Review of Trading

Group trading performance

Despite the deteriorating macro-economic environment, Aggreko delivered another strong performance in 2008. We made good progress against our strategy and delivered excellent operating results, with impressive revenue growth as well as improved margins and returns on capital employed.

	2008 £ million	2007 £ million	Movement As reported	Movement Constant currency
Revenue	**946.6**	693.2	36.6%	26.2%
Revenue excl pass-through fuel	**861.9**	633.8	36.0%	25.6%
Trading profit[1]	**200.6**	132.9	50.9%	37.7%
Operating profit	**204.8**	135.9	50.7%	37.5%
Net interest expense	**(14.8)**	(11.7)	(26.6)%	
Profit before tax	**190.0**	124.2	52.9%	
Taxation	**(67.3)**	(43.5)	(54.7)%	
Profit after tax	**122.7**	80.7	52.0%	
Basic earnings per share (pence)	**45.77**	30.33	50.9%	

[1] Trading profit represents operating profit before gain on sale of property, plant and equipment.

As reported, Group revenue at £946.6 million (2007: £693.2 million) was 36.6% higher than 2007, while Group trading profit of £200.6 million (2007: £132.9 million) was 50.9% ahead of 2007. This delivered an increase in Group trading margin from 19.2% in 2007 to 21.2% in 2008. Return on capital employed, measured as operating profit divided by average net operating assets, improved by 1.8 percentage points to 28.5% (2007: 26.7%). On an underlying basis, excluding the impact of the currency movements and the pass-through fuel, the impact of which is set out below, Group revenue grew by 25.6% (2007: 34.0%) and trading profit by 37.9% (2007: 64.9%). On the same basis trading margin was 22.9% (2007: 20.6%).

Group profit before tax increased by 52.9% to £190.0 million (2007: £124.2 million); profit after tax was £122.7 million (2007: £80.7 million), an increase of 52.0%. Earnings per share grew 50.9% to 45.77 pence (2007: 30.33 pence).

The weakening of sterling during the year, particularly against the US dollar and the euro, had a material impact on the results of the Group with reported revenue increasing by £57.1 million and trading profit by £12.8 million as a consequence of currency movements. Currency translation also gave rise to a £99.0 million increase in net assets.

The Group reports separately revenue from two large contracts where we manage fuel on a pass-through basis on behalf of our customers. The reason for the separate reporting is that the revenue is entirely dependent on fuel prices and volumes of fuel consumed, and these can be very volatile and may distort the view of the performance of the underlying business. In 2008, higher fuel prices and increased volumes drove revenue from these contracts to £84.7 million (2007: £59.4 million) and generated a trading profit of £2.9 million (2007: £2.2 million).

The Group's growth was made possible by a significant increase in the rate of investment in new fleet during the year: fleet investment increased by £84 million to £256.4 million, representing 97% of total capital expenditure of £265.2 million (2007: £180.6 million). Capital expenditure represented 229% (2007: 195%) of the depreciation charge. In addition, we acquired £5.1 million of property, plant and equipment as part of the Power Plus acquisition. Notwithstanding this substantial increase in fleet capacity, capital productivity – expressed as the ratio of revenue (excluding pass-through fuel) to gross rental assets – increased from 74% to 76%.

EBITDA (earnings before interest, taxes, depreciation and amortisation) for the year amounted to £322.6 million, up 40.1% on 2007. Net debt at 31 December 2008 was £161.4 million higher than the previous year; £77.0 million of this increase was as a consequence of currency movements, and the major part of the balance was due to increased levels of capital expenditure.

Corporate activity

In 2008 Aggreko undertook a number of corporate initiatives to strengthen the business.

In August 2008 we announced that we had acquired the assets and trading contracts of Power Plus Rentals and Sales Ltd and those of several associated companies ('Power Plus'). Power Plus is a fast-growing business which has a leading position in the provision of temporary power in the Athabasca Oil Sands in Alberta and Saskatchewan. This area is benefiting from significant investment by the oil majors and others in the development of reserves; for several years, Aggreko has been winning small amounts of business in the Oil Sands, and we have been looking to find ways to accelerate our growth. We believe that the acquisition of Power Plus is the best way of achieving our objective.

