



Penrice Soda Holdings Limited

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Penrice 2011 AGM – Questions & Answers

This paper reproduces a number of written questions received from shareholders and provides answers to them. It will be posted on the ASX website in the interests of transparency for all shareholders.

Section A

London City Equities Questions

2011 Losses

1. Given Ernst & Young's serious qualification about whether Penrice can continue as a "going concern" how can Penrice create a Future Income Tax Benefit when the benefits are most unlikely ever to be realised – and do not meet the accounting standard? Would you agree the loss was \$33 million – not \$26 million.

Ernst & Young has not provided a qualification to the accounts but rather an "emphasis of matter".

The reported loss after tax for FY2011 was \$26.2 million, of which \$21.7 million after tax was an impairment charge.

Penrice has a long history of paying income tax. Future forecast profits based on our 3 year forecast model provides sufficient taxable profit to enable the booking of the Future Income Tax Benefit (Deferred Tax Asset) of \$2.8m. The treatment of the Future Income Tax Benefit complies with Accounting Standards.

2. Penrice seems to claim the operating loss was only \$7 million because the \$33 million losses included a one-off impairment charge of \$26 million. Given the \$26 million relates to only one balance sheet impairment of \$12 million re the Intangibles, isn't it true that the operating loss was in fact \$21 million?

In the Annual Report, Penrice reported a statutory loss after tax of \$26.2 million and a statutory pretax loss of \$33.1 million, in line with Accounting Standards. Refer to the Annual Report, in particular the Income Statement for the year ending 30 June 2011, the year in review section on page 1 and the Financial History table on page 103.

Penrice has also "normalised" the statutory loss/NPAT for the "one-off" events, being the steam outage loss and impairment loss and reported this normalised loss of \$1.4m. This can be seen on page 5 of the Preliminary Final ASX4E Report for FY2011. In Penrice's view, this enables shareholders and others to make a more valid comparison to previous years' underlying performance.

3. Given the impairment of \$10 million of schist / landfill relates to prior year's over-valuations – what specific years does it relate to? 2007 and 2008, the first years of this inventory creation? Does this mean the “in-house” accounting profits in 2007 and 2008 of \$2.1 and 2.5 million were nonsense?

The impairment charge of \$10 million against landfill has no bearing or connection to prior year valuations and does not impact prior year accounting profits.

Landfill is carried in the Balance Sheet at net realisable value. At each reporting date all inventory, which includes landfill, is reviewed for impairment using a discounted cash flow methodology.

As reported in Note 12 – landfill, in this accounting period, has been impaired to reflect the change in the forecast timing of major infrastructure projects and associated sales and cash flows.

The implications in the question about prior year valuations being incorrect are therefore rejected.

4. If the remaining aggregate / landfill inventories of \$29 million cannot be sold for up to 15 years, precisely how are they valued?

As reported in Note 12 – Inventory, aggregate is valued at cost and landfill at net realisable value. This has been the consistent practice over several years.

Penrice is not sure where the 15 year timeline has been derived and the connection to valuation. Again, as reported in Note 12 – Inventory;

- ***Aggregates – is valued at cost. The company is holding approximately 3 years supply of aggregate based on current forecast sales volumes***
- ***Landfill – is valued at net realisable value using discounted cash flow methodology. It is difficult to give an estimate for the time to sell out existing inventory due to the nature of this market.***

5. Have there been genuine provisions considered for environmental remediation at Osborne and Angaston? What are they?

As reported in Note 22 – Provisions – the remediation provision relates to the activities of the Osborne manufacturing plant operations site and the Angaston mine operations site. The remediation provision is determined by discounting the value of future remediation of both sites and as at 30 June 2011 stands at \$815,000.

6. If Mr Roberts claims (Page 6) that at the Quarry there has been “a smaller mine operating fleet” why has the Operating lease commitments remained steady at \$19 million? (Note 29)

Penrice did run a smaller mine operating fleet resulting in operational cost savings as reported. The smaller operating fleet resulted from the de-hiring of hourly rate hire equipment which is not contracted under long term contractual arrangements.

