Penrice Soda Holdings Limited

Committed To Success

8 July 2009

Dear Fellow Shareholders

On behalf of the Board and Management of Penrice Soda Holdings ("Penrice"), we are pleased to provide you with the attached Market Update on our operations and performance. This Update comes to you at a time when your Company is delivering improvements across its group operations, with a commensurate improvement in financial results.

The Update is timely, because our three-year Way Forward Plan has now been completed - ahead of schedule - and we are able to provide you with some details of the actions, the achievements and results relating to the Plan.

The results from the Way Forward Plan are positive. It has been a success. It has improved our business and has provided Penrice and its shareholders with a brighter outlook for the 2009-10 financial year and beyond.

The key components of this Update, including unaudited results estimates for the 2008-09 financial year are:

Financial Performance

- Group sales – up more than 18% to over $160 million
- Underlying after-tax profit in excess of $8.5 million – a 28% increase
- Reported net profit after tax (NPAT) in range of $6.5 million to $7.4 million
- Further improvement in financial performance forecast for 2009-10 financial year
- $50 million essential operational investment already made under Way Forward Plan, now completed – earnings flowing from action taken
- In 2009-10, capex reduces by $12M and inventory levels have peaked – planned to flatten
- $27 million less cash demand from capex and inventory in 2009-10
- Debt refinancing completed – bank syndicate extends facilities to March 2012
- Previously rising debt has peaked – repayments from improved cash flows
- Hedge exposure significantly reduced
- Way Forward Plan results to generate improved returns for shareholders

Operational Performance

- Success with targeted investments across all parts of Penrice operations
- Osborne sodium bicarbonate plant expanded to 100,000 tonnes per annum capacity
- Soda ash plant upgrade – improved performance, expanded capacity to 285,000 tonnes per annum

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- Chemicals price increases achieved – delivering benefits, margins improved
- Angaston mine expansion generates increased revenue – secures key resource
- Safer Penrice workplace – substantial reduction in number of injuries
- Ongoing commitment to the environment – full compliance
- Greater community consultation to minimise environmental impact of Angaston mine

Higher revenue and underlying profit

The expected increase in group sales of the Penrice group to more than $160 million – up by over 18% – for the financial year just ended, is a pleasing result and reflects improved revenues from both of our flagship businesses, Chemicals and Quarry & Mineral. Sales revenue from our Osborne-based Chemicals business advanced due to a combination of the soda ash plant upgrade and the expanded sodium bicarbonate plant. The growth in our Angaston mine operations generated increased revenue while at the same time securing a key resource for Penrice and its future.

These positives are further reflected in the higher underlying profit after tax for the 2008-09 financial year which is up by at least 28% to more than $8.5 million. This growth in underlying profit has been achieved despite raw material cost increases, higher interest and depreciation costs and non-cash hedge losses. Further, we have achieved this result whilst incurring one-off costs associated with community consultation, debt refinance, environmental care and the expense of calling the upcoming General Meeting.

Unaudited Net Profit after Tax is forecast in the range of $6.5 million to $7.4 million, impacted by the $2 million hedge loss for the full year – down from $4.7 million hedge loss reported in first half.

The $50 million invested by Penrice on its key operations under the Way Forward Plan consisted of:

- $10 million upgrading the Osborne soda ash plant,
- $15 million expanding the sodium bicarbonate plant and
- $25 million in essential mine development costs at Angaston, converting to inventory.

Soda ash output has been lifted to 285,000 tonnes per annum (tpa) and in the past financial year generated a $2 million increase in earnings before interest, tax, depreciation and amortisation (EBITDA). Rising costs and some change in various supply markets continue to burden the soda ash business and further improvement in returns is needed to meet our minimum hurdle rates. Nevertheless, we expect to sell the entire annual production from the upgraded plant and to defend and extend Penrice's pre-eminent position in the Australian market.

New sales already from bicarb plant expansion

Funds outlaid on boosting the production capacity of the sodium bicarbonate plant to 100,000 tpa has enabled the Company to continue its expanding sales into fast-growing, premium export markets.

This expansion has also brought forward increased revenue of $13 million per annum and $4 million in additional EBITDA per annum in the 2010-11 full year – a year earlier than targeted.

We are pleased to advise that the recent successful commissioning of the $15 million sodium bicarbonate plant expansion – built on time and delivered on budget – has already enabled new sales to customers in China, Namibia, Jordan, Sweden, Lebanon and Saudi Arabia.

The other key component in the overhaul of Penrice's operations has been at the Angaston Quarry & Mineral business. We have successfully secured key raw material for our Chemicals business and developed new sales for overburden in civil and landfill markets. The net mine development costs of $25 million over the past two years at Angaston have been converted into a saleable overburden inventory. Recent sales contracts to sell this inventory have included the supply of pavement material for South Australia's $564 million Northern Expressway project – the State's largest road project in about 50 years. The Expressway contract sees Penrice achieving further diversification away from its traditional markets.

Outlook – Key drivers to a more positive future

There are several key drivers in a more positive outlook for Penrice and its shareholders for the new financial year.

Full year profit in 2009-10 is expected to exceed the result for the past year, debt facilities have been secured in principle with our banking syndicate (subject to standard bank requirements) and have been extended until March 2012, there is no further capital expenditure required under the Way Forward Plan and operating cash flow is expected to improve and to fund any of the Company's sustenance capital expenditure.

Capital expenditure has peaked and will be reduced to around $10 million this year (down by $12 million on last year), inventory build reduces to $3 million this year (down by $9 million on last year). Debt has peaked, with programmed debt repayments starting in mid 2010 financial year from improved cash flows.

You will also note a significant change for the better in our hedge position, including the $4.7 million hedge loss reported for the opening half of the 2008-09 financial year being substantially unwound to a $2 million loss at 2008-09 year end. The Company's existing hedge exposures will be fully unwound by August 2010. No further hedges have been implemented by Penrice since July 2008 and unrealised losses have been fully accounted for in the 2008-09 financial year.

The investment originally planned in the Way Forward Plan contemplated gearing with our Board's endorsed range of 50% to 60%. The reduced availability of equity capital in the current market environment led to increased debt funding and pushed gearing to the upper end of our target range.

The programmed debt repayments now forecast from better cash flows for 2010-11 will reduce gearing, as will any potential further equity raising. It is important that the Company has the flexibility for any necessary capital raising in the future. As well as being used to retire debt and reduce gearing, any future raising would be for funding working capital needs.

After maintaining a dividend policy of paying 60% of after-tax profit to shareholders in prior years, the 2008-09 interim dividend was suspended after a reported loss and due to the reluctance of the Board to increase gearing levels given the extreme uncertainty created by the global financial crisis.

The Board will make a decision on the 2008-09 final dividend when the completed accounts are finalised. Directors intend to resume dividend payments in line with improved future results and we are confident the success of the Way Forward Plan will generate improved returns for shareholders over the medium term.

The challenge continues at Penrice to deliver and to build an even better company. We recognise scope for further improvement and we will continue to identify any action required to generate better performances – while at the same time adhering to our commitment to reduce capital expenditure, cut our debt levels, improve gearing, and restore shareholder returns to more appropriate levels.

Yours sincerely

JOHN HEARD
Chairman

GUY ROBERTS
Managing Director and Chief Executive Officer