In the financial year ending in July 2008, Power Plus had unaudited revenue of CN$10.6 million (£5.4 million) and EBIT of CN$5.1 million (£2.6 million). The value of fleet and other assets that we acquired, after fair value adjustments, was CN$20.5 million (£10.5 million). The purchase consideration, paid in cash, comprises a fixed element of CN$31.0 million (£15.9 million) and further payments of up to a maximum of CN$7.7 million (£4.0 million) dependent on financial performance over the next three years. This acquisition will deliver a number of benefits to Aggreko:

- It gives Aggreko a leading position in an important part of the Oil & Gas market.
- It extends our expertise in designing equipment for, and operating in, extremely cold environments.
- The acquisition reinforces our ability to serve Oil & Gas customers on a global basis.
- It strengthens Aggreko's position in Canada, where we already have service centres in Sarnia, Toronto and Edmonton. In May 2008, Aggreko was made Official Supplier of Power and Temperature Control for the 2010 Winter Olympic Games in Vancouver.

In the first six months following the acquisition, the new business has performed well and is ahead of plan.

In November 2008 we announced, and on 1 January 2009 we completed, the acquisition of the power rental business of Cummins India Ltd for a total cash consideration of INR300 million (£4.2 million). The business acquired had revenue in 2008 of INR202 million (£2.9 million) and net assets at 31 December 2008 of INR96 million (£1.4 million). This investment means that we will have achieved our strategic objective of having operations in each of the four largest developing countries in the world (the others being Brazil, Russia and China). While the business we have acquired is small, it gives us a valuable platform which we can use to grow our operations in India – a market in which there is a chronic shortage of reliable power.

Also in November 2008, we announced the sale, subject to regulatory approval, of our European oil-free air businesses to Atlas Copco for a total consideration, payable in cash on completion, of €14.6 million (£11.6 million). In 2008 the European oil-free air business earned revenue of €8.3 million and had net assets of €5.0 million. Oil-free air (OFA) is the smallest of our product groups, and, while we have a large and successful OFA rental business in North America in which we will continue to invest, we do not believe that our European OFA businesses has the scale to warrant further investment. The sale of the Continental European OFA business was completed in December 2008, and as a result a gain of €2.6 million was recognised in the Group income statement. The sale of our Northern European oil-free air business was completed in March 2009, and a gain of €6.6 million will be recognised in the Group income statement in 2009.

Review of Trading continued

Regional trading performance as reported in £ million

Management Group	Geography/Line of business	Revenue 2008 £ million	Revenue 2007 £ million	Revenue Change %	Trading Profit 2008 £ million	Trading Profit 2007 £ million	Trading Profit Change %
Local business							
North America	USA and Canada	**207.5**	168.3	23.2%	**44.9**	35.6	25.9%
Europe	Northern Europe	**82.0**	80.8	1.5%	**11.9**	9.8	21.2%
Europe	Continental Europe	**104.7**	87.1	20.3%	**13.7**	11.5	18.9%
International: Local businesses	Middle East, Asia-Pacific, South America	**186.2**	116.4	60.0%	**50.4**	24.5	106.3%
Sub-total Local business		**580.4**	**452.6**	**28.2%**	**120.9**	**81.4**	**48.5%**
International Power Projects							
International	International Power Projects excl. pass-through fuel	**281.5**	181.2	55.4%	**76.8**	49.3	55.7%
International	Pass-through fuel	**84.7**	59.4		**2.9**	2.2	
Sub-total International Power Projects		**366.2**	**240.6**	**52.2%**	**79.7**	**51.5**	**54.8%**
Group		**946.6**	**693.2**	**36.6%**	**200.6**	**132.9**	**50.9%**
Group							
	North America	**207.5**	168.3	23.2%	**44.9**	35.6	25.9%
	Europe	**186.7**	167.9	11.2%	**25.6**	21.3	19.9%
	International	**552.4**	357.0	54.8%	**130.1**	76.0	71.3%
Group		**946.6**	**693.2**	**36.6%**	**200.6**	**132.9**	**50.9%**
Group excluding pass-through fuel		**861.9**	**633.8**	**36.0%**	**197.7**	**130.7**	**51.2%**

The performance of each of these regions is described below:

Local business: North America

	2008 $million	2007 $million	Change %
Revenue	**386.2**	337.1	14.6%
Trading profit	**83.6**	71.4	17.1%

In spite of the poor macro-economic environment, our North America business produced a robust performance in 2008. Revenue increased by 14.6% to $386.2 million and trading profit increased by 17.1% to $83.6 million. Trading margin was slightly up on last year at 21.6% (2007: 21.2%).

