OUR MARKETS
STRONG POTENTIAL

THE MARKET

DEMAND FOR AGGREKO'S SERVICES IS CREATED BY EVENTS: OUR CUSTOMERS GENERALLY TURN TO US WHEN SOMETHING HAPPENS WHICH MEANS THEY NEED A FAST AND FLEXIBLE SOLUTION FOR POWER OR TEMPERATURE CONTROL. SITUATIONS THAT STIMULATE DEMAND RANGE FROM THE VERY LARGE AND INFREQUENT TO THE SMALL AND RECURRENT

EXAMPLES OF INFREQUENT EVENTS:

- Large-scale power shortage – South Africa, Bangladesh, Argentina
- Major sporting occasions – Olympic Games, FIFA World Cup, Glasgow Commonwealth Games
- Natural disasters – Japan post-tsunami, Hurricane Sandy in North America in 2012, Brisbane floods in 2011
- Post-conflict re-construction and military support – Congo, Iraq and Afghanistan

EXAMPLES OF MORE FREQUENT EVENTS:

- An oil refinery needs additional cooling during the Summer to maintain production throughput
- A glass manufacturer suffers a breakdown in its plant and needs power while its own equipment is being repaired
- A city centre needs chillers to create an ice-rink for the Christmas period

LOCAL BUSINESS

Dynamics

The Local business is linked to local economies and varies in size and nature from country to country. There are three main demand drivers:

GDP

As an economy grows, so does demand for energy in general and rental equipment in particular, as businesses tend to be busy and therefore choose to rent additional power or temperature control solutions, rather than lose production.

Propensity to rent

How inclined people are to rent rather than buy is driven by issues such as the tax treatment of capital assets; the growing awareness of outsourcing; and the availability and cost of finance for purchasing equipment.

Events

High value/low frequency events change the size of a market on a temporary basis; for example the FIFA World Cup in Brazil, 2014.

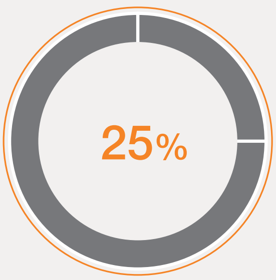
Market Size

It is very difficult to accurately determine the size of the global Local business market. We operate in a niche segment of the rental market across a very broad geography, which is further complicated by the fact that our own activities serve to create market demand. Furthermore, major events such as hurricanes in North America, the Olympic Games or major droughts in Africa can influence market size in the short term. Whilst it is possible, albeit difficult, to size our market in large and developed markets, it is impossible in emerging markets, where we are growing fastest; therefore our approach is to use a "market potential estimation". From this, we estimate that our worldwide market share is around 25%, which implies Local "market potential" of around £4 billion based on Aggreko's 2014 Local business revenue.

Read more about market potential estimation

Inside back cover

Estimated Local worldwide market share



£4.0bn

local market potential

Customers

Our Local business serves any customer that uses power or temperature control. They could be banks, manufacturers, film studios, utilities, oil companies, miners, military forces, telecoms companies, party planners or major sporting event organisers. The customer base is very diverse, both geographically and by market segment, which gives us some protection against the vagaries of any one particular market. Being global allows us to quickly move resources between sectors and countries in response to customer demand.

Competitors

Customers have the choice to either buy or rent and our largest competitors are not rental companies but equipment manufacturers. Where the need is urgent or for a limited duration, customers tend to rent. In the rental market competitors are either privately-owned specialist rental businesses or divisions of large plant hire companies. In almost every country that we operate in, we are the number one or number two player, and we are the only competitor with a global footprint. However, in every region there are a large number of regional, national and local businesses in the market; competition is fierce, but few competitors are able to compete for large-scale or technically demanding work.

Local business competition

Market during the year

The oil & gas sector performed well in 2014, although we note the recent decline in the oil price and are assessing its impact. The slowdown in the mining sector as a result of the drop in commodity prices had the most significant impact in 2014; as an example, iron ore fell from \$135 to \$71 per tonne[1]. Initially this was felt in our Australian business, but as the year progressed, we also saw an impact on our mining businesses in Chile and Peru. Elsewhere, we experienced challenging economic conditions in Brazil and much of Continental Europe. The competitive environment was stable.

Outlook

Looking forward, we continue to expect the market to grow at about twice the rate of GDP, and probably faster than that in emerging market countries. In the short term, the slowdown in global mining and oil & gas will make growth more challenging, but the homogeneity of our fleet allows us to switch into other sectors.

