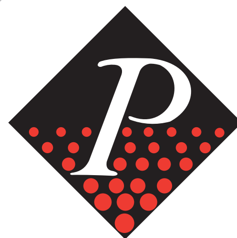
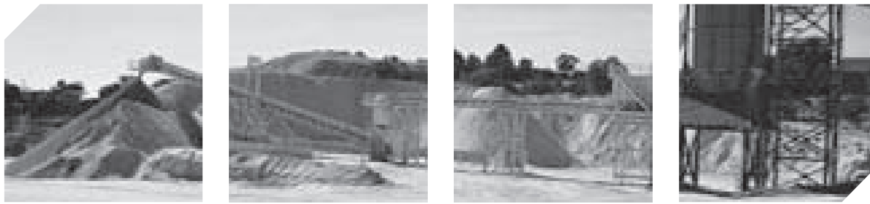


PENRICE SODA HOLDINGS LIMITED

2010 Annual Report



Company Profile

Penrice Soda Holdings Limited is an Australian public company with market leading positions in the supply of soda ash, sodium bicarbonate and limestone in its home country, and exports to 28 other nations.

Headquartered in Adelaide, South Australia, Penrice is listed on the Australian Securities Exchange, with the Company's origins dating back to 1935. Today, Penrice is the only manufacturer in Australia of soda ash and sodium bicarbonate and a significant supplier of limestone and aggregates. The key end-users of Penrice products include world majors in glass manufacturing and mining, food and medical care organisations in Australia and overseas, and large infrastructure projects.

Penrice's flagship Chemicals business includes the largest soda ash plant in South East Asia and one of the five largest sodium bicarbonate plants in the world.

As a major supplier to local and international markets, Penrice is among the lowest quartile cost producers and is committed to creating value through expanded capacity and increased production, lower unit costs, higher cash flow and lower debt.

The Company is committed to working safely and applying industry best practice to the health, safety and well-being of employees, contractors, suppliers, customers and communities in which it operates.

The Penrice culture and its associated strategies enhance the Company's ability to maintain its competitive edge and to build on its proven leadership in Australian and international markets.

Operations

The operations of the Penrice Group are centred around two South Australian divisions – its Chemicals business based at Osborne and the Quarry & Mineral facility at Angaston in the Barossa Valley. As a major supplier to local and international markets, Penrice is among the lowest quartile cost producers and is committed to creating value through expanded capacity and increased production, lower unit costs, higher cash flow and lower debt.

Chemicals

Penrice's flagship Chemicals business includes the largest soda ash plant in South East Asia and one of the five largest sodium bicarbonate plants in the world. Soda ash is sold in the Australian market as a vital ingredient in products ranging from glass containers (especially wine and beer bottles), flat glass for building and construction and washing powder. It is also used in the mining and water treatment industries. Sodium bicarbonate is a specialty chemical used in a variety of applications as diverse as food, pharmaceuticals, medical, personal care products and stock feed. Over the past 10 years, Penrice has expanded the capacity of its sodium bicarbonate plant from 24,000 tonnes per annum to 100,000 tonnes per annum.

Quarry & Mineral

Penrice owns and operates the largest marble and limestone mine in South Australia. While the mine supplies limestone into the chemical process at Penrice's Osborne business, it is also a significant supplier of aggregates and other materials to a variety of end-uses, such as civil & construction, roads, landfill, glass, mineral processing, agriculture, stock feed and landscaping.

Commitment

Penrice is a united, achievement-focused company working with world class products and providing excellent customer service. The Penrice approach includes encouragement and challenges to its people to achieve continued growth, develop new markets and to supply quality products. The Company is committed to working safely and applying industry best practice to the health, safety and well-being of employees, contractors, suppliers, customers and communities in which it operates. The Penrice culture – and its associated strategies – enhance the Company's ability to maintain its competitive edge and to build on its proven leadership in Australian and international markets.

YEAR IN REVIEW

- Profitability decline due to reduced ash demand and negative foreign exchange impact
  - Sales down 1% to $160.4 million
  - Reported profit after tax down 12% to $6.3 million
  - Underlying profit after tax down 42% to $5.3 million
- Operating cash flow up to $7.1 million from $0.8 million reflecting reduced inventory build
- Investment cash outflow down to $12.9 million from $22.9 million following a plant expansion in FY2009
- Gearing reduced to 42% from 58% after capital raising

Year Ended 30 June

PROFIT SUMMARY (A$M)	2010	2009	% change**
Sales revenue	**160.4**	**162.3**	**(1)**
Underlying EBITDA*	23.3	27.1	(14)
Depreciation/amortisation	(8.8)	(7.4)	(18)
Underlying EBIT*	14.5	19.7	(26)
Net interest expense	(8.2)	(8.6)	5
Tax*	(1.0)	(2.0)	52
Underlying NPAT*	5.3	9.1	(42)
After tax unrealised gain/(loss) on hedges	1.0	(2.0)	
Statutory NPAT	6.3	7.1	(12)
Underlying earnings per share* (cents)	6.6	16.3	(60)
Statutory earnings per share (cents)	7.8	12.9	(40)
Interim dividend per share (cents)	Nil	Nil	
Final dividend per share (cents)	Nil	Nil	
Gearing [net debt/(net debt+ equity)] %	42%	58%	
Interest cover [EBITDA*/net interest] (times)	2.8	3.1	

*Excludes unrealised hedge gain/(loss)

**Percentage changes based on numbers to $000

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OSBORNE REFINED BICARBONATE PLANT

Chairman's Report

The FY2010 year was difficult for Penrice and its shareholders. Profits were down, Directors decided it was not prudent to declare a dividend and the share price was markedly lower at year end than twelve months previously.

The Company's reported profit after tax in FY2010 of $6.3 million was 12 per cent lower than the previous year, on sales of $160 million (down 1 per cent). After excluding an unrealised gain of $1.0 million after tax from foreign exchange and interest rate hedges, underlying net profit after tax was $5.3 million. The comparable figure in FY2009, when there was an unrealised loss of $2 million, was $9.1 million.

The Company has completed a comprehensive renewal of the business – dubbed the 'Way Forward Plan' – which was essential for future viability. This involved considerable investment to improve performance and reliability of the soda ash plant, expand the sodium bicarbonate plant, and fund works at the Angaston mine to expose additional quantities of high grade limestone, the vital raw material for the soda ash and sodium bicarbonate processes. These mine works in turn increased inventory of materials for subsequent sale into the civil construction market. The ultimate purpose of these investments of course, is to underpin future earnings performance and generate sustainable shareholder returns, consistent with the company's capital base.

However, these investments stretched the balance sheet, requiring the raising in December 2009 of $28 million of new equity. Shareholders, both existing and new, supported this capital raising. The Company is grateful for this support.

During FY2010, the Company faced several external pressures, including:

- reduced demand from its principal glass manufacturing customers,
- reduced export earnings as a consequence of the strength of the Australian dollar,
- the deferral of mineral processing projects that had contracted to use soda ash, and
- the effect of variable seasonal conditions on the demand for animal stockfeed and therefore sodium bicarbonate.

By themselves, reduced demand for the Company's chemical products arising from the global financial crisis, and the stronger Australian dollar cut Penrice's EBITDA by approximately $7 million compared with the prior year. Without these influences, the Company's initial profit target for the year would have been met.

The unexpected downturn in soda ash demand for glass in the third quarter was the trigger for the Company issuing a profit downgrade in April 2010.

IMPROVING TRENDS AND COMPANY RESPONSE

I have outlined the difficulties the Company encountered in as straightforward a manner as possible. There is no disguising the fact that the year was difficult, particularly for shareholders, although I consider the final result was creditable in the circumstances.

If that is the bad news, what is the Company doing to turn the situation around from a position that is clearly unacceptable and unsustainable? This, after all, is what shareholders expect.

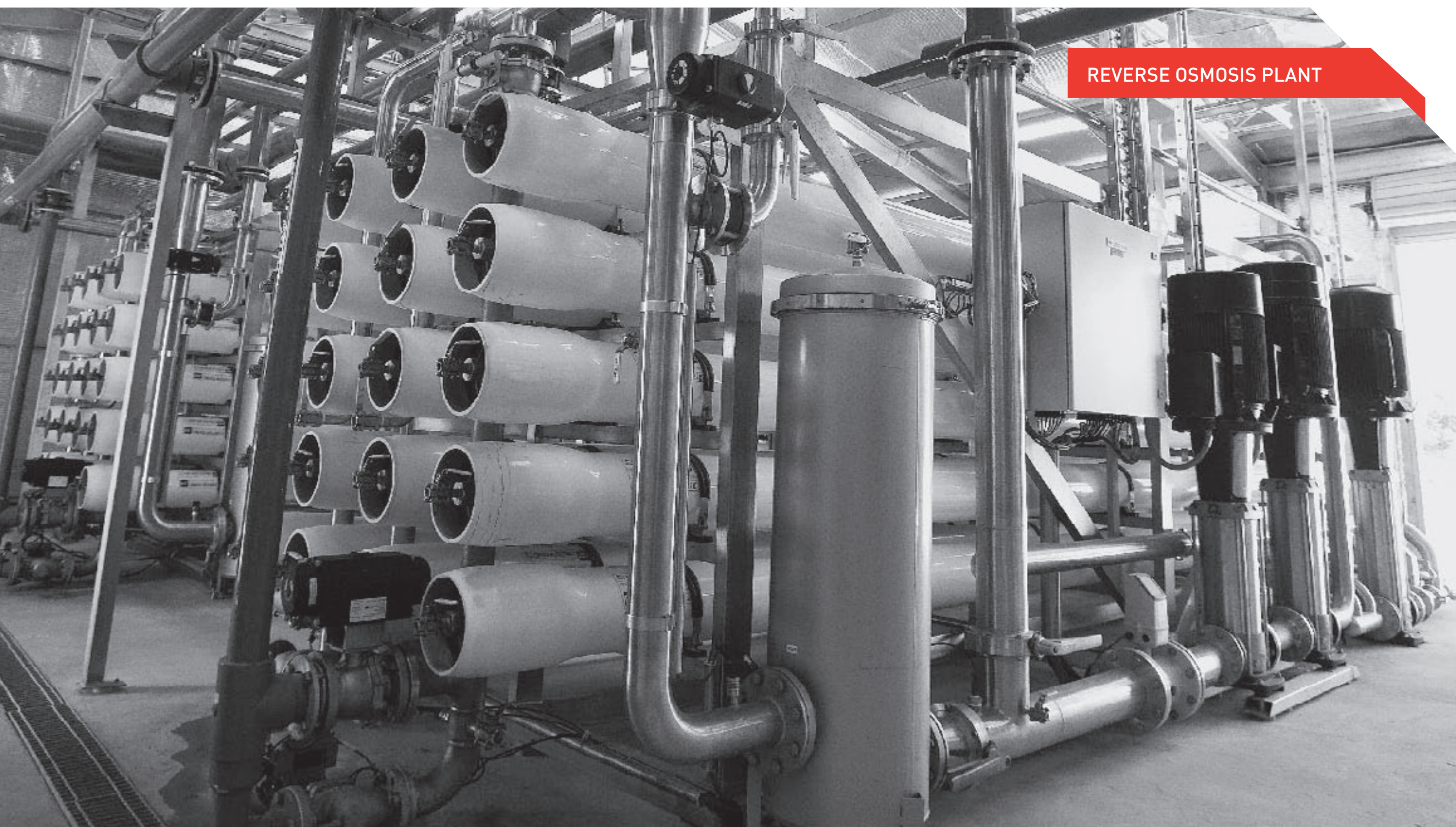
The Company has already implemented several measures to improve business performance over the past few years and these are, and will increasingly be effective. In addition, there are in my view, a number of encouraging underlying trends, which were already apparent in FY2010 and are expected to continue into the FY2011 year.

These positive initiatives and trends are as follows:

- A significant improvement in cash flow during FY2010. Net operating cash flow was $7.1 million, compared with just $0.8 million in FY2009. Similarly, investment cash outflow fell to $12.9 million from $22.9 million in FY2009. These trends are expected to continue as profits grow and the requirement for higher inventories at the mine diminishes substantially.
- Reflecting the improved cash flow and capital raising, the Company's gearing (net debt: net debt + equity) was reduced to 42 per cent – which is within the board's target range – from 58 per cent at 30 June 2009.

- The Company's debt facilities have been extended to March 2013 and scheduled debt repayments have been reduced, with $1.8 million payable in FY2011. The Company continues to enjoy strong support from its bankers.
- The quarry made significant sales of its aggregate products during the year as well as selling and further developing its landfill product, providing Directors with added confidence around the carrying value of this inventory on the balance sheet. In addition, the forecast extraction rate of landfill, over the coming five years, is just 20 per cent of the average extraction rate over the past five years. The prospects for expanding sales of landfill over this period – and thereby converting inventory into cash – are solid.
- There is increasing evidence that global soda ash and sodium bicarbonate markets are beginning to move in the Company's favour with demand lifting and prices firming across a range of markets. In a related positive development, the Company is optimistic that a case it has made to the Commonwealth Government for anti-dumping action against Chinese sodium bicarbonate, will be successful.
- The Company renegotiated its major glass customer contracts for soda ash during the year at improved prices and volumes, the benefits of which will become more apparent during the FY2011 year.
- The Company's expanded sodium bicarbonate production, following the investment to increase capacity from 75,000 tonnes per annum to 100,000 tonnes, was fully sold during the year. The challenge now is to produce a higher proportion of food and pharmaceutical grade product, which commands superior pricing, especially in Asian markets, than general purpose product, and technology developments in this direction look promising to date.
- There are signs that several of the deferred mineral processing projects are coming back on stream, raising the prospect of renewed soda ash demand from this quarter.
- The Company is well advanced in assessing a more cost effective alternative to its traditional coke source, with cost saving benefits likely to emerge towards the end of the FY2011 year.

The Company's strategy has been to take advantage of its unique geographical, quality and technology strengths. I hope that an understanding of the trends we are seeing, and the Company's responses to the challenges and opportunities it faces, provides shareholders with a degree of reassurance for the future and confirmation that this strategy is effective. The Company's ultimate objective remains to improve profits and cashflows, and thus returns to shareholders.



REVERSE OSMOSIS PLANT

ANGASTON TRUCK LOADER

We continue to focus on growing sustainable profits to achieve improved shareholder returns.

SHAREHOLDERS

I am conscious of the disappointment felt by shareholders at the absence this year of a dividend. The prospectus issued at the time of the IPO in 2005 implied that Penrice would pay regular dividends with an attractive yield, an expectation that undoubtedly led some investors to become shareholders in the Company. However, given the uncertainties we have faced, and in particular given inadequate cash flow, it would not have been prudent to have resumed dividend payments this year.

Both profit levels and cash flow are determinants of a dividend decision. Directors recognise that the payment of dividends is both a financial return from past performance and an indication of confidence into the future. We are keen to reward long-standing shareholders and signal greater future confidence as soon as we can.

MANAGEMENT AND THE WORKFORCE

The FY2010 year has been challenging for Management and the Company's workforce alike. I would like to express appreciation for the efforts of the Management team, led by Managing Director and Chief Executive Officer, Guy Roberts. They have been diligent and focused on the underlying business fundamentals which will determine how effective the Company is in restoring its fortunes.

During the year, the Management team also had to contend with negotiations to achieve the highest category for compensation under the now deferred Carbon Pollution Reduction Scheme, and lobbying to have the Angaston mine exempted from the proposed Resources Super Profits Tax.

While I am complimentary of the calibre and effectiveness of the Management team, I also want to commend the entire workforce for their loyalty and achievement during the past year. The Company has many long-serving employees who are highly skilled in operating our complex, and at times challenging, chemicals and mining facilities. Shareholders should be appreciative of their efforts.

We continue to focus on achieving the highest health, safety and environmental standards throughout our operations and on consulting with our local communities. I am pleased to report that the Company's recordable case rate fell during the year to 1.6 from 2.0 injuries per 200,000 hours worked; in FY2005 the equivalent figure was 14. This improvement has not occurred by chance: it reflects sustained and focused efforts, directed from the top of the organisation.

OUTLOOK

Penrice is well positioned to take advantage of the current recovery we are seeing in demand for our chemicals. Assuming this continues, we expect underlying net profit after tax in the current year to be higher than in FY2010. More importantly, we expect to generate positive free cash flow for the year, although the first half is likely to be negative due to the recent annual maintenance shutdown of the chemicals plant.

CONCLUSION

Finally, I would like to thank my predecessor, John Heard, for his considerable contribution to the Company during his seven years as a Director and Chairman, and also my fellow Directors, and especially our Managing Director Guy Roberts, for their counsel and support.

David Trebeck

David Trebeck
Chairman

Managing Director & Chief Executive Officer's Report

In last year's report, I mentioned that the economic climate was very difficult, and in spite of those difficult conditions, Penrice had grown profits and improved cashflow. The outlook at that time was positive. In February, when the first half results were announced the forecast was for increased profit and improved cashflow for the full year. Within two months, the outlook had changed and new guidance was issued advising that profitability was to be less than the previous year's $9 million. This was the consequence of an unusual and swift downturn in soda ash demand from major glass customers destocking with a significant impact on the Company's second half results.

While management acted promptly in response to the changed trading conditions, with only two months until the end of the financial year, there were few options to recover profitability to initial guidance. It is worth noting however, that without that unusual downturn, the Company was in line to meet guidance.

While the group's earnings were disappointing, substantial progress was made during the year in reducing the rate of growth in working capital, lowering capital expenditure, and improving cash flow. Working capital grew by $8.1 million compared with $15.2 million in FY2009, due to a reduced build in Quarry and Mineral inventory, and an improved debtor/creditor position. Free cash flow was negative $5.8 million compared with negative $22.2 million in FY2009. This trend will continue and a positive free cash flow is forecast for FY2011, although it is likely to be negative in the first half due to the annual maintenance shut-down of the chemicals plant.

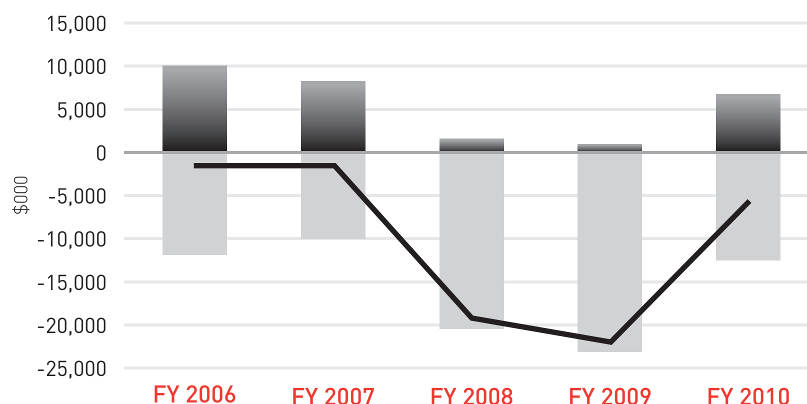
A capital raising in December 2009, combined with an improvement in working capital management, has strengthened the balance sheet and will lead to lower interest expense in FY2011. It has also increased the Company's flexibility to take advantage of growth opportunities and to build on strong market positions in both Australia and overseas.

CHEMICALS

Chemicals business' revenue was $135.4 million, 2 per cent lower than the previous year. Underlying EBITDA (earnings before interest, tax, depreciation and amortisation) was $15.2 million, down 13 per cent, with reduced soda ash sales and the stronger Australian dollar reversing a satisfactory first half increase.

We continued to focus on improving the efficiency and reliability of the Osborne plant and achieved ISO 22000 accreditation, recognising our advanced quality systems for manufacture of food-grade ingredients.

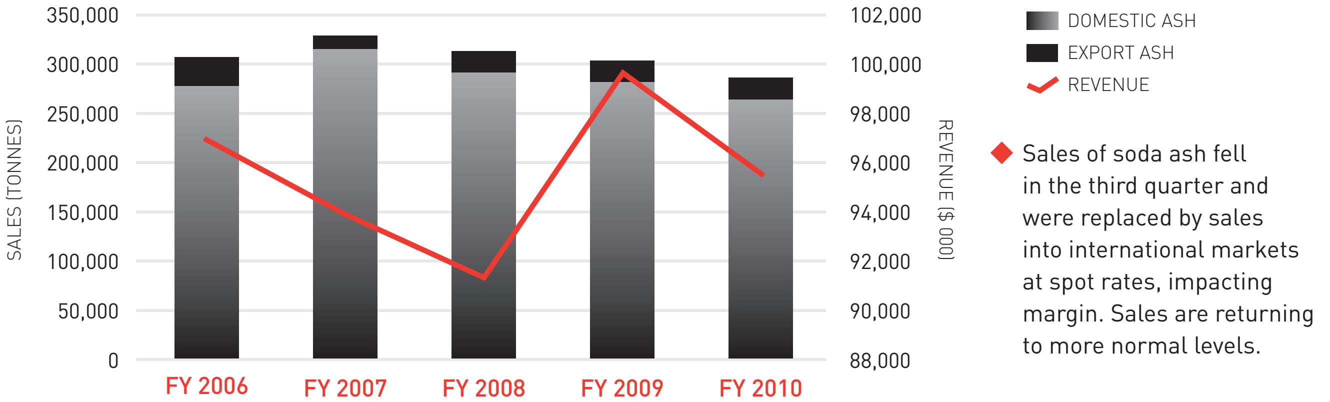
CASH FLOW



Net operating cash flow grew strongly, while investment cash flow was substantially lower. Net free cash flow in FY 2011 is expected to be positive.

OPERATING CASH FLOW
INVESTING CASH FLOW
NET FREE CASH

SODA ASH SALES



Sales of soda ash fell in the third quarter and were replaced by sales into international markets at spot rates, impacting margin. Sales are returning to more normal levels.

SODA ASH

During the third quarter, demand for soda ash, which tends to lag the economic cycle, fell. Our principal Australian glass customers were overstocked due to the slow-down in residential construction and reduced packaging demand. As a result, they reduced production and cut orders. In response, export markets were successfully gained for surplus soda ash production to maintain cash flow, although at lower spot prices, resulting in a significant reduction in earnings. A number of management initiatives, including the appointment of a senior executive to manage key customer relationships, have been put in place to improve future planning on demand fluctuations and hence optimise margins.

Long-term contracts were re-negotiated on more favourable terms with Amcor Glass, Owens Illinois Australia and CSR Viridian, which together represent more than 70 per cent of our total soda ash sales. The new terms came into effect from either 1 January or 1 July 2010. For the first time, Amcor's contract included limestone, which is also used in bottle manufacture, from our Angaston mine.

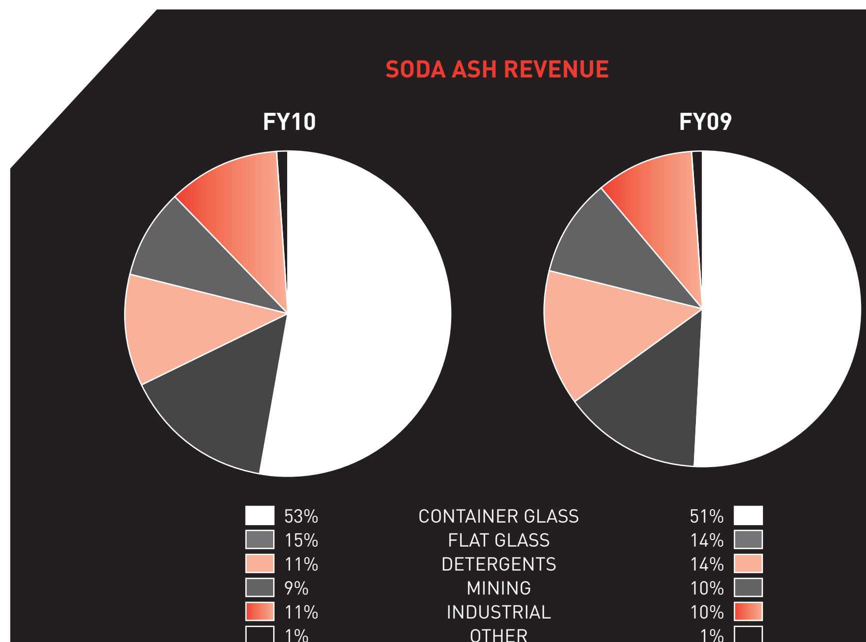
Demand for soda ash from the Australian glass sector is beginning to return to normal levels and this trend is likely to continue through FY2011 as the use of glass for food packaging is growing, and there are signs of a recovery in the housing sector. Margins are benefitting from increased prices negotiated with major customers.

There are also indications of increasing demand from the mining and energy sectors which use soda ash to aid processing, and since the end of the financial year we have begun to supply soda ash to a new Australian mining customer.

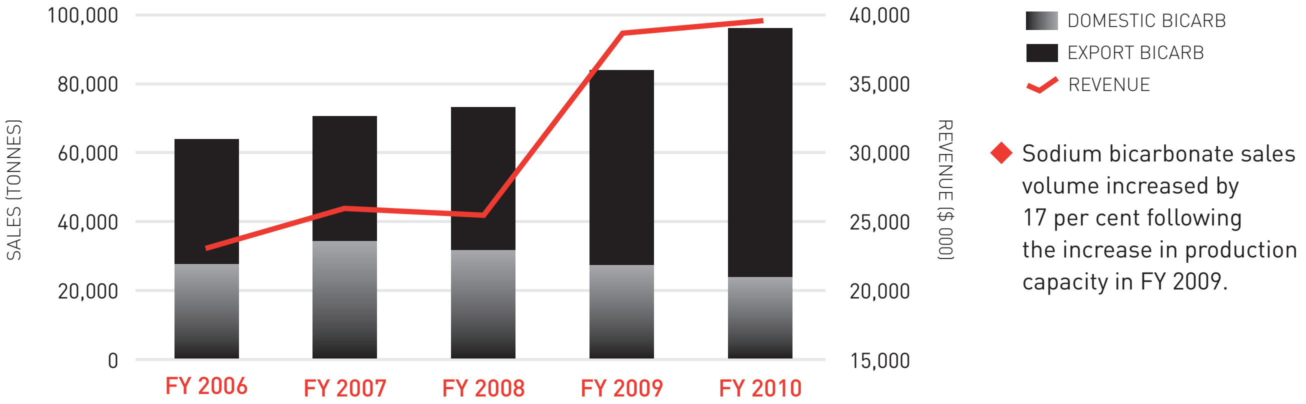
International demand for soda ash bottomed during FY2010 and is now recovering. In general, spot prices are trending up, including in SE Asia. With the Australian dollar appreciating by an average of 20 per cent during the year, there has been increased competition with imports, and evidence of dumping by Chinese and American producers. This is a matter that the Company has well progressed with the Australian Government.

The price of coke, a significant cost in soda ash production, has increased as steel demand recovers, and this has placed pressure on margins. Trials are underway to find a substitute, such as coke briquettes or anthracite, and if these are successful, annual savings of over $3 million will result in the second half of the current year. In addition, installation of a de-carbonator during the year will result in a 2 per cent per annum increase in soda ash recovery, improving efficiency and reducing waste.

We are currently participating in a project utilising the Company's proprietary technology. Consideration is being given to construct a pilot plant to extract natural sodium salts which occur in waste water from coal seam gas fields in Queensland. These salts could be processed into soda ash, sodium bicarbonate and sodium chloride, and sold to customers in Australia and the Asia Pacific region. An agreement to build a pilot plant is expected to be signed during the second quarter of FY2011.



SODIUM BICARBONATE SALES



- Sodium bicarbonate sales volume increased by 17 per cent following the increase in production capacity in FY 2009.

SODIUM BICARBONATE

Following the increase in our sodium bicarbonate production capacity from 75,000 tonnes to 100,000 tonnes per annum in 2009, sales volume increased by 17 per cent in FY2010. This reflected continuing strong demand for premium grade product from the food and pharmaceutical sectors, particularly in Asia, where sales have increased from 45,000 tonnes to 70,000 tonnes over the past three years.

Margins on USD export sales were lower due to the stronger Australian dollar, with the average sales revenue per tonne down 15 per cent. The budget for FY2011 is based on an AUD/USD exchange rate of US$0.92 and 75 per cent of our net USD exposure is hedged at US$0.86.

In the second quarter of FY2011, the board will consider a proposal to increase manufacturing capacity by 25,000 tonnes at a cost of approximately $8 million.

