

ACE: Leader in the European Automotive Components Market

Following on from our Current Report in December 2010, ACE's management herein presents its 2011 update on the company's strategic targets, company strategy and the outlook for 2012 and beyond. The Management of ACE underlines its total commitment to this strategy, which is designed to satisfy the interests of all our customers, employees and shareholders.

ACE Group – company overview

ACE is a young and dynamic Group, well-positioned in the foundry business for automotive products. It is the leader on the European Automotive Components Market, specializing in safety parts for passenger cars. ACE was founded in 2006 and has been listed on WSE since June 2007. ACE has c.EUR 100m annual turnover with more than 800 staff across three factories in Spain, Poland and the Czech Republic and a high tech R&D center in Spain. In Europe, ACE is the number 1 producer of iron anchors and number 2 producer of aluminum calipers for car disc brakes, with a market share of around 40% in both products. It is also a competitive reference manufacturer of aluminium TMC (Master cylinders) and Front calipers. Both products were recently developed by the company and have constantly growing sales and a very promising outlook. The company also offers a wide range of grey iron products for different markets. ACE technologies include horizontal and vertical iron casting, aluminum gravity, iron and aluminum machining. It is the only company on the European market which provides solutions in both iron and aluminium technologies

Resilient to crisis: The 2008-2009 economic crisis saw ACE strengthen its position both internally and externally. ACE has maintained its lead position in anchors and substantially improved its position as a supplier of calipers, increasing its market share from c. 30% to c. 40% since 2008. ACE also introduced several new products: aluminum TMCs, front calipers and iron machining. These products have had a positive impact on recent performance, displaying remarkable volume growth rates and their importance will continue to grow.

In parallel, ACE took some important steps to establish solid foundations for the future development of the group. These include:

- Corporate reorganization after exit of the main shareholder in 2009
- Debt restructuring to finance the current and strategic development with the expected investment program
- Successful launch of the CEE Project in our Czech operating company and other efficiency investments within the Group
- Establishment of the central R&D center to support technical development
- Team consolidation with an experienced, skilled and motivated staff fully involved and committed to the success of the Company strategy.

Core values:

- to provide our clients with a competitive and reliable product and service and to invest serious time and resources in R&D activities in order to ensure our future competitiveness
- to expand the scale of the business (key for the automotive industry due to logistics, synergies, negotiation capacity, flexibility and complementarity) with due regard for shareholder value and our employment and social responsibilities
- to be best in class in all we do through continuous improvement and innovation. This way we guarantee our present and future cost competitiveness as well as ensuring we make the very highest quality products which meet the stringent safety requirements for automotive safety systems. ACE cannot just compete on price, but must ensure it has state of the art production and the highest quality standards.

Financial outlook for 2011-2012

2011: The latest year-to-date estimates for market growth of automotive production in Western Europe in the first eleven months of 2011 show a 4.4% increase, while in the CEE countries 12.9%. ACE expects 2011 revenue growth around 10% up on 2010, with slightly higher margins, delivering EBITDA close to EUR 10m.

2012: We expect 2012 to be a transition year as we digest an ambitious capex program of around EUR 12m which will not be fully visible in the financial results until 2013. However, bearing in mind our current customer order book and market expectations, we anticipate that our sales will outperform the market and, depending upon the length and depth of the current downturn, could see a general improvement of our margins.

Share Buy-back and Dividend Policy:

ACE's management has made a recommendation to the Board of Directors to initiate a share buy-back program during the first half of 2012, whose length and conditions will be announced in due course.

The company's dividend policy, as stated in our prospectus, remains unchanged and we do not envisage significant changes to future dividend payments, which will be comparable to recent years. However, the payment of any future dividends or similar actions will depend on the business prospects, future earnings, cash requirements and expansion plans of ACE Group. In addition, the terms of the current financing agreement also restrict ACE's ability to pay dividends, requiring ACE Group to meet certain financial thresholds.

Strategic Goals to 2015

- To outperform the market in revenue and profit growth, while maintaining attractive operating margins and delivering an improvement in fundamental shareholder value.
 - 40% organic increase in sales from 2011-2015 with EBITDA margin still above 10%
 - Substantial increases in output volumes:
 - Nodular iron production increase of 25,000 tonnes - +70% - when the CEE expansion project reaches full capacity
 - Grey iron production increase of 6,000 tons - +50%
 - Aluminium casting output to increase by 1,600 thousand units – up over 20%
 - Aluminium machining to increase by 500 thousand units – +20%, without any significant investment
- To deliver a step growth in the company size and market importance through M&A activities which add 1 or 2 more technologies to the current portfolio and which bring additional annual revenues of between EUR 30-100m.
- To strengthen ACE's existing leadership position and to become the European leader in 4-5 different products (current leadership in three - iron anchors, rear aluminium calipers and front aluminium calipers)
- To double our portfolio of automotive customers over in the next 1-2 years
- To maximize the synergies within ACE Group to optimize utilization of all internal capabilities, decrease costs and improve profitability

- All Group operating companies to have the best market certifications in:
 - Quality: TS 16949
 - Environmental: ISO 14001.
 - Safety and healthy: OSHAS 18001
- To deliver substantial growth in the Company's fundamental value which should be clearly visible in the appreciation of its market capitalization

2012 will be an important transition year on the road to achieving these growth targets, when the majority of the expenditure from the EUR 7.5m capex program in the Czech project (out of a total EUR 12m across the Group) will take place. Thereafter we expect group level annual revenue growth above 10% with operating margins improving accordingly.

