ASX ANNOUNCEMENT: 28 February 2012

Committed To Success

MD on H1 12 Results & Outlook

Open Briefing with **MD Guy Roberts**

Penrice Soda Holdings Limited
Solvay Road Osborne
South Australia 5017

In this Open Briefing®, Guy discusses:

- **H1 results impacted by difficult external environment**
- **$22.6 million write down of Chemical business assets**
- **Significant improvement in earnings expected from H2**

Open Briefing interview:

openbriefing.com
Penrice Soda Holdings Limited reported an underlying after-tax loss of $3.3 million for the first half ended December 2011, versus net profit of $1.9 million in the previous corresponding period. Underlying EBITDA was $5.4 million, down 50 percent, reflecting tough trading conditions in the soda ash segment of your Chemicals business, and in Quarry & Mineral. You now expect a reported loss for the full year ending June 2012, versus the breakeven result flagged in your market update in late November. To what extent does this reflect a changed outlook for underlying earnings?

MD Guy Roberts
Putting to one side the impairment charge we took in the first half, certainly the board's focus and all of management's efforts are around getting to cash flow positive as soon as possible. However, since our market update in November, that target has become more difficult to achieve in the short term, with the Australian dollar higher than forecast and increasing uncertainties in the domestic markets we supply – manufacturing, property and construction – which remain in the slow speed part of Australia's two speed economy.

That said, we're expecting underlying earnings in the current second half to be better than the first half. That reflects higher product prices, continuing growth in higher margin sodium bicarbonate sales, increased aggregates sales into the South Road Superway, the benefits of recent labour cost reductions and a significant contribution from sales of our Selective Salts Recovery technology.

openbriefing.com
Penrice reported a statutory loss of $28.0 million for first half, with significant items after tax totalling $24.7 million, including an impairment charge of $22.6 million in the Chemicals

business reflecting uncertainty in your client manufacturing segments. This appears to relate specifically to the soda ash business. Is this business viable in its current form?

MD Guy Roberts

The soda ash business has been viable for over 60 years, leveraging its strengths of low cost raw materials, world scale plant and being close to growing customers. Our raw material position remains strong but our plant has taken two unusual, one-off external shocks in the last two years: the cogeneration plant failure and the Gawler rail line closure.

At the same time, our customers, especially the glass industry, are struggling under the weight of the high dollar. Glass imports have increased. Wine exports have dropped. As a result demand for soda ash has fallen.

We're not standing still and waiting for the exchange rate to come down to make the business viable, we're taking action. We're chasing soda ash applications in the mining sector, with Uranium One an example of a new customer. We're chasing more sodium bicarbonate exports. By expanding the sodium bicarbonate plant, we consume soda ash and effectively sell it for more, reducing our reliance on Australian manufacturing. We're taking costs out too: our work on alternative kiln fuels is an example of how costs have been cut.

openbriefing.com

The temporary closure of the Gawler rail line resulted in one-off costs of $1.8 million (after tax), contributing to Penrice's reported net loss. You've flagged total costs of $2.8 million (after tax) over the seven month period of the rail closure. What are the risks to this estimate and what options are available to Penrice to seek compensation for this loss?

MD Guy Roberts

We're very confident that the total cost to the business will be as flagged. We're now managing the road freighting of our limestone well, and have mitigated the impact to the maximum extent possible. From our communications with the government, the rail line upgrade is on time and we expect to recommence rail freighting of our limestone in the last week of March.

We've been in an ongoing dialogue with the state government with respect to the financial impact of the rail line closure and are very disappointed the government has rejected our claim for compensation. We believe we've been discriminated against with respect to the planning and cost impost of the closure and are still evaluating our options, including legal action.

openbriefing.com

Net operating cash outflow was $5.4 million in the first half, versus inflow of $4.5 million in the pcp, reflecting the impact of the Gawler rail shut-down. After sustenance capex of $5.7 million, net free cash outflow was $11.1million versus outflow of $2.8 million in the pcp. What are your capex needs over the remainder of the year and what scope is there to stem cash outflow in the near term?

MD Guy Roberts

We expect to generate cash from March, once the Gawler rail line reopens. Clearly the market environment is also difficult and our strategy is to continue to be vigilant around costs and limit our capital investment to "business critical" projects.

Our capex budget for the year remains $10 million and we're on track given our investment is always biased to the first half, which is when we have our annual maintenance shut-down. In the recent first half we also invested in the reline of our No. 4 lime kiln and we plan to reline the No. 6 kiln in March. Both projects are essential for an uplift in output.

openbriefing.com
Net debt stood at $87.3 million as at 31 December 2011, up from $75.6 million. Net debt to net debt plus equity was 70 percent, up from 53 percent. What ability do you have to borrow further if cash flow remains under pressure? What is the outlook for debt over the remainder of the year?

MD Guy Roberts
We'll have drawn down the remaining $5 million from our short term facility by March. After that, given we expect operating cash flow to improve in the second half by virtue of our Chemicals price increases and our 10 percent headcount reduction, our debt should start reducing.

We continue to work closely with our banks, and they remain supportive of our strategy to improve operational efficiency and reduce debt.

openbriefing.com
Interest cost was $5.1 million in the first half, up from $4.0 million, implying an average cost of debt of 12.3 percent, up from 11.4 percent. Can you comment on the cost of the additional debt taken on in the first half? Will this cost apply when you have to refinance in future?