1 Source: Bloomberg

OUR MARKETS
CONTINUED

POWER PROJECTS

Dynamics

As populations continue to grow and urbanise, and as industrialisation drives economic growth, greater demands are placed on power infrastructures in many emerging markets. Electrification rates are typically low in many of these countries, with the World Bank estimating that only 31% of people in low income countries have access to electricity. Even in those places where power is available, reliability is often poor; it is estimated that the average sub-Saharan manufacturing business can be without power for over 50 days a year. These countries may have plans for permanent capacity, but lending processes can take a considerable period of time to realise and the volume of investment required can be challenging to obtain from traditional sources; it typically takes between five and 10 years for a new plant to be commissioned. Delays in realising new capacity, ageing infrastructure and reliance on intermittent hydropower can also exacerbate an existing shortfall. Meanwhile, the global population is forecast to grow by over 1% per annum between 2015 and 2020, and double this rate in the least developed countries according to the United Nations; therefore the power shortfall is likely to increase.

As a result, we believe that in many parts of the world, and most particularly in many emerging market countries, there will be continued power shortages and load shedding, caused by a combination of factors, including those outlined on the right:

Demand

In developing countries demand is growing, driven by industrialisation, urbanisation and access to electrical appliances.

Under-investment

Investment in new and replacement permanent power infrastructure has not kept pace with demand and so frequent breakdowns and damaging power cuts have resulted.

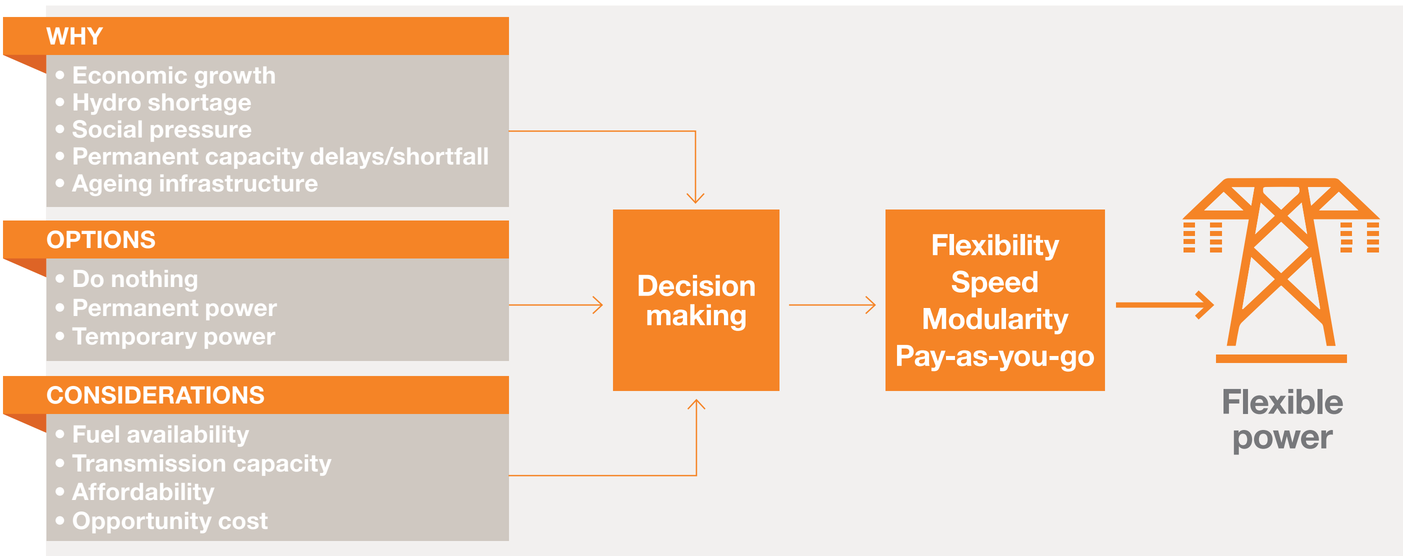
Financing

Capital markets are less willing to support long-term infrastructure projects in many developing countries, particularly when de-carbonisation and ageing infrastructure in developed countries requires trillions of dollars in investment.

Many emerging market countries experience power shortages and load shedding on a regular basis. A country needs to have enough generating and transmission capacity to cater for the absolute peak demand, plus a safety margin (called the "reserve margin") to cater for unexpected breakdowns, scheduled maintenance and spikes in demand. If a country does not have a big enough reserve margin, power cuts inevitably result. In the early stages of power shortages, power cuts may be rare, seasonal and bearable. But as the reserve margin drops, they become more frequent, disruptive and start to have a serious impact on the life and economy of a nation; concern over a growing shortfall may spur countries to react.

