



ANNUAL REPORT 2013

SECURING POWER
FOR MISSION-CRITICAL
APPLICATIONS



KEY PERFORMANCE INDICATORS (KPIs)

3W POWER | AEG POWER SOLUTIONS GROUP

in millions of euros	January 1 to December 31		
	2013	2012	% change
Backlog	88.1	131.1	-32.8%
Orders	238.3	384.7	-38.1%
Revenue	271.0	383.1	-29.3%
Book to Bill	0.88	1.00	-12.5%
EBITDA	(30.4)	11.2	na
% of revenue	-11.2%	2.9%	
Normalized EBITDA	(10.2)	21.6	na
% of revenue	-3.8%	5.6%	
Adjusted EBIT	(20.7)	8.1	na
% of revenue	-7.6%	2.1%	
Reported EBIT	(65.5)	(196.0)	66.6%
% of revenue	-24.2%	-51.2%	
Net income	(81.5)	(177.9)	54.2%
Adjusted net income	(38.5)	(10.7)	na
Earnings per share (in euros)	(1.70)	(3.72)	54.3%
Adjusted earnings per share (in euros)	(0.81)	(0.29)	na
Cash from operating activities	9.9	(35.2)	na
Cash used in investing activities	(7.6)	(12.5)	39.2%
Working capital	29.4	80.8	-63.6%
Cash	32.7	42.5	-23.1%
Net (debt)	(74.2)	(66.7)	-11.2%

AEG POWER SOLUTIONS – RENEWABLE ENERGY SOLUTIONS (RES)

in millions of euros	January 1 to December 31		
	2013	2012	% change
Backlog	14.1	57.2	-75.4%
Orders	57.4	195.3	-70.6%
Revenue	96.1	190.9	-49.6%
Book to bill	0.60	1.02	-41.7%
EBITDA	(6.8)	32.7	na
% of revenue	-7.1%	17.1%	
Normalized EBITDA	1.1	32.7	-96.6%
% of revenue	1.2%	17.1%	
Adjusted EBIT	(4.6)	24.6	na
% of revenue	-4.8%	12.9%	
Reported EBIT	(28.8)	(155.2)	81.4%
% of revenue	-29.9%	-81.4%	

AEG POWER SOLUTIONS – ENERGY EFFICIENCY SOLUTIONS (EES)

in millions of euros	January 1 to December 31		
	2013	2012	% change
Backlog	74.0	73.9	0.1%
Orders	180.9	189.4	-4.5%
Revenue	174.9	192.2	-9.0%
Book to bill	1.03	0.99	5.0%
EBITDA	(6.2)	(4.5)	-37.8%
% of revenue	-3.6%	-2.3%	
Normalized EBITDA	0.8	2.0	-59.5%
% of revenue	0.5%	1.0%	
Adjusted EBIT	(3.8)	(2.9)	-31.0%
% of revenue	-2.2%	-1.5%	
Reported EBIT	(18.9)	(22.6)	16.4%
% of revenue	-10.8%	-11.7%	

%-changes are not shown if considered not to be helpful in the understanding of the KPIs.

Due to rounding, numbers presented throughout this and other documents may not add up precisely to the totals provided and percentages may not precisely reflect the absolute figures.

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CHAIRMAN'S REVIEW

FROM DR. DIRK WOLFERTZ, CHAIRMAN OF THE BOARD OF DIRECTORS
OF 3W POWER | AEG POWER SOLUTIONS.



Dr. Dirk Wolfertz, Chairman of the Board of Directors at 3W Power | AEG Power Solutions since January 2014, spearheads the restructuring efforts with personal engagement and extensive experience and understanding of the power electronics industry.

DEAR STAKEHOLDERS IN
3W POWER | AEG POWER SOLUTIONS,

2013 was another bad year for 3W Power | AEG Power Solutions. In mid of December a major shareholder sold approximately 28% of the ownership to several highly experienced managers and successful entrepreneurs of medium-sized companies including myself. On December 13, 2013 four new Board members were coopted by the Board and I was elected as Chairman. Since then, our personal engagement combined with extensive experience and understanding of the power electronics industry is fully committed to the turnaround of the Company in the near future. Following the change in leadership, 3W Power | AEG Power Solutions formed a Restructuring Committee of the Board consisting of industry and restructuring experts and drew up a highly detailed operational restructuring plan. In this context, Jeffrey Casper was appointed as Chief Restructuring Officer. We reviewed the Company's business plan, liquidity situation as well as future earnings, and we started to implement major restructuring activities that should return the Company to profitability.

In order to establish a solid financial basis for the Company going forward, we engaged in discussions with the holders of the Company's €100 million corporate bond (ISIN DE000A1A29T7, 3W9A). In addition to the financial restructuring process, the Company started to pursue several other measures, including significant reduction of headcount and costs, especially overheads. To fund those activities we have monetized some non-core assets. After the previous management's efforts have failed to improve the profitability of the Group, we are now of the view that these necessary steps will position our Company for long-term success. This plan allows us to re-focus on our competitive strengths and to set the stage for a sustainable, profitable and successful future for AEG Power Solutions.

Some major restructuring milestones have already been achieved, but there is still much to be done. We are aware that the Company is still facing a lot of risks, but we are confident that we are on the right path. We are actively monitoring the business development and will take countermeasures wherever necessary. But there are great opportunities too, so let's boldly and energetically realize them.

In summary, moving forward with these changes is challenging but necessary. Progress has been made and everyone in the Group, from the Board of Directors, to the new management team and every employee, shares a common vision of how to create a solid base for providing best-in-class products, services and solutions for our customers around the world.

Thank you for your support and commitment.

Yours sincerely,

Dr. Dirk Wolfertz
Chairman of the Board of Directors

LETTER TO STAKEHOLDERS

FROM JEFFREY CASPER, CHIEF FINANCIAL OFFICER AND
CHIEF RESTRUCTURING OFFICER OF AEG POWER SOLUTIONS.



Jeffrey Casper, Chief Financial Officer of 3W Power and AEG Power Solutions since June 2, 2012 and Chief Restructuring Officer since December 14, 2013 and Board Member since January 7, 2014. His key tasks as CRO include the implementation of an operational turn-around program, cash management and negotiations with the Group's capital providers.

DEAR SHAREHOLDERS, BONDHOLDERS,
CUSTOMERS, AND BUSINESS PARTNERS/SUPPLIERS,
DEAR AEG POWER SOLUTIONS EMPLOYEES,

2013 was an extremely disappointing and difficult year for 3W Power | AEG Power Solutions. After a sharp and continuous decline in profitability, the Group's liquidity position and cash flow reached a critical point in late summer. In December, following a significant change in shareholdings and the departure of the previous Management team, four new members were co-opted onto the Board of Directors. Under the leadership of Dr. Dirk Wolfertz, the new board formed a restructuring committee comprising seasoned and experienced managers who resolutely set about implementing a comprehensive restructuring program. The program has a clear goal to focus on the Group's core activities, implement their business process redesign, realign the cost base through rationalizing operations and restructure the Company's long term indebtedness. Some major restructuring milestones are achieved, but there is still much to be done.

The difficulties of 2013 were reflected in the Group's share price, which fell 64.4% in the year, closing at €0.35. In the first quarter of 2013, the Group was faced with payment delays from a customer

representing a substantial amount of 3W Power's outstanding receivables, which were exacerbated by the banking crisis in Cyprus. Although the situation was rectified in April, the episode severely damaged investor sentiment. In August, the Group revised financial guidance, reducing expectations for 2013 full year sales and normalized EBITDA. Then, in October, the Group announced it would review its capital structure. Finally, in November the Company informed that failure to improve its liquidity position and cash flow could threaten its ability to continue as a going concern.

3W Power | AEG Power Solutions' financial performance deteriorated during the year, although its core Energy Efficiency Solutions (EES) business remained resilient. Revenues fell 29.3% to €271.0 million (2012: €383.1 million) and EBITDA fell to -€30.4 million (2012: €11.2 million). The EBITDA margin for the year was -11.2%.

EES's Industrial Uninterruptible Power Supply (UPS) activities, which ensure continuous power for mission critical infrastructure, maintained relative competitive strength. The Telecom Converter business fell substantially. 2013 EES sales declined modestly to €174.9 million (2012: €192.2 million), while EBITDA also fell slightly to -€6.2 million (2012: -€4.5 million).

The Renewable Energy Solutions (RES) business was the chief cause of the Group's 2013 decline in fortunes, with falling Solar orders and sales contributing significantly. None of the anticipated growth in emerging markets materialized, despite the Group maintaining a strong relationship with its major customer in Eastern Europe. 3W Power | AEG Power Solutions' weakened financial situation and the continuous delay in government projects reduced the chance of new orders. Revenues from POC activities fell sharply, although the weak position of the underlying polysilicon market has now somewhat stabilized.

Overall, the RES business's revenues fell 49.6% to €96.1 million (2012: €190.9 million). EBITDA in 2013 came to -€6.8 million (2012: €32.7 million). The drop in EBITDA is primarily due to significantly lower business volumes without a proactive corresponding reduction in operating expenses, as well as a changing product mix.

Since the end of 2011, 3W Power | AEG Power Solutions' orders have been deteriorating, as significant investments in Solar activities have failed to generate growth. The size of the order book shrank in 2013. While the 2012 year-end order book was €384.7 million, order intake in 2013 was merely €238.3 million. 2013 Solar sales fell 43.4% and order volume fell 76.9%. Sales in UPS activities – to both industrial and commercial customers – were relatively stable, however they were not sufficient to compensate for the Group's total decrease in order volume.

Restructuring achievements and prospects

Upon its appointment in December 2013, the new management set about designing and implementing a new operational and financial restructuring plan. The previous management's restructuring efforts had failed to improve profitability of the Group's industrial activities or to stem persistent losses of legacy activities in telecommunications and telecom converters.

To face the challenges raised by the decrease in revenue and operational losses, 3W Power | AEG Power Solutions has been concentrating on reducing its worldwide cost base, focusing on core product lines, and restructuring and closing down non-profitable entities. The Group is following a clear plan to adjust its structure, ensuring that the match between revenue streams and cost base is more appropriate.

In the first few months of 2014, the operational restructuring made important progress. In January, the Group ceased to finance its loss-making subsidiary in Lannion, France in order to reduce cash burn. On January 8, 2014, AEG Power Solutions (France) S.A.S filed for insolvency. Later in the month, the Group sold its Power Control Modules business (Thyro-Family product line) to Advanced Energy Industries for €22 million and entered into a long-term agreement to manufacture modules for Advanced Energy Industries. On February 28, 2014 the Group agreed with a South African investor to sell 75% of the shares of the South African subsidiary holding the 3W Power facility in Cape Town and partner to develop the sales of AEG Power Solutions global range of power systems on the South-African market.

From a financial perspective, the Group's indebtedness, and associated interest costs, was too high. The Group proposed to convert some of its debt into equity and reduce interest expense. On March 19, the Group agreed with significant holders of its €100 million corporate bond (ISIN DE000A1A29T7, 3W9A) the key economic principles for a fundamental restructuring of the bond. The agreement is subject to the required approval of the remaining bondholders at a meeting set for early May. The key elements of the restructuring plan are a 50% debt-to-equity swap of the outstanding bond nominal, the issuance of a new €50 million bond, a cash capital increase by contribution of €4 million (rounded) with subscription rights by the current shareholders and the implementation of a comprehensive operational restructuring program. Additionally, 3W Power | AEG Power Solutions would implement a management incentive program focused on the sustainable improvement of equity value and, therefore, bondholders' recovery. After bondholder approval, and the meeting of all legal formalities, the plan would be put to a shareholder vote. The plan is subject to approval by 75% of bondholders and two-thirds of shareholders. The Board of Directors of the Company and major shareholders fully support the financial restructuring.

The Group is moving ahead with its headcount reductions around the world, exiting loss-making market segments and scaling back on structural costs with a particular focus on headquarter and business units. The anticipated headcount reduction in Belecke, Germany of 128 employees took place in April 2014, with an approximate additional 50 to leave Belecke by year-end. The Group anticipates reducing its headcount to approximately 900 by the end of 2014 from 1,521 at the end of 2013.

On April 25, 2014 the Group signed a sale and purchase agreement (SPA) with Toshiba Mitsubishi-Electric Industrial Systems Corporation (TMEIC) to divest its Indian affiliate. Under the agreement TMEIC acquires 100% of the entity. The sale is subject to customary CP's and is planned to close in June. The purchase price is not disclosed.

Focusing on the core

3W Power | AEG Power Solutions' operational restructuring aims to reduce complexity, focus the business on key areas of competitive strength and competence, and concentrate development on future growth areas for power electronics. These areas are the UPS industrial and commercial systems and services, as well as advanced power electronic solutions that leverage deep expertise in mid-to-high AC/DC power applications, and power control technology.

At its core, 3W Power | AEG Power Solutions is a power electronics company delivering high-quality UPS systems and solutions. The Group is active in key industrial markets such as oil and gas, transportation and general industry, which will be key for its strategy of driving profitable and sustainable growth over the next five years. Industrial UPS comprises the Group's core area of competitive strength. It is the source of much of the Group's technology, and provides a solid and resilient revenue base, with approximately €150 million in revenues forecast for 2014. In order to solidify its business, worldwide sales activities in the industrial markets are in the process of being reinforced and redeployed to fit the new strategy. Commercial UPS systems in data and IT markets form a smaller part of the UPS business. However, with differentiated product releases and an incremental increase in service activities, 3W Power | AEG Power Solutions expects revenues to become a growing share of the business.

The Group has made the strategic decision to focus on the development of advanced power supply systems and solutions for renewable energies, and next-generation distributed power generation. Revenues will be small initially but it is hoped that these can grow and develop over time.

The Group will also focus on profitable opportunities in Solar and continue to harvest sales. However, Solar revenues are likely to remain disappointingly below previous years' levels.

Our group operating structure will undergo a deep transition. Most of our affiliates will focus on selling and service. We will separate operations from selling in our main sites in Tours and Belecke and will develop shared services where possible for global functions. We will maintain a very lean top management team and headquarter functions will be as small as possible.

Future profitable growth

With these measures in mind, the financial outlook for the Group is expected to improve after the implementation of the financial and operational restructuring program. Forecasting is extremely difficult given the uncertainty and timing of several restructuring steps. Management however forecasts revenues of approximately €220 million in 2014, €224 million in 2015 and above €240 million in 2016. EBITDA (after extraordinary expenses) is expected to increase from an anticipated minus €24 million in 2014 to a positive €17 million in 2015 and above €20 million thereafter. At the end of fiscal year 2014, the Group expects to have liquidity of approximately €20 million. Total workforce after layoffs and divestitures will be down to about 900 by year end 2014 compared to 1,521 by year-end 2013.

Moving forward with these changes is challenging but necessary. Progress has been made and Management is confident it is on the right path. Everyone in the Group, from the Board of Directors, to the management team and every employee, shares a common vision of change to create a solid base for providing best-in-class products, services and solutions for 3W Power | AEG Power Solutions customers around the world.

I would like to thank all of our stakeholders for their patience and understanding during such troubling times. We have a rigorous plan to rebuild our profitability while maintaining our strength in developing reliable and innovative solutions that contribute to our customers' success. We have a demanding task ahead but we are convinced that it is the best path to renewed success.

Yours sincerely,

Jeffrey Casper
CFO and CRO

DIRECTORS' REPORT



THE DIRECTORS PRESENT THEIR REPORT ON THE CONSOLIDATED AND COMPANY FINANCIAL STATEMENTS OF 3W POWER S.A. ("THE COMPANY") FOR THE YEAR ENDED DECEMBER 31, 2013. THE COMPANY AND ITS CONSOLIDATED SUBSIDIARIES ARE COLLECTIVELY REFERRED TO AS THE GROUP.

CORPORATE EVENTS

3W Power S.A. was incorporated on May 21, 2008 in Guernsey as Germany1 Acquisition Ltd. The Company raised €250 million through its initial public offering ("IPO") on NYSE Euronext, Amsterdam on July 21, 2008. During the period from May 21, 2008 to September 10, 2009 the principal activity of the Company was that of a special acquisition vehicle with the purpose of acquiring one or more operating businesses through a merger, share purchase, asset acquisition, reorganization, capital stock exchange or similar transaction (a "Business Combination").

On September 10, 2009 the Company acquired AEG Power Solutions B.V. ("AEG PS") and all its subsidiaries. This marked the transition of 3W Power from an acquisition vehicle to the holding Company of a leading power electronics Group.

AEG PS is a world provider of power electronics. It offers product and service portfolios in uninterruptable power supply (UPS), power conversion and control, for customers spanning the infrastructure markets of energy, telecom, lighting, transportation and general industrial sectors. The Group developed a range of products for the solar energy industry, from solar central inverters, software monitoring, turn-key electrical balance of systems and has invested in areas of power management within distributed power generation and smart micro grids.

The Company changed its name from Germany1 Acquisition to 3W Power Holdings S.A. on April 9, 2010 while on June 8, 2010 it migrated from Guernsey to Luxembourg.

On December 1, 2010 the Company successfully placed €100 million of unsubordinated loan notes (the "Notes") at a coupon of 9.25% and due in December 2015. The Notes are traded on the Bondm segment of the Stuttgart stock exchange as well as on the Open Market of the Frankfurt stock exchange (FWB).

On May 19, 2011 the Company changed its name from 3W Power Holdings S.A. to 3W Power S.A.

On December 17, 2010 the Company's shares were admitted to trading on the Regulated Market (Prime Standard) of the Frankfurt stock exchange under the ticker symbol 3W9. This was in addition to the Company's listing on the Euronext market, Amsterdam (ticker 3WP). However, as share trading volumes gradually concentrated on the Frankfurt stock exchange, the Company delisted its shares from NYSE Euronext on December 19, 2011. Warrants in the Company remained listed on NYSE Euronext (ticker 3WPW).

On July 24, 2012 the warrants of the Company expired and were delisted from NYSE Euronext, Amsterdam on the same date.

NEW SHAREHOLDERS

Ripplewood with 30.2% of the total shares outstanding acting as the major shareholder of the Company sold its shares in December 2013 to several individual investors. Upon this change in the shareholding, four members were replaced on the Board of Directors (see Corporate Governance, section Board of Directors) and Mr. Jeffrey Casper was appointed Chief Restructuring Officer (CRO). The change in ownership and governance initiated the implementation of a financial and operational restructuring program, necessary to address the Company's performance and liquidity problems.

BONDHOLDERS' MEETING

Uncertainty in the ability to pay the 9.25% coupon on the €100 million Notes due on December 1, 2013 resulted in the organization of a creditor's meeting for the bondholders on November 13, 2013. During this meeting the required quorum of 50% for adopting any resolution for amendments was not met. Therefore a new meeting was scheduled at December 18. Due to a late cash payment from one of the Group's major customers, this meeting was cancelled and the Company subsequently paid the coupon on the Notes on December 19, 2013.

OPERATING SEGMENTS

The Group operates in two segments, Renewable Energy Solutions ("RES") and Energy Efficiency Solutions ("EES"). RES comprises the Power Controllers and Solar (including skytron) business units. EES includes the Energy Management Solutions ("EMS") and DC Telecom converters.

ENERGIE MEDITERRANEE S.R.L. (EMED) – ASSET HELD FOR SALE

On August 7, 2012 the Group signed a Share Purchase Agreement to sell its 100% stake in Energie Mediterranee S.r.l. ("EMED") and its solar farms in southern Italy for a total consideration of up to €24.3 million including the assumption of €17.4 million of debt. The actual closing took place on November 5, 2012.



AEG POWER SOLUTIONS (FRANCE) S.A.S. AT LANNION IN FRANCE – ASSETS AND LIABILITIES HELD FOR SALE/ DISCONTINUED OPERATION

During Q2 2013, management decided to stop the sale process of the assets of AEG Power Solutions (France) S.A.S. at Lannion in France ("Lannion"). The decision was taken to retain and reorganize Lannion in order to use the entity's global expertise in Power Electronics engineering throughout the Group to accelerate product introduction and improve operations. Accordingly the assets and liabilities of Lannion were

classified in the consolidated statement of financial position per December 31, 2013 and the operational loss is included in continued operations. In these consolidated financial statements, the Converter business unit is included in the EES segment and 2012 numbers are re-presented for comparative purposes.

On January 8, 2014 the Group placed into administration its subsidiary in Lannion, AEG Power Solutions (France) S.A.S. The entity was structurally loss-making which the Group could no longer financially support.

GROUP AND SEGMENT FINANCIAL REVIEW

KEY FIGURES FOR THE YEAR ENDED DECEMBER 2013

in millions of euros	Orders		Revenue		EBITDA		Adjusted EBIT ¹		EBIT	
	2013	2012 ²⁾	2013	2012 ²⁾	2013	2012 ²⁾	2013	2012 ²⁾	2013	2012 ²⁾
Renewable Energy Solutions (RES)	57,350	195,339	96,141	190,908	(6,829)	32,720	(4,609)	24,639	(28,768)	(155,182)
% of revenue					-7.1%	17.1%	-4.8%	12.9%	-29.9%	-81.4%
Energy Efficiency Solutions (EES)	180,921	189,403	174,895	192,184	(6,244)	(4,461)	(3,768)	(2,894)	(18,942)	(22,569)
% of revenue					-3.6%	-2.3%	-2.2%	-1.5%	-10.8%	-11.7%
Unallocated					(17,326)	(17,032)	(12,351)	(13,669)	(17,770)	(18,281)
Total	238,271	384,742	271,036	383,092	(30,399)	11,227	(20,728)	8,076	(65,480)	(196,032)
% of revenue					-11.2%	2.9%	-7.6%	2.1%	-24.2%	-51.2%

¹ The Group has significant non-cash charges resulting from the amortization of intangible assets arising on the acquisition of AEG PS. Therefore, in addition to EBIT and net income, the Group also reports adjusted EBIT and adjusted net income. Adjusted EBIT is EBIT adjusted for one-time charges and the amortization of intangibles on acquisition. Adjusted net income is net income adjusted for one-time charges and the amortization of intangibles on acquisition, the change in the value of warrants and the estimated tax effects of these (see Appendix page 76).

² As restated and re-presented

AEG PS finished 2013 with orders of €238.3 million, revenue of €271.0 million and EBITDA margin of -11.2%. Compared to 2012, orders were lower by 38.1%, revenue was down 29.3% and EBITDA fell substantially.

RES

Orders in Solar fell by 76.9% and sales fell by 43.4%. Solar achieved little success in growth markets around the world despite capital investments in manufacturing and sales. Weak financing, delays and cuts in government subsidies and late development of new product introduction contributed to the lack of success. The Company maintains a strong relationship with a major Eastern Europe customer and is repositioning its footprint in the Solar systems solutions.

Orders for POC fell by 44.9% and sales fell by 59.7%. The Power controller business stabilized from the weak situation in the polysilicon market and the Group continues to apply its technology to new markets and new applications.

RES EBITDA in 2013 came to -€6.8 million compared to €32.7 million in the prior year. The drop in EBITDA is due to lower volumes without a proactive corresponding reduction in operating expenses. The reversal of the €8.5 million for a bad debt allowance taken in 2012 was partially offset by a provision of €7.8 million, which is mainly related to Solar and POC materials which are expected no to be used any more due to change of business strategy.

RES EBITDA for 2012 includes €10.1 million of order cancellation settlements with customers. This positive effect is offset by additional inventory reserve charges of €4.5 million and €10.5 million of bad debt reserve charges.

EES

Orders for 2013 were €180.9 million, down 4.5% compared to 2012. Sales for 2013 at €174.9 million fell 9% compared to 2012. EES is experiencing growth in industrial activities. Orders and sales in Telecom converter business were again substantially lower in 2013 compared to 2012. Market conditions (competitive price pressure and inflexible cost structure) are seen as the main contributors to the decreasing Telecom converter business.

EES EBITDA in 2013 came to -€6.2 million compared to -€4.5 million in the prior year. The drop in EBITDA relates to lower volume in Telecom converters, additional impairment charges of €3.9 million in working capital offset by a lower amount for restructuring charges in 2013 of €3.1 million (2012: €6.3 million).

For 2013 the Group reports an adjusted EBITDA of -€10.2 million, €31.8 million lower than 2012. Drop in volume, change in product mix and high operating expenses are the main causes.

The table below summarizes the effects on EBITDA of one-time items as referred to earlier.

in millions of euros	2013				2012 (as restated and re-presented)			
	RES ¹	EES ²	Unallocated	Group	RES ³	EES ⁴	Unallocated	Group
Reported EBITDA	(6,829)	(6,244)	(17,326)	(30,399)	32,720	(4,461)	(17,032)	11,227
Capital gain (sale of building)	-	-	-	-	-	-	(1,357)	1,357
Operating working capital adjustment ⁵	7,803	3,940	-	11,743	-	-	-	-
One-time restructuring charges	153	3,101	1,768	5,022	-	6,260	2,737	8,997
Other one-time charges	-	-	3,384	3,384	-	173	2,547	2,720
EBITDA after adjustment	1,127	797	(12,174)	(10,250)	32,720	1,972	(13,105)	21,587

¹ Includes €0.3 million income following order cancellation settlement with a customer

² Includes €1.2 million income following order cancellation settlement with a customer

³ Includes €10.1 million income following order cancellation settlement with a customer

⁴ Includes €3.1 million income following order cancellation settlement with a customer

⁵ Represents the impairment of working capital to net realizable cash value

Gross margin fell to 15.9%

Group gross margin in 2013 was 15.9% compared to 21.1% in 2012. This reduction is due to drop in volumes, a change in product mix, higher fixed operating expenses and an increase in inventory reserve charges and other costs (including product warranty charges and other variable costs). In 2012 the Company recorded a bad debt allowance provision of €11.0 million, of which €8.5 million related to one specific customer. During 2013 the Company collected this receivable in full and subsequently reversed this bad debt allowance. The accounts receivables in 2013 relating to the Telecom business have been impaired for €3.0 million based on its net realizable value. Therefore the bad debt allowance reports an income of €4.4 million.

Research & Development (R&D) costs

R&D costs were as follows:

in millions of euros	2013	2012
Gross R&D spending	19.4	21.2
% of revenue	7.2%	5.5%
Capitalized amounts	(5.4)	(7.4)
Amortization and impairment on capitalized amounts	10.6	5.4
Amortization and impairment of intangibles on acquisition	5.9	21.4
Net R&D costs	30.5	40.6

The Group continued to invest in its product offering.

The main focus was on the extension of the existing technology platforms in the industrial and data/IT market as well as on the implementation of several reference projects in the emerging smart grid and storage market.

In EES, R&D efforts focused on functions and features of the Protect Blue Data IT UPS and to standardize and upgrade the Protect 8 UPS and the Protect-RCS platforms.

