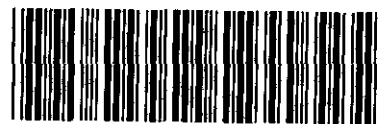


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# REPORT 2006

Aggreko plc Annual Report and Accounts 2006

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**aggreko**

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This document is important and requires your immediate attention. If you are in any doubt as to the action you should take, you should contact an appropriate independent adviser immediately. If you have sold or otherwise transferred all of your shares in Aggreko plc you should forward this document to the purchaser or transferee, or the stockbroker, bank or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

## **On our website**

Visit our investors' section at [www.aggreko.com/investors](http://www.aggreko.com/investors) for the following

- Preliminary Results Announcement 2006
- Annual Reports and Accounts
- Preliminary Results Presentation
- Interactive Charting 2000 2006
- Major Projects 2006 – Image Gallery

# PERFORMANCE

## Financial highlights

	2006 post-exceptional items	2006 pre-exceptional items	2005	As reported %	Movement pre-exceptional items Constant Currency %
Revenue £m	540.7	540.7	417.7	29.5	30.7
Trading profit £m	77.5	86.7	59.6	45.5	47.1
Profit before tax £m	73.9	83.1	56.4	47.5	
Diluted EPS pence	17.25	19.87	13.72	44.8	
Dividend per share pence <sup>1</sup>	6.72	6.72	6.11	10.0	

# WHAT WE DO

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## Our business

Aggreko provides solutions to customers who need power, temperature control, or oil-free compressed air either very quickly, or for a short period of time

We do this on a global basis, with 118 service centres and offices in 29 countries, in 2006 we served customers in more than 90 countries. The solutions we provide range from the simple to the very complex, for example

- the hire of a generator over a weekend for a music festival,
- multi-million pound contracts to help maintain production in petrochemical plants,
- air conditioning for an office building after a breakdown, and
- power for entire cities in times of shortage

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## The distinguishing features of our business are:

- The products and services we provide are mission-critical. Power, temperature control, and oil-free compressed air are services on which our customers are totally dependent. Most of them use our services only occasionally – but when they do, they rely on us to keep their business or operation running.
- We operate internationally. This means that we can respond to events as they happen anywhere around the world.
- We are organised to address all segments of the market – we excel in managing major multi-million pound projects on an international basis, as well as thousands of short-term rentals on a local basis.
- We are completely focused on the rental of power, temperature control and oil free compressed air. We have technical expertise, equipment, skills and experience on a scale, and to a depth, that we believe nobody else can rival.

As a result, Aggreko has grown to be the market leader, with outstanding people, strong customer relationships and an excellent reputation.

# WHERE WE DO IT

## Location

Aggreko is a locally-focused business that has a global reach through an international network of service centres spanning Europe, North, Central South America, as well as in the Middle East, Asia and Australasia. We combine local knowledge with global capability. Our staff have on-the-ground experience in their own markets, while having access to the knowledge of colleagues all over the world.

Being close to our customers means we can be there in an emergency, able to respond quickly to their needs. At the same time, as a global business we can use our resources strategically, moving staff and equipment around the world – to wherever our customers need them.

A full list of our locations is available on [www.aggreko.com/ourcompany/locations](http://www.aggreko.com/ourcompany/locations)

## Our service centres and offices are in:

Europe	Jebel Ali	Beaumont
Antwerp	Sharjah	Dallas
Berlin	Bahrain	New Iberia
Leipzig	Kuwait	New Orleans
Hamburg	Doha	San Antonio
Muelheim	Jeddah	Corpus Christi
Munich	Al Khobar	Oklahoma City
Frankfurt	Yanbu	McAllen
Aachen	Muscat	Bridgeport
Dorsten	Asia	Boston
Barcelona	Hong Kong	Linden
Madrid	Shanghai	Baltimore
Paris	Singapore	Chicago
Lille	Africa	Detroit
Mulhouse	Tunis	Cleveland
Lyon	Lagos	St Louis
Nantes	Australasia	Kansas City
Marseilles	Darwin	Memphis
Bordeaux	Newcastle	Nashville
Toulouse	Townsville	Charleston
Le Havre	Kalgoorlie	Cincinnati
Portlaoise	Karratha	Calvert City
Milan	Sydney	Decatur
Moerdijk	Brisbane	Jacksonville
Oslo	Melbourne	Atlanta
Egersund	Perth	Fayetteville
Helsinki	Auckland	Richmond
Cannock	Fiji	Denver
Glasgow	South America	Los Angeles
Aberdeen	Rio de Janeiro	San Francisco
Dumbarton	Macao	Benicia
Doncaster	Manaus	Rancho
Newcastle	Campinas	Dominguez
Manchester	Santiago	Las Vegas
Fareham	Puerto Mont	Phoenix
Plymouth	Antofagasta	Hollywood
Great Yarmouth	Caracas	Tampa
Port Talbot	Central America	Miami
London	Mexico City	Chickasha
Bristol	North America	San Juan
Bedford	Mobile	Toronto
Nuneaton	Baton Rouge	Sarnia
Middle East	Lake Charles	Montreal
Abu Dhabi	Houston	Columbia

# THE MARKET

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## Our market

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Customers come to Aggreko when they need power, temperature control or oil-free compressed air. They might need it very quickly, for example when a power transformer fails in the local electricity grid, or they may need it for such a short period of time that it is not economically viable to purchase a permanent installation, for example, a major sporting event might use additional power and temperature control for only a few days.

The nature of Aggreko's business means that it is 'event-driven' – our customers turn to us when something unusual happens. Events range from the very large and infrequent to the small and recurrent, such as local power failures.

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## Examples of our activities

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Examples of high-value, infrequent events or situations we have worked on include

- Large-scale power shortage – Kenya, Sri Lanka and Venezuela
- Major sporting events – Ryder Cup, Football World Cup, SuperBowl
- Natural disasters – Hurricanes Katrina and Rita in 2005
- Military and aid agency support for post-conflict re-construction – Middle East, Africa and the Balkans

Examples of lower value, more frequent, events on which we might work are

- 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 and oil free-air compressors while its own equipment is being repaired
- A city centre needs chillers to create an ice rink for the Christmas period

# THE MARKET

## How big is the market, and what is our market share?

Because we operate in very specific niches of the rental market – power, temperature control and oil-free compressed air – and across a very broad geography, it is very difficult to size our market precisely. A complicating fact is that our own activities serve to create market demand – Rwanda and the Yemen did not figure highly in our market forecasts in 2003, but are now important customers as a result of our sales efforts. Furthermore, our market is event driven – and major events such as hurricanes in North America, Olympic Games, or major droughts in Africa can influence market size in the short term.

As there is no third-party research that exactly matches our business, we have to use a number of different approaches to estimate the size of the global market. All of our measurements of market size relate to rental revenue, as services revenues such as fuel and freight are highly volatile, and do not have any reflection on underlying market size.

For most OECD countries in which we operate, we use three techniques:

- **Supply side estimation** We use market intelligence to estimate the supply-side – i.e. how large our competitors are. This is notoriously inaccurate, as competitors often have much broader product ranges, and it is extremely difficult to work out how much of their revenue comes specifically from generators, and how much from the many other lines of equipment they may offer.
- **Demand-side estimation** With the implementation of our new ERP system, and a much sharper emphasis on sector-based marketing, we are building improved understanding of our revenue by sector and customer. We are in the process of developing techniques for estimating market size by taking the revenues we generate from highly penetrated customers whose spending patterns we know well and projecting those to the wider industry in which those customers operate.
- We use third party data where it is available.

For non-OECD countries we currently use supply side estimates only, and generally these are more reliable as there are fewer suppliers who can manage large power projects, which is the main type of market in these countries. We are, however, in the process of developing techniques which will allow us to develop better forecasts of future market trends.

By triangulating these techniques we develop an estimate of market size. In 2003, as part of our strategy review, we estimated that the world-wide market was worth around £1.1 billion, and that it would grow to about £1.3 billion by 2006. We have since done a great deal of further analysis, and our latest view is that the 2003 estimate was pretty accurate for the market size at that time, but, given our own growth over the period, our judgement is that the market has since grown slightly faster than we anticipated, and we now estimate it was in the range of £1.3 billion to £1.5 billion in 2006.

Given our rental revenues of £369 million in 2006, this would imply an Aggreko world-wide market share of around 25%. Behind this lies enormous variation. In many non-OECD countries, where the rental market is barely developed, and where we are called in to provide temporary utility power, we may have a very high market share for the period of the project, but none when it ends. In OECD countries where the rental markets are better developed, our share of sales will generally be lower than the 25% we estimate for our global share of sales. However, in nearly all the major markets in which we operate, Aggreko is the largest or second-largest player.

## What is driving market growth?

We estimate that the market for the short term rental of power, temperature control and oil-free compressed air is growing at some 2% above GDP in OECD countries. So if GDP grows at 3% on average, our market should grow at 5%.

Growth in Aggreko's Local business is driven by four main factors:

- **GDP** – as an economy grows, so does demand for energy.

- Propensity to rent – how inclined people are to rent rather than buy. This is driven by issues such as the tax treatment of capital assets and the growing awareness and acceptance of outsourcing
- Price – this is linked to the first two, but is also dependent on rental equipment availability. If there is a surplus, prices will decline
- Events – high value/low frequency events change the size of a market, although only temporarily. For example, the scale of Hurricane Katrina in 2005 led to a short term surge in temporary power demand in the areas affected by the hurricane

These factors also affect our International Power Projects business. There are however, two factors in particular driving the growth in the power utilities market in developing countries

- In the early stages of economic development, power demand increases very rapidly as economies industrialise and consumers buy power-hungry products such as televisions and air-conditioners. Many developing countries around the world find it hard to increase power capacity in line with this demand, which leads to power cuts. This can be immensely damaging to economic development
- Growing affluence in many developing countries means that people are becoming ever more dependent on power and increasingly intolerant of power failures. Governments react to this and seek to find ways of providing fast solutions to power shortages

<sup>1</sup> Pass-through fuel revenue relates to two contracts in Sri Lanka and Uganda in our International Projects business where we provide fuel on a pass through basis

## Our two different business models

Aggreko is organised around two different business models

### Local business

Our Local business focuses on the smaller, more frequently occurring, events. Although most of this business has a lead-time of more than 12 hours, about 25% of its revenues come from responding to emergencies. It is therefore essential to have the capability to deploy equipment and people to the customer's site within a matter of hours. This business operates from 118 service centres in Europe, North, Central & South America, the Middle East, Asia and Australasia. These service centres look after customers who are normally within a radius of 150 miles and they offer the complete range of our products and services. A typical contract in this business would be worth around £3,000 and last 2-3 weeks. In 2006 the Local business accounted for 75% of our revenues excluding pass-through fuel revenue<sup>1</sup>, amounting to some £372.3 million.

### International Power Projects

Our International Power Projects business concentrates on medium to very large contracts. Most projects in this business are worth over £1 million and some can be worth over £10 million. Customers are mainly in developing countries and include power utilities, governments, armed forces, oil companies and mining companies. A typical contract in this business would be for the rental of 20-25 megawatts (enough to power over 10,000 households) for 6-9 months. We use standardised equipment: 1 megawatt containerised units assembled to our specification in our own facility in Scotland. These generators are designed specifically to be easily transportable, reliable and robust. Power projects can arise anywhere in the world and the required response time is generally days or weeks rather than hours. To support these projects we concentrate our fleet in four hubs – in South America, Europe, the Middle East and Asia. From each hub large amounts of equipment can be shipped or flown rapidly to wherever it is needed. In 2006, our International Power Projects business generated revenues of £125.0 million, or 25% of Aggreko's total revenue excluding pass-through fuel revenue.



# THE MARKET

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## Who are our customers?

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Aggreko serves every industry that uses power, temperature control, or oil-free compressed air, making our customer-base very diverse, both in terms of geography and market segment

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## Competitive environment

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The barriers to entry in our business are low, many companies, small and large drift in and out of power rental, in particular, and competition in each market is fierce. However, to have global scale in our business requires significant distribution, technical expertise, and a great deal of capital investment. Over the last 10 years, several of the world's largest companies have tried to build global scale, but none have been willing to match Aggreko's rate of investment in fleet and global distribution. There is no single competitor that operates across the same breadth of geography and product markets as Aggreko.

Typically, competitors in the Local business are either privately-owned specialist rental businesses, or divisions of large plant-hire companies. Most of them operate in a single country, and often in just a particular part of a country. In most countries, competition is intense, but the competitors will tend to vary country to country. There are a relatively small number of larger companies which compete with us across a number of countries.

To compete on a global basis in the International Power Projects business requires a large fleet and the ability to sell and deploy it around the world. No other company has the integrated global network that Aggreko has developed which allows us to move fleet rapidly around the world to areas of high demand. In many countries sizable local companies, who will often be the distributors of major manufacturers such as Caterpillar, Cummins or Alstom, compete with us for contracts, as well as locally-based infrastructure companies.

# DIRECTORS' STATEMENTS

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**aggreko**

## Chairman's Statement

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**Philip Rogerson**  
Chairman

### Introduction

2006 was a very successful year for Aggreko, with record earnings for the Group and strong growth across all our businesses. North America and Aggreko International both performed extremely well, and, after three difficult years, our European business delivered sharp improvements in both revenue and profitability. Additionally on 4 December 2006, Aggreko completed the acquisition of substantially all the activities of GE Energy Rentals, one of our largest competitors. This acquisition has materially strengthened Aggreko's position, and brings skilled people as well as a large amount of additional fleet, which will help sustain our growth in the years ahead.

### Strategy

Aggreko's strategy is to drive the growth of our core business of power, temperature control and oil free compressed air rental in two ways: by organic growth, enabled by fleet investment and geographic expansion, and by judicious acquisitions. We made good progress on both fronts in 2006. To drive organic growth, we increased capital investment in the year to £128.0 million (2005: £80.2 million), the equivalent of 1.8 times depreciation, and we opened new service centres in Dubai, Hong Kong, Doncaster, Manaus in Brazil and Moerdijk in the Netherlands. The acquisition of GE Energy Rentals complemented this by adding further geographic reach, with new service centres being added to our network in Europe, North, Central & South America, and also increased our rental fleet size by about 30%.

### Trading

As the acquisition of GE Energy Rentals was completed only a few weeks before the year end, it did not have a material impact on the year's trading results.

Reported revenue at £540.7 million (2005: £417.7 million) was 29.5% higher than 2005 while revenue in constant currency<sup>1</sup> and excluding pass through fuel<sup>2</sup> from our contracts in Sri Lanka and Uganda increased by 27.1%.

Profit before tax and exceptional items increased by 47.5% to £83.1 million (2005: £56.4 million), earnings per share pre exceptional items increased by 45.2% to 20.05 pence (2005: 13.81 pence). An exceptional charge of £9.2 million before tax, £7.0 million after tax, was recorded in respect of the GE Energy Rentals acquisition. Net of this exceptional item, earnings per share were 17.41 pence.

Net debt increased to £205.2 million (2005: £102.9 million), largely as a result of the GE Energy Rentals acquisition and increased capital expenditure. Around 90% of this capital investment was spent on our rental fleet to support the strong growth in the business. Looking ahead we estimate that fleet capital investment in 2007 will be around £140 million.

### Dividend

Aggreko's financial position remains strong as measured by interest cover of 13.9 times (2005: 14.1 times). With this in mind, the Board is recommending a final dividend of 4.19 pence per ordinary share which, when added to the interim dividend of 2.53 pence, gives a total for the year of 6.72 pence, a 10.0% increase on 2005. At this level, the dividend would be covered 2.98 times. Subject to approval by shareholders, the final dividend will be paid on 18 May 2007 to ordinary shareholders on the register as at 20 April 2007, with an ex dividend date of 18 April 2007.

<sup>1</sup> Constant currency takes account of the impact of translational exchange movements in respect of our businesses which operate in currency other than sterling.

<sup>2</sup> Pass-through fuel revenue relates to two contracts in Sri Lanka and Uganda in our International Projects business where we provide fuel on a pass-through basis.

### **Employees**

2006 was an extremely busy year, during which employees have had to manage the pressure caused by the businesses' rapid growth, many of them have also been involved in the preparation, planning and execution of our acquisition of GE Energy Rentals. I would like to record my, and the whole Board's, thanks to all our colleagues for their hard work, dedication and commitment to delivering first class customer service, often in difficult circumstances. I would also like to welcome those employees of GE Energy Rentals who have joined Aggreko, and who have risen to the challenge of adapting quickly to a new environment.

### **Update on the integration of GE Energy Rentals**

The integration of the GE Energy Rentals business is going well and we have secured many of the cost savings faster than we expected, by way of example, we completed the planned 25 property exits (out of 33 properties occupied at the time of the acquisition) by mid February. Agreements we reached with GE concerning the re deployment of people and a number of other mitigating actions have also significantly reduced the exceptional costs related to the acquisition, as a consequence, we are taking an exceptional charge of £9.2 million in 2006, against £16 million estimated at the time of the announcement of the acquisition in September 2006. Our ability to achieve planned levels of utilisation from the GE Energy Rentals fleet in the short term will be dependent upon demand during the summer season, but the good progress we have made on the integration leads us to believe that the businesses and assets we have acquired will contribute to profits in 2007, rather than being earnings neutral as originally expected.

### **Outlook for 2007**

Aggreko is a business in which the flow of events can have a powerful influence on short term performance, so it is always difficult at this early stage to predict the year's performance. However, trading in the first few weeks has been strong, and the integration of GE Energy Rentals is running ahead of plan. Overall, if current trends continue, we anticipate a strong first half. For the year as a whole we expect to achieve a material increase in profits compared to 2006, and to be ahead of current market expectations.

We are carefully monitoring economic conditions in North America, where we are getting mixed signals from the various economic indicators we follow. On an underlying basis, the business is still growing, albeit at a slower rate than in 2006. While the business is highly seasonal, and makes a high proportion of its profits in the summer months, at this stage we believe that we will make progress during 2007.

Our performance in Europe during the second half of 2006 was encouraging and this momentum has continued into the first weeks of 2007. We expect this business to continue its recovery and to increase revenues and improve margins in 2007.

The strong demand we have seen in Aggreko International over the last few years continues unabated. In the Local business we have had a strong summer season in Australia, and our operations in Asia, South America and the Middle East are performing well. The International Power Projects business has had a good start to the year, with very high levels of utilisation on a fleet that is materially larger than last year. We anticipate that this business will deliver another strong performance in 2007.



**Philip G Rogerson**  
Chairman  
8 March 2007

## Board of Directors

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### **Philip Rogerson †**

(62) Chairman

Philip Rogerson is Chairman of Carillion plc and THUS Group plc, he is Chairman of Northgate plc on a short term basis and a Non executive Director of Davis Service Group plc. Until February 1998 he was Deputy Chairman of BG plc (formerly British Gas plc) having been a Director since 1992. He joined the Board of Aggreko plc in September 1997 and was appointed as Chairman in April 2002.

### **Rupert Soames †**

(47) Group Chief Executive

Rupert Soames joined the Board as Group Chief Executive on 1 July 2003. He was formerly with Misys PLC, where he was Chief Executive of the Banking and Securities Division. Before joining Misys, Rupert was with GEC plc for 15 years, working in a number of their subsidiaries, in the last 4 years of his service with GEC he was responsible for the UK, African and Asian operations of Avery Berkel. Prior to February 2006, he was a Non executive Director of Baggeridge Brick PLC.

### **Derek Shepherd**

(64) Managing Director – International

Derek Shepherd, a Chartered Engineer, left his position as Managing Director of Taylor Woodrow Nigeria to become International Managing Director of Gammon (HK) in Hong Kong and joined Aggreko in 1988 as Managing Director of the UK business. He was appointed Director of Aggreko Europe in 1991 and became Managing Director in the following year. He joined the Board of Aggreko plc in September 1997. In March 1999 he was given responsibility for Aggreko International Power Projects together with the Company's activities in the Middle East, Australia, Asia, Africa and South America. He is based in Dubai, United Arab Emirates.

### **Angus Cockburn**

(43) Finance Director

Angus Cockburn, a Chartered Accountant, joined Aggreko in May 2000 as Finance Director. He was previously Managing Director of Pringle of Scotland, a division of Dawson International PLC, having joined that company in 1997 from PepsiCo Inc. At PepsiCo he spent five years in various positions, latterly as Regional Finance Director for Central Europe based in Budapest. He has worked with KPMG both in the UK and in the USA and has an MBA from the IMD Business School in Switzerland. He is also a Non executive Director of Galiform Plc and a former chairman of the Group of Scottish Finance Directors.

### **George Walker**

(49) President – Aggreko North America

George Walker, a United States citizen, joined Aggreko in 1987 when the Company initially entered the temperature control business through the acquisition of Mobile Air Conditioning Inc. where he was Controller and then Vice President. A graduate of the University of Texas, he became a Vice President of Aggreko Inc. in 1988 and was appointed Executive Vice President in 1997. In January 2001 he became President of Aggreko North America and was appointed as an Executive Director of Aggreko plc.

### **Kash Pandya**

(44) Managing Director – Europe

Kash Pandya joined the Board on 20 June 2005. He was until recently Chief Executive of Johnston Group plc, and prior to that he was President, Europe, Asia & South America of APW, the world's largest manufacturer of specialist cabinets and enclosures for the telecoms and computer industries. Between 1996 and 1999, Kash worked for Caradon plc, latterly as Director of European Operations of the Radiator Division.

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**Philip Rogerson**

**Rupert Soames**

**Angus Cockburn**

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**Derek Shepherd**

**Kash Pandya**

**George Walker**

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**Nigel Northridge**

**Andrew Salvesen**

**Roy McGlone**

**Board Committees  
Membership**

\* Audit

§ Remuneration

† Nomination

**Nigel Northridge \* § †**

**(51) Senior Independent Non executive Director**  
Nigel Northridge was appointed as Chief Executive of Gallaher Group Plc in January 2000, having started his career with that business in 1976 as a trainee manager. Over his 30 years with Gallaher he has held a wide range of senior positions including Divisional Director Iberia, General Manager Europe and, prior to taking up his present position, Group Sales and Marketing Director. He is also a Non executive Director of Paddy Power plc. He joined the Board of Aggreko plc on 14 February 2002.

**Andrew Salvesen \* § †**

**(59) Non executive Director**  
Andrew Salvesen was appointed to the Board of Aggreko plc in September 1997. Previous to that, he had more than 20 years' experience with the Christian Salvesen group, including being the Managing Director of Christian Salvesen's former Oilfield Technology operations and was a Non executive Director of Christian Salvesen PLC between 1989 and September 1997. He is Chairman of Eurohostel Limited and a Director of the National Trust for Scotland.

**Roy McGlone \* § †**

**(53) Non-executive Director**  
Roy McGlone joined the Board in September 2002. Until February 2006, he was Chief Executive of BBA Group plc, having previously held the position of Group Finance Director. A Chartered Accountant, he qualified with Price Waterhouse and subsequently held positions with Meggitt plc and BICC plc.

**Company Secretary**

**Paul Allen (58)**

Paul Allen, a Chartered Accountant, was Divisional Accountant of the Industrial Services division of Christian Salvesen PLC at the time of its acquisition of Aggreko in 1984. In 1986, following the acquisition of the North American business, he became Financial Controller of Aggreko North America. He returned to the UK in 1993 and became Head of Finance for Aggreko in 1994. He was appointed Company Secretary in September 1997.

## Directors' Responsibilities

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Company law requires the Directors to prepare Accounts for each financial period which give a true and fair view of the state of affairs of the Company and the Group and of the profit or loss for that period. In preparing those Accounts, the Directors are required to

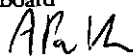
- select suitable accounting policies and then apply them consistently,
- make judgements and estimates that are reasonable and prudent,
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the Accounts, and
- prepare Accounts on the going concern basis unless it is inappropriate to presume that the Company and the Group will continue in business

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and the Group and to enable them to ensure that the Accounts comply with the Companies Act 1985. They are also responsible for the Group's system of internal control and safeguarding its assets and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors confirm that these Accounts comply with the foregoing requirements.

By order of the Board

**A Paul Allen**  
Secretary  
8 March 2007



## Directors' Report

**Rupert Soames**  
Chief Executive

**Angus Cockburn**  
Finance Director

The Directors present their report and the audited Financial Statements for the year ended 31 December 2006

### Results and Dividends

The profit for the financial year after taxation was £46.2 million (2005: £36.7 million). The retained profit for the financial year of £29.5 million (2005: £21.0 million) has been transferred to reserves.

An interim dividend of 2.53 pence per ordinary share was paid on 17 November 2006 at a cost of £6.7 million (2005: £6.2 million) and the Directors now recommend a final dividend of 4.19 pence per ordinary share payable on 18 May 2007 at an estimated cost of £11.1 million (2005: £10.0 million).

### Business Review and Principal Activities

#### Group strategy

All numbers quoted in the Business Review exclude the impact of exceptional items unless otherwise stated.

Our strategy, which was initially developed as a result of an in depth review of Aggreko's business in 2003, has remained consistent for the last three years, and continues to be the basis of our business planning. At its heart, Aggreko's mission is to deliver long term shareholder value by investing in, and managing effectively, its core business of renting mission critical equipment on a global basis. The last three year's trading results, shown below, indicate to us that the strategy is the right one, and we continue to work relentlessly to implement it.

#### Aggreko Group – excluding pass-through fuel

	2006	2003	CAGR
Revenue (£m)	497	324	15%
Trading profit (£m)	85	42	27%
Trading margin	17%	13%	
Return on capital employed (ROCE)*	22%	13%	

\*calculated using average net operating assets

In Aggreko, strategy is developed by an iterative process of examining the factors which will affect the business in the years ahead. We seek to develop a deep understanding of the drivers of demand, changing customer requirements, the competitive environment, as well as likely developments in technology and regulation. We look at our own strengths and weaknesses, and at the opportunities and threats that are likely to face us. From this analysis we develop a list of investment and operational options, and analyse their relative risks and rewards, bearing in mind the capabilities and resources of the Group.



## Directors' Report continued

We test our strategy on a regular basis. Having conducted a very thorough review in 2003 we re-examined our conclusions again in 2005 and we updated investors in March 2006 with our latest analysis, which was that

- The strategy developed in 2003 was working well
- The Group was well positioned in growing markets and had plenty of opportunities in its core business to drive future growth
- With the operational risks related to the re-structuring of the Group and the implementation of our new ERP system in Europe and North America behind us, we felt confident enough in the financial position of the Group to increase the rate of investment in the business

Looking at the options for the deployment of that increased investment, we said that

- The first priority for the Group would be driving the organic growth of the business, this would be largely in the form of increased fleet investment, increasing its marketing and operational reach, and focusing the operating units on improving operating efficiency
- The second priority would be making value adding acquisitions in the core business
- To the extent that we could not efficiently deploy capital on our first two priorities, we would return any excess capital to shareholders
- While we would not exclude bringing new product lines into the Group's service offering, diversification was not a priority as we felt that our core markets have considerable growth potential

In terms of progress against these Group objectives in 2006

- Total capital expenditure increased sharply in 2006 to £128.0 million, £47.8 million up on the prior year, at which level it represented 176% of the depreciation charge. £114.1 million was investment in new fleet (2005: £73.7 million)

In terms of operating efficiency, in 2006

- Revenue per employee increased by 13%
- Revenue per £ of Average Net Operating Assets has increased by 2%
- ROCE has increased from 19% to 22%

Note: all ratios relate to revenue and profit excluding pass-through fuel and exceptional items

- In terms of improving marketing and operational reach, in 2006 new service centres were opened in Manaus, Dubai, Hong Kong, Moerdijk in the Netherlands and Doncaster in the UK. Aggreko rented equipment in more than 90 countries in 2006
- We examined a number of acquisition opportunities, and were successful in acquiring one of our largest global competitors – GE Energy Rentals
- The financial performance of the Group in 2006 delivered significant growth, as shown below

Aggreko Group – excluding pass through fuel

	2006	2005	Growth %
Revenue (£m)	497	395	26%
Trading profit (£m)	85	59	44%
Trading margin	17%	15%	
ROCE*	22%	19%	

### Business line strategy

Supporting the Group strategy, Aggreko develops operational strategies for our two different lines of business

- The Local business, which delivers the complete range of our services to customers who are typically within a few hours driving time of our service centres,
- The International Power Projects business which provides large power plants on a global basis to power utilities, the military and major industrial users

### The Local business

The Local business serves customers from 118 service centres in the USA, Canada, Mexico, Brazil, Chile, Europe, the Middle East, Singapore, Hong Kong, China, Australia and New Zealand. This is a business with high transaction volumes: average contracts have a value of around £3,000 and last for 2-3 weeks. The Local business, excluding pass through fuel, represents 75% of Aggreko's revenues and 71% of trading profit.

### Aggreko Local business

	2006	% of Group
Revenue (£m)	372	75%
Trading profit (£m)	60	71%
Trading margin	16%	
Capital Employed (£m)*	292	73%
ROCE*	22%	

Since 2003, the performance of the Local business has improved sharply

### Local business

	2006	2003	CAGR
Revenue (£m)	372	258	13%
Trading profit (£m)	60	27	30%
Trading margin	16%	10%	
ROCE*	22%	11%	

The first objective of our Local business strategy is to create and maintain a clear differentiation between our offering and that of our competitors. Our research shows that Aggreko is regarded by our customers as providing extremely good service, and that we deliver high levels of customer satisfaction. We are determined to maintain this reputation for premium service and we do this through the attitude and expertise of our staff, the geographic reach of our operations, the design, availability and reliability of our equipment, and the ability to respond to our customers 24 hours a day, 7 days a week.

The second objective of our strategy is to be extremely efficient in the way we run our operations. This is essential if we are to provide superior customer service at a competitive price, and at the same time deliver to our shareholders an attractive return on capital. In a business in which lead times are short, logistics are complex, and there is a large number of low value transactions, an essential pre-condition of efficiency is having high quality systems and processes.

The operation of our Local businesses in Europe and North America is based on a "hub and spoke" model which has two types of service centre: hubs hold our larger items of equipment as well as providing service and repair facilities. Spokes are smaller and act as logistics points from which equipment can be delivered quickly to a customer's site. The hubs and spokes have been organised into areas in which a manager has responsibility for the revenues, profitability and use of capital within that area. In this model, most administrative and call handling functions are carried out in central rental centres.

This operating model is delivering a number of benefits. For our customers, it means better and more consistent levels of service and response. For Aggreko's Local business, it means an operating model which allows us to increase revenues faster than costs. In other words it is allowing us to develop a more scalable business model and, as revenues increase, to improve our margins.

## Directors' Report continued

A further benefit of the Local business model is that profit and capital employed can be measured at the same point in the organisation. A key feature of our culture is to devolve responsibility and authority to the lowest point at which we can measure return on capital employed, which is the key metric of efficiency in any business as capital intensive as ours.

An integral part of the strategy for the Local business is the implementation of our new Enterprise Resource Planning (ERP) system which will provide a single, global, IT system for managing our business. The new system gives us greatly improved visibility of the business, which will enable us to drive improvements in operating efficiency. The planned roll-out of the new system is largely complete in Europe and North America, and is starting in Aggreko International. We have now begun the process of delivering the full potential of the ERP system in terms of real time information and better efficiency through streamlined processes.

In 2003 and 2004, the focus of our strategy for the Local business was directed towards expanding market shares and increasing operational efficiency in existing geographies. Since 2005, and particularly in the Local businesses managed by Aggreko International, increasing emphasis is being placed on developing new markets, while in Europe and North America we are focusing on developing our penetration of key sectors.

### International Power Projects

This business serves the requirements of power utilities, governments, armed forces and major industrial users for the temporary provision of large scale power generation. Power plants range in size from 10 megawatts (MW) to 100 MW, and the initial contract value will typically be around £1 million, with a duration of around six months, although many contracts are subsequently extended beyond this. The business operates in areas where we do not have a large Local business. Most of the customers are power utilities in Africa, the Middle East, Asia and South America. The driver of demand in these markets is that our customers' economies are growing, with consequent increases in demand for additional power which cannot be met in the short term by installed generating capacity. As a result, many of them face chronic power shortages which damage their ability to support economic growth and increased prosperity. These shortages are often caused or exacerbated by the variability of supply arising from the use of hydro electric power plants whose output is dependent on rainfall.

International Power Projects now represents 25% of Group revenues and 29% of trading profit excluding pass through fuel.

### International Power Projects excl pass-through fuel

	2006	% of Group
Revenue (£m)	125	25%
Trading profit (£m)	25	29%
Trading margin	20%	
Capital Employed (£m)*	111	27%
ROCE*	22%	

Since 2003, the International Power Projects business has grown rapidly.

### International Power Projects

	2006	2003	CAGR
Revenue (£m)	125	66	24%
Trading profit (£m)	25	15	19%
Trading margin	20%	23%	
ROCE*	22%	25%	

In this business, our strategy is determined by the observation of two key characteristics of the market. The first is that demand can shift rapidly between continents. Four years ago, South America and Sri Lanka were the largest markets, and Africa was only a small proportion of global demand. In 2006, the market in Africa was larger than South America and Sri Lanka combined. It would not surprise us if this situation were to reverse again in the next three years. These shifts in demand were driven in part by rainfall patterns, in part by the relationship between economic growth and investment in permanent power generation and geo political issues. To be successful in the long term, therefore, requires the ability to capture demand wherever and whenever it may arise, and that requires sales, marketing and operational infrastructure to be present in all the target markets.