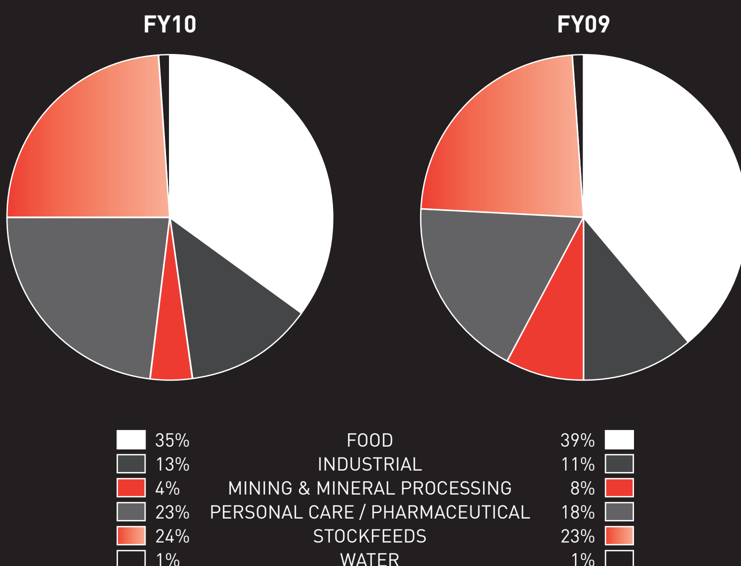
Sales volume in Australia was affected by lower demand for stockfeed as a result of drought in southern Australia and flooding in eastern Australia. We have lodged a submission arguing for the continuation of duties, at substantially higher rates, on imported product when current arrangements expire in November 2010, and a positive decision is expected in the second quarter of FY2011.

Asian demand for premium grade sodium bicarbonate is expected to remain strong, while domestic demand should recover as normal weather conditions return.

Our plant is now at full capacity, and we intend to improve earnings through increasing our sales to the higher margin food and pharmaceutical sectors with the introduction of some new processing technology.

Planning for an increase in manufacturing capacity of 25,000 tonnes at a cost of approximately $8 million is underway with a decision on construction expected by midyear. This expansion was originally planned for FY2010, but was postponed due to the impact of the global financial crisis on the Company in the second half of the year.

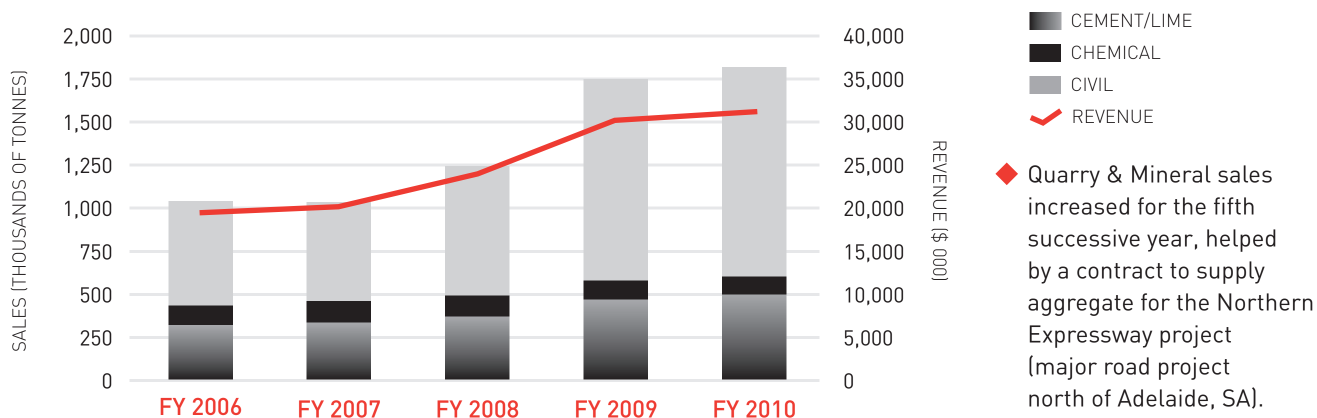
SODIUM BICARBONATE REVENUE



FY10		FY09
35%	FOOD	39%
13%	INDUSTRIAL	11%
4%	MINING & MINERAL PROCESSING	8%
23%	PERSONAL CARE / PHARMACEUTICAL	18%
24%	STOCKFEEDS	23%
1%	WATER	1%

OSBORNE CO-GENERATION PLANT

QUARRY AND MINERAL SALES



◆ Quarry & Mineral sales increased for the fifth successive year, helped by a contract to supply aggregate for the Northern Expressway project (major road project north of Adelaide, SA).

QUARRY AND MINERAL

The Quarry and Mineral business – which earns half its revenue from industrial minerals used by the Penrice Chemicals business and other manufacturers, and half from aggregate and landfill – increased its external sales for the fifth successive year to $31.3 million, compared with $30.3 million in FY2009. This resulted from higher prices and increased volumes of industrial minerals following re-negotiation of contracts with Amcor and Adelaide Brighton. It also provided 1.2 million tonnes of aggregate for civil engineering projects and the first 100,000 tonnes of landfill sales were made. Underlying EBITDA was $11.6 million, 11 per cent lower due mainly to higher expensing of mining costs. Cash flow improved significantly, with cash outflow reduced to $2.5 million from $8.8 million in the prior year.

During the year, a 20-year plan for the mine was completed, based on extensive geotechnical investigation and computer modelling. This has confirmed that the ore body will sustain production at its current rate for at least twenty years. Further drilling during the next two years is expected to indicate a mine life of up to 40 years and enable the Company to become JORC-compliant.

Overburden extraction to access new reserves of limestone has reduced substantially since January 2010. This trend is expected to continue, reducing demand for capital expenditure and lowering working capital requirements. Growth in aggregate and landfill inventory during the year fell to $6.4 million, from $12.6 million in FY2009. Future aggregate extraction is expected to be approximately 80–90 per cent of sales, with extraction of landfill declining to approximately 20–25 per cent of the recent five year average.

The Company's balance sheet at 30 June 2010 included $18.6 million of aggregate and $19.8 million of landfill, valued at the lower of cost and current net realisable value. Monetising this inventory is a priority for the business.

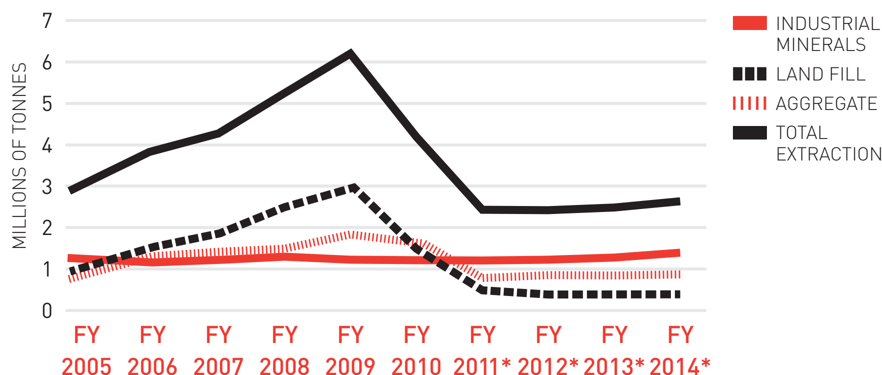
Through supplying aggregate for the Northern Expressway, South Australia's largest road project for 50 years, Penrice has established itself as a leading supplier of materials for civil engineering and construction projects in the State. We have a high quality, large scale resource and, following investment in new crushing facilities to improve yield, we are positioned to expand share of this market and take advantage of further infrastructure development in the Adelaide metropolitan region.

Recent sales of landfill also indicate that this inventory should be monetised over time. The market for landfill in Adelaide is more than 2 million tonnes per annum, and a low cost product which is expected to open up additional opportunities has been developed. Tenders to supply more than 2 million tonnes have recently been submitted.

Following completion of the Northern Expressway project, Quarry and Mineral's volume sales in FY2011 are likely to be 20 per cent below FY2010 and this, together with lower capitalisation of inventory, is expected to result in a lower profit. Disciplined cost management, however, will lead to lower cash mining costs.

We now have a robust plan to capitalise on recent investment and expand the business, while at the same time improving productivity. Importantly, the mine has been cash flow positive since the beginning of FY2011 and this is expected to continue.

EXTRACTION TONNES OVERVIEW – 10 YEAR PERIOD



◆ As a result of a five year plan to reduce overburden removal at the Angaston mine the increase in aggregate and landfill inventory was reduced by nearly 50 per cent from FY 2009 and is expected to fall further.

*FY2011 onwards is forecast 5 year average

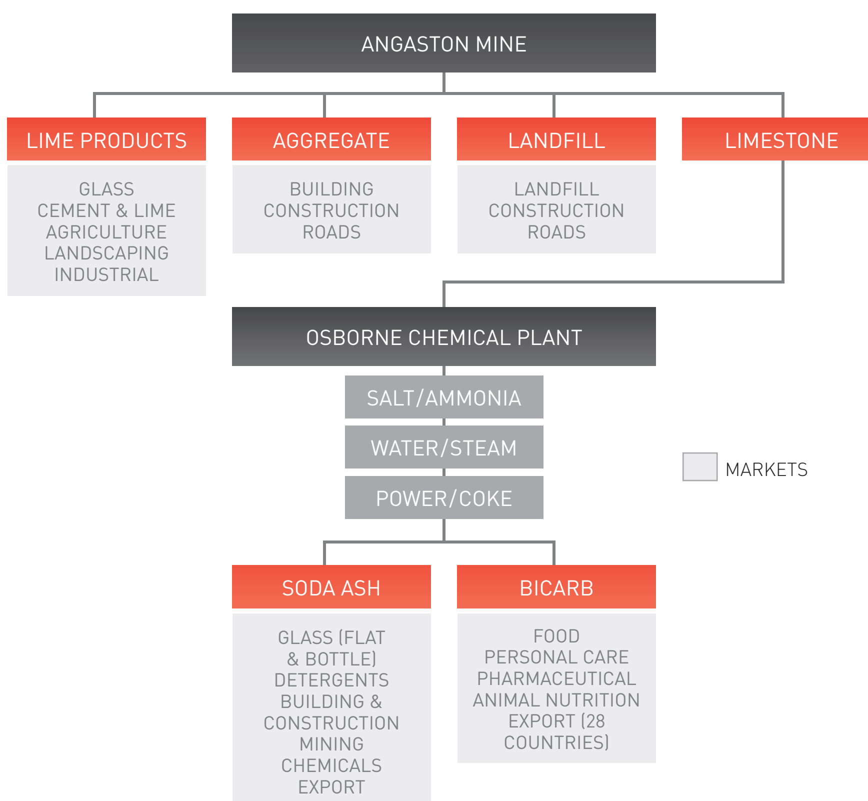
OUR PEOPLE AND COMMUNITIES

The welfare of our people is a key priority for us, and we aim for zero injuries throughout our operations. Excellent progress has been made towards this goal in the past year, but we remain far from satisfied. Additional safety procedures have been introduced aimed at further improvement.

Constructive dialogue has been continued with the Angaston community, leading to an agreement to reduce monitoring from monthly to quarterly. Across the group, we met our waste and environmental licence targets, lowered greenhouse gas emissions and increased water recovery, and have adopted new systems to continue to reduce our environmental impact.

I would like to thank all members of the Penrice team for their continuing contribution to the company and for their support during the changes we have made in the past year. While it is disappointing that the team's hard work was not reflected in our financial results, I believe we have a far stronger company than a year ago and are well positioned for FY2011 and beyond.

Limestone from Penrice's Angaston mine is an essential ingredient in the soda ash and sodium bicarbonate produced at the Osborne chemical plant.



LOOKING AHEAD

Our goals remain to achieve a minimum 15 per cent return on operating net assets, continue to improve operating cash flow so we can pay down debt, and produce superior returns for shareholders through both dividends and capital appreciation.

While our results for last year were disappointing, I am confident we now have a solid platform that will lead to growth in both our businesses.

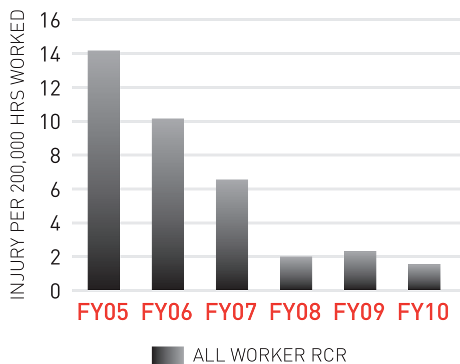
Chemicals' earnings will benefit from our strong position in the soda ash market as Amcor expands its packaging plant, housing starts increase, and from our focus on higher margin markets for sodium bicarbonate, and current cost reduction initiatives. Quarry and Mineral's cash flow is now positive and the business is positioned to take advantage of growing demand for industrial minerals and civil products.

Guy Roberts
Managing Director and
Chief Executive Officer

Sustainability Report

Sustainability for Penrice means addressing the Environmental, Community, Social and Governance issues that are material to our business. Central to this policy is the Company's strong commitment to the safety of the people we work with, and the communities and environments within which we operate. We strive to continually improve our performance in these areas, and reduce the impact that our activities have on our people, the environment and our communities. To this end we have a suite of short and long term programs designed to reach our new performance goals and reduce our footprint.

ALL WORKER RECORDABLE CASE RATE



SAFETY – "NO INJURIES TO ANYONE EVER"

As a mining and manufacturing company, it goes without saying that safety is critical to the way we work at Penrice. Our belief is that all injuries and environmental incidents are preventable, and in line with that belief, we have reconfirmed our safety vision "no injuries to anyone ever" and have adopted our environmental vision of "zero harm and waste". Our safety focus, which is led at Board and Executive Management level, is underpinned by three elements:

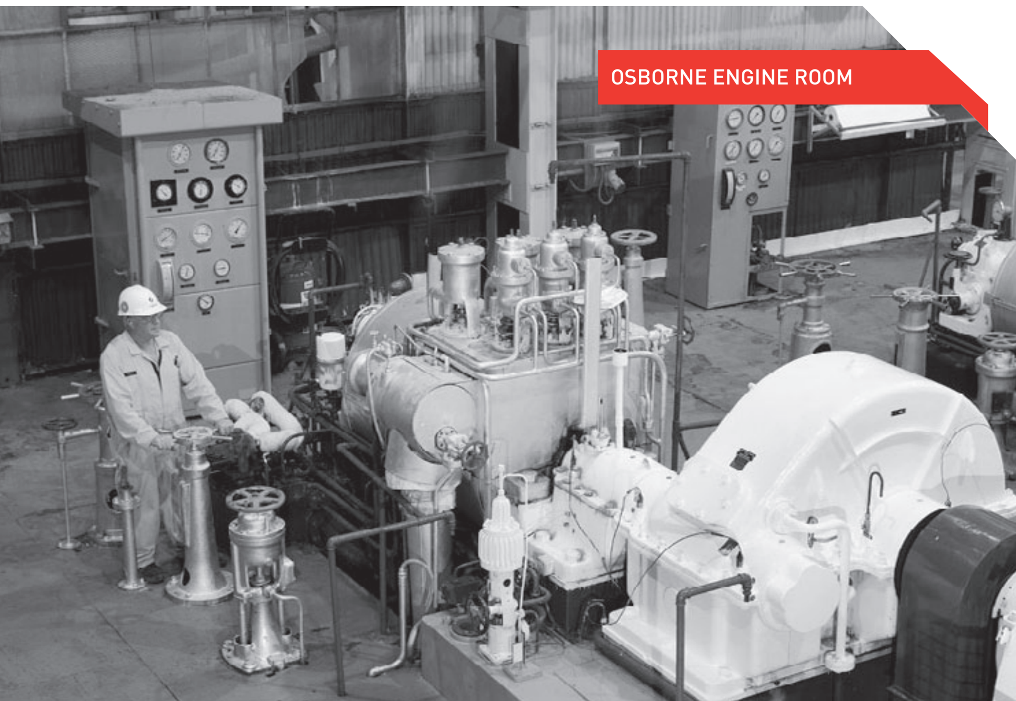
- developing and implementing a "best practice" safety management system
- embedding the right behaviour in all our people, and
- finding solutions for the physical safety hazards that we face – as in any mining and manufacturing environment.

Penrice's progress in the past six years in reducing workplace injuries and illnesses – from a recordable injury rate of 14 to 1.6 – represents a significant improvement. Our performance for FY2010 continued our improvement, achieving a recordable case rate of 1.6 based on improvements in our safety management system and increased focus on ensuring the behaviours we exhibit on a daily basis are consistent with our safety vision. The company is well placed to achieve the "best practice" levels to which we aspire.

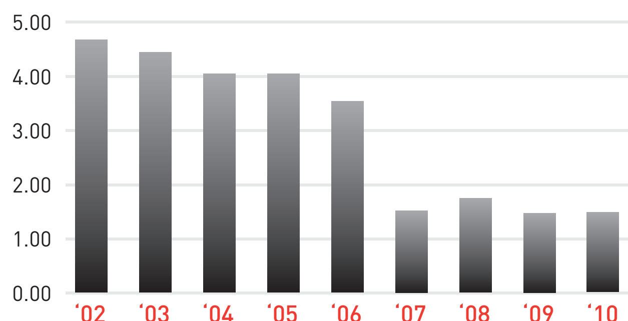
A Penrice focus this year has been to embed the Safety Foundations Program, involving all of the Company's employees. Safety incident reporting continues to be a pillar on our performance as does an increased concentration on management accountability and proactive hazard and risk assessment. During the year, the Group invested significantly in safety improvements across our operations and also outlaid funds on achieving productivity and safety gains. These investments will help to ensure an even more solid foundation for the desired safe workplace at Penrice. The Company is moving into its second year of a three year intensive program that will implement best practice safety procedures, and safety leadership and safe behaviour at all levels in the organisation.

MAJOR HAZARD FACILITY

An intrinsic part of Penrice's manufacturing process for soda ash and sodium bicarbonate, is the storage and use of large quantities of chemicals. As a consequence of anticipated regulatory change in South Australia, our Osborne operation is likely to be categorised as a "Major Hazard Facility", which is in line with requirements in other Australian states. The Company has undergone a formal review by SafeWork SA and the results of this audit have shown that the Company is well placed to meet the high regulatory standards required of a Major Hazard Facility, when the legislation is enacted.



OSBORNE ENGINE ROOM



COMMUNITY – "WORKING WITH OUR STAKEHOLDERS"

Penrice has been a company of significance and achievement in South Australia for over 70 years, and we understand that the way we conduct our business affects the various communities in which we operate. That includes a responsibility to understand and resolve social and environmental issues. Penrice has in place staffing, processes and systems to better understand community perspectives, and has updated our community complaints and issues reporting and recording systems to improve our responsiveness.

As part of our commitment to working better within the communities in which we operate, we actively participate in the independently chaired consultative forum – the Penrice Community Consultation Group (PCCG) – with the community around our Angaston mine in South Australia. This committee has representatives from the Barossa Council, community members, the Environmental Protection Agency (EPA), Department of Primary Industries and Resources of South Australia (PIRSA) and Penrice. This forum met monthly for two years until June 2010 when meetings moved to a more informal forum that will continue to meet on a quarterly basis, to discuss and share information around the Company's operations and performance to agreed environmental outcomes and criteria.

Penrice believes this is a strong indication of our commitment to listen to and understand our community stakeholders and to work to improve and ultimately resolve community issues.

ENVIRONMENT – "ZERO HARM AND WASTE"

An economically and environmentally sustainable future is high on the list of Penrice priorities. We have an operational improvement program that address the environmental impact from our businesses. Our Environmental Management System focuses on meeting requirements of the international standard ISO 14001, and we are licensed by the EPA in South Australia.

In FY2009 we commenced a major, three-stage program to dredge silt from the Port River in South Australia. This program, a $1.5 million investment to improve the river environment, will remove approximately 145,000 m^3 of silt and other debris over the next three to four years to help preserve the long-term health of the river. Progress to date has been substantial with approximately 43,000 m^3 having been removed in FY2009, and a further campaign is planned for the near future.

WATER USE

We continue to focus on reducing the water used by our operations, and in particular lowering the amount of towns water used per tonne of product produced. With the installation and commissioning of our Reverse Osmosis desalination plant in 2006, our use of towns water was reduced by 0.97Gl – a 65% reduction.

The majority of fresh water used at Penrice's operations is utilised for the generation of steam. The water from the desalination plant is of a greater purity than that of towns water and has resulted in 1,800 tonnes per annum less sulphuric acid and caustic soda being used to further process water for use in our businesses.

Buoyed by the good progress which Penrice has made in water savings, a project was initiated in Q3 of FY2010 to further reduce the amount of towns water and retain only a small portion for potable applications. This project was focused on reusing existing process water waste streams and was commissioned in June 2010.

This project will recover waste streams and allow them to be directed to feed the lime slaking plant. The water which was being used for lime slaking will now be directed to a new Reverse Osmosis (RO) plant. The permeate from the RO plant will be used as process softened water (replacing townswater), and the rejected water from the RO plant will also be used in the slaking plant to supplement the waste water streams.

As a result of making these changes, there will be a further saving of 0.43 Gl per annum of towns water in FY2011. This makes the future usage of towns water only 0.16 Glpa, down from 1.6Glpa in 2005.

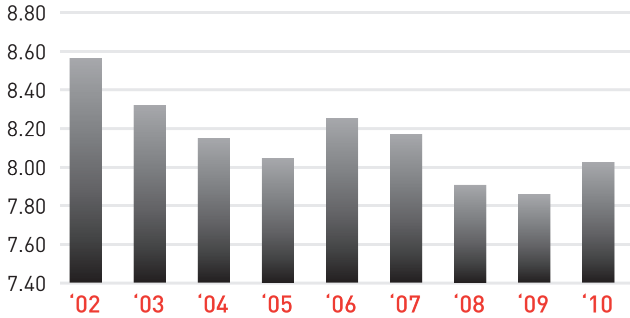
ENERGY & GREENHOUSE GAS EMISSIONS

Energy

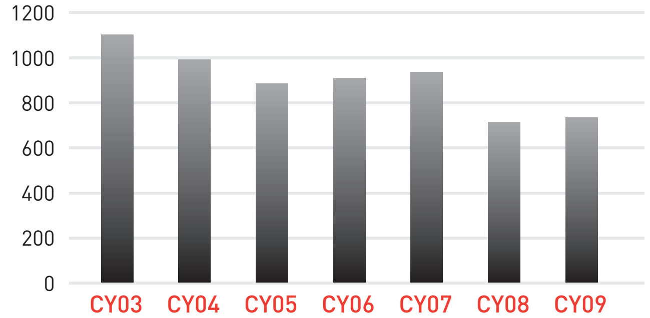
The operations of the Penrice Group use a range of energy sources including gas, electricity and steam in producing soda ash and sodium bicarbonate. Energy use is closely monitored, and we strive to become more efficient.

The Company continues to make a steady improvement trend in the consumption of energy with the GigaJoule of energy use per metric tonne of product being 8.01 in FY2010.

ENERGY CONSUMPTION (GJ/MT PRODUCT)



TONNES OF AMMONIA TO PORT RIVER



Penrice is a participant in the Australian Government's Energy Efficiency Opportunities (EEO) program, and after identifying a number of areas for significant energy savings, we have established plans that are expected to result in further improvement.

Greenhouse Gas

Penrice is a significant greenhouse gas emitter and is subject to the National Greenhouse and Energy Reporting Scheme (NGERS) and is likely to be impacted by any Australian Government's Carbon Pollution Reduction Scheme (CPRS).

We have continued to report formal greenhouse gas inventory under NGERS as required by legislation.

The Company has been accepted as an Energy Intensive Trade Exposed Entity under the Federal Government's Carbon Pollution Reduction Scheme at the highest level of permit allocation of 95%; if the scheme is enacted, the current view of the likely financial impact of the scheme on Penrice is that it is not likely to be material.

WASTE WATER EFFLUENT

All storm water and cooling water drains located within our Osborne site are discharged to the local marine environment, the Port River, after the removal of solids in our onsite solids recovery plant.

AMMONIA

Penrice continues its commitment to reducing its load of nitrogen on the Port River, in line with our 5 year Environmental Improvement Plan (EIP) that has now been in place for 5 years and has concluded. Reduction targets within this EIP were achieved by the Company. As a sign of our continued commitment to reducing our environmental impact the Company has agreed to a new EIP for a further 5 years that encompasses Dust Management, Ammonia and Solids to the Port River.

Penrice supports the targets set within the Adelaide Coastal Waters Study and has agreed with the EPA to meet a 2025 target of 300 tonnes of Ammonia discharged to the Port River.

AIR QUALITY

In accordance with our EPA operating licence, we monitor the release of contaminants to the atmosphere. This program includes the monitoring of chimney stacks on site that discharge particulates (dust) to the atmosphere, and also the continuous monitoring of particulates on the plant with two dust monitoring stations. The FY2010 emissions were compliant with legislation.

At our Angaston operation we have undertaken extensive air quality investigation and monitoring as part of our commitment to the PCCG. The EPA undertook dust emission monitoring over a 12 month period which confirmed that our operations are compliant with all standards and regulations. Our commitment to lower the emissions further has included automating dust suppressant systems on fixed plant and installing dust monitoring equipment that compliments our daily operational activities.

LICENCE COMPLIANCE

The Company is pleased to report continued compliance with all relevant environmental legislation, including our EPA operating licences and our EPA Environment Improvement Programs (EIP).

QUALITY

Penrice manufactures product to high quality standards and maintains manufacturing systems accredited to the Quality Management System international standards ISO 9001 and Food Safety Management System ISO 22000 which enables the supply into both food and pharmaceutical markets.

Penrice produce pharmaceutical grade sodium bicarbonate which meet British Pharmacopoeia 2010 and European Pharmacopoeia (6th Edition) specifications.

Executive Team

FRANK LUPOI

Chief Financial Officer & Company Secretary
FCPA, BA (Acc) (Uni SA)

Frank joined Penrice in May 2008. Prior to joining Penrice, Frank was with ASX listed Adelaide Bank for 18 years, the last four years as its CFO. Prior to this, Frank spent six years with the South Australian Gas Company in various accounting roles.

DECLAN MACKLE

General Manager – Chemical Operations
BEng (Hons) Chemical Engineering (Queen's Uni, Belfast)

Declan commenced with Penrice in May 2008 in the role of General Manager – Chemical Operations. He brings an extensive and successful international career in senior management positions gained from roles held with Adelaide Brighton Cement, Shark Bay Salt and Botswana Ash Pty Ltd.

BRETT SMITH

General Manager – Chemicals Business
Dip Ag Science (CSU), Grad Dip Ed (CSU), Grad Bus Studies (UNE)

Brett joined Penrice in April, 2010 and possesses over 20 years experience in sales and marketing management, procurement and distribution in chemical commodities. Brett's previous roles were held with Elders and Incitec Pivot.

DARRIN WRIGHT

General Manager – Quarry and Mineral
Grad Dip Human Factors in Safety Mgt (Uni SA) (current)

Darrin joined Penrice in December 2007. He has 20 years of experience in operational risk management. Having contributed significant improvement to the safety and environment management systems at Penrice, he was promoted to GM Quarry and Mineral in March 2010. Darrin has held senior roles with GM Holden, National Foods and Local Government.

ANDREW CANNON

General Manager – Supply Chain
MBA (Merit) (Uni of Newcastle), BSc Agriculture (Hons) (Melb Uni), GAICD

Andrew joined Penrice in November 2007. An experienced supply chain professional in domestic and international markets in the chemical, agricultural and mining sectors. Andrew's previous senior management roles were held with Elders, Tennant Limited, Incitec Limited and Western Mining Fertilisers.

MARNIE BROKENSHIRE

General Manager – Human Resources
BBus, Grad Dip HRM/IR (RMIT), Grad Cert Change Mgmt (AGSM)

Marnie joined Penrice in May 2007. She is a Human Resources specialist with more than 15 years experience in senior generalist roles. She has worked nationally and internationally with GM Holden, Sensis, Deloitte Consulting and Monsanto.

ROY DOVETON

General Manager – Major Projects
BSc Eng (Mech) (Hons), Mgmt Dip (Uni SA)

Roy joined Penrice in 1994. With over 25 years of experience in chemical and industrial manufacturing includes management responsibility for major projects, production management and maintenance. Roy's previous experience was gained from senior roles with Sappi Kraft Tugela (Pulp & Paper) and Iscor Newcastle (Iron & Steel).

NOTICE
FOOD SAFETY AREA
YOU MUST OBEY ALL FOOD SAFETY POLICIES
10
BEWARE FORKLIFT
DANGER
CONFINED SPACE

Directors

BARBARA GIBSON	DAVID TREBECK	GUY ROBERTS	ANDREW FLETCHER	JOHN HIRST

Directors' Report

The Board of Directors of Penrice Soda Holdings Limited has pleasure in submitting this report for the year ended 30 June 2010 as follows.

