
NEWS

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PENRICE ON TRACK FOR HIGHER FULL-YEAR PROFIT DESPITE FIRST-HALF LOSS

Penrice Soda Holdings (ASX: PSH) is on track to achieve increased earnings in the current financial year, despite today announcing a first-half loss of \$2.4 million. This result is consistent with guidance given at the Company's AGM in October 2008.

The \$2.4 million loss was after a \$4.7 million unrealised "mark to market" hedge loss adjustment, which more than eroded a solid operating profit achieved on higher revenue in the six months ended 31 December 2008.

Penrice Chairman, Mr John Heard, said the hedge loss adjustment arose from the dramatic impact of the collapse of financial markets on Penrice's hedging program, established in mid 2008 to protect the Company's earnings in this current financial year. Contracts were put in place to hedge the Company's exposure to interest rates on debt, and currency on US dollar chemical export contracts.

Retained earnings were also affected by Penrice being required to account for an actuarial loss of \$2.1 million relating to the Company's defined benefit superannuation fund (which has been closed to new members since 1997). This adjustment, another non-cash accounting debit, also ultimately arose from the adverse impact of the global financial crisis on the investments of the fund.

"Penrice's reported earnings have been negatively affected by these accounting adjustments and therefore do not fairly represent the underlying performance of the Company," Mr Heard said.

"However, given the first-half loss and current global economic conditions the Board considers that capital preservation is a priority at this time and it is not prudent to pay an interim dividend," he said.

"The Board will assess the full-year dividend at the completion of the current financial year and in the light of improved earnings expected in the second half."

Positive Outlook

Mr Heard said the outlook for Penrice for the second-half was positive with the improved earnings expected, despite the continuing deterioration across global financial markets.

"Over the past two years, the Company has been implementing productivity enhancing strategies in both of our business platforms to increase the reliability and output of its operations," he said.

"At the same time, both businesses have been focusing on profitable growth strategies which over the next six months will have an increasingly positive impact.

"Improved sales volumes and increased prices in chemicals, coupled with expanded volumes in quarry and minerals, will drive higher earnings, improving net profit in the second-half.

"The Penrice Board reaffirms its guidance that Group net profit in full year 2008-2009 is expected to be higher than that reported in 2008, subject to global economic conditions.

Solid Trading Result

The Company's Managing Director and CEO, Mr Guy Roberts, said Group revenue rose 11% in the latest December half and underlying EBIT was up 9% - excluding hedge adjustments, required by accounting standards.

Net profit after tax from operations was \$2.3M prior to hedging adjustments, in line with the previous corresponding period, despite increased depreciation (\$0.7m) and interest (\$1m).

"This result is consistent with the Company's expectations at this stage of its three-year rebuilding plan where Penrice continues to invest to improve reliability and capacity, especially in the chemicals business. Volume and margin growth also remained a focus for management," he said.

"Our underlying earnings growth reflects the strength of Penrice's two business platforms, which both performed solidly in challenging economic circumstances.

"Growth in Group revenue was achieved from robust demand and higher prices in our chemicals business, in both domestic and export markets, while our expanding quarry business also experienced strong demand with increased sales volumes into South Australian civil and construction markets," he said.

Chemicals

Mr Roberts reaffirmed earlier guidance that Penrice's chemicals markets were performing relatively well and demand continued to be firm in the face of limited global supply.

"Prices for our chemicals firmed considerably during the half and were reflected in a 10% increase in revenues and earnings, compared with the prior corresponding period," he said.

"Our soda ash market share was maintained in Australia and the sodium bicarbonate business increased export sales into premium overseas markets. The chemicals business also benefited from a much weaker Australian dollar, with USD denominated export earnings increasing correspondingly.

"Overall, the outlook for our chemicals business in the second-half is positive, and increased prices and volumes in both soda ash and sodium bicarbonate are anticipated to improve earnings."

Mr Roberts said the outlook was positive on production capacity and future sales for sodium bicarbonate, with the successful commissioning in December of the 18 month, \$12 million expansion of the Osborne sodium bicarbonate plant from 75,000 to 100,000 metric tonnes per annum capacity.

"Sales from this expanded production have already commenced to premium export customers in the food, pharmaceutical, medical and personal care markets. These market

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FIELD PUBLIC RELATIONS PTY LTD ABN 74 008 222 311

231 South Road, MILE END SA 5031

Ph: 08 8234 9555 Fax: 08 8234 9566

admin@fieldpr.com.au

segments are quite well insulated from the current economic storm and the outlook for 2009 will see increased earnings from this business," he said.

Mr Roberts said Penrice's soda ash business was set for a more successful and profitable 2009.

"Benefits from investment in efficiency and reliability will secure increased capacity with the plant operating at higher rates and greater consistency than in the previous corresponding period. Continuing underlying robust global demand and limited supply will likely continue the international trend towards higher prices," he said.

"As legacy contracts are being renewed, pricing is reflecting this upwards movement to achieve levels that will support reinvestment in the business.

There are signs of reducing demand from the mineral processing segment which is currently a small segment identified as having large potential in the long-term. An example of this slowing demand is Windimurra Vanadium, which had contracted to buy soda ash from Penrice this year, but has recently been placed in receivership. Penrice has been paid for all product delivered to Windimurra and plans are being developed to replace previously forecast soda ash sales to that company.

Quarry and Mineral

Penrice's Quarry and Minerals business continued the successful implementation of its strategy to be a major supplier of quarry products to the civil and construction markets in SA, growing sales volumes 14% and EBIT 13% in the latest first-half.

Mr Roberts said Penrice had successfully participated in various major projects, such as the Sturt Highway upgrade, and would soon commence supply to the Northern Expressway, a major Federal/State funded infrastructure project.

"The Company has secured expansion land to store overburden in line with the continued growth of the Angaston mine operations. All necessary regulatory approvals were obtained in conjunction with this expansion." he said.

"Also, in its role as a good corporate citizen, Penrice voluntarily formed a Community Consultative Group to help better coordinate and manage the Angaston mine's impact on the local community and environment generally."

Funding

Penrice raised \$9 million of equity through an underwritten selective placement and a share purchase plan to fund expansion capital needs. The Company has in place senior debt facilities until mid 2010. Funding needs in the second-half are expected to be met from operating cash flows.

Media contacts

Guy Roberts
Managing Director & Chief Executive Officer
Penrice Soda Holdings
M: 0412 958 040 / P: 08 8402 7242
Web: www.penrice.com.au

John Field
Field Public Relations
M: 0418 819 527 / P: 08 8234 9555

