

PENRICE SODA HOLDINGS LIMITED

Managing Director & CEO's Address and Annual General Meeting

Good morning Ladies and Gentlemen.

It is a pleasure to be with you this morning to present my report to you in my first year as Managing Director & CEO of Penrice Soda Holdings Limited.

Overall Result

This year has seen a disappointing profit result with lower earnings and reduced shareholder returns. My immediate task upon starting has been to implement plans to restore your Company's profit and shareholder returns to more acceptable levels.

Osborne Soda Ash Plant

As John mentioned, the main culprit for our poor performance has been the soda ash plant at our Osborne chemical operations and urgent action has been taken to arrest these problems. This includes our 'Way Forward' plan which we have developed and installed at Osborne to substantially reinvest in the soda ash plant, which will also have the important benefits of improved cost productivity and output.

I am pleased to report an immediate improvement in plant performance but it will take another 2 – 3 years to fully and consistently deliver the ultimate results I require from this initiative.

Highlights

While the past year's profit result was disappointing, there were a number of highlights throughout the year.

In our Chemicals Group, we have two businesses which enjoy market leading positions. In soda ash, we are the major Australian supplier and in sodium bicarbonate we are a leading supplier in the Asia Pacific region.

Soda Ash Business Highlights

In the soda ash business, revenues were maintained despite the unfavourable exchange rate movements, which made imports more attractive and thereby imposed pressures on our market share. The fact we were able to essentially maintain our market share is a reflection of our excellent service record and strong customer loyalty. Profitability of this business was unfortunately adversely impacted by plant failures as noted earlier.

Bicarb Business Highlights

Our sodium bicarbonate business enjoyed record sales and margins from increased plant output during 2006-07. Most of this growth is in exports of our premium range of products, which continue to grow. Penrice now exports to over 15 countries, mainly in Asia Pacific.

Business Strategy

Your company is targeting attractive returns to shareholders by simultaneously generating continuous growth and productivity improvements. These two strategies of productivity and growth are essential to our future prosperity. They will also be built on a strong performance culture guiding our day to day decision making.

Growth

I am challenging all of our business units to grow faster than the markets within which they compete.

The market outlook for our two main chemicals - namely soda ash and sodium bicarbonate - is very favourable.

Soda Ash Growth

The global and regional outlook for soda ash is characterised by strong demand at greater than global GDP growth rates, driven by the strong demand for flat glass and container glass in developing countries such as China, India, Eastern Europe, the Middle East and South America.

This is coupled with historically high levels of soda ash plant utilisation throughout all producing regions, and the result is limited availability of soda ash and strong price rises globally and in our region.

Mining Segment

In our local market we anticipate strong demand for soda ash as a number of significant new mining operations commence; many of these require soda ash as a process chemical and we are well placed to supply them. Our expectation is that the mining sector will become our second largest market segment, after glass, over the medium term. For example, in the past year, we were successful in winning a tender to supply soda ash to Compass Resources in the NT, for their nickel and cobalt operations.

As John mentioned, we have agreed terms and conditions subject to a formal contract to supply soda ash to Precious Metals Australia for its Windimurra Vanadium project in Western Australia in a 10 year deal potentially worth in excess of \$100 million in revenue to Penrice. This is our largest supply contract won in the Australian resources sector and an exciting major development for Penrice. It certainly illustrates our continuing and growing involvement in the mining boom and we expect further announcements in the coming year as we secure new business in the mining sector.

Glass Segment

We are also anticipating further growth in the glass industry in Australia, both extra container glass capacity, reflecting Australia's continuing success in bottled wine exports, and flat glass expansion already announced by our customer CSR Pilkington Australasia.

Highlighting the positive market environment Penrice faces for its soda ash business, we anticipate that soda ash market growth will be at double digit rates over the next 5 years. Our capacity to meet this demand will depend on the increased output expected from our reinvestment in the Osborne plant and an expected boost to soda ash capacity.

