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Research Update:

AEG Power Solutions Downgraded To 'CCC-' On Heightened Risk Of Missing An Interest Payment; Outlook Negative

Primary Credit Analyst:

Abigail Klimovich, CFA, London (44) 20-7176-3554; abigail.klimovich@standardandpoors.com

Secondary Contact:

Anna Stegert, Frankfurt (49) 69-33-999-128; anna.stegert@standardandpoors.com

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Overview

- 3W Power, the parent holding company of Netherlands-based power solutions provider AEG Power Solutions B.V., announced that it has begun a review of its subsidiary's future earnings, capital structure, and liquidity situation.
- We believe that there is a heightened risk that AEG Power Solutions will face a liquidity shortage in the next 12 months, which means that it will likely have to restructure its capital structure and possibly miss an interest payment on its unsecured notes.
- We are therefore lowering our long-term corporate credit rating on AEG Power Solutions to 'CCC-' from 'CCC+'.
- The negative outlook reflects the possibility of us lowering the rating further if AEG Power Solutions announces a debt restructuring or a suspension of the interest payment.

Rating Action

On Nov. 4, 2013, Standard & Poor's Ratings Services lowered its long-term corporate credit rating on Netherlands-based power solutions provider AEG Power Solutions B.V. to 'CCC-' from 'CCC+'. The outlook is negative.

Rationale

The downgrade reflects our view that AEG Power Solutions faces a period of tight liquidity and that there is a heightened risk that the company will either miss an interest payment due on Dec. 1, 2013, or implement a debt restructuring in the near term. Under our criteria, a debt restructuring when implemented under financial distress constitutes a default.

3W Power, the parent holding company of AEG Power Solutions, has enlisted external financial and legal advisors to review AEG Power Solutions' business plan, liquidity situation, and future earnings. In addition, 3W Power has announced that it will postpone communicating its third-quarter trading results until the end of November, when the results will be accompanied by an update on the situation.

Weak current trading at AEG Power Solutions has prompted 3W Power to review the company's capital structure. Among other measures, 3W Power intends to

start the consultation process with the holders of the company's €100 million unsecured notes, due Dec. 1, 2015.

In order to relieve its stressed liquidity situation, AEG Power Solutions is exploring several avenues. For example, we understand that the company may seek to monetize noncore assets, and that it is in discussions with lending banks to provide additional financing.

If AEG Power Solutions finds a way to boost its liquidity so that it is able to make the forthcoming interest payment on time, we would assess the risk of distressed exchange of the notes and review our ratings on the company. Our assessment would in part be based on additional information we expect to receive from the company as it advances its attempt to find a resolution.

Liquidity

We assess AEG Power Solutions' liquidity position as "weak" under our criteria, reflecting the recently announced shortage of liquidity anticipated for the next 12 months, if no remedial action is taken.

Outlook

The negative outlook reflects our view of the heightened risk that AEG Power Solutions will undertake a debt restructuring and/or miss an interest payment due in December 2013. We could lower the rating if the company announces either or both of these events.

Alternatively, we could consider revising the outlook to stable if AEG Power Solutions announces that it has resolved its liquidity shortage and has restored long-term financial stability.

Related Criteria And Research

- Criteria For Assigning 'CCC+', 'CCC', 'CCC-', And 'CC' Ratings, Oct. 1, 2012
- Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Sept. 28, 2011
- General Criteria: Rating Implications Of Exchange Offers and Similar Restructurings, Update, May 12, 2009

Ratings List

Downgraded

	To	From
AEG Power Solutions B.V. Corporate Credit Rating	CCC-/Negative/--	CCC+/Negative/--

Additional Contact:

Research Update: AEG Power Solutions Downgraded To 'CCC-' On Heightened Risk Of Missing An Interest Payment; Outlook Negative

Industrial Ratings Europe; Corporate_Admin_London@standardandpoors.com

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