In RES, R&D efforts focused on extending the power range of the central inverter up to 880kVA for indoor and outdoor environments. The integration of solar and wind storage solutions to supply the potential market for short term battery and long term gas storage.

R&D developed as a derivative of the solar technology platform intelligent Battery Power Management Solutions for some reference projects.

For the long-term storage market R&D continues to develop intelligent rectifier systems for use in hydrogen energy storage securing projects in Europe and the U.S. Further success was also achieved with custom power supplies for large sapphire glass production plants.



Selling, general and administrative expenses (SG&A)

SG&A expenses were reduced by 12.4% year-on-year through lower headcount, reduced cost base for central functions, impacts of exchange rates, lower bonuses and related social charges.

Other expenses (net)

Other expenses decreased from €162.4 million in 2012 to €13.5 million in 2013. This is due to reduction in impairment charges of €162.1 million for goodwill, Customer relations and the amortization and accelerated amortization charges on intangibles from the acquisition of AEG PS in 2009.

There is also €4.0 million less restructuring costs and €17.2 million lower other income from one-time effects (such as customer order cancellation settlements and capital gain).

Net financial cost

Net financial cost in 2013 was €16.2 million compared to €13.6 million in 2012. The increase of €2.6 million in 2013 is a net increase of €3.0 million. The increase in financial foreign exchanges losses and a net decrease of €0.4 million in interest expense.

The Company has no foreign currency instruments in place to mitigate exposure to exchange rates. The change in value in foreign exchange losses is a non-cash item. It relates primarily to the revaluation of a euro denominated loan and non-trade intercompany balance between AEG PS Holding B.V. and AEG PS (India) PVT Ltd.

The decrease in interest expense relates to EMED which was sold in 2012 and for which €0.6 million interest expense was included.

Taxation

The tax benefit for 2013 of €0.2 million (2012: €31.8 million) is comprised of a €5.6 million (2012: €4.1 million) income tax charge offset by a €5.8 million benefit (2012: €35.9 million benefit) in deferred tax. The tax benefit in 2013 is based on the origination and reversal of temporary differences.

The effective tax rate at which the Group recognizes and pays taxes depends on the profitability and tax rates in the countries in which the Group operates. In both years the Group had significant unrecognized deferred tax assets in the form of unrecognized tax losses which impacted its high effective tax rate.

Non-current assets

Expenditure on tangible fixed assets (capex) in the year decreased to €2.6 million compared to €7.5 million in 2012. Additions to intangible assets in the year amounted to €5.8 million of which €5.4 million related to capitalized R&D and €0.4 million to software costs. Capitalized R&D included an impairment charge of €6.7 million for certain Solar related projects following our internal capitalization policy which requires a write down of the full project in case that future revenue recognition may be at risk.

In 2013 the amortization charge on Intangibles acquired on acquisition of AEG PS was €7.6 million. In addition €4.6 million was recorded as accelerated amortization charge, €2.1 million for EMS Customer relations and €2.5 million for POC technology. In addition an impairment charge of €2.0 million was booked on the goodwill acquired upon the acquisition of skytron.

Non-current financial assets decreased to €3.6 million at year-end mainly due to a €1.6 million receipt during the year from a limited liability Company (LLC) in the U.S. The LLC is a partnership between the Group and an experienced investor and manager of solar assets in the U.S. Under the partnership agreement, the Group will invest up to US\$5.0 million in the LLC under the stewardship of the partner. The money will be invested in solar projects in the U.S. In addition, the Group will have the opportunity to sell its solar products in the U.S. through a separate supply agreement. No goods were supplied during 2013 under the supply agreement.

Current assets

Excluding cash, current assets decreased to €107.2 million from €191.5 million. Receivables decreased from the fulfillment of a large solar order received in late 2012 and include the reversal of an €8.5 million bad debt allowance on this customer. Reduced inventory level is due to lower gross volume and increase in inventory reserves.

Cash and cash-equivalents including overdrafts decreased by €11.0 million to €31.9 million. €9.9 million cash generated from operations and €7.6 million net cash was used in investment activities. The Company paid €9.9 million interest, including €9.2 million for the third annual payment of interest on the Notes. Interest income was €0.6 million. The Company lowered its short-term debt by €3.6 million.

Current liabilities

Current liabilities decreased by €35.7 million year-on-year. Trade and other payables decreased by €12.2 million due to the lower sales volume. Deferred income (advance payment received from customers) decreased €10.9 million due to the weak polysilicon market (this includes a €1.5 million non-cash effect of customer order cancellation settlements).

Provisions were €2.8 million lower due to the net effect of €7.2 million of severance payments during 2013 and the newly created restructuring reserves of €5.0 million. Loans, borrowings and corporate income tax provision in total decreased by €3.5 million. For 2012 the Asset held for sale (Lannion) included €1.6 million in long-term liabilities.

Non-current liabilities

Non-current liabilities fell €8.1 million in the year on lower deferred taxes on intangible assets and a reduction in product warranty.

Equity

Total equity at the end of 2013 was €17.8 million; €79.0 million lower than 2012 based on the net loss after tax of €81.5 million. The net loss after tax includes the impairment and amortization of intangibles on acquisition (and related tax effects) and the effect of one-off costs. Excluding these, the Group would have reported an estimated net loss of €38.5 million (see Appendix page 76).

Further information on movements in equity including retained earnings is shown in the consolidated statement of changes in equity.

OUTLOOK

During December 2013, the Company commenced with the building blocks of developing an operational and financial restructuring program. Both restructuring plans are to be executed during 2014 with the goal to improve the Company's short-term liquidity situation and to safeguard the Company's future existence. The operational restructuring is seeking to de-risk and simplify the business by selling or closing non performing, non-core assets, reducing headcount to re-balance with existing sales volume and to simplify management structures. The Company will introduce a tedious process of continuous improvement of profitability and modern management practice within its core business activities that was sorely lacking in the past.

The financial restructuring is to address the Company's financial indebtedness, namely its €100 million Notes payable due December 1, 2015. Meetings with bondholders are in progress in search of a proposal that would amend the terms to allow the Company to restructure its financial indebtedness in line with its financial capabilities. This will likely include a partial equitization of at least part of its debt obligation.

Poor performance and the corresponding financial distress places the Group in difficulties with securing financial flexibility, credit and favorable payment terms with suppliers. Competition is seeking to use the Company's situation to their advantage and to our detriment with existing and potential customers.

The order intake for our industrial UPS business through Q1 2014 is above 2013 volume with an order backlog of €101.9 million. Despite the challenges, positive results are evidence that customers continue to support our business and believe in the quality of the solutions we provide. The close contact that we maintain with our customers, the technical robustness and reliability of our products contribute to this success.

RESULTS AND DIVIDENDS

The results for the year and the financial position at December 31, 2013 are shown in the consolidated income statement and the consolidated statement of financial position.

No dividend is proposed for the year.

DIRECTORS' INTERESTS

The interests of Directors and related parties in the share capital of the Company are shown in note 33 of the consolidated financial statements.

DISCLOSURE OF INFORMATION TO AUDITOR

The Directors who held office at the date of approval of the Directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditors are unaware and each Director has taken all the steps that he ought to have taken as a Director to make himself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

AUDITORS

The Annual General Meeting held on June 10, 2013 approved the appointment of KPMG Luxembourg S.à r.l as auditors of the Company for the year ended December 31, 2013.

CORPORATE GOVERNANCE

The following governance section is applicable to both the Group and the Company.

3W Power S.A. (formerly 3W Power Holdings S.A.) is a limited Company organized under the laws of Luxembourg. The Company has an authorized share capital of €37,560,018 consisting of 150,240,072 shares and an issued capital of €12,520,006 consisting of 50,236,024 shares without an indication of a nominal value. As of the end of the 2013 financial year, the share capital consisted solely of ordinary shares which are listed on the Deutsche Börse Frankfurt.



As a Luxembourg company, we make every effort to fully comply with the letter and spirit of Luxembourg corporate requirements, including standards of governance and responsibility towards all its stakeholders. As a Luxembourg company listed solely on the German Deutsche Börse stock exchange, the Company is not subject to any specific mandatory corporate governance rules. Nevertheless, the Company makes every effort to comply, to the extent possible, with the Luxembourg corporate governance rules as set forth in the Ten Principles of Corporate Governance. In 2013, the Company continued to solidify its compliance rules and raise awareness within the Group.

Shareholders

Each of the shares of the Company is entitled to one vote (except for treasury shares). Shareholders are called to an Annual General Meeting each year by the Board of Directors. The Board may also call extraordinary Shareholder Meetings at its discretion. Decisions at the Annual General Meeting are subject to simple majority requirements, unless otherwise provided under Luxembourg law. The Articles of Association provide for general meetings of shareholders to be convened by registered letter sent to each shareholder at least 30 days prior to the meeting. The Chairman of a shareholder meeting is a Director or, in the absence of any Director, a shareholder chosen by the general meeting.

Issuance of new shares within the Company's authorized share capital is decided by the Board of Directors of the Company. The authorized share capital of the Company is €37,560,018. During a period of five years from the publication of the Articles of Association, the Board of Directors is authorized to issue shares within the authorized share capital of the Company subject to the conditions set out in the Articles of Association.

Increases in share capital, beyond the authorized capital, are decided by an extraordinary General Meeting of shareholders.

In accordance with the Articles of Association of the Company and Luxembourg law, the share capital of the Company may be amended by a resolution of the general meeting of shareholders adopted by a majority of two-thirds of the votes validly cast at an extraordinary General Meeting where at least half of the Company's issued share capital is present or represented on first call.

If such requirement is not complied with, a second extraordinary General Meeting will be called by the Board of Directors whereby the resolution amending the share capital of the Company will be passed by a majority of two-thirds of the votes validly cast at the meeting, regardless of the portion of capital present or represented at the meeting. Abstention and nil votes will not be taken into account.

Purchase of own shares by the Company

The Company may purchase any of its own shares and may make a payment out of capital in respect of such purchase. Under Luxembourg law, the acquisition of its own shares by the Company should comply with the following requirements:

- 1) Such purchase must not breach the principle of equal treatment of all shareholders who are in the same position and the law on market abuse;
- 2) The authorization to acquire the shares shall be given by the general meeting of shareholders which shall determine the terms and conditions of the proposed acquisition and in particular (i) the maximum number of shares to be acquired, (ii) the duration period for which the authorization is given and which may not exceed five years and (iii) the maximum and minimum consideration;
- 3) The acquisitions by the Company of its own shares may not have the effect of reducing the net assets of the Company below the amount of subscribed share capital plus the reserves which may not be distributed under law or by virtue of the articles of incorporation
- 4) Only fully paid-up shares may be acquired.

The Board of Directors is responsible to ensure that conditions 3 and 4 stated above are complied with. Shares purchased by the Company may be held as treasury shares. The Company may not exercise any right in respect of treasury shares held by it.

Board of Directors

Under the Articles of Association of the Company, the Board of Directors consist of at least four members, with no maximum number. The members of the Board are appointed and revoked by ordinary resolution of the shareholders. The Board of Directors may also appoint Directors to fill vacancies on the Board who will hold office only until the next Annual General Meeting and then be eligible for election. During the 2013 financial year, Messrs. Dr. Dirk Wolfertz (Chairman), Willi Loose, Klaus Schulze and Bernd Luft were appointed to the Board of Directors to fill vacancies left by the resignations of Messrs. Bruce Brock (Chairman), Robert Huljak, Harris Williams, Lawrence Lavine, Christopher Minnetian and Mark Wössner. At the 2014 Annual General Meeting, the entire Board will retire from office. A retiring Director is eligible for re-election.

The Board of Directors is responsible for the activity of the Company, the corporate governance structures, approving strategies and, more generally, the day-to-day management of the Company. However, under the Articles of Association, the Company's daily management may be delegated to an Executive Director acting alone. Shareholder approval is required only in limited situations including approving the annual accounts of the Company, amending the articles of association or winding up the Company's business.

At the end of the 2013 financial year, the Board comprised six members, all Non-Executive members. As of January 7, 2014 Mr. Jeffrey Casper was appointed as Executive Director to the Board of Directors. The Executive Director is entrusted by the Board of Directors with the management of the Company. In this regard, he is responsible for implementing the strategy of the Company to achieve its objectives in line with its risk profile, setting and applying corporate policies and adhering to the rules of corporate social responsibility. The Executive Director is an employee of the Company in his capacity as CEO. Mr. Jeffrey Casper, as Chief Restructuring Officer (CRO), assumes the duties of Executive Director during the period of the restructuring.

The fees paid to Non-Executive Directors have been set at €100,000 per annum in aggregate by resolution of the shareholders at the Annual General Meeting held on June 10, 2013. Board members are also entitled to reimbursement of their reasonable costs associated with the performance of their duties as Directors. Members of the Board of Directors must report and provide all relevant information regarding any conflict of interest to the Board.

The Board has two standing committees and one ad hoc committee: the Audit Committee, the Compensation Committee and the Restructuring Committee. The Audit Committee and the Compensation Committee are each made up of two Non-Executive Directors. To provide support for the CRO, a restructuring committee of the Board was constituted. The members of this committee are the Chairman, Dr. Dirk Wolfertz, Mr. Loose and the CRO.

Compensation Committee

The purpose of the Compensation Committee is to (i) oversee the administration of the compensation plans, in particular the incentive compensation and equity-based plans, of the Company (and, to the extent appropriate, the subsidiaries of the Company), (ii) discharge the Board's responsibilities relating to the compensation of the Company's Management Executives and Board Directors, and (iii) review and make recommendations on Director compensation.

Audit Committee

The Audit Committee assists the Board of Directors in fulfilling its responsibility to oversee (i) matters relating to the financial controls, reporting, and external audits, the scope and results of audits, and the independence and objectivity of auditors; (ii) monitoring and reviewing the audit function; (iii) monitoring the involvement of the independent auditor, focusing on compliance with applicable legal and regulatory requirements and accounting standards; (iv) the performance of the Company's external auditors and approval of certain business activities on behalf of the Board of Directors.

In 2013, the Audit Committee met regularly with the management and the Company's auditors and assisted the Board of Directors in fulfilling its duties.

External Auditors

The external auditors are appointed by the shareholders at the Annual General Meeting on the recommendation of the Board of Directors and, more specifically, its Audit Committee. The remuneration of the external auditors is agreed upon by the Board of Directors. The Annual General Meeting of June 10, 2013 approved the appointment of KPMG Luxembourg S.à r.l as external auditor.

RISK

Risk management and control over financial reporting

The Company considers Integrated Risk Management (IRM) to be a key part of effective management and internal control. The Company strives for effective IRM and financial navigation to safeguard the assets of the Company and to proactively support the Company's strategic and compliance initiatives. The goal of IRM is to help the Company operate more effectively in a dynamic environment by providing a framework for a systematic approach to managing risks and exploiting opportunities with an acceptable level of risk. A key element of the Company's approach to risk is that line and staff manager bear primary responsibility for identifying and controlling all risks within their field of activity. The Management Board regularly discusses the operational and financial results, including related risks.

Risk Management covers financial as well as operational aspects. Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Group's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behavior. Operational risks arise from all of the Group's operations. The Group's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Group's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity. The Company's policy on managing financial risks seeks to ensure effective liquidity and cash flow management and protection of group equity capital against financial risks.

As part of its continuing evolution, the Company aims to make continuous improvements in its risk management and internal control system.

Our internal control system is an integral component of IRM. The purpose of our internal control system for accounting and reporting is to ensure their compliance with legal stipulations, with the principles of proper accounting, with the rules in the International Financial Reporting Standards (IFRS) and with Group standards. In addition, we perform assessments to help identify and minimize any risks with a direct influence on financial reporting. We monitor changes in accounting standards and enlist the advice of external experts to reduce the risk of accounting misstatements in complex issues.



Our internal accounting control system is designed to ensure that business transactions are correctly and promptly processed and that reliable data on the Company's financial situation are available. It ensures compliance with legal stipulations, accounting standards and accounting rules that are binding for all Group companies included in our consolidated financial statements. A Group-wide calendar of deadlines helps ensure the complete and timely processing of financial statements. By separating financial functions where possible and through ongoing review, we ensure that potential errors (prior to preparation of the statements) are identified and accounting standards complied with.

The Company and individual entity financial statements are subject to external audit which acts as an independent check and monitoring mechanism of the accounting systems and their output. The principal risks that could have a material impact on the Group are set out in note 5 and 32 of the consolidated financial statements and are summarized below:

Credit and customer concentration risk

Credit risk is the risk of financial loss to the Group if a customer or counter party to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers.

Economic and market risk

This includes risks arising from the general macroeconomic environment, changes in regulations (for example relating to renewable energy and environmental policies), the incorrect projection of market price and demand trends, lack of market acceptance for newly developed products and other such related risks.

Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset.

Interest rate and currency risk

The majority of the Group's debt is in the form of the Notes which are long-term and carry a fixed interest rate. Debt with variable interest rate is largely confined to the receivables financing facilities and the Group does not enter into interest rate derivatives. Therefore the Group's exposure to interest rate risk is limited. The Group's primary exposure is to the euro because of its principal operations in the Eurozone. Other euro currencies to which the Group is exposed include USD, GBP, SGD and INR. The Group does not perform hedge-accounting.

GOING CONCERN ASSUMPTION

At the end of November 2013, close to the payment date of the Coupon on the 9.25% Notes Payable, it was established that the Group was heavily dependent on the cash overdue from its major Eastern Europe based customer. The reason for this dependence can be found in the business situation of the Group which deteriorated with the collapse of the polysilicon capex cycle.

The Company invested heavily in its solar expansion, and failed to realize sustainable growth necessary to cover its costs. The Company's past restructuring efforts failed to improve the profitability of its industrial activities. Management continued to pursue growth and development of new ideas in the face of mounting risks. Persistent losses of legacy activities in telecommunications and telecom converters were continuing.

On December 14, 2013, following a significant change in shareholdings and the departure of the previous management team, four new members joined the Board of Directors and Jeffrey Casper was appointed to the position of Chief Restructuring Officer (CRO). The Company commenced with the building blocks of developing an operational and financial restructuring program. Both restructuring plans are to be executed during 2014 with the objective to improve the Company's short-term liquidity situation and to safeguard the Company's future existence.

The operational restructuring plan is seeking to de-risk and simplify the business by selling or closing non-performing, non-core assets, reducing headcount to re-balance with existing sales volume and to simplify management structures. An important part of the operational restructuring plan is the redundancy program at our main subsidiary in Germany, which will lead to 160 employees leaving.

The Company will further continue closing non-core affiliates and unprofitable subsidiaries and may elect to complete some more non-strategic asset divestitures. After layoffs and divestitures, total headcount is expected to be approximately 900 by year-end 2014 compared to 1,521 at year-end 2013.

The financial restructuring plan is aimed at a fundamental restructuring of the outstanding loan of €100 million (the 9.25% Notes). The key elements of the restructuring plan are a debt-to-equity swap of 50% of the outstanding bond nominal, a change of the conditions of the remaining €50 million Notes which includes significantly lowering the interest charges and a prolonged repayment date to December 2019. In addition, as part of the financial restructuring, it is contemplated that the current shareholders will have preferential subscription rights to increase the capital by a cash-contribution of €4 million against issuance of new shares.

Extensive effort has been put into evaluating existing budgets and forecasts and continuously updating budgets and forecasts based on the most recent available market and performance information. This process has been reviewed in detail by external professional advisors. The budgets and forecasts underlying the going concern assessment anticipate a recovery of the overall profitability and our overall liquidity situation. As indicated this will be achieved by the combination of asset sales, closing of affiliates, reduction in fixed operating expenses and reduction in interest burden through restructuring of the Group's financial commitments. All these designed measures are to bring the remaining activities of the Group into a sound financial position. Furthermore, Management will be reinforced in key positions. The forecasted cash flows are dependent on external market circumstances and the speed of recovery of the business performance in most of our segments. There is a risk that this recovery does not occur due to deteriorating market conditions, delay in order intake or slower than expected business performance recovery, e.g. if restructuring measures do not pay off and sale of assets are delayed or do not succeed as planned. This may furthermore result in impairments. If the forecasted results are not achieved, there is a more than remote risk that the safety margins (net of upsides and additional risks) taken into account are insufficient, which if this risk materializes, may result in additional cash outflow or alternatively reduced anticipated inflow.

This situation indicates the existence of material uncertainties, which may cast significant doubt about the Group's ability to continue operating as a going concern.

In light of the above the Group has assessed the going concern assumption on the basis of which the 2013 financial statements have been prepared. Going concern is mainly dependent on the successful implementation of the financial restructuring plan and the realization of the budgets and forecasts within the boundaries set by Management. The realization of these budgets and forecasts are largely dependent on the timely recovery of the Group's operational and cash flow performance including the operational restructuring plan in Germany as well as in other sites. Furthermore going concern is dependent on the timely and successful implementation of measures such as disposal of assets, businesses or other activities in order to generate sufficient cash flow.

Management is of the opinion though that the application of the going concern assumption for the 2013 financial statements is appropriate, based on the following facts and circumstances:

- The Group has agreed with significant holders of its €100 million corporate bond the key principles for the fundamental restructuring of the bond. The agreement is subject to the required approval of the bondholders at the upcoming bondholders' meetings. After approval by the bondholders the shareholders will vote on this financial restructuring. In addition, as part of the financial restructuring process, it is contemplated that the current shareholders will have preferential subscription rights to increase the capital by a cash contribution of €4 million against issuance of new shares. Based on the current situation Management believes that although this financial restructuring represents a material uncertainty regarding the going concern they believe that based on the current facts this financial restructuring is expected to be successful.
- Current business forecasts indicate sufficient liquidity to operate the business without interruption. These business forecasts include the successful implementation of the redundancy plans in Germany and at other sites. Given the current status of the redundancy plan in Germany, including the agreement on a social plan and balance of interest with the works council, Management believes that the realization of these restructurings is expected to be successful.
- The operational restructuring plan also includes the disposal of assets, businesses or other activities in order to generate cash flows. Based on the current status (placement into administration of the subsidiary in Lannion, sale of power control modules business, disposal of the South African entity) and the advanced discussions regarding an initial agreement for the sale of our Indian entity as well as skytron, Management believes that this part of the restructuring plan is also expected to be successful.

The combination of asset sales, closing of affiliates, reduction in fixed operating expenses and reduction in interest burden through restructuring of the Group's financial commitments are all designed to bring the remaining activities of the Group onto a sound financial position. Failure of any of these activities to raise the necessary cash, reduce costs and to restore bankability and normalize credit conditions could place the Group into further financial distress. Failure to successfully complete the restructuring may result in insolvency.



SUBSEQUENT EVENTS

On January 8, 2014 the Group placed into administration its subsidiary in Lannion, AEG Power Solutions (France) S.A.S. The entity was structurally loss-making which the Group could no longer financially support. Lannion's cumulated (EBITDA) losses over five years, which were fully supported by the Group, reached €27 million, €11.1 million occurring in the last two years.

On January 15, 2014 the Group initiated plans to close down its R&D and sales office located in Richardson, Texas. The entity was consistently loss-making and continued to consume cash that the Group could no longer afford to support. The existing products and activities were subsequently transferred to the Group's German subsidiary and the office closed at the end of April 2014. The Group maintains a sales and support presence in the United States. The resulting action saves the Group €4 million per year.

On January 27, 2014 the AEG Power Solutions GmbH, the Group's German subsidiary, divested its power control modules business to Advanced Energy Industries Germany, GmbH, Metzingen, Germany, a subsidiary of Advanced Energy Industries, Inc. (Advanced Energy Industries) Colorado, USA. Under the agreement, Advanced Energy Industries acquired the Thyro-Family product line for €22 million in cash plus a one year cash earn-out of up to €1 million, if the EBITDA target for the product line is met in the first twelve months after closing. The Company entered into a long-term manufacturing agreement for manufacturing the modules for Advanced Energy Industries.

On February 28, 2014 the Group agreed with a South African investor to sell 75% of the shares of the South African subsidiary holding the 3W Power facility in Cape Town and partner to develop the sales of AEG Power Solutions global range of power systems on the South-African market.

On March 14, 2014 AEG Power Solutions in Warstein-Belecke, Germany agreed on a social plan and balance of interest with the works council. By May 31, 2014 a total of 128 employees will have left the German subsidiary, primarily through redundancy due to business operations. For the elder employees who are close to retirement, a transitional company (Transfergesellschaft) was created that respective employees could enter as of April 1, 2014 for a maximum period of twelve months in order to bridge the period until their official retirement starts. During this time they will be paid a so-called "Transferkurzarbeitergeld" (transitional short-time allowance). The Group total headcount reduction by year-end is expected to reach approximately 580 employees, with an approximate additional 50 to come out from Belecke.

On March 19, 2014 the Group agreed with significant holders of its €100 million corporate bond (ISIN DE000A1A29T7, 3W9A) the key economic principles for a fundamental restructuring of the bond. The agreement is subject to the required approval of the bondholders at the upcoming bondholders' meetings. The key elements of the restructuring plan are a debt-to-equity swap of 50% of the outstanding bond nominal, a change of conditions for the remaining €50 million bond, a preferential cash capital increase by contribution of €4 million (rounded) with subscription rights by the current shareholders and the implementation of a comprehensive operational restructuring program. Furthermore, 3W Power S.A. will implement a management incentive program focused on the sustainable improvement of equity value and, therefore, bondholders' recovery. Shareholders will vote on the restructuring as soon as bondholders have approved the plan and all legal formalities have been met. If bondholders and shareholders both agree with the plan with more than 75% and two-thirds (respectively) majorities, the plan will be accepted and can be implemented. The Board of Directors of the Company and major shareholders fully support the financial restructuring.

On April 25, 2014 the Group signed a sale and purchase agreement (SPA) with Toshiba Mitsubishi-Electric Industrial Systems Corporation (TMEIC) to divest its Indian affiliate. Under the agreement TMEIC acquires 100% of the entity. The sale is subject to customary CP's and is planned to close in June. The purchase price is not disclosed.

For more information on the Company's corporate governance policy and initiatives, please refer to the Governance & Compliance section of the Company's website at www.aegps.com.

