

PENRICE SODA HOLDINGS LIMITED

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FUTURE EARNINGS BENEFITS TO FLOW FROM NEW PENRICE PLANT STRATEGY – CHAIRMAN

Penrice Soda Holdings Limited is already seeing positive results from an aggressive new strategy to correct operational setbacks at its main soda ash plant in South Australia.

The Company's Chairman, Mr John Heard, told shareholders at today annual general meeting in Adelaide that the problems at the main soda ash plant in the past financial year had unfortunately negated gains made by Penrice's expanded sodium bicarbonate and Angaston mine operations.

"This in turn led to a disappointing result for the 2006-07 financial year, with the reduction in net operating profit after tax from \$9.1 million to \$6.7 million," Mr Heard said.

"The soda ash problems resulted from major unpredicted equipment failures and - as you would expect - they have since been thoroughly addressed by management and the Board and a remediation plan has been implemented.

"With a combination of increased capital expenditure, to replace some aged plant, and improved maintenance practices and procedures, your Board is confident that the soda ash plant will be more reliable at higher levels of production.

"This programme has already commenced and will benefit the Company progressively over the 2 – 3 year period in which it will be fully completed."

Action to enhance future years' profits

Mr Heard said the strategy of new plant investment, improved efficiencies, increased output and another expansion of the sodium bicarbonate plant would enhance Penrice's future years' profits.

"In addition to the organic growth, the company will target bolt on synergistic acquisitions in both the chemicals and mining sector," he said

"Benefits in the current financial year are unfortunately forecast to be offset by the reduced earnings on sodium bicarbonate exports due to the strong Australian dollar.

"In 2006/07 we hedged the expected exports at an exchange rate of \$0.7375, a rate considerably below the prevailing market rate for most of the year.

“For the 2007/08 year, and for a portion of the expected sales for the 2 years beyond that, Penrice has taken foreign currency protection with a known worse case rate of \$0.89, protecting sales from higher rates, whilst enabling the company to participate in any benefit below that rate.”

Strong October production

Mr Heard said Penrice’s earnings for the first four months of 2007/08 to the end of October were in line with the Board’s expectations.

“We have recently completed the annual maintenance shutdown of the soda ash plant. Consistent with our intention of improving the reliability of the plant the shutdown this year was longer than in previous years and involving more capital and maintenance work,” he said.

“It is encouraging that the benefits of this are already being realised with October’s production being particularly strong.

“Whilst we expect a satisfactory performance in the first half, the bulk of the improvements will be realised in the second half with higher soda ash pricing and better plant reliability.

“All of these factors lead the Board to provide the guidance with regard to the full year forecast that principally due to the strong Australian dollar restraining this year’s profit, that profit will be at least the same as this year in the absence of any unforeseen economic circumstances.”

Both Mr Heard and Penrice’s Managing Director and CEO, Mr Guy Roberts, painted a positive outlook for the Company’s sodium bicarbonate business and the Angaston mine operations and for the increased use of soda ash in the glass and mining industries.

Mr Heard said the success of the sodium bicarbonate plant expansion completed at Osborne in June 2006 resulted in sodium bicarbonate revenue increasing by 15% in the past financial year, with a further 5% increase expected this year to take the plant to maximum capacity.

“The Board has recently sanctioned another major expansion of the sodium bicarbonate plant, to lift its capacity by one third from 75,000 tonnes to 100,000 tonnes,” he said.

“This expansion will take approximately one year to complete and it is expected that the plant output will be fully sold within 2 years. Continued expansion opportunities beyond this are being examined.

“At our Angaston mine, sales have more than doubled over the past 6 years. Fortunately the extra material that is required to be removed from the mine to expose the limestone needed for the soda ash plant is able to be sold at satisfactory net prices, boosting the overall profit from the mining business.

“The focus in 2007/08 at the Angaston mine will be to grow sales of aggregates into major projects.”

Mr Roberts told the meeting that the market outlook for Penrice’s two main chemicals - namely soda ash and sodium bicarbonate – was very favourable.

“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,” he said.

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

Growth in glass and mining industries

Mr Roberts said Penrice anticipated continuing strong local demand for soda ash in the booming Australian resources sector.

“As a number of significant new mining projects commence operations – many of them requiring soda ash as a process chemical and we are well placed to supply them,” he said.

“Our expectation is that the mining sector will become our second largest market segment, after glass, over the medium term.

“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 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.”

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