



27 August 2013

Penrice Soda 2013 Full Year Results

Penrice Soda Financial Results

- Underlying net loss after tax \$21.4 million (FY2012: \$6.7 million)
- Statutory net loss after tax \$50.1 million (FY2012: \$63.6 million) (includes impairment and restructuring charges of \$30.0 million)
- Statutory operating net cash outflow of \$3.0 million (FY2012: \$6.1 million)
- Net debt increased to \$112.1 million from \$96.5 million
- No dividend declared

Penrice Soda Business Highlights

- Business restructure completed in H2 FY2013 in response to earnings decline
- Operating cash flow increases \$3.1 million despite margin decline, from cost savings and working capital reductions
- Capital expenditure reduced by \$7.3 million on smaller manufacturing footprint
- Soda ash plant closed and switch made to import/distribution JV, Pro Asia Pacific
- Record sodium bicarbonate sales
- First sales by new lime business
- Angaston mine restructured with efficiencies gained
- EBIT turnaround planned in FY2014 and improves again with full year benefits in FY2015

Penrice Chemicals

- Underlying EBITDA loss of \$2.6 million, compared to underlying EBITDA of \$11.4 in FY2012, from soda ash losses
- Soda ash plant closed, import/distribution of soda ash commenced on time (by end FY2013) and on budget (applying \$8 million JV partner loan)
- Record level of sodium bicarbonate sales for year at 102K tonnes
- First lime sales made in July FY2014

Penrice Quarry & Mineral

- Underlying EBITDA of \$1.4 million, compared to underlying EBITDA of \$3.9 million in FY2012 on less building and construction activity
- Mine operations restructured with reduced cost base and improved efficiencies
- Underlying EBITDA in H2 of \$1.2 million improves on underlying EBITDA in H1 of \$0.2 million with part benefits of restructure in place

SUMMARY

Penrice Soda Holdings Limited (Penrice) (ASX: PSH) today reported an underlying net loss after tax for the year ended 30 June 2013 of \$21.4 million (FY2013: \$6.7 million). Statutory net loss after tax was \$50.1 million (FY2012: \$63.6 million) and includes impairment and restructuring charges of \$30.0 million.

The increase in underlying net loss was primarily in the soda ash business unit of the chemicals business and was due to the impact of lower prices, sales and production volumes, partly offset by an increased contribution from its sodium bicarbonate business unit. With the imminent closure of the soda ash plant at the end of the year and softening demand for soda ash, inventories were sold at reduced prices, further reducing profits.

Statutory operating cash flow for the year was improved with a net cash outflow of \$3.0 million, compared to \$6.1 million for the prior year. Operating cash flow increased, despite margin erosion, due to a sustained focus on cash generation, including working capital reduction of \$8.6 million and an interest deferral of \$6.3 million on the interest deferred, five year term debt facility.

Significant items included chemicals business restructuring costs in the second half of \$8.8 million and first half impairment of the chemicals business of \$21.2 million, all related to closure of soda ash plant and chemicals business restructure.

Penrice Managing Director and CEO, Guy Roberts, said that "The year was a very significant one in Penrice's growth as a chemicals company. The closure of our Australian soda ash manufacturing and switch to an import/distribution joint venture in Pro Asia Pacific will put the chemicals business and the entire company on a more sustainable and profitable footing."

"The chemicals business earnings were well down with an underlying EBITDA loss of \$2.6 million (FY2012: underlying EBITDA of \$11.4 million) on a substantial loss in the soda ash business unit. That loss was the key driver of the company's previously announced plans to restructure its operations and turnaround financial performance."

"The export orientated sodium bicarbonate business ran well with record sales and was the substantial contributor to group earnings, leveraging strong market positions in Asia."

"The South Australian quarry and mineral business delivered a decreased EBITDA of \$1.4 million (FY2012: underlying EBITDA of \$3.9 million) on 25% less sales volume than the previous financial year, with levels at 25 year lows in residential construction activity in the state. Cost savings and production efficiencies helped offset sales decline and the overall result, while disappointing, was creditable in the circumstances."

As expected, net debt was up to \$112.1 million from \$96.5 million, including for capitalised interest on the interest deferred, five year term debt facility and the \$8 million loan to the company from its JV partner which funded the business restructure in the second half.

"As previously advised, the company's view is that its net debt needs to be reduced, particularly given recent impairments, which have resulted in negative shareholder funds. The priority has been to first create a sustainable earnings model, without which a restructure of the balance sheet would not be possible. Having completed its business restructure, which should increase the company's earnings sustainably, the company will actively seek ways to reduce its net debt during FY2014."

