PENRICE SODA HOLDINGS LIMITED

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Penrice H1 2011 results

- **H1 loss, as previously announced, due to forced plant shutdown caused by third party steam supply interruption**
- **H2 chemical sales affected by floods, as previously announced**
- **Underlying business continues to improve**
- **Banks confirm ongoing support and to provide additional liquidity**

Penrice Soda Holdings Limited (ASX:PSH), Australia's leading supplier of soda ash, sodium bicarbonate and limestone materials, today confirmed an after-tax loss of $1.2 million for the six months to 31 December 2010 (H1 2010: reported NPAT $3.1 million; underlying NPAT excluding unrealised hedge gains $2.4 million), as announced on 11 February 2011[1].

The H1 2011 result includes losses totalling approximately $5 million pre-tax that resulted from forced plant shutdowns in the first half. It also includes a $0.5 million accrual on insurance claims made as a consequence of these events, which has now been received as a progress payment.

Net operating cash flow increased to $4.5 million from $2.9 million, reflecting reduced working capital and a turnaround in the Quarry & Mineral business to positive cash flow.

Second half cash flow will be affected by the impact of the forced shutdowns and also by lower chemical sales as a result of the recent floods in eastern Australia, as announced on 11 February.

Penrice's banks have confirmed their ongoing support for the company and are to provide additional liquidity to cover this temporary cash flow shortfall.

In view of current trading conditions and outlook, Directors have not declared an interim dividend.

'The improvement in operating cash flow in the first half demonstrates the progress that has been made over the past three years, whereas the two events leading to the recent cash flow shortfall – the failure of our steam supplier's cogeneration plant and the floods in eastern Australia – were outside management control,' said Penrice chairman, David Trebeck.

'The market for soda ash is improving and there is strong export demand for sodium bicarbonate. We are focused on continuing to improve plant reliability and output, while reducing operating costs.'

'For the sodium bicarbonate plant, we are concentrating on higher quality, premium products which deliver stronger margins. The business should benefit in domestic markets from the recent imposition of anti-dumping duties on sodium bicarbonate imported from China.

'Technology developed by Penrice to recover organic salts from waste water resulting from coal seam gas extraction has the potential to diversify future earnings. A memorandum of understanding has been signed with a global water business to form a consortium to trial the new technology. Quotes for pilot plants have been submitted and construction of at least one of these is expected in the current calendar year. The technology is expected to make a positive contribution, mainly through fee-based income, to Penrice's future earnings, while the company's capital investment in the project is planned to be minimal.

[1] The company's unaudited results were announced to the ASX on 11 February, as part of a market update that also reported interruption to sales from the recent floods in eastern Australia.

'The Quarry & Mineral business' cash flow, which was positive for the first time since the company's IPO in 2005, is further evidence of the progress being made in strengthening Penrice's businesses for the future.'

Penrice managing director and CEO, Guy Roberts, said: 'It is frustrating that, as our markets are beginning to strengthen after the GFC and our operational performance is improving, we should have been hit by these two external events. We will manage through these events and emerge a stronger business with improved earnings.

'We remain committed to growing our soda ash business to meet expected increases in demand from the Australian glass and mineral processing industries and expanding our production of premium sodium bicarbonate to meet strong demand from pharmaceutical, medical, food and industrial customers in Asia. Our Quarry & Mineral business will take advantage of increased demand for aggregate and landfill as construction of new roads, buildings and infrastructure increases in northern Adelaide.

'At the same time, we will continue to control costs and improve operating cash flow.'

