



**PROFIT REPORT FOR THE HALF YEAR ENDED 31 DECEMBER 2009**

- **Reported net profit after tax (NPAT) <sup>1</sup> of \$3.1 million for the half year ended 31 December 2009 compared with loss of \$2.4 million for the previous corresponding period (pcp).**
- **Underlying NPAT <sup>2</sup> was \$2.4 million, up 4% from pcp.**

**FINANCIAL HIGHLIGHTS**

- Sales revenue up 5% to \$77.9 million, reflecting growth in both the Chemicals and Quarry & Mineral businesses
- Underlying earnings before interest, tax, depreciation and amortisation (EBITDA) up 10% to \$10.9 million, with stronger contributions from Chemicals (up 11%) and Quarry & Mineral (up 15%) partly offset by increased corporate costs
- Underlying NPAT up 4% after higher depreciation and interest expense
- Gearing significantly reduced following successful \$28.1 million capital raising in 2009
- Debt refinanced until March 2012
- Operating cash flow improved to \$2.9 million vs negative \$1.9 million in pcp but free cash flow remained negative at \$2.4 million versus negative \$17.2 million in pcp
- No interim dividend: creating and conserving cash is a priority in current global economic conditions

**BUSINESS HIGHLIGHTS**

- Chemicals EBITDA up 11% to \$7.6 million reflecting sodium bicarbonate export volume growth, offset by reduced sodium bicarbonate and soda ash volumes in domestic market and \$2 million negative impact to export earnings from stronger AUD vs pcp
- Sodium bicarbonate volume up 26% on rapid take-up by export customers of capacity added over past 2 years under Way Forward Plan
- Major soda ash contracts successfully renegotiated on more favourable terms
- Quarry & Mineral EBITDA up 15% to \$5.3 million, reflecting volume growth of aggregates sold into infrastructure sector
- Corporate costs increased \$0.4 million due to unplanned general meeting in July 2009, and Quarry & Mineral Community Consultative Group costs
- Depreciation up 19% to \$4.1 million due mainly to \$15 million sodium bicarbonate plant expansion completed 2009

<sup>1</sup> Includes unrealised gain/loss on foreign exchange and interest rate hedges

<sup>2</sup> Excludes unrealised gains/loss on foreign exchange and interest rate hedges

<b>EARNINGS SUMMARY</b>			
<b>A\$M</b>			
<b>Half year ended 31 December</b>	<b>2009</b>	<b>2008</b>	<b>%</b>
<b>Sales revenue</b>	<b>77,888</b>	<b>74,100</b>	<b>5%</b>
Other income	61	55	
<b>Operating EBITDA</b>			
<b>Chemicals</b>	<b>7,614</b>	<b>6,883</b>	<b>11%</b>
<b>Quarry &amp; Mineral</b>	<b>5,336</b>	<b>4,660</b>	<b>15%</b>
Corporate centre costs	(2,036)	(1,623)	25%
<b>Underlying Group EBITDA*</b>	<b>10,914</b>	<b>9,920</b>	<b>10%</b>
Depreciation	(4,102)	(3,458)	19%
<b>Underlying EBIT*</b>	<b>6,812</b>	<b>6,462</b>	<b>5%</b>
Interest expense*	(4,121)	(3,866)	7%
Tax*	(339)	(326)	4%
<b>Underlying NPAT*</b>	<b>2,352</b>	<b>2,270</b>	<b>4%</b>
After tax unrealised hedge gain/(loss)	787	(4,663)	
Reported NPAT	3,139	(2,393)	n/a
Underlying earnings per share* (cents)	3.3	4.4	(25%)
Reported earnings per share (cents)	4.5	(4.7)	(196%)
Interim dividend per share (cents)	Nil	Nil	
Gearing (net debt/net debt + equity)	41%	59%	
Interest cover (EBITDA*/net interest)	2.7x	2.6x	

\* Excludes unrealised hedge gain/(loss)