The lease commitments in Note 29 relate to equipment engaged under power by the hour (PBH) long term rental agreements with remaining contractual terms from 3 months to 4 years or 1,800 to 18,000 operating hours. The commitments, as reported, are the minimum contracted lease payments remaining under these agreements.

Hourly rate hire equipment on a casual or period base agreements do not generally create commitments under the accounting standards.

7. The recent announcement said losses to date were \$4.2 million after tax. Surely with serious doubts about “going concern” and Future Income Tax Benefits Penrice should only talk about losses BEFORE tax - \$6.0 million for the 4 months?

Refer to the comments in point 1 above.

8. Mr Roberts said in the press that two senior executives had been made redundant. Who are they? Surely, Mr Darrin Wright resigned – he was not made redundant.

It is inappropriate to discuss the individual circumstances of employees. No Executives have been made redundant and that was not said publicly. The group wide labour review has resulted in \$3 million per annum of savings. The company has lead from the top. The cost of non executive directors was reduced by \$70K which was 20% of the Board cost, following the resignation of Barbara Gibson. The cost of the Executive team has been reduced by \$600K, 25%, following the resignation of two Executives, GM Quarry and the GM Supply Chain. The GM HR has moved to a part time basis. The roles of the GM Quarry and GM Supply Chain have not been replaced and the duties encompassed in those roles have been redeployed.

9. Why did shareholders have to wait until November to hear about the costly closure of the rail link that occurred in September?

Refer Chairman’s address.

10. The share market has fallen 11% since 30 June. With the Defined Benefit Scheme still in existence and worth \$18 million, should there be another \$2 million set aside for lost value?

As reported in Note 27 – Penrice contributes to the Fund in accordance with the recommendation from the actuary. At each balance period an actuarial investigation of the fund is performed and the contribution rate is reviewed. The review for 30 June 2011 did not require any increase in contributions from Penrice. Given the market volatility since 30 June, the actuary has conducted a further review of the fund and has recommended an increase in contribution rate which will come into effect 1 January 2012, costing an additional \$90k in H2 FY2012. This process is reviewed at a minimum every six months and deals with any current impact to cash flows.

The actuarial review required for any restatement of assets and liabilities generates a non cash accounting entry. There is currently much volatility in the equity markets, which can result in material changes to asset valuations, both negatively and positively. The company will continue to restate its superannuation liabilities/assets at each reporting date.

11. What is the status of the US Ansac distribution agreement? Will it expire this calendar year and not be renewed by Ansac?

These arrangements are commercial in confidence.

12. In terms of cost cutting why does Penrice persist with having KPMG as “Internal Auditors” as well as Ernst & Young as “External Auditors”. Furthermore what legal quotes are sought from Kelly and Co and when are submissions sought from other firms?

KPMG Corporate Finance is retained by the company as its advisor in respect of the company’s recently announced strategic review. KPMG also provides a minimal level of risk management advice to assist the company monitor its risk management system at minimal cost.

Kelly & Co is the company’s primary and long-standing legal advisor. It is not the exclusive provider and various other legal firms are retained, reflecting particular expertise as required.

The company is satisfied that its advisors and consultants provide services on a market competitive basis.

Finances/Gearing

13. What conditions, if any, apply to the Bank Loans in respect of asset covers, EBITDA multiples, dividend restrictions, new equity capital obligations, etc?

Specifics conditions, in particular bank covenants, are considered commercially sensitive and are not disclosed in Annual Reports.

The Company is operating within its bank covenants.

14. Will establishment fees and accounting examination costs be expensed or capitalised over the term of the loan?

In line with accounting standards, establishment fees and eligible accounting examination costs are capitalised then amortised over the life of the loan.

15. What protection does the company have against interest rates rising over the next two years?

As reported in Note 3, Penrice manages its finance costs using a mix of fixed and variable rate debt. To manage the risk in a cost effective manner, Penrice enters into interest rate swap contracts. As at 30 June 2011 the notional amount of interest rate swap contracts was \$52.3 million. Further details on these swaps are reported in note 13.