DIRECTORS

The names and details of the Company's Directors in office during the financial year, including other Directorships held for the past 3 years and until the date of this report are as follows. Directors were in office for this entire period unless otherwise stated.

JOHN H. HEARD AM

Chairman

(Retired 29 October 2009), Commenced as Director May 2002

- Fellow of the Institute of Chartered Accountants in Australia
- Fellow of Australian Institute of Company Directors (FAICD)

Experience

John is a Chartered Accountant in private practice and is a Director or consultant for a number of companies. John has been a Director of Penrice companies since May 2002 and during the past three years he has also served as a Director of the following other public companies and boards:

- S. Kidman & Co Limited*
- Adtrans Group Limited (Deputy Chairman)*
- Master Butchers Co-operative Ltd (Chairman)
- CEDA (Committee for Economic Development of Australia)

* Indicates a current Directorship

John is also Chairman of Bank SA Advisory Board.

DAVID B. TREBECK

Chairman

(Elected Chairman 29 October 2009)
Commenced as Director September 2007

- Bachelor of Science in Agriculture (Hons) (University of Sydney)
- Master of Economics (University of New England)
- Fellow, Australian Institute of Company Directors
- Churchill Fellowship
- Centenary of Federation Medal 2001

Experience

David is a Director of ASX listed Graincorp Limited and PrimeAg Australia Ltd, a former Commissioner of the National Water Commission and a Director of several other companies. During 2008 he served on a Government Panel reviewing Australia's biosecurity and quarantine arrangements. David is a former Managing Director of ACIL Consulting Pty Ltd and a former Director of Incitec Pivot Limited, Incitec Limited and Pipers Brook Vineyard Limited. During the past three years David also served on the following boards:

- Graincorp Limited*
- PrimeAg Australia Ltd*
- Maersk Australia Pty Ltd*
- Institute of Public Affairs
- National Water Commission
- Brumbies Rugby – Audit & Risk Committee

* Indicates a current Directorship

Special Responsibilities

- Member of Audit and Risk Management Committee
- Member of Nomination and Remuneration Committee

GUY R. ROBERTS

Managing Director and Chief Executive Officer

Commenced as Director December 2006

- Bachelor of Law (University of Adelaide)
- Graduate Diploma in Legal Practice (University of Adelaide)

Experience

Guy is an experienced international chemical Company Executive who was with the Orica Australia group (formerly ICI Australia) for 15 years prior to being appointed Managing Director and Chief Executive Officer of Penrice in 2007. He has wide experience in chemical, plastics and consumer markets in Australia, New Zealand, Asia and the United States – all of which are relevant to Penrice's operations.

Guy held a number of senior Executive positions with Orica, including Managing Director and General Manager roles in chemical manufacturing and distribution, plastics manufacturing and distribution, paint manufacturing and retailing in Australia and New Zealand.

His final Orica position prior to joining Penrice involved particular responsibility for setting Orica's strategic growth agenda in water treatment and was General Manager of Orica Watercare, the leading supplier of industrial and water treatment chemicals and equipment in Australia and New Zealand, and with operations in the United States and the United Kingdom.

Guy is also a former barrister and solicitor with Minter Ellison Lawyers and Senior Legal Counsel with Orica, responsible

for major projects, mergers and acquisitions across the Group's portfolio in Australia, New Zealand, Asia, United States and the United Kingdom.

Guy also currently serves on the following boards:

- Adelaide Festival Centre Foundation
- Business SA
- Committee for Economic Development of Australia SA (CEDA)
- National Lime Association of Australia

Special Responsibilities

- Member of Nomination and Remuneration Committee

ANDREW V. FLETCHER

Deputy Chairman

Commenced as Director April 2005

- Bachelor of Engineering (Civil) (University of Adelaide)
- Fellow, Institution of Engineers Australia
- Fellow, America Society of Civil Engineers
- Foundation Fellow, Australian Institute of Company Directors

Experience

Andrew is currently the Chief Executive Officer of Defence SA. His previous Executive appointments include Senior Vice President Global Infrastructure and Asia Pacific for Kellogg Brown & Root from 2001 until 2005, and Senior Vice President Asia Pacific for Brown & Root Services from 1998 until 2000. During the past three years Andrew has also served on the following boards:

- Defence SA Advisory Board*
- SA Environment Protection Authority Board*
- Member of SA Economic Development Board

* Indicates a current Directorship

Special Responsibilities

- Chairman of Audit and Risk Management Committee

BARBARA J. GIBSON

Commenced as Director November 2005

- Bachelor of Science (Biochemistry) (Monash University)
- Fellow of the Australian Academy of Technological Sciences and Engineering
- Centenary of Federation Medal 2001

Experience

Barbara was formerly the Group General Manager of Chemicals for Orica Limited, a $1.3 billion business and the largest Chemicals business in Australia, and a member of the Orica Group Executive. She has extensive experience in running science based businesses and technology development. During the past three years Barbara has also served as a Non-Executive Director on the following boards:

- St Barbara Limited*
- Nuplex Industries Limited*
- Warakirri Asset Management Pty Ltd (Chairman)*
- Biota Holdings Limited

* Indicates a current Directorship

Special Responsibilities

- Chair of Nomination and Remuneration Committee

JOHN W.A. HIRST

Commenced as Director September 2007

Experience

John has over 40 years experience in the international chemical industry, and from 2001 to mid 2010 was Managing Director of ASX and NZX listed, Nuplex Industries Limited, a leading manufacturer and distributor of functional chemical based materials with global operations. During the past three years John has also served on the following boards:

- Nuplex Industries Limited

Special Responsibilities

- Member of Nomination and Remuneration Committee
- Member of Audit and Risk Management Committee

FRANK LUPOI

Chief Financial Officer and Company Secretary**

- Bachelor of Arts (Accounting) (University of South Australia)
- Fellow of Certified Practising Accountants Australia

**Not a Director of the Penrice Group of Companies

Experience

Frank joined Penrice in May 2008 with responsibilities including Finance and Accounting, Taxation, Business Information Technology, Internal Audit, Risk Management, Legal and Secretarial. Prior to joining Penrice, Frank was with ASX listed Adelaide Bank for 18 years, the last four years as its Chief Financial Officer. During his career he oversaw various areas during a period of strong growth at Adelaide Bank including Finance & Accounting, Treasury, Credit Risk and Corporate Sourcing. Prior to this, Frank spent six years with the South Australian Gas Company in various accounting roles.

Special Responsibilities

- Company Secretary
- Chief Financial Officer

DIRECTORS' INTERESTS

No Director has any interest in a contract or proposed contract with the Company or any of its subsidiaries other than as disclosed in the Directors' benefits section of this report.

The relevant direct or indirect interest of each Director in the shares issued by the Company as notified by the Directors to the Australian Securities Exchange in accordance with S205G(I) of the Corporations Act 2001, at the date of this report is as follows:

Director	Name of holder and nature of interest	Number of ordinary shares
D.B. Trebeck	DB & DJ Trebeck as Trustee for Fairo Superannuation Fund	415,989
A.V. Fletcher	Andrew Fletcher & Associates Pty Ltd Superannuation Fund	118,349
B.J. Gibson	Sunday Agencies Pty Ltd Superannuation Fund	62,931
J.W.A. Hirst	J.W.A. Hirst	37,608
G.R. Roberts	G.R. Roberts	105,063

DIRECTORS' MEETINGS

The number of Directors' meetings and meetings of Committees of Directors held during the year and the number of meetings attended by each Director is as follows:

	Board Meetings		Audit & Risk Management Committee Meetings		Nomination & Remuneration Committee Meetings	
	Eligible Scheduled Meetings	Meetings Attended	Eligible Scheduled Meetings	Meetings Attended	Eligible Scheduled Meetings	Meetings Attended
D.B. Trebeck	11	10	4	3	3	2
G.R. Roberts	11	11	–	4*	3	3
A.V. Fletcher	11	11	4	4	–	3*
B.J.Gibson	11	10	–	4*	3	3
J.W.A Hirst	11	10	4	4	3	3
J.H. Heard AM (retired)	6	6	2	2	1	1

*Although not a member of the committee, the Director attended.

PRINCIPAL ACTIVITIES

The principal activities of the Company consist of the manufacture, distribution and sales of soda ash and sodium bicarbonate and the mining, distribution and sale of quarry and mineral products.

Result	30 June 2010 $000	30 June 2009 $000
Operating profit after income tax	6,277	7,149
Dividends	–	–

2010: No Interim dividend was paid and no Final dividend has been declared

2009: No Interim or Final dividend was paid

EMPLOYEES

The consolidated entity employed 257 employees at 30 June 2010 (2009 – 257 employees).

REVIEW OF OPERATIONS

A review of operations of the consolidated entity during the financial year and the results of those operations are included earlier in the Managing Director and Chief Executive Officer's Report.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

There has been no significant change in the State of Affairs of the Company.

SIGNIFICANT EVENTS AFTER THE BALANCE DATE

There have been no significant events after the balance date.

REFINED BICARB PLANT

LIKELY DEVELOPMENTS AND FUTURE RESULTS

A detailed review of the likely developments and future results is included in the Managing Director and Chief Executive Officer's Report.

ENVIRONMENTAL REGULATION AND PERFORMANCE

The Company holds licences issued by the Environment Protection Authority (EPA), which enables discharge to the environment from the consolidated entity's operations. All environmental performance obligations are monitored and are subjected, from time to time, to Government Agency audits and site inspections. The consolidated entity has a policy of at least complying, but in most cases, exceeding its environmental performance obligations.

There have been no known breaches of the consolidated entity's licence conditions during the financial year.

A detailed review of environmental regulation and performance is included in the Sustainability Report.

INDEMNIFICATION OF OFFICERS

The Company has paid a premium for Directors' and Executive Officers' liability insurance in respect of Directors and Executive Officers of the Company as permitted by the Corporations Act 2001. The terms of the policy prohibit disclosure of details of the insurance cover and premium.

The Company has agreed to indemnify the current Directors of the Company against all liabilities to another person (other than the Company or a related body corporate) that may arise from their position as Directors of the Company and its controlled entities, except where the liability arises out of conduct involving lack of good faith. The Access, Indemnity and Insurance Deed stipulates that the Company will meet the full amount of any such liabilities including costs and expenses.

SHARE OPTIONS AND RIGHTS

As at the date of this Report there were 171,855 performance rights that had vested 1 July 2010 in respect of the allocation of rights under the LTI plan for FY2008. There were 878,068 performance rights allocated in respect of the LTI plan for FY2010 which are subject to a 3 year performance period and will be eligible for vesting under the plan in FY2012.

Refer remuneration report for further details.

REMUNERATION REPORT (AUDITED)

This report outlines the remuneration arrangements in place for the specified Directors and Executives of Penrice Soda Holdings Limited in accordance with the requirements of the Corporations Act 2001 and its Regulations. For the purpose of this report, key management personnel (KMP) of the Group are defined as those persons having authority and responsibility for planning, directing and controlling the major activities of the Company and the Group, directly or indirectly, including any Director (whether Executive or otherwise) of the Parent Company and those specified Executives as outlined below. The specified Executives include the five Executives in the Parent and the Group receiving the highest remuneration. For the purposes of this report, the term "Executive" encompasses the Chief Executive, Senior Executives, General Managers and Secretaries of the Parent and the Group.

Details of key management personnel

Directors	
John Heard	Chairman (retired 29 October 2009)
David Trebeck	Chairman (elected 29 October 2009)
Guy Roberts	Managing Director and Chief Executive Officer
Andrew Fletcher	Deputy Chairman
Barbara Gibson	Non-Executive Director
John Hirst	Non-Executive Director

Specified Executives	
Frank Lupoi	Chief Financial Officer and Company Secretary
Declan Mackle	General Manager, Chemical Operations
Darrin Wright	General Manager, Quarry & Mineral (appointed 1 May 2010, previously GM Safety, Health, Environment and Quality)
Brett Smith	General Manager, Chemicals Business (appointed 12 April 2010)
Andrew Cannon	General Manager, Supply Chain
Roy Doveton	General Manager, Capital Projects
Marnie Brokenshire	General Manager, Human Resources
Mike Carter	General Manager, Quarry & Mineral (retired 1 July 2010)

There were no changes of the CEO or KMP after reporting date and before the date the financial report was authorised for issue.

REMUNERATION PHILOSOPHY

The aim of the Executive Remuneration Policy is to strike a balance between rewarding the performance of its Executives and sustaining and growing the business profitably. The Executive Remuneration Policy is designed to ensure that the Company:

- Develops and maintains a "Pay for Performance" culture – a transparent process that links performance with reward and makes performance expectations and outcomes clear
- Attracts and retains the right people
- Pays competitive, market aligned, total compensation
- Has a pay system that sizes jobs, benchmarks internally and externally
- Creates an environment where executives act, feel and are owners of the business.

The Company is committed to adhering to high corporate governance standards for Executive remuneration having regard to the ASX recommendations and relevant stakeholder bodies.

NOMINATION AND REMUNERATION COMMITTEE

The Nomination and Remuneration Committee of the Board of Directors of the Company is responsible for determining and reviewing compensation arrangements for the Directors, the Managing Director and the Executive team.

The Nomination and Remuneration Committee assesses the appropriateness of the nature and amount of remuneration of Directors and executives on a periodic basis. It makes remuneration decisions by reference to relevant employment market conditions, external market data and comparable relativities. The overall objective is to ensure maximum stakeholder benefit from the retention of a high quality Board and Executive team.

REMUNERATION STRUCTURE

In accordance with best practice corporate governance, the structure of Non-Executive Director and Executive remuneration are separate and distinct.

NON-EXECUTIVE DIRECTOR REMUNERATION

Objective
The Board seeks to set aggregate remuneration at a level which provides the Group with the ability to attract and retain Directors of the highest calibre, whilst incurring a cost which is acceptable to shareholders.

Structure
The Constitution and the ASX Listing Rules specify that the aggregate remuneration of Non-Executive Directors shall be determined from time to time by a general meeting. An amount not exceeding the amount determined is then divided between the Directors as agreed. The latest approved aggregate remuneration is for an amount of $500,000 per annum.

The amount of aggregate remuneration sought to be approved by shareholders and the manner in which it is apportioned amongst Directors is reviewed annually. The Board considers advice from external consultants as well as the fees paid to Non-Executive Directors of comparable companies when undertaking the annual review process.

Each Non-Executive Director receives a fee for being a Director of the Company.

The remuneration of Non-Executive Directors for the period ending 30 June 2010 is detailed on page 24 of this report.

Remuneration for FY2010 (including superannuation) was $361,289 comprising:

John Heard AM	Chairman	$54,832	(retired 29/9/09)
David Trebeck	Chairman	$103,947	(elected 29/9/09)
Andrew Fletcher	Director	$69,761	
Barbara Gibson	Director	$69,470	
John Hirst	Director	$63,280	

Non-Executive Director remuneration was reviewed for FY2011 with reference to policy for such review and external market data. Effective 1 July 2010, Non-Executive Director remuneration was indexed by 3% in line with market data. Non-Executive Director remuneration has not been increased since 1 July 2008.

EXECUTIVE DIRECTOR AND EXECUTIVE REMUNERATION

Objective
The Company aims to reward Executives with a level and mix of remuneration commensurate with their position and responsibilities within the Company and so as to:

- reward Executives for Company, business unit and individual performance against targets set by reference to appropriate benchmarks;
- align the interests of Executives with those of shareholders;
- links reward with the strategic goals and profit performance of the Company; and
- ensures total remuneration is competitive by market standards.

Structure
It is the Nomination and Remuneration Committee's policy that employment contracts are only entered into with the Managing Director.

Remuneration consists of the following key elements:

- Fixed Annual Remuneration (FAR)
- Variable Annual Remuneration (Variable Pay)
    - Short Term Incentive (STI)
    - Long Term Incentive (LTI)

FIXED ANNUAL REMUNERATION (FAR)

Objective
Fixed annual remuneration is reviewed annually by the Nomination and Remuneration Committee. The process consists of a review of Company wide, business unit and individual performance, relevant comparative market data and, where appropriate, external advice on policies and practices. The Committee has access to external advice independent of management.

Structure
Executives are given the opportunity to receive their fixed annual remuneration in a variety of forms including cash, superannuation and motor vehicles.

OSBORNE ASH FINISHING PLANT

VARIABLE ANNUAL REMUNERATION – SHORT TERM INCENTIVE (STI)

Objective

The objective of the STI program is to link the achievement of the Group's operational targets with the remuneration received by Executives charged with meeting those targets. The total potential STI available is set at a level so as to provide sufficient incentive to the Executive to achieve the targets and that the cost to the Company is reasonable in the circumstances.

Structure

Actual STI payments granted to each Executive depend on the extent to which specific operating targets set at the beginning of the financial year are met. For the 2010 financial year, the target was to achieve the net profit after tax (NPAT) at a budget level above the previous financial year's NPAT. If financial targets are achieved then Executives are required to also meet individual operational and performance targets. The operational targets consist of a number of agreed critical objectives covering both financial and non financial measures of performance.

The aggregate of annual STI payments available for Executives across the Company is subject to the approval of the Nomination and Remuneration Committee. Payments made are delivered as a cash bonus. Having not achieved the specific performance criteria for the financial year 2010, no STI payments were payable.

VARIABLE ANNUAL REMUNERATION – LONG TERM INCENTIVE (LTI)

Objective

The LTI Plan is intended to provide eligible Executives with an additional reward for achieving Penrice's long term strategic and financial objectives. It achieves this by adding a long term performance based element to the overall remuneration package.

Structure

As soon as possible after the commencement of each performance year, the Company will grant Performance Rights to each eligible participant. The performance year will commence on 1 July and continue until the next 30 June. Each grant will specify the amount of the grant, vesting period and vesting conditions.

The vesting period or "performance measurement period" for the annual grants under the Scheme will be three (3) years. The participant will receive 100% of the annual grant of Performance Rights at the commencement of each performance year.

The quantum of each annual grant will be calculated as follows:

Number of Performance rights = Fixed Annual Remuneration for the Participant x LTI% / Adjusted Value of a Performance Right.

A discount (adjusted value of a performance right) will be applied on account of the grant being subject to vesting conditions effectively reducing the value of the Performance Rights. This discount is considered in light of the initial vesting conditions and is subject to change at the discretion of the Board in respect of each grant.

LTI% allocation is determined by size and function of the role (Hay Evaluation). The range is 15–50% of FAR.

Calculation

For the purpose of calculation of the value of a performance right (prior to any adjustment/discount) the VWAP (volume weighted average price) of trading for 15 days immediately prior to the commencement of the measurement period is used.

Measures

Each grant will be subjected to vesting conditions or "performance measures".

The Scheme will initially incorporate two performance measures which function as vesting conditions for the vesting of the Performance Rights and they have been selected because they align Executive performance, Company performance and shareholder interests:

Absolute earnings per share (EPS) and Relative total shareholder return (TSR).

Each measure will be weighted equally as a vesting condition and be counted separately in the calculation of vesting, that is 50% EPS and 50% TSR.

Definitions

EPS — Earnings: Net profit after tax.

Shares — The daily average number of shares on issue in the performance measurement period. Board discretion should apply to the calculation of EPS growth so that eligible participants are neither advantaged nor disadvantaged by capital raisings or reductions or any other factors not reflective of underlying business performance.

TSR — Dividend paid in the performance measurement period plus the movement in the share price from the VWAP for the twenty trading days immediately prior to the commencement of the performance measurement period (1 July Year One) up to the VWAP for the twenty trading days immediately prior to the end of the performance measurement period (30 June Year Three).

Conditions

Penrice's TSR performance is ranked relative to companies in a comparator group consisting of the smallest 50 companies other than Penrice in the ASX Small Industrials Index. The hurdle is tested initially at the end of the Performance Period being 30 June 2012, and if required is then subject to retesting at the end of the fourth year following the grant, ie 30 June 2013.

The Company may in its discretion decide to pay earned Performance Rights in cash and/or shares and will take into account expressed wishes on behalf of an eligible participant in that regard.

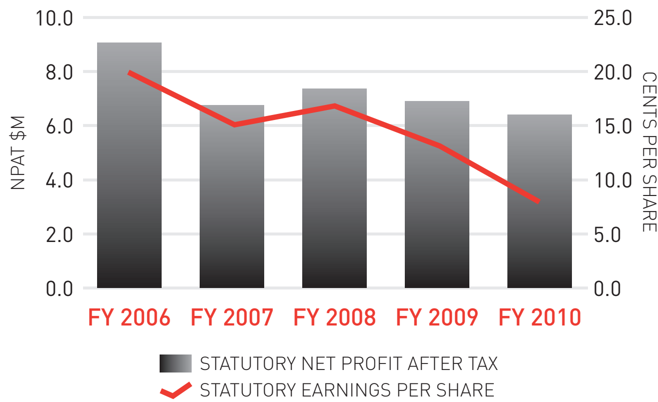
A participant must remain employed by the Company as at 30 June in the third year of the performance measurement period to be eligible to receive the Performance Rights.

If a participant is terminated on account of redundancy or redeployment all earned Performance Rights shall be paid and unearned Performance Rights will be forfeited, unless other wise determined by the Board.

In the case of retirement and resignation as a consequence of ill health or death, all earned Performance Rights shall be paid soon after termination.

Takeovers/Ownership Change – all granted Performance Rights will be paid out (issued) upon takeover.

OSBORNE ASH FINISHING PLANT



COMPANY PERFORMANCE AND ITS LINK TO INCENTIVE

The key financial performance measure driving STI payment outcomes has historically been reported net profit after tax (NPAT) and for LTI payments, reported earnings per share (EPS). The FY2010 LTI has also incorporated a total shareholder return measure. The graph on this page outlines the Company's NPAT and EPS over the five-year period from 1 July 2005 to 30 June 2010.

Due to the impact of the global financial crisis on the Company's NPAT and EPS, performance has been diluted and Executives will not receive their FY2010 STI award. Details relating to the FY2010 LTI are set out above.

EMPLOYMENT CONTRACTS

The CEO & Managing Director, Mr Guy Roberts, is employed under a rolling common law employment contract. The current employment contract commenced on 19 December 2006. Under the terms of this contract:

- Mr Roberts receives fixed annual remuneration (FAR) of $520,000 per annum which is reviewed annually effective 1 September.
- Mr Roberts is eligible for participation in the STI scheme with a quantum of 40% of FAR and the LTI scheme with a quantum of 50% of FAR.
- Mr Roberts may resign from his position and thus terminate this contract by giving 12 months written notice.
- The Company may terminate this employment agreement by providing 12 months written notice or providing payment in lieu of the notice period (based on the FAR of Mr Roberts' remuneration).
- If in the Company's reasonable opinion, the CEO fails to exercise reasonable skill and care in the performance of the CEO's duties, having first been provided with not less that 28 days notice of the details of the alleged failure to exercise reasonable skill and care, and having failed to rectify that failure within that time, the employment agreement may immediately terminate without notice.
- The Company may terminate this employment agreement at any time without notice or compensation in lieu, in the case of serious or wilful misconduct.

OTHER EXECUTIVES (STANDARD CONTRACTS)

All executives have common law employment contracts. The Company may terminate the employment by providing three (3) months written notice or providing payment in lieu of the notice period (based on the fixed component of the remuneration).

The Company may terminate the contract at any time without notice if serious misconduct has occurred. Where termination with cause occurs the Executive is only entitled to that portion of remuneration that is fixed, and only up to the date of termination. On termination with cause any unvested performance rights will immediately be forfeited.

REMUNERATION REPORT (AUDITED) (CONTINUED)

TABLE 1: COMPENSATION OF KEY MANAGEMENT PERSONNEL 30 JUNE 2010

	Short Term				Post Employment Benefits	Long Term Benefits		Share Based Payments			
	Salary & Fees	Cash Bonus (a)	Non Monetary Benefits (b)	STI (c)	Superannuation	Cash Incentives	Long Service Leave	LTI(d)	Total	Performance Related Pay %	LTI No. of Pref Rights Issued (e)
Directors											
G Roberts	$412,784	$115,000	$48,399	–	$37,151	–	$2,324	$30,338	$645,996	22.50%	97,423
D Trebeck ^	$94,190	–	–	–	$9,757	–	–	–	$103,947	0.00%	–
A Fletcher	$15,714	–	–	–	$54,046	–	–	–	$69,760	0.00%	–
B Gibson	$39,912	–	–	–	$29,558	–	–	–	$69,470	0.00%	–
J Hirst	$56,881	–	–	–	$6,399	–	–	–	$63,280	0.00%	–
J Heard^^	$36,698	–	–	–	$18,134	–	–	–	$54,832	0.00%	–
Executives											
F Lupoi	$269,877	$55,000	–	–	$28,624	–	$1,049	$8,790	$363,340	17.56%	–
D Mackle~	$207,301	$7,000	$12,103	–	$18,657	–	$810	$3,223	$249,094	4.10%	–
D Wright	$166,704	$7,000	$22,876	–	$15,003	–	$635	$3,575	$215,793	4.90%	11,691
B Smith*	$39,571	–	–	–	$3,561	–	$60	–	$43,192	0.00%	–
A Cannon	$185,066	$12,000	$8,612	–	$16,656	–	$796	$3,735	$226,865	6.94%	12,340
R Doveton	$150,257	$6,000	$15,215	–	$39,535	–	$3,949	$3,693	$218,649	4.43%	12,243
M Brokenshire	$176,117	$7,000	$19,710	–	$14,461	–	$1,053	$3,885	$222,226	4.90%	12,665
M Carter	$179,387	$15,000	–	–	$48,313	–	$4,865	$1,817	$249,382	6.74%	14,289
	$2,030,459	**$224,000**	**$126,915**	**–**	**$339,855**	–	**$15,541**	**$59,056**	**$2,795,826**		**160,651**

Notes

^ Appointed 29 October 2009

^^ Retired 29 October 2009

~ Non monetary benefit amount relates to reimbursement of relocation expenses

* B Smith commenced on 12 April 2010

(a) Paid in recognition of delivery of key strategic corporate initiatives in FY09.

(b) Non monetary benefits relate to salary sacrifice motor vehicles unless otherwise noted

(c) STI performance hurdle not met for performance year FY10

(d) The share base payment expense represents a proportion of the value of the rights issued in FY08 and FY10 in accordance with AASB2 Share Based Payments

(e) Performance rights issued relate to allocation under LTI scheme for FY08 which vested on 1 July 2010.

TABLE 2: COMPENSATION OF KEY MANAGEMENT PERSONNEL 30 JUNE 2009

	Short Term				Post Employment Benefits	Long Term Benefits		Share Based Payments			
	Salary & Fees	Cash Bonus (a)	Non Monetary Benefits (b)	STI (c)	Superannuation	Cash Incentives	Long Service Leave	LTI(d)	Total	Performance Related Pay %	LTI No. of Pref Rights Issued (e)
Directors											
G Roberts	$417,141	–	$28,944	–	$37,543	–	$2,335	$12,392	$498,355	2.49%	–
J Heard	$109,431	–	–	–	$13,569	–	–	–	$123,000	0.00%	–
A Fletcher	–	–	–	–	$67,000	–	–	–	$67,000	0.00%	–
B Gibson	$12,944	–	–	–	$54,056	–	–	–	$67,000	0.00%	–
J Hirst	$56,881	–	–	–	$5,119	–	–	–	$62,000	0.00%	–
D Trebeck	$56,881	–	–	–	$5,119	–	–	–	$62,000	0.00%	–
Executives											
F Lupoi	$214,997	–	–	–	$50,026	–	$895	–	$265,918	0.00%	–
D Mackle	$201,835	–	–	–	$18,165	–	$785	–	$220,785	0.00%	–
M Carter	$138,263	–	$274	–	$89,728	–	$4,914	$1,817	$234,996	0.77%	–
A Cannon*	$171,228	–	$9,295	–	$15,412	–	$718	$1,570	$198,223	0.79%	–
A Kuhndt	$147,452	$5,000	$20,516	–	$17,138	–	$3,437	$1,425	$194,968	3.30%	–
R Doveton	$136,443	–	$19,458	–	$33,935	–	$3,693	$1,557	$195,086	0.80%	–
D Wright*	$149,502	–	$23,521	–	$13,455	–	$599	$1,487	$188,564	0.79%	–
M Brokenshire**	$173,288	–	$20,410	–	$15,596	–	$938	$1,611	$211,843	0.76%	–
	$1,986,286	**$5,000**	**$122,418**	**–**	**$435,861**	**–**	**$18,315**	**$21,859**	**$2,589,739**		**–**

Notes

* A Cannon and D Wright pro rata increases for FY09 to respective service dates – reflects prorata Fixed Annual Remuneration

** M Brokenshire includes backpayment component paid in FY09.

(a) Bonus made in respect of export market growth for Refine Bicarbonate

(b) Medical benefits reimbursement scheme for GMs and relocation expense reimbursement for D Mackle and novated leases. R Doveton fully maintained vehicle to be phased out consistent with new Exec Remuneration policy at expiration of current lease.
A Kuhndt reflects part year and transition to new policy in 2009.

