

ASX ANNOUNCEMENT: 26 August 2010**Committed
To Success****MD on FY11 Outlook**Open Briefing with **MD Guy Roberts**Penrice Soda Holdings Limited
Solvay Road Osborne
South Australia 5017**In this Open Briefing[®], Guy discusses**

- Signs the worst of the chemicals sales downturn is over
- Improvement in operating cash flow; reduction in net free cash outflow
- Strengthened balance sheet
- Expectation of positive free cash flow in FY2011

Open Briefing interview:**openbriefing.com**

Penrice Soda Holdings Limited reported net profit after tax of \$6.3 million for the year ended June 2010, down 12 percent from the previous year. Underlying EBITDA was \$23.2 million, down 15 percent, reflecting volume and pricing impacts from the third quarter sales downturn in the Chemicals business and the impact of booking capitalised costs through the P&L in Quarry & Minerals. How do you see these factors playing out in the current year ending June 2011?

MD Guy Roberts

We see a better year ahead. In the Chemicals business, we expect soda ash demand to improve during FY2011 in the absence of the GFC-impacted demand problems that plagued us last financial year, particularly in the third quarter. With improved demand, plus the successful commissioning of Amcor Glass' new third glass line at its Gawler plant, comes less requirement to sell stock into the spot market, which should have positive benefits for margins in FY2011. The global and Southeast Asia regional pricing outlook is positive, with price increases forecast for soda ash. On the negative side, the Australian dollar is still higher than trend which is constraining price increases for chemicals in Australia and continuing to impact our US dollar export sales.

In the Quarry & Mineral business, the Northern Expressway (NEXY) road project generated record demand in FY2010 and in the absence of another major infrastructure project this year we expect volumes and EBIT to be slightly behind last year. Our priority in Quarry & Mineral is to be cash positive this year, which we're confident of achieving now our

accelerated overburden extraction campaign has been completed. We're advancing prospective major landfill sales, quoting on 2 million tonnes of fill at the moment.

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Why was Penrice caught out by the fall in domestic soda ash demand in the third quarter? Is there any evidence the recent price rises on your major contracts had a negative impact on demand?

MD Guy Roberts

Glass packaging and glass for construction are the two main soda ash markets in Australia. In the packaging segment, we think the worst is over.

In the building segment, most of the reduction in demand was a result of the downturn in the housing sector, which is expected to move back to trend this year and see a return to more normal sales of soda ash into the segment.

We don't believe recent price rises on major contracts had a negative impact on demand. All our customers experienced reduced demand for their products through calendar 2009, and at the end of 2009 and start of calendar 2010, significantly de-stocked at extremely short notice, sharply cutting their demand for soda ash. We're not able to cut production at short notice so the only option available to us was to sell our soda ash overstocks into the export market at reduced prices and margins.

We've created a new role of Chemicals Business General Manager primarily directed at improving our sales and marketing and managing our key accounts. We've strengthened our linkages with our key accounts and now meet with them regularly to better understand their businesses and stay on top of their demand forecasts so we don't get surprised again.

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What scope is there for Penrice to initiate cost savings or other internal measures to mitigate the impact of external factors such as demand and pricing?

MD Guy Roberts

There's considerable scope. There are two strategic drivers of our business: growth and productivity. On the productivity side, we look at our raw material inputs and at the efficiency of our operations. In that context, whilst our Chemicals business is a very high fixed cost business, we believe there's scope to improve our labour productivity and our maintenance schedules.

On the raw materials side, much of our raw materials are secured under long-term contracts with fixed pricing, which gives us some certainty about our cost structure. But there's an opportunity to cut our fuel costs by reducing our reliance on coke, which is a volatile commodity and a large cost impost, and we're currently trialling different coke mixes and alternatives to coke such as anthracite. We expect benefits from this initiative in the second half of FY2011.

In terms of operational efficiency, we're confident our more consistent sustenance capital spend on the soda ash plant and an improved maintenance regime will help us improve the productivity of the plant this year, giving us some unit cost advantages as well.

In the Quarry & Mineral business, we're looking to make some efficiency gains in our crushing operation, and we've reduced our cash mining costs, which will certainly bring cash flow improvements, albeit improvements in the P&L will lag.