Reported results for six months ended ($million)	**31 Dec 2010**	**31 Dec 2009**
Sales revenue	**68.8**	77.9
Earnings before interest, tax, depreciation and amortisation (EBITDA)	**6.1**	12.0
Earnings before interest and tax (EBIT)	**1.5**	7.9
Net profit after tax (NPAT)	**(1.2)**	3.1
Earnings per share (cents)	**(1.3)**	4.5

Underlying results excluding unrealised hedge gains ($million)	**31 Dec 2010**	**31 Dec 2009**
EBITDA	**6.1**	10.8
EBIT	**1.5**	6.8
NPAT	**(1.2)**	2.4
Earnings per share (cents)	**(1.3)**	3.4

Chemicals

Underlying results for six months ended ($million)	31 Dec 2010	31 Dec 2009
Sales revenue	**56.9**	65.0
EBITDA	**3.7**	7.6
EBIT	**(0.2)**	4.1
EBITDA margin (%)	**6.5%**	11.7%
EBIT margin (%)	**-**	6.3%

As previously announced, the sudden failure of Penrice's steam supplier's cogeneration plant forced a shutdown of the company's chemical plant for a week in late October, leading to extensive repair work, production and sales shortfalls and considerable efficiency problems when production restarted.

The losses resulting from this and an earlier, shorter unplanned shutdown totalled approximately $5 million. The company's insurers have made an initial $0.5 million progress payment under the company's insurance and further recoveries are expected once the quantum has been agreed.

The shutdowns led to increased costs and lower soda ash and sodium bicarbonate sales, reducing the Chemicals business's EBITDA. Concurrently, the stronger Australian dollar and higher coke prices reduced EBITDA by a further $1.5 million. These reductions were partly offset by higher prices for soda ash.

While the newer sodium bicarbonate plant operates at close to capacity and is recovering from the forced plant shutdown, the older soda ash plant has not yet recovered to full rates due to damage caused to its lime kilns by the shutdown. A major overhaul (or "re-line") of one of the four older kilns is now scheduled for May 2011 and soda ash plant rates are expected to improve as a result.

The company is committed to investing the capital required to enhance the soda ash plant's integrity so it operates reliably. A five year Plant Improvement Plan, at a minimum annual spend rate equivalent to depreciation has been approved in principle to upgrade the soda ash plant to improve safety, reduce risk of failure and increase productivity.

Alongside this Plan, the company is undertaking numerous research and development projects to improve overall plant condition and performance, including the development of its by-product calsilt as landfill. A new site at Gilman, close to the Osborne operations, has been sourced to trial a calsilt-based landfill product and obtain necessary regulatory approvals to enable commercial scale sales to be made. Considerable progress has already occurred and the company expects to bring the new landfill product to market later in 2012.

Trials of lower cost fuel for the lime kilns are continuing and the company is targeting a reduction in overall fuel costs in FY 2012 by approximately $2 million compared with their forecast level.

Soda ash

Domestic demand for soda ash is recovering to pre-GFC levels but with the impact of the plant shutdowns, sales volumes were down 12% in the half and an increased reliance on imported soda ash during this period raised the cost base. Revenue per tonne was slightly higher.

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As advised on 11 February, early second half soda ash sales to the Australian market were affected by unusually wet weather and some customers were directly affected by Queensland floods. Fortunately, these customers are now recovering.

Second half sales should exceed the first half, reflecting normal seasonality and expected increased demand in Australia (including by glass manufacturers). Supplies to two new mining customers and two new industrial customers will start in the second half.

Sodium bicarbonate

While sodium bicarbonate demand and selling prices increased in Asia, overall sales volumes were down 6% due to the plant shutdowns.

As advised on 11 February, sales to the Australian animal feed market were affected by the unusually wet weather, and this softness has continued in the second half as a result of the floods. Average prices in Australia were down 3.4%, largely due to dumped imports which are expected to reduce following the imposition of anti-dumping duties.

Growing exports of sodium bicarbonate are now a significant proportion of the Chemicals business, although, as previously noted, the high Australian dollar has reduced earnings from US dollar denominated sales. While prices increased in US dollar terms, the gains were outweighed by the strengthening of the Australian dollar to an average of US$0.96 (H1 2010: US$0.86).

A price increase in the domestic market in January is expected to partly offset the near-term impact on demand of continuing unfavourable weather conditions.

