



# **Automotive Components Europe S.A.**

## **Quarterly Consolidated Report**

**for the**

**Quarter ended March 31<sup>st</sup>, 2013**

## Table of contents

	Page
<b>A. Directors' report</b>	<b>3</b>
<b>B. Condensed Consolidated Financial Statements for the quarter ended March 31<sup>st</sup>, 2013</b>	<b>17</b>
Consolidated Balance Sheet	17
Consolidated Income Statement	19
Consolidated Statement of Changes in Shareholders' Equity	19
Consolidated Statement of Cash Flows	20
Notes to the Condensed Consolidated Financial Statements	21

## **A. Director's report**

### **1. Introduction**

ACE (the "Company") is a public limited liability company (*société anonyme*) incorporated under the laws of Luxembourg (full name Automotive Components Europe S.A., abbreviated form ACE S.A.) ACE is registered with the Luxembourg Registry of Commerce and Companies under number B 118130, and its registered office is at 38, boulevard Napoléon 1er, L-2017 Luxembourg, Grand Duchy of Luxembourg. On 22 February 2013 the Board of Directors of the Company, pursuant to Article 2.1 of the Articles of Association, took a resolution transferring on 25 February 2013 the registered office of the Company within the boundaries of the municipality of Luxembourg City, from its previous location at 82, route d'Arlon, L-1150 Luxembourg.

ACE as a holding company has one holding company in Spain, ACE Boroa S.L.U., which holds three operating companies (the Group): the iron casting division of Fuchosa in Spain and Feramo in the Czech Republic, and the aluminium casting division of EBCC in Poland. ACE Boroa S.L.U. is also the main shareholder of ACE 4C A.I.E., the R&D company of the Group serving all the operating companies, with 96% of its shares (the remaining 4% are held by Fuchosa).

ACE is a specialised supplier to the European automotive industry, with a leading position in brake system components, focusing on the manufacture of iron anchors (a safety component of disc brake systems, responsible for fixing the brake module to the chassis) and aluminium callipers (a component of the disc brake system that houses the brake pads and pistons; in the braking process it is responsible for supporting the hydraulic pressure).

During the IPO, which took place in May 2007, the Company increased its shareholding capital from 20 050 100 to 22 115 260 shares. The first listing of ACE on Warsaw Stock Exchange took place on June 1<sup>st</sup>, 2007.

The Extraordinary General Meeting of Shareholders held on 17 June 2009 resolved to reduce the issued share capital of the Company by EUR 132 711.75 to bring it from EUR 3 317 289.00 to EUR 3 184 577.25 by cancellation of 884 745 shares at a par value of EUR 0.15 each, owned by the Company, following the completion of the buy-back programme as approved at the annual shareholders meeting of the Company held on 17 June 2008. Pursuant to the resolution the total number of outstanding shares decreased to 21 230 515 shares.

ACE's business is managed by a Board of Directors and a Chief Executive Officer to whom the Board has delegated the day-to-day management of the Company other than in relation to certain matters specifically reserved to the competence of the Board. The Chief Executive Officer, in the performance of the day-to-day management of ACE is supported by a Management Committee constituted of senior officers of ACE, appointed by the Board.

Composition of the Management bodies of ACE as of March 31, 2013

#### Management Committee:

<i>Jose Manuel Corrales</i>	<i>Chief Executive Officer</i>
<i>Raul Serrano</i>	<i>Senior Officer, Chief Financial Officer</i>
<i>Carlos Caba</i>	<i>Senior Officer, Business Development Manager</i>

#### Board of Directors:

<i>Jose Manuel Corrales</i>	<i>Class CB Director, President</i>
<i>Raul Serrano</i>	<i>Class CB Director</i>
<i>Jerzy Franczak</i>	<i>Independent Director</i>
<i>Rafał Lorek</i>	<i>Independent Director</i>
<i>Piotr Nadolski</i>	<i>Independent Director</i>
<i>Oliver Schmeer</i>	<i>Independent Director</i>

The condensed consolidated quarterly report for the first quarter of 2013 was prepared according to International Accounting Standards.

## 2. Financial Highlights

in '000 Euro

<i>Selected consolidated financial items</i>	<i>For the 1<sup>st</sup> quarter of 2013 From January 1<sup>st</sup> to March 31<sup>st</sup>, 2013</i>	<i>For the 1<sup>st</sup> quarter of 2012 From January 1<sup>st</sup> to March 31<sup>st</sup>, 2012</i>
Revenues from sales	26 129	27 202
Operating Profit	756	790
Profit before tax	452	853
Net profit	218	785
Net profit attributable to equity holders of the parent company	218	785
Cash flow from operating activities	1 274	-1 564
Cash flow from investment activities	-1 866	-1 104
Cash flow from financial activities	- 335	-1 829
Net cash flow	-1 025	-4 610
Current assets	36 321	44 053
Fixed assets	47 493	39 292
Total Assets	83 814	83 344
Liabilities	43 597	43 368
Long-term Liabilities	22 787	20 072
Short term Liabilities	20 810	23 296
Shareholders' Equity	40 216	39 977
Shareholders' equity attributable to shareholders of the parent company	40 216	39 977
Share capital	3 185	3 185
No of shares outstanding	21 230 515	21 230 515
Net profit (loss) per share	0,01	0,04
Book value per share	1,88	1,88

## 3. Financial performance

### Consolidated Profit & Loss Statement

in '000 Euro

	<i>For the 1<sup>st</sup> quarter of 2013 From January 1<sup>st</sup> to March 31<sup>st</sup>, 2013</i>	<i>For the 1<sup>st</sup> quarter of 2012 From January 1<sup>st</sup> to March 31<sup>st</sup>, 2012</i>
Revenues from sales	26 129	27 202
Cost of goods sold	-21 436	-22 920
Gross profit	4 693	4 281
<i>GP margin</i>	18,0%	15,7%
G&A expenses	-3 937	-3 491
Operating profit	756	790
<i>OP margin</i>	2,9%	2,9%
Depreciation & amortisation	-1 205	-1 325
EBITDA	1 961	2 115
<i>EBITDA margin</i>	7,5%	7,8%
Financial Result	-304	63
Profit before tax	452	853
Tax	- 234	- 68
Net profit	218	785
<i>NP margin</i>	0,8%	2,9%

**Sources of sales revenues**

The main source of ACE Group's sales revenues is sales of nodular iron anchors as well as aluminium callipers and tandem master cylinders (TMC) for the automotive market, and grey iron parts for different purposes. The remaining, minority part of the Group's sales, comprises mostly revenues from post-production scrap and tooling.

<i>Sales revenues in '000 Euro</i>	<i>First quarter of 2013</i>	<i>%</i>	<i>First quarter of 2012</i>	<i>%</i>
<i>Sales of products</i>	25 646	98,2%	25 973	95,5%
<i>Sales of goods and materials</i>	482	1,8%	1 229	4,5%
<b><i>Total sales revenue</i></b>	<b>26 129</b>	<b>100%</b>	<b>27 202</b>	<b>100%</b>

<i>Sales revenue in '000 Euro</i>	<i>First quarter of 2013</i>	<i>%</i>	<i>First quarter of 2012</i>	<i>%</i>
<i>Nodular iron products</i>	14 358	56,0%	14 185	54,6%
<i>Grey iron products</i>	2 754	10,7%	3 090	11,9%
<i>Aluminum products</i>	8 534	33,3%	8 698	33,5%
<b><i>Total sales</i></b>	<b>25 646</b>	<b>100%</b>	<b>25 973</b>	<b>100%</b>

<i>Sales volumes in thousand pieces</i>	<i>First quarter of 2013</i>	<i>First quarter of 2012</i>
<i>Nodular iron products</i>	6 502	6 596
<i>Grey iron products</i>	372	409
<i>Aluminum products</i>	1 959	2 034
<b><i>Total pieces sold</i></b>	<b>8 832</b>	<b>9 039</b>

The geographical profile of sales directly reflects the location of major customer' factories producing complete braking systems.

<i>Revenues by country</i>	<i>First quarter of 2013</i>	<i>First quarter of 2012</i>
<i>Czech Republic</i>	21,1%	23,4%
<i>Germany</i>	20,9%	20,5%
<i>Slovakia</i>	15,3%	10,8%
<i>France</i>	11,8%	15,1%
<i>Spain</i>	7,3%	8,9%
<i>Poland</i>	4,5%	5,1%
<i>Other</i>	23,6%	21,4%
<b><i>Total</i></b>	<b>100%</b>	<b>100%</b>

**Automotive Market Performance**

<i>Thousand Units</i>	<i>First quarter of 2013</i>	<i>First quarter of 2012</i>	<i>Difference</i>	<i>%</i>
<i>Cars sold</i>	2 914	3 230	-316	-9,8%
<i>Cars manufactured</i>	2 843	3 245	-402	-12,4%
<i>Difference sales - production</i>	71	-14	85	
<i>ACE Automotive</i>	8 459	8 630	-171	-2,0%

Source: Western Europe by LMC Automotive Forecasting, ACE

In first quarter of 2013 sales of cars in Western Europe decreased by about 316 thousand cars, or -9.8% comparing same period of 2012, according to LMC Automotive (formerly JD Power Forecasting), with double-digit percentage drop in the main markets. This negative trend is especially visible in France (-14.6%), Italy (-13.6%), Germany (-12.9%) and Spain (-11.5%). French market continues dropping, which is the seventeenth month in a row. With Easter falling earlier than last year, the Seasonally Adjusted Annualised Rate (SAAR), which takes account of this, continues to disappoint. As regards the main market in Europe, Germany continues weak although some improvement in the yearly rate is expected for the second half of the year. On the other hand, UK market is improving by 10.3% when comparing with same quarter of 2012, being the growth of the private retail sales the main reason of this increase. However, the difference in sales is softening in Pan-Europe Region, where sales of cars y-o-y declined by -7.5% or -348 thousand cars.

Car production in the Western Europe in comparison with first quarter of 2012 was lower by -402 thousand cars or -12.4%, being such difference also lower in full Europe by -11.9% or -461 thousand cars. After a turbulent period of negative and positive corrections of inventories produced by the global crisis, the gap between sales and production shows a more stable structure, although its allocation is still uneven across the year.

#### **ACE sales in the market context**

In volume terms the difference year on year was down by only -2.0% in number of units for automotive segment (-2.3% for the whole Group). The allocation of this volume decline is quite balanced in the different automotive business segments with the nodular iron segment declining by -1.4.%, and aluminium by -3.7% (including the new family of products). In non-automotive segment, grey iron sales decreased by -8.9%, even higher if we refer to weight (-11.3%), which is a much more reliable indicator in this business. Despite this negative trend in sales, Group outperformed market sales once again, and was significantly above market production.

This outperformance in 1Q 2013 versus 1Q 2012 is also visible in turnover, which decreased by EUR 1 073 thousand, or -3.9%, being the grey iron non-automotive business the segment reducing most, by -9.7%. Meanwhile, Aluminium business declined by 6.5% and thus losing its volume advantage due to a cheaper mix in the new family of products and lower sales in other business. On the other hand, Nodular iron business increased by 0.2% compensating the fall of volume with better sales mix and improved performance.

#### **Direct production costs and gross profit**

Despite the reduction of turnover y-o-y, the gross margin increased up to 18% on sales, more than 2pp over last year.

The main driver of this increment is the good results achieved by the new moulding line in Spain operating since last September, replacing two former lines and reducing the associated working teams, which is improving its performance month by month. Oppositely, the limited availability of the facilities in Czech Republic constrained by the CEE Project development caused not only important inefficiencies but also an important drop of production and subsequent turnover which will be also particularly visible in the second quarter.

On top of that, prices of energy and aluminium had some positive trend and FX activity in the operating level was also positive as a result of the weakening of Czech koruna year on year.

Some effects counteracting the positive effect of the above were the reduction of other business, mainly tools and the increasing cost of maintenance in Poland associated to the restart of some machines to fit the production mix.

Finally, some lower depreciation connected with the ending of the expected useful life of some of the Group assets, prior to the start-up of the new facilities in Feramo, led the Gross profit to EUR 4 693 thousand (18.0% on sales), which is EUR 412 higher than same quarter of 2012 (15.7% on sales).

#### **General & administrative expenses**

General and administrative expenses increased by EUR 446 thousand or 12.8% y-o-y, being most of the difference of non-recurrent nature. Indeed, EUR 322 thousand is the difference of higher subsidies accrued in 2012, lessened by EUR 163 thousand of R&D tax credits formerly recorded in CIT level. During this quarter there was also registered a one off expense of near EUR 100 thousand due to purchases of packaging materials for a new customer. Finally there were some other expenses associated to the start-up of the new facilities in Feramo.

#### **EBITDA and operating profit**

Improvement of Gross profit, compensated by the negative result in General & administrative expenses, resulted in a positive EBITDA in the period by EUR 1 961 thousand (7.5% on sales), EUR 154 thousand down compared with the same period of 2012 (or 7.3% lower).

Depreciation was some lower in the comparative period, resulting in an operating profit of EUR 756 Thousand (EUR 35 thousand lower than 2012 or -4.4%).

#### **Financial items**

The financial result for the first quarter of 2013 was negative by EUR -304 thousand, a negative difference y-o-y by EUR -366 thousand. The main reason is the positive currency exchange differences recorded in year 2012 and mainly related to changes in the outstanding balances at the end of the quarter due to strengthening of PLN and CZK. Being most of the above

recorded profits not realized and having accounting nature, they are now recorded in Equity thus resulting in a lower volatility onwards.

After the period, the fair value of hedging instruments and the interest rate swap in the balance sheet is negative by EUR 186 thousand. According to accounting standards, changes in valuation of current hedging instruments have no impact on P&L account and are fully cleared through the equity in the balance sheet.

#### **Profit before tax and tax**

Despite the negative financial activity, profit before tax in first quarter was positive by EUR 452 thousand (EUR 401 thousand lower y-o-y).

Tax recorded was EUR 234 thousand which is higher by EUR 166 thousand comparing with the same quarter of 2012, as currently R&D tax credits are recorded as "Other income" and not reducing the CIT, as described above.

#### **Net profit**

Despite financial losses and higher income tax expenses, the Group was still positive at the net profit level, arising at EUR 218 thousand (lower by EUR 567 thousand comparing with 2012).

#### **Financial Position**

The operating generation of cash from January to March of 2013 was some positive, by EUR 1 274 thousand, mostly as a result of EBITDA reduced by the lower-than-usual seasonal increase of working capital.

Otherwise, investing activities amounted to EUR 1 866 thousand in the period, mainly affected by CEE project capital expenditure, which will be still some visible across 2013. The financing activity is almost fully driven by buy-back program and interest payments.

Despite all the above, the final cash position of the Company as of the end of March 2013 is strongly positive by EUR 11 079 thousand growing the Net debt as of same date to EUR 11 155 thousand.

## 4. Business overview

### European Automotive Industry

The performance of ACE depends on trends in the automotive industry as well as the behaviour of major brake system producers. Due to the current market positions of both brake system production plants, ACE Group is limiting its operations to Europe, where it has a strong position and competitive advantage. However, the Company does not exclude expansion to new geographical markets should favourable acquisition opportunities arise. The conditions of the European automotive market are a major factor influencing performance of the Company's shares because of close-knit relationships in the supply chain structure.

The latest LMC Automotive forecast for 2013, issued in April 2013, predicts a decline of new car sales in Western Europe by about 4.2%, corresponding with a lower production decline of identical 4.2% (source: PwC Autofacts April 2013 including commercial light vehicles), or -1.8% for Pan-Europe. This forecast is also downgraded compared with the one issued one quarter ago, where expected production change for 2013 by -1% and +1% in the European Union and Pan-Europe respectively.

Within Europe the producers are shifting their production worldwide facilities to the CEE region. Central and Eastern Europe has become a new hub for manufacturing motor vehicles, especially passenger cars, and is sometimes called "East Detroit". This production zone spreads over southern Poland, north-eastern Czech Republic and Slovakia down to the northern part of Hungary, where a network of manufacturing facilities with significant capacity has recently been set up with more facilities under construction.

### European Brake Industry Structure

With respect to brake components such as anchors and callipers, most of the business is outsourced from Tier 1 brake system assemblers to Tier 2 suppliers specialised in foundry parts and castings. ACE is an integrated Tier 2 supplier of front- and rear-axle iron anchors and aluminium callipers for passenger car brake systems.

Tier 2 suppliers deliver their products to Tier 1 producers, which in turn are responsible for assembling brake systems and delivering them to car manufacturers (OEMs). Production of Tier 1 and Tier 2 manufacturers is highly dependent on the performance of OEMs, particularly in the passenger car segment. The relations are structured through open contracts covering capacity, price and product range. Contracts are normally signed or agreed on a long-term basis, however, key terms such as capacity and prices are negotiated every year. The product optimisation and development processes cause a significant client lock-in effect. Suppliers are usually locked in for the entire production life of a given car platform. Tier 1 brake component manufacturers require from Tier 2 casting suppliers capabilities of cooperation in product development of casting items (design, material, etc.), a certified, reliable manufacturing process, a high level of quality, and a competitive price. Machining of aluminium brake components, such as callipers, has mostly been outsourced to CEE suppliers, such as ACE's plant in Poland or LeBelier in Hungary, though following the crisis period and consequent creation of overcapacity, Tier 1 manufacturers are retaining an important part of the machining business for themselves.

All new cars produced in Europe are equipped with disc brakes, as far as the front axle is concerned. Main assumptions in terms of using of disc brakes in cars were: as for rear axle, disc brakes are applied in around 72% of newly produced cars and the remaining 28% of cars still use drum brakes in rear axle.

In all disc brake systems the anchors are made of nodular iron castings. Currently, nodular iron is by far the best material for anchors. As far as callipers are concerned, these parts are usually made of nodular iron in front axles. However, since the late nineties aluminium castings are becoming increasingly popular, especially in rear disc brakes. Automakers are using more aluminium to improve fuel economy, reduce emissions and enhance performance, as aluminium helps to reduce the weight of the vehicle. Due to the fact that aluminium callipers are less durable than those made of nodular iron they are applied in rear axle disc brakes, as these brakes contribute to 20–30% of braking power. In front disc using of brake systems aluminium callipers is exceptional, as they need to be significantly bigger than nodular iron callipers, and are currently used only in high-end cars. However, this segment represents high growth potential and in fact the company became awarded with some of the few applications in the market, which are in the production pipeline since the last quarter of 2009.

### Main Products

The core business of the ACE Group focuses on production of high-quality brake components for disc brake system (Tier 1) manufacturers. The aluminium casting division adds gravity aluminium casting and machining to the ACE Group's product range. With the CEE investment project ACE is also introducing other important products and customers for automotive sector.

Anchors are safety parts expected to meet high technological requirements such as very high standards for strength resistance, elongation, machining, torsion, resilience, thermal stability and vibration reduction. Anchors are responsible for

fixing the brake module to the chassis. ACE's anchors are made of nodular iron. Iron anchors are currently applied in most of newly produced cars.

Callipers are also essential components of disc brake systems, which house the brake pads and pistons. In the process of braking they are responsible for supporting the hydraulic pressure in the brake moment. Aluminium callipers currently produced by ACE are mostly used in rear brakes. ACE's focus on rear callipers is in line with the current technological trends, according to which the predominant application of aluminium callipers is the rear-axle brake. A new production line for front aluminium callipers has been in operation since January 2010. A new manufacturing system to produce front callipers in aluminium is an innovative solution recently introduced by ACE, and this system has already been patented. ACE is the reference supplier of this component in Europe.

ACE continuously cooperates with its customers on redesign and development of products used in new car models introduced onto the market. There are currently several projects in which both divisions are involved, focused on refurbishment and improvement of the braking system components produced. This is the key to our future business development, since ACE cooperates with its customers for a period of one to three years before start of production.

Feramo, a company acquired in 2008 in the Czech Republic, offers a wide range of grey iron castings for the engineering, hydraulic, electrical and automotive sectors, as well as for small urban architecture projects. Sales to the automotive sector constitute more than 10% of Feramo's sales.

The present and future development strategy of the Company includes development and introduction of some new products to diversify sales revenues. This is very well illustrated by the so called "new family products" (including front callipers, tandem master cylinders or TMC and iron machining) starting since 2009 and whose volume is currently representing more than 7% of Group sales.

### **Main customers**

The ACE Group supplies its products to the following Continental plants: Gifhorn and Rheinböllen (Germany), Palmela (Portugal), Ebbw Vale (Wales) and Zvolen (Slovakia). As far as TRW Automotive is concerned, ACE delivers its products to the plants in Jablonec (Czech Republic), Bouzonville (France), Koblenz (Germany), and Pontypool (Wales). Supplies to CBI (former Bosch) are made at its plants in Buelna (Spain), Bari (Italy), Angers (France) and Wrocław (Poland). Since 2011, the Group has also delivered parts to American and Chinese plants of some of its customers to make up for discontinuation of supplies driven by under-capacity in those regions as well as local suppliers' quality failures.

Since the acquisition of Feramo, some other customers have joined the ACE portfolio. Now Feramo has approximately 75 customers from the Czech Republic and abroad. The 10 largest customers generate about 70% of total sales revenue, and the customer structure is relative stable on a year-to-year basis. The main sectors Feramo supplies are engine parts, construction, automotive and urban furniture. With the launch of the growth project at Feramo, several new customers have been actively approached, and the company has already reached commercial agreements with some of them to produce new parts in 2013.

The Group does not usually experience any important fluctuation of sales linked with changes in seasonal demand. Nevertheless, during Easter, summer and Christmas periods the activity decreases due to holidays and maintenance shutdown of facilities.

### **Suppliers**

Because ACE's production plants use different production materials and technologies, they are responsible for their own supplies.

In general, contracts made by the iron segment are for one month and mainly concern purchase and supply of scrap. As a general rule, upon expiration, the terms of the raw material contracts are re-negotiated and adjusted to market prices. Sand supply contracts have a longer duration, normally of one year, whereas electricity is supplied on a daily basis at the spot price.

The aluminium casting division does not sign long-term written agreements with its major production material suppliers, other than for aluminium raw material itself. Purchases of materials are made on an order-by-order basis on the terms and conditions (including prices) agreed therein.

### **Research & Development**

The Group has a well-executed and highly organised product development system, fully suited to the requirements of its customers in the automotive industry. Compared to other brake casting manufacturers, ACE has leading-edge capabilities in product development. Human resources and equipment are designed to maintain the lead in development of specific products (mainly anchors and callipers). The product development capabilities and philosophy are focused on close cooperation with customers. This allows ACE to be a customer- and product-oriented company providing its customers with customised

engineering. This advantageous position definitely generates benefits for introduction of new products, which is especially beneficial for the CEE investment project in terms of knowledge transfer and development.

As a result of this vocation to move forward in R&D capabilities and expansion within the Group, in December 2010 some R&D resources of the operating companies were moved to a new company, ACE 4C A.I.E., which will be the new hub for development of the Group's research capabilities and a technological platform for growth. There are three main areas where ACE 4C will be focused:

- Product development for current and potential new products
- Process improvement, including active research on other interesting processes and technologies
- Creation of an important technological network

ACE 4C is involved in some important and innovative projects focused on improvements in process, design and products. Some of these projects are developed in collaboration with customers, technical universities and technological centres.

Despite the economic crisis ACE is continuing to devote significant resources to R&D activities because of their importance for the present and future of the Group.

The R&D expenditures during first quarter of 2013 are as follows:

In '000 Euro	<i>First quarter of 2013</i>	<i>First quarter of 2012</i>
Investments in R&D	172	307
Costs regarding R&D	478	391
<b>Total R&amp;D expenses</b>	<b>649</b>	<b>698</b>

### Strategy

#### *Strengthening the leading position on the European brake supply market*

Since specialising in the casting of brake components, the operating plants have been constantly focused on increasing their respective market shares, maintaining the high quality of components manufactured, and providing reliable logistics and service for customers. In the upcoming years, the Spanish plant will focus on maintaining its strong market position in iron castings, while the plant in Poland, currently the number two aluminium calliper provider, will strive to gain additional market share in the aluminium castings market by capturing additional volumes for production of callipers, due to its high degree of innovation and competitiveness. Development of new capacities at Feramo will position the Czech plant among important suppliers of automotive castings in future.

#### *Broadening the technological and product range*

The Group has already expanded the current product portfolio, especially through introduction of new aluminium products in Poland and the acquisition of Feramo. In 2008 ACE successfully started production of TMC, which should generate a considerable portion of revenues in future. There were several new capacity projects in the pipeline launched in 2009, including aluminium front calliper and iron machining. Thanks to the Czech plant, ACE has also broadened its product portfolio of iron castings for other industries, including electro-mechanical, construction and industrial equipment. In other directions, implementation of nodular iron technology, promoted by the Group to manufacture new parts for the automotive segment, is also on-going, and after implementation of the CEE investment project, which was launched in March 2013, ACE will also change its profile in the nodular iron segment (location, products and customers, among other aspects).

#### *Increasing presence in Europe and exploring new opportunities overseas*

The location of the Polish plant is very favourable because of the lower labour costs and the proximity to customers based in Central & Eastern Europe. Feramo is also located in the heart of the automotive industry, a very short distance from current and potential new customers. This advantage will be exploited in future after expansion of Feramo's production capacity.

The increased CEE exposure enables optimisation of the ACE Group's cost position and further business growth through expansion of the current product line and meeting customers' expectations for more flexible deliveries. With hi-tech know-how and experience in deliveries to the automotive industry, top product quality and customer service are guaranteed. Although the Group is focused on expansion in Europe, ACE is actively exploring opportunities in other important automotive areas for fast development, such as Asia and Americas.

#### *Combined engineering and other synergies*

Combining and exploiting the strengths of each business as well as developing the synergies between them is one of the main factors of present and future success, not only in the business areas as engineering and manufacturing but also in the areas of support, like finance HHR or IT that step by step are being standardized. Indeed, this is one of the main pillars of our strategy when developing the nodular iron technology for automotive business in the CEE region.

## 5. Outlook for the following months

### *Automotive market in 2013*

The balance of automotive market in Europe during last years is quite bleak. Only in five years since 2007 the Western European market lost near 3 million cars from a rate of 14.8 to 11.8 (roughly 40% in Italy, 25% in Spain and 20% in UK and France). This means a contraction of the market by 20% in only five years, percentage which is softening when Eastern Europe is included but also with an increased number of cars lost in the period.

The latest LMC Automotive forecast for sales in the Western European automotive market, issued at the beginning of April for full-year 2013, anticipates a decline by -4.2% from 2012.

This is also balanced with production forecasts. PwC Autofacts, in its last quarterly forecast update (including light commercial vehicles, LCV) issued in April 2013, shows an identical decrease of -4.2% in full year 2013 for the European Union (although there is lower decrease of -1.8% when we include Eastern Europe).

These forecasts could sound some optimistic bearing in mind last months' market trend even discounting Easter holidays, but as highlighted by PwC Autofacts "that demand should stabilize over the summer and begin showing signs of recovery towards the year end".

### *Group Sales*

As far as 2013 is concerned, in current environment it is very difficult to rely on market forecasts, but at the time of preparation of this report, and based on current sales, our customer's demand and expectations, we can anticipate some market outperformance once again, and, depending upon the length and depth of the current downturn as well as the influence of potential new volumes, we could even see a general improvement of our margins in the automotive business.

As far as iron segment is concerned, it is expected that most of the growth of sales in volume is coming from our Spanish plant that otherwise will be produced in a more efficient manner with the new production facility. In our Czech plant for 2013 we can expect some stability or even a slight increase depending on the development of new facilities

However, aluminium segment is now more challenging, with some of the projects reaching the end of their useful life, machining business declining and thus creating a reduced turnover even below the market although in some extent it is compensated by the new family products evolution.

Meanwhile, one of the main tasks today is actively pushing on the pipeline of new products and projects to fulfill as much as possible the spare capacity created in the Group as a consequence of the slowdown, which applies especially to machining activity and grey iron castings. On the other hand, the medium and long-term strategy calls for introduction of new products and customers (organically and through acquisitions) to grow the business even when the automotive sector is not performing as in the past. The Group is well prepared in terms of assets and technologies to benefit from its future organic growth in both casting businesses – iron and aluminium.

### *Economy drivers*

Productivity ratios in nodular iron business are improving after the implementation of the new production line in August 2012, which is bringing a much higher efficiency in the production process. This was already visible during first quarter and it should even enhance throughout the year to the same extent that the current products are shifted for their manufacturing in the new machine and new projects start on production.

As regards raw material activity, the Group expects some stability compared to the previous year. Energy price is also expected to be more stable comparing precedent years and it is already adapted to market conditions in the current surcharge agreements in place.

In this 2013 scenario of slow recovery and underused capacity, there is still an important competition factor which customers are taking advantage of to push down selling prices. The Group's important competitive advantage, mostly provided by the high degree of specialization and thorough knowledge of the product, should help the Group to a significant extent to face this situation in better standing, but the Group is aware that it is operating in a still unstable market, and only companies that manage to deal better with the new environment will be stronger after the slowdown.

### *Investment activity-CEE Investment Project*

In the context of expected constant growth in the automotive market for the following years, CEE expansion as the Group's platform to grow in the nodular iron segment for the automotive market is also an important asset for the Group which will bring additional value in the near future. This investment jointly with the new molding line already implemented in Spain,

which represented some additional and higher amounts of capex in 2012 largely above EUR 11 million and it is still expected to represent near half of this amount in 2013.

This capex program has been already completed as regards the Spanish plant and is currently in the last stage of implementation in the Czech plant (CEE Investment Project).

Concerning CEE Investment Project, the estimated deadline for the main milestones was the following:

- 1- March 2013 (planned for October 2012): Launch of new equipment' tests in place
- 2- March 2013: homologation plan for nodular iron production
- 3- End of 2nd quarter 2013 (formerly 1st Quarter 2013): serial production with the new equipment

The first step does also assume the replacement of cupola by electrical furnaces thus eliminating or reducing to a minimum the consumption of two of most volatile and expensive raw material and bringing additional and important savings also for grey iron activity not contemplated in the initial stage of the project. Besides it will also procure more environmental friendly relationship with our surroundings.

As reported at the time of publication of the annual report, we had already completed this first step with the implementation of new machinery (comprising electrical furnaces for metal, sand plant and molding line for pouring and casting parts) and we had already initiated the trials and tests to be performed for customer homologation of different projects in order to start the serial production with the new equipment in the third quarter. However we have experienced many different difficulties since then, representing either important cost overruns or even influencing the capacity of the plant to produce in a stable and continuous manner and thus reducing turnover and potentially delaying the start on production. The consequences of the above will be especially visible in the second quarter. These are the kind of problems associated with the start of any industrial tool and even more when it implies not only a new set of manufacturing facilities but also to move to a new technology (nodular iron) and to a new market (automotive). We can only expect to fix these issues in the very short term for which we count with the support of both our internal know how as well as our usual external advisors.

On the commercial pipeline, our R&D department is currently developing projects for a certain small amount of mass production projects, feeding only in 2015 the expected volume for the full new capacity installed in the plant and with an enormous market potential to develop a further group growth.

An additional purpose of the programme is to expand the portfolio of manufactured products and further diversify future revenues. This programme is being entirely financed from internal resources. The management of the Group is currently involved in development of the growth project, and expects to increase current Group sales by up to 20% within the next 4 years. At the end of the period ACE Group will have three equally important production plants contributing comparable sales and operational profits.

#### *M&A*

Additional growth of production and sales should come from M&A activities. The management of ACE carefully review any acquisition targets that appear, to assess their potential impact not only on the Group's sales but also on the financial position of the future entity. For a transaction to be approved, it should generate added value for the Group and the shareholders and should not worsen the financial situation of the existing plants in any way.

As regards Group strategy as stated in our ESPI report published on December 2011, the goals stated therein remain unchanged and it will be our main framework to develop our activities within the near future.

## 6. Additional information

### **Major shareholders (over 5% of shareholder's equity) as of March 31<sup>st</sup>, 2013**

As of March 31<sup>st</sup>, 2013 the Company's share capital comprised 21 230 515 shares. The corresponding number of voting rights was 21 230 515.

To the best of the Company's knowledge as of the end of the first quarter of 2013, the following shareholders are entitled to exercise over 5% of voting rights at the General Meeting of Shareholders in the Company:

	<i>As of March 31, 2013</i> <i>(% of share capital)</i>	<i>As of December 31, 2012</i> <i>(% of share capital)</i>
Casting Brake (Spain)	2 430 607 (11,45%)	2 430 607 (11,45%)
PZU Złota Jesień OFE	4 187 959 (19,73%)	4 187 959 (19,73%)
ING Nationale Nederlanden Polska OFE	3 767 347 (17,74%)	3 767 347 (17,74%)
Aviva OFE	1 996 491 (9,40%)	1 996 491 (9,40%)
Noble Funds TFI	1 076 463 (5,07%)	1 076 463 (5,07%)
Pioneer Pekao Investments	1 061 525 (5,00%)	1 061 525 (5,00%)

### **Changes in ownership of shares and rights to shares by Board of Directors' members**

Board of Directors and Management Committee members do not have directly any shares of ACE or its subsidiaries or any rights to them, although indirectly some of them hold a stake in the Company.

### **Information on any one or more transactions concluded by the issuer or its subsidiary with related parties**

The Company did not conclude any transactions with its subsidiaries or related parties in the first quarter of 2012.

### **Information on paid or planned dividend and buy-back**

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.

The Company acquires its own shares based on the share buy-back program commenced on December 12, 2012. The program was adopted by the General Meeting of Shareholders on June 19, 2012 (Current Report 13/2012) followed by a resolution of the Board of Directors (Current Report 20/2012). The buy-back program was authorized for the period until the next General Shareholders Meeting to be held in June 2013, or until the funds, in the amount of 5m euro, allocated for the execution of the program are depleted.

### **Changes of the Company's managing or supervisory persons in the first quarter of 2013**

There were no changes in the Company's managing or supervisory persons in the first quarter of 2013.

**Information on the supervision of employee stock option plans**

On 27 December 2010 Board of Directors approved a Management Remuneration scheme for current Senior Officers of ACE. According to the scheme managers will be entitled to receive a customary cash bonus related to Company growth year on year as well as value in shares of 5% of the Company market capitalisation (MCAP) growth in the period of 2010 – 2014.

The MCAP growth as the difference between initial share value and final share value will be adjusted for any share capital changes. The initial share value is PLN 9,1 . The final share value is the value of the Company shares resulting from the arithmetic average during the six (6) months after the publication of 2014 results. Allocated new shares will be subject to one year of lock-up period. Additional condition, which must be fulfilled to activate the scheme, is that cumulative value of EBITDA in the period 2010 – 2014 must reach certain level of EBITDA.

**Investor Relations Contact Person:**

***Piotr K. Fugiel***

***Investor Relations Officer***

***e-mail: investor.relations@acegroup.lu***

**Information on the revenues and net results of individual business segments and geographical segments**

Geographical segments in '000 Euro

	<i>First quarter of 2013</i>	<i>First quarter of 2012</i>
Western Europe	13 603	15 711
Eastern Europe	11 221	11 292
Other	1 305	199
<b>Total</b>	<b>26 129</b>	<b>27 202</b>

Business segments in '000 Euro

	<i>Iron castings</i>	<i>Aluminium castings</i>	<i>Other</i>	<i>Consolidated</i>
Total revenues	17 112	8 535	482	26 129
<b>Operating Profit for the segment</b>	<b>823</b>	<b>752</b>	<b>- 819</b>	<b>756</b>
<b>Net Profit for the segment</b>	<b>629</b>	<b>560</b>	<b>- 971</b>	<b>218</b>

## 7. Stock Market Information

### Basic Information

Fiscal Year:	1 January through 31 December
ISIN Code:	LU0299378421
Par Value:	EUR 0,15 per share
Market of Quotations:	Warsaw Stock Exchange

### Share Price Evolution

% of change as of the end of March 2013

	<i>Compared to the end of 2012</i>
ACE S.A.	+26,32%
WIG Index	-4,87%
SWIG80 Index	+4,74%

### Stock Market Data

	<i>First quarter of 2013</i>	<i>2012</i>	<i>2011</i>
Market capitalisation as of the end of the period (in millions of PLN and EUR)	PLN 152,9m € 36,6m	PLN 121,0m € 29,6m	PLN 94,5 m € 21,4 m
Share price (in PLN)			
- Highest	7,49	7,60	6,11
- Lowest	5,70	4,00	4,00
- Average	6,79	5,72	5,00
- At the end of the period	7,20	5,70	4,45
Shareholders equity per share in EUR (in PLN)	1,88 (7,85)	1,92 (7,85)	1,82 (8,04)

### Per Share Data

	<i>First quarter of 2013</i>	<i>2012</i>	<i>2011</i>
Earnings per share (in EUR)	0,01	0,11	0,10
Cash Flow per share (in EUR)	-0,05	-0,41	0,14
Dividend per share (in EUR)	-	0,05	0,07

## ***B. Condensed Consolidated Financial Statements for the quarter ended March 31<sup>st</sup>, 2013***

The condensed consolidated quarterly report for the first quarter of 2013 was prepared according to International Accounting Standards.

### **Applied Exchange rates**

As ACE is incorporated in Luxembourg, its statutory reporting currency is Euro. However, Polish plant uses *zloty* and Feramo uses Czech korona for both statutory and internal reporting. For the consolidation within ACE, the financial monthly statements of polish plant are converted into euro by being its functional currency.

The following table shows certain information regarding the exchange rate between *zloty* and euro for the respective periods of analysis. This information is based on the official exchange rates quoted by the National Bank of Poland on its website [www.nbp.gov.pl](http://www.nbp.gov.pl).

Investors should also note that the average rates are simple arithmetic averages for each given period.

<b><i>PLN per 1 Euro</i></b>	<b><i>Average</i></b>	<b><i>Highest</i></b>	<b><i>Lowest</i></b>	<b><i>Period end</i></b>
1 Jan – 31 Mar 2012	4,2298	4,5135	4,1062	4,1616
1 Jan – 31 Mar 2013	4,1550	4,2028	4,0671	4,1774

The following table shows certain information regarding the exchange rate between *korona* and euro for the respective periods of analysis. This information is based on the official exchange rates quoted by the Czech National Bank on its website [www.cnb.cz](http://www.cnb.cz).

Investors should also note that the average rates are simple arithmetic averages for each given period.

<b><i>CZK per 1 Euro</i></b>	<b><i>Average</i></b>	<b><i>Highest</i></b>	<b><i>Lowest</i></b>	<b><i>Period end</i></b>
1 Jan – 31 Mar 2012	25,0835	25,9100	24,4650	24,7300
1 Jan – 31 Mar 2013	25,5683	25,8400	25,2250	25,7350

### **Consolidated Balance Sheet as of March 31<sup>st</sup>, 2013 in thousands of Euros**

<b><i>Assets</i></b>	<b><i>As of Mar 31, 2013</i></b>	<b><i>As of Dec 31, 2012</i></b>	<b><i>As of Mar 31, 2012</i></b>
<b>Non-current Assets</b>			
Intangible assets	216	245	223
Property, plant and equipment	45 570	45 549	38 000
Derivative financial instruments (NCA)	15	71	51
Deferred tax assets	1 691	1 272	1 017
	<b>47 493</b>	<b>47 137</b>	<b>39 292</b>
<b>Current assets</b>			
Inventories	6 801	8 745	8 621
Trade and other receivables	18 161	14 532	19 311
Derivative financial instruments (CA)	167	205	66
Current income tax assets	84	78	2
Other current assets	28	28	14
Cash and cash equivalents	11 079	12 407	16 039
	<b>36 321</b>	<b>35 995</b>	<b>44 053</b>
<b>Total assets</b>	<b>83 814</b>	<b>83 132</b>	<b>83 344</b>

<i>Equity &amp; Liabilities</i>	<i>As of Mar 31, 2013</i>	<i>As of Dec 31, 2012</i>	<i>As of Mar 31, 2012</i>
<b>Equity</b>			
Share capital	3 185	3 185	3 185
Share premium	5 444	5 444	5 444
Retained earnings	31 750	29 576	30 661
Cash flow hedges	- 118	- 47	- 215
Exchange gain or loss against equity	- 262	161	116
Profit for the year	218	2 372	785
	<b>40 216</b>	<b>40 691</b>	<b>39 977</b>
<b>Liabilities</b>			
<b>Non-current liabilities</b>			
Borrowings (NCL)	19 066	18 461	16 513
Deferred income	522	555	242
Deferred tax liabilities	2 745	2 604	2 918
Provisions for other liabilities and charges (NCL)	93	93	90
Derivative financial instruments (NCL)	360	374	308
	<b>22 787</b>	<b>22 087</b>	<b>20 072</b>
<b>Current liabilities</b>			
Trade and other payables	16 870	16 408	19 546
Borrowings (CL)	3 168	3 486	2 862
Derivative financial instruments (CL)	8	1	107
Current income tax liabilities	268	30	235
Other current liabilities	44	44	46
Provisions for other liabilities and charges (CL)	453	384	499
	<b>20 810</b>	<b>20 354</b>	<b>23 296</b>
<b>Total Liabilities</b>	<b>43 597</b>	<b>42 441</b>	<b>43 368</b>
<b>Total equity and liabilities</b>	<b>83 814</b>	<b>83 132</b>	<b>83 344</b>

**Consolidated Income Statement for the period from January 1<sup>st</sup> to March 31<sup>st</sup>, 2013  
in thousands of Euros**

	<i>For the 1<sup>st</sup> quarter of 2013 From January 1<sup>st</sup> to March 31<sup>st</sup>, 2013</i>	<i>For the 1<sup>st</sup> quarter of 2012 From January 1<sup>st</sup> to March 31<sup>st</sup>, 2012</i>
Revenues	26 129	27 202
Costs of goods sold	-21 436	-22 920
Gross profit	4 693	4 281
Selling and distribution costs	- 594	- 582
General and administration costs	-3 561	-3 336
Other income	304	463
Other expenses	- 87	- 35
Operating profit	756	790
Financial result	-304	63
<b>Profit before income tax</b>	<b>452</b>	<b>853</b>
Income tax expense	- 234	- 68
<b>Profit for the period</b>	<b>218</b>	<b>785</b>

**Consolidated Statement of changes in Shareholders' Equity for the period from January 1<sup>st</sup> to March 31<sup>st</sup>, 2013 in  
thousands of Euros**

Attributable to equity holders of the Parent

	<i>Share capital</i>	<i>Share premium</i>	<i>Legal Reserve</i>	<i>Treasury shares</i>	<i>Retained earnings</i>	<i>Cash flow hedges</i>	<i>Exchange differences</i>	<i>Profit for the period</i>	<i>Net Equity</i>
<b>Balance as of Jan 1, 2013</b>	<b>3 185</b>	<b>5 444</b>	<b>320</b>	<b>-25</b>	<b>29 281</b>	<b>- 47</b>	<b>161</b>	<b>2 372</b>	<b>40 691</b>
Allocation of previous year profit					2 372			-2 372	0
Profit / Loss for the period								218	218
Total recognised income and expenses for the period								218	<b>218</b>
Exchange differences							-423		- 423
Purchase of treasury shares				-198					- 198
Dividend distribution									
Changes in fair value of currency hedging instruments						-71			-71
<b>Balance as of Mar 31, 2013</b>	<b>3 185</b>	<b>5 444</b>	<b>320</b>	<b>-223</b>	<b>31 653</b>	<b>-118</b>	<b>- 262</b>	<b>218</b>	<b>40 216</b>

**Consolidated Cash Flow Statement for the period from January 1<sup>st</sup> to March 31<sup>st</sup>, 2013**  
**in thousands of Euros**

	<i>From Jan 1<sup>st</sup> to Mar 31<sup>st</sup>, 2013</i>	<i>From Jan 1<sup>st</sup> to Mar 31<sup>st</sup>, 2012</i>
Profit before income tax	452	853
Adjustments for:		
- Depreciation and amortizations of non-current assets	1 205	1 325
- Losses on sale of property, plant and equipment	0	- 21
- Net financial result	323	- 202
-Gain and losses on charges in fair values of derivate financial instruments	0	1
- Net movements in provisions	- 174	- 5
Changes in working capital(excluding effects of acquisition and exchange differences on consolidation)		
- Inventories	1 925	127
- Trade and other receivables	-3 624	-2 231
- Trade and other payables	1 166	-1 412
<b>Cash from operating activities</b>	<b>1 274</b>	<b>-1 564</b>
Income tax paid	- 98	- 112
<b>Net cash from ordinary activities</b>	<b>1 176</b>	<b>-1 677</b>
<b>Cash flows from investing activities</b>		
Purchases of property, plant and equipment (PPE)	-1 866	-1 121
Proceeds from sale of non-current assets		27
Purchases of intangible assets		- 11
<b>Net cash used in investing activities</b>	<b>-1 866</b>	<b>-1 104</b>
<b>Cash flows from financing activities</b>		
Purchase of treasury shares	- 197	0
Repayments of bank borrowings	- 455	-1 741
Repayment of other loans	0	- 239
Proceeds from other loans	548	- 26
Net of financial result paid and received	- 231	177
<b>Net cash used in financing activities</b>	<b>- 335</b>	<b>-1 829</b>
<b>Net (decrease)/increase in cash, cash equivalents and bank overdrafts</b>	<b>-1 025</b>	<b>-4 610</b>
Cash, cash equivalents and bank overdrafts at beginning of the period	12 407	20 466
Effects of exchange rate changes on the balance of cast held, in foreign currencies	- 302	183
<b>Cash, cash equivalents and bank overdrafts at the end of the period</b>	<b>11 079</b>	<b>16 039</b>

**Notes to condensed financial statements**Accounting policies

The accounting principles and measurement basis of these Condensed Consolidated Financial Statements are consistent with those applied in the prospectus and have remained unchanged. In the preparation of these financial statements, the Company has followed the IAS interim condensed financial reporting standards.

Regarding the tax credits for R&D expenses, the Company reviewed during 2012 the accounting treatment defined by IAS 12 and IAS 20, as this activity is gaining importance in the Company life. In this regard, the Company applied historically the IAS 12, and thus recorded those tax credits as "Income tax expense". However, after a deeper review of those IAS, as R&D tax credits are not taxable profits nor are based on taxable profits since they depend on a level of R&D expense, in Management opinion IAS 12 does not describe the accounting treatment that should be followed.

On the other hand, R&D tax credits are not excluded from IAS 20 and the accounting treatment defined thereof reflects more accurately our real performance given the nature of such expenses. Indeed, these grants relate to expenditures incurred by the company mainly in salaries and wages, materials, outsourcing and other indirect costs. Consequently, the company has recorded in the financial statements for year 2012 and followings, these R&D tax credits with other Government Grants in "Other Income" according to IAS 20. Moreover, there is a direct link between the level of expenses in R&D and the government grants received consequently, and these factors are considered by the Company in its decision making process before undertaking a new R&D Project.

It should be taken into consideration that this accounting treatment does not affect to earnings per share, as it does not have any impact in the Net profit.

Consolidated entities

<i>Company name</i>	<i>Status</i>	<i>Ownership</i>	<i>Consolidation method</i>
ACE S.A.	Holding Company	-	Full
ACE Boroa S.L.	Holding Company	100%	Full
ACE 4C, A.I.E	R&D	100%	Full
Fuchosa S.L.	Operating	100%	Full
EBCC Sp. z o.o.	Operating	100%	Full
Feramo S.r.o.	Operating	100%	Full

Share capital changes

During IPO which took place in May 2007 the Company issued 2 065 160 new shares, which were offered to new investors of ACE as well as 10 103 927 existing shares which were sold by old shareholders. Changes in the share capital are illustrated in the following table.

	<i>Before IPO</i>		<i>After IPO</i>		<i>Current</i>	
	<i>No of shares</i>	<i>%</i>	<i>No of shares</i>	<i>%</i>	<i>No of shares</i>	<i>%</i>
Existing shares	20 050 100	100%	20 050 100	90,66%	21 230 515	100%
New shares	-	-	2 065 160	9,34%	-	-
<b>Total</b>	<b>20 050 100</b>	<b>100%</b>	<b>22 115 260</b>	<b>100%</b>	<b>21 230 515</b>	<b>100%</b>

Non-recurring items affecting assets, liabilities, equity, net income or cash flows for the first quarter

There were no significant non-recurring items affecting assets, liabilities, equity, net income or cash flows for the first quarter.

The nature and amount of changes in estimates of amounts reported in previous financial reports having material effect in the current financial report.

There has been no change in estimates of amounts since publication of the Prospectus. All valuation methods applied in this report are consistent with those used for financial statements presented in the Prospectus.

Dividends Paid in the period of the first quarter of 2013

There were no dividend paid in the first quarter of 2013.

Issuances, repurchases and repayments of debt and equity securities

The company repaid EURO 455 thousands of debt in the first quarter of 2013.

Material events after the end of the first quarter of 2013 that have not been reflected in the financial statements

There were no material events after the first quarter of 2013.

Changes in the composition of the Company during first quarter of 2013

There has not been any change in composition of the ACE group within the period.