



Outcome of the Strategy Review

Monday, March 1st 2004

- **In a nutshell**
- **What we do**
- **The market**
- **The competition**
- **The plan**
- **Conclusion**
- **Q&A**

In a nutshell – what we do

- **We provide mission-critical services to customers who have a short-term need**
- **Three product families**
 - Power
 - Temperature Control
 - Oil-free air } + Additional Services
- **Two business models**
 - Local Business (78% of 2003 revenues)
 - International Power Projects (22% of 2003 revenues)
- **We operate globally, with leading local positions in the largest markets**

In a nutshell – the market

- **The world market for short term rental of power, temperature control & oil-free compressed air is worth about £1.1bn**
- **Projected to grow, on average, by 2% pa above GDP**
- **In recent years, new competitors have entered the market, and Aggreko has lost market share**
- **We are #1 or #2 in North America, Europe, the Middle East, Africa & Australia**

In a nutshell – where we are now

- **Recent performance has been poor**
- **We know how to fix it**
- **We have a plan which will put Aggreko back onto a path of sustainable growth**

What we do

Products & Services

Three product categories

<u>2003</u> Total Revenue £332m	<u>Power</u>	<u>Temperature Control</u>	<u>Oil-free Air</u>
Rental Revenue Total: £245m	£166m / 68%	£57m / 23%	£22m / 9%
Gross Rental Assets Total: £547m	£382m / 70%	£110m / 20%	£55m / 10%
Customers	Manufacturing Petrochemical Entertainment Food processing Mining, Shipping Military, Utilities Telecoms, Retail Construction	Manufacturing Petrochemical Entertainment Food processing Mining, Shipping Distribution	Manufacturing Petrochemical

Additional services (transport, fuel, engineering): £87m (26% of 2003 revenues)

Our work is mission critical – sample jobs in last 12 months

- **Military Support**
 - Base-load power to major airbase in Afghanistan £5m
- **Utility augmentation**
 - Base-load power in Sri Lanka £9m
 - Mediterranean island following turbine failure £1m
- **Emergency Response**
 - Oil refinery – Morocco £2.5m
 - Grid transformer failure – UK £0.5m
 - Hurricane Isabella – USA £2m
- **Events**
 - World Athletics Championships, Paris £0.8m
- **Factory maintenance & process augmentation**
 - Petrochemical plant in Texas £0.6m
 - UK oil refinery oil-free air/ power /TC £0.5m

Video
What our customers say about us

Interviews with Aggreko customers February 2004

- **The services we provide are critical to our customers**
- **The cost of our services represent a small fraction of the value of the processes they support**
- **Service content is the key component of the value-proposition in a large part of the market**

Our Two Business Models

Two business models - Local Business

- **Vital Statistics**

- Value - £1k - £1m, average £5k, duration 1 day -12 months
- Customers: all sectors
- Application: all types – 25% emergency response
- Equipment: all types
- In-service lead-time: 3.5 hours - 8 weeks

Historic Revenues:		% of total
2003:	£258m	78%
2002:	£259m	76%
2001:	£283m	87%

- **Organisation**

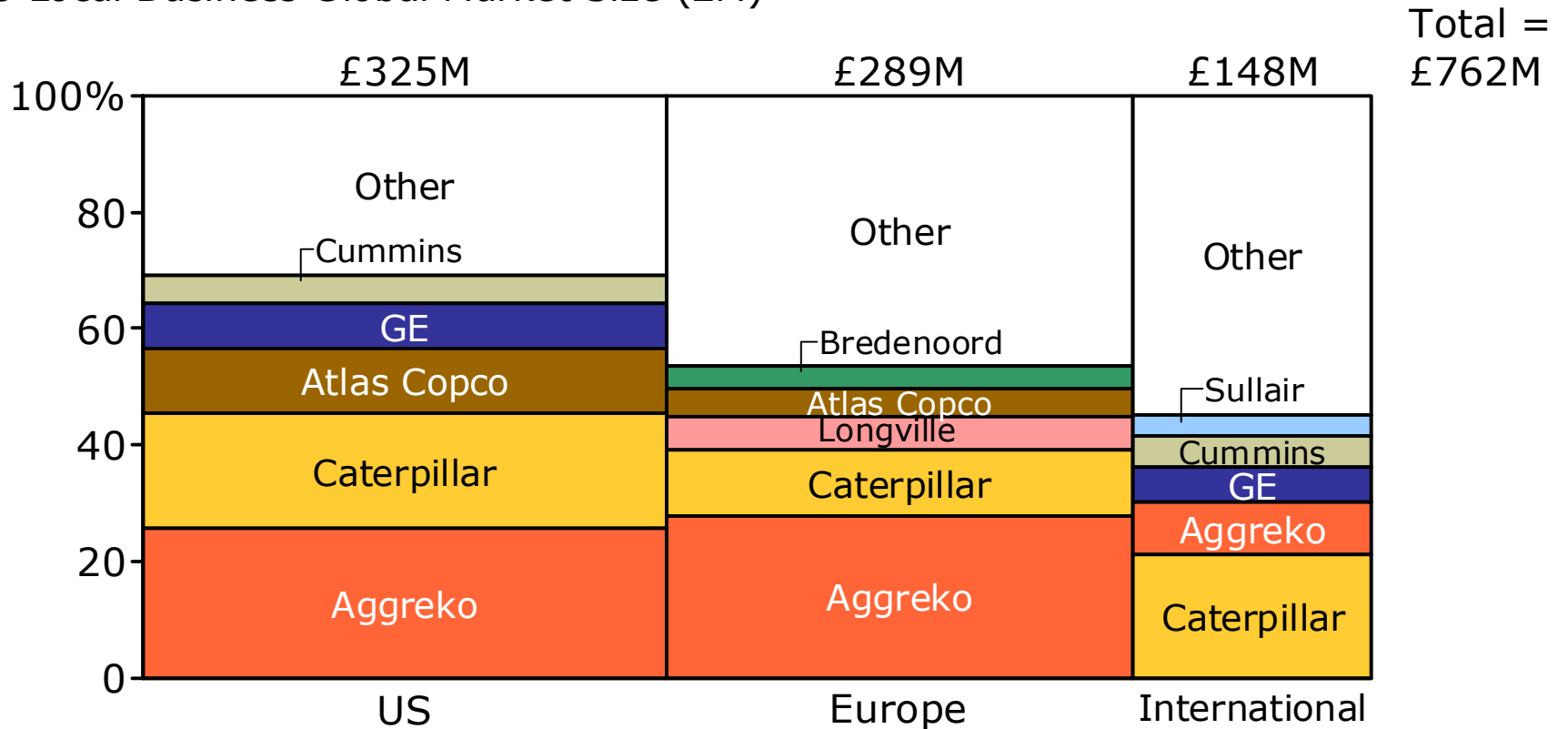
- 117 Depots: North America: 59, Europe: 39, Middle East: 9, Australia: 10

- **Keys to competitive advantage**

- Experienced people and a broad range of equipment able to deploy quickly
- A low-cost operating model
- Reputation and brand

Local business market map: Aggreko is number 1 or 2 in each region

2003 Local Business Global Market Size (£M)



Source: Aggreko 2003 sizing analysis; Bain Analysis

Factors driving market growth in the local business

- **GDP growth**
- **Propensity to rent**
 - More sophisticated capital allocation → rent vs buy
 - Just-in-time → lower tolerance of risk
 - Growth of outsourcing
- **Rate**
 - Supply vs demand
- **Exceptional events**
 - Affects market size in particular locality

Two business models - International Power Projects

<u>Historic Revenues:</u>		<u>% of total</u>
2003:	£74m	22%
2002:	£81m	24%
2001:	£43m	13%

- **Vital Statistics**

- Value - £750k - £20m, duration 3-12 months
- Customers: utilities, military, mining, petrochemical
- Application: base-load & peak-shaving power
- Equipment: containerised 1MW units
- In-service lead-time: 2-8 weeks

- **Organisation**

- Headquarters: Dubai
- Hubs: Montevideo, Port Harcourt, Rotterdam, Dubai, Singapore

