility.

- The implementation of a quality system and minor maintenance jobs at Narangba will continue, so that the plant is able to produce at short notice and ramp up quickly, if the outlook for biodiesel improves significantly.
- ABG's Scanline business will continue to operate as usual. ABG will also continue to provide technical support to Tadanac, developer of the Tri-Cities biodiesel project in the USA. The outlook for biodiesel production in the USA remains much better than Australia.

Present trading conditions

Market conditions for biodiesel production and the company's performance have not improved in the timeframe anticipated by the Board earlier this year and ABG's financial position has deteriorated as a result. Key factors hindering the current performance of ABG include:

- Ineffective and unstable policy settings continue to undermine the biodiesel industry. In the view of the Board, the 350 million litre biofuel target policy mechanism has failed to establish market access via the crucial oil majors, as had been anticipated by the company. Without access to the customers of the majors, ABG has been unable to generate the volumes required for the company to be profitable. Significant changes to fuel excise arrangements on 1 July 2006 and ongoing uncertainty related to Government fuel standards has further hampered the viability of the biodiesel market.
- As with other Australian biodiesel producers, ABG has experienced significant rises in raw materials costs over the second half of 2007. The company's Rights Issue Prospectus of 23 March 2007 detailed an assumption of a tallow price of \$580 per tonne. However, tallow has recently traded at over \$950 per tonne, with indicative tallow offers for November of \$975 per tonne, making production costs unsustainable.

ABG manufactured 17.5 million litres of biodiesel in 2006, but reduced demand due to fuel tax changes, more complex supply arrangements and higher raw material costs mean ABG is likely to produce less than 10 million litres of biodiesel during the 2007 year.

Required changes to government policies

The current 'melt down' of the Australian biofuels industry has highlighted that a mandate is urgently needed. ABG believes a Government requirement that petroleum fuels have a small amount of biofuel added to them would secure the future of the local industry.

In the case of ABG's home state of Queensland, a requirement that on average, mineral diesel contain 2% biodiesel, would mean manufacturing could be scheduled with a high degree of certainty, skilled staff retained and production efficiencies achieved. Such a requirement would utilise approximately 50% of the tallow produced in Queensland.

ABG believes the benefit of a mandate, in comparison to subsidies, is that wild swings in demand and profitability are avoided. The fledgling biodiesel industry in the small Australia market is presently unable to cope with the current volatility in the market. In the absence of the stability that predictable demand will create, bank and investor sentiment will remain negative and a return to growth is impossible.

Many other developed countries have specific requirements for the use of biodiesel and ABG believes it is inevitable that similar policies will eventually be adopted in Australia. Under present policy settings, however, it is likely that the significant private and Government investment in the industry to date will be lost and expertise dissipated.

The restructuring announced by ABG today is intended as a temporary solution and further action will have to be taken if circumstances do not change over the coming months.

Resignation of Director

In light of a reduced workload for the Board and in the interests of reducing corporate overheads, Non-executive director, Mr Russell Higgins, has resigned from the ABG Board. The Board has also taken measures to reduce Board costs, including a reduction in Directors' fees. The Board has greatly appreciated Mr Higgins input and regrets his departure.

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