# Analyst presentation Q4 2013 / FY 2013

30 April 2014

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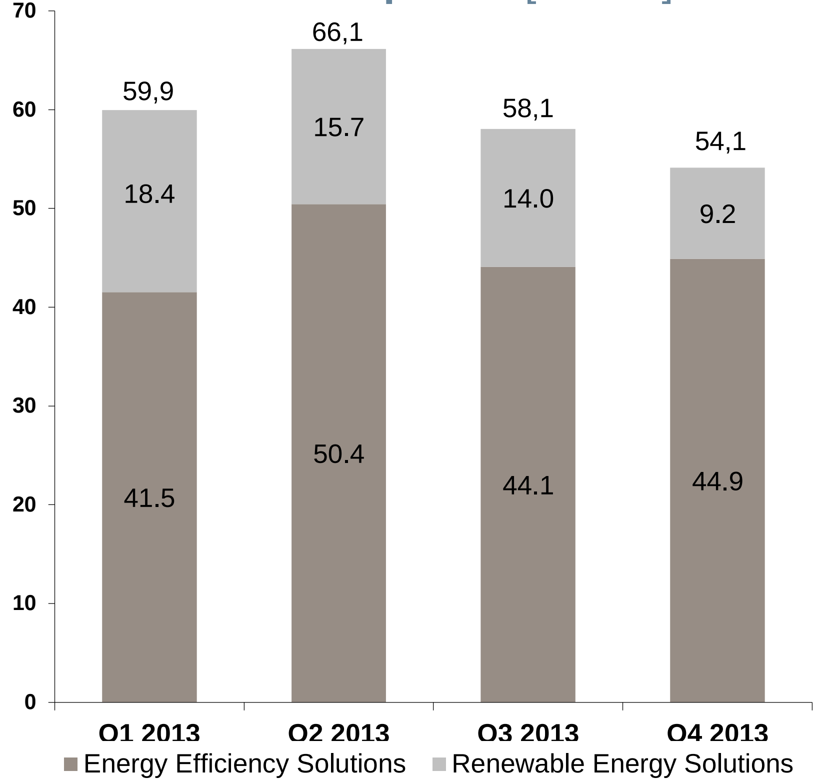
# Financials
## Analyst presentation Q4 2013 / FY 2013

# AEG PS GROUP – Order development

## Regressive order development due to weakness in RES

### Order Intake Development [EURm]




### Comments

- Q4 2013 orders were €54.1m million, down 6.8% compared to Q3 and down 52.9% y-o-y
- Q4 RES orders were €9.2m, down 34.3% compared to Q3 2013 and down 86.9% y-o-y
- Q4 EES orders were relatively stable at €44.9m, down 1.9% compared to Q3 2013 and down 1.3% y-o-y
- POC and Solar backlog from end of 2013 has been fully utilized

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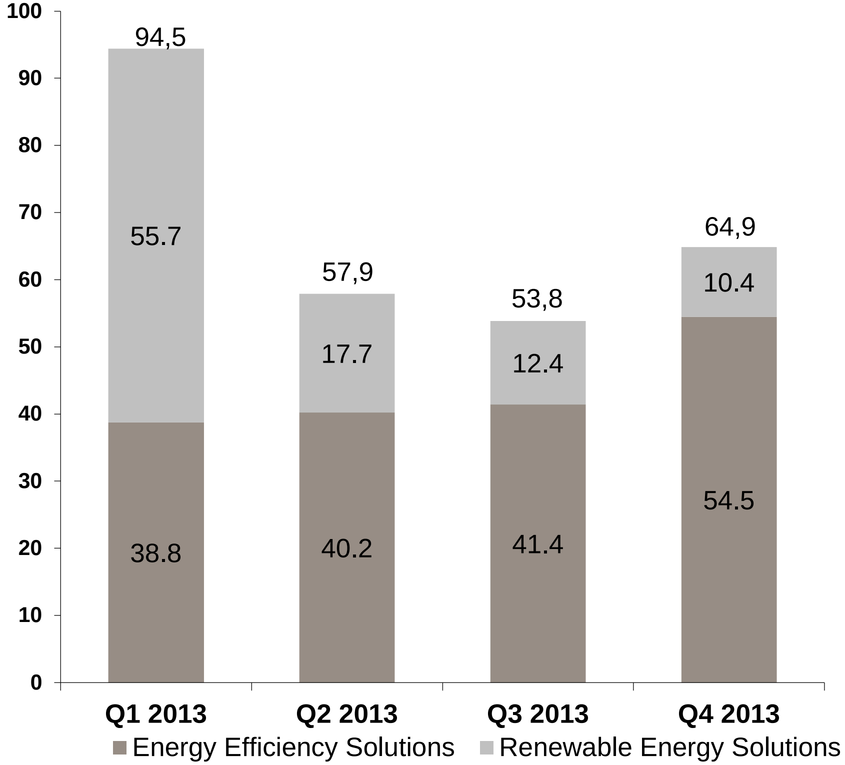
# AEG PS GROUP – Revenue development