This performance arose in part because we had a very good year for storm revenue. Aggreko North America has made a large investment in fleet and infrastructure to be able to support customers in the wake of major storms, and in years of significant storm activity, such as 2008, this investment can yield material amounts of revenue. On average, storm-related revenue in North America runs at around $10 million per year; in 2006 and 2007 storm revenue were far below the average, but, in 2008, they were around $26 million. We also had a very strong year in our Cooling Tower business as a result of breakdowns on customer sites. Encouragingly, even without these factors, the underlying business grew over the year, which was a good achievement in the circumstances.

In terms of business mix, rental revenue grew 11.9% and services revenue grew 21.1%, helped by higher fuel and freight charges. Power rental revenue for 2008 was 8.6% ahead of the prior year while temperature control revenue for the year was 21.3% ahead of last year reflecting the strength of our Cooling Tower business and the continued growth of our process services business which provides more complex temperature control solutions. Oil-free air rental revenue was 1.3% down on the prior year.

Revenue in most of the areas increased on prior year with strong growth in South Texas, although markets were weaker in the West and Southeast areas. In the first few months following the acquisition of Power Plus in Canada, the new business has performed ahead of plan, which contributed to a strong performance from our Canadian area.

Given the economic backdrop we believe that 2009 could be a tough year for our North American business and the comparatives in the second half will be particularly difficult, given the strong storm revenues in 2008. However, the business has got off to a good start, and in the first two months of the year has been trading well ahead of the prior year. In part, this is due to work caused by storms in 2008 carrying through into 2009, but we have also enjoyed strong revenue from our events business, with the Presidential Inauguration in January and the Super Bowl in February.

Local business: Europe

	2008 £million	2007 £million	Change %
Revenue	**186.7**	167.9	11.2%
Trading profit	**25.6**	21.3	19.9%

Northern Europe

	2008 £million	2007 £million	Change %
Revenue	**82.0**	80.8	1.5%
Trading profit	**11.9**	9.8	21.2%

Continental Europe

	2008 €million	2007 €million	Change %
Revenue	**132.1**	127.3	3.7%
Trading profit	**17.3**	16.8	2.5%

The European business had a solid year in a challenging economic environment, with revenue increasing by 11.2% to £186.7 million and trading profit increasing by 19.9% to £25.6 million. Trading margin increased slightly to 13.7% (2007: 12.7%). The weakening of the Pound against the Euro during the year had a material impact on total Europe results and stripping out this currency impact revenue increased 2.2% and trading profit increased 6.8%; we also took £1.3 million of redundancy provision in the year, without which underlying growth in trading profit, in constant currency, was 12%.

Revenue in Northern Europe (which comprises our businesses in the UK, Ireland and the Nordic countries) of £82.0 million was 1.5% ahead of the prior year with a strong performance from Scotland and Norway partially offset by decreases in Ireland, UK South East and UK Central. Sector performance was mixed with good growth in Oil & Gas and Utilities offset by a decline in contracting and manufacturing.

Rental revenue decreased by 4.7%, with power decreasing by 7.2%, but temperature control increasing by 1.8%. Revenue from oil-free air increased by 12.9%. Services revenue, which mainly comprises fuel and transport, grew by 10.7%. Tight cost control, and improving the terms of some existing contracts, helped the trading margin increase to 14.5% (2007: 12.1%).

Revenue in Continental Europe was 3.7% ahead of 2007 at €132.1 million with trading profit of €17.3 million being 2.5% ahead of last year. Trading margin was in line with last year at 13.1%. Rental revenue decreased by 0.3%, while services revenue grew by 11.4%. Within rental revenue, power decreased by 3.5%, oil-free air decreased by 21.6%, but temperature control increased by 8.3%. Benelux, Germany and Italy all traded well in the year; however revenue in Spain and France decreased year on year. Sector performance was mixed with increases in the Events and Contracting sectors offset by a decrease in Utilities.

During the year we successfully provided temporary power to the eight sites for the UEFA 2008 European Football Championship in Austria and Switzerland. In total this project involved a team of 80 people installing and maintaining 40 generators, 14MW of temperature control equipment and 150km of electrical cable.

In November we announced that, as from 1st January, the operations of our Local business in the Middle East would be integrated with those of the European region, to create a new region to be called Europe and the Middle East.

