



PENRICE SODA HOLDINGS LIMITED

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PROFIT REPORT FOR THE YEAR ENDED 30 June 2010

Reported net profit after tax (NPAT)¹ for the year ended 30 June 2010 of \$6.3 million, compared to \$7.1 million in the previous year;

Underlying NPAT² of \$5.3 million, compared to \$9.1 million in the previous year

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

FINANCIAL OVERVIEW

- Sales revenue down 1% to \$160.4 million
 - Improved soda ash prices offset by reduced domestic Chemicals volumes and a negative \$5.7million forex impact on export receipts
- Underlying earnings before interest, depreciation and tax, (EBITDA)² down 14% to \$23.3 million on reduced contributions from both Chemicals and Quarry & Mineral
- Underlying NPAT down 42% to \$5.3 million
- Operating cash flow improved to \$7.1 million on reduced mine overburden extraction and better working capital discipline
- Free cash outflow reduced to \$5.8 million
- Gearing reduced to 42% following \$28.1 million capital raising in H1
- Debt refinanced until March 2013
- No final dividend declared

BUSINESS OVERVIEW

- Earnings from Chemicals down 13% to \$15.2 million reflecting reduced domestic soda ash volumes and lower sodium bicarbonate export receipts on stronger AUD
- Soda ash domestic sales volume down reflecting unexpected fall in demand in Q3; soda ash margin squeezed by sale of excess Q3 production into export markets at lower spot rates
- Sodium bicarbonate volumes up 17% on rapid take-up by export customers of recent plant expansion volume, offset by reduced volumes in domestic market and fall in export receipts on 17% appreciation in average AUD rate in FY10
- Quarry & Mineral revenue up 3%, cash outflow improvement of \$6.3 million but EBITDA down 12% to \$11.6 million, reflecting higher proportion of high volume, lower margin aggregate civil sales and lower capitalised costs, offset by better cost management, reduced extraction levels

RESULTS SUMMARY			
Year ended 30 June A\$000	2010	2009	% variance
Sales revenue	160,376	162,261	(1%)
Operating EBITDA			
Chemicals	15,182	17,519	(13%)
Quarry & Mineral	11,590	13,059	(11%)
Corporate centre	(3,449)	(3,434)	0%
Underlying EBITDA *	23,323	27,144	(14%)
Depreciation, Amortisation	(8,819)	(7,433)	18%
Underlying EBIT *	14,504	19,711	(26%)
Net interest expense *	(8,214)	(8,602)	5%
Tax *	(959)	(2,000)	52%
Underlying NPAT*	5,328	9,109	(42%)
After tax unrealised gain/(loss) on hedge	949	(1,960)	
Statutory NPAT	6,277	7,149	(12%)
Underlying earnings per share* (cents)	6.6	16.3	(60%)
Statutory earnings per share (cents)	7.8	12.9	(40%)
Interim dividend per share (cents)	Nil	Nil	
Final dividend per share (cents)	Nil	Nil	
Gearing [net debt/(net debt+ equity)] %	42%	58%	(28%)
Interest cover [EBITDA*/net interest] (times)	2.8	3.2	(10%)

*excludes unrealised hedge gain/(loss)

¹ Includes unrealised gains on foreign exchange and interest rate hedges

² Excludes unrealised gains on foreign exchange and interest rate hedges



OUTLOOK – FY2011

- Benefits to continue to flow from improved terms on major soda ash contracts offset to a degree by pricing pressure from strong AUD
- Soda ash demand from glass sector expected to continue to recover into FY11
- Improving demand from minerals processing sector with new soda ash contract to commence in Q2
- Full-year contribution from expanded sodium bicarbonate capacity with continuing strong export demand, moderated by ongoing pressure on AUD receipts given continuing strength of AUD
- Chemicals raw material cost pressures from increasing coke price
- Lower Quarry & Mineral sales into infrastructure market on completion of major road project, partially offset by increased industrial minerals sales and further development of landfill markets
- Group expected to generate positive free cash flow in FY11, albeit H1 expected to be free cash flow negative due to annual maintenance shutdown of chemicals plant
- Given continued demand recovery in chemicals, underlying profit for FY11 is expected to exceed FY10

EARNINGS

Drop in underlying EBITDA, largely reflecting external factors, impacts bottom line

NET PROFIT AFTER TAX

- Underlying NPAT (excluding unrealised hedge gains) of \$5.3 million, down 42% from the previous year, with lower underlying operating earnings and increased depreciation charges only partly offset by lower interest and tax charges

