



Penrice Soda Holdings Limited

MEDIA

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COAL SEAM GAS INDUSTRY'S SALT WATER PROBLEM MAY CREATE NEW SODA ASH SUPPLY FOR PENRICE

The continued development of Australia's burgeoning coal seam gas industry could provide the nation's only soda ash producer, Penrice Soda Holdings Limited (ASX: "PSH"), with a new market outlet for its flagship product.

Penrice's Chairman, Mr David Trebeck, told shareholders at today's annual meeting in Adelaide that the Company had been working closely with the coal seam gas sector to devise a cost effective solution for removing salts from the coal seam gas water stream.

"These salts are predominantly soda ash and could provide a new market outlet for Penrice. For the coal seam gas companies, it solves a major environmental headache and operational bottleneck, while resulting in quality water that could be applied to the environment or human consumption as required," Mr Trebeck said.

"Penrice has developed novel technology to remove the salts. There is work yet to be done before the treatment process is fully proven, but it represents a potentially valuable near term diversification of earnings for the Company, from both the intellectual property and the marketing of the resultant product," he said.

Ongoing work with the coal seam gas companies is expected to include building and operating a pilot plant to produce natural soda ash from coal seam gas waste water in Queensland.

Mr Trebeck said that given the recent improvement in chemicals demand and prices, Penrice expects to see an improvement in underlying profit in this year relative to the past financial year.

"While we have commenced the year with improved market conditions in line with our expectations, earnings are currently tracking behind plan as a result of the recent third party forced shutdown of the Osborne chemicals plant. As a result, first half earnings could be behind the corresponding period last year," he said.

"As previously advised, cash flow will be negative in the first half. With the improvement in market conditions in the chemicals business and an appropriate focus on cash management, free cash flow for the full year is anticipated to be positive and a significant improvement on the previous year."

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Mr Guy Roberts, Penrice's Managing Director and CEO, said the Company remained focused on a mix of short and long term strategies to create a strong business capable of delivering sustainable returns.

"Over the past three years, the company has invested in soda ash and sodium bicarbonate production capacity in its chemicals business – both to undo some of the damage created historically by the lack of reinvestment in the chemicals operations and to create a growth platform from increased capacity," he said.

"The company has also invested in its Quarry & Mineral business, creating resource security and reduced cash mining costs.

"We see further opportunities in both businesses, chemicals - aided by growth in the glass manufacture and minerals processing sectors in Australia, growth in food demand in Asia; and in Quarry & Mineral – aided by healthy Adelaide demographics and general infrastructure upgrades.

"First, our strategy will be to fully service the soda ash requirements from Australian demand growth in the glass and mineral processing sectors. We will complement this with natural soda ash, should our potential involvement in the Queensland coal seam gas industry come to fruition.

"Second, we will seek to expand our sodium bicarbonate production to meet attractive demand growth from the export markets. While initially this will focus on creating the available product for premium markets, plant expansion is expected to be an attractive proposition in the near term. The current expansion proposal will only be sanctioned by the Board once it is satisfied that returns have improved to meet the needs of the company and its shareholders.

"Third, we will maintain our focus on operating efficiently and sustainably to underpin both our long term competitive position and returns. Accessing new technology and innovation will be the key to our success here.

"Fourth, we will continue to grow as a leading supplier of civil materials in the South Australian market.

"And always the focus will be on cash generation."

Dumped Chinese Products

Mr Roberts said Penrice's sodium bicarbonate export business continued to be a success story with sales volume up 17% in the past year, reflecting the company's expanded plant capacity of 100tpa and continuing strong demand for premium grade product from its Asian export markets.

"The domestic Australian business suffered from dumped Chinese products, and while we are fully prepared to compete in the marketplace, we are not prepared to stand by and allow dumped goods in our market," Mr Roberts said.

"We took decisive and proactive action to challenge these exporters and the Australian importers which represent them. We submitted a case for anti-dumping duties to be imposed by the Australian Customs Service on those Chinese products with the successful outcome of a recommendation by Customs that anti-dumping duties of between 19 – 46% be imposed on those Chinese goods.

“The decision of the Minister was just announced, and he has accepted the recommendations of Customs for the application of duties. This will assist to stabilise Penrice’s Australian market and penalise unfair and illegal trade.”

Strategic Developments

2011 Outlook

Looking to the future, Mr Roberts said there were a number of positive developments and some challenges. On the positive side:

- Current trends indicate that soda ash demand and prices have recovered to pre global financial crisis levels. Flat glass demand for soda ash has improved as Australia’s residential dwelling construction has returned to normal underpinned by strong demand. Food and beverage demand, including wine exports is robust and is underpinning improved demand from the glass packaging segment
- Two new soda ash customers have commenced uptake in the mineral processing segment, one a uranium producer and the other a nickel/cobalt producer
- We are expecting to sign a contract shortly with a coal seam gas producer to build and operate (and not finance) a pilot plant to produce natural soda ash from coal seam gas waste water in Queensland
- Sodium bicarbonate demand continues strongly in export markets, albeit domestic demand is subdued as stock feed demand in Australia is less than forecast
- Good progress is being made to reduce reliance on coke by evaluating alternative fuels such anthracite. This year, while coke input costs are budgeted to increase by 30% adding almost \$3million to our input costs, we are confident of material savings being made in 2012 financial year and beyond from alternative fuels
- In quarry & mineral - civils demand is strong and the new industrial mineral contract with Amcor is performing well
- Sales of landfill are expected to exceed 250,000 tonnes as an “underlying” run rate. We are tendering on some major projects and expect to be successful in one during the year
- Angaston mine plan is delivering – minimal inventory build is expected in the first half and we are targeting minimal inventory build for the full year.

On the negative side:

- The strong Australian dollar is a concern – it restricts the earnings potential of our USD denominated sodium bicarbonate export business and over time creates more import competition for our domestic Australian chemicals business. As part of our change agenda, we have already taken steps to mitigate this risk
- Our Osborne chemicals plant had plant interruptions on restart from the August shutdown and in the last ten days was forced into shutdown for an extended period of several days as a result of the failure of our third party steam supplier located at the adjacent cogeneration plant. The company carries an appropriate insurance program designed to cover this type of event and is progressing a claim under the program.

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