(c) STI performance hurdle not met for performance year FY09.

(d) The share based payment expense represents a proportion of the value of the rights issued in FY2008 in accordance with AASB 2 Share Based Payments

(e) LTI performance hurdle not met for performance year FY09.

REMUNERATION REPORT (AUDITED) (CONTINUED)

TABLE 3: COMPENSATION PERFORMANCE RIGHTS FOR FY2010

Compensation performance rights – granted and vested during the year

	Granted			Vested subject to service condition		
	No.	Granted Date	Fair Value per Perf Right ($)	No.	%	Vesting Date
Directors						
G Roberts	387,939	01/02/2010	0.64	–	–	01/07/2012
Executives						
F Lupoi	190,011	01/02/2010	0.64	–	–	01/07/2012
D Mackle	69,671	01/02/2010	0.64	–	–	01/07/2012
A Cannon	46,790	01/02/2010	0.64	–	–	01/07/2012
R Doveton	46,173	01/02/2010	0.64	–	–	01/07/2012
D Wright	45,128	01/02/2010	0.64	–	–	01/07/2012
M Brokenshire	49,165	01/02/2010	0.64	–	–	01/07/2012
	834,877					

An additional 43,911 performance rights were issued to other employees.

TABLE 4: COMPENSATION PERFORMANCE RIGHTS FOR FY2009

Compensation performance rights – granted and vested during the year

	Granted			Vested subject to service condition		
	No.	Granted Date	Fair Value per Perf Right ($)*	No.	%	Vesting Date
Directors						
G Roberts	154,088	19/02/2009	0.87	–	–	–
Executives						
F Lupoi	33,333	19/02/2009	0.87	–	–	–
D Mackle	18,585	19/02/2009	0.87	–	–	–
M Carter	27,673	19/02/2009	0.87			
A Cannon	17,155	19/02/2009	0.87	–	–	–
A Kuhndt	17,925	19/02/2009	0.87	–	–	–
R Doveton	18,340	19/02/2009	0.87	–	–	–
D Wright	19,528	19/02/2009	0.87	–	–	–
M Brokenshire	21,481	19/02/2009	0.87	–	–	–
	328,108					

Notes

No LTI for FY2009 will vest. 100% of the grant was forfeited as the EPS performance condition was not met.

*Maximum value of the award is the fair value per performance right multiplied by the number of rights granted.

The minimum value $nil if performance and service conditions are not met.

REMUNERATION REPORT (AUDITED) (CONTINUED)

TABLE 5: VALUE OF PERFORMANCE RIGHTS AWARDED, EXERCISED AND LAPSED DURING THE YEAR

	Value of Perf Rights Granted during year $	Value of Perf Rights exercised during year $	Value of Perf Rights lapsed during year $	Remuneration consisting of performance rights for the year %
Directors				
G Roberts	17,946	–	–	4.7%
Executives				
F Lupoi	8,790	–	–	2.4%
D Mackle	3,223	–	–	1.3%
A Cannon	2,165	–	–	1.7%
R Doveton	2,136	–	–	1.7%
D Wright	2,088	–	–	1.7%
M Brokenshire	2,274	–	–	1.8%
	38,622			

ROUNDING OF AMOUNTS

The entity is a Company of the kind specified in the Australian Securities and Investments Commission class order 98/0100. In accordance with the class order, amounts in the financial statements and Directors' report have been rounded to the nearest thousand dollars unless specifically stated otherwise.

AUDITOR'S INDEPENDENCE DECLARATION TO THE DIRECTORS OF PENRICE SODA HOLDINGS LIMITED

In relation to our audit of the financial report of Penrice Soda Holdings Limited for the financial year ended 30 June 2010, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the Corporations Act 2001 or any applicable code of professional conduct.

Ernst & Young

Mark Phelps
Partner

20 September 2010

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NON-AUDIT SERVICES

The following non-audit services were provided by the entity's auditor, Ernst & Young. The Directors are satisfied that the provision of non-audit services is compatible with the general standard of independence for auditors imposed by the Corporations Act. The nature and scope of each type of non-audit service provided means that auditor independence was not compromised. Ernst & Young received or are due to receive the following amount for the provision of non-audit services:

Other assurance services	$35,390
Taxation	$91,445
Total	**$126,835**

This report has been signed in accordance with a resolution of the Directors.

Signed at Adelaide this 20th day of September 2010.

David Trebeck
Chairman

Guy Roberts
Managing Director and Chief Executive Officer

Corporate Governance Statement

The Board of Directors of Penrice Soda Holding Limited is responsible for establishing the corporate governance framework of the consolidated Group. The Board has considered the ASX Corporate Governance Council's published guidelines as well as its Corporate Governance Principles and Recommendations and is pleased to report that its practices are largely consistent with those of the Council's guidelines. The Board guides and monitors the business and affairs of Penrice Soda Holdings Limited on behalf of the shareholders by whom they are elected and to whom they are accountable.

OSBORNE MANUFACTURING SITE

STRUCTURE OF THE BOARD

The names of the Directors and their qualifications and experience are stated in the Directors' Report.
An independent Director is a Director who is not a member of management (a Non-Executive Director) and who:

- holds less than five percent of the voting shares of the Company and is not an officer of, or otherwise associated, directly or indirectly, with a shareholder of more than five percent of the voting shares of the Company;
- has not within the last three years been employed in an Executive capacity by the Company or another group member, or been a Director after ceasing to hold any such employment;
- within the last three years has not been a principal or employee of a material professional adviser or a material consultant to the Company or another group member;
- is not a material supplier or customer of the Company or another group member, or an officer of or otherwise associated, directly or indirectly, with a material supplier or customer;
- has no material contractual relationship with the Company or another group member other than as a Director of the Company; and
- is free from any interest and any business or other relationship that could, or could reasonably be perceived to, materially interfere with the Director's ability to act in the best interests of the Company.

All the Non-Executive Directors at the time of this report are considered independent.

The Chairman of the Board and the Chairman of the Audit and Risk Management Committee are each considered to be independent Directors.

Directors may obtain independent, professional advice relevant to Penrice's affairs to assist them in carrying out their duties as Directors at Penrice's expense subject to approval of the Chairman. Such approval is not to be unreasonably withheld.

The roles of Chairman and Chief Executive Officer are not exercised by the same individuals.

Penrice Soda Holdings Limited's Board Charter is available in the Corporate Governance section at www.penrice.com.au.

BOARD SIZE AND COMPOSITION

At the date of this Corporate Governance Statement, the Board comprises four independent Non-Executive Directors and one Executive Director. The constitution requires a minimum of three and a maximum of eight Directors. The Board currently has five Directors and may review this from time to time.

The Nomination and Remuneration Committee determines the necessary and desirable competencies of the Board members and will make recommendations to the Board on the composition of the Board and its Committees, including the appointment and removal of members. The Company's constitution requires that at the Annual General Meeting, one third of the Non-Executive Directors who have held office for the longest period, or if their number is not a multiple of three, then the number nearest to but not more than one third of the Directors, must retire. A retiring Director is eligible for re-election.

BOARD ROLE AND RESPONSIBILITY

The Board's role and responsibilities are formalised in the Board Charter. The Charter also defines the matters that are reserved for the Board and its Committees and the Board members' access rights to information and independent advice, among other matters.

The Penrice Soda Holdings Limited's Board, as the representative of the Company's shareholders, is responsible for the overall governance of the Company and its responsibilities include:

- appoint and remove the Chief Executive Officer and senior Executives, and determine that person's conditions of service, remuneration (including termination benefits) and the conditions of service and remuneration policy of senior Executives;
- monitor and assess the performance of the Chief Executive Officer and the Company's Executive team;
- approve the remuneration (including financial incentives) of the Chief Executive Officer and senior Executives;
- recommending the appointment and reviewing the performance of Directors;
- overseeing the succession plans for the Board, Chief Executive Officer and senior Executive team;
- establishing any incentive plans for Directors, management and employees;
- establishing and appointing the members of subcommittees of the Board, including the Nomination and Remuneration Committee and the Audit and Risk Management Committee;
- provide input into, and approve, the business plan, budget and compliance policies of the Company as prepared by management;
- approving the Company's annual accounts, reports and other public documents;
- monitor the strategic and financial objectives and performance against the business plan and budget;
- review the Company's risks of operating its business and oversee implementation of appropriate measures;
- monitor business risks and oversee the risk management strategy;
- oversee the audit, compliance and financial and operation risk management functions of the Company;
- delegating an appropriate level of authority to management;
- oversee the Company's employee-relations and legal, ethical, social and environmental behaviour;
- approve all material acquisitions, divestments, contracts and capital expenditure;
- ensure appropriate and responsible funding is available to the Company;
- oversee the Company's financial reporting and communication to shareholders and the investment community and shareholder relations generally (including effectively communicating the Company's financial position, trading performance and prospects to stakeholders); and
- ensuring that the Penrice Group has appropriate corporate governance structures in place including standards of ethical behaviour and promoting a culture of corporate and social responsibility.

AUDIT AND RISK MANAGEMENT COMMITTEE

The Audit and Risk Management Committee has a documented charter, approved by the Board. All members must be Non-Executive Directors. The Chairman may not be the Chairman of the Board.

The current members of the Audit and Risk Management Committee are:

- Andrew V. Fletcher (Chairman) – Non-Executive Director
- David B. Trebeck – Non-Executive Director
- John Hirst – Non-Executive Director

For details of Directors' attendance at meetings of the Audit and Risk Management Committee refer to the Directors' Report. Refer also to the Directors' Report for details of the qualifications of the members of this committee.

The committee advises on the establishment and maintenance of a framework of internal controls and ethical standards for the management of the consolidated entity.

This includes internal controls to deal with the effectiveness of significant business processes, the safeguarding of assets, the maintenance of proper accounting records and the reliability of financial information as well as non-financial considerations.

The committee also provides the Board with additional assurances regarding the reliability of financial information for inclusion in the financial reports.

Penrice Soda Holdings Limited's Audit and Risk Management Committee Charter is available in the Corporate Governance section at www.penrice.com.au.

AUDITOR INDEPENDENCE

The independence of the external auditor is of particular importance to shareholders and the Board. The Board requires:

- Rotation of the senior audit partner every five years;
- Annual confirmation by the auditor that it has satisfied all professional regulations relating to auditor independence; and
- Specific exclusion of the audit firm from work which may give rise to a conflict.

In accordance with the Corporations Act 2001 and, based on the advice of the Audit and Risk Management Committee, the Directors have satisfied themselves that the provision of nonaudit services during the year by the auditor is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001.

NOMINATION AND REMUNERATION COMMITTEE

The Board has a Nomination and Remuneration Committee, which meets at least annually to ensure that the Board continues to operate within the established guidelines including, where necessary, selecting candidates for the position of Director.

The current members of the Nomination and Remuneration Committee are:

- Barbara J. Gibson (Chairman) – Non-Executive Director
- David Trebeck – Non-Executive Director
- John Hirst – Non-Executive Director
- Guy R. Roberts – Managing Director and Chief Executive Officer

For details of Directors' attendances at meetings of the Nomination and Remuneration Committee, refer to the Directors' Report.

The Nomination and Remuneration Committee reviews and makes recommendations to the Board on remuneration packages and policies applicable to the Managing Director, senior Executives and Directors themselves. It is also responsible for share schemes, incentive performance packages, superannuation entitlements, retirement and termination entitlements and fringe benefits policies.

Remuneration levels are competitively set to attract and retain appropriately qualified and experienced senior Executives.

The Nomination and Remuneration Committee obtains independent advice on the appropriateness of remuneration packages, given trends in comparative companies both locally and internationally.

Remuneration packages can include a mix of fixed remuneration and performance-based remuneration.

The expected outcomes of the remuneration structure are:

- retention and motivation of key Executives;
- attraction of quality management to the Company; and
- performance incentives which allow Executives to share the rewards of the success of the Company.

For a full discussion of the Company's remuneration philosophy and framework and the remuneration received by Directors and Executives during the year, please refer to the Remuneration Report, which is contained within the Directors' Report.

Penrice Soda Holdings Limited's Nomination and Remuneration Committee Charter is available in the Corporate Governance section at www.penrice.com.au.

BOARD PERFORMANCE EVALUATION

The performance of the Board and key Executives is reviewed regularly against both measurable and qualitative indicators. During the reporting period, the Nomination and Remuneration Committee conducted performance evaluations that involved an assessment of each key Executive's performance against specific and measurable qualitative and quantitative performance criteria. The performance criteria against which Directors and Executives are assessed is aligned with the financial and non-financial objectives of Penrice Soda Holdings Limited. Any Director whose performance is consistently unsatisfactory will be asked to retire.

ROLE AND FUNCTION OF SENIOR MANAGEMENT

The Board has delegated to the Managing Director, responsibility for the conduct of the affairs and day to day management of the Company. Delegation is subject to matters reserved for Board approval as detailed in the Board of Directors Charter.

In addition there are seven senior Executives reporting to the Managing Director who have been delegated the responsibility for managing key areas of the business including technology, sales, marketing, financial and treasury management, human resource, operations and production facilities, raw material purchasing, distribution, strategic planning, legal compliance, regulatory affairs and corporate secretarial.

The performance of senior Executives is reviewed periodically by the Managing Director against appropriate measures set by the Managing Director and the Nomination and Remuneration Committee relative to the Executive's role. The Nomination and Remuneration Committee has oversight in relation to the setting of goals to be achieved by senior Executives in connection with both short-term and long-term incentive schemes and monitors the performance of senior Executives in relation to the achievement of those goals. In accordance with this process, a performance evaluation for senior Executives has taken place during the reporting period.

CONTINUOUS DISCLOSURE

Penrice Soda Holdings Limited has written policies and procedures designed to ensure compliance with ASX Listing Rule disclosure requirements and to enforce accountability at senior management level for that compliance. The Board has endorsed these policies.

The Company is committed to dealing fairly, transparently and openly with both current and prospective shareholders using available channels and technologies to reach widely and communicate promptly. The Company commits to facilitating participation in shareholder meetings and dealing promptly with shareholder enquiries.

This commitment is formalised in the Shareholder Communications Policy which is available in the Corporate Governance section at www.penrice.com.au.

COMMUNICATION WITH SHAREHOLDERS

Penrice Soda Holdings Limited has a communications policy to promote communication with shareholders. The Company's website is where shareholders can obtain market announcements, press releases, notice of meetings and financial statements. The external auditor, Ernst & Young, attend the annual general meeting and are available to answer shareholder questions about the conduct of the audit and the preparation and content of the auditor's report.

Penrice Soda Holdings Limited's Shareholder Communications Policy is available in the Corporate Governance section at www.penrice.com.au.

CODE OF CONDUCT

Penrice Soda Holdings Limited has adopted a code of conduct to guide compliance with legal and other obligations to legitimate stakeholders. A copy of the code of conduct is provided to all employees and Directors on joining Penrice. Penrice Soda Holdings Limited's Code of Conduct and Code of Conduct-Directors are available in the Corporate Governance section at www.penrice.com.au.

OSBORNE REFINED BICARBONATE PLANT

DIRECTOR AND EMPLOYEE SHARE TRADING POLICY

All information obtained or obtainable as a Director or employee of the Company is the property of the Company and may not be used for any purpose other than in the conduct of the affairs of the Company.

All information of the Company is strictly confidential and must not be disclosed to any entity, except as required in the ordinary course of the operations of the Company, or used by Directors or employees for personal benefit or gain. As a matter of law, Directors and Company employees may not buy or sell shares in the Company if they possess information that, if disclosed publicly, might have a material effect on the price or value of the Company's shares.

The key elements of the Share Trading Policy are:

- identification of those restricted from trading – all employees may acquire shares in the Company, but are prohibited from dealing in Company shares or exercising options:
  - except during the period commencing two clear days after the announcement of the company's annual results and ending 1 January and during the period commencing two clear days after the announcement of the Company's half year results and ending 1 July; and
  - whilst in possession of information that he or she knows, or ought reasonably to know, is inside information in relation to those securities
- raising the awareness of legal prohibitions including transactions with colleagues and external advisers;
- requiring details to be provided of intended trading in the Company's shares;
- requiring details to be provided of the subsequent confirmation of the trade; and
- identification of processes for unusual circumstances where discretions may be exercised in cases such as financial hardship.

CEO AND CFO ASSURANCE

The Board receives regular reports about the financial condition and operational results of the Company and its controlled entities. The Board has received and considered the assurance received from the CEO and CFO that the declaration in accordance with section 295A of the Corporations Act 2001 is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks. The Company uses an enterprise wide risk management process and conducts annual reviews of its key risks. The annual review encompasses strategic, financial, operational and compliance risks and the enterprise wide risk profile is updated accordingly.

Action plans and controls are identified to manage and mitigate the risks to an acceptable level. The internal audit function is outsourced to KPMG and operates to provide independent assurance over the control environment. This internal audit function works to complement other assurance functions, both internal and external, already in place and operating.

RISK MANAGEMENT

The Board has overall responsibility for ensuring that there is a sound system of risk management and internal compliance and control across the business. It also has responsibility for establishing risk management policies and the risk appetite of the Company, and ensuring that these are implemented. Specific monitoring and evaluation of the effectiveness of risk management and the internal control environment are delegated to the Audit and Risk Management Committee. The Committee approves the Company's accounting policies, reporting practices and production of financial statements, and monitors the application of appropriate management controls. It considers external audit reports and other independent reports, and reviews the adequacy of the Company's procedures and internal controls in order to manage the company's material business risks. Risk and compliance processes and reporting procedures provide assurance to the Board and the Audit and Risk Management Committee that the preparation of the financial statements and the control systems underlying them are adequate. The enterprise wide risk management framework has enabled the business to identify and assess strategic, operational, compliance and reporting risks and controls, respond promptly and appropriately and continue to monitor risks and issues as they evolve. Throughout the year the Board has been appraised on the status of risk management. The Company's risk management structures and procedures are continually improved and have been enhanced or updated during the year.

Penrice Soda Holdings Limited's Risk Management Policy is available in the Corporate Governance section on the Penrice website at www.penrice.com.au.

The Board considers material business risks with reference to materiality set in accordance with the accounting standards and other qualitative factors deemed relevant. Risks are reviewed and challenged on a regular basis to ensure they are relevant, appropriately assessed and rated and are being appropriately managed.

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Income Statement for the year ended 30 June 2010

	Note	Consolidated 2010 $000	2009 $000
Continuing Operations			
Sales of goods	4	160,376	162,261
Interest revenue	4	101	73
Other revenue	4	350	21
Revenue	4	160,827	162,355
Cost of sales		(105,102)	(101,866)
Gross Profit		55,725	60,489
Distribution expenses		(29,185)	(29,050)
Other operating expenses		(7,568)	(7,320)
Administration expenses		(3,900)	(3,528)
Exchange gains/(losses)		(568)	(878)
Unrealised exchange gains/(losses) on foreign currency options and forwards		630	(1,522)
Unrealised gains/(losses) on fair value of interest rate swaps		726	(1,278)
Borrowing costs	4	(8,214)	(8,602)
Profit from continuing operations before income tax		7,646	8,311
Income tax (expense)	5	(1,369)	(1,162)
Net Profit after income tax for the period attributable to the owners of the parent entity		6,277	7,149
		Cents	Cents
Basic earnings per share	8	7.8	12.9
Diluted earnings per share	8	7.7	12.9

The above Income Statement should be read in conjunction with the accompanying notes.

Statement of Comprehensive Income for the year ended 30 June 2010

	Note	Consolidated 2010 $000	2009 $000
Net profit for the period		6,277	7,149
Other comprehensive income/(loss), net of tax:			
Cash flow hedges (losses) taken to equity		(1,551)	–
Deferred tax on cash flow hedges	5(b)	465	–
Net cash flow hedge (losses) recognised directly through retained earnings		(1,086)	–
Actuarial (losses) recognised directly through retained earnings	27(f)	(245)	(1,209)
Deferred tax on actuarial (losses)/gains	5(b)	73	363
Net actuarial (losses) recognised directly through retained earnings		(172)	(846)
Total other comprehensive (losses) for the period, net of tax		(1,258)	(846)
Total comprehensive income		5,019	6,303

The above Statement of Comprehensive Income should be read in conjunction with the accompanying notes.

Statement of Financial Position as at 30 June 2010

	Note	Consolidated	
		2010	2009
		$000	$000
Current Assets			
Cash and cash equivalents	10	5,444	683
Trade and other receivables	11	21,931	24,722
Inventories	12	63,069	55,981
Income tax receivable	5	–	324
Other current assets	14	649	2,634
Total Current Assets		91,093	84,344
Non-Current Assets			
Property, plant and equipment	15	94,587	92,816
Intangibles	16	20,922	18,183
Deferred tax assets	5	3,824	3,516
Total Non-Current Assets		119,333	114,515
Total Assets		210,426	198,859
Current Liabilities			
Trade and other payables	18	29,190	32,957
Interest bearing liabilities	19	2,639	2,673
Income tax payable	5	2	–
Derivative financial instruments	13	1,137	1,377
Provisions	20	5,693	5,559
Total Current Liabilities		38,661	42,566
Non-Current Liabilities			
Interest bearing liabilities	21	69,872	84,599
Deferred tax liabilities	5	6,853	8,243
Provisions	22	1,404	1,390
Derivative financial instruments	13	595	–
Other Non-Current liabilities	17	25	514
Total Non-Current Liabilities		78,749	94,746
Total Liabilities		117,410	137,312
Net Assets		93,016	61,547
Equity			
Contributed equity	23	80,074	53,615
Cash flow hedge reserve	24	(1,086)	–
Share based payments reserve	24	34	43
Retained earnings	24	13,994	7,889
Total Equity		93,016	61,547

The above Statement of Financial Position should be read in conjunction with the accompanying notes.

Statement of Changes in Equity for the year ended 30 June 2010

	Contributed equity $000	Cash flow hedge reserve $000	Share based payments reserve $000	Retained earnings $000	Total $000
At 1 July 2009	53,615	–	43	7,889	61,547
Profit for period	–	–	–	6,277	6,277
Other comprehensive income/(loss) for the period	–	(1,086)	–	(172)	(1,258)
Total comprehensive income/(loss) for the period	–	(1,086)	–	6,105	5,019
Transactions with owners in their capacity as owners:					
Share based payments	–	–	(9)	–	(9)
Capital raising	26,459	–	–	–	26,459
Balance at 30 June 2010	80,074	(1,086)	34	13,994	93,016
At 1 July 2008	44,285	–	21	3,846	48,152
Profit for period	–	–	–	7,149	7,149
Other comprehensive income/(loss) for the period	–	–	–	(846)	(846)
Total comprehensive income/(loss) for the period	–	–	–	6,303	6,303
Transactions with owners in their capacity as owners:					
Share based payments	–	–	22	–	22
Capital raising	8,748	–	–	–	8,748
Dividends	582	–	–	(2,260)	(1,678)
Balance at 30 June 2009	53,615	–	43	7,889	61,547

The above Statement of Changes in Equity should be read in conjunction with the accompanying notes.

Cash Flow Statement for the year ended 30 June 2010

	Note	Consolidated 2010 $000 Inflow/(Outflow)	2009 $000 Inflow/(Outflow)
Cash flows from operating activities			
Receipts from customers		179,921	172,670
Payments to suppliers and employees		(163,886)	(164,088)
Interest received		101	73
Interest and other costs of finance paid		(7,398)	(6,718)
Income taxes paid		(1,675)	(1,176)
Net cash flows provided by operating activities	10	7,063	761
Cash flows from investing activities			
Payment for property, plant and equipment		(9,785)	(23,214)
Proceeds from sale of plant and equipment		31	275
Payments for intangibles (mine development & software)		(3,154)	–
Net cash flows (used in) investing activities		(12,908)	(22,939)
Cash flows from financing activities			
Proceeds from issues of shares		25,979	8,674
Proceeds from loans		–	9,858
Re-Payment of loans		(12,700)	–
Re-Payment of finance leases		(624)	(316)
Dividends paid		–	(1,678)
Net cash flows provided by financing activities		12,655	16,537
Net increase/(decrease) in cash held		6,810	(5,641)
Cash/(overdraft) at beginning of the financial period		(1,366)	4,275
Cash/(overdraft) at the end of the financial period	10	5,444	(1,366)

The above Cash Flow Statement should be read in conjunction with the accompanying notes

Note 1: Corporate information

This report of Penrice Soda Holdings Limited ('the Group') for the year ended 30 June 2010 was authorised for issue in accordance with a resolution of the Directors on 20 September 2010.

Penrice Soda Holdings Limited is a Company limited by shares incorporated in Australia whose shares are publicly traded on the Australian Securities Exchange.

Note 2: Statement of significant accounting policies

Basis of preparation

The financial report is a general-purpose financial report, which has been prepared in accordance with the requirements of the Corporations Act 2001, Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board. The financial report has also been prepared on a historical cost basis, except for derivative financial instruments which have been measured at fair value.

The financial report is presented in Australian dollars and all values are rounded to the nearest thousand dollars ($'000) unless otherwise stated.

Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current year Financial Statements.

a) Compliance with IFRS

The financial report complies with Australian Accounting Standards as issued by the Australian Accounting Standards Board and International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board.

b) Australian Accounting Standards

Australian Accounting Standards and interpretations that have recently been issued or amended but are not yet effective have not been adopted for the annual reporting period ending 30 June 2010. The tables below outline each of these amended standards and the expected change in accounting policy when applied, if any.