GROUP EBITDA

- Underlying EBITDA decreased 14% (\$3.9 million) to \$23.3 million, reflecting
 - Global Financial Crisis induced reduction in Chemical demand and stronger AUD reduced EBITDA by circa \$7 million
 - Increase in lower margin aggregates and reduced capitalisation of costs in Quarry & Mineral
 - Net corporate centre costs held flat at \$3.5 million, which included one-off administrative expenses for general meeting of shareholders in July 2009 and Community Consultative Group for

Angaston mine, offset by income of \$0.4 million from redundant asset sales and one-off cost reimbursements

DEPRECIATION AND AMORTISATION

- Depreciation expense increased 15% (\$1.2 million) from the previous year to \$8.6 million reflecting investment made under Way Forward Plan, including sodium bicarbonate plant expansion
- Depreciation to level off at approximately the FY10 level
- Amortisation of software and mine development costs of \$0.2m in FY10 with full year take-up of circa \$0.7m from FY11

INTEREST

- Net interest expense of \$8.2 million, down \$0.4 million, reflecting lower average debt
- Interest expense to reduce further in FY11, reflecting full year impact of capital raising
- Interest cover (EBITDA/net interest expense) deteriorated to 2.8x from 3.2x, reflecting unfavourable operating performance

UNREALISED HEDGE GAINS

- Reported profit for the period included unrealised gains on foreign exchange and interest rate hedges totalling \$0.9 million after tax (versus unrealised hedge losses of \$2.0 million in the previous year)
- Unrealised gains relate to the difference between contracted and market rates as at 30 June 2010
- Hedge contracts to cover the company's interest rate and exchange rate exposure on USD chemical export contracts
- Hedge accounting in place from FY10 will result in the majority of unrealised hedge positions being reflected directly against equity and not in income statement

FX HEDGING

- FY11 forecast US\$19 million net USD exposure is currently 75% hedged at effective AUD/USD exchange rate of 85.5c (remaining US\$4.8 million exposed to spot exchange rate), reducing exchange rate movement cash flow risk

TAX

- Tax expense, excluding unrealised hedge gains, was \$1.0 million, down \$1.0 million
- Effective tax rate 18% vs 14% in FY2009 reflecting:
 - Continuing spend on Research and Development
 - Reduced Investment Allowance benefit



BALANCE SHEET

Strengthened post capital raising

BALANCE SHEET		
A\$000	30 June 2010	30 June 2009
Inventories	63,069	55,981
Trade debtors	21,931	24,722
Trade creditors	(29,190)	(32,957)
Total working capital	55,810	47,746
Net property, plant & equipment	94,587	92,816
Intangible assets	20,922	18,183
Net other assets/liabilities	(11,236)	(10,609)
Net debt	(67,067)	(86,589)
Net assets	93,016	61,547
Equity	93,016	61,547
Gearing	42%	58%

- Increase in inventories of 13% (\$7.1 million) to \$63.1 million primarily due to:
 - Net overburden (aggregates and landfill) inventory build of \$6.4 million (vs \$12.6 million build in previous year), comprising:
 - \$4.1 million net aggregates stock build, reflecting extraction of 1.6 million tonnes less sales of 1.2 million tonnes
 - \$2.3 million net landfill stock build, reflecting extraction of 1.5 million tonnes less sales of 100,000 tonnes
 - Decrease in Chemicals finished goods inventory of \$1.1 million, increase in Chemicals raw materials of \$2.4 million, decrease in Chemicals spares and consumable goods of \$0.8 million
 - Targeting a net decrease in overburden inventory for FY11, subject to sales
- Decrease in trade debtors of \$2.8 million reflects focus on working capital management
- Net property, plant and equipment up 2% (\$1.8 million) to \$94.6 million due to:
 - Sustenance capex of \$10.2 million
 - Offset by depreciation of \$8.6 million
- Increase of \$2.7 million in intangibles including a \$2.3 million increase in mine development costs and \$0.4 million in software. Mine development costs mainly consist of topsoil (as at December 2009 was included as mine landfill inventory) reflecting planned future use in mine rehabilitation
- Net debt reduced by 23% (\$19.5 million) to \$67.1 million primarily due to \$28.1 million equity raising in H1
- Shareholders' equity increased to \$93.0 million from \$61.5 million due to:
 - H1 equity raising (\$26.5 million net of after-tax costs)
 - Increase in retained earnings of \$6.1 million to \$14.0 million

GEARING

- Gearing of 42% as at 30 June 2010, down from 58% a year earlier, is within the Board's endorsed range of 40-50%

