



PENRICE SODA HOLDINGS LIMITED

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25 August 2011

ASX/Media Release

FY2011 Results

- **Normalised FY2011 loss of \$1.4 million due to impact of strong Australian dollar and forced plant shutdown caused by third party steam supply failure**
- **Statutory loss of \$26.2 million includes \$21.7 million impairment charge reflecting outlook for continuing tough operating environment**
- **Strategic review underway, cost savings implemented**
- **Cost saving and growth initiatives expected to partly offset impact of continuing difficult trading conditions in FY2012**

Summary

Penrice Soda Holdings Limited (ASX:PSH) today reported an after-tax loss of \$26.2 million for the year ended 30 June 2011 (FY2010: NPAT of \$6.3 million). Excluding significant items, the normalised loss was \$1.4 million (FY2010: NPAT of \$5.3 million), as flagged in previous guidance.

The underlying performance of the Chemicals business was negatively affected by the strong Australian dollar, which averaged US\$1.00 in FY2011 versus US\$0.88 in the previous year. The strengthening Australian dollar eroded receipts from Penrice's US dollar export earnings by approximately \$4 million and increased import competition in its domestic business, pressuring margins. At the same time, the strong Australian dollar has eroded the competitive position of, and therefore demand from, Penrice's domestic customers.

Chemicals earnings were also reduced by the forced plant shutdown and related losses of approximately \$5 million due to an unprecedented steam supply failure and ongoing associated operational issues, as well as reduced domestic demand for soda ash and sodium bicarbonate as a result of extreme weather events. Significantly higher coke prices further increased the cost of kiln fuels and also reduced Chemicals earnings.

Quarry & Mineral earnings were just below expectations due to a slowing demand from civil and construction markets late in the second half and some unplanned maintenance. Cash flows in the business continue to improve and in FY2011 free cash outflow was \$0.7 million, a \$2 million improvement on the prior year, reflecting a combination of improved gross margins in industrial minerals markets, reduced cash mining costs and lower capital expenditure.

The FY2011 statutory result includes losses of \$5 million pre-tax from the forced plant shutdown, partially off-set by an initial insurance recovery of \$0.5 million pre-tax. It also includes impairment charges of \$16 million pre-tax relating to the Chemicals business and \$10 million pre-tax in relation to the Quarry & Mineral business. The Chemicals impairment charge reflects the business's current tough operating conditions largely driven by the high Australian dollar, which necessitated a reassessment of the expected cash flows from the business based on updated projections of the exchange rate and demand growth forecasts.

The Quarry & Mineral impairment charge has been taken against the carrying value of landfill inventory and reflects the revised timings of expected landfill contracts due to deferrals and cancellations of government and private sector infrastructure projects, some of which had previously been tendered for. This is reflective of the uncertain outlook for civil and construction activity, especially following the completion of the federal government stimulus package.



In light of the difficult trading conditions and in recognition of the need to improve returns to shareholders, Penrice is conducting a strategic review of its operations, as announced on 12 August. The goal of the review is to improve operating performance and reduce debt from the current high level relative to earnings. As announced, three immediate steps have already been initiated:

- a labour cost reduction programme which will result in a 10% cut in the company's staffing numbers, principally in the corporate centre and Chemicals business, from October 2011 onwards, generating savings of around \$2 million in FY2012;
- a review of pricing policies in the Chemicals business, with price increases announced, principally in the export business, leveraging strong regional demand for, and recent regional price increases in, soda ash and sodium bicarbonate; these pricing initiatives are expected to materially improve margins from October 2011 onwards, and produce up to \$2 million in additional revenue in FY 2012; and
- a major drilling programme at the Angaston mine to better understand and value the mine to JORC compliance and leverage the available resource; the programme and a new mine plan developed from it, is expected to be completed by April 2012.

As part of the review, the Board is also considering a number of options aimed at deleveraging the balance sheet and achieving more normal credit metrics, including asset sales and equity raising. The outcomes of the strategic review are expected to emerge over the course of the next 12 months. In light of the FY2011 result and the outlook for continuing tough trading conditions, the Board has declared no dividend.

Outlook

The FY2012 outlook is uncertain. Underlying market conditions in the Chemicals business are likely to remain tough in Australia, while the continuing strength of the Australian dollar will constrain the growth in Penrice's sodium bicarbonate export earnings and in the domestic business. Contracted price increases with some major customers will make a positive contribution to earnings in the current year. New business gained with Amcor Glass Australia will also assist.

The Quarry & Mineral business is expected to see a further improvement in its operating cash flow from continued growing sales and reduced extraction rates, although that rate of improvement may be moderated depending on the extent of the apparent downturn in civil and construction activity in Adelaide. As with the Chemicals business, contracted price increases with some major customers will make a positive contribution to earnings in the current year. Further sales to Urban Superway for the South Road Superway project will assist.

Cost cutting and price rise initiatives out of the recently announced strategic review will make a positive contribution to earnings in the current year and will offset the impact of the strong Australian dollar and softer demand. Further outcomes of the strategic review will be communicated over the next 12 months.

We will accelerate the considerable potential of our Queensland coal seam gas water treatment opportunities, which are expected to provide fee-based income from piloting Penrice's proprietary technology during the year.

Other initiatives planned for the coming year for the Chemicals business, which are targeted to improve earnings in the medium term, include a potential new packaging line for sodium bicarbonate, lower electricity costs following a competitive tender and new kiln processing technology to reduce the cost of kiln fuels. Capex in FY2012 is expected to reduce to \$10.5 million from \$13.2 million in FY2011.



Management remains focused on improving operating margin and cash flow performance in the current year, but given the uncertainties, no guidance is offered at this time. Shareholders will be further updated on the earnings outlook for the current year at the Annual General Meeting in October.

For more detailed information and analysis, please refer to the Review and Results of Operations section contained in the Preliminary Final Report (Appendix 4E) for year ended 30 June 2011.

Investor & Analyst Conference Call on FY11 Full Year Results

Date: **Thursday, 25 August 2011**
Time: **12.30pm Eastern Standard Time (12.00pm ACST)**
Conference ID: **94814731**

Dial-In Access Numbers:
Dial-In Number: **+ 61 2 8314 8370**
Toll Free Number: **1800 123 296**

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.

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' Australian operations go to our website at www.penrice.com.au or contact:

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Some of the important factors that may cause actual results to differ materially from those of the forward looking statements include, among others, foreign currency or interest rate fluctuations; economic and competitive conditions in Australia and other relevant markets and countries; disruptions in the supply chain; changes in tax rates and laws; consumer and product demand; fluctuations in availability and cost of raw material, labour, energy, electricity and transportation; actions of competitors and customers; unanticipated regulatory expenditure; and, the Company's ability to further develop plans, strategies and objectives of management.

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