ACE Strategy in action

ACE Group's strategy assumes business growth will come both from organic expansion and acquisitions which will increase capacity and production volumes.

Organic growth: We expect substantial future organic growth to be achieved in the following ways:

- We expect increased volume from new products which were launched during 2009/10, mainly TMCs and front calipers. In January 2011 a new production line was launched, dedicated to the production of front calipers, which significantly increased the output capacity for aluminium products. This is currently operating at 2/3 capacity and we expect to improve utilization and to add up to 60% more capacity for this line of products in the next 2-3 years. Meanwhile, we expect the production of TMCs to increase dynamically on an annual basis, reaching at least double the 2011 levels by 2015.
- Increased utilization of current spare capacity, with the main focus on the aluminium machining and Grey iron divisions.
- Implementation of the automotive business in the Czech plant, through the EUR 7.5m investment project, announced in March 2011. The project is set to last 2-3 years and will have a huge positive impact on production capacities in iron. The Czech plant will significantly increase its exposure to the automotive market, becoming of equal importance to the other two plants in terms of sales and profitability within the Group. We expect this investment project alone to increase ACE's capacity and production output of nodular iron castings by more than 50% by 2015.
- Replacement of one molding line in our Spanish plant with a newer and more productive line should restore Nodular Iron output to 2007 levels but at much lower cost. Both this and the Czech investment project should be completed by end 2012.
- We expect growth to be supported by a recovery in the automotive market to its pre-crisis, 2007 levels. However, given the current global economic environment, we recognize that the effects are only likely to appear in the medium-long term

Mergers & Acquisitions: This will be a very important factor in ACE's development which we expect will deliver a step growth in the company's results. ACE is targeting companies with the following profile:

i. Size - Attractive size of company/ group with *annual turnover* > *Eur 30m*. In order to make a significant contribution to the growth of production capacity it must be comparable in size to each of the two existing automotive plants, with convincing growth potential.

ii. Location *CEE preferred*, but would also consider *Austria, France or Germany* if differentiation and specialization are well recognized. Mexico, Brazil & China and other emerging regions are also interesting areas for growth in the future.

iii. Technology – *complementary to our core business*: e.g. Foundry, Aluminium, Iron, Steel, Magnesium, technologically advanced and with high level of know how.

iv. Supplier to the Automotive Market - *Tier I or Tier II, with significant sales* in these markets

Pursuit of excellence: comprises the following actions and targets:

- Adherence to visible and demanding objectives in quality, environmental and safety and health certifications.
- To ensure we always receive the top ratings from customers for quality and service.

Continuous Improvement and innovation in production processes. Based on the Kaizen management philosophy, the main elements in our improvement system are:

- Key Performance Indicators: to follow and monitor the main company factors of performance.
- Ambitious targets through implementation of Key Action Plans in order to achieve it in all areas, both internally and with customers and supported by our team and external resources (technological centers, universities, customers and advisors).

Market Outlook

Although ACE is heavily focused on the European market, there are some global factors which could influence our performance. Since the economic slowdown of 2008-2009 the recovery of the global automotive market has been uneven, with step growth in Asia and America, slow recovery in Europe and faster growth in CEE. The market recovery has created a new production environment and also new factors which need to be considered in the coming years:

- New car production volumes expected to recover to 2007 levels by 2014 at the earliest, depending upon the depth of the current slowdown and the longer term outlook for regional economic growth. As the 2008-2009 crisis showed, ACE was able to increase its market share even during the downturn.
- Production costs growth. The general recovery leads to rises in the prices not only of basic raw materials but also energy, gas and all additional materials which are used in the production process. Wage costs also rise in a growing market. These factors affect all players on the market and ACE is at an advantage with much of its production capacity in the competitive CEE market.
- A residual effect of the 2008-2009 period is that many companies in the production chain have some overcapacity, which currently causes some difficulties in commercial negotiations with customers. This situation should disappear once the market fully recovers.

- Some companies are expecting to face insolvency despite the recovering market and while this could cause more tensions in the supply chain for automotive parts in the near future. However, this leaves the remaining companies like ACE in a stronger position in the medium to long term.

Luxembourg, December 21st 2011