NOTE 2: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Reference	Title	Summary	Application date of standard*	Impact on Group financial report	Application date for Group*
AASB 9	Financial Instruments	AASB 9 includes requirements for the classification and measurement of financial assets resulting from the first part of Phase 1 of the IASB's project to replace IAS 39 Financial Instruments: Recognition and Measurement (AASB 139 Financial Instruments: Recognition and Measurement). These requirements improve and simplify the approach for classification and measurement of financial assets compared with the requirements of AASB 139. The main changes from AASB 139 are described below: (a) Financial assets are classified based on (1) the objective of the entity's business model for managing the financial assets; (2) the characteristics of the contractual cash flows. This replaces the numerous categories of financial assets in AASB 139, each of which had its own classification criteria. (b) AASB 9 allows an irrevocable election on initial recognition to present gains and losses on investments in equity instruments that are not held for trading in other comprehensive income. Dividends in respect of these investments that are a return on investment can be recognised in profit or loss and there is no impairment or recycling on disposal of the instrument. (c) Financial assets can be designated and measured at fair value through profit or loss at initial recognition if doing so eliminates or significantly reduces a measurement or recognition inconsistency that would arise from measuring assets or liabilities, or recognising the gains and losses on them, on different bases.	1 January 2013	The Group has not yet determined the extent of the impact of the amendments, if any.	1 July 2013

NOTE 2: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Reference	Title	Summary	Application date of standard*	Impact on Group financial report	Application date for Group*
AASB 2009–5	Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 5, 8, 101, 107, 117, 118, 136 & 139]	The amendments to some Standards result in accounting changes for presentation, recognition or measurement purposes, while some amendments that relate to terminology and editorial changes are expected to have no or minimal effect on accounting except for the following: The amendment to AASB 117 removes the specific guidance on classifying land as a lease so that only the general guidance remains. Assessing land leases based on the general criteria may result in more land leases being classified as finance leases and if so, the type of asset which is to be recorded (intangible vs. property, plant and equipment) needs to be determined. The amendment to AASB 101 stipulates that the terms of a liability that could result, at anytime, in its settlement by the issuance of equity instruments at the option of the counterparty do not affect its classification. The amendment to AASB 107 explicitly states that only expenditure that results in a recognised asset can be classified as a cash flow from investing activities. The amendment to AASB 118 provides additional guidance to determine whether an entity is acting as a principal or as an agent. The features indicating an entity is acting as a principal are whether the entity: • has primary responsibility for providing the goods or service; • has inventory risk; • has discretion in establishing prices; • bears the credit risk.	1 January 2010	The Group has not yet determined the extent of the impact of the amendments, if any.	1 July 2010

NOTE 2: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Reference	Title	Summary	Application date of standard*	Impact on Group financial report	Application date for Group*
AASB 2009–8	Amendments to Australian Accounting Standards – Group Cash-settled Share based Payment Transactions [AASB 2]	This Standard makes amendments to Australian Accounting Standard AASB 2 Share based Payment and supersedes Interpretation 8 Scope of AASB 2 and Interpretation 11 AASB 2 – Group and Treasury Share Transactions. The amendments clarify the accounting for group cash-settled share based payment transactions in the separate or individual financial statements of the entity receiving the goods or services when the entity has no obligation to settle the share based payment transaction. The amendments clarify the scope of AASB 2 by requiring an entity that receives goods or services in a share based payment arrangement to account for those goods or services no matter which entity in the group settles the transaction, and no matter whether the transaction is settled in shares or cash.	1 January 2010	The Group has not yet determined the extent of the impact of the amendments, if any.	1 July 2010

NOTE 2: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Reference	Title	Summary	Application date of standard*	Impact on Group financial report	Application date for Group*
AASB 124 (Revised)	Related Party Disclosures (December 2009)	The revised AASB 124 simplifies the definition of a related party, clarifying its intended meaning and eliminating inconsistencies from the definition, including: (a) the definition now identifies a subsidiary and an associate with the same investor as related parties of each other; (b) entities significantly influenced by one person and entities significantly influenced by a close member of the family of that person are no longer related parties of each other; and (c) the definition now identifies that, whenever a person or entity has both joint control over a second entity and joint control or significant influence over a third party, the second and third entities are related to each other. A partial exemption is also provided from the disclosure requirements for government-related entities. Entities that are related by virtue of being controlled by the same government can provide reduced related party disclosures.	1 January 2010	The Group has not yet determined the extent of the impact of the amendments, if any.	1 July 2011

NOTE 2: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Reference	Title	Summary	Application date of standard*	Impact on Group financial report	Application date for Group*
AASB 2009-11	Amendments to Australian Accounting Standards arising from AASB 9 [AASB 1, 3, 4, 5, 7, 101, 102, 108, 112, 118, 121, 127, 128, 131, 132, 136, 139, 1023 & 1038 and Interpretations 10 & 12]	The revised Standard introduces a number of changes to the accounting for financial assets, the most significant of which includes: • two categories for financial assets being amortised cost or fair value • removal of the requirement to separate embedded derivatives in financial assets • strict requirements to determine which financial assets can be classified as amortised cost or fair value, Financial assets can only be classified as amortised cost if (a) the contractual cash flows from the instrument represent principal and interest and (b) the entity's purpose for holding the instrument is to collect the contractual cash flows • an option for investments in equity instruments which are not held for trading to recognise fair value changes through other comprehensive income with no impairment testing and no recycling through profit or loss on derecognition • reclassifications between amortised cost and fair value no longer permitted unless the entity's business model for holding the asset changes • changes to the accounting and additional disclosures for equity instruments classified as fair value through other comprehensive income	1 January 2013	The Group has not yet determined the extent of the impact of the amendments, if any.	1 July 2013

NOTE 2: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Reference	Title	Summary	Application date of standard*	Impact on Group financial report	Application date for Group*
AASB 2009-12	Amendments to Australian Accounting Standards [AASBs 5, 8, 108, 110, 112, 119, 133, 137, 139, 1023 & 1031 and Interpretations 2, 4, 16, 1039 & 1052]	This amendment makes numerous editorial changes to a range of Australian Accounting Standards and Interpretations. In particular, it amends AASB 8 Operating Segments to require an entity to exercise judgement in assessing whether a government and entities known to be under the control of that government are considered a single customer for the purposes of certain operating segment disclosures. It also makes numerous editorial amendments to a range of Australian Accounting Standards and Interpretations, including amendments to reflect changes made to the text of IFRSs by the IASB.	1 January 2011	The Group has not yet determined the extent of the impact of the amendments, if any.	1 July 2011
AASB 2009-14	Amendments to Australian Interpretation – Prepayments of a Minimum Funding Requirement	These amendments arise from the issuance of Prepayments of a Minimum Funding Requirement (Amendments to IFRIC 14). The requirements of IFRIC 14 meant that some entities that were subject to minimum funding requirements could not treat any surplus in a defined benefit pension plan as an economic benefit. The amendment requires entities to treat the benefit of such an early payment as a pension asset. Subsequently, the remaining surplus in the plan, if any, is subject to the same analysis as if no prepayment had been made.	1 January 2011	The Group has not yet determined the extent of the impact of the amendments, if any.	1 July 2011

NOTE 2: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Reference	Title	Summary	Application date of standard*	Impact on Group financial report	Application date for Group*
AASB 2010-3	Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 3, AASB 7, AASB 121, AASB 128, AASB 131, AASB 132 & AASB 139]	Limits the scope of the measurement choices of non-controlling interest at proportionate share of net assets in the event of liquidation. Other components of NCI are measured at fair value. Requires an entity (in a business combination) to account for the replacement of the acquiree's share based payment transactions (whether obliged or voluntarily), i.e., split between consideration and post combination expenses. Clarifies that contingent consideration from a business combination that occurred before the effective date of AASB 3 Revised is not restated. Eliminates the requirement to restate financial statements for a reporting period when significant influence or joint control is lost and the reporting entity accounts for the remaining investment under AASB 139. This includes the effect on accumulated foreign exchange differences on such investments.	1 July 2010	The Group has not yet determined the extent of the impact of the amendments, if any.	1 July 2010
AASB 2010-4	Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 1, AASB 7, AASB 101, AASB 134 and Interpretation 13]	Emphasises the interaction between quantitative and qualitative AASB 7 disclosures and the nature and extent of risks associated with financial instruments. Clarifies that an entity will present an analysis of other comprehensive income for each component of equity, either in the statement of changes in equity or in the notes to the financial statements. Provides guidance to illustrate how to apply disclosure principles in AASB 134 for significant events and transactions Clarify that when the fair value of award credits is measured based on the value of the awards for which they could be redeemed, the amount of discounts or incentives otherwise granted to customers not participating in the award credit scheme, is to be taken into account.	1 January 2011	The Group has not yet determined the extent of the impact of the amendments, if any.	1 July 2011

NOTE 2: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Reference	Title	Summary	Application date of standard*	Impact on Group financial report	Application date for Group*
Interpretation 19	Interpretation 19 Extinguishing Financial Liabilities with Equity Instruments	This interpretation clarifies that equity instruments issued to a creditor to extinguish a financial liability are "consideration paid" in accordance with paragraph 41 of IAS 39. As a result, the financial liability is derecognised and the equity instruments issued are treated as consideration paid to extinguish that financial liability. The interpretation states that equity instruments issued in a debt for equity swap should be measured at the fair value of the equity instruments issued, if this can be determined reliably. If the fair value of the equity instruments issued is not reliably determinable, the equity instruments should be measured by reference to the fair value of the financial liability extinguished as of the date of extinguishment.	1 July 2010	The Group has not yet determined the extent of the impact of the amendments, if any.	1 July 2010

* designates the beginning of the applicable annual reporting period

NOTE 2: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

c) Basis of consolidation

The consolidated financial statements are those of the consolidated entity, comprising Penrice Soda Holdings Limited and its subsidiaries (the Group).

Subsidiaries are all those entities over which the Group has the power to govern the financial and operating policies so as to obtain benefits from their activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether a group controls another entity.

The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. In preparing the consolidated financial statements, all intercompany balances and transactions, income and expenses and profit and losses resulting from intra-group transactions have been eliminated in full.

Subsidiaries and special purpose entities are fully consolidated from the date on which control is obtained by the Group and cease to be consolidated from the date on which control is transferred out of the Group.

The acquisition of subsidiaries is accounted for using the acquisition method of accounting. The acquisition method of accounting involves recognising at acquisition date, separately from goodwill, the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree. The identifiable assets acquired and the liabilities assumed are measured at their acquisition date fair values.

d) Significant accounting judgements, estimates and assumptions

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgements and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases its judgements and estimates on historical experience and on other various factors it believes to be reasonable under the circumstances, the result of which forms the basis of the carrying values of assets and liabilities that are not readily apparent from other sources.

Management has identified the following critical accounting policies for which significant judgements, estimates and assumptions are made. Actual results may differ from these estimates under different assumptions and conditions and may materially affect financial results or the financial position reported in future periods. Further details of the nature of these assumptions and conditions may be found in the relevant notes to the financial statements.

Impairment of Goodwill and other assets

The Group determines whether goodwill and other assets are impaired at least on an annual basis. This requires an estimation of the value in use, using discounted cash flow methodology, of the cash-generating units to which the goodwill and other assets are allocated. The assumptions used in this estimate of recoverable amount and the carrying amount of goodwill and other assets is discussed in Note 16.

Defined benefit fund

Various actuarial assumptions are required when determining the Group's defined benefit fund obligations.

These include assumptions regarding discount rates for plan liabilities, salary rates, expected return on plan assets in future years, contribution tax rate, and administration expenses. Further details on the defined benefit fund are provided in Note 27.

Employee benefits provisions

Provisions for employee benefits include provisions for annual leave and long service leave. As noted in 2w), the calculation of long service leave includes the use of assumptions and judgements regarding future salary increases, employee departures, periods of service, and timing of future payments.

Remediation provision

As noted in 2u) below, the Group recognises a provision for remediation in respect of dredging of the Port River and the remediation of the Osborne manufacturing site and Angaston mine site. Key judgements and assumptions in estimating this remediation provision include timing of remediation and the extent of remediation work required. These may be impacted in the future by changes to environmental legislation, technology, and the extent of remediation required.

Recovery of deferred tax assets

Deferred tax assets are recognised for deductible temporary differences as management considers that it is probable that future taxable profits will be available to utilise those temporary differences.

Share based payment transactions

The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments on the date at which they are granted. The fair value is determined by an external valuer using a Monte-Carlo simulation model, or binomial model, as appropriate. The accounting estimates and assumptions relating to equity settled- share based payments would have no impact on the carrying amounts of assets and liabilities within the next annual reporting period but may impact expenses and equity.

NOTE 2: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Estimation of useful lives of assets
The estimation of the useful lives of assets has been based on historical experience as well as manufacturers' warranties (for plant and equipment), lease terms (for leased equipment) and turnover policies (for motor vehicles). In addition, the condition of the assets is assessed at least once per year and considered against remaining useful life.

Aggregates/Landfill (Overburden)
The Group uses an independent source to produce a volumetric survey of storage dumps, stated in cubic metres. From this, a conversion factor known as a density factor is applied, to convert cubic metres to metric tonnes. The density factor initially came from a series of samples that was taken from across the Mine site by an independent laboratory employed to determine the density of the product. Since then, the average density is constantly compared to density ranges for products of similar geological composition to the Group's products. This information is publicly available from a number of sources in the UK, Europe, USA and Australia.

e) Income tax expense
Income tax on the profit or loss for the period comprises current and deferred tax. Income tax expense is recognised in the Income Statement except to the extent that it relates to items recognised directly through equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the period, using tax rates enacted or substantively enacted at the balance date, and any adjustment to tax payable in respect of previous years.

Deferred income tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences except:

- when the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or
- when the taxable temporary difference is associated with investments in subsidiaries, associates or interests in joint ventures, and the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the temporary differences can be utilised, except:

- when the deferred income tax asset arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable loss; or
- when the deductible temporary difference is associated with investments in subsidiaries, associates or interests in joint ventures, in which case a deferred tax asset is only recognised to the extent that it is probable that the temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilised.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Unrecognised deferred income tax assets are reassessed at each balance sheet date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Deferred tax assets and deferred tax liabilities are offset only if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to the same taxable entity and the same taxation authority. Income taxes that arise from the distribution of dividends are recognised at the same time as the liability to pay the related dividend.

Tax consolidation legislation
Penrice Soda Holdings Limited and its wholly-owned Australian controlled entities implemented the tax consolidation legislation as of 31 May 2004.

The head entity, Penrice Soda Holdings Limited and the controlled entities in the tax consolidated group continue to account for their own current and deferred tax amounts. The Group has applied the group allocation approach in determining the appropriate amount of current taxes and deferred taxes to allocate to members of the tax consolidated Group.

NOTE 2: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

In addition to its own current and deferred tax amounts, Penrice Soda Holdings Limited also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused credits assumed from controlled entities in the tax consolidated Group.

Assets or liabilities arising under tax funding agreements with the tax consolidated entities are recognised as amounts receivable from or payable to other entities in the Group.

Any difference between the amounts assumed and amounts receivable or payable under the tax funding agreement are recognised as a contribution to (or distribution from) wholly-owned tax consolidated entities.

f) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST except:

- where the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the Balance Sheet.

Cash flows are included in the Cash Flow Statement on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority are classified as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

g) Foreign currency transactions

The functional currency is determined by each individual entity within the Group, whereas the presentational currency of the Group is determined by the parent entity. The presentational currency of the Group is Australian Dollars.

Foreign currency items are translated to Australian currency on the following bases:

- transactions are converted at exchange rates approximating those in effect at the date of each transaction;
- amounts payable and receivable are translated at the rates available on the close of business on balance date; and
- exchange differences relating to monetary items are included in the Income Statement, as exchange gains or losses, in the period when the exchange rates change.

h) Cash and cash equivalents

Cash and cash equivalents in the balance sheet comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. For the purposes of the Cash Flow Statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts. Bank overdrafts are included within interest – bearing loans and borrowings in current liabilities on the balance sheet.

i) Trade and other receivables

Trade receivables, which generally have 30–60 day terms, are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less any allowance for impairment.

Collectibility of trade receivables is reviewed on an ongoing basis at an operating unit level. An impairment provision is recognised when there is objective evidence that the Group will not be able to collect the receivable.

Financial difficulties of the debtor, default payments or debts more than 90 days overdue are considered objective evidence of impairment. The amount of the impairment loss is the receivable carrying amount compared to the present value of estimated future cash flows, discounted at the original effective interest rate. Bad debts are written off when identified.

j) Derivative financial instruments

The consolidated entity uses derivative financial instruments to hedge its exposure to foreign exchange and interest rate risk arising from operational, financing and investment activities, refer Notes 3 and 13.

Derivative financial instruments are recognised initially at fair value on the date the instrument is entered into. Subsequent to initial recognition, derivative financial instruments are remeasured to fair value.

Held for trading derivative assets and liabilities are classified as current in the statement of financial position. Derivative assets and liabilities are classified as non-current when the remaining maturity is more than 12 months, or current when the remaining maturity is less than 12 months.

The gain or loss on remeasurement to fair value is recognised immediately in the income statement unless the derivative is designated and is effective as a hedging instrument, in which event, the timing and the recognition of profit or loss depends on the nature of the hedging relationship.

NOTE 2: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The consolidated entity designates derivatives as hedges of the exposure to variability in cash flows attributable to a recognised asset or liability or highly probable forecast transaction (cash flow hedges). The fair value of various derivative financial instruments used for hedging purposes are disclosed in Notes 3 and 13.

The consolidated entity documents, at the inception of the transaction, the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The consolidated entity also documents its assessment, both at hedge inception and on an ongoing basis, as to whether the derivatives that are used in hedging transactions have been and will continue to be highly effective in offsetting changes in fair values or cash flows of hedged items.

Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any derivative instrument that does not qualify for hedge accounting are recognised immediately in the income statement.

Cash flow hedge

Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognised asset or liability, or a highly probable forecast transaction, the effective part of any gain or loss on the derivative financial instrument is recognised directly in equity in the hedging reserve. The change in the fair value that is identified as ineffective is recognised immediately in the income statement.

Amounts accumulated in equity are transferred to the income statement in the periods when the hedged item affects profit or loss (for instance, when the forecast sale that is hedged takes place). However, when the forecast transaction that is hedged results in the recognition of a non-financial asset (for example, inventory) or a non-financial liability, the gains and losses previously deferred in equity are transferred from equity and included in the measurement of the initial cost or carrying amount of the asset or liability.

When a hedging instrument expires or is sold, terminated or exercised, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

k) Inventories

Inventories including raw materials and finished goods are valued at the lower of cost and net realisable value.

Costs incurred in bringing each product to its present location and condition are accounted for as follows:

Raw materials – purchase cost on a first-in, first-out basis. The cost of purchase comprises the purchase price including purchases of raw materials, import duties and other taxes (other than those subsequently recoverable by the entity from the taxing authorities), transport, handling and other costs directly attributable to the acquisition of raw materials. Volume discounts and rebates are included in determining the cost of purchase.

Finished goods and goods for resale – cost of direct materials and labour and a proportion of variable and fixed manufacturing overheads based on normal operating capacity. Costs are assigned on the basis of weighted average costs. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make their sale.

Landfill and aggregates (Overburden) – in mining operations, it is necessary to remove overburden to access ore from which minerals can economically be extracted. The process of mining overburden is referred to as stripping. Penrice produces two main types of stripping byproducts – landfill and aggregates – for which Penrice has determined that there is a market for their sale.

On the basis that there is a market for the sale of these products and the products have a saleable value, landfill and aggregate volumes are classified as inventories of finished goods. Based upon current contracted sales volumes, the inventories of these products will be realised over a period greater than 12 months. However, as this is considered to be within the normal operating cycle and the volumes are ready for sale with no further processing required, they are classified as current assets under AASB 101: Presentation of Financial Statements.

Finished goods comprise chemicals inventories, and inventories of limestone, aggregate and landfill. Inventories of chemicals, limestone and aggregate are valued at cost. The cost per tonne of chemicals and limestone is as discussed above. The cost per tonne at which aggregates are recognised is limited to the cost of removal of the aggregates, including drilling, blasting, loading and haulage, and those costs directly linked to the removal of aggregate volumes. Landfill is valued at net realisable value per metric tonne, which is lower than the cost per tonne of removal of this by-product from the mine. Quantities of finished goods are assessed primarily through volumetric surveys which are carried

NOTE 2: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

out at half year and full year end. For further details on the judgements and estimates used in quantifying finished goods, refer to Note 2 (d), and for the periods over which the volumes of aggregate and landfill are expected to be realised, refer Note 12.

Production spares and consumable goods- consumable stores are included in inventories and expensed on a usage basis and are stated net of slow moving or obsolete items.

l) Property, plant and equipment

All plant and equipment is carried at cost less accumulated depreciation and any impairment of value. The carrying amounts of these non-current assets are reviewed annually to ensure they do not exceed their recoverable amount.

Property, plant and equipment are depreciated over their useful economic lives.

	Life	Method
Buildings	40 years	Straight Line
Plant and equipment	4–40 years	Straight Line
Computer equipment	3 years	Straight Line
Furniture and fixtures	10 years	Straight Line
Vehicles	3–7 years	Straight Line

The costs of acquisition or improvements to leasehold properties are amortised over the unexpired period of the lease or the estimated useful life of the improvements, whichever is the shorter. Major spares purchased specifically for particular plant are included in the cost of plant, except for those listed in inventories, and are depreciated accordingly.

An item of property, plant and equipment is derecognised upon disposal or when no further future economic benefits are expected from its use or disposal.

m) Impairment of non financial assets other than goodwill

The Group assesses impairment of all assets at each reporting date by evaluating conditions specific to the Group and to the particular asset that may lead to impairment. These include product and manufacturing performance, technology, economic and political environments and future product expectations. If an impairment trigger exists, the recoverable amount of the asset is determined. All non financial assets have been tested for impairment in the current period. No impairment write downs have been required as a result of this testing.

n) Non-current assets constructed by the group

The cost of non-current assets constructed by the group includes the cost of all materials used in construction, direct labour on the project and an appropriate proportion of variable and fixed overhead costs based upon a time cost allocation methodology.

o) Mine reserves

The Group has a marble mine at Angaston consisting of freehold and leasehold land. The marble reserves are not brought to account in the Group's financial statements.

p) Investments in controlled entities

All investments in controlled entities are initially recognised by the parent entity at cost, being the fair value of the consideration given, including acquisition charges associated with the investment. Subsequent to the initial investment, investments in controlled entities are carried by the parent entity at cost less accumulated impairment losses.

q) Exploration and evaluation costs

Costs arising from exploration and evaluation activities are carried forward provided such costs are expected to be recouped through successful development, or by sale, or where exploration and evaluation activities have not, at reporting date, reached a stage to allow a reasonable assessment regarding the existence of economically recoverable reserves. Costs are amortised over five years given further exploration and evaluation costs are expected to be incurred at that stage.

These costs are reviewed for impairment when facts and circumstances suggest the carrying amount is in excess of the recoverable amount.

r) Intangibles

(i) Goodwill

Goodwill acquired in a business combination is initially measured at cost of the business combination being the excess of the consideration transferred over the fair value of the Group's net identifiable assets acquired and liabilities assumed. If this consideration transferred is lower than the fair value of the net identifiable assets of the subsidiary acquired, the difference is recognised in the Income Statement.

Goodwill is allocated to the cash-generating units for the purpose of impairment testing. Impairment is determined by assessing the recoverable amount of the cash generating unit to which the goodwill relates. When the recoverable amount of the cash generating unit is less than the carrying amount, an impairment loss is recognised. When goodwill forms part of a cash generating unit and an operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation.

NOTE 2: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Goodwill disposed of in this manner is measured based on the relative values of the operation disposed of and the portion of the cash generating unit retained.

(ii) Software

Expenditure on significant commercial development, including major software applications and associated systems, is capitalised and amortised on a straight-line basis over the period of time during which the benefits are expected to arise, typically between three to ten years.

Software costs are capitalised as intangible assets if they are separable or arise from contractual or other legal rights and it is probable that the expected future economic benefits attributable to the asset will flow to the consolidated entity, and the cost of the asset can be measured reliably.

(iii) Mine development costs

Mine development costs consist of top soil which was required by law to be removed from land that is being used as a repository for landfill. This top soil will be used in mine remediation over the next five years and will be amortised as it is being used.

s) Research and development costs

Research costs are expensed as incurred. An intangible asset arising from development expenditure on an internal project is recognised only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the development and the ability to measure reliably the expenditure attributable to the intangible asset during its development. Following the initial recognition of the development expenditure, the cost model is applied requiring the asset to be carried at cost less any accumulated amortisation and accumulated impairment losses. Any expenditure so capitalised is amortised over the period of expected benefit from the related project. The carrying value of an intangible asset arising from development expenditure is tested for impairment annually when the asset is not yet available for use, or more frequently when an indication of impairment arises during the reporting period.

t) Trade and other payables

Trade payables and other payables are carried at amortised cost and represent liabilities for goods and services provided to the Group prior to the end of the financial year that are unpaid and arise when the Group becomes obliged to make future payments in respect of the purchase of these goods and services. The amounts are unsecured and are usually paid within 30–60 days of recognition.

u) Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the balance sheet date using a discounted cash flow methodology. Present value is based on the anticipated timing of when the cash outflows are expected to occur. When discounting is used, the increase in the provision due to the passage of time is recognised as a borrowing cost.

A provision for dividends is not recognised as a liability unless the dividends are declared on or before the balance date. When the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the Income Statement net of any reimbursement. Provisions are recognised for annual leave and long service leave, as discussed under 2w) below, and for remediation.

The Group has an agreement with both the S.A Government and the operator of the Port River, Flinders Ports Pty Limited, in relation to the dredging of the Port River. The agreement requires Penrice to dredge this material over a 10 year period. Penrice has maintained a provision to dredge this material and this provision will be adequate to cover the costs over the remaining period. The Group completed the first campaign in late 2008 and the completion of the remediation is expected to be completed over the next 4–5 years. Remediation provisions exist in relation to the cessation of operations at the Angaston mine.

v) Interest-bearing liabilities

All loans are measured at the fair value of the consideration received net of issue costs associated with the borrowing. They are then measured at amortised cost using the effective interest method. Amortised cost is calculated by taking into account any issue costs, and any discount or premium on settlement. Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

NOTE 2: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Borrowing costs

Borrowing costs are recognised as an expense when incurred, with the exception of qualifying assets. The Group currently holds qualifying assets. As such, borrowing costs directly associated with these assets have been capitalised (including any other associated costs directly attributable to the borrowing and temporary investment income earned on the borrowing).

w) Employee benefits

Employee leave benefits

(i) Wages, salaries, annual leave and sick leave

Liabilities for wages and salaries, including non-monetary benefits, annual leave and accumulating sick leave expected to be settled within 12 months of the reporting date are recognised in respect of employees' services up to the reporting date. They are measured at the amounts expected to be paid when the liabilities are settled. Expenses for non-accumulating sick leave are recognised when the leave is taken and are measured at the rates paid or payable.

(ii) Long service leave

The liability for long service leave is recognised and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures, and the periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currencies that match, as closely as possible, the estimated future cash outflows.

Share based payment transactions

Subject to shareholder approval, Penrice provides benefits to its key management personnel in the form of share based payments, whereby employees render services in exchange for shares or rights over shares (equity-settled transactions).

The cost of equity-settled transactions is measured by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by an external valuer using Monte-Carlo simulation model, or binomial model, as appropriate.

In valuing equity-settled transactions, no account is taken of any vesting conditions, other than (if applicable):

- Non-vesting conditions that do not determine whether the Group or Company receives the services that entitle the employees to receive payment in equity or cash, and
- Conditions that are linked to the price of the shares of Penrice Soda Holdings Limited.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/ or service conditions are fulfilled (the vesting period), ending on the date on which the relevant employees become fully entitled to the award (the vesting date).

At each subsequent reporting date until vesting, the cumulative charge to the Income Statement is the product of:

- the grant date fair value of the award;
- the current best estimate of the number of awards that will vest; and
- the expired portion of the vesting period.

The charge to the Income Statement for the period is the cumulative amount as calculated above less the amounts already charged in previous periods. There is a corresponding credit to equity in a separate share based payments reserve.

Equity-settled awards granted by Penrice Soda Holdings Limited to employees of subsidiaries are recognised in the parent's separate financial statements as an additional investment in the subsidiary with a corresponding credit to equity. As a result, the expense recognised by Penrice Soda Holdings Limited in relation to equity-settled awards only represents the expense associated with grants to employees from the parent company. The expense recognised by the Group is the total expense associated with all such awards.

If the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. An additional expense is recognised for any modification that increases the total fair value of the share based payment arrangement, or is otherwise beneficial to the employee, as measured at the date of modification.

If an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award and designated as a replacement award on the date that it is granted, the cancelled and new award are treated as if they were a modification of the original award, as described in the previous paragraph.

x) Recognition of revenues

Revenue is recognised and measured at the fair value of the consideration received or receivable to the extent it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

NOTE 2: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Sale of goods

Revenue is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer and the revenue can be reliably measured. Risks and rewards of ownership are considered passed to the buyer once the title has passed.

Interest revenue

Revenue is recognised as interest accrues using the effective interest method. This is a method of calculating the amortised cost of financial assets and allocating the interest income over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

Dividend revenue

Revenue is recognised when the right to receive the payment is established.

y) General maintenance

The costs of maintenance of manufacturing plant and equipment are charged to the Income Statement in the period in which they are incurred. The operating costs of a major plant shutdown are capitalised and subsequently amortised over the remainder of the financial year.

z) Contributed equity

Contributed equity is recognised at the fair value of the consideration received by the Group. Any transaction costs arising on the issue of ordinary shares are recognised directly in equity as a reduction of the share proceeds received.

aa) Earnings per share

Basic earnings per share is calculated as net profit attributable to members of the parent, adjusted to exclude any costs of servicing equity (other than dividends), divided by the weighted average number of ordinary shares, adjusted for any bonus element. Diluted earnings per share is calculated as net profit attributable to members of the parent, adjusted for:

- costs of servicing equity (other than dividends);
- the after tax effect of dividends and interest associated with dilutive potential ordinary shares that have been recognised as expenses; and
- other non-discretionary changes in revenues or expenses during the period that would result from the dilution of potential ordinary shares, divided by the weighted average number of ordinary shares and dilutive potential ordinary shares.

ab) Leased assets

Leases are classified at their inception as either operating or finance leases based on the economic substance of the agreement so as to reflect the risks and benefits incidental to ownership.

Finance leases

Leases which effectively transfer substantially all of the risks and benefits incidental to ownership of the leased item to the Group are capitalised at their fair value if lower or, the present value of minimum lease payments. Leased assets are amortised over the life of the relevant lease or, where ownership is expected on the expiration of the lease, over the expected useful life of the asset. Lease payments are allocated between interest expense and reduction in the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability.

Operating leases

The minimum lease payments of operating leases, where the lessor effectively retains substantially all of the risks and benefits of ownership of the leased item, are recognised as an expense on a straight-line basis.

ac) Change in accounting estimates 2010

There have been no changes in accounting estimates during financial year 2010.