FUNDING

- Senior debt facilities extended to March 2013 following review of the Company's performance and strategy by long-standing bankers NAB and Westpac
- New debt facilities priced within current market rates
- \$8 million redraw facility available for potential future sodium bicarbonate plant expansion
- Debt amortisation schedule agreed with banking syndicate at \$1.8 million for FY11 vs \$7.2 million under previous agreement



CASH FLOW

Free cash outflow greatly reduced on improved working capital management, reduced mine overburden extraction, planned reduction in capex

STATEMENT OF CASH FLOWS		
Year ended 30 June	2010	2009
A\$000		
Net operating cash flows		
NPAT	5,328	9,109
Depreciation, Amortisation	8,819	7,490
Working capital movement	(8,064)	(15,188)
Other assets/liabilities	980	(650)
	7,063	761
Net investing cash flows		
Capital spending	(9,754)	(22,939)
Mine development and Software	(3,154)	0
	(12,908)	(22,939)
Net free cash flow	(5,845)	(22,178)
Net financing cash flows		
Movement in borrowings	(13,324)	9,541
Equity raised	25,979	8,674
Dividends paid	0	(1,678)
	12,655	16,537
Net increase/(decrease) in cash held	6,810	(5,641)

- Net free cash flow improving but still negative
- Net operating cash flow of \$7.1 million, compared with \$0.8 million in the previous year, reflected reduced mine overburden extraction, lower inventory build and better working capital management
- Capital expenditure reduced to \$9.8 million, down from \$22.9 million, in line with plan following completion of Way Forward Plan investment
- Mine development cost of \$2.6 million predominately being cost of topsoil retained for later mine rehabilitation
- Continued improvement in operating cash flow in FY11 as overburden extraction further reduces and aggregate and landfill inventory continue to be sold

DIVIDEND

- No final dividend has been declared (FY09: Nil)
- Committed to resuming dividends as soon as it is prudent to do so



CHEMICALS

**Revenue down 2% to \$135.4 million;
 EBITDA down 13% to \$15.2 million**

CHEMICALS			
Year ended 30 June \$000	2010	2009	%
Sales revenue	135,359	138,129	(2%)
Underlying EBITDA	15,182	17,519	(13%)
EBITDA margin	11.2%	12.7%	
Underlying EBIT	7,863	10,963	(28%)
EBIT margin	5.8%	7.9%	

HIGHLIGHTS

- Improved chemicals pricing offset by GFC-induced fall in domestic demand for soda ash from glass makers and for bicarb from stockfeed sector
- Increased bicarb export volumes offset by AUD rise (to average of USD0.88 from USD0.75) and reduced volume to domestic stockfeed sector

SODA ASH

- Major contracts renegotiated on more favourable terms from 1 January 2010: Amcor Glass; Owens Illinois Australia; and from 1 July 2010: CSR Viridian (together comprise 70+% of total soda ash sales)
- International soda ash price bottomed in H1; now showing signs of recovery
- Reduction in domestic demand for soda ash on unexpected, extended destocking by glass makers in Q3 leading to reduced soda ash margin on resultant spot price export sales
- Competition from imports remains with stronger AUD and evidence of dumping by Chinese and American producers; anti-dumping case to be completed by end H1 FY11

SODIUM BICARBONATE

- Sales volume up 17% reflecting expanded capacity and continuing strong demand for premium grade product from export markets, particularly in Asia
- Concluded FY10 at 100% utilisation of expanded plant (100,000 tpa up from 75,000 tpa)
- AUD export receipts adversely impacted by stronger AUD (average AUD price per tonne down 15%)
- International bicarb price bottomed in H2, showing signs of recovery
- Reduced sales volume in Australian market with demand for stockfeed from dairy sector negatively impacted by falling sector returns and drought and floods in eastern Australia

- Competition from imports remains with stronger AUD and evidence of dumping by Chinese producers; anti-dumping case initiated, expected to be finalised by end H1 FY11

PRODUCTIVITY INITIATIVES

- Coke replacement trials underway with coke briquettes and anthracite; if successful could result in potential annual savings of over \$3 million from forecast FY11 levels
- Installation of decarbonator by January 2011 to result in soda ash recovery equivalent to about 2% of production; improving efficiency and reducing waste