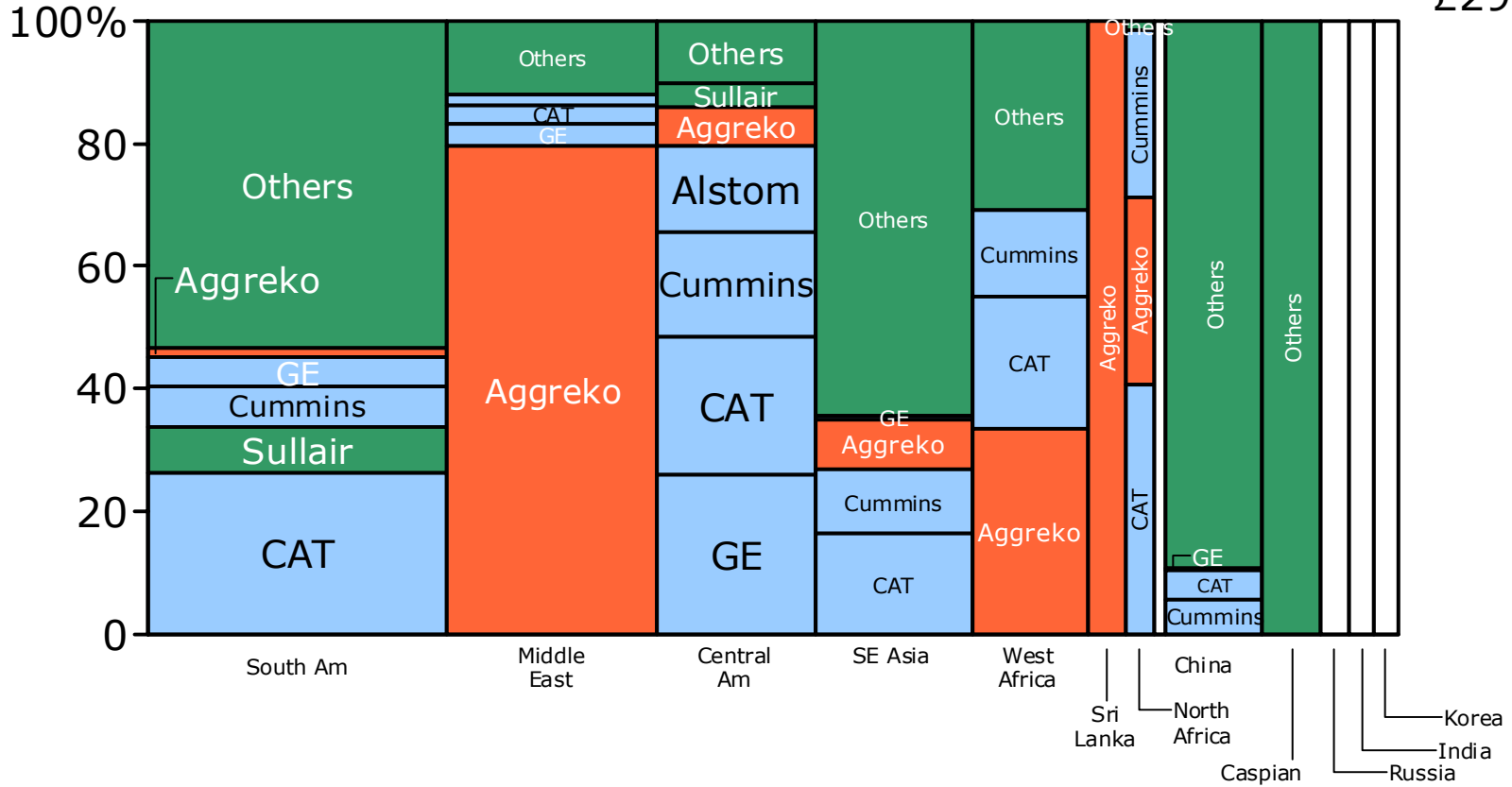
- **Keys to competitive advantage**

- The ability to deploy large fleet capacity quickly anywhere in the world
- Easily-transportable, purpose-built equipment of the highest reliability
- Experienced & knowledgeable people managing commercial processes

International Power Projects: Aggreko has leading positions in Africa & Middle East

Projects market by revenue (2003)

Total = £293M



Source: Aggreko 2003 sizing analysis; Bain Analysis
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Utilities

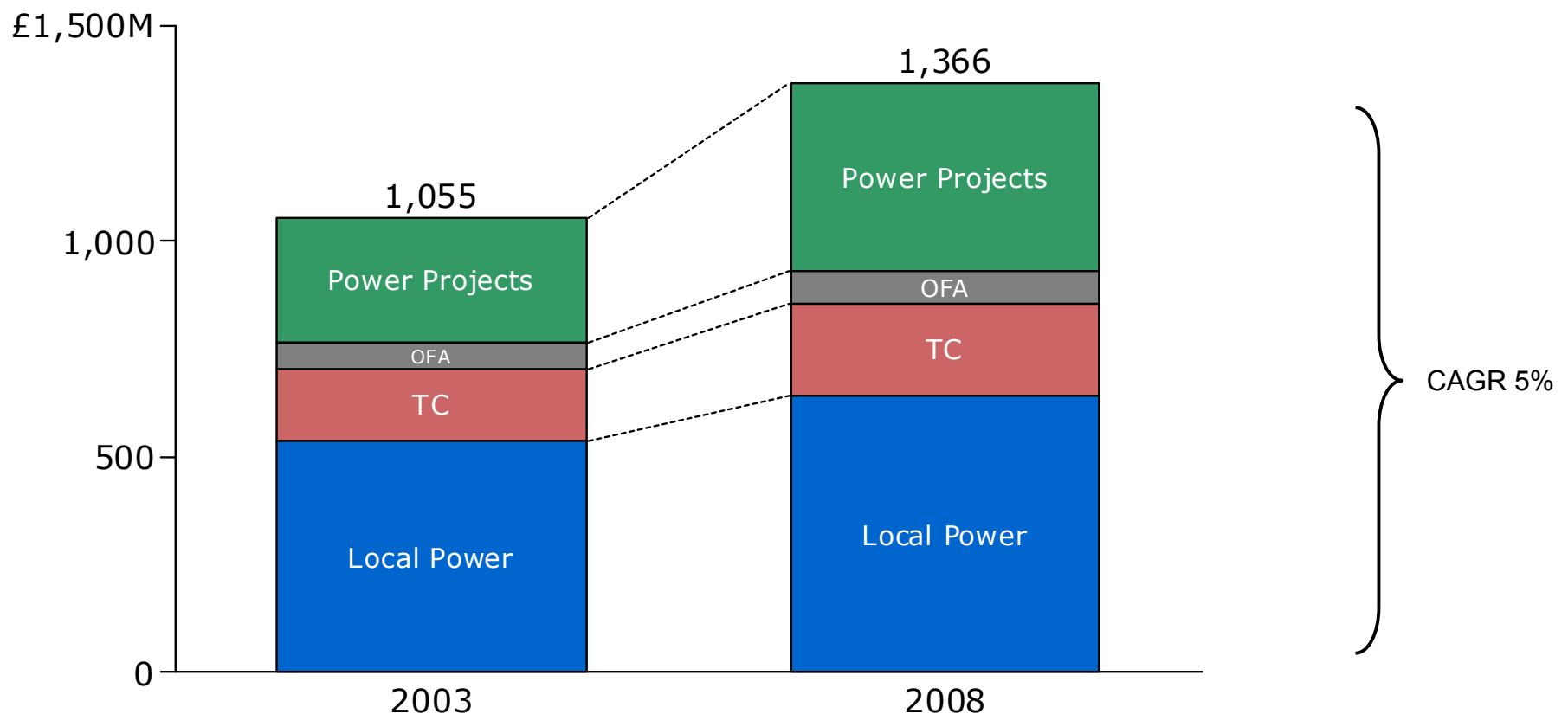
- **GDP growth relative to investment in grid capacity**
- **Unwillingness to tolerate outages**
 - Democratisation / growing consumerism
- **Market creation**
 - Growing awareness amongst utilities of rental as an option

Military

- **Growing acceptance of temporary power as a key component of operational effectiveness**
 - Balkans, Iraq, Afghanistan, Kyrgyzstan
- **Military operations becoming more power-hungry**