2009

Consistent with the Group's accounting policy, during the financial year 2009 the remaining useful lives of the assets of the Group were reassessed. Re-lifing of specific assets has resulted in a decrease in the depreciation charge for the year of $534k. With the change in remaining useful lives for specific assets, the provision for stock loss and obsolescence was also assessed. The change in assumptions regarding obsolescence has resulted in a credit to the income statement of $114k.

Note 3: Financial risk management objectives and policies

The Group's principal financial instruments comprise receivables, payables, bank loans, finance leases, cash and short-term deposits and derivatives.

The Group manages its exposure to key financial risks, including interest rate and currency risk in accordance with the Group's financial risk management policy. The objective of the policy is to support the delivery of the Group's financial targets whilst protecting future financial security.

The Group enters into derivative transactions, principally interest rate swap and forward currency contracts. The purpose is to manage the interest rate and currency risks arising from the Group's operations and its sources of finance. The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. The Group uses different methods to measure and manage different types of risks to which it is exposed. These include monitoring levels of exposure to interest rate and foreign exchange risk and assessments of market forecasts for interest rate, foreign exchange and commodity prices. Ageing analyses and monitoring of specific credit allowances are undertaken to manage credit risk. Liquidity risk is monitored through the modelling of future rolling cash flow forecasts.

The Board reviews and agrees policies for managing each of these risks as summarised below.

The primary responsibility for identification and control of financial risks rests with the Audit and Risk Management Committee under the authority of the Board. The Board reviews and agrees policies for managing each of the risks identified below, including the hedging cover of foreign currency and interest rate risk, credit allowances, and future cash flow forecast projections. It is, and has been throughout the year, the Group's policy that no trading in financial instruments shall be undertaken. Throughout FY10 all new hedge contracts entered into were designated as qualifying hedges for hedge accounting purposes. All legacy hedges that were not designated as hedges in accordance with AASB139 thus did not qualify for hedge accounting and continued to be classified as "held for trading" as their mark to market position is reflected directly to the income statement. No trading in these instruments is allowed under Group policy.

Risks exposures and responses

Interest rate risk

The Group's exposure to market interest rates relates primarily to the Group's long-term debt obligations and interest rate swaps in place at balance date. The level of debt is disclosed in Note 21 and further details on interest rate swaps are provided in Note 13. At balance date, the Group had the following mix of non derivative financial assets and liabilities exposed to Australian variable interest rate risk.

	Consolidated	
	2010 $000	2009 $000
Financial Assets		
Cash and cash equivalents	5,444	683
Financial Liabilities		
Bank loan	(58,800)	(84,000)
Bank overdraft	–	(2,049)
Net Exposure	(53,356)	(85,366)

Derivative financial instruments in the form of interest rate swap contracts, outlined in Note 13, with a fair value of ($709k) (2009: $662k) and a notional value of $59.3m; (2009: $75m) are exposed to fair value movements if interest rates change. These derivative contracts have various start and end dates, giving a varying degree of cover over the next two years. Further detail is contained in Note 13. In addition to the $59.3m swaps the Group has a $12.5m twelve month fixed rate loan contract (start date: 14 Oct 09 end date: 14 Oct 2010).

The Groups' policy is to manage its finance costs using a mix of fixed and variable rate debt. In broad terms, the framework takes a 3 year view and operates within band limits within time periods. The bands require a minimum

NOTE 3: FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

to maximum range of 30% to 90% of borrowings at fixed interest rates for 0–12 months, 25% to 70% for 12 to 24 months and 10% to 50% for 24 to 36 months.

These are carried at amortised cost and it is acknowledged that fair value exposure is a by-product of the Group's attempt to manage its cash flow volatility arising from interest rate changes.

To manage this risk in a cost-efficient manner, the Group enters into interest rate swap contracts, in which the Group agrees to exchange, at specified intervals, the difference between fixed and variable rate interest amounts calculated by reference to an agreed upon notional principal amount. These swaps are designed to hedge underlying variable rate debt obligations. At 30 June 2010, after taking into account the effect of interest rate swaps, approximately 87% of the Groups borrowings during FY11 are at a fixed rate of interest. (2009: 86%) This % will vary throughout the year as contracts mature and further contracts are entered into.

The Group constantly analyses its interest rate exposure. Within this analysis, consideration is given to potential renewals of existing positions, alternative financing, alternative hedging positions and the mix of fixed and variable interest rates.

The following sensitivity analysis is based on the interest rate exposures on financial assets and liabilities in existence at the balance sheet date:

At 30 June 2010, if interest rates had moved, as illustrated in the table below, with all other variables held constant, profit and equity would have been affected as follows:

	Post tax profit Higher/(Lower)		Other Comprehensive Income Higher/(Lower)	
	2010 $000	2009 $000	2010 $000	2009 $000
Impact of interest rate movement on Balance Sheet exposures at balance date				
Judgements of reasonably possible movements:				
+1% (100 basis points)	(28)	(598)	–	–
-.5% (50 basis points)	14	299	–	–

The above calculations take into account the exposures as at balance date and an interest rate movement that is then annualised. The movement does not take into account the addition of new or maturity of existing derivative instruments such as interest rate swaps during the year or the progressive draw down or pay back of debt over the course of the year.

	Post tax profit Higher/(Lower)		Other Comprehensive Income Higher/(Lower)	
	2010 $000	2009 $000	2010 $000	2009 $000
Impact of interest rate movement on Interest Rate Swaps at balance date (mark to market impact)				
+1% (100 basis points)	13	709	341	709
-.5% (50 basis points)	(3)	(355)	(176)	(355)

The mark to market profit and loss impact of the interest rate swaps is calculated based on the swaps notional value as at 30 June 2010. The exposure to the mark to market hedge movements are of a non cash nature and are reflected through the P&L for non qualifying hedges and Equity for those interest rate swaps that qualify for hedge accounting.

	Post tax profit Higher/(Lower)		Other Comprehensive Income Higher/(Lower)	
	2010 $000	2009 $000	2010 $000	2009 $000
Net movements				
+1% (100 basis points)	(15)	111	341	709
-.5% (50 basis points)	11	(56)	(176)	(355)

The overall profit and loss impact of the interest rate swaps, given a change in interest rates, comprises a change in the mark to market value of the derivative (non cash impact of $13k for +1%) and a change in interest expense.

With derivatives in place at balance date, the impact of a movement in interest rates would affect the profit and loss by the amount that is not hedged, in addition to the movement in the fair value of the non-qualifying derivative instruments.

The +1%/-0.5% sensitivities are the Group's estimate of reasonably possible changes in interest rates over the following financial year, based on recent interest rate trends.

NOTE 3: FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Foreign currency risk

At 30 June 2010, the Group had the following exposure to USD foreign currency from non derivative financial assets and financial liabilities that are not designated as cash flow hedges:

	Consolidated	
	2010 $000	2009 $000
Financial Assets		
Cash and cash equivalents	1,591	485
Debtors	5,291	5,250
	6,882	5,735
Financial Liabilities		
Creditors	733	2,730
Net Exposure	6,149	3,005

As a result of significant export sales which are transacted in USD, the Group's Income Statement and Statement of Financial Position can be affected significantly by movements in the USD/AUD exchange rates. The Group seeks to mitigate the effect of its foreign currency exposure by entering into hedge contracts including option and forward exchange contracts. All legacy contracts, i.e. those entered into during FY09, did not qualify for hedge accounting with the result that "mark to market" movements in their valuation are taken to the Income Statement. From FY10 all new hedges qualify as effective hedges in accordance with AASB 139 and "mark to market" movements in their fair valuation are taken to equity.

The Group constantly analyses its exchange rate exposure. Within this analysis consideration is given to potential renewals of existing positions, alternative financing, alternative hedging positions and the mix of option or fixed rate contracts. It operates within a policy framework that limits the amount of cash flow risk the group carries in relation to foreign exchange risk. In broad terms, the framework takes a 3 year view and operates within band limits within time periods. The bands allow for a minimum to maximum range of 45% to 80% of FX exposure for 0–12 months, 20% to 60% for 12 to 24 months and 0% to 40% for 24 to 36 months.

The following sensitivity analysis is based on the foreign exchange rate risk exposures from non derivative financial assets and financial liabilities in existence at the balance sheet date:

At 30 June 2010, had the Australian Dollar moved, as illustrated in the table below, with all other variables held constant, profit and equity would have been affected as follows:

	Post tax profit Higher/(Lower)		Other Comprehensive Income Higher/(Lower)	
	2010 $000	2009 $000	**2010 $000**	2009 $000
Impact of foreign exchange rate movement on Statement of Financial Position exposures at balance date				
Judgements of reasonably possible movements:				
AUD/USD +10%	(391)	(191)	–	–
AUD/USD -5%	227	111	–	–
Impact of foreign exchange rate movement on Foreign Currency Derivatives at balance date (mark to market impact)				
Judgements of reasonably possible movements:				
Mark to market impact USD/AUD +10%	5	396	1,384	396
Mark to market impact USD/AUD -5%	(5)	(230)	(781)	(230)
Net Movements				
USD/AUD plus Mark to market impact +10%	(386)	205	1,384	396
USD/AUD plus Mark to market impact -5%	222	(119)	(781)	(230)

NOTE 3: FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

The +10%/-5% sensitivity is the Group's estimate of reasonably possible changes to exchange rates over the following financial year, based on recent exchange rate trends.

Management believe the balance date risk exposures are representative of the risk exposure inherent in the financial instruments.

Derivative financial instruments in the form of options and forward exchange contracts, outlined in Note 13, with a fair value of ($1,024k) (2009: ($715k)) and a notional value of $19m, (2009: $9.9m), are exposed to fair value movements if exchange rates change.

The profit and loss impact on the "mark to market" of forward exchange contracts is calculated based on the movement between the instruments notional value and its fair value as at 30 June 2010.

The mark to market hedge movements are of a non cash nature and for those legacy contracts that did not qualify for hedge accounting, movements in their valuation are reflected through the income statement. All hedge contracts entered into during FY10 qualify for hedge accounting with the result that the majority of their "mark to market" movement is reflected in equity.

The above tables do not take into account the forward sales of products denominated in USD and the possible impact on profitability. Penrice has some natural hedging from the procurement of products and services that are denominated in USD such as imported soda ash, coking coal and shipping costs.

Therefore the balance of international chemical sales, less US dollar denominated purchases, less derivative cover is the net exposure to currency fluctuations.

Price risk

The Group produces and sells soda ash and sodium bicarbonate domestically and internationally. Its long term exposure to commodity price risk for its domestic sales is limited as a result of high transport costs of imported product relative to the product price. The Group's sales into international markets is exposed to international pricing movements, but is limited to an extent by the higher quality offering of its sodium bicarbonate product. The Group's sales of mine products into the domestic market have normal pricing risk to competitor rates.

Credit risk

Credit risk arises from the financial assets of the Group, which comprise cash and cash equivalents, trade and other receivables, derivative instruments and the granting of financial guarantees. The Group's exposure to credit risk arises from potential default of the counter party, with a maximum exposure equal to the carrying amount of these instruments. Exposure at balance date is addressed in each applicable note.

The Group does not hold any credit derivatives to offset its credit exposure.

The Group minimises concentrations of credit risk in relation to trade receivables by undertaking transactions with a large number of customers.

Credit risk in trade receivables is managed in the following ways:

- A risk assessment process is used for new customers to assess whether credit should be granted and, if so, setting an appropriate limit;
- Letter of credit facilities are in place for overseas customers where the Group believes a credit risk exists. These are confirmed by National Australia Bank.; and
- Payment terms are generally 30–60 days from end of month of supply.

NOTE 3: FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank loans, finance leases, operating leases and working capital management.

The table below reflects all contractually fixed pay-offs and receivables for settlement, repayments and interest resulting from recognised financial assets and liabilities, including derivative financial instruments as at 30 June 2010. Cash flows for financial assets and liabilities without fixed amount or timing are based on the conditions existing at 30 June 2010. Maturity analysis of financial assets and liabilities are based on management's expectation.

The contractual maturities of the Group's financial assets and liabilities are:

Year ended 30 June 2010	< 6 months $000	6–12 months $000	1–5 years $000	Total $000
Consolidated				
Financial Assets				
Cash and cash equivalents	5,444	–	–	5,444
Trade and other receivables	21,931	–	–	21,931
	27,375	–	–	27,375
Consolidated				
Financial Liabilities				
Trade and other payables	29,190	–	–	29,190
Interest bearing loans & borrowings	461	2,178	69,872	72,511
Derivatives	480	619	633	1,732
Financial guarantees	750	–	–	750
	30,881	2,797	70,505	104,183
Net Outflow	**(3,506)**	**(2,797)**	**(70,505)**	**(76,808)**

Year ended 30 June 2009	< 6 months $000	6–12 months $000	1–5 years $000	Total $000
Consolidated				
Financial Assets				
Cash and cash equivalents	683	–	–	683
Trade and other receivables	24,722	–	–	24,722
	25,405	–	–	25,405
Consolidated				
Financial Liabilities				
Trade and other payables	32,957	–	–	32,957
Interest bearing loans & borrowings	2,659	4,818	92,876	100,353
Derivatives	1,223	430	130	1,783
Financial guarantees	750	–	–	750
	37,589	5,248	93,006	135,843
Net Outflow	**(12,184)**	**(5,248)**	**(93,006)**	**(110,438)**

The Group expects to meet the above financial liabilities through effective management of future cash flows. Leasing obligations, trade payables and other financial liabilities mainly originate from the financing of assets used in our ongoing operations such as property, plant, equipment and investments in working capital e.g. inventories and trade receivables. These assets are considered in the Group's overall liquidity risk.

NOTE 3: FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Fair value

The Group estimates the fair value of its derivative financial instruments using market observable inputs. The fair value of the financial instruments as well as the methods used to estimate the fair value are summarised in the table below:

	Year ended 30 June 2010			Year ended 30 June 2009		
	Quoted Market Price (Level 1)	Valuation Technique – market observable inputs (Level 2)	Valuation Technique – non market observable inputs (Level 3)	Quoted Market Price (Level 1)	Valuation Technique – market observable inputs (Level 2)	Valuation Technique – non market observable inputs (Level 3)
	$000	$000	$000	$000	$000	$000
Financial liabilities						
Derivative instruments						
Foreign exchange contracts	–	(1,023)	–	–	(715)	–
Interest rate swaps	–	(709)	–	–	(662)	–
	–	(1,732)	–	–	(1,377)	–

The Group uses valuation techniques such as present value techniques, comparison to similar instruments for which market observable prices exist and other relevant models used by market participants. These techniques use both observable and unobservable market inputs.

Financial instruments that use valuation techniques with only observable market inputs or unobservable inputs that are not significant to the overall valuation include interest rate swaps and foreign exchange contracts not traded on a recognised exchange.

Note 4: Income Statement items

Profit from continuing operations is stated after crediting/charging the following amounts:	Consolidated 2010 $000	2009 $000
Product sales	160,376	162,261
Other revenues		
Interest from unrelated entities	101	73
Other revenue items	350	21
Other revenues	451	94
Total revenues	160,827	162,355
Depreciation		
Land, improvements and buildings	497	439
Manufacturing plant and equipment	8,078	6,874
Plant and equipment under lease	–	120
Total depreciation	8,575	7,433
Amortisation		
Amortisation of exploration and evaluation costs	–	57
Amortisation of mine development and software	244	–
Total amortisation	244	57
Borrowing costs		
Interest paid or payable	6,408	7,099
Amortisation of loan facility fees	560	141
Finance charges related to leases	141	54
Other borrowing costs	1,105	1,308
Total borrowing costs	8,214	8,602
Employee benefit expense		
Wages and salaries	23,817	22,978
Share based payment expense	61	22
Workers compensation costs	898	933
Defined benefit plan expense	333	447
Defined contribution plan expense	2,360	2,576
Long service leave provision	13	171
Total employee benefits expense	27,482	27,127
Other expense items		
Government royalties on mineral production	116	125
Operating lease rentals	3,936	4,399
Net loss/(gain) on sale of plant and equipment	22	334

Interest of $Nil (2009:$391k) was capitalised during the year relating to the Sodium Bicarbonate Expansion Project. Other borrowing costs include the non cash interest charge for the Defined Benefit Fund of $815k (2009: $1,067) as prescribed by AASB 119.

Note 5: Income tax

	Consolidated	
	2010 $000	2009 $000
(a) The major components of income tax expense are:		
Current income tax:		
Current income tax expense/(benefit)	1,300	1,070
Current income tax under/(over) provided in prior year	749	310
	2,049	1,380
Deferred income tax:		
Deferred income tax expense	214	324
Deferred income tax under/(over) provided in the prior year	(894)	(542)
	(680)	(218)
Income tax expense/(benefit) reported in the Income Statement	1,369	1,162
(b) Deferred income tax charged directly to equity		
Equity raising costs	(465)	(74)
Actuarial gains/(losses) on defined benefit superannuation fund	(73)	(363)
Cash flow hedge reserve	(465)	–
Other	(15)	–
	(1,018)	(437)
(c) Tax expense reconciliation		
Profit from ordinary activities	7,646	8,311
Prima facie tax expense thereon at 30%	2,294	2,493
Under/(over) provided in prior years	(146)	(232)
Research and development expenditure	(577)	(627)
Investment allowance	(186)	(511)
Expenditure not allowable for income tax purposes	19	39
Other	(35)	–
Income tax expense/(benefit)	1,369	1,162
(d) Income tax payable/(receivable)		
Income tax payable/(receivable)	2	(324)

NOTE 5: INCOME TAX (CONTINUED)

	Opening balance $000	Charge to income $000	Charge to equity $000	Movement between DTA & DTL $000	Closing balance $000
(e) Deferred tax balance – 2010 – Consolidated:					
Taxable and deductible temporary differences arising from the following:					
Deferred tax assets					
Sale and restructure costs	8	(8)	–	–	–
Provisions	2,072	53	–	–	2,125
Inventory	204	92	–	–	296
Leases	323	40	–	–	363
Defined benefit fund	154	(220)	73	–	7
Capital raising costs	74	(123)	465	–	416
Cash flow hedge reserve	–	14	465	–	479
Other	681	(558)	15	–	138
	3,516	(710)	1,018	–	3,824
Deferred tax liabilities					
Intangibles	–	(21)	–	–	(21)
Inventory	(1,865)	1,061	–	–	(804)
Depreciation	(6,378)	536	–	–	(5,842)
Other	–	(186)	–	–	(186)
	(8,243)	1,390	–	–	(6,853)
Net deferred tax charge to income and equity per Note 5(a) & (b)		680	1,018		

NOTE 5: INCOME TAX (CONTINUED)

	Opening balance $000	Charge to income $000	Charge to equity $000	Movement between DTA & DTL $000	Closing balance $000
(f) Deferred tax balance – 2009 – Consolidated:					
Taxable and deductible temporary differences arising from the following:					
Deferred tax assets					
Sale and restructure costs	465	(457)	–	–	8
Provisions	2,330	(258)	–	–	2 ,072
Inventory	198	6	–	–	204
Leases	461	(138)	–	–	323
Defined benefit fund	–	–	–	154	154
Capital raising costs	–	–	74	–	74
Other	155	298	–	228	681
	3,609	(549)	74	382	3 ,516
Deferred tax liabilities					
Inventory	(1,458)	(407)	–	–	(1,865)
Depreciation	(7,353)	975	–	–	(6,378)
Defined benefit fund	(141)	(68)	363	(154)	–
Other	(39)	267	–	(228)	–
	(8,991)	767	363	(382)	(8,243)
Net deferred tax charge to income and equity per Note 5(a) & (b)		218	437		

Note 6: Dividends Paid

There have been no dividends paid or declared since the end of the preceding financial year.

Dividend Reinvestment Plan (DRP)

The Penrice Soda Holdings Dividend Reinvestment Plan commenced on 16 April 2008 and remains in operation. No final dividend for the 2010 financial year has been declared and thus the DRP will not be utilised at this time.

Franking credit balance	2010 $000	2009 $000
The amount of franking credits available for the subsequent years are:		
Franking account balance as at the end of the year at 30% (2009:30%)	3,512	1,511
	3,512	1,511
The amount of franking credits available for future reporting periods: Impact on the franking account of dividends proposed or declared before the financial report was authorised for issue but not recognised as a distribution to equity holders during the period	–	–
	3,512	**1,511**

Note 7: Segment information

Segment information

This segment note reflects the requirements of AASB 8 Operating Segments. This is the first year the Group has adopted AASB 8 and therefore the accounting policy has been provided so that readers of the segment information have a complete understanding of the disclosures.

Identification of operating and reportable segments

The group has identified its three operating segments based on the internal reports that are reviewed and used by the Managing Director and the Board (the chief operating decision makers "CODM") in assessing performance and in determining the allocation of resources.

The operating segments are identified by management based on their location and type of operation, the manner in which the product is sold and the nature of the product. The operating segments are Soda Ash, Sodium Bicarbonate and Quarry & Mineral. Discrete financial information about each of these operating businesses is reported to the CODM and Executive management team on at least a monthly basis.

The reportable segments are based on aggregated operating segments determined by the similarity of the products produced and sold, as these are the sources of the Group's major risks and have the most effect on the rates of return.

NOTE 7: SEGMENT INFORMATION (CONTINUED)

Chemicals business

The reporting segment "Chemicals business" is the aggregation of two operating segments, being soda ash and sodium bicarbonate.

Soda Ash produced is predominantly sold in the Australian market as a vital ingredient in products ranging from glass containers (especially wine and beer bottles), flat glass for building and construction and washing powder. It is also used in the mining and water treatment industries.

Sodium bicarbonate is a product which is also used in a diverse range of applications such as pharmaceutical, food, stock feed, personal care products and industrial applications such as detergents, cleaning products and flue gas treatment.

The nature of the products and the production process is similar as are the methods used to distribute the products to the customers. Management believe the soda ash and sodium bicarbonate operating segments have similar economic characteristics. Both the soda ash and sodium bicarbonate operating segments have a reasonably wide variation in margin for their different products and customers, with the sodium bicarbonate segment more heavily exposed to variation in margin due to the impact of foreign exchange. The end result is that due to product and customer mix and foreign exchange impact, overall margins will depend on what part of the business cycle the business is operating in. Over the medium term the overall margins that can be achieved in these two operating segments will be similar. Therefore these two operating segments have been aggregated into one reporting segment.

Quarry & Mineral

The Group's Quarry & Mineral business is located at the Penrice mine at Angaston in South Australia. While the mine supplies limestone into the chemical process at Penrice's Osborne plant, it is also a significant supplier of aggregates and other materials to a variety of end-uses, such as civil and construction, roads, landfill, glass and mineral processing.

Customer Concentration

Glass manufacturing is a major customer group for the chemicals segment, which accounts for more than 39% of the total group revenue, equating to $63m for this reporting period. Of this, sales to one customer accounted for $34m of revenue earned.

Accounting policies and inter-segment transactions

It is the Group's policy that if items of revenue and expense are not allocated to operating segments, then any associated assets and liabilities are also not allocated to segments. This is to avoid asymmetrical allocations within segments which management believe would be inconsistent.

The following items and associated assets and liabilities are not allocated to operating segments as they are not considered part of the core operations of any segment:

- Interest income
- Other income
- Borrowing costs
- Fair value gains/losses on derivatives
- Corporate costs which are unable to be allocated on a reasonable basis
- Income tax expense and deferred tax assets and liabilities

The entity accounts for intersegment sales and transfers as if the sales or transfers were to third parties at an arms length price.

NOTE 7: SEGMENT INFORMATION (CONTINUED)

Year ended 30 June 2010	Chemicals $000	Quarry & Mineral $000	Eliminations/ unallocated $000	Consolidated $000
Revenue				
Sales to external customers	135,359	25,017	–	160,376
Inter-segment revenues	–	6,328	(6,328)	–
Total segment revenue	135,359	31,345	(6,328)	160,376
Non-segment revenues				
Interest from unrelated entities	–	–	101	101
Other income	–	–	350	350
Total consolidated revenue				160,827
Result				
Underlying EBITDA before unallocated expenses as reported to CODM	15,182	11,590	451	27,223
Unallocated expenses	–	–	(3,900)	(3,900)
Underlying EBITDA as reported to CODM	15,182	11,590	(3,449)	23,323
Depreciation & amortisation	(7,319)	(1,500)	–	(8,819)
Underlying EBIT as reported to CODM	7,863	10,090	(3,449)	14,504
Borrowing costs				(8,214)
Underlying profit before tax as reported to CODM				6,290
Income tax expense				(962)
Underlying net profit after tax as reported to CODM				5,328
Tax effected unrealised exchange gains/(losses) on foreign currency options and forwards				441
Tax effected unrealised exchange gains/(losses) on fair value of interest rate swaps				508
Profit from continuing operations after income tax				6,277
Segment assets as at 30 June 2010 are as follows:				
Property, Plant & Equipment	75,525	19,062	–	94,587
Working Capital	16,060	39,750	–	55,810
Intangibles	12,135	8,787	–	20,922
				171,319

NOTE 7: SEGMENT INFORMATION (CONTINUED)

Year ended 30 June 2009	Chemicals $000	Quarry & Mineral $000	Eliminations/ unallocated $000	Consolidated $000
Revenue				
Sales to external customers	138,129	24,132	–	162,261
Inter-segment revenues	–	6,182	(6,182)	–
Total segment revenue	138,129	30,314	(6,182)	162,261
Non-segment revenues				
Interest from unrelated entities	–	–	73	73
Other income	–	–	21	21
Total consolidated revenue				162,355
Result				
Underlying EBITDA before unallocated expenses as reported to CODM	17,519	13,059	94	30,672
Unallocated expenses	–	–	(3,528)	(3,528)
Underlying EBITDA as reported to CODM	17,519	13,059	(3,434)	27,144
Depreciation	(6,556)	(877)	–	(7,433)
Underlying EBIT as reported to CODM	10,963	12,182	(3,434)	19,711
Borrowing costs				(8,602)
Underlying profit before tax as reported to CODM				11,109
Income tax expense				(2,001)
Underlying net profit after tax as reported to CODM				9,108
Tax effected unrealised exchange gains/(losses) on foreign currency options and forwards				(1,065)
Tax effected unrealised exchange gains/(losses) on fair value of interest rate swaps				(894)
Profit from continuing operations after income tax				7,149
Segment assets as at 30 June 2009 are as follows:				
Property, Plant & Equipment	77,161	15,655	–	92,816
Working Capital	15,008	32,738	–	47,746
Intangibles	11,705	6,478	–	18,183
				158,745

Note 8: Earnings per share

	2010	2009
Basic earnings per share based on operating profit after income tax	7.8 cents	12.9 cents
Diluted earnings per share based on operating profit after income tax	7.7 cents	12.9 cents
Weighted average number of ordinary shares on issue used in the calculation of basic earnings per share	80,825,576	55,435,634
Weighted average number of ordinary shares on issue used in the calculation of diluted earnings per share	81,355,875	55,607,489
Earnings used in calculating basic and diluted earnings per share ($000)	6,277	7,149

The weighted average number of shares used for the purposes of calculating diluted earnings per share reconciles to the number used to calculate basic earnings per share as follows:

	2010	2009
Weighted average number of ordinary shares on issue for basic earnings per share	80,825,576	55,435,634
Executive share options and performance rights	530,299	171,855
Weighted average number of ordinary shares on issue used in the calculation of diluted earnings per share	81,355,875	55,607,489

Note 9: Net Tangible Assets per security

	2010	2009
Net tangible asset backing per ordinary security	79 cents	81 cents

Note 10: Notes to the Cash Flow statement

	Consolidated	
	2010 $000	2009 $000
(a) Cash and cash equivalents		
Cash at bank and in hand	5,444	683
Reconciliation to cash flow statement		
For the purposes of the cash flow statement cash and cash equivalents comprise the following at 30 June:		
Cash at bank	5,444	683
Bank overdraft (Note 19)	–	(2,049)
	5,444	(1,366)
(b) Reconciliation of net profit after income tax to cash flows from operations		
Net profit after income tax	6,277	7,149
Depreciation	8,575	7,433
Net (gain)/loss on sale of non-current assets	22	334
Net fair value change in derivatives	(925)	2,800
Share based payment expense	(62)	22
Non cash defined benefit fund expense	(734)	(226)
Amortisation	244	57
Other	202	–
Change in operating assets and liabilities:		
(Increase)/decrease in receivables	2,791	(5,642)
(Increase)/decrease in inventories	(7,088)	(17,592)
(Increase)/decrease in deferred tax assets	(690)	475
(Increase)/decrease in other assets	1,986	(819)
(Increase)/decrease in income tax receivable	322	203
(Decrease)/increase in trade creditors and accruals	(3,767)	8,046
(Decrease)/increase in deferred tax liabilities	58	(692)
(Decrease)/increase in other provisions	(148)	(787)
Net cash inflow from operating activities	7,063	761
(c) Non cash financing activities		
Dividend Reinvestment Plan	–	582
	–	582

NOTE 10: NOTES TO THE CASH FLOW STATEMENT (CONTINUED)

(d) At 30 June 2010, the following finance facilities had been negotiated and were available

	Note	2010 $000	2009 $000
Total facilities:			
– bank loan current	21	1,800	84,000
– bank loan non current	19	69,500	–
Facilities used at reporting date:			
Bank loan		71,300	84,000
Facilities unused at reporting date:			
Bank loan		8,000	–
		8,000	–

For more information on banking arrangements, please see Note 21

Note 11: Trade and other receivables (current)

	Consolidated 2010 $000	2009 $000
Trade debtors	21,678	23,161
Non trade amounts owing by:		
Unrelated parties	253	1,561
Total current trade and other receivables	21,931	24,722

(a) Allowance for impairment loss

Trade receivables are non-interest bearing and are generally on 30–60 day terms. A provision for impairment loss is recognised when there is objective evidence that an individual trade receivable is impaired. A provision of $7k for impairment losses has been recognised for the year (2009: $112k) against those amounts that are >90 days past due.