Approved by the Board of Directors and signed on its behalf by:

Jeffrey Casper

April 29, 2014

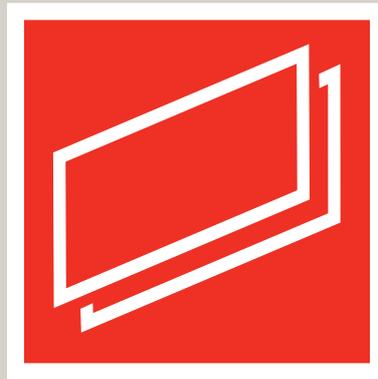
RESPONSIBILITY STATEMENT

I, Jeffrey Casper, Chief Financial Officer in his capacity as Chief Restructuring Officer, confirm, to the best of my knowledge, that the consolidated financial statements which have been prepared in accordance with the International Financial Reporting Standards as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit or loss of 3W Power S.A. and the undertakings included in the consolidation taken as a whole and that the Director's report includes a fair review of the development and performance of the business and the position of 3W Power S.A. and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

Jeffrey Casper

On behalf of the Board of Directors
April 29, 2014

FINANCIAL STATEMENTS (IFRS)



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CONSOLIDATED STATEMENT OF FINANCIAL POSITION As of December 31

in thousands of euros	Note	2013	2012 ¹
Assets			
Property, plant and equipment	15	30,152	36,617
Intangible assets	16	54,441	72,956
Goodwill	16	13,052	15,052
Other non-current financial assets	17	3,648	5,304
Total non-current assets		101,293	129,929
Inventories	19	45,888	56,883
Trade and other receivables	20	60,664	126,629
Prepayments	21	585	722
Cash and cash equivalents	22	32,746	42,500
Assets held for sale	7	–	7,310
Total current assets		139,883	234,044
Total assets		241,176	363,973
Equity			
Share capital	23	12,520	12,520
Share premium	23	383,836	383,836
Retained earnings		(359,322)	(277,690)
Reserve for own shares	23	(22,870)	(23,596)
Cumulative translation adjustment	23	3,636	1,730
Total equity attributable to equity holders of the Company		17,800	96,800
Liabilities			
Loans and borrowings	25	99,267	98,879
Employee benefits	26	26,124	27,470
Deferred tax liabilities	18	3,793	9,257
Provisions	27	6,393	8,089
Total non-current liabilities		135,577	143,695
Loans and borrowings	25	6,221	8,795
Trade and other payables	28	69,388	81,553
Income tax liabilities		842	1,825
Deferred income	29	5,823	16,736
Provisions	27	5,525	6,605
Liabilities held for sale	7	–	7,964
Total current liabilities		87,799	123,478
Total liabilities		223,376	267,173
Total equity and liabilities		241,176	363,973

¹ As restated for IAS 19 revised application.

The consolidated financial statements on pages 18 to 60 were approved by the Board of Directors on April 29, 2014 and signed on its behalf by:

Jeffrey Casper

The notes on pages 22 to 60 are an integral part of these consolidated financial statements.


CONSOLIDATED STATEMENT OF INCOME For the year ended December 31

in thousands of euros	Note	2013	2012 ¹
Revenue	6	271,036	383,092
Cost of sales	9	(227,871)	(302,229)
Gross profit		43,165	80,863
Selling, general and administrative expenses		(64,670)	(73,818)
Research and development expenses		(30,488)	(40,627)
Other income/(expenses)	10	(13,487)	(162,450)
Earnings/(loss) before interest and tax (EBIT)²		(65,480)	(196,032)
Finance income		1,970	1,778
Finance costs		(18,165)	(15,418)
Net finance (costs)/income	13	(16,195)	(13,640)
Loss before income tax		(81,675)	(209,672)
Income tax benefit	14	193	31,800
Loss from operations		(81,482)	(177,872)
Net loss		(81,482)	(177,872)
Net loss attributable to:			
Owners of the Company		(81,482)	(177,872)
Non-controlling interest		–	–
Net loss		(81,482)	(177,872)
Earnings per share			
Basic loss per share (euro)	24	(1.70)	(3.72)

¹ As restated for IAS 19 revised application and re-presented for Lannion reclassification as held for use in 2013.

² The interest referred to in earnings before interest and tax (EBIT) comprises all financial items included within net finance income/costs.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME For the year ended December 31

in thousands of euros	Note	2013	2012 ¹
Net loss for the year		(81,482)	(177,872)
Other comprehensive income			
Items that are or may be reclassified to profit or loss:			
Foreign currency translation differences for foreign operations		1,906	413
Subtotal		1,906	413
Items that will never be reclassified to profit or loss:			
Unrealized gains and losses on pension liabilities		1,085	(4,774)
Income tax (charge)/benefit on other comprehensive income		(366)	1,443
Subtotal		719	(3,331)
Other comprehensive income/(loss) for the year		2,625	(2,918)
Total comprehensive loss for the year		(78,857)	(180,790)
Total comprehensive loss attributable to:			
Owners of the Company		(78,857)	(180,790)
Total comprehensive loss for the year		(78,857)	(180,790)

¹ As restated for IAS 19 revised application and re-presented for Lannion reclassification as held for use in 2013.

The notes on pages 22 to 60 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY Equity attributable to holders of the Company

in thousands of euros	Note	Share capital	Share premium	Translation reserve	Reserve for own shares	Retained earnings	Total Group equity	Non-controlling interest	Total equity
Balance at January 1, 2012		12,520	383,836	1,317	(24,633)	(96,108)	276,932	-	276,932
Amendments IAS 19		-	-	-	-	326	326	-	326
Tax effects amendments IAS 19		-	-	-	-	(100)	(100)	-	(100)
Balance restated at January 1		12,520	383,836	1,317	(24,633)	(95,882)	277,158		277,158
Profit/(loss) for the year		-	-	-	-	(177,872)	(177,872)	-	(177,872)
Total other comprehensive income/(loss)		-	-	413	-	(3,331)	(2,918)	-	(2,918)
Total comprehensive income/(loss) for the year		-	-	413	-	(181,203)	(180,790)	-	(180,790)
110,000 shares transferred from treasury shares	23	-	-	-	1,037	(1,037)	-	-	-
Share-based payments/long-term incentive plan	33	-	-	-	-	432	432	-	432
Total contributions by and distributions to owners of the Company		-	-	-	1,037	(605)	432	-	432
Total transactions		-	-	413	1,037	(181,808)	(180,358)	-	(180,358)
Balance as restated at December 31, 2012		12,520	383,836	1,730	(23,596)	(277,690)	96,800	-	96,800
Balance at January 1, 2013		12,520	383,836	1,730	(23,596)	(277,690)	96,800	-	96,800
Profit/(loss) for the year		-	-	-	-	(81,482)	(81,482)	-	(81,482)
Total other comprehensive income/(loss)		-	-	1,906	-	719	2,625	-	2,625
Total comprehensive income/(loss) for the year		-	-	1,906	-	(80,763)	(78,857)	-	(78,857)
74,337 shares transferred from treasury shares	23	-	-	-	726	(726)	-	-	-
Share-based payments/long-term incentive plan	33	-	-	-	-	(143)	(143)	-	(143)
Total contributions by and distributions to owners of the Company		-	-	-	726	(869)	(143)	-	(143)
Total transactions		-	-	1,906	726	(81,632)	(79,000)	-	(79,000)
Balance at December 31, 2013		12,520	383,836	3,636	(22,870)	(359,322)	17,800	-	17,800

The notes on pages 22 to 60 are an integral part of these consolidated financial statements.


CONSOLIDATED STATEMENT OF CASH FLOWS For the year ended December 31

in thousands of euros	Note	2013	2012
Cash flows from operating activities			
Net loss for the year		(81,482)	(177,872)
Adjustments for non-cash items:			
Depreciation and impairment	15	8,396	8,279
Amortization and impairment of intangible assets and goodwill	16	26,685	198,980
Change in provisions	19, 20, 27	21,178	32,457
Share-based payments	11, 33	(143)	432
Change in other non-cash transactions	10	(1,473)	(13,874)
Change in other non-current financial assets	17	(46)	(227)
Finance (expense)/income (net)	13	16,195	13,640
Income tax	14	(193)	(31,800)
Cash flow from operations before changes in working capital		(10,883)	30,015
Change in inventories	19	(2,578)	8,049
Change in trade and other receivables	20	70,112	(17,848)
Change in prepayments	21	62	257
Change in trade and other payables	28	(23,942)	(27,058)
Change in employee benefits	26	(518)	2,245
Change in provisions	27	(9,150)	(10,644)
Change in deferred income	29	(9,284)	(11,899)
Cash used in operating activities		24,702	(56,898)
Income tax paid		(3,964)	(8,270)
Net cash from/(used in) operating activities		9,855	(35,153)
Cash flows from investing activities			
Acquisition of subsidiary, net of cash acquired	8	(956)	–
Decrease/(increase) in non-consolidated investment	17	1,614	(1,943)
Acquisition of property, plant and equipment	15	(2,588)	(7,530)
Proceeds from sale of property, plant and equipment	15	187	5,577
Acquisition of intangible assets	16	(433)	(1,170)
Capitalized internal development expenditure	16	(5,419)	(7,389)
Net cash used in investing activities		(7,595)	(12,455)
Cash flows from financing activities			
Interest paid		(9,866)	(9,694)
Interest received		576	436
Change in other long- and short-term debt	25	(3,624)	(875)
Proceeds from new short-term debt raised	7	–	17,554
Net cash (used in)/from financing activities		(12,914)	7,421
Effect of movement in exchange rates		(365)	742
Net (decrease)/increase in cash and cash equivalents		(11,019)	(39,445)
Cash and cash equivalents at beginning of year		42,892	82,337
Cash and cash equivalents at end of year	22	31,873	42,892

The notes on pages 22 to 60 are an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. REPORTING ENTITY

3W Power S.A. (the "Company") was previously registered in Guernsey. With effect from June 2, 2010 the Company became domiciled in Luxembourg and the address of its registered office is: 19, Rue Eugène Ruppert, L-2453 Luxembourg.

On April 9, 2010 the Company changed its name from Germany1 Acquisition Limited to 3W Power Holdings S.A. On May 19, 2011 the Company changed its name to its current name of 3W Power S.A.

The Company's shares are listed on the Regulated Market (Prime Standard) of the Frankfurt stock exchange (FWB). As from December 19, 2011 the Company delisted its shares from the NYSE Euronext, Amsterdam.

The consolidated financial statements of the Company as at and for the year ended December 31, 2013 comprise the Company and its subsidiaries (together referred to as the "Group").

AEG PS is a world provider of power electronics. It offers product and service portfolios in uninterruptable power supply (UPS), power conversion and control, for customers spanning the infrastructure markets of energy, telecom, lighting, transportation and general industrial sectors. The Group developed a range of products for the solar energy industry, from solar central inverters, software monitoring, turn-key electrical balance of systems and has invested in areas of power management within distributed power generation and smart micro grids.

2. BASIS OF PREPARATION

A) STATEMENT OF COMPLIANCE

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union ("IFRS"). The consolidated financial statements were authorized for issue by the Board of Directors on April 29, 2014.

B) GOING CONCERN ASSUMPTIONS

At the end of November 2013, close to the payment date of the Coupon on the 9.25% Notes Payable, it was established that the Group was heavily dependent on the cash overdue from its major Eastern Europe based customer. The reason for this dependence can be found in the business situation of the Group which deteriorated with the collapse of the polysilicon capex cycle.

The Company invested heavily in its solar expansion, and failed to realize sustainable growth necessary to cover its costs. The Company's past restructuring efforts failed to improve the profitability of its industrial activities. Management continued to pursue growth and development of

new ideas in the face of mounting risks. Persistent losses of legacy activities in telecommunications and telecom converters were continuing.

On December 14, 2013, following a significant change in shareholdings and the departure of the previous management team, four new members joined the Board of Directors and Jeffrey Casper was appointed to the position of Chief Restructuring Officer (CRO). The Company commenced with the building blocks of developing an operational and financial restructuring program. Both restructuring plans are to be executed during 2014 with the objective to improve the Company's short-term liquidity situation and to safeguard the Company's future existence.

The operational restructuring plan is seeking to de-risk and simplify the business by selling or closing non-performing, non-core assets, reducing headcount to re-balance with existing sales volume and to simplify management structures. An important part of the operational restructuring plan is the redundancy program at our main subsidiary in Germany, which will lead to 160 employees leaving.

The Company will further continue closing non-core affiliates and unprofitable subsidiaries and may elect to complete some more non-strategic asset divestitures. After layoffs and divestitures, total headcount is expected to be approximately 900 by year-end 2014 compared to 1,521 at year-end 2013.

The financial restructuring plan is aimed at a fundamental restructuring of the outstanding loan of €100 million (the 9.25% Notes). The key elements of the restructuring plan are a debt-to-equity swap of 50% of the outstanding bond nominal, a change of the conditions of the remaining €50 million Notes which includes significantly lowering the interest charges and a prolonged repayment date to December 2019. In addition, as part of the financial restructuring, it is contemplated that the current shareholders will have preferential subscription rights to increase the capital by a cash-contribution of €4 million against issuance of new shares.

Extensive effort has been put into evaluating existing budgets and forecasts and continuously updating budgets and forecasts based on the most recent available market and performance information. This process has been reviewed in detail by external professional advisors. The budgets and forecasts underlying the going concern assessment anticipate a recovery of the overall profitability and our overall liquidity situation. As indicated this will be achieved by the combination of asset sales, closing of affiliates, reduction in fixed operating expenses and reduction in interest burden through restructuring of the Group's financial commitments. All these designed measures are to bring the remaining activities of the Group into a sound financial position. Furthermore, Management will be reinforced in key positions. The forecasted cash flows are dependent on external market circumstances and the speed of recovery of the business performance in most of our segments. There is a risk that this recovery does not occur due to deteriorating market conditions, delay in order intake or slower than expected business performance recovery, e.g. if restructuring measures do not pay off and sale of assets are delayed or do not succeed as planned. This may furthermore



result in impairments. If the forecasted results are not achieved, there is a more than remote risk that the safety margins (net of upsides and additional risks) taken into account are insufficient, which if this risk materializes, may result in additional cash outflow or alternatively reduced anticipated inflow.

This situation indicates the existence of material uncertainties, which may cast significant doubt about the Group's ability to continue operating as a going concern.

In light of the above the Group has assessed the going concern assumption on the basis of which the 2013 financial statements have been prepared. Going concern is mainly dependent on the successful implementation of the financial restructuring plan and the realization of the budgets and forecasts within the boundaries set by Management. The realization of these budgets and forecasts are largely dependent on the timely recovery of the Group's operational and cash flow performance including the operational restructuring plan in Germany as well as in other sites. Furthermore going concern is dependent on the timely and successful implementation of measures such as disposal of assets, businesses or other activities in order to generate sufficient cash flow.

Management is of the opinion though that the application of the going concern assumption for the 2013 financial statements is appropriate, based on the following facts and circumstances:

- The Group has agreed with significant holders of its €100 million corporate bond the key principles for the fundamental restructuring of the bond. The agreement is subject to the required approval of the bondholders at the upcoming bondholders' meetings. After approval by the bondholders the shareholders will vote on this financial restructuring. In addition, as part of the financial restructuring process, it is contemplated that the current shareholders will have preferential subscription rights to increase the capital by a cash contribution of €4 million against issuance of new shares. Based on the current situation Management believes that although this financial restructuring represents a material uncertainty regarding the going concern they believe that based on the current facts this financial restructuring is expected to be successful.
- Current business forecasts indicate sufficient liquidity to operate the business without interruption. These business forecasts include the successful implementation of the redundancy plans in Germany and at other sites. Given the current status of the redundancy plan in Germany, including the agreement on a social plan and balance of interest with the works council, Management believes that the realization of these restructurings is expected to be successful.
- The operational restructuring plan also includes the disposal of assets, businesses or other activities in order to generate cash flows. Based on the current status (placement into administration of the subsidiary in Lannion, sale of power control modules business, disposal of the South African entity) and the advanced discussions regarding an initial agreement for the sale of our Indian entity as well as skytron, Management believes that this part of the restructuring plan is also expected to be successful.

The combination of asset sales, closing of affiliates, reduction in fixed operating expenses and reduction in interest burden through restructuring of the Group's financial commitments are all designed to bring the remaining activities of the Group into a sound financial position. Failure of any of these activities to raise the necessary cash, reduce costs and to restore bankability and normalize credit conditions could place the Group into further financial distress. Failure to successfully complete the restructuring may result in insolvency.

C) BASIS OF MEASUREMENT

The consolidated financial statements have been prepared under the historical cost convention, unless otherwise indicated.

D) FUNCTIONAL AND PRESENTATION CURRENCY

These consolidated financial statements are presented in euro, which is the Company's functional currency. All financial information presented in euro has been rounded to the nearest thousand.

E) USE OF ESTIMATES AND JUDGMENTS

The preparation of the consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year are included in the following notes:

Note 16	Impairment test procedures on goodwill and other intangible assets
Note 18	Utilization of tax losses
Note 26	Measurement of defined benefit obligations
Note 27, 30, 31	Provisions, off-balance sheet commitments and contingencies
Note 32	Financial instruments

F) CHANGES IN ACCOUNTING POLICIES

The accounting policies described in note 3 have been applied consistently to all periods presented in these consolidated financial statements except, as explained below, those which address changes in accounting policies.

Change in treatment of Lannion

In these consolidated financial statements the 2012 numbers have been re-presented for the inclusion of the Telecom converter business unit into the EES segment.

IFRS ACCOUNTING STANDARDS ADOPTED AS FROM 2013

During the year, the following new and amended IFRSs accounting standards were adopted which have an effect on the Company's financial statements.

- IAS 1, "Financial Statement Presentation" (2011 amendment). The new amendment requires separation of items presented in other comprehensive income into two groups, based on whether or not they can be recycled into the statement of income in future periods. The application of this amendment impacts presentation and disclosure only. Comparative information has been represented.
- IFRS 13, "Fair Value Measurement" establishes a single framework for measuring fair value and making disclosures about fair value measurements. The Company has included additional disclosures in note 16. IFRS 13 has no material impact on the measurements of the Company's assets and liabilities.
- The amendment to IAS 19, "Employee Benefits" became effective as from January 1, 2013. It includes the requirement that actuarial gains and losses are recognized immediately in other comprehensive income, thus removing the corridor method which we currently apply. In addition, expected return on plan assets recognized in the statement of income is calculated based on the rate used to discount the defined benefit obligation. 2012 numbers have been restated for these amendments.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, and have been applied consistently by Group entities, except as explained in note 2F), those which address changes in accounting policies.

A) BASIS OF CONSOLIDATION

Subsidiaries

Subsidiaries are entities controlled by the Group. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group.

Business combinations

Until the end of December 31, 2009 the purchase method of accounting based on IFRS 3 (2004) is used to account for the acquisition of subsidiaries by the Company. The cost of an acquisition is measured at the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the business combination, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Company's share of the identifiable net assets of the subsidiary acquired is recognized as goodwill.

As from January 1, 2010 the Group applies IFRS 3 (revised) for all new business combinations.

The revised standard continues to apply the acquisition method to business combinations, with some significant changes. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the income statement. The definition of a business has been broadened, which is likely to result in more acquisitions being treated as business combinations. There is a choice on an acquisition-by-acquisition basis to measure the non-controlling interest in the acquiree at fair value or at the non-controlling interest's proportionate share of the acquirer's net assets.

All acquisition-related costs other than share and debt issuance costs are expensed.

The non-controlling interests are disclosed separately in the consolidated statements of income as part of profit allocation and in the consolidated statement of financial position as a separate component of equity. Upon acquisition the non-controlling interest is valued at fair value with any subsequent changes being recorded through the consolidated statement of income.

Transactions eliminated on consolidation

Intra-Group balances and transactions, and any unrealized income and expenses arising from intra-Group transactions, are eliminated in preparing the consolidated financial statements.

B) FOREIGN CURRENCY

Transactions in currencies other than the euro are translated at the rate of exchange applicable on the transaction date. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortized cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortized cost in foreign currency translated at the exchange rate at the end of the reporting period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined.

Foreign currency differences arising on retranslation are recognized in profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to euro at exchange rates at the reporting date. The income and expenses of foreign operations are translated to euro by applying the annual average rates.



Foreign currency differences are recognized in other comprehensive income and presented in the foreign currency translation reserve (translation reserve, or FCTR). When a foreign operation is disposed of, in part or in full, the relevant amount in the FCTR is transferred to profit or loss as part of the profit or loss on disposal. When the settlement of a monetary item receivable from or payable to a foreign operation is neither

planned nor likely in the foreseeable future, foreign exchange gains and losses arising from such a monetary item are considered to form part of a net investment in a foreign operation and are recognized in other comprehensive income, and are presented within equity in the FCTR.

Financial information prepared in currencies other than the euro has been converted at the euro rate per foreign currency unit set out below:

Country	Currency	Closing rates 2013	Average rates 2013	Closing rates 2012	Average rates 2012
Canada	CAD	0.68	0.73	0.76	0.78
China	CNY	0.12	0.12	0.12	0.12
India	INR	0.01	0.01	0.01	0.01
Malaysia	MYR	0.22	0.24	0.25	0.25
Russia	RUB	0.02	0.02	0.02	0.03
Singapore	SGD	0.57	0.60	0.62	0.62
Ukraine	UAH	0.09	0.09	0.09	0.10
United Kingdom	GBP	1.20	1.18	1.23	1.23
United States	USD	0.73	0.75	0.76	0.78

C) STATEMENT OF CASH FLOWS

The statement of cash flows is prepared using the indirect method. Cash flows in foreign currencies have been translated into euro using the weighted average rates of exchange for the periods involved. Cash flows from derivative instruments that are accounted for as fair value hedges or cash flow hedges are classified in the same category as the cash flows from the hedged items. Cash flows from other derivative instruments are classified consistent with the nature of the instrument.

D) DERIVATIVE FINANCIAL INSTRUMENTS

The Group may use derivative financial instruments to hedge its exposure to foreign exchange and interest rate risks arising from operational, financing and investment activities.

Derivatives that can be used are interest rate swaps, forward rate agreements, caps and floors and forward exchange contracts. Transactions are entered into with a limited number of counterparties with strong credit ratings. Foreign currency and interest rate hedging operations are governed by an internal policy and rules (treasury policy) approved and monitored by the Board. In accordance with its treasury policy, the Group does not hold or issue derivative financial instruments for trading purposes.

Derivative financial instruments are recognized initially at fair value. Attributable transaction costs are recognized in the income statement when incurred. Subsequent to initial recognition, derivative financial instruments are measured at fair value and changes therein are accounted as described below. The fair value of forward exchange contracts and interest rate swaps are their quoted market price at the balance sheet date, being the present value of the quoted forward price.

Non-derivative financial assets

The Group initially recognizes loans and receivables and deposits on the date that they are originated. All other financial assets (including assets designated at fair value through profit or loss) are recognized initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

The Group derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in a transferred financial asset that is created or retained by the Group is recognized as a separate asset or liability.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

The Group identifies the following non-derivative financial assets: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity financial assets, and available-for-sale financial assets.

Financial assets at fair value through profit or loss

A financial asset is classified at fair value through profit or loss if it is classified as held for trading or is designated as such upon initial recognition. Financial assets at fair value through profit or loss are measured at fair value, and changes therein are recognized in profit or loss.

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Loans are stated at amortized cost, less the related allowance for impaired loans. Loans and receivables comprise trade and other receivables.

Trade accounts receivable are carried at the lower of amortized cost or the present value of estimated future cash flows, taking into account discounts given or agreed. The present value of estimated future cash flows is determined through the use of allowances for uncollectible amounts. In the event of sale of receivables and factoring, the Group derecognizes receivables when the Group has given up control or continuing involvement. Long-term receivables are initially recognized at their present value using an appropriate interest rate. Any discount is amortized to income over the life of the receivable using the effective yield.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits with original maturities of three months or less. They are stated at face value, which approximates fair value. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of short-term debt for the purpose of the statement of cash flows.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale and that are not classified in any of the other categories of financial assets. Available-for-sale financial assets are recorded at fair value. Unrealized holding gains and losses, net of the related tax effect, on available-for-sale financial assets are reported as a separate component of other comprehensive income until realized. In case of impairment losses on available-for-sale assets these are recognized by reclassifying the losses accumulated in the fair value reserve in equity to profit or loss. The cumulative loss that is reclassified from equity to profit or loss is the net difference between the acquisition cost, net of any principal repayment and amortization, and the current fair value, less any impairment losses recognized previously in profit or loss.

Non-derivative financial liabilities

The Group initially recognizes debt securities issued and subordinated liabilities on the date that they are originated. All other financial liabilities (including liabilities designated at fair value through profit or loss) are recognized initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument. The Group derecognizes a financial liability when its contractual obligations are discharged or cancelled or expire.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

The Group has the following non-derivative financial liabilities: notes payable, loans and borrowings, bank overdrafts, and trade and other payables. Such financial liabilities are recognized initially at fair value. The notes payable liability is recognized initially at its fair value plus transaction costs that are directly attributable to the issue of the financial instrument.

Subsequent to initial recognition, these financial liabilities are measured at amortized cost using the effective interest method.

Financial guarantees

Financial guarantees are only provided to subsidiaries and therefore are not disclosed in the consolidated financial statements. However, information on financial guarantee to subsidiaries is provided in the section "credit risk".

Share capital

Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognized as a deduction from equity, net of any tax effects.

Treasury shares

When share capital recognized as equity is repurchased, the amount of the consideration paid, which included directly attributable costs, net of any tax effects, is recognized as a deduction from equity. Repurchased shares are classified as treasury shares and are presented in the reserve for own shares.

Warrants

Warrants are initially recorded as liability at fair value in the statement of financial position. This liability is re-measured at fair value and changes therein are recognized in profit or loss.



E) PROPERTY, PLANT AND EQUIPMENT

Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labor, any other costs directly attributable to bringing the assets to a working condition for their intended use, the costs of dismantling and removing the items and restoring the site on which they are located and capitalized borrowing costs. Purchased software that is integral to the functionality of the related equipment is capitalized as part of that equipment.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and are recognized net within other income in profit or loss. When re-valued assets are sold, the amounts included in the revaluation reserve are transferred to retained earnings.

Subsequent costs

The cost of replacing a part of an item of property, plant and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group, and its cost can be measured reliably. The carrying amount of the replaced part is derecognized. The costs of the day-to-day servicing of property, plant and equipment are recognized in profit or loss as incurred.

Depreciation

Depreciation is calculated over the depreciable amount, which is the cost of an asset, or other amount substituted for cost, less its residual value.

Depreciation is recognized in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Land is not depreciated.

The estimated useful lives for the current and comparative periods are as follows:

Buildings, plant and equipment	20-30 years
Infrastructure and fixtures	10-20 years
Equipment and tools	5-10 years
Small equipment and tools	2-5 years

Depreciation methods, useful lives and residual values are reviewed at each financial year-end and adjusted if appropriate.

F) INTANGIBLE ASSETS

Goodwill

Goodwill that arises upon the acquisition of subsidiaries is included in intangible assets. For acquisitions on or after January 1, 2010 the Company measures goodwill at the acquisition date as:

- the fair value of the consideration transferred; plus
- the recognized amount of any non-controlling interest in the acquiree; plus
- if the business combination is achieved in stages, the fair value of the existing interest in the acquiree;
- less the net recognized amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognized in the statement of income. Goodwill is measured at cost less accumulated impairment losses.