**PENRICE GROUP OUTLOOK – FY 2010**

- Earnings and cash flow normally weighted to second half reflecting lower sales and higher costs associated with Chemicals Osborne plant planned annual maintenance shutdown in first half of financial year
- Strong sodium bicarbonate export demand, with continuing pressure on margins due to strengthening AUD vs pcp
- Softer soda ash domestic demand from glass markets with stronger AUD vs pcp increasing price pressure from imports
- Benefits to flow from improved pricing with major soda ash contracts
- Continuing strong Quarry & Mineral sales into infrastructure market and further development of landfill markets
- Targeting positive free cash flow for full year on improved earnings, limiting capex to sustenance spending and reducing rate of inventory build
- Subject to global economic conditions, underlying profit for FY2010 is expected to exceed FY2009



## **EARNINGS**

### **Improvement in underlying EBITDA offset by increases in depreciation and interest charges**

#### **GROUP EARNINGS BEFORE INTEREST, TAX, DEPRECIATION & AMORTISATION**

- Underlying EBITDA (excluding unrealised hedge gains) increased 10% (\$1.0 million) to \$10.9 million reflecting increased sodium bicarbonate sales in Chemicals and continuing growth in volume sales of aggregates in Quarry & Mineral
- Improvement in underlying operating earnings partly offset by an increase in corporate centre costs of \$0.4 million to \$2.2 million due to one-off administrative expenses associated with the general meeting in July and the Penrice Community Consultative Group for Angaston mine

## **DEPRECIATION**

- Depreciation expense increased 19% (\$0.6 million) from the pcp to \$4.1 million reflecting investment under Way Forward Plan, including sodium bicarbonate plant expansion (to 100,000 tpa from 75,000 tpa)
- Depreciation to level off at approximately \$8.5 million pa

## **INTEREST**

- Interest expense of \$4.1 million, up \$0.3 million, mainly due to the impact of higher average level of debt offset to an extent by lower interest rates
- Interest expense to reduce in second half reflecting reduction in debt after capital raising
- Interest cover (EBITDA/net interest expense) improved to 2.7x from 2.6x in pcp. largely reflecting improved operating performance

## **UNREALISED HEDGE GAINS**

- Reported profit for the period included unrealised gains on foreign exchange and interest rate hedges totalling \$0.8 million after tax (versus unrealised hedge losses of \$4.7 million in the pcp)
- Unrealised gains relate to the difference between contracted and market rates as at 31 Dec 2009
- Hedge contracts put in place to hedge the company's interest rate and exchange rate exposure on USD chemical export contracts

## **TAX**

- Tax expense, excluding unrealised hedge gains, was \$0.3 million, in line with the pcp, with new expenditure qualifying for R&D and investment allowance benefits
- Expected effective tax rate for FY2010 approximately 25%

## **NET PROFIT AFTER TAX**

- Underlying NPAT (excluding unrealised hedge gains) of \$2.4 million, up 4% compared with the pcp, with growth in underlying operating earnings partly offset by increased corporate centre (one-off), depreciation and interest charges (now trending down)

## **BALANCE SHEET**

### **Balance sheet strengthened post capital raising**

- Net debt reduced by \$23 million (27%) to \$63.2 million primarily due to capital raising in Oct 2009:
  - \$6.8 million share placement to institutional investors
  - \$21.3 million rights issue
- Shareholders' equity increased to \$91.1 million from \$61.5 million due to:
  - \$28.1 million capital raising (\$26.7 million net of costs)
  - Increase in retained earnings of \$3.2 million to \$11.1 million
- Increase in inventories of 12% to \$62.9 million primarily due to:
  - Net increase in Quarry & Mineral inventory (aggregate and landfill) of \$4.2 million (vs \$2.2 million planned for first half), comprising:
    - \$2.4 million aggregate stock build in line with above-forecast sales
    - \$1.0 million landfill
    - \$0.8 million topsoil from one-off excavation of new expansion land acquired for overburden storage
  - Expected net increase in Quarry & Mineral inventory of about \$6.0 million for FY2010 (vs \$4 million planned)
  - Increase in Chemicals finished goods inventory of \$2.7 million with stock build for increased sodium bicarbonate sales from plant expansion, expected to reduce by Jun 2010
  - Decrease in trade debtors of \$5.5 million notwithstanding increased sales
- Net property, plant and equipment up 1% to \$94.0 million due to:
  - Normal sustenance capital expenditure of \$5.3 million
  - Offset by depreciation of \$4.1 million



