

ELECTRICITY MARKET IN SPAIN. MAIN REGULATORY ASPECTS.

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MINISTRY OF INDUSTRY, ENERGY AND TOURISM

ELECTRICITY MARKET. REGULATORY FRAMEWORK.

**Directive 2009/72/EC, on an
internal market for electricity**

**Directive 2009/28/EC, on
promotion of energy from RES**

Law 24/2013, of the Electricity Sector

***Royal Decree 2019/1997 on
the electricity market
functioning.***

Market rules (www.omie.es)

***System operation
procedures (www.ree.es)***

***CNMC instruction on
electricity exchanges in the
interconnections***

OTHERS

***Royal Decree 1955/2000,
on permitting procedures.***

***Royal Decree 413/2014 and
Ministerial Order
IET/1045/2014 Specific
remuneration regime***

***Royal Decree 738/2015 Non
peninsular systems***

ACTIVITIES OF THE ELECTRICITY SUPPLY CHAIN

- ✓ ***Generation***
- ✓ ***Transmission***
- ✓ ***Distribution***
- ✓ ***Supply / Trading***
- ✓ ***Energy charging services***
- ✓ ***Cross-border electricity exchanges***
- ✓ ***System Operation/ Market Operation***

ELECTRICITY GENERATION ACTIVITY

- ✓ ***Liberalized activity. Free entry.***
- ✓ ***Permitting procedure according to Royal Decree 1955/2000.***
- ✓ ***Once the facility is built, the next steps in order to participate in the market are:***
 - a) ***Certification of the compliance with the legal, technical and economic requirements.***
 - b) ***Become a market agent.***
 - c) ***Be registered as a production unit.***

ELECTRICITY MARKET. RES TECHNOLOGIES

A. PARTICIPATE IN THE MARKET WITHOUT ANY SUPPORT SCHEME.

B. PARTICIPATE IN THE MARKET WITHIN THE 'SPECIFIC REMUNERATION' REGIME: PROCEDURE for ACCESS TO THE REMUNERATION ACCORDING TO ROYAL DECREE 413/2014.

IN BOTH CASES: PARTICIPATION IN THE SPOT MARKET AND ANCILLARY SERVICES ON AN EQUAL FOOTING WITH OTHER TECHNOLOGIES.

ELECTRICITY GENERATION ACTIVITY

Remuneration components (art.14 Electricity Sector Law):

1. Electricity Price:

- 1. Day ahead and intraday spot market Price.***
- 2. Bilateral contracts or forward markets.***
- 3. Ancillary and balancing services.***

+ In certain cases, capacity mechanisms.

2. Renewables, cogeneration and wastes: specific remuneration (support scheme).

3. Electricity generation in non peninsular electricity systems: additional remuneration.

ELECTRICITY MARKET. BROAD DEFINITION

DIFFERENT CONTRACTING OPTIONS AND HORIZONS:

- ✓ ***Day-ahead and intraday spot market: managed by OMIE as spot market operator.***
- ✓ ***Bilateral contracts (between different stakeholders).***
- ✓ ***Forward markets: Futures markets managed by OMIP-OMICLEAR (MIBEL).***
- ✓ ***System adjustment (ancillary and balancing) services:***
 - ***Technical constraints resolution.***
 - ***Upward Power reserve***
 - ***Secondary and tertiary reserves***
 - ***Deviation management***

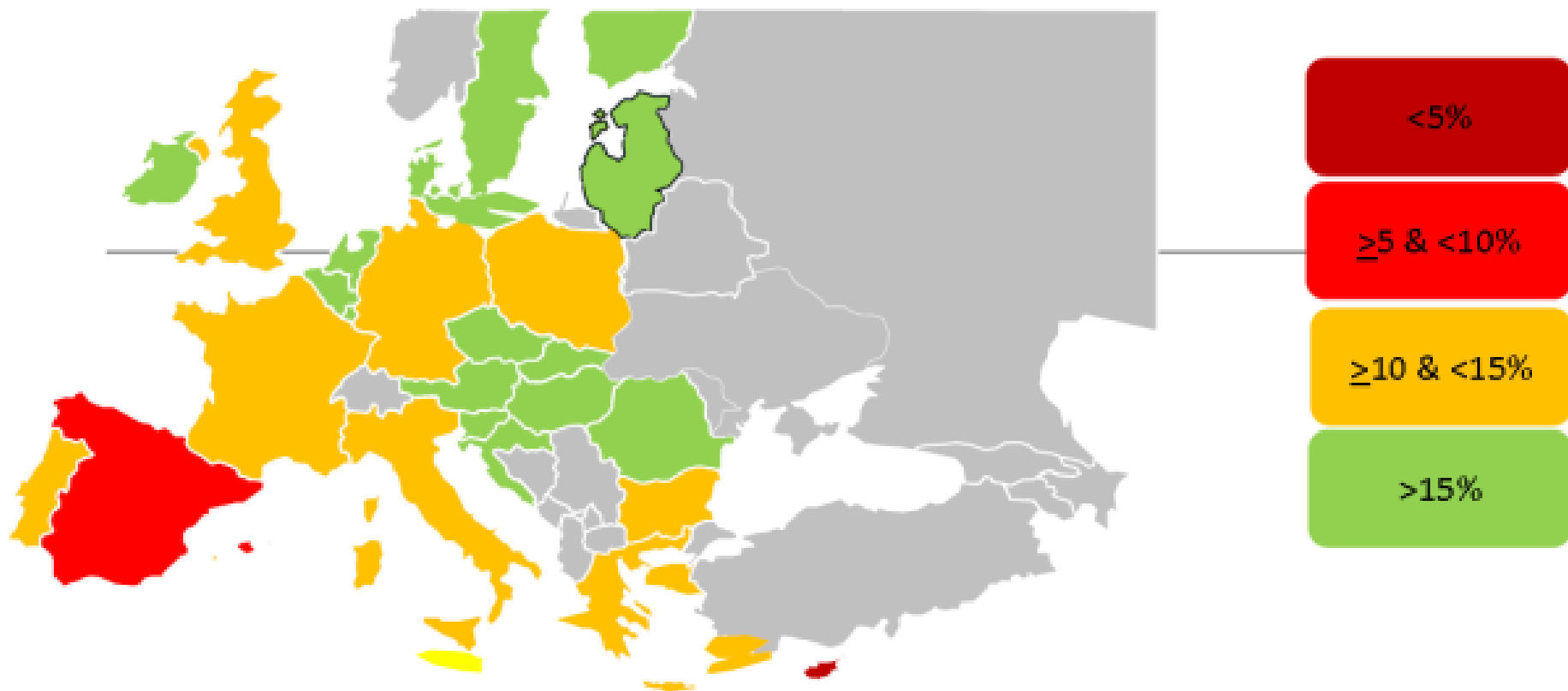
***MANAGED BY
THE SYSTEM
OPERATOR (REE)***

CROSS BORDER EXCHANGES OF ELECTRICITY

- ✓ ***Market agents can participate in cross-border exchanges of electricity according to the rules approved for each border.***
- ✓ ***Only denied in case of risk for the electricity supply.***
- ✓ ***Third countries: specific authorisation by the Ministry.***
- ✓ ***Cross border exchanges for system security: managed by the system operator.***
- ✓ ***CNMC: Regulation of capacity allocation and congestion management rules. (CIRCULAR 2/2014)***

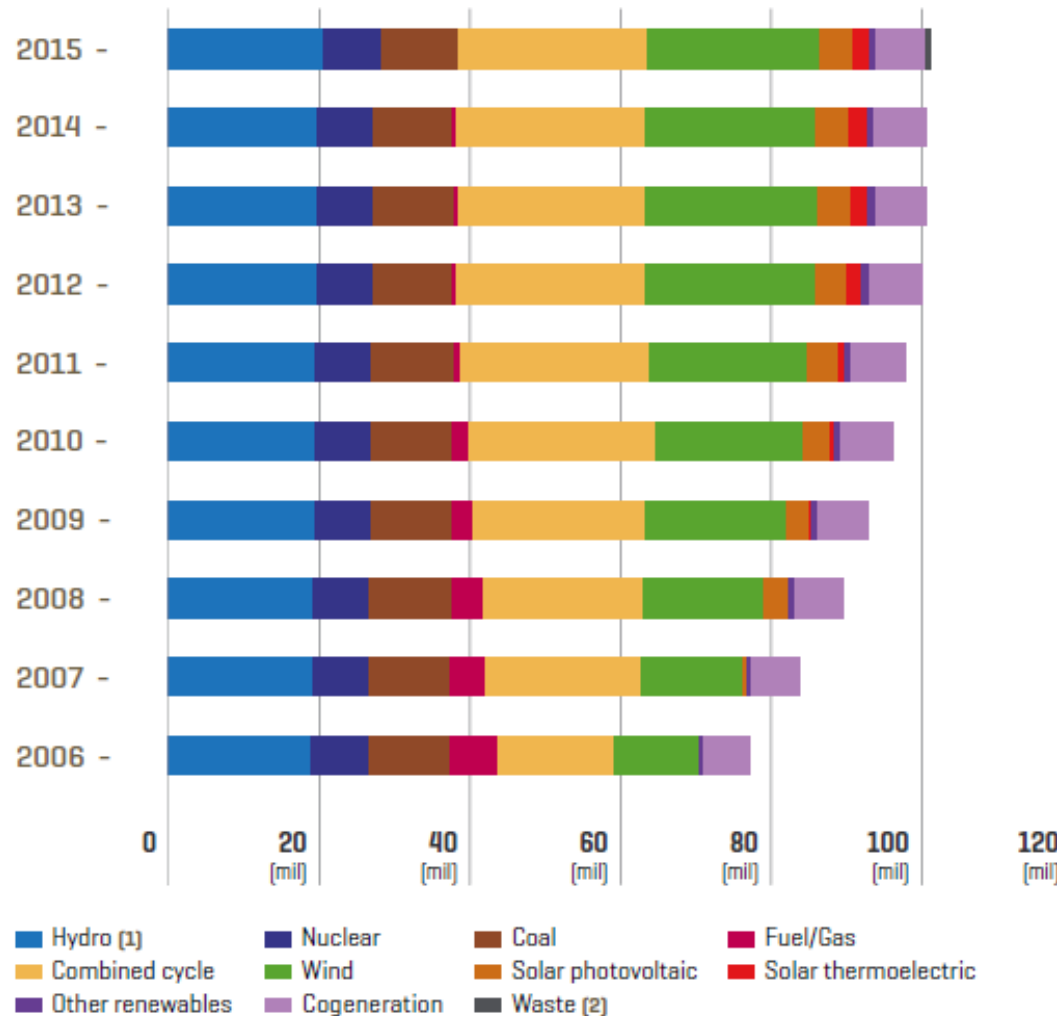
SPANISH ELECTRICITY MARKET

Map of interconnection levels in 2020 after implementation of current PCIs



EVOLUTION OF INSTALLED POWER CAPACITY ON THE SPANISH PENINSULA

[MW]



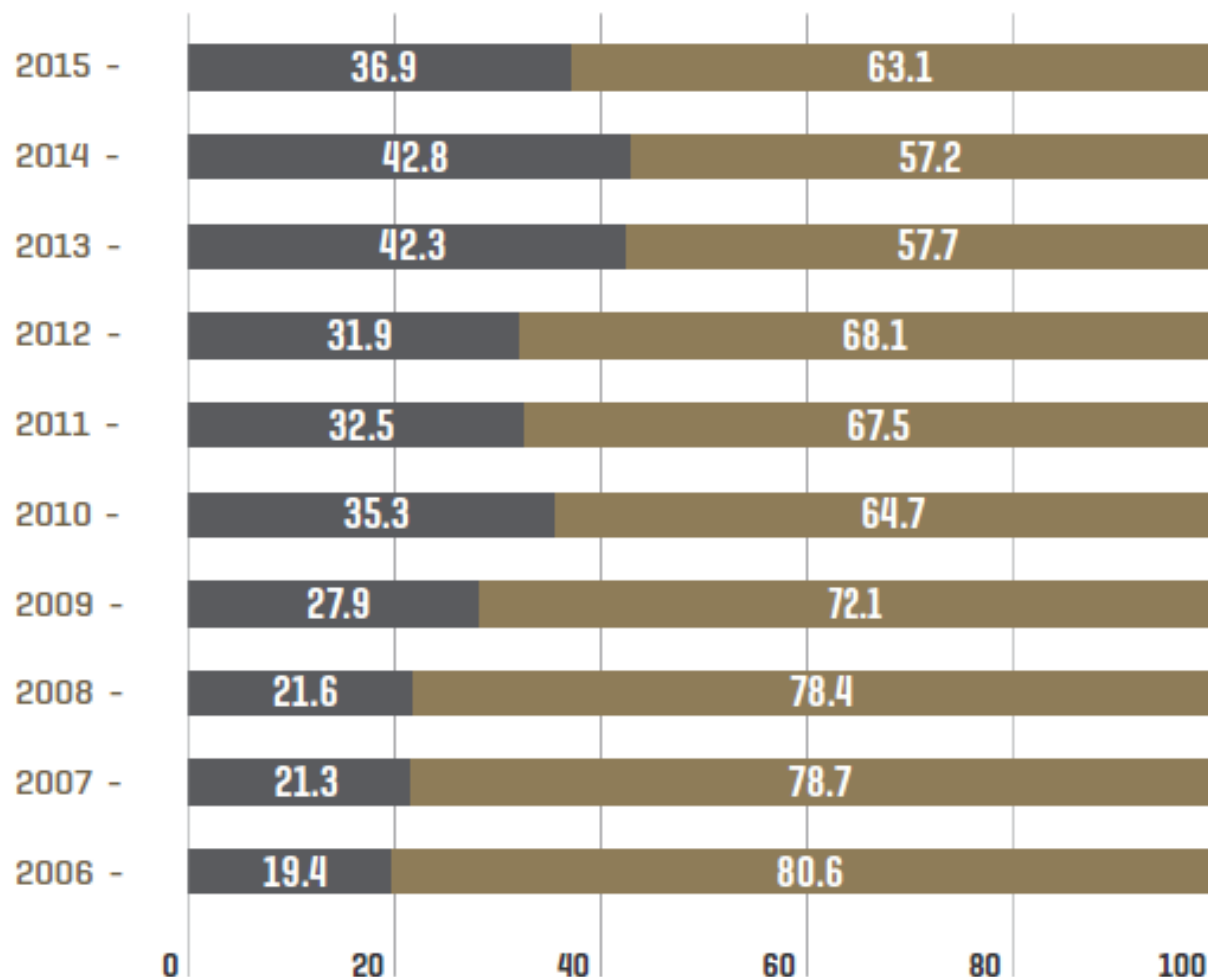
(1) Includes power from pure pumped storage. (2) Power included in Other renewables and Cogeneration until 31 Dec, 2014. // Source: National Commission for Markets and Competition (CNMC) on data regarding power from: non-Hydro Management Unit (UGH), wind, solar photovoltaic, solar thermoelectric, other renewables, cogeneration and waste.