## Revenue also substantially impacted by negative development in RES

### Revenue Development [EURm]




### Comments

- Q4 2013 revenues were €64.9m, down 6.8% compared to Q3 and down 44.4% y-o-y
- Q4 RES revenues were €10.4m, down 16.1% compared to Q3 2013 and down 83.8% y-o-y
- Q4 EES revenues were €54.5m, up 31.5% compared to Q3 2013 and up 3.4% y-o-y
- The drop in Solar and in POC significantly affected results while UPS sales remained stable despite lower volumes in DC Converters and Telecom

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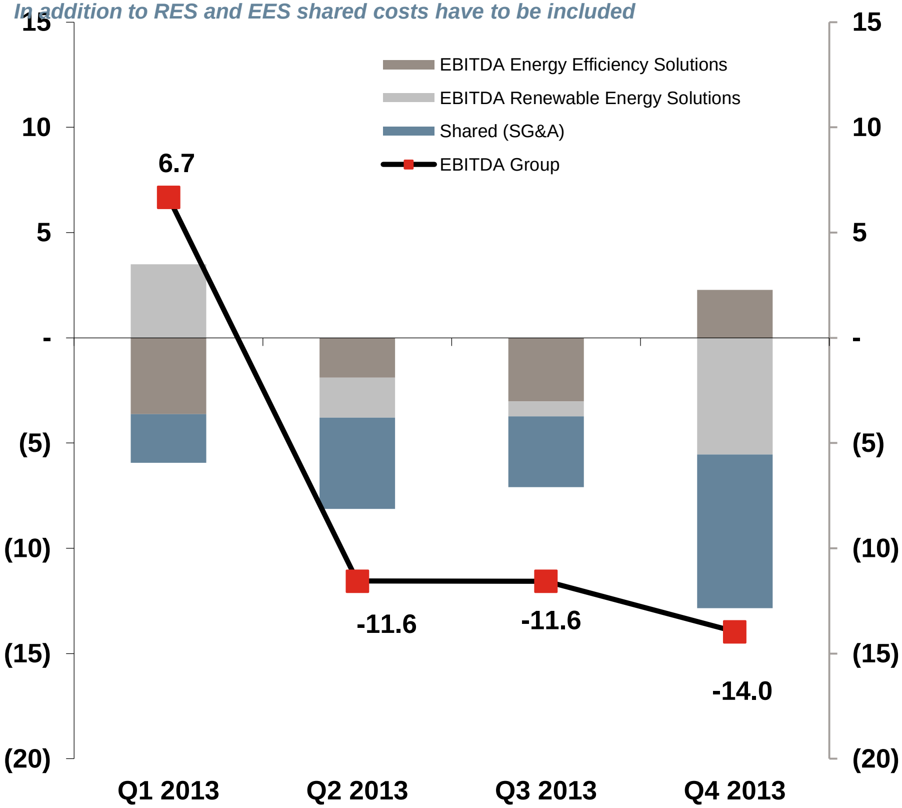
# AEG PS GROUP – EBITDA development

## EBITDA affected by lower volumes, changes in product mix and operational expenses

### EBITDA Development [EURm]

*In addition to RES and EES shared costs have to be included*




### Comments

- Q4 EBITDA was -€14.0m, down from -€11.6m in Q3 and down from €0.7m y-o-y
- Q4 RES EBITDA was -8.9m, down 71.1% compared to Q3 and from €8.3m y-o-y
- Q4 EES EBITDA was 2.3m, up from -€3.0m compared to Q3 and y-o-y
- The decrease in EBITDA in both business segments was due to lower volumes, a high level of operating expenses in both RES and EES and a change in product mix in RES

