



# PENRICE SODA HOLDINGS LIMITED

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ASX/Media Release

## Earnings Guidance and Market Update

(ASX:PSH), Penrice Soda Holdings Limited (Penrice) today announced that the company expects full year normalised earnings to be in the range \$0.5 million to \$1.5 million loss after tax.

Guidance provided previously was that full year underlying earnings would be less than Penrice's 2010 financial year result (a profit of \$5.3 million), due to factors materially affecting earnings, including the Queensland floods' impact on demand for soda ash and sodium bicarbonate, foreign exchange rates effect on margins, and uncertain timing and extent of recovery of a major insurance claim.

Today's guidance incorporates those factors and also a lower than expected demand for soda ash from two major customers in the current quarter which is not anticipated to extend into the new financial year.

On a statutory basis, this full year earnings forecast represents an after tax loss in the range \$3.5 million to \$4.5 million. This excludes any further insurance claim recovery above the \$0.4 million after tax (\$0.5 million before tax) already received. Normalised earnings guidance assumes the insurable events reduced earnings by \$3.5 million after tax. The company remains confident it will recover a substantial portion of this loss; however, these further insurance recoveries are now more likely to be realised in the 2012 financial year.

### Chemicals

Two major soda ash customers have just advised significantly reduced soda ash demand this quarter. This is a consequence of, in one case, unscheduled plant maintenance and major planned plant refurbishment being brought forward at short notice, and, in the other, unusually high volumes of recycled glass substituting for soda ash. Penrice has been told that these supply disruptions will cease in July. Compounding the situation, the high Australian dollar is eroding export revenues and margins, a situation common to many Australian manufacturers and exporters at present.

Penrice Soda MD and CEO, Guy Roberts, said that, "it's been a tough year for the Chemicals business, with two costly operational events outside the company's control - a sudden failure of the 3<sup>rd</sup> party steam supplier adjacent to the chemicals plant causing a plant shutdown, followed by key customers being flooded on the east coast – and now the current adverse demand impacts. Setting these aside, we see that the chemicals business's earnings potential remains sound," he said.

"The earnings disruptions experienced this year are considered unusual, one-off, and unlikely to recur; their impact will not extend beyond the current financial year end. Next financial year is being approached on that basis with soda ash demand expected to recover and, with it, more normal operating returns", he said.

### Soda Ash

Sales into construction glass have improved on the previous period but some uncertainty remains over the strength of the recovery in the building construction sector. Supply has commenced to two new Australian mining customers and two industrial customers and the company expects further growth in the mining segment.

The price for soda ash in the Asia Pacific region is strong as global and Asian demand is picking up. Chinese producers have withdrawn from exports post GFC.



As previously advised, the soda ash plant was severely affected by a plant outage caused by the failure of Osborne Cogeneration to supply steam to Penrice in the first half. The outage has caused continuing instability and inefficiency in the operation of the older kilns and is continuing to limit soda ash plant output by up to 8%. The company is planning to re-line the two most affected kilns in the next four months, which should result in an immediate uplift in plant operating rates.

The company's major cost initiative is with alternative kiln fuels and it is now successfully using anthracite as a cheaper kiln fuel than traditional coke. Unfortunately, the significant cost savings achieved have been offset by a huge new spike in the hard coking coal export price, resulting from the Australian floods in January. Trials of other forms of solid fuels continue and there is confidence that these will translate into further cost savings.

The company continues to be positive about its strengthening participation in assisting coal seam gas companies solve their water treatment issues. Penrice expects soon to pilot its proprietary novel technology, which extracts the salts from the coal seam gas water stream. This has the potential to diversify future earnings and contribute via fee-based income.

#### Sodium Bicarbonate

The company's sodium bicarbonate business is its major export earner in addition to being a solid contributor to domestic earnings. Domestic demand has recovered from the recent cyclone and flood impacts in the eastern States. Export demand remains strong and sales to Japan have increased recently to cover a shortfall in domestic production as a consequence of Japan's natural disasters. Export demand continues to outstrip supply and the company is migrating sales to premium markets to optimise returns. Price increases were implemented in export markets from the commencement of the second half.