***ELECTRICITY
GENERATION
MIX.
EVOLUTION
OF INSTALLED
CAPACITY.***

Source: REE

EVOLUTION OF RENEWABLE AND NON-RENEWABLE GENERATION ON THE SPANISH PENINSULA

[%]



■ Renewable: hydro, wind, solar photovoltaic, solar thermal and other renewables.
Does not include pumped storage generation.

■ Non-renewable: nuclear, coal, fuel/gas, combined cycle and cogeneration and waste.

***ELECTRICITY
GENERATION
MIX.
SHARE OF RES
AND
NON-RES
GENERATION.***

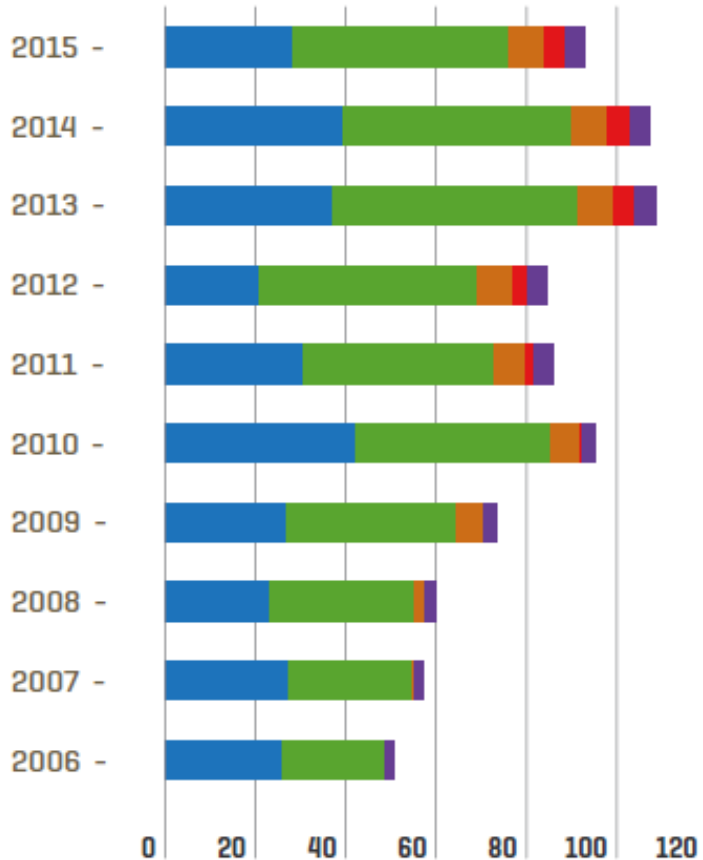
Source: REE

BREAKDOWN OF THE GENERATION MIX

EVOLUTION OF RENEWABLE AND NON-RENEWABLE
ELECTRICITY GENERATION ON THE SPANISH PENINSULA

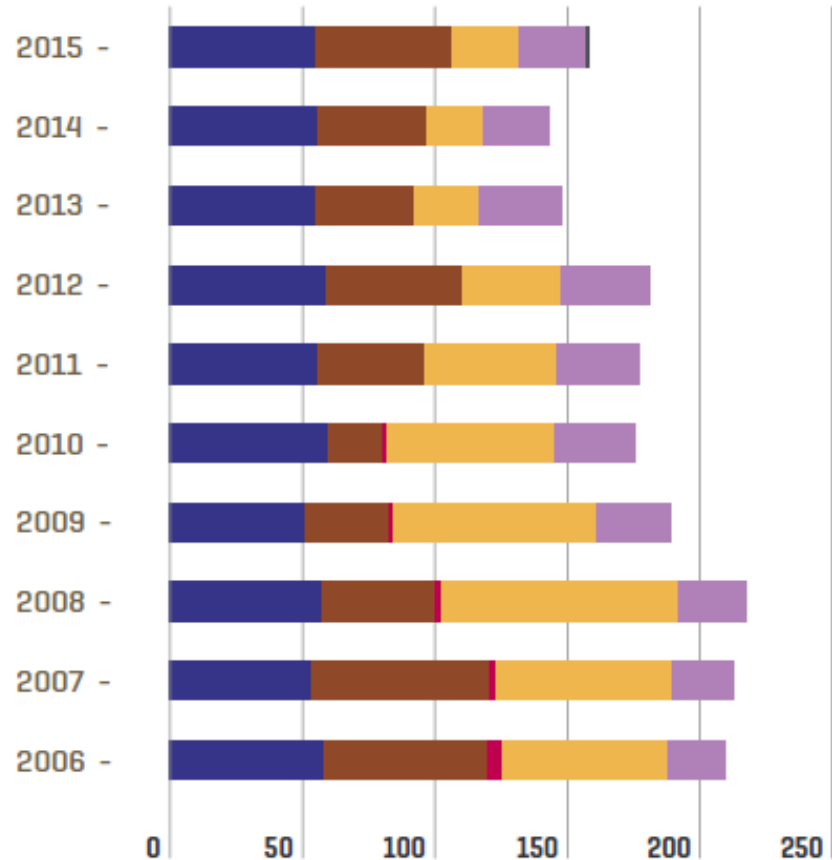
[TWh]

RENEWABLES



NON-RENEWABLES

Source: REE



Hydro (1) Wind Solar photovoltaic
Solar thermoelectric Other renewables

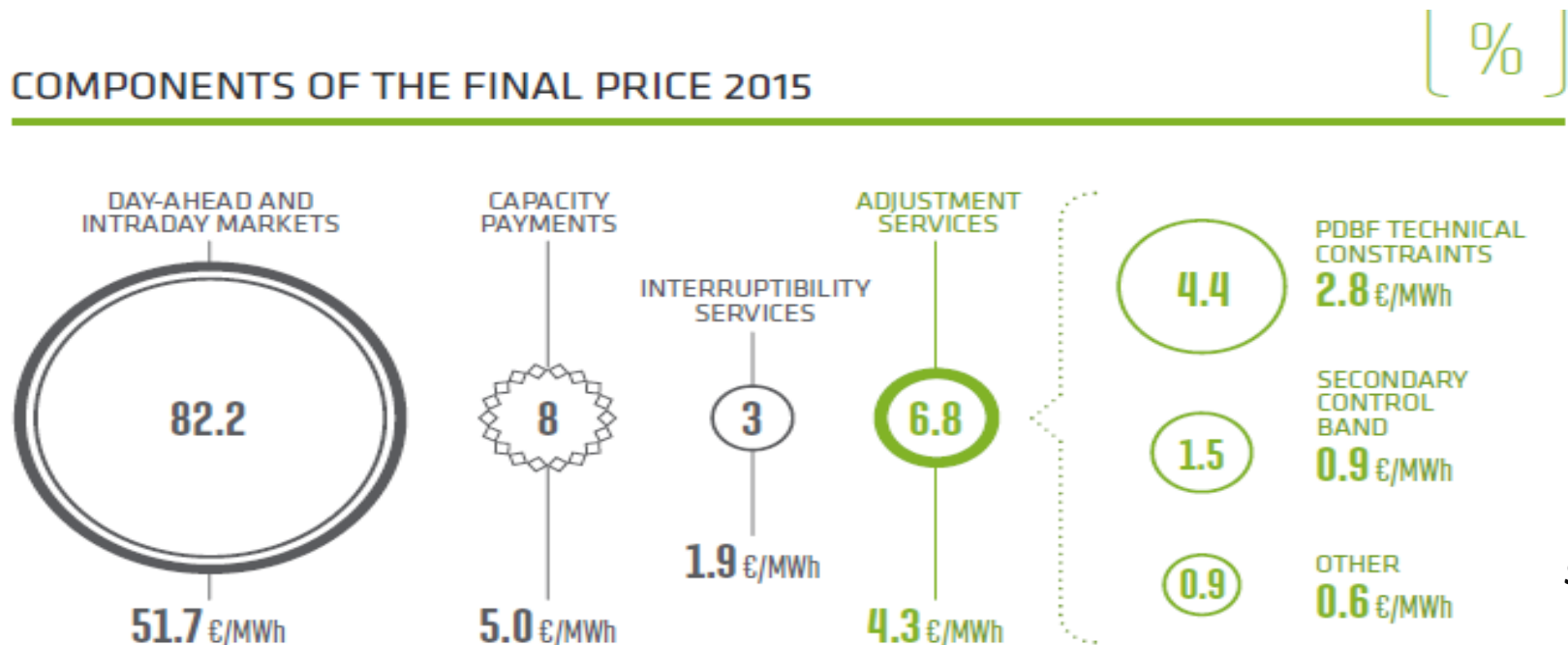
Nuclear Coal Fuel/Gas Combined cycle
Cogeneration Waste (2)

(1) Does not include pumped storage generation. (2) Generation included in Other renewables and Cogeneration until 31-Dec, 2014.

ELECTRICITY MARKET IN 2015.

- ✓ **ENERGY ON DAY-AHEAD MARKET: 247 TWh (+ 0,2%):
73% SPOT MARKET - 27% BILATERAL CONTRACTS**
- ✓ **ENERGY ON INTRADAY MARKET: 27,8 TWh (-10,5%)**
- ✓ **ENERGY ON ADJUSTMENT SERVICES: 18,2 TWh (-26,5%)**