Sodium Bicarbonate Growth

Our other main chemical - sodium bicarbonate - has achieved strong sales growth over the past 8 years. Your Board has recently sanctioned a further expansion of our sodium bicarbonate plant by some 33% or 25,000tpa. Construction of the \$12 million expansion has commenced and will be completed late in 2008. The additional sales from the expanded plant will commence immediately, dedicated to our premium export markets in Asia.

Our exports to over 15 countries demonstrate that our premium export range is increasingly preferred in high end applications such as food, pharmaceutical, medical and industrial applications. Our newest sodium bicarbonate expansion project is targeted to deliver significant earnings per share growth by 2010.

Foreign Exchange

At this point it is worthwhile reviewing our exposure to the currency movement between the Australian dollar and the US dollar.

Forex – Soda Ash

Our soda ash business is essentially a domestic business with only 4% of our volume sold overseas. The direct impact of the currency movement is therefore minimal.

Our competition in soda ash in Australia is mainly from imports from the United States. With the strengthening Australian dollar it potentially makes the imported price more competitive. More than offsetting this though is the current increase in soda ash prices globally.

With strong demand growth from China, India and Eastern Europe in particular, and negligible supply spare capacity, global soda ash prices have increased in the vicinity of 25% in the last few months, which increases will flow into the market next year.

Forex – Sodium Bicarbonate

With sodium bicarbonate, approximately 50% of our product is sold in the export market in US dollars. This equates to 10% of the total company revenue. It is on these sales that we have taken the foreign currency hedge cover that John previously referred to.

The higher Australian dollar does have an impact on the profitability of our sodium bicarbonate sales with each \$0.01 movement impacting our after tax profit by \$140k.

To offset this negative impact the company will look to increase selling prices. Our main competition in sodium bicarbonate in Australia is from China and the Chinese government has withdrawn its export subsidy in sodium bicarbonate, effectively increasing their export price by 13%.

Quarry Business

Penrice's quarry business also enjoyed record sales and profits in the past financial year, reflecting increasing amounts of infrastructure development in the Port Adelaide and northern Adelaide regions and in road building. As we expand the mine to supply our chemical operations, we need to remove and dispose of more overburden material. Happily this results in large quantities of high quality aggregates being available for sale. We are targeting large road building projects such as the Northern Expressway project and Sturt Highway. Our focus is also on supplying the necessary large scale land development in and around the Port Adelaide and Gillman regions.

Safety

Nothing is more important to me than our safety performance. I am pleased to report that over the past year our injury rate has reduced significantly, by 30%. A number of initiatives have been introduced which will further lower the injury rate.

Environment

In the year just ended we also made improvements in our environmental performance, significantly reducing our impact on the environment in which we operate.

Water

For instance, you may have read in recently about the dramatic reduction in our reliance on the State's precious water supply. In fact we have slashed Penrice's dependency on Adelaide's mains water by more

than 65 per cent over the past 12 months – that’s about the equivalent of 450 Olympic size swimming pools, or enough water to supply around 10,000 Adelaide households for a year.

This water saving has been due largely to another Penrice initiative – the opening of the Company’s \$500,000 desalination plant, which draws salty bore water from an aquifer 200 metres below ground.

The Future

As we look forward to the next 5 years, which will mark almost our first decade as an independent company, we see Penrice taking advantage of a favourable market outlook with a number of growth opportunities for our chemical business and our quarry products. We will also benefit strongly through productivity gains captured following substantial reinvestment in our Osborne operations.

Needless to say, your Board and executive team are dissatisfied with last year’s earnings slide, and the resulting stagnant share price. We are committed as a group to lifting earnings and dividends and delivering attractive shareholder returns.

We have a sound strategy to enhance our chemical and quarry businesses. Having the right strategy is important but having the right people is essential. We have great people at Penrice and because of them I have confidence in the future prosperity of your company.

Guy Roberts
Managing Director & CEO