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# Outlook AEG Power Solutions Group

- With the specific financial and operational restructuring measures in mind, the financial outlook for the Group is expected to improve to
  - Revenues of approximately €220 million in 2014, €224 million in 2015 and above €240 million in 2016.
  - EBITDA (after extraordinary expenses) from an anticipated negative €24 million in 2014 to a positive €17 million in 2015 and above €20 million thereafter.
- At the end of fiscal year 2014 the Company expects to have liquidity of approximately €20 million
- Future developments of 3W Power/AEG Power Solutions depend on our ability to retain key business and restore stability following the dramatic restructuring of the Company

# Strategic direction
# Analyst presentation Q4 2013 / FY 2013

# Recent Restructuring Achievements

- Structurally loss making subsidiary in Lannion, AEG Power Solutions (France) S.A.S., placed into administration
- Loss making and cash consuming sales office in Richardson, Texas, closed
- Divestiture of power control modules business of Group's German subsidiary to Advanced Energy Industries in combination with long-term manufacturing agreement
  - Cash inflow of €22m for Thyro-Family product line; one year cash earn-out of up to €1m
  - Power control modules are non-core to the Group
- Facility in Cape Town sold to a South African investor and partner to develop the sales of AEG Power Solutions global range of power systems on the South African market
- Reduction of headcount in German facility
- Indian facility of Bangalore sold to Toshiba Mitsubishi-Electric Industrial Systems Corporation

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# Our Competitive Strengths

**AEG PS Group provides high quality electrical power supply for mission critical applications**

- Expertise in engineering and design of complex, customer specific systems and solutions
- High quality assembly, installation, commissioning, and field service
- R&D excellence and proven ability to bring new technologies and applications to market
- Large installed base and potential for growing services
- Strong brand recognition
- Certified supplier by major customers
- Know-how of energy storage technology

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# Key Business Activities

| | Industrial & Commercial Power Supplies | Advanced Power Systems |
| --- | --- | --- |
| **Systems & Solutions** | • Uninterruptible Power Supply (UPS)<br>• Chargers & DC Systems<br>• Rectifiers<br>• Services | • Power Controls<br>• Energy Storage<br>• Solar Inverters<br>• Micro Grid Solutions |
| **Markets** | • Industry & Infrastructure<br>– Oil & Gas<br>– Transportation<br>– Power Generation<br>– General Industries<br>• Commercial<br>– Data / IT<br>– Facilities | • Industrial processes requiring precise heat or power over time<br>• Distributed Power Generation<br>• Network Management<br>• Solar and other renewables<br>• Applications following mega trends (ballast water treatment, energy storage, grid stabilisation) |

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# Key Product Offering

## Industrial & Commercial Power Supplies

**Systems & Solutions**

UPS

Battery charger/
DC Systems

## Advanced Power Systems

Power 2 Gas
rectifier
system

Voltage
controller

BESS

Solar
Inverter

**Applications**

| | | | | | |
|---|---|---|---|---|---|
| Oil & Gas | Power Generation | Data & IT | Electroly-sis (H2) | Polysilicon | Power Plants |
| General Industry | Transpor-tation | Telecom | Grid stabi-lization | | Commer-cial |

# Selected Customers

TOTAL
قطر للبترول Qatar Petroleum
SIEMENS
ALSTOM
Cegelec
eDF
ABB
RWE
SNCF
Eni Group
Snamprogetti
BASF The Chemical Company
FLUOR
British Energy
bp
STATOIL
e.on
Chevron
ConocoPhillips
Dow
saft
BOMBARDIER
Technip
Cegelec
ارامكو السعودية Saudi Aramco
DB
中广核工程有限公司 CHINA NUCLEAR POWER ENGINEERING CO.,LTD
ExxonMobil
endesa
Bayer
AREVA
MITSUBISHI HEAVY INDUSTRIES, LTD.
Bruce Power
شركة البترول الوطنية الكويتية (ش.م.ك) KNPC

