Principal Risks and Uncertainties

In the day to day operations of the Group, we face risks and uncertainties. Our job is to mitigate and manage these risks, and the Board has developed a formal risk management process which is described on page 50 of this report. Set out below are some of the principal risks and uncertainties which we believe could adversely affect us, potentially impacting the employees, operations, revenue, profits, cash flows or assets of the Group. This list is not exhaustive – there are many things that could go wrong in an operation as large and geographically diverse as ours – and the list might change as something that seems immaterial today assumes greater importance tomorrow.

Economic conditions

There is a link in our business between demand for our services and levels of economic activity; this link is particularly evident in the Local business. If GDP growth slows, demand for rental equipment is likely to slow even faster, and the operational gearing inherent in our business models means that variations in demand can lead to much larger variations in profitability. We also have some businesses which, by their nature, are exposed to particular sectors – for instance our Australian business is highly dependent on mining activity, and a large proportion of our Middle East business comes from construction.

We mitigate this risk in a number of ways. First, having a global footprint is a great advantage because we can move both existing rental fleet and new investment from low-growth economies to higher-growth environments; for example, we have moved fleet from Europe and North America to the Middle East, and part of the fleet used to perform the Beijing Olympics came from Europe and North America. Secondly, we try to ensure that, as they grow, our businesses build a customer-base which is as diverse as possible, to reduce sectoral exposure. In the Middle East, for instance, we are investing in our temperature control business which in time will reduce our exposure to construction; in North America we have special initiatives in place to develop our business in under-penetrated sectors. Thirdly, in the event of a more generalised downturn in demand, we can quickly reduce capital expenditure. Given the large depreciation element in the businesses' cost base (£116 million in 2008), reducing capital expenditure below depreciation makes the business very cash generative which, in turn, will reduce debt and interest cost.

Another economic factor to consider is the price of fuel, which is usually the single greatest element in the cost of running a generator. Over the last few years, the price of fuel has been extremely volatile, but this does not seem to have any noticeable impact on people's willingness to rent; people rent generators because they need power, not because it is a cheap way of generating electricity. The major impact on our business of the oil-price is that, at times when it has been high, it has produced huge wealth in oil-producing countries which has been re-cycled into infrastructure investment, which has in turn stimulated demand for our services. If the oil-price is persistently low – by which we mean under $40 per barrel – we would expect to see an adverse impact on our business in oil-producing countries.

Exchange rate fluctuations can have a material impact on our performance: the Group's asset values, earnings and cash flows are influenced by a wide variety of currencies owing to the geographic diversity of the Group's customers and areas of operation. The majority of the Group's revenue and costs are denominated in US dollars. The relative value of currencies can fluctuate widely and could have a material impact on the Group's asset values, costs, earnings, debt levels and cash flows. Further discussion of this topic can be found on pages 38 to 39.

Political

The Group operates in over 100 countries around the world, including Africa, Asia and South America. In some jurisdictions there are significant risks of political instability which can result in civil unrest, equipment seizure, renegotiation or nullification of existing agreements, changes in laws, taxation policies or currency restrictions. Any of these could have a damaging effect on the profitability of our operations in a country.

Prior to undertaking a contract in a new country, we carry out a risk assessment process to consider risks to our people, assets and to payments. The safety of our employees is always our first concern. If the level of risk is considered unsatisfactory we will decline to participate in any contract; where there are potential issues, we develop detailed contingency plans. Our greatest exposure lies in our International Power Projects business, and they perform risk assessments on a contract-by-contract basis. The

Group uses a wide range of tools and techniques to manage financial risk, including insurances, bonds, guarantees and cash advances.

Failure to collect payments

The majority of the contracts the Group enters into are small relative to the size of the Group and, if a customer fails to pay a debt, this is dealt with in the normal course. However, some of the contracts the Group undertakes in developing countries are substantial, and are in jurisdictions where payment practices can be unpredictable. The Group monitors the risk profile and debtor position of all such contracts regularly, and deploys a variety of techniques to mitigate the risks of delayed or non-payment; these include securing advance payments, guarantees and various types of insurance. As a result of the rigorous approach to risk management, the Group has historically had a low level of bad debt. However, while the rapid growth in our International Power Projects business makes it less likely that any bad debt would be material to the Group's balance sheet, the increased number of contracts and countries we operate in increases the likelihood of a loss and make it inevitable that at some stage a major customer will default on us. This could have a noticeable impact on earnings in a particular reporting period.