Research and development

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognized in profit or loss as incurred.

Development activities involve a plan or design for the production of new or substantially improved products and processes. Development expenditure is capitalized only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Group intends to and has sufficient resources to complete development and to use or sell the asset. The expenditure capitalized includes the cost of materials, direct labor, overhead costs that are directly attributable to preparing the asset for its intended use, and capitalized borrowing costs. Other development expenditure is recognized in profit or loss as incurred.

Other intangible assets

Other intangible assets that are acquired by the Group and have finite useful lives are measured at cost less accumulated amortization and accumulated impairment losses.

Subsequent expenditure

Subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognized in profit or loss as incurred.

Amortization

Amortization is calculated over the cost of the asset, or other amount substituted for cost, less its residual value.

Amortization is recognized in profit or loss on a straight-line basis over the estimated useful lives of intangible assets, other than goodwill, from the date that they are available for use, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. The estimated useful lives for the current and comparative periods are as follows:

Capitalized development costs	3-7 years
Backlog	2-3 years
Customer relations	14-20 years
Technology	4-10 years

Amortization methods, useful lives and residual values are reviewed at each financial year-end and adjusted if appropriate.

G) LEASED ASSETS

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition, the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset. The corresponding rental obligations, net of finance charges, are included in other short-term and other non-current liabilities.

The property, plant and equipment acquired under finance leases are depreciated over the shorter of the useful life of the assets and the lease term.

Other leases are operating leases and are not recognized in the Group's statement of financial position. Payments made under operating leases are recognized in the statement of income on a straight-line basis over the term of the lease. Investment property held under an operating lease is recognized in the Group's statement of financial position at its fair value.

H) INVENTORIES

Inventories and work in progress are measured at the lower of cost and net realizable value. Cost is primarily calculated on a weighted average price basis. Reserves for inventories and work in progress are calculated based on an analysis of foreseeable changes in demand, technology or the market, in order to determine obsolete or excess inventories and work in progress. In the case of manufactured inventories and work in progress, cost includes an appropriate share of production overheads based on normal operating capacity.

Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

I) IMPAIRMENT

Financial assets including receivables

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

The Group considers evidence of impairment for receivables at a specific asset and collective level. All individually significant receivables are assessed for specific impairment. All individually significant receivables found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Receivables that are not individually significant are collectively assessed for impairment by grouping together receivables with similar risk characteristics.

In assessing collective impairment the Group uses historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgment as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

The amount of the allowance for doubtful receivables reflects both the customers' ability to honor their debts and the age of the debts in question. The Group establishes a bad debt allowance procedure that foresees provisioning for each specific case. As soon as individual trade accounts receivable can no longer be collected in the normal way and are expected to result in a loss, they are designated as doubtful trade accounts receivable and valued at the expected collectible amounts. They are written off when they are deemed to be uncollectible because of bankruptcy or other forms of receivership of the debtors.

The allowance for the risk of non-collection of trade accounts receivable takes into account credit risk concentration, collective debt risk based on average historical losses, and specific circumstances such as serious adverse economic conditions in a specific country.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognized in profit or loss and reflected in an allowance account against receivables. Interest on the impaired asset continues to be recognized through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.



Non-financial assets

The carrying amounts of the Group's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For goodwill and intangible assets that have indefinite useful lives or that are not yet available for use, the recoverable amount is estimated each year at the same time.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. If the asset or cash generating unit is assessed by its fair value less costs to sell this can be either through directly obtained fair values or by discounting the expected cash flows from a market participants perspective. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest Group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or Groups of assets (the "cash-generating unit, or CGU"). Subject to an operating segment ceiling test, for the purposes of goodwill impairment testing, CGUs to which goodwill has been allocated are aggregated so that the level at which impairment is tested reflects the lowest level at which goodwill is monitored for internal reporting purposes. Goodwill acquired in a business combination is allocated to CGUs that are expected to benefit from the synergies of the combination.

The Group's corporate assets do not generate separate cash inflows. If there is an indication that a corporate asset may be impaired, then the recoverable amount is determined for the CGU to which the corporate asset belongs.

An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognized in profit or loss. Impairment losses recognized in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the units, and then to reduce the carrying amounts of the other assets in the unit (Group of units) on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

Non-current assets held for sale

Non-current assets, or disposal groups comprising assets and liabilities, that are expected to be recovered primarily through sale rather than through continuing use, are classified as held for sale. Immediately before classification as held for sale, the assets, or components of a disposal group, are re-measured in accordance with the group's accounting policies. Thereafter generally the assets, or disposal group, are measured at the lower of their carrying amount and fair value less cost to sell. Any impairment loss on a disposal group first is allocated to goodwill, and then to remaining assets and liabilities on a pro rata basis, except that no loss is allocated to inventories, financial assets, deferred tax assets, employee benefit assets which continue to be measured in accordance with the Group's accounting policies. Impairment losses on initial classification as held for sale and subsequent gains or losses on re-measurement are recognized in profit or loss. Gains are not recognized in excess of any cumulative impairment loss.

J) DISCONTINUED OPERATIONS

Discontinued operations

A discontinued operation is a component of the Group's business, the operations and cash flows of which can be clearly distinguished from the rest of the Group and which represent a major line of business or geographical area of operations or is a subsidiary acquired with a view to re-sale.

Classification as a discontinued operation occurs on disposal or when the operation meets the criteria to be classified as held-for-sale, if earlier.

When an operation was classified as a discontinued operation and subsequently this decision was reversed, therefore bringing the operation back in use, the comparative statement of comprehensive income is re-presented as if the operation were part of continuing operations as from the start of the comparative year.

K) EMPLOYEE BENEFITS

Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognized as an employee benefit expense in profit or loss in the periods during which services are rendered by employees. Prepaid contributions are recognized as an asset to the extent that a cash refund or a reduction in future payments is available. Contributions to a defined contribution plan that is due more than twelve months after the end of the period in which the employees render the service are discounted to their present value.

Defined benefit plans

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Group's net obligation in respect of defined benefit pension plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value. Any unrecognized past service costs and the fair value of any plan assets are deducted. The discount rate used is the yield at the reporting date on AA credit-rated bonds that have maturity dates approximating the terms of the Group's obligations and that are denominated in the same currency in which the benefits are expected to be paid. The calculation is performed annually by a qualified actuary using the projected unit credit method. When the calculation results in a benefit to the Group, the recognized asset is limited to the total of any unrecognized past service costs and the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. In order to calculate the present value of economic benefits, consideration is given to any minimum funding requirements that apply to any plan in the Group. An economic benefit is available to the Group if it is realizable during the life of the plan, or on settlement of the plan liabilities.

Re-measurements of the net obligation comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (excluding interest). The Company immediately recognizes all re-measurements in other comprehensive income.

When the benefits of a plan are improved, the portion of the increased benefit relating to past service by employees is recognized immediately in profit or loss.

The Group recognizes gains and losses on settlements of a defined benefit obligation plan when the settlement occurs.

Other long-term employee benefits

The Group's net obligation in respect of long-term employee benefits other than pension plans is the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value, and the fair value of any related assets is deducted. The discount rate used is the yield at the reporting date on AA credit-rated bonds that have maturity dates approximating the terms of the Group's obligations. The calculation is performed using the projected unit credit method. Any actuarial gains and losses are recognized in profit or loss in the period in which they arise.

Termination benefits

Termination benefits are recognized as an expense when the Group is committed demonstrably, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits for voluntary redundancies are recognized as an expense if the Group has made an offer of voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably. If benefits are payable more than twelve months after the reporting period, then they are discounted to their present value.

Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A liability is recognized for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

Share-based payments

The grant date fair value of share-based payment awards granted to employees is recognized as an employee expense, with a corresponding increase in equity, over the period that the employees unconditionally become entitled to the awards. The amount recognized as an expense is adjusted to reflect the number of awards for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognized as an expense is based on the number of awards that do meet the related service and non-market performance conditions at the vesting date. For share-based payment awards with non-vesting conditions, the grant date fair value of the payment is measured to reflect such conditions and there is no true-up for differences between expected and actual conditions.

L) PROVISIONS

A provision is recognized if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. The Group accrues for losses associated with environmental obligations when such losses are probable and can be estimated reliably. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognized as finance cost.



Warranties

A provision for warranties is recognized when the underlying products or services are sold. The provision is based on historical warranty data and a weighting of all possible outcomes against their associated probabilities.

Restructuring

A provision for restructuring is recognized when the Group has approved a detailed and formal restructuring plan, and the restructuring either has commenced or has been announced publicly. Future operating losses are not provided for.

Onerous contracts

A provision for onerous contracts is recognized when the expected benefits to be derived by the Group from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected costs of terminating the contract and the expected net costs of continuing with the contract. Before a provision is established, the Group recognizes an impairment loss on the assets associated with that contract.

M) REVENUE

Revenue from the sale of goods in the course of ordinary activities is measured at the fair value of the consideration received or receivable, net of returns, trade discounts and volume rebates. Revenue is recognized when persuasive evidence exists, usually in the form of an executed sales agreement, that the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably. If it is probable that discounts will be granted and the amount can be measured reliably, then the discount is recognized as a reduction of revenue as the sales are recognized.

The timing of the transfers of risks and rewards varies depending on the individual terms of the contract of sale. In general the Group recognizes revenue from the sale of goods and equipment when a contractual arrangement with its customer exists, delivery has occurred, the amount of revenue can be measured reliably and it is probable that the economic benefits associated with the transaction will flow to the Group. Accruals for estimated returns are recorded at the same time based on contract terms and prior claims experience. In arrangements where the customer specifies final acceptance of the goods, equipment, services or software, revenue is generally deferred until all the acceptance criteria have been met.

Service revenue related to repair and maintenance activities for goods sold are recognized pro rata over the service period or as services are rendered. Revenue from training and consulting services is recognized when the services are performed.

For product sales through resellers and distributors, revenue is recognized at the time of the shipment to distributors.

When two or more revenue generating activities or deliverables are sold under a single arrangement, each deliverable that is considered to be a separate unit of account is accounted for separately. The allocation of consideration from a revenue arrangement to its separate units of account is based on the relative fair value of each unit. If the fair value of the delivered item is not reliably measurable, then revenue is allocated based on the difference between the total arrangement consideration and the fair value of the undelivered item.

The Group accrues for warranty costs, sales returns and other allowances based on contract terms and its historical experiences.

Government grants are recognized as income as qualified expenditures are made, except for grants relating to purchases of assets, which are deducted from the cost of the assets.

N) LEASE PAYMENTS

Payments made under operating leases are recognized in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognized as an integral part of the total lease expense, over the term of the lease. Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Contingent lease payments are accounted for by revising the minimum lease payments over the remaining term of the lease when the lease adjustment is confirmed.

O) FINANCE INCOME AND FINANCE COSTS

Finance income comprises interest income on funds invested (including available-for-sale financial assets), dividend income, gains on the disposal of available-for-sale financial assets, changes in the fair value of financial assets at fair value through profit or loss, and gains on hedging instruments that are recognized in profit or loss. Interest income is recognized as it accrues in profit or loss, using the effective interest method. Dividend income is recognized in profit or loss on the date that the Group's right to receive payment is established, which in the case of quoted securities is the ex-dividend date.

Finance costs comprise interest expense on borrowings, unwinding of the discount on provisions, dividends on preference shares classified as liabilities, changes in the fair value of financial assets at fair value through profit or loss, impairment losses recognized on financial assets, and losses on hedging instruments that are recognized in profit or loss. Transaction costs on financial instruments is expensed over the period that the debt is outstanding using the effective interest method and is included in finance costs.

Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognized in profit or loss using the effective interest method.

Foreign currency gains and losses are reported on a net basis.

P) INCOME TAX

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in profit or loss except to the extent that it relates to a business combination, or items recognized directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, and differences relating to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future.

In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

In determining the amount of current and deferred tax the Company takes into account the impact of uncertain tax positions and whether additional taxes and interest may be due. The Company believes that its accruals for tax liabilities are adequate for all open tax years based in its assessment of many factors, including interpretations of tax law and prior experience. This assessment relies on estimates and assumptions and may involve a series of judgments about future events. New information may become available that causes the Company to change its judgment regarding the adequacy of existing tax liabilities; such changes to tax liabilities will impact tax expense in the period that such a determination is made.

Q) EARNINGS PER SHARE

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Group by the weighted average number of ordinary shares outstanding during the period, adjusted for own shares held. Diluted EPS is determined by the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding, adjusted for own shares held, for the effects of all dilutive potential ordinary shares, which comprise restricted shares, warrants and any share options granted to employees.

R) SEGMENT REPORTING

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. All operating segments' operating results are reviewed regularly by the chief operating decision maker (the "CODM") to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available. The Group has identified two reportable segments, Renewable Energy Solutions "RES" and Energy Efficiency Solutions "EES". RES combines the Power Controllers and Solar business units. EES includes the Group's telecom, converters and EMS solutions.



S) NEW STANDARDS AND INTERPRETATIONS NOT YET ADOPTED

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended December 31, 2013, and have not been applied in preparing these consolidated financial statements. The main standards that might affect the Group are:

- IFRS 9, "Financial Instruments" (replacement of IAS 39) is not yet EU endorsed and will become effective as from 2015, with earlier adoption permitted. IFRS 9 introduced new requirements for classifying and measuring financial assets and liabilities. This standard encompasses an overall change of accounting principles for financial instruments and will eventually replace IAS 39 – the current standard on financial instruments. As its scope will be further expanded during the next year(s), we will review the effects of a comprehensive standard on financial instruments and consider adoption when appropriate.
- IFRS 10, "Consolidated Financial Statements" replaces the consolidation requirements in SIC-12 (Special Purpose Entities) and IAS 27 (Consolidated and Separate Financial Statements). IFRS 10 changes the definition of control so the same criteria are applied to all entities to determine control. The revised definition of control focuses on the need to have both power and variable returns before control is present. The new standard includes guidance on control, with less than half of the voting rights ("de-factor" control), participating and protective rights and agent/principal relationships. This new standard is endorsed by the EU in Q4 2012 and is effective from January 1, 2014. The Company expects no impact on its consolidated financial statements.
- IFRS 11, "Joint Arrangements" addresses the accounting of joint arrangements and eliminates proportionate consolidation. This standard is endorsed by the EU in Q4 2012 and is effective as from January 1, 2014. As we do not have joint arrangements there is no impact on our consolidated financial statements from this elimination.
- IFRS 12, "Disclosure of Interests in Other Entities" contains the disclosure requirements for interests in subsidiaries, joint ventures, associates and other unconsolidated entities. This standard is endorsed by the EU in Q4 2012 and is effective as from January 1, 2014. We do not expect that this new standard will have a material effect on the Company's consolidated financial statements.

- The amendment to IAS 27, "Separate Financial Statements" addresses the requirements for separate financial statements. This standard is endorsed by the EU and is effective as from January 1, 2014. We will assess the effect of this standard on our Company financial statements in 2014.
- The amendment to IAS 32, "Financial Instruments, Presentation – Offsetting Financial Assets and Financial Liabilities" clarifies that the right to offset must not be contingent on a future event; and must be legally enforceable. This standard is endorsed by the EU in Q4 2012 and is effective as from January 1, 2014. We will assess the effect of this standard on our consolidated financial statements in 2014. The Company expects no impact on its consolidated financial statements.
- IFRIC 21 "Levies"
 IFRIC 21 provides guidance on the accounting for certain outflows imposed on entities by governments in accordance with laws and/or regulations (levies). The interpretation identifies the obligating event for the recognition of a liability as the activity that triggers the payment of the levy in accordance with the relevant legislation. This interpretation does not have a material impact on the financial statements.

Changes to other standards, following from amendments and the Annual Improvement cycles, do not have a material impact on the Company's financial statements.

4. DETERMINATION OF FAIR VALUES

A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. Further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

Property, plant and equipment

The fair value of property, plant and equipment recognized as a result of a business combination is based on market values. The market value of property is the estimated amount for which a property could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably and willingly. The fair value of items of plant, equipment, fixtures and fittings is based on the market approach and cost approaches using quoted market prices for similar items when available and replacement cost when appropriate.

Intangible assets

The fair value of technology acquired in a business combination is based on the discounted estimated royalty payments that have been avoided as a result of the technology being owned. The fair value of customer relationships acquired in a business combination is determined using the multi-period excess earnings method, whereby the subject asset is valued after deducting a fair return on all other assets that are part of creating the related cash flows. The fair value of other intangible assets (such as backlog) is based on the discounted cash flows expected to be derived from the use and eventual sale of the assets.

Inventories

The fair value of inventories acquired in a business combination is determined based on the estimated selling price in the ordinary course of business less the estimated costs of completion and sale, and a reasonable profit margin based on the effort required to complete and sell the inventories.

Trade and other receivables

The fair value of trade and other receivables, excluding construction work in progress, is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date. This fair value is determined for disclosure purposes.

Non-derivative financial liabilities

The fair value of non-derivative financial liabilities, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date. In respect of the liability component of convertible notes, the market rate of interest is determined by reference to similar liabilities that do not have a conversion option.

Warrants

The fair value of the outstanding warrants is measured at market price by applying the list price of these warrants at the end of the period as traded at the Euronext Amsterdam.

Pension

The fair value of pension as a result of the business combination is recognized based upon the identified unrecognized net actuarial gain adjusted for discounted flows expected to be derived from the use and eventual sale of this asset.

At the year-end the value of the plan assets have been determined based on market quotations.

Share-based payments/long-term incentive plan

Share-based payments and long-term incentive plan are both measured by reference to market prices.

5. FINANCIAL RISK MANAGEMENT

Overview

The Group has exposure to the following risks:

- Credit and customer concentration risk
- Liquidity risk
- Market risk
- Operational risk

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital. Further quantitative disclosures are included throughout these consolidated financial statements. The Company's framework on Risk Management is described in the Directors' report.

A) CREDIT AND CUSTOMER CONCENTRATION RISK

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers.

Trade and other receivables

The Group's exposure to customer credit risk is influenced mainly by the individual characteristics of each customer. Management also considers the demographics of the Group's customer base, including the default risk of the industry and country in which customers operate, as these factors may have an influence on credit risk, particularly in the currently challenging and uncertain circumstances.

In RES two customers accounted for 45.9% and 16.3% of segment and Group revenue respectively in 2013 (2012: 55.0% and 27.4%). The Group monitors these customers closely and uses advance payments and written guarantees to lower the associated credit risk. The Group also tries to mitigate concentration risks by broadening the customer base as much as possible in the circumstances. The concentration by customer can vary from year to year.

One customer in RES represented 37.5% of the Group's gross trade receivable balance at December 31, 2012. In 2013 this balance is immaterial. The customer paid all invoices and therefore the allowance of €8.5 million on this customer was cancelled.



The RES business operating model includes intensive relationship with different forms of Investment Funds and Engineering Procurement and Construction (“EPC”) contractors on development of large-scale solar projects which may require project financing to build utility-scale solar plants. Project financing has different financing sources and requires timely draw of funds upon completion of construction phases. Logistics and administration are key elements for a timely and successful draw. Local regulations regarding import deadlines and timely application to any public or private subsidy may cause high concentration of deliveries of goods and services (trading volume) during a specific period. The payment terms applied are project related and cover the different stages: payment upon signing contract, delivery of goods, commissioning and completion of works. The payment terms applied to the completion stage exceed our Group practiced average. The terms are standard for this type of business and are secured by a parent guarantee which is exercisable on conditional terms. When payment terms cannot be met, close coordination between Management and client is crucial to obtain transparency and cooperation for any project to continue.

This risk is closely managed and requires mitigation in the form of amended payment terms, additional/extended guarantees and strict compliance of deliveries upon receipt of payments.

Two of the Group’s subsidiaries historically derive more than 50% of their revenue from a (different) single customer. The subsidiaries have a long-standing and close association with the customers.

More than 50% of the Group’s customers have been transacting with the Group for over five years, and losses have occurred infrequently. The Group’s operating subsidiaries analyze new customers individually for creditworthiness before orders are accepted. Credit risk is also covered where possible by request for collateral such as advance payments, guarantees and the use of retention of title clauses. Credit reviews are carried out which include external ratings, when available, and bank references.

The Group establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables and investments. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loss component established for groups of similar assets in respect of losses that incurred but are not yet identified. The amount of collective loss allowance is based on historical data of payment statistics for similar financial assets.

Investments

The Group limits its exposure to credit risk by investing only in liquid securities and only with strong counterparties.

Guarantees

The Group provides guarantees and performance bonds when required for specific projects and such guarantees are approved by Group management. At December 31, 2013 the value of guarantees issued by the Group amounted to €14.4 million (2012: €10.0 million) net of those covered by cash collateral. These guarantees are only provided to subsidiaries.

B) LIQUIDITY RISK

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset.

The Group’s approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group’s reputation. The Group monitors its cash status and projected sources and needs throughout the year.

In November 2010 the Company successfully raised a net €96.8 million of loan capital through the placement of loan Notes due December 1, 2015. This capital provided the Group with liquidity to finance its activities and implement a restructuring program and to pursue a solar growth strategy. As of December 31, 2013, the Group does not believe it will generate sufficient cash flow from operations to be able to fully repay the loan notes due December 1, 2015 and will therefore need to refinance its long term borrowing obligations. Refinancing will require the Group to access credit markets. At December 31, 2013, in addition to the liquidity raised through the loan Notes, the Group also had the following credit facilities at certain of its subsidiaries:

- €3.5 million in overdraft and short-term loans of which €1.6 million was undrawn.
- €14.6 million receivable financing of which €9.6 million was undrawn. The extent to which these facilities can be utilized depends on the amount of available receivables at the subsidiaries concerned.

Persistent operating losses, the effect of unfavorable credit terms given by our suppliers, and continued loss of business volume may result in falling beneath the minimum level of required liquidity to adequately finance our operations over the coming quarters. The Company is addressing its operating costs through a business process redesign and with an emphasis on cash generation. The combination of asset sales, closing of affiliates, reduction in fixed operating expenses and reduction in interest burden through restructuring of the Group’s financial commitments are all designed to bring the remaining activities of the Group onto a sound financial position. Failure of any of these activities to raise the necessary cash, reduce costs, adequately change deep seeded and entrenched ineffective operating behavior or to restore bankability and normalize credit conditions could place the Group into further financial distress. Failure to successfully complete the financial restructuring may result in an insolvency.

The Group is monitoring its trading patterns and factoring into its analysis the different variables involved in the restructuring. Possible mitigation actions are continuously identified.

Taking into account these variables and based on present circumstances, including reasonable assumptions about the probability of certain outcomes, Management believes there will be sufficient liquidity to continue as a going concern throughout the coming twelve months. At December 31, 2013 the Company's cash was €31.9 million compared to €42.9 million at December 31, 2012.

C) ECONOMIC AND MARKET RISK

These risks include risks from the general macroeconomic environment, changes in regulations (for example relating to renewable energy and environmental policies), the incorrect projection of market price and demand trends, lack of market acceptance for newly developed products and other such related risks.

Our business is affected by the economic and political conditions particularly in the current macroeconomic environment characterized by the continued economic hardship in several countries within the European Union and the recent geopolitical strife in the Ukraine and surrounding areas of Eastern Europe and the CIS. We conduct business both in Europe and Russia. Deepening economic sanctions prohibiting our ability to serve certain markets is a possibility.

We continue to pursue business in developing areas and we expect emerging markets to account for an increasing proportion of our total revenue as developing economies grow. Although we furnish much of our content from Europe, many of the projects' ultimate destinations are through EPC's around the world. Emerging markets generally may involve risks such as unfamiliar legal systems, cultural and business practice differences, exchange controls, etc.

D) OPERATIONAL RISK

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Group's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behavior. Operational risks arise from all of the Group's operations.

The Group's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Group's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management within each subsidiary supported by the development of overall Group standards for the management of operational risk in the following areas:

- requirements for appropriate segregation of duties, including the independent authorization of transactions
- requirements for the reconciliation and monitoring of transactions
- compliance with regulatory and other legal requirements
- documentation of controls and procedures
- requirements for the reporting of operational losses and proposed remedial action
- development of contingency plans
- training and professional development
- ethical and business standards
- mitigation, including insurance where this is effective.

E) INTEREST RATE AND CURRENCY RISK

The majority of the Group's debt is in the form of the Notes which are long-term and carry a fixed interest rate. Debt with variable interest rate is largely confined to the receivables financing facilities and the Group does not enter into interest rate derivatives. Therefore the Group's exposure to interest rate risk is limited.

Details of the Group's exposure to currency risk are shown in note 32. The main exposure is to the euro, the Group's functional currency. Exposure to other currencies is relatively limited. The Group will monitor such exposure closely and take appropriate steps to mitigate if required. The Group had no foreign currency instruments in place at the year-end.

Capital management

The Board of Directors monitors on a monthly basis the development of the Group's EBITDA, liquidity and net debt. Net debt is defined as the net of total borrowings, less cash and cash equivalents.

The Group monitors, on a weekly basis, the placement of excess cash, the draw on existing credit facilities and the cash flow development. Exchange risks are closely managed and during 2013 the Group did not enter into any major currency hedge transaction.

The Group is seeking to restore and stabilize its financial footing through its financial and operational restructuring program. If the Group succeeds in its plans, the intent of the Board is to maintain a strong capital base and source additional working capital facilities to help fund future growth.

During the period, the Company was not exposed to externally imposed capital requirements and as such no covenant exists at year-end.



6. OPERATING SEGMENTS

The Group has two reportable segments, Renewable Energy Solutions (RES) which comprise the Power Controllers and Solar product lines and Energy Efficiency Solutions (EES) comprising Energy Management Solutions, DC Telecom, LED and converter product lines. Accordingly the results of the Group are presented in these two segments which also reflect the presentation of information to the Group's Chief Executive, who has been identified as the chief operating decision maker ("CODM"). The LED and Converter activity are re-presented in continuing operations and 2012 numbers have been represented for comparative purposes. These results were previously reported as Assets held for sale/Discontinued operations.

For 2013 and 2012 no intra-segment transactions occurred and inter-Company transactions within the segment are eliminated.

RESULTS BY OPERATING SEGMENT

For the year ended December 31, 2013

in thousands of euros	RES	EES	Unallocated amounts	Total
Revenue	96,141	174,895	–	271,036
Segment operating income/(loss)	(11,191)	(3,678)	(6,712)	(21,581)
Restructuring income/(costs)	(153)	(3,101)	(1,768)	(5,022)
Capitalized development costs (net of amortization and impairment)	(5,131)	(91)	–	(5,222)
Central overheads	–	–	(9,023)	(9,023)
Impairment of tangible and intangible assets and working capital ¹	(8,361)	(4,103)	–	(12,464)
Amortization and impairment of intangibles on acquisition ²	(3,932)	(7,969)	(267)	(12,168)
Income/(loss) before interest and tax (EBIT)³	(28,768)	(18,942)	(17,770)	(65,480)

¹ Impairment relates to the fair valuing of assets at net realizable value of legal entities that are considered for divestiture during the financial year 2014.