The Market

The total market is worth £1.1bn in 2003, growing by an average of 5%¹⁹



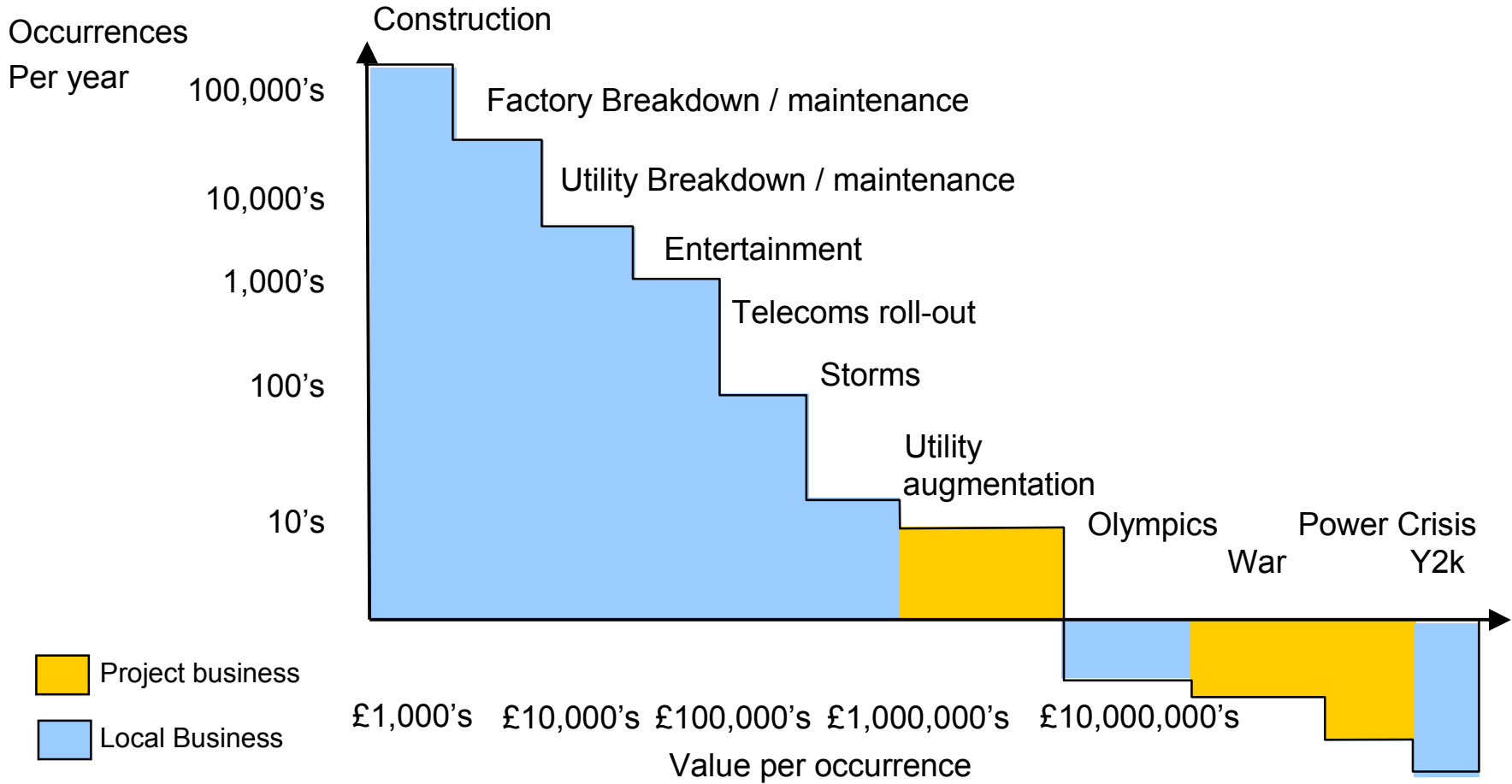
Source: Aggreko, Bain projections

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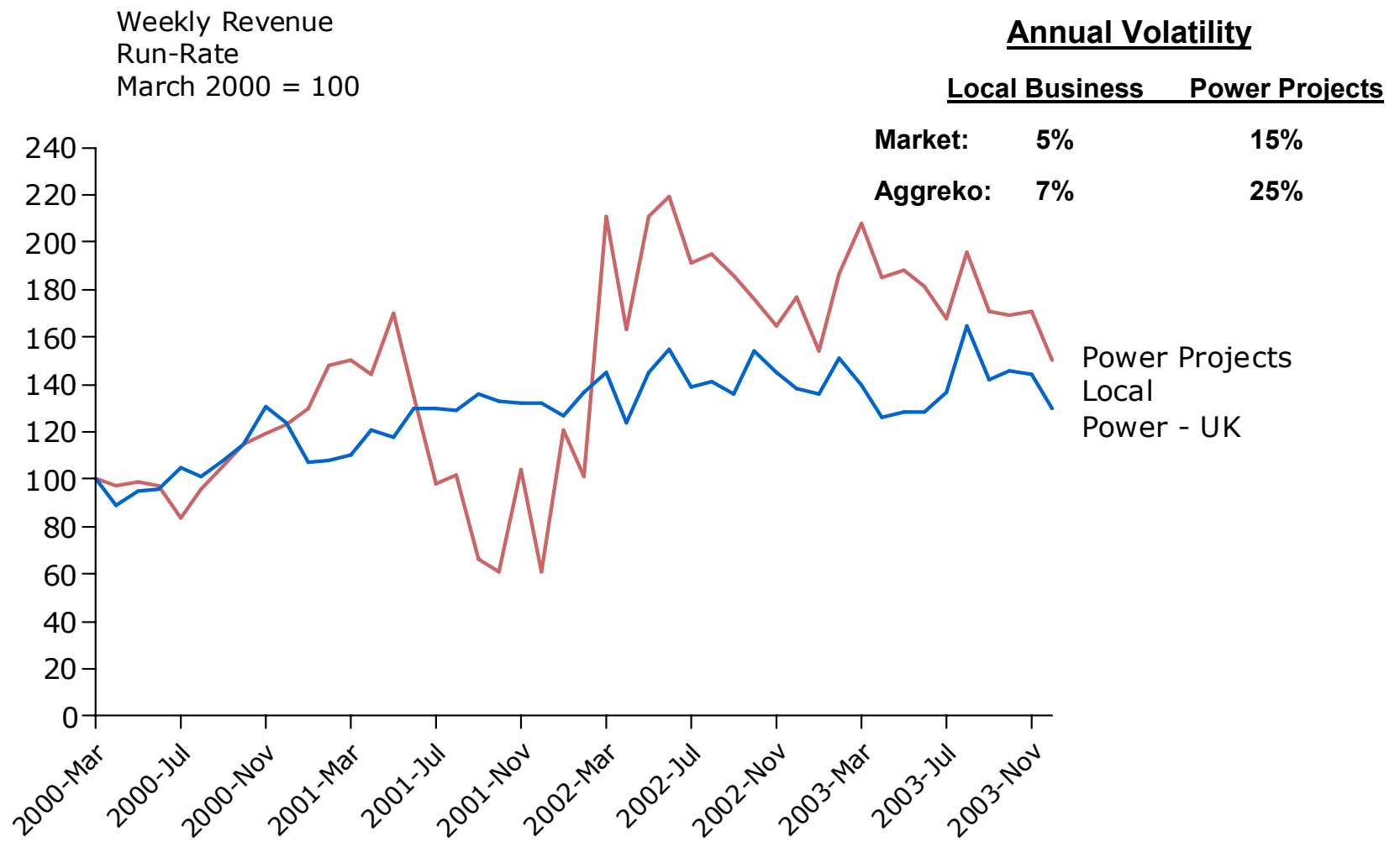


Demand is provoked by events which differ in value and frequency

ILLUSTRATIVE



Power projects are significantly more volatile than the local business



Source: Aggreko Internal data
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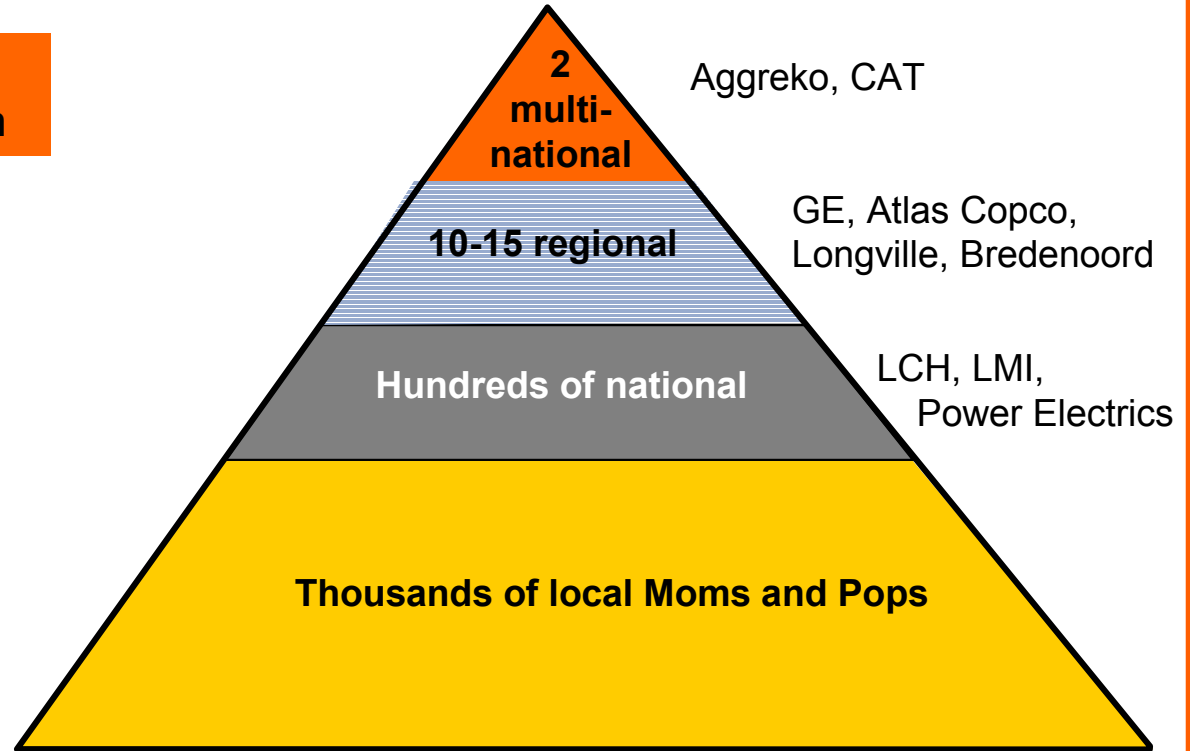
- **The timing & location of major events cannot be predicted
This makes short-term volatility a fact of life**
- **The projects business is faster growing, but is much more volatile than the local business**
- **Volatility reduces to the mean with scale and geographic coverage**
- **Peaks & troughs do not last long**

The Competitive Environment

Five competitors in International Power Projects

Aggreko, CAT, GE, Cummins, Alstom

Four types of competitor in the Local Business



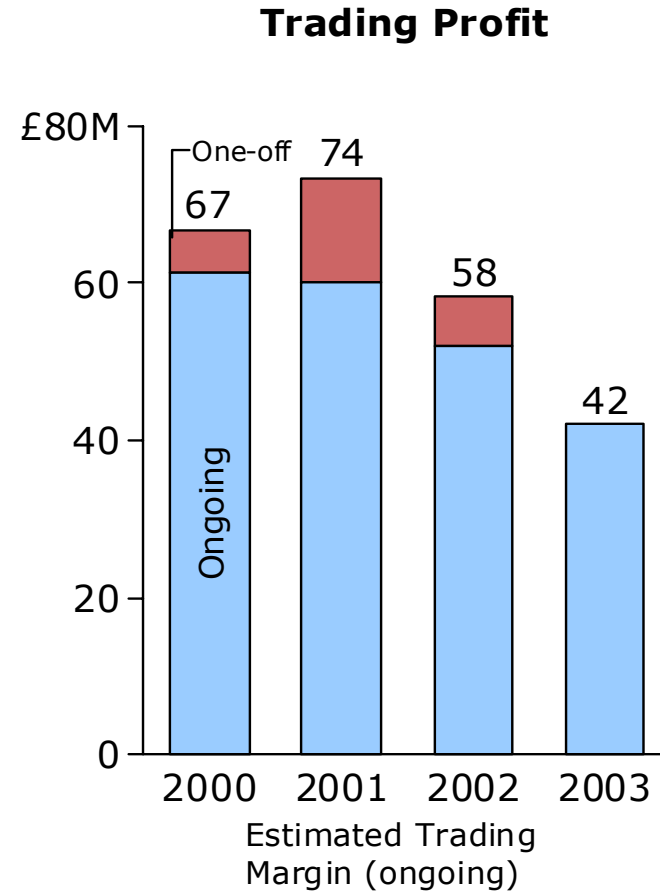
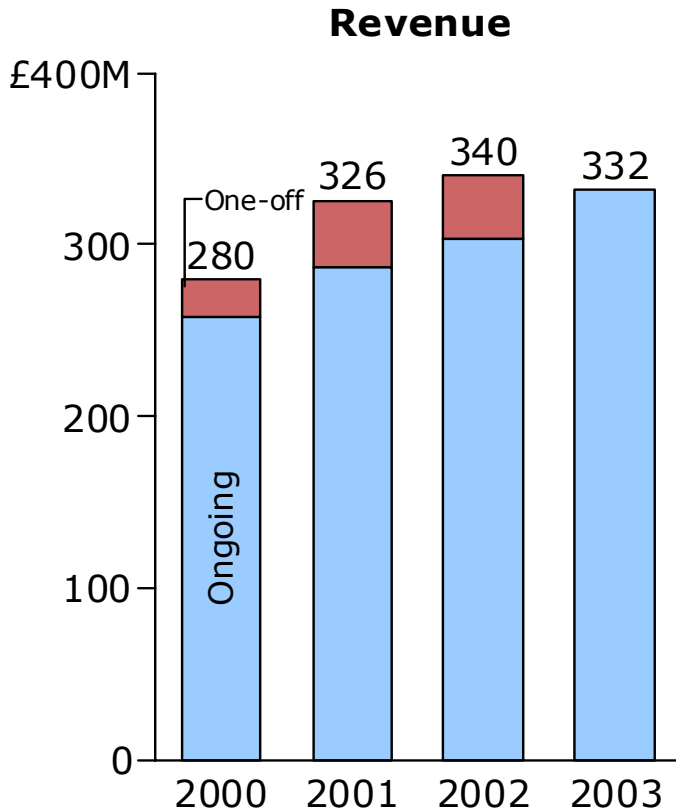
Barriers to entry for a large competitor

- **Access to significant capital > £300m**
- **Power projects is too volatile to justify investment unless you can establish good scale and geographic coverage very quickly**
- **The skills that make a local operator competitive limit them when they grow into new territories**
- **The local business demands a concentrated network of service centres which are costly and time-consuming to set up**
- **Experience of recent new entrants – Cummins, GE, Alstom**

Past Performance

A concatenation of one-off events boosted performance 2000-2002

One-offs: Y2K, California power crisis, Salt Lake City Winter Olympics



Ongoing Revenue CAGR

8.5%

23%

21%

17%

13%

Key Messages – past performance

- **The performance of Aggreko in 2000, 2001 & 2002 was influenced by events which happen so infrequently that they cannot be considered part of the on-going business.**
- **In the meantime, the underlying business was growing revenue, but losing profitability.**

Causes of declining margins in underlying business

- **Decline in rates and utilisation in North America, due to overcapacity**
- **Maturing international power projects business → exceptional margins dropping to good margins**
- **Reinvestment in fleet and geographic expansion in Europe**

Fundamental issues looking forward are different

- **Current local business depot-based model is not scalable and will not deliver competitive advantage**
- **Projects business cannot deliver strong growth without entering new markets and reducing reliance on military business**

The Future

Objectives

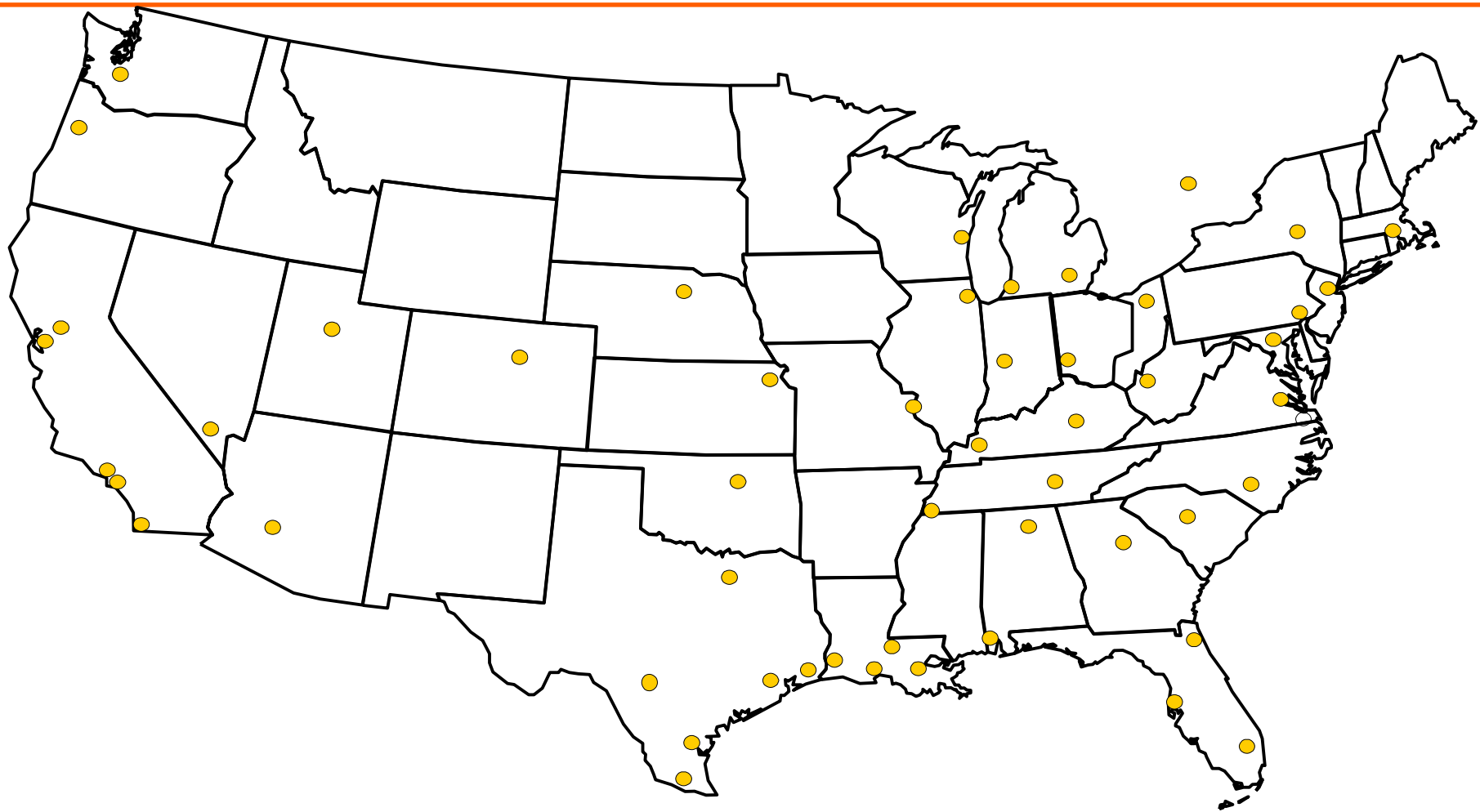
- **A best-in-class operating model for a fast-response, local business which is capable of replication into other businesses**
- **An International Power Projects business operating in all major markets, giving greater scale and lower volatility**
- **A business growing revenues and earnings, with healthy returns on capital; positioned in growing markets; with a number of strategic options for further development**

Our focus for the next 2 years

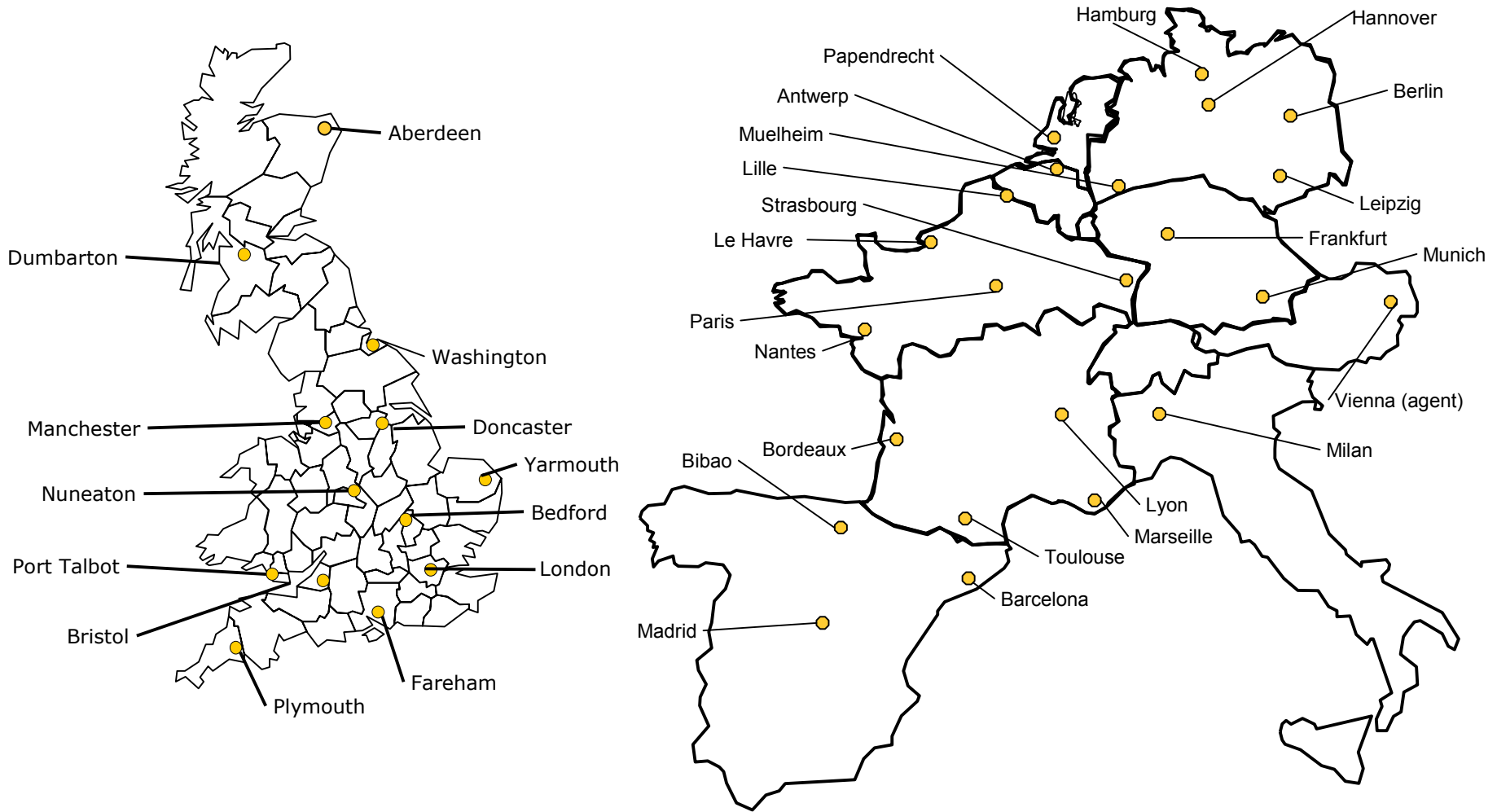
- **Implement a new operating model in the local business**
- **Drive expansion of International Power Projects into new regions**

**Plan for the Local Business:
implement a new operating
model**

Local business 2003 – North America: 59 depots



Local business 2003 – Europe: 39 depots



2003 depot-based local business model

- **Each depot run as a standalone business with a separate P&L; no measurement of capital**
- **Typical size £2-4m of revenues, 3-5 salespeople, 7-10 service engineers**
- **Operational administration devolved to depot level**
 - Call handling
 - Contract management
 - Local purchasing
 - Debt collection

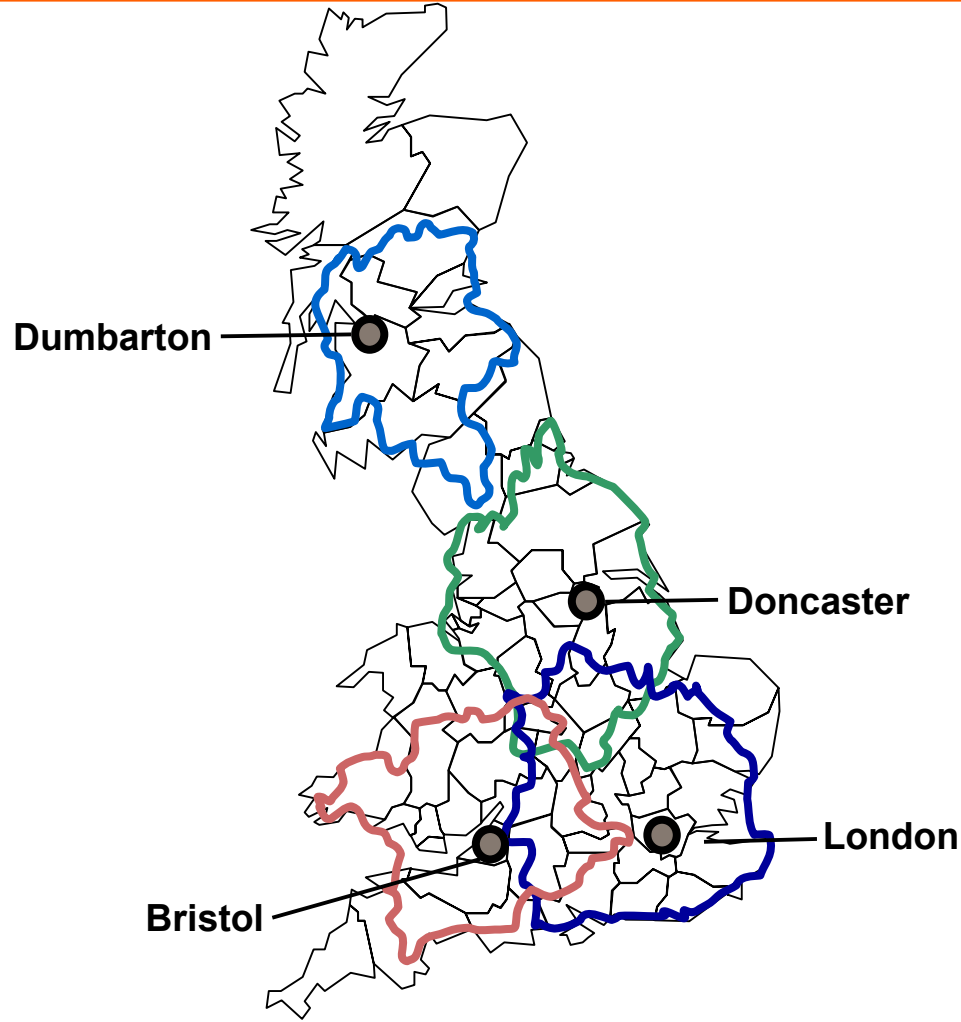
The new “hub-and-spoke” model

- **Implement a model which provides better service and scalability**
 - Better service – 24x7, fast on-site response, improved administration
 - Scalability – improved utilisation, administration, improved sales & service
- **Two types of Service Centre**
 - Hubs – hold broad range of equipment; carry out main servicing and most repairs; 24x7 capability
 - Spokes – hold smaller equipment for fast deployment and minimised handling and transport costs
- **Service Centres grouped into Areas**
- **Administration & Call Handling**
 - Centralised to provide 24x7 response
 - Improved service, reduced cost

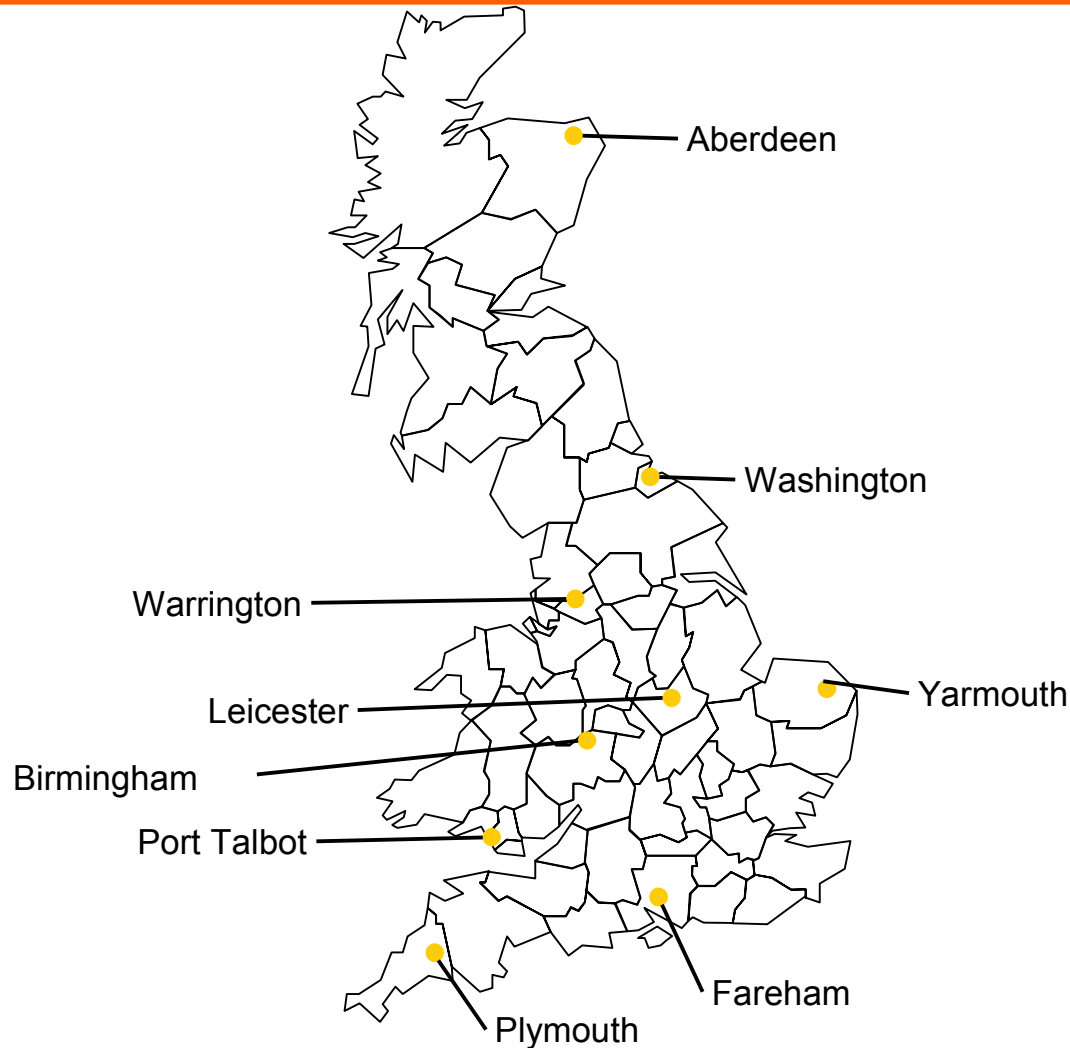
The new “hub-and-spoke” model – implications for management

- **Profit and Return on Capital measured at Area level – typical size £10-15m, 50-80 people, 3-6 service centres**
- **7 areas in North America, 10 areas in Europe; fewer but higher-quality managers**
- **Areas managed as integrated functional teams – professional sales & service team management**
- **Administrative functions centralised**

UK example: by day, 4 hubs gives us >95% coverage of UK business in 3 hours drive-time



By day transport costs / turnaround times mean we run more efficiently and provide a better service if we also have 9 spokes



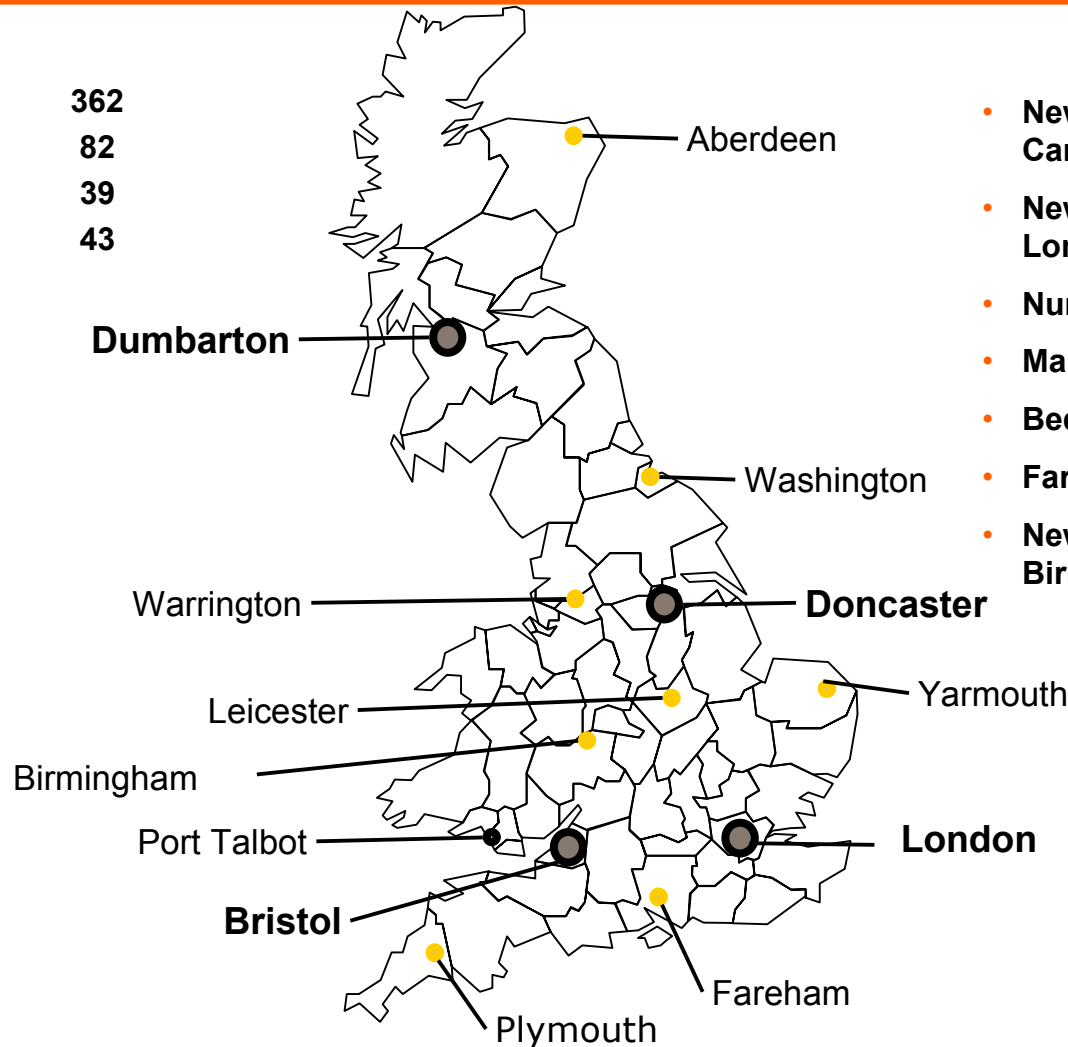
Together, the new hubs & spokes will allow us to offer 3.5 hours on-site response 24x7

Headcount changes

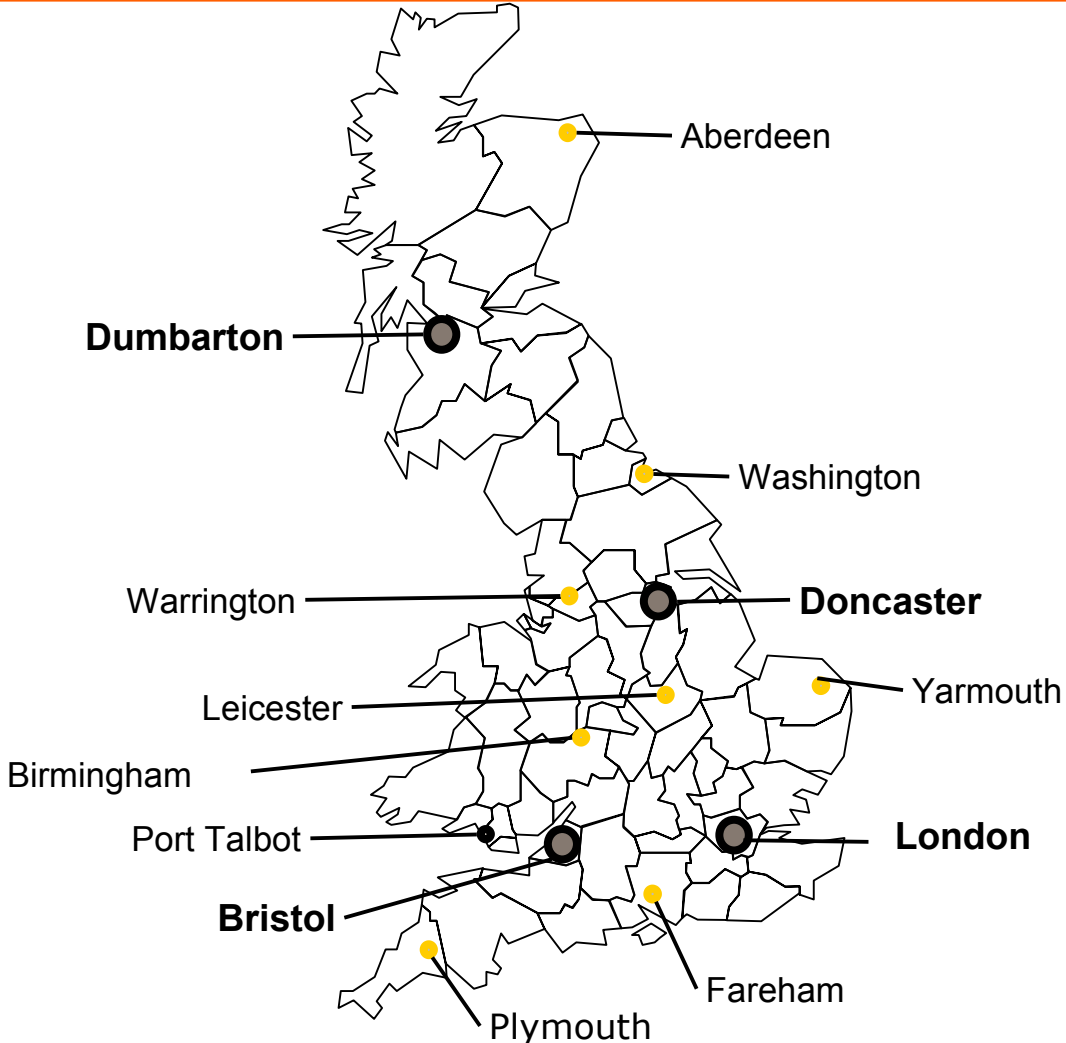
- As at 31/12/03 362
- Leavers 82
- Joiners 39
- Net change 43

9 Property Moves:

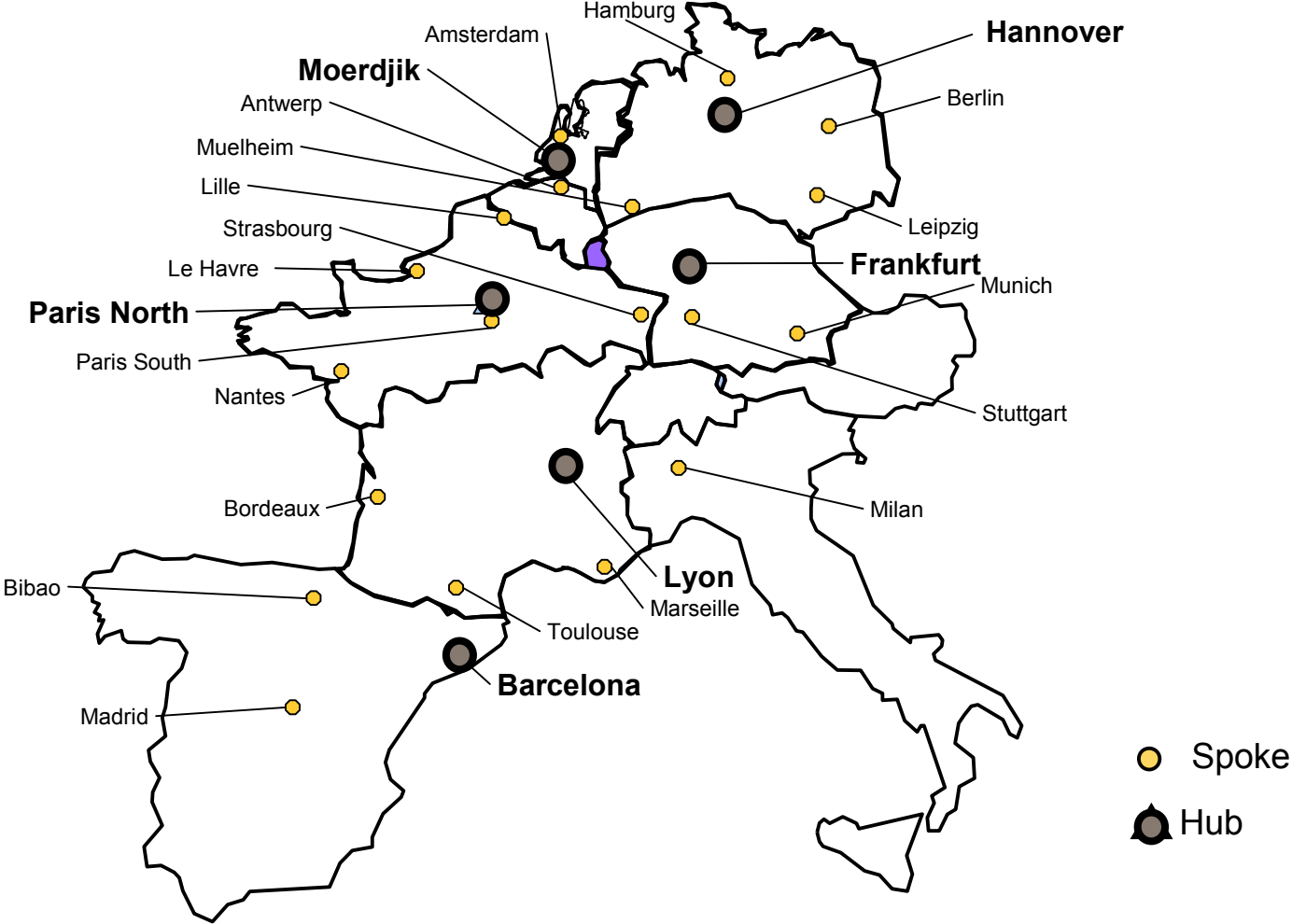
- New National Rental Centre: Cannock
- New Hubs: Doncaster, London, Bristol
- Nuneaton → Leicester
- Manchester → Warrington
- Bedford → N London
- Fareham → new site
- New Service Centre: Birmingham



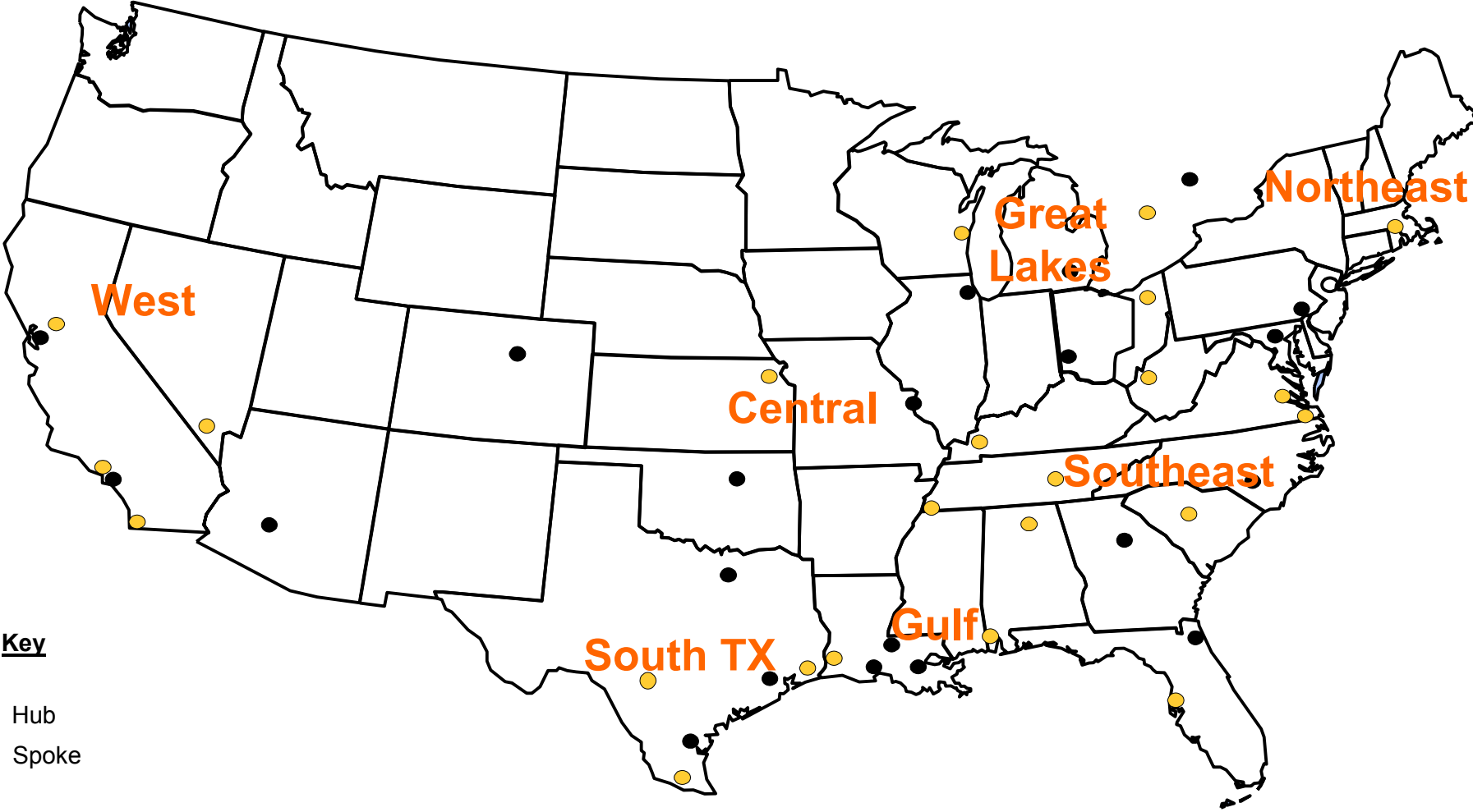
UK: 13 depots → 4 hubs, 9 spokes managed in 4 areas



Continental Europe: 26 depots → 6 hubs, 21 spokes managed in 6 areas



N America: 59 depots → 21 Hubs, 25 spokes managed in 7 areas



Moves and changes in the N America service centre network

Service Centers (46)

- Atlanta, GA
- Baltimore, MD
- Baton Rouge, LA
- Bridgeport, NJ
- Chicago, IL
- Cincinnati, OH
- Corpus Christi, TX
- Dallas, TX
- Denver, CO
- Detroit, MI
- Fayetteville, NC
- Houston, TX
- Jacksonville, FL
- Los Angeles, CA
- New Iberia, LA
- New Orleans, LA
- Oklahoma City, OK
- Phoenix, AZ
- San Francisco, CA
- St. Louis, MO
- Toronto, Canada
- Beaumont, TX
- Boston, MA
- Calvert City, KY*
- Charleston, WV
- Cleveland, OH
- Columbia, SC
- Decatur, AL*
- Hollywood, CA
- Kansas City, KA
- Lake Charles, LA
- Las Vegas, NV *
- Linden, NJ
- McAllen, TX*
- Memphis, TN
- Milwaukee, WI*
- Mobile, AL
- Nashville, TN
- Norfolk, VA
- Puerto Rico
- Richmond, VA
- Sacramento, CA*
- San Antonio, TX
- San Diego, CA*
- Sarnia, Canada*
- Tampa, FL

Depot closures leaving sales presence (5)

- Albany, NY
- Gary, IN
- Indianapolis, IN
- Louisville, KY
- San Jose, CA

Depot exits (8)

- Mexico
- Miami, FL
- Minneapolis, MN
- Orlando, FL
- Portland, OR
- Salt Lake City, UT
- Seattle, WA
- Trinidad



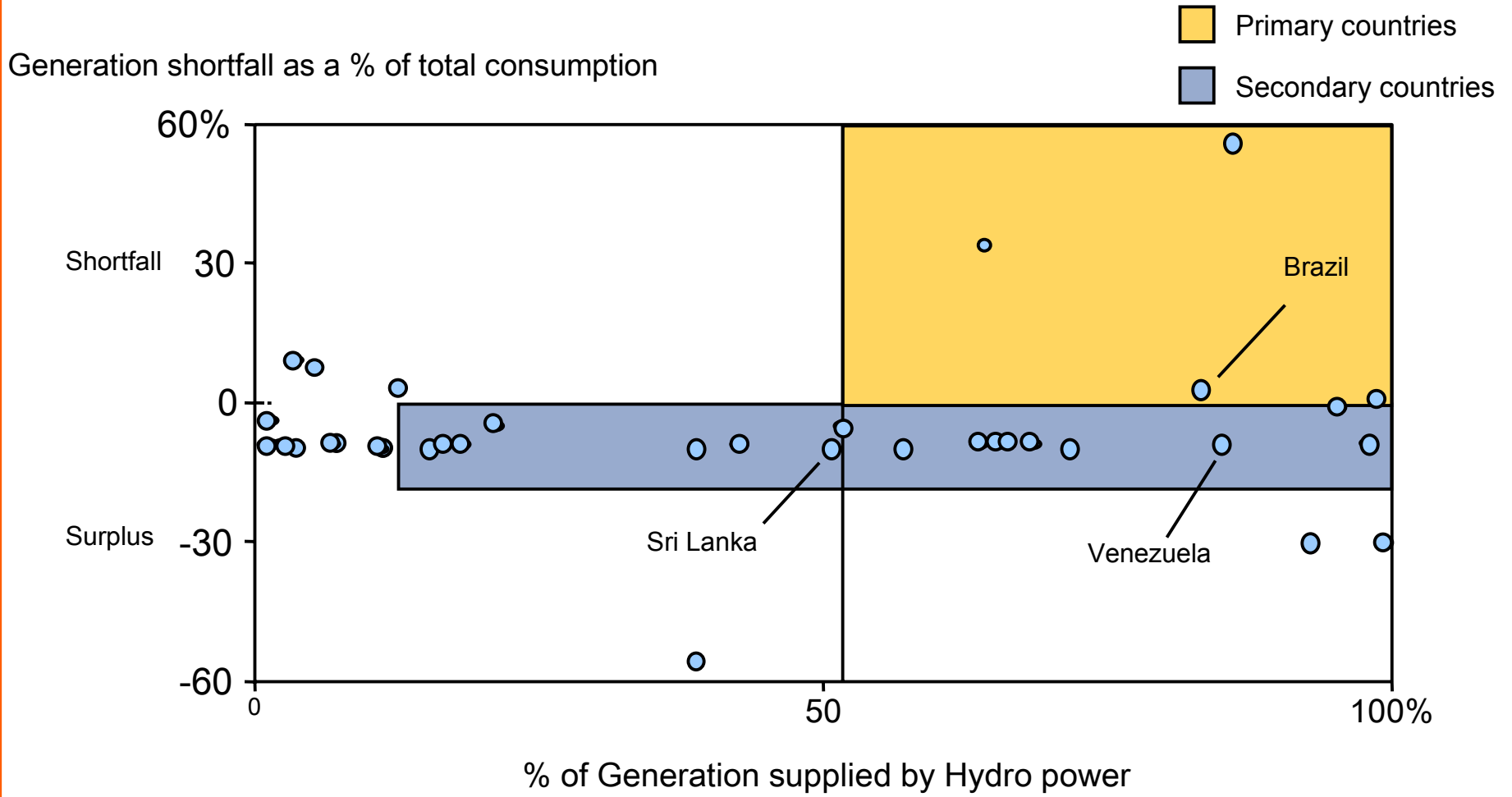
Revenue loss from exits: \$11m

Contribution loss: \$3.5m

- **The primary purpose of restructuring the local business is not to reduce cost – it is to improve the service level we give to our customers whilst enabling the business to obtain margin improvement as we grow revenues**
- **Exceptional costs not to exceed £15m in 2004, comprising:**
 - Property £7m – 33 site moves
 - People £7m – approaching 200 net reduction over next two years
 - Other costs £1m
- **Payback in less than three years**
 - 2006 costs £6m lower than 2003 on a like-for-like basis
- **Depot closures in North America**
 - \$11m less revenue in 2004 – \$3.5m less contribution
- **Rollout in parallel with ERP system is a tough operational challenge, and not without execution risk**

**Plan for the International Power
Projects Business:
drive expansion into new regions**

Hydro power shortfall is largest market for Power Projects: 21 priority countries, of which we are in 5



- **Build presence in S America and Asia**
 - Sales and support teams strengthened in Asia and South America
 - New / enlarged hubs in Singapore, Montevideo, Port Harcourt
- **Increase proportion of non-military revenue by focus on developing business with power utilities in target markets**

Benefits

- **Greater scale and exposure to more opportunities → lower volatility**
- **Increased fleet + more hubs → faster availability → higher share of growing market**

Summary & Outlook

Factors to consider looking forward

	<u>2004</u>	<u>2005</u>	<u>2006</u>
<u>Exceptional costs</u>	(£15m) of which cash: (£8m)	(£3m)	
<u>Direct impact</u>			
Savings from restructuring	£2m	£4m	£6m
Lost contribution from NA closures	(£2m)	(£1m)	
Reduced Capex requirement	cash: £5m	cash: £4m	cash: £3m
Increased depreciation – ERP system		(£1m)	(£2m)
Total gross cash benefit	£5m	£7m	£9m

Business Impact of Strategy

- + volume through growing market share in local and power projects business
- + margin enhancement in local business
- margin dilution in power projects as utilities work increases

Progress so far

- **Local business new model implementation – started well, but a long way to go**
 - Depot restructuring announced in North America and Europe – new management structures largely in place
 - National Rental Centre in the UK on course to go live summer 04
 - Good progress on achieving cost savings in most areas
 - ERP live in Benelux
- **Projects business geographic expansion / utilities focus off to a very good start**
 - S America – 30MW project in Venezuela
 - Asia – 15MW project in Philippines, 30MW project in Indonesia
 - Sri Lanka – 85MW contracted for next six months – making 105MW in total

- **2004 will be a year of transition for Aggreko.**
 - Some operational disruption to be expected as we implement new model & ERP system in parallel
 - £15m exceptional charge
- **Early days, but, subject to exchange-rate movements, underlying trading performance expected to be broadly in line with 2003**
 - Evidence of improving market in North America
 - European profitability remains weak
 - Recent contract wins in International Power Projects business; stronger order book than in 2003
 - H1 weak; H2 stronger than 2003
 - Some benefits in H2 from restructuring

- **Aggreko has a leading position in growing markets, which it is strong enough to sustain**
- **Aggreko has an attractive mix of business**
 - High growth, but more volatile projects business
 - Strong local business with opportunities for margin enhancement
- **Growth will come from**
 - The market – GDP +2% underlying
 - Market-share growth – both in local & projects businesses
 - Improved scalability of local business
- **There is, however, execution risk in the short term**
- **Aggreko offers the prospect of both top-line growth and margin enhancement**

Q & A