As a result of technical and logistical improvements, the bicarbonate plant operation is manufacturing a higher proportion of premium export grade product.

Penrice's \$30 million plus export business has more than doubled over the past three years. However, the unprecedented rise of the Australian dollar has eroded export revenues and margins as the dollar appreciated by around 30% against the US dollar within the past two years. A one cent rise in the Australian dollar reduces export revenue by approximately \$300,000 per annum, other things being equal. Export revenues have declined by \$3 million in comparison with last year due to the rise of the Australian dollar. The company is mitigating this impact as best it can by achieving price increases, operating a derivative hedging programme and using a natural hedge by shifting raw materials and export freight purchasing into US dollars.

Mr Roberts said, "In the short term, the focus is on the cost bar. We have identified productivity gains to position the company better for the long term, and cost savings such as cheaper alternative kiln fuels. Longer term, further profitable expansion of the bicarbonate plant is possible to leverage our strong niche food and pharmaceutical offer to the Asian market."

#### **Mine**

"On the positive side, Penrice's Mine business continues to increase its cash earnings, with strong demand and reduced cash mining costs," Mr Roberts said. "It is performing well in growing markets and now consistently generates positive monthly cash flows."

Demand for the company's products in the civil and construction markets increased on the back of higher building and construction activity than in the first half, and improved weather conditions. Supplies of civil products to a major new road project in Adelaide were made. This project requires considerable amounts of civil material, including landfill, over the next two years and Penrice is seeking a major supply role to it; the company has been advised that supply contracts are expected to be let in the next two months.



The new mine plan is working well with minimal inventory being built during the year. Landfill is being blended into civil products and sales in excess of 200,000 tonnes are expected for the full year with this annual rate being maintained as a minimum into the foreseeable future.

The company has also embarked on large scale landfill development trials at a new site at Gilman, near its Osborne site in Adelaide. A variety of landfill blends is being trialled, including substantial use of Penrice's by-product from chemical operations, "calsilt". Regulatory approvals must be obtained to sell this landfill blend and there has been cooperation with regulators over the past two years to this end. Final approval is anticipated by the end of this calendar year.

The project aim is to make a saleable product suitable for large scale engineered fill opportunities in the Adelaide metropolitan region, which will be a revenue source as well as enabling use of a by-product that currently has no market outlet. A number of such opportunities are being progressed in the public and private sectors.

The Mine Business is now better planned, with a reduced and more efficient mining operation. It is producing positive cash flows in a sustainable way and has the potential to generate further earnings from major civil projects planned for Adelaide. Consistent with the company's ten year mine plan, there is no planned material increase to average overburden extraction rates.

### **Corporate**

As advised, the company's banks have provided the necessary liquidity for the company to manage through these events, with current bank debt at \$80 million. The company and its banks are completing a planned review of the company's banking agreement and the company expects to finalise a new banking agreement by the end of the financial year.

Also as previously advised, the company is recovering from its insurers the costs associated with the failure of Osborne Cogeneration Company's steam supply. The scale and complexity of the loss and damage suffered is delaying negotiations and the recovery of those costs. As previously advised the company has received an initial \$0.5 million progress payment (\$0.4 million after tax) and still expects to recover a substantial proportion of the \$5 million pre tax loss that resulted (\$4 million after deductibles).

A shareholder continues court action to seek access to documents for its own purposes. The company has offered a limited scope of documents for inspection to assist this process, which the shareholder has declined. The matter is expected to be heard in court within the next month. The company regards this action as an unwelcome management distraction and an unfortunate waste of company resources.

### **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 more information on Penrice's operations go to our website at [www.penrice.com.au](http://www.penrice.com.au) or contact:

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