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**NEWS RELEASE**

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## **HALF YEAR RESULTS PLACE PACIFICA ON TRACK TO ACHIEVE FULL YEAR EARNINGS GUIDANCE**

Pacifica Group Limited today announced a net profit after tax, before exceptional items, of \$11.4 million for the six months to 30 June 2005, compared to \$22.7 million in the first half of 2004.

Whilst representing a significant decline over the corresponding half, this result is in line with expectations. It leaves Pacifica on track to achieve a full year net profit after tax, and before exceptional items, within the \$20-\$25 million full year guidance range provided on 21 April 2005. Pacifica expects exceptional items after tax to be approximately \$7 million for the full year.

In summary, the half year to 30 June 2005 included:

- Healthy EBITDA margin of 13.4%, despite impact of reduced GM volumes and steel surcharge
- Sound operating cash flow of \$41.4 million
- Good progress in establishing an expanded manufacturing footprint in Asia
- First contract to supply original equipment market in China, commencing 2006
- Sound financial position – interest cover 8 times, gearing 66%
- Dividend of 4 cents, franked to 55%.

### **Commentary**

Pacifica's Managing Director, Mr John MacKenzie, said that the result reflected previously flagged adverse influences, including raw material cost increases and reduced demand from General Motors in the North American market. "Despite these pressures, Pacifica has operated at a healthy EBITDA operating margin of 13.4% in a period which is expected to represent a trough in the Company's reported earnings," said Mr MacKenzie.

"During the half, PBR successfully managed the challenge of significantly reduced volumes in North America, achieved satisfactory results in Australia and was on target and on budget with its start up in China and its expansion in Thailand. AP Italia was again a strong performer, with substantial increases in both sales and earnings," said Mr MacKenzie.

“2005 is a year of major transformation for the Company, as we underwrite our long-term competitiveness through the expansion of our Asian manufacturing footprint and the realignment of our Australian operations,” said Mr MacKenzie.

## **North America**

The Knoxville plant suffered a drop in sales of over 30% against the comparable half. This predominantly reflects reduced sales to General Motors, especially the GMT800 Sports Utility Vehicle (SUV) platform. The Columbia plant recorded higher sales but lower margins as corner assembly work ramped up. The currency movement had the effect of reducing North American sales by \$11 million on translation. The combined North American operation incurred a steel surcharge of nearly \$5 million at the EBITDA level, and operating margins were further depressed by the need to maintain a minimum level of infrastructure ahead of the GMT900 contract commencing towards the end of the year.

“In countering the local industry challenges, we are continuing to improve productivity at both the Knoxville and Columbia plants as we prepare them for supply of new platforms. In particular, caliper production for the GMT900 platform, which will succeed the very successful GMT800, is scheduled to commence in November this year,” said Mr MacKenzie. “We are encouraged by the significant reduction in customer inventories that has occurred in recent months and, based on current industry forecasts, see no cause to further revise our future production schedules. In addition, the recent reduction in steel prices promises to result in a lower steel surcharge than that originally envisaged at the time of our April 2005 trading update statement.”

## **Australia**

The Australian business performed in line with expectations despite the significant changes occurring within the operations and a 26% drop in volumes, which included the early cessation of the General Motors P90 platform, as indicated by the Company in April. Manufacture of the Banksia park brake for export markets was relocated to Thailand towards the end of the half. The East Bentleigh site is being prepared for previously announced new business, being the supply of rotors, knuckles and calipers for Toyota’s export Camry from the end of 2005 and rotors for Holden’s VE Commodore from mid 2006.

“This has been a challenging six months for PBR Australia, with considerable effort being applied to restructuring manufacturing facilities at East Bentleigh and the relocation of business and equipment to Asia, as well as the gearing up for new business in Australia,” said Mr MacKenzie. “The key phases of the restructuring program will reach completion over the coming months to coincide with the ramping up of production on new vehicle platforms for Australian and North American customers.”

## Europe

AP Italia increased sales by 24% during the first half of 2005 as a result of new contracts, and earnings by a greater rate as efficiencies flowing from its recently expanded manufacturing facility were reflected in higher margins. Production is scheduled to commence on a number of further contracts from late 2005 onwards, and these are expected to maintain AP Italia's earnings growth momentum beyond 2006.

“AP Italia continues to perform well and has made another healthy contribution to Pacifica's overall earnings,” said Mr MacKenzie. “The merits of this acquisition are also beginning to be reflected in potential new business in Asia, based around AP Italia's drum brake expertise.”

## Asia

The first of the two new operations in China, a machining, plating and sub-assembly facility, was completed and commissioned during the half and production commenced in July. Initial production runs are destined for the export market with final brake assembly being carried out by PBR Thailand and PBR Columbia. Construction of an adjoining iron foundry has now commenced and is on target for completion in mid 2006. The Company has moved to an effective 100% ownership of the two Chinese facilities, compared to an originally intended 60%.

“Progress in China has been very pleasing and is integral to our strategy of creating a world-competitive manufacturing footprint in the Asian region. This strategy is already showing positive early signs, with the Company successfully quoting Shanghai GM for the supply of calipers, rotors and park brakes commencing in the second half of 2006. The term of this new business is five years, with an annual sales base of approximately \$20 million. These new contracts demonstrate our ability to participate in the growth of the local car market,” said Mr MacKenzie.