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# **NEW INDUSTRIAL PROJECTS Q1 2014 –** AEG Power Solutions continues to build its strong position in Oil & Gas, Transportation and Power Generation



## ITALY

- Owner: TOTAL E&P ITALIA
- AEG Contract Value: € ~1,8 M
- EPC: TECNIMONT
- Products: 10 redundant AC UPS & 7 redundant DC UPS systems, all with NiCd Batteries and services
- Application: Central Control room, substation
- Project: TEMPAROSSA


## MIDDLE EAST

- Owner: Major Oil & Gas company in Saudi Arabia
- AEG Value: Approx. € ~ 1 M
- Via our partner : INMA trading
- Products: >100 x 24 VDC + NiCd batteries + GRP battery box
- Application: remote power back-up
- Project: Pipeline control system / RTU unit

## GERMANY

- Owner: Ministry of Energy (MOE) Kurdistan
- AEG Contract value: € ~2,2 M
- EPC: SIEMENS TURKIYA
- Products: >220 x MIP DC system, Nicd batteries & services
- Application: Substation Communication systems

## MIDDLE EAST

- Owner: Utility company in Qatar
- AEG Contract value: € ~1,7 M
- EPC: SIEMENS
- Products: several AC (P8 inv) & DC systems, batteries & services
- Application: Substation switchgear protection
- Project: phase 11

# NEW INDUSTRIAL PROJECTS Q1 2014 – AEG Power Solutions continues to build its strong position in Oil & Gas, Transportation and Power Generation

## SINGAPORE

- Owner: Vietnam railways for Metro
- AEG Contract Value: € ~1 M
- EPC: HITACHI
- Products: several DC, all with NiCd Batteries and services
- Application: signaling and substation
- Project: Ho Chi Mihn city MRT

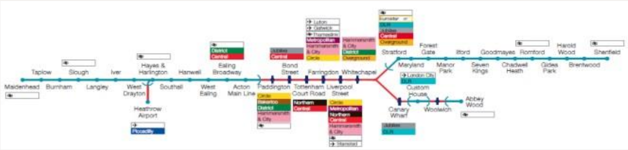
## MIDDLE EAST

- Owner: Major Electricity and Water company in Abu Dhabi
- AEG Value: Approx. € ~ 1 M
- Via our partner : MDS Abu Dhabi
- Products: Several 125Vdc + NiCd batteries + services
- Application: Substation switchgear protection
- Project: 136 KV Substations

## UK

- Owner – Network Rail
- AEG Contract Value - £1.2 M
- Products – SMi2000FE 48VDC Power Systems
- Delivery – Jan 2014 – May 2014
- Project – FTNX
- Application – Power extensions to provide mobile network connectivity.

## UK



- Owner – Crossrail Ltd (Rail for London)
- Europe's largest construction project
- AEG Contract Value - £3.7 M
- Products – Protect 3, Protect 4 AC UPS
- Delivery – Works commence 2014 and conclude 2018.
- Project - New rail link through London.
- Application – Station emergency lighting and communications

# Restructuring program
# Analyst presentation Q4 2013 / FY 2013

# Analysis of the Crisis



### Business Downturn 2011 – 2013

- Deterioration of business situation since end of 2011 principally in Solar and POC
- Failure to adjust fixed costs to reduced business opportunities
- No previous achievement of operational improvements
- Increase in number of loss making activities

### Complex Management Structure

- Multidimensional management organisation diffusing responsibilities and accumulating costs
- Low attention to comprehensive business redesign
- Lack of adequate investments in IT architecture

### Inappropriate Capital Structure

- Current capital structure not suitable for Company's assets, performance, profitability or future outlook
- Current gross debt at ca. €125 million.
- Annual bond coupon of €9.3 million puts large strain on Company's liquidity

### Customer and Supplier Uncertainty

- General market uncertainty about the solvency of AEG PS
- Orders not awarded or cancelled because of financial situation

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# Implications for the Restructuring

**A comprehensive restructuring approach must address all dimensions of the Company**

### Financial

- Restructure the bond
- Re-establish bankability (e.g., performance bonds)
- Restore trust by credit insurers and business partners
- Focus on cash generation

### Operations

- Redesign business processes with focus on efficiency
- Focus business resources on core business (UPS)
- Close / divest non-core or loss-making activities
- Right-size operational headcount
- Prioritise and focus R&D activities

### Overhead

- Shift selected headquarter functions to operational units
- Establish clear, lean and empowered management structure
- Reduce headcount
- Upgrade business processes in sales, marketing, IT, HR, finance etc.

