



Penrice Soda Holdings Limited
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ONE-OFF COSTS AND PLANT INTERRUPTIONS

IMPACT ON PENRICE FIRST HALF RESULTS

One-off costs and several recent unexpected plant interruptions were responsible for reduced first half earnings reported today by Penrice Soda Holdings Limited.

Penrice Directors said today that several unexpected plant interruptions at the Osborne plant in South Australia commencing in November had continued through into February when the plant had operated at reduced rates.

While each interruption on its own is not considered to be material, the cumulative impact of them is. The Osborne plant is now operating again at full rates.

"The impact of some one off costs and the plant interruptions is that the full year NPBT is likely to be between 6-12% below the previous year. With the one-off tax benefit relating to prospectus costs in the previous year not available this year, the impact is likely to be a 20-25% reduction in the NPAT on the previous year," Directors said.

In the past half-year ended 31 December 2006, despite an 8% increase in revenue from \$65.6 million to \$70.6 million, Penrice's net operating profit after tax declined to \$2.3 million from \$4.4 million in the previous corresponding period.

Without the one-off costs incurred during the period, the Company's underlying net profit before tax was \$4.56 million compared with \$4.47 million in the first half of 2005-06.

One-Off Costs

The one-off costs impacting on results in the first half year were associated with:-

- The resignation of the previous CEO and the appointment of former Orica senior executive, Mr Guy Roberts, as Managing Director and CEO of Penrice,
- Extended maintenance at the Osborne plant during annual shutdown in August,
- Warehouse exit and inventory disposal costs following a recent review to rationalise external distribution centres, and
- Additional, less profitable soda ash imports needed to supplement interrupted local Osborne production for an unprofitable contract recently terminated.

Plant Interruptions

The plant interruptions were individually minor and related to various electrical and mechanical failures, commencing with a severe electrical storm in November, which damaged plant. The most recent failure was mechanical and has been quickly repaired.

Penrice Chairman, Mr John Heard, said the plant interruptions were not acceptable and the Board was resolved to prevent them.

Managing Director and CEO, Mr. Guy Roberts said: he had in recent weeks conducted a thorough review of Osborne operations.

"The Penrice Board has approved a plan to substantially improve the reliability and overall performance of the plant. This plan is aimed at improving reliability in the short term and, following renewed investment in the Osborne plant, productivity gains should be delivered in the longer term."

Operations

Mr. Heard said that it was pleasing to note the increase in revenues of 8%, largely reflecting increased sodium bicarbonate sales, following last year's expansion of the sodium bicarbonate plant.

Mr. Heard also noted that the outlook for soda ash globally and regionally was for continued strong demand, with some constraints on supply, leading to continued firm pricing.

As advised in the Chairman's address at last year's AGM, Mr. Heard said that with the timing of contract renewals or price reviews for soda ash planned for the second half, Penrice has not seen an increase in soda ash prices in the first half.

"Soda ash prices will, however, rise in the second half in line with customer contracts," he said.

"However, with the strong Australian dollar, Penrice is experiencing strong competition from importers of soda ash, predominantly from the United States, as the strengthening Australian dollar has the impact of reducing the price of competitive imported product.

"As a result of the competition from imports, the Company has lost some smaller customers in the detergents and chemicals industry. The total of these contracts is small at about 3% of the domestic soda ash sales volume."

Mr Heard said sodium bicarbonate sales had increased in line with the plant expansion completed in June 2006 at the Osborne plant, with revenue from sodium bicarbonate up 21% on the corresponding period.

"The margin on these extra sales has been as expected and consistent with existing sales," he said.

"Sales of products from our Angaston limestone mine in SA have improved by 11% on the previous year with increasing sales into the cement and civil construction projects.

The growth of both the sodium bicarbonate and mine sectors of the business highlights the planned diversification from the commodity product of soda ash. This will continue in future years."

Outlook

"With the events of this disappointing first half now behind us, the Company expects earnings improvement in the current half and remains confident of its future outlook," Mr Heard said today.

"In particular, Penrice stands to benefit in the current half from maintaining its strong market positions, improved pricing, no further one-off restructuring costs and no planned major plant maintenance," Mr Heard said.

"Key sales trends expected in the January to June 2007 period include price increases to soda ash and sodium bicarbonate customers effective 1 January 2007 and our withdrawal from an unprofitable soda ash contract," he said.

Mr Roberts, who took up the Penrice CEO position in December, said he was excited by the future at Penrice.

"Penrice is an excellent company, with dedicated staff, with an enviable market position and reputation for quality products and customer service," he said.

"It is well placed to take advantage of the many opportunities in front of it. In order to improve performance further and to grow, I am conducting a full operational review focused on three themes - culture, efficiency and strategy," he said.

"Delivery in these critical areas will underpin Penrice's future performance and long term value creation.

"In the area of culture, the plan is to engage the entire Penrice workforce in developing operating principles to sustain a high performance standard.

"In the area of efficiency, capital and cost productivity at our Osborne operations and the Angaston Mine are essential enablers of Penrice's competitiveness in its core product markets. This is important in light of current market conditions in soda ash in Australia, where import competition is exerting downward pricing pressure.

"For strategy, the focus will be on organic growth in those products where strong market leadership is maintained, namely soda ash and sodium bicarbonate, especially the latter where good opportunities exist to expand further into higher value export markets in Asia and Europe.

"Acquisitions will be considered to supplement organic growth where they are low cost, synergistic and in related markets in order to enhance Penrice's overall market position."

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