Outlook

"Penrice completed its restructuring in FY2013. FY2014 is a transition year, as the company beds down a raft of operational and sales changes.

Penrice expects improved underlying earnings in FY2014, subject to economic conditions. FY2015 will be the first full year of earnings uplift following the restructuring and should be another material uplift on FY2014 forecast earnings, once again subject to economic conditions."

Restructure

Penrice closed soda ash manufacturing in Adelaide in June 2013 and restructured its soda ash business around an import and distribution model, forming a joint venture company, Pro Asia Pacific Pty Ltd (Pro Asia Pacific), with the world's largest independent soda ash distributor, Soda Ash Holding BV, sourcing soda ash from American Natural Soda Ash Corporation (ANSAC), the world's largest soda ash exporter. Pro Asia Pacific commenced operations in May 2013.

"Soda ash manufacturing has been the company's Achilles' heel, making substantial losses. Against the backdrop of a volatile Australian dollar, by moving from local manufacturing with high and increasing fixed costs to an import and distribution model, Penrice will benefit from better aligning supply with domestic demand and a new flexible and competitive cost structure that can be maintained throughout demand shifts."

"We now have a much more robust business model which is less risky and more capable of generating improved earnings. In forming the joint venture, Pro Asia Pacific, we are pleased to have a strong business partner."

Penrice restructured its Angaston limestone mine operations following closure of its soda ash plant, which means its chemicals business requires 70% less limestone. A new mine plan was adopted, giving longer term resource security and a more efficient extraction model with less overburden extraction. A smaller mine fleet has a more flexible cost structure.

Banks

Penrice complies with its banking agreements and retains the support of its banks, which in FY2012 agreed to a restructure of the company's \$97.8 million senior debt facility, including the extension of a \$67.8 million facility to August 2017, with interest on that facility to be capitalised and not paid, to assist the company's cash flow.

RESULTS SUMMARY

| Results summary | | | |
|---|-----------------|-----------------|---------------|
| Year ended 30 June A\$000 | 2013 | 2012 | % variance |
| Sales revenue | 137,219 | 149,426 | (8%) |
| Chemicals EBITDA* | (2,643) | 11,409 | (123%) |
| Quarry & Mineral EBITDA* | 1,360 | 3,913 | (65%) |
| Corporate centre/unallocated | (2,995) | (3,707) | 19% |
| Underlying EBITDA * | (4,278) | 11,615 | (137%) |
| Depreciation | (6,815) | (10,198) | 33% |
| Underlying EBIT * | (11,093) | 1,417 | (883%) |
| Net interest expense | (10,928) | (10,951) | 0% |
| Underlying NPBT* | (22,021) | (9,534) | 131% |
| Tax * | 586 | 2,860 | (80%) |
| Underlying NPAT* | (21,435) | (6,674) | 221% |
| Chemicals impairment (after tax) | (21,156) | (32,347) | |
| Quarry & Mineral impairment (after tax) | - | (12,991) | |
| Restructure costs (after tax) | (8,808) | (577) | |
| Insurance events, net of recoveries (after tax) | 1,450 | - | |
| Share of loss in joint venture | (144) | - | |
| Rail closure impact (after tax) | - | (3,276) | |
| Derecognition of deferred tax balances | - | (7,687) | |
| Total significant items (after tax) | (28,658) | (56,878) | |
| Statutory NPAT | (50,092) | (63,552) | (21%) |
| Underlying earnings per share* (cents) | (23.5) | (7.3) | (221%) |
| Statutory earnings per share (cents) | (54.8) | (69.6) | 21% |
| Dividend per share (cents) | Nil | Nil | |
| Gearing [net debt/(net debt+ equity)] % | 178% | 98% | |
| Interest cover [EBITDA*/net interest] (times) | Nil | 1.1 | |

*Excludes significant items. Underlying results (Underlying EBITDA, EBIT, NPBT, Tax, NPAT, Earnings per share) is a non-IFRS measure that is presented to provide an understanding of the underlying performance of Penrice's operations. The measure excludes the impact of non cash accounting adjustments for impairment and derecognition of deferred tax assets as well as items that are not part of normal business operations that are not expected to reoccur, being the rail closure and restructure costs. The non IFRS financial information is unaudited.

GROUP

Mr Roberts said, "Penrice has not only restructured its soda ash business but also, responding to the cyclical downturn in construction activity, restructured Angaston mine operations. Restructuring has been completed as planned."

Mr Roberts said, "The restructure has been a complex and challenging project and the board is pleased with the progress to date with acceptance from customers. While there is still considerable bedding down of operational and sales changes, key elements are now in place."