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Net free cash flow for the year remained negative, at \$6.4 million, albeit an improvement from negative \$22.2 million in FY2009. This reflected the impact of the weaker operating result and continuing inventory build as a result of ongoing mine overburden extraction. Given your planned 75 percent reduction in landfill extraction from the recent five-year average, when do you expect free cash flow to move into positive territory?

MD Guy Roberts

The Chemicals business was net free cash flow positive in FY2010, but the Quarry & Mineral business wasn't due to the overburden campaign, which finished during the year. We certainly expect the Quarry & Mineral business to be cash flow positive this year for the first time in many years. The Group won't be cash flow positive until the second half of this year. This is because the Chemicals business, as is traditionally the case, has a major planned maintenance shut-down in the first half, which we've just completed. As a result of the related expenditure and reduced output, the Chemicals business will be cash flow negative in the first half, returning to cash flow positive in the second half.

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Net debt stood at \$67.1 million as at the end of June 2010, down from \$86.6 million a year earlier. Despite your capital raising in 2009, net debt to net debt plus equity stood at a relatively high 42 percent at 30 June 2010. What is your gearing target and how do you see debt levels trending in the shorter term?

MD Guy Roberts

Our Board-endorsed gearing range is 40 to 50 percent. The equity raising last year reduced our debt to a level we were comfortable with and we anticipate our cash flows will gradually reduce debt further. We've now agreed a new debt amortisation programme with our banks that will require repayment of \$2 million this year. We're very comfortable with that. The new amortisation arrangement is a reduction from the previous one, and our banks have been very supportive through the renegotiation process.

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Penrice's Chemicals business booked EBITDA of \$15.6 million, down 11 percent, on revenue of \$135.4 million, down 2 percent. EBITDA margin dropped to 11.5 percent from 12.7 percent, reflecting the lower margin spot market sale of soda ash after the drop in domestic demand in the third quarter, and the impact of the higher Australian dollar on sodium bicarbonate export earnings. What are the key risks the Chemicals business faces over the current year?

MD Guy Roberts

The risks fall into two main categories: sales and operations. Sales depend on volume and price, and we see demand improving in the region with some supply constraints emerging in China. Chinese soda ash producers have exited the export markets as quickly as they entered them at the height of the GFC, and we're seeing soda ash prices increase to around US\$225 per tonne from a bottom of around US\$200 six months ago. That flows into our prices in Australia. Producers are looking to push prices higher. We're also seeing signs that soda ash

demand in Australia is recovering, with expectations of increased production at the new Amcor Glass line, a more solid housing market and a recovery in the mining sector in the current financial year.

In 2010 demand for sodium bicarbonate in Australia was impacted adversely by unseasonal floods in eastern Australia which hit demand for stockfeed, a major customer segment. Absent any other major unusual weather patterns, we think the stockfeed market will improve.

International demand for our sodium bicarbonate is still strong. Prices at the commodity end of the market dropped off last year, following soda ash prices, but at the premium food and pharmaceutical end of our export markets, prices have been more stable.

The other factor affecting prices is the exchange rate. We have 75 percent of our expected export revenue hedged and we're comfortable with our remaining exposure to the impact of moves in the Australian dollar.

On the operational side, the key risks relate to our Osborne soda ash plant reliability. Our plant reliability was adequate, not great, in FY2010: we operated close to our planned rate, but we still had a number of interruptions that created some inefficiency and cost penalties. We'll be working hard to get the plant to do better this year and we've targeted about \$7 million in capex to ensure the chemical plant reliability improves.

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You've indicated that a soda ash supply contract into the minerals processing sector will commence in the second quarter. How significant is the contract in terms of revenue and earnings and what is the potential market for soda ash in the minerals processing sector?

MD Guy Roberts

It's a small contract, but it meets our hurdle returns. It's also important as a symbol of an improving outlook for the minerals processing sector. Prior to the GFC, we were looking at 100,000 tonnes per annum of potential soda ash demand from the minerals processing sector, which is equivalent to about 30 percent of our existing business, and about 25 percent of the current Australian market.