16. Why does Penrice continue to quote a “gearing ratio” which takes no account of total liabilities or of EBITDA multiples.

It is customary for companies to focus on a Gearing Ratio which takes into account interest bearing liabilities only. Penrice continues to use this measure consistently.

17. What offers of funding has the company received over the last 12 months from parties such as the South Americans and the Wayzata Fund?

If there have been any confidential offers of funding from any party at any time, they would (in accordance with market practice and consistent with the company's obligations under the ASX listing rules and Corporations Act) only be announced to shareholders and the market when negotiations had reached a conclusion on terms with a sufficient degree of clarity. That there have been no such announcements implies that any funding offers (should there have been any) have not or did not reach a conclusion that required the making of an announcement.

Capex/Operational Investment

18. If the much stated target return is 15% why hasn't Penrice gained more from its \$78 million plant investment since Mr Roberts joined the company in 2006?

This topic has been extensively covered in the company's previous communications and in addresses to the AGM.

19. Where is the logic of spending money on long term 20-40 year plant with short term bank borrowings?

Penrice, like many companies, has not been in a position to secure long term debt and as a consequence has limited ability to align asset/plant life with borrowing terms. It uses a combination of debt and equity for its funding.

Remuneration

20. How can the senior executives in 2011 be paid more than in 2010 – a year in which they received (for some unknown reason) significant bonuses.

Page 21 of the 2011 annual report contains a table that displays the fixed annual remuneration of the executive team for the years 2009, 2010 and 2011. It shows that there has been no change in FAR between 2010 and 2011 (apart from Brett Smith, who was appointed in April 2010) as these executives did not receive any salary increase, nor did they receive any bonus payments in respect of the 2011FY.

Tables 1 and 2, on pp 25 and 26 of the annual report, show the various components of key management personnel compensation in the 2010 and 2011 years. These tables refer to the financial year whereas the table on page 21 refers to annual FAR for the year commencing 1 September. They comply with accounting standards and include notional amounts (not cash payments) such as the 'LTI' amount where provision of the funds has been made but payment or vesting has not yet occurred.

As the footnote comments, the FY2011 figures contain 2 years of notional LTI amounts compared to 1 year for FY2010, and this has caused an increase in the 'LTI' amount and the overall number.

Contrary to the assertion in the question about 'some unknown reason', the cash bonuses which were paid in the 2010 year, but which related to the 2009 year are noted in the annual report as having been paid in recognition of delivery of key strategic corporate initiatives.

Carbon Tax

21. What implications do the Federal Government's carbon policies have for Penrice in 2012 and 2113?

Refer Note 2 d) Climate Change Plan of the annual report and the ASX release dated 12 July 2011 – Carbon Tax, where the company reported that Penrice has been recognised as an Emissions Intensive Trade Exposed (EITE) entity under the legislation. Penrice will receive the full assistance rate which in the first year of operation will be 94.5%. Despite considerable uncertainty around the scheme that still exists, Penrice believes that the impact on NPAT to be \$0.4 million in FY2012. The estimate for FY2013 is \$0.5 million.

Possible Disposal of the Quarry

22. Given that we hear that KPMG is very active in marketing a sale of the quarry can shareholders (the owners of the company) be given full particulars of (a) the range of sale price under consideration (b) the style of sale (100% or JV) and (c) the latest drilling results for reserve / resource calculations.

KPMG's role as corporate adviser is in relation to the strategic review generally. The presumption in the question that it is marketing the sale of the quarry is incorrect, as explained in the Chairman's address. Details of any asset sale, or other option being considered as part of the strategic review, are obviously commercially sensitive until such time as the results are known or a proposal is in a position to be put before shareholders for approval. The results of the drilling program will not be known until the first few months of 2012. Early results are, as stated in the Chairman's address, encouraging in terms of quantity and quality.

23. Assurance that a sale will not occur without shareholders approval at a properly convened meeting.

Refer to the Chairman's address. Any sale of assets that results in a significant change to the nature or scale of the Company's activities will only be completed following shareholder approval if required by the ASX listing rules.

