



# PENRICE SODA HOLDINGS LIMITED

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ASX/media release

## PENRICE IMPROVES CASH FLOW AND STRENGTHENS BALANCE SHEET

### Highlights

- Operating cash flows improved, in spite of difficult trading conditions
- Net free cash outflow reduced
- Balance sheet strengthened
- Improving outlook and expect to generate positive free cash flow in FY11
- Management focus on growth and productivity projects

Penrice Soda Holdings Limited (ASX: PSH), Australia's leading supplier of soda ash, sodium bicarbonate and limestone, today reported an after-tax profit of \$6.3 million for the year to 30 June 2010 (FY 2009: \$7.1 million), in line with guidance in April 2010. Reported profit included unrealised gains of \$0.9 million after tax from foreign exchange and interest rate hedges (FY 2009: loss of \$2.0 million). Sales revenue was \$160.4 million (FY 2009: \$162.3 million).

Net operating cash flow increased strongly to \$7.1 million from \$0.8 million in FY 2009, and investment cash outflow was reduced to \$12.9 million from \$22.9 million. Following the \$28.1 million capital raising in November 2009, gearing (net debt: net debt + equity) fell to 42 per cent from 58 per cent at 30 June 2009.

In order to conserve cash, the directors have not declared a dividend.

| <b>Results summary for the year to \$000</b>                          | <b>30 June 2010</b> | 30 June 2009 | Change (%) |
|---|---------------------|--------------|------------|
| Sales revenue   | <b>160,376</b>      | 162,261      | (1)        |
| Earnings before interest, tax, depreciation and amortisation (EBITDA) | <b>24,679</b>       | 24,344       | 1          |
| Earnings before interest and tax (EBIT)                               | <b>15,860</b>       | 16,911       | (6)        |
| Net profit after tax (NPAT)   | <b>6,277</b>        | 7,149        | (12)       |
| Earnings per share (cents)  | <b>7.8</b>          | 12.9         | (40)       |
| Dividends for the year  | -                   | -            | -          |

| <b>Underlying results excluding unrealised hedge gain/loss</b> |               |        |      |
|--|---------------|--------|------|
| EBITDA   | <b>23,323</b> | 27,144 | (14) |
| EBIT   | <b>14,504</b> | 19,711 | (26) |
| NPAT   | <b>5,328</b>  | 9,108  | (42) |
| Earnings per share (cents)                                     | <b>6.6</b>    | 16.3   | (60) |



'While earnings are below original expectations, this is a creditable result in the context of the global financial crisis, demonstrating the underlying strengths of the group,' said David Trebeck, chairman of Penrice.

'The combined impact of the global financial crisis induced reduction in Chemical demand and unfavourable exchange rate movements reduced the company's EBIT in FY10 by about \$7 million; without these headwinds, budgeted profit targets would have been met.

'Even so, due to the strong improvement in operating cash flow and the capital raising in November 2009, Penrice is in a far stronger financial position than a year ago. Our Way Forward Plan is delivering value and, with continuing focus on improving efficiency and working capital management, we expect improved earnings and positive free cash flow in FY 2011.

'Directors remain confident that the company's core chemicals and quarry and minerals businesses can achieve satisfactory returns on investment over the cycle. The emphasis over the past twelve months has been on strengthening operational efficiency and productivity in these businesses and offsetting the challenges created by the external environment.

Directors have judged that it is not yet prudent to resume dividend payments to our shareholders. We recognise that our shareholders are looking forward to a steady dividend flow, including on the additional capital contributed last year, and directors are committed to resuming dividends as soon as it is prudent to do so.'

Guy Roberts, Managing Director and CEO of Penrice, said: 'We are seeing increased demand for both soda ash and sodium bicarbonate. Sales of soda ash are recovering to more normal levels following the disappointing third quarter when they fell sharply due to de-stocking by Australian glass manufacturers, and the Asian market for sodium bicarbonate is continuing to grow.

'In the Quarry & Mineral business, our new five year plan has secured future supplies and will reduce mining cash costs, and the mine is expected to be cash flow positive in FY 2011.

'Penrice's improved cash flow and stronger balance sheet have increased the group's flexibility to take advantage of growth opportunities and to build on our strong market positions both in Australia and overseas.

## Chemicals

| Underlying results for the year to \$000 | 30 June 2010 | 30 June 2009 | Change (%) |
|--|--------------|--------------|------------|
| Sales revenue                            | 135,359      | 138,129      | (2)        |
| EBITDA                                   | 15,182       | 17,519       | (13)       |
| EBIT                                     | 7,863        | 10,963       | (28)       |
| EBITDA margin (%)                        | 11.2         | 12.4         |            |
| EBIT margin (%)                          | 5.8          | 7.9          |            |



### **Soda Ash**

De-stocking by Australian glass manufacturers in the third quarter resulted in lower domestic demand for soda ash; this was balanced by export sales at spot price, resulting in lower margins. Contracts representing more than 70 per cent of total sales were re-negotiated on more favourable terms from either 1 January or 1 July 2010.

The international price for soda ash bottomed in the first half of FY 2010 and is showing signs of recovery. Competition from imports remains with the stronger Australian dollar and there is evidence of dumping by Chinese and American producers; an anti-dumping case initiated by Penrice is due to be completed by the end of the first half of FY 2011.