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# Company Indebtedness is expected to reduce significantly by swapping 50% of the Public Debt to Equity

### Key objectives

- Swap 50% of the € 100 million bond and accrued interest to equity
- Extension of maturity to 2019
- Post debt-to-equity swap € 50 million of debt remaining whereby the Company should be de-levered to a sustainable level
- Re-establish bankability (e.g., performance bonds)
- Restore trust by credit insurers and business partners

### Savings

- No cash interest will be paid in 2014 resulting in € 9.25 million cash savings in 2014
- Interest percentage in 2015 will be 4% increasing by 2% each year to arrive at 12% in 2019
- As a result yearly cash interest in 2015 will be € 2 million and increasing by € 1 million per year to € 6 million
- Compared to a yearly cash interest of € 9.25 million under the current conditions this represents a significant cash saving

### Costs

- To swap debt to equity the Company needs to issue a prospectus and hire external advice for legal and financial support. Additional bondholder and shareholder meetings are needed to structure the restructuring
- Estimated costs are around € 4 million and are incurred in 2014

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# Key Terms of New Bond

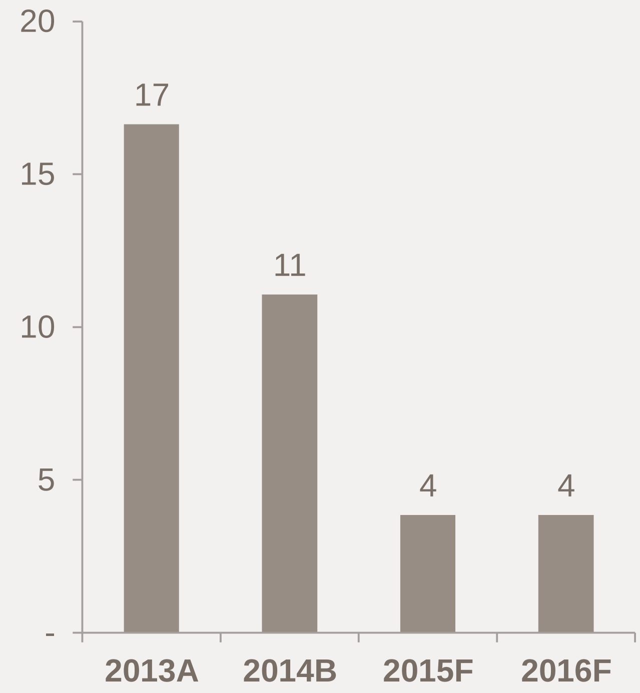
**Bondholders receive better security in exchange for market-adjusted interest rates and extended repayment terms**

| # | Criteria | Key Terms |
|---|---|---|
| 1. | Issuer | • 3W Power SA, Luxembourg, or legal successor |
| 2. | Guarantor | • Guarantees from subsidiaries of the Issuer constituting more than 85% of Group sales |
| 3. | Nominal | • €50 million |
| 4. | Maturity | • Five years after issuance |
| 5. | Interest | • Interest rate of 4% in year 1<br>• Interest rate increases by 2 percentage points each year (rate of 12% in year 5)<br>• Semi-annual payment |
| 6. | Security | • Share pledge of subsidiaries of the Issuer constituting more than 85% of Group sales<br>• Current accounts of Issuer and claims from intercompany loans by parent companies to pledged subsidiaries |
| 7. | Other | • Team Treuhand GmbH is Common Representative and has information rights toward the Issuer |

## Central Costs

### Major reduction in central costs expected

- Central costs are expected to decline from € 17 million in 2013 to € 4 million in 2015. This can be achieved by simplifying the organizational structure by reducing the amount of management layers
- Significant reduction in expenditures is expected as a result of:
  - Reduction of HQ functions from 38 FTE to 15 FTE. 7 FTE already left, 14 FTE are currently leaving. 2 FTE to be relocated to operational businesses
  - SBU reorganization by changing focus to geographies rather than using complex matrix organization. Reduction of functions from 35 FTE to 3 FTE. 8 FTE already left, 9 FTE currently leaving. 13 FTE to be relocated to operational businesses
- These efforts all result in a lean and mean central group of functions to support the business in an efficient way



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# Operational Restructuring to reduce Headcount and increase Working Capital Efficiency

**Headcount reduction**

- In total headcount reduction planned of 570 FTE by:
  1. Closing down loss making businesses (-123 FTE): Associated one time costs to close down operations of € 3.5 million with yearly expected benefits of € 6.1 million (e.g. no further losses)
  2. General restructuring process (-248 FTE): Associated one time costs of € 12.5 million with yearly expected benefits of € 15.5 million
  3. Selling businesses (-199 FTE)

**Process improvements to manage working capital more efficiently**

- Definition of product platforms (i.e. cabinets / common materials); higher rotation in standard material, larger purchasing volumes, more multi-usage
- Forecasting for standard materials only, non-standard materials ordered upon customer order only
- Warehouse divided into standard and customer specific material area
- Normalization of payment terms after bond restructuring, some suppliers demanded shorter payment
- Secured € 1 million credit line at Coface (for € 1 million cash collateral) for suppliers
- Active account receivables management

# First Achievements of the Operational Restructuring Program

| | |
|---|---|
| **Governance** | ✓ Change in ownership structure<br>✓ New committed board with relevant experience<br>✓ Appointment of CRO with control over allocation of resources<br>✓ Establishment of restructuring committee<br>✓ Removal of costs and establishment of clear responsibilities in management |
| **Structural** | ✓ Sale of non-strategic assets<br>✓ Closing of unprofitable / cash-consuming operations |
| **Operational** | ✓ Allocation of resources to core UPS business<br>✓ Drastic overhead cost reductions<br>✓ Agreement on and partial implementation of workforce reductions<br>✓ Reinforcement of global sales activities in industrial markets |

# Remaining Operational Restructuring Steps

- Complete non-strategic asset divestitures
- Complete started and agreed headcount and cost reduction initiatives
- Prioritise and focus R&D activities
- Continue the implementation of the business process redesign
  - Upgrade and enhance selling skills, processes, directions and disciplines
  - Establish operational excellence regarding supply chain and manufacturing
  - Further improve financial discipline and cost control mechanisms throughout the organisation
  - Apply best practice in workforce management
  - Introduce up to date IT architecture
- Upgrade management functions and capabilities
- Focus and incentivise on cash generation

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# Appendix
# Analyst presentation Q4 2013 / FY 2013

# AEG PS GROUP – Key Performance Indicators

| EURm | Quarter to December Q4 2013 | Q4 2012 | % change | Twelve months to December 2013 | 2012 | % change |
|---|---|---|---|---|---|---|
| Backlog | 88.1 | 131.1 | -32.8% | 88.1 | 131.1 | -32.8% |
| Orders | 54.1 | 114.9 | -52.9% | 238.3 | 384.7 | -38.1% |
| Revenue | 64.9 | 116.7 | -44.4% | 271.0 | 383.1 | -29.3% |
| Book to Bill | 0.83 | 0.98 | -15.2% | 0.88 | 1.00 | -12.5% |
| EBITDA | (14.0) | 0.7 | na | (30.4) | 11.2 | na |
| *% of revenue* | *-21.5%* | *0.6%* | | *-11.2%* | *2.9%* | |
| Normalized EBITDA | 1.2 | 5.0 | -77.1% | (10.2) | 21.6 | na |
| *% of revenue* | *1.8%* | *4.3%* | | *-3.8%* | *5.6%* | |

%-changes are not shown if considered not to be helpful in the understanding of the KPIs.
Rounding differences may occur.
Historical numbers have been represented to reflect the change in classification of the telecom converter business (CVT/LED).
It is included in the reported financials.

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# RES – Key Performance Indicators

| EURm | Quarter to December Q4 2013 | Q4 2012 | % change | Twelve months to December 2013 | 2012 | % change |
|---|---|---|---|---|---|---|
| Backlog | 14.1 | 57.2 | -75.4% | 14.1 | 57.2 | -75.4% |
| Orders | 9.2 | 70.5 | -86.9% | 57.4 | 195.3 | -70.6% |
| Revenue | 10.4 | 64.0 | -83.8% | 96.1 | 190.9 | -49.6% |
| Book to bill | 0.89 | 1.10 | -19.2% | 0.60 | 1.02 | -41.7% |
| EBITDA | (8.9) | 8.3 | na | (6.8) | 32.7 | na |
| *% of revenue* | *-86.2%* | *13.0%* | | *-7.1%* | *17.1%* | |
| Normalized EBITDA | (1.1) | 8.3 | na | 1.1 | 32.7 | -96.6% |
| *% of revenue* | *-10.9%* | *13.0%* | | *1.2%* | *17.1%* | |

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# EES – Key Performance Indicators

| EURm | Quarter to December Q4 2013 | Q4 2012 | % change | Twelve months to December 2013 | 2012 | % change |
|---|---|---|---|---|---|---|
| Backlog | 74.0 | 73.9 | 0.1% | 74.0 | 73.9 | 0.1% |
| Orders | 44.9 | 44.3 | 1.3% | 180.9 | 189.4 | -4.5% |
| Revenue | 54.5 | 52.7 | 3.4% | 174.9 | 192.2 | -9.0% |
| Book to bill | 0.82 | 0.84 | -2.1% | 1.03 | 0.99 | 5.0% |
| EBITDA | 2.3 | (3.0) | na | (6.2) | (4.5) | -40.0% |
| *% of revenue* | *4.2%* | *-5.7%* | | *-3.6%* | *-2.3%* | |
| Normalized EBITDA | 6.1 | (0.8) | na | 0.8 | 2.0 | -59.5% |
| *% of revenue* | *11.2%* | *-1.4%* | | *0.5%* | *1.0%* | |

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# AEG PS GROUP – Balance Sheet

| **ASSETS**, [EURm] | **December 31, 2013** | **December 31, 2012** |
|---|---|---|
| Property, plant and equipment | 30.2 | 36.6 |
| Intangible assets | 54.4 | 73.0 |
| Goodwill | 13.1 | 15.1 |
| Other non-current financial assets | 3.6 | 5.3 |
| **Total non-current assets** | **101.3** | **129.9** |
| Inventories | 45.9 | 56.9 |
| Trade and other receivables | 60.7 | 126.6 |
| Prepayments | 0.6 | 0.7 |
| Cash and cash equivalents | 32.7 | 42.5 |
| Assets held for sale | - | 7.3 |
| **Total current assets** | **139.9** | **234.0** |
| **Total assets** | **241.2** | **364.0** |

Rounding differences may occur.

| **OWNER'S EQUITY / LIABILITIES**, [EURm] | **December 31, 2013** | **December 31, 2012** |
|---|---|---|
| Share capital | 12.5 | 12.5 |
| Share premium | 383.8 | 383.8 |
| Retained earnings | (359.3) | (277.7) |
| Reserve for own shares | (22.9) | (23.6) |
| Cumulative translation adjustment | 3.6 | 1.7 |
| **Total equity attrib. to equity holders** | **17.8** | **96.8** |
| Loans and borrowings | 99.3 | 98.9 |
| Employee benefits | 26.1 | 27.5 |
| Deferred tax assets and liabilities | 3.8 | 9.3 |
| Provisions | 6.4 | 8.1 |
| **Total non-current liabilities** | **135.6** | **143.7** |
| Loans and borrowings | 6.2 | 8.8 |
| Trade and other payables | 69.4 | 81.6 |
| Income tax liabilities | 0.8 | 1.8 |
| Deferred income | 5.8 | 16.7 |
| Provisions | 5.5 | 6.6 |
| Liabilities held for sale | - | 8.0 |
| **Total current liabilities** | **87.8** | **123.5** |
| **Total equity and liabilities** | **241.2** | **364.0** |

## CONTACT INFORMATION

AEG Power Solutions
Katja Bürkle
T: +31 6 1095 9019
E: investors@aegps.com

Hillermann Consulting
IR consultancy of AEG Power Solutions
Christian Hillermann
T: +49 (0)40 32 02 79 10
E: office@hillermann-consulting.de