The elements of the business restructure completed over the second half include:

- Penrice closed its 70 year old, Osborne, Adelaide soda ash plant as scheduled on 30 June 2013 and switched from manufacturing soda ash to importing and distributing soda ash through the joint venture company. The soda ash plant is being mothballed.
- Penrice's sodium bicarbonate plant has been modified to accept imported soda ash; a new lime plant is operating and expected to be ready for full production in August 2013.
- Loan funds of \$8 million from our JV partner have been drawn down to fund Penrice's plant modifications and staff redundancies.
- A new five year steam supply contract was signed with Osborne Cogeneration Pty Ltd to supply steam from its adjacent cogeneration plant on more flexible terms to meet Penrice's new operational needs.
- An agreement was signed with Ridley Corporation Ltd (Ridley) for the early termination of the take or pay salt supply contract. The agreement is subject to the approval of Penrice's banks and is pending their final review, which Penrice expects will be concluded shortly and will confirm the key terms of the settlement.
- Part of the agreement with Ridley includes the extension of Penrice's supplier status to supply sodium bicarbonate to Ridley for 10 years.
- Fifty four Penrice staff left the business during June 2013, slightly less than originally planned, with six staff having taken over contractor roles.
- Penrice's new Angaston mine plan is fully operational and running to plan, based on a reduced requirement for limestone from Penrice's chemical business. A new smaller and more flexible mine fleet is being introduced on a more variable cost structure.
- Penrice made its first lime sales from its new Osborne lime plant during July.
- Pro Asia Pacific is in full operation and Penrice is providing a full local logistics service package to Pro Asia Pacific including wharfage, storage and handling, packaging and transport to customers.

CHEMICALS

| Chemicals - underlying results | | | |
|---------------------------------------|----------------|----------------|---------------|
| Year ended 30 June | 2013 | 2012 | % |
| \$000 | | | |
| Sales revenue | 117,743 | 124,037 | (5%) |
| Underlying EBITDA | (2,643) | 11,409 | (123%) |
| EBITDA margin | -2.2% | 9.2% | |
| Underlying EBIT | (7,345) | 3,114 | (336%) |
| EBIT margin | (6.2%) | 2.5% | |

Chemicals incurred an underlying EBITDA loss for the year of \$2.6 million, which compared to underlying EBITDA of \$11.4 million in the prior year. The drop was due to the worsening performance of the soda ash business, caused by lower prices, less domestic demand, export sales at lower prices to quit stock, increasing production costs and poor soda ash plant reliability.

Demand for soda ash was softer given the continuing general contraction in manufacturing activity in Australia. Soda ash production was down; plant inefficiencies increased as sustenance capital and maintenance were reduced, once the closure decision was made.

Pro Asia Pacific's sales commenced as planned in May 2013. Penrice expects to earn income from two sources: fees from logistics services provided to Pro Asia Pacific and dividends from its investment in Pro Asia Pacific.

Soda ash

Sales volume was flat on the prior year reflecting reduced domestic demand, offset by export spot sales at lower selling prices in a softer regional market.

Selling prices were down 6% on reduced demand and increased local competition from imported soda ash (cheaper due to the strong Australian dollar) and lower priced export spot sales. Sales revenue was down 7%.

Soda ash production was down 12% resulting from plant unreliability. Once the decision was made to close the soda ash plant, sustenance capital and maintenance was reduced.

Sodium bicarbonate

Sales volume was up 3% on the prior year to a record 102K tonnes, supported by robust demand generally. Domestic demand was up in stock feed and in exports demand in Asia continues to outpace supply.

Selling prices were up 2% and sales revenue was up 5% to a record level. \$AUD export earnings have benefitted from its recent appreciation.

Production was down 1% caused by interruptions to feedstock from the soda ash plant. New receival facilities for sodium bicarbonate manufacture are operational. Continuity of supply and product quality is being maintained, with strong customer acceptance.

Lime

Penrice continues to operate its lime plant since the lime manufacturing produces carbon dioxide which is required in its sodium bicarbonate plant. The lime plant incorporates six lime kilns, of which two are currently in operation, being those rebuilt and relined in FY2012.

First sales of quicklime were made in July 2013. Quicklime, a new product in Penrice's portfolio, is used in Australia in mineral processing, chemical, building and construction industries. Penrice intends to focus on nearby eastern states customers. Hydrated lime, another new product for Penrice, is 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.

SSR

Penrice continues to deploy its selective salt recovery technology in the coal seam gas industry, albeit with slippage to previously expected timescales. Successful trials of its proprietary SSR technology at its Osborne pilot plant were concluded in FY2102.

