

**ASX ANNOUNCEMENT: 29 April 2010****Title MD on Market Update**Open Briefing with **MD Guy Roberts**Penrice Soda Holdings Limited  
Solvay Road Osborne  
South Australia 5017**In this Open Briefing<sup>®</sup>, MD Guy Roberts discusses**

- Lower demand for ash from glass segment
- Ash sales stabilising and showing signs of recovery
- Penrice's financial performance expected to improve over the next 6-12 months

**Open Briefing interview:****[openbriefing.com](http://openbriefing.com)**

Penrice Soda Holdings Limited today said it expected underlying NPAT of \$5 million to \$6 million for the current year ending June 2010, down from \$9.0 million last year. This compares with your guidance at the end of February that current year profit would be above last year's. What has occurred in the last two months to cause such a change in the outlook?

**MD Guy Roberts**

At the end of February we were reasonably confident about the outlook to the end of the financial year, although we noted continuing softness in soda ash demand. However, ash demand fell away substantially during the last three months. That reduction in demand has been largely attributable to our biggest customer segment, the glass industry, running reduced production volumes, extending its maintenance shutdowns and de-stocking.

Our glass customers, notably in the building and wine bottling sectors, seem to have experienced substantially reduced demand last year as a result of the global financial crisis. We're primarily a manufacturer of raw materials for industrial companies. Because of our position in the supply chain, we've experienced some delayed fallout from the global financial crisis over the last few months.

Since February, we've also seen a reduction in sodium bicarbonate sales largely attributable to recent heavy rainfall and flooding in eastern Australia. That seriously impacted sales of stockfeed, our largest sodium bicarbonate market segment in Australia.

We've also seen the continuing strength of the Australian dollar, which is expected to have a negative impact on current-year earnings of \$4 million compared to last year.

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What has been the trend in demand in April?

**MD Guy Roberts**

In soda ash, sales are stabilising and showing some signs of recovery. Stockfeed markets may take some time to recover given herds have been destroyed and cash is very tight in the farming community.

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Underlying NPAT was \$2.4 million in the first half, implying you now expect NPAT of \$2.6 million to \$3.6 million in the current second half, down from \$6.8 million in the previous corresponding period. To what extent is the fall in earnings attributable to volumes and to what extent to prices?

**MD Guy Roberts**

It's wholly attributable to the reduction in sales volume, particularly in ash but also in bi-carb in Australia. Compounding that has been the reduced margin on spot export ash sales we've made to maintain production and improve cash flow. With spot prices beneath the average market price in Australia, the regional market is 'long in ash', or investing in ash for the longer term.

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Given that Penrice's soda ash volumes are largely contracted, with over 50 percent contracted to your three largest clients, the fall in volume in the third quarter suggests that the contracts do not underwrite a level of uptake by the customers. What is the nature of your customer contracts and to what extent do they contain minimum uptake or take-or-pay clauses?

**MD Guy Roberts**

While our customer contracts are commercial in-confidence and not to be discussed in detail, we've done considerable work on our major contracts in terms of improving their profitability and de-risking them. We announced late last year an in-principle agreement with Owens-Illinois, our largest customer, extending our relationship for three years at much better prices and profitability. We're now finalising that agreement. We also announced last year a re-signing of our supply agreement with Amcor for five years at improved prices and profitability.

Through these negotiations we've sought to reduce our risk exposure by putting in take-or-pay arrangements at varying levels but we haven't been able to force those customers to buy the volumes we expected in the third quarter. We've taken a number of steps to improve our account management, forecasting and planning with customers, and we've received a great deal of co-operation from our key customers in helping us get more certainty on short and medium term planning going forward.

We have appointed Brett Smith as GM Chemicals business to improve our market planning, sales planning and key account management. Brett is a senior sales and marketing professional with experience in marketing bulk commodity and specialty products with a successful career at Incitec Limited and Elders Limited.

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You've previously indicated that negotiated price increases under new agreements with customers in the soda ash business were beginning to contribute to earnings. What has been the impact of these negotiated price rises in the current second half?

**MD Guy Roberts**

Those increased prices have been flowing through to our business. As customer demand increases and volumes recover, as we expect them to do, we'll see the full benefit of repricing leading to an improvement in our margin.

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Can you comment on the recent trend in your sodium bicarbonate exports, which have previously been an important driver of earnings growth?

**MD Guy Roberts**

Demand in our international bi-carb business continues to be strong. In our premium markets, which are our primary focus, price and volume have held up well. In some of our commodity-style export markets there's been price pressure and we've lost margin. The business has also been impacted by the appreciation of the Australian dollar, as I mentioned earlier.

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Net debt stood at \$64.4 million as at the end of December 2009, down from \$86.7 million six months earlier. Net debt to net debt plus equity was 41 percent versus 59 percent. You've indicated that free cash flow for the full year would be negative. Do you remain on track to begin making scheduled debt repayments in 2011?

**MD Guy Roberts**

We have three key financial targets. The first is improved profitability: we've made considerable progress in that regard, even though this year our efforts have been overtaken by events outside our control.

Our second target was to achieve break-even in net free cash flow by the end of this financial year. We won't achieve that, but we were doing well prior to the ash

volume hit. We'll still achieve a substantial improvement on the prior year, when we had negative free cash flow of \$22 million, through some reduced inventory build in the Quarry business, operating savings in Chemicals and Quarry and a focus on sustenance expenditure only. Our FY10 forecast is negative \$7 million to \$9 million.

The third target was around inventory build, particularly in the Quarry & Mineral business, where we expect a substantially reduced inventory build versus last year. FY10 forecast is \$6.5 million of inventory build in the Quarry business, compared with \$13 million for last year.

During the third quarter, we initiated a review of our banking facilities in light of our successful capital raising last year. Our long standing bankers remain supportive of our business and we're working very closely with them on a review that takes into account the recent reduction in our outstanding debt.

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You previously expected to reinstate a dividend in 2010 but the earnings outlook suggests this is unlikely. How far away is a return to dividend payments? To what extent will it depend on full recovery in your end user markets?

#### **MD Guy Roberts**

Certainly we'd want to be convinced of a sustainable recovery in the ash markets in Australia before we'd consider a dividend. From our conversations with customers and from broader trends in the Australian economy, we're expecting ash sales to improve over the next 12 months. Notably, Amcor Glass has successfully commissioned its third glass line at its Gawler plant, which will lift its glass production, and ash consumption, by 50 percent, a substantial uplift for us.

The board will, in the ordinary course, consider a dividend at the end of August when we finalise our accounts. We're not in a position to predict what the board may consider appropriate, but returning to dividend payment remains a top priority. Our shareholders have been patient while we've been through our major reinvestment and capital expansion phase over the last three years, and we'll return to paying dividends when our cash flows permit. That will depend on conditions improving, which we expect them to do throughout the course of this calendar year.

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Thank you Guy.

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For further information on Penrice Soda Holdings Limited visit [www.penrice.com.au](http://www.penrice.com.au) or call CFO Frank Lupoi on (08) 8402 7280

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