One of the large mining projects we were working on prior to the GFC, the Windimurra Vanadium Project, is being restarted by its new owners, and we're hopeful of being a significant soda ash supplier to the project. Originally, the project was expected to require up to 40,000 tonnes of soda ash a year at full rates. There are also signs that some of the other projects that were put on hold by the GFC may be in the process of restarting.

We're supplying a large nickel project in export markets and we see most of our future in mineral processing being in the nickel, uranium and vanadium segments.

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You've put the further expansion of your sodium bicarbonate production capacity on hold for the present. Can the proposed expansion be economic at current Australian dollar exchange levels?

MD Guy Roberts

We previously flagged sanctioning of the proposal by the middle of this calendar year. We've now put that on hold until the end of the year, although we're continuing to progress the technical proposal. We believe this is the prudent approach given the overall financial performance of the Group in FY2010.

The technical case is well understood. We're confident of increasing capacity by 30,000 tonnes to 130,000 tonnes per annum for a capital cost in the order of \$8 million. We also understand the market well and we're working with our distributors in the export market to advance the marketing case for the additional capacity.

We're confident about the growing demand for our premium range of bicarb and that's evidenced by the fact that over the last 10 years we've grown our export sales to about 75,000 tonnes per annum from about 5,000 tonnes.

We're also confident that returns from the project will exceed our minimum hurdle rate: EBIT return on net operating assets of 15 percent.

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The Quarry & Mineral business booked EBITDA of \$11.0 million, down 16 percent, on revenue of \$25.0 million, up 4 percent. With the recent completion of the NEXY project, which was your biggest aggregates supply contract, what is the outlook for aggregates and landfill sales? What is the outlook for reported Quarry & Mineral margins given a reduction in capitalisation of costs?

MD Guy Roberts

The long-term outlook is encouraging. Over the past five years we've built a robust business as a major supplier to the Adelaide civil construction market. We're currently supplying about 1 million tonnes per annum of civil products of different types for use in concrete, buildings and civil infrastructure such as roads and expect that underlying sales rate to continue

Under our new five-year mine plan, we'll extract aggregates equivalent to 80 to 90 percent of annual sales. So we expect over the next five years to reduce our aggregates inventory by 10 percent to 20 percent per annum. If other major road projects get underway, the potential exists to reduce that aggregates inventory further.

We're very comfortable with the level of our aggregates inventory and its valuation. We're confident the cost is fully recoverable in the markets as we currently understand them. We know that we have a very high quality aggregates product that meets our customers' specifications and we also know that the market is moving towards us, with the Adelaide metropolitan region growing to the north every year.

In the last 12 months we sold just under 100,000 tonnes of landfill and we expect to sell the same amount in the first six months of this year.

Our landfill inventory stands at 11 million tonnes. We're confident this material can be used not only for the landfill market (estimated at 40 to 50 million tonnes over the next 10 to 15 years) but also as civil engineered fill to support buildings and roads, which is a more demanding, and higher value, market than the landfill market. This has been made possible

by the new crushing and milling equipment we installed for the NEXY project which enables us to cost-effectively upgrade some of our landfill inventory into civil material. NEXY, when open later this year, will reduce distribution costs into Adelaide by 15 to 20 percent, improving our competitiveness. In the civil fill market, we're currently quoting on 2 million tonnes worth of supply into large civil projects and we look forward to participation in at least some of that work. This market is estimated at 2 million tonnes per annum.

Under the new five-year mine plan, our landfill extraction over the next five years should on average drop by 75 percent compared with the past five year average.

In the current year we expect reported profit in Quarry & Mineral to reduce, given the absence of a major road project and lower level of cost capitalisation. But margin percentage should improve given an increased proportion of higher margin industrial minerals sales.

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Penrice has not declared a dividend for FY2010. What will be the key deciding factors in a return to dividend payments and what is the expected timing?

MD Guy Roberts

We've determined to take a prudent approach with respect to our cash. This reflects our expectation that cash flow will remain negative through the balance of the first half – albeit we expect positive cash flow in the second half. We believe in this environment it's best to use our cash to sustain the business, but we're very conscious of the need to provide a cash return to shareholders and we'll endeavour to do so as soon as our cash flow permits.

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Thank you Guy.

For further information on Penrice Soda Holdings Limited visit www.penrice.com.au or call CFO Frank Lupoi on (08) 8402 7280

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