Net of provision for impairment loss, the ageing of trade receivables is:

	Total $000	0–30 Days $000	31–60 Days $000	61–90 Days $000	+91 Days $000
2010 Consolidated	21,678	21,455	125	41	63
Less provision for doubtful debts		–	–	–	(7)
2009 Consolidated	23,161	23,113	48	112	–
Less provision for doubtful debts	–	–	–	(112)	–

Those amounts that are considered impaired and have been provided for. Those amounts in 60-91+ days ageing category are considered past due but not impaired.

(b) Fair value and credit risk

Due to the short term nature of these receivables, their carrying value is assumed to approximate their fair value.

The maximum exposure to credit risk is the fair value of the receivables. Collateral is not held as security.

(c) Foreign exchange and interest rate risk

Details regarding foreign exchange and interest rate exposure are disclosed in Note 3.

Note 12: Inventories

	Consolidated	
	2010	2009
	$000	$000
Raw materials, at cost	4,597	2,223
Finished goods, at Cost or net realisable value		
Chemical at cost	8,900	10,089
Mine – Limestone at cost	3,708	3,522
Mine – Aggregates at cost	18,645	14,459
Mine – Landfill at net realisable value	19,777	17,543
Production spares & consumable goods		
Mine at cost	854	782
Chemical at net realisable value	6,588	7,363
Total current inventories	63,069	55,981

Inventory recognised as an expense for the year totalled $65,978k (2009:$63,098k) included within this amount is $1,620k (2009: $4,350k) in relation to the difference between cost of extracting land fill and its carrying value. This expense has been included in cost of sales.

Aggregates and landfill are classified as inventories of finished goods on the basis that these volumes are ready for sale with no further processing required, and that there is a market for the sale of these products. Based upon current contracted sales volumes, the inventories of these products will be realised over a period greater than 12 months. However, this is considered to be within the normal operating cycle, and therefore the products are classified as current assets under AASB 101: Presentation of Financial Statements.

Based on FY11 sales forecasts of aggregates, it is estimated that inventory levels represent approximately 3 years' sales. With regard to landfill, sales in FY10 were in small volumes primarily to the civil market as a blended product for road base but forecast sales for FY11 are greater than FY10. The major market being targeted is the landfill market in the greater northern Adelaide region, in which large quantities of landfill in the order of millions of tonnes are required for land developments in a large number of low lying areas. There are currently several such developments in the early stages of planning, all of which could potentially be supplied by Penrice. The Company is actively pursuing these opportunities. It is therefore difficult to give an estimate for the time required to sell out the existing inventory.

Additions of landfill and aggregate volumes in future years will continue to decline as extraction rates reduce in the next phase of the mine plan.

Note 13: Derivatives (current and non-current)

Current	Consolidated 2010 Interest rate swaps $000	Consolidated 2010 Foreign exchange contracts $000	Consolidated 2010 Total $000	2009 Total $000
Current (1–12 months)	(423)	(714)	(1,137)	(1,377)
Total current derivatives	(423)	(714)	(1,137)	(1,377)

Non-current	Consolidated 2010 Interest rate swaps $000	Consolidated 2010 Foreign exchange contracts $000	Consolidated 2010 Total $000	2009 Total $000
Non-current (13+ months)	(286)	(310)	(596)	–
Total non-current derivatives	(286)	(310)	(596)	–

Interest Rate Swaps

The Group has entered into interest rate swaps, to swap floating rate interest to fixed rate interest.

At 30 June 2010, the notional amount of the interest rate swap contracts was $59.3m (2009: $75m) at a weighted average fixed rate of 5.87%. The interest payable and receivable on the swap contract is settled net on a quarterly basis until expiry.

The notional amount of interest rate swap contracts classified as current was $40.3m (2009: $17.5m) with these contracts having various start and end dates. The weighted average balances and fixed rates for these contracts are shown in the table below.

	Period	Average Notional Value AUD $000	Weighted Average Interest Rate %
Fixed interest rate contracts	1 Jul 10 – 31 Dec 10	38,383	6.0
Fixed interest rate contracts	1 Jan 11 – 30 Jun 11	42,300	6.1

Foreign Exchange Contracts

The Group enters into foreign exchange contracts to manage its USD revenue exposures from its export chemical business. These are economic cash flow hedges.

At 30 June 2010 the notional amount of the forward exchange contracts was USD $19.2m (2009: USD $9m) at a weighted average rate of 0.86 USD: 1.0 AUD. The weighted average balances and exchange rates for these contracts are shown in the table below.

	Period	Notional Value AUD $000	Weighted Average Exchange rate USD:AUD
Foreign Exchange Contracts	1 Jul 10 – 31 Dec 10	8,275	0.87
Foreign Exchange Contracts	1 Jan 11 – 30 Jun 11	6,100	0.86
Foreign Exchange Contracts	1 Jul 11 – 31 Mar 12	4,800	0.84
		19,175	0.86

NOTE 13: DERIVATIVES (CURRENT AND NON-CURRENT) (CONTINUED)

(a) Interest rate risk

Information regarding interest rate risk exposure is set out in Note 3.

(b) Foreign exchange risk

Information regarding foreign exchange risk exposure is set out in Note 3.

(c) Credit risk

Credit risk arises from the potential failure of counter parties to meet their obligations at maturity of contracts. This can arise on derivative financial instruments with unrealised gains. Management has established limits to ensure that, at any time, the fair value of favourable contracts outstanding with any individual counter party is recoverable.

The Groups' derivative contracts are placed with its incumbent banks, NAB and Westpac.

Note 14: Other assets (current)

	Consolidated	
	2010 $000	2009 $000
Prepayments	649	2,634
Total other current assets	649	2,634

Note 15: Property, plant & equipment (non-current)

Year ended 30 June 2010	Consolidated			
	Land and Improvements at Cost $000	Buildings at Cost $000	Plant & Equipment at Cost $000	Total $000
Gross Carrying amount				
Balance as at 1 July 2009	6,152	14,828	154,784	175,764
Additions	112	802	9,325	10,239
Transfer from intangibles	158	–	–	158
Disposals	–	–	(216)	(216)
Balance as at 30 June 2010	**6,422**	**15,630**	**163,893**	**185,945**
Accumulated Depreciation				
Balance as at 1 July 2009	(35)	(1,930)	(80,983)	(82,948)
Disposals	–	–	165	165
Depreciation Expense	(9)	(488)	(8,078)	(8,575)
Balance as at 30 June 2010	**(44)**	**(2,418)**	**(88,896)**	**(91,358)**
Net Book Value				
As at 1 July 2009	6,117	12,898	73,801	92,816
As at 30 June 2010	6,378	13,212	74,997	94,587

Plant and equipment with a carrying amount of $1,379k (2009: $1,576k) are pledged as securities for the finance lease liability as disclosed in Notes 19 and 21.

First mortgages of land and buildings have been granted as security on bank loans (refer Note 21). Included in plant and equipment at 30 June 2010 is an amount of $5,914k (2009: $9,661k) related to expenditure for plant in the course of construction. Plant and equipment with a gross carrying amount of $44,114k (2009: $42,011k) has been fully depreciated at 30 June 2010, but remains in use at the reporting date.

NOTE 15: PROPERTY, PLANT & EQUIPMENT (NON-CURRENT) (CONTINUED)

Year ended 30 June 2009	Consolidated				
	Land and Improvements at Cost $000	Buildings at Cost $000	Leasehold Improvement at Cost $000	Plant & Equipment at Cost $000	Total $000
Gross Carrying amount					
Balance as at 1 July 2008	3,898	12,668	63	137,042	153,671
Additions	2,020	2,160	–	18,633	22,813
Transfer from intangibles	415	–	–	–	415
Disposals	(181)	–	(63)	(891)	(1,135)
Balance as at 30 June 2009	6,152	14,828	–	154,784	175,764
Accumulated Depreciation					
Balance as at 1 July 2008	(10)	(1,516)	(30)	(75,081)	(76,637)
Disposals	–	–	30	1,092	1,122
Depreciation Expense	(25)	(414)	–	(6,994)	(7,433)
Balance as at 30 June 2009	(35)	(1,930)	–	(80,983)	(82,948)
Net Book Value					
As at 1 July 2008	3,888	11,152	33	61,961	77,034
As at 30 June 2009	6,117	12,898	–	73,801	92,816

Note 16: Intangibles (non-current)

Year ended 30 June 2010	Consolidated				
	Goodwill $000	Exploration and evaluation costs $000	Mine development costs $000	Software	Total $000
Gross Carrying amount					
Balance as at 1 July 2009	18,008	441	–	–	18,449
Additions	–	45	2,586	523	3,154
Transfer to Plant, Property & Equipment	–	(158)	–	–	(158)
Write offs	–	(13)	–	–	(13)
Balance at 30 June 2010	18,008	315	2,586	523	21,432
Accumulated Amortisation					
Balance as at 1 July 2009	–	(266)	–	–	(266)
Amortisation	–	–	(150)	(94)	(244)
Balance as at 30 June 2010	–	(266)	(150)	(94)	(510)
Net Book Value					
As at 1 July 2009	18,008	175	–	–	18,183
As at 30 June 2010	18,008	49	2,436	429	20,922

NOTE 16: INTANGIBLES (NON-CURRENT) (CONTINUED)

Year ended 30 June 2009	Consolidated			
	Goodwill $000	Exploration and evaluation costs $000	Mine development costs $000	Total $000
Gross Carrying amount				
Balance as at 1 July 2008	18,008	1,054	–	19,062
Transfers to inventory	–	(415)	–	(415)
Exploration write offs	–	(198)	–	(198)
Balance as at 30 June 2009	18,008	441	–	18,449
Accumulated Amortisation				
Balance as at 1 July 2008	–	(209)	–	(209)
Amortisation	–	(57)	–	(57)
Balance as at 30 June 2009	–	(266)	–	(266)
Net Book Value				
As at 1 July 2008	18,008	845	–	18,853
As at 30 June 2009	18,008	175	–	18,183

Impairment testing of goodwill

Goodwill acquired through business combinations has been allocated to two individual cash generating units, which are reportable segments, for impairment testing as follows:

- Osborne production facility; and
- Angaston mine.

The recoverable amount of both cash generating units has been determined based on a value-in-use calculation using cash flow projections based on the financial budget for the year ended 30 June 2011 and forecasts for the subsequent three-year period. Beyond the 4 year forecast, growth of 3.0% has been assumed. The pre-tax discount rate applied to cash flow projections is 11.0% (2009: 12.9%).

	Consolidated	
	2010 $000	2009 $000
Carrying amount of goodwill allocated to each business unit		
Osborne production facility	11,717	11,717
Angaston mine	6,291	6,291
Total goodwill	18,008	18,008

Key assumptions used in value in use calculations for the Osborne and Angaston sites for 30 June 2010

The calculation of value in use for both Osborne and Angaston is most sensitive to the following assumptions:

- Gross margins – based on known and anticipated raw material price fluctuations and the sales pricing structures in place for contracted and non contracted business;
- Raw materials price inflation – estimates are obtained from published indices, directly from suppliers or from the contracted pricing mechanisms in place. Forecast figures are used if data is publicly available otherwise past actual raw material price movements have been used as an indicator of future price movements; and
- Growth rates – estimates are based on published industry research.

Sensitivity to changes in assumptions

With regard to the value in use of either Osborne or Angaston, management believe that no reasonably possible change in any of the above key assumptions would cause the carrying value of the either site to materially exceed its recoverable amount.

Note 17: Other assets/liabilities (non-current)

	Consolidated 2010 $000	2009 $000
Defined benefit fund asset/(liability)	(25)	(514)

Details of the defined benefit fund are included in Note 27.

Note 18: Trade and other payables (current)

	Consolidated 2010 $000	2009 $000
Trade creditors	16,298	16,418
Non trade creditors and other payables	12,892	16,539
Total current trade and other payables	29,190	32,957

Trade creditors are non-interest bearing and are normally settled on 30–60 day terms.

(a) Fair value

Due to the short term nature of these payables, their carrying value is assumed to approximate their fair value.

(b) Interest rate, foreign exchange and liquidity risk

Information regarding interest rate, foreign exchange and liquidity risk exposure is set out in Note 3.

Note 19: Interest bearing liabilities (current)

	Consolidated 2010 $000	2009 $000
Secured:		
Finance lease liabilities	839	624
Bank overdraft	–	2,049
Bank loan	1,800	–
Total current interest bearing liabilities	2,639	2,673

Securities provided for finance leases are disclosed under Note 21.

Note 20: Provisions (current)

	Consolidated 2010 $000	2009 $000
Employee benefits	5,485	5,370
Remediation	208	189
Total current provisions	5,693	5,559

Refer to Note 22 for further details on the remediation provision.

Note 21: Interest bearing liabilities (non-current)

	Consolidated 2010 $000	2009 $000
Finance lease liabilities (a)	372	599
Bank loan (b)	69,500	84,000
Total non-current interest bearing liabilities	69,872	84,599

(a) The finance leases have an average lease term of 3.4 years (2009: 4 years) at an average interest rate of 9.0% (2009: 7.80%) with fixed residual values at the end of the leases based on Australian Taxation Office minimum residuals.

The entity is obligated to pay out these residual values at the end of the lease terms. There are no restrictions imposed by these lease agreements.

(b) Penrice predominantly utilises floating rate bills for its debt funding and has hedges in place to hedge the interest rate risk on a portion of the floating rate bills, as set out in Note 13. At the time of publishing the annual report, the company's banks had agreed to a renegotiation which included an extension of terms for its term debt facility of $79.8m to March 2013, and to provide a working capital facility of $4m to expire 30 June 2011. The bank loan agreement includes a scheduled debt reduction program for the $71.3m currently drawn down which will begin in the second half of FY 2011. The bank covenants have been reset to match the company's projected performance until maturity of the bank facility.

i Fair values

The carrying amount of the Group's current and non-current interest bearing liabilities approximate their fair value. The floating rate bills are predominantly 90 day BBSY bills and at balance date the interest rate ranged from 7.5% to 8.0% (includes 90 day BBSW rate plus bank margin).

ii Interest rate and liquidity risk

Details regarding interest rate and liquidity risk are disclosed in Note 3.

iii Assets pledged as security

- The lease liability is secured by a charge over the leased assets. The carrying amount of these plant and equipment assets is $1,379k (2009: $1,576k).
- The bank loan is secured by a fixed and floating charge over the assets of the Group. Refer Note 15.

iv Defaults and breaches

During the current and prior years, there were no defaults or breaches on any of the loans.

Note 22: Provisions (non-current)

	Consolidated 2010 $000	2009 $000
Employee benefits	533	515
Dredging	871	875
Total non-current provisions	1,404	1,390
Movements in provisions (Current and Non-Current)		
Wharf Dredging		
Carrying amount at the beginning of the period	875	1,420
Amounts utilised during the period	(4)	(545)
Carrying amount at the end of the period	871	875
Remediation		
Carrying amount at the beginning of the period	189	382
Amounts utilised during the period	–	(193)
Amounts charged during the period	19	–
Carrying amount at the end of the period	208	189

Wharf Dredging:

The group has an agreement with both the S.A. Government and the operator of the Port River, Flinders Ports Pty Limited, in relation to the dredging of the Port River. The agreement requires Penrice to dredge the material over a 10 year period. Penrice has maintained a provision to dredge this material over a 10 year period.

Remediation Provision:

The remediation provision relates to the activities of the Osborne manufacturing plant operations and the Angaston mine operation.

Note 23: Contributed Equity

	Consolidated 2010 $000	2009 $000
(a) Contributed equity		
Ordinary shares fully paid	80,074	53,615
	80,074	53,615

In accordance with changes to the Corporations law effective 1 July 1998, the shares issued do not have a par value and there is no limit on the authorised share capital of the company.

NOTE 23: CONTRIBUTED EQUITY (CONTINUED)

	Year Ended 30 June 2010		Year ended 30 June 2009	
	Shares	$000	Shares	$000
Balance at the start of the period	52,963,202	53,615	45,191,455	44,285
Issued during year				
Dividend Reinvestment Plan	–	–	421,499	582
Share Placement	7,944,480	6,753	4,691,000	5,864
Share Purchase Plan	–	–	919,248	1,056
Share Purchase Plan underwritten	–	–	1,740,000	2,001
Rights Issue	30,453,841	21,318	–	–
Costs of equity raising net of deferred tax	–	(1,612)	–	(173)
Balance at the end of the period	91,361,523	80,074	52,963,202	53,615

(c) Capital management

When managing capital, the Company's objective is to ensure the entity continues as a going concern as well as to maintain optimal returns to shareholders and benefits for other stakeholders.

The Company also aims to maintain a capital structure that ensures the lowest cost of capital available to the entity. The Company continually reviews the capital structure to take advantage of favourable costs of capital or high returns on assets. As the market is constantly changing, the Company may change the amount of dividends to be paid to shareholders, issue new shares or sell assets to reduce debt.

During the 2010 financial year, the Board paid dividends of $Nil (2009: $2,260k). Of this $Nil (2009: 582k) was reinvested by shareholders through the dividend reinvestment plan.

The Penrice Soda Holdings Dividend Reinvestment Plan commenced on 16 April 2008 and remains in operation. Shares are allocated under the Plan at the issue price which is the average market price during the pricing period, less any discount (if any) determined by the Board, rounded to the nearest cent. The Plan was utilised for the 2008 final dividend, paid on 24 October 2008 and as a result 421,499 shares were issued upon reinvestment of dividends. No dividends have been paid subsequent to this date and therefore the dividend reinvestment plan has not been utilised since that time.

In October 2009, equity was raised via a placement to institutional and sophisticated investors through 7.9 million shares being issued, which was within the 15% limit available to Penrice under current listing rules. Further, Penrice also offered an underwritten entitlement offer of 1 new share for every 2 shares held at record date. This was a non renounceable Entitlement offer.

The Board monitors capital through various measures, including the gearing ratio [net debt/(net debt+total capital)]. The target for the Group's gearing ratio is 40% to 50% and at 30 June 2010 was at the lower end of this range. The gearing ratios based on continuing operations at 30 June 2010 and 2009 were as follows:

	Consolidated	
	2010 $000	2009 $000
Total borrowings	72,511	86,049
Less cash and cash equivalents	(5,444)	(683)
Net Debt	67,067	85,366
Total equity	93,016	61,547
Total Capital	160,083	146,913
Gearing ratio [Net debt/(Net debt+total capital)]	42%	59%

Borrowings include short and long term borrowings and include finance lease liabilities.

Note 24: Retained Earnings and Reserves

	Consolidated	
	2010	2009
	$000	$000
(a) Movements in retained earnings were as follows:		
Retained earnings at the beginning of the period	7,889	3,846
Net profit	6,277	7,149
Less dividend paid	–	(2,260)
Actuarial (losses) on defined benefit fund recognised directly through retained earnings	(172)	(846)
Retained earnings at the end of the period	13,994	7,889

	Consolidated	
	2010	2009
	$000	$000
(b) Movements in share based payments reserve were as follows:		
Balance at start of period	43	21
Share based payment expense for the period	63	22
Purchase of shares on market	(72)	–
Balance at end of period	34	43

	Consolidated	
	2010	2009
	$000	$000
(c) Movements in cash flow hedge reserve were as follows:		
Balance at start of period	–	–
Derivatives movement for the period	1,086	–
Balance at end of period	1,086	–

The share based payments reserve is used to record the value of share based payments provided to employees, including key management personnel, as part of their remuneration. Refer to Note 28 for further details.

Note 25: Economic dependency

Subsidiary companies have long term customer supply agreements with three major corporates for the supply of soda ash and colour blending product for use in glass production, as well as limestone sand from the Mine.

The major inputs for the production of soda ash are steam, salt, limestone, coke and water. Penrice sources its steam pursuant to a fixed price take-or-pay contract that expires in 2018. Penrice acquires salt under a fixed price contract that runs to 2019 with Penrice having options to extend to 2033.

Note 26: Remuneration of auditors

	Consolidated	
	2010 $000	2009 $000
Amounts received or due and receivable by Ernst & Young for:		
Audit or review of the financial statements	222,353	236,101
Other Services:	35,390	43,793
Other services		
Taxation	91,445	89,793
Total remuneration of auditors	349,188	369,687

Note 27: Employee entitlements

	2010	2009
The number of full-time equivalents employed as at 30 June are:	257	257

Employees are eligible to receive benefits from the Penrice Retirement Trust ("the Fund"). A benefit is payable on retirement, death, disablement or leaving service, in accordance with the Fund's Trust Deed and Rules. The Fund is a resident regulated superannuation fund that complies with superannuation laws.

The Fund provides lump sum benefits, calculated either on a defined benefit basis (qualifying employees commenced prior to 1 December 1997) or on an accumulation basis. Defined benefits reflect a member's period of Fund membership and final average salary. Members of the Fund contribute, in general, at a rate that is from 1% to 7% of salary. Penrice contributes to the Fund in accordance with the recommendation of the actuary.

Mercer Human Resource Consulting Pty Ltd last carried out an actuarial investigation of the Fund as at 30 June 2009. The June 2010 actuarial estimates below were performed for the purposes of AASB119 "Employee Benefits" disclosures and were provided by Mercer Human Resource Consulting Pty Ltd.

Employer contributions to the Group's defined benefit plan are based on recommendations by the Funds' actuary.

The method used at the last review to determine the employer contribution recommendations was the "projected accrual benefit" funding method.

NOTE 27: EMPLOYEE ENTITLEMENTS (CONTINUED)

The following tables summarise the components of net benefit expense recognised in the Income Statement and the Fund status recognised in the Statement of financial position.

PENRICE RETIREMENT TRUST	Consolidated 2010 $000	2009 $000
(a) Net benefit expense		
Service cost	629	665
Interest cost	815	1,067
Expected return on assets	(1,111)	(1,285)
Superannuation expense	333	447
(b) Net defined benefit asset/(liability) included in the Balance Sheet		
Fair value of plan assets	18,126	17,058
Present value of defined benefit obligation	(18,151)	(17,572)
Total net defined benefit asset/(liability) recognised on the Balance Sheet (Note 17)	(25)	(514)
(c) Changes in the present value of the defined benefit obligation		
Opening defined benefit obligation	17,572	19,179
Current service cost	629	665
Interest cost	815	1,067
Contributions by plan participants	462	494
Actuarial (gains)	748	(2,634)
Benefits paid	(1,800)	(987)
Taxes, premiums and expenses paid	(275)	(222)
Transfers in Closing defined benefit obligation	–	10
Closing defined benefit obligation	18,151	17,572

The defined benefit obligation consists entirely of amounts from plans that are wholly or partly funded.

The service cost and expected return on plan assets components of superannuation expense are recognised in the other expenses line within the Income Statement. Interest cost is recognised within borrowing costs in the Income Statement.

NOTE 27: EMPLOYEE ENTITLEMENTS (CONTINUED)

	Consolidated	
	2010 $000	2009 $000
(d) Changes in the fair value of the plan assets		
Opening fair value of plan assets	17,058	19,648
Expected return on plan assets	1,111	1,285
Actuarial gains(losses)	503	(3,843)
Employer contributions	1,067	673
Contributions by plan participants	462	494
Benefits paid	(1,800)	(987)
Taxes, premiums and expenses paid	(275)	(222)
Transfers in	–	10
Closing fair value of plan assets	18,126	17,058
(e) The percentage invested in each class of asset	%	%
Australian equity	29	32
International equity	32	27
Fixed income	12	10
Property	10	12
Cash	7	11
Alternatives / Other	10	8

	2010 $000	2009 $000
(f) Amounts recognised in Statement of Recognised Income and Expense		
Actuarial (losses) recognised in the year in the Statement of Comprehensive Income	(245)	(1,209)
Cumulative actuarial (losses) recognised in the Statement of Comprehensive Income	(1,286)	(1,041)

	2010 $000	2009 $000	2008 $000	2007 $000	2006 $000
(g) Historical information for the current and previous periods					
Present value of defined benefit obligation	18,151	17,572	19,179	22,968	21,403
Fair value of Plan assets	18,126	17,058	19,648	24,244	22,235
(Surplus)/deficit in Plan	25	514	(469)	(1,276)	(832)
Experience adjustments (gain)/loss Plan assets	(503)	3,843	3,469	(2,268)	(1,832)
Experience adjustments (gain)/loss Plan liabilities	653	(2,760)	(2,807)	2,419	1,628

	2010	2009
(h) Principal actuarial assumptions		
Discount Rate	4.80% pa	5.00% pa
Expected rate of return on plan assets	7.00% pa	6.80% pa
Expected salary increase rate	2.5% pa in 2010/11 and 2011/12, 4.0% pa thereafter	2% in 2009/10; 2.5% pa in 2010-12; 4.0% pa thereafter

NOTE 27: EMPLOYEE ENTITLEMENTS (CONTINUED)

(i) Fair value of Plan assets

The fair value of Plan assets includes no amounts relating to:
*any of the Groups own financial instruments; or
*any property occupied by, or other assets used by, the Group.

(j) Actual return on Plan assets Consolidated Parent

	Consolidated	
	2010 $000	2009 $000
	1,614	(2,558)

(k) Expected rate of return on Plan assets

The expected return on assets assumption is determined by weighting the expected long term return for each asset class by the target allocation of assets to each asset class and allowing for the correlations of the investment returns between asset classes.

The returns used for each asset class are net of investment tax and investment fees and asset based fees.

(l) Expected contributions

The Group expects to contribute $753k to the defined benefit superannuation fund in FY2011.

Note 28: Share based payment plans

The share based payment plans are described below. There have been no cancellations or modifications to any of the existing plans during 2010 and 2009.

A new performance rights plan was introduced for the FY 2010 which is described in further detail below. Share based payments were expensed during FY2010 for the FY2008 and FY2010 plans. The performance criteria for the FY2009 plan were not met resulting in the performance rights lapsing and consequently there was no share based payment expense in respect of the FY2009 plan.

(a) Recognised share based payment expenses

The expense recognised for employee services received during the year is shown in the table below:

	Consolidated	
	2010 $000	2009 $000
Expense arising from equity-settled share based payment transactions	63	22
Total expense arising from share based payment transactions	63	22

(b) Types of share based payment plans

Performance Rights Plan (PRP)

The performance rights plan is designed to align participant's interests with those of shareholders by rewarding stakeholders for increasing the value of the Company's shares.

Penrice's FY2010 PRP is a long term incentive scheme with a performance period of three years made up of two equal tranches.

NOTE 28: SHARE BASED PAYMENT PLANS (CONTINUED)

One tranche of the PRP is subject to a relative Total Shareholder Return (TSR) hurdle, where Penrice's TSR performance is ranked relative to companies in a comparator group consisting of the smallest 50 companies other than Penrice in the ASX Small Industrials Index. The hurdle is tested initially at the end of the Performance Period being 30 June 2012, and if required is then subject to retesting at the end of the fourth year following the grant, ie 30 June 2013.

The second tranche of the PRP is subject to an absolute EPS growth hurdle, measuring the average EPS growth over the performance period being three years. This tranche is also required to pass a threshold of positive TSR at the testing date before vesting conditions can apply. For FY2010, Penrice performance rights have been granted to 8 eligible employees.