Events

The business is, by nature, driven by events. People hire generators because some event or need makes it essential. Aggreko's revenues, cashflows and profits can be influenced significantly by external events as evidenced in the past by hurricanes in North America or by the contracts to supply power to military camps in the Middle East. These events are, by their nature, difficult to predict and, combined with the high operational gearing inherent in our business, can lead to volatility in terms of performance. By developing the business globally as well as by increasing and broadening the Group's revenue base, the impact of a single event on the overall Group will reduce. Additionally, the ability to move equipment around the world allows the Group to adjust to changes in utilisation caused by any changes in demand.

Failure to conduct business dealings with integrity and honesty

Some of the countries in which the Group operates have a reputation for corruption and, given that many of our contracts involve large sums of money, we are at risk of being accused of bribery and other unethical behaviour. The first and most important way of avoiding this risk is to ensure that people, both inside and outside the Group, know that Aggreko does not engage in, and will not tolerate, bribery, corruption or unethical behaviour. We have a strict Ethics Policy, a copy of which is available on our website www.aggreko.com. Rather than just publishing it, we get every employee to sign it when they join the business; every consultant acting on our behalf agrees to abide by it, and every consultancy or agency agreement has an explicit term stating that the agreement will be terminated immediately if the consultant or agent does not abide by our policy. The Group has a comprehensive and detailed set of procedures, approved by the Board, which governs the appointment of agents and sales consultants, all of whom are subject to due diligence investigations by third-party investigators. Payments made to agents and sales consultants are subject to audit by both internal and external auditors.

Acquisitions

It is part of our strategy to acquire businesses in our core market which can add value to Aggreko. In the last five years, we have acquired three small businesses – the temperature control business of Prime Energy in the USA, the assets and business of Power Plus Rentals & Sales Ltd in Canada and, since the year end, the power rental business of Cummins, India – and one large global business – GE Energy Rentals. We are well aware that buying businesses can be risky; in our business, the greatest areas of risk are:

- over-paying
- acquiring liabilities we do not know about or understand; and
- failing to integrate effectively.

Principal Risks and Uncertainties continued

We mitigate these risks by having a rigorous acquisition process, which is overseen by the Board. All acquisitions are subject to detailed financial modelling, using different scenarios, so we can understand the likely returns in various circumstances. We undertake detailed due diligence, particularly on the operational side, and we look for extensive warranties and covenants from vendors. Finally, we have a well-developed and effective acquisition integration model as demonstrated by the success of the GE-ER integration.

Operational incidents

The business of the group involves transporting, installing and operating large amounts of heavy equipment, which produces lethal voltages or very high pressure air, and involves the use of millions of litres of fuel which could cause serious damage to the environment. Every day, we manage the risks associated with this business, and we have carefully designed procedures to minimise the risk of an accident. However, if these procedures are not followed, accidents can happen and might result in injury to people, claims against the Group, and damage to its reputation and its chances of winning and retaining contracts.

The Group has a proactive operational culture that puts health and safety at the top of its agenda in order to reduce the likelihood of an accident. We work very closely with our customers, employees and Health & Safety authorities, to evaluate and assess major risks to ensure that health and safety procedures are rigorously followed. The Group has developed health and safety KPIs which are reviewed by the Board on a regular basis and are discussed on page 28.

Competition

Aggreko operates in a highly competitive business. The barriers to entry are low and, in every major market in which we operate, competitors are constantly entering or leaving the market. We welcome this competition as it keeps us sharp and also helps to grow the overall rental market which, in many countries, is under-developed.

We monitor competitor activity carefully, but ultimately our only protection from suffering material damage to our business by competitors is to work relentlessly to provide our customers with a high quality and differentiated service proposition at a price that they believe provides good value.

Product technology and emissions regulation

The majority of Aggreko's fleet is diesel-powered, and some of our equipment is over ten years old. As part of the increasing focus on environmental issues, countries are introducing legislation related to permissible levels of emissions and this has the potential to affect our business. Our engines are sourced from major manufacturers who, in turn, have to develop products which conform to legislation, so we are dependent on them being able to respond to legislation. We also have to be aware that when we buy a generator, we want to be able to rent it for its useful life and to be able to move it between countries.

