

31 January 2012

ASX ANNOUNCEMENT

SOLCO TAKES ACTION TO SECURE FUTURE GROWTH

- Unaudited half year revenue 2011/12 of \$11.6 million
- Unaudited half year loss before tax of \$3.8 million
- Retains debt free status and strong balance sheet
- Full year revenue 2011/12 forecast of \$32 million
- Downturn in residential solar energy market for current year
- Growth in commercial solar projects, with strong pipeline of work
- Assessing consolidation opportunities in the solar energy sector

Solco Limited (ASX: SOO) ("Solco" or "the Company") today released its second quarter cashflow report and its unaudited results for the half-year to 31 December 2011.

The results confirm an earlier forecast (6 October 2011) of lower revenue resulting from a downturn in first half in the Australian residential solar market following the reduction or withdrawal of residential solar rebates by several State Governments.

The downturn needs to be viewed in the context of the record 2010/11 year for the solar energy sector, which saw 700MW installed in Australia as the State Government rebates drew forward considerable consumer demand. In this environment Solco achieved record turnover of \$52 million in 2010/11 and profit of \$3.5 million.

In response to these changes, Solco is aggressively adjusting its business to capitalise on a post-rebate environment in which residential demand is cautious, while opportunities for commercial solar power are increasing. The Company's key actions have included substantially reducing inventory and monthly overheads, the full benefits of which will be seen in the full year results.

Solco's wholesale division has reduced its panel inventory levels via a nationwide sales program. Residual stock has been carefully reviewed as at 31 December to ensure that book values reflect the rapid decrease in panel prices over the past few months. The resulting stock writedowns have contributed to approximately \$2.5 million to the Company's loss for the half-year.

The commercial power projects division is seeing significant growth. The secured work has increased from approximately \$250,000 in the first half of the year to \$1.7 million for the second half.

To position the company for growth in a post-rebate operating environment Solco has begun a range of longer-term initiatives including:

- negotiating more suitable commercial terms with suppliers;
- taking stock on consignment, and increasing the stock turn rate;
- reducing staff numbers;
- increased its Internet presence via a new inventory management system; and
- improved customer service.

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A proposed capital raising by Solco received strong support, but the Offer Document was withdrawn when the residential solar market continued to weaken. The Company will wait for a more appropriate time to raise capital, but continues to examine opportunities for consolidation within the sector.

Solco retains a positive outlook on the long-term solar energy market in Australia. The Company believes it is highly likely that the goal of price parity for residential and small-to-medium commercial customers, with traditional energy sources has recently been achieved as a result of the fall in panel prices. The Company believes that price parity will gradually encourage stronger residential demand as consumers seek to secure long-term control over their power costs.

Price parity is also set to encourage more commercial scale projects. The Company has secured or is finalising contracts to install systems in Victoria and Western Australia. These will be the subject of separate announcements to the ASX .

Executive Chairman David Richardson said the speed of the decline in the residential solar market was surprising, but Solco had the right initiatives in place to remain a force in the post-rebate solar sector.

“Everyone in the solar energy sector has to work harder and smarter at the current time, but with our national wholesale strength, engineering expertise and growing commercial experience, I believe we will be able to increase our market share in the second half of the year,” Mr Richardson said.

“Our goal is work closely with installers to help them achieve the lowest installed costs per kW by negotiating the best prices for PV panels and equipment and enabling them to access our core engineering expertise.”

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