

**23 February 2006  
NEWS RELEASE**

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## **PACIFICA REPORTS 2005 FULL YEAR RESULT**

Pacifica Group Limited today announced a net profit after tax, before individually significant items, of \$24.2 million for the year ended 31 December 2005. This outcome is towards the upper end of the company's previously advised guidance of \$20-25 million before significant items, and incorporates a modest second half improvement over the opening six months of the year.

Net profit after significant items was \$11.7 million, and is after \$12.5 million of significant post-tax costs. These comprise \$7.2 million of previously announced restructuring costs, a \$2.5 million impairment in relation to the receivables exposure to Delphi Corporation following its entering Chapter 11 protection in the US, and a \$2.8 million impairment recognised in respect of the 49% investment in the poorly performing FMP Australia.

In summary, the year to 31 December 2005 included:

- Sales of \$803.8 million, compared to \$872.1 million in 2004
- Net profit before significant items of \$24.2 million, down 45% from \$44.3 million, reflecting:
  - Negative impact on profitability of reduced North American volumes and increased raw material costs
  - Strong performance by AP Italia as new contracts commenced
  - A solid EBITDA margin of 13.6%, including a second half performance of 13.9%
- Significant post-tax costs of \$12.5 million
- Net profit after significant items of \$11.7 million, compared to \$33.0 million in 2004
- Tight working capital control contributing to sound operating cash flow of \$76.6 million, after significant item cash outgoings of \$6.4 million
- Final dividend of 3 cents, franked to 34%, which brings the full year dividend to 7 cents
- Manufacturing footprint in Asia successfully established
- Supply to GMT900 light truck platform commenced on plan
- First contracts won for supply into local Chinese OE market

## Commentary

“In a very difficult automotive industry environment we have been able to achieve a pre-significant items result at the higher end of the earnings guidance first provided in April 2005,” said Pacifica’s Managing Director, Mr John MacKenzie. “Whilst the net profit outcome before significant items represents a substantial decline over the preceding year, Pacifica has achieved a respectable EBITDA operating margin approaching 14%, after absorbing the pressures associated with considerable raw material cost increases and reduced demand from our major customers in the North American market.”

“The benefits of Pacifica’s strategy of broadening its geographical presence and customer base in identified core automotive technologies, are again apparent in the strong performance from AP Italia. We are confident that our initiatives in the Asian region, in building a substantial cost-competitive manufacturing footprint and in tapping into the growth potential of the local automotive market, will complement this process over the longer term.”

“2005 was a highly challenging year for Pacifica, both from an operational performance perspective and from that of implementing a significant transformation of the Company’s manufacturing base. Notwithstanding an expected continuation of difficult industry conditions, we remain confident that 2005 will represent the trough in Pacifica’s earnings, owing to the well-advanced Asian manufacturing initiatives and the commencement in 2006 of previously announced new contracts,” said Mr MacKenzie.

## North America

Pacifica’s North American operations reported a significant drop in profitability in 2005, but one which was in line with expectations. The majority of the decline stemmed from reduced sales volumes to General Motors from the Knoxville plant, reflecting the planned run-out of GM’s existing GMT800 light truck platform. Operating margins were also impacted by the effect of the steel surcharge imposed by raw material suppliers, particularly in the first half, and by the need to maintain minimum employee levels ahead of the supply of calipers to the new GMT900 platform which commenced in December. PBR Columbia recorded a 30% increase in sales revenue but reduced earnings, reflecting the further ramping up of lower margin corner assembly volumes.

“2005 was always going to be a difficult year for PBR’s North American operations, owing to the major platform changeover which GM had planned,” said Mr MacKenzie. “Our plants did, however, remain profitable throughout the year reflecting our constant focus on productivity improvements. The emphasis is now on supplying the new GMT900 platform. While the early signs are encouraging, much will depend on the consumer’s uptake of this new light truck offering from GM.”

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## **Australia**

The Australian business performed broadly in line with expectations, with a 25% drop in automotive revenue reflecting both lower contracted volume and the significant changes to the local operation implemented during the year. As previously reported, volumes were impacted by the early cessation of the GM P90 platform, whereas sales to the local original equipment manufacturers (OEMs) were similar to the prior year.

In the middle of the year the Company successfully relocated the manufacture of export Banksia park brake volumes to a new facility in Thailand. Following this, the East Bentleigh plant has been reconfigured to cater for previously announced new business, including the supply of rotors, knuckles and calipers for Toyota's export Camry, which commences in mid-2006. In addition, a small corner module assembly operation has been established in Adelaide to supply both Holden and Mitsubishi with disc brakes.

"PBR Australia has produced a satisfactory result in an environment of considerable change," said Mr MacKenzie. "As part of our commitment to maintaining a cost competitive manufacturing base, East Bentleigh is concentrating on producing components for the local automotive industry, alongside its research and development activities. Importantly, Pacifica retains a diversified exposure across the four OEMs based in Australia."

## **Europe**

AP Italia built on the strong results recorded in the first half to post a full year sales increase of 25% and earnings growth of 70%. This performance reflects new contracts which came on stream over the course of the year and which will provide ongoing momentum into 2006 and beyond. AP Italia's full year EBIT margin strengthened, as increased throughput in the recently expanded manufacturing facility served to realise further operational efficiencies.

"AP Italia is now an important contributor to Pacifica's overall earnings, and its differing product and customer mix are creating valuable opportunities to extend and deepen the Company's overall business spread in our core automotive technologies," said Mr MacKenzie. "In particular, we are continuing to explore the potential new business opportunities associated with AP Italia's drum brake expertise, notably in the Asian region."

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## Asia

Results from the Asian operations in 2005 were slightly lower owing to start-up costs associated with new projects. During the year Pacifica expanded its manufacturing presence in the Asian region, with the commissioning of a machining, plating and sub-assembly facility in Dalian, China and the relocation from Australia of export Banksia park brake volumes to an expanded PBR Thailand operation. In addition, the construction of an iron foundry alongside the Dalian plant is well underway and remains on target for completion in mid-2006.

“We are pleased with our progress in Asia,” said Mr MacKenzie, “as we pursue a two-pronged strategy of creating a world-competitive manufacturing footprint in the region and then directly participating in the growth opportunities presented by the local market, notably in China. From 2006, our results will begin to reflect the benefits of the lower cost base that has been established as well as the first input from locally-sourced contracts. As previously announced, the Company has won a number of contracts with Shanghai GM for the supply of calipers, rotors and park brakes commencing in the second half of 2006. In addition, we have recently secured orders to supply DaimlerChrysler with disc brakes in China.”

## Friction Materials

FMP Australia has performed poorly, dipping into loss in the second half and for the full year owing to a continuation of softer aftermarket conditions and heightened import competition. Some encouragement is taken from the previously announced original equipment contract that was secured as a result of FMP’s development of a new friction material formulation. This is expected to assist FMP’s earnings from mid-2006. Given FMP’s poor recent performance and the uncertainty attached to the degree of earnings recovery associated with the repositioning of its product offering, Pacifica has recognised an impairment to the carrying value of its investment in FMP of \$2.8 million. This charge has been treated as a significant item in the 2005 accounts.

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## **Delphi Receivables Impairment**

On 10 October 2005 the Company issued an ASX announcement following Delphi's application for re-organisation of its US operations under Chapter 11 of the US Bankruptcy Code. At that time, Pacifica indicated that its total exposure to Delphi was approximately US\$11 million, of which over half related to product supplied by the joint venture operation in Knoxville in which Delphi has a 49% interest. The exact amount recoverable is unlikely to be known until Delphi emerges from Chapter 11, an event which is not expected to occur until at least 2007.

Whilst there remains the prospect of Pacifica ultimately recovering a substantial portion of the amount owing by Delphi, the Pacifica Board considers it prudent to recognise an impairment equivalent to approximately 50% of the sum outstanding on the date Delphi entered Chapter 11. This decision recognises the uncertainty of the outcome of the current negotiations between Delphi, GM and the UAW (United Auto Workers). It also follows the recent reporting by Delphi of the net asset position of its subsidiaries. The resulting \$2.5 million charge, after allowing for tax and minority interests, has been treated as a significant item in the 2005 accounts.

## **Cash Flow**

Operating cash flow has been sound throughout the year, declining 22% to \$76.6 million. This reflects the reduced profitability in the period but also tight control of working capital levels, and is after \$6.4 million of cash outgoings related to significant items. Net debt has increased by approximately \$23 million, leaving year-end gearing (net debt to equity) of nearly 71% compared to an original expectation of 75%. Capital expenditure of \$77 million was incurred during the year, in large part reflecting the funding requirements of the Company's expansion in China and the installation of equipment in Australia to accommodate new business volumes. This is lower than the original expectation of around \$90 million owing primarily to timing changes associated with certain expenditures. It remains the Company's expectation that gearing will fall in 2006, on the back of similar capital expenditure to 2005 and improved profitability. Interest cover at the EBITDA level remains strong, at over 8 times in the year to 31 December.

## **Dividend**

The Board has declared a final dividend of 3 cents per share franked to 34%. The dividend will be paid on 7 April 2006 to shareholders registered as at 24 March 2006.

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## Outlook

“We continue to expect that the Company will deliver significantly improved earnings in 2006, reflecting supply to a number of new vehicle platforms across our geographical locations, as well as the extraction of benefits from the improved cost base that our expanded Asian manufacturing footprint delivers. We do, however, also recognise the market-related uncertainties that could influence the eventual outcome,” said Mr MacKenzie. “We are encountering softness in volumes at the large passenger car end of the Australian market, and some uncertainty attaches to the eventual success of General Motors’ recently launched GMT900 platform in the sports utility vehicle (SUV) segment of the North American market, although the early signs are encouraging.”

“With these factors in mind, we are now targeting a full year net profit after significant items for 2006 at the low end of the \$35-40 million guidance range previously provided, primarily because of a lowering of expectations in respect of Australian volumes,” said Mr MacKenzie.

“We also remain committed to our investment in research and development and, whilst long lead times are involved, we continue to respond to a number of requests for quotations to supply product associated with our e-brake technology,” he said.

“In conclusion, we believe that the manufacturing initiatives taken, the stronger contracted sales position and the possession of leading edge next generation technology place Pacifica in a sound position to withstand the prevailing industry pressures and to significantly improve upon the result registered in 2005,” said Mr MacKenzie.

**For further information:**

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**FINANCIAL SUMMARY**

<b>FINANCIAL SUMMARY</b>	<b>2005</b>	<b>2004</b>	<b>%</b>
<b>Year ended 31 December</b>	<b>\$000</b>	<b>\$000</b>	<b>change</b>
<b>Sales revenue</b>	<b>803,769</b>	<b>872,087</b>	-8%
<b>EBITDA</b>	<b>109,578</b>	<b>139,929</b>	-22%
Depreciation and amortisation	(56,970)	(51,625)	
<b>EBIT</b>	<b>52,608</b>	<b>88,304</b>	-40%
<b>Net profit before significant items</b>	<b>24,179</b>	<b>44,289</b>	-45%
<b>Earnings per share (before significant items) (¢)</b>	<b>17.8</b>	<b>32.5</b>	-45%
Significant items after tax	(12,477)	(11,336)	
<b>Net profit after significant items</b>	<b>11,702</b>	<b>32,953</b>	-64%
Earnings per share (after significant items) (¢)	8.6	24.2	-64%
<b>Operating cash flow</b>	<b>76,624</b>	<b>98,664</b>	-22%
Return on equity (%)	9.8	17.7	

<b>Dividends</b>	<b>cents per share</b>	<b>Franking</b>
<b>Dividend payable 7 April 2006</b>	<b>3.0</b>	<b>34%</b>
<b>Dividend paid 16 September 2005</b>	<b>4.0</b>	<b>55%</b>
<b>Total</b>	<b>7.0</b>	

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