OUTLOOK

- Domestic soda ash demand expected to recover over the course of FY11
- Full-year benefits from repriced major soda ash contracts
- Pressure from soda ash import competition easing on anticipated gradual reduction in Chinese capacity and exports
- Indications of increased activity in minerals processing segment with new soda ash supply contract in minerals processing segment to commence in Q2 FY11
- Contract expected to be signed to build and operate pilot plant to produce soda ash from waste water from CSG fields
- Continued strong demand for premium grade bicarb in Asian markets; domestic demand recovery subject to more normal weather conditions
- Review of case for further expansion of sodium bicarbonate capacity in Q2 FY11
- Well progressed in bicarb anti-dumping case: confident duties will be maintained at higher rate
- Cost pressure from rising coke price
- Positive net free cash flow expected for full year FY11



QUARRY & MINERAL

Revenue up 3% to \$31.3 million;
 EBITDA down 11% to \$11.6 million

QUARRY & MINERAL			
Year ended 30 June \$000	2010	2009	%
Sales revenue (includes inter co.)	31,345	30,314	3%
Underlying EBITDA	11,590	13,059	(11%)
EBITDA margin	37.0%	43.1%	
Underlying EBIT	10,090	12,182	(17%)
EBIT margin	32.2%	40.2%	

HIGHLIGHTS

- Revenue up on increased prices/volumes from renegotiated and new industrial mineral supply contracts and aggregates demand from final stage of major road project
- Mine overburden extraction reduced with overburden (aggregate and landfill) inventory build of \$6.4 million, down from \$12.6 million
- Cash outflow from mine reduced to \$2.5 million in FY10 from \$8.8 million in FY09 with lower extraction rates and cost management initiatives
- EBITDA reduction reflects negative profit impact of lower capitalisation of mining costs

OUTLOOK

- Aggregate extraction to fall to ~80% of expected sales tonnes; landfill extraction to be ~20% of recent 5-year average, with cash mining costs proportionally reduced and mine generating positive free cash flow, albeit at reduced reported profit levels
- Volume sales of aggregate expected to be down about 20% in absence of a major road project; currently tendering for 3 million tonnes of potential landfill sales
- Continued work on developing new aggregate and landfill markets with aim of reducing overburden inventory over time
- 5-year mine plan provides resource security, reduced cash mining costs
- Positive net free cash flow expected for full year FY11.



SAFETY, HEALTH, ENVIRONMENT & QUALITY

- Safety improvement remains a priority, with recordable case rate (RCR) of 1.6 injuries per 200,000 hours worked, down from an RCR of 2.0 in the previous year
- Maintained operations within environmental licences and continued to actively consult with local communities surrounding sites, especially Angaston mine
- Successful implementation of water recovery project cuts usage by 17%, with annualised saving of \$0.8 million
- Confirmation that Angaston Mine not to be covered by Federal Government's proposed Minerals Resource Rent Tax scheme
- ISO 22000 accreditation achieved: recognition of Penrice's advanced quality systems for manufacture of food-grade ingredients

STRATEGY

Penrice's strategy for sustainable profit growth and strong returns on investment is driven by:

- Securing market leadership positions in selected markets, allowing it to build on its strengths and enable it to better serve customers, develop and retain technological advantage and achieve benefits of scale;
- Growing close to the core.

Following this strategy Penrice aims to:

- Grow its soda ash business in Australia to meet the expected long-term growth from the glass and mineral processing segments;
- Grow its sodium bicarbonate business in premium export markets to meet strong demand in pharmaceutical, medical, food and industrial segments;

- Grow its Quarry & Mineral sales into civil and landfill markets as demand for roads, buildings and other infrastructure in northern Adelaide increases;
- Improve productivity across its businesses as a fundamental part of its growth agenda.

Penrice's businesses are focussed on improving operating cash flows to pay down debt, pay dividends and help fund growth.

Strict financial criteria, including a 15% RONA¹ hurdle, continue to provide the financial discipline required for assessing growth opportunities.

This strategy is a relatively low risk approach and is designed for the potential to produce superior returns for shareholders in the longer term, by way of dividends and share price appreciation.

CULTURE

Penrice is committed to a culture underpinned by five core values as outlined below.

- Safe & Responsible – *No injuries ever and we care about our environment*
- Customer Focus – *Help our customer succeed*
- Business Ownership – *Act as if it's your own business*
- Honesty & Integrity – *Be accountable for what you do and say*
- Team Success – *One business, one team, working together*

1 RONA: Return on Operating Net Assets

RONA = EBIT** / Operating net assets*

* includes PPE, intangibles and working capital. Excludes tax balances and all debt.

** Underlying EBIT is on a fully absorbed costing basis (includes overheads) and excludes unrealised hedge gains / losses.

For further information regarding Penrice Soda Holdings go to our website at www.penrice.com.au or contact:

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