



PENRICE SODA HOLDINGS LIMITED

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28 February 2012

ASX/media release

First Half FY2012 Results

- **Half year statutory loss after tax of \$28.0 million, with impairment charge**
 - includes \$22.6 million impairment charge in Chemicals business, reflecting uncertain outlook for Australian manufacturing sector
 - includes \$1.8 million of extra costs from the Gawler rail line closure: rail line reopens with rail service restarting end March 2012
- **Half year underlying loss after tax of \$3.3 million, due to difficult external environment in Australia**
 - Australian soda ash business challenged by weak demand in the manufacturing sector and high Australian dollar pressures
 - South Australian quarry business performance sees weak demand in the construction sector, despite South Road Superway contract win
- **Cost cuts and price rises in place with full benefit in H2 and beyond**
- **Export earnings continue to grow in Asia: new Japan contract signed**
- **Selective Salts Recovery (SSR) technology generates first earnings**
- **Strategic Review progresses with all options being evaluated**

Summary

Penrice Soda Holdings Limited (ASX:PSH), Australia's leading supplier of soda ash, sodium bicarbonate and limestone, today reports a statutory loss after tax of \$28.0 million for the first half ended 31 December 2011 (H1 2011: after tax loss of \$1.2 million). Excluding non-recurring items, the underlying loss was \$3.3 million (H1 2011: underlying net profit after tax of \$1.9 million).

The H1 2012 statutory result includes one-off items of approximately \$24.7 million after tax (H1 2011: \$3.1 million) comprising \$22.6 million from the write down of the assets of the Chemicals business, \$1.8 million costs from the impact of the Gawler rail line closure and \$0.3 million restructuring costs.

Staff reductions and product price rises initiated during the period generated pre-tax earnings benefits of around \$1million in the first half, albeit these were more than offset by the negative impact of weaker demand. A six-month contribution from these initiatives will have a positive impact on second half earnings.

Managing Director and CEO, Mr Guy Roberts said, "Consistent with our recent market updates, the difficult external environment, especially weak manufacturing activity in Australia, the high Australian dollar and raw material cost increases, continued to weigh heavily on the company's performance in the first half. In particular, the continued manufacturing sector decline, reflecting now widely appreciated exchange rate pressures, has



seen soft demand for soda ash from Australian glass manufacturers, and continued construction sector decline has seen soft demand for quarry products in South Australia. The higher Australian dollar continues to constrain our export earnings too."

"In light of the continuing decline in manufacturing activity in Australia and uncertainty over the timing and extent of recovery there and in the Australian economy more generally, together with high Australian dollar pressures, it has been determined necessary to write down the assets of the Chemicals business resulting in an impairment charge of \$22.6 million (net of tax)."

"Amidst that, the first half has seen a number of positives for the company including creditable further growth in export earnings, despite the higher dollar, and the first revenues from our SSR technology commercialisation. We will continue to grow our export Sodium Bicarbonate business which now comprises approximately 20% of total revenues and an anticipated improved contribution for the second half. Our SSR technology which deals with the brine-rich waters of the coal seam gas industry is the other main growth focus, with commercialisation of our process technology targeted in the near future." he said.

"Overall performance was disappointing due to the impact of a difficult external environment for our Australian soda ash business and quarry business in South Australia. We have made considerable progress in improving the cost and operating performance of the chemicals business and are confident of an improvement in its overall performance in the second half," he said.

Mr Roberts said that, "Penrice is transitioning its business to become less dependent on commodity chemical sales to manufacturing in Australia and to leverage its innovative technology to become a specialty supplier to expanding food markets in Asia and an equipment, technology and services supplier to the new and important coal seam gas industry in Australia."

Chemicals

Chemicals business EBITDA was \$5.0 million, reflecting soft demand for soda ash due to ongoing exchange rate pressures on local glass manufacturers and the downturn in glass end-user markets such as construction and packaging. Penrice's view is that the Australian construction sector is close to its cyclical low and as it recovers, demand will improve.

The stronger Australian dollar, which averaged US\$1.03 in H1 2012 versus US\$0.94 in the pcq, also reduced receipts from Penrice's US dollar exports of sodium bicarbonate. However, export demand for Penrice's premium sodium bicarbonate product remained strong, with increased sales volume and price rises more than offsetting the currency impact and contributing to a lift in net export revenue. A significant new contract to supply a major Japanese detergent manufacturer was signed, with supply commencing in January.

Domestic sales of sodium bicarbonate also increased amid renewed marketing focus and improved conditions in the agricultural sector.

The South Australian Government's Gawler rail revitalisation project closed the Gawler rail line for seven months from September 2011, forcing Penrice to use road freight instead of its daily rail service to transport limestone from its Angaston mine to its Osborne plant. The South Australian Government advises the project is on schedule with the rail line to restart at the end of March 2012, when Penrice will restart its daily limestone rail service. The



estimated total cost to Penrice from the rail closure is approximately \$4 million in line with previous guidance. Penrice has been in extensive discussions with the Government seeking compensation and support in relation to the financial impacts of this project, but to date these discussions have not been fruitful. Penrice is pursuing all options, including its legal position, with respect to recovery of these unforeseen costs.