Domestic demand for soda ash is recovering and this is expected to continue through FY 2011, while earnings benefit from the increased prices negotiated with major customers. There are indications of increased activity in the minerals processing segment, with a new supply contract due to begin in the second quarter of FY 2011. A contract is expected to be signed shortly to build and operate a pilot plant to produce soda ash from waste water from coal seam gas fields in Queensland.

Coke prices, an important raw material cost, are increasing and trials are under way to replace coke with coke briquettes and/or anthracite; if successful, annual savings of over \$3 million could result, commencing in the second half of FY 2011. Installation of a decarbonator during FY11 will result in a 2%pa increase in soda ash recovery, improving efficiency and reducing waste.

### **Sodium bicarbonate**

Sodium bicarbonate sales volume increased by 17 per cent in FY 2010, reflecting expanded capacity and continuing strong demand for premium grade product from export markets, particularly in Asia.

Margins on export sales were lower due to the stronger Australian dollar, with the average price per tonne down 15 per cent. The international price for sodium bicarbonate bottomed in the second half and is showing signs of recovery.

Sales volume in the Australian market was lower, with demand for stock feed by the dairy sector affected by both drought and floods in eastern Australia. Sales were also affected by competition from imports, and the company has initiated an anti-dumping case to maintain current import duty.

Asian demand for premium grade sodium bicarbonate is expected to remain strong, while domestic demand should recover, subject to more normal weather conditions. Further expansion of manufacturing capacity will be considered during the second quarter of FY 2011.

### **Quarry & Mineral**

| <b>Underlying results for the year to \$000</b> | <b>30 June 2010</b> | 30 June 2009 | Change (%) |
|---|---------------------|--------------|------------|
| Sales revenue                                   | <b>31,345</b>       | 30,314       | 3          |
| EBITDA  | <b>11,590</b>       | 13,059       | (11)       |
| EBIT  | <b>10,090</b>       | 12,182       | (17)       |
| EBITDA margin (%)                               | <b>36.9</b>         | 43.1         |            |
| EBIT margin (%)                                 | <b>32.2</b>         | 40.2         |            |



Revenue benefited from increased prices and volumes for re-negotiated industrial contracts and from sales of aggregate for the final stage of the Northern Expressway project, the business' largest aggregate contract to date. Earnings were affected by reduced capitalisation of mining costs.

Extraction of the mine overburden was reduced, with inventory build of \$6.4 million (FY 2009: \$12.6 million), generating production efficiencies. Cash outflow from the mine fell to \$2.5 million from \$8.8 million in FY 2009 due to lower extraction rates and cost management initiatives.

Aggregate extraction is expected to fall to approximately 80-90 per cent of projected sales for the next five years, in line with the mine's new five year plan. Landfill extraction is expected to be approximately 20-25 per cent of the recent five year average, with reduced cash mining costs and positive free cash flow.

While the business is currently tendering for 2-3 million tonnes of potential landfill sales, the mine's volume sales in FY 2011 are expected to be approximately 20 per cent below FY 2010 in the absence of a major road project. This, together with a lower level of cost capitalisation will result in a lower profit in FY 2011. Work is continuing on developing new aggregate and landfill markets to reduce overburden inventory.

Operating cash flow will continue to improve in FY 2011 as overburden extraction is reduced and aggregate and landfill inventory is sold, and the mine is expected to be cash flow positive.

## Balance Sheet

Following the \$28.1 million share placement and entitlement offer in November 2009, net debt at 30 June 2010 was \$67.1 million (2009: \$86.6 million). Gearing (net debt: net debt + equity) was 42 per cent, down from 58 per cent a year earlier and within the board's target range of 40-50 per cent. Shareholders' equity increased to \$93.0 million from \$61.5 million

Working capital was higher at \$55.8 million (2009: \$47.7 million) due to a 13 per cent increase (\$7.1 million) in inventories, mainly aggregates and landfill, less a \$2.8 million decrease in trade debtors reflecting increased focus on working capital management.

The company's senior debt facilities have been extended to March 2013, with an \$8 million redraw facility available for potential future expansion of the sodium bicarbonate plant. Scheduled debt repayments have been reduced with \$1.8m due to be repaid in FY 2011.

## Safety, Health and Environment

'We continue to focus on achieving the highest health, safety and environmental standards throughout our operations and on consulting with our local communities. The group's recordable case rate fell during the year to 1.6 from 2.0 injuries per 200,000 hours worked; water usage was reduced by 17 per cent, saving \$0.8 million; and greenhouse gas emissions were also reduced. New systems have been introduced aimed at making further progress.'



## Outlook

'Demand for chemicals is recovering in the markets in which we operate, and Penrice is well positioned to take advantage of this. Assuming the recovery eventuates, we expect the group's underlying net profit after tax in FY 2011 will be higher than FY 2010. In addition, the group is expected to generate positive net free cash flow, although in the first half this is likely to be negative due to the annual maintenance shut-down of the chemicals plant,' said Mr Roberts.

Penrice will conduct a conference call for investors and analysts to discuss this announcement in further detail. Please see below for details.

***Investor & Analyst Conference Call on FY10 Full Year Results***  
Date: **Thursday, 26 August 2010**  
Time: 12.00pm Eastern Standard Time (11.30am ACST)  
Conference ID: **96982437**  
**Dial-In Access Numbers:**  
International Toll Dial-In Number: + **61 29696 0911**  
Australia: **1800 885 418**

### **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](http://www.penrice.com.au) or contact:

**Guy Roberts, Managing Director & CEO**  
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### **Disclaimer**

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