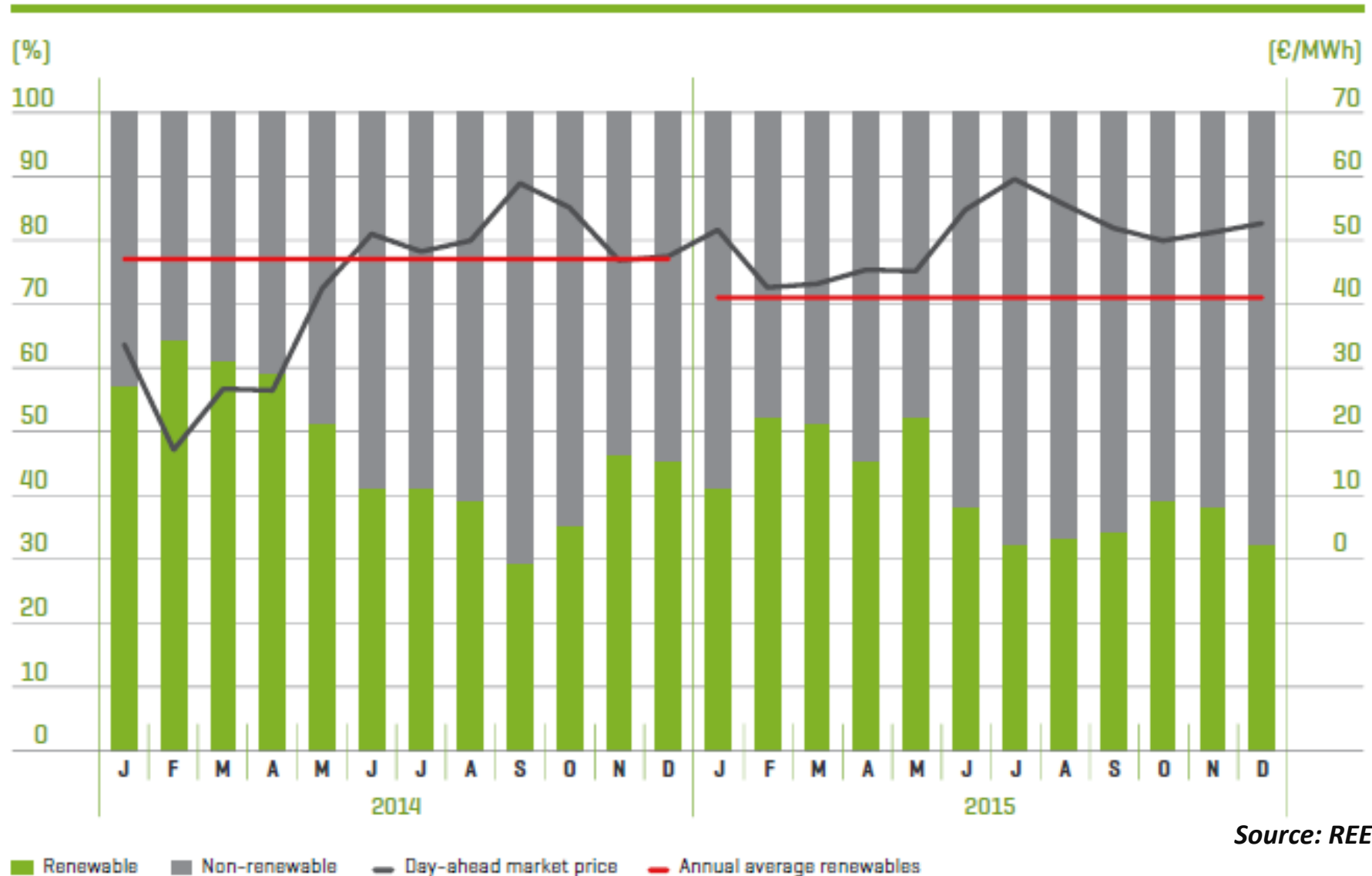
COMPONENTS OF THE FINAL PRICE 2015



Source: REE

ELECTRICITY PRICES AND GENERATION IN 2015

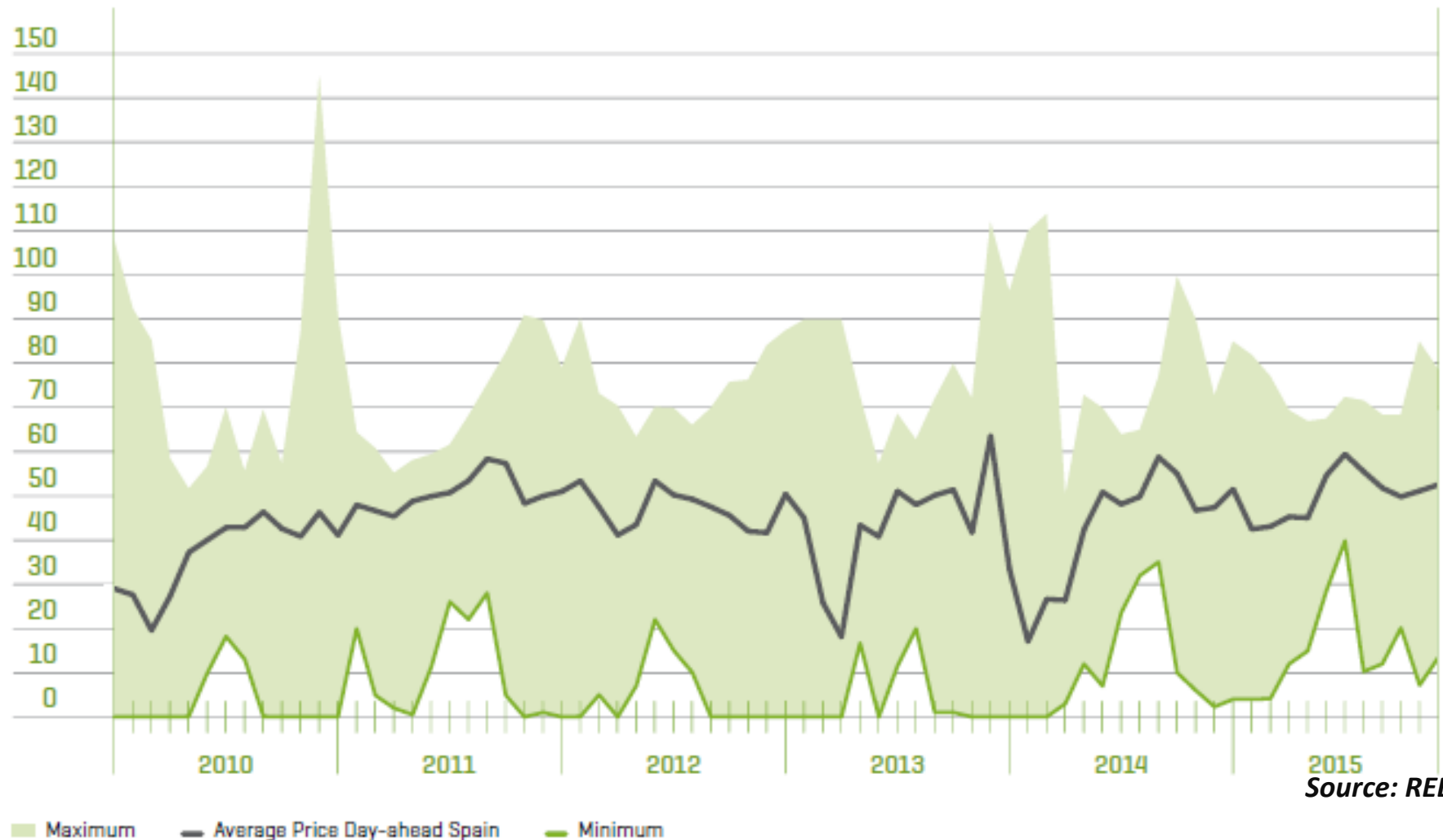
GENERATION AND PRICES



EVOLUTION OF ELECTRICITY PRICES

MAXIMUM, MINIMUM AND AVERAGE PRICE
OF THE DAY-AHEAD MARKET

€ / MWh



Source: REE



Suddeutsche Invest **supplying a sustainable future**

Madrid, October 20th



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WHO WE ARE

Suddeutsche Invest (SDI) was established in 2008 generating value added services for the photovoltaic project sector. Over the last years we have successfully introduced and established our clients in new markets, mainly in Europe but also in Japan, Chile, Philippines and the US.

Currently, we have expertise advising, managing and solving a wide range of issues for our customers, either developers, EPCist or private institutional investors.



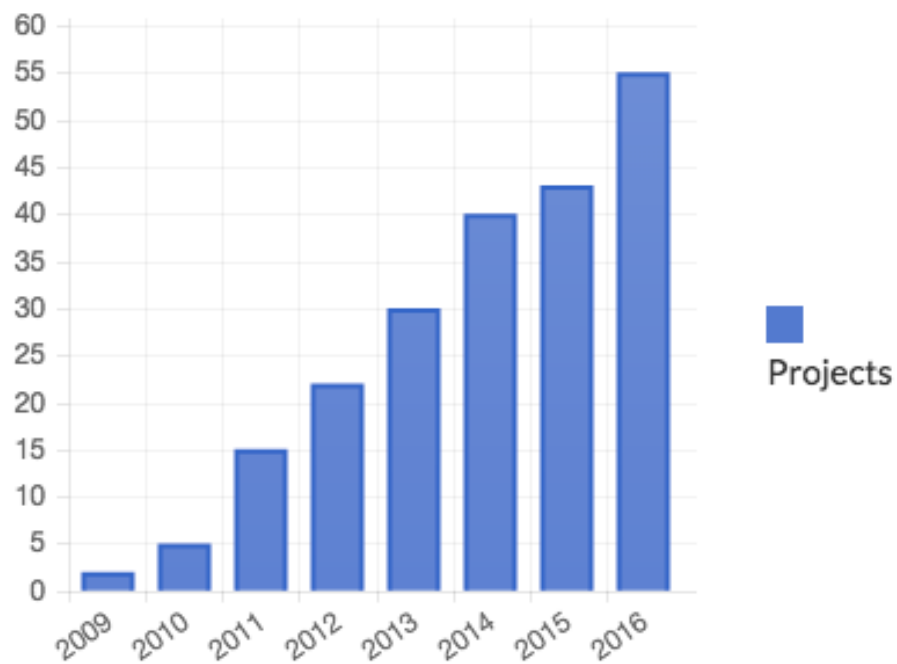
WHO WE ARE

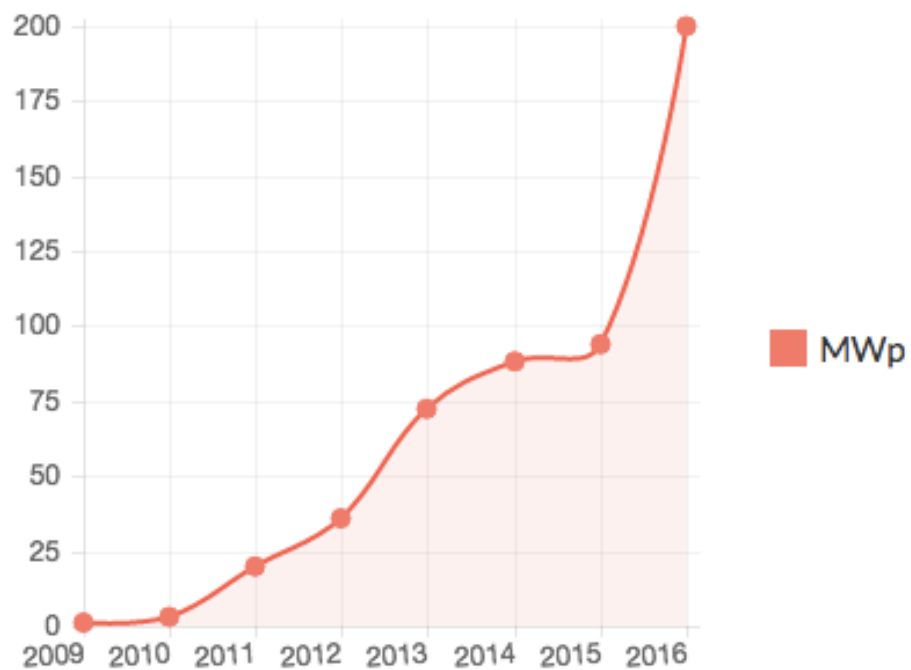
Our services range from the conception of a project to the operation and management of the PV asset once it's producing. SDI keeps its clients permanently up to date in the new requirements and standards, as well as aware of the PV market opportunities all around the world.

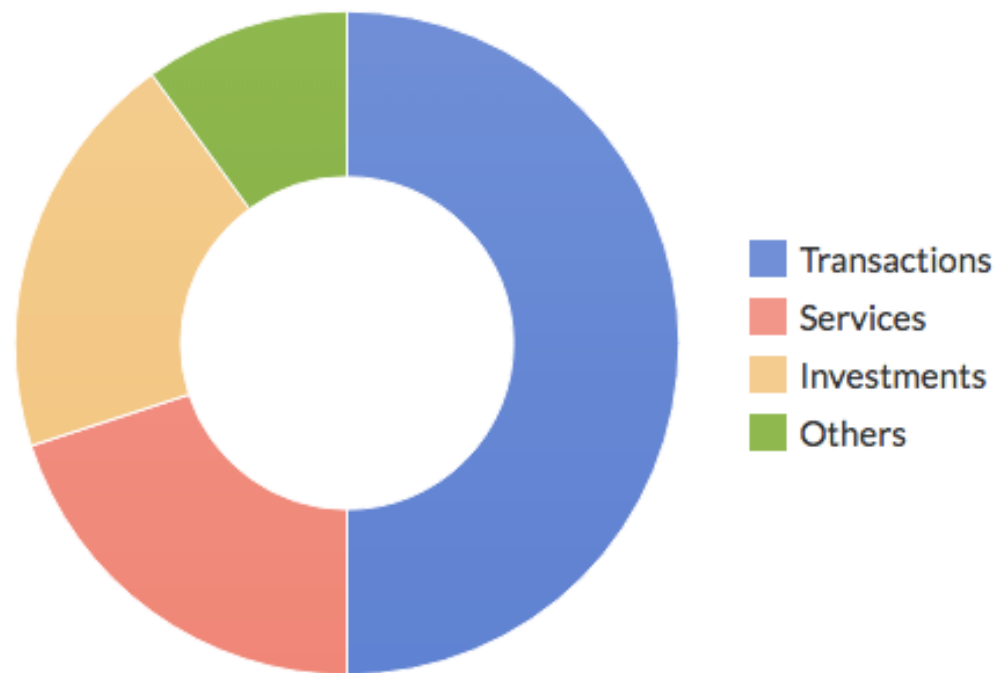
We have been involved in more than 50 PV transactions, amounting to more than 500 M€ and an installed capacity above 200 MWp.



1 Increasing Experience







2 Services

2.1 COUNTRY PROSPECTION

Legal Framework

We know the regulatory and legal issues of each market

Energy Market Monitoring

Constantly listening to the energy markets highlights

Economical Models

We provide feasibility studies looking for the best profitability

Projects Portfolio Selection

If you are an investor we have the best project for you

Local Partners Selection

If you are a developer or promotor we connect you with the appropriate local partner.

Investor Research Selection

If you are a developer or EPCist we have your investor



2.2 TRANSACTION ADVISORY

Internal Due Diligence

We draft the technical, financial and tax-legal Due Diligence to select the best projects.

Transaction Scheme

We manage every step of the sale and purchase agreement

Commercial Negotiation

We negotiate to achieve the best deal

Due Diligence Coordination

Is the time for truth. We schedule legal-tax and technical Due Diligence.

Contracts Advice

Due to our experience, we optimize the contracts: SPA or APA, EPC, O&M.

Tax and Legal Optimization

Looking for the best options to get the highest return



2.3 CONSTRUCTION MONITORING

Construction Control on the ground

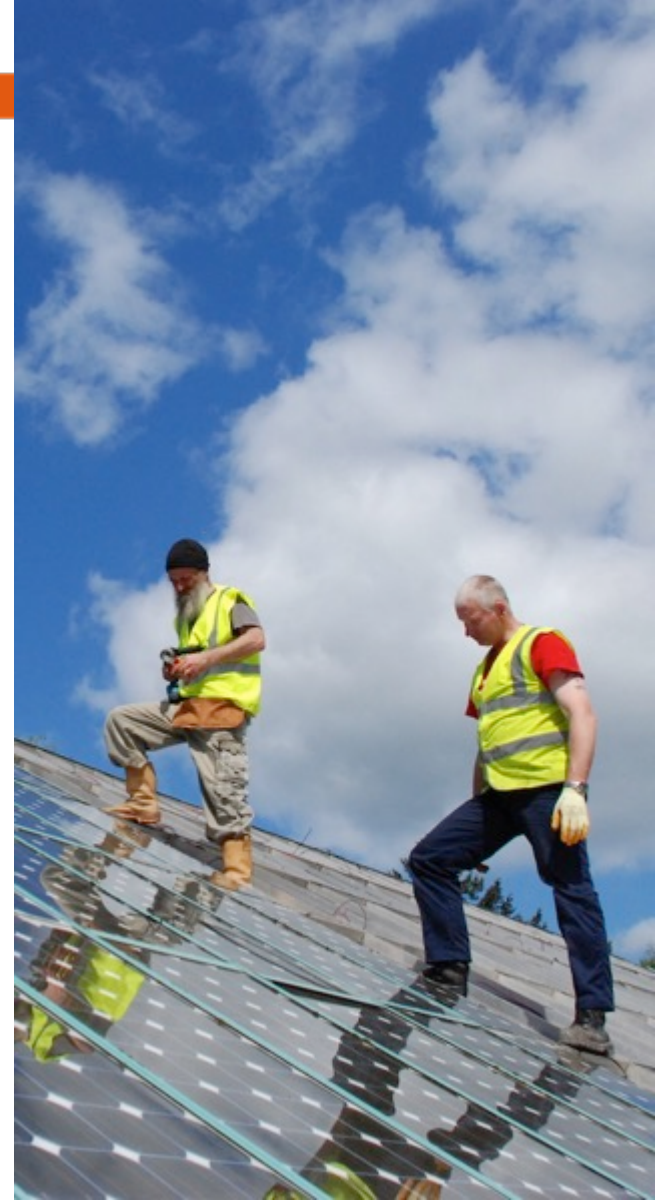
Checking the critical processes of the construction progress.

Quality Controls on site

Quality control of the PV equipments.

Cost Control

Improving the projects profit



2.4 ASSET MANAGEMENT

Premium

Basic

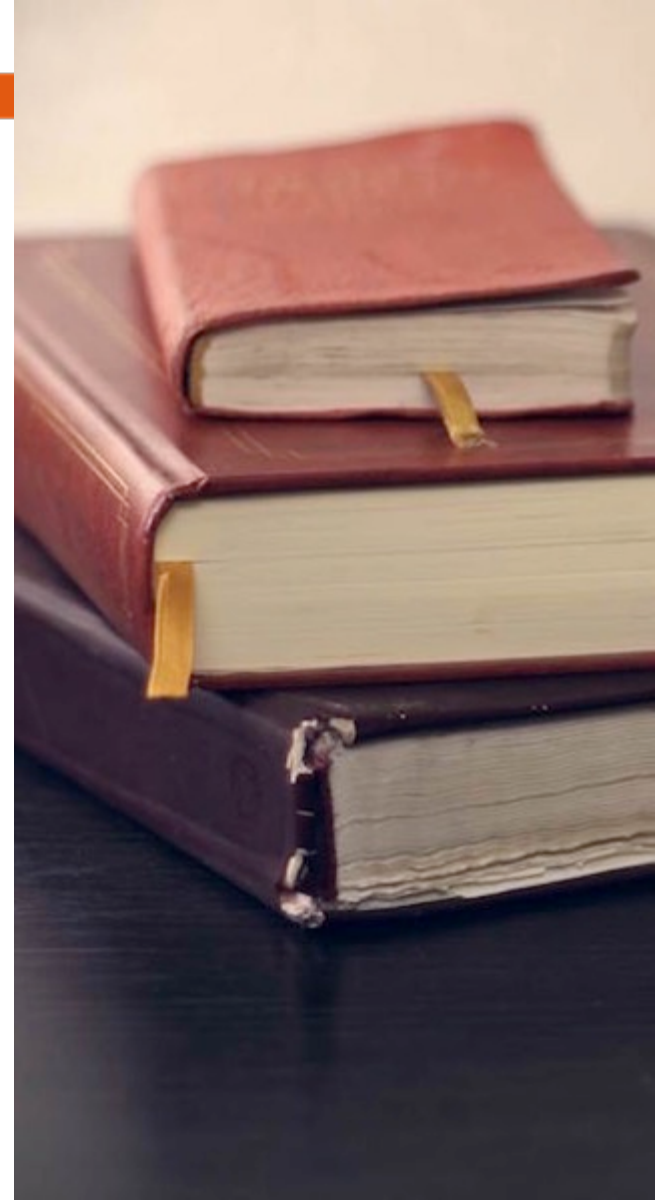
- Regulatory Monitoring
- Relations with Public Administration Bodies/Entities/ Institutions
- Suppliers Management, Security Company, Insurance, etc
- Lease Contract Management
- Asset Performance
- Performance reports
- Bookkeeping
- Treasury Management
- Banking Relations
- Accounting Reports

Tailor Made Asset Management

We can customize your Asset Management as you need

Assets legal framework monitoring

We are permanent aware about the legal changes



2.5 TAKEOVER ASSISTANCE

Post Acquisition Services

Internal Due Diligence to refinance and takeover activities.



