

## Automotive Components Europe S.A.

January, 2008

**The ACE Group (Automotive Components Europe S.A.) is a leading supplier in Europe of automotive components for braking systems. The group specialises in production of two core components of disc brakes: iron anchors (the largest supplier in Europe, with around 44% of the relevant market) and aluminium callipers (holding 28% of the European market).**

The production of the ACE Group is concentrated in two operating companies wholly controlled by ACE: a plant in Spain for the casting of iron components and a plant in Poland for the casting and machining of aluminium components.

The ACE Group's customers include the largest European suppliers of brake modules such as Continental Teves, TRW Automotive and Robert Bosch. Products of the ACE Group are **installed in the majority of automobiles produced in Europe** (iron anchors are installed in about **125 models of cars** and aluminium callipers in 16 different brake system platforms, which are used in **about 50 car models**).

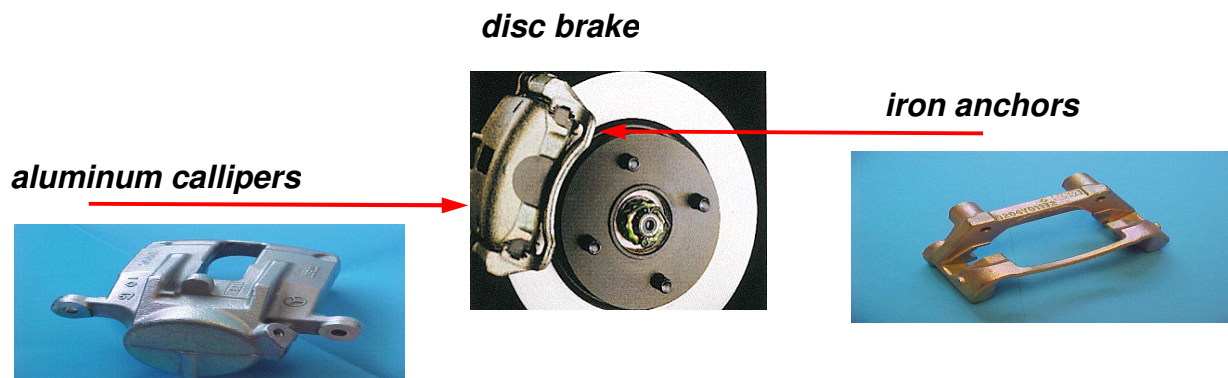
Both plants, present on the automotive market for years, established the ACE Group in 2006, thus creating a strong and specialised European supplier with diversified production technology (using three key technologies for the auto industry: iron casting, aluminium casting and machining). The ACE Group enjoys many benefits from the merger, such as more efficient customer service (thanks to a presence in both Western Europe and Central Europe) and a stronger position in the development of new products.

The creation of the ACE Group was made possible by investment funds advised by **Innova Capital**, a leading private equity firm in Central-Eastern Europe.

### The business of the ACE Group

The ACE Group is a leading European supplier of automobile components used in brake systems. The Spanish plant specialises in production of iron anchors and is **the leader in Europe in brake anchors (with a production of 26.9 million parts per year, about 44% of the European market in 2007)**. The Polish plant, specialises in casting and machining of aluminium auto components. It is the **second-largest supplier in Europe of aluminium brake callipers (with a production of 6.1 million parts per year, about 28% of the European market in 2007)**.

Both components, iron anchors and aluminium callipers, are core components of automotive disc brakes (the type of brakes installed in the majority of automobiles produced in Europe, which thanks to superior performance are replacing the other type of brakes, drum brakes).



The direct customers of the ACE Group are the largest European suppliers of automobile modules (Tier 1 manufacturers), such as Continental Teves, TRW Automotive and Robert Bosch. Platforms installed by these manufacturers are supplied to almost all the leading automobile manufacturers in Europe.

Each of the two sectors – production of nodular iron and aluminium components – accounts for about half of the ACE Group revenues.

The **Spanish plant** has been the leader for years on the market for iron anchors used in the construction of automobile brakes. The company's factory (with a built area of almost 12,000 sq m) is located in Spain, in the small town of Atxondo, 35 km from Bilbao. It has 4 electric furnaces for melting nodular iron and 3 modern production lines. The plant produces around 27 million iron anchors annually<sup>1</sup> (about 39,600 tonnes).

The history of this plant dates back to 1987, when it took over the operations of another foundry that had been incorporated in 1967. Since 1991, it has concentrated all of its production and specialisation on production of brake components (especially iron anchors). Before the plant became a part of the ACE Group, it belonged to sector investors, from the Valfond Group and Halberg Guss.

The **Polish plant** is located in Wrocław (Poland). Since 1999 (when the company was acquired by the Valfond Group, which was an investor until 2005) it has specialised in aluminium castings for the automotive industry. Previously the plant handled, among other things, the production of hydraulic pumps (the plant itself was established in 1961).

<sup>1/2</sup> Data for the year 2006

The company produces over 6 million aluminium brake callipers annually<sup>2</sup> (second-largest producer in Europe). These components, produced with the most modern technology, are installed in 16 different brake system platforms, which are used in about 50 car models.

The plant has a built area of about 21,300 sq m. It is equipped with 4 automatic lines for gravity casting of aluminium and 6 lines for machining of components (17 CNC machines).

**Both companies from the ACE Group**, active on the market for brake systems, which are crucial to the safety of automotive travel, must produce products that are fail-safe and of the highest quality. Plants employ both **state-of-the-art production standards** and **expert R&D teams** who develop innovative solutions and products, in a close collaboration with their customers that are adapted from the design stage to meet the needs of the specific customer.

## Market environment

The European automobile market is characterized by stable growth. In 2007 the Continent as a whole produced about 19.5 million cars<sup>3</sup>, which represented almost one-third of worldwide production (source: *PwC Autofacts*). While the average compound annual growth rate (CAGR) in 2002-2005 was 1.2%, for 2006-2010 a clear increase in the growth rate is anticipated, to the level of 3.2% (source: *Automotive News Europe, June 26, 2006*).

One feature of the European automotive market is the partial shifting of production from countries of Western Europe to countries of Central & Eastern Europe. Poland, the Czech Republic, Slovakia and Hungary, where the largest automakers and their suppliers have located plants, have become the chief engine for growth in the automotive market.

Growth in the automotive market translates into growth in the segment of brake systems, in which the companies from the ACE Group are active. What is driving the above-average production growth is the more frequent use in cars of disc brakes (in which anchors and callipers are core elements). **In rear axles, disc brakes are replacing the other type, drum brakes**, because they provide a shorter braking distance and work better in difficult conditions. Although more expensive, they are used more and more often even in smaller and cheaper cars. **All cars produced in Europe already have front-mounted disc brakes**. The share in the rear axle is still rising, today 72% of the rear **brakes are disc**.

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<sup>3</sup> Data for production within European Union

From a technological point of view the best material for **construction of anchors is nodular iron** (100% of anchors used in brakes are made from this material). In the case of **callipers**, however, **aluminium and nodular iron are both used**. The use of aluminium in the automotive industry is growing rapidly thanks to its specific properties. Aluminium is both light and highly durable, which makes it possible to reduce the weight of the vehicle, resulting in reduced fuel consumption and improved technical performance of the vehicle.

Since the late 1990's, **use of aluminium in construction of callipers has increased dramatically**. In recent years, this phenomenon has been noted specifically in the case of callipers used in rear-mounted disc brakes (today the great majority of them contain aluminium callipers). In the case of front disc brakes, however, cast aluminium callipers are installed for now only in the most technically advanced, more expensive cars. This is because front callipers require a significantly greater mass of aluminium, which is a more expensive material than nodular iron. Nonetheless, the growth potential for aluminium callipers in this segment in the next few years is considered very high.

In 2007 the **market for iron anchors** was estimated at about 62 million. The Spanish plant **is the largest producer (26.9 million units in 2007) with a steadily growing market share** (44%, as against 43% and 41% in the previous years). Production of anchors on the European market is concentrated; the four largest producers account for 85% of the market, with its largest competitor holding a market share about half as large as the plant in Spain.

**Market for aluminium callipers** in 2007 was estimated at 22 million units. **The Polish plant is the second-largest producer (6.1 million units in 2007), with a rapidly growing market share** (28% in 2007 and 26% in 2006 against 11% in 2002). The market for production of aluminium callipers could be defined as a duopoly, with about 70% of the market concentrated in the hands of the two largest producers.

## Development strategy

The ACE Group intends to strengthen its position as a leading supplier of brake system components to the automotive industry. The strategic goals which the ACE Group plans to achieve in the next 3 to 5 years include, among things, to become the European **leader in production of three or four products**, and **significant sales growth**, accompanied by **high profitability in terms of EBITDA**. The group intends to expand **organically** as well as through **acquisitions – specifically by acquiring companies from the iron casting sector located in Central & Eastern Europe**.

The strategy of the ACE Group for 2008-2011 calls for:

## 1. Strengthening the position of leader on the European market for brake system components

ACE plans to strengthen its position as the European leader in production of iron anchors, and to increase its market share as a supplier of aluminium callipers (today it holds second place in Europe).

Achievement of these goals will be made possible thanks to:

- Steady **growth in technology**, in order to maintain production at the highest standards. Another key success factor for the ACE Group is **well-qualified teams of engineers**. The group intends to steadily raise the skills of its employees, particularly personnel engaged in the processes of quality, R&D as development of new solutions and products. Implementing state-of-the-art technology is the basis for the dynamic growth of the ACE Group. Particularly taking into account the tendency visible on the market of shifting competencies related to R&D for new products from the level of Tier 1 suppliers (modules producers), to the of Tier 2 suppliers (producers of specific automotive components, like the ACE Group companies).
- A high level of innovation and skill in cooperating with customers at the production creation stage. ACE engineers are currently engaged in developing new technology for a braking system, in cooperation with one of the leading automotive supplier.
- High competitiveness. Alongside supplying products of the highest quality, the ACE Group is building its competitive advantage in constantly increase the productivity of the manufacturing processes and just-in-time deliveries.

## 2. Expansion of product line

In the near future, the ACE Group intends to expand its portfolio of product offerings.

The ACE Group has commissioned a study by the French metallurgy institute CTIF. The study concerning aluminium and nodular iron automotive components whose production involves advanced technology and a large scale of production. On the shortlist of products under consideration by the ACE Group are three additional aluminium casting and three additional iron products. It should be added that the group is considering only those segments of the automotive market in which **it should become one of the leading suppliers (top three) within the next 3 to 5 years**.

## 3. Growth of the group in Central & Eastern Europe

Location in Poland is currently key for the growth of the group because of its proximity to customers (more and more car producers and their suppliers are moving

plants to the Central & Eastern Europe) and the relatively lower labour costs (compared to the West European market). The group plans both growth in aluminium and acquisitions in the sector of casting of iron components.

#### **4. Exploiting business synergies within the group**

The operations of both plants within one capital group since 2006 will soon bring more and more tangible benefits. This will be especially visible in the use of combined forces to develop new products, and in more effective customer service (for geographical reasons, the Polish plant will handle customer service for the group in Germany, the Czech Republic and Slovakia, while the Spanish plant will service customers in other countries of Western Europe). Further fields of integration include logistics, finance and the IT system. Currently the two operating companies are well advanced in introduction of a unified ERP management support system.

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