The second observation is that this is a business in which size brings significant advantages. There are numerous reasons for this:

- A large business, with global distribution and a large fleet, which can move assets around the world to meet demand wherever it arises can be reasonably confident when it invests in new equipment that, over its economic life of 8-10 years, the equipment will be on rent for enough of the time to keep in place the operational infrastructure needed to support the equipment, and to earn an economic return on the investment. A business which only operates in a single region or continent will be exposed to significant volatility in demand, and consequently long periods with idle fleet, which will badly damage investment returns.
- Each year, a number of "emergency" requirements arise, often as a consequence of breakdown in permanent generating capacity, for which equipment has to be deployed in a matter of days. These contracts are important because in many cases, they are the foundation of long term, valuable customer relationships. To be able to respond to them, however, requires the immediate availability of fleet, and the operational capacity to deploy anywhere in the world. It is much easier to find 30 MW of equipment available for immediate mobilisation in a fleet of 2,000 MW than in a fleet of 200 MW.

- It is our experience that it is possible to run large fleets to higher levels of utilisation than small fleets. This means that large operators can offer better pricing to customers.

- Large operators are able to negotiate better terms with suppliers, and can invest in the design and assembly skills which allow them to deliver equipment optimised to rental requirements at a lower capital cost than is generally available to small scale operators.

In summary, a large operator will have lower volatility of demand, better lifetime utilisation of equipment, be better able to respond to emergency requirements, and will have a lower fleet cost per MW. In International Power Projects, bigger is better – and Aggreko is now larger than any other competitor in this market, and the only company to have distribution in all the major markets.

#### Looking Ahead

The strategy we developed in 2003, and updated in 2006, is working well and has produced excellent results. We have strengthened our competitive position in North, Central & South America, the Middle East, Africa, Asia and Australasia. Our performance in Europe has not been as strong, but 2006 was a turning point for the region with good revenue and profit growth giving us the confidence that the business is on its way to recovery.

The acquisition of GE Energy Rentals, completed in December 2006, has been a major step forward in the implementation of our strategy. The strategic rationale behind the acquisition was that, at a time when Aggreko was growing rapidly, it increased our fleet by about 30%, and at a lower cost than buying new fleet. Secondly, it strengthened our position in important markets, such as South and Central America, USA, Europe, and in certain important market sectors such as Major Events (for example, the Football World Cup and the Olympics). Thirdly, GE Energy Rentals employed a large number of talented people who could help support our future growth. An update on the progress of the integration of the business is set out in the Trading Review, however the early indications are that the strategic rationale for the acquisition was sound.

## Directors' Report continued

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In terms of the Local business, a short term priority is to get the GE Energy Rentals fleet re branded and ready for rent. We will continue to drive operational improvement, focusing on turning our ERP system into a competitive advantage. We intend to grow our market share in North America and Europe and we will expand the footprint of our Local business in Asia and South America. As well as organic growth, we will also look for opportunities to grow our business through the acquisition of companies or assets in our core markets.

The International Power Projects business has made good progress expanding further in Africa, South America and Asia. Our strategy is to continue to invest heavily in this business to enable it to further increase its scale and reach. This will deliver increasing revenues and profits and will reduce the volatility inherent in the power projects business. A growing proportion of our future investment is likely to be in gas fuelled generators, which produce lower emissions and which, for some customers, are cheaper to run than diesel generators. We think that this technology could become an important niche in the International Power Projects marketplace in the years ahead.

We believe that the drivers of demand in International Power Projects are strong, and will remain so for as long as developing countries are growing their economies faster than they can invest in new permanent power generation capacity. Aggreko's ability to offer large amounts of reliable power, immediately available and delivered to the point of need, without the requirement for customers to commit large amounts of capital is a compelling proposition for many customers, and will remain so for years to come.

### Management of resources

This section describes how we manage our key resources to deliver the strategy outlined above.

#### People

Aggreko has over 2,200 employees around the world, and they are united by a unique culture. Phrases such as "customer focused", "can do", "completely dependable" capture part of the ethos of Aggreko employees. This culture has developed through the years, and derives from the fact that very often Aggreko is helping people and businesses to recover from, or to avoid, emergencies or disruption. Customers are often dependent on Aggreko people to keep things running, often under very difficult circumstances. Our people are highly skilled, and many of them have years of experience. They are used to reacting quickly, getting the job done professionally and safely, and they respond well in a crisis.

Given the environment in which we operate, it is essential that our people are properly trained, given the correct level of responsibility and accountability to make decisions on a timely basis and are remunerated and incentivised appropriately. Each part of the business has training programmes in place to ensure that our employees have the necessary skills to perform their roles to a high level. This training is a combination of on the job learning and specific skill development through training courses. A major component of this training is related to Environmental Health and Safety (EH&S) issues. More detail of our EH&S policies is given on pages 48 and 49.

The Company's remuneration policy, which is described on pages 57 to 60, is aligned with the key objectives of growing earnings and delivering strong returns on capital. To underline this point the Group's long term incentive scheme, and many senior managers' annual bonuses, are based on targets set against both earnings per share and returns on capital employed.

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### Physical assets

Many rental businesses provide standard products to their customers. The car or hammer drill you rent is the same as the one you can buy. Aggreko's equipment is different, manufacturers of generators, temperature control equipment and oil free air compressors generally design their product to be installed in a location and stay there for its working life. For our business, however, this equipment has to be lifted and transported thousands of times during its working life. It must be able to work in extreme conditions – the same generator might be working in –30°C on an oil rig in Russia one week, and in +45°C in the Saudi Arabian desert the next. Designing and building equipment that can do this while remaining safe, quiet, reliable and compliant with environmental and safety regulations is a key skill of Aggreko. Unusually for a rental company we design and build most of our equipment, and our specialist in house teams based in Dumbarton, Scotland, understand intimately the requirements of the environment in which the fleet operates. Not only do we have industry leading equipment, we also have a great deal of it – £721 million worth at original cost as at 31 December 2006.

Unlike most other rental businesses, we have a policy of keeping equipment for its useful life. This gives us a powerful incentive to maintain it well, which gives it both longer life and better reliability. We have a large number of skilled engineers, well equipped workshops and rigorous servicing regimes to ensure that our equipment is maintained to the highest standards.

Taking well judged fleet investment decisions is a key part of Aggreko's management task. All material investments are judged by reference to internal rates of return, and we monitor utilisation daily. Fleet is frequently moved between countries to optimise utilisation, and our new ERP system gives us the ability to manage our fleet on a real time basis across the world, which, in turn, will enable us to optimise its deployment and returns.

### Financial resources

The Group maintains sufficient facilities to meet its normal funding requirements in respect of on going working capital and capital expenditure over the medium term. These facilities are primarily in the form of bank facilities arranged on a bilateral basis with a number of international banks. The Group does not consider that the financial covenants contained in the facilities are restrictive to its operations.

In September 2006, we re-financed our existing debt facilities to raise additional funding for the acquisition of GE Energy Rentals businesses and assets. The new facilities, amounting to c£370 million in total, are in the form of bilateral multi currency agreements, with maturities of either 3 or 5 years. The key financial covenants are unchanged from the previous arrangements. The Group's borrowings were £218.2 million at 31 December 2006, and net debt amounted to £205.2 million. At that date, undrawn, committed facilities were £152.9 million.

## Directors' Report continued

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### 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 under the heading of Internal Control on page 45 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. Historically, wherever economies have gone into recession, or GDP growth has slowed, our business has suffered, and the operational gearing inherent in our business models means that variations in demand can lead to much larger variations in profitability. Even quite small changes in GDP growth rates in an economy can affect our business – for good or ill. In an economy which is growing at 3%, our business is much busier than in an economy growing at 1%. 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 our Middle East business has a large proportion of its work coming from construction.

We mitigate this risk in a number of ways. First, having a global footprint is highly advantageous, because we can shift rental fleet and new investment away from low growth economies to higher growth environments, for example, in 2005 and 2006 we moved fleet from Europe and North America to the Middle East. 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, so in the Middle East, for instance, we are investing in our temperature control business which will in time reduce our exposure to construction, in North America we have special initiatives in place to develop our business in the construction and food & beverage 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 business' cost base (£72.5 million in 2006), reducing capital expenditure below depreciation makes the business very cash generative, which in turn will reduce debt and interest cost.

### Events

The business is, by nature, event driven. People hire generators not because it is a cheap form of electricity, but because some event or need makes it essential. Aggreko's revenues, cashflows and profits can be influenced significantly by external events as evidenced in 2005 by Hurricanes Katrina and Rita in North America or by the contracts to supply power to military camps in the Middle East. These events are by 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 and 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.

### Political

The Group operates in over 90 countries around the world, many of them in 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 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 debt position of all such contracts constantly, and deploys a variety of techniques to mitigate the risks of delayed or non payment; these include securing advance payments, bonds, letters of credit, bank guarantees and various types of insurance. As a result of the rigorous approach we take to risk management, we have not had a material bad debt on a major contract in a developing country in the last ten years. 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, the increased number of contracts and countries we operate in increases the likelihood of suffering a loss at some point.

#### **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](http://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.

#### **Acquisitions**

It is part of our strategy to acquire businesses in our core market which can add value to Aggreko. In the last three years, we have acquired one small business – the temperature control business of Prime Energy in the USA, and one large global business – GE Energy Rentals. We are well aware that buying businesses can be risky, and that statistics show that many of them are value destructive. In our view, the greatest areas of risk are

- Over paying
- Acquiring liabilities we do not know about
- Failing to integrate effectively

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. In the case of the GE Energy Rentals acquisition, the Group set up a dedicated Integration Team that operates under strict programme management disciplines. This team is responsible for all aspects of the integration including people, property, rental fleet and data transfer onto the Group's ERP system. The Integration Team is also responsible for the tracking, reporting and delivery of the cost savings and synergies. By creating a dedicated team tasked with the integration of the acquisition, the rest of the management team are not distracted from the task of running the core business. Although we are only a few months into the GE Energy Rentals integration process, so far our approach is working well.



## Directors' Report continued

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### 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 KPI's 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 and differentiated service proposition at a price that they believe provides good value.

### Product technology & 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 new gas fuelled technology. 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 also keenly aware of the need for effective succession planning and management development. We therefore have put 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, as well as succession candidates for most roles. This programme is at an early stage, but over the next few years will improve greatly our capability in this area.

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 colleagues enjoy working for Aggreko, and 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. Of the 100 people who have participated in the plan in the last three years, only 2 have left voluntarily.

#### **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. We are also in the process of building a second data centre in the Middle East 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 including, for example: failure to communicate consistent, co-ordinated messages, failure 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 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 failure/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.

## Directors' Report continued

### Treasury risks

The Group's asset values, earnings and cash flows are influenced by a wide variety of currencies due 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 and adverse impact on the Group's asset values, costs, earnings and cash flows. Further discussion of this topic can be found on page 38.

### Key Performance Indicators

The Group uses a large number of performance indicators to measure operational and financial activity in the business. Most of these are studied on a daily, weekly or monthly basis. A well developed management accounts pack, with profit and loss statements and key ratios related to capital productivity is prepared for each profit centre monthly.

There are five Key Performance Indicators (KPI's) which we use as measures of the longer term health of the business. They are:

- Safety
- Returns on average capital employed
- Earnings per share
- Customer Loyalty
- Staff turnover

### Safety

Our business involves the frequent movement of heavy equipment, which in its operation produces lethal voltages and contains thousands of litres of fuel. Rigorous safety processes are absolutely essential if we are to avoid accidents which would cause injury to people, property and our reputation. Safety processes are also a basic benchmark of operational discipline, and there is in our view a close correlation between a well run business and a safe business. In our experience, businesses with poor safety records nearly always have other management or operational deficiencies.

The main KPI we use to measure safety performance is the internationally recognised Frequency Accident Rating ("FAR") which is calculated as the number of lost time accidents multiplied by 200,000 (being the base for 100 employees working 40 hours per week, 50 weeks per year) divided by the total hours worked. A lost time accident is a work related injury/illness that results in an employee's inability to work the day after the initial injury/illness.

The Group's performance during 2006 has shown an improvement over the previous year and is much better than the benchmark statistic reported for US rental and leasing industries by the US Department of Labor which was 1.5 in 2005. Further discussion of Health & Safety matters can be found in this report in the Risks and Uncertainties section (page 26) and under Corporate Social Responsibility (pages 48 and 49). FAR was as follows:

	Year ended 31 December	
	2006	2005
FAR	0.75	0.98

### Returns on average capital employed

In a business as capital intensive as Aggreko's, profitability alone is a poor measure of performance, it is perfectly possible to be generating good margins, but poor value for shareholders, if assets (and in particular, fleet) are being allocated incorrectly. We believe that by focusing on return on average capital employed ("ROCE"), we measure both margin performance and capital productivity, and we make sure that unit managers are tending their balance sheets as well as their profit and loss accounts. We calculate ROCE by dividing operating profit for a period by the average of the net operating assets as at 1 January, 30 June and 31 December. ROCE was as follows:

	Year ended 31 December	
	2006	2005
	%	%
ROCE	22.1	18.6

### Earnings per share

Measuring the creation or destruction of shareholder value is a complex and much debated topic. We believe that EPS, while not perfect, is an accessible measure of the returns we are generating as a Group for our shareholders, and also has the merit of being auditable and well understood. So, for the Group as a whole, the key measure of short term financial performance is diluted earnings per share pre-exceptional items ("Adjusted EPS"). Adjusted EPS is calculated based on profit attributable to equity shareholders (adjusted to exclude exceptional items) divided by the diluted weighted average number of ordinary shares ranking for dividend during the relevant period. Adjusted EPS was as follows:

	Year ended 31 December 2006 pence	2005 pence
Adjusted EPS	19.87	13.72

### Customer loyalty

The Group deals every year with thousands of customers, and we have developed a process by which we can objectively measure the performance of our business units, not only in financial terms, but also the extent to which they are making customers feel inclined to return to us the next time they need the services we provide. We believe that real time measurement of our performance as seen by our customers gives us visibility of operational issues which might otherwise take months to emerge through the profit and loss account. Accordingly, in 2005 we started to roll out the Satmetrix system, whereby we send customers an email immediately after a contract closes asking them to fill out a detailed questionnaire of how they thought we performed. This data is then collated to conform to the same management structure as our profit and loss accounts, so that in monthly management accounts we see not only a team's financial performance, but also their operational performance as measured by how well their customers think they have done for the same period.

These questionnaires generate enormous amounts of data about how customers view our processes and performance, and in order to distil this down into a single usable indicator, we track a ratio called the Net Promoter Score (NPS). Broadly speaking, it measures the relative weight of people who think we do an excellent job against those who think we are average or worse.

In aggregate, our NPS in 2006 was 5.0. Within this score, our North American business scores the highest, and at levels comparable to or better than many of the best performers across all industries in the United States. Our European scores, while respectable, show that there is room for improvement, and in 2007 we will be monitoring progress on a monthly basis.

### Staff turnover

In a service business like Aggreko, it is the attitude, skill and motivation of our staff which makes the difference between mediocre and excellent performance, and staff retention is a reasonable proxy for how employees feel about our company. We monitor staff turnover which is measured as the number of employees who left the Group (other than through redundancy) during the period as a proportion of the total average employees during the period. Staff turnover was as follows:

	Year ended 31 December 2006 %	2005 %
Staff turnover	14.9	15.2

## Directors' Report continued

### Review of Trading

#### Group trading performance

Aggreko has made excellent progress on many fronts in 2006. Trading profits reached record levels, and returns on capital grew strongly. We grew revenues in all our major markets, and at a rate which we believe in aggregate to have been faster than the market, in the year, we did business in more than 90 countries. We have developed our core product range, and won a major contract for our new gas fuelled temporary power solution.

In December 2006, we achieved a long held ambition of acquiring one of our largest competitors, GE Energy Rentals. Although this transaction came too late in the year to have a material impact on performance in 2006, we believe that the people, customers and rental assets acquired will help sustain the future growth of Aggreko. An exceptional charge of £9.2 million before tax, £7.0 million after tax, was recorded in respect of the GE Energy Rentals acquisition.

The results pre and post this charge are set out in the table below, but the commentary relates to the results before these exceptional charges unless otherwise stated. There were no exceptional items in 2005.

As reported, Group revenue at £540.7 million (2005 £417.7 million) was 29.5% higher than 2005, while Group trading profit of £86.7 million (2005 £59.6 million) was 45.5% ahead of 2005. This resulted in an increase in Group trading margin from 14.3% in 2005 to 16.0% in 2006. Return on capital employed, measured as operating profit divided by average net operating assets, improved to 22.1% (2005 18.6%).

Group profit before tax increased by 47.5% to £83.1 million (2005 £56.4 million), profit after tax was £53.2 million (2005 £36.7 million), up 45.2%. Earnings per share grew 45.2% to 20.05 pence (2005 13.81 pence).

The impact of currency movements – mainly the US dollar exchange rate – has been to decrease revenue by £3.8 million and trading profit by £0.6 million. The Group has contracts with two customers (Sri Lanka and Uganda) to whom it supplies large amounts of fuel on a pass through basis, as these revenues are highly variable, and dependent on consumption and the prevailing fuel price, we normally exclude these revenues when measuring the operating performance of the business. In 2006 pass-through fuel revenues amounted to £43.4 million (2005 £22.8 million) and generated a trading profit of £1.6 million (2005 £0.5 million). On an underlying basis, excluding the impact of the currency movements and the pass through fuel, Group revenue grew by 27.1% (as reported 29.5%) and trading profit by 45.6% (as reported 45.5%). On the same basis trading margin was 17.1% (as reported 16.0%) which compares with 15.0% in 2005 (as reported 14.3%).

The Group's growth was made possible by sharply increased investment in new fleet during the year. Total capital expenditure for the year was £128.0 million, £47.8 million up on the prior year, at which level it represented 176% of the depreciation charge. £114.1 million (2005 £73.7 million) was investment in new fleet. In addition, we acquired £33.1 million of property, plant and equipment as part of the GE Energy Rentals acquisition. Notwithstanding this substantial increase in fleet capacity, the ratio of revenue (excluding pass through fuel) gross rental assets, which is a key measure of capital efficiency, increased by 6 percentage points to 72.0%.

	2006 post- exceptional items	2006 pre- exceptional items	2005	Movement pre-exceptional items	
	£ million	£ million	£ million	As reported	Const currency
				%	%
Revenue	540.7	540.7	417.7	29.5%	30.7%
Revenue excl pass-through fuel	497.3	497.3	394.9	25.9%	27.1%
Trading profit <sup>1</sup>	77.5	86.7	59.6	45.5%	47.1%
Operating profit	80.3	89.5	60.7	47.6%	49.2%
Net interest expense	(6.4)	(6.4)	(4.3)	(49.4%)	
Profit before tax	73.9	83.1	56.4	47.5%	
Taxation	(27.7)	(29.9)	(19.7)	(51.7%)	
Profit after tax	46.2	53.2	36.7	45.2%	
Basic earnings per share (pence)	17.41	20.05	13.81	45.2%	

<sup>1</sup> Trading profit represents operating profit before gain on sale of property, plant and equipment.

EBITDA (earnings before interest, taxes, depreciation and amortisation) for the year amounted to £162.8 million (pre exceptional items), up 31.3% on 2005. The Group had a net cash outflow of £102.3 million (2005 £20.8 million) mainly as a consequence of the GE Energy Rentals acquisition and the high level of capital expenditure. It is encouraging to note that the measures we track related to working capital efficiency (principally revenue debtors and revenue inventories) improved in the year, notwithstanding the very considerable increase in transaction volumes.

In September, we re-financed our existing debt facilities to raise additional funding for the acquisition of GE Energy Rentals business. The new facilities, amounting to c£370 million in total, are in the form of bilateral multi-currency agreements, with maturities of either 3 or 5 years. The key financial covenants are unchanged from the previous arrangements.

#### The acquisition of GE Energy Rentals

On 4 December 2006, Aggreko completed the acquisition of substantially all the activities (other than those relating to large gas turbines) of GE Energy Rentals for an initial consideration (including transaction fees) of US\$192.1 million. Deferred

consideration, up to a maximum of \$29.4 million, will be payable during 2007 dependent on GE delivering further fleet assets to Aggreko.

The integration of the acquired businesses is going well and we have secured many of the cost savings faster than we expected, by way of example, we completed the planned 25 property exits (out of 33 properties occupied at the time of the acquisition) by mid February. Agreements we reached with GE concerning the re-deployment of people and a number of other mitigating actions have also significantly reduced the exceptional costs related to the acquisition, as a consequence, we are taking an exceptional charge of £9.2 million in 2006, £7.0 million after tax, against £16 million pre-tax estimated at the time of the announcement of the acquisition in September 2006. Our ability to achieve planned levels of utilisation from the GE Energy Rentals fleet in the short term will be dependent upon demand during the summer season, but the good progress we have made on the integration leads us to believe that the businesses and assets we have acquired will contribute to profits in 2007, rather than being earnings neutral as originally expected.

#### Regional trading performance

Regional trading performance		Revenue			Trading Profit		
Management Group	Geography / Line of business	2006 £ million	2005 £ million	Change %	2006 £ million	2005 £ million	Change %
<b>Local Business</b>							
North America	USA & Canada	159.0	141.7	12.2%	33.8	26.5	27.5%
Europe	Northern Europe	70.2	58.7	19.7%	5.6	4.5	24.9%
Europe	Continental Europe	65.5	55.9	17.1%	5.3	0.9	465.5%
Aggreko International	Middle East,						
Local Businesses	Asia Pacific, South America	77.6	52.0	49.1%	15.7	9.5	67.0%
<b>Sub-total Local Business</b>		<b>372.3</b>	<b>308.3</b>	<b>20.8%</b>	<b>60.4</b>	<b>41.4</b>	<b>46.0%</b>
<b>International Power Projects</b>							
International	International Power Projects excl pass-through fuel	125.0	86.6	44.3%	24.7	17.7	39.4%
International	Pass through fuel	43.4	22.8		1.6	0.5	
<b>Sub-total International Power Projects</b>		<b>168.4</b>	<b>109.4</b>	<b>54.0%</b>	<b>26.3</b>	<b>18.2</b>	<b>44.4%</b>
<b>Group</b>		<b>540.7</b>	<b>417.7</b>	<b>29.5%</b>	<b>86.7</b>	<b>59.6</b>	<b>45.5%</b>
<b>Group</b>							
	North America	159.0	141.7	12.2%	33.8	26.5	27.5%
	Europe	135.7	114.6	18.4%	10.9	5.4	100.1%
	International	246.0	161.4	52.4%	42.0	27.7	52.2%
<b>Group</b>		<b>540.7</b>	<b>417.7</b>	<b>29.5%</b>	<b>86.7</b>	<b>59.6</b>	<b>45.5%</b>
<b>Group excluding pass-through fuel</b>		<b>497.3</b>	<b>394.9</b>	<b>25.9%</b>	<b>85.1</b>	<b>59.1</b>	<b>44.0%</b>

## Directors' Report continued

The performance of each of these regions is described below

### Local business: North America

	2006 \$million	2005 \$million	Change %
Revenue	293.1	257.6	13.8%
Trading profit	62.3	48.2	29.2%

Our Local business in North America had an excellent year with revenue increasing 13.8% to \$293.1 million and trading profit increasing by 29.2% to \$62.3 million. Trading margin increased by 2.6 percentage points to 21.3%. On an underlying basis, the performance was even better. In 2006 no major hurricanes made landfall in the United States, and storm related revenues amounted to \$8 million, compared with 2005 when \$32 million of revenues and \$16 million of trading profit came from emergency and reconstruction work following Hurricanes Katrina and Rita. Excluding the impact from the storms, North American revenues in 2006 grew by 26.6% and trading profit by 81.9%. This growth has been the result of our investment in new fleet and the continued productivity improvements delivered by our new area structure. Encouragingly, revenue growth was broadly based, covering multiple sectors and geographies.

In terms of business mix, rental revenue grew 18.9% and services revenue grew 3.3%. The slower growth in services revenues (which comprise services ancillary to the rental such as fuel, transport and engineering) reflects the lack of storm related work, which typically generates large amounts of services revenue. Power rental revenue for 2006 was 32.7% ahead of prior year. Temperature control and oil free air rental revenue grew during 2006 by 11.2% and 5.0% respectively.

The main challenge facing the North American business in 2007 is putting to work the 45% increase in generating capacity now available for rent as a consequence of the GE Energy Rentals acquisition. Considerable effort is being devoted to getting the equipment re-branded and serviced in time for the summer season.

We are carefully monitoring economic conditions in North America, as we are getting mixed signals from the various economic indicators we follow. On an underlying basis, the business is still growing, albeit at a slower rate than in 2006. While the business is highly seasonal, and makes a high proportion of its profits in the summer months, at this stage we believe that we will make progress during 2007.

### Local business: Europe

#### Revenue

	2006 €million	2005 €million	Change %
Northern Europe	102.9	85.8	20.0%
Continental Europe	96.1	81.8	17.4%
Total Europe	199.0	167.6	18.7%

#### Trading Profit

	2006 €million	2005 €million	Change %
Northern Europe	8.3	6.6	25.2%
Continental Europe	7.7	1.4	467.1%
Total Europe	16.0	8.0	100.6%

For the past three years, Europe has been the poorest performing of our regions. A combination of a difficult restructuring programme in 2004 and 2005, poor economic growth resulting in subdued demand, as well as fierce competition have served to hold the business back. However, we feel that 2006 has seen a turning point in the European business. A combination of reductions in the overhead cost base, combined with strong revenue growth, led to a sharp improvement in performance. Revenue grew by 18.7% and trading profit doubled to €16.0 million. Trading margin increased from 4.7% in 2005 to 8.0% in 2006. This performance is flattered by the impact of the €2.4 million one off restructuring charge taken in 2005 in Continental Europe, on an underlying basis trading profit increased by 104.9% in Continental Europe and by 54.1% for the region as a whole.

Revenue in Northern Europe (which comprises our businesses in the UK, Ireland and the Nordic countries) was 20.0% ahead of the prior year at €102.9 million with trading profit of €8.3 million being 25.2% ahead of 2005. Rental revenue increased by 11.9%, with power and temperature control revenue increasing by 12.7% and 10.0% respectively. Revenue from our smallest product, oil-free air, increased by 7.3%. Services revenue, which mainly comprises fuel and transport, grew by 35.5%.

Revenue in Continental Europe was 17.4% ahead of 2005 at €96.1 million with trading profit of €7.7 million being €6.3 million ahead of last year, resulting in an improvement in trading margin from 1.7% in 2005 to 8.0% in 2006. Rental revenue grew by 10.4%, while services revenue grew by 32.2%. Within rental revenue, power increased by 14.1%, temperature control increased by 9.3% and oil free air decreased by 19.0%.

During 2006 we completed the roll-out of the ERP system in the UK, a process that went smoothly despite the very high transactional volumes in this business. The focus across the European business is now on driving operational improvements and efficiency in order to grow revenues and margins.

Returns and margins in Europe are yet to reach satisfactory levels but the momentum is in the right direction, and the business is beginning to show the benefits of the enormous changes which have been implemented over the last three years. In 2007, the business will also have access to the fleet and customer base of GE Energy Rentals, which should provide additional opportunities for growth. Overall, we expect to see further progress from this region in the year ahead.

#### Local business: Aggreko International

	2006 \$million	2005 \$million	Change %
Revenue	143.0	94.6	51.2%
Trading profit	29.0	17.1	69.4%

Aggreko International's Local businesses in the Middle East, Asia, Australia, New Zealand and South America all performed extremely well in 2006, supported by high levels of fleet investment. In aggregate, year on year revenue grew by 51.2% to \$143.0 million, which resulted in trading profit growth of 69.4% to \$29.0 million and a trading margin of 20.3% as against 18.1% in 2005.

Our Local business in the Middle East operates from 9 depots across the region, including a large new facility opened in 2006 in Jebel Ali which will enable us to offer improved service to our customers in the United Arab Emirates. Across the Middle East as a whole, activity levels are high and are supported by a large number of infrastructure projects. Although power is by far the strongest product in the Middle East, we are now starting to make encouraging progress in temperature control, which should, in time, provide opportunities to widen the business's customer base and provide additional opportunities for growth.

Our Australian business had an outstanding year with both power and temperature control revenues benefiting from a strong economy and a buoyant mining sector. An encouraging performance from our New Zealand business, as well as high levels of utility work also contributed to a strong year. In Asia, we continued to experience strong growth in Singapore where shipping and shipyard activity continued at high levels. We opened a new depot in Hong Kong during the first quarter of 2006, and a new depot in Shanghai in January 2007, both these operations have been established to help us to explore opportunities for Aggreko in China. Our Local business in Brazil continued to grow strongly as it builds its business with major oil field operators. Three years after the establishment of our service centre in Macae, north of Rio de Janeiro, the business is growing strongly and producing good returns on capital, we also established in the year a new service centre in Manaus.



## Directors' Report continued

The acquisition of GE Energy Rentals has strengthened Aggreko International's Local businesses significantly. In South America, the addition of four new depots in Brazil and Chile has transformed our position in the region, it will give the business better reach and provide a platform for growth, as well as being a "shop window" for our power projects business. In the Middle East and Asia, the additional fleet is being re-branded and has increased our capacity. In Australia, the gas fuelled fleet acquired from GE Energy Rentals will enable us to develop this important market segment.

Given the favourable market conditions across Aggreko International's Local businesses, and the opportunities provided by the acquisition of GE Energy Rentals, we expect to make continued progress in this segment in 2007.

### International Power Projects: Aggreko International

	2006 \$million	2005 \$million	Change %
Revenue (excluding pass through fuel)	230.5	157.5	46.3%
Trading profit (excluding pass through fuel)	45.6	32.3	41.4%

Building on the progress made in 2005, the International Power Projects business had an outstanding year, with revenues and profits (excluding pass through fuel) increasing by 46.3% and 41.4% respectively. Trading margin declined slightly from 20.5% in 2005 to 19.8% in 2006.

Revenue growth was driven in part by new contracts, of which we signed 37 in the year, and in part by the very high proportion of customers extending existing projects, which is a tribute to the quality of service delivered by our operations teams in the power projects business. Revenues grew in nearly all areas, including the Middle East, Africa, Asia and South America. In 2006 we carried out power projects in a total of 48 countries, and increased the number of operational projects by 20%.

Our African business delivered impressive growth. Much of this growth was focused on supporting utilities in East Africa, where severe droughts have reduced output from hydro power plants. Aggreko has been able to help the authorities to mitigate the impact of severe power shortfalls in Kenya, Uganda, Rwanda and Tanzania. The business ran power projects in a further 17 countries in Africa, underlining the very considerable presence we have established in the continent. Of great significance for the Group's strategy of developing solutions based on gas, was the award of a two-year contract to supply 40 MW in Tanzania. This plant was generating power within 12 weeks of contract signature, which underlines the flexibility and operational excellence of our gas solution.

Demand was also strong in the Middle East: military revenues grew to \$59.6 million (2005: \$47.3 million), and utility revenues were boosted by two 50MW contracts in the Yemen. Our Asian projects business also performed well with contracts in Malaysia, Indonesia and South Korea – most of these were related to oil and gas projects. Our South American business continued to develop during the year with on going contracts in Brazil and Venezuela and our first contract for the mining industry in Chile.

Our International Power Projects business performed extremely well in 2006 and its ability to manage rapid growth while maintaining excellent customer service, sometimes in very demanding conditions, is testament to the strength of the Aggreko International team. Given the high level of utilisation at the end of 2006, and the strong pipeline of new opportunities, we expect the business to continue to make good progress in 2007.

### Detailed Financial Review Critical Accounting Policies

The Group's significant accounting policies are set out in Note 1 to the financial statements

Preparation of the consolidated financial statements requires Directors to make estimates and assumptions that affect the reported amounts in the consolidated financial statements and accompanying notes. Actual outcomes could differ from those estimated.

The Directors believe that the accounting policies discussed below represent those accounting policies that require the greatest exercise of judgement. The Directors have used their best judgement in determining the estimates and assumptions used in these areas but a different set of judgements could result in material changes to our reported results. The discussion below should be read in conjunction with the full statement of accounting policies, set out in Note 1 to the Financial Statements.

#### Pensions

Pension arrangements for our employees vary depending on best practice and regulation in each country. The Group operates a defined benefit scheme for UK employees, which was closed to new employees joining the Group after 1 April 2002, most of the other schemes in operation around the world are varieties of defined contribution schemes.

Under IAS 19 'Employee Benefits' Aggreko has recognised a pre tax pension deficit of £13.1 million at 31 December 2006 (2005: £16.8 million). The decrease in the pension deficit is mainly as a result of additional contributions made by the Company during the year. Following the completion of the actuarial valuation at 31 December 2005, the Company and trustees agreed upon a Schedule of Contributions and a Recovery Plan. During 2006 the Company contributions for benefits building up in the future were increased to 31.5% of pensionable earnings and from 1 January 2007 the Company contributions will be 25.4% of pensionable earnings. From 1 January 2007 future benefits will be accrued on a Career Average basis hence the change to the required contribution rate. To address the Scheme deficit

the Company made an additional contribution of £3.5 million in 2006 and plans to make additional contributions of £4.0 million in 2007, £4.0 million in 2008 and £0.5 million per annum until December 2015. Employee contributions will increase to 6% from 1 January 2007.

The main assumptions used in IAS 19 valuation for the previous two years are shown in note 28 of the Accounts. The sensitivities regarding the discount rate and longevity assumptions are shown in the table below.

#### Assumptions

	Change in assumption	Indicative effect on the scheme's liabilities
Discount rate	Increase/decrease by 0.5pp	Decrease by 13.6% / increase by 16.0%
Longevity	Increase by 1 year	Increase by 2.7%

#### Taxation

Aggreko's tax charge is based on the profit for the year and tax rates in force at the balance sheet date. Estimation of the tax charge requires an assessment to be made of the potential tax treatment of certain items which will only be resolved once finally agreed with the relevant tax authorities.

#### Property, plant and equipment

Rental fleet accounts for 88% (£312 million) of the net asset value of property, plant and equipment used in our business, equipment in the rental fleet is typically depreciated over a period between 8 and 10 years. The annual depreciation charge is sensitive to the estimated service lives allocated to each class of asset. Asset lives are reviewed regularly and changed if necessary to reflect current thinking on their remaining lives in light of technological change, prospective economic utilisation and the physical condition of the assets.

## Directors' Report continued

### Intangible assets

In accordance with IFRS 3 'Business Combinations' goodwill arising on acquisition of assets and subsidiaries is capitalised and included in intangible assets. IFRS 3 also requires the identification of other acquired intangible assets. The techniques used to value these intangible assets are in line with recognised models but do require the use of estimates which may differ from actual outcomes. Future results are impacted by the amortisation period adopted for these items and, potentially, by any differences between estimated and actual circumstances related to individual intangible assets.

Goodwill is not amortised but is tested annually for impairment and carried at cost less accumulated impairment losses. The impairment review calculations require the use of estimates related to the future profitability and cash generating ability of the acquired assets.

### Currency Translation

The net overall impact of exchange rates on currency translation in 2006 was to decrease revenue and operating profit by £3.8 million and £0.6 million respectively. Currency translation also gave rise to a £20.5 million decrease in reserves as a result of year on year movements in the exchange rates. Set out in table below are the principal exchange rates affecting the Group's overseas profits and net assets.

Per £ sterling

	2006		2005	
	Average	Year End	Average	Year End
<b>Principal Exchange Rates</b>				
United States dollar	1.84	1.96	1.82	1.72
Euro	1.47	1.49	1.46	1.46
<b>Other Operational Exchange Rates</b>				
UAE Dirhams	6.77	7.20	6.68	6.32
Australian dollar	2.45	2.49	2.39	2.35

Source: Reuters

### Exceptional items

The definition of exceptional items is contained within Note 1 to the consolidated financial statements. An exceptional charge of £9.2 million before tax, £7.0 million after tax, was recorded in respect of the GE Energy Rentals acquisition comprising integration costs, redundancy and related costs, property and other costs.

### Interest

The net interest charge for the year was £6.4 million, an increase of £2.1 million on 2005, reflecting the higher level of net debt during the year. Interest cover decreased to 13.9 times (pre exceptional items) from 14.1 times in 2005.

### Effective Tax Rate

The effective tax rate for the full year is 36.0% as compared with 35.0% in 2005. This increase in the tax rate largely reflects the changes in the regional mix of profits.

### Dividends

If the proposed final dividend of 4.19 pence is agreed by shareholders, it would result in a full year dividend of 6.72 pence per ordinary share, giving dividend cover (pre exceptional items) of 2.98 times (2005: 2.26 times).

### Cashflow

The net cash inflow from operations during the year totalled £160.2 million (2005: £101.9 million). This funded capital expenditure of £128.0 million, which was £47.8 million higher than in 2005. Net debt increased by £102.3 million during the year to £205.2 million mainly as a result of the GE Energy Rentals acquisition and increased capital investment. As a result of the increase in net debt, gearing (net debt as a percentage of equity) at 31 December 2006 increased to 91% from 49% at 31 December 2005.

### Net Operating Assets

The net operating assets of the Group (including goodwill) at 31 December 2006 totalled £470.0 million, up £113.5 million on 2005, £95.1 million of this increase was accounted for by the acquisition of assets from GE Energy Rentals. The main components of Net Operating Assets are:

£ million	2006	2005	Movement
Rental Fleet	312.1	259.7	20.2%
Property, Plant	41.7	35.2	18.5%
Inventory	41.5	35.7	16.2%
Net Trade Debtors	95.6	87.5	9.3%

A key measure of Aggreko's performance is the return (expressed as operating profit) generated from average net operating assets (ROCE). We calculate the average net operating assets for a period by taking the average of the net operating assets as at 1 January, 30 June and 31 December, this is the basis on which we report our calculations of Return on Capital Employed (ROCE). The average net operating assets in 2006 were £403.2 million, up 24.0% on 2005. In 2006 the ROCE increased to 22.1% compared with 18.6% in 2005. A geographic analysis of our returns on net operating assets is set out in the table below:

	2006	2005
Europe	9.7%	5.4%
International	25.1%	21.7%
North America	30.3%	29.9%
Group	22.1%	18.6%

### Acquisition of GE Energy Rentals

On 4 December 2006 the Group acquired the entire share capital of GE Energy Rentals Inc and the entire share capital of GE Energy do Brasil Ltda as well as substantially all the other trade and assets of GE Energy Rentals (excluding those relating to gas turbines). The maximum consideration payable is £112.0 million and the fair value of net assets acquired is £65.3 million resulting in goodwill of £46.7 million. The initial purchase consideration for this acquisition (including transaction fees) was \$192.1 million, or £97.1 million at an exchange rate of £=\$1.98 with a further payment of up to \$29.4 million (£14.9 million) dependent on the delivery by GE of additional fleet assets during 2007.

### Shareholders' Equity

Shareholders' equity increased by £18.0 million to £226.2 million, represented by the net assets of the Group of £431.4 million before net debt of £205.2 million. The movements in shareholders' funds are analysed below:

### Movements in Shareholders' Equity

	£ million	£ million
As at 1 January 2006		208.2
Profit for the financial year	46.2	
Dividend <sup>1</sup>	(16.7)	
Retained earnings		29.5
New share capital subscribed		0.5
Purchase of own shares held under trust		(2.6)
Credit in respect of employee share awards		4.1
Actuarial gains on retirement benefits		1.5
Currency translation difference		(20.5)
Other <sup>2</sup>		5.5
As at 31 December 2006		226.2

<sup>1</sup> Reflects the final dividend for 2005 of 3.77 pence per share (2005 3.57 pence) and the interim dividend for 2006 of 2.53 pence per share (2005 2.34 pence) that were paid during the year.

<sup>2</sup> Other includes tax on items taken directly to reserves and movements in the hedging reserve.

The £53.2 million of pre exceptional post tax profit in the year represents a return of 23.5% on shareholders' equity. The post tax and post exceptional items return was 20.4%.

## Directors' Report continued

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### **Treasury**

The Group's operations expose it to a variety of financial risks that include liquidity, the effects of changes in foreign currency exchange rates and interest rates, and credit risk. The Group has a centralised treasury operation whose primary role is to ensure that adequate liquidity is available to meet the Group's funding requirements as they arise, and that financial risk arising from the Group's underlying operations is effectively identified and managed.

The treasury operations are conducted in accordance with policies and procedures approved by the Board and are reviewed annually. Financial instruments are only executed for the purpose of hedging known exposures, and transactions that are speculative in nature are expressly forbidden. Monthly reports on treasury operations are provided to senior management and treasury operations are subject to periodic internal and external review.

### **Liquidity and funding**

The Group maintains sufficient facilities to meet its normal funding requirements over the medium term. These facilities are primarily in the form of bank facilities arranged on a bilateral basis with a number of international banks. The financial covenants attached to these facilities are that operating profit should be no less than 3x interest, and net debt should be no more than 3x EBITDA.

The Group does not consider that these covenants are restrictive to its operations. The Group's borrowings were £218.2 million at 31 December 2006 and net debt amounted to £205.2 million. At that date un-drawn committed facilities were £152.9 million.

### **Financial Instruments**

The financial risk management objectives and policies of the Company are described in note 1 of the financial statements on page 78.

### **Interest rate risk**

The Group's policy is to minimise the exposure to interest rates by ensuring an appropriate balance of fixed and floating rates. The Group's primary funding is at floating rates through its bank facilities. In order to manage the associated interest rate risk, the Group uses interest rate swaps to vary the mix of fixed and floating rates. At 31 December 2006 £121.0 million of the net debt of £205.2 million was at fixed rates of interest resulting in a fixed to floating rate net debt ratio of 59:41.

### **Foreign exchange risk**

The Group is subject to currency exposure on the translation of its net investments in overseas subsidiaries into sterling. In order to reduce the currency risk arising, the Group uses direct borrowings in the same currency as those investments. Group borrowings are currently drawn down in the principal currencies used by the Group, namely US Dollar, Euro and Sterling.

The Group manages its currency flows to minimise foreign exchange risk arising on transactions denominated in foreign currencies and uses forward contracts where appropriate in order to hedge net currency flows.

### **Counterparty and credit risk**

Cash deposits and other financial instruments give rise to credit risk on amounts due from counterparties. The Group manages this risk by limiting the aggregate amounts and their duration depending on external credit ratings of the relevant counterparty. In the case of financial assets exposed to credit risk, the carrying amount in the balance sheet, net of any applicable provision for loss, represents the amount exposed to credit risk.

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#### *Management of trade debtors*

The management of trade debtors is the responsibility of the operating units, although they report monthly to Group on debtor days, debtor ageing and significant outstanding debts. Many of the International Power Projects contracts require sophisticated risk management, and the Group deploys a number of tools to manage its risk, including advanced payments, letters of credit, bank guarantees, bonds, and insurances. On large contracts, all such arrangements are approved at Group level.

#### **Insurance**

The Group operates a policy of buying cover where possible for material risks from the global insurance market, while self insuring risks which would not have a material impact on the Group as a whole. The Group monitors its insurance arrangements in such a way to ensure the quality and extent of cover.

#### **Auditors**

During the year, the Company carried out a competitive tender in relation to the provision of external audit services. Following the outcome of this exercise the Board, on the recommendation of the Audit Committee, will propose a resolution re appointing PricewaterhouseCoopers LLP as the Company's auditors at the next Annual General Meeting.

#### **Shareholder information**

Our website can be accessed at [www.aggreko.com](http://www.aggreko.com). This contains a large amount of information about our business, including a range of charts and data, which can be down loaded for easy analysis. The website also carries copies of recent investor presentations, as well as Stock Exchange announcements.

#### **Other Matters**

##### **Share Capital**

Details of the changes in issued share capital during the year are shown in Note 23 to the accounts.

##### **Going Concern**

The Directors, having made all the relevant enquiries, consider that the Group and the Company have adequate resources at their disposal to continue their operations for the foreseeable future, and that it is therefore appropriate to prepare the accounts on a going concern basis.

##### **Directors**

The Directors of the Company and their biographical details are set out on pages 12 and 13.

Mr R C Soames and Mr G P Walker retire by rotation at the forthcoming Annual General Meeting and, being eligible, offer themselves for re election. Mr A C Salvesen is subject to annual re-election and, being eligible, offers himself for re election. In proposing their re election, the Chairman confirms that the Nomination Committee has considered the contribution and commitment of the Directors that are required to offer themselves for re election and has confirmed to the Board that their performance continued to be effective and, therefore, the Company should support their re election.

All of the Directors have service agreements or letters of appointment and the details of their terms are set out in the Remuneration Report on page 61. No other contract with the Company, or any subsidiary undertaking of the Company, in which any Director was materially interested subsisted during or at the end of the financial year.

A statement of the Directors' interests in the share capital of the Company as at the end of the financial year is given on pages 65 and 66.

## Directors' Report continued

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### Disclosure of information to the Company's Auditor

The Directors who held office at the date of approval of this Directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's Auditor is unaware, and each Director has taken all the steps that he ought to have taken as a Director to make himself aware of any relevant audit information and to establish that the Company's Auditor is aware of that information

### Indemnity of Officers

Under Article 145 of the Company's Articles of Association, the Company may indemnify any Director or other officer against any liability, subject to the provisions of the Companies Acts, and the Articles do grant an indemnity to the Directors against any liability for the costs of legal proceedings where judgement is given in their favour

Under the authority conferred by Article 145, the Company has entered into deeds of indemnity with each of its Directors. The indemnities do not apply to any claim which arises out of fraud, default, negligence or breach of fiduciary duty or trust by the indemnified person

In addition the Company may purchase and maintain for any Director or other officer or auditor, insurance against any liability, and the Company does maintain appropriate insurance cover against legal action brought against its Directors and officers and the directors and officers of its subsidiaries. No indemnity has been given to the Auditors nor is any insurance cover maintained on their behalf. It is intended to remove the power to indemnify the Auditor under the proposed changes to the Articles of Association (see Changes to the Articles – page 41)

### Donations

During the financial year the Group contributed £109,855 (2005 £37,846) in terms of cash, employees' time and other services to a range of charitable, community and disaster relief organisations. Of this total £53,412 (2005 £10,679) was donated to registered UK charities

No political donations were made during the financial year (2005 Nil)

### Employees

The Group continues to operate team briefings throughout its business to keep employees informed of developments and plans, both in their own operations and in the Group as a whole. Employees have access to the "Aggreko Resource Centre", an Intranet based system, which provides them with a wide range of information on the activities of the Group around the world. The annual and interim results are publicised extensively throughout the business and are made available to all employees

The Group's policies for recruitment, training, career development and promotion of employees are based on the suitability of the individual and give those who are disabled equal treatment with the able bodied. Where appropriate, employees disabled after joining the Group are given suitable training for alternative employment with the Group or elsewhere

### Supplier Payment Policy

It is the Group's policy to settle the terms and conditions of payment with suppliers when agreeing each transaction, to ensure that suppliers are made aware of these terms and, in practice, provided the supplier meets its contractual obligations, to abide by them. In overall terms, the Group had approximately 61 days' credit outstanding as at the balance sheet date

### Annual General Meeting

The Company's Annual General Meeting will be held on Wednesday 25 April 2007 at the Hilton Hotel, 1 William Street, Glasgow and the notice of this meeting is set out on pages 114 to 117

### Annual General Meeting – Special Business Sharesave Plans

Resolutions 8, 9, 10 and 11 propose that new rules for the Sharesave Plans are adopted. The original rules for the International and UK Sharesave plans were put in place in 1997 and subsequently special tax efficient rules were implemented for the USA and Ireland. The proposed new rules do not make any significant changes to the existing rules. However, as no new Sharesave Options may be granted under the existing rules after 27 September 2007, it is necessary to replace them.

Sharesave Plans are normally offered annually to all employees and Executive Directors who have at least six months' service. Currently more than a third of employees with over six months' service participate in the plans and the Board believes that these plans generally encourage the matching of interests between employees and shareholders.

A summary of the principal terms of the proposed new rules is set out in Part 1 of the Appendix to the Notice of the Annual General Meeting and copies of the new rules will be on display at the Registered Office of the Company and at the offices of Dickson Minto WS, 22–25 Finsbury Square, London EC2A 1DX in each case during normal business hours on any weekday up to the date of the Annual General Meeting, and at that meeting.

### Changes to Articles

Resolution 12 proposes as a special resolution to adopt new articles of association of the Company. In outline, these changes:

- 1 increase the Company's borrowing powers from two to three times the adjusted capital and reserves of the Company. The directors have no immediate intention to utilise these additional borrowings powers and they are not required to meet normal business requirements in future. However, the directors wish to have additional borrowing capacity available in the event that additional investment opportunities materialise,

- 2 amend the powers of the Company to grant indemnities to directors, in line with recent changes to the Companies Act, and remove the power to indemnify the Company's auditors (this is in line with market practice),
- 3 make some consequential provisions to update the articles for recent changes to company law and practice (e.g. as regards voting if the Company decided to buy back shares and hold them in Treasury).

A more detailed summary of the changes is contained in Part 2 of the Appendix to the Notice of the Annual General Meeting and a copy of the Articles, showing the changes being made to the Articles, will be on display at the Registered Office of the Company and at the offices of Dickson Minto WS, 22–25 Finsbury Square, London EC2A 1DX in each case during normal business hours on any weekday up to the date of the Annual General Meeting, and at that meeting.

### Allotment for Cash

Resolution 13 proposes as a special resolution to disapply the statutory pre-emption rights of shareholders on allotment of equity securities for cash up to a limit of a total of shares with a nominal value of £2,695,000, being approximately 5% of the current issued share capital. The Directors confirm that they do not intend to allot new shares on a pre-emptive basis with a value of more than 7.5% of the current value of issued share capital over a three year period.

The resolution also disapplies these rights to the extent necessary to facilitate rights issues. The authority under this resolution would expire on the date of the Annual General Meeting in 2008 or on 24 July 2008, whichever is the earlier. This resolution is on the same basis as approved last year and the Directors intend to seek renewal of this power at subsequent Annual General Meetings.



## Directors' Report continued

### Purchase of Own Shares

The final item of special business is the Directors' recommendation that shareholders renew the authority of the Company to purchase its own ordinary shares as permitted under Article 7 of its Articles of Association. Accordingly, Resolution 14 will be proposed as a special resolution seeking authority to make such purchases in the market. The Directors will only use such authority when they consider it to be in the best interests of shareholders generally and an improvement in earnings per share would result. The Board is taking the power to hold shares in treasury, accordingly, any ordinary shares purchased under this authority will either be cancelled (and the number of ordinary shares in issue reduced) or held in treasury.

Resolution 14 specifies the maximum number of ordinary shares which may be purchased (representing approximately 10% of the Company's existing issued ordinary share capital) and the minimum and maximum prices at which they may be bought, reflecting the requirements of the Companies Act 1985 and of the Financial Services Authority, as set out in the Listing Rules. The Directors intend to seek renewal of this power at subsequent Annual General Meetings.

### Treasury Shares

Companies are permitted to acquire their own shares and to hold these shares in treasury for re sale. Resolutions 13 and 14 would provide the Directors with the authority they need to use treasury shares to give the Company more flexibility in managing its share capital. The Directors have no immediate intention of using such authority and would do so only when they consider it to be in the best interests of shareholders generally.

The Directors intend that any buy back of shares into treasury and re sale of shares from treasury will operate within the following limits:

- no more than 10% of the Company's issued shares will be held in treasury at any time, and
- treasury shares will not be sold at a discount of more than 10% to the middle market price of shares at the time of sale.

### Annual General Meeting – Recommendation

Your Directors believe that the resolutions to be proposed at the Annual General Meeting are in the best interests of the Company and its Shareholders as a whole and unanimously recommend that Shareholders vote in favour of them.

### Auditors

A resolution re appointing PricewaterhouseCoopers LLP as the Company's auditors will be proposed at the Annual General Meeting.

### Notifiable Interests

As at 19 February 2007 the Company had received notifications of the following share holdings in excess of 3% of the issued ordinary share capital:

Name of Shareholder	Number of Shares	%
Barclays plc †	20,266,164	7.52
Mr A E H Salvesen *	14,336,921	5.32
Fidelity International Limited	11,034,117	4.09
Legal & General Investment Management Limited	10,547,665	3.91
Mr A C Salvesen † §	10,106,075	3.75
Credit Suisse Asset Management Limited	8,256,557	3.06

\* including immediate family and trustee interests

† including direct and indirect subsidiary company interests

§ Mr A C Salvesen is a Director of the Company and his holdings are also disclosed on page 66.

The Directors are not aware of any other material interests amounting to 3% or more in the share capital of the Company.

By order of the Board

A Paul Allen

Secretary

8 March 2007

## Corporate Governance

### Introduction

The Board remains committed to high standards of corporate governance and supports the Combined Code on Corporate Governance (the "Code") and has reviewed its corporate governance policies and practices in the light of the Code published by the Financial Reporting Council in July 2003 and revised in June 2006

### Board Meetings and Responsibilities

Corporate governance is the responsibility of all Directors. The Board meets at least six times a year. Amongst the matters reserved for decision by the full Board are strategic policy, acquisitions and disposals, capital projects over a defined limit, annual budgets, new Group borrowing facilities and significant changes to employee benefit schemes.

There is a distinct and defined division of responsibilities between the Non executive Chairman and the Group Chief Executive. The Chairman is primarily responsible for the effective working of the Board and the Group Chief Executive is responsible for the operational management of the business and for the implementation of the strategy agreed by the Board. The Chairman holds meetings with the Non executive Directors without the Executives present. Led by the Senior Independent Director, the Non executive Directors meet without the Chairman present on such other occasions as are deemed appropriate.

The attendance of Directors at meetings in 2006 is set out in the table below.

	Board Meetings	Audit Committee	Remuneration Committee	Nomination Committee
Number of Meetings in 2006	7	3	4	1
P G Rogerson	7	n/a	n/a	1
R C Soames	7	n/a	n/a	1
F A B Shepherd	7	n/a	n/a	n/a
A G Cockburn	7	n/a	n/a	n/a
G P Walker	7	n/a	n/a	n/a
K Pandya	7	n/a	n/a	n/a
A C Salvesen	7	3	4	1
N H Northridge	7	3	4	1
R V McGlone	7	3	4	1

n/a Not a member of Committee

A programme has been prepared that is designed to ensure that new Directors receive a full, formal and tailored induction on joining the Board. During the year the Board visits operational locations, Directors are briefed on a wide range of topics and are given the opportunity to discuss aspects of the business with employees. Directors have access to independent professional advice at the Company's expense where they judge this to be necessary to discharge their responsibilities as Directors. All Directors have access to the advice and services of the Company Secretary, who is responsible to the Board for ensuring that Board procedures are complied with.

### Independent Directors

The Board currently comprises a Chairman, Group Chief Executive, four other Executive Directors and three Non executive Directors, their details are set out on pages 12 and 13. The Non executive Directors bring a wide range of experience to the Company and Mr N H Northridge and Mr R V McGlone are considered by the Board to be independent as defined in the Code. The Board has considered the independence of Mr A C Salvesen who has significant share interests, has served as a Director of the Company for more than nine years and therefore might no longer be considered to be independent. In view of this, it has been decided that an additional independent Non executive Director should be appointed to the Board and that this Director would serve in Mr Salvesen's place on the Audit Committee and the Remuneration Committee. The process for recruitment of this additional director has commenced. The Board has also satisfied itself that none of the Non executive Directors represent any other Shareholder or group of Shareholders.

Mr N H Northridge is the Senior Independent Director and is available to Shareholders if they have concerns which contact through the normal channels of Chairman, Chief Executive or Finance Director has failed to resolve or for which such contact is inappropriate.

The Code states that at least half of the Board, excluding the Chairman, should be comprised of independent Non executive Directors. However, the Directors believe that to achieve this balance, requiring the appointment of further additional Directors, would cause the Board to be unwieldy.

## Corporate Governance continued

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### Re-election of Directors

One third of the members of the Board must retire by rotation each year and may offer themselves for re election if eligible. The Board has also resolved that all of its members must submit themselves for re election at regular intervals of at least every three years. Any Director appointed by the Board will be subject to election by shareholders at the first opportunity after his or her appointment and will not be taken into account in determining the Directors who are to retire by rotation at that meeting. Non executive Directors who have served longer than nine years (e.g. three three year terms) are subject to annual re-election.

### Standing Committees

The Board has standing Audit, Remuneration and Nomination Committees, the memberships, roles and activities of which are detailed in separate reports, Audit Committee on page 54 and 55, Remuneration Committee on page 57 and Nomination Committee on page 56. Each Committee reports to, and has its Terms of Reference approved by, the Board and the minutes of the Committee meetings are circulated to, and reviewed by the Board.

The Terms of Reference of the standing Committees of the Board are available on our website at [www.aggreko.com/investors](http://www.aggreko.com/investors) under the heading "Corporate Governance".

### Board Performance Evaluation

The Board conducts an annual evaluation of its own performance. This involved the completion of assessment questionnaires by all Directors covering the performance of the Board and its Committees. Other aspects that were reviewed included the effectiveness of the Chairman, Executive and Non executive Directors, the monitoring of operational performance, and corporate governance, as well as leadership and culture. The Board considered a summary of the conclusions and this was followed up by meetings as appropriate with individual Directors.

### Relations with Shareholders

The Notice of Annual General Meeting on pages 114 to 117 sets out the resolutions that will be proposed at this year's Annual General Meeting. The Board supports the use of this meeting as a means of communicating with private investors and encourages their participation. The Company is ready, where practicable, to enter into a dialogue with shareholders, through analyst briefings and investor presentations. Senior executives seek to meet regularly with institutional and major shareholders to improve their understanding of the Company and its objectives. The Senior Independent Director is available to meet shareholders if they have concerns. In addition to attending meetings with Shareholders the Board has sought to understand the views of investors better by commissioning regular feedback reports from the Company's stockbrokers.

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### **Internal Control**

The Board has applied Principle C 2 of the Code by establishing a continuous process for identifying, evaluating and managing the risks that are considered significant by the Group. This process is designed to manage rather than eliminate risk, and can only provide reasonable and not absolute assurance against material misstatement or loss. The Board's monitoring framework covers a wide range of controls, including financial, operational and compliance controls together with risk management. It is based principally on reviewing reports from management and considering whether significant risks are identified, evaluated, managed and controlled and ensuring that any significant weakness thus identified is promptly remedied. The Board continues to enhance and strengthen the procedures for identifying and monitoring key areas of risk.

The Board also considers financing and investment decisions concerning the Group and monitors the policy and control mechanisms for managing treasury risk. The Group insurance programme is reviewed by the Board, which also approves self insured exposures.

During the year the Audit Committee of the Board reviews the external and internal audit work programmes and considers reports from internal and external auditors on the system of internal control and any material control weaknesses. It also receives responses from management regarding the actions taken on issues identified in audit reports.

### **Review of Effectiveness of Internal Control**

In compliance with Provision C 2.1 of the Code, the Board reviews the effectiveness of the Group's system of internal control.

On an annual basis the Audit Committee receives a formal review that is designed to assess the application of the principal financial and operational controls operated by the Group. The review, which is based on self assessment by senior operational management, is carried out using a risk review and control questionnaire and is intended to complement the internal and external audit procedures. There is also a comprehensive procedure for monitoring all significant risks and key risks have been identified on a risk register. The Board has considered the probability of those risks occurring and their impact, as well as the actions that would be taken in response to them if they did occur.

The Board has undertaken a specific assessment of internal control for the purpose of this Annual Report. This assessment considered all significant aspects of internal control during the year ended 31 December 2006. Accordingly, the Board is satisfied that the Group continues to have an effective system of internal control.

### **Corporate Social Responsibility**

The Board has set policies for the Group to ensure that it operates worldwide in a safe, ethical and responsible manner, which protects the environment as well as safeguarding the health and safety of its employees, its customers and the communities in which it operates. These policies are intended to recognise, evaluate and manage responsibly environmental, health and safety risks through implementation of a comprehensive Global Environmental, Health and Safety Management System that standardises best operating practices, objectives, data collection, reporting, audits, performance indicators and goals. These policies are set out in more detail on pages 48 to 52.

## Corporate Governance continued

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### **Pensions**

The assets of the UK defined benefit pension fund are controlled by trustees; they are held separately from the assets of the Company and invested by independent fund managers. These segregated funds cannot be invested directly in the Company. Four trustees have been appointed by the Company and, in addition, two member nominated trustees have been appointed. This fund was closed to new employees joining the Group after 1 April 2002, new UK employees are now offered membership of a Group Personal Pension Plan.

### **Compliance with the Code**

The Directors consider that the Group complies and has complied throughout the year ended 31 December 2006 with all of the Provisions of the Code with the exception that the Code states that at least half of the Board, excluding the Chairman, should be comprised of independent Non executive Directors and the Directors believe that to achieve this balance would cause the Board to be unwieldy. However, as mentioned above the Directors intend to appoint an additional independent Non executive Director as soon as practicable.

**Philip G Rogerson**

Chairman

8 March 2007

# **CORPORATE SOCIAL RESPONSIBILITY**

## **Corporate Social Responsibility**

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**aggreko**

## Corporate Social Responsibility

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### Introduction

This report describes the policies and procedures that the Board has put in place to ensure that Aggreko operates in a safe, ethical and responsible manner, which protects the environment as well as safeguarding the health and safety of its employees, its customers, and the communities in which it operates. The process for identifying, evaluating and managing the risks that are considered significant is summarised under the heading of Internal Control on page 45.

The nature of our business is that we work in many different countries, often in remote and difficult environments, with equipment and substances, which if improperly handled, are potentially dangerous to people and harmful to property and the environment. We frequently operate in response to natural or man made disasters, where the infrastructure has been badly damaged and where operating conditions are far from ideal. Over time, therefore, we have developed a comprehensive range of operating procedures and processes to ensure that we minimise any risk of harm to people or to the environment.

### Equal Opportunities

Aggreko is committed to promoting equal opportunities for all, irrespective of disability, ethnic origin, gender or any other considerations that do not affect a person's ability to perform their job.

The Group's policies for recruitment, training, career development and promotion of employees are based on the suitability of the individual.

### Health & Safety

Aggreko puts health and safety at the very heart of its operations. Most of our equipment is heavy, electro-mechanical equipment which is moved around frequently. Compressors and generators respectively produce high pressure compressed air and high voltages, either of which can be harmful to people if mishandled.

Aggreko's policy is to implement common health and safety operating procedures worldwide. Whether operating in the Australian bush, the Saudi Arabian desert or in downtown Manhattan, our operating procedures are the same high standard. Among the key features of Aggreko's worldwide Health and Safety Policy are:

- ensuring that health and safety issues are at the fore front of considerations when we design our equipment,
- ensuring that our equipment is built and maintained to the highest standards,
- training and educating our staff worldwide in the safe operation of our equipment, and
- ensuring that health and safety issues have the appropriate level of focus throughout the management chain.

Aggreko has created its own Global Environmental Health and Safety Management System (GEMS) which has been implemented throughout the business. At the core of GEMS is a Best Operating Practice document that is published in 8 languages (English, French, German, Dutch, Spanish, Italian, Norwegian and Sinhalese) and made available to every Aggreko employee worldwide. The Best Operating Practice is updated in the light of experience and incidents.

GEMS incorporates a comprehensive reporting system which is designed to ensure that the Company knows of every incident, and can learn from it. A uniform accident and incident data collection procedure is implemented worldwide, and from these we can measure our performance and benchmark our operations. Performance measures are reported at a business unit level on a monthly basis. Any serious incident is immediately reported to the Executive Director responsible for the business unit concerned.

Meetings of the senior management of each region are held regularly, at each of these an Executive Director will normally chair the meeting, and incidents reported under GEMS are discussed. On a quarterly basis, the Executive Director responsible for Health and Safety, George Walker, reports to the Board.

We measure our safety performance using a metric called "Frequency Accident Rating" (FAR), which is a measurement of lost time accidents in relation to the number of hours worked. The usefulness of this measure is that we can benchmark our performance against other businesses. It is calculated as the number of lost time accidents multiplied by 200,000 hours (being the base for 100 full time employees working 40 hours per week, 50 weeks per year), divided by the number of man hours worked. The benchmark is the 2005 level reported for the US rental and leasing industries by the US Department of Labor of 1.5. Aggreko's FAR performance is much better than the benchmark and has also seen considerable improvement over the last three years with 0.75 in 2006, 0.98 in 2005 and 1.09 in 2004. A FAR score of less than 0.6 has been set by the Group as a target for 2007. This measure is also included under Key Performance Indicators in the Business Review on page 28.

Set out below is an explanation of the technical terms used in this section.

#### Technical Terms

**NOx** Oxides of Nitrogen

**Particulate** In general this term relates to visible smoke

**Tier 1, tier 2, tier 3** US Federal Government target emission reduction levels

**g/(bhp hr)** Emissions in grams per brake horsepower hour

**CO<sub>2</sub>** Carbon Dioxide

**LWA** Sound power level at source

**MW** A million watts

**kVA** A thousand volt amperes

#### The Environment

##### Environmental Policy

Aggreko's equipment is designed to function in all continents and all types of terrain. By careful design and use of the most suitable technology, we also aim to minimise the environmental impact of that equipment. Aggreko makes available to its customers equipment and solutions that are designed to comply with applicable laws, regulations and industry standards wherever we operate in the world. In effect, this means they comply with the laws, regulations and standards of some of the most stringent jurisdictions in which we operate and, therefore, far exceed the levels required in many others.

The two major environmental issues we deal with in our business are emissions to air from our equipment – the vast majority of which is diesel powered, and the safe handling and disposal of fuel and oil.



## Corporate Social Responsibility continued

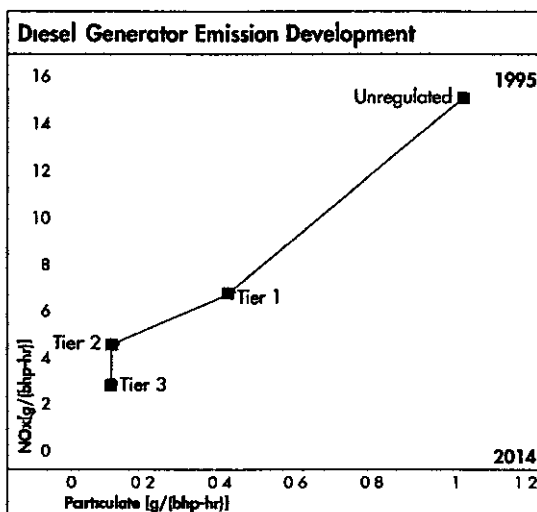
Our Environmental Policies are managed in a similar way to safety. They comprise

- ensuring that environmental issues are at the fore front of considerations when we design our fleet,
- ensuring that our equipment is built and maintained to the highest standards,
- training and educating our staff worldwide in the safe operation of our equipment, and
- ensuring that environmental issues have the appropriate level of focus throughout the management chain

**Emissions to air: exhaust gases and particulates**  
Emissions to air are an inevitable by product of hydrocarbon fuelled engines. Over the years, as engines have become more efficient and legislation to limit emissions around the world has become stricter, emissions have reduced sharply. Aggreko works in co operation with the manufacturers of diesel engines in order to meet new emission requirements at the earliest opportunity.

The principle contribution we can make to reducing emissions to air is in maintaining our equipment in good order, and introducing engines into the fleet with good emissions performance.

The chart below shows a summarised account of the requirement to meet emission guidelines for Oxides of Nitrogen (NOx) and Particulate as set out by the US Federal Government. Most of Aggreko's fleet is powered by "Tier 1" engines, during 2006 we added more than 30% to the total of "Tier 2" engines in the fleet giving a cumulative total of 1,060 and will be adopting "Tier 3" compliant engines as the engines are made available by suppliers.



Our strong presence in markets which are particularly sensitive to emissions, such as California, means that the control of emissions is at the fore front of our design considerations and decisions on engine choice.

### Aggreko natural gas generator development.

We are constantly exploring new ways of reducing emissions, and have completed the development of a new gas fuelled temporary power solution, which has significantly lower levels of emissions (see below).

	Tier 1 Engine	Gas engine	Reduction %
NOX	6.9 g/(bhp-hr)	1.0 g/(bhp-hr)	87%
Particulates	0.4 g/(bhp-hr)	0.1 g/(bhp-hr)	75%

Natural gas presents a competitive advantage over other energy sources. It is seen as economically more efficient because only about 10% of the natural gas produced is wasted before it gets to final consumption. In addition, technological advances are constantly improving efficiencies in extraction, transportation and storage techniques as well as in equipment that uses natural gas.

Natural gas is considered as an environmentally friendly clean fuel, offering important environmental benefits when compared to other fossil fuels. The superior environmental qualities over coal or oil are that emissions of sulphur dioxide are negligible and that the level of nitrous oxide and carbon dioxide emissions is significantly lower. Where the gas fuel is essentially a stranded resource or is derived from a biological source, a CO<sub>2</sub> and greenhouse gas reduction is realised. This helps to reduce problems of acid rain, ozone layer or greenhouse gases.

In many of Aggreko's target markets natural gas is effectively a stranded resource which dictates that the gas is flared to the atmosphere as opposed to being used for beneficial services. This practice is being increasingly regulated and Aggreko's service allows for generation of power from this valuable resource on a more flexible and scaleable basis than existing solutions.

#### **Emissions-to-air: carbon dioxide (CO<sub>2</sub>)**

All of Aggreko's core activities release CO<sub>2</sub> into the atmosphere to a greater or lesser extent. The most significant impact arises from power generation in Aggreko International due to the intensiveness of our activities in providing temporary power stations. Any generation of electricity using hydrocarbon fuels inevitably causes the release of CO<sub>2</sub> and the performance of Aggreko's equipment is comparable to other equivalent power sources. Aggreko is actively researching the availability of alternative mobile power sources that will reduce the level of CO<sub>2</sub> emissions, until an economically viable alternative becomes available, the level of emissions will mirror the level of our business activity. The actual amount of CO<sub>2</sub> released by our engines is driven by the usage our customers make of our equipment on rent, an engine running 24 hours / day will emit much more CO<sub>2</sub> than an engine used for a few hours a day. These patterns of usage can vary widely from country to country and from year to year. We estimate that customers using Aggreko engines produced an average CO<sub>2</sub> emission rate of 0.65 tonnes of CO<sub>2</sub> per megawatt hour. This compares with a modern coal fired power station which will produce in the region of 0.85 tonnes of CO<sub>2</sub> per megawatt hour.

**Petroleum spills and the safe disposal of waste fluids**  
Aggreko and its customers handle a considerable quantity of diesel fuel and the occurrence of fuel spills is an area that the Group monitors very closely. The measure used by management to measure the performance of the Group in handling fuel is the "Petroleum Release Rating" (PRR). This is calculated as litres released to ground, divided by the cumulative average MW on rent. The PRR performance over the past three years has been: 2006 – a rating of 0.60, 2005 – a rating of 0.48 and 2004 – a rating of 1.39. Our equipment has been specifically designed to minimise the risk of fluid spillage through features such as a "save all base", double walled storage tanks and fail safe valves. A PRR score of less than 0.50 has been set by the Group as a target for 2007.

Another potential source of environmental damage is in the disposal of consumables such as engine oil and filters. In our Local business, these are normally returned to our service centres where they are safely disposed of. In our International Power Projects business, site specific arrangements are made to ensure the safe handling of these items.

Reporting of fuel spills is handled in a similar way to safety incidents, with monthly reporting at regional level, and quarterly reporting to the Board.

## Corporate Social Responsibility continued

### Noise

Aggreko has built a competitive advantage through an equipment fleet that minimises external noise. This is done by the use of custom-built acoustic enclosures as well as high performance isolation and attenuation systems. Aggreko continues to work closely with its suppliers and local university research departments in order to develop its expertise in this field. As a result, our equipment is able to achieve the following performance standards that are well below the maximum levels permitted by current European legislation.

Size of Generator	Certified Noise Level (Sound Power LWA)		
	Maximum EU Limit	Aggreko Standard Product	Aggreko Premium Product
30kVA	98.3	93.3	78.0
60kVA	98.6	89.9	80.0
125kVA	99.0	90.0	83.0
200kVA	99.1	95.0	91.0
320kVA	99.4	94.0	90.0

Note: A reduction of 3 LWA in the certified noise level equates to an audible noise level that is approximately 50% lower.

### Refrigerant

In accordance with the timelines and accords set out by the Montreal protocol Aggreko has phased out CFC plant from its temperature control rental fleet and is in the process of phasing out HCFC plant, we have introduced HFC replacement prototypes and production models in all areas.

### Social Responsibility Policy

Aggreko has a policy of encouraging local teams to engage with the communities in which they work with a view to assisting disadvantaged people, and those who have been afflicted by natural disasters. There are innumerable initiatives every year to help people around the world, on a larger scale, the Group and its employees made significant contributions to various relief organisations following the Tsunami in South Asia in 2004 and in the wake of Hurricanes Katrina and Rita in 2005.

Given the Group's presence in Africa and Sri Lanka, we signed a funding agreement with Book Aid International in 2006, with an initial donation of £40,000. This charity promotes literacy in developing countries and provides large quantities of books and other educational material to schools and libraries.

### Business Ethics

#### Ethics Policy

Aggreko has a reputation for delivering innovation, performance and solutions. Also at the heart of our long term success is something less tangible and less easily illustrated with figures or case studies. This key element is integrity and honesty in our business dealings, a factor that contributes to our long term relationships with customers. All Aggreko employees, as well as consultants and agents who we work with, are expected to behave ethically in their work, and our expectations of them are set out in a Corporate Ethics Policy. The objective of the Policy is to make Aggreko a good company to work for, to maintain our reputation for exceptional customer service and ethical business dealings, to compete ethically, and to ensure the business is managed to a consistently high standard. Further discussion of our policies for handling ethical risks is set out under Principal Risks and Uncertainties on page 25.

Employees who suspect any breaches of the Corporate Ethics Policy are encouraged to speak up, and their confidentiality and position is protected if they do so.

#### See our Corporate Responsibility Website

Further information and copies of the Environmental, Health and Safety Policy and Corporate Ethics Policy are available at [www.aggreko.com/ourcompany/CorporateResponsibility.asp](http://www.aggreko.com/ourcompany/CorporateResponsibility.asp)

# COMMITTEE REPORTS

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**aggreko**

## Audit Committee Report

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### **Responsibilities and role of the Audit Committee (the "Committee")**

The principal responsibilities of the Committee are as follows

- 1 to consider the appointment and assess the independence and effectiveness of the External Auditor,
- 2 to recommend the audit fee to the Board and to ensure that the provision of non audit services does not impair the External Auditor's independence or objectivity,
- 3 to discuss with the External Auditor, before the audit commences, the nature and scope of the audit and to review the Auditor's quality control procedures and steps taken by the Auditor to respond to changes in regulatory and other requirements,
- 4 to oversee the process for selecting the External Auditor and make appropriate recommendations through the Board to the Shareholders to be considered at the Annual General Meeting ,
- 5 to review the External Auditor's report on significant matters arising from the audit,
- 6 to monitor and review the effectiveness of Internal Audit, including a review of the Internal Audit programme and ensuring that the Internal Audit function is adequately resourced and has appropriate standing within the Company,
- 7 to consider management's response to any major External or Internal Audit recommendations,
- 8 to review the Company's procedures for handling allegations from whistleblowers,
- 9 to consider serious incidents of fraud or other irregularities

The full Terms of Reference of the Committee are available on our website at [www.aggreko.com/investors](http://www.aggreko.com/investors) under the heading "Corporate Governance"

### **Composition of the Committee**

The names of the members of the Committee who served during the year ended 31 December 2006 are as follows

Mr R V McGlone Chairman

Mr A C Salvesen

Mr N H Northridge

The Committee is entirely composed of Non executive Directors. The qualifications of the members of the Committee and their biographical details are set out on pages 12 and 13. The Board is satisfied that at least one member of the Committee has recent and relevant financial experience. The specific policies in relation to remuneration of the members of the Committee are set out in the Remuneration Report on page 62. The Company Secretary acts as Secretary to the Committee.

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**Meetings**

The number of meetings during 2006 and attendance are set out on page 43

**Main activities of the Committee in the year to 31 December 2006****Financial statements**

The Committee reviewed the annual results for the year ended 31 December 2005 and the interim results for the six months ended 30 June 2006 in order to monitor the integrity of the financial statements

**Internal financial control and risk management systems**

The Committee reviewed and discussed the Risk Register that was prepared by the business units and sets out the likelihood and potential impact of the significant risks faced by the Group. The Committee also considered the results of a self assessment of Internal Control that covered all of the Group's financial reporting systems. The Committee considered the adequacy of the whistleblower arrangements contained in the Group Ethics Policy.

**External Auditors**

During the year the Committee conducted a review of external audit services and invited tenders from four global accounting firms.

The outcome of this review was a recommendation to the Board to re appoint PricewaterhouseCoopers LLP as Auditors of the Company. There was also a review of the level of fees for non-audit services and the application of those policies that ensure auditor independence.

During 2006, the Committee received the reports of the External Auditor in respect of the annual results for the year ended 31 December 2005 and the interim results for the six months ended 30 June 2006. The Committee considered the audit work done and any significant judgmental accounting and reporting issues.

The proposed External Audit programme and timetable was reviewed.

**Internal Audit function**

The Committee received regular reports from the Head of Internal Audit and reviewed progress against the agreed plan for the year. The Committee considered all significant internal control issues raised in these reports, reviewed the 2007 Internal Audit Plan and considered the adequacy of Internal Audit resources.

**Roy V McGlone**

Chairman of the Audit Committee

8 March 2007

## Nomination Committee Report

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### **Responsibilities and role of the Nomination Committee (the "Committee")**

The principal responsibility of the Committee is to assist the Board with succession planning and with the selection process for the appointment of a new Director or Chairman. In discharging that responsibility the Committee is required

- 1 to evaluate the balance of skills, knowledge and experience on the Board and, in the light of this evaluation, prepare a description of the role and capabilities required for a particular appointment,
- 2 to assess the time commitment expected on the part of a new Chairman of the Company and to require new Non-executive Directors to undertake that they will have sufficient time to meet what is expected of them,
- 3 to oversee the search process, using such outside advisers as the Committee may consider appropriate,
- 4 to keep the Board advised of the candidates who have been identified for approach and on the preferred candidates for initial interviews,
- 5 to arrange for all members of the Board to meet the preferred candidate prior to making a formal recommendation to the full Board

The full Terms of Reference of the Committee are available on our website at [www.aggreko.com/investors](http://www.aggreko.com/investors) under the heading "Corporate Governance"

### **Composition of the Committee**

The names of the members of the Committee who served during the year ended 31 December 2006 are as follows

Mr P G Rogerson      Chairman

Mr R C Soames

Mr A C Salvesen

Mr N H Northridge

Mr R V McGlone

The Committee is composed of the Chairman, the Group Chief Executive and the Non executive Directors. The qualifications of the members of the Committee and their biographical details are set out on pages 12 and 13. There is no specific provision for remuneration of the members of the Committee. The Company Secretary acts as Secretary to the Committee.

### **Meetings**

The number of meetings during 2006 and attendance is set out on page 43.

### **Main activities of the committee in the year to 31 December 2006**

#### **Directors standing for re-election**

The Committee considered the contribution and commitment of the Directors standing for re election and recommended to the Board that they be put forward for re election.

### **Philip G Rogerson**

Chairman

8 March 2007

## Remuneration Report

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The Directors confirm that the Company has complied with the Principles and underlying Provisions relating to Directors' remuneration of The Combined Code of Corporate Governance (the "Code") published in July 2003 and revised in June 2006 and that this Remuneration Report has been prepared in accordance with the Directors' Remuneration Report Regulations 2002. Details of each individual Director's remuneration for 2006 are set out on page 62. Information on Directors' share and share option interests may be found on pages 65 and 66.

### **Remuneration Committee (the "Committee"): Composition, Responsibilities and Operation**

The names of the members of the Committee who served during the year ended 31 December 2006 are as follows:

Mr N H Northridge    Chairman

Mr A C Salvesen

Mr R V McGlone

The Committee is entirely composed of Non executive Directors. They have no personal financial interest, other than as shareholders, in the matters to be decided, no potential conflicts of interest arising from cross directorships and no day to day operational responsibility within the Group.

The Committee's principal function is to determine the policy on remuneration for the most senior executives and to approve the specific remuneration of the Executive Directors and the Company Secretary, including their service contracts. The Committee also has responsibility for making a recommendation to the Board in respect of the remuneration of the Chairman.

The Committee's remit therefore includes, but is not restricted to, basic salary, benefits in kind, performance related awards, share options and share awards, long-term incentive schemes, pension rights, and any compensation or termination payments. In exercising its responsibilities the Committee has access to professional advice, both inside and outside the Company, and consults with the Chairman and Group Chief Executive. The Company Secretary acts as Secretary to the Committee. The full Terms of Reference of the Committee are available on our website at [www.aggreko.com/investors](http://www.aggreko.com/investors) under the heading "Corporate Governance".

There are a number of external advisors appointed by the Company who advise on remuneration matters for the wider workforce and also provide advice to the Committee from time to time. Principal advisors in the year were as follows:

Towers Perrin provided remuneration consultancy with respect to basic salary, bonus plans and executive long term incentive plans.

New Bridge Street Consultants provided advice on the implementation and administration of share plans.

Mercer Human Resource Consulting provided advice on retirement benefits in the UK and overseas and administers the UK defined benefit pension scheme.

### **Remuneration Policy**

The Committee has adopted the following policy for the remuneration of Executive Directors throughout 2006. It is intended that this policy will apply in 2007 and future years.

#### **Annual Salaries**

Salaries are determined by a combination of the individual's contribution to the business and the market rate for the job. The Company typically pays the market median, for standard performance in the job, and pays up to the market upper quartile for upper quartile performance. On occasions it may be necessary to pay above the market median to attract people of the right calibre to meet the needs of the business.

The appropriate market rate is the rate in the "market place" from which the individual is most likely to be recruited. The Company operates in a number of market places throughout the world where remuneration practice and levels differ. This can result in pay and benefit differentials between the Executive Directors.

In arriving at an appropriate market rate, reference is made to a number of well established salary surveys covering similar jobs of the same size in a large sample of companies in the manufacturing and service sectors in the UK. The same consistent approach is taken for expatriate and overseas salaries where reference is made to the appropriate surveys for the geographical location.

The Company's pay systems are designed to allow progression that reflects an individual's contribution to the business and to control overall cost. Pay and benefit structures are designed to be cost effective to achieve the right level of attraction and retention at the best value. The Company is always mindful of the need for good corporate governance in respect of pay and benefits for all its employees including Directors.



## Remuneration Report continued

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### Performance related elements of Remuneration

A significant proportion of Executive Directors' remuneration is performance related through an annual bonus plan as further explained below

#### Annual Cash Bonuses

The Company pays competitive bonuses that are intended to place the total cash earnings of executives at around the upper quartile for the market place in high performance years. The factors to be measured for bonus purposes and the corresponding levels of bonus are pre determined at the start of the year. Bonuses are paid as close to the end of the performance period as practicable so that they reflect current performance. All Executive Directors participate in a scheme which allows them to earn bonuses on a graduated scale if a targeted level of earnings per share is exceeded. The performance criteria are designed to enhance shareholder value and the Committee approves all financial targets and personal goals, no bonus will be paid if targets and goals are not achieved. For the Group Chief Executive and the Finance Director, all of their bonus is based upon earnings per share. 50% of the bonus of Regional Directors is based upon the same measure with 50% based upon profit achieved in their own region. The Group Chief Executive and the Director responsible for North America have a maximum bonus opportunity of 100% of basic salary and the maximum for other Executive Directors is 75%. The Committee does, however, also have discretion to reward outstanding individual achievement.

#### Long-Term Incentive Arrangements

Long Term Incentive Arrangements were introduced in 2004 consisting of a performance share plan and a co investment plan which cover about 120 executives in the business worldwide and operate as follows

#### Performance Share Plan

Under this plan, executives are granted a conditional award of shares, some, all or none of which will vest three years later, depending upon the Company's performance over the deferral period. The measurement of performance commences in the year in which the award is made and awards are subject to the executive remaining in service at the end of the period.

Two performance measures are utilised, 75% of plan awards is measured against earnings per share (EPS) and 25% against Return on Average Capital Employed (ROCE). The first performance measure is real (i.e. excluding inflation) compound growth in aggregate EPS over a three year period. The definition of EPS is the fully diluted EPS published in the Annual Report, although the Committee has the discretion to make adjustments to ensure the measure is consistent from year to year and represents a fair measure. The Committee selected this measure because it believes that it is well aligned with shareholder interests as well as being readily understood by executives. The Consumer Price Index has been selected by the Committee as the most appropriate measure of inflation. Having considered the business's future plans and prospects, the Committee decided that an appropriate range for real compound annual growth in EPS over the next few years is 3% – 8%, if inflation averages 2% per year, this would be 5% – 10% growth in nominal terms. There is no award for aggregate real compound EPS growth of 3% per annum or less. The maximum award is made if aggregate EPS is equivalent to real compound annual growth of 8% or more. For performance between these levels, awards would be made on a straight line, pro rata, basis between zero and the maximum level. The second performance measure is average ROCE over a three year period. The Committee selected this measure because it believes that an adequate level of ROCE is essential for the maintenance of shareholder value and this measure is already in use throughout the business. The Committee will review the appropriate ROCE performance range for each annual grant of awards to be made under the plan, taking account of the business's future plans and prospects. Having considered these factors in respect of awards made in 2006, the Committee decided that an appropriate range for the three year performance period 2006 – 2008 is ROCE of between 18.5% and 20.5% per annum. There would be no award for average ROCE of 18.5% or less. The maximum award would be made if average ROCE is 20.5% or more. For performance between these levels, awards would be made on a straight line, pro rata, basis between zero and the maximum award. The Committee has increased this range for awards to be made in 2007 and the range for the three year performance period 2007 – 2009 will be ROCE of between 20% and 23% per annum.

The Committee's intention is that the maximum award would be for shares with a value equal to one year's salary at date of grant and that, in practice, only Executive Directors would receive awards at this level. Whilst the rules of the plan permit a maximum award of shares up to a value equal to two years' salary, the Committee's intention is that in most circumstances the maximum award would be a value equal to one year's salary, and that, in practice, the number of people receiving awards at this level would be very restricted. During 2006 Executive Directors were granted awards equivalent to between 70% and 100% of their basic salary.

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#### **Co-investment Plan**

Under this plan executives are allowed to invest up to a maximum of 20% of their base salary in Aggreko shares. The offer will be made to them each year shortly after bonuses are declared. This means that executives can use their net bonus to acquire shares at market price but there is no direct link to the bonus paid.

Provided that the executive continues to hold these shares for three years the Company will make a matching award. There will be an automatic match of three shares for every four the executive holds, i.e. a 75% match. Higher levels of matching award will be dependent upon performance up to a maximum total matching award of six shares for every four the executive holds, i.e. a 150% match, if the maximum level of performance is achieved.

The performance measures and performance targets under this Co-investment Plan are exactly the same measures as those which will apply under the Performance Share Plan, i.e. real compound growth in aggregate EPS in a range from 3% to 8% per annum on a straight line, pro rata, basis and average ROCE of between 18.5% and 20.5% per annum (20% and 23% per annum for awards made in 2007).

#### **Sharesave Plans**

The Company believes that savings related share schemes generally encourage the matching of interests between employees and shareholders. The Aggreko Sharesave Plans are normally offered annually to all employees and Executive Directors who have at least six months' service.

#### **Executive Share Option Schemes**

Prior to 2004 senior executives were invited to participate in an Executive Share Option Scheme at the discretion of the Committee. Following the implementation of the Performance Share and the Co-investment Plans, it is anticipated that further grants under the existing Executive Share Option Schemes will only be made in exceptional circumstances where the new plans are not appropriate.

The allocation of Executive Share Options was based on multiples of remuneration dependent upon the seniority and job size of the individual's appointment, with the maximum multiple of 1½ times remuneration in any one year being available to Executive Directors.

All executive options that have been granted are subject to performance conditions based on both total shareholder return ("TSR") and growth in Earnings Per Share ("EPS"). TSR is calculated by reference to the increase in the Company's share price plus dividends paid. EPS is Basic Earnings Per Share as disclosed in the Group Income Statement.

At the time when the individual wishes to exercise the option (which can only normally occur after three years have elapsed since grant), the growth in the Company's TSR is compared to that of the FTSE Mid 250 Index (excluding investment trusts) over a specified period. If the Company's TSR matches or exceeds that index, and the Company's EPS growth matches or exceeds the growth in the Retail Prices Index plus 3% per annum, over three consecutive years, the option is capable of exercise. Retesting of performance conditions is limited to six monthly intervals between 3 and 5 years after the date of grant. If further grants are made under the existing schemes it is the Committee's intention that performance testing will only occur once, immediately after the three year period following the date of grant.

Mr F A B Shepherd was eligible for an award under the Phantom Option Scheme on 25 September 2002. This award was approved by the Committee in order to continue to incentivise Mr Shepherd at a time when he was no longer eligible to participate in Aggreko's Approved and Non approved Executive Share Option Schemes. The intention was that, where possible, the terms and conditions described under "Executive Share Option Schemes" should also apply to Mr Shepherd's award under the Phantom Option Scheme.

## Remuneration Report continued

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### Retention of Shares by Executive Directors

The Committee has adopted a policy that encourages Executive Directors to use the Long Term Incentive Plans and Executive Share Option Schemes to acquire and retain a material number of shares in the Company with the objective of further aligning their long term interests with those of other shareholders. Under this policy, on vesting of share grants, Executive Directors, who are not within five years of their normal retirement age, should hold at least 50% of the net proceeds in shares until their aggregate holding is equivalent to at least 100% of their salary.

### Other Benefits

Other benefits, including pensions, are based on current market practice and take into account long term trends in provision. Further details on pension provision are set out on pages 63 and 64.

### Service Contracts and Notice Periods

All of the Executive Directors have service agreements that require one year's notice from the individual and one year's notice from the Company. Mr F A B Shepherd has a service contract that expires on 1 May 2009 while other Directors have a normal retirement age of 60. On early termination, Executive Directors are entitled to basic salary and benefits for the notice period at the rate current at the date of termination.

### External Appointments

Mr R C Soames served as a Non executive Director of Baggeridge Brick PLC until February 2006. He was also permitted to retain his earnings from that position and these earnings amounted to £3,045 for the year ended 31 December 2006 (2005 – £25,000).

The Company has allowed Mr A G Cockburn to serve as a Non executive Director of Galiform Plc with effect from October 2006. He is also permitted to retain his earnings from that position and these earnings amounted to £8,484 for the year ended 31 December 2006.

### Remuneration of Chairman and Non-executive Directors

The Board, within the limits set out in the Articles of Association, determines the remuneration policy and level of fees for the Non executive Directors. The Remuneration Committee recommends remuneration policy and level of fees for the Chairman to the Board. Remuneration comprises an annual fee for acting as a Chairman or Non executive Director of the Company. Additional fees are paid to Non executive Directors in respect of service as Chairman of the Audit and Remuneration Committees and as Senior Independent Director. When setting these fees, reference is made to information provided by a number of remuneration surveys, the extent of the duties performed and the size of the Company. The Chairman and Non executive Directors are not eligible for bonuses, retirement benefits or to participate in any share scheme operated by the Company.

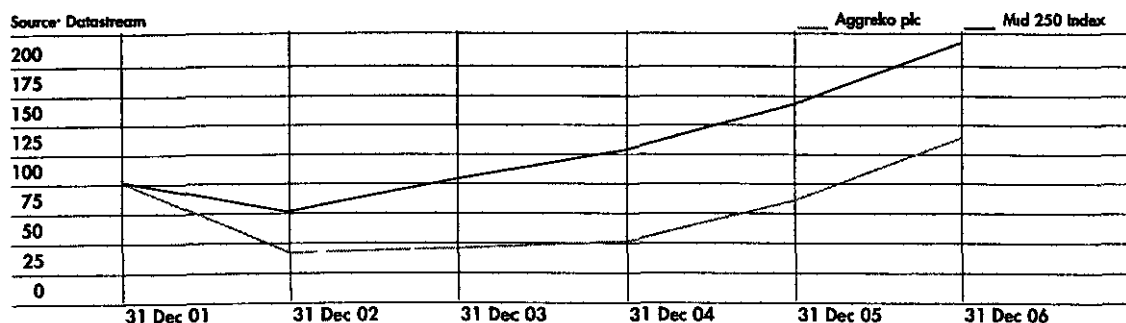
## Service Contracts

		Effective date of contract	Un. expired Term as at 31 December 2006	Notice Period
<b>Chairman:</b>				
P G Rogerson	Letter of Appointment	24 April 2005*	1 year and 4 months	–
<b>Executives:</b>				
R C Soames	Service Agreement	1 July 2003	–	1 year
F A B Shepherd	Service Agreement	1 January 2007*	–	1 year
A G Cockburn	Service Agreement	1 May 2000	–	1 year
G P Walker	Service Agreement	18 January 2001	–	1 year
K Pandya	Service Agreement	20 June 2005	–	1 year
<b>Non-executives:</b>				
A C Salvesen	Letter of Appointment	29 September 2006*	1 year and 9 months	–
N H Northridge	Letter of Appointment	14 February 2005*	1 year and 2 months	–
R V McGlone	Letter of Appointment	1 September 2005*	1 year and 8 months	–

\* replaces an earlier contract / letter of appointment

## Review of past performance

The following chart looks at the value as at 31 December 2006 of £100 invested in the Company on 31 December 2001 compared with the value of £100 invested in the FTSE Mid 250 over the same period. The other points plotted are the values at the intervening financial year ends. The FTSE Mid 250 was selected as a comparator as this index is used as one of the performance measures for the Executive Share Option Schemes. A general index is considered more appropriate than sector and peer group comparators given the unique nature of the Company's business.



## Remuneration Report continued

The following tables provide details of the emoluments, pensions and share interests of the Directors and this information is audited

### Emoluments

The emoluments (excluding pension contributions) of Directors during the year were as follows:

2006 Emoluments	Salary £	Fees £	Benefits in Kind £	Annual Bonus £	Other Pay £	2006 Total £
<b>Chairman:</b>						
P G Rogerson	–	93,000	–	–	–	93,000
<b>Executives:</b>						
R C Soames	397,500	–	5,860	415,000	8,329	826,689
F A B Shepherd	250,500	–	94,749	195,000	–	540,249
A G Cockburn	237,500	–	19,084	187,500	24,040	468,124
G P Walker	213,565	–	9,958	223,735	–	447,258
K Pandya	223,300	–	1,008	169,950	28,820	423,078
<b>Non-executives:</b>						
A C Salvesen	–	32,250	–	–	–	32,250
N H Northridge	–	38,750	–	–	–	38,750
R V McGlone	–	35,500	–	–	–	35,500
2006 Total	1,322,365	199,500	130,659	1,191,185	61,189	2,904,898
<b>2005 Emoluments</b>	<b>Salary £</b>	<b>Fees £</b>	<b>Benefits in Kind £</b>	<b>Annual Bonus £</b>	<b>Other Pay £</b>	<b>2005 Total £</b>
<b>Chairman.</b>						
P G Rogerson	–	87,000	–	–	–	87,000
<b>Executives.</b>						
R C Soames	375,400	–	7,330	285,000	59,375	727,105
F A B Shepherd	236,375	–	72,413	144,600	–	453,388
A G Cockburn	215,500	–	21,271	135,000	30,472	402,243
G P Walker	199,406	–	10,097	154,669	–	364,172
K Pandya <sup>1</sup>	117,615	–	520	33,000	7,040	158,175
<b>Non executives:</b>						
A C Salvesen	–	30,750	–	–	–	30,750
N H Northridge	–	36,250	–	–	–	36,250
R V McGlone	–	33,500	–	–	–	33,500
2005 Total	1,144,296	187,500	111,631	752,269	96,887	2,292,583

Note 1 2005 Emoluments are from date of appointment on 20 June 2005

Benefits in kind are made up of private health care, taxable life insurance benefits, car costs and the allowances paid to directors on expatriate secondment

Other pay represents the amount paid to Directors in order to fund pension benefits beyond the HM Revenue & Customs earnings cap. Following 5 April 2006, Directors have been allowed to receive part of their pension entitlement as taxable pay

Mr R C Soames was the highest paid director. His entitlements under the Pension plan and details of his potential receipt of shares under the Executive Share Option Schemes and Long Term Incentive Arrangements are disclosed separately

On 1 January 2005 Mr H J Molenaar took up the position of Director of Business Development with the Company and stepped down from the Board of Aggreko plc. During the year ended 31 December 2006 he received a salary of Euro €277,000 (2005 – Euro €270,875), benefits in kind of Euro €19,603 (2005 – Euro €21,920), a bonus of Euro €168,000 (2005 – Euro €164,400) and a long service award of Euro €nil (2005 – Euro €23,242)

With respect to 2006, performance targets were set for the bonus scheme at the start of the year and at that time the Company described 2006 to investors as a year in which progress was expected to be made against 2005. In the event, strong trading results, particularly in North America and International, led to better than expected results. Aggreko's diluted Earnings per Share pre Exceptional items rose by 44.8% from 13.72 pence to 19.87 pence, exceeding market expectations and the stretch performance targets set at the start of the year for the bonus plan. This has resulted in both the Chief Executive and the Finance Director earning maximum bonus levels of 100% and 75% of salary respectively. For the regional Executive Directors, 50% of their bonus was linked to profits generated by their region. All three of the regions exceeded their profit targets by margins ranging from 20% to 44% and as a result the three Regional Executive Directors earned the maximum bonus for 2006.

Details of changes in basic salary and fees are set out in the table below. All Directors' salaries and fees are reviewed annually as at 1 July.

	Currency	Rate of Annual Salary and Fees at 31 Dec 2006	Rate of Annual Salary and Fees at 31 Dec 2005	Increase %
<b>Chairman:</b>				
P G Rogerson	Sterling	96,000	90,000	6.67
<b>Executives:</b>				
R C Soames	Sterling	415,000	380,000	9.21
F A B Shepherd	Sterling	260,000	241,000	7.88
A G Cockburn	Sterling	250,000	225,000	11.11
G P Walker	US Dollars	412,500	375,000	10.00
K Pandya	Sterling	226,600	220,000	3.00
<b>Non-executives:</b>				
A C Salvesen	Sterling	33,000	31,500	4.76
N H Northridge	Sterling	40,000	37,500	6.67
R V McGlone	Sterling	36,500	34,500	5.80

#### Pension Entitlements

Executive Directors participate in defined contribution plans that are designed to be in line with the median practice in the relevant country. Executive Directors who reside in the United Kingdom and who joined the Board after 1 April 2002 also participate in a defined contribution plan.

	Notes	Company contributions during 2006 £	Company contributions during 2005 £
R C Soames		65,835	15,705
G P Walker		73,276	58,911
K Pandya	1	15,840	3,960

Note 1 Contributions in 2005 are from date of joining the plan.

Mr R C Soames and Mr K Pandya are members of the Aggreko plc Group Personal Pension Plan, and are entitled to pension contributions by the Company of 20% of their basic salary. From 1 July 2006, Mr R C Soames became entitled to a pension contribution from the Company of 25% of his basic salary. Up to 5 April 2006, any contributions in excess of the maximum set by the plan or HM Revenue & Customs are paid by cash compensation and are disclosed under Emoluments; after this date Directors were allowed to voluntarily opt to take part of their pension entitlement as cash compensation, any compensation taken being disclosed under Emoluments.

Mr G P Walker is entitled to participate in the Employees' Savings Investment Retirement plan and the Supplemental Executive Retirement plan of Aggreko LLC, which are governed by the laws of the United States. These plans allow contributions by the employee and the Group to be deferred for tax.

## Remuneration Report continued

On 1 January 2005 Mr H J Molenaar stepped down from the Board of Aggreko plc. During the year ended 31 December 2006, Company Contributions to his pension plan were Euro €45,302 (2005 – Euro €38,925)

He is a member of the Aggreko Netherlands pension scheme. Under this scheme the employee contributes 5% of basic salary and the Company contributes a percentage of basic salary dependant upon age. Up to the age of 39 this percentage is 10% increasing to 15% between the ages of 40 and 44, 20% between 45 and 49, 25% between 50 and 54, reaching a maximum of 30% between the ages of 55 and 60.

Mr A G Cockburn joined the Company before 1 April 2002 and is a member of the Aggreko plc Pension Scheme which is a funded, defined benefit scheme approved by HM Revenue & Customs. The key elements of his benefits are:

- a normal retirement age of 60,
- for service up to 31 December 2006, a benefits accrual rate of 1/30th for each year's service (final salary is subject to the earnings cap for service to 5 April 2006),
- for service after 1 January 2007 the accrual of benefits will be on a "career average" basis at a rate of 1/30th for each year's service,
- an employee contribution rate of 5% of basic salary (increasing to 6% from 1 January 2007), and
- a spouse's pension on death.

Mr A G Cockburn was a member of the Aggreko plc Pension Scheme during 2006 and the following disclosure relates to his membership of the Scheme:

		Accrued Pension at 31 Dec 2006 £ pa	Increase in Accrued Pension during 2006 £ pa	Increase in Accrued Pension during 2006 (net of inflation) £ pa	Transfer Value of Accrued Pension at 31 Dec 2006 £	Transfer Value of Accrued Pension at 31 Dec 2005 £	Director's Contributions during 2006 £	Increase in Transfer Value during 2006 net of Director's Contributions £
A G Cockburn	43	27,043	7,096	6,378	211,975	142,829	9,758	59,388

The transfer values have been calculated in accordance with the guidance note "GN11" published by the Institute of Actuaries and Faculty of Actuaries.

The accrued pensions are the amounts that would be paid at the anticipated retirement date, if the Director left service as at 31 December 2006, with no allowance for increases in the period between leaving service and retirement.

Mr F A B Shepherd left the scheme on 31 December 2003 and took a transfer out of his accrued pension on 9 January 2004.

Where UK resident Directors are subject to the HM Revenue & Customs cap, the Company has paid such members the equivalent of the amount that it would have cost the Company to fund the pension benefits beyond the cap, such payments are disclosed under Emoluments.

All Executive Directors who are members of a pension plan are provided with a lump sum death in service benefit of four times salary. Mr F A B Shepherd is provided with a lump sum death in service benefit of two times salary.

## Share Interests

The interests of persons who were Directors during the year in the share capital of the Company were as follows

	31 12 2005	Granted during year	Lapsed during year	Exercised during year	31 12 2006	Option Price	Date from which exercisable	Expiry Date
<b>Performance Share Plan</b>								
R C Soames	230,400	-	-	-	230,400	nil	9 6 2007	9 12 2007
R C Soames	214,957	-	-	-	214,957	nil	14 4 2008	14 10 2008
R C Soames	-	129,252	-	-	129,252	nil	20 4 2009	20 10 2009
F A B Shepherd	100,800	-	-	-	100,800	nil	9 6 2007	9 12 2007
F A B Shepherd	94,043	-	-	-	94,043	nil	14 4 2008	14 10 2008
F A B Shepherd	-	57,381	-	-	57,381	nil	20 4 2009	20 10 2009
A G Cockburn	89,600	-	-	-	89,600	nil	9 6 2007	9 12 2007
A G Cockburn	83,594	-	-	-	83,594	nil	14 4 2008	14 10 2008
A G Cockburn	-	53,571	-	-	53,571	nil	20 4 2009	20 10 2009
G P Walker	85,829	-	-	-	85,829	nil	9 6 2007	9 12 2007
G P Walker	74,466	-	-	-	74,466	nil	14 4 2008	14 10 2008
G P Walker	-	51,063	-	-	51,063	nil	20 4 2009	20 10 2009
K Pandya	64,706	-	-	-	64,706	nil	21 10 2008	21 4 2009
K Pandya	-	52,381	-	-	52,381	nil	20 4 2009	20 10 2009
<b>Co-investment Plan</b>								
R C Soames	69,120	-	-	-	69,120	nil	9 6 2007	9 12 2007
R C Soames	64,487	-	-	-	64,487	nil	14 4 2008	14 10 2008
R C Soames	-	38,772	-	-	38,772	nil	20 4 2009	20 10 2009
F A B Shepherd	43,200	-	-	-	43,200	nil	9 6 2007	9 12 2007
F A B Shepherd	40,305	-	-	-	40,305	nil	14 4 2008	14 10 2008
F A B Shepherd	-	24,588	-	-	24,588	nil	20 4 2009	20 10 2009
A G Cockburn	38,400	-	-	-	38,400	nil	9 6 2007	9 12 2007
A G Cockburn	25,950	-	-	-	25,950	nil	14 4 2008	14 10 2008
A G Cockburn	-	22,956	-	-	22,956	nil	20 4 2009	20 10 2009
G P Walker	36,780	-	-	-	36,780	nil	9 6 2007	9 12 2007
G P Walker	-	21,882	-	-	21,882	nil	20 4 2009	20 10 2009
K Pandya	27,730	-	-	-	27,730	nil	21 10 2008	21 4 2009
<b>Executive Share Options</b>								
R C Soames	301,413	-	-	-	301,413	159 25p	24 9 2006	24 9 2013
F A B Shepherd	34,014	-	-	-	34,014	294p	17 9 2002	17 9 2009
F A B Shepherd	46,729	-	-	-	46,729	428p	23 8 2003	23 8 2010
A G Cockburn	38,940	-	-	-	38,940	428p	23 8 2003	23 8 2010
A G Cockburn	50,343	-	50,343	-	-	437p	31 8 2004	31 8 2011
A G Cockburn	197,917	-	-	-	197,917	128p	25 9 2005	25 9 2012
G P Walker	32,483	-	-	-	32,483	294p	17 9 2002	17 9 2009
G P Walker	47,163	-	-	-	47,163	428p	23 8 2003	23 8 2010
G P Walker	121,952	-	-	-	121,952	457.5p	15 3 2004	15 3 2011
G P Walker	219,845	-	-	-	219,845	128p	25 9 2005	25 9 2012



## Remuneration Report continued

	31 12 2005	Granted during year	Lapsed during year	Exercised during year	31 12 2006	Option Price	Date from which exercisable	Expiry Date
<b>Phantom Share Option Scheme</b>								
F A B Shepherd	218,750	-	-	-	218,750	128p	25 9 2005	25 9 2012
<b>Sharesave Options</b>								
R C Soames	8,098	-	-	-	8,098	117p	13 11 2007	13 5 2008
F A B Shepherd	421	-	-	-	421	117p	13 11 2007	13 5 2008
F A B Shepherd	4,689	-	-	-	4,689	189p	11 11 2008	11 5 2009
A G Cockburn	4,947	-	-	-	4,947	189p	11 11 2008	11 5 2009
K Pandya	-	3,351	-	-	3,351	282p	10 11 2009	10 5 2010
<b>U.S. Stock Purchase Plan</b>								
G P Walker	3,495	-	-	-	3,495	213p	11 11 2007	11 2 2008

The options under the Sharesave Schemes have been granted at a discount of 20% on the share price calculated over the three days prior to the date of invitation to participate, mature after three years and are normally exercisable in the six months following the maturity date. The options under the US Stock Purchase Plan have been granted at a discount of 15% on the closing share price on the date of grant, mature after two years and are normally exercisable in the three months following the maturity date.

The options under the Executive Share Option Scheme are normally only exercisable once three years have elapsed from date of grant and lapse after ten years. The performance criteria that apply to the Executive Share Option Schemes are described on page 59.

Awards under the Performance Share and Co investment Plans are normally made three years after the date of grant and are subject to performance conditions which are described on pages 58 and 59.

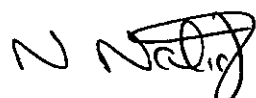
The market price of the shares at 31 December 2006 was 435.5 pence and the range during the year was 240 pence to 435.5 pence.

Shares	31 December 2006		31 December 2005	
	Beneficial	Non Beneficial	Beneficial	Non Beneficial
P G Rogerson	83,782	-	83,782	-
R C Soames	133,884	-	133,884	-
F A B Shepherd	100,908	-	100,908	1,000
A G Cockburn	72,464	-	72,464	-
G P Walker	69,457	-	69,457	-
K Pandya	18,847	-	18,847	-
A C Salvesen	7,981,075	2,125,000	7,909,316	124,488
N H Northridge	10,000	-	10,000	-
R V McGlone	8,000	-	8,000	-

Mr R C Soames, Mr F A B Shepherd, Mr A G Cockburn, Mr G P Walker and Mr K Pandya, as Directors of the Company, have an interest in the holdings of the Aggreko Employee Benefit Trust (the "EBT") as potential beneficiaries. The EBT is a trust established to distribute shares to employees of the Company and its subsidiaries as awards granted under the Aggreko Performance Share Plan 2004 and the Aggreko Co Investment Plan 2004. At 31 December 2006, the trustees of the EBT held a total of 4,433,187 Aggreko plc ordinary shares (3,678,341 2005) and this holding remains unchanged at the date of this report.

There have been no other changes in Directors' beneficial and non beneficial interests in shares between the end of the financial year and the date of this report. No Director was interested in any shares of subsidiary undertakings at any time during the year.

**Nigel H. Northridge**  
Chairman of the Remuneration Committee  
8 March 2007



# ACCOUNTS

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**aggreko**

## Independent Auditors' Report to the Members of Aggreko plc

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We have audited the Group financial statements of Aggreko plc for the year ended 31 December 2006 which comprise the Group Income Statement, the Group Statement of Recognised Income and Expense, the Group Balance Sheet, the Group Cash Flow Statement and the related notes. These group financial statements have been prepared under the accounting policies set out therein.

We have reported separately on the parent company financial statements of Aggreko plc for the year ended 31 December 2006 and on the information in the Directors' Remuneration Report that is described as having been audited.

### Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report and the group financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the group financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the group financial statements give a true and fair view and whether the group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation. We also report to you if, in our opinion, the Directors' Report is not consistent with the group financial statements, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding director's remuneration and other transactions is not disclosed.

We review whether the Corporate Governance Statement reflects the company's compliance with the nine provisions of the 2003 FRC Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the group's corporate governance procedures or its risk and control procedures.

We read other information contained in the Annual Report and consider whether it is consistent with the audited group financial statements. The other information comprises only the Directors' Report, the Chairman's Statement and the Corporate Governance Statement. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the group financial statements. Our responsibilities do not extend to any other information.

### Basis of audit opinion


We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the group financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the group financial statements, and of whether the accounting policies are appropriate to the group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the group financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the group financial statements.

### Opinion

In our opinion:

- the group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the group's affairs as at 31 December 2006 and of its profit and cash flows for the year then ended, and
- the group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation
- the information given in the Directors' Report is consistent with the Group financial statements

  
**PricewaterhouseCoopers LLP**

Chartered Accountants and Registered Auditors  
Glasgow  
8 March 2007

## Group Income Statement

For the year ended 31 December 2006

	Notes	Total before exceptional items 2006 £ million	Exceptional items (Note 7) 2006 £ million	2006 £ million	2005 £ million
Revenue	4	540.7	–	540.7	417.7
Cost of sales		(263.8)	(0.3)	(264.1)	(207.9)
<b>Gross profit</b>		<b>276.9</b>	<b>(0.3)</b>	<b>276.6</b>	<b>209.8</b>
Distribution costs		(131.4)	(1.2)	(132.6)	(108.9)
Administrative expenses		(58.8)	(7.7)	(66.5)	(41.3)
Other income		2.8	–	2.8	1.1
<b>Operating profit</b>	4	<b>89.5</b>	<b>(9.2)</b>	<b>80.3</b>	<b>60.7</b>
Finance costs					
– Interest expense	9	(7.2)	–	(7.2)	(4.8)
– Interest income	9	0.8	–	0.8	0.5
<b>Profit before taxation</b>	5	<b>83.1</b>	<b>(9.2)</b>	<b>73.9</b>	<b>56.4</b>
Taxation	10	(29.9)	2.2	(27.7)	(19.7)
<b>Profit for the year</b>		<b>53.2</b>	<b>(7.0)</b>	<b>46.2</b>	<b>36.7</b>

The above results relate to continuing operations and all profit for the period is attributable to equity shareholders of the Company

### Earnings per share (pence)

Basic	12	20.05	(2.64)	17.41	13.81
Diluted	12	19.87	(2.62)	17.25	13.72

## Group Statement of Recognised Income and Expense

For the year ended 31 December 2006

	Notes	2006 £ million	2005 £ million
<b>Profit for the year</b>		<b>46.2</b>	<b>36.7</b>
Actuarial gains/(losses) on retirement benefits	25	1.5	(7.9)
Movement of deferred tax on pension liability	10	(0.4)	2.4
Cashflow hedges (net of deferred tax)	25	1.2	(0.6)
Net exchange (losses)/gains offset in reserves	25	(20.5)	14.1
<b>Total recognised income for the year</b>		<b>28.0</b>	<b>44.7</b>
Prior year adjustment for the implementation of IAS 39		–	0.6
<b>Total recognised income since last annual accounts</b>		<b>28.0</b>	<b>45.3</b>


The notes on pages 72 to 101 form part of these Accounts


# Group Balance Sheet

As at 31 December 2006

	Notes	2006 £ million	2005 £ million
<b>Non-current assets</b>			
Goodwill	13	46.9	–
Intangible assets	14	11.5	1.5
Property, plant and equipment	15	353.8	294.9
Financial assets – derivative financial instruments	19	1.1	0.7
Deferred tax asset	22	1.0	0.4
		<u>414.3</u>	<u>297.5</u>
<b>Current assets</b>			
Inventories	16	41.5	35.7
Trade and other receivables	17	153.2	114.0
Financial assets – derivative financial instruments	19	0.9	0.1
Cash and cash equivalents	3	13.0	8.3
Current tax assets		1.3	1.6
		<u>209.9</u>	<u>159.7</u>
<b>Total assets</b>		<u>624.2</u>	<u>457.2</u>
<b>Current liabilities</b>			
Financial liabilities			
– Borrowings	18	(10.3)	(9.5)
– Derivative financial instruments	19	–	(0.6)
Trade and other payables	20	(141.4)	(93.7)
Current tax liabilities		(9.4)	(10.4)
Provisions	21	(5.9)	(0.8)
		<u>(167.0)</u>	<u>(115.0)</u>
<b>Non-current liabilities</b>			
Financial liabilities			
– Borrowings	18	(207.9)	(101.7)
– Derivative financial instruments	19	(0.3)	(0.2)
Deferred tax liabilities	22	(9.4)	(14.2)
Retirement benefit obligation	28	(13.1)	(16.8)
Provisions	21	(0.3)	(1.1)
		<u>(231.0)</u>	<u>(134.0)</u>
<b>Total liabilities</b>		<u>(398.0)</u>	<u>(249.0)</u>
<b>Net assets</b>		<u>226.2</u>	<u>208.2</u>
<b>Shareholders' equity</b>			
Share capital	23	53.9	53.8
Share premium	25	7.2	6.8
Treasury shares	24	(9.1)	(6.5)
Capital redemption reserve	25	0.1	0.1
Hedging reserve (net of deferred tax)	25	1.2	–
Foreign exchange reserve	25	(25.7)	(6.5)
Retained earnings	25	198.6	160.5
<b>Total shareholders' equity</b>		<u>226.2</u>	<u>208.2</u>

Approved by the Board on 8 March 2007 and signed on its behalf by

  
**PG Rogerson**  
 Chairman

  
**AG Cockburn**  
 Finance Director

The notes on pages 72 to 101 form part of these Accounts

## Group Cash Flow Statement

For the year ended 31 December 2006

	Notes	2006 £ million	2005 £ million
<b>Cash flows from operating activities</b>			
Cash generated from operations	2	160.2	101.9
Tax paid		(26.2)	(18.3)
Net cash generated from operating activities		134.0	83.6
<b>Cash flows from investing activities</b>			
Acquisitions (net of cash acquired)	30	(95.8)	—
Purchases of property, plant and equipment (PPE)		(128.0)	(80.1)
Proceeds from sale of PPE	2	4.7	3.8
Purchase of intangible assets		—	(0.1)
Net cash used in investing activities		(219.1)	(76.4)
<b>Cash flows from financing activities</b>			
Net proceeds from issue of ordinary shares		0.5	1.0
Increase in long term loans		157.5	31.5
Repayment of long term loans		(43.7)	(19.0)
Net movement in short term loans		0.1	3.4
Interest received		0.8	0.5
Interest paid		(6.8)	(4.6)
Dividends paid to shareholders		(16.7)	(15.7)
Purchase of treasury shares		(2.6)	(3.2)
Net cash used in financing activities		89.1	(6.1)
<b>Net increase in cash and cash equivalents</b>		4.0	1.1
Cash and cash equivalents at beginning of the year		6.0	4.9
<b>Cash and cash equivalents at end of the year</b>	3	10.0	6.0

## Reconciliation of net cash flow to movement in net debt

For the year ended 31 December 2006

Increase in cash and cash equivalents	4.0	1.1
Cash inflow from movement in debt	(113.9)	(15.9)
Changes in net debt arising from cash flows	(109.9)	(14.8)
Exchange gains/(losses)	7.6	(6.0)
Movement in net debt in period	(102.3)	(20.8)
Net debt at beginning of period	(102.9)	(82.1)
<b>Net debt at end of period</b>	18 (205.2)	(102.9)

# Notes to the Group Accounts

For the year ended 31 December 2006

## 1 Accounting policies

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated.

### A Basis of preparation

The Group financial statements have been prepared in accordance with International Accounting Standards, International Financial Reporting Standards and IFRIC interpretations (collectively IFRSs) endorsed by the EU and with those parts of the Companies Act, 1985 applicable to companies reporting under IFRS. The financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets and financial liabilities (including derivative instruments) at fair value.

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of the revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results ultimately may differ from those estimates.

### B New standards and interpretations not applied

During the year, the IASB and IFRIC have issued the following standards and interpretations with an effective date for financial years beginning on or after the dates disclosed below and therefore after the date of these financial statements:

	Effective date
IFRS 7 – Financial instruments: Disclosures	1 January 2007
IFRS 8 – Operating segments	1 January 2009
IFRIC 7 – Applying the Restatement Approach under IAS 29 'Financial Reporting in Hyperinflationary Economies'	1 March 2006
IFRIC 8 – Scope of IFRS 2, 'Share based payment'	1 May 2006
IFRIC 9 – Re assessment of embedded derivatives	1 June 2006
IFRIC 10 – Interim financial information and impairment	1 November 2006
IFRIC 11 – IFRS 2 Group and treasury share transactions	1 March 2007
IFRIC 12 – Service concession arrangements	1 January 2008

Upon adoption of IFRS 7, the Group will need to expand the disclosures in relation to the fair value of its financial instruments and its risk exposure. The adoption of this standard is not expected to impact the Group's profit or net assets.

Upon adoption of IFRS 8, the Group will need to expand the disclosure in relation to segmental analysis. The adoption of this standard is not expected to impact the Group's profit or net assets.

The Directors do not anticipate that the adoption of any of the other above standards or interpretations will have a material impact on the Group's financial statements in the period of initial application.

### C Basis of consolidation

The Group financial statements consolidate the financial statements of Aggreko plc and all its subsidiaries for the year ended 31 December 2006. Subsidiaries are those entities over which the Group has the power to govern financial and operating policies, generally accompanying a shareholding that confers more than half of the voting rights. The consolidated income statement included the results of business purchased from the effective date of acquisition.

### D Revenue recognition

Revenue for the Group represents the amounts earned from the supply of temporary power, temperature control, oil free compressed air and related services and excludes sales taxes and intra group revenue. Revenue is recognised during the rental period in which the equipment and related services are utilised by the customer.

### E Segmental reporting

Aggreko's primary reporting format relates to geographical segments comprising Northern Europe, Continental Europe, North America, Middle East, Asia Pacific and South America (together the Group's Local business) and a global segment of International Power Projects (IPP). IPP is managed as a single segment, with the deployment of assets varying from year to year depending on the location of projects. The geographical risks and rewards within IPP are significantly different from those within the Group's Local business.

## **I Accounting policies continued**

Aggreko's secondary reporting format relates to the Group's two business types detailed above, namely the Local business and International Power Projects business. The Local business focuses on smaller, more frequently occurring events, whereas the International Power Projects business concentrates on large contracts, which can arise anywhere in the world

The risks and rewards of the Group's operations are determined by the different geographical locations. This is reflected by the Group's divisional management and organisational structure and the Group's internal financial reporting systems. The segmented analysis in Note 4 to the Accounts is based on location of assets.

Central administrative costs are allocated between segments based on revenue.

## **F Leases**

Leases where substantially all of the risks and rewards of ownership are not transferred to the Group are classified as operating leases. Rentals under operating leases are charged against operating profit on a straight line basis over the term of the lease.

## **G Exceptional items**

Items are classified as exceptional gains or losses where they are considered by the Group to be material and are different from events or transactions which fall within the ordinary activities of the Group and which individually, or if of a similar type, in aggregate, need to be disclosed by virtue of their size or incidence if the financial statements are to be properly understood. Details of the exceptional items are provided in Note 7 to the financial statements.

## **H Property, plant and equipment**

Property, plant and equipment is carried at cost less accumulated depreciation and impairment losses. Cost includes purchase price, and directly attributable costs of bringing the asset into the location and condition where it is capable for use. Borrowing costs are not capitalised.

Freehold properties are depreciated on a straight line basis over 25 years. Short leasehold properties are depreciated on a straight line basis over the terms of each lease.

Other property, plant and equipment are depreciated on a straight line basis at annual rates estimated to write off the cost of each asset over its useful life from the date it is available for use. Assets in the course of construction are not depreciated. The periods of depreciation are reviewed on an annual basis and the principal periods used are as follows:

Rental fleet	8 to 10 years
Vehicles, plant and equipment	4 to 15 years

## **I Capital Grants**

Capital grants in respect of additions to property, plant and equipment are netted against the cost of the related asset and this cost is depreciated in accordance with the policy in note 1H.

## **J Intangibles**

Intangible assets acquired as part of a business combination are capitalised, separately from goodwill, at fair value at the date of acquisition if the asset is separable or arises from contractual or legal rights and its fair value can be measured reliably. Amortisation is calculated on a straight line method to allocate the fair value at acquisition of each asset over their estimated useful lives as follows: Customer relationships 10 years, Non compete agreements over the life of the non compete agreements.

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised on a straight line basis over their estimated useful lives, which is currently deemed to be 4 years.

The useful life of intangible assets is reviewed on an annual basis.

## **K Goodwill**

On the acquisition of a business, fair values are attributed to the net assets acquired. Goodwill arises where the fair value of the consideration given for a business exceeds the fair value of such assets. Goodwill arising on acquisitions is capitalised and is subject to impairment reviews, both annually and when there are indicators that the carrying value may not be recoverable.



## Notes to the Group Accounts continued

For the year ended 31 December 2006

### **1 Accounting policies continued**

For the purpose of the impairment testing, goodwill is allocated to each of the Group's cash generating units expected to benefit from the synergies of the combination. Cash generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash generating unit is less than the carrying amount of the unit, then the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period. Any impairment of goodwill is recognised immediately in the income statement.

### **L Impairment of property, plant and equipment and other intangible assets (excluding goodwill)**

Property, plant and equipment and other intangible assets are amortised/depreciated and reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. Value in use is calculated using estimated cashflows. These are discounted using an appropriate long term pre tax interest rate. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units).

### **M Foreign currencies**

Items included in the financial statements for each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (functional currency). The Group's consolidated financial statements are presented in sterling, which is the Group's presentational currency.

At individual company level, transactions denominated in foreign currencies are translated at the rate of exchange on the day the transaction occurs. Assets and liabilities denominated in foreign currency are translated at the exchange rate ruling at the balance sheet date. Non monetary assets are translated at the historical rate. In order to hedge its exposure to certain foreign exchange risks, the Group enters into forward contracts.

On consolidation, assets and liabilities of subsidiary undertakings are translated into sterling at closing rates of exchange. Income and cash flow statements are translated at average rates of exchange for the period. Gains and losses from the settlement of transactions and gains and losses on the translation of monetary assets and liabilities denominated in other currencies are included in the income statement.

### **N Derivative financial instruments**

The Group accounts for financial instruments under IAS 32 'Financial Instruments: Disclosure and Presentation' and IAS 39 'Financial Instruments: Recognition and Measurement'. IAS 39 requires the fair value of all derivative financial instruments to be recognised on the balance sheet.

The activities of the Group expose it directly to the financial risks of changes in forward foreign currency exchange rates and interest rates. The Group uses forward foreign exchange contracts and interest rate swap contracts to hedge these exposures. The Group does not use derivative financial instruments for speculative purposes.

Derivatives are initially recorded and subsequently measured at fair value, which is calculated using standard industry valuation techniques in conjunction with observable market data. The fair value of the interest rate swaps is calculated as the present value of estimated future cash flows using market interest rates and the fair value of the forward foreign exchange contracts is determined using forward foreign exchange market rates at the reporting date. The treatment of changes in fair value of derivatives depends on the derivative classification. The Group designates derivatives as hedges of highly probable forecasted transactions or commitments ('cash flow hedge').

In order to qualify for hedge accounting, the Group is required to document in advance the relationship between the item being hedged and the hedging instrument. The Group is also required to document and demonstrate an assessment of the relationship between the hedged item and the hedging instrument, which shows that the hedge will be highly effective on an on going basis. This effectiveness testing is re performed at each period end to ensure that the hedge remains highly effective.

#### **Cash flow hedge**

Changes in the fair value of derivative financial instruments that are designated, and effective, as hedges of future cash flows are recognised directly in equity and any ineffective portion is recognised immediately in the income statement. If the cash flow hedge of a firm commitment or forecasted transaction subsequently results in the recognition of an asset or a liability, then, at the time the asset or liability is recognised, the associated gains or losses on the derivative that had previously been recognised in equity are included in the initial measurement of the asset or liability. For hedges that do not result in the recognition of an asset or a liability, amounts deferred in equity are recognised in the income statement in the same period in which the hedged item affects net profit and loss.

Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognised in the income statement as they arise.

Hedge accounting is discontinued when the hedging instrument no longer qualifies for hedge accounting. At that time any cumulative gain or loss on the hedging instrument recognised in equity is retained in equity until the forecasted transaction occurs. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to the income statement.

#### **Overseas net investment hedges**

Certain foreign currency borrowings are designated as hedges of the Group's overseas net investments, which are denominated in the functional currency of the reporting operation.

Exchange differences arising from the retranslation of the net investment in foreign entities and of borrowings are taken to equity on consolidation to the extent the hedges are deemed effective. All other exchange gains and losses are dealt with through the income statement.

### **O Taxation**

#### **Deferred Tax**

Deferred tax is provided in full, using the liability method, on temporary differences arising between the tax base of assets and liabilities and their carrying amounts in the financial statements. In principle, deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill, negative goodwill nor from the acquisition of an asset, which does not affect either taxable or accounting income. Deferred tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled. Deferred tax is charged or credited in the income statement, except when it relates to items credited or charged directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Provision for income taxes, mainly withholding taxes, which could arise on the remittance of retained earnings, principally relating to subsidiaries, is only made where there is a current intention to remit such earnings.

#### **Current Tax**

The charge for the current tax is based on the results for the year as adjusted for items, which are non assessable or disallowed. It is calculated using taxation rates that have been enacted or substantially enacted by the balance sheet date.

### **P Inventories**

Inventories are valued at the lower of cost and net realisable value, using the FIFO or weighted average cost basis. Cost includes the cost of direct materials and, where applicable, direct labour and those overheads that have been incurred in bringing the inventories to their present location and condition.

Inventory is written down on a case by case basis if the anticipated net realisable value declines below the carrying amount of the inventories. Net realisable value is the estimated selling price less cost to completion and selling expenses. When the reasons for a write down of the inventory have ceased to exist, the write down is reversed.

## Notes to the Group Accounts continued

For the year ended 31 December 2006

### **Q Employee benefits**

Wages, salaries, social security contributions, paid annual leave and sick leave, bonuses, and non monetary benefits are accrued in the year in which the associated services are rendered by the employees of the Group. Where the Group provides long term employee benefits, the cost is accrued to match the rendering of the services by the employees concerned.

The Group operates a defined benefit pension scheme and a number of defined contribution pensions schemes. The cost for the year for the defined benefit scheme is determined using the projected unit method, with actuarial updates to the valuation being carried out at each balance sheet date. Actuarial gains and losses are recognised in full, directly in retained earnings, in the period in which they occur and are shown in the statement of recognised income and expense. The current service cost of the pension charge as well as the expected return on pension scheme assets and interest on pension scheme liabilities are included in arriving at operating profit. The retirement benefit obligation recognised in the balance sheet is the present value of the defined benefit obligation at the balance sheet date less the fair value of the scheme assets. The present value of the defined benefit obligation is determined by discounting the estimated future cash flows using interest rates of high-quality corporate bonds.

Contributions to defined contribution pension schemes are charged to the income statement in the period in which they become chargeable.

### **R Trade receivables**

Trade receivables are stated at their nominal value as reduced by appropriate allowances for estimated irrecoverable amounts. An allowance is recorded for the difference between the carrying amount and the recoverable amount where there is objective evidence that the Group will not be able to collect all amounts due.

### **S Trade payables**

Trade payables are stated at their nominal value.

### **T Provisions**

Provisions are recognised where a legal or constructive obligation has been incurred which will probably lead to an outflow of resources that can be reasonably estimated. Provisions are recorded for the estimated ultimate liability that is expected to arise, taking into account the time value of money where material.

A contingent liability is disclosed where the existence of the obligation will only be confirmed by future events, or where the amount of the obligation cannot be measured with reasonable reliability. Contingent assets are not recognised, but are disclosed where an inflow of economic benefits is probable.

### **U Share based payments**

IFRS 2 'Share based Payment' has been applied to all grants of equity instruments after 7 November 2002 in accordance with the transitional provisions of the standard. The Group issues equity settled share based payments to certain employees under the terms of the Group's various employee share and option schemes. Equity settled share based payments are measured at fair value at the date of the grant. The fair value determined at the grant date of equity settled share based payments is expensed on a straight line basis over the vesting period, based on an estimate of the shares that will ultimately vest.

Fair value is measured using the Black Scholes option pricing model for employee sharesave options and using the Monte Carlo option pricing model for Executive share options.

Own shares held under trust for the Group's employee share schemes are classed as Treasury shares and deducted in arriving at shareholders' equity. No gain or loss is recognised on disposal of Treasury shares. Purchases of own shares are disclosed as changes in shareholders' equity.

### **V Cash and cash equivalents**

Cash and cash equivalents comprise cash on hand and deposits with a maturity of three months or less. This definition is also used for the cashflow statement.

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#### **W Borrowings**

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost. Any difference between the proceeds, net of transaction costs, and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest rate.

#### **X Dividend distribution**

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders.

#### **Y Key assumptions and significant judgements**

The Group uses estimates and makes judgements in the preparation of its Accounts. The most sensitive areas affecting the Accounts are discussed below.

#### **Pensions**

Pension arrangements vary for our employees and schemes reflect best practice and regulation in each country. The Group operates a defined benefit scheme for UK employees, which was closed to new employees joining the group after 1 April 2002, as well as a number of defined contribution schemes.

Under IAS 19 'Employee Benefits' Aggreko has recognised a pre-tax pension deficit of £13.1 million at 31 December 2006 (2005: £16.8 million). The decrease in the pension deficit is mainly as a result of additional contributions made by the Company during the year. Following the completion of the actuarial valuation at 31 December 2005, the Company and trustees agreed upon a Schedule of Contributions and a Recovery Plan. During 2006 the Company contributions for benefits building up in the future were increased to 31.5% of pensionable earnings and from 1 January 2007 the Company contributions will be 25.4%. From 1 January 2007 future benefits will be accrued on a Career Average basis hence the change to the required contribution rate. To address the Scheme deficit the Company made an additional contribution of £3.5 million in 2006 and plans to make additional contributions of £4.0 million in 2007, £4.0 million in 2008 and £0.5 million per annum until December 2015. Employee contributions will increase to 6% from 1 January 2007.

The main assumptions used in IAS 19 valuation for the previous two years are shown in note 28 of the Accounts.

#### **Taxation**

The Group's tax charge is based on the profit for the year and tax rates in force at the balance sheet date. Estimation of the tax charge requires an assessment to be made of the potential tax treatment of certain items which will only be resolved once finally agreed with the relevant tax authorities.

#### **Property, plant and equipment**

The property, plant and equipment used in the business is mainly the rental fleet which has a depreciation life typically of between 8 and 10 years. The annual depreciation charge is sensitive to the estimated service lives allocated to each type of asset. Assets' lives are reviewed regularly and changed when necessary to reflect current thinking on their remaining lives in light of technological change, prospective economic utilisation and the physical condition of the assets.

#### **Intangible assets**

In accordance with IFRS 3 'Business Combinations' goodwill arising on acquisition of subsidiaries is capitalised and included in intangible assets. IFRS 3 also requires the identification of other acquired intangible assets. The techniques used to value these intangible assets are in line with recognised models but do require the use of estimates which may differ from actual outcomes. Future results are impacted by the amortisation period adopted for these items and, potentially, any differences between estimated and actual circumstances related to individual intangible assets.

Goodwill is not amortised but is tested annually for impairment and carried at cost less accumulated impairment losses. The impairment review calculations require the use of estimates related to the future profitability and cash generating ability of the acquired assets.

## Notes to the Group Accounts continued

For the year ended 31 December 2006

### **Z Financial risk management**

The Group's operations expose it to a variety of financial risks that include liquidity, the effects of changes in foreign currency exchange rates, interest rates and credit risk. The Group has a centralised treasury operation whose primary role is to ensure that adequate liquidity is available to meet the Group's funding requirements as they arise, and that financial risk arising from the Group's underlying operations is effectively identified and managed.

The treasury operations are conducted in accordance with policies and procedures approved by the Board and are reviewed annually. Financial instruments are only executed for hedging purposes and transactions that are speculative in nature are expressly forbidden. Monthly reports are provided to senior management and treasury operations are subject to periodic internal and external review.

#### **Liquidity and funding**

The Group maintains sufficient facilities to meet its normal funding requirements over the medium term. These facilities are primarily in the form of bank facilities arranged on a bilateral basis with a number of international banks. The financial covenants attached to these facilities are that operating profit should be no less than 3x interest, and net debt should be no more than 3x EBITDA. The Group does not consider that the financial covenants contained in the facilities are restrictive to its operations. The Group's borrowings were £218.2 million at 31 December 2006, and net debt amounted to £205.2 million. At that date undrawn committed facilities were £152.9 million.

#### **Interest rate risk**

The Group's policy is to minimise the exposure to interest rates by ensuring an appropriate balance of fixed and floating rates. The Group's primary funding is at floating rates through its bank facilities. In order to manage the associated interest rate risk, the Group uses interest rate swaps to vary the mix of fixed and floating rates. At 31 December 2006 £121.0 million of the net debt of £205.2 million was at fixed rates of interest resulting in a fixed to floating rate net debt ratio of 59:41.

#### **Foreign exchange risk**

The Group is subject to currency exposure on the translation of its net investments in overseas subsidiaries into sterling. In order to reduce the currency risk arising, the Group uses direct borrowings in the same currency as those investments. Group borrowings are currently drawn down in the principal currencies affecting the Group, namely US dollar and euro, as well as sterling.

The Group manages its currency flows to minimise foreign exchange risk arising on transactions denominated in foreign currencies and uses forward contracts where appropriate in order to hedge net currency flows.

#### **Counterparty and credit risk**

Cash deposits and other financial instruments give rise to credit risk on amounts due from counterparties. The Group manages this risk by limiting the aggregate amounts and their duration depending on external credit ratings of the relevant counterparty. In the case of financial assets exposed to credit risk, the carrying amount in the balance sheet, net of any applicable provisions for loss, represents the amount exposed to credit risk.

#### **Management of trade debtors**

The management of trade debtors is the responsibility of the operating units, although they report monthly to Group on debtor days, debtor ageing and significant outstanding debts. Many of the International Power Projects contracts require sophisticated risk management, and the Group deploys a number of tools to manage its risk, including advanced payments, letters of credit, bank guarantees, bonds, credit and political risk insurance. On large contracts, all such arrangements are approved at Group level.

#### **Insurance**

The Group operates a policy of buying cover where possible for material risks from the global insurance market, whilst self-insuring risks which would not have a material impact on the Group as a whole. The Group monitors its insurance arrangements in such a way to ensure the quality and extent of cover.

## 2 Cashflow from operating activities

	2006 £ million	2005 £ million
Profit for the year	46.2	36.7
Adjustments for		
Tax	27.7	19.7
Depreciation	72.5	63.0
Amortisation of intangibles	0.8	0.4
Interest income	(0.8)	(0.5)
Interest expense	7.2	4.8
Profit on sale of PPE (see below)	(2.8)	(1.1)
Share based payments	4.1	2.5
Changes in working capital (excluding the effects of exchange differences on consolidation)		
Increase in inventories	(5.5)	(9.0)
Increase in trade and other receivables	(27.6)	(35.9)
Increase in trade and other payables	32.8	25.4
Net movements in provisions for liabilities and charges	4.3	(4.2)
Net retirement benefit cost	1.3	0.1
Cash generated from operations	<u>160.2</u>	<u>101.9</u>

In the cash flow statement, proceeds from sale of PPE comprise

	2006 £ million	2005 £ million
Net book amount	1.9	2.7
Profit on sale of PPE	2.8	1.1
Proceeds from sale of PPE	<u>4.7</u>	<u>3.8</u>

## 3 Cash and cash equivalents

	2006 £ million	2005 £ million
Cash at bank and in hand	12.5	7.9
Short term bank deposits	0.5	0.4
	<u>13.0</u>	<u>8.3</u>

The effective interest rate on short term bank deposits was 5.21% (2005 3.70%), these deposits have an average maturity of less than 90 days

Cash and bank overdrafts include the following for the purposes of the cashflow statement

	2006 £ million	2005 £ million
Cash and cash equivalents	13.0	8.3
Bank overdrafts (Note 18)	(3.0)	(2.3)
	<u>10.0</u>	<u>6.0</u>

## Notes to the Group Accounts continued

For the year ended 31 December 2006

### 4 Segmental reporting

#### (a) Revenue by segment

	Total revenue		Inter-segment revenue		External revenue	
	2006 £ million	2005 £ million	2006 £ million	2005 £ million	2006 £ million	2005 £ million
Northern Europe	70.2	58.7	—	—	70.2	58.7
Continental Europe	65.5	56.0	—	0.1	65.5	55.9
North America	159.2	141.8	0.2	0.1	159.0	141.7
Middle East, Asia Pacific, South America	77.9	52.5	0.3	0.5	77.6	52.0
Local Business	372.8	309.0	0.5	0.7	372.3	308.3
International Power Projects	170.1	110.7	1.7	1.3	168.4	109.4
Eliminations	(2.2)	(2.0)	(2.2)	(2.0)	—	—
Group	540.7	417.7	—	—	540.7	417.7

Inter segment transfers or transactions are entered into under the normal commercial terms and conditions that would also be available to unrelated third parties

International Power Projects (IPP) is a global segment administered from Dubai. At the end of 2006 and 2005 the assets of the International Power Projects segment are predominantly located in the Middle East, Asia Pacific, South America and Africa.

The former South and Central Europe segment has been re named as the Continental Europe segment

#### (b) Profit by segment

	Trading profit		Gain/(loss) on sale of PPE		Operating profit	
	2006 £ million	2005 £ million	2006 £ million	2005 £ million	2006 £ million	2005 £ million
Northern Europe	5.6	4.5	0.6	0.2	6.2	4.7
Continental Europe	5.3	0.9	0.1	0.3	5.4	1.2
North America	33.8	26.5	2.2	0.3	36.0	26.8
Middle East, Asia Pacific, South America	15.7	9.5	0.1	0.1	15.8	9.6
Local Business	60.4	41.4	3.0	0.9	63.4	42.3
International Power Projects	26.3	18.2	(0.2)	0.2	26.1	18.4
Group	86.7	59.6	2.8	1.1	89.5	60.7
Exceptional items (Note 7)					(9.2)	—
Operating profit post exceptional items					80.3	60.7
Finance costs – net					(6.4)	(4.3)
Profit before taxation					73.9	56.4
Taxation					(27.7)	(19.7)
Profit for the year					46.2	36.7

#### (c) Depreciation and amortisation by segment

	2006 £ million	2005 £ million
Northern Europe	9.9	9.8
Continental Europe	10.2	9.7
North America	19.6	17.0
Middle East, Asia Pacific, South America	10.1	7.6
Local Business	49.8	44.1
International Power Projects	23.5	19.3
Group	73.3	63.4

#### 4 Segmental reporting continued

##### (d) Capital expenditure on property, plant and equipment and intangible assets by segment

	2006 £ million	2005 £ million
Northern Europe	20.7	6.2
Continental Europe	19.5	5.7
North America	47.8	21.2
Middle East, Asia Pacific, South America	27.7	16.2
Local Business	115.7	49.3
International Power Projects	56.1	30.9
Group	171.8	80.2

Capital expenditure comprises additions and acquisitions of property, plant and equipment and intangible assets (excluding goodwill)

##### (e) Assets/(liabilities) by segment

	Assets		Liabilities	
	2006 £ million	2005 £ million	2006 £ million	2005 £ million
Northern Europe	74.2	57.4	(12.9)	(7.4)
Continental Europe	89.6	70.4	(21.0)	(17.0)
North America	147.0	132.1	(28.7)	(27.4)
Middle East, Asia-Pacific, South America	81.1	56.3	(18.4)	(11.7)
Local Business	391.9	316.2	(81.0)	(63.5)
International Power Projects	181.1	138.2	(68.9)	(34.4)
Group	573.0	454.4	(149.9)	(97.9)

Segment assets include property, plant and equipment, intangible assets, inventory, receivables and operating cash. As at 31 December 2006 goodwill has not been allocated to segments as a result of the timing of the acquisition and the finalisation of the fair value process.

Segment liabilities comprise operating liabilities. They exclude taxation, the retirement benefit obligation and corporate borrowings.

##### (f) Average number of employees by segment

	2006 number	2005 number
Northern Europe	360	345
Continental Europe	362	385
North America	719	635
Middle East, Asia Pacific, South America	303	254
Local Business	1,744	1,619
International Power Projects	485	378
Group	2,229	1,997

##### (g) Segmental revenue by location of customer

	2006 £ million	2005 £ million
UK	55.9	47.7
Continental Europe	79.7	66.9
North America	159.0	141.7
Middle East	86.1	58.4
Australasia	23.6	22.1
Africa	97.6	46.8
Other	38.8	34.1
Total	540.7	417.7



## Notes to the Group Accounts continued

For the year ended 31 December 2006

### 4 Segmental reporting continued

#### (h) Reconciliation of net operating assets to net assets

	2006 £ million	2005 £ million
Net operating assets	423.1	356.5
Goodwill (Note 13)	46.9	–
Retirement benefit obligation	(13.1)	(16.8)
Net tax and finance payable	(17.2)	(22.6)
	<u>439.7</u>	<u>317.1</u>
Borrowings and derivative financial instruments	(213.5)	(108.9)
Net assets	<u>226.2</u>	<u>208.2</u>

### 5 Profit before taxation

The following items have been included in arriving at profit before taxation

	2006 £ million	2005 £ million
Staff costs (Note 8)	105.4	82.6
Cost of inventories recognised as an expense (included in cost of sales)	32.6	18.4
Depreciation of property, plant and equipment	72.5	63.0
Amortisation of intangibles (included in administrative expenses)	0.8	0.4
Gain on disposal of property, plant and equipment	(2.8)	(1.1)
Trade receivables impairment	3.1	2.5
Other operating lease rentals payable		
– Plant and equipment	6.1	5.0
– Property	4.8	3.6
Exceptional items (Note 7)	<u>9.2</u>	<u>–</u>

### 6 Auditors' remuneration

	2006 £'000	2005 £'000
<b>Audit services</b>		
Fees payable to the Company's auditor for the audit of the Company's annual accounts	118	79
Fees payable to the Company's auditor and its associates for other services		
– The audit of the Company's subsidiaries, pursuant to legislation	231	191
– Other services pursuant to legislation	26	26
– Tax services	34	188
– All other services	182	50
Fees in respect of the Aggreko plc pension scheme		
– Audit	6	6

### 7 Exceptional items

The exceptional charge in the period of £9.2 million relates to the acquisition of GE Energy Rentals on 4 December 2006 and comprises £3.6 million of integration costs, £2.4 million of redundancy and related costs, £1.0 million of property costs and £2.2 million of other costs. Geographically this exceptional charge can be split into Northern Europe £2.0 million, Continental Europe £1.3 million, North America £4.0 million, Middle East, Asia Pacific, South America £1.6 million and IPP £0.3 million.

## 8 Employees and directors

Staff costs for the Group during the year

	2006 £ million	2005 £ million
Wages and salaries	88.4	69.3
Social security costs	8.0	7.3
Share based payments	4.1	2.5
Pension costs – defined contribution plans	2.3	2.0
Pension costs – defined benefit plans (Note 28)	2.6	1.5
	<u>105.4</u>	<u>82.6</u>

Full details of Directors' remuneration are set out in the Remuneration Report on pages 57 to 66

The key management figures given below comprise directors only

	2006 £ million	2005 £ million
Salaries and short term benefits	2.9	2.3
Post employment benefits	0.2	0.1
Share based payments	1.2	0.7
	<u>4.3</u>	<u>3.1</u>

## 9 Net finance charge

	2006 £ million	2005 £ million
Interest expense on bank loans and overdrafts	(7.2)	(4.8)
Interest income on bank balances and deposits	0.8	0.5
	<u>(6.4)</u>	<u>(4.3)</u>

## 10 Taxation

	2006 £ million	2005 £ million
<b>Analysis of charge in year</b>		
Current tax expense		
– UK corporation tax	5.3	6.5
– Double taxation relief	(1.8)	(0.6)
	<u>3.5</u>	<u>5.9</u>
– Overseas taxation	23.8	16.5
	<u>27.3</u>	<u>22.4</u>
Adjustments in respect of prior years		
– UK	(0.4)	–
– Overseas	0.4	(0.4)
	<u>–</u>	<u>(0.4)</u>
	<u>27.3</u>	<u>22.0</u>
Deferred taxation (Note 22)		
– temporary differences arising in current year	(0.3)	(2.2)
– movements in respect of prior years	0.7	(0.1)
	<u>0.4</u>	<u>(2.3)</u>
	<u>27.7</u>	<u>19.7</u>

Included within the above tax charge is a tax credit in relation to exceptional items of £2.2 million (2005 £nil)

	2006 £ million	2005 £ million
<b>Tax on items charged to equity</b>		
Current tax on exchange movements offset in reserves	1.3	–
Deferred tax on IAS 39 movements	(0.5)	–
Deferred tax on pension scheme deficit	(0.4)	2.4
Deferred tax on share based payments	3.4	1.1
	<u>3.8</u>	<u>3.5</u>

## Notes to the Group Accounts continued

For the year ended 31 December 2006

### 10 Taxation continued

Variances between the current tax charge and the standard 30% UK corporate tax rate when applied to profit on ordinary activities for the year are as follows

	2006 £ million	2005 £ million
Profit before taxation	73.9	56.4
Exceptional items	9.2	–
Profit before taxation and exceptional items	83.1	56.4
Tax calculated at 30% standard UK corporate rate	24.9	16.9
Differences between UK and overseas tax rates	1.9	1.6
Permanent differences	2.4	1.7
Tax on current year profit before exceptional items	29.2	20.2
Prior year adjustments – current tax	–	(0.4)
Prior year adjustments – deferred tax	0.7	(0.1)
Total tax on profit before exceptional items	29.9	19.7
Tax credit on exceptional items	(2.2)	–
	27.7	19.7
Effective tax rate pre exceptional items	36.0%	35.0%

### 11 Dividends

	2006 £ million	2006 per share (p)	2005 £ million	2005 per share (p)
Final paid	10.0	3.77	9.5	3.57
Interim paid	6.7	2.53	6.2	2.34
	16.7	6.30	15.7	5.91

In addition, the directors are proposing a final dividend in respect of the financial year ended 31 December 2006 of 4.19 pence per share which will absorb an estimated £11.1 million of shareholders' funds. It will be paid on 18 May 2007 to shareholders who are on the register of members on 20 April 2007.

### 12 Earnings per share

Basic earnings per share have been calculated by dividing the earnings attributable to ordinary shareholders by the weighted average number of shares in issue during the year, excluding shares held by the Employee Share Ownership Trusts which are treated as cancelled.

	2006	2005
Profit for the year (£ million)	46.2	36.7
Weighted average number of ordinary shares in issue (million)	265.4	265.3
Basic earnings per share (pence)	17.41	13.81

For diluted earnings per share, the weighted average number of ordinary shares in issue is adjusted to assume conversion of all dilutive potential ordinary shares. These represent share options granted to employees where the exercise price is less than the average market price of the Company's ordinary shares during the year. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options.

	2006	2005
Profit for the year (£ million)	46.2	36.7
Weighted average number of ordinary shares in issue (million)	265.4	265.3
Adjustment for share options (million)	2.4	1.8
Diluted weighted average number of ordinary shares in issue (million)	267.8	267.1
Diluted earnings per share (pence)	17.25	13.72

## 12 Earnings per share continued

Aggreko plc assesses the performance of the Group by adjusting earnings per share, calculated in accordance with IAS 33, to exclude items it considers to be non recurring and believes that the exclusion of such items provides a better comparison of business performance. The calculation of earnings per ordinary share on a basis which excludes exceptional items is based on the following adjusted earnings

	2006 £ million	2005 £ million
Profit for the year	46.2	36.7
Exclude exceptional items (net of attributable taxation)	7.0	—
Adjusted earnings	53.2	36.7
An adjusted earnings per share figure is presented below		
Basic earnings per share pre exceptional items (pence)	20.05	13.81
Diluted earnings per share pre exceptional items (pence)	19.87	13.72

## 13 Goodwill

	2006 £ million
Cost	
At 1 January	—
Acquisitions (Note 30)	46.7
Exchange adjustments	0.2
At 31 December	46.9
Accumulated impairment losses	
At 1 January 2006 and 31 December 2006	—
Net book value at 1 January 2006	—
Net book value at 31 December 2006	46.9

## 14 Intangible assets

	2006 £ million	2005 £ million
Cost		
At 1 January	2.8	2.7
Acquisitions (Note 30)	10.7	—
Additions	—	0.1
Exchange adjustments	0.1	—
At 31 December	13.6	2.8
Accumulated amortisation		
At 1 January	1.3	0.9
Charge for the year	0.8	0.4
At 31 December	2.1	1.3
Net book values:		
At 31 December	11.5	1.5

Amortisation charges in the year have been recorded in administrative expenses

## Notes to the Group Accounts continued

For the year ended 31 December 2006

### 15 Property, plant and equipment

Year ended 31 December 2006

	Freehold properties £ million	Short leasehold properties £ million	Rental fleet £ million	Vehicles, plant & equipment £ million	Total £ million
<b>Cost</b>					
At 1 January 2006	25.0	6.1	653.0	44.6	728.7
Exchange adjustments	(2.0)	(0.6)	(61.7)	(2.0)	(66.3)
Additions	7.2	1.1	114.1	5.6	128.0
Acquisitions (Note 30)	–	–	32.2	0.9	33.1
Disposals	(1.7)	–	(16.6)	(0.8)	(19.1)
<b>At 31 December 2006</b>	<b>28.5</b>	<b>6.6</b>	<b>721.0</b>	<b>48.3</b>	<b>804.4</b>
<b>Accumulated depreciation</b>					
At 1 January 2006	10.8	2.6	393.3	27.1	433.8
Exchange adjustments	(0.7)	(0.2)	(36.1)	(1.5)	(38.5)
Charge for the year	0.7	0.4	66.5	4.9	72.5
Disposals	(1.7)	–	(14.8)	(0.7)	(17.2)
<b>At 31 December 2006</b>	<b>9.1</b>	<b>2.8</b>	<b>408.9</b>	<b>29.8</b>	<b>450.6</b>
<b>Net book values:</b>					
At 31 December 2006	<b>19.4</b>	<b>3.8</b>	<b>312.1</b>	<b>18.5</b>	<b>353.8</b>
At 31 December 2005	14.2	3.5	259.7	17.5	294.9

Year ended 31 December 2005

	Freehold properties £ million	Short leasehold properties £ million	Rental fleet £ million	Vehicles, plant & equipment £ million	Total £ million
<b>Cost</b>					
At 1 January 2005	22.3	5.1	549.8	40.3	617.5
Reclassifications	0.1	–	–	(0.1)	–
Exchange adjustments	1.7	0.3	43.5	1.4	46.9
Additions	1.0	0.9	73.7	4.5	80.1
Disposals	(0.1)	(0.2)	(14.0)	(1.5)	(15.8)
<b>At 31 December 2005</b>	<b>25.0</b>	<b>6.1</b>	<b>653.0</b>	<b>44.6</b>	<b>728.7</b>
<b>Accumulated depreciation</b>					
At 1 January 2005	9.3	2.3	321.1	23.8	356.5
Exchange adjustments	0.7	0.1	25.5	1.1	27.4
Charge for the year	0.8	0.4	58.1	3.7	63.0
Disposals	–	(0.2)	(11.4)	(1.5)	(13.1)
<b>At 31 December 2005</b>	<b>10.8</b>	<b>2.6</b>	<b>393.3</b>	<b>27.1</b>	<b>433.8</b>
<b>Net book values:</b>					
At 31 December 2005	<b>14.2</b>	<b>3.5</b>	<b>259.7</b>	<b>17.5</b>	<b>294.9</b>
At 31 December 2004	13.0	2.8	228.7	16.5	261.0

### 16 Inventories

	2006 £ million	2005 £ million
Raw materials and consumables	39.3	31.2
Work in progress	2.2	4.5
	<b>41.5</b>	<b>35.7</b>

## 17 Trade and other receivables

	2006 £ million	2005 £ million
Trade receivables	102.5	91.6
Less provision for impairment of receivables	(6.9)	(4.1)
Trade receivables – net	95.6	87.5
Prepayments and accrued income	33.4	19.0
Other receivables	24.2	7.5
Total receivables	153.2	114.0

There is no concentration of credit risk with respect to trade receivables, as the Group has a large number of customers who are unrelated and internationally dispersed. Although at any one time, it is possible to have a very small number of customers that have significant balances due, primarily related to large contracts in IPP.

Other receivables principally comprise deposits and advance payments.

## 18 Financial assets/liabilities

	2006 £ million	2005 £ million
<b>Non-current</b>		
Bank borrowings	207.9	101.7
<b>Current</b>		
Bank overdrafts	3.0	2.3
Bank borrowings	7.3	7.2
	10.3	9.5
<b>Total borrowings</b>	218.2	111.2
Short term deposits	(0.5)	(0.4)
Cash at bank and in hand	(12.5)	(7.9)
<b>Net borrowings</b>	205.2	102.9

The bank overdrafts and borrowings are all unsecured.

### (i) Maturity of financial liabilities

The maturity profile of the borrowings was as follows:

	2006 £ million	2005 £ million
Within 1 year, or on demand	10.3	9.5
Between 1 and 2 years	–	49.0
Between 2 and 3 years	123.8	–
Between 3 and 4 years	–	52.7
Between 4 and 5 years	84.1	–
	218.2	111.2

### (ii) Borrowing facilities

The Group has the following undrawn committed floating rate borrowing facilities available at 31 December 2006 in respect of which all conditions precedent had been met at that date:

	2006 £ million	2005 £ million
Expiring within 1 year	–	–
Expiring between 1 and 2 years	–	1.0
Expiring between 2 and 3 years	12.4	–
Expiring between 3 and 4 years	–	62.3
Expiring between 4 and 5 years	140.5	–
Expiring after 5 years	–	35.0
	152.9	98.3

## Notes to the Group Accounts continued

For the year ended 31 December 2006

### 18 Financial assets/liabilities continued

#### (iii) Interest rate risk profile of financial liabilities

The interest rate profile of the Group's financial liabilities at 31 December 2006, after taking account of the interest rate swaps used to manage the interest profile, was

	Floating rate £ million	Fixed rate £ million	Total £ million	Fixed rate debt Weighted average interest rate %	Weighted average period for which rate is fixed Years
Currency					
Sterling	31.3	—	31.3	—	—
US dollar	52.5	102.2	154.7	4.7	3.1
Euro	12.6	18.8	31.4	3.2	1.0
Other Currencies	0.8	—	0.8	—	—
At 31 December 2006	<u>97.2</u>	<u>121.0</u>	<u>218.2</u>		
Sterling	10.2	7.5	17.7	4.9	1.0
US dollar	33.2	35.1	68.3	3.5	2.0
Euro	5.1	19.2	24.3	3.2	2.0
Other Currencies	0.9	—	0.9	—	—
At 31 December 2005	<u>49.4</u>	<u>61.8</u>	<u>111.2</u>		

The floating rate financial liabilities principally comprise debt which carries interest based on different benchmark rates depending on the currency of the balance. The principal benchmark rates for floating rate financial liabilities are the relevant LIBOR (London Interbank Offered Rate) rates for sterling, US dollars and euros and liabilities are normally fixed in advance for periods between one and three months.

The weighted average interest rate on fixed debt is derived from the fixed leg of each interest rate swap.

The effect of the Group's interest rate swaps is to classify £121.0 million (2005: £61.8 million) of borrowings in the above table as fixed rate.

The notional principal amount of the outstanding interest rate swap contracts at 31 December 2006 was £121.0 million (2005: £61.8 million).

#### (iv) Interest rate risk profile of financial assets

	Cash at bank and in hand £ million	Short term deposits £ million	Total £ million
Currency			
Sterling	—	—	—
US dollar	2.1	—	2.1
Euro	4.4	—	4.4
Other currencies	6.0	0.5	6.5
At 31 December 2006	<u>12.5</u>	<u>0.5</u>	<u>13.0</u>
Sterling	0.2	—	0.2
US dollar	1.0	—	1.0
Euro	3.8	—	3.8
Other currencies	2.9	0.4	3.3
At 31 December 2005	<u>7.9</u>	<u>0.4</u>	<u>8.3</u>

All of the above cash and short term deposits are floating rate and earn interest based on relevant LIBID (London Interbank Bid Rate) equivalents or government bond rates for the currency concerned.

#### (v) Preference share capital

	2006 Number	2006 £'000	2005 Number	2005 £'000
Authorised.				
Redeemable preference shares of 25p each	<u>199,998</u>	<u>50</u>	<u>199,998</u>	<u>50</u>

No redeemable preference shares were allotted as at 31 December 2006 and 31 December 2005.

## 19 Financial instruments

As stated in our accounting policies note 1N on page 74 the activities of the Group expose it directly to the financial risks of changes in foreign currency exchange rates and interest rates. The Group uses forward foreign exchange contracts and interest rate swap contracts to hedge these exposures. The movement in the hedging reserve is shown in the Statement of Changes in Equity (Note 25)

### (i) Fair values of financial assets and financial liabilities

The following table provides a comparison by category of the carrying amounts and the fair values of the Group's financial assets and financial liabilities at 31 December 2006. Fair value is the amount at which a financial instrument could be exchanged in an arm's length transaction between informed and willing parties, other than a forced or liquidation sale and excludes accrued interest. Where available, market values have been used to determine fair values.

	2006		2005	
	Book value £ million	Fair value £ million	Book value £ million	Fair value £ million
Primary financial instruments held or issued to finance the Group's operations				
Current borrowings and overdrafts	(10.3)	(10.3)	(9.5)	(9.5)
Non current borrowings	(207.9)	(207.9)	(101.7)	(101.7)
Short term deposits	0.5	0.5	0.4	0.4
Cash at bank and in hand	12.5	12.5	7.9	7.9
Derivative financial instruments held to manage the interest rate profile				
Interest rate swaps	0.8	0.8	0.6	0.6
Forward foreign currency contracts	0.9	0.9	(0.6)	(0.6)

### (ii) Summary of methods and assumptions

#### Interest rate swaps and forward foreign currency contracts

Fair value is based on market price of these instruments at the balance sheet date.

#### Current borrowings and overdrafts/Short-term deposits

The fair value of short term deposits and current borrowings and overdrafts approximates to the carrying amount because of the short maturity of these instruments.

#### Non current borrowings

In the case of bank loans and other loans, the fair value approximates to the carrying value reported in the balance sheet as the majority are floating rate where payments are reset to market rates at intervals of less than one year.

### (iii) Financial instruments

Numerical financial instruments disclosures are set out below. Additional disclosures are set out in the financial review and accounting policies relating to risk management.

	2006		2005	
	Assets £ million	Liabilities £ million	Assets £ million	Liabilities £ million
Current:				
Interest rate swaps – cash flow hedge	–	–	0.1	–
Forward foreign currency contracts – cash flow hedge	0.9	–	–	(0.6)
Non current:				
Interest rate swaps – cash flow hedge	1.1	(0.3)	0.7	(0.2)
Forward foreign currency contracts – cash flow hedge	–	–	–	–
	<u>2.0</u>	<u>(0.3)</u>	<u>0.8</u>	<u>(0.8)</u>

The net fair value of overseas net investment hedge liabilities at 31 December 2006 was £184.2 million (2005: £92.6 million).



## Notes to the Group Accounts continued

For the year ended 31 December 2006

### 19 Financial instruments continued

#### Net fair values of derivative financial instruments

The net fair value of derivative financial instruments and designated for cash flow hedges at the balance sheet date was

	2006 £ million	2005 £ million
Contracts with positive fair values		
Interest rate swaps	1.1	0.8
Forward foreign currency contracts	0.9	–
Contracts with negative fair values		
Interest rate swaps	(0.3)	(0.2)
Forward foreign currency contracts	–	(0.6)
	<u>1.7</u>	<u>–</u>

The net fair value gains at 31 December 2006 on open forward exchange contracts that hedge the foreign currency risk of future anticipated capital expenditure are £0.9 million (2005 losses of £0.6 million). These will be allotted to the cost of the asset as a basis adjustment when the forecast capital expenditure occurs. The net fair value gains at 31 December 2006 on open interest swaps that hedge interest risk are £0.8 million (2005 £0.6 million). These will be credited to the income statement over the remaining life of each interest rate swap.

#### Hedge of net investment in foreign entity

The group has both dollar and euro denominated borrowings which it has designated as a hedge of the net investment in its overseas subsidiaries. The fair value of the dollar borrowings at 31 December 2006 was £154.7 million (2005 £68.3 million) and the euro borrowings £29.5 million (2005 £24.3 million). The foreign exchange gain of £8.4 million (2005 loss of £6.3 million) on translation of the borrowings into sterling has been recognised in exchange reserves.

#### (iv) The exposure of the group to interest rate changes when borrowings reprice is as follows:

As at 31 December 2006

	<1 year £ million	1-5 years £ million	>5 years £ million	Total £ million
Total borrowings	10.3	207.9	–	218.2
Effect of interest rate swaps	(7.6)	(113.4)	–	(121.0)
	<u>2.7</u>	<u>94.5</u>	<u>–</u>	<u>97.2</u>

As at 31 December 2005

	<1 year £ million	1-5 years £ million	>5 years £ million	Total £ million
Total borrowings	9.5	101.7	–	111.2
Effect of interest rate swaps	(13.3)	(48.5)	–	(61.8)
	<u>(3.8)</u>	<u>53.2</u>	<u>–</u>	<u>49.4</u>

As at 31 December 2005 and 31 December 2006 all of the Group's debt was exposed to repricing within 3 months of the balance sheet date.

The effective interest rates at the balance sheet date were as follows:

	2006	2005
Bank overdraft	7.4%	8.4%
Bank borrowings	5.5%	4.5%

### 20 Trade and other payables

	2006 £ million	2005 £ million
Trade payables	43.9	27.3
Other taxation and social security payable	5.4	3.3
Other payables	23.0	8.8
Accruals and deferred income	69.1	54.3
	<u>141.4</u>	<u>93.7</u>

## 21 Provisions

	Reorganisation and restructuring £ million	Statutory employee termination benefit £ million	Total £ million
At 1 January 2006	1 6	0 3	1 9
New provisions	9 2	–	9 2
Utilised during year	(4.9)	–	(4 9)
At 31 December 2006	5 9	0 3	6 2

	2006 £ million	2005 £ million
Analysis of total provisions		
Current	5.9	0 8
Non current	0 3	1 1
Total provisions	6.2	1 9

- (i) The provision for reorganisation and restructuring comprises the following
- (a) Estimated costs of restructuring the Group's North American, European and International operations and the provisions are generally in respect of severance, property and related costs. The provision is expected to be fully utilised before the end of 2007
- (b) Estimated costs related to the integration of the GE Energy Rentals business into the Group's global operations. These provisions are in respect of severance, property and other integration costs and are expected to be fully utilised before the end of 2007
- (ii) The provision for statutory employee termination benefit relates to a statutory employee termination benefit scheme in France. The provision is expected to be utilised within 19 years

## 22 Deferred tax

	2006 £ million	2005 £ million
At 1 January	(13.8)	(17 7)
(Charge)/credit to the income statement (Note 10)	(0.4)	2 3
Credit to equity	2 5	3 5
Deferred tax recognised on acquisitions	1.2	–
Exchange differences	2 1	(1 9)
At 31 December	(8 4)	(13 8)

No deferred tax is recognised on the unremitted earnings of overseas subsidiaries. As the earnings are continually reinvested by the Group, no tax is expected to be payable on them in the foreseeable future. Temporary differences of nil in both years relate to unremitted earnings of overseas subsidiaries which pay tax at rates less than the UK rate of tax. If the earnings were remitted no tax would be payable (2005 £nil), due to the availability of foreign tax credits for offset.

The movements in deferred tax assets and liabilities (prior to off setting of balances within the same jurisdiction as permitted by IAS 12) during the period are shown below. Deferred tax assets and liabilities are only offset where there is a legally enforceable right of offset and there is an intention to settle the balances net.

Deferred tax assets are recognised to the extent that the realisation of the related deferred tax benefit through future taxable profits is probable. The Group did not recognise deferred tax assets of £2.1 million (2005 £1.2 million) of which £1.5 million (2005 £1.2 million) relates to carried forward tax losses and £0.6 million (2005 nil) relates to other temporary differences.

Deferred tax assets of £0.1 million (2005 £0.2 million) have been recognised in respect of entities which have suffered a loss in either the current or preceding period as our forecasts indicate that these assets will reverse in the near future.

## Notes to the Group Accounts continued

For the year ended 31 December 2006

### 22 Deferred tax continued

#### Deferred tax liabilities

	Accelerated capital depreciation £ million	Other temporary differences £ million	Total £ million
At 1 January 2006	(26.7)	12.5	(14.2)
Charge to the income statement	(0.1)	(0.3)	(0.4)
Credit to equity	–	2.5	2.5
Deferred tax recognised on acquisitions	0.9	0.1	1.0
Movements between gross assets and liabilities	(0.1)	(0.3)	(0.4)
Exchange differences	1.9	0.2	2.1
At 31 December 2006	(24.1)	14.7	(9.4)

#### Deferred tax assets

	Accelerated capital depreciation £ million	Other temporary differences £ million	Total £ million
At 1 January 2006	–	0.4	0.4
Deferred tax recognised on acquisitions	0.2	–	0.2
Movements between gross assets and liabilities	0.1	0.3	0.4
At 31 December 2006	0.3	0.7	1.0

The net deferred tax liability due after more than one year is £8.4 million (2005 £13.7 million)

### 23 Share capital

	2006 Number	2006 £'000	2005 Number	2005 £'000
<b>Authorised:</b>				
Ordinary shares of 20p each	349,750,010	69,950	349,750,010	69,950
<b>Allotted, called up and fully paid:</b>				
	Number of Shares	£'000	Number of Shares	£'000
Ordinary shares of 20p each				
At 1 January	269,178,880	53,836	268,186,132	53,637
Employee share option scheme	332,106	66	992,748	199
At 31 December	269,510,986	53,902	269,178,880	53,836

During the year 332,106 Ordinary shares of 20p each have been issued at prices ranging from £1.05 to £3.07 to satisfy the exercise of options under the Savings Related Share Option Schemes ('Sharesave') by eligible employees

## 23 Share capital continued

### Share options

The options under the Savings Related Share Option Schemes have been granted at a discount of 20% on the share price calculated over the three days prior to the date of invitation to participate, mature after three to five years and are normally exercisable in the six months following the maturity date. The options under the US Stock Purchase Plan have been granted at a discount of 15% of the share price on the date of grant, mature after two years and are normally exercisable in the six months following the maturity date.

The options under the Executive Share Option Scheme are normally only exercisable once three years have elapsed from date of grant and lapse after ten years. All Executive Options are subject to performance conditions based on both total shareholder return ("TSR") and growth in Earnings Per Share ("EPS"). TSR is calculated by reference to the increase in the Company's share price plus dividends paid. EPS is Basic Earnings Per Share as disclosed in the consolidated income statement. At the time when the individual wishes to exercise the option, the growth in the Company's TSR is compared to that of the FTSE Mid 250 Index (excluding investment trusts) over a specified period. If the Company's TSR matches or exceeds that index, and the Company's EPS growth matches or exceeds the growth in the Retail Prices Index plus 3% per annum, over three consecutive years, the option is capable of exercise. Retesting of performance conditions is limited to six monthly intervals between 3 and 5 years after the date of grant.

There is no legal obligation upon the Company to satisfy the options existing under the Savings Related and Executive Share Option Schemes other than by the allotment of new issue shares.

It is intended to satisfy awards to US participants in the Long Term Incentive plan by the allotment of new shares. The maximum award would be made on achieving the performance targets set out on page 58 of the Remuneration Report.

Aggreko has taken the IFRS 1 exemption to apply IFRS 2 'Share based Payment' only to options that were granted after 7 November 2002 and were not vested at 1 January 2005.

For the Sharesave and US Stock Options the Black Scholes option pricing model was used. As the Executive options have share price based performance conditions attached the Monte Carlo option pricing model was used. The fair value per option granted and the assumptions used in the calculation are as follows:

Grant type	Executive		Sharesave		US		US	
Grant date	27 Feb-03	25-Sep-03	24-Oct-03	24-Oct-03	24-Oct-03	12-Nov-04	12-Nov-04	12-Nov-04
Share price at grant date (£)	1.29	1.59	1.57	1.57	1.57	1.55	1.55	1.55
Option price (£)	1.29	1.59	1.29	1.29	1.33	1.17	1.17	1.32
Number granted	168,506	429,992	316,412	214,865	92,458	344,060	202,541	211,469
Vesting period (years)	3.00	3.00	3.00	5.00	2.00	3.00	5.00	2.00
Expected volatility (%)	40.70	41.30	47.70	42.80	54.10	46.40	42.30	35.90
Expected life (years)	6.00	6.00	3.25	5.25	2.13	3.25	5.25	2.13
Risk free rate (%)	3.90	4.40	4.80	4.90	4.80	4.50	4.60	4.50
Expectation of employees meeting performance criteria	75%	75%	n/a	n/a	n/a	n/a	n/a	n/a
Expected dividends expressed as a dividend yield (%)	4.30	3.48	3.54	3.54	3.54	3.68	3.68	3.68
Fair value per option (£)	0.36	0.47	0.58	0.60	0.55	0.59	0.61	0.40

## Notes to the Group Accounts continued

For the year ended 31 December 2006

### 23 Share capital continued

Grant type	Sharesave	Sharesave	Sharesave	US Stock Plan	Sharesave	Sharesave	Sharesave	US Stock Plan
Grant date	11 Nov 05	11 Nov-05	11 Nov 05	11 Nov 05	10 Nov-06	10 Nov-06	10 Nov-06	10-Nov-06
Share price at grant date (£)	2 50	2 50	2 50	2 50	3 74	3 74	3 74	3 74
Option price (£)	1 89	1 89	1 90	2 13	2 82	2 82	2 87	3 17
Number granted	486,291	143,559	33,118	110,763	308,910	109,230	19,433	154,275
Vesting period (years)	3 00	5 00	5 00	2 00	3 00	5 00	5 00	2 00
Expected volatility (%)	33 60	40 50	40 50	24 10	26 80	40 60	40 60	26 80
Expected life (years)	3 25	5 25	5 25	2 13	3 25	5 25	5 25	2 13
Risk free rate (%)	4 40	4 50	4 50	4 40	4 90	4 80	4 80	4 90
Expectation of employees meeting performance criteria	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Expected dividends expressed as a dividend yield (%)	2 36	2 36	2 36	2 36	1 69	1 69	1 69	1 69
Fair value per option (£)	0 88	1 07	1 07	0 57	1 30	1 72	1 70	0 96

The expected volatility is based on the volatility of the total return from the Company's shares over the period to grant equal in length to the expected life of the awards. The expected life is the average expected period to exercise. The risk free interest rate is the expected return on UK Gilts of a similar life.

A summary of movements in share options in Aggreko shares is shown below

	Sharesave schemes Number of Shares	Weighted average exercise price (£)	Executive share option schemes Number of Shares	Weighted average exercise price (£)	US Stock option plans Number of Shares	Weighted average exercise price (£)	Long term incentive plans Number of Shares	Weighted average exercise price (£)
Outstanding at 1 January 2006	1,794,594	1 46	4,167,735	2 34	305,897	1 61	958,646	Nil
Granted	437,573	2 82	—	—	154,275	3 17	328,004	Nil
Exercised	(165,325)	1 28	—	—	(166,781)	1 32	—	—
Lapsed	(183,399)	1 50	(406,631)	4 07	(31,869)	1 55	(7,898)	Nil
Outstanding at 31 December 2006	1,883,443	1.79	3,761,104	2 16	261,522	2.73	1,278,752	Nil
Weighted average contractual life (years)	2	—	—	—	1	—	1	—

## 23 Share capital continued

The weighted average share price during the year for options exercised over the year was £1.30. The total charge for the year relating to employee share based payment plans was £4.1 million, all of which related to equity settled share based payment transactions.

Options outstanding over Ordinary shares as at 31 December 2006 (including those of the Executive Directors), together with the exercise prices and dates of exercise, are as follows:

	Price per share (£)	Earliest exercise date	Latest exercise date	2006 Number	2005 Number	Market price (£) <sup>1</sup>
Executive Share Option Scheme – September 1999	2.94	September 2002	September 2009	282,406	282,406	2.94
Executive Share Option Scheme – March 2000	3.30	March 2003	March 2010	110,000	120,000	3.3
Sharesave – April 2000	2.47	April 2005	October 2005	–	5,463	3.11
Executive Share Option Scheme – August 2000	4.28	August 2003	August 2010	380,199	380,199	4.28
Executive Share Option Scheme – March 2001	4.575	March 2004	March 2011	351,700	351,700	4.575
Executive Share Option Scheme – August 2001	4.37	August 2004	August 2011	–	356,631	4.37
Sharesave – October 2001	3.07	October 2006	April 2007	8,828	14,698	3.5525
Executive Share Option Scheme – March 2002	2.845	March 2005	March 2012	122,517	130,017	2.845
Executive Share Option Scheme – September 2002	1.28	September 2005	September 2012	1,992,973	2,025,473	1.28
Sharesave – October 2002	1.05	October 2005	April 2006	–	53,284	1.26
	1.05	October 2007	April 2008	205,576	212,395	1.26
Executive Share Option Scheme – February 2003	1.29	February 2006	February 2013	168,506	168,506	1.29
Executive Share Option Scheme – September 2003	1.5925	September 2006	September 2013	352,803	352,803	1.5925
US Stock Option Plan – October 2003	1.33	October 2006	April 2007	76,026	204,433	1.57
Sharesave – October 2003	1.29	October 2008	April 2009	142,412	162,840	1.57
Long Term Incentive Plan – June 2004	–	June 2007	December 2007	492,063	492,063	1.5625
US Stock Option Plan – November 2004	1.32	November 2006	February 2007	5,329	195,134	1.55
Sharesave – November 2004	1.17	November 2007	May 2008	262,136	304,641	1.55
	1.17	November 2009	May 2010	156,990	174,861	1.55
Long Term Incentive Plan – April 2005	–	April 2008	October 2008	458,685	466,583	1.8825
US Stock Option Plan – November 2005	2.13	November 2007	February 2008	102,287	110,763	2.5
Sharesave – November 2005	1.89	November 2008	May 2009	448,663	485,302	2.5
	1.89	November 2010	May 2011	112,149	143,559	2.5
	1.9	November 2010	May 2011	33,118	33,118	2.5
Long Term Incentive Plan – April 2006	–	April 2009	October 2009	328,004	–	3.1025
US Stock Option Plan – November 2006	3.17	November 2008	February 2009	153,906	–	3.735
Sharesave – November 2006	2.82	November 2009	May 2010	308,882	–	3.735
	2.82	November 2011	May 2012	109,230	–	3.735
	2.87	November 2011	May 2012	19,433	–	3.735
				<u>7,184,821</u>	<u>7,226,872</u>	

<sup>1</sup>Market price as at the date of grant

## Notes to the Group Accounts continued

For the year ended 31 December 2006

### 24 Treasury shares

	2006 £ million	2005 £ million
Treasury shares	(9.1)	(6.5)

Interests in own shares represent the cost of 4,436,950 of the company's ordinary shares (nominal value 20 pence) purchased in June 2004 (2,016,720), May 2005 (1,661,621) and October 2006 (758,609). These shares represent 1.6% of issued share capital as at 31 December 2006 (2005: 1.4%).

These shares were acquired by a trust in the open market using funds provided by Aggreko plc to meet obligations under the Long Term Incentive Arrangements. The costs of funding and administering the scheme are charged to the income statement of the Company in the period to which they relate. The market value of the shares at 31 December 2006 was £19.3 million (31 December 2005: £10.0 million).

### 25 Statement of changes in equity

As at 31 December 2006

	Attributable to equity holders of the company							
	Ordinary share capital £ million	Share premium account £ million	Treasury shares £ million	Capital redemption reserve £ million	Hedging reserve £ million	Foreign exchange reserve (translation) £ million	Retained earnings £ million	Total equity £ million
Balance at 1 January 2006	53.8	6.8	(6.5)	0.1	—	(6.5)	160.5	208.2
Net movement in foreign currency cash flow hedge	—	—	—	—	1.5	—	—	1.5
Net movement on interest rate swaps	—	—	—	—	0.2	—	—	0.2
Currency translation differences (1)	—	—	—	—	—	(20.5)	—	(20.5)
Current tax on items taken to or transferred from equity	—	—	—	—	—	1.3	—	1.3
Deferred tax on items taken to or transferred from equity	—	—	—	—	(0.5)	—	3.0	2.5
Actuarial gains on retirement benefits	—	—	—	—	—	—	1.5	1.5
Purchase of treasury shares	—	—	(2.6)	—	—	—	—	(2.6)
Credit in respect of employee share awards	—	—	—	—	—	—	4.1	4.1
New share capital subscribed	0.1	0.4	—	—	—	—	—	0.5
Profit for the year	—	—	—	—	—	—	46.2	46.2
Total recognised income/(loss) for the year	0.1	0.4	(2.6)	—	1.2	(19.2)	54.8	34.7
Dividends paid during 2006	—	—	—	—	—	—	(16.7)	(16.7)
Balance at 31 December 2006	53.9	7.2	(9.1)	0.1	1.2	(25.7)	198.6	226.2

(1) Included in currency translation differences of the Group are exchange gains of £8.4 million arising on borrowings denominated in foreign currencies designated as hedges of net investments overseas, offset by exchange losses of £28.9 million relating to the translation of overseas results and net assets.

## 25 Statement of changes in equity continued

As at 31 December 2005

	Attributable to equity holders of the company							Total equity £ million
	Ordinary share capital £ million	Share premium account £ million	Treasury shares £ million	Capital redemption reserve £ million	Hedging reserve £ million	Foreign exchange reserve (translation) £ million	Retained earnings £ million	
Balance at 31 December 2004	53.6	6.0	(3.3)	0.1	—	(19.3)	141.4	178.5
Adoption of IAS 39	—	—	—	—	0.6	—	—	0.6
Balance at 1 January 2005	53.6	6.0	(3.3)	0.1	0.6	(19.3)	141.4	179.1
Net movement in foreign currency cash flow hedge	—	—	—	—	(1.0)	—	—	(1.0)
Net movement on interest rate swaps	—	—	—	—	0.4	—	—	0.4
Currency translation differences (i)	—	—	—	—	—	14.1	—	14.1
Current tax on items taken to or transferred from equity	—	—	—	—	—	(1.3)	—	(1.3)
Deferred tax on items taken to or transferred from equity	—	—	—	—	—	—	3.5	3.5
Actuarial losses on retirement benefits	—	—	—	—	—	—	(7.9)	(7.9)
Purchase of treasury shares	—	—	(3.2)	—	—	—	—	(3.2)
Credit in respect of employee share awards	—	—	—	—	—	—	2.5	2.5
New share capital subscribed	0.2	0.8	—	—	—	—	—	1.0
Profit for the year	—	—	—	—	—	—	36.7	36.7
Total recognised income/(loss) for the year	0.2	0.8	(3.2)	—	(0.6)	12.8	34.8	44.8
Dividends paid during 2005	—	—	—	—	—	—	(15.7)	(15.7)
Balance at 31 December 2005	53.8	6.8	(6.5)	0.1	—	(6.5)	160.5	208.2

(i) Included in currency translation differences of the Group are exchange losses of £6.2 million arising on borrowings denominated in foreign currencies designated as hedges of net investments overseas, offset by exchange gains of £20.3 million relating to the translation of overseas results and net assets

## 26 Capital commitments

	2006 £ million	2005 £ million
Contracted but not provided for (property, plant and equipment)	7.7	18.6

## 27 Operating lease commitments – minimum lease payments

	2006		2005	
	Land and buildings £ million	Plant, equipment and vehicles £ million	Land and buildings £ million	Plant, equipment and vehicles £ million
Commitments under operating leases expiring				
Within 1 year	2.6	1.9	4.4	4.8
Later than 1 year and less than 5 years	7.7	4.7	8.2	6.2
After 5 years	11.2	—	8.2	—
Total	21.5	6.6	20.8	11.0



## Notes to the Group Accounts continued

For the year ended 31 December 2006

### 28 Pension commitments

#### Overseas

Pension arrangements for overseas employees vary, and schemes reflect best practice and regulation in each particular country. The charge against profit is the amount of contributions payable to the pension scheme in respect of the accounting period. The pension cost attributable to overseas employees for 2006 was £2.1 million (2005: £1.8 million).

#### United Kingdom

The Group operates a pension scheme for UK employees. The Aggreko plc Pension Scheme ("the Scheme") is a funded, contributory, defined benefit scheme. Assets are held separately from those of the Group under the control of individual trustees. The Scheme is subject to valuations at intervals of not more than three years by independent actuaries.

A valuation of the Scheme was carried out as at 31 December 2005 using the Attained Age method to determine the level of contributions to be made by the Group. The actuaries have adopted a valuation basis linked to market conditions at the valuation date. Assets have been taken at market value. The major actuarial assumptions used were:

Return on investments	4.6%
Growth in average pay levels	4.3%
Increase in pensions	2.8%

At the valuation date, the market value of the Scheme's assets (excluding AVC's) was £18,400,000 which was sufficient to cover 53% of the benefits that had accrued to members, after making allowances for future increases in earnings.

Following completion of the valuation at 31 December 2005, the Company and the trustees agreed upon a Schedule of Contributions and a Recovery Plan. During 2006 the Company contributions for benefits building up in the future were increased to 31.5% of pensionable earnings and from 1 January 2007 the company contribution will be 25.4% of pensionable earnings. From 1 January 2007 future benefits will be accrued, on a Career Average basis hence the change to the required contribution rate. To address the Scheme deficit the Company made an additional contribution of £3.5 million in 2006 and the Company plans to make further additional contributions of £4.0 million in 2007, £4.0 million in 2008 and £0.5 million per annum until the year ended 31 December 2015. Employee contributions will increase to 6% of pensionable earnings from 1 January 2007.

The Scheme was closed to all new employees joining the Group after 1 April 2002. The service cost, as a percentage of pensionable salaries, will increase in the future as members near retirement. For new employees joining after 1 April 2002, a defined contribution scheme has been introduced. Contributions of £0.2 million were paid to this scheme during the year (2005: £0.2 million). There are no outstanding or prepaid balances at the year end.

An update of the Scheme was carried out by a qualified independent actuary using the latest available information for the purposes of this statement. The major assumptions used in this update by the actuary were:

	31 Dec 2006	31 Dec 2005
Rate of increase in salaries	4.6%	4.3%
Rate of increase in pensions in payment and deferred pensions	3.1%	2.8%
Discount rate	5.0%	4.6%
Inflation assumption	3.1%	2.8%
Expected return on Scheme assets	6.1%	5.6%
Longevity at age 65 for current pensioners (years)		
Men	21.3	21.3
Women	24.2	24.2
Longevity at age 65 for future pensioners (years)		
Men	23.1	23.1
Women	25.9	25.9

The expected return on Scheme assets is based on market expectations at the beginning of the period for returns over the entire life of the benefit obligation.

## 28 Pension commitments continued

The assets in the Scheme and the expected rate of return were:

	Long term rate of return expected at 31 Dec 2006	Value at 31 Dec 2006 £ million	Long term rate of return expected at 31 Dec 2005	Value at 31 Dec 2005 £ million	Long term rate of return expected at 31 Dec 2004	Value at 31 Dec 2004 £ million
Equities	6.9%	17.4	6.3%	13.5	7.6%	10.3
Gilt	3.9%	3.4	3.3%	2.4	4.0%	1.3
Bonds	4.3%	3.4	3.8%	2.4	4.8%	1.3
Cash	4.6%	0.1	3.7%	0.1	3.1%	-
Total		<u>24.3</u>		<u>18.4</u>		<u>12.9</u>

The expected rate of return on assets is stated net of expenses

The amounts included in the balance sheet arising from the Group's obligations in respect of the Scheme are as follows:

	2006 £ million	2005 £ million	2004 £ million
Fair value of assets	24.3	18.4	12.9
Present value of funded obligations	<u>(37.4)</u>	<u>(35.2)</u>	<u>(23.1)</u>
Liability recognised in the Balance Sheet	<u>(13.1)</u>	<u>(16.8)</u>	<u>(10.2)</u>

An alternative method of valuation is the estimated cost of buying out benefits at 31 December 2006 with a suitable insurer. This amount represents the amount that would be required to settle the Scheme liabilities at 31 December 2006 rather than the Company continuing to fund the on going liabilities of the Scheme. The company estimates the amount required to settle the Scheme's liabilities at 31 December 2006 is £60.0 million which gives a Scheme shortfall on a buyout basis of approximately £35.7 million.

The amounts recognised in the income statement are as follows:

	2006 £ million	2005 £ million
Current service costs	2.0	1.3
Interest cost	1.7	1.3
Expected return on Scheme assets	<u>(1.1)</u>	<u>(1.1)</u>
	<u>2.6</u>	<u>1.5</u>

Of the total charge of £2.6 million, £0.6 million (2005: £0.5 million) and £2.0 million (2005: £1.0 million) were included, respectively in cost of sales and administrative expenses.

Changes in the present value of the defined benefit obligation are as follows:

	2006 £ million	2005 £ million
Present value of obligation at 1 January	35.2	23.1
Service cost	2.0	1.3
Interest cost	1.7	1.3
Contributions from Scheme members	0.3	0.4
Benefits paid	(0.3)	(0.3)
Actuarial (gains)/losses	<u>(1.5)</u>	<u>9.4</u>
Present value of obligation at 31 December	<u>37.4</u>	<u>35.2</u>

Present value of Scheme assets are as follows:

	2006 £ million	2005 £ million
Fair value of Scheme assets at 1 January	18.4	12.9
Expected return on Scheme assets	1.1	1.1
Employer contributions	4.8	2.8
Contributions from Scheme members	0.3	0.4
Benefits paid	(0.3)	(0.3)
Actuarial gains	<u>-</u>	<u>1.5</u>
Fair value of Scheme assets at 31 December	<u>24.3</u>	<u>18.4</u>

## Notes to the Group Accounts continued

For the year ended 31 December 2006

### 28 Pension commitments continued

Analysis of the movement in the balance sheet

	2006 £ million	2005 £ million
At 1 January	(16.8)	(10.2)
Total expense as above	(2.6)	(1.5)
Contributions	4.8	2.8
Net actuarial gains/(losses)	1.5	(7.9)
At 31 December	(13.1)	(16.8)

Cumulative actuarial gains and losses recognised in equity

	2006 £ million	2005 £ million
At 1 January	17.8	9.9
Actuarial (gains)/losses recognised in the year	(1.5)	7.9
At 31 December	16.3	17.8

The actual return on Scheme assets was £1.1 million (2005 £2.6 million)

#### History of experience gains and losses

	2006	2005	2004	2003	2002
Experience adjustments arising on Scheme assets					
Amount (£m)	—	1.5	0.4	0.6	(2.5)
Percentage of Scheme assets	0.0%	8.0%	3.0%	5.0%	(31.0%)
Experience adjustments arising on Scheme liabilities					
Amount (£m)	(0.5)	—	0.2	1.2	(0.1)
Percentage of present value Scheme liabilities	(1.0%)	0.0%	1.0%	6.0%	(1.0%)
Present value of Scheme liabilities (£m)	37.4	35.2	23.1	20.4	14.6
Fair value of Scheme assets (£m)	24.3	18.4	12.9	12.0	8.1
Deficit (£m)	13.1	16.8	10.2	8.4	6.5

The contributions expected to be paid during the financial year ended 31 December 2007 amount to £6.6 million

### 29 Significant investments

The principal subsidiary undertakings of Aggreko plc at the year end, and the main countries in which they operate, are shown below. All companies are wholly owned and, unless otherwise stated, incorporated in Great Britain or in the principal country of operation and are involved in the supply of temporary power, temperature control, oil free compressed air and related services.

All shareholdings are of ordinary shares or other equity capital

Aggreko Holdings Limited +	UK	Aggreko Norway AS	Norway
Aggreko UK Limited	UK	Aggreko France SARL	France
Aggreko Ireland Limited	Ireland	Aggreko Iberia SA	Spain
Aggreko International Projects Limited	Dubai **	Aggreko (Singapore) PTE Limited	Singapore
Aggreko Euro Holdings B V +	UK ***	Aggreko Generators Rental Pty Limited	Australia
Aggreko Americas Holdings B V +	UK ***	Aggreko (Middle East) Limited	Middle East*
Aggreko Rest of World Holdings B V +	UK ***	Aggreko Energy Mexico SA de CV	Mexico
Aggreko Holdings Inc +	USA	Aggreko SA de CV	Mexico
Aggreko USA LLC+	USA	Aggreko Canada Inc	Canada
Aggreko LLC	USA	Aggreko (NZ) Limited	New Zealand
Aggreko Energy Rentals LLC	USA	Aggreko de Venezuela C A	Venezuela
Aggreko (Investments) BV +	Netherlands	Aggreko Brazil Energia Ltda	Brazil
Aggreko Nederland BV	Netherlands	Aggreko Energia Locação de Geradores Ltda	Brazil
Aggreko Belgium NV	Belgium	Aggreko Chile Limitada	Chile
Aggreko Italia S R L	Italy	Aggreko Hong Kong Ltd	Hong Kong
Aggreko Deutschland GmbH	Germany	Aggreko (Shangia) Energy Rental Co Ltd	China

\* Registered in Cyprus

\*\* Administered from Dubai and registered in the UK

\*\*\* Registered in the Netherlands

+ Intermediate holding companies

Other subsidiary undertakings, whilst included in the consolidated Accounts, are not material

### 30 Acquisition of GE Energy Rentals

On 4 December 2006 the Group acquired the entire share capital of GE Energy Rentals Inc and the entire share capital of GE Energy do Brasil Ltda as well as substantially all the other trade and assets of the Energy Rentals business of GE (excluding those relating to gas turbines). The maximum consideration payable is £112.0 million and the fair value of net assets acquired is £65.3 million resulting in goodwill of £46.7 million. The initial purchase consideration for this acquisition (including £4.4 million of transaction fees) was £97.1 million with a further payment of up to £14.9 million dependent on the delivery by GE of additional fleet assets during 2007.

The acquisition method of accounting has been adopted and the goodwill arising on the purchase has been capitalised.

The details of the transaction and fair value adjustments arising from the change in ownership are shown below.

	Initial book value £ million	Restatement to fair value £ million	Fair value £ million
Intangible fixed assets	—	10.7	10.7
Property, plant & equipment	58.3	(25.2)	33.1
Inventories	—	3.2	3.2
Trade and other receivables	17.8	(4.3)	13.5
Other assets	14.9	(5.6)	9.3
Trade and other payables	(4.0)	(2.2)	(6.2)
Deferred taxation	—	1.2	1.2
Cash and cash equivalents	0.5	—	0.5
Net assets acquired	<u>87.5</u>	<u>(22.2)</u>	<u>65.3</u>
Goodwill			<u>46.7</u>
Consideration (including transaction expenses)			112.0
Less cash and cash equivalents acquired			(0.5)
Less deferred consideration			(14.9)
Less accrued transaction expenses			(0.8)
Net cash outflow			<u>95.8</u>

The fair value adjustments contain some provisional amounts which will be finalised in 2007. These include estimated values for inventory in a number of locations as well as repairs required to fleet assets which have still to be finally assessed. These values could not be finalised given the proximity of the transaction to the year end.

Goodwill represents the value of synergies arising from the global integration of the acquired business and the acquiree's assembled workforce. Synergies include overhead reductions (mainly property and people) and improved utilisation of the acquired fleet assets.

The GE Energy Rentals business was fully integrated into the Aggreko business on acquisition therefore it is not possible to separately disclose post acquisition revenue or profit/loss for this acquisition. It is also impracticable to disclose pre acquisition revenue and profit/loss for the period as reliable and accurate information is not available for 2006.

## Independent Auditors' Report to the Members of Aggreko plc

We have audited the parent company financial statements of Aggreko plc for the year ended 31 December 2006 which comprise the Balance Sheet, the Statement Total Recognised Gains and Losses, and the related notes. These parent company financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Directors' Remuneration Report that is described as having been audited.

We have reported separately on the group financial statements of Aggreko plc for the year ended 31 December 2006.

### **Respective responsibilities of directors and auditors**

The directors' responsibilities for preparing the Annual Report, the Directors' Remuneration Report and the parent company financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the parent company financial statements and the part of the Directors' Remuneration Report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the parent company financial statements give a true and fair view and whether the parent company financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the parent company financial statements. In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read other information contained in the Annual Report and consider whether it is consistent with the audited parent company financial statements. The other information comprises only the Directors' Report, the unaudited part of the Directors' Remuneration Report and the Chairman's Statement. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the parent company financial statements. Our responsibilities do not extend to any other information.

### **Basis of audit opinion**


We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the parent company financial statements and the part of the Directors' Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the parent company financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the parent company financial statements and the part of the Directors' Remuneration Report to be audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the parent company financial statements and the part of the Directors' Remuneration Report to be audited.

### **Opinion**

In our opinion:

- the parent company financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2006
- the parent company financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the Directors' Report is consistent with the parent company financial statements

  
PricewaterhouseCoopers LLP  
Chartered Accountants and Registered Auditors  
Glasgow  
8 March 2007

## Company Balance Sheet

As at 31 December 2006

	Notes	2006 £ million	2005 £ million
<b>Fixed assets</b>			
Tangible assets	35	11.8	13.5
Investments	36	101.4	102.6
Deferred tax assets	41	0.1	0.1
Financial assets – derivative financial instruments	39	1.1	0.7
		<u>114.4</u>	<u>116.9</u>
<b>Current assets</b>			
Debtors	37	322.6	260.8
Financial assets – derivative financial instruments	39	0.9	0.7
Current tax assets		0.4	1.2
		<u>323.9</u>	<u>262.7</u>
<b>Creditors – amounts falling due within one year</b>			
Financial liabilities			
– Borrowings	38	(7.7)	(8.2)
– Derivative financial instruments	39	(0.9)	(0.6)
Other creditors	40	(117.1)	(158.7)
Net current assets		<u>198.2</u>	<u>95.2</u>
Total assets less current liabilities		<u>312.6</u>	<u>212.1</u>
<b>Creditors – amounts falling due after more than one year</b>			
Financial liabilities			
– Borrowings	38	(207.9)	(101.7)
– Derivative financial instruments	39	(0.3)	(0.2)
Deferred tax liabilities	41	–	–
Retirement benefit obligation	42	(9.1)	(11.8)
Net assets		<u>95.3</u>	<u>98.4</u>
<b>Shareholders' equity</b>			
Share capital	43	53.9	53.8
Share premium	44	7.2	6.8
Treasury shares	44	(9.1)	(6.5)
Capital redemption reserve	44	0.1	0.1
Hedging reserve	44	0.7	0.6
Retained earnings	44	42.5	43.6
Total shareholders' equity		<u>95.3</u>	<u>98.4</u>

Approved by the Board on 8 March 2007 and signed on its behalf by



**PG Rogerson**  
Chairman



**AG Cockburn**  
Finance Director

The notes on pages 105 to 112 form part of these Accounts

## Company Statement of Total Recognised Gains and Losses

For the year ended 31 December 2006

	2006 £ million	2005 £ million
Profit/(loss) for the financial year	9.3	(3.1)
Actuarial gains/(losses) on retirement benefit	1.5	(7.9)
Movement of deferred tax on pension liability	(0.4)	2.4
Cashflow hedges (net of deferred tax)	0.1	0.4
<b>Total recognised gains/(losses) for the financial year</b>	<b>10.5</b>	<b>(8.2)</b>
Prior year adjustment for		
– FRS 26	–	0.2
– FRS 17	–	(7.4)
– FRS 21	–	9.5
<b>Total recognised gains/(losses) since last annual Accounts</b>	<b>10.5</b>	<b>(5.9)</b>

The notes on pages 105 to 112 form part of these Accounts

## Notes to the Company Accounts

For the year ended 31 December 2006

### 31 Company Accounting Policies

#### Accounting convention

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of certain financial instruments in accordance with the Companies Act 1985 and applicable accounting standards. A summary of the more important Company accounting policies is set out below.

#### Tangible fixed assets

Tangible fixed assets are carried at cost less accumulated depreciation and impairment losses. Cost includes purchase price, and directly attributable costs of bringing the assets into the location and condition where it is capable for use. Borrowings costs are not capitalised.

Fixed assets are depreciated on a straight line basis at annual rates estimated to write off the cost of each asset over its useful life from the date it is available for use. The principal period of depreciation used is as follows:

Vehicles, plant and equipment	4 to 15 years
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#### Impairment of tangible fixed assets

Tangible fixed assets are depreciated and reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. Value in use is calculated using estimated cashflows. These are discounted using an appropriate long term pre tax interest rate. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units).

#### Foreign currencies

At individual company level, transactions denominated in foreign currencies are translated at the rate of exchange on the day the transaction occurs. At the year end, monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the balance sheet date. Non monetary assets are translated at the historical rate. In order to hedge its exposure to certain foreign exchange risks, the Company enters into forward foreign exchange contracts. The Company's financial statements are presented in sterling, which is the Company's presentational currency.

#### Derivative financial instruments

The accounting policy is identical to that applied by the consolidated Group as set out on page 74.

#### Cash flow statement and related party disclosures

The Company is included in the Group Accounts of Aggreko plc, which are publicly available. Consequently, the Company has taken advantage of the exemption from preparing a cash flow statement under the terms of Financial Reporting Standard 1 'Cash Flow Statements (revised 1996)'. The Company is also exempt under the terms of Financial Reporting Standard 8 'Related Party Disclosures' from disclosing related party transactions with entities that are part of the Group.



## Notes to the Company Accounts continued

For the year ended 31 December 2006

### 31 Company Accounting Policies continued

#### Taxation

The charge for ordinary taxation is based on the profit / loss for the year and takes into account full provision for deferred tax, using the approach set out in FRS 19, 'Deferred Tax' in respect of timing differences on a non discounted basis. Such timing differences arise primarily from the differing treatment for taxation and accounting purposes of provisions and depreciation of fixed assets.

#### Pensions

The Company operates both a defined benefit pension scheme and a defined contribution pension scheme. The accounting policy is identical to that applied by the consolidated Group as set out on page 76.

#### Investments

Investments in subsidiary undertakings are stated in the balance sheet of the Company at cost, or nominal value of the shares issued as consideration where applicable, less provision for any impairment in value. Share based payments recharged to subsidiary undertakings are treated as capital contributions and are added to investments.

#### Leases

Leases where substantially all of the risks and rewards of ownership are not transferred to the Company are classified as operating leases. Rentals under operating leases are charged against operating profit on a straight line basis over the term of the lease.

#### Grants

Capital grants in respect of additions to fixed assets are treated as deferred income and released to the income statement over the estimated operational lives of the related assets.

#### Share based payments

The accounting policy is identical to that applied by the consolidated Group as set out on page 68 with the exception that shares issued by the Company to employees of its subsidiaries for which no consideration is received are treated as an increase in the Company's investment in those subsidiaries.

#### Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Company's financial statements in the period in which the dividends are approved by the Company's shareholders.

### 32 Staff costs

	2006 £ million	2005 £ million
Wages and salaries	6.4	5.5
Social security costs	0.7	0.6
Other pension cost	1.6	0.3
Share based payment	1.3	0.7
	<u>10.0</u>	<u>7.1</u>
Average number of employees	<u>78</u>	<u>75</u>

### 33 Dividends

Refer to Note 11 of the Group Accounts

### 34 Auditors' Remuneration

	2006 £'000	2005 £'000
Fees payable to the Company's auditor for the audit of the Company's annual accounts	118	79
Fees payable to the Company's auditor and its associates for other services		
– Other services pursuant to legislation	26	26
– Tax services	–	20
– All other services	47	38
Fees in respect of the Aggreko plc pension scheme		
– Audit	6	6

### 35 Tangible fixed assets

	Total £ million
Cost	
At 1 January 2006	16.0
Additions	1.6
At 31 December 2006	17.6
Accumulated depreciation	
At 1 January 2006	2.5
Charge for the year	3.3
At 31 December 2006	5.8
Net book values	
At 31 December 2006	11.8
At 31 December 2005	13.5

The tangible fixed assets of the Company comprise vehicles, plant and equipment

### 36 Investments

	£ million
Cost of investments in subsidiary undertakings	
At 1 January 2006	102.6
Share based payments	2.8
Exchange	(4.0)
At 31 December 2006	101.4

Details of the Company's principal subsidiary undertakings are set out in Note 29 to the Group Accounts

## Notes to the Company Accounts continued

For the year ended 31 December 2006

### 37 Debtors

	2006 £ million	2005 £ million
Prepayments and accrued income	0.3	0.2
Other receivables	1.0	0.1
Amounts due from subsidiary undertakings	<u>321.3</u>	<u>260.5</u>
	<u>322.6</u>	<u>260.8</u>

### 38 Financial liabilities – borrowings

	2006 £ million	2005 £ million
<b>Non-current</b>		
Bank borrowings	207.9	101.7
<b>Current</b>		
Bank overdrafts	0.4	1.0
Bank borrowings	<u>7.3</u>	<u>7.2</u>
	<u>7.7</u>	<u>8.2</u>
<b>Total borrowings</b>	<u>215.6</u>	<u>109.9</u>

The bank overdrafts and borrowings are all unsecured

#### (i) Maturity of financial liabilities

The maturity profile of the borrowings was as follows

	2006 £ million	2005 £ million
Within 1 year, or on demand	7.7	8.2
Between 1 and 2 years	–	49.0
Between 2 and 3 years	123.8	–
Between 3 and 4 years	–	52.7
Between 4 and 5 years	<u>84.1</u>	<u>–</u>
	<u>215.6</u>	<u>109.9</u>

#### (ii) Borrowing facilities

The Company has the following undrawn committed floating rate borrowing facilities available at 31 December 2006 in respect of which all conditions precedent had been met at that date

	2006 £ million	2005 £ million
Expiring within 1 year	–	–
Expiring between 1 and 2 years	–	1.0
Expiring between 2 and 3 years	12.4	–
Expiring between 3 and 4 years	–	62.3
Expiring between 4 and 5 years	140.5	–
Expiring after 5 years	<u>–</u>	<u>35.0</u>
	<u>152.9</u>	<u>98.3</u>

### 38 Financial liabilities – borrowings continued

#### (iii) Interest rate risk profile of financial liabilities

The interest rate profile of the Company's financial liabilities at 31 December 2006, after taking account of the interest rate swaps used to manage the interest profile, was

	Floating rate £ million	Fixed rate £ million	Total £ million	Fixed rate debt Weighted average interest rate %	Weighted average period for which rate is fixed years
Currency					
Sterling	31.3	–	31.3	–	–
US dollar	52.5	102.2	154.7	4.7	3.1
Euro	10.8	18.8	29.6	3.2	1.0
<b>At 31 December 2006</b>	<b>94.6</b>	<b>121.0</b>	<b>215.6</b>		
Sterling	10.0	7.5	17.5	4.9	1.0
US dollar	33.0	35.1	68.1	3.5	2.0
Euro	5.1	19.2	24.3	3.2	2.0
<b>At 31 December 2005</b>	<b>48.1</b>	<b>61.8</b>	<b>109.9</b>		

The floating rate financial liabilities principally comprise debt which carries interest based on different benchmark rates depending on the currency of the balance. The principal benchmark rates for floating rate financial liabilities are the relevant LIBOR (London Interbank Offered Rate) rates for sterling, dollars and euros and liabilities are normally fixed in advance for periods between one and three months.

The effect of the Company's interest rate swaps is to classify £121.0 million (2005 £61.8 million) of borrowings in the above table as fixed rate.

The notional principal amount of the outstanding interest rate swap contracts at 31 December 2006 was £121.0 million (2005 £61.8 million).

#### (iv) Preference share capital

	2006 Number	2006 £'000	2005 Number	2005 £'000
<b>Authorised:</b>				
Redeemable preference shares of 25 pence each	199,998	50	199,998	50

No redeemable preference shares were allotted as at 31 December 2006 and 31 December 2005.

## Notes to the Company Accounts continued

For the year ended 31 December 2006

### 39 Financial instruments

#### (i) Fair values of financial assets and financial liabilities

The following table provides a comparison by category of the carrying amounts and the fair values of the Company's financial assets and financial liabilities at 31 December 2006. Fair value is the amount at which a financial instrument could be exchanged in an arm's length transaction between informed and willing parties, other than a forced or liquidation sale and excludes accrued interest. Where available, market values have been used to determine fair values.

	2006		2005	
	Book value £ million	Fair value £ million	Book value £ million	Fair value £ million
Primary financial instruments held or issued to finance the Company's operations				
Current borrowings and overdrafts	(7.7)	(7.7)	(8.2)	(8.2)
Non-current borrowings	(207.9)	(207.9)	(101.7)	(101.7)
Derivative financial instruments held to manage the interest rate profile				
Interest rate swaps	0.8	0.8	0.6	0.6
Forward foreign currency contracts	—	—	—	—

#### (ii) Summary of methods and assumptions

##### Interest rate swaps and forward foreign currency contracts

Fair value is based on market price of these instruments at the balance sheet date.

##### Current borrowings and overdrafts / Liquid resources

The fair value of liquid resources and current borrowings and overdrafts approximates to the carrying amount because of the short maturity of these instruments.

##### Non current borrowings

In the case of bank loans and other loans, the fair value approximates to the carrying value reported in the balance sheet as the majority are floating rate where payments are reset to market rates at intervals of less than one year.

#### (iii) Financial instruments

Numerical financial instruments disclosures are set out below. Additional disclosures are set out in the financial review and accounting policies relating to risk management.

	2006		2005	
	Assets £ million	Liabilities £ million	Assets £ million	Liabilities £ million
Less than one year:				
Interest rate swaps – cash flow hedge	—	—	0.1	—
Forward foreign currency contracts – cash flow hedge	0.9	(0.9)	0.6	(0.6)
More than one year:				
Interest rate swaps – cash flow hedge	1.1	(0.3)	0.7	(0.2)
	<u>2.0</u>	<u>(1.2)</u>	<u>1.4</u>	<u>(0.8)</u>

#### Net fair values of derivative financial instruments

The net fair value of derivative financial instruments and designated for cash flow hedges at the balance sheet date were:

	2006 £ million	2005 £ million
Contracts with positive fair values		
Interest rate swaps	1.1	0.8
Forward foreign currency contracts	0.9	0.6
Contracts with negative fair values		
Interest rate swaps	(0.3)	(0.2)
Forward foreign currency contracts	(0.9)	(0.6)
	<u>0.8</u>	<u>0.6</u>

### 39 Financial instruments continued

The net fair value gains at 31 December 2006 on open interest rate swaps that hedge interest risk are £0.8 million (2005 gains of £0.6 million). These will be credited to the income statement interest charge over the remaining life of each interest rate swap.

(iv) The exposure of the Company to interest rate changes when borrowings reprice is as follows:

As at 31 December 2006

	<1 year £ million	1-5 years £ million	>5 years £ million	Total £ million
Total borrowings	7.7	207.9	–	215.6
Effect of interest rate swaps	(7.6)	(113.4)	–	(121.0)
	<u>0.1</u>	<u>94.5</u>	<u>–</u>	<u>94.6</u>

As at 31 December 2005

	<1 year £ million	1-5 years £ million	>5 years £ million	Total £ million
Total borrowings	8.2	101.7	–	109.9
Effect of interest rate swaps	(13.3)	(48.5)	–	(61.8)
	<u>(5.1)</u>	<u>53.2</u>	<u>–</u>	<u>48.1</u>

As at 31 December 2006 and 31 December 2005 all of the Company's debt was exposed to repricing within 3 months of the balance sheet date.

The effective interest rates at the balance sheet date were as follows:

	2006	2005
Bank overdraft	6.0%	4.3%
Bank borrowings	5.5%	4.5%

### 40 Other creditors amounts falling due within one year

	2006 £ million	2005 £ million
Accruals and deferred income	9.2	5.9
Amounts owed to subsidiary undertakings	<u>107.9</u>	<u>152.8</u>
	<u>117.1</u>	<u>158.7</u>

### 41 Deferred tax

	2006 £ million	2005 £ million
At 1 January	(0.1)	0.8
Charge/(credit) to the income statement	0.1	(0.7)
Credit to equity	<u>(0.1)</u>	<u>(0.2)</u>
At 31 December	<u>(0.1)</u>	<u>(0.1)</u>

Deferred tax provided in the Accounts is as follows:

	2006	2005
Accelerated capital allowances	1.3	1.4
Other timing differences	<u>(1.4)</u>	<u>(1.5)</u>
	<u>(0.1)</u>	<u>(0.1)</u>

### 42 Pension Commitments

	2006 £ million	2005 £ million
FRS 17 Deficit in the scheme (Refer to Note 28 of the Group Accounts)	(13.1)	(16.8)
Related deferred tax asset	<u>4.0</u>	<u>5.0</u>
	<u>(9.1)</u>	<u>(11.8)</u>

### 43 Share Capital

	2006 Number	2006 £'000	2005 Number	2005 £'000
Authorised:				
Ordinary shares of 20p each	349,750,010	69,950	349,750,010	69,950
Allotted, called up and fully paid:				
Ordinary shares of 20p each	269,510,986	53,902	269,178,880	53,836

During the year 332,106 Ordinary shares of 20p each have been issued at prices ranging from £1.05 to £3.07 to satisfy the exercise of options under the Savings Related Share Option Schemes ('Sharesave') by eligible employees

### 44 Reconciliation of movements in shareholders' funds

	Called up share capital £ million	Share premium account £ million	Treasury shares £ million	Capital redemption reserve £ million	Hedging reserve £ million	Profit and loss account £ million	Capital and reserves £ million
1 January 2006	53.8	6.8	(6.5)	0.1	0.6	43.6	98.4
Profit for the financial year	—	—	—	—	—	9.3	9.3
Dividends	—	—	—	—	—	(16.7)	(16.7)
Net movement on interest rate swaps	—	—	—	—	0.2	—	0.2
Credit in respect of employee share awards	—	—	—	—	—	4.1	4.1
Actuarial gains on retirement benefits	—	—	—	—	—	1.5	1.5
Current tax on items taken to equity	—	—	—	—	—	0.9	0.9
Deferred tax on items taken to equity	—	—	—	—	(0.1)	(0.2)	(0.3)
New share capital subscribed	0.1	0.4	—	—	—	—	0.5
Purchase of treasury shares	—	—	(2.6)	—	—	—	(2.6)
31 December 2006	53.9	7.2	(9.1)	0.1	0.7	42.5	95.3

### 45 Profit and loss account

As permitted by Section 230 of the Companies Act 1985, the Company has not presented its own profit and loss account and related notes. The profit for the financial year of the Company was £9.3 million (2005: loss of £3.1 million).

# SHAREHOLDERS

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**aggreko**



## Notice of Annual General Meeting

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This document is important and requires your immediate attention. If you are in any doubt as to the action you should take, you should contact an appropriate independent adviser immediately. If you have sold or otherwise transferred all of your shares in Aggreko plc you should forward this document to the purchaser or transferee, or the stockbroker, bank or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

Notice is hereby given that the Annual General Meeting of Aggreko plc (the 'Company') will be held at the Hilton Hotel, 1 William Street, Glasgow on Wednesday 25 April 2007 at 11am.

### **Agenda**

#### **Routine Business**

##### **Resolution 1**

To receive the reports of the Directors and Auditors, and to adopt the Company's accounts for the year ended 31 December 2006

##### **Resolution 2**

To approve the Remuneration Report for the year ended 31 December 2006

##### **Resolution 3**

To declare a final dividend on the ordinary shares

##### **Resolution 4**

To re-elect Mr R C Soames

##### **Resolution 5**

To re-elect Mr G P Walker

##### **Resolution 6**

To re-elect Mr A C Salvesen

##### **Resolution 7**

To re-appoint PricewaterhouseCoopers LLP as auditors of the Company, to hold office until the conclusion of the next general meeting at which accounts are laid before the Company, and to authorise the Directors to fix their remuneration

#### **Special Business**

To consider resolutions 8, 9, 10 and 11 as ordinary resolutions

##### **Resolution 8**

That the rules of the Aggreko UK Sharesave Plan 2007 (the "UK Plan") as summarised in the Appendix to the Notice of Annual General Meeting dated 16 March 2007 and produced in draft to this meeting and, for the purposes of identification, initialled by the Chairman, be approved and the Directors be authorised to make such modifications to the UK Plan as they may consider appropriate to take account of the requirements of HM Revenue and Customs and best practice and for the implementation of the UK Plan and to adopt the UK Plan as so modified and to do all such other acts and things as they may consider appropriate to implement the UK Plan

##### **Resolution 9**

That the rules of the Aggreko International Sharesave Plan 2007 (the "International Plan") as summarised in the Appendix to the Notice of Annual General Meeting dated 16 March 2007 and produced in draft to this meeting and, for the purposes of identification, initialled by the Chairman, be approved and the Directors be authorised to

- (a) make such modifications to the International Plan as they may consider appropriate to take account of best practice and for the implementation of the International Plan and to adopt the International Plan as so modified and to do all such other acts and things as they may consider appropriate to implement the International Plan, and
- (b) establish further plans based on the International Plan but modified to take account of local tax, exchange control or securities laws in overseas territories, provided that any shares made available under such further plans are treated as counting against the limits on individual or overall participation in the International Plan

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**Resolution 10**

That the rules of the Aggreko U S Employee Stock Purchase Plan 2007 (the "US Plan") as summarised in the Appendix to the Notice of Annual General Meeting dated 16 March 2007 and produced in draft to this meeting and, for the purposes of identification, initialled by the Chairman, be approved and the Directors be authorised to make such modifications to the US Plan as they may consider appropriate to take account of the requirements of the U S Internal Revenue Code of 1986, best practice and for the implementation of the US Plan and to adopt the US Plan as so modified and to do all such other acts and things as they may consider appropriate to implement the US Plan

**Resolution 11**

That the rules of the Aggreko (Republic of Ireland) Sharesave Plan 2007 (the "R of I Plan") as summarised in the Appendix to the Notice of Annual General Meeting dated 16 March 2007 and produced in draft to this meeting and, for the purposes of identification, initialled by the Chairman, be approved and the Directors be authorised to make such modifications to the R of I Plan as they may consider appropriate to take account of the requirements of the Republic of Ireland Revenue Commissioners, best practice and for the implementation of the R of I Plan and to adopt the R of I Plan as so modified and to do all such other acts and things as they may consider appropriate to implement the R of I Plan

To consider resolutions 12, 13 and 14 as special resolutions

**Resolution 12**

That the Articles of Association be amended by deleting the existing Articles of Association in their entirety and replacing them with the new Articles of Association produced to the meeting and initialled for the purpose of identification by the Chairman

**Resolution 13**

That the Board of Directors of the Company (the 'Directors') be and they are hereby empowered pursuant to Section 95 of the Companies Act 1985 (the 'Act') to allot equity securities (within the meaning of Section 94 of the Act) for cash (i) by selling equity securities held by the Company as treasury shares or (ii) by allotting new equity securities pursuant to the authority conferred by Resolution 10 passed at the Annual General Meeting of the Company held on 30 April 2003, as if Section 89(1) of the Act did not apply to such allotment, PROVIDED THAT this power shall be limited to

- (a) the allotment of equity securities for cash in connection with or pursuant to a rights issue or any other offer in favour of the holders of equity securities and other persons entitled to participate therein in proportion (as nearly as may be practicable) to the respective numbers of equity securities then held by them (or, as appropriate, the number of such securities which such other persons are for those purposes deemed to hold), but subject to such exclusions or other arrangements as the Directors may consider necessary, expedient or appropriate to deal with any fractional entitlements or legal or practical difficulties which may arise under the laws of, or the requirements of any recognised regulatory body or any stock exchange in, any territory or otherwise, and
- (b) the allotment (otherwise than pursuant to sub paragraph (a) above) of equity securities for cash up to an aggregate nominal value of £2,695,000, and

shall expire on the earlier of 24 July 2008 and the conclusion of the Annual General Meeting of the Company held in 2008, save that the Company may before such expiry make an offer or agreement which would or might require equity securities to be allotted after such expiry and the Directors may allot equity securities in pursuance of such an offer or agreement as if the power conferred hereby had not expired

## Notice of Annual General Meeting continued

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### Resolution 14

That the Company be generally and unconditionally authorised to make market purchases (within the meaning of Section 163(3) of the Companies Act 1985) of ordinary shares of 20p each in the Company ('Ordinary Shares') PROVIDED THAT

- (a) the maximum number of Ordinary Shares hereby authorised to be acquired is 26,950,000,
- (b) the maximum price which may be paid for any such Ordinary Share is an amount equal to the higher of (i) 105% of the average of the middle market quotations for an Ordinary Share as derived from The London Stock Exchange Daily Official List for the five business days immediately preceding the day on which the share is contracted to be purchased and (ii) the higher of the price of the last independent trade and the highest current independent bid on the trading venue where the purchase is carried out, and the minimum price which may be paid for any such share is 20p (in each case exclusive of associated expenses),
- (c) the authority hereby conferred shall expire at the conclusion of the next Annual General Meeting of the Company or 18 months from the date of this resolution, whichever is the earlier, but a contract of purchase may be made before such expiry which will or may be completed wholly or partly thereafter, and a purchase of Ordinary Shares may be made in pursuance of any such contract, and
- (d) any Ordinary Shares so purchased shall be cancelled or, if the Directors so determine and subject to the provisions of any statutory instruments relating to treasury shares and any applicable regulations of the United Kingdom Listing Authority, held as treasury shares

By order of the Board

A Paul Allen

Secretary

16 March 2007



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**Note 1**

Any Shareholder entitled to attend and vote at this meeting may appoint one or more proxies, who need not be Shareholders of the Company, to attend and, on a poll, vote on his / her behalf. To be effective, the enclosed form of proxy, together with any power of attorney or other authority under which it is signed or a certified copy thereof, should be lodged at the office of the Company's Registrars not later than 48 hours before the time of the meeting. Appointment of a proxy will not prevent a member from attending the meeting and voting in person.

**Note 2**

CREST members who wish to appoint a proxy or proxies by utilising the CREST electronic proxy appointment service may do so for this meeting by utilising the procedures described in the CREST Manual. CREST Personal Members or other CREST sponsored members, and those CREST members who have appointed a voting service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.

In order for a proxy appointment made by means of CREST to be valid, the appropriate CREST message (a "CREST Proxy Instruction") must be properly authenticated in accordance with CRESTCo's specifications and must contain the information required for such instructions, as described in the CREST Manual. The message must be transmitted so as to be received by the issuer's agent (ID RA10) by the latest time for receipt of proxy appointments specified in Note 1 above. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Applications Host) from which the issuer's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST.

CREST members and, where applicable, their CREST sponsors or voting service providers should note that CRESTCo does not make available special procedures in CREST for any particular messages. Normal system timings and limitations will therefore apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST Personal Member or sponsored member or has appointed a voting service provider(s), to procure that his CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting service providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.

The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.

**Note 3**

Pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, the Company has specified that only those Shareholders registered on the Register of Members of the Company as at the close of business on 23 April 2007 shall be entitled to vote at the Annual General Meeting in respect of the number of shares registered in their name at that time. Changes to entries on the Register of Members after that time shall be disregarded for such purpose.

**Note 4**

The following documents will be available for inspection at the registered office of the Company and at the offices of Dickson Minto WS, 22-25 Finsbury Square, London EC2A 1DX during business hours from the date of this notice until the date of the Annual General Meeting and on that day at the Hilton Hotel, 1 William Street, Glasgow from 10.45 am until the conclusion of the meeting:

1. The register of interests of Directors and of their families (where relevant) in the share capital of the Company during the year.
2. Copies of all contracts of service under which Directors are employed by the Company or any of its subsidiary undertakings and the letters of appointment of the Chairman and Non executive Directors.
3. A copy of the draft rules of the Aggreko UK Sharesave Plan 2007, the Aggreko International Sharesave Plan 2007, the Aggreko U.S. Employee Stock Purchase Plan 2007 and the Aggreko (Republic of Ireland) Sharesave Plan 2007.
4. A copy of the proposed new Articles of Association of the Company containing the amendments described in the Appendix to this Notice.

## Appendix to the Notice of the Annual General Meeting

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### **Part 1 Summary of the principal terms of the proposed new rules for Sharesave Plans**

The following rules are proposed to be adopted pursuant to Resolutions 8, 9, 10 and 11

#### **Introduction**

The following is a summary of the principal terms of the Aggreko UK Sharesave Plan 2007 (the "UK Plan"), the Aggreko International Sharesave Plan 2007 (the "International Plan"), the Aggreko U S Employee Stock Purchase Plan 2007 (the "US Plan") and the Aggreko (Republic of Ireland) Sharesave Plan 2007 (the "R of I Plan") (together known as the "Plans") The principal terms of the Plans are substantially the same unless expressly indicated to the contrary

#### **Operation**

The operation of the Plans will be supervised by the Board of Directors of the Company (the "Board")

The UK Plan and the R of I Plan will be approved by HM Revenue & Customs ("HMRC") and the Republic of Ireland Revenue Commissioners respectively in order to provide tax advantaged options to employees in the UK and the Republic of Ireland ("R of I")

#### **Eligibility**

The UK Plan and the R of I Plan provide that employees and full time Directors of the Company and any designated participating subsidiary who are resident taxpayers in the UK and the R of I respectively, are eligible to participate

The International Plan and the US Plan require that employees and full time Directors of the Company and any designated participating subsidiary are eligible to participate

The Plans provide that the Board may require employees to have completed a qualifying period of employment (a "Qualifying Period") before the grant of options In particular, under the UK Plan, the US Plan and the R of I Plan the Board may specify a Qualifying Period of up to 5 years, 2 years and 3 years respectively The Qualifying Period under the International Plan is determined by the Board at its discretion

All eligible employees must be invited to participate The Board may allow other employees to participate

#### **Grant of options**

Options can only be granted to employees who enter into savings contracts under which monthly savings are normally made over a period of three or five years, or two years only under the US Plan

Under the terms of the International Plan only the Board may also decide to grant cash based awards of an equivalent value to share based awards or to satisfy share based awards in cash

Options will normally be granted within 30 days (or 42 days if applications are scaled back) of the first day by reference to which the option price is set The number of Shares over which an option is granted will be such that the total option price payable for those Shares will correspond to the proceeds on maturity of the related savings contract

No option may be granted under a plan more than 10 years after the date it is approved by shareholders Options are not transferable, except on death Options are not pensionable

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### **Individual participation**

Subject to the limits set out below, the Board will determine the maximum amount that an employee may contribute under a savings contract linked to options granted under the Plans

Monthly savings by an employee under the UK Plan and all savings contracts linked to options granted under any HMRC approved sharesave scheme may not exceed the statutory maximum (currently £250). Similarly, monthly savings by an employee under the International Plan and all savings contracts linked to options granted under the International Plan and any other similar international sharesave scheme established by the Company may not exceed the overseas equivalent of the statutory maximum amount as may from time to time be permitted under the UK Plan

Monthly savings by an employee under the US Plan and all savings contracts linked to options granted under the US Plan and any other similar plan established by the Company in accordance with the US Internal Revenue Code of 1986 (the "Code") may not exceed US\$540 or such other amount as may from time to time be determined by the Board and is permitted under the Code

Monthly savings by an employee under the R of I Plan may not be more than the lower of the statutory maximum applicable to savings contracts linked to options granted under R of I Revenue approved sharesave plans (currently €320) and the Euro equivalent of £250 (or such other maximum amount as may from time to time be permitted under the UK Plan)

### **Option price**

The price per Share payable upon the exercise of an option under the UK Plan, the International Plan and the R of I Plan will not be less than the higher of

- 80% (or such other percentage as may be specified by statute) of the average middle market quotation of an ordinary share on the London Stock Exchange over three consecutive dealing days (or such other day or days as agreed with HMRC) following not earlier than 30 days before the option is granted (or 42 days if applications are scaled back), and
- if the option relates only to new issue Shares, the nominal value of a Share

The price payable upon the exercise of an option only under the US Plan will not be less than the higher of

- 85% (or such other percentage as may be specified by the Code) of the middle market quotation of an ordinary share on the London Stock Exchange on the dealing day immediately preceding the date of grant of an option (or such other dealing day or days as the Board may determine), and
- if the option relates only to new issue Shares, the nominal value of a Share

## Appendix to the Notice of the Annual General Meeting continued

### **Exercise of options**

Options granted under the UK Plan, the International Plan and the R of I Plan will normally be exercisable for a six month period from the third, fifth or seventh anniversary of the commencement of the related savings contracts

Options granted under the US Plan will normally be exercisable for a three month period from the second anniversary of the commencement of the related savings contract

Earlier exercise of options under the Plans is permitted, however, in the following circumstances

- following cessation of employment by reason of death, injury, disability or redundancy,
- retirement on reaching a specified age (normally 60),
- retirement at any other age at which the employee is bound to retire under his terms of employment, except in relation to options granted under the US Plan,
- the business or company that the employee works for ceasing to be part of the Company's group,
- when an employee reaches a specified age (normally 60),
- where employment ceases more than three years from grant for any reason other than dismissal for misconduct, except in relation to options granted under the US Plan, and
- in the event of a takeover, amalgamation, reconstruction or winding up of the Company, except in the case of an internal corporate re organisation when the Board may decide to exchange existing options for equivalent new options over shares in a new holding company, subject to the agreement of HMRC and the Revenue Commissioners in respect of awards granted under the UK Plan and the R of I Plan

Except where stated above, options will lapse in the event that a participant ceases to be an employee or Director within the Company's group

Shares will be allotted or transferred to participants within 30 days of exercise

### **Overall plan limits**

The Plans may operate over new issue Shares, treasury Shares or Shares purchased in the market

In any ten calendar year period, the Company may not issue (or create the possibility of issuing) more than 10% of the issued ordinary share capital of the Company under the Plans and any other employee share plan adopted by the Company

Treasury Shares will count as new issue Shares for the purposes of these limits unless institutional investors decide that they need not count

### **Variation of capital**

In the event of any variation in the Company's share capital, the Board may, subject to the prior approval of HMRC and the Revenue Commissioners under the UK Plan and the R of I Plan respectively, make such adjustment as it considers appropriate to the number of Shares under option and the price payable on the exercise of an option

### **Rights attaching to Shares**

Any Shares allotted when an option is exercised under the Plans will rank equally with Shares then in issue (except for rights arising by reference to a record date prior to their allotment)

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### **Alterations to the Plan**

The Board may, at any time, amend the provisions of the Plans in any respect, provided that the prior approval of shareholders is obtained for any amendments that are to the advantage of participants in respect of the rules governing eligibility, limits on participation, the overall limits on the issue of Shares or the transfer of treasury Shares, the basis for determining a participant's entitlement to, and the terms of, the Shares to be acquired and the adjustment of options

The requirement to obtain the prior approval of Shareholders will not, however, apply to any minor alteration made to benefit the administration of the Plans, to take account of a change in legislation or to obtain or maintain favourable tax, exchange control or regulatory treatment for participants or for any company in the Company's group

### **Overseas plans**

The Shareholder resolution to approve the International Plan will allow the Board, without further Shareholder approval, to establish further plans for overseas territories, any such plan to be similar to the International Plan, but modified to take account of local tax, exchange control or securities laws, provided that any Shares made available under such further plans are treated as counting against the limits on individual and overall participation in the International Plan

### **Part 2 Summary of changes to the Articles of Association.**

The following is a summary of changes to the Company's Articles of Association as proposed in Resolution 12

Articles 8 and 13 have been amended to clarify the voting provisions in certain specific circumstances should any shares be held in Treasury by the Company

Article 14(D) addresses the point that, under the Uncertificated Securities Regulations, the definitive share register is the one kept by CRESTCo rather than the one maintained by the Company's Registrars

Article 102 has been amended to increase the borrowing powers from two times to three times the Company's adjusted capital reserves. As noted in the Directors' Report, the Directors have no immediate intention to utilise these additional borrowing powers but are taking them in case additional investment opportunities materialise

Article 145 has been amended to allow the Company to offer broader indemnities to Directors, as permitted by changes to the Companies Act. The new Articles bring the provisions of the Articles into line with the new statutory provisions

The revised Companies Act permits any company (i) to indemnify its directors against liability incurred to any person (other than to the Company and its associated companies) in connection with negligence, default, breach of duty or breach of trust in relation to that person, and (ii) to provide its Directors with funds to cover the costs incurred or to be incurred in defending proceedings brought against them

Since directors are increasingly being added as defendants in legal actions against companies, the Directors believe that the risk of directors being placed under unreasonable financial strain is increasing. The Directors consider that the provisions of appropriate indemnities and the funding of Directors' defence costs as they are incurred or to be incurred, as permitted by the new law, is fair and reasonable protection for the Directors against this risk, and is also important to ensure that the Company continues to attract and retain the highest calibre of Directors

The directors therefore propose that the Articles of Association of the Company be amended to reflect the new statutory provisions. Notwithstanding the proposed amendments, individual Directors will still be liable to pay any damages awarded to the Company in an action against them by the Company and, if their defence is unsuccessful, to repay their defence costs to the extent funded by the Company

Article 145 has also been amended to remove the power of the Company to grant indemnities to auditors. This change is in line with market practice, rather than as a consequence of any change to the Companies Act itself



## Shareholder Information

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### Low-Cost Share Dealing Service

Hoare Govett Limited provide a low cost share dealing service in Aggreko plc shares which enables investors to buy or sell for a brokerage fee of 1% (plus 0.5% stamp duty on purchases) with a minimum charge of £15. Details may be obtained by telephoning Hoare Govett Limited Service Helplines 020 7661 6617 (sales) and 020 7661 6616 (purchases) during market hours. Please note that this service is only available to UK residents. Hoare Govett Limited is authorised and regulated by the Financial Services Authority.

### Payment of Dividends by BACS

Many Shareholders have already arranged for dividends to be paid by mandate directly to their bank or building society account. The Company mandates dividends through the BACS (Bankers' Automated Clearing Services) system. The benefit to Shareholders of the BACS payment method is that the Registrar posts the tax vouchers directly to them, whilst the dividend is credited on the payment date to the Shareholder's bank or building society account. Shareholders who have not yet arranged for their dividends to be paid directly to their bank or building society account and wish to benefit from this service should request the Company's Registrar to send them a Dividend/Interest mandate form or alternatively complete the mandate form accompanying their dividend warrant and tax voucher in May 2007.

### Online Shareholder Services

Shareholders may wish to take advantage of the "Online" enquiry service offered by the Registrar. This service allows the Shareholder to access his/her own account to verify address details and the number of shares held. The service can be obtained on [www.capitaregistrars.com](http://www.capitaregistrars.com) where there is also an "Information Zone" which provides answers to many questions frequently asked by Shareholders. The Registrar also offers a share dealing service to existing Shareholders.

### Sharegift

We value all our Shareholders, no matter how many shares they own, but we do realise that some people hold on to small quantities of shares because they believe that the cost of selling them would make the transaction uneconomic. A free service to enable Shareholders with small holdings, should they so wish, to donate their shares to charity, and gain the benefit of tax relief on this donation. This scheme has been successfully adopted by several large quoted companies, and further details are available from the Secretary.

### Officers and Advisers

#### Secretary and Registered Office

A Paul Allen  
Ailsa Court  
121 West Regent Street  
GLASGOW G2 2SD  
UNITED KINGDOM  
Tel 0141 225 5900  
Fax 0141 225 5949  
E mail [investors@aggreko.com](mailto:investors@aggreko.com)  
Company No SC 177553

#### Registrars and Transfer Office

Capita Registrars  
Northern House  
Woodsome Park  
Fenay Bridge  
Huddersfield  
West Yorkshire HD8 0LA  
UNITED KINGDOM  
Tel 0870 162 3100  
Website [www.capitaregistrars.com](http://www.capitaregistrars.com)

#### Stockbrokers

ABN Amro – Hoare Govett  
London  
Citigroup Global Markets –  
London

#### Auditors

PricewaterhouseCoopers LLP  
Chartered Accountants

### Financial Calendar

	Year ended	6 Months ending
	31 December 2006	30 June 2007
Results announced	8 March 2007	Mid September 2007
Report posted	16 March 2007	Late September 2007
Annual General Meeting	25 April 2007	
Ex dividend date	18 April 2007	Late October 2007
Dividend record date	20 April 2007	Late October 2007
Dividend payment date	18 May 2007	Late November 2007

## Glossary

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**CO<sub>2</sub>**

Carbon dioxide

**ERP system**

A software package which is designed to manage all the operational and accounting functions of our business

**g/(bhp-hr)**

Emissions in grams per brake horsepower hour

**Hub**

A large service centre where large items of equipment are stored and serviced

**International Power Projects business**

The part of our business which handles large power contracts in territories where we do not have a local business

**kVA**

A thousand volt amperes

**Local business**

The part of our business that looks after customers local to our service centres in North America, Europe, Middle East, Brazil, Singapore and Australia

**LWA**

Sound power level at source

**MW**

Megawatt – a million watts of electricity

**National Rental Centre**

An administration centre which provides call handling and contract administration for our Local business

**NO<sub>x</sub>**

Oxides of nitrogen

**Particulate**

In general this term relates to visible smoke

**Spoke**

A small service centre which provides a logistics point from where equipment can be prepared and sent out quickly to customers

**Tier 1, Tier 2, Tier 3**

US Federal Government target emission reduction levels

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