Expansion of sodium bicarbonate capacity will now be implemented in stages. The first, involving new equipment to provide higher capacity and more efficient packing, is planned to begin during the current half and will lay the groundwork for future capacity growth, while delivering immediate cost savings and a prompt payback. The second, in FY2012, will comprise the construction of a new sodium bicarbonate mill, increasing output of more profitable, higher grade product for which demand is growing rapidly in Asian markets. This will enable the business to shift its sales mix into more profitable segments. A third stage, for expansion of plant capacity, will be assessed against market conditions at the appropriate time.

Quarry & Mineral

Underlying results for six months ended ($million)	31 Dec 2010	31 Dec 2009
Sales to external customers	**11.9**	12.9
Inter-company sales	**3.0**	3.1
Total sales revenue	**14.9**	16.0
Distribution cost	**(2.8)**	(3.7)
Total net sales revenue	**12.1**	12.3
Operating costs	**(8.5)**	(7.0)
EBITDA	**3.6**	5.3
EBIT	**2.8**	4.8
EBITDA margin on net sales (%)	**29.8%**	43.1%
EBIT margin on net sales (%)	**23.1%**	39.0%
Inventory build	**(0.7)**	(4.2)
PP&E, other assets and liabilities	**(2.8)**	(2.8)
Net free cash flow	**0.1**	(1.7)

An improvement in Quarry & Mineral's sales mix resulted in a higher dollar per tonne margin and a reduction of 2% in net sales revenue, despite a 24% drop in sales volumes from H1 2010 (when there were substantial sales for a major road project).

As anticipated in the August 2010 results announcement, EBITDA was affected by lower inventory capitalisation, reflecting reduced overburden extraction, a central component of the business's new five year mine plan.

Mine inventory grew by $0.7 million (H1 2010: $4.2 million) and comprised predominantly aggregates. There was minimal ($17K) build in landfill inventory, reflecting reduced extraction and sales of 60K tonnes. These lower rates of extraction and inventory build have led to overall lower cash costs and an improvement in cash flows of $1.8 million compared to H1 2010 resulting in a net free positive cash flow for the first time since the company's IPO in 2005.

A number of new civil and industrial customers were secured during the half and there were increased deliveries of lime sand to a major industrial customer and of aggregate to a number of concrete manufacturers.

There is recent evidence of a pick-up in demand for aggregate and landfill for civil projects in the Adelaide region, and orders for 150K tonnes for new projects have been received in the past four weeks. Tenders have been submitted for several other projects and the company is confident of selling its mine inventories over time, thereby generating cash and improving its balance sheet.

Even in the absence of major projects, underlying sales of aggregate are expected to be around one million tonnes per annum, compared with an average future extraction of 0.8 million tonnes per annum over the next five years.

Landfill sales, which totalled 60K tonnes in the first half, are expected to rise to in excess of 0.2 million tonnes for the full year as new techniques to blend landfill with a variety of civil products are proven and accepted. This compares with an average future extraction rate of 0.2 million tonnes per annum over the next five years. This sales rate, which represents less than 10% of annual landfill demand in northern Adelaide, is expected to grow over time.

In addition to this underlying business, the company has tendered for several private and government sector landfill projects which in total would require more than the company's current landfill inventory (11 million tonnes). The timing and duration of these projects will depend on economic conditions and project funding, but, together with underlying demand, they are sufficiently prospective to warrant the company's view that significant sales of landfill inventory will be made over the next five years.

Balance sheet

Despite the company's first half loss, net assets increased slightly to $93.1 million (30 June 2010: $93.0 million), due to a $1.6 million positive mark-to-market adjustment of interest and foreign exchange hedging contracts.

Working capital at 31 December was significantly lower at $53.0 million (30 June 2010: $56.5 million) due to increased focus on cash and debtor management. This was in spite of a $4.0 million increase in inventories over 30 June 2010, due largely to additional stock of coke in anticipation of price rises and to a bulk import shipment of soda ash.

