



31 July 2013

## Market Update

- **Soda ash business restructure completed**
- **Increased soda ash earnings in FY2014**
- **Reduction in carbon footprint of 75%**
  - **First lime sales in July**
  - **Trading update**

Penrice Soda Holdings Limited (ASX:PSH) (Penrice) provides this market update on its business operations, in light of considerable progress made on its soda ash business restructure over the last several months and the significance of those changes<sup>1</sup>. This update does not include full year results, which will be covered as usual in the full year results release in late August 2013.

Penrice Managing Director and CEO, Mr Guy Roberts, said, "The company has two priorities, increasing earnings and reducing debt. To increase its earnings, over the last twelve months the company has implemented a restructure of its loss making soda ash business. That restructure has been completed as planned."

Mr Roberts said, "It has been a most complex and challenging project and the board is pleased with the progress to date. Each of the numerous staff involved deserve great credit and thanks also go to our business partners who have supported this project. While there is still much bedding down of operational and marketing changes, all key elements are now in place.

"Equally pleasing is that the key financial goal of the project, which was to eliminate the considerable soda ash business losses of recent times and to return the soda ash business to profitability in FY2014, remains intact. Given the structural changes in the business model, switching from manufacturing to importing, we have confidence in the soda ash business unit delivering increased earnings and becoming profitable in FY2014, subject of course to no unforeseen deterioration in economic conditions," he said.

Mr Roberts said, "FY2014 is a transition year with the bedding down of a raft of operational changes and new sales challenges. FY2015 will be the first year of the full benefits of the business restructure and should deliver further improved earnings."

"From a group perspective, we do not believe it is appropriate at this time to provide quantitative guidance, due to factors including the level of economic uncertainty in the international markets and locally, especially demand in the manufacturing and building industries," Mr Roberts said.

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<sup>1</sup> Previous market updates since half year results release were issued 22 March 2013 and 8 May 2013

The key elements of the business restructure which have been completed over the last several months include:

- Penrice has closed its 70 year old, Osborne, Adelaide soda ash plant as scheduled on 30 June 2013 and switched its business model from manufacturing soda ash to importing and distributing soda ash through its joint venture company, Pro Asia Pacific Pty Ltd (PAP).
- Carbon emissions from the soda ash plant have ceased, reducing Penrice's carbon footprint by about 75%. Soda ash plant emissions of ammonia and calst to the adjacent Port River have also ceased.
- Loan funds from its joint venture partner have been drawn down to fund Penrice's plant modifications and staff redundancies.
- Penrice's soda ash plant has been decommissioned and is being mothballed; its sodium bicarbonate plant modified to accept imported soda ash; a new lime plant is operating and expected to be ready for full operation during August 2013.
- A new five year steam supply contract has been signed with Osborne Cogeneration Pty Ltd, replacing the previous contract, to provide steam from its adjacent cogeneration plant on more flexible terms to meet Penrice's new operational needs.
- As previously announced<sup>2</sup>, an agreement has been reached with Ridley Corporation Ltd (Ridley) for the early termination of the take or pay salt supply contract with Ridley. The agreement is subject to the approval of Penrice's banks, which is pending their sign off following final review.
- Part of the agreement with Ridley includes the extension of Penrice's exclusive supplier status with Ridley to supply sodium bicarbonate to Ridley for ten years.
- Fifty four Penrice staff left the business during June 2013, less than originally planned, having redeployed six staff, who have taken over contractor roles.
- Penrice's new mine plan at its Angaston mine is fully operational and running to plan, based on a reduced requirement for limestone from Penrice's chemical business.
- Penrice made its first lime sales from its new Osborne lime plant during July.
- PAP is in full operation, with Penrice's soda ash customers having transferred to it. Soda ash sourcing from ANSAC, imported into PAP through SASS Victoria Australia, is operational in supplying soda ash to PAP's customers, including Penrice.
- Penrice is fully operational in providing a full local logistics service package to PAP including wharfage, storage and handling, packaging and transport to customers.

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<sup>2</sup> See market updates on 27 June 2013

Mr Roberts said, "By moving from a local manufacturing model with high and increasing costs to an import/distribution model, Penrice will benefit from better aligning domestic demand with imports and a new flexible and competitive cost structure which can be maintained throughout demand shifts."

### **Chemicals**

Penrice has switched to using its new soda ash sourcing facilities for sodium bicarbonate manufacture. Continuity of supply and product quality has been maintained. A recently depreciating AUD has benefitted export earnings.

Penrice has continued to operate its lime plant, which is necessary for the supply of carbon dioxide used in its sodium bicarbonate plant. The first sales of quicklime were made during July 2013. Quicklime, a new product in Penrice's portfolio, is widely used in Australia in the mining, chemical, building and construction industries. Penrice intends to focus on nearby eastern states customers. Penrice is also producing hydrated lime, another new product, which is widely used in agricultural and building markets. Penrice's plans include selling hydrated lime into local agricultural markets, replacing a by-product previously sold by Penrice, but no longer made following the soda ash plant closure.

### **Quarry & Mineral**

The amount of limestone required from Penrice's Angaston mine to supply Penrice's chemical business has reduced by approximately 70% due to the closure of the soda ash plant. Limestone is still required to make lime, from which carbon dioxide is sourced for the sodium bicarbonate plant. A new mine plan has been adopted by the business and mine operations restructured around a new smaller operational footprint and cost base. The business has also reduced costs to offset reduced demand for quarry materials caused by the contraction in building and construction activity over the past three years.

## **Q4 FY2013 trading update**

### *Chemicals*

As expected, demand for soda ash was soft given the recent general contraction in manufacturing activity in Australia. Soda ash production was down; plant inefficiencies increased as sustenance capital was reduced, once the closure decision was made.

PAP's sales commenced as planned in late May 2013. Under the new soda ash business model, Penrice expects to derive income from two sources: service fees from the logistics package being provided to PAP; and dividends from its shareholding in PAP.

Sales of sodium bicarbonate were strong with continuing robust demand and the plant maintained output at capacity, including through the transition period.

### *SSR*

Penrice continues to deploy its selective salt recovery technology in the coal seam gas industry, albeit with slippage to previously expected timescale. A recent development has been the signing of a memorandum of understanding with Trility, a subsidiary of Mitsubishi Corporation and an Australian water utility services provider. In collaborating with Trility in the coal seam gas industry, Penrice has the opportunity to provide marketing and technical services. Penrice's consortium with GE continues in the coal seam gas industry. Penrice continues to pursue opportunities with other coal seam gas producers, having concluded successful trials of its proprietary SSR technology at its Osborne pilot plant in FY2103.

### *Quarry and Mineral*

Demand for quarry products was softer over the quarter with reduced sales reflecting the continuing contraction in building activity nationally and in South Australia. A restructure of mine operations together with productivity improvements have reduced costs to partly offset reduced sales. There is some evidence of a recent stabilising in demand with a slight increase in activity reported for Q1 FY2014.

### *Carbon tax*

Penrice has not fully acquitted its progressive surrender carbon liability under the Clean Energy Scheme for FY2013 of around \$1.5 million. Penrice has incurred a late penalty of \$0.5 million from the Clean Energy Regulator (CER). Penrice intends to acquit the liability during FY2014 in part by surrendering carbon permits due to Penrice in FY2014. Penrice is in constructive discussions with the CER on this matter and expects to finalise suitable arrangements with the CER.

Penrice's carbon liability arises from producing lime previously used in the manufacture of soda ash, now manufactured for sale. In addition to improving Penrice's financial results, the closure of Penrice's soda ash plant also immediately reduces Penrice's carbon emissions by about 75% or some 265,000 tonnes of carbon per year. Penrice's gross carbon liability is expected to proportionately reduce by 75%. As a lime producer, Penrice also expects to continue to qualify as an Energy Intensive Trade Exposed (EITE) entity and to receive carbon permits to offset its reduced carbon liability.

For more information visit the company's website at [www.penrice.com.au](http://www.penrice.com.au) or contact Mr Guy Roberts, Managing Director & CEO, Penrice Soda Holdings Ltd, +61 8 8402 7239.

### **About Penrice**

Penrice Soda Holdings Limited (ASX: PSH) is a world leading manufacturer, marketer and exporter of sodium bicarbonate. It manufactures and markets lime for Australian industry. It imports and distributes soda ash throughout Australia through its joint venture, Pro Asia Pacific. It also operates a limestone mine, supplying quarry products and industrial minerals in South Australia.

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.

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