The Future

24. Will the Board please disclose to shareholders its comprehensive plan to redeem the company and its future? As per Burns Philp?

Refer to Chairman and MD's addresses.

Questions to Mr Groves Critical Comments about a potential Penrice Director

25. What evidence does Mr Groves have that a new proposed Board nominee (a) was responsible for selling off the salt fields in 2005 (thereby generating years of problems for Penrice) and (b) committed without Board approval Penrice to the \$25 million Komatsu plant lease?

The company does not intend to comment on matters that were discussed in private meetings with LCE.

Questions to Mr Fletcher Role since April 2005

What has Mr Fletcher done to oppose / correct the questionable decisions made by Penrice during the last five and a half years? In particular:

26. The sale of the salt fields.

The sale of the salt fields was made by a previous Board and Management.

27. The reclassification of schist in 2007 and 2008 in which "inhouse" accounting profits of \$4.6 million profits were slipped in to the results – and not shown in the income Statements.

Refer answer to question 3 above.

28. The appointment of Guy Roberts as MD without advertising the position.

The appointment of Guy Roberts as MD and CEO was made following an extensive executive search in which he was the best candidate.

29. The inflated (and discredited) public announcements about the Bora Bora and Windimurra Vanadium "contracts".

Nothing is known about a Bora Bora contract. Contrary to the implication of the question the company won a tender to supply soda ash to Windimurra Vanadium, supplied it with one shipment and was paid for it. The company then went into receivership which is why further shipments were not made. Allegations of inflated and discredited public announcements are rejected.

30. The high payment of dividends while bank debt exploded.

Payments of dividends historically are all valid board decisions.

31. The failure to match long term assets with long term capital.

The company has sought to optimise its funding mix depending on its circumstances at the time, the relative funding availability, options and costs and a variety of other factors.

32. The now discredited "Market update of 8 July 2009".

This update was valid when it was issued. As shareholders generally understand, circumstances change, especially the unprecedented changes resulting from the global financial crisis and exchange rate changes. The company's announcements generally make reference to the potential for changing events or qualifications regarding assumptions. Refer to the Chairman's address.

33. The annual failures to meet prior profit forecasts.

Refer to the answer to question 32.

34. The strong message to shareholders of dividends being paid in 2010.

Refer to the answer to question 32.

Role as Chairman of the Board Sub- Committee (Shareholders Meeting of July 2009)

35. Why did he publicly and aggressively oppose and speak to shareholders about rejecting the candidature of Messrs Murray and Turner in 2009 without any interview of those parties for the proposed roles and potential input?

This matter was resolved by shareholders at the EGM in 2009.

36. Does he now realise that the 2009 proposed renewal of directors may well have been positive and saved the company from its current dire problems?

No.

37. Why does he continue to reject and comply with Federal Court orders granted in favour of London City about the disclosures in relation to matters relating to the 2009 Shareholder Meeting, especially expenditure?

He does not.

Section B

The following questions were included in a letter sent to shareholders by the Penrice Shareholder's Action Group

1. The disclosure of a comprehensive plan by the present Board and Management is to how they intend to rejuvenate Penrice.

Refer to Chairman and MD's addresses

2. A clear understanding of the status of the banking arrangements.

Refer to Section A question 13

3. Detailed status and justification of the rumoured sale of the Angaston mine (or any other) vital asset.

Refer to Section A question 22

4. Assurance from the Board that shareholder will vote on the sale of the Angaston mine (or any other) vital asset.

Refer to Section A question 23 and Chairman's address

5. The 7 month closure of the Angaston – Osborne rail link – and the extra cost impost.

Refer to Section A question 9 and Chairman's address

6. The background to and conclusions of, any Penrice paid professional reports into Penrice matters over the last 12 months.

There are none

7. The impact of carbon tax on Penrice for the next two years.

Refer to Section A question 21

8. The status of the US Ansac soda ash contract and expiry dates.

Refer to Section A question 11

9. The current status of the 2009 completed "Way Forward Plan".

This topic has been extensively covered already in the company's previous communications and in the addresses to the AGM. The current status of the company is described in the annual report and in the Chairman's and MD's addresses