Capital investment increased to $7.3 million from $5.3 million in the December 09 half, mainly caused by the acquisition of buffer land around the Angaston mine, capital works on the new Gilman site (for calsilt/landfill development) and to the boiler decarbonator project which will increase soda ash production by 2,000 tonnes per annum from March 2011. With these items, together with a major kiln overhaul now planned for May 2011, it is expected that capital expenditure for FY11 will be approximately $13 million.

The company's net debt at 31 December 2010 was $70.0 million, compared with $67.1 million at 30 June 2010, a direct consequence of the cash outflow following the steam supplier failure. Gearing (net debt: net debt + equity) was 43%, compared with 42% at the end of June.

A significant portion of the company's current assets comprises Quarry & Mineral inventory: $19 million aggregate, and $20 million landfill. These products are classified as current assets because they are ready for sale with no further processing and because markets exist for them. While at current contracted sales volumes they will not be realised within 12 months, this is considered to be within the normal cycle, to which AASB 101 (Presentation of Financial Statements) applies. As noted earlier, markets are being actively targeted, especially in the case of landfill.

Banking arrangements

The cash flow implications of the steam supply failure and the floods have created a temporary liquidity requirement and a review of the company's banking covenants and conditions. The company's banks have agreed to supply a short term liquidity facility and have reset the covenants and conditions, subject to the normal banking approval process.

Other

As reported in December 2010, a shareholder, London City Equities, has applied to the Federal Court to inspect certain of the company's books. In response to the application, the company has offered to provide a list of documents which it is prepared to make available for inspection. The company is satisfied that at all times Penrice and its directors have acted in accordance with their duties and, in particular, that it has made full disclosure at all times to keep its shareholders properly informed.

Outlook

Demand and prices for soda ash in Asia increased in 2010 and further increases are forecast in 2011 as Asian economies grow rapidly. Chinese exporters have withdrawn substantially (with exports down to 2004 levels) to supply their own fast growing economy. This has caused considerable supply shortages, which American exporters are moving to fill at higher prices.

The Australian market should see increased demand and prices in 2011 on the back of increased industrial output, building and construction and mining activity. Penrice will seek to supply this Australian market growth and focus on operational improvements to lift the profitability of its chemical business.

The high Australian dollar is a continuing negative influence in two ways - it is constraining earnings from chemical exports and reducing competitive import prices into Australia. The company seeks to offset the impact as best it can, by currency hedging policies and purchasing inputs in US dollars.

Asian demand and prices for sodium bicarbonate increased in 2010 and this trend should continue, especially in the food, medical, pharmaceutical, and personal care markets targeted by Penrice. The Australian market is a stable low growth market, given usual weather patterns and Penrice will focus its sales efforts more on the premium Asian markets.

In Quarry & Mineral, Adelaide civil and construction activity should increase in 2011 on the back of a number of government-led major projects. Penrice will target these for aggregate and landfill sales.

Full Year Guidance

As previously advised, while underlying demand and prices for soda ash and sodium bicarbonate are improving, the recent floods and other extreme weather in eastern Australia have considerably reduced demand for stockfeed, and sodium bicarbonate sales to date in the second half are behind plan.

Similarly, soda ash sales have been affected, with floods interrupting customer demand, although this now looks to be recovering. The impact on full year earnings will depend on the timing and pace of the recovery.

Negotiations with the company's insurers are continuing on the recovery of losses incurred as a result of the two unplanned plant shutdowns. The quantum and timing of these recoveries are uncertain due to the scale and complexity of the losses and may not be agreed in time for them to be included in the company's FY2011 accounts.

In view of these uncertainties, the company will not achieve its previous guidance of 'an underlying net profit after tax of greater than $5.3 million' (the FY2010 result). It is not possible at present to provide more precise guidance, but the market will be updated as and when conditions allow.

About Penrice

Penrice Soda Holdings Limited (ASX code: 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.

For further information regarding Penrice Soda Holdings' Australian operations go to our website at www.penrice.com.au or contact:

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