## GEARING

- Gearing of 41% as at 31 Dec 2009, down from 59% at 30 Jun 2009, is within the Board's endorsed range of 40-50%
- Scheduled debt repayments to commence from Jul 2010

## FUNDING

- Senior debt facilities extended to Mar 2012 following review of the Company's performance and strategy by long-standing bankers NAB and Westpac
- New debt facilities priced within current market rates and \$8 million redraw facility available for potential future sodium bicarbonate plant expansion

## CASH FLOW

- Net free cash flow improved significantly by \$14.8 million but still negative
- Net operating cash flow of \$2.9 million, compared with negative \$1.9 million in the pcp, reflected improved operating earnings and trade working capital management
- Capital expenditure of \$5.3 million, down from \$15.3 million, with Way Forward investment completed and reversion to sustenance-only spending
  - First half capex in line with expected FY2010 capex of about \$10 million, down from \$22 million in FY2009
  - Cash cost of \$0.7 million to repair and upgrade primary crushing plant at Angaston mine, which failed in Dec 2009
- Targeting to be free cash flow positive for FY2010

## DIVIDEND

- No interim dividend declared: priority is creating and conserving cash in current global economic conditions
- Dividend to resume when cash flow increases and conditions more certain

<b>BALANCE SHEET</b>		
<b>A\$M</b>	<b>31 Dec 2009</b>	<b>30 Jun 2009</b>
Inventories	62,944	55,981
Trade debtors	19,236	24,722
Trade creditors	(29,969)	(32,957)
<b>Total working capital</b>	<b>52,211</b>	<b>47,746</b>
Net property, plant & equipment	93,950	92,816
Intangible assets	18,246	18,183
Net other assets / liabilities	(10,129)	(10,609)
Net debt	(63,157)	(86,589)
<b>Net assets</b>	<b>91,121</b>	<b>61,547</b>
<b>Equity</b>	<b>91,121</b>	<b>61,547</b>
<b>Gearing (net debt/net debt + equity)</b>	<b>41%</b>	<b>59%</b>

<b>STATEMENT OF CASH FLOWS</b>		
<b>A\$M</b>	<b>2009</b>	<b>2008</b>
<b>Half year ended 31 December</b>		
<b>Net operating cash flows</b>		
NPAT	3,139	(2,393)
Depreciation	4,102	3,458
Other non cash adjustments	(340)	6,663
Working capital movement	(4,465)	(6,577)
Other assets/liabilities	480	(3,058)
	<b>2,916</b>	<b>(1,907)</b>
<b>Net investing cash flows</b>		
Capital spending	0	(10,022)
Sustenance capital	(5,317)	(5,253)
	<b>(5,317)</b>	<b>(15,275)</b>
<b>Net free cash flow</b>	<b>(2,401)</b>	<b>(17,182)</b>
<b>Net financing cash flows</b>		
Movement in borrowings	(13,071)	9,999
Equity raised	26,081	8,746
Dividends paid	0	(1,678)
	<b>13,010</b>	<b>17,067</b>
<b>Net increase/(decrease) in cash held</b>	<b>10,609</b>	<b>(115)</b>



## CHEMICALS

**Revenue up 3% to \$65.0 million; EBITDA up 11% to \$7.6 million**

CHEMICALS			
A\$M			
Half year ended 31 December	2009	2008	% change
Sales revenue	64,970	63,359	3%
Underlying EBITDA	7,614	6,883	11%
EBITDA margin	11.7%	10.9%	

