

**PACIFICA GROUP LIMITED****ANNUAL GENERAL MEETING – 15 MAY 2009****Address by Mr Peter Delhey, Chairman**

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**Review of 2008 Performance**

The deterioration in Pacifica's performance escalated in 2008 as the global automotive industry moved from what could be described as "challenging" economic conditions to "crisis" mode, particularly in the closing months of the year. Operating conditions for most of 2008 were characterised by falling demand, extended plant shut downs, staff layoffs and increasing input costs. While the industry was making steady progress in adjusting to this environment, nothing could have prepared it for the collapse in demand in the fourth quarter as debt markets froze, vendor finance evaporated and two of the three large car companies in the US sought government assistance to stave off bankruptcy.

This is the environment from which Pacifica emerged at the end of 2008 to report the following financial results:

- A 17% decline in sales from continuing operations to \$545.5 million, largely due to the collapse in demand in the North American market.
- A net operating loss before significant items of \$60.9 million, a significant increase from the net loss of \$18.5 million the previous year.
- Significant items after tax amounting to a net loss of \$181.1 million. The majority of this non cash expense related to an impairment charge against intangibles and plant and equipment which was necessary in order to bring the carrying value of these assets in line with their recoverable value. This together with the write down of \$17.6 million of Australian deferred tax assets were taken in recognition of the grim outlook for the global automotive industry. I will come back to the outlook later.

In summary, an overall net loss including significant items of \$242 million was recorded for 2008.

As you are aware, Pacifica is a global company with operations in Asia and North America as well as Australia. It was our North American operations that were the hardest hit by the down turn, recording a 23% fall in sales revenue, largely as a result of very weak local market demand for large passenger vehicles. Earnings from this region were further impacted by the higher costs arising from price increases imposed by Intermet Corporation, a supplier of iron castings to both our Knoxville and Columbia plants. Pacifica entered into dispute with Intermet in April 2007 and was engaged in arbitration with the company for most of 2008. On 11 August 2008, Intermet Corporation filed for

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Chapter 11 bankruptcy protection resulting in arbitration proceedings being halted. Since the expiry of the Intermet Corporation contracts on 1 January 2009, Pacifica has switched to a new supplier. It is estimated that the higher costs imposed by Intermet reduced earnings after tax and minorities by approximately \$14 million in 2008.

Legal proceedings against Intermet Corporation are ongoing.

In Australia, sales revenue declined by 2% owing to the reduced demand for domestically-produced large passenger cars. Profitability within the Australian operations was further adversely affected by increased input costs as well as \$14.8 million in restructuring costs.

Our small but growing Asian operations were not immune to the downturn in 2008. Sales revenues fell 21% in response to the decline in demand from the North American market, the closure of PBR Malaysia and a rapid deterioration in the local economies and markets.

In light of the lack of earnings from continuing operations, no dividend was declared in respect of the 2008 financial year.

### **Bosch Operational Review**

As previously advised, upon gaining control of Pacifica, Bosch commenced a comprehensive operational review of the Company, examining all potential opportunities and benefits that could be realised from Pacifica becoming part of the Bosch Group. This was completed in early 2008 and resulted in the integration of Pacifica's regional structures into Bosch's Chassis Systems Brakes Division during the remainder of 2008.

. The following management and structural changes are now in place:

- Since 1 April 2008, Pacifica's operations in North America and China have been reporting directly to the existing Bosch Chassis Systems Brakes Division management in the corresponding regions.
- Pacifica's other automotive operations in Australia and Thailand have been renamed Bosch Chassis Systems Australia Pty Limited and Bosch Chassis Systems (Thailand) Limited respectively with effect from 1 July 2008, and are concentrating on developing new business opportunities in the Australian and South-East Asian regions.
- All engineering activities, including research and development, are co-ordinated by the headquarters of Bosch Chassis Systems Brakes Division, based in Germany. Pacifica will concentrate on application engineering of brake systems for the original equipment manufacturers in Australia and South-East Asia.
- The management structure of Pacifica has been aligned to the new divisional responsibilities which included the retirement of several senior executives of the Group in the first half of 2008.

## **Outlook**

On the occasion of the release of our 2008 results in February, our stated expectation was that Pacifica expected to report a further operating loss for the year ended December 2009. We also noted that restructuring charges would be incurred to align operations and capacities to what are now expected to be permanent changes in Pacifica's key markets, particularly in North America.

Since then, the picture in North America has continued to deteriorate.

All manufacturers in North America have announced significant cuts to their planned production in 2009. Chrysler Corporation has filed for bankruptcy protection and has temporarily stopped vehicle production. The latest forecasts for North American industry production in 2009 are under 9 million vehicles, compared to 12.6 million vehicles in 2008, with much of the expected decline occurring within the light truck segment. This will also impact our operations in Thailand and China.

It cannot be ruled out that other vehicle manufacturers may file for bankruptcy protection which could have significant impacts on automotive suppliers, including Pacifica.

In Australia, domestic volumes are also declining for all three local vehicle manufacturers. GM Holden recently switched from two shifts operations to a single shift schedule.

In Asia we are continuing our efforts to secure local supply contracts in order to increase utilisation of our facilities. However, the global downturn has also led to a substantial drop in demand in these markets.

Given the continuing global decline in demand for larger passenger cars and trucks it remains impossible to provide any accurate forecast for the full year. We will of course provide more clarity when we are in a position to do so. At this stage we do see the requirement for further restructuring of our manufacturing footprint. Depending on the magnitude of the expected losses in the current year Pacifica may require additional equity funding later this year. In this respect, we have noted in our Annual Report that Robert Bosch has confirmed its intention to provide sufficient financial assistance to the Group to be able to meet our liabilities when they fall due.

In what continues to be very challenging operating conditions, I would like to take this opportunity to thank all our staff for their ongoing commitment and hard work.

### **For further information:**

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