# Automotive Components Europe S.A.

## Quarterly Consolidated Report

### for the

### Quarter ended December 31st, 2012

# Table of contents

# 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 the Directors of the Company, basing on the 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, located 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 1st, 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 December 31, 2012

Management Committee:

| | |
|---|---|
| *Jose Manuel Corrales* | *Chief Executive Officer* |
| *Raul Serrano* | *Senior Officer, Chief Financial Officer* |
| *Carlos Caba* | *Senior Officer, Business Development Manager* |

Board of Directors:

| | |
|---|---|
| *Jose Manuel Corrales* | *Class CB Director, President* |
| *Raul Serrano* | *Class CB Director* |
| *Jerzy Franczak* | *Independent Director* |
| *Rafał Lorek* | *Independent Director* |
| *Piotr Nadolski* | *Independent Director* |
| *Oliver Schmeer* | *Independent Director* |

The condensed consolidated quarterly report for the fourth quarter of 2012 was prepared according to International Accounting Standards.

# 2. Financial Highlights

in '000 Euro

| *Selected consolidated financial items* | *For the 4th quarter of 2012 From October 1st to December 31st, 2012* | *From Jan 1st to Dec 31st, 2012 Cumulative* | *For the 4th quarter of 2011 From October 1st to December 31st, 2011* | *From Jan 1st to Dec 31st, 2011 Cumulative* |
|---|---|---|---|---|
| *Revenues from sales* | 22 334 | 98 618 | 25 255 | 100 689 |
| *Operating Profit* | 357 | 3 057 | 1 096 | 4 898 |
| *Profit before tax* | 758 | 2 678 | 633 | 3 315 |
| *Net profit* | 586 | 2 372 | 461 | 2 088 |
| *Net profit attributable to equity holders of the parent company* | 586 | 2 372 | 461 | 2 088 |
| *Cash flow from operating activities* | 2 439 | 4 804 | 6 579 | 8 711 |
| *Cash flow from investment activities* | -2 283 | -11 469 | - 872 | -2 816 |
| *Cash flow from financial activities* | 282 | - 996 | 519 | -1 970 |
| *Net cash flow* | 275 | -8 671 | 6 175 | 3 030 |
| *Current assets* | 35 995 | 35 995 | 46 266 | 46 266 |
| *Fixed assets* | 47 137 | 47 137 | 38 581 | 38 581 |
| *Total Assets* | 83 132 | 83 132 | 84 847 | 84 847 |
| *Liabilities* | 42 441 | 42 441 | 46 237 | 46 237 |
| *Long-term Liabilities* | 22 087 | 22 087 | 20 501 | 20 501 |
| *Short term Liabilities* | 20 354 | 20 354 | 25 736 | 25 736 |
| *Shareholders' Equity* | 40 691 | 40 691 | 38 609 | 38 609 |
| *Shareholders' equity attributable to shareholders of the parent company* | 40 691 | 40 691 | 38 609 | 38 609 |
| *Share capital* | 3 185 | 3 185 | 3 185 | 3 185 |
| *No of shares outstanding* | 21 230 515 | 21 230 515 | 21 230 515 | 21 230 515 |
| *Net profit (loss) per share* | 0,03 | 0,11 | 0,02 | 0,10 |
| *Book value per share* | 1,92 | 1,92 | 1,82 | 1,82 |

# 3. Financial performance

**Consolidated Profit & Loss Statement**

in '000 Euro

| | *For the 4th quarter of 2012 From October 1st to December 31st, 2012* | *From Jan 1st to Dec 31st, 2012 Cumulative* | *For the 4th quarter of 2011 From October 1st to December 31st, 2011* | *From Jan 1st to Dec 31st, 2011 Cumulative* |
|---|---|---|---|---|
| *Revenues from sales* | 22 334 | 98 618 | 25 255 | 100 689 |
| *Cost of goods sold* | -18 874 | -81 607 | -20 522 | -81 596 |
| *Gross profit* | 3 460 | 17 011 | 4 733 | 19 093 |
| *GP margin* | *15,5%* | *17,2%* | *18,7%* | *19,0%* |
| *G&A expenses* | -3 102 | -13 954 | -3 636 | -14 195 |
| *Operating profit* | 357 | 3 057 | 1 096 | 4 898 |
| *OP margin* | *1,6%* | *3,1%* | *4,3%* | *4,9%* |
| *Depreciation & amortisation* | -1 574 | -5 201 | -1 594 | -5 972 |
| *EBITDA* | 1 931 | 8 258 | 2 691 | 10 870 |
| *EBITDA margin* | *8,6%* | *8,4%* | *10,7%* | *10,8%* |
| *Financial Result* | 401 | - 379 | - 463 | -1 583 |
| *Profit before tax* | 758 | 2 678 | 633 | 3 315 |
| *Tax* | - 172 | - 306 | - 172 | -1 227 |
| *Net profit* | 586 | 2 372 | 461 | 2 088 |
| *NP margin* | *2,6%* | *2,4%* | *1,8%* | *2,1%* |

**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.

| *Sales revenues in '000 Euro* | *Four quarters of 2012* | *%* | *Four quarters of 2011* | *%* |
|---|---|---|---|---|
| *Sales of products* | 95 185 | 96,5% | 97 160 | 96,5% |
| *Sales of goods and materials* | 3 433 | 3,5% | 3 528 | 3,5% |
| ***Total sales revenue*** | **98 618** | **100%** | **100 689** | **100%** |

| *Sales revenue in '000 Euro* | *Four quarters of 2012* | *%* | *Four quarters of 2011* | *%* |
|---|---|---|---|---|
| *Nodular iron products* | 50 616 | 53,2% | 49 160 | 50,6% |
| *Grey iron products* | 12 947 | 13,6% | 14 176 | 14,6% |
| *Aluminum products* | 23 188 | 24,4% | 26 278 | 27,0% |
| *New family products* | 8 434 | 8,9% | 7 547 | 7,8% |
| ***Total sales*** | **95 185** | **100%** | **97 160** | **100%** |

| *Sales volumes in thousand pieces* | *Four quarters of 2012* | *Four quarters of 2011* |
|---|---|---|
| *Nodular iron products* | 23 133 | 23 031 |
| *Grey iron products* | 1 606 | 1 786 |
| *Aluminum products* | 5 087 | 5 364 |
| *New family products* | 2 237 | 1 733 |
| ***Total pieces sold*** | **32 063** | **31 915** |

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

| *Revenues by country* | *Four quarters of 2012* | *Four quarters of 2011* |
|---|---|---|
| *Czech Republic* | 22,5% | 23,0% |
| *Germany* | 21,1% | 22,9% |
| *France* | 13,3% | 13,5% |
| *Slovakia* | 10,8% | 11,4% |
| *Spain* | 9,0% | 8,2% |
| *Poland* | 4,6% | 4,6% |
| *Other* | 18,6% | 16,4% |
| ***Total*** | **100,0%** | **100,0%** |

**Automotive Market Performance**

| *Thousand Units* | *Four quarters of 2012* | *Four quarters of 2011* | *Difference* | *%* |
|---|---|---|---|---|
| *Cars sold* | 11764 | 12809 | -1045 | -8,2% |
| *Cars manufactured* | 11389 | 12658 | -1269 | -10,0% |
| *Difference sales - production* | 375 | 151 | 223 | 147,8% |
| *ACE Automotive* | 30457 | 30129 | 328 | 1,1% |

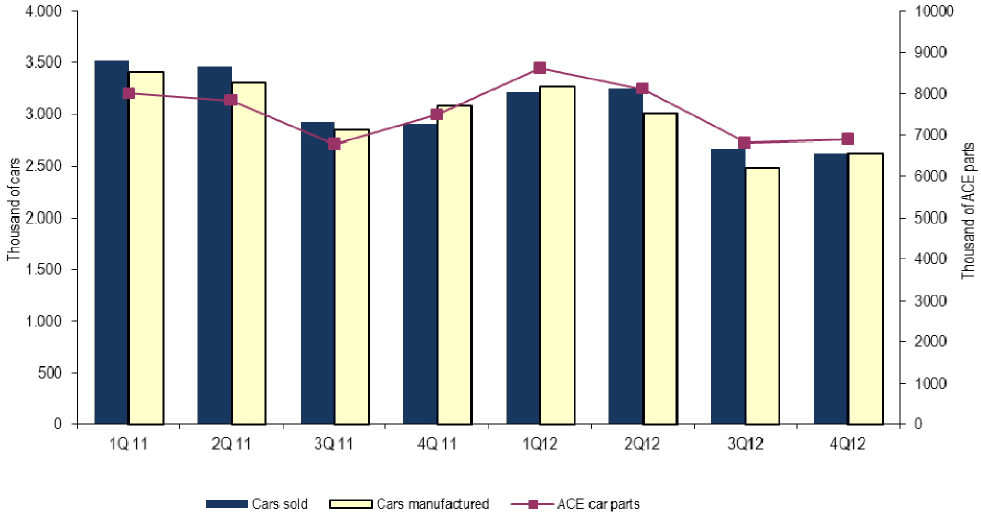
| *Thousand Units* | *Fourth quarter of 2012* | *Fourth quarter of 2011* | *Difference* | *%* |
|---|---|---|---|---|
| *Cars sold* | 2623 | 2904 | -282 | -9,7% |
| *Cars manufactured* | 2626 | 3084 | -458 | -14,9% |
| *Difference sales - production* | -3 | -180 | 177 | 98,1% |
| *ACE Automotive* | 6891 | 7497 | -606 | -8,1% |

*Source: Western Europe by LMC Automotive Forecasting, ACE*

In fourth quarter of 2012 sales of cars in Western Europe decreased by about -282,000 units, or -9.7%, from the fourth quarter of 2011, according to LMC Automotive. It is now five consecutive quarters since this market reported the last year on year improvement showing in this quarter the largest contraction. Indeed, market conditions remain tough. The year-to-date market for the same region was down by -1.045.000 units or -8.2%, being this difference softer in the Pan-European region, where sales of cars year-to-date declined by -5.6%.

Car production in Western Europe year on year was even much lower than in the fourth quarter of 2011, by around -458,000 units or -14.9%. In the year to date the difference is lower by -10.0% (-1.269.000 units) and reduced in Europe as a whole down to -6.2%.

The gap between sales and production shows a more stable structure in this quarter, although its allocation is still uneven across the year, where production and inventories were usually corrected downward, as shown in the table below:

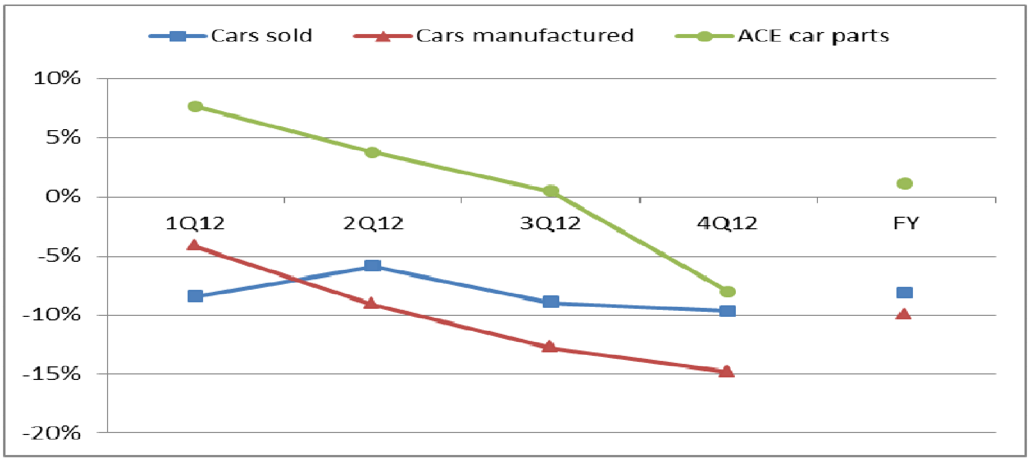



**ACE sales in the market context**

In volume terms the increase year on year was down by -8.1% in number of units for automotive segment, which is also the same for the whole Group. The allocation of this volume decline is very well balanced in the different automotive business segments with the nodular iron segment declining by -8.0%, and aluminium by -8.3%. However, in aluminium segment the new family of products is gaining importance growing near 10% whereas machining declines by -20%. In non-automotive segment, grey iron also declines by -8.4%, even higher if we refer to weight (-10.7%) which is a much more reliable indicator for this business.

Despite this negative trend in sales, Group volumes outperformed market sales once again, and was significantly above market production. This is even more visible in year-to-date, where Group automotive sales in number of units grew by 1.1% (0.5% for the whole Group) but with some more unbalanced distribution throughout the different automotive segments as we can see in the corresponding table above (volume sales).

The Group outperformance comparing with market volumes year-on-year can be seen throughout the year, although the deeper the market falls, the lower this positive gap is as regards market volume, as we can see in the chart below representing year-on-year quarterly difference in percentage.




In terms of turnover, it decreased y-o-y by EUR 2 921 thousand or -12%, being aluminium the segment declining most by EUR 1 455 thousand or -16% as a result of the reduction of the machining business, a cheaper mix of new family of products as well as a less expensive aluminium y-o-y. Meanwhile the iron division descends an average of 7% which is more consistent with its reduction of volume. On the one hand Nodular iron business declined by -6% partially compensating the fall of volume with better sales mix and improved agreements of raw materials and energy surcharged to the customers, and on the other hand non-automotive Grey Iron business declined by 13%, which is more in line with its volume reduction in weight by 10.7%.

**Direct production costs and gross profit**

The sales reduction is the main reason for Gross Profit decline in the period, mostly in the iron division which is consistent with its share in the group revenues. However there were other factors influencing the Gross Profit, as the negative activity of raw material especially in Czech Republic as a result of higher volatility of prices for some raw materials and the increasing expenses of energy in Spain recurrent across the year because of re-start of the third moulding line that nonetheless was turned off during this the period.

FX activity in the operating level was also negative by around EUR -200 thousand as a result of the strengthening polish zloty year on year.

Otherwise, the very important savings in personnel costs near EUR 400 thousand in the quarter as a result of the actions taken to counteract the lower activity as well as the efficiency improvements achieved were not enough to compensate the above.

Finally, lower depreciation connected with the ending of expected useful life of many Group assets related mainly to machining assets, compensated in this quarter by the accelerated depreciation of those assets replaced by the CEE investment project, led Gross margin to EUR 3 460 thousand (15.5% on sales), which is EUR 1 273 thousand lower than same quarter of 2011 (19% on sales).

**General & administrative expenses**

The important reduction of expenses in the period by EUR 534 thousand or -14.7% comparing the same quarter of 2011 has got different reasons behind, being some of them of non-recurrent nature and some other first year appearing.

In the negative side we have near EUR -750 thousand made up of expenses derived of the CEE Project with no visible result so far, M&A expenses incurred during the period and a provision issued for bad debts to cover the insolvency filling of a Spanish customer.

As positive we have EUR 1 047 thousand which are tax credits for research and development, formerly representing a lower amount and recorded in the Net Profit level as a reduction of Corporate Income Tax, that upon the growing importance of these activity and its operating nature we are now accounting as an operational income. Being fist year appearing we can expect however some maintenance of this operating income in the future as far as tax rules do not change (as this regard see also note B. Condensed Consolidated Financial Statements for the quarter ended December 31st, 2012; Accounting polices).

**EBITDA and operating profit**

EBITDA in the period was positive by EUR 1 931 thousand (8.6% on sales), EUR 760 thousand down compared with the same period of 2011 (or 28% lower) for the reasons already mentioned.

As already stated, depreciation was in line with the comparative period, resulting in an operating profit of EUR 357 Thousand (EUR 739 thousand lower than 2011).

**Financial items**

The financial result for the fourth quarter of 2012 was positive by EUR 401 thousand, being the difference versus 2011 positive by EUR 864 thousand. The main reasons are on the one hand the capitalization of part of the Group loan financial interests devoted to CEE Project by EUR 538 thousand and on the other hand the currency exchange rate differences positive by EUR 281 thousand due to lower volatility of PLN. Hereafter we can expect some more stability in this chapter after the capitalization of part of the Group loan to Feramo to fund the CEE Project capex and further reclassification to long term of the remaining part of the loan.

After the period, the fair value of hedging instruments and the interest rate swap in the balance sheet is negative by only EUR 100 thousand, and it reduced around half comparing with previous quarter. 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**

Leveraged by the financial results, profit before income tax was very positive by EUR 758 thousand, which is EUR 125 thousand higher comparing with previous year.

Tax recorded was negative by EUR 172 thousand which is equal to the same quarter of 2011, despite the one off effect in this quarter of the variance of accounting treatment for R&D tax credits described above which is compensated by other tax credits connected with the investments in the Spanish Nodular iron business and the losses of the Grey iron business.

**Net profit**

Reflecting all the above, the Group was also very positive at the net profit level, arising at EUR 586 thousand and positive by EUR 125 thousand higher comparing with 2011.

In the year-to-date, despite an EBITDA by EUR 8.3 million (8.4% on sales), lower by EUR 2.6 million than in 2011, all the profit margins below reduced their difference year on year. Thereby, EBIT rose to EUR 3.1 million, which is only EUR 1.8 million below (as a result of the lower depreciation in 2012) and Net profit to EUR 2.4 million or EUR 0.3 million above 2011, reflecting a better financial result as well as a lower income tax for the same reasons already mentioned.

**Financial Position**

The operating generation of cash from January to December of 2012, by EUR 3 794 thousand, was limited by the increase of working capital and the reduction of EBITDA:

Otherwise, the net investing activities amounted to EUR 11 469 thousand in the period, mainly affected by CEE project capital expenditure. The financing activity is driven by the repayment of Group loans and dividend payout, but also reduced by a new loan of EUR 3 million related to the new investment in Spain showing total financial cash outflows in a net amount of EUR 996 thousand.

Despite all the above, the final cash position of the Group as of the end of December 2012 is strongly positive by EUR 12 407 thousand growing the Net debt as of same date up to EUR 9 540 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 February 2013 predicts a decline of new car sales in Western Europe by about -4,1%, downgraded from a -0,5% in September 2012, corresponding with a lower production decline of around -1% (source: PwC Autofacts January 2013 including commercial light vehicles) or even +1% for Pan-Europe. This forecast is also being slightly downgraded comparing with the one issued one quarter ago where expected production for 2013 increased by 0.5% and 2.6% in 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.

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, the 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 above 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. The evolution of the "new family products" continues its strong growth and in 2012 grew by 29% comparing 2011 and more than 7 times versus 2009, first year of introduction, which very well illustrates and supports that strategy.

**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 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 from the beginning of 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 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 four quarters of 2012 are as follows:

In '000 Euro

| | *Four quarters of 2012* | *Four quarters of 2011* |
|---|---|---|
| Investments in R&D | 1 910 | 899 |
| Costs regarding R&D | 1 481 | 1 097 |
| **Total R&D expenses** | **3 391** | **1 996** |

## 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 is expected to launch 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 America.

*Combined engineering and other synergies*
Integration of the automotive plants as well as the non-automotive Feramo within the ACE Group will result in synergies in the very near future. Combined engineering will be of particular importance in the development of new products in both iron and aluminium. The Polish and Czech plants benefit from the experience of the plant in Spain and are further developing their general management systems.

# 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 four 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 we include Eastern Europe 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 February for full-year 2013, anticipates a decline by -4.1% from 2012.

This is also more or less balanced with production forecasts. PwC Autofacts, in its last quarterly forecast update (including light commercial vehicles, LCV) issued in January 2013, shows a decrease of -1.2% in full year 2013 for the European Union (although there is even an expected increase by 0.6% when we include Eastern Europe).

Indeed, with the economic outlook remaining challenging, 2013 is expected to see volumes flat. PwC Autofacts forecast "assumes continued contraction in most of the markets through the first half of the year, followed by some stabilization and then a return to growth in an increasing number of markets 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.

As far as nodular iron segment is concerned, most of the growth of sales in kg, in the range of 5-10%, is coming from the new capacity created by CEE Project in our Czech plant, although it is also expected some increase for our Spanish plant that otherwise will be produced in a more efficient manner with the new production facility.

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.

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 will improve after the implementation of the new production line in August 2012, which will bring a much higher efficiency in the production process. The visibility of this improvement will 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 another subject that in the trend of permanent growth is constantly open in the negotiations with customers to adapt the current surcharge agreements in place to market conditions or to start new agreements when it is not implemented with each relevant customer.

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, jointly with an investment project to boost the efficiency in the nodular iron business in Spain, that were also representing some additional and higher amounts of capex especially in 2012.

We expected 2012 to be a transition year as we digest an ambitious capex program of around EUR 12 million which would not be visible in the financial results until 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 are 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
4- May 2013: new electrical connection VVN to feed both grey and nodular mass production
5- September 2013: decommissioning of cupola furnaces

As anticipated in previous reports there was a delay of around 3 months in the first milestone and there could be other comparable potential delays in some of the remaining milestones which otherwise should not have an equivalent impact on the final implementation. In fact, the delay of serial production by one quarter (milestone 3) is more related to the longer length of the trials and tests to be performed for customer homologation of different projects (milestone 2) . It means that the start on production of new facilities will be only partially visible in second half of the year.

The last step assumes the replacement of current furnaces 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. However it could also imply to anticipate some amount of capex which global amount is unlikely to change total capex.

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.

Training process definition, as an important tooling to transfer the knowledge of nodular iron technology from Spain to Czech Republic has been already completed and as starting point of such plan, a contingent of the Czech human resources were already moved to Spain.

An additional purpose of the programme is to expand the portfolio of manufactured products and further diversify future revenues. According to a preliminary schedule, the first parts will be produced from March 2013. 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.

Another important investment activity in 2012 has already taken place in our Spanish plant and consisted in the replacement of one of the current moulding lines, in order to increase the plant productivity and competitiveness. This investment was completed during breakdown of August and the serial production of the new equipment was only partially visible during 4th Quarter 2012 because in this testing period is more suitable to produce under the expected productivity curve.

*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 December 31st, 2012**

As of December 31st, 2012 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 fourth quarter of 2012, the following shareholders are entitled to exercise over 5% of voting rights at the General Meeting of Shareholders in the Company:

| | *As of December 31, 2012 (% of share capital)* | *As of December 31, 2011 (% of share capital)* |
|---|---|---|
| Casting Brake (Spain) | 2 430 607 (11,45%) | 2 430 607 (11,45%) |
| PZU Złota Jesień OFE | 4 187 959 (19,73%) | 4 214 174 (19,85%) |
| ING Nationale Nederlanden Polska OFE | 3 767 347 (17,74%) | 3 690 563 (17,38%) |
| Aviva OFE | 1 996 491 (9,40%) | Below 5% |
| Noble Funds TFI | 1 076 463 (5,07%) | Below 5% |
| Pioneer Pekao Investments | 1 061 525 (5,00%) | 1 061 525 (5,00%) |

On 4 December 2012 the Company received an official notification from Aviva Investors Poland SA, acting on behalf of "Aviva Investors Fundusz Inwestycyjny Otwarty" (hereinafter referred to as "the Fund") that due to a sale transaction of Automotive Components Europe SA (hereinafter referred to as "the Company") shares the total number of the Company's shares owned by the Fund decreased and the total number of votes fell below 5% of total votes in the Company.

On 6 December 2012 the Company received an official notification from Aviva Investors Poland SA, acting :

1. on Aviva Investors's Poland S.A. own name, as an entity which performs the actions consisting in management of investment portfolios of funds which governing body is Aviva Investors Poland Towarzystwo Funduszy Inwestycyjnych SA,
2. on behalf of "Aviva Investors Fundusz Inwestycyjny Otwarty" and "Aviva Investors Specjalistyczny Fundusz Inwestycyjny Otwarty" (hereinafter referred to as "the Funds")

that due to the sale transaction of Automotive Components Europe SA (hereinafter referred to as "the Company") shares the total number of the Company's shares owned by the Funds has decreased below 5% of total number of votes on general shareholders meeting.

**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 capitalized as Equity part of the current debt with Feramo in the amount of CZK 125.000.000.

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

The General Meeting of Shareholders held on 19 June 2012 approved the distribution of a dividend in the total amount of EUR 1,061,525.75, amounting to EUR 0.05 per share, to be paid from the "Other reserves".

On 23 July 2012, the Board of Directors of the Company adopted a resolution setting forth details of the dividend payment. The dividend was paid on 17 September 2012 to shareholders holding shares of the Company on 1 September 2012 (the record date). The dividend was paid in euro and distributed through the National Depository for Securities, in accordance with regulations applicable to dividend payments by companies listed on the Warsaw Stock Exchange.

The Company applied tax withholding rates applicable under Luxembourg law or other international laws.

The General Meeting of Shareholders held on 19 June 2012 approved buy-back of the Company shares. The maximum number of shares that may be acquired by the Company shall not exceed in total the maximum of five million euros (EUR 5 000 000). The details of the buy-back programme were described in the current report 20/2012. The programme was initiated on 12 December 2012 and as of the end of December 2012 the amount of treasury shares in the Company were 18 000 for a total acquisition cost of PLN 104 760.

**Changes of the Company's managing or supervisory persons in the fourth quarter of 2012**

There were no changes in the Company's managing or supervisory persons in the fourth quarter of 2012.

**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

| | *Four quarters of 2012* | *Four quarters of 2011* |
|---|---|---|
| Western Europe | 56 149 | 58 124 |
| Eastern Europe | 39 864 | 41 653 |
| Other | 2 606 | 912 |
| **Total** | **98 618** | **100 689** |

Business segments in ‘000 Euro

| | *Iron castings* | *Aluminium castings* | *Other* | *Consolidated* |
|---|---|---|---|---|
| Total revenues | 63 563 | 31 623 | 3 433 | 98 618 |
| **Operating Profit for the segment** | **3 819** | **2 467** | **-3 229** | **3 056** |
| **Net Profit for the segment** | **3 857** | **2 368** | **-3 853** | **2 372** |

# 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 December 2012

| | *Compared to the end of 2011* |
|---|---|
| ACE S.A. | +28,1% |
| WIG Index | +26,2% |
| SWIG80 Index | +22,9% |

## Stock Market Data

| | *Fourth quarter of 2012* | *2011* | *2010* |
|---|---|---|---|
| Market capitalisation as of the end of the period | PLN 121,0m | PLN 94,5 m | PLN 191,1m |
| (in millions of PLN and EUR) | € 29,6m | € 21,4 m | € 48,3m |
| Share price (in PLN) | | | |
| - Highest | 5,96 | 6,11 | 10,10 |
| - Lowest | 4,93 | 4,00 | 7,80 |
| - Average | 5,57 | 5,00 | 9,00 |
| - At the end of the period | 5,70 | 4,45 | 9,00 |
| Shareholders equity per share in EUR (in PLN) | 1,92 (7,85) | 1,82 (8,04) | 1,83 (7,25) |

## Per Share Data

| | *Four quarters of 2012* | *2011* | *2010* |
|---|---|---|---|
| Earnings per share (in EUR) | 0,11 | 0,10 | 0,12 |
| Cash Flow per share (in EUR) | -0,41 | 0,14 | 0,26 |
| Dividend per share (in EUR) | 0,05 | 0,07 | 0,05 |

# B. Condensed Consolidated Financial Statements for the quarter ended December 31st, 2012

The condensed consolidated quarterly report for the fourth quarter of 2012 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.
Investors should also note that the average rates are simple arithmetic averages for each given period.

| *PLN per 1 Euro* | *Average* | *Highest* | *Lowest* | *Period end* |
|---|---|---|---|---|
| 1 Oct – 31 Dec 2011 | 4,4213 | 4,5642 | 4,2716 | 4,4168 |
| 1 Jan – 31 Dec 2011 | 4,1196 | 4,5642 | 3,8403 | 4,4168 |
| 1 Oct – 31 Dec 2012 | 4,1136 | 4,1782 | 4,0643 | 4,0882 |
| 1 Jan – 31 Dec 2012 | 4,1852 | 4,5135 | 4,0465 | 4,0882 |

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

| *CZK per 1 Euro* | *Average* | *Highest* | *Lowest* | *Period end* |
|---|---|---|---|---|
| 1 Oct – 31 Dec 2011 | 25,2787 | 26,0250 | 24,7400 | 25,8000 |
| 1 Jan – 31 Dec 2011 | 24,5858 | 26,0250 | 24,0100 | 25,8000 |
| 1 Oct – 31 Dec 2012 | 25,1667 | 25,5800 | 24,7500 | 25,1400 |
| 1 Jan – 31 Dec 2012 | 25,1435 | 25,9600 | 24,4350 | 25,1400 |

**Consolidated Balance Sheet as of December 31st ,2012 in thousands of Euros**

| *Assets* | *As of Dec 31, 2012* | *As of Dec 31, 2011* |
|---|---|---|
| **Non-current Assets** | | |
| Intangible assets | 245 | 213 |
| Property, plant and equipment | 45 549 | 37 460 |
| Derivative financial instruments (NCA) | 71 | 6 |
| Deferred tax assets | 1 272 | 902 |
| | **47 137** | **38 581** |
| **Current assets** | | |
| Inventories | 8 745 | 8 707 |
| Trade and other receivables | 14 532 | 17 046 |
| Derivative financial instruments (CA) | 205 | 10 |
| Current income tax assets | 78 | 2 |
| Other current assets | 28 | 35 |
| Cash and cash equivalents | 12 407 | 20 466 |
| | **35 995** | **46 266** |
| **Total assets** | **83 132** | **84 847** |

| *Equity & Liabilities* | *As of Dec 31, 2012* | *As of Dec 31, 2011* |
|---|---|---|
| **Equity** | | |
| Share capital | 3 185 | 3 185 |
| Share premium | 5 444 | 5 444 |
| Retained earnings | 29 576 | 28 573 |
| Cash flow hedges | - 47 | - 594 |
| Exchange gain or loss against equity | 161 | - 87 |
| Profit for the year | 2 372 | 2 088 |
| | **40 691** | **38 609** |
| *Liabilities* | | |
| **Non-current liabilities** | | |
| Borrowings (NCL) | 18 461 | 16 806 |
| Deferred income | 555 | 253 |
| Deferred tax liabilities | 2 604 | 2 976 |
| Provisions for other liabilities and charges (NCL) | 93 | 85 |
| Derivative financial instruments (NCL) | 374 | 382 |
| | **22 087** | **20 502** |
| **Current liabilities** | | |
| Trade and other payables | 16 408 | 19 523 |
| Borrowings (CL) | 3 486 | 4 373 |
| Derivative financial instruments (CL) | 1 | 382 |
| Current income tax liabilities | 30 | 977 |
| Other current liabilities | 44 | 45 |
| Provisions for other liabilities and charges (CL) | 384 | 436 |
| | **20 354** | **25 736** |
| **Total Liabilities** | **42 441** | **46 238** |
| **Total equity and liabilities** | **83 132** | **84 847** |

**Consolidated Income Statement for the period from January 1st to December 31st, 2012**
**in thousands of Euros**

| | *For the 4th quarter of 2012 From October 1st to December 31st, 2012* | *From Jan 1st to Dec 31st , 2012 Cumulative* | *For the 4th quarter of 2011 From October 1st to December 31st, 2011* | *From Jan 1st to Dec 31st , 2011 Cumulative* |
|---|---|---|---|---|
| Revenues | 22 334 | 98 618 | 25 255 | 100 689 |
| Costs of goods sold | -18 874 | -81 607 | -20 522 | -81 596 |
| Gross profit | 3 460 | 17 011 | 4 733 | 19 093 |
| Selling and distribution costs | - 504 | -2 189 | - 593 | -2 386 |
| General and administration costs | -3 583 | -13 243 | -3 292 | -12 242 |
| Other income | 1 241 | 1 815 | 329 | 588 |
| Other expenses | - 256 | - 338 | - 81 | - 154 |
| Operating profit | 357 | 3 057 | 1 096 | 4 898 |
| Financial result | 401 | - 379 | - 463 | -1 583 |
| **Profit before income tax** | **758** | **2 678** | **633** | **3 315** |
| Income tax expense | - 172 | - 306 | - 172 | -1 227 |
| **Profit for the period** | **586** | **2 372** | **461** | **2 088** |

**Consolidated Statement of changes in Shareholders' Equity for the period from January 1st to December 31st, 2012**
**in thousands of Euros**

Attributable to equity holders of the Parent

| | *Share capital* | *Share premium* | *Legal Reserve* | *Retained earnings* | *Cash flow hedges* | *Exchange differences* | *Profit for the period* | *Net Equity* |
|---|---|---|---|---|---|---|---|---|
| **Balance as of Jan 1, 2012** | **3 185** | **5 444** | **320** | **28 253** | **- 594** | **- 87** | **2 088** | **38 609** |
| Allocation of previous year profit | | | **137** | **1 951** | | | **-2 088** | 0 |
| Profit / Loss for the period | | | | | | | **2372** | 2372 |
| Total recognised income and expenses for the period | | | | | | | **2372** | **2372** |
| Exchange differences | | | | | | 248 | | 248 |
| Purchase of treasury shares | | | | - 25 | | | | -25 |
| Dividend distribution | | | | -1 062 | | | | -1 062 |
| Changes in fair value of currency hedging instruments | | | | | 547 | | | 547 |
| **Balance as of Dec 31, 2012** | **3 185** | **5 444** | **457** | **29 118** | **- 47** | **161** | **2 372** | **40 690** |

**Consolidated Cash Flow Statement for the period from January 1st to December 31st, 2012**
**in thousands of Euros**

| | *From Jan 1st to Dec 31st, 2012* | *From Jan 1st to Dec 31st, 2011* |
|---|---|---|
| Profit before income tax | 2678 | 3 315 |
| Adjustments for: | 4 401 | 7 399 |
| - Depreciation and amortizations of non-current assets | 5 201 | 5 972 |
| - Losses on sale of property, plant and equipment | 41 | 6 |
| - Net financial result | 239 | 1 788 |
| -Gain and losses on charges in fair values of derivate financial instruments | - 1 | - 323 |
| - Net movements in provisions | -1 078 | - 45 |
| Changes in working capital(excluding effects of acquisition and exchange differences on consolidation) | -2 275 | -2 003 |
| - Inventories | - 2 | -1 022 |
| - Trade and other receivables | 2 549 | -3 111 |
| - Trade and other payables | -4 822 | 2 129 |
| **Cash from operating activities** | **4 804** | **8 711** |
| Income tax paid | -1010 | - 895 |
| **Net cash from ordinary activities** | **3794** | **7 816** |
| **Cash flows from investing activities** | | |
| Acquisition of subsidiary, net of cash acquired | - 24 | 0 |
| Purchases of property, plant and equipment (PPE) | -11 413 | -2 773 |
| Proceeds from sale of non-current assets | 59 | 26 |
| Purchases of intangible assets | - 91 | - 70 |
| **Net cash used in investing activities** | **-11 469** | **-2 816** |
| **Cash flows from financing activities** | | |
| Purchase of treasury shares | - 26 | 0 |
| Repayments of bank borrowings | -3 498 | -1 839 |
| Repayment of other loans | - 406 | - 167 |
| Proceeds from bank borrowings | 3 000 | 2 437 |
| Proceeds from other loans | 1 464 | 490 |
| Dividends paid to Company´s shareholders | -1 062 | -1 486 |
| Net of financial result paid and received | - 469 | -1 405 |
| **Net cash used in financing activities** | **- 996** | **-1 970** |
| **Net (decrease)/increase in cash, cash equivalents and bank overdrafts** | **-8 671** | **3 030** |
| Cash, cash equivalents and bank overdrafts at beginning of the period | 20 466 | 17 433 |
| Effects of exchange rate changes on the balance of cast held, in foreign currencies | 613 | 4 |
| **Cash, cash equivalents and bank overdrafts at the end of the period** | **12 407** | **20 466** |

**Notes to condensed financial statements**

*Accounting polices*

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 has reviewed 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 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.

The impact in the Group Financial Statements connected with this accounting treatment is as follows for year 2012, being year 2011 presented for comparative purposes only:

in '000 Euro

| | **R&D tax credits according to IAS20** | | | | **R&D tax credits according to IAS12** | |
|---|---|---|---|---|---|---|
| | ***From Jan 1st to Dec 31st , 2012 Cumulative **** | ***From Jan 1st to Dec 31st , 2011 Cumulative***** | *Impacts in 2012* | *Impacts in 2011* | ***From Jan 1st to Dec 31st , 2012 Cumulative ***** | ***From Jan 1st to Dec 31st , 2011 Cumulative**** |
| *Other income* | 1.815 | 1.064 | (1.047) | (476) | 768 | 588 |
| *EBITDA* | 8.258 | 11.346 | (1.047) | (476) | 7.211 | 10.870 |
| *Operating profit* | 3.057 | 5.374 | (1.047) | (476) | 2.010 | 4.898 |
| *Profit before tax* | 2.678 | 3.791 | (1.047) | (476) | 1.631 | 3.315 |
| *Income tax expense* | (306) | (1.703) | 1.047 | 476 | 741 | (1.227) |
| *Net profit* | 2.372 | 2.088 | - | - | 2.372 | 2.088 |

** As stated in the Group Financial Statements*
*** Presented only for comparative purposes*

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*

| *Company name* | *Status* | *Ownership* | *Consolidation method* |
|---|---|---|---|
| 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.

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

*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 fourth 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 fourth quarter of 2012*

There were no dividend paid in the fourth quarter of 2012.

*Issuances, repurchases and repayments of debt and equity securities*

The company repaid EURO 939 thousands of debt in the fourth quarter of 2012.

*Material events after the end of the fourth quarter of 2012 that have not been reflected in the financial statements*

There were no material events after the fourth quarter of 2012.

*Changes in the composition of the Company during fourth quarter of 2012*

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