2.6 PV ASSESSMENTS

Appraisal studies

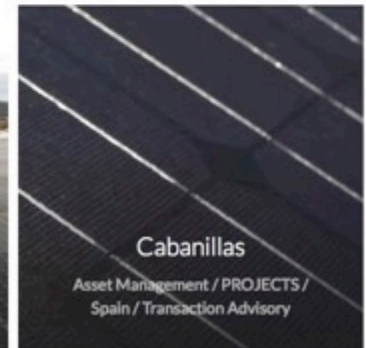
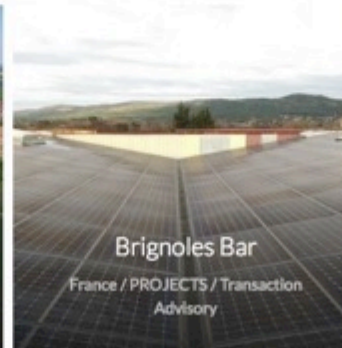
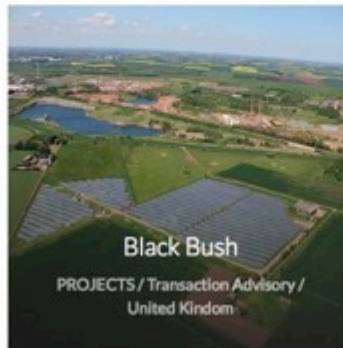
Accurate evaluation to the market value

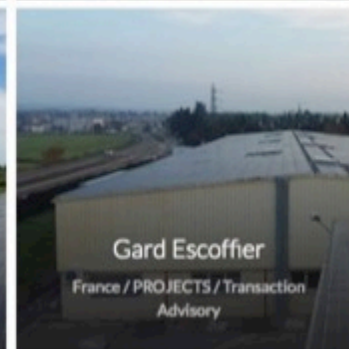
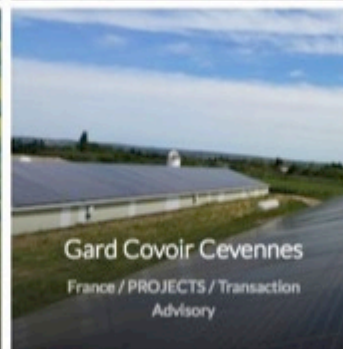
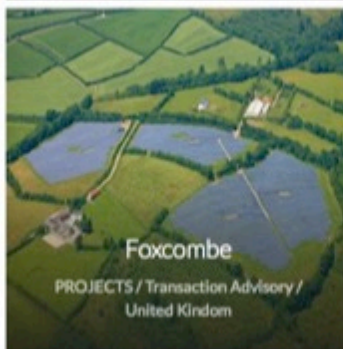
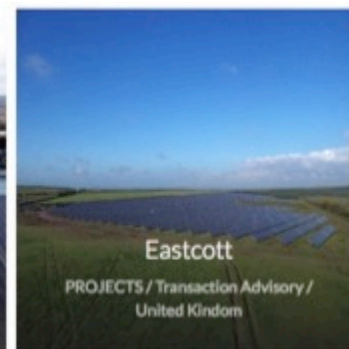


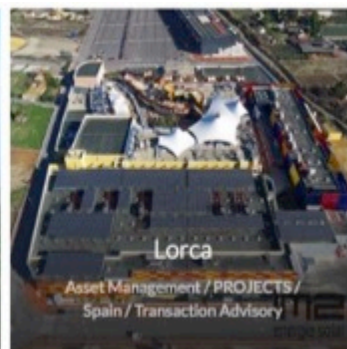
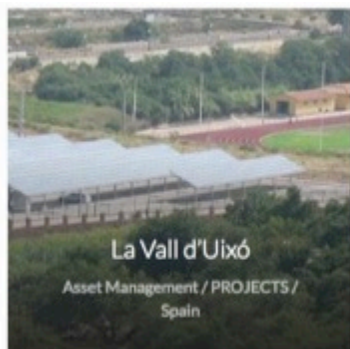
3 Track
Record

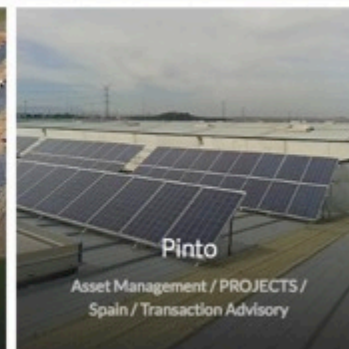
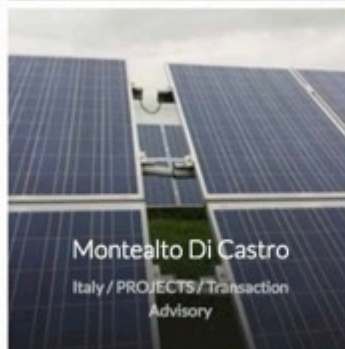
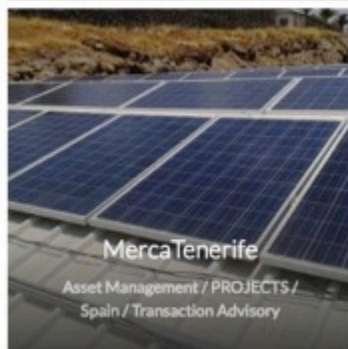
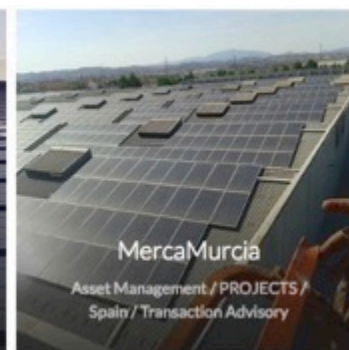
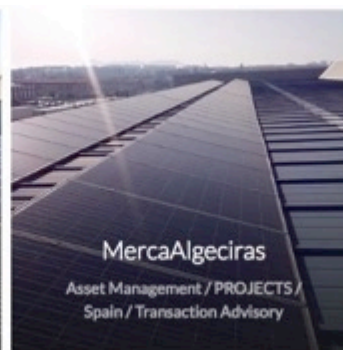
Here are the projects we have supported in the whole cycle advisory.
These are the basis of our experience that we can offer to you.

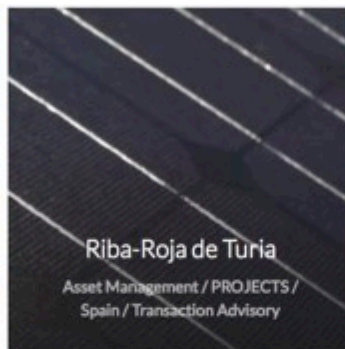
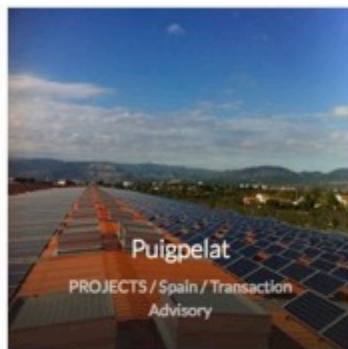
France, Italy, Philippines, Portugal, Spain, United Kindom

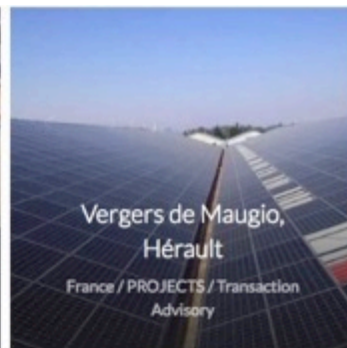
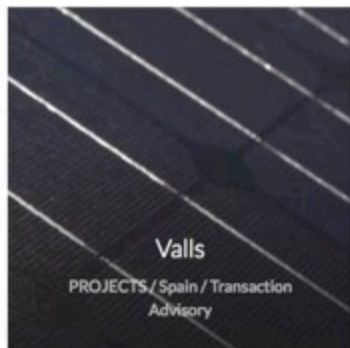












4

The Team



Carles Sancho

Partner



decisive

making things happen



Juan Francisco García

Partner



commitment

we are in the shoes of our clients



specialisation

focused in solar photovoltaic



Pau Sancho

CFO



integrity

responsibility and professionalism

A modern office interior featuring a long, dark conference table with several black mesh office chairs. In the background, a large flat-screen TV is mounted on the wall, displaying a landscape image. To the right of the TV is a whiteboard. A large, dome-shaped pendant light hangs from the ceiling. On the left wall, there is a framed abstract painting with blue, yellow, and black geometric shapes. The floor is made of polished wood.

We can do almost everything to help your business.

We are in Av. Jacarandas, 2 - 528. 46100 Burjassot (Valencia)

Contact us
info@suddeutscheinvest.com
www.suddeutscheinvest.com

thank you



MODELLING ELECTRICITY MARKETS

Antonio de Juan
Director, Head of Spain & Portugal

October 20, 2016



PÖYRY'S MODELS FOR LONG-TERM PRICE PROJECTIONS

- Our fundamental models generate consistent energy scenarios underpinned by fundamentals



- **BID3** projects the future development of electricity markets via modelling of the physical operation (generator output, electricity flows, emissions) and economic behaviour (electricity prices, revenues)



- **Pegasus** projects the future development of the European gas markets and prices taking also into consideration developments in North America, Asia and the global LNG market



- The **Carbon Model** models the EU-ETS calculated price for emissions certificates based on CO₂ avoidance costs and the CO₂ European trading regime



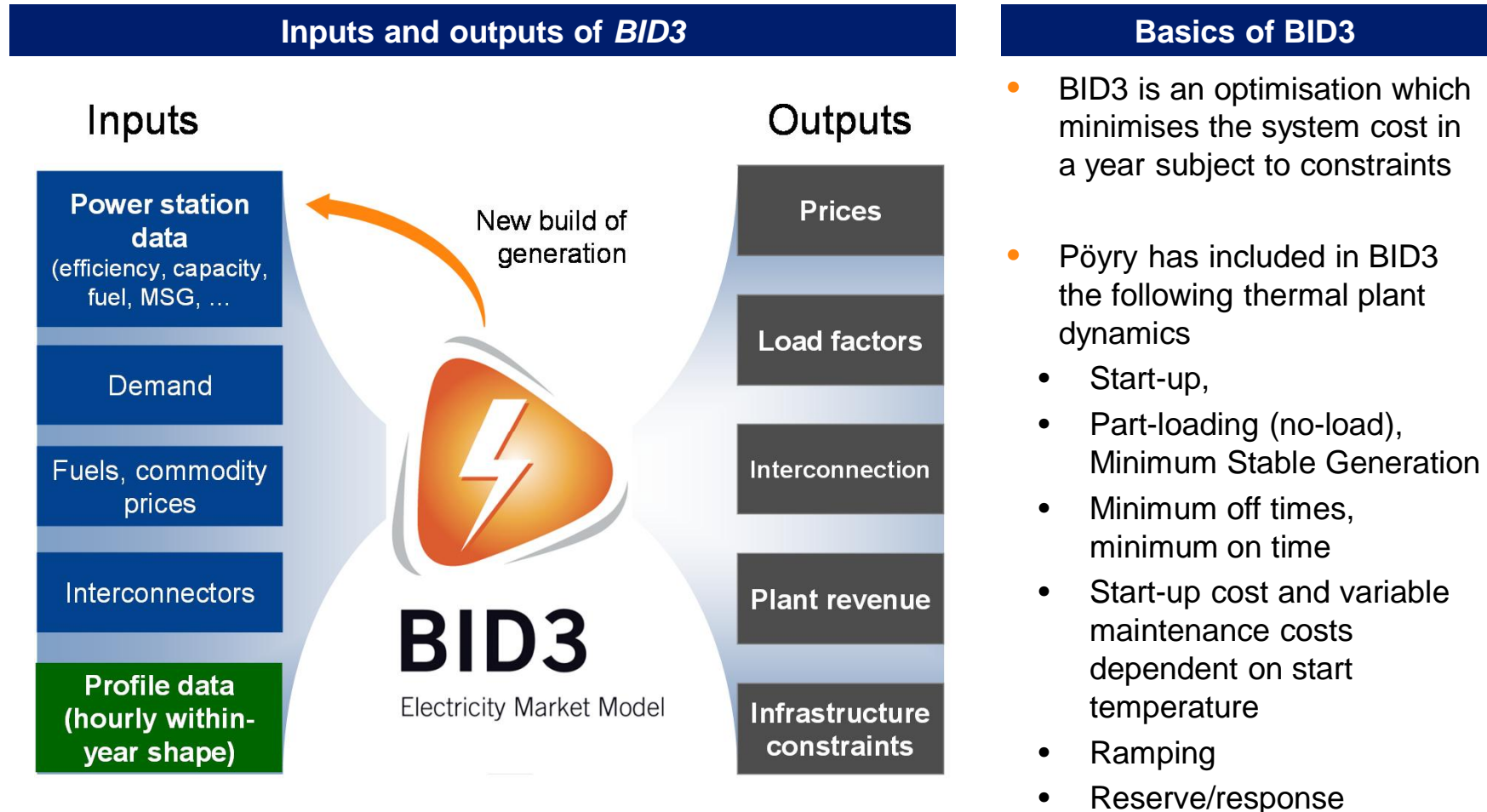
- **Cronos** projects the future development of global oil prices based on worldwide supply and demand



- **Olympus** projects the future development of globally traded coal prices based on worldwide supply and demand

BID3 – PÖYRY'S ELECTRICITY MARKET MODEL

BID3 projects physical operation (generator output, electricity flows, emissions) and economic behaviour (electricity prices, revenues)



UNDERLYING SCENARIO PRINCIPLES

- A number of core modelling principles underlie our standard HCL scenarios

Based on market fundamentals	<ul style="list-style-type: none">• We model physical assets and their commercial operation. Prices and revenues are the result of the interaction of supply and demand
Internally consistent	<ul style="list-style-type: none">• Gas, coal, carbon and electricity prices are iterated to ensure consistency
Rational investor behaviour	<ul style="list-style-type: none">• Investors will only build where they see prospects for sufficient returns
Assumption of competitive free markets	<ul style="list-style-type: none">• In the short-term, deviation from this is possible, but we always assume a reversion to competitive markets
No prediction of investment cycles	<ul style="list-style-type: none">• Long-term assumption of rational investors with foresight means no investment cycles occur