## HIGHLIGHTS

- Strong result on increased exports
- Partly offset by softer domestic demand and unfavourable foreign exchange move (\$2 million negative impact to earnings from AUD rise to average of USD0.87 versus pcp of USD0.78)

## SODA ASH

- Major contracts renegotiated effective from 1 Jan 2010: Amcor Glass contracted for 5 years; Owens Illinois Australia contracted for 3 years (together Amcor and OI comprise over 50% of soda ash sales)
- Margin improvement on price increases implemented in FY2009
- Production down slightly from pcp on minor mechanical failures in soda ash plant
- Demand softer and sales volume down slightly from pcp, primarily due to reduced demand for glass in end markets such as wine bottling and building & construction
- Market share maintained, but competition from imports emerging with stronger AUD

## SODIUM BICARBONATE

- Sales volume up 26% reflecting expanded capacity and continuing strong demand for premium grade product from export markets, particularly in Asia
- On track for 100% plant utilisation by FY2011
- Export prices increased in USD terms, but AUD receipts adversely impacted by stronger AUD
- Slightly reduced sales volume in Australian market with demand for stockfeed from dairy sector negatively impacted by falling sector returns and ongoing drought

## OUTLOOK – FY2010

- Soda ash demand to continue to be softer in some domestic glass segments
- Benefits from repricing of major soda ash contracts from January 2010
- Stronger AUD vs pcp translating to increasing import competition
- Increasing demand from mining segment as projects come back on stream

- Continued strong demand for premium grade sodium bicarbonate in Asian markets, domestic demand flat
- Price pressure in export markets for commodity grade sodium bicarbonate
- Focus on selling out sodium bicarbonate capacity expansion and realising forecast sales
- Continuing to review case for further expansion of sodium bicarbonate capacity

## QUARRY & MINERAL

**Revenue up 20% to \$12.9 million; EBITDA up 15% to \$5.3 million**

QUARRY & MINERAL			
A\$M			
Half year ended 31 December	2009	2008	% change
Sales revenue	12,918	10,741	20%
Underlying EBITDA	5,336	4,660	15%
EBITDA margin	41.3%	43.4%	

## HIGHLIGHTS

- Sales and EBIT growth on back of strong demand for aggregate from civil and construction markets and increased productivity
- Volume sales of aggregate up 30% from the pcp; continued supply of aggregate to Northern Expressway project, Quarry & Mineral business's biggest contract to date, and the Sturt Highway
- New mine plan developed with substantially reduced landfill extraction rates, implemented from November 2009
- Strong management focus on reducing mining cash costs is effective, albeit with negative profit impact from less capitalisation of mining costs
- Mine overburden extraction rate reduced, but higher than planned increase in overburden inventory (primarily landfill) due to higher than anticipated level of excavation of topsoil at new overburden storage land
- Progressing satisfactorily with further small sales of landfill (50,000 t)

## OUTLOOK – FY2010

- On target to substantially improve FY2010 cash flow vs FY2009, albeit at slightly reduced profitability than otherwise
- Continued strong demand for aggregates in civil markets
- Rate of extraction of overburden to continue to reduce, leading to lower cash production costs
- Focus on securing landfill markets and reducing landfill inventory over time



## **SAFETY, HEALTH, ENVIRONMENT & QUALITY**

- Safety improvement focus maintained, with recordable case rate of 1.25 injuries per 200,000 hours worked, substantially reduced from an RCR of 2.0 in the pcp
- Maintained operations within environmental licences and continued to actively consult with local communities surrounding sites, especially Angaston mine
- Uncertainty remains regarding proposed Federal Government Carbon Pollution Reduction Scheme: Energy Intensive Trade Exposed Activity definition for Chemicals operations agreed with government with expected ratification in regulations within the next six months; potential financial impact of Scheme on Penrice not likely to be material
- ISO 22000 accreditation achieved for first time: important recognition of Penrice's significantly 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; and
- 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; and
- 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 minimum 15% RONA<sup>1</sup> 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 go to our website at [www.penrice.com.au](http://www.penrice.com.au) or contact:

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### Disclaimer

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