MD Guy Roberts
The additional short term facility is designed to assist us manage the impact of the rail closure and is at a higher cost than our term facilities. We'd expect that when we refinance the facility due in March 2013, all other things being equal, it would be at a lower cost.

openbriefing.com
Net equity now sits at $37.8 million, and your asset backing includes $51.4 million of inventory. With slower sales of aggregate and landfill into the construction sector, do you remain comfortable with the carrying value of your inventory?

MD Guy Roberts
Yes we do. In our view nothing has changed materially since we took an impairment charge on our landfill inventory at the end of FY2011. We believe the construction industry is in a cyclical downturn and will recover in the medium term. We continue to sell aggregates profitably and while sales of landfill have been slower, that's in line with our expectations given their dependence on projects. We remain of the view that we're well placed to supply major infrastructure projects over the longer term.

openbriefing.com
The Chemicals business booked EBITDA of $5.0 million, down from $8.7 million in the pcp, on revenue of $60.4 million, up 6 percent. Reduced volumes in soda ash impacted the result. Where are we in the soda ash demand cycle? Are there any signs that demand has bottomed?

MD Guy Roberts
Soda ash is a globally traded commodity chemical, so our pricing reflects import parity. Global buyers indicate there is upward pressure on prices from China, which is a major exporter and where costs are increasing.

In Australia, demand for soda ash is not possible to predict and depends fundamentally on the glass manufacturing sector, which has retreated post GFC. The glass packaging sector expects a better year, given recovery in both beer consumption and wine exports, although the strong Australian dollar remains a negative. The flat glass sector continues to face demand pressure given that construction markets are at a cyclical bottom.

openbriefing.com
You've flagged annual EBIT benefits of $3 million from recent price rises in Chemicals and a new contract with Japanese detergent manufacturer Lion and another $3 million from recent headcount reductions. To what extent will these initiatives benefit Chemicals earnings if soda ash continues to underperform?

MD Guy Roberts
The export price rises and cost reductions are in place and those gains are being delivered. We're comfortable about achieving the forecast $6 million earnings uplift in the Chemicals business and that stands independently of performance in the soda ash segment.

openbriefing.com
Quarry & Mineral book EBITDA of $2.2 million, down from $3.6 million, on revenue of $16.0 million, up 7 percent. Given a further increase in aggregate inventory levels and assuming capital expenditure in line with depreciation, cash flow before any interest and tax would be approximately $700,000. What is the outlook for cash flow given the current slow demand conditions?

MD Guy Roberts
Quarry & Mineral cash flow for the half was only slightly worse than the previous corresponding period, which we think is a great outcome given a 15 percent reduction in construction activity, fuel cost pressures and higher than forecast inventory build. We remain in line with the longer term trajectory of cash flow improvement in Quarry & Mineral, which improved cash flow by $4 million from FY2009 to FY2011.

We think we can achieve positive cash flow this year. Near term demand will be assisted by sales to the South Road Superway and second half cost pressures look more manageable with the exception of fuel, where price signals are unclear. Inventory build will remain lower in the longer term with a greater proportion of extraction costs being expensed to the P&L, i.e. reported earnings will be lower than in the past but cash flow will improve.

openbriefing.com
You've flagged growth options for the business in your Selective Salts Recovery technology and in the potential expansion of you sodium bicarbonate production capacity. With cash flow constrained and debt reduction a priority, what ability do you have to exploit these options?

MD Guy Roberts
The focus of our growth strategy is to reduce our dependence on traditional Australian manufacturing, thereby de-risking the business, and shifting focus to growing demand segments in Asia, where we're already making good returns.

Our two immediate growth priorities are expanding our sodium bicarbonate exports and commercialising our Selective Salts Recovery technology. Growing our sodium bicarbonate exports will require a plant expansion, with an estimated total capital cost of $8 million for a $3 million plus annual EBIT return. This project can be phased in bite-sized capital chunks commencing in FY2013. Our business model for the development of our Selective Salts Recovery technology is to supply equipment and technical and marketing services which will be funded by customers, minimising our balance sheet risk.

openbriefing.com
What progress are you making with the company's strategic review?

MD Guy Roberts
The aim of the strategic review is to reduce debt and improve operating profitability. The review continues and all options are on the table. We aren't able to comment any further until the review is completed and the board is satisfied that any decisions are in the best interest of shareholders.

As we've stated, drilling at the Angaston mine, which was instigated under the strategic review, has been completed and results should be available within the next two months. Early indications confirm our existing assumptions as to the quality and quantity of the reserve. The results of the drilling program will be used to develop a new mine plan that will bring greater efficiency to our mining operations over the short to medium term.

openbriefing.com
Thank you Guy.

For further information on Penrice Soda Holdings visit www.penrice.com.au or call CFO Frank Lupoi on (08) 8402 7280.

For previous Open Briefings by Penrice Soda Holdings, or to receive future Open Briefings by email, visit openbriefing.com

DISCLAIMER: Orient Capital Pty Ltd has taken all reasonable care in publishing the information contained in this Open Briefing®; furthermore, the entirety of this Open Briefing® has been approved for release to the market by the participating company. It is information given in a summary form and does not purport to be complete. The information contained is not intended to be used as the basis for making any investment decision and you are solely responsible for any use you choose to make of the information. We strongly advise that you seek independent professional advice before making any investment decisions. Orient Capital Pty Ltd is not responsible for any consequences of the use you make of the information, including any loss or damage you or a third party might suffer as a result of that use.