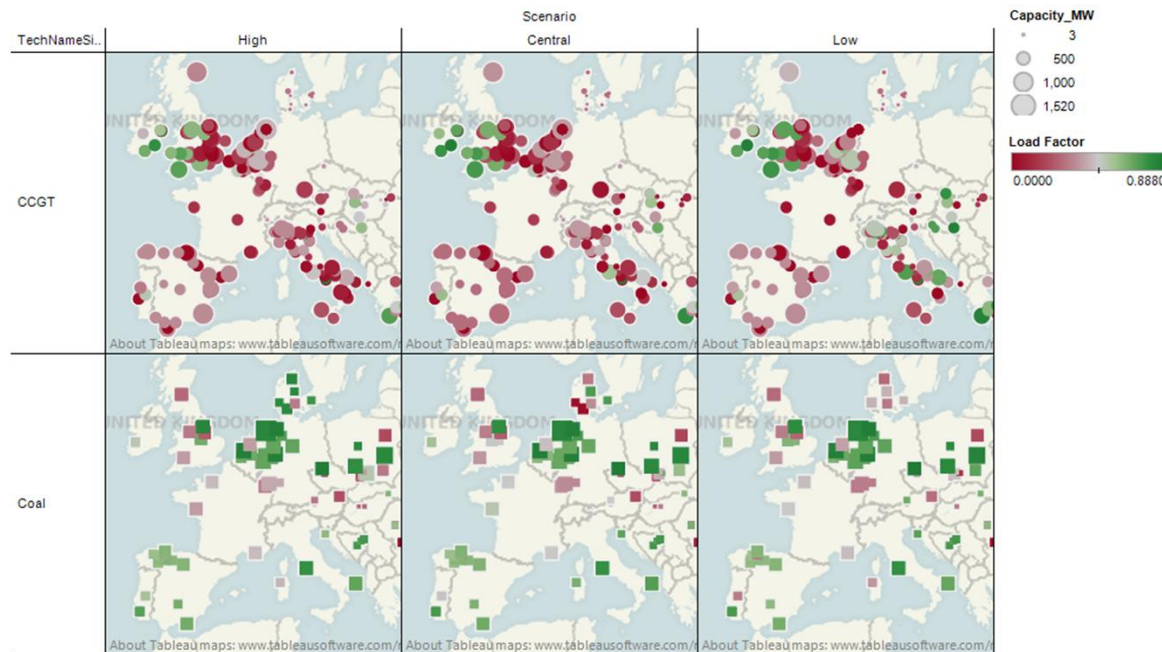
ELECTRICITY MARKET MODELLING PRINCIPLES

- In addition, the electricity modelling overlays the following principles

Competitive SRMC bidding	<ul style="list-style-type: none">• Perfect competition means that plant runs on basis of position in merit order based on SRMC, not whenever the market price is above its marginal cost of generation
Lights do not 'go out'	<ul style="list-style-type: none">• Wholesale markets lead to recovery of fixed and variable costs of generation. Scarcity Rent and/or Capacity Payments may be required
Perfect foresight of investment	<ul style="list-style-type: none">• Perfect foresight of investment means that there is no under-or over-investment
Internally consistent	<ul style="list-style-type: none">• All of Europe is run simultaneously, ensuring consistent projections for any European country
Projections for day-ahead electricity prices	<ul style="list-style-type: none">• Projections are closest to day-ahead electricity prices• Projections are not forward curves
Range of weather patterns	<ul style="list-style-type: none">• We capture internally consistent weather patterns: we do not know what future weather will be, but it will respect historical patterns

BID3 – PÖYRY'S ELECTRICITY MARKET MODEL

We model all facilities across Europe, which provides detailed outputs and all markets interactions



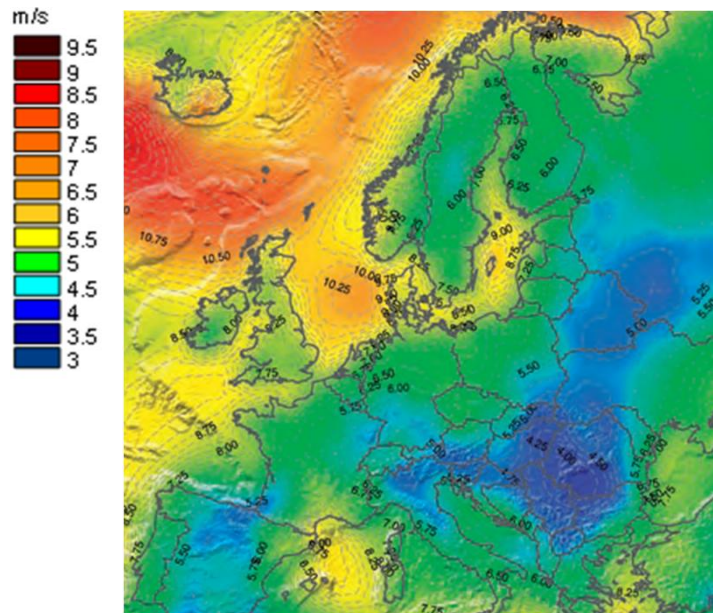
Coverage of **BID3**

- **BID3** simulates all countries in Northern and Western Europe and Turkey
- **BID3** produces hourly price projections for 8,760 hours per year up to 2040
- **BID3** determines optimal exports and imports between regions, based on regional market economics and interconnection constraints
- Each country has its individual database of generation (every medium-large power plant in Europe & Turkey) and demand which are standardized for **BID3**
- **BID3** enables assessing the commercial performance of individual companies or power stations

WEATHER IS AND WILL BE A KEY FACTOR

Detailed historical data is a key input to BID3, keeping time and spatial correlation of RES production across Europe

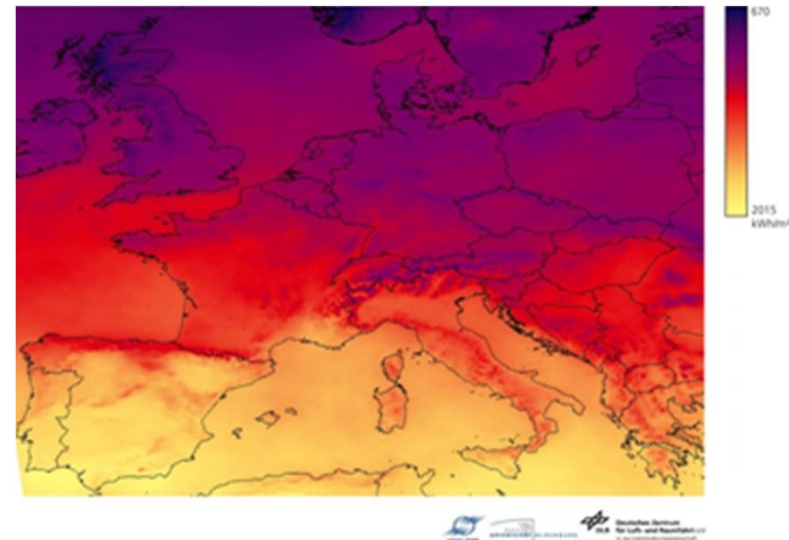
Wind data from Anemos



Data inputs:

- Hourly data from 2003 to 2010
- Data resolution of 20 km
- 20 million data points for Europe & Turkey

Solar data from Transvalor

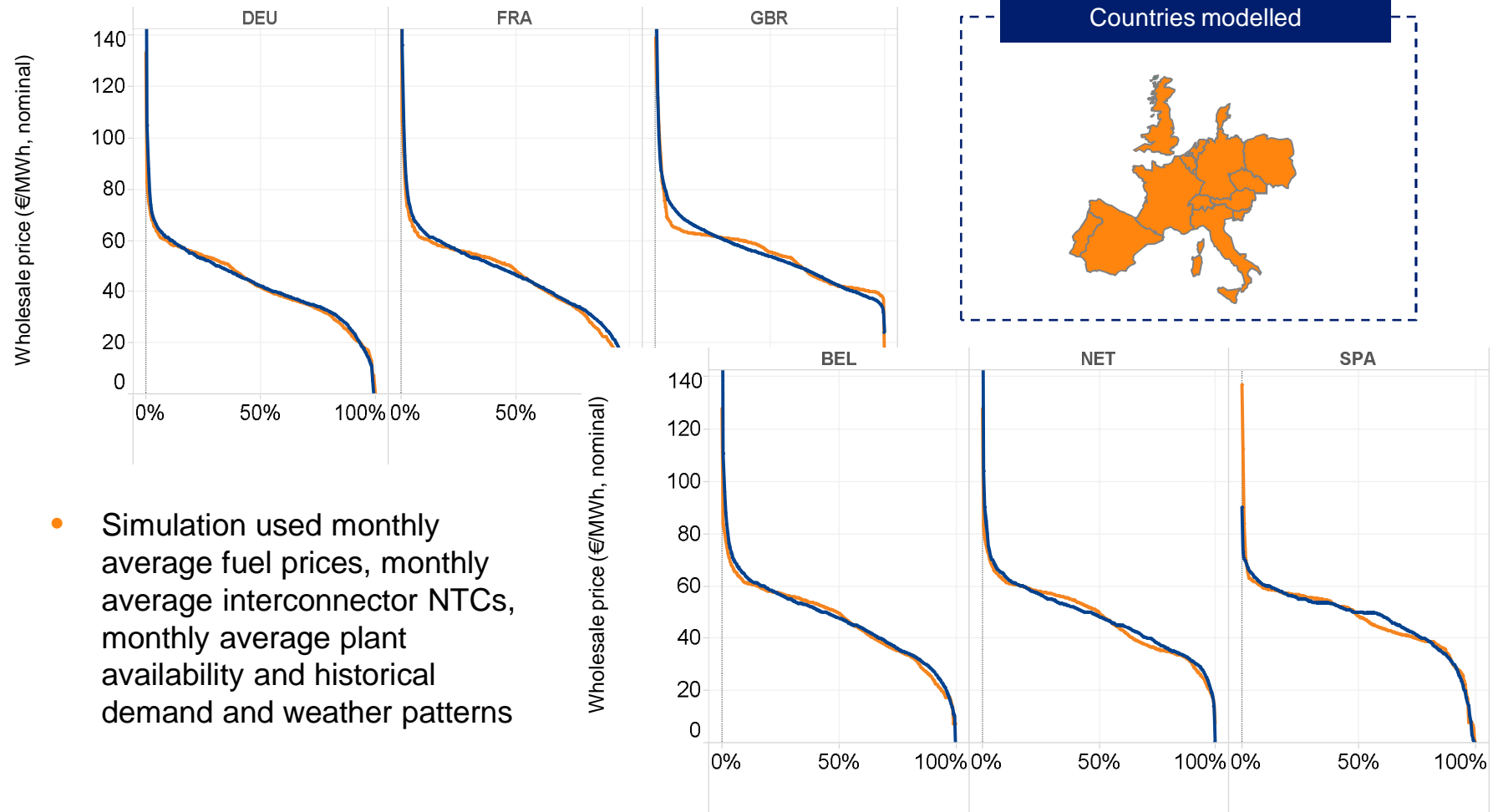


Data inputs:

- Hourly data from 2003 to 2010
- Data resolution of 2 km
- 60 million data points for Europe & Turkey

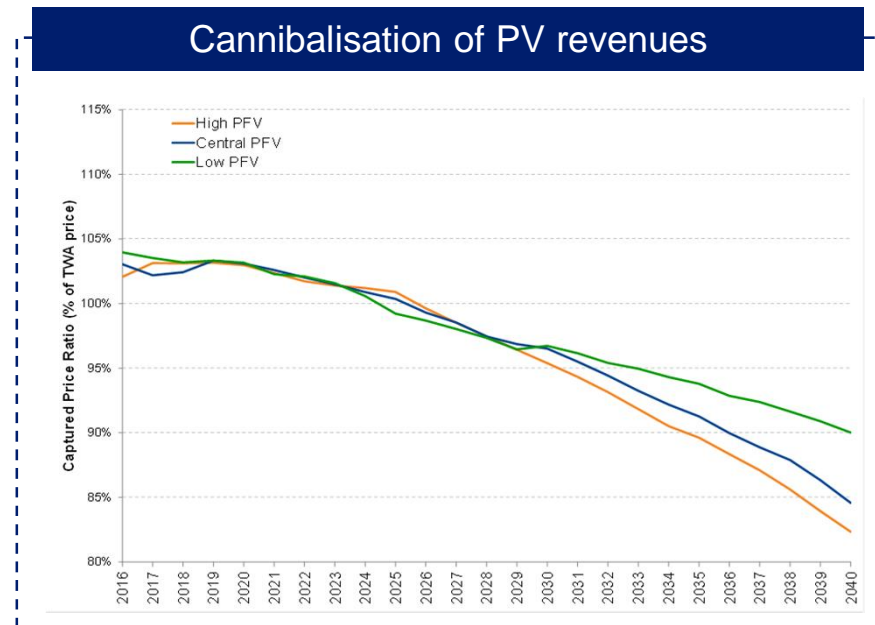
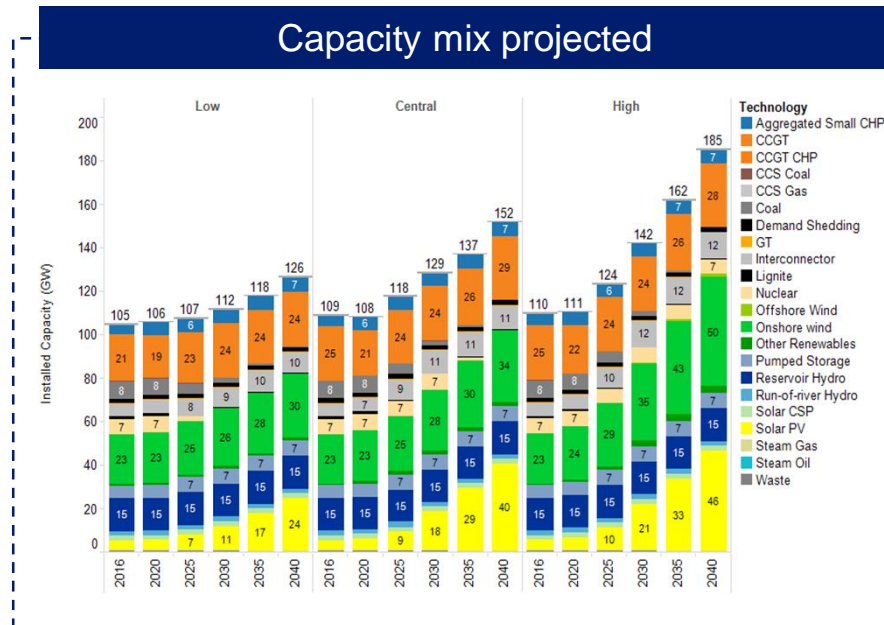
MODEL ACCURACY

Comparing historical prices against a 'backcast' of BID3 shows that it produces accurate prices and a convincing price shape.