QUARRY & MINERAL

| Quarry & Mineral - results | | | |
|---------------------------------------|---------------|---------------|---------------|
| Year ended 30 June | | | |
| \$000 | 2013 | 2012 | % |
| Sales to external customers | 19,476 | 25,389 | (23%) |
| Inter-company sales | 5,770 | 6,470 | |
| Total sales revenue | 25,246 | 31,859 | (21%) |
| EBITDA | 1,360 | 3,913 | (65%) |
| EBITDA margin | 5.4% | 12.3% | |
| EBIT | (753) | 2,010 | (137%) |
| EBIT margin | (3.0%) | 6.3% | |

The quarry and mineral business booked an underlying EBITDA of \$1.4 million for the full year on reduced sales, compared with \$3.9 million in FY2012.

Sales volume was down 25% on the prior year, reflecting the three year, deep cyclical decline in construction activity in South Australia. Selling unit prices were up and distribution unit rates were held in line with the prior year, but net sales revenue decreased 23%.

The business pursued productivity improvement to reduce costs in FY2013 over the prior corresponding period by \$1.2 million or 7%. Further cost reductions will flow through into FY2014, from the new mine plan and a smaller, more flexible mine operation fleet.

Second half underlying EBITDA was \$1.2 million, which was an improvement of \$1.0 million over a first half underlying EBITDA of \$0.2 million, reflecting the new operating model.

The amount of limestone required from the mine to supply Penrice's chemical business has reduced by 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.

CORPORATE

Corporate centre costs were reduced by \$1.0 million to \$3.0 million in FY2013.

Balance Sheet and Cash Flow

| Balance sheet | | |
|--|-----------------|-----------------|
| A\$000 | 30 June 2013 | 30 June 2012 |
| Current Inventories | 16,458 | 25,944 |
| Trade debtors | 18,541 | 18,318 |
| Trade creditors | (33,183) | (29,615) |
| Total working capital | 1,816 | 14,647 |
| Net property, plant & equipment | 51,594 | 69,619 |
| Non Current Inventories | 21,482 | 19,266 |
| Intangible assets | 3,458 | 2,334 |
| Net other assets/liabilities | (18,606) | (10,593) |
| Net debt | (106,294) | (93,553) |
| Net assets | (46,550) | 1,720 |
| Equity | (46,550) | 1,720 |
| Gearing [net debt/(net debt+ equity)] % | 178% | 98% |

| Cash flow | | |
|---|--------------|----------------|
| Year ended 30 June | | |
| Other assets/liabilities | | |
| Net operating cash flows | (3,016) | (6,118) |
| Net investing cash flows | (3,256) | (10,644) |
| Dividends paid | - | - |
| Net financing cash flows | 9,068 | 14,576 |
| Net increase/(decrease) in cash held | 2,796 | (2,186) |

Given the company's soda ash business losses and worsening outlook, the company booked impairment charges of \$21.2 million as at 31 December 2012 in anticipation of the closure of the soda ash plant and business restructuring costs of \$8.8 million as at 30 June 2013.

Capital investment was reduced to \$3.3 million for the year (FY2012: \$10.6 million) (with another \$1.3 million in committed investment post year end), given the imminent closure of the soda ash plant, where most sustenance capital has been directed. Loan funds of \$8 million were fully drawn to fund Penrice's plant modifications (payments for PPE) and staff redundancies (payments to employees).

As expected, net debt increased to \$112.1 million from \$96.5 million, including capitalised interest (\$6.3 million) on the interest deferred, five year term debt bank facility and the \$8 million JV partner loan which funded the business restructure in the second half.

Improved operating cash flow for the year was due to sustained focus on cash generation, including by working capital reduction (\$8.6 million) and the interest saving on the interest deferred, five year term debt facility (\$6.3 million).

OUTLOOK

Chemicals

The soda ash business should, with its new business model, deliver increased and positive earnings in FY2014, subject to economic conditions.

Sodium bicarbonate should remain a solid performer and since the plant is sold out, options will be pursued to grow the business in Asia, where the product range is in strong demand.

A new lime business has been established using existing Osborne lime kilns and is on track to achieve its first year sales plans, selling quicklime and hydrated lime.

Quarry and Mineral

The quarry business should improve profitability in FY2014 on the back of more efficient and productive operations, subject to economic conditions. The outlook for housing in northern Adelaide, South Australia in FY2014 and beyond is for some modest growth, which will support sales of Penrice's quarry products. There is some evidence of that improving outlook now with slightly increasing housing construction activity in northern Adelaide.

For more information visit the company's website at 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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