Summary of Performance Criteria for FY2010's PRP three year period ending 30 June 2012
In assessing whether the relative TSR hurdle has been met, the Group receives independent data from an external advisor, who provides both the Group's TSR and that of the pre-selected peer group.

The vesting scale for the TSR tranche is as follows:

Relative TSR	% of Rights in Grant to Vest
<P40	0%
≥P40 to <P50	Pro rata
P50	50%
>P50 & <P80	Pro rata
≥P80	100%

As the performance hurdle of the TSR tranche is related to the share price of Penrice, it is deemed to be a market based performance hurdle and therefore in accordance with AASB2, allowance has been made for the impact of this hurdle in determining the award's fair value.
Therefore for this tranche the actual amount of Share Based Payments are expensed using the grant date fair value, which makes allowance for the performance hurdle.

The performance criteria for the EPS component of the FY2010 plan is as follows:

Absolute EPS Growth Vesting Scale

Absolute EPS Growth*	% of Rights in Grant to Vest
3% pa	0%
>3% & <6% pa	Pro rata
6% pa	50%
>6% & <9%pa	Pro rata
≥9% pa	100%

*The absolute EPS growth hurdle is the average EPS growth for the three year performance period of the respective tranche.

As the performance hurdle of the EPS growth tranche is not directly related to the share price of Penrice, it is deemed to be an internal (or non market based) performance hurdle and therefore in accordance with AASB2, allowance cannot be made for the impact of this hurdle in determining the award's fair value.
The impact of the EPS performance hurdle is instead taken into account during the expensing process. In this case, the actual number of Share Based Payments that ultimately vest is expensed using the grant date fair value, which makes no allowance for the performance hurdle.

Under AASB2 estimates can be made for the number of SBP's expected to vest, however the total expense must be trued up when the actual number of SBP's vesting is known.

The amount taken up in FY2010 for this plan under AASB2 is $40,620 which has been accounted for as a personnel cost in the income statement.

NOTE 28: SHARE BASED PAYMENT PLANS (CONTINUED)

Summary of Performance Criteria for the FY2009's PRP year ended 30 June 2009

The FY2009 PRP had a one year financial hurdle, being EPS and a three year service hurdle. The EPS targets are set out below.

Available Performance Rights for the FY2009 PRP totalled 328,108

FY2009 EPS Assumptions	Forecast EPS Growth	Forecast EPS (Cents)	Vesting Assumption	Percentage Vested	Quantity Vested
FY2009 EPS Growth Assumption 1	< 7.00%	< 17.19	Vesting Assumption 1	0.00%	0
FY2009 EPS Growth Assumption 2	7.00%	17.19	Vesting Assumption 2	50.00%	164,054
FY2009 EPS Growth Assumption 3	8.50%	17.43	Vesting Assumption 3	62.50%	205,068
FY2009 EPS Growth Assumption 4	10.00%	17.67	Vesting Assumption 4	75.00%	246,081
FY2009 EPS Growth Assumption 5	11.00%	17.83	Vesting Assumption 5	87.50%	287,095
FY2009 EPS Growth Assumption 6	12.00%	17.99	Vesting Assumption 6	100.00%	328,108

In addition to the performance criteria it is a requirement that the eligible employees remain in employment from grant date (19 February 2009) until the end of the performance period on 30 June 2011. At this time a portion of the available performance rights may be issued subject to the performance criteria being met.

As the growth in EPS for FY2009 was <7.00%, no FY09 PRPs will vest.

When a participant ceases employment prior to the vesting of their performance rights, the performance rights are forfeited unless cessation of employment is due to termination initiated by the Group or death. In the event of a change in control, the performance period end date will be brought forward to the date of the change of control and awards will vest. The company prohibits Key Management Personnel from entering into arrangements to protect the value of the unvested performance rights.

Summary of Performance Criteria for the Financial Year ended 30 June 2008

FY2008 EPS Assumptions	Forecast EPS Growth	Forecast EPS (Cents)	Vesting Assumption	Percentage Vested	Quantity Vested
FY2008 EPS Growth Assumption 1	< 7.00%	< 15.99	Vesting Assumption 1	0.00%	0
FY2008 EPS Growth Assumption 2	7.00%	15.99	Vesting Assumption 2	50.00%	171,401
FY2008 EPS Growth Assumption 3	8.50%	16.21	Vesting Assumption 3	62.50%	214,251
FY2008 EPS Growth Assumption 4	10.00%	16.43	Vesting Assumption 4	75.00%	257,102
FY2008 EPS Growth Assumption 5	11.00%	16.58	Vesting Assumption 5	87.50%	299,952
FY2008 EPS Growth Assumption 6	12.00%	16.73	Vesting Assumption 6	100%	342,802

The performance criteria specified by the Board in relation to the performance rights granted at 19 December 2007 were based on the growth in FY2008 EPS of 14.94 cents for the financial year ending 30 June 2008, and also the eligible employee remaining in the employment of Penrice for the period between the grant date (19 Dec 2007) and the end of the performance period (30 June 2010). The performance rights for 2008 were granted to seven eligible Penrice employees.

In assessing whether the earnings per share hurdle for each grant has been achieved, the Group receives independent data from an external advisor.

When a participant ceases employment prior to the vesting of their performance rights, the performance rights are forfeited unless cessation of employment is due to termination initiated by the Group or death. In the event of a change in control, the performance period end date will be brought forward to the date of the change of control and awards will vest subject to performance over this shortened period. The company prohibits Key Management Personnel from entering into arrangements to protect the value of the unvested performance rights.

NOTE 28: SHARE BASED PAYMENT PLANS (CONTINUED)

(c) Summaries of performance rights granted under PRP arrangements

The following table illustrates the number (No.) and weighted average exercise prices (WAEP) of, and movements in performance rights granted during the year:

PRP	2010 No.	2010 WAEP	2009 No.	2009 WAEP
Outstanding at the beginning of the year	171,855	–	171,855	–
Cancelled during the year	–	–	–	–
Granted during the year	878,068	–	328,108	–
Forfeited/lapsed during the year	–	–	(328,108)	–
Exercised during the year	–	–	–	–
Expired during the year	–	–	–	–
Outstanding at the end of the year	1,049,923	–	171,855	–
Exercisable at the end of the year	171,855		–	

The outstanding balance as at 30 June 2010 is represented by 1,049,923 (2009: 171,855) performance rights over ordinary shares with an exercise price of Nil each, exercisable upon meeting the performance hurdles noted above.

The FY08 PRP 171,855 performance rights vested on 1 July 2010.

(d) Weighted average remaining contractual life

The weighted average remaining contractual life for the performance rights outstanding as at 30 June 2010 is:

PRP	Weighted Ave Contractual life Years
FY08	–
FY09*	N/A
FY10	2

* no rights granted

(e) Weighted average fair value

The weighted average fair value of rights granted during FY10 was 0.62c for tranche 1 and 0.67 for tranche 2 (2009: Nil).

NOTE 28: SHARE BASED PAYMENT PLANS (CONTINUED)

(f) Performance rights pricing model

The Penrice performance rights plan has been valued independently using the following methodology:

- FY2010 –Black Scholes methodology to produce Monte-Carlo simulations. The Black Scholes model is a valuation model, that takes into account current security price at grant date, exercise price (if applicable), time to expiration, risk free rate and security price volatility. It calculates the expense to Penrice at the grant date, and then can be used to "mark to market" the expense at subsequent reporting periods as likelihood of vesting (for non-market based hurdles) and employee turnover is considered. The Monte-Carlo simulation model allows for the incorporation of the market based performance hurdles that must be met before the SBP vests to the holder. The Monte-Carlo simulation is used to determine the fair value of the TSR element. In accordance with the rules of the PRP, the model simulates the Company's TSR and compares it against the peer group over the three year performance period of each grant
- FY2009 – Black Scholes Valuation Model. The Black Scholes model is a valuation model, that takes into account current security price at grant date, exercise price (if applicable), time to expiration, risk free rate and security price volatility. It calculates the fair value of the Share Based Payments at the grant date, and then can be used to "mark to market" the expense at subsequent reporting periods as likelihood of vesting (for non-market based hurdles) and employee turnover is considered.
- FY2008 – (ES02) The ES02 function prices the performance rights using a trinomial lattice model, and takes into account vesting requirements, employee turnover rates and employee exercise behaviour. It calculates the expense to Penrice at the grant date, and then can be used to "mark to market" the expense at subsequent reporting dates if required.

The fair value of equity settled performance rights granted under the plan are estimated as at the date of the grant taking into account the terms and conditions upon which the performance rights were granted. Volatility for both FY2008 and FY2009 plans was calculated based on historical volatility of Penrice ordinary shares since listing in July 2005. The fair value of the rights is not dependant on any market based conditions.

Option pricing model: PRP

	Performance Rights 2010	Performance Rights 2009	Performance Rights 2008
Dividend yield (pa)	0% year 1, 5% subsequent yrs	6.50 %	6.5%
Expected volatility (pa)	46%	40.02 %	36.90
Risk-free interest rate (pa)	4.54%	3.07%	6.79
Rights exercise price ($)	–	–	–
Weighted average share price at measurement date ($)	0.885	1.05	1.44
Expected life of right (years)	2.42	2.36	2.53
Model used	Monte Carlo	Black Scholes	Hoadley
Fair value of rights granted ($)	Relative TSR tranche: $0.615; EPS tranche: $0.670	0.87	0.59

Note 29: Commitments and contingent liabilities

	Consolidated	
	2010	2009
	$000	$000
(a) Capital expenditure contracted for is payable as follows:		
Not later than one year	–	560
(b) Finance lease expenditure contracted for is payable as follows:		
Not later than one year	657	474
Later than one year but not later than five years	723	692
Later than five years	–	185
	1,380	1,351
Less: Future finance charges	(169)	(128)
Net finance lease liability	1,211	1,223
(c) Other committed expenditure		
Reconciled to:		
Current liability (Note 19)	839	624
Non-current liability (Note 21)	372	599
	1,211	1,223
(d) Operating lease expenditure contracted for is payable as follows:		
Not later than one year	5,885	6,032
Later than one year but not later than five years	13,088	14,205
Later than five years	–	–
	18,973	20,237

The Group utilises a series of power by the hour (PBH) rental agreements for large capacity trucks and loaders used at the Angaston mine. Each agreement runs until either a maximum time period, or a specified number of operating hours has been reached. The remaining contracted time periods range from 3 months to 4 years, or, 1,800 to 18,000 operating hours. The agreements contain minimum annual hourly rental charges, which total the amounts shown above as committed operating lease expenditure. The minimum commitments are comparable to the amounts expended in the current year under the agreement.

The parent entity and all controlled entities in the Group are parties to various guarantees and indemnities pursuant to the Group's banking facilities.

The Group has entered into financial bank guarantees with third parties arising in the normal course of business totalling $750,000 (2009: $750,000).

For Employee Contract Commitments please refer to Note 31.

Note 30: Related party disclosures

The following were controlled entities at 30 June 2010. The financial years of all controlled entities are the same as that of the parent entity.

Name of Controlled Entity	Country of Incorporation	Class of Shares	Book value of investment 2010	% of Shares held in 2010	Book value of Investment 2009	% of Shares held 2009
Penrice Pty Ltd	Australia	Ordinary	$1	100	$1	100
PSP SPV Pty Ltd	Australia	Ordinary	$58,470,413	100	$58,470,413	100
Penrice Finance Pty Ltd	Australia	Ordinary	$23,187,037	100	$23,187,037	100
Penrice Holdings Pty Ltd	Australia	Ordinary	$32,882,321	100	$32,882,321	100
Penrice Soda Products Pty Ltd	Australia	Ordinary	$2	100	$2	100

Ultimate Parent

Penrice Soda Holdings Ltd is the ultimate Australian parent Company, which owns Penrice Pty Limited directly and the other companies indirectly.

Wholly-owned group transactions

Loans

Loans made by Penrice Soda Holdings Ltd to its subsidiaries have no set repayment date, and as such have been classified as current receivables. Interest is not charged on the amount outstanding.

Dividends

Penrice Soda Holdings Ltd received a dividend during the period of $Nil (2009: $2,260,000) from Penrice Pty Limited, a wholly owned subsidiary.

Key management personnel (KMP)

Details relating to KMP, including remuneration paid, are included in Note 31.

Employees

Contributions to superannuation funds on behalf of employees are disclosed in Note 4.

Note 31: Key Management Personnel

(a) Details of Directors and Specified Executives who are deemed to be the Key Management Personnel of the Company:

Specified Directors

John Heard, Chairman (Retired 29 October 2009)	Chairman (Non-Executive)
David Trebeck, Chairman (Elected 29 October 2009)	Chairman (Non-Executive)
Guy Roberts	Director and Chief Executive Officer
Andrew Fletcher	Director (Non-Executive)
Barbara Gibson	Director (Non-Executive)
John Hirst	Director (Non-Executive)

Specified Executives

Frank Lupoi	Chief Financial Officer and Group Secretary
Declan Mackle	General Manager – Chemical Operations
Darrin Wright	General Manager – Quarry & Mineral (previously General Manager – Safety, Health, Environment & Quality)
Brett Smith (Commenced April 2010)	General Manager – Chemicals Business
Andrew Cannon	General Manager – Supply Chain
Roy Doveton	General Manager – Capital Projects
Marnie Brokenshire	General Manager – Human Resources
Andrew Kuhndt	General Manager – Chemical Sales
Mike Carter (Retired July 2010)	General Manager – Quarry & Mineral

(b) Compensation of Key Management Personnel

Compensation by category	Consolidated	
	2010 $000	2009 $000
Short term benefits	2,381	2,114
Post employment benefits	340	436
Long term benefits	16	18
Share based payments	59	22
Total Compensation	2,796	2,590

No compensation is borne by the parent entity.

NOTE 31: KEY MANAGEMENT PERSONNEL (CONTINUED)

(c) Compensation performance rights for FY2010

Compensation performance rights

Compensation performance rights – granted and issued during the year

	1 Jul 09 Perf Rights	Granted as remuneration Perf Rights	Vested Perf Rights	Net Change Other #	30 Jun 10 Perf Rights
Directors					
G Roberts	97,423	387,939	–	–	485,362
Executives					
F Lupoi	–	190,011	–	–	190,011
D Mackle	–	69,671	–	–	69,671
M Carter	14,289	–	–	–	14,289
A Cannon	12,340	46,790	–	–	59,130
R Doveton	12,243	46,173	–	–	58,416
D Wright	11,691	45,128	–	–	56,819
M Brokenshire	12,665	49,165	–	–	61,830
	160,651	834,877	–	–	995,528

includes forfeitures

As the eligible Executives have not achieved the specific performance targets for FY2010, none of the performance rights issued during the year will vest. See Note 28 for further details.

None of the performance rights are exercisable until 1 July 2010.

Compensation performance rights – granted and issued during the year

	1 Jul 08 Perf Rights	Granted as remuneration Perf Rights	Vested Perf Rights	Net Change Other #	30 Jun 09 Perf Rights
Directors					
G Roberts	97,423	154,088	–	(154,088)	97,423
Executives					
F Lupoi	–	33,333	–	(33,333)	–
D Mackle	–	18,585	–	(18,585)	–
M Carter	14,289	27,673	–	(27,673)	14,289
A Cannon	12,340	17,155	–	(17,155)	12,340
A Kuhndt	11,204	17,925	–	(17,925)	11,204
R Doveton	12,243	18,340	–	(18,340)	12,243
D Wright	11,691	19,528	–	(19,528)	11,691
M Brokenshire	12,665	21,481	–	(21,481)	12,665
	171,855	328,108	–	(328,108)	171,855

includes forfeitures

As the eligible Executives have not achieved the specific performance targets for FY2009, none of the performance rights issued during the year will vest. See Note 28 for further details.

NOTE 31: KEY MANAGEMENT PERSONNEL (CONTINUED)

(d) Shareholdings of Key Management Personnel

30 June 2010

Name and holder of shares		Balance at 1 July 09	Acquired / (sold) during the year	Balance at 30 June 10 or at cessation of employment
Directors				
D. Trebeck	Mrs Diana Jeannette Trebeck & Mr David Bruce Trebeck as trustees for The Fario Superannuation Fund	142,326	273,663	415,989
A.V. Fletcher	Andrew Fletcher & Associates Pty Ltd Superannuation Fund	45,566	72,783	118,349
J. Hirst	Hirst Superannuation Pty Limited	25,072	12,536	37,608
B. Gibson	Sunday Agencies Pty Ltd	41,954	20,977	62,931
J.H. Heard (Retired October 2009)	Zetland Pty Ltd as trustee for JH Heard Superannuation Fund	133,373	166,687	300,060
Executives*				
G. Roberts		5,093	2,547	7,640
F. Lupoi		17,900	8,950	26,850
D. Mackle		–	–	–
D. Wright		700	–	700
B. Smith		–	–	–
A. Cannon		10,711	15,326	26,037
R. Doveton		125,550	(50,760)	74,790
M. Brokenshire		12,274	276	12,550
M. Carter (Resigned 1 July 2010)		131,674	8,326	140,000

* Holdings include spouse and direct superannuation fund holdings

30 June 2009

Name and holder of shares		Balance at 1 July 08	Acquired / (sold) during the year	Balance at 30 June 09 or at cessation of employment
Directors				
J.H. Heard	Zetland Pty Ltd as trustee for JH Heard Superannuation Fund	119,688	13,685	133,373
A.V. Fletcher	Andrew Fletcher & Associates Pty Ltd Superannuation Fund	25,900	19,666	45,566
J. Hirst	Hirst Superannuation Pty Limited	20,000	5,072	25,072
B. Gibson	Sunday Agencies Pty Ltd	36,291	5,663	41,954
D. Trebeck	Mrs Diana Jeannette Trebeck & Mr David Bruce Trebeck as trustees for The Fario Superannuation Fund	35,649	106,677	142,326
Executives*				
G. Roberts		694	4,399	5,093
M. Carter		131,719	(45)	131,674
A. Kuhndt		100,719	–	100,719
R. Doveton		125,550	–	125,550
M. Brokenshire		694	11,580	12,274
D. Wright		316	384	700
A. Cannon		326	10,385	10,711
D. Mackle		–	–	–
F. Lupoi		–	17,900	17,900

* Holdings include spouse and direct superannuation fund holdings

Note 32: Parent Entity Information

	2010 $000	2009 $000
Current assets	72,713	50,101
Total assets	72,713	50,175
Current liabilities	1,647	–
Total liabilities	1,647	–
Issued capital	80,000	53,615
Cashflow hedge reserve	(1,086)	–
Share based payments reserve	34	43
Retained earnings	(7,881)	(3,483)
Total Shareholder's equity	71,067	50,175
Profit or (loss) of the Parent entity	(1,812)	1,918
Total other comprehensive income/(loss) of the parent entity	(1,086)	–
	(2,898)	1,918

For details of guarantees entered into by the parent entity in relation to its subsidiaries refer to Note 29.

Directors Declaration

In accordance with a resolution of the Directors of Penrice Soda Holdings Limited, we state that:

1. **In the opinion of the Directors:**

(a) the financial statements and notes of the consolidated entity are in accordance with the Corporations Act 2001, including:

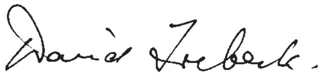
(i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2010 and of its performance for the year ended on that date; and

(ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001;

(b) there are reasonable grounds to believe that the consolidated entity will be able to pay its debts as and when they become due and payable.

(c) this declaration has been made after receiving the declarations required to be made to the Directors in accordance with section 295A of the Corporations Act 2001 for the financial year ending 30 June 2010.

On behalf of the Board

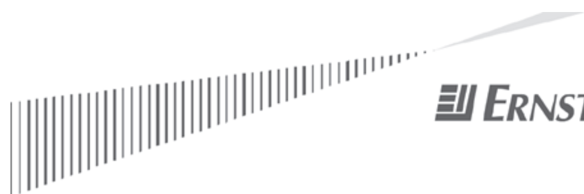


David Trebeck
Chairman

Guy Roberts
Managing Director and Chief Executive Officer

Adelaide, 20 September 2010

Independent Auditor's Report



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Independent auditor's report to the members of Penrice Soda Holdings Limited

Report on the Financial Report

We have audited the accompanying financial report of Penrice Soda Holdings Limited, which comprises the statement of financial position as at 30 June 2010, and the income statement, statement of comprehensive income, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with the Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 2(a), the directors also state that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, we consider internal controls relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence

In conducting our audit we have met the independence requirements of the *Corporations Act 2001*. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is included in the directors' report. The Auditor's Independence Declaration would have been expressed in the same terms if it had been given to the directors at the date this auditor's report was signed. In addition to our audit of the financial report, we were engaged to undertake the services disclosed in the notes to the financial statements. The provision of these services has not impaired our independence.

Auditor's Opinion

In our opinion:

1. the financial report of Penrice Soda Holdings Limited is in accordance with the *Corporations Act 2001*, including:
   i giving a true and fair view of the financial position of Penrice Soda Holdings Limited and the consolidated entity at 30 June 2010 and of their performance for the year ended on that date; and
   ii complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*.
2. the financial report also complies with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 18 to 27 of the directors' report for the year ended 30 June 2010. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's Opinion

In our opinion the Remuneration Report of Penrice Soda Holdings Limited for the year ended 30 June 2010, complies with section 300A of the *Corporations Act 2001*.

Ernst & Young

Mark Phelps
Partner
Adelaide
20 September 2010

Liability limited by a scheme approved
under Professional Standards Legislation

ASX Additional Information

Additional information required by the Australian Stock Exchange Limited Listing Rules not disclosed elsewhere in this report is set out below. The information is current at 3 September 2010.

DISTRIBUTION OF EQUITY SECURITY HOLDERS

Ordinary share capital

- 91,361,523 fully paid ordinary shares are held by 3,838 shareholders
- All issued ordinary shares carry one vote per share and carry the rights to dividends

The number of shareholders, by size of holding, in each class is:

1 to 1,000	452
1,001 to 5,000	1,264
5,001 to 10,000	758
10,001 to 100,000	1,267
100,001 and Over	97
Total	**3,838**

The number of shareholders holding less than a marketable parcel of ordinary shares is 596.

SUBSTANTIAL SHAREHOLDERS

By way of notice dated 9 December 2009 London City Equities Limited, as a substantial shareholder, notified a change of substantial shareholding from 4,998,691 shares (8.21% of voting powers) to 7,578,077 shares (8.29% of voting power).

By way of notice dated 5 November 2009 Hunter Hall Investment Management Ltd, as a substantial shareholder, notified a change of substantial shareholding from Nil shares (Nil% of voting powers) to 4,375,753 shares (7.18% of voting power).

ON MARKET BUY BACK

There is no current on market buy back.

ASX ADDITIONAL INFORMATION (CONTINUED)

TWENTY LARGEST HOLDERS OF QUOTED SECURITIES AS AT 3 SEPTEMBER 2010

Ordinary Shareholders	Number of ordinary shares held	Percentage of capital held
Cogent Nominees Pty Limited	8,634,361	9.45%
London City Equities Limited	7,001,198	7.66%
National Nominees Limited	5,476,680	5.99%
HSBC Custody Nominees (Australia) Limited	3,745,878	4.10%
JP Morgan Nominees Australia Limited	1,811,333	1.98%
Ms Patricia Gladys Wright	1,487,500	1.63%
D B Management Pty Limited	821,400	0.90%
Mr Dirk Keizer & Mrs Lena Keizer	500,000	0.55%
Mayura Pty Ltd & De Bruin Securities Pty Ltd	500,000	0.55%
Big Red LLC	461,732	0.51%
Mr Koo Sing Kuang & Mrs Lai Wah Kuang	419,261	0.46%
Mrs Diana Jeannette Trebeck & Mr David Bruce Trebeck	415,989	0.46%
Brian Gregory Wright & Wendy Joy Wright	411,000	0.45%
Mr Harry Karst	411,000	0.45%
Mr Filippo Piccirillo	410,000	0.45%
DB Management Pty Ltd	375,000	0.41%
Cogent Nominees Pty Limited	366,536	0.40%
Mrs Jeanette Marjorie Wright	362,500	0.40%
Winpar Holdings Limited	350,000	0.38%
Brazil Farming Pty Ltd	350,000	0.38%
Trafalgar Custodians Pty Ltd	348,608	0.38%
Mrs Frances Mary Karst	316,000	0.35%
Mr Adrian Keith Loader	310,000	0.34%
Total	**32,285,976**	**35.34%**

Financial History

Year Ended ($ Million unless stated)	June 2010	June 2009	June 2008	June 2007	June 2006
Statements of financial performance					
Sales revenue	160.4	162.3	135.1	134.2	133.7
Earnings before interest, tax, depreciation and amortisation*	23.3	27.0	19.8	19.1	19.2
Depreciation	(8.8)	(7.4)	(5.5)	(5.4)	(4.9)
Earnings before interest and tax*	14.5	19.6	14.3	13.7	14.3
Net interest expense	(8.2)	(8.6)	(5.9)	(4.3)	(3.3)
Net profit before tax*	6.3	11.0	8.4	9.4	11.0
Tax Expense	(1.0)	(2.0)	(1.8)	(2.7)	(1.9)
Net profit after tax*	5.3	9.0	6.6	6.7	9.1
After tax unrealised gain/(loss) on hedges	1.0	(1.9)	0.7	–	–
Net profit after tax	6.3	7.1	7.3	6.7	9.1
Group Balance Sheet					
Cash	5.4	0.7	4.3	2.2	5.9
Trade and other receivables	22.0	24.7	19.0	16.9	19.3
Inventories	63.0	56.0	38.4	20.6	14.6
Other current assets	0.7	3.0	3.7	0.7	0.5
Property, plant and equipment	94.6	92.8	77.1	62.7	60.4
Intangibles	20.9	18.1	18.8	21.8	20.9
Deferred tax assets	3.8	3.5	3.6	3.5	4.4
Other non-current assets	–	–	0.5	1.3	0.8
Total assets	210.4	198.8	165.4	129.7	126.8
Current borrowings	2.6	2.7	1.6	0.5	0.8
Trade and other payables	29.2	32.9	24.9	18.7	20.2
Tax payable	0.0	1.2	2.0	1.3	1.2
Other current liabilities	7.4	5.7	4.2	5.3	5.8
Non-current borrowings	69.9	84.6	74.0	47.9	44.2
Deferred tax liabilities	6.9	8.3	9.0	8.0	7.8
Other non-current liabilities	1.4	1.9	1.5	2.3	2.2
Total liabilities	117.4	137.3	117.2	84.0	82.2
Net assets	93.0	61.5	48.2	45.7	44.6
Share capital	80.1	53.6	44.3	44.0	44.0
Retained profits	12.9	7.9	3.9	1.7	0.6
Total shareholders funds	93.0	61.5	48.2	45.7	44.6
Share information					
Return on shareholders' funds (%)	6.8%	13.0%	15.5%	14.8%	21.9%
Underlying earnings per share (cents)	6.6	18.1	14.6	14.9	20.1
Statutory earnings per share (cents)~	7.8	12.9	16.1	14.9	20.1
Total dividend (cents)	Nil	Nil	10.5	10.0	14.7
Interim dividend (cents)	Nil	Nil	5.0	5.0	7.0
Final dividend (cents)	Nil	Nil	5.5	5.0	7.7
Other information					
Gearing [net debt / (net debt+equity)]	42%	59%	59%	52%	47%
Interest cover [EBITDA* / net interest] times	2.8	3.1	3.4	4.4	5.8

* excludes unrealised hedge losses/gains

~Restated EPS for FY2009 due to rights issues during FY2010

Corporate Information

PENRICE SODA HOLDINGS LIMITED
ABN 83 109 193 419

DIRECTORS
D.B. Trebeck (Chairman)
G.R. Roberts (Managing Director & Chief Executive Officer)
A.V. Fletcher
B.J. Gibson
J.W.A. Hirst

GROUP SECRETARY
F. Lupoi

PRINCIPAL REGISTERED OFFICE
Solvay Road
Osborne, South Australia 5017
Telephone: (08) 8402 7000
Facsimile: (08) 8402 7250

BANKERS
National Australia Bank
Westpac Banking Corporation

SHARE REGISTRY
Link Market Services Limited
Level 1, 333 Collins Street
Melbourne, Victoria 3000

EXTERNAL AUDITORS
Ernst & Young

INTERNAL AUDITORS
KPMG

SOLICITORS
Kelly & Co.

INTERNET ADDRESS
www.penrice.com.au

STOCK EXCHANGE
The group is listed on the Australian Stock Exchange.
The home exchange is Adelaide.

OTHER INFORMATION
Penrice Soda Holdings Limited, incorporated and domiciled in Australia, is a publicly listed group limited by shares.