One highlight of the half was Penrice's receipt of its first revenue from its Selective Salts Recovery technology to treat brine water from coal seam gas extraction. This results from the construction of a pilot Selective Salts Recovery plant for a coal seam industry client by Penrice and its consortium partner GE Power and Water. The pilot plant is being constructed at Penrice's Osborne site and is scheduled for completion in H2 2012.

Quarry

Quarry and Mineral EBITDA was \$2.2 million, \$1.3 million below the pcg. Reduced quarry products demand, higher fuel costs and lower levels of inventory build (extraction costs being capitalised) account for this.

Penrice continued to supply civil products to the Urban Superway for the South Road Superway during the half, and since the end of the period has secured a formal contract to supply the project through to its conclusion at the end of calendar 2013. This will underpin sales volumes in the nearer term.

Strategic Review

The board's top priorities remain to reduce term debt and establish a consistent and sustainable positive cash flow; it continues to evaluate all options to do so and will keep shareholders advised of all material developments, noting the company's new mine plan will be available at the end of the second half.

Growth opportunities and outlook

On 22 November 2011, the company reported it was targeting a breakeven result for reported profit for FY2012, assuming no further deterioration in economic conditions. Since then, the Australian dollar has risen to new highs, glass and other manufacturer customers have reported challenges and the construction industry cyclical decline has worsened.

However, there remain a number of developments that will make a positive contribution to earnings in the current second half and in FY2013.

In the near term for our Chemicals business, regional soda ash prices are forecast to remain firm with upward pressure from increased Chinese producer costs and US producers seeking better returns. Demand for soda ash in Australia, which has stabilised recently, will remain subdued and largely depend on currency pressures on glass manufacturers and the construction sector. Bicarbonate prices in the region are forecast to increase, reflecting increased demand and limited supply.

Chemicals' margins are expected to improve in the current second half, reflecting the full benefit of contracted price rises and recent staff and other cost reductions. Pressure on margins from coke prices, which have fallen significantly from their recent highs, will ease in the current period. In addition, Penrice has recently signed a contract with its new supplier that locks in its electricity prices for the next three years, which will result in a company-wide cost saving of approximately \$1 million per year from the commencement of this second half.



The No. 6 kiln reline in March is expected to significantly improve soda ash plant output and efficiency, with the full benefits in FY2013.

The SSR pilot plant will also have a material positive impact on earnings in the second half.

While conditions in the construction sector in South Australia remain subdued, the Quarry & Mineral business will benefit from its recently signed contract to supply the major South Road Superway project with project offtake volumes scheduled to ramp up in the second half.

The company is not currently in a position to provide specific guidance at this time due to the high level of uncertainty around the domestic economy, Australian dollar and the international economy. Given the weakening external environment, whereas the company was targeting a breakeven result, it now expects a reported loss for FY2012, the extent of which is unable to be forecast given the uncertainties. However, second half performance will be substantially stronger than the first and should be more reflective of the future potential of the company.

In the medium term, Penrice's growth strategy is based on leveraging existing technological and market positioning strengths to access growing markets:

- In soda ash
 - offsetting the impact of declining demand from the manufacturing sector by supplying Australia's expanding mineral processing sector via imported soda ash
 - commercialising Penrice's innovative Selective Salts Recovery technology in the expanding coal seam gas industry in Australian, supplying equipment and services
 - Improving efficiency and reducing unit operational costs
- In sodium bicarbonate
 - supplying strong growth in demand from Asian food, household and personal care customers, via plant expansion at Osborne
- In quarry products
 - supplying growth in demand from the construction sector, mainly major road and subdivision projects

The commercialisation of Penrice's SSR technology is potentially a company transforming opportunity. The technology cleans coal seam gas brine-rich water and turns the residual salts into commercially saleable products. Penrice proposes to derive income from the provision of equipment and technical and marketing services. CSG extraction capacity is growing rapidly, particularly in Queensland, ahead of the start-up of large LNG projects in 2014, and brine-rich water from the extraction process remains an industry challenge. This opportunity could diversify the company's income streams, without leveraging its balance sheet further, and provide access to a high growth market.

Demand for sodium bicarbonate from customers in Asia will grow further and Penrice continues to evaluate a staged expansion of its current production capacity to 125,000 per year from 100,000 per year currently. On current plans, this project would generate excellent returns.



As announced in its ASX release dated 22 February 2012, the Company will conduct an Investor & Analyst conference call on 28 February at 11.00am Adelaide time (11.30am AEDT) with dial-in details set out below.

Investor & Analyst Conference Call on FY2012 Half Year Results

Date: **Tuesday, 28 February 2012**
Time: **11.00am Adelaide Time (11.30am AEDT)**
Conference ID: **5136 7211**

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:

Guy Roberts, Managing Director & CEO

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