Overlaid above this structural demand are other factors which impact the conversion into power. Different countries have differing propensities to rent and country-specific factors strongly influence the purchasing decision. These can include a country's US Dollar reserves (as contracts and fuel are largely priced in US Dollars); supporting infrastructure (it may be that a country has adequate capacity but the transmission cannot transfer it to where it is needed and so want off-grid generation); the availability of fuel (gas generation is more

Utility Decision Making Factors



economic than diesel); and the opportunity cost of not having power. Flexible power solutions are attractive for being pay-as-you-go, fast to deliver and modular. Aggreko proactively assesses the situation at a country level and offers solutions that solve problems for the local utility and their customers. In recent years pressure on reserve margins has lessened as economic growth has slowed and the opportunity cost of not having power is less acute.

Market Size

Our core market is in emerging markets (excluding China), where GDP and demand for power is growing fastest. We have recently updated our models using the latest projections from the IMF and IEA and they predict that the worldwide demand for power will grow by 3.7% per annum between 2015 and 2020. This forecast, combined with generating capacity assumptions, means that we estimate that the shortfall of power generating capacity will be around 140GW in our core markets by 2020; this implies a compound growth rate of 12% between 2014 and 2020. The projected deficit is not as great as previously forecast, given slower economic growth in many markets; that said, the sheer scale of the deficit and the growth forecast demonstrate that the structural market drivers in this business remain strong and will drive continued demand for power generation. Additionally, in any given year, the market can substantially increase as a result of droughts, which can lead to power shortages in countries reliant on hydro power.

We estimate that our market share in 2014 was around 40%, based on the volume of contract wins and extensions across the industry.

Customers

Power Projects customers are almost all in emerging markets; 89% of our revenues (excluding pass-through fuel) come from utilities. These are often state owned and the state may play a significant role in determining the ability to finance utility operations and power purchase through tariff setting. These contracts can take a number of forms: gas-to-power, where we monetise stranded gas, such as our contract in Mozambique; extended power, where we become part of the power infrastructure, such as in Venezuela; and grid support, for example providing peak power in Saudi Arabia and Oman over the summer months. We also serve armed forces and the extractive industries, like mining and oil and gas, in some cases through our Local business.

Competitors

The largest competitive force that we face is for a share of a government's budget. In most emerging market countries the utilities are state controlled and money spent on power is money that cannot be spent elsewhere. We compete with a number of other companies around the world; we have one competitor with whom we compete on a global basis and a number of businesses compete with us either locally or regionally, in particular some of the larger Caterpillar dealers. Our key differentiator is our global scale and large homogenous fleet, which facilitates fast deployment and economies of scale.

Market during the year

Since 2012, we have seen lower economic growth in emerging markets, and therefore lower electricity demand growth over the same period. In addition, significant currency devaluation has meant that the cost of temporary power has increased and the combination of these factors, we believe, has prevented some of the expected shortfall from being realised. Our order intake in 2014 was 757MW, an improvement on 2013 (725MW), but below the historic levels that we have seen. As important as order intake, is the off-hire rate, which was in line with the historic average, at 32%.

Read more about off-hire rates
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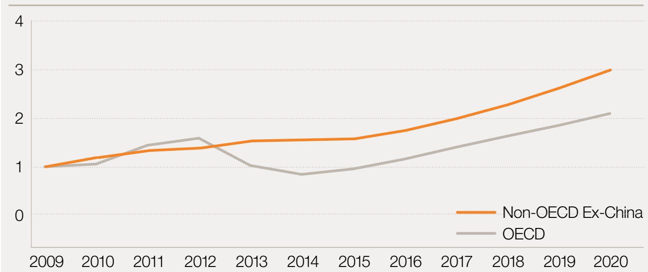
Outlook

In the long term, the drivers of growth – increasing demand for electricity and insufficient investment in supply – are structural and we will secure work by understanding the market and tailoring solutions to solve customer problems. The decision to purchase power using flexible solutions is usually a political one and given slower economic growth in recent years, the opportunity cost of not having power is less acute. In the short term, the fall in oil price should prove supportive, as it makes diesel fuelled power substantially cheaper. Overall, the structural shortfall will create substantial opportunities for the Group and we will continue to win work by understanding the market, customer needs and offering solutions that meet their requirements.

Relative Shortfall Growth 2009-2020

Source: IMF, IEA, Baringa



Emerging Markets Growth (%)

Source: IMF