To mitigate these risks, we adopt a number of strategies. First, we retain considerable in-house expertise on engine technology and emissions – so we have a good understanding of these issues. Secondly, we have very close relationships with engine manufacturers, so we get good forward visibility of their product development pipeline. And when new products appear – particularly those with improved emissions performance – we try to introduce them into the fleet as quickly as possible, to ensure that over time our fleet evolves to ever-better levels of emissions performance. An example of this is the significant investment we have made in the development of our gas-fuelled technology: these engines have significantly reduced emissions compared with other fuel types. Thirdly, if emissions-compliance becomes such an issue that it begins to impact our business in a material way in some territories, our global footprint will be a major advantage as it gives us numerous options for the re-deployment of our fleet.

People

Aggreko knows that it is people that make the difference between great performance and mediocre performance. This is true at all levels within the business. We are keenly aware of the need to attract the right people, establish them in their roles and manage their development. As a framework for people development, we have in place a talent management programme which covers most of the management population. Under this programme, we try to identify the development needs of each individual from the outset, as well as identifying successor candidates for senior roles. We have also worked with one of the world's leading business schools to develop and deliver a tailor-made group wide management education programme.

Another risk is that competitors seek to recruit our key personnel. For many years, Aggreko has been a target for recruitment and we manage this on a daily basis. We actually regard it as a compliment that so many companies want to recruit our people. The main mitigation for this is to make sure that people enjoy working for Aggreko, that they feel that they are recognised, cared for, and have challenging and interesting jobs. Reward is also an important part of the equation, and there can be little doubt that our policy of rewarding people well for good performance, and of having a successful Long-term Incentive Plan, has acted as a powerful retention tool.

Information Technology

Our business involves high transaction volumes, complex logistics, and the need to track thousands of assets on hundreds of sites. We are therefore heavily dependent on the resilience of both the application software (we use an ERP system called Movex) and of the data-processing and network infrastructure. A serious failure in this area would immediately and materially affect our business.

The Group has a detailed disaster recovery plan in place which is tested on a regular basis. Our main data centre in Glasgow has high levels of resilience built into it, and we also have a physically separate third-party disaster-recovery site. Additionally, we now have a second data centre operational in Dubai which will allow the Group to continue processing data in the event of a major incident.

Investor Relations and Market Abuse

The Group's reputation and/or share price could suffer due to inappropriate or inadequate engagement with investors. For example, we might fail to communicate consistent, co-ordinated messages to investors or fail to provide adequate information on performance and events in the business. Since, inevitably, management is in possession of market-sensitive information from time to time, the business is at risk from market abuse and insider dealing.

Our approach to this is to recognise that investors have legitimate interests in the Group's business, and that shareholder value will be enhanced by timely, clear, open, honest and transparent communication with markets and investors. Accordingly, the Group's Chief Executive and Finance Director co-ordinate all communications with markets and investors, and controls are in place to make sure that all Group communication – corporate, regional and local – is consistent and co-ordinated. The Group also applies very clear rules to prevent market abuse and insider dealing.

Accounting and Treasury/major fraud

There is a risk that fraud or accounting discrepancies may occur if the financial and operational control framework is inadequate. This may distort the reported results. In order to mitigate this risk, significant work has been undertaken to put in place a robust control framework. Additionally, a strong Internal Audit function reviews the operation of this control framework and reports regularly to the Audit Committee. The risk is also mitigated by recruiting and developing a strong finance function which is focused on ensuring the accuracy and integrity of the reported results.

Liquidity

The nature of our business model is that, in periods of growth, we consume cash; this is because we can only grow by increasing the rate of investment in fleet assets beyond the rate of depreciation. Conversely, in periods of weaker demand, we would normally hold back fleet investment, at which point the business will become highly cash-generative. Another feature of our business is that we are rich in tangible assets, which means that financial institutions are happy to lend to us on competitive terms. By financing increases in fleet through debt, we enhance the returns we make on shareholders' equity.

The availability of bank finance at competitive rates is therefore an important element in our ability to grow the Group's revenues without recourse to shareholders. Being of a generally conservative disposition, the Group has a policy of keeping a wide margin of safety between forecast financing requirements and committed debt facilities: at 31 December 2008, Aggreko had interest cover of 14x and net debt to EBITDA of 1.13x. Net debt was £364.0 million with committed bank facilities of £510.4 million. Since the year end the Group has refinanced or replaced £158.9 million of facilities due to mature in September 2009 with new facilities totalling £195.0 million. The maturity profile of the borrowings is detailed in Note 17 in the Financial Statements with the next maturity not due until 2011. The facilities now in place are currently anticipated to be ample for meeting the Group's requirements for the foreseeable future.