SOME SAMPLE RESULTS FOR SPANISH PV

Spanish solar results



KEY TAKEAWAYS

The merchant business mode we are heading needs a number of analytical skills to be used

- *BID3* simulates **all countries in Europe and Turkey**. *BID3* is also modelling some markets in LatAm (**Mexico, Chile...**) and some markets in **Middle East** as well as specific ISOs in **USA**.
- *BID3* produces **hourly price projections** for 8,760 hours per year up to 2040, which allows for tailor made assessment to investors.
- *BID3* enables assessing the **commercial performance** of individual companies or power stations.
- *BID3* allows for **ad-hoc assessments** in the long term addressing the sensitivities required.
- Scenarios can be modified to **explore the risks** associated to the projection allowing for an understanding of the risk exposure over the long run – during PPA and post PPA.



ANNEX

Pöyry Management Consulting overview



PÖYRY MANAGEMENT CONSULTING

Europe's leading specialist in energy management consultancy



- Pöyry Management Consulting is the consulting subsidiary of the Pöyry group
- Offering expert advice from strategy to implementation on policy, regulation, business operations, financing and valuation and sustainability
- Providing in-depth market intelligence across Europe
- Over 200 energy market experts in 13 offices across Europe:
 - Düsseldorf
 - Helsinki
 - London
 - Madrid
 - Milan
 - Moscow
 - Oslo
 - Oxford
 - Stockholm
 - Paris
 - Vienna
 - Villach
 - Zürich

PÖYRY CLIENTS

We have a proven track record of delivering expertise in large market modelling, market design and regulatory projects for a variety of different clients

- **Policy makers**
Regulators, Governments, European bodies
- **Investors**
Banks, funds, shareholders
- **Utilities**
Generators, TSOs, DNOs, retailers
- **Power exchanges and traders**
- **Consumers**
Large consumers, aggregators, associations



We are the leading advisor in gas and electricity sectors in Europe



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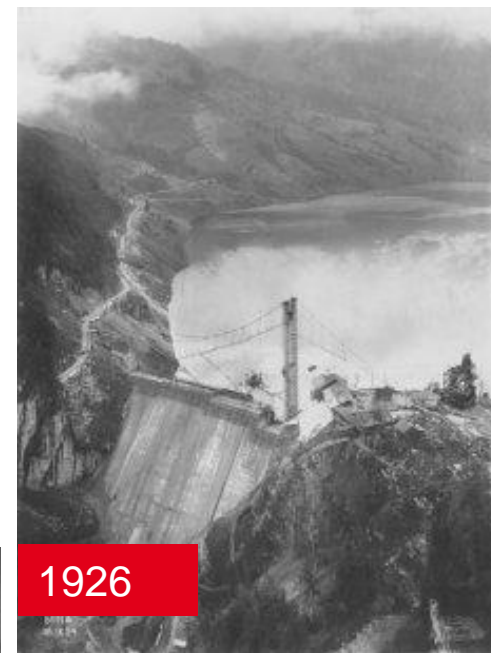


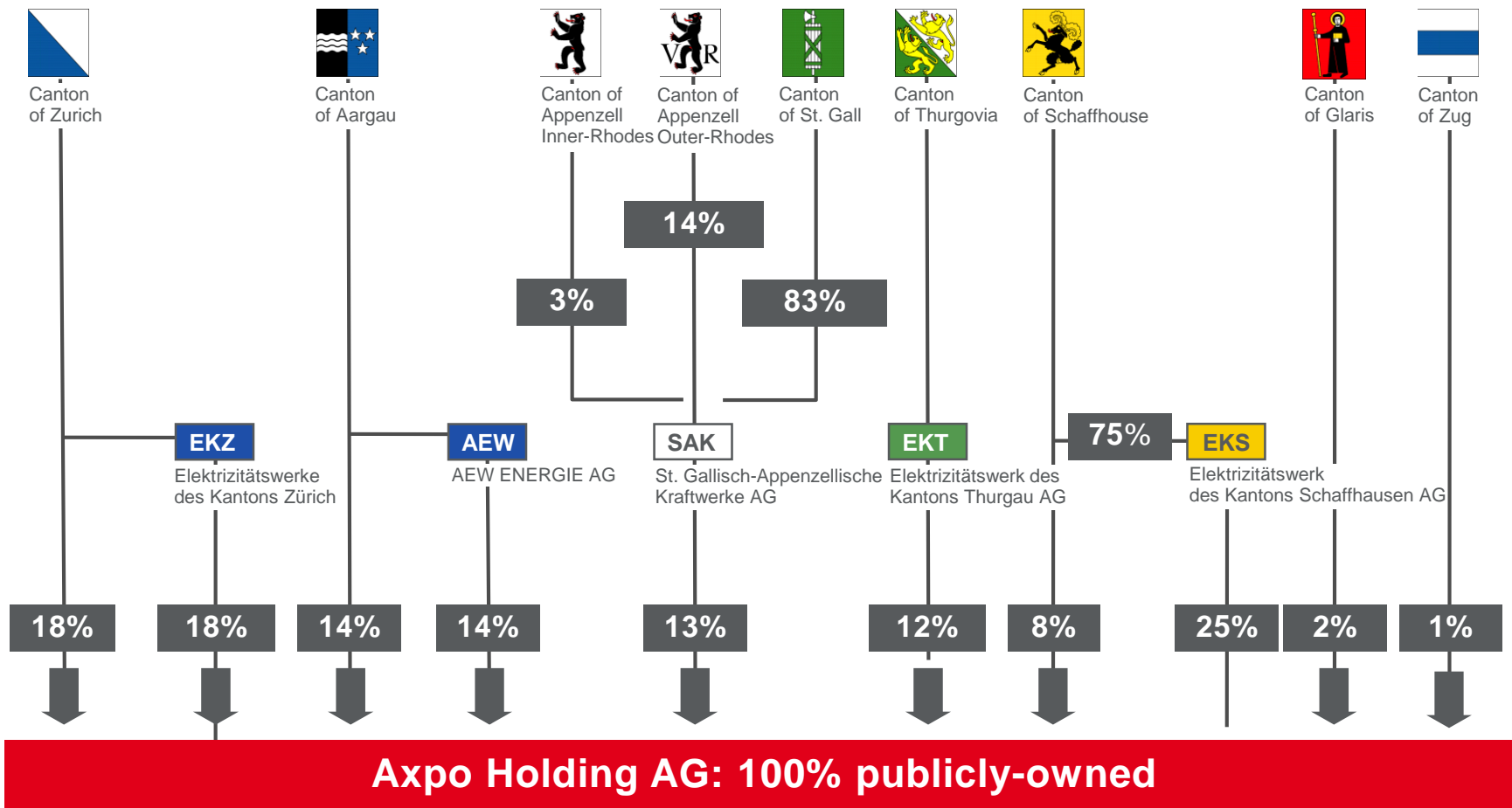
PPA pieza clave en la financiación de nueva capacidad

Antonio Canseco



100
YEARS
aypo





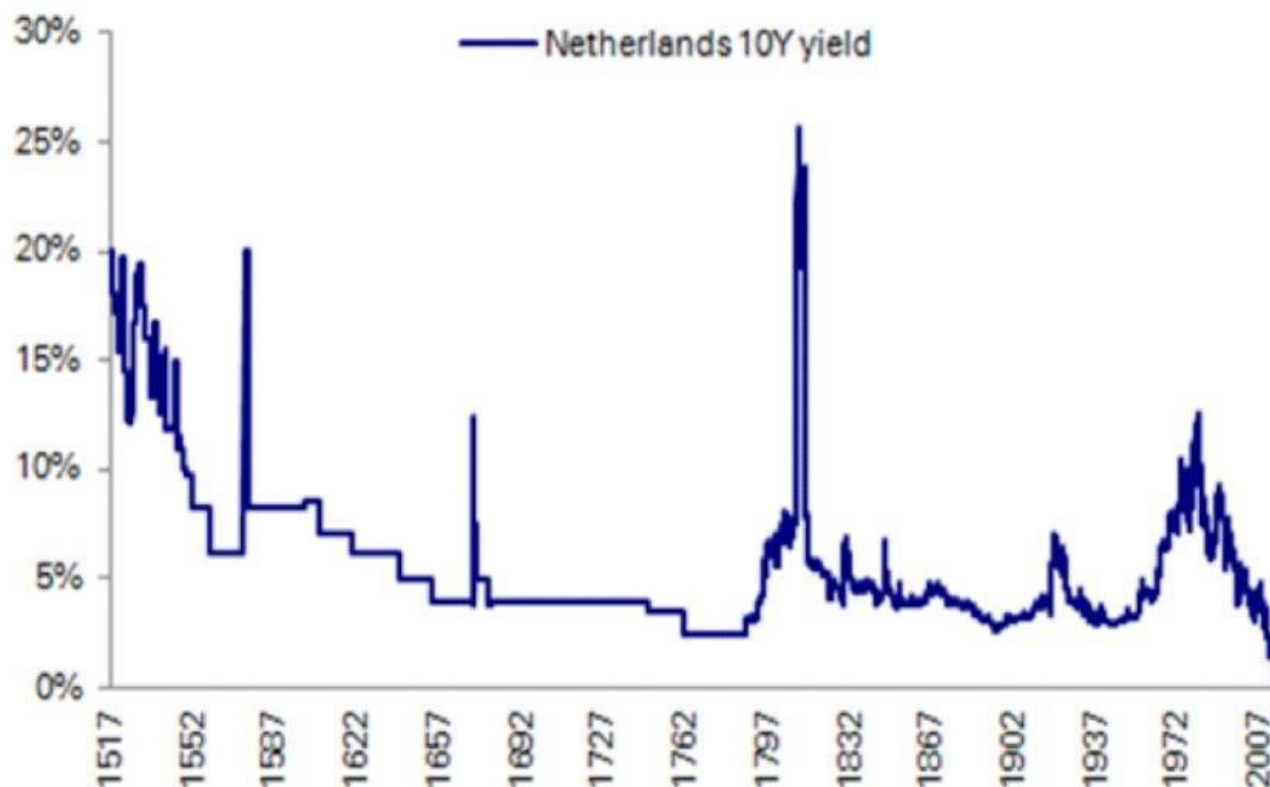
- ## Spain



¿Qué rentabilidad debemos exigir a una inversión de poco riesgo?

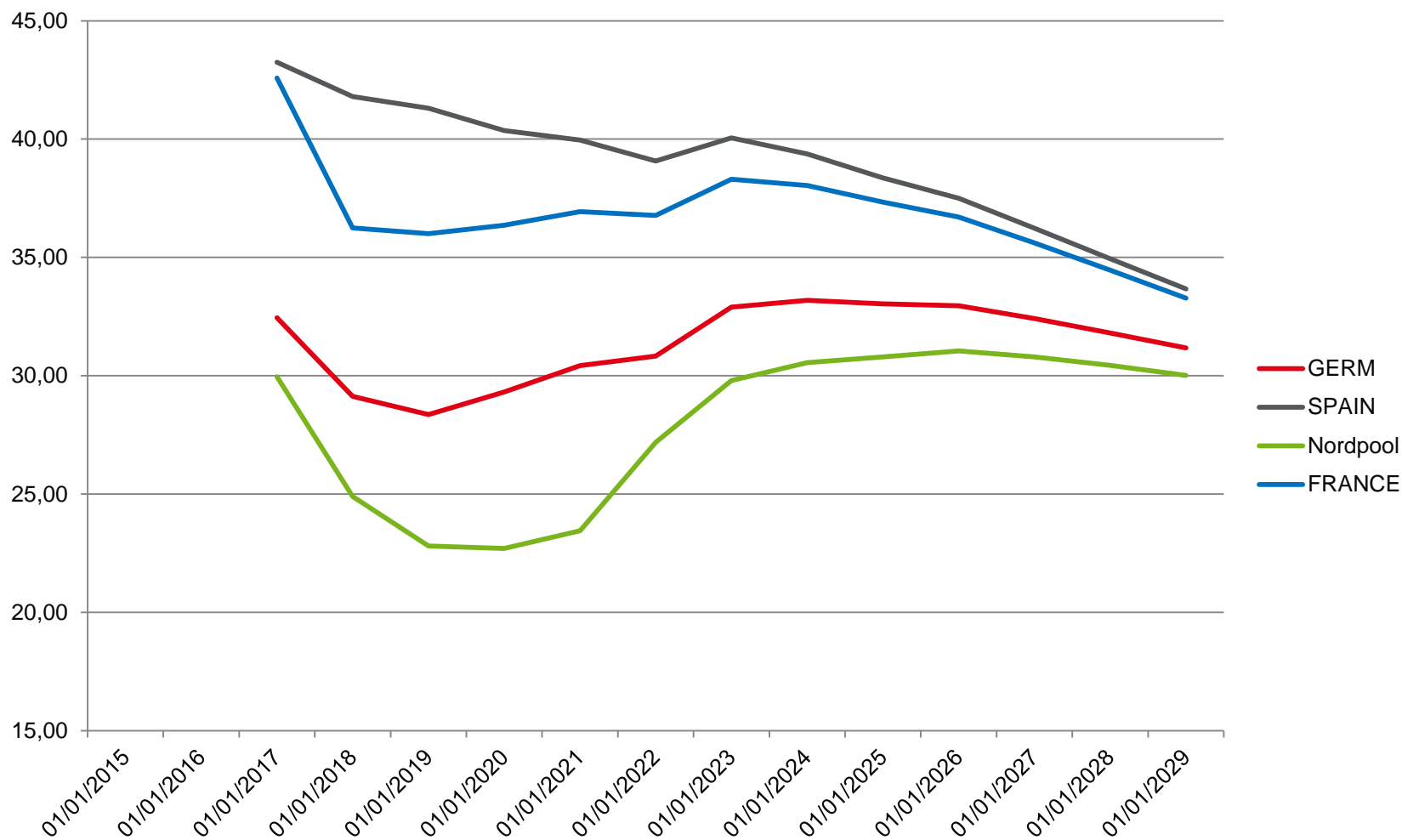
Markets Chart of the Day

Figure 1: Netherlands 10y yield back to 1517

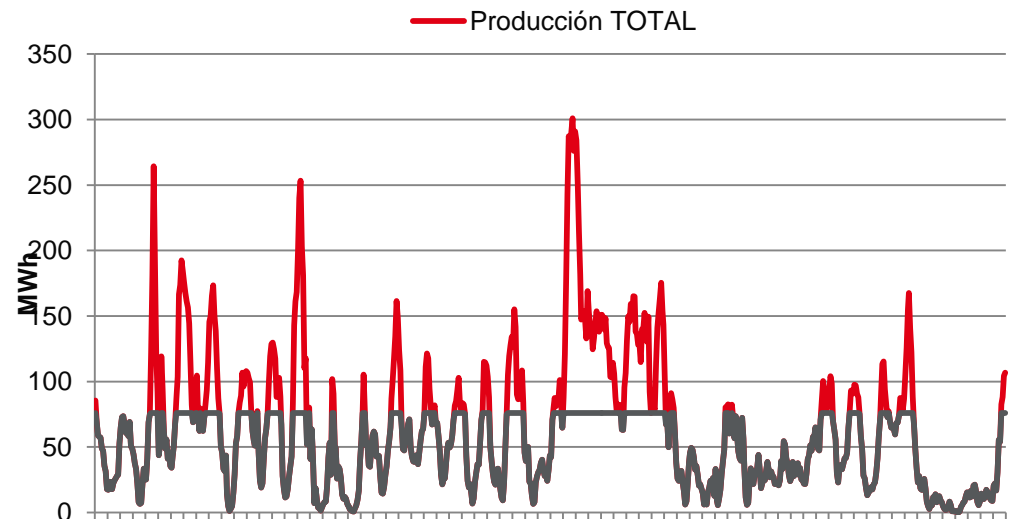
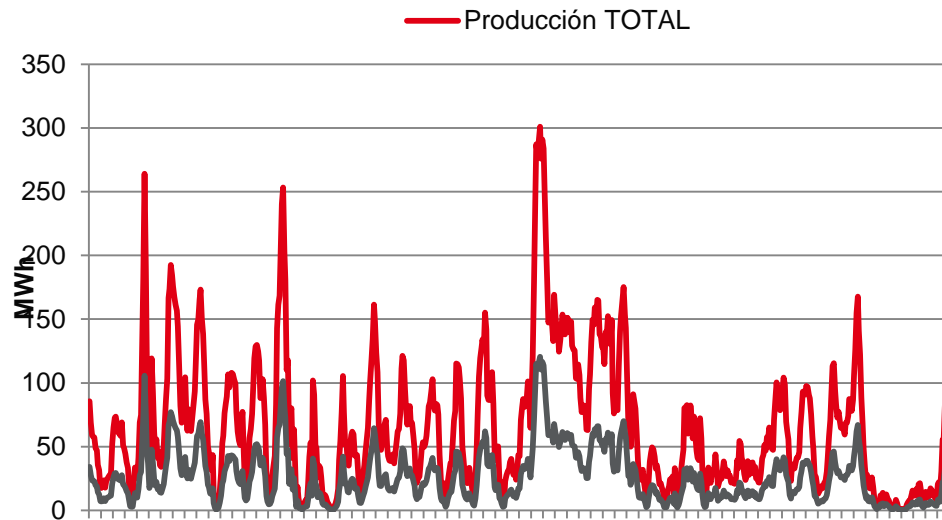