² Relates to intangibles identified on the acquisition of AEG PS in 2009.

³ The interest referred to in earnings before interest and tax (EBIT) comprises all financial items included within net finance income/costs.

RESULTS BY OPERATING SEGMENT

For the year ended December 31, 2012

in thousands of euros	RES	EES	Unallocated amounts	Total
Revenue	190,908	192,184	–	383,092
Segment operating income/(loss)	23,260	(3,347)	(1,984)	17,929
Restructuring income/(costs)	–	(6,261)	(2,737)	(8,998)
Capitalized development costs (net of amortization)	1,736	281	–	2,017
Central overheads	–	–	(14,493)	(14,493)
Impairment of tangible and intangible assets and working capital ¹	–	(1,700)	–	(1,700)
Capital gain	–	–	1,261	1,261
Amortization of intangibles on acquisition ²	(180,178)	(11,542)	(328)	(192,048)
Income/(loss) before interest and tax (EBIT)³	(155,182)	(22,569)	(18,281)	(196,032)

¹ Impairment relates to the fair valuing of assets at net realizable value that were presented as held for sale (Lannion).

² Relates to intangibles identified on the acquisition of AEG PS in 2009.

³ The interest referred to in earnings before interest and tax (EBIT) comprises all financial items included within net finance income/costs.

Revenue comprises €217.6 million for goods and €53.4 million for services (2012: €325.2 million and €57.9 million respectively).

Two customers in RES accounted for 45.9% and 16.3% of RES and Group revenue respectively (2012: 55.0% and 28.5%).

SEGMENT ASSETS AND REVENUE BY GEOGRAPHY

The Group monitors assets at country level rather than by operating segment. Therefore, information on assets is disclosed below on a geographical basis.

MATERIAL INFORMATION ABOUT GEOGRAPHICAL SEGMENTS

In presenting information on the basis of geographical segments, segment revenue is based on the location of customers. Segment assets and liabilities are based on the location of the assets and liabilities.

The country of domicile of the Company (Luxembourg) is included in the rest of Europe.

in thousands of euros	Germany	Rest of Europe	Africa, Middle East and Asia ¹	Americas	Held for sale	Total
Revenue for the period ended December 31, 2013	55,066	90,094	112,698	13,178	–	271,036
Revenue for the period ended December 31, 2012	78,323	95,910	191,031	17,829	–	383,093

¹ Includes the Cyprus-based Solar customer with its major operation in Eastern Europe.

For the year ended and as at December 31, 2013

in thousands of euros	Germany	Rest of Europe	Africa, Middle East and Asia	Americas	Held for sale	Total
Non-current assets ¹	50,609	31,800	2,184	–	–	84,593
Total assets	107,208	104,095	24,854	5,019	–	241,176
Total liabilities	55,373	154,501	10,311	3,191	–	223,376

¹ Non-current assets exclude goodwill and non-current financial assets.

For the year ended and as at December 31, 2012

in thousands of euros	Germany	Rest of Europe	Africa, Middle East and Asia	Americas	Held for sale	Total
Non-current assets ¹	43,814	58,319	6,192	1,248	–	109,573
Total assets	167,417	145,646	37,997	5,603	7,310	363,973
Total liabilities	96,600	148,509	13,121	979	7,964	267,173

¹ Non-current assets exclude goodwill and non-current financial assets.



7. NON-CURRENT ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS

AEG POWER SOLUTIONS S.A.S AT LANNION IN FRANCE ASSET AND LIABILITIES HELD FOR SALE/DISCONTINUED OPERATION

In the second quarter of 2013, Management ended the sale process of AEG Power Solutions S.A.S at Lannion in France ("Lannion"). In these consolidated financial statements 2012 numbers have been represented for the change in the operating segments and the reinsertion of the Telecom converter business unit into the EES segment.

On January 8, 2014 the Group placed into administration its subsidiary in Lannion, AEG Power Solutions (France) S.A.S. The entity was structurally loss-making which the Group could no longer financially support.

ASSETS HELD FOR SALE

in thousands of euros	2013	2012
Property, plant and equipment	-	44
Other non-current assets	-	18
Inventories	-	3,498
Trade and other receivables	-	3,165
Cash and cash equivalents	-	585
Total assets held for sale	-	7,310

LIABILITIES HELD FOR SALE

in thousands of euros	2013	2012
Employee benefits	-	1,316
Provisions	-	1,274
Trade and other payables	-	5,374
Total liabilities held for sale	-	7,964

8. ACQUISITIONS

In the first half-year the Group acquired 100% of the shares in Primetech S.r.l., a small service provider located in Italy. The acquisition costs (net of cash) amounted €956 thousand.

Balance sheet of Primetech S.r.l. at acquisition date:

ASSETS

in thousands of euros	2013
Property, plant and equipment	80
Intangibles	10
Inventories	131
Trade and other receivables	765
Cash and cash equivalents	107
Total assets	1,093

LIABILITIES

in thousands of euros	2013
Employee benefits	29
Long-term debt	105
Short-term debt	5
Trade and other payables	429
Corporate income taxes	58
Total liabilities	626

Upon the acquisition goodwill of €480 thousand was identified. During 2012 no acquisition occurred.

9. COST OF SALES

in millions of euros	2013	2012
Material costs	138.7	198.6
Employee costs	54.0	59.1
Other costs ¹	18.0	19.8
Inventory reserve	16.0	8.5
Bad debt allowance	(4.4)	11.0
Tangible depreciation costs	5.5	5.1
Intangible depreciation costs	0.1	0.1
Total cost of sales	227.9	302.2

¹ Other costs include warranty reserve and other variable costs.

10. OTHER INCOME/(EXPENSES)

in thousands of euros	Note	2013	2012
Cancellation fee		1,473	13,874
EMED Operating income (net)		–	1,960
Capital gain	6	36	1,261
Other income		1,509	17,095
Amortization of intangible assets	16	3,941	58,447
Impairment of intangible assets	16	2,073	40,000
Goodwill impairment	16	2,480	72,100
Non-recurring property tax		1,480	–
Restructuring costs (net)	27	5,022	8,998
Other expense		14,996	179,545
Total other (expense)		(13,487)	(162,450)

11. PERSONNEL EXPENSES

in thousands of euros	Note	2013	2012
Wages and salaries		82,010	85,324
Compulsory social security contributions		15,283	17,257
Contributions to defined contribution plans	26	576	2,443
Expenses related to defined benefit plans		(130)	296
Increase/(decrease) in liability for long-service leave		(206)	1,980
Share-based payments/long-term incentive payments	33	(143)	432
Total personnel expenses		97,390	107,732

12. HEADCOUNT BY REGION

The total average number of full-time equivalent (FTE) employees in the year to December 31, 2013 and comparative numbers for the year 2012 are as follows:

	2013	2012
Germany	726	773
France	259	283
Rest of Europe and Africa	243	237
Asia Pacific	237	337
North America	34	35
Total average FTE	1,499	1,665

The total headcount at December 31, 2013 is 1,521 (2012: 1,622).

13. FINANCE INCOME AND COSTS

in thousands of euros	Note	2013	2012
Interest income on bank deposits		587	469
Net change in fair value of warrants		–	154
Foreign exchange income	32	1,383	1,155
Finance income		1,970	1,778
Interest expense on loans and payables		667	909
Interest expense on notes payable	25	9,899	9,840
Pension related financial expenses	26	1,038	1,055
Foreign exchange costs	32	5,943	2,747
Other finance costs	7	618	867
Finance costs		18,165	15,418
Net finance (costs)/income		(16,195)	(13,640)

Interest on notes payable relates to interest accrued at 9.25% on the Notes placed in December 2010 (note 25) and the amortized portion of costs incurred in placing the notes payable. Such costs are expensed over the period that the debt is outstanding using the effective interest method.

Other finance costs include factoring charges.



14. INCOME TAX (CHARGE)/BENEFIT

The net tax charges related to continuing operations are included in the statement of income as follows:

in thousands of euros	2013	2012
Current tax (expense)/benefit		
Income tax charge for the year	(5,652)	(4,120)
Deferred tax (expense)/benefit		
Origination and reversal of temporary differences	8,163	33,978
(Reduction)/Recognition of current year tax losses	(2,318)	1,943
Other	–	(1)
Deferred tax benefit	5,845	35,920
Total income tax benefit/(charge)	193	31,800

RECONCILIATION OF EFFECTIVE TAX RATE

in thousands of euros	2013	2012
Loss for the period	(81,482)	(177,872)
Total income tax benefit/(charge)	193	31,800
(Loss)/Income before income tax	(81,675)	(209,672)
Expected income tax benefit using the Company's domestic tax rate of 29.22% (2012: 28.8%)	23,865	60,385
Effect of different local tax rates	(56)	(2,318)
Tax exempt income (change in fair value of warrants)	–	44
Tax exempt expense (impairment of goodwill)	(704)	(20,765)
Current year losses for which no deferred tax asset was set up	(20,616)	(5,368)
Reduction in deferred tax assets	(2,318)	–
Other	22	(178)
Income tax benefit/(charge)	193	31,800

15. PROPERTY, PLANT AND EQUIPMENT

See table on next page.

LANNION TELECOM CONVERTER BUSINESS

The assets transferred to/from assets held for sale relate to the Lannion Telecom converter business (note 7).

DEPRECIATION AND IMPAIRMENT CHARGES

The depreciation/impairment charge recognized in the consolidated statement of income is as follows:

- Cost of sales: €5,517 (2012: €5,067) thousand
- Selling, general and administrative expenses: €2,215 (2012: €2,495) thousand
- Research and development expenses: €664 (2012: €717) thousand

In assessing whether property, plant and equipment have to be impaired, the carrying amount of the assets is compared with the recoverable amount of the cash generating unit. For the period 2013, the Company recognized an impairment charge of €2,990 thousand (2012: €1,700 thousand).

DISPOSAL AND OTHERS

Included in disposal and others for the period 2012 is the sale of the building in Malaysia.

ACQUISITION THROUGH BUSINESS COMBINATIONS

Acquisition through business combination reflects the addition of fixed assets following the acquisition of Primetech in 2013.

LEASED PLANT AND MACHINERY

The Group has no material finance lease agreements.

CAPITALIZED BORROWING COSTS

For 2013 and 2012 no costs were capitalized.

in thousands of euros	Land	Building	Machinery and equipment	Other	Total
Cost					
Balance at January 1, 2012	3,408	23,219	16,459	6,019	49,105
Acquisition through business combinations	–	–	–	–	–
Additions	–	1,569	3,032	2,929	7,530
Disposals and others	(467)	(2,964)	(1,270)	(388)	(5,089)
Transfer to assets held for sale	–	(110)	(3,031)	(169)	(3,310)
Effect of movements in exchange rates	16	29	(153)	(96)	(204)
Balance at December 31, 2012	2,957	21,743	15,037	8,295	48,032
Balance at January 1, 2013	2,957	21,743	15,037	8,295	48,032
Acquisition through business combinations	–	–	–	80	80
Additions	–	186	1,769	633	2,588
Disposals and others	–	(27)	(424)	(887)	(1,338)
Transfer from assets held for sale	–	110	3,031	169	3,310
Effect of movements in exchange rates	–	(89)	(519)	(435)	(1,043)
Balance at December 31, 2013	2,957	21,923	18,894	7,855	51,629
Depreciation and impairment					
Balance at January 1, 2012	(24)	(2,470)	(4,178)	(2,602)	(9,274)
Depreciation for the year	(1)	(1,322)	(3,601)	(1,655)	(6,579)
Impairment	–	–	(1,700)	–	(1,700)
Disposals and others	26	710	891	369	1,996
Transfer to assets held for sale	–	24	3,160	82	3,266
Other changes	–	(1,073)	1,240	687	854
Effect of movements in exchange rates	(1)	(14)	25	12	22
Balance at December 31, 2012	–	(4,145)	(4,163)	(3,107)	(11,415)
Balance at January 1, 2013	–	(4,145)	(4,163)	(3,107)	(11,415)
Depreciation for the year	–	(1,245)	(2,502)	(1,659)	(5,406)
Impairment	–	(215)	(1,767)	(1,008)	(2,990)
Disposals and others	–	–	416	865	1,281
Transfer from assets held for sale	–	(24)	(3,160)	(82)	(3,266)
Other changes	–	–	–	1	1
Effect of movements in exchange rates	–	16	174	128	318
Balance at December 31, 2013	–	(5,613)	(11,002)	(4,862)	(21,477)
Carrying amounts					
At January 1, 2013	2,957	17,598	10,874	5,188	36,617
At December 31, 2013	2,957	16,310	7,892	2,993	30,152



16. INTANGIBLE ASSETS

in thousands of euros	Goodwill	Backlog	Customer relations	Technology	Research & Development costs	Other	Total
Cost							
Balance at January 1, 2012	101,752	24,007	215,978	55,740	23,484	7,598	428,559
Acquisition through business combinations	-	-	-	-	-	-	-
Additions	-	-	-	-	-	1,170	1,170
Internally developed assets	-	-	-	-	7,389	-	7,389
Disposals and others	-	-	-	-	(876)	(832)	(1,708)
Transfer to assets held for sale	-	-	-	-	-	(14)	(14)
Effect of movements in exchange rates	-	-	-	-	-	1	1
Balance at December 31, 2012	101,752	24,007	215,978	55,740	29,997	7,923	435,397
Balance at January 1, 2013	101,752	24,007	215,978	55,740	29,997	7,923	435,397
Acquisition through business combinations	480	-	-	-	-	10	490
Additions	-	-	-	-	-	433	433
Internally developed assets	-	-	-	-	5,419	-	5,419
Disposals and others	-	-	-	-	(7,866)	(182)	(8,048)
Transfer from assets held for sale	-	-	-	-	-	13	13
Effect of movements in exchange rates	-	-	-	-	-	(116)	(116)
Balance at December 31, 2013	102,232	24,007	215,978	55,740	27,550	8,081	433,588
Amortization and impairment							
Balance at January 1, 2012	(14,600)	(24,007)	(83,984)	(18,655)	(5,940)	(2,800)	(149,986)
Amortization for the year	-	-	(58,208)	(6,513)	(5,371)	(1,888)	(71,980)
Impairment	(72,100)	-	(40,000)	(14,900)	-	-	(127,000)
Disposals and others	-	-	-	-	876	684	1,560
Transfer to assets held for sale	-	-	-	-	-	14	14
Effect of movements in exchange rates	-	-	-	-	-	3	3
Balance at December 31, 2012	(86,700)	(24,007)	(182,192)	(40,068)	(10,435)	(3,987)	(347,389)
Balance at January 1, 2013	(86,700)	(24,007)	(182,192)	(40,068)	(10,435)	(3,987)	(347,389)
Amortization for the year	-	-	(6,013)	(5,888)	(3,928)	(1,411)	(17,240)
Impairment	(2,480)	-	-	-	(6,713)	(252)	(9,445)
Disposals and others	-	-	-	-	7,866	52	7,918
Transfer from assets held for sale	-	-	-	-	-	(14)	(14)
Effect of movements in exchange rates	-	-	-	-	-	75	75
Balance at December 31, 2013	(89,180)	(24,007)	(188,205)	(45,956)	(13,210)	(5,537)	(366,095)
Carrying amounts							
At January 1, 2013	15,052	-	33,786	15,672	19,562	3,936	88,008
At December 31, 2013	13,052	-	27,773	9,784	14,340	2,544	67,493

Goodwill increased in 2013 due to €480 thousand on acquisition of Primetech, this amount was impaired during the year.

The remaining goodwill and the intangibles associated with backlog, customer relations and technology relate to the acquisition of AEG PS by the Company on September 10, 2009.

Impairment charges

In assessing whether intangible assets have to be impaired, the carrying amount of the intangible assets is compared with the recoverable amount of the cash generating unit. For the period 2013, the Company recognized an impairment charge of €9.5 million. €2.0 million to the goodwill acquired upon acquisition of skytron, €6.7 million on R&D projects of which the underlying technology was especially developed for one of the activities which is considered to be abandoned, and €0.2 million on other intangibles.

Disposal and others

Included in disposal and others for the period 2013 is the total gross amount of the impaired R&D projects.

A summary of the results of the 2013 impairment test together with the CGUs to which goodwill has been allocated is shown below (in millions of euros):

CGU	Net carrying amount of goodwill at January 1, 2013	Additions	Reductions	Impairment charge	Net carrying amount of goodwill at December 31, 2013	Difference between fair value less cost to sell and the carrying amount of the assets
EMS/Fluxpower	11.9	-			11.9	36.1
skytron	3.1			(2.0)	1.1	1.0
Primetech	-	0.5		(0.5)	-	
Total	15.0	0.5		(2.5)	13.0	37.1

The recoverable amount of the cash-generating units was based on the fair value less cost to sell. In 2013 an impairment amortization of €2.0 million was identified on goodwill from skytron. An accelerated amortization charge of €2.1 million was taken against Customer Relations for EMS as a result of specific review of individual customer values. In addition an accelerated amortization charge of €2.5 million was taken on technology for POC. Accelerated amortization charges are included in the amortization charges for the year.

Lannion Telecom converter business

The assets transferred to/from assets held for sale relate to the Lannion Telecom converter business (note 7).

Acquisition through business combinations

Acquisition through business combination reflects the addition of intangible assets following the acquisition of Primetech S.r.l. in 2013.

Research and development costs

The Group has procedures and processes to monitor and capitalize costs on projects designed to develop new marketable products which meet the capitalization criteria.

Goodwill and intangibles on acquisition

As a result of the acquisition of AEG Power Solutions, €102.5 million of goodwill was generated in 2009 and subsequently reduced by €91.3 million. Goodwill arising on the acquisition of skytron amounted to €3.1 million and was reduced by €2.0 million in 2013 while €0.7 million of goodwill arose in 2011 on the acquisition of Fluxpower.

Goodwill is not amortized but is tested annually for impairment. In the case of AEG PS, the goodwill generated has been allocated to cash generating units ("CGU"). In the case of skytron and Fluxpower, the goodwill has been allocated directly to the business acquired which represents the CGU.

The fair value less cost to sell for each CGU was determined by discounting the future cash flows generated from the continuing use of the CGUs. The calculation of this value was based on the key assumptions described below; a deduction of 2.5% was applied to take into account the costs to sell.



Cash flows were projected based on past experience, actual operating results and three-year business plans. Terminal growth rates used in the valuations are set at 1% which can be supported by reference to the trading performance of the Company over a longer period.

The Company completed the annual testing of goodwill and review of intangibles. In prior years, the methodology used for the testing was based on the determination of Value in Use (ViU) which is then compared to the carrying value (CV) of each cash generating unit (CGU) in order to assess the impairment or otherwise of the goodwill. In addition, a review was carried out of the useful life of intangibles ascribed to customer relations, which represent by far the largest intangible carried on the consolidated balance sheet of the Company.

At December 31, 2013 the headcount restructuring program was not initiated/communicated and therefore not provided in our balance sheet as per year end 2013. In the projections used for the 2013 impairment testing the effect of the restructuring, costs and benefits is included.

Under IAS 36 cash flow adjustments that refer to these adjustments would not be allowed to be included for the calculation of value in use ("ViU"). The use of a discounted cash flow ("DCF") model to calculate the fair value less cost to sell is permitted under IFRS 13. IFRS 13 is applicable in determining the fair value less costs of disposal of a cash generating unit in impairment testing. In the approach to determine fair value IFRS 13 puts emphasis on the fact that this should be based from the perspective of a market participant. In using a discounted cash flow method to determine the fair value all cash flows should be taken into account that a market participant would, which (if a market participant would do so) would also include future investments and restructuring. As the purpose of this calculation is to determine a fair value, it is a different calculation than the value in use which purely looks at it from the Company's perspective.

An average pre-tax discount rate of 17.5% (2012: 12.17%) was applied in determining the recoverable amount of the CGUs. The discount rate was estimated using the market rate for risk free returns and risk premium and by benchmarking against the cost of equity, capital structure and credit spreads of a peer Group of companies operating in sectors similar to those of AEG PS's operations. For 2013 the discount rate was increased to take into account the risk premium from a market participants view given the valuation in fair value less cost to sell model.

An increase in the pre-tax discount rate of 1% would have resulted in a decrease of €10.5 million in the headroom for CGU EMS.

Impairment procedures on goodwill are performed at least once a year to assess if the carrying value is still higher than the recoverable amount.

The amortization and impairment charges were recognized as follows in the consolidated statement of income:

- Cost of sales: €74 (2012: €60) thousand
- Research and development expenses: €16,894 (2012: €27,139) thousand
- Other expenses: €8,494 (2012: €170,547) thousand
- Selling, general and administrative expenses: €1,223 (2012: €1,235) thousand

17. OTHER NON-CURRENT FINANCIAL ASSETS

in thousands of euros	2013	2012
Cash guarantee deposit	1,405	1,426
Non-consolidated investments	2,168	3,782
Others	75	96
Total other non-current financial assets	3,648	5,304

In 2013 the Group received €1,614 thousand from (2012: invested net €1,927 thousand) in the limited liability company (LLC) in the U.S. The LLC is a partnership between the Group and an experienced investor and manager of solar assets in the United States. Under the partnership agreement, the Group will invest up to USD 5.0 million in the LLC under the stewardship of the partner. The money will be invested in solar projects in the U.S. The Group will have the opportunity to sell its solar products in the U.S. through a separate supply agreement. No goods were supplied during 2013 under the supply agreement.

18. DEFERRED TAX ASSETS AND LIABILITIES

UNRECOGNIZED DEFERRED TAX ASSETS

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

As at December 31, deferred tax assets have not been recognized in respect of the following items:

in thousands of euros	2013	2012
Tax losses	44,269	32,710
Deductible temporary differences	9,955	3,916
Total unrecognized deferred tax assets	54,224	36,626

Of the total unrecognized deferred tax assets on tax losses, €10.1 million (2012: €3.8million) will expire within ten years, €2.3 million (2012: €1.6 million) will expire after ten years and €31.9 million (2012: €27.1 million) have no expiration date.

RECOGNIZED DEFERRED TAX ASSETS AND LIABILITIES

Deferred tax assets and liabilities at December 31 are attributable to the following:

in thousands of euros	Assets 2013	Liabilities 2013	Assets 2012	Liabilities 2012
Property, plant and equipment	247	(3,342)	29	(3,786)
Intangible assets	–	(12,905)	–	(19,225)
Inventories	1,557	(107)	19	(129)
Employee benefits	4,086	–	4,281	(365)
Provisions	569	(9)	922	(230)
Other items	426	(773)	610	(159)
Sub-total	6,885	(17,136)	5,861	(23,894)
Tax loss carry-forwards	6,458	–	8,776	–
Tax assets/(liabilities)	13,343	(17,136)	14,637	(23,894)
Set-off of deferred tax positions	(13,343)	13,343	(14,637)	14,637
Net tax assets/(liabilities)	–	(3,793)	–	(9,257)

Net deferred tax assets relate to the following balance sheet captions and tax loss carry forwards (including tax credit carry forwards) of which the movements during the years 2013 and 2012 respectively are as follows:

MOVEMENT IN TEMPORARY DIFFERENCES DURING THE PERIOD

in thousands of euros	Balance Dec. 31, 2011	Recognized in profit or loss ¹	Transferred to held for sale	Recognized in other comprehensive income	Balance Dec. 31, 2012 ¹	Lannion	Recognized in profit or loss	Recognized in other comprehensive income	Balance Dec. 31, 2013
Property, plant and equipment	(3,812)	10	494	–	(3,308)	(448)	661	–	(3,095)
Intangible assets	(54,223)	34,810	188	–	(19,225)	–	6,320	–	(12,905)
Inventories	(184)	74	–	–	(110)	–	1,560	–	1,450
Employee benefits	2,595	16	(494)	1,343	3,460	456	536	(366)	4,086
Provisions	822	(130)	–	–	692	–	(132)	–	560
Other items	1,437	(803)	–	(176)	458	(23)	(782)	–	(347)
Sub-total	(53,365)	33,977	188	1,167	(18,033)	(15)	8,163	(366)	(10,251)
Tax loss carry-forwards	6,833	1,943	–	–	8,776	–	(2,318)	–	6,458
Total	(46,532)	35,920	188	1,167	(9,257)	(15)	5,845	(366)	(3,793)

¹ 2012 comparative numbers have been restated for the change in IAS 19 "Employee Benefits".



19. INVENTORIES

in thousands of euros	2013	2012
Raw materials and consumables	50,745	53,096
Work in progress	14,377	13,894
Finished goods	16,729	12,949
Gross inventory	81,851	79,939
Reserve for slow-moving and obsolete inventories	(35,963)	(23,056)
Net inventory	45,888	56,883

Included in cost of sales is €138.7 (2012: €198.6) million of material costs and €16.0 (2012: €8.5) million of allowance for write-down of inventory. Group inventories are not pledged as security.

20. TRADE AND OTHER RECEIVABLES

in thousands of euros	2013	2012
Trade receivables	58,703	124,483
Income tax receivables	2,576	5,175
Other current assets	6,807	9,360
Allowance for doubtful accounts	(7,422)	(12,389)
Net trade and other receivables	60,664	126,629
Current	60,664	126,629

At the end of 2013 the amount for trade receivables and allowance for doubtful accounts was based on normal trading activities while 2012 was impacted by growth in large scale utility solar projects. The impairment charges for doubtful debts in 2013 amounted to €4.4 million income (€4.1 charge offset by €8.5 million reversal of provision), (2012: €11.0 million charge), and are included in cost of sales.

The Group's exposure to credit and currency risks, and impairment losses related to trade and other receivables is disclosed in notes 5 and 32.

21. PREPAYMENTS

For 2013 and 2012 this relates to regular advance payments to Group suppliers.

22. CASH AND CASH EQUIVALENTS

in thousands of euros	2013	2012
Bank balances	29,699	39,668
Restricted cash	3,047	2,832
Cash and cash equivalents	32,746	42,500
Bank overdrafts included in loans and borrowings	(873)	(193)
Cash classified as held for sale	–	585
Cash and cash equivalents used in the statement of cash flows	31,873	42,892

RESTRICTED CASH

Restricted cash comprise amounts used as cash collateral in relation to bank guarantees issued by the Group companies to customers.