Review of Trading continued

In 2009 the region is likely to be adversely affected by the deteriorating macro-economic environment, and it will also lose about £1.8 million of contribution from the Oil-Free Air business, the disposal of which was announced in December 2008. In the first two months of 2009, the region is trading at similar levels to last year, helped by storms in France and Spain in late January, for which we mobilised over 800 generators. In the Middle East, trading is currently ahead of last year; demand in some areas, notably Dubai, is sharply down, but others are still showing good growth.

Local business: Aggreko International

	2008 $million	2007 $million	Change %
Revenue	**346.6**	233.1	48.7%
Trading profit	**93.9**	49.0	91.8%

Aggreko International's Local businesses produced another excellent performance in 2008. In aggregate, year on year revenue grew by 48.7% to $346.6 million and trading profit grew 91.8% to $93.9 million; trading margin was 27.1% as against 21.0% in 2007. The performance was helped by the contract for the provision of temporary power for the Beijing Olympics; total revenue from the Beijing Olympics in the year was $41 million. This was one of the largest and most complex temporary power contracts ever undertaken, and our team executed it flawlessly with over 140MW of power and 480 kilometres of cable installed in 37 venues, supporting broadcasting to over 4 billion viewers world-wide.

Excluding the Beijing Olympics, rental revenue in Aggreko International's Local business increased by 29.9% and services revenue grew by 35.4%. Within rental revenue, power increased by 35.1% and temperature control by 3.0%.

Aggreko International's Local businesses operate in the Middle East, Singapore, China, Australia, New Zealand and Central & South America; as from the end of 2008, the Middle East Local business has been merged with our European business, to create a new region called Europe and the Middle East. In 2008, all of our depots in the Middle East business grew their revenue, with particularly strong performances in Qatar, Abu Dhabi, Oman and Bahrain. During the second half of 2008, demand weakened in Dubai but this was more than offset by increased demand in other areas. In Australia, our power business performed well, driving increased revenue while effective cost control led to margins improving sharply; demand from utilities was strong, although our temperature control business was weaker than we would have liked. Our Local businesses in Brazil, Chile and Mexico continued to show robust growth with revenue increasing 76%. Our business in Singapore had an excellent year, with strong growth in revenue and profit, and, from small beginnings, we are now making some progress in China.

These businesses represent an important part of our long-term strategy, and we will continue to invest in them to build our distribution and brand. Importantly, they provide an infrastructure for, and share expertise and fleet with, our International Power Projects business. Oil, gas, shipping and mining together form a large proportion of Aggreko International's Local business and we expect to see some reduction in demand in these sectors in 2009.

International Power Projects: Aggreko International

	2008 $million	2007 $million	Change %
Revenue (excluding pass-through fuel)	**524.1**	362.8	44.4%
Trading profit (excluding pass-through fuel)	**143.5**	99.1	44.8%

Our International Power Projects business delivered another excellent performance, with revenue and profits (excluding pass-through fuel) increasing by 44.4% and 44.8% respectively. Trading margin was in line with last year at 27.4%.

As expected, utilisation was slightly down on prior year but still ran at very high levels. During the year the business operated in 55 countries, and signed contracts for 45 new projects including 60MW in Chile, 50MW in Kenya, 50MW in Uganda and 40MW in Bangladesh. All areas increased revenue over the prior year with significant growth in the Middle East, Africa and South America. Our military business had a very strong year, with revenue up 30%; our business in the Caribbean also showed strong growth. Over 65% of International Power Projects' revenue in 2008 came from utilities; military projects represented about 18% of revenue, and oil & gas and mining together contributed about 12%.

Revenue from gas-powered generation grew significantly in the year and increased by 82%. During the year we signed contracts with new customers in Asia, Africa and the Middle East and we now have a fleet of over 200MW. This is good progress for a product that we only introduced into the fleet three years ago, and we believe that it will become an increasingly important part of our product portfolio.

Our International Power Projects business started 2009 with 19,000 megawatt-months of committed capacity, equivalent to about 12 months revenue at the current run-rate. At the year end, the International Power Projects fleet, at over 2,600MW, was 36% larger than the previous year-end and the business had 40% more megawatts on rent than at the start of 2008. Encouragingly, the level of enquiries remains strong; in the period November 2008 – January 2009 we quoted for Power Projects in 40 countries for an aggregate generating capacity significantly higher than in the comparable period in the prior year. We expect, however, that the rate of growth in this business will start to attenuate, if only because of our reduced rate of fleet investment. As always, we are carefully managing the key risks in this business; the current economic circumstances will heighten these risks, and in particularly those related to payment and customer behaviour.