Sales and earnings from the PBR operations in Malaysia and Thailand were in line with the corresponding period in 2004.

## Friction Materials

FMP Australia has recently secured a new original equipment contract as a result of having developed a new friction material formulation. While these new sales will aid earnings from late 2006, a step-up in sales from the higher margin aftermarket is not likely until 2007. The loss of market share in recent years has resulted in poor financial performance and the business continues to suffer from import competition and a softer aftermarket. The product offering is presently being repositioned and future earnings recovery will depend substantially on the success of this strategy.

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## Melwire

Melwire, the Company's remaining construction products business, performed satisfactorily largely as a result of the buoyant Australian resources sector. It continues to make a solid contribution to earnings.

## Exceptional Items

Exceptional post-tax restructuring costs of \$4.1 million have been incurred in the first half of 2005. Most of the exceptional restructuring costs are associated with the relocation of manufacturing activities.

## Cash Flow

Operating cash flow of \$41.4 million was sound during the half. Net debt increased by only \$5.6 million over the six months, notwithstanding the funding requirements of the Company's expansion in China and Thailand. Tight management of working capital levels, to reflect the lower level of activity, limited the increase in gearing to 65.8% by period end. It remains the Company's expectation that capital expenditure for the full year will approximate \$90 million, compared to \$31 million in the opening half, pushing gearing towards the 75% mark by year end. This will decline in 2006, on the back of more modest levels of planned capital expenditure and improved profitability. Interest cover at the EBITDA level remains strong, at 8 times in the six months to 30 June.

## Dividend

The Directors have declared an interim dividend of 4 cents per share franked to 55%. This is equivalent to a pay-out ratio of 74% of earnings after exceptional items. The dividend will be paid on 16 September 2005 to shareholders registered as at 2 September 2005.

## Outlook

"For the full year, we expect profit before exceptional items to be within our earlier profit guidance of \$20-\$25 million. Management focus for the remainder of the year will be on the ramping up of our expanded Asian presence, preparing for new contracts to come on line from the end of 2005, improving efficiencies across our businesses and aggressively seeking new growth opportunities," said Mr MacKenzie.

"In 2006, automotive manufacturers will be introducing new model ranges in most of our major markets, including North America and Australia, and for which the Company has secured previously announced supply contracts. Significantly, we expect the Company's margins will benefit from the improved cost base resulting from our expanded Asian manufacturing footprint and from contracted increased sales volumes. Subject to the GMT900 platform launch occurring to plan, we now

expect net profit before exceptional items in 2006 to be in the range of \$35-\$40 million, compared to the previous guidance of \$30-\$40 million. This improvement is based on the industry expectation that steel pricing will stabilise at around current levels and on the pleasing progress with our Asian manufacturing initiatives,” said Mr MacKenzie.

“In the meantime, our investment in research and development work continues and we are responding to a number of requests for quotations to develop electric park brakes, with advanced testing currently in progress,” he said.

“In conclusion, we believe that the major changes being made to the business in 2005 are a critical investment in Pacifica’s medium and long-term future as a global supplier of leading edge automotive components and systems,” said Mr MacKenzie. “We are confident that these changes, together with supply of secured new contracts, will restore Pacifica’s profitability to a more acceptable level in the medium term.”

**For further information:**

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**FINANCIAL SUMMARY<sup>1</sup>**

<b>FINANCIAL SUMMARY Half Year ended 30 June 2005</b>	<b>1<sup>st</sup> Half 2005 \$000</b>	<b>1<sup>st</sup> Half 2004 \$000</b>	<b>% change</b>
<b>Sales revenue</b>	<b>398,061</b>	<b>464,720</b>	-14%
<b>EBITDA</b>	<b>53,258</b>	<b>72,986</b>	-27%
Depreciation and amortisation	(27,651)	(25,200)	
<b>EBIT</b>	<b>25,607</b>	<b>47,786</b>	-46%
<b>Net profit before exceptional items</b>	<b>11,374</b>	<b>22,738</b>	-50%
<b>Earnings per share (cents)</b>	<b>8.4</b>	<b>16.7</b>	
Exceptional items after tax	(4,110)	(1,962)	
<b>Net profit after exceptional items</b>	<b>7,264</b>	<b>20,776</b>	
<b>Operating cash flow</b>	<b>41,420</b>	<b>63,413</b>	-35%
Return on equity (%)	9.1	18.0	

<b>Dividends</b>	<b>cents per share</b>	<b>Franking</b>
<b>Interim dividend payable 16 September 2005</b>	<b>4</b>	<b>55%</b>
<b>Interim dividend paid 17 September 2004</b>	<b>10.5</b>	<b>100%</b>

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<sup>1</sup> NOTE: For reporting periods on or after 1 January 2005, Pacifica Group Limited must comply with International Financial Reporting Standards ("IFRS") as issued by the Australian Accounting Standards Board. Comparative information for the first half of the 2004 financial year in Pacifica's accounts and in this release has been re-stated as though completed using the new IFRS standards, with the majority of adjustments being made, retrospectively, against retained earnings.