Source: Deutsche Bank, Bloomberg Finance LP, GFD

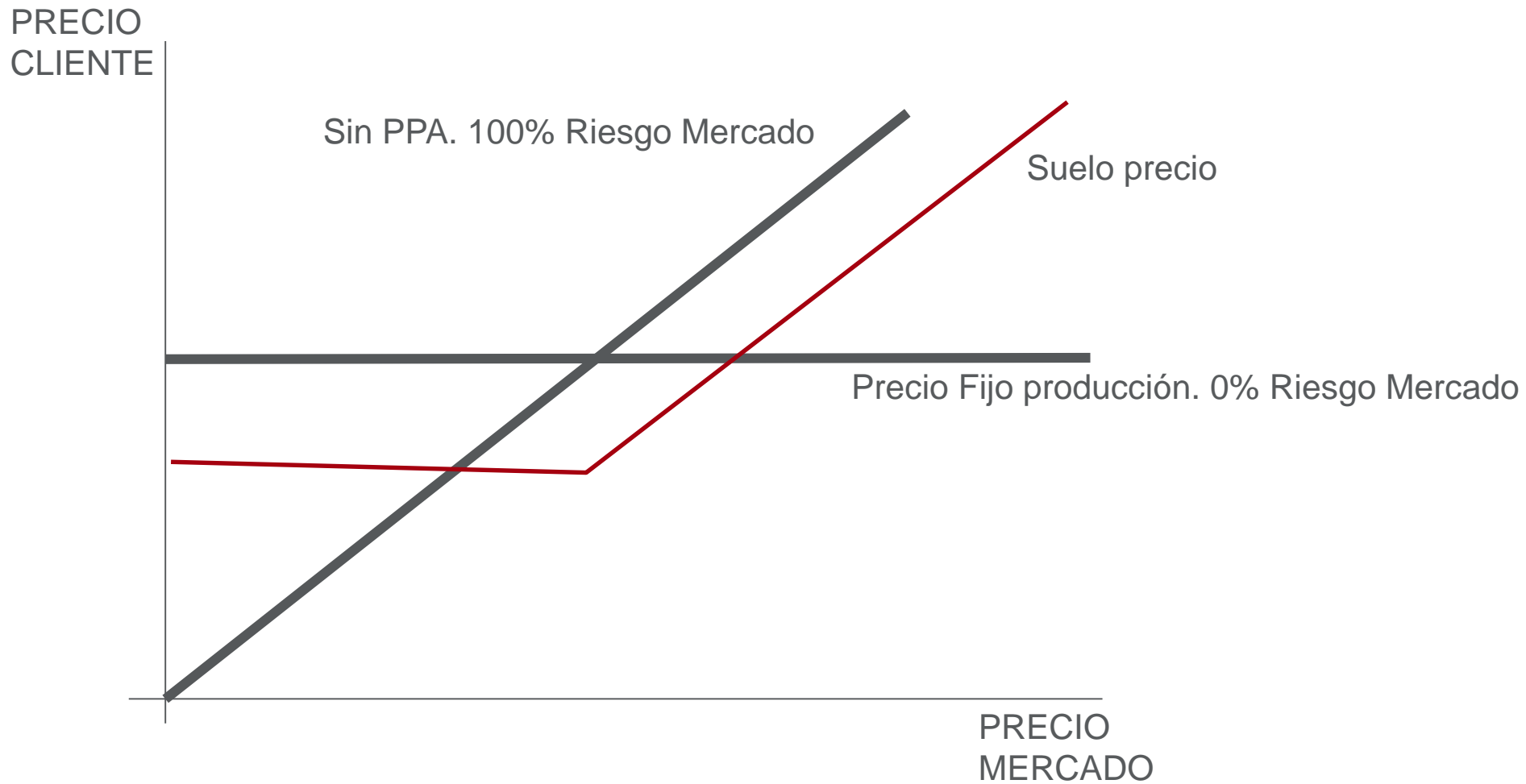
Curvas Forward



PPAs. Diferentes esquemas



PPAs. Diferentes esquemas



Danke schön

Electricity Price Protection Portugal & Spain



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▣ Importance of Electricity Price

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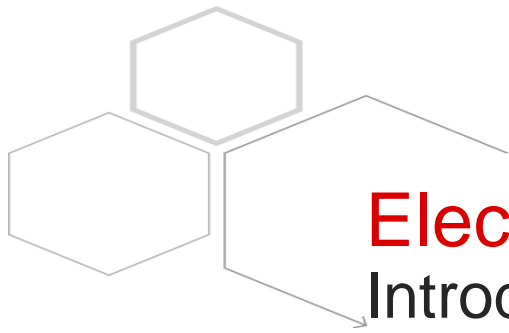
▣ Aon

▣ Contact People

Importance

Electricity Price Portugal & Spain



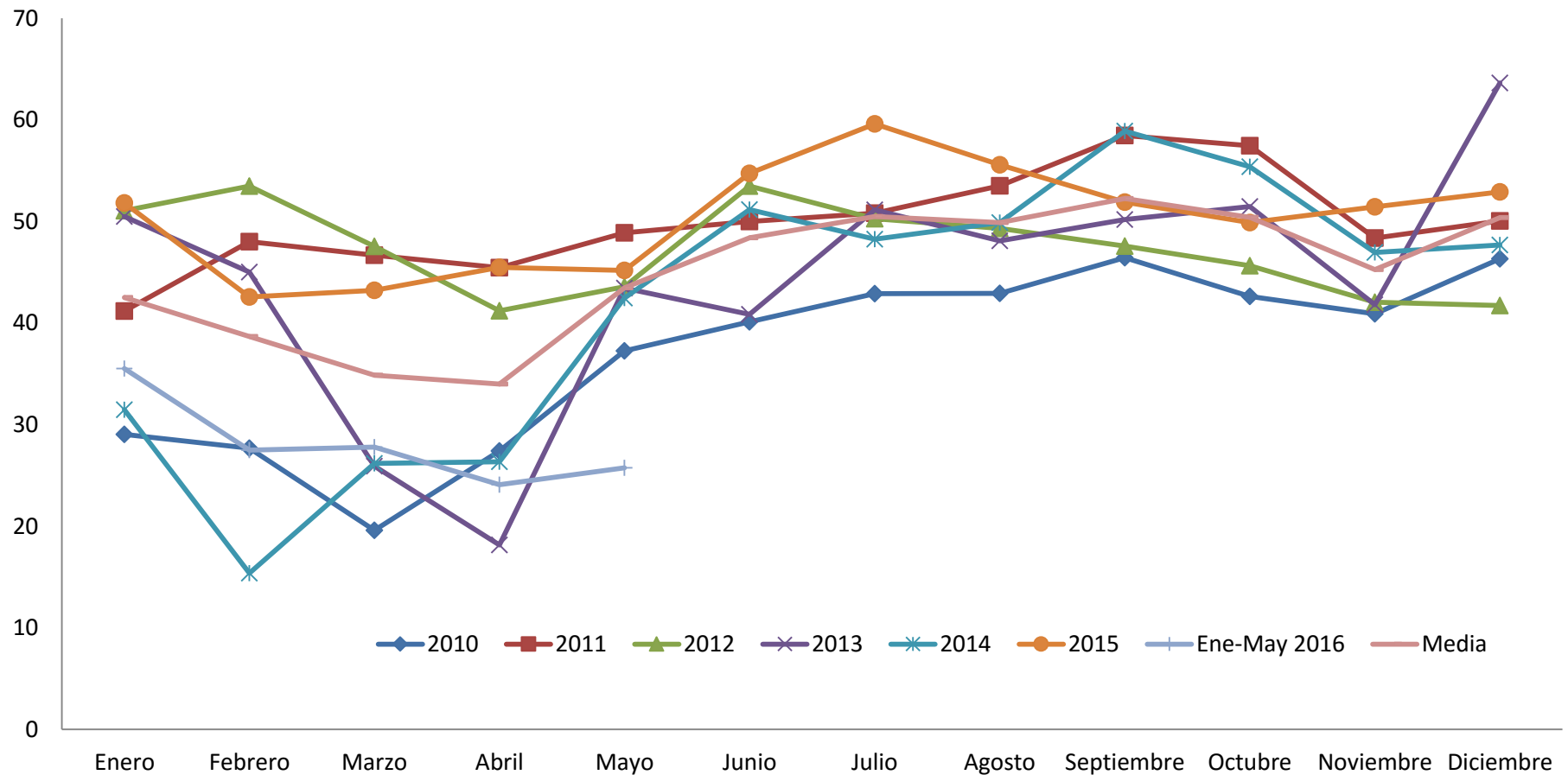


Electricity Price Introduction

- ▶ Estimation of the evolution of the electricity daily market is critical when doing projections of future income for a Power Plant and a fundamental parameter when deciding new investments.
- ▶ Recent market volatility and law modification affecting structure of the income makes it necessary to look for stability in electricity price without subsidies through tailor made structured solutions adapted to client needs and accepted by their financing banks.



Electricity Price Pool historic evolution





Electricity price

The need

- ▶ A solution to transfer the risks associated to the oscillations of pool price in the electricity market.



- ▶ With the objective of obtaining a known and stable minimum price at medium –long term (**not a better price but a stable price**)



- ▶ Reduce impact on company Balance Sheet and allow better acces to financing



Definition

The Solution



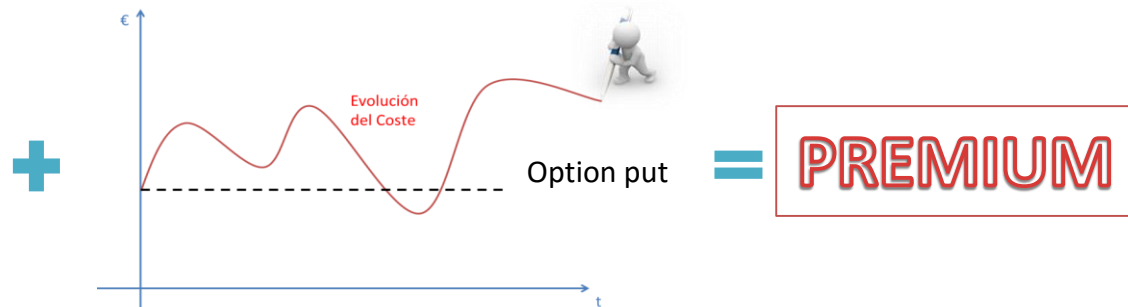
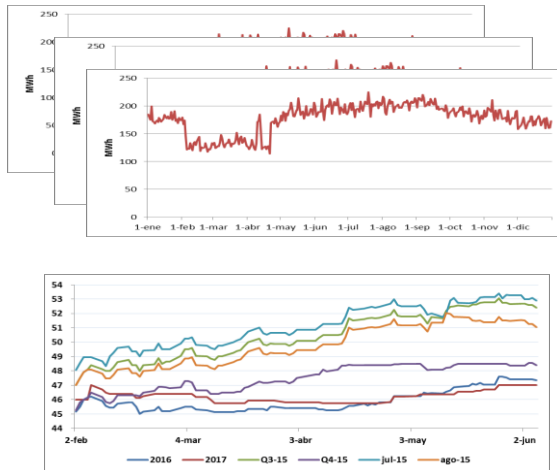
The Solution Definition

- ▶ Coverage of a **Ground Price** through a Derivative (**option put**) or an **Insurance**
- ▶ Contract signed directly among Client and Seller of the Cover with the intermediation of Aon.
- ▶ Seller of the Cover is a **first class Power Trading Company**, solvent and with proven experience in structured solutions.
- ▶ The Product is a tailor made solution adapted to client needs.