These amounts are expected to be released over the following periods:

in millions of euros	2013	2012
Within 1 year	2.3	2.0
Between 2-3 years	0.7	0.5
After 4 years	–	0.3
Total	3.0	2.8

23. CAPITAL AND RESERVES

SHARE CAPITAL

in number of shares	Ordinary shares	Treasury shares ¹	Total shares
Issued at December 31, 2011	47,706,019	2,530,005	50,236,024
Transferred to (former) executives ²	110,000	(110,000)	–
Issued at December 31, 2012	47,816,019	2,420,005	50,236,024
Transferred to executives ³	74,337	(74,337)	–
Issued at December 31, 2013	47,890,356	2,345,668	50,236,024

¹ Included in treasury shares are 2,500,000 shares previously held in escrow for the purpose of an earn-out agreement with the former AEG Power Solutions B.V. shareholders. The earn-out was based on the achievement of certain EBITDA targets with respect to fiscal years 2009, 2010 and 2011. The targets have not been met and under the terms of the earn-out agreement the shares were released from escrow to the Company in September 2012.

² During the year 2012, 60,000 shares were transferred to Dr. Horst J. Kayser and 50,000 shares were transferred to Gerhard Henschel under the terms of their employment contracts.

³ During the year 2013: 74,337 shares were transferred to Jeffrey Casper under the terms of his employment contract.

At the extraordinary General Meeting (EGM) held on May 7, 2010 the shareholders voted to set the issued share capital of the Company at €12,520,006 by conversion of the same amount from the share premium account. The issued share capital of the Company was therefore fixed at €12,520,006 divided into 50,236,024 shares (including the 2,500,000 of shares shown above as treasury shares). Each class of share has no par value. The authorized capital of the Company was set at €37,560,018 consisting of 150,240,072 shares.

At the EGM held on December 14, 2010 the shareholders voted to amend the classes of shares of the Company to create a single class as provided in the share purchase agreement of September 10, 2009. Shareholders' rights have not been modified and the total number of shares remains the same. All shares of the Company are now ordinary shares.

On December 17, 2010 the Company's shares were admitted to trading on the Regulated Market (Prime Standard) of the Frankfurt stock exchange (FWB) under the ticker symbol 3W9. The shares on the Euronext market, Amsterdam (ticker 3WP) were delisted on December 19, 2011. Warrants in the Company were listed on the Euronext, Amsterdam (ticker 3WPW) and expired on July 24, 2012 and were delisted on the same date.

in thousands of euros	Share capital
January 1, 2012	12,520
December 31, 2012	12,520
December 31, 2013	12,520

in thousands of euros	Share premium
January 1, 2012	383,836
December 31, 2012	383,836
December 31, 2013	383,836

in thousands of euros	Reserve for own shares
January 1, 2012	(24,633)
Transfer to executives	1,037
December 31, 2012	(23,596)
January 1, 2013	(23,596)
Transfer to executives	726
December 31, 2013	(22,870)



The reserve for the Company's own shares comprises the cost of the Company's shares held by or on behalf of the Company. At December 31, 2013 the Company held 2,345,668 (2012: 2,420,005) of its own shares with an aggregate cost of €22,870 thousand (2012: €23,596 thousand).

No dividends were declared or paid by the Company in 2013 and 2012.

Translation reserve

The translation reserve comprises all foreign currency differences arising from the translation of the financial statements of foreign operations.

24. EARNINGS PER SHARE

BASIC EARNINGS PER SHARE

The calculation of basic earnings per share is based on the result attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding, calculated as follows:

Loss/profit attributable to ordinary shareholders

in thousands of euros	2013	2012
Loss for the period attributable to ordinary shareholders	(81,482)	(177,872)

Weighted average number of ordinary shares

in number of shares	2013	2012
Issued ordinary shares at December 31	47,890,356	47,816,019
Effect of shares issued from treasury shares	(30,753)	(63,014)
Weighted average number of ordinary shares	47,859,603	47,753,005
Basic (loss)/ earnings per share (euro)	(1.70)	(3.72)

DILUTED EARNINGS PER SHARE

In evaluating diluted earnings per share, the effects of instruments that could potentially dilute basic earnings per share should be considered. Such instruments included the shares awarded (but not yet vested) to Directors and other executives (note 33) under service agreements and long-term incentive plan (LTIP, note 33) and the warrants. In both 2013 and 2012 the warrants and awards under Part B of the LTIP were not included in the calculation of diluted earnings per share as the conditions under which these instruments would result in the issue of dilutive shares were not met at either year-end. The effect of the instruments actually considered would have been to reduce the reported basic loss per share. Accordingly, under IAS 33 the diluted loss per share is deemed to be the same as the basic loss per share.

25. LOANS AND BORROWINGS

Details of the Group's loans and borrowings are as follows:

in thousands of euros	2013	2012
Non-current		
Notes payable	98,569	97,920
Unsecured government loans	592	653
Unsecured bank loans	106	306
Total non-current	99,267	98,879
Current		
Unsecured government loans	61	56
Unsecured bank loans	200	171
Bank overdrafts	873	193
Obligations under receivable factoring arrangements	5,064	8,327
Others	23	48
Total current	6,221	8,795
Grand total of current and non-current	105,488	107,674

The main terms and conditions of outstanding loans and borrowings were as follows:

in thousands of euros	Currency	Nominal interest rate %	Year of maturity	Nominal value 2013	Carrying amount 2013	Nominal value 2012	Carrying amount 2012
Notes payable ¹	EUR	9.250	2015	100,000	98,569	100,000	97,920
Government loans ²	EUR	–	2021-2022	653	653	709	709
Bank loans ³	EUR	Euribor +1.5-3.2	2016	306	306	477	477
Bank overdraft ⁴	EUR	Euribor +3.0-5.75	–	873	873	193	193
Obligations under receivable factoring arrangements ⁵	EUR	Euribor +0.8-4.0	–	5,064	5,064	8,327	8,327
Other	EUR	–	–	23	23	48	48
Total				106,919	105,488	109,754	107,674

The fair value of the notes payable amount to €35,000 thousand per December 31, 2013 (2012: €91,950 thousand). The fair value of all other financial assets and liabilities are considered to be equal to their carrying values.

Non-current

¹ Unsubordinated notes payable €100,000,000, effective interest 10.11%, due December 1, 2015.

On December 1, 2010, the Company issued loan notes (the "Notes") with a nominal value of €100 million. The Notes were bought by pan-European institutional investors and asset managers. Costs of issuing the Notes amounted to €3,250,000. The Notes bear interest from and including December 1, 2010 to, but excluding December 1, 2015 at a rate of 9.25% p.a. (10.11% effective interest), payable annually in arrears on December 1 of each year. The first interest payment was made on December 1, 2011. The Notes are redeemable at par on December 1, 2015. The Notes have the benefit of an unconditional and irrevocable guarantee by AEG Power Solutions B.V.

The terms and conditions of the Notes provide that the Company may, at its option, redeem the Notes, in whole but not in part, at any time after the third anniversary of the date of issue at a price of 102% of the principal amount plus accrued interest, and at any time after the fourth anniversary at a price of 101% of the principal amount plus accrued interest. The terms and conditions further provide that the Note holders may require an early redemption in whole or in part at 101% of their principal amount plus accrued interest in the event of a change of control of the Company. The Notes are traded in the Bondm segment of Stuttgart stock exchange as well as in the Open Market of the Frankfurt stock market.

Other non-current loans

² Includes four interest-free government loans repayable by varying annual installments in the range of €6 thousand to €43 thousand. One of these loans is secured.

³ There is one unsecured bank loan with a nominal value of €300 thousand (interest at Euribor +1.5%). There is one secured bank loan with a nominal value of €250 thousand (interest at Euribor +3.2%). The carrying amounts at June 30, 2013 were €157 thousand and €250 thousand respectively. The loans are repayable by monthly installments over a period of three and five years respectively. In addition, included in the recent acquisition of "Primetech" (a small service provider in Italy), a loan of €105 thousand was acquired. This loan was repaid during 2013.

Current loans

⁴ Bank overdraft

The bank overdraft is held by one of the Group's subsidiaries. Interest on the overdraft is charged at rates between Euribor +3.0% and 5.75%.

⁵ Obligations under receivable factoring arrangements

The Group has entered into financing agreements which provide for trade receivable financing facilities in France, Italy and Spain, up to a maximum of €14.6 million at December 31, 2013. These finance facilities are secured by trade account receivables. The interest conditions for these finance facilities vary between Euribor plus a margin between 0.8% and 4.0%. The facilities have no fixed expiry date, but most are renewable annually.

26. EMPLOYEE BENEFITS

The Group sponsors a number of defined-benefit pension plans. The benefits provided by these plans are based on employees' years of service and compensation levels. In France, the employees benefit from a retirement and indemnity plan. In other countries, the plans depend upon local legislation, the business and the historical practice of the entity concerned.

The largest defined-benefit pension plans are in:

- Germany
- France

Together these plans account for more than 90% of the total defined obligation and the plan assets. The plans have different characteristics. In Germany and the Netherlands the retirees benefit from the receipt of a pension during their retirement, whereas in France the employees receive a lump-sum payment on their retirement or departure. At the end of 2013, the Company has changed its defined benefit plan in the Netherlands into a defined contribution plan.

In addition to the defined benefit plans, the Group participates in state plans, for which contributions expensed correspond to the contributions due to state organizations. These state plans, in particular located in France and Italy, are considered to be defined contribution plans.



Finally, employees can benefit from early retirement under the "Altersteilzeitverträge" scheme in Germany and from long-service awards which are granted to employees on retirement based on their length of service, grade and salary. The recognition of these liabilities is determined based on independent actuarial calculations.

The defined benefit plans expose the Group to actuarial risks, such as longevity risk, interest rate risk and market (investment) risk.

The following pre-tax employee benefit expenses have been recognized:

in thousands of euros	2013	2012
Defined contribution plans	576	2,443
Defined benefit plans	849	1,353
Other	(289)	1,356
Total pre-tax employee benefit costs	1,134	5,152

In 2013, the pension arrangements for a number of employees in the Netherlands were transferred from a defined benefit into a defined contribution plan. As a result of the plan amendment, the Group's defined benefit obligation decreased by € 0.4 million. A corresponding past service credit was recognized in profit or loss during 2013.

Defined contribution plans

In certain countries, notably in France and Italy, the Group participates in state plans for which contributions expensed correspond to the contributions due to the state organizations. State plans are considered to be defined contribution plans.

For defined contribution plans, the benefits paid out depend solely on the amount of contributions paid into the plan and the investment returns arising from contributions. The Group's obligation is limited to the amount of contributions paid.

Defined benefit plans

Independent actuaries calculate annually the Group's obligation in respect of defined benefit plans, using the projected unit credit method. Actuarial assumptions comprise mortality, rates of employee turnover, projection of future salary levels and revaluation of future benefits. Future estimated benefits are discounted using discount rates appropriate to each country. These plans have different characteristics:

- Perpetual annuity: The retirees benefit from the receipt of a pension during their retirement. These plans are to be found primarily in Germany and the Netherlands.
- Lump-sum payments on the employee's retirement or departure: These plans are to be found primarily in France and Italy.

Assumptions

To determine actuarial valuations, actuaries for the Group have determined general assumptions on a country-by-country basis and specific assumptions (rate of employee turnover, salary increases) company by company.

The principal assumptions used to calculate the defined obligation as of December 31, 2013 by the main geographical segments are as follows:

	Discount Rate %	Future Salary increases %	Future Pension increases %
France	3.5	1.75-3.00	-
Germany	3.25	0.0	2.0

The pension plans in France and Germany are unfunded. The plan assets in the Netherlands are invested in generic funds held by insurance companies and comprise equity securities, debt securities with fixed and variable interest rates and indirect real estate investments.

The plan assets are invested in generic funds held by insurance companies and comprise equity securities, debt securities with fixed and variable interest rates and real estate.

Assumptions regarding future mortality have been based on published statistics and mortality tables. The current longevity underlying the values of the defined benefit obligation at the reporting date have been based on the following mortality tables:

- France: INSEE F 2004-2006
- Germany: Richttafeln 2005 G

Employee benefits comprise the following elements:

in thousands of euros	2013	2012
Accrued liability, funded status	(23,391)	(23,714)
ATZ (Altersteilzeitverträge)	(1,556)	(2,699)
Long service awards	(1,177)	(1,057)
Total employee benefits	(26,124)	(27,470)

The components of net periodic costs for the year ended December 31 are as follows:

in thousands of euros	2013	2012
Service costs	422	312
Interest costs	1,038	1,055
Expected return on plan assets	(60)	(91)
Curtailed and other costs	(551)	77
Total net costs	849	1,353

The interest costs are recorded in financial expenses. Other pension costs are included in cost of sales and selling, general and administrative expenses.

The change in the defined benefit obligation and the net amount recognized and recorded in the consolidated statement of financial position is as follows:

in thousands of euros	2013	2012*
Total net benefit obligation at January 1	26,401	21,271
Other costs/(benefit)	160	(122)
Service costs	422	312
Interest costs	1,038	1,055
Actuarial (gain)/loss	(600)	4,772
Contribution paid to the plan	82	72
Benefits paid	(1,078)	(975)
Past service (benefits)/costs	(735)	16
Total defined benefit obligation at December 31	25,690	26,401

* Including Lannion

The interest costs are recorded in financial expenses. Service costs are included in cost of sales and selling, general and administrative expenses. The past service benefit includes the €0.4 million gain of the plan amendment related to the Netherlands.

The movement in the present value of plan assets is:

in thousands of euros	2013	2012*
Fair value of plan assets at January 1	1,729	1,424
Contributions paid into the plan	172	199
Benefits paid by the plan	(63)	(35)
Re-measurement on return on plan assets	485	213
Other costs	(24)	(72)
Fair value of plan assets at December 31	2,299	1,729

* Including Lannion

Reconciliation of the net defined liability at December 31:

in thousands of euros	2013	2012
Fair value of plan assets	2,299	1,729
Benefit obligation	(25,690)	(26,401)
Net defined benefit liability at December 31	(23,391)	(24,672)
Lannion	-	958
Net defined benefit liability at December 31	(23,391)	(23,714)

The Group expects €998 thousand in contributions to be paid to its defined benefit plans in 2014.

Sensitivity analysis

Reasonable possible changes at the reporting date to one of the relevant actuarial assumptions, holding other assumptions constant, would have affected the defined benefit obligation as follows. An increase (decrease) of the discount rate by 0.25% would decrease (increase) the defined benefit obligation by €0.6 million (€0.7 million). An increase of the life expectation by 1 year, would increase the DBO by €0.8 million. Although this analysis does not take account of the full distribution of cash flows expected under the plans, it does provide an approximation of the sensitivity of the assumptions shown.

Other benefit plans

Employee benefits include €2,733 thousand (2012: €3,756 thousand) for other benefit plans. This includes €1,556 thousand (2012: €2,699 thousand) for "Altersteilzeitverträge", a scheme in Germany under which employees can seek early retirement, and a further €1,177 thousand (2012: €1,057 thousand) for long-service awards. Such awards are granted to employees on retirement based on their length of service, grade and salary and are determined by an independent actuarial calculation.

27. PROVISIONS

in thousands of euros	Warranty	Restructuring	Others	Total
Balance at January 1, 2012	7,788	8,276	302	16,366
Provisions net made/(released) during the year	3,987	8,998	(12)	12,973
Provisions used during the year	(3,562)	(9,815)	-	(13,377)
Transfer to liabilities held for sale	(118)	(1,040)	(116)	(1,274)
Other	(6)	12	-	6
Balance at December 31, 2012	8,089	6,431	174	14,694
Balance at January 1, 2013	8,089	6,431	174	14,694
Provisions net made/(released) during the year	4,591	5,022	(31)	9,582
Provisions used during the year	(6,338)	(7,189)	-	(13,527)
Transfer from liabilities held for sale	118	1,040	116	1,274
Other	(67)	(38)	-	(105)
Balance at December 31, 2013	6,393	5,266	259	11,918



Restructuring

Restructuring charges in 2013 related primarily to the estimated costs of implementing changes as part of the lower volume, the decision to bring Lannion back in use at a lower costs level and the changes that occurred at Corporate. The restructuring for all of these initiatives are €5.0 million, of which €1.9 million relates to Lannion, €1.3 million relates to Spain and €1.8 million relates to others.

Restructuring costs expensed were recognized in the statement of income in other operating expenses.

Warranty

The warranty provision is based on estimates made from historical data regarding warranty costs associated with similar products and services.

All of the above provisions are expected to be used within one year with the exception of warranty. The Group's warranty terms exceed one year.

28. TRADE AND OTHER PAYABLES

in thousands of euros	2013	2012
Trade accounts payable	39,763	56,870
Accrued salaries and wages	10,599	13,448
Accrued taxes and VAT payable	2,973	2,026
Accrued social security charges	4,401	2,768
Accrued trademark royalty ¹	3,655	–
Accrued interest on notes payable	771	771
Others	7,226	5,670
Total	69,388	81,553

¹ The trademark license agreement with AB Electrolux foresees for 2013 a minimal royalty of € 5.4 million, assuming an underlying sales volume in the range of €400- €450 million. 2013 sales are significantly lower which resulted in an accrual (see note 30).

The Group's exposure to currency and liquidity risk related to trade and other payables is disclosed in note 32.

29. DEFERRED INCOME

Deferred income relates mainly to customer deposits and advances of €5.8 (2012: €16.7) million in connection with projects in progress.

30. CONTRACTUAL OBLIGATIONS AND OFF-BALANCE SHEET COMMITMENTS

CONTRACTUAL CASH OBLIGATIONS

The following table presents minimum payments that the Group will have to make in the future under contracts and firm commitments. Amounts related to finance lease obligations are fully reflected in the consolidated statement of financial position.

December 31, 2013

in thousands of euros	Within 1 year	2-3 years	4-5 years	After 5 years	Total
Operating leases	3,303	3,690	1,568	451	9,012
Unconditional purchase obligations	559	89	3	–	651
Total	3,862	3,779	1,571	451	9,663

The unconditional purchase obligations are related to the requirements to place firm commitments for tangible and intangible assets. Rental expenses under operating leases amounted to €5.8 million in 2013 (€6.1 million in 2012).

OTHER COMMITMENTS

December 31, 2013

in thousands of euros	Within 1 year	2-3 years	4-5 years	After 5 years	Total
Guarantees	9,928	2,912	966	254	14,060

Commitments on customer contracts relate to bonds and guarantees issued and are shown as net of bonds and guarantees secured by cash collateral.

TRADEMARK LICENSE AGREEMENT

With effect from July 1, 2008, AEG PS entered into a trademark license agreement (the "AEG License") with AB Electrolux which granted the Company the right to use the AEG PS trademark for an initial term of ten years. An annual royalty is payable based on a percentage of the net selling price of the respective trademark product, subject to a minimum royalty of €5.390 million for 2013 and €6.723 million for 2014. AEG PS and Electrolux amended the AEG License on July 27, 2010 to expand the range of products covered by the license and to set sale and minimum royalty targets through 2014. For the years 2015 to 2018 the amended agreement provides that the sales targets and minimum annual royalty will be no less than the sales target and minimum royalty from year 2014. The term of the license was also extended until 2028.

Management is re-negotiating the terms of the trademark agreement for the period 2013-2018.

31. CONTINGENCIES

Management believe that any legal proceedings incidental to the conduct of its business, including employee-related actions, are adequately provided for in the consolidated financial statements or will not result in any significant costs to the Group in the future. Apart from the legal proceedings mentioned below, neither the Company nor its subsidiaries are the subject of government interventions or a party to legal, or arbitration proceedings which might significantly affect the Group's profitability. To Management's best knowledge, no such proceedings are pending.

We refer to the explanation in note 36 about the situation after year-end of our subsidiary in Lannion.

32. FINANCIAL INSTRUMENTS

CREDIT RISK

Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. The principal exposure to credit risk at the reporting date was:

in thousands of euros	2013	2012
Trade receivables net of allowance for doubtful accounts	51,281	112,094

The maximum gross exposure to credit risk at the reporting date by geographic region (based on the country of domicile that holds the receivable) was:

in thousands of euros	2013	2012
Germany ¹	14,193	74,172
France	8,780	10,123
Spain	6,610	6,357
Italy	9,845	14,507
United Kingdom	5,975	1,486
Netherlands	3,582	2,988
United States	567	467
Other regions	9,151	14,383
Total	58,703	124,483

¹ The 2012 exposure presented on Germany includes one customer with a balance of €46.6 million with its major operations in Eastern Europe.

IMPAIRMENT LOSSES

The aging of trade receivables at the reporting date was:

in thousands of euros	Gross 2013	Impairment 2013	Gross 2012	Impairment 2012
Not past due	44,452	(3,371)	92,565	(1,608)
Past due 0-30 days	5,279	(99)	11,278	(3,610)
Past due 31-120 days	2,843	(193)	14,409	(3,590)
Past due 121-180 days	1,516	(147)	1,914	(211)
Past due 181-360 days	4,613	(3,612)	4,317	(3,370)
Total	58,703	(7,422)	124,483	(12,389)

The movement in the allowance for impairment in respect of trade and other receivables during the year was as follows:

in thousands of euros	2013	2012
Balance at January 1	12,389	3,152
Transfer from/to assets held for sale	171	(171)
Utilization of impairment reserve	(646)	(1,306)
Impairment loss (released)/recognized ¹	(4,421)	11,031
Other	(71)	(317)
Balance at December 31	7,422	12,389

¹ At the end of 2013 the amount for trade receivables and allowance for doubtful accounts was based on normal trading activities while 2012 was impacted by growth in large-scale utility solar projects. The impairment charges for doubtful debts in 2013 amounted €4.4 million income (€4.1 charge offset by €8.5 million reversal of provision), (2012: €11.0 million charge), and are included in cost of sales.



Other assets of the Group which can be exposed to potential credit risk include other current assets, prepayments and holdings of cash and cash equivalents. The value of these items is shown on the statement of financial position or in the notes to the consolidated financial statements. Based on historic default rates and specific review of receivables, the Group believes that, apart from the above, no further impairment allowance is necessary.

LIQUIDITY RISK

The liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. Cash flow generation and access to capital markets are important to finance organic long-term growth, capital expenditures, working capital requirements and expected operational expenses.

The table below shows the Group's net position to finance its obligations due within one year at December 31:

in thousands of euros	2013	2012
Trade and other payables	69,388	81,553
Current income tax liabilities	842	1,825
Short-term provisions	5,525	6,605
Total	75,755	89,983
Purchase commitments ¹	6,851	18,333
Operating leases	3,303	4,101
Guarantees on customer contracts	9,928	6,050
Total	20,082	28,484
Total obligations	95,837	118,467
Financing resources		
Cash and cash equivalents, excluding restricted cash	29,699	39,668
Trade and other receivables	60,664	126,629
Loans and borrowings	(6,221)	(8,795)
Total	84,142	157,502
Net position	(11,695)	39,035

¹ Purchase commitments include unconditional purchase obligations as referred to in note 30 (firm commitment of tangible and intangible assets, €559 thousand) and the unconditional purchase obligations related to the firm commitments for recurring operating expenses (€6,292 thousand).

In November 2010 the Company successfully raised a net €96.8 million of loan capital through the placement of loan Notes due December 1, 2015. This capital provided the Group with liquidity to finance its activities and implement a restructuring program and to pursue a solar growth strategy. As of December 31, 2013, the Group does not believe it will generate sufficient cash flow from operations to be able to fully repay the loan notes due December 1, 2015 and will therefore need to refinance its long term borrowing obligations. Refinancing will require the Group to access credit markets. At December 31, 2013, in addition to the liquidity raised through the loan Notes, the Group also had the following credit facilities at certain of its subsidiaries:

- €3.5 million in overdraft and short-term loans of which €1.6 million was undrawn
- €14.6 million receivable financing of which €8.8 million was undrawn. The extent to which these facilities can be utilized depends on the amount of available receivables at the subsidiaries concerned.

Persistent operating losses, the effect of unfavorable credit terms given by our suppliers, and continued loss of business volume may result in falling beneath the minimum level of required liquidity to adequately finance our operations over the coming quarters. The Company is addressing its operating costs through a business process redesign and with an emphasis on cash generation. The combination of asset sales, closing of affiliates, reduction in fixed operating expenses and reduction in interest burden through restructuring of the Group's financial commitments are all designed to bring the remaining activities of the Group into a sound financial position. Failure of any of these activities to raise the necessary cash, reduce costs, or to restore bankability and normalize credit conditions could place the Group into further financial distress. Failure to successfully complete the financial restructuring may result in an insolvency.

The table below summarizes the projected contractual cash flows based on the maturity profile of the Group's interest bearing loans and borrowings as at December 31, 2013:

in thousands of euros	Within 1 year	2-5 years	After 5 years	Total
Maturity profile				
Obligations under receivable factoring arrangements	(5,064)	–	–	(5,064)
Notes payable	(9,250)	(109,250)	–	(118,500)
Bank overdraft	(873)	–	–	(873)
Other debt	(284)	(335)	(363)	(982)
Total	(15,471)	(109,585)	(363)	(125,419)

CURRENCY RISK

The Group's exposure to foreign currency risk based on the following net amounts as at December 31, 2013 was:

in thousands of euros	EUR	USD	GBP	SGD	MYR	INR	CNY	Other
Cash	26,775	1,546	770	892	59	229	1,989	486
Trade and other receivables	46,722	6,292	1,703	852	119	3,991	918	67
Prepayments	415	90	–	10	3	50	1	16
Trade and other payables	(57,091)	(7,116)	(737)	(1,645)	(147)	(1,352)	(775)	(525)
Deferred income	(4,433)	(381)	(75)	(165)	–	(60)	(709)	–
Short- and long-term debt	(105,488)	–	–	–	–	–	–	–
Total	(93,100)	431	1,661	(56)	34	2,858	1,424	44

The Group is primarily exposed to the euro because of its principal operations in the Eurozone. Other currencies to which the Group is exposed include the USD, GBP, SGD, MYR, INR and CNY. A change of 5% in any of these currencies would have a maximum impact of €307 thousand on equity or statement of income.

Inter-Company transactions between India and the rest of the Group (mostly euro denominated) have been outstanding for the last two years resulting in currency risks.

Fair values

Fair values versus carrying amounts

The fair values of financial assets and liabilities, together with the carrying amounts shown in the statement of financial position, are as follows:

in thousands of euros	Notes	Carrying amount 2013	Fair Value 2013	Carrying amount 2012	Fair Value 2012
Assets carried at amortized cost					
Trade and other receivables	20	60,664	60,664	126,629	126,629
Cash and cash equivalents	22	32,746	32,746	42,500	42,500
Total		93,410	93,410	169,129	169,129
Liabilities carried at amortized cost					
Trade and other payables	28	69,388	69,388	81,553	81,553
Loans and borrowings	25	6,919	6,919	9,754	9,754
Notes payable	25	98,569	35,000	97,920	91,950
Total		174,876	111,307	189,227	183,257

Fair value hierarchy

As at December 31, 2013, there are no financial instruments which are carried at fair value. The fair value of the Notes payable is disclosed below. The Group uses three levels of valuation method as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices)
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

December 31, 2013	Level 1	Level 2	Level 3
Notes payable	35,000	–	–
December 31, 2012	Level 1	Level 2	Level 3
Notes payable	91,950	–	–



CUSTOMER CONCENTRATION RISK

In RES, two customers accounted for 45.9% and 16.3% of segment and Group revenue respectively in 2013 (2012: 55.0% and 27.4%). The Group monitors these customers closely and uses advance payments and written guarantees to lower the associated credit risk. The Group also tries to mitigate concentration risks by broadening the customer base as much as possible in the circumstances. The concentration by customer can vary from year to year. The revenue with both customers is expected to decrease in 2014.

CREDIT RISK

One customer in RES represented 37.5% of the Group's gross trade receivable balance at December 31, 2012. In 2013 this balance is immaterial. The customer paid all invoices and therefore the allowance of €8.5 million on this customer was cancelled.

33. RELATED PARTIES

The Group's subsidiaries have related party relationships with each other and with the Company. These involve trading and other intra-Group transactions all of which are carried out on an arm's length basis. Related party relationships also exist with Board members and managers who have an interest in the equity of the Company.

A related party relationship also exists with Directors and other senior managers who receive remuneration from the Group.

BOARD AND KEY MANAGEMENT REMUNERATION

The total remuneration of Board members and other senior managers included the following amounts:

Year to December 31, 2013

in euros	Executive Directors	Non-Executive Directors	Total Directors	Other managers (7 FTE)
Salary, bonuses and short-term benefits	1,080,810	–	1,080,810	2,054,451
Severance	1,519,297	–	1,519,297	885,773
Post-employment benefits	31,353	–	31,353	20,396
Share-based payments ¹	–	–	–	25,000
Awards under long-term incentive plan (LTIP) ¹	–	–	–	55,000
Fees	60,000	60,000	120,000	–
Total	2,691,460	60,000	2,751,460	3,040,620

¹ A net income of €143 thousand has been recognized in the income statement with debit to equity in relation to share based payments and LTIP, including an expense of €80 thousands which has been recognized in 2013 for awards granted compensated by the true up of the prior year expense to reflect the forfeiture of awards granted during the prior years for which service conditions are no longer met.

Year to December 31, 2012

in euros	Executive Directors	Non-Executive Directors	Total Directors	Other managers (6 FTE)
Salary, bonuses and short-term benefits	1,287,399	–	1,287,399	2,106,032
Severance	112,292	–	112,292	494,062
Post-employment benefits	10,000	–	10,000	38,172
Other long-term benefits	–	–	–	–
Share-based payments	48,000	–	48,000	25,000
Awards under long-term incentive plan (LTIP)	54,000	–	54,000	305,000
Fees	–	120,000	120,000	–
Total	1,511,691	120,000	1,631,691	2,968,266

In relation to Board members, salary, bonuses and benefits refer to Directors who held executive positions during the year, namely Mr. B. A. Brock, Mr. R. J. Huljak (both as from April 2013), Dr. H. J. Kayser (2012 and 2013) and Mr. G. Henschel (until the first half of 2012). Fees relate to Non-Executive Directors Mr. B. A. Brock, Mr. K. Corbin, Mr. R. J. Huljak and Prof. M. Wössner.

Mr. J. Casper (2013 and second half of 2012) is included in other managers.

RELATED PARTY INTERESTS IN THE EQUITY
 AND NOTES OF THE COMPANY

	No. of shares	Bonds at nominal value (€)	Awards under long-term incentive plan (LTIP) ¹	
			Part A	Part B
As at December 31, 2013			No. of shares	No. of units
Dr. Dr. h.c. Thomas Middelhoff	1,325,518			
Mr. Bruce A. Brock	1,642,902			
Mr. Robert Huljak	363,136			
Intec Beteiligungsgesellschaft	3,997,482	150,000		
Mr. Willi Loose	50,000			
Mr. Bernd Luft	6,570,000	252,000		
Prof. Mark Wössner	30,000			
Mr. Jeffrey Casper	415,434		75,000	150,000
AEG PS managers	41,434		60,000	120,000
Total	14,435,906	402,000	135,000	270,000

¹ The awards under the LTIP are conditional on remaining in employment with the Group until vesting and are exercisable at different times. The awards under Part B are also conditional on the achievement of certain share price targets. The key features of the LTIP are set out later in this note.

The interests of Directors and other related parties in the shares, warrants and Notes of the Company at December 31, 2013 were as in the table above.

Ripplewood with 30.2% of the total shares outstanding acting as the major shareholder of the Company sold its shares in December 2013 to several individual investors. These investors, amongst others, are: Intec Beteiligungsgesellschaft, Mr. Bernd Luft and Mr. Jeffrey Casper. Intec Beteiligungsgesellschaft is controlled by Dr. Dirk Wolfertz.

Mr. Jeffrey Casper, Chief Financial Officer (CFO) of the Company, received €50,000 in shares on June 1, 2013.

AEG PS managers refer to key executives other than Directors.

On April 18, 2013 the Company and Dr. Horst Kayser agreed to terminate his contract of employment effective June 30, 2013 by mutual consent. On April 18, 2013 Dr. Horst Kayser stepped down from his position as member of the Board of Directors. Dr. Horst Kayser's awards under the LTIP all lapsed on leaving the Company.

EXECUTIVE LONG-TERM INCENTIVE PLAN

At the Company's Annual General Meeting (AGM) held in May 2011, shareholders approved the adoption of a long-term incentive plan (LTIP) for senior executives including Mr. Kayser and Mr. Henschel. The aim of the LTIP is to act as a strong retention mechanism for key executives and to closely align their interests with those of the shareholders by linking executive rewards with the value delivered to shareholders.

The LTIP is supervised by the Compensation Committee of the Board and it comprises two parts. The key features of each part are as follows:

PART A

Under Part A, participants will be granted annual awards of shares, in the form of nil-cost options, over a four-year period. All awards will vest at the end of the four-year period subject to the condition that the participant is still employed by the Company at that point in time. The maximum number of shares which can be granted under Part A of the LTIP is 725,000 although no individual can be granted more than 30% of this maximum number of shares. On a change of control all outstanding awards will vest immediately. In the period to December 2013 a total of 55,000 shares (2012: 154,000) have been awarded and 128,000 shares (2012: 90,000) were forfeited. After vesting the options are exercisable at any time between May 1, 2015 and April 30, 2021.

PART B

Under Part B, participants will be allocated a number of units from a total pool of units. These units have no value on grant but give participants the opportunity to share in a percentage of the value created for shareholders in excess of pre-determined share price targets at annual measurement points. There will be three measurement dates over a three year performance period, namely May 1, 2012, May 1, 2013 and May 1, 2014.

The value created for shareholders will be based on the average of the closing share prices over the 30-day period prior to the measurement date plus any dividends paid over the period multiplied by the number of shares in issue at the relevant measurement date, less the number of shares held by the Company.

At each measurement date, participants will earn nil-cost options with a value linked to the share price in excess of the relevant annual targets. 50% of any options earned at each annual measurement date will become exercisable on the



third anniversary of the date of grant, with the remainder being exercisable on the fourth anniversary of the date of grant. The exercise price of each option is €0.25. The value of the units to each individual participant will be set by reference to the number of units held in proportion to the total number of units allocated and will be delivered in nil-cost options over 3W Power shares.

The pre-determined share price targets comprise two target share prices. For 2011, target 1 has been set at €5.20 while target 2 is €6.00. If the share price at the first measurement point exceeds target 1, the value of the pool will be the excess of the share price over target 1 multiplied by the number of issued shares (excluding shares held by the Company) multiplied by 5%. If the share price also exceeds target 2, the pool will be further enhanced by the excess of the share price over target 2 multiplied by the relevant number of shares in issue (as before) and multiplied by 10%.

Targets 1 and 2 will increase by 15% and 25% respectively above the actual share price at the previous measurement date, unless there was no payout from this part of the LTIP, in which case the previous targets will be carried over.

In the period to December 2013 no shares were awarded (2012: none) and 300,000 shares were forfeited (2012: 270,000).

On a change of control, the performance period will end and there will be a new measurement date at the date of change of control. In determining the amount of value created at this new measurement date, the return shall be calculated using the offer price per share rather than the 30-day average. Any nil-cost options which have not been exercised on a change of control must be exercised immediately.

The aggregate number of options granted and unexercised from time to time shall not exceed 10%, after issue, of the Company's issued share capital from time to time and the Company will continue to operate the LTIP and any other share plans within this limit.

	2013	2012
LTIP A		
Outstanding at the beginning of the period	208,000	144,000
Granted during the period	55,000	154,000
Forfeited during the period	(128,000)	(90,000)
Outstanding at the end of the period and exercisable	135,000	208,000
LTIP B		
Outstanding at the beginning of the period	570,000	840,000
Granted during the period	-	-
Forfeited during the period	(300,000)	(270,000)
Outstanding at the end of the period and exercisable	270,000	570,000

34. AUDITORS' REMUNERATION

The fees of the principal auditor of the Group, KPMG were as follows:

in thousands of euros	2013	2012
Audit services	807	731
Audit related services	6	25
Other services related to taxation	227	90
Other fees	-	83
Total	1,040	929

35. GROUP ENTITIES

SUBSIDIARIES

	Country of incorporation	Ownership interest	
		2013	2012
PSS Holdings (France) S.A.S.	France	100	100
AEG PS S.A.S	France	100	100
AEG PS (France) S.A.S.	France	100	100
AEG Power Holding GmbH	Germany	100	100
AEG PS GmbH	Germany	100	100
Skytron Energy GmbH	Germany	100	100
Fluxpower GmbH	Germany	100	100
AEG PS Ltd	United Kingdom	100	100
AEG PS Iberica SL	Spain	100	100
Opción Dos Energia Natural SL ¹	Spain	100	100
AEG PS S.p.A.	Italy	100	100
Primetech S.r.l.	Italy	100	-
AEG PS Pte Ltd	Singapore	100	100
AEG PS (Penang) SDN BHD	Malaysia	-	100
AEG PS SDN BHD	Malaysia	100	100
AEG PS USA, Inc.	USA	100	100
AEG PS Inc ¹	Canada	100	100
AEG PS (Russia) LLC	Russia	100	100
AEG PS Co.	China	100	100
3W Power Ukraine TOV	Ukraine	100	100
AEG PS (India) PVT Ltd	India	100	100
3W Power Holdings B.V.	The Netherlands	100	100
AEG Power Solutions B.V.	The Netherlands	100	100
3W Power (South Africa) Pty Ltd	South Africa	100	100
AEG PS Aram. Kft.	Hungary	100	100

¹ AEG Power Solutions Inc. (Canada) and Opción Dos Energia Natural SL are currently being wound down.
 AEG Power Solutions (Penang) SDN BHD closed operations during 2013.

36. SUBSEQUENT EVENTS

On January 8, 2014 the Group placed into administration its subsidiary in Lannion, AEG Power Solutions (France) S.A.S. The entity was structurally loss-making which the Group could no longer financially support. Lannion's cumulated (EBITDA) losses over five years, which were fully supported by the Group, reached €27 million, €11.1 million occurring in the last two years.

On January 15, 2014 the Group initiated plans to close down its R&D and sales office located in Richardson, Texas. The entity was consistently loss-making and continued to consume cash that the Group could no longer afford to support. The existing products and activities were subsequently transferred to the Group's German subsidiary and the office closed at the end of April 2014. The Group maintains a sales and support presence in the United States. The resulting action saves the Group €4 million per year.

On January 27, 2014 the AEG Power Solutions GmbH, the Group's German subsidiary, divested its power control modules business to Advanced Energy Industries Germany, GmbH, Metzingen, Germany, a subsidiary of Advanced Energy Industries, Inc. (Advanced Energy Industries) Colorado, USA. Under the agreement, Advanced Energy Industries acquired the Thyro-Family product line for €22 million in cash plus a one year cash earn-out of up to €1 million, if the EBITDA target for the product line is met in the first twelve months after closing. The Company entered into a long-term manufacturing agreement for manufacturing the modules for Advanced Energy Industries.

On February 28, 2014 the Group agreed with a South African investor to sell 75% of the shares of the South African subsidiary holding the 3W Power facility in Cape Town and partner to develop the sales of AEG Power Solutions global range of power systems on the South-African market.

On March 14, 2014 AEG Power Solutions in Warstein-Belecke, Germany agreed on a social plan and balance of interest with the works council. By May 31, 2014 a total of 128 employees will have left the German subsidiary, primarily through redundancy due to business operations. For the elder employees who are close to retirement, a transitional company (Transfergesellschaft) was created that respective employees could enter as of April 1, 2014 for a maximum period of twelve months in order to bridge the period until their official retirement starts. During this time they will be paid a so-called "Transferkurzarbeitergeld" (transitional short-time allowance). The Group total headcount reduction by year-end is expected to reach approximately 580 employees, with an approximate additional 50 to come out from Belecke.

On March 19, 2014 the Group agreed with significant holders of its €100 million corporate bond (ISIN DE000A1A29T7, 3W9A) the key economic principles for a fundamental restructuring of the bond. The agreement is subject to the required approval of the bondholders at the upcoming bondholders' meetings. The key elements of the restructuring plan are a debt-to-equity swap of 50% of the outstanding bond nominal, a change of conditions for the remaining €50 million bond, a preferential cash capital increase by contribution of €4 million (rounded) with subscription rights by the current shareholders and the implementation of a comprehensive operational restructuring program. Furthermore, 3W Power S.A. will implement a management incentive program focused on the sustainable improvement of equity value and, therefore, bondholders' recovery. Shareholders will vote on the restructuring as soon as bondholders have approved the plan and all legal formalities have been met. If bondholders and shareholders both agree with the plan with more than 75% and two-thirds (respectively) majorities, the plan will be accepted and can be implemented. The Board of Directors of the Company and major shareholders fully support the financial restructuring.

On April 25, 2014 the Group signed a sale and purchase agreement (SPA) with Toshiba Mitsubishi-Electric Industrial Systems Corporation (TMEIC) to divest its Indian affiliate. Under the agreement TMEIC acquires 100% of the entity. The sale is subject to customary CP's and is planned to close in June. The purchase price is not disclosed.



INDEPENDENT AUDITOR'S REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS



To the Shareholders of
 3W Power S.A.
 19, rue Eugène Ruppert
 L-2453 Luxembourg

REPORT OF THE RÉVISEUR D'ENTREPRISES AGRÉÉ

REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

Following our appointment by the General Meeting of the Shareholders dated June 10, 2013, we have audited the accompanying consolidated financial statements of 3W Power S.A. and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at December 31, 2013 and the consolidated statements of income, comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information as set out on pages 18 to 60.

Board of Directors' responsibility for the consolidated financial statements

The Board of Directors is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union, and for such internal control as the Board of Directors determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Responsibility of the Réviseur d'Entreprises agréé

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing as adopted for Luxembourg by the Commission de Surveillance du Secteur Financier. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the judgment of the Réviseur d'Entreprises agréé, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the Réviseur d'Entreprises agréé considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose

of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements as set out on pages 18 to 60 give a true and fair view of the consolidated financial position of 3W Power S.A. as of December 31, 2013, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 2 B in the consolidated financial statements which indicates that the Group experiences profitability and related cash flow problems and is currently undergoing an operational as well as a financial restructuring. These conditions, along with other matters as set forth in Note 2 B, indicate the existence of a material uncertainty that may cast significant doubt about the Group's ability to continue as a going concern.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

The consolidated Directors' report, including the corporate governance statement, which is the responsibility of the Board of Directors, is consistent with the consolidated financial statements and includes the information required by the law with respect to the Corporate Governance Statement.

Luxembourg, April 29, 2014
 KPMG Luxembourg S.à r.l.
 Cabinet de révision agréé
 Ph. Meyer

KPMG Luxembourg S.à r.l.
 9, allée Scheffer
 L-2520 Luxembourg
 Cabinet de révision agréé

R.C.S. Luxembourg B 149133
 Capital social EUR 12,502
 TVA LU LU24892177

COMPANY STATEMENT OF FINANCIAL POSITION As of December 31

in thousands of euros	Note	2013	2012
Assets			
Shares in affiliated undertakings	7	34,280	235,000
Loans to affiliated undertakings	8	84,720	85,000
Total non-current assets		119,000	320,000
Trade and other receivables	9	1,352	2,609
Cash and cash equivalents	10	21	295
Total current assets		1,373	2,904
Total assets		120,373	322,904
Liabilities			
Loans and borrowings	11	98,569	97,920
Total non-current liabilities		98,569	97,920
Trade and other payables	12	737	615
Loans and borrowings	11	771	771
Total current liabilities		1,508	1,386
Total liabilities		100,077	99,306
Equity			
Share capital	13	12,520	12,520
Share premium	13	383,836	383,836
Reserve for own shares	13	(22,870)	(23,596)
Retained earnings		(353,190)	(149,162)
Total equity attributable to equity holders of the Company		20,296	223,598
Total equity and liabilities		120,373	322,904

The Company financial statements on pages 62 to 74 were approved by the Board of Directors on April 29, 2014 and signed on its behalf by:

Jeffrey Casper

The notes on pages 66 to 74 are an integral part of these Company financial statements.



COMPANY STATEMENT OF COMPREHENSIVE INCOME For the year ended December 31

in thousands of euros	Note	2013	2012
Administrative expenses	5	(608)	(777)
Impairment of investments in subsidiaries	7	(200,720)	(174,461)
Loss before interest and tax		(201,328)	(175,238)
Finance income	6	8,075	8,577
Finance costs	6	(9,906)	(9,855)
Net finance (costs)/income		(1,831)	(1,278)
Loss before income tax for the year		(203,159)	(176,516)
Total comprehensive loss for the year		(203,159)	(176,516)

The notes on pages 66 to 74 are an integral part of these Company financial statements.

COMPANY STATEMENT OF CHANGES IN EQUITY Equity attributable to owners of the Company

in thousands of euros	Share capital	Share premium	Reserve for own shares	Retained earnings	Total equity
Balance at January 1, 2012	12,520	383,836	(24,633)	27,959	399,682
Loss for the year	-	-	-	(176,516)	(176,516)
Total comprehensive loss for the year	-	-	-	(176,516)	(176,516)
110,000 shares transferred from treasury shares	-	-	1,037	(1,037)	-
Share-based payments/ long-term incentive plan	-	-	-	432	432
Total contributions by and distributions to owners of the Company	-	-	1,037	(605)	432
Total transactions	-	-	1,037	(177,121)	(176,084)
Balance at December 31, 2012	12,520	383,836	(23,596)	(149,162)	223,598
Balance at January 1, 2013	12,520	383,836	(23,596)	(149,162)	223,598
Loss for the year	-	-	-	(203,159)	(203,159)
Total comprehensive loss for the year	-	-	-	(203,159)	(203,159)
74,337 shares transferred from treasury shares	-	-	726	(726)	-
Share-based payments/ long-term incentive plan	-	-	-	(143)	(143)
Total contributions by and distributions to owners of the Company	-	-	726	(869)	(143)
Total transactions	-	-	726	(204,028)	(203,302)
Balance at December 31, 2013	12,520	383,836	(22,870)	(353,190)	20,296

The notes on pages 66 to 74 are an integral part of these Company financial statements.



COMPANY STATEMENT OF CASH FLOWS For the year ended December 31

in thousands of euros	Note	2013	2012
Cash flows from operating activities			
Loss for the period		(203,159)	(176,516)
Adjustments for non-cash items:			
Shares in affiliated undertakings		200,720	174,461
Share-based payments	5, 15	(143)	432
Finance expense (net)	6	1,831	1,278
Cash flow used in operations before changes in working capital		(751)	(345)
Change in trade and other receivables		(1)	(396)
Change in trade and other payables		193	(182)
Change in deferred expenses		–	–
Cash from operating activities		192	(578)
Net cash used in operating activities		(559)	(923)
Cash flows from investing activities			
Repayment of loan to AEG PS B.V.	8	280	1,500
Interest received		9,255	8,405
Net cash from investing activities		9,535	9,905
Cash flows from financing activities			
Interest paid		(9,250)	(9,250)
Net cash used in financing activities		(9,250)	(9,250)
Net decrease in cash and cash equivalents		(274)	(268)
Cash and cash equivalents at beginning of year		295	563
Cash and cash equivalents at end of year	10	21	295

The notes on pages 66 to 74 are an integral part of these Company financial statements.

NOTES TO THE COMPANY FINANCIAL STATEMENTS

1. GENERAL INFORMATION

On May 7, 2010 3W Power S.A. (formerly 3W Power Holdings S.A.), (the "Company") transferred the place of its registered office and its principal place of business from Guernsey to Luxembourg, adopted the Luxembourg nationality and changed its name from Germany1 Acquisition Limited to 3W Power Holdings S.A. On May 19, 2011 the Company changed its name to its current name of 3W Power S.A. The registered office of the Company is at 19, rue Eugène Ruppert, L-2453 Luxembourg.

By resolution dated November 15, 2011 the Board of Directors of the Company decided to terminate the listing of the Company's shares on NYSE Euronext in Amsterdam.

As per December 17, 2010 the Company commenced the trading of its shares on the Regulated Market (Prime Standard) of the Frankfurt stock exchange (FVB). As at December 31, 2011 shares issued by the Company are listed on the Frankfurt stock exchange (ticker: 3W9). As from December 19, 2011 the Company delisted its shares from the NYSE Euronext, Amsterdam.

The Company has applied accounting policies consistently in these separate financial statements and in the consolidated financial statements.

New shareholders

Ripplewood with 30.2% of the total shares outstanding acting as the major shareholder of the Company sold its shares in December 2013 to several individual investors. Upon this change in the shareholding, four members were replaced on the Board of Directors (see Corporate Governance, section Board of Directors) and Mr. Jeffrey Casper was appointed Chief Restructuring Officer (CRO). The change in ownership and governance initiated the implementation of a financial and operational restructuring program, necessary to address the Company's performance and liquidity problems.

Bondholders' meeting

Uncertainty in the ability to pay the 9.25% coupon on the €100 million Notes due on December 1, 2013 resulted in the organization of a creditor's meeting for the bondholders on November 13, 2013. During this meeting the required quorum of 50% for adopting any resolution for amendments was not met. Therefore a new meeting was scheduled at December 18. Due to a late cash payment from one of the Group's major customers, this meeting was subsequently cancelled and the Company subsequently paid the coupon on the Notes on December 19, 2013.

2. BASIS OF PREPARATION

A) STATEMENT OF COMPLIANCE

The Company prepared the Company financial statements in accordance with International Financial Reporting Standards as adopted by the European Union ("IFRS") and laws and regulations in the Grand Duchy of Luxembourg.

B) GOING CONCERN ASSUMPTION

See note 2, section (B) of the consolidated financial statements in which the Company describes the going concern assumption.

C) BASIS OF MEASUREMENT

The financial statements have been prepared under the historic cost convention, unless otherwise indicated.

D) FUNCTIONAL AND PRESENTATION CURRENCY

These financial statements are presented in euro, which is the Company's functional currency. All financial information presented in euro has been rounded to the nearest thousand.

E) USE OF ESTIMATES AND JUDGMENTS

In the application of IFRS, the directors are required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. These estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may vary from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods, if the revision affects both current and future periods.

Note 7, shares in affiliated undertakings, includes information about assumptions and estimation on uncertainties that have a significant risk of resulting in a material adjustment within the next financial year.

F) ADOPTION OF NEW AND REVISED IFRS

See note 2, section (F) of the consolidated financial statements in which the Company describes all standards and interpretations that were adopted as from January 1, 2013.

G) NEW STANDARDS AND INTERPRETATIONS NOT YET ADOPTED

See note 3, section (S) of the consolidated financial statements in which the Company describes all standards and interpretations that are not yet adopted.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies applied to the Company financial statements are the same as described in note 3 of the consolidated financial statements with the exception of these described below:



Investments in affiliated undertakings

Investments in affiliated undertakings are presented in the statement of financial position of the Company at acquisition cost less adjustment for impairment. Investments in affiliated undertakings are tested for impairment at year-end when Management identifies a triggering event according to IAS 39. When an impairment trigger is identified, Management tests the carrying amount of the affiliated undertakings for impairment according to IAS 36 requirements, by comparing the carrying amount of the shares in affiliated undertakings to its recoverable amount, defined as the highest of its fair value less cost to sale and its value in use.

Loans to affiliated undertakings

Loans to affiliated undertakings are financial assets with determinable payments that are not traded in active markets. Such assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortized costs using the effective interest method, less any impairment losses.

4. DETERMINATION OF FAIR VALUES

A number of the Company's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. Further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

Loans and other receivables

The fair value of loans and other receivables is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date. This fair value is determined for disclosure purposes.

Non-derivative financial liabilities

The fair value of non-derivative financial liabilities, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date. In respect of the liability component of convertible notes, the market rate of interest is determined by reference to similar liabilities that do not have a conversion option.

Warrants

The fair value of the outstanding warrants is measured at market price by applying the list price of these warrants at the end of the period as traded at the Euronext Amsterdam. The warrants were delisted on July 21, 2012.

Share-based payments

Share-based payments are measured by reference to the value based on market prices.

5. ADMINISTRATIVE EXPENSES

Included in administrative expenses are:

in thousands of euros	2013	2012
Administration, accountancy and trustee fees	128	70
Audit, legal and professional fees	135	306
Directors' fees and expenses	348	258
Share-based payment expenses (including LTIP)	(143)	432
Other	(9)	221
Recharge of administrative expenses	149	(510)
Total administrative expenses	608	777

6. FINANCE INCOME AND FINANCE COSTS

in thousands of euros	2013	2012
Interest income on bank deposits	4	2
Interest income on loans	8,071	8,421
Net change in fair value of warrants	–	154
Finance income	8,075	8,577
Interest expense on notes payable	9,250	9,250
Other finance costs	656	605
Finance costs	9,906	9,855
Net finance income/(costs)	(1,831)	(1,278)

The above include the following interest income and expense in respect of assets and liabilities not at fair value through profit or loss:

in thousands of euros	2013	2012
Total interest income on financial assets	8,071	8,423
Total interest expense on financial liabilities	9,250	9,250

7. SHARES IN AFFILIATED UNDERTAKINGS

Shares in affiliated undertakings represent the Company's 100% interest in 3W Power Holdings B.V. which in turn holds 100% of AEG Power Solutions B.V. ("AEG PS") acquired on September 10, 2009. AEG PS is a world provider of power electronics. It offers product and service portfolios in uninterruptible power supply (UPS), power conversion and control, for customers spanning the infrastructure markets of energy, telecom, lighting, transportation and general industrial sectors.

The Group developed a range of products for the solar energy industry, from solar central inverters, software monitoring, turn-key electrical balance of systems and has invested in areas of power management within distributed power generation and smart micro grids.

Movement in carrying amount is as follows:

in thousands of euros	2013	2012
Carrying amount at January 1	235,000	409,461
Impairment charge	(200,720)	(174,461)
Carrying amount at December 31	34,280	235,000

Management identified a triggering event according to IAS 39 in analyzing the significant and prolong decline of the fair value of the Company's shares, and accordingly of the Company's sole investment in an affiliated undertaking. The recoverable amount of the affiliated undertaking has been estimated based on its fair value less cost to sell by measuring the cash flows of the underlying cash generating unit ("CGU") of EMS only, taking into account the current and planned restructuring activities.

The methodology and assumptions used (including five-year forecasts and discount rate) were as described in note 16 of the consolidated financial statements, and projections used for the five-years forecast include the effect of the restructuring, costs and benefits.

Under IAS 36 cash flow adjustments that refer to these adjustments would not be allowed to be included for the calculation of value in use ("ViU"). The use of a discounted cash flow ("DCF") model to calculate the fair value less cost to sell is permitted under IFRS 13. IFRS 13 is applicable in determining the fair value less costs of disposal of a cash generating unit in impairment testing. In the approach to determine fair value IFRS 13 puts emphasis on the fact that this should be based from the perspective of a market participant. In using a discounted cash flow method to determine the fair value all cash flows should be taken into account that a market participant would, which (if a market participant would do so) would also include future investments and restructuring. As the purpose of this calculation is to determine a fair value, it is a different calculation than the value in use which purely looks at it from the Company's perspective.

The carrying amount of the investment was determined to be higher than the recoverable amount of the combined underlying CGU, and impairment loss of €200.7 million was recognized to record the carrying amount at the level of its recoverable amount. Any adverse movement in a key assumption would lead to a further impairment.

8. LOANS TO AFFILIATED UNDERTAKINGS

in thousands of euros	2013	2012
Loan to subsidiary	84,720	85,000

The loan carries interest at 9.375% and, although contractually repayable on demand, is not expected to be settled within the next twelve months after reporting date.

9. TRADE AND OTHER RECEIVABLES

in thousands of euros	2013	2012
Due from affiliated undertakings and shareholders	1,328	2,589
Prepayments	24	20
Total trades and other receivables	1,352	2,609

All receivables are due within 1 year.

10. CASH AND CASH EQUIVALENTS

in thousands of euros	2013	2012
Current accounts	21	295
Total cash and cash equivalents	21	295

Cash and cash equivalents comprise current accounts and deposits with an original maturity of three months or less.

11. LOANS AND BORROWINGS

in thousands of euros	2013	2012
Non-current		
Notes payable	98,569	97,920
Total non-current	98,569	97,920
Current		
Accrued interest	771	771
Total current	771	771
Total loans and borrowings	99,340	98,691



On December 1, 2010 the Company issued loan notes (the "Notes") with a nominal value of €100 million. The Notes were bought by pan-European institutional investors and asset managers. Costs of issuing the Notes amounted to €3,250,000. The Notes bear interest from and including December 2010 to, but excluding, December 1, 2015 at a rate of 9.25% pa (10.11% effective interest) payable annually in arrears on December 1 of each year. The first interest payment was made on December 1, 2011. The Notes are redeemable at par on December 1, 2015. The Notes have the benefit of an unconditional and irrevocable guarantee by AEG Power Solutions B.V.

The terms and conditions of the Notes provide that the Company may, at its option, redeem the Notes, in whole but not in part, at any time after the third anniversary of the date of issue at a price of 102% of the principal amount plus accrued interest, and at any time after the fourth anniversary at a price of 101% of the principal plus accrued interest. The terms and conditions further provide that the Note holders may require an early redemption in whole or in part at 101% of their principal

amount plus accrued interest in the event of a change of control of the Company. The Notes are traded in the Bondm segment of Stuttgart stock exchange as well as in the Open Market of the Frankfurt stock market.

Loans are due as follows:

in thousands of euros	2013	2012
Within 1 year	771	771
Within 2-5 years	98,569	97,920
Total	99,340	98,691

12. TRADE AND OTHER PAYABLES

in thousands of euros	2013	2012
Trade payables	737	615

13. CAPITAL AND RESERVES

SHARE CAPITAL

in number of shares	Ordinary shares	Treasury shares ¹	Total shares
Issued at December 31, 2011	47,706,019	2,530,005	50,236,024
Transferred to (former) executives ²	110,000	(110,000)	–
Issued at December 31, 2012	47,816,019	2,420,005	50,236,024
Transferred to executives ³	74,337	(74,337)	–
Issued at December 31, 2012³	47,890,356	2,345,668	50,236,024

¹ Included in treasury shares are 2,500,000 shares previously held in escrow for the purpose of an earn-out agreement with the former AEG Power Solutions B.V. shareholders. The earn-out was based on the achievement of certain EBITDA targets with respect to fiscal years 2009, 2010 and 2011. The targets have not been met and under the terms of the earn-out agreement the shares were released from escrow to the Company in September 2012.

² During the year 2012 60,000 shares were transferred to Dr. Horst J. Kayser and 50,000 shares were transferred to Gerhard Henschel under the terms of their employment contracts.

³ During the year 2013 74,337 shares were transferred to Jeffrey Casper under the terms of his employment contract.

At the extraordinary General Meeting (EGM) held on May 7, 2010 the shareholders voted to set the issued share capital of the Company at €12,520,006 by conversion of the same amount from the share premium account. The issued share capital of the Company was therefore fixed at €12,520,006 divided into 50,236,024 shares (including the 2,500,000 of shares shown above as treasury shares) with no par value. The authorized capital of the Company was set at €37,560,018 consisting of 150,240,072 shares.

At the EGM held on December 14, 2010 the shareholders voted to amend the classes of shares of the Company to create a single class as provided in the share purchase agreement of September 10, 2009. Shareholders' rights have not been modified and the total number of shares remains the same. All shares of the Company are now ordinary shares.

On December 17, 2010 the Company's shares were admitted to trading on the Regulated Market (Prime Standard) of the Frankfurt stock exchange (FWB) under the ticker symbol 3W9. The shares on the Euronext market, Amsterdam (ticker 3WP) were delisted on December 19, 2011. Warrants in the Company were listed on the Euronext Amsterdam (ticker 3WPPW) and expired on July 24, 2012 and were delisted on the same date.

in thousands of euros	Share capital
January 1, 2012	12,520
December 31, 2012	12,520
December 31, 2013	12,520

in thousands of euros	Share premium
January 1, 2012	383,836
December 31, 2012	383,836
December 31, 2013	383,836

in thousands of euros	Reserve for own shares
January 1, 2012	(24,633)
Transfer of 110,000 shares to (former) executives	1,037
December 31, 2012	(23,596)
January 1, 2013	(23,596)
Transfer of 74,337 shares to (former) executives	726
December 31, 2013	(22,870)

The reserve for the Company's own shares comprises the cost of the Company's shares held by or on behalf of the Company. At December 31, 2013 the Company held 2,345,668 (2012: 2,420,005) of its own shares with an aggregate cost of €22,870 thousand (2012: €23,596 thousand).

No dividends were declared or paid by the Company in 2013 or 2012.

14. FINANCIAL INSTRUMENTS

CATEGORIES OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

At the end of the reporting period the Company has the following financial assets and liabilities:

in thousands of euros	2013	2012
Cash and cash equivalents	21	295
Loans and receivables	86,072	87,609
Total financial assets	86,093	87,904
Financial liabilities measured at amortized costs		
Trade and other payables	737	615
Borrowings	771	771
Notes payable	98,569	97,920
Total financial liabilities measured at amortized cost	100,077	99,306
Total financial liabilities	100,077	99,306

FAIR VALUES

Fair values versus carrying amounts

The fair values of financial assets and liabilities, together with the carrying amounts shown in the statement of financial position, are as follows:

in thousands of euros	Notes	Carrying amount 2013	Fair Value 2013	Carrying amount 2012	Fair Value 2012
Assets carried at amortized cost					
Cash and cash equivalents		21	21	295	295
Loans and receivables		86,072	86,072	87,609	87,609
Total		86,093	86,093	87,904	87,904
Liabilities carried at amortized cost					
Trade and other payables		737	737	615	615
Borrowings		771	771	771	771
Notes payable		98,569	35,000	97,920	91,950
Total		100,077	36,508	99,306	93,336



Fair value hierarchy

As at December 31, 2013, there are no financial instruments which are carried at fair value. The fair value of the Notes payable is disclosed below. The Group uses three levels of valuation method as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices)
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The fair value of Loans and receivables is considered equal to the carrying amount based on the total carrying amount of the Company's investment through shares and receivables of €119 million.

15. RELATED PARTIES

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions.

The Company has related party relationships with its subsidiaries and with entities having a significant influence over the Company. Related party relationships also exist with Board members and managers who have an interest in the equity of the Company or who receive remuneration from the Company and the Group.

BOARD AND KEY MANAGEMENT REMUNERATION

The total remuneration of Board members and other senior managers included the following amounts:

Year to December 31, 2013

in euros	Executive Directors	Non-Executive Directors	Total Directors	Other managers (7 FTE)
Salary, bonuses and short-term benefits	1,080,810	–	1,080,810	2,054,451
Severance	819,297	–	819,297	885,773
Post-employment benefits	31,353	–	31,353	20,396
Share-based payments ¹	–	–	–	25,000
Awards under long-term incentive plan (LTIP) ¹	–	–	–	55,000
Fees	60,000	60,000	120,000	–
Total	1,991,460	60,000	2,051,460	3,040,620

¹ A net income of €143 thousand has been recognized in the income statement with debit to equity in relation to share based payments and LTIP, including an expense of €80 thousands which has been recognized in 2013 for awards granted compensated by the true up of the prior year expense to reflect the forfeiture of awards granted during the prior years for which service conditions are no longer met.

December 31, 2013	Level 1	Level 2	Level 3
Notes payable	35,000	–	–

December 31, 2012	Level 1	Level 2	Level 3
Notes payable	91,950	–	–

Year to December 31, 2012

in euros	Executive Directors	Non-Executive Directors	Total Directors	Other managers (6 FTE)
Salary, bonuses and short-term benefits	1,287,399	–	1,287,399	2,106,032
Severance	112,292	–	112,292	494,062
Post-employment benefits	10,000	–	10,000	38,172
Other long-term benefits	–	–	–	–
Share-based payments ¹	48,000	–	48,000	25,000
Awards under long-term incentive plan (LTIP) ¹	54,000	–	54,000	305,000
Fees	–	120,000	120,000	–
Total	1,511,691	120,000	1,631,691	2,968,266

¹ Included in Company financial statements.

In relation to Board members, salary, bonuses and benefits refer to Directors who held executive positions during the year, namely Mr. B. A. Brock, Mr. R. J. Huljak (both as from April 2013), Dr. H. J. Kayser (2012 and 2013) and Mr. G. Henschel (until the first half of 2012). Fees relate to Non-Executive Directors Mr. B. A. Brock, Mr. K. Corbin, Mr. R. J. Huljak and Prof. M. Wössner.

Mr. J. Casper (2013 and second half of 2012) is included in other managers.

RELATED PARTY INTERESTS IN THE EQUITY
 AND NOTES OF THE COMPANY

	No. of shares	Bonds at nominal value (€)	Awards under long-term incentive plan (LTIP) ¹	
			Part A	Part B
As at December 31, 2013			No. of shares	No. of units
Dr. Dr. h.c. Thomas Middelhoff	1,325,518			
Mr. Bruce A. Brock	1,642,902			
Mr. Robert Huljak	363,136			
Intec Beteiligungsgesellschaft	3,997,482	150,000		
Mr. Willi Loose	50,000			
Mr. Bernd Luft	6,570,000	252,000		
Prof. Mark Wössner	30,000			
Mr. Jeffrey Casper	415,434		75,000	150,000
AEG PS managers	41,434		60,000	120,000
Total	14,435,906	402,000	135,000	270,000

¹ The awards under the LTIP are conditional on remaining in employment with the Group until vesting and are exercisable at different times. The awards under Part B are also conditional on the achievement of certain share price targets. The key features of the LTIP are set out later in this note.

The interests of Directors and other related parties in the shares, warrants and Notes of the Company at December 31, 2013 were as in the table above.

Ripplewood with 30.2% of the total shares outstanding acting as the major shareholder of the Company sold its shares in December 2013 to several individual investors. These investors, amongst others, are: Intec Beteiligungsgesellschaft, Mr. Bernd Luft and Mr. Jeffrey Casper. Intec Beteiligungsgesellschaft is controlled by Dr. Dirk Wolfertz.

Mr. Jeffrey Casper, Chief Financial Officer (CFO) of the Company, received €50,000 in shares on June 1, 2013.

AEG PS managers refer to key executives other than Directors.

On April 18, 2013 the Company and Dr. Horst Kayser agreed to terminate his contract of employment effective June 30, 2013 by mutual consent. On April 18, 2013 Dr. Horst Kayser stepped down from his position as member of the Board of Directors. Dr. Horst Kayser's awards under the LTIP all lapsed on leaving the Company.

EXECUTIVE LONG-TERM INCENTIVE PLAN

At the Company's Annual General Meeting (AGM) held in May 2011, shareholders approved the adoption of a long-term incentive plan (LTIP) for senior executives including Messrs. Kayser and Henschel. The aim of the LTIP is to act as a strong retention mechanism for key executives and to closely align their interests with those of the shareholders by linking executive rewards with the value delivered to shareholders.

The LTIP is supervised by the Compensation Committee of the Board and it comprises two parts. The key features of each part are as follows:

PART A

Under Part A, participants will be granted annual awards of shares, in the form of nil-cost options, over a four year period. All awards will vest at the end of the four year period subject to the condition that the participant is still employed by the Company at that point in time. The maximum number of shares which can be granted under Part A of the LTIP is 725,000 although no individual can be granted more than 30% of this maximum number of shares. On a change of control all outstanding awards will vest immediately. In the period to December 2013 a total of 55,000 shares (2012:154,000) have been awarded and 128,000 shares (2012:90,000) were forfeited. After vesting the options are exercisable at any time between May 1, 2015 and April 30, 2021.



PART B

Under Part B, participants will be allocated a number of units from a total pool of units. These units have no value on grant but give participants the opportunity to share in a percentage of the value created for shareholders in excess of pre-determined share price targets at annual measurement points. There will be three measurement dates over a three year performance period, namely May 1, 2012, May 1, 2013 and May 1, 2014.

The value created for shareholders will be based on the average of the closing share prices over the 30 day period prior to the measurement date plus any dividends paid over the period multiplied by the number of shares in issue at the relevant measurement date, less the number of shares held by the Company.

At each measurement date, participants will earn nil-cost options with a value linked to the share price in excess of the relevant annual targets. 50% of any options earned at each annual measurement date will become exercisable on the third anniversary of the date of grant, with the remainder being exercisable on the fourth anniversary of the date of grant. The exercise price of each option is €0.25. The value of the units to each individual participant will be set by reference to the number of units held in proportion to the total number of units allocated and will be delivered in nil-cost options over 3W Power shares.

The pre-determined share price targets comprise two target share prices. For 2011, target 1 has been set at €5.20 while target 2 is €6.00. If the share price at the first measurement point exceeds target 1, the value of the pool will be the excess of the share price over target 1 multiplied by the number of issued shares (excluding shares held by the Company) multiplied by 5%. If the share price also exceeds target 2, the pool will be further enhanced by the excess of the share price over target 2 multiplied by the relevant number of shares in issue (as before) and multiplied by 10%.

Targets 1 and 2 will increase by 15% and 25% respectively above the actual share price at the previous measurement date, unless there was no payout from this part of the LTIP, in which case the previous targets will be carried over.

In the period to December 2013 no shares were awarded (2012: none) and 300,000 shares were forfeited (2012: 270,000).

On a change of control the performance period will end and there will be a new measurement date at the date of change of control. In determining the amount of value created at this new measurement date the return shall be calculated using the offer price per share rather than the 30 day average. Any nil-cost options which have not been exercised on a change of control must be exercised immediately.

The aggregate number of options granted and unexercised from time to time shall not exceed 10%, after issue, of the Company's issued share capital from time to time and the Company will continue to operate the LTIP and any other share plans within this limit.

	2013	2012
LTIP A		
Outstanding at the beginning of the period	208,000	144,000
Granted during the period	55,000	154,000
Forfeited during the period	(128,000)	(90,000)
Outstanding at the end of the period and exercisable	135,000	208,000
LTIP B		
Outstanding at the beginning of the period	570,000	840,000
Granted during the period	–	–
Forfeited during the period	(300,000)	(270,000)
Outstanding at the end of the period and exercisable	270,000	570,000

16. FINANCIAL RISKS

The carrying amount of financial assets represents the maximum credit exposure. This credit risk is directly linked to the material uncertainties described in the paragraph on going concern assumption (see note 2, section (B)).

The main credit risk is the €84.7 million loan receivable from AEG Power Solutions B.V.

All principal balance sheet amounts (including cash balances, obligations under the notes payable and the warrants) are denominated in euro and therefore there is no significant currency risk.

A risk of valuation exists in respect of the carrying amount of shares in affiliated undertakings. At December 31, 2013 the shares are stated at acquisition price less the impairment that was identified. Should there be objective evidence that one or more events have a negative effect on the estimated future cash flows from the shares then an impairment test will be carried out in addition to the yearly impairment test.

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. Cash flow generation and access to capital markets are important to finance organic long-term growth, capital expenditures, working capital requirements and expected operational expenses.

17. GUARANTEES AND COMMITMENTS

In 2012, the Company granted a guarantee to WGZ Bank AG for a loan to AEG PS GmbH of €15.0 million. The maximum liability for the Company amounts to €0.7 million in 2012 and €0 in 2013.

18. SUBSEQUENT EVENTS

On January 8, 2014 the Group placed into administration its subsidiary in Lannion, AEG Power Solutions (France) S.A.S. The entity was structurally loss-making which the Group could no longer financially support. Lannion's cumulated (EBITDA) losses over five years, which were fully supported by the Group, reached €27 million, €11.1 million occurring in the last two years.

On January 15, 2014 the Group initiated plans to close down its R&D and sales office located in Richardson, Texas. The entity was consistently loss-making and continued to consume cash that the Group could no longer afford to support. The existing products and activities were subsequently transferred to the Group's German subsidiary and the office closed at the end of April 2014. The Group maintains a sales and support presence in the United States. The resulting action saves the Group €4 million per year.

On January 27, 2014 the AEG Power Solutions GmbH, the Group's German subsidiary, divested its power control modules business to Advanced Energy Industries Germany, GmbH, Metzingen, Germany, a subsidiary of Advanced Energy Industries, Inc. (Advanced Energy Industries) Colorado, USA. Under the agreement, Advanced Energy Industries acquired the Thyro-Family product line for €22 million in cash plus a one year cash earn-out of up to €1 million, if the EBITDA target for the product line is met in the first twelve months after closing. The Company entered into a long-term manufacturing agreement for manufacturing the modules for Advanced Energy Industries.

On February 28, 2014 the Group agreed with a South African investor to sell 75% of the shares of the South African subsidiary holding the 3W Power facility in Cape Town and partner to develop the sales of AEG Power Solutions global range of power systems on the South-African market.

On March 14, 2014 AEG Power Solutions in Warstein-Belecke, Germany agreed on a social plan and balance of interest with the works council. By May 31, 2014 a total of 128 employees will have left the German subsidiary, primarily through redundancy due to business operations. For the elder employees who are close to retirement, a transitional company (Transfergesellschaft) was created that respective employees could enter as of April 1, 2014 for a maximum period of twelve months in order to bridge the period until their official retirement starts. During this time they will be paid a so-called "Transferkurzarbeitergeld" (transitional short-time allowance). The Group total headcount reduction by year-end is expected to reach approximately 580 employees, with an approximate additional 50 to come out from Belecke.

On March 19, 2014 the Group agreed with significant holders of its €100 million corporate bond (ISIN DE000A1A29T7, 3W9A) the key economic principles for a fundamental restructuring of the bond. The agreement is subject to the required approval of the bondholders at the upcoming bondholders' meetings. The key elements of the restructuring plan are a debt-to-equity swap of 50% of the outstanding bond nominal, a change of conditions for the remaining €50 million bond, a preferential cash capital increase by contribution of €4 million (rounded) with subscription rights by the current shareholders and the implementation of a comprehensive operational restructuring program. Furthermore, 3W Power S.A. will implement a management incentive program focused on the sustainable improvement of equity value and, therefore, bondholders' recovery. Shareholders will vote on the restructuring as soon as bondholders have approved the plan and all legal formalities have been met. If bondholders and shareholders both agree with the plan with more than 75% and two-thirds (respectively) majorities, the plan will be accepted and can be implemented. The Board of Directors of the Company and major shareholders fully support the financial restructuring.

On April 25, 2014 the Group signed a sale and purchase agreement (SPA) with Toshiba Mitsubishi-Electric Industrial Systems Corporation (TMEIC) to divest its Indian affiliate. Under the agreement TMEIC acquires 100% of the entity. The sale is subject to customary CP's and is planned to close in June. The purchase price is not disclosed.



INDEPENDENT AUDITOR'S REPORT ON THE COMPANY FINANCIAL STATEMENTS



To the Shareholders of
3W Power S.A.
19, rue Eugène Ruppert
L-2453 Luxembourg

REPORT OF THE RÉVISEUR D'ENTREPRISES AGRÉÉ**REPORT ON THE FINANCIAL STATEMENTS**

Following our appointment by the General Meeting of the Shareholders dated June 10, 2013, we have audited the accompanying separate financial statements of 3W Power S.A. (the "Company"), which comprise the statement of financial position as at December 31, 2013 and the statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information as set out on pages 62 to 74.

Board of Directors' responsibility for the financial statements

The Board of Directors is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as adopted by the European Union, and for such internal control as the Board of Directors determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Responsibility of the Réviseur d'Entreprises agréé

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing as adopted for Luxembourg by the Commission de Surveillance du Secteur Financier. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the judgment of the Réviseur d'Entreprises agréé, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the Réviseur d'Entreprises agréé considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances,

but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements as set out on pages 62 to 74 give a true and fair view of the financial position of 3W Power S.A. as of December 31, 2013, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 2 B in the financial statements which indicates that 3W Power S.A. and its subsidiaries experience profitability and related cash flow problems and are currently undergoing an operational as well as a financial restructuring. These conditions, along with other matters as set forth in Note 2 B, indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

The Directors' report, including the corporate governance statement, which is the responsibility of the Board of Directors, is consistent with the financial statements and includes the information required by the law with respect to the Corporate Governance Statement.

Luxembourg, April 29, 2014
KPMG Luxembourg S.à r.l.
Cabinet de révision agréé
Ph. Meyer

KPMG Luxembourg S.à r.l.
9, allée Scheffer
L-2520 Luxembourg
Cabinet de révision agréé

R.C.S. Luxembourg B 149133
Capital social EUR 12,502
TVA LU LU24892177

APPENDIX

RECONCILIATION OF REPORTED EBIT TO ADJUSTED EBIT

in millions of euros	December 31, 2013	December 31, 2012
Reported EBIT	(65.5)	(196.0)
Adjustments		
Amortization of intangibles on acquisition	7.6	16.7
Accelerated amortization of intangibles on acquisition	4.6	48.3
Impairment of goodwill and intangibles on acquisition	2.5	127.0
Restructuring charge/(release)	5.0	9.0
Capital gain on sale of building	–	(1.4)
Impairment of tangible assets	3.0	1.7
Impairment of intangible assets	7.0	–
Impairment of working capital	11.7	–
Professional consultancy and other costs	3.4	2.7
Total adjustments	44.8	204.1
Adjusted EBIT	(20.7)	8.1

DERIVATION OF EBITDA

in millions of euros	December 31, 2013	December 31, 2012
Reported EBIT	(65.5)	(196.0)
Depreciation and amortization charges		
Amortization and impairment of intangibles on acquisition	14.7	192.0
Depreciation charge on tangible assets	8.1	7.9
Amortization charge on intangible assets	1.7	1.9
Other	10.6	5.4
Total depreciation and amortization charges	35.1	207.2
EBITDA	(30.4)	11.2

Due to rounding, numbers presented throughout this and other documents may not add up precisely to the totals provided and percentages may not precisely reflect the absolute figures.

DERIVATION OF NORMALIZED EBITDA

in millions of euros	December 31, 2013	December 31, 2012
Adjusted EBIT	(20.7)	8.1
Depreciation and amortization charges		
Depreciation charge on tangible assets	5.1	6.3
Amortization charge on intangible assets	1.5	1.7
Other	3.9	5.4
Total depreciation and amortization charges	10.5	13.5
Normalized EBITDA	(10.2)	21.6

RECONCILIATION FROM REPORTED NET INCOME TO ADJUSTED NET INCOME

in millions of euros	December 31, 2013	December 31, 2012
Reported net income	(81.5)	(177.9)
Adjustments		
Change in fair value of warrants	–	(0.2)
Regular amortization of intangibles on acquisition	7.6	16.7
Accelerated amortization of intangibles on acquisition	4.6	48.3
Impairment of goodwill and intangibles on acquisition	2.5	127.0
Restructuring charge/(release)	5.0	9.0
Capital gain on sale of building	–	(1.4)
Professional consultancy and other costs	3.4	2.7
Impairment of tangible assets	3.0	1.7
Impairment of intangible assets	7.0	–
Impairment of working capital	11.7	–
Estimate tax effect on the above	(1.8)	(36.6)
Total adjustments	43.0	167.2
Adjusted net income	(38.5)	(10.7)

May 15

Publication of Q1 2014 results

August 8

Publication of Q2 2014 results

November 19

Publication of Q3 2014 results

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Concept and design:

HGB Hamburger Geschäftsberichte, Hamburg

Copy deadline:

April 29, 2014

Note to the annual report: This is the English original of the annual report. A German translation of this report is also available. In the event of deviations between the two versions, the English language version will prevail.

Note regarding the rounding of figures: Due to the rounding of figures and percentages small deviations may occur.

Disclaimer: This annual report contains forward-looking statements that are based on certain assumptions and expectations at the time of its publication. These statements are subject to risks and uncertainties and actual results may differ substantially from the future oriented statements made in this report. Many of these risks and uncertainties are determined by factors that are beyond the control of 3W Power | AEG Power Solutions and cannot be gauged with any certainty at this point in time. This includes future market conditions and economic developments, the behavior of other market participants, the achievement of expected synergy effects as well as legal and political decisions. 3W Power | AEG Power Solutions does not feel obliged to publish corrections of these forward-looking statements to reflect events or circumstances that have occurred after the publication date of this material.

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