

5 August 2004

**PACIFICA FIRST HALF PROFIT IN LINE WITH  
EXPECTATIONS**

Pacifica Group Limited today announced its results for the six months to 30 June 2004.

**Pacifica Group Limited**  
ACN 006 530 641

264 East Boundary Road  
East Bentleigh Victoria 3165 Australia  
Telephone (613) 9575 2222  
Facsimile (613) 9575 2411  
<http://www.Pacifica.com.au>  
[Pacifica\\_enquiries@Pacifica.com.au](mailto:Pacifica_enquiries@Pacifica.com.au)

**First Half in Summary**

Pacifica's results for the half year were in line with expectations. Highlights were a near record level of operating cash flow and the maintenance of the strong levels of margin and return achieved in recent reporting periods.

<b>Financial Results</b>	<b>2004</b>	<b>2003</b>	<b>%</b>
<b>Half Year Ended 30 June 2004</b>	<b>\$000</b>	<b>\$000</b>	<b>change</b>
Sales revenue	464,720	469,015	-1
EBIT	47,683	52,078	-8
<b>Net profit before significant items</b>	<b>22,535</b>	<b>23,986</b>	<b>-6</b>
Earnings per share (cents)	16.6	17.3	-4
Significant items after tax	(1,962)	4,651*	
Net profit after significant items	20,573	28,637	
Operating cash flow	63,413	47,600	+33
Return on equity (%)	16.9	17.1	
Interim dividend (cents)	10.5	10.0	

\* Profit from sale of Webforge

- Net profit after tax before significant items declined by \$1.5 million from the corresponding period to \$22.5 million.
- Negative FX impact on net profit of \$2 million compared to prior corresponding period.
- Operating cash flow increased from \$47.6 million to \$63.4 million, a near record.
- Restructuring costs of \$2 million identified as significant items.
- Fully franked interim dividend of 10.5 cents per share, an increase of 5%.
- AP Italia, acquired July 2003, performed in line with expectations.
- Success in securing new contracts - \$117 million sales per annum, commencing over the course of 2005 and 2006 – average life of new contracts is 5 years.
- Establishment of joint venture in China announced.

This pleasing performance was achieved in a highly competitive environment, including continuing price-down pressures, and against an unfavourable exchange rate movement impacting the translation of earnings. An average exchange rate of 74 cents for the first half of 2004, versus 62 cents for the prior comparable period, served to reduce total group sales by \$49 million, EBIT by \$5.5 million and NPAT by \$2 million.

### **Dividend**

The Directors have declared a fully franked interim dividend of 10.5 cents per share to be paid on 17 September 2004 to shareholders registered on 3 September 2004. This dividend compares with 10 cents per share fully franked, for the prior corresponding period.

### **Significant Items**

The \$2 million in significant items relates to restructuring costs of \$1.4 million after tax for PBR Australia and \$0.6 million for FMP Australia, the friction materials joint venture with Honeywell.

## **REVIEW OF OPERATIONS**

### **PBR Automotive**

“I am pleased that in the challenging environment in which PBR was operating, we managed to broadly maintain our overall EBIT margin and to deliver very satisfactory returns,” said Pacifica’s Managing Director, Mr John MacKenzie. “The strength of our operating cash flow, which was at a near record level, was particularly pleasing.”

The North American new vehicle market continued to be characterised by variable monthly demand. In spite of this, the expectation is that the total North American market will approach 16.8 million vehicles for the year, with light truck and SUV sales still accounting for over 50% of all registrations. PBR’s North American operations performed particularly well in the opening half of 2004, with the Columbia facility successfully ramping up new orders for DaimlerChrysler.

The Australian new vehicle market remained strong following an excellent 2003, with PBR Australia’s sales for the half up slightly on the corresponding period of last year. Supply of disc rotors for the new Ford Territory vehicle commenced during the half.

Aftermarket sales were steady and new products, such as high performance calipers, were well received by the market.

“AP Italia, the Italian business acquired in July 2003, had a strong first half and performed in line with expectations. It commenced supply of drum brakes to existing customers for new model ranges and also won business from new customers. AP has integrated well into the Pacifica group and has proven to be an excellent acquisition. In a period of flat earnings, the performance of AP underscores the virtue of our strategy to strive for geographical diversification,” Mr MacKenzie said.

PBR’s Asian sales were weaker in total despite a marginally improved performance by the Thailand business. Overall earnings were lower than for the first half of 2003 mainly due to declining sales in Malaysia. The company is presently examining future options for the small Malaysian operations.

### **Friction Materials**

The recovery in FMP, the joint venture friction materials business, was slower than expected but signs of improvement were evident towards the end of the half. Earnings were affected by unfavourable exchange rates which not only impacted exports but also made imported products to Australia more cost competitive. The business will benefit in the second half from the restructuring undertaken during the reporting period.

### **Melwire**

Melwire had a solid first half. Sales were slightly down but earnings were maintained.

“Melwire is developing a history of consistent performance and makes a useful contribution. Whilst this business remains non-core, there are currently no sale negotiations being pursued,” said Mr MacKenzie.

### **China Joint Venture**

Pacifica announced in May 2004, plans to establish joint venture manufacturing operations in the People’s Republic of China. Two facilities are to be built there, a cast iron foundry with a capacity of 50,000 metric tonnes per annum and a machining, plating and sub-assembly operation. The product range will cover safety critical products for the global automotive markets. These will include braking, steering and suspension components for PBR for final assembly in close proximity to the end customer.

“Initial production is scheduled to commence in the second quarter of 2005 and will be directed internally, replacing cast iron brake components presently sourced from outside suppliers. External sales are expected to commence in the third quarter of 2005. Pacifica’s joint venture partner has considerable experience in manufacturing cast iron automotive components in China. A total investment of US\$38 million will be made by the two parties to this joint venture and Pacifica will take a 60% equity interest,” said Mr MacKenzie.

## **Acquisitions**

The search for potential acquisitions is continuing with the focus being on smaller enterprises aligned to the automotive sector and which have a high degree of intellectual property.

“It is important that any acquisitions meet the company’s demanding return guidelines,” said Mr MacKenzie.

## **OUTLOOK**

### **2004 Forecast**

Pacifica expects a full year net profit of approximately \$48 million. This is before significant restructuring costs which are expected to total approximately \$3 million after tax for the full year.

“In part, these restructuring costs are a reflection of General Motors’ recent announcement that it will introduce a drum brake for the lighter weight SUV’s using the GMT800 platform. This decision will impact sales volumes at Knoxville and in Australia in the second half of 2004, but will be offset partially by the introduction of the new Ford business at Columbia and new business in Italy,” said Mr MacKenzie.

“The Australian market is expected to remain healthy and the second half will benefit from the restructuring initiatives undertaken in the opening six months. Earnings from the European operations should continue to grow as production of new models increases. We also expect a modest recovery by FMP with the full year contribution to Pacifica, before significant items, expected to be in the order of \$1.8 million,” said Mr MacKenzie.

### **Medium/Longer Term Outlook**

Pacifica expects another challenging year in 2005, followed by a period of strong growth commencing in 2006.

During 2005, Pacifica will accelerate its strategy of expanding in international markets, improving productivity, reducing costs across all manufacturing sites and developing new product and process technologies. However, 2005 is expected to produce a relatively flat underlying earnings performance, with the dip in volume on GMT800 countered by the new Ford business at Columbia and new contracts in Italy.

Based on current sales projections and an exchange rate of 72 cents, 2006 earnings are expected to increase by around 10%, and by a further 15% in 2007. The main driver of this earnings momentum will be the new business that PBR has already secured. In addition to the \$33 million per annum of new contracts associated with AP Italia at the time of its purchase, a further \$117 million per annum of new business has been won in recent months. This new business will commence over the course of 2005 and 2006. The average life span of these contracts is five years.

“We are particularly pleased with PBR’s recent contractual gains, which are testimony to the competitiveness and quality of its products. They cover a range of individual customers, geographical markets and product areas, and highlight PBR’s successful diversification of its sales base within its core discipline,” said Mr MacKenzie.

“In North America, a number of the new models to be supplied by PBR are to be released at the beginning of 2006. PBR will supply front and rear calipers and park brakes for most of these vehicles and will also provide full corner modules for selected models. By 2006, volumes at Knoxville will be restored to historical levels.”

“In Australia, new orders to supply disc rotors, calipers and knuckles have been awarded by two manufacturers and sales will commence in 2006. Related production will accelerate from that date, and at the same time PBR will continue to supply calipers and park brakes to all local manufacturers.”

“Growth in Europe is expected to continue through 2005 and 2006 as new vehicle ranges being supplied by AP Italia come on stream. The company now has a strong European base from which further expansion can be launched.”

“The joint venture in China provides an exciting opportunity for growth over the longer term. The plan is to sell components initially into developed markets, but to also capture sales opportunities in the emerging Chinese automotive market.”

“We are continuing to develop our advanced automotive technologies and these will be the foundation of Pacifica’s success over the coming years when by-wire technologies are expected to be taken up by major manufacturers. We are taking the necessary steps to ensure that Pacifica remains a strong and viable participant in the global automotive industry.”

“In summary, Pacifica is well positioned to maintain margins and increase earnings through clearly identifiable sales growth,” said Mr MacKenzie.

**For further information:**

John MacKenzie  
Managing Director  
Pacifica Group Limited  
Tel. (03) 9575 2470

**Pacifica Group Limited**  
ACN 006 530 641

264 East Boundary Road  
East Bentleigh Victoria 3165 Australia  
Telephone (613) 9575 2222  
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