The product Definition

Client to define:

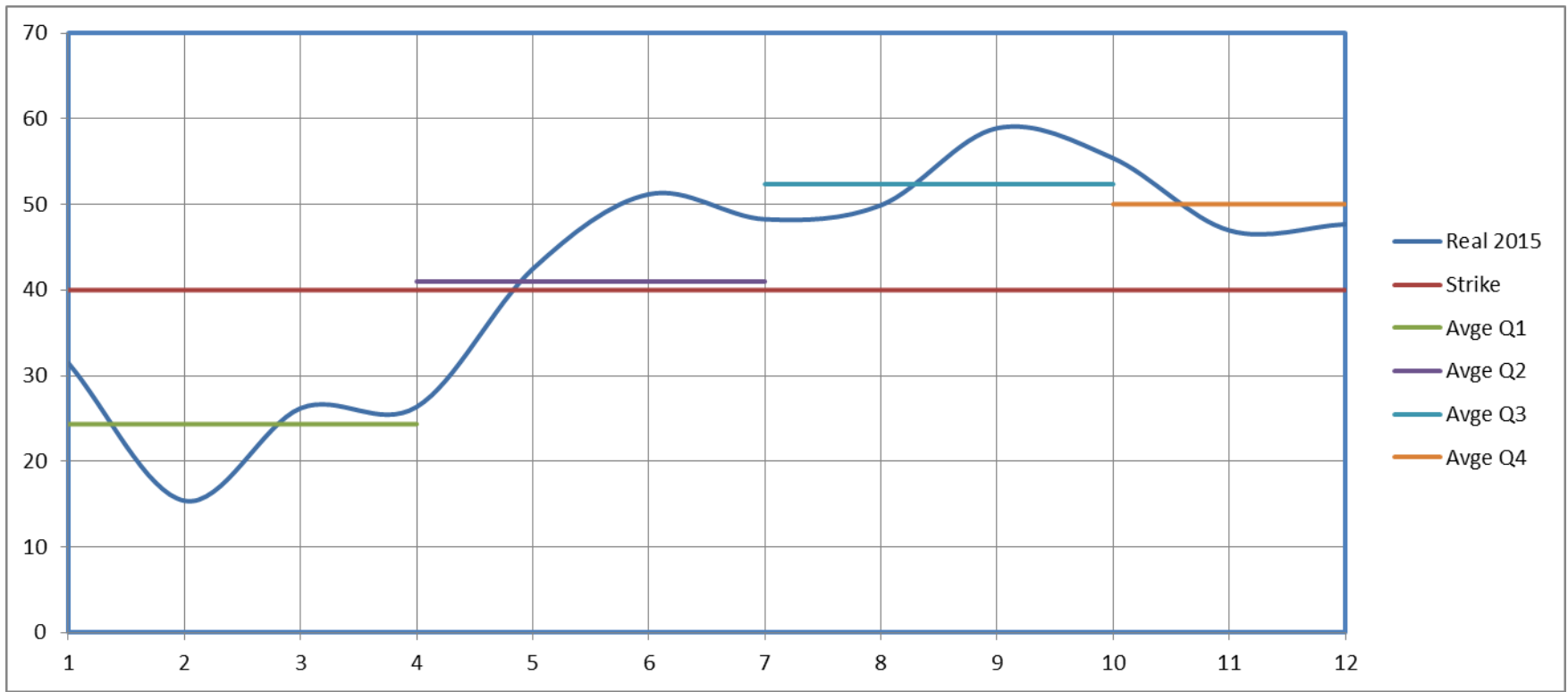
- Target price or ground (**Strike**) that will trigger the cover
- Coverage Period** (between one month and multi year periods)
- Energy Volume** to be insured (MWh) during the period....

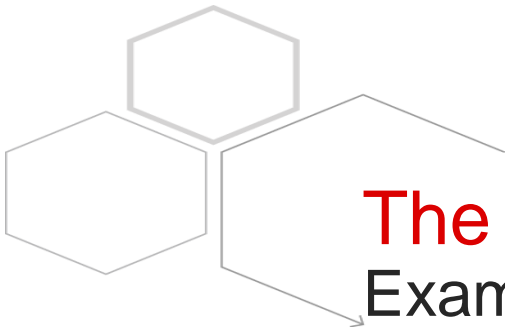


....and Seller (Power Trader) in base of actuarial analysis and future projections to communicate Premium



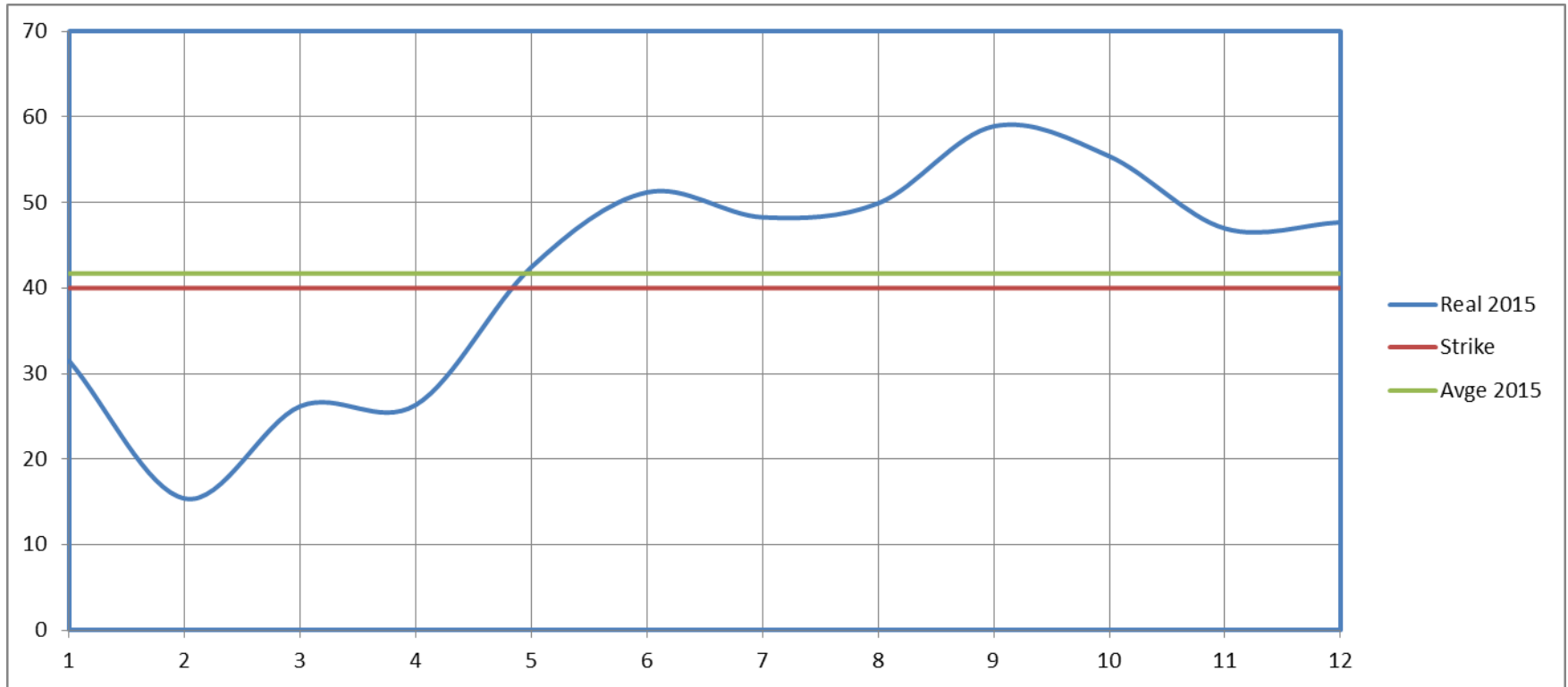
The product Example 2015 per Quarter





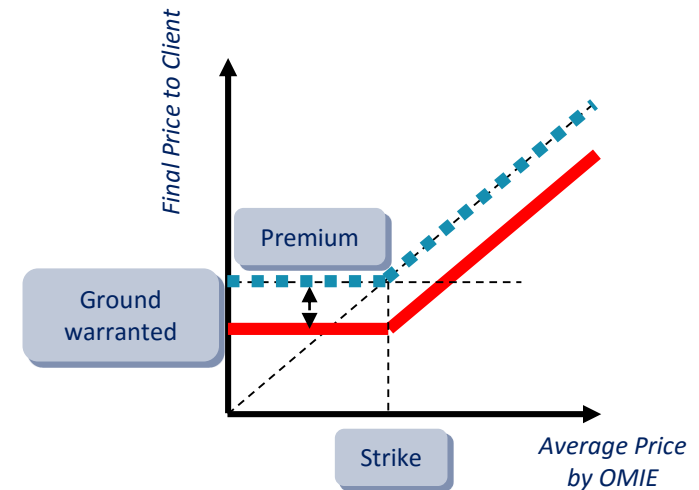
The product

Example 2015 full year

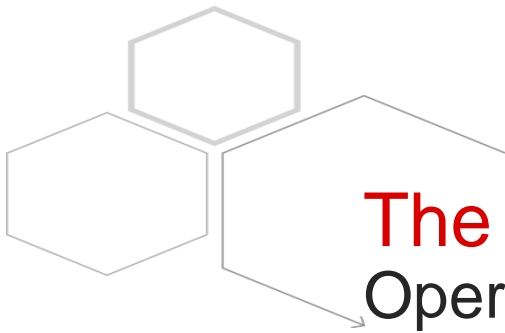


The product Definition

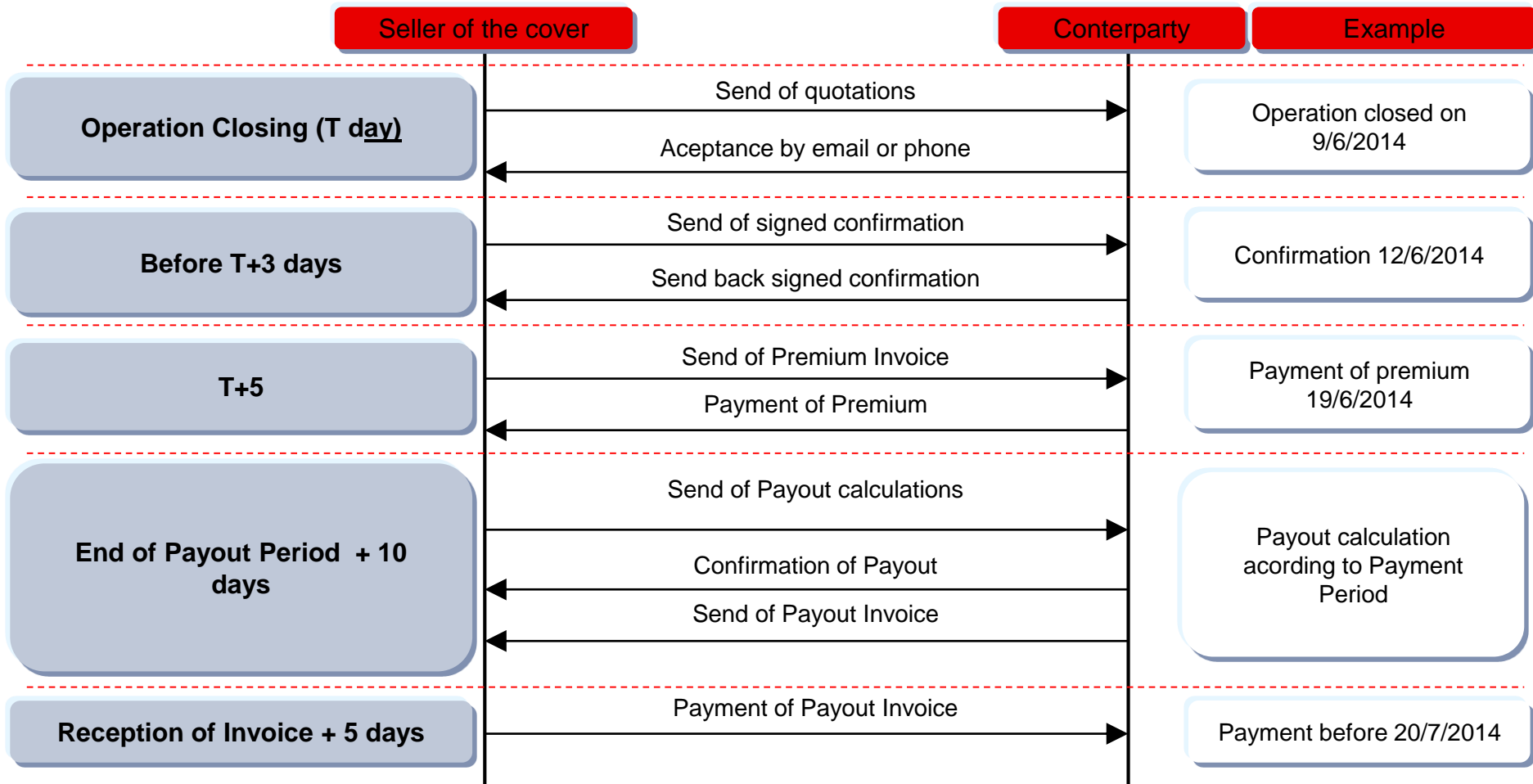
Name	Option Put (ground)
Seller	Power Trading Company
Subyacent Price	Hourly market price given by OMIE
Hour Volume	Base Load (same volume per hour)
Premium	€/MWh, to be paid 5 days from closing of the operation
Payout Period	Tba. Each month/quarter/year
Payout calculation	<p>For each Payout Period:</p> <ul style="list-style-type: none"> ▪ If average of subyacent price is under Strike, then Seller will pay to Client: Strike minus Subyacent Price times Volume ▪ No payment in any other case



Seller warranties a minimum price of electricity (ground or strike).
Prices over the strike will be fully in favour of the client



The product Operative Procedure



Note: for calculations only working days will be considered



The product Alternatives

- ▶ Temporary cover from a month to 5 years.
- ▶ Payout period to be agreed: monthly, quarterly, yearly...
- ▶ Subyacent agreed with client according to his profile (f.e. only during day hours, etc).
- ▶ Energy Volume variable during the year (f.e. 60% of volume during summer months, 40% during spring and autumn, nil on winter).
- ▶ Possibility to structure as a Derivative or as an Insurance



The product Example of Payout

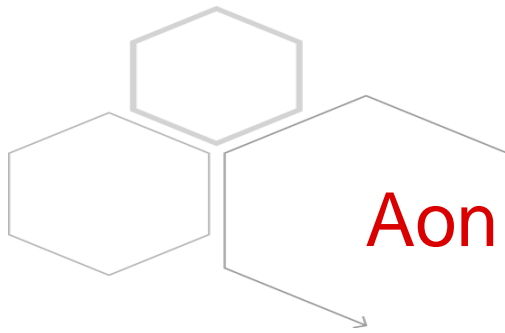
▶ Example for 1 MWh base load.

Put with
Strike
44
€/MWh

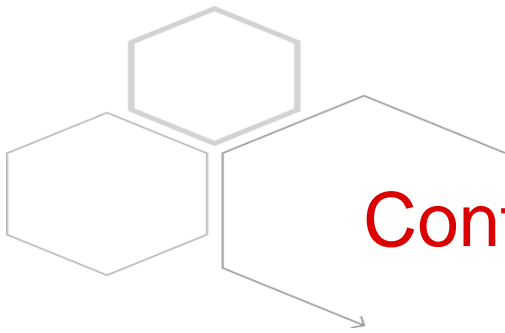
Pool Price (1)	35	40	42,3	45	50
Ground Price/Strike (2)	44	44	44	44	44
Payout (2-1)	9	4	1,7	0	0



Aon



- ◆ **Lead energy Insurance Broker**
- ◆ **+800 professionals in Spain and +50,000 in the world**
- ◆ **Traditional insurances:**
 - ◆ **PDBI, GL, EIL, D&O, Ciber, H&B...**
- ◆ **Financial and structured solutions:**
 - ◆ **Captives, Surety, Weather, Derivatives...**
- ◆ **M&A and DD risk and insurance advisory**



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AON

Unidos en Trabajo en Equipo,
Pasión y Resultados

About Aon

Aon plc (NYSE: AON) is the leading global provider of risk management, insurance and reinsurance brokerage, and human resources solutions and outsourcing services. Through its more than 61,000 colleagues worldwide, Aon unites to empower results for clients in over 120 countries via innovative and effective risk and people solutions and through industry-leading global resources and technical expertise. Aon has been named repeatedly as the world's best broker, best insurance intermediary, reinsurance intermediary, captives manager and best employee benefits consulