



22 November 2011

Market Update

- **Loss for first four months of FY2012 in challenging trading conditions**
 - Soda ash demand down in Australia due to exchange rate pressures and manufacturing downturn
 - Soft demand for quarry products in South Australia in construction downturn
 - Gawler rail line upgrade costs Penrice \$1.6 million to date: discussions with SA Government continuing
- **Benefits of strategic review will be fully realised in second half**
 - Cost reductions and margin improvement positive for balance of year's results
- **Initial mine drilling indicates long term, high quality reserves**
- **Selective Salts Recovery pilot plant construction underway at Osborne**
 - Has the potential to substantially transform the company
- **Improved performance anticipated in FY2013**
 - FY2013 will benefit from all current strategic initiatives

Recent Trading

Penrice Soda Holdings Limited (ASX:PSH) advises that it recorded an underlying operating after tax loss of \$2.6 million in the first four months of the current financial year in challenging trading conditions. Underlying earnings exclude one-off costs of \$1.7 million after tax relating to the company's strategic review and the impacts of the SA Government upgrade and temporary closure of the Gawler rail line, which Penrice uses to transport limestone from its Angaston mine to its chemical plant in Adelaide. The reported (unaudited) operating after tax loss to the end of October was \$4.3 million.

Apart from the rail line closure, negative influences on performance have been:

- Continuing high level of the Australian dollar reducing export receipts
- Reduced soda ash demand in Australia from glass customers with downturns in construction and packaging sectors, caused in part by the high Australian dollar
- Less quarry products demand in South Australia reflecting construction downturn
- Increased borrowing costs and bank fees

The rail line closure has led to extra road transport and processing costs of \$1.6 million to the end of October. Unexpected soda ash plant issues have arisen from damage to the limestone caused by road freighting and increased handling making it less efficient through the kilns. The Gawler rail line was closed by the SA Government in September 2011 for an upgrade expected to take seven months.

Penrice is in continuing discussions with the SA Government concerning these higher operating costs, having originally proposed that the upgrade be managed one track at a time, thereby allowing Penrice's daily limestone rail service to continue unaffected by the rail line upgrade. As a result of the unplanned production inefficiencies, it is now estimated that additional costs to Penrice will be more than double initial estimates and will be approximately \$4 million over the full closure period.

The company has just installed a new mechanical screening plant at its Osborne site which will remove the damaged limestone from the kiln feedstock, returning the soda ash plant to planned production rates for the duration of the rail closure and beyond.

On the positive side, there are three initiatives from which Penrice will receive future benefits in line with the strategic review announced in August;

- Reduced personnel costs of \$3 million per annum, reflecting a 10 percent staff reduction, principally in the corporate centre and chemicals business
- Increased net revenues for sodium bicarbonate exports of \$3 million per annum from new business in Japan and price increases
- Initial results of the drilling programme at Angaston mine are encouraging in relation to the size and quality of available limestone reserves

In addition, sales and operational gains were achieved and will be reflected in future performance;

- The company's consortium with GE Power and Water commenced construction of a Selective Salts Recovery pilot plant for Queensland Gas Corporation (QGC), in relation to coal seam gas water treatment
- Increased domestic sodium bicarbonate sales amid improved conditions in the agricultural sector
- Sold quarry products to Urban Superway JV for the South Road Superway
- Secured new seven year mine licence extension for Angaston mine
- Secured approval for by-product calstilt as a landfill at Gilman site

Strategic Review Update

Penrice's short term working capital facility has been drawn down by \$9 million to manage the above factors affecting short term performance, but with the unexpected Gawler rail line closure costs and production impacts, the company is seeking a further small increase to this facility. Based on discussions with the company's financiers and subject to the completion of a review of the company's current trading position, the directors believe that the company will continue to have support of its financiers and will meet its obligations as and when they fall due.

The Angaston mine drilling programme is on schedule with full results expected in April 2012. The board's top priority remains to reduce term debt; it is continuing to evaluate all options to do so.

Outlook

Penrice anticipates an improved operating performance in the second half. While earnings are normally skewed to the second half due to seasonal impacts, the improvements described above will lift earnings. Nonetheless, the unprecedented exchange rate and reduced demand affecting its glass manufacturing customers in the Australian soda ash business and in the South Australian construction sector creates considerable uncertainty.

Margins will improve through contracted chemicals price rises and recent staff reductions. Importantly, coke prices, which had risen significantly in response to Asian steel demand and supply interruptions following the Queensland floods, are 30% off their recent high.

Kilns performance and soda ash plant output are likely to improve with the installation of the new screening plant. One of the kilns was refurbished in July, and its subsequent impact on performance has been positive. Two other kilns are scheduled to be re-lined in March 2012 and the December quarter of 2012.

The Selective Salts Recovery pilot plant will make a positive impact on earnings in the current financial year. If the pilot plant is successful, it may lead to the construction of a commercial scale plant, which Penrice proposes to operate, deriving fee income, as well as revenue from marketing the plant offtake. Penrice believes this is a potentially company transforming project in that it would diversify the company's income streams and provide access to a high growth market.

It is difficult to provide earnings guidance given the uncertain economic outlook, particularly for soda ash and quarry products demand, however, based on best available information, the company is now expecting a reported breakeven result for the full year, assuming no further deterioration in economic conditions.

Additional information will be provided to shareholders at the company's annual general meeting on 5 December 2011.

About Penrice

Penrice Soda Holdings Limited (ASX: PSH) is Australia's only manufacturer of soda ash and sodium bicarbonate and one of the world's largest sodium bicarbonate marketing companies. It also operates a limestone mine and is a significant supplier of industrial minerals and civil products.

The Company is committed to driving shareholder value through the manufacture and supply of a range of world-class products across a variety of industries and countries including packaging, building and construction, mining, detergents, food and personal care, stockfeed and environmental control/water purification.

For further information regarding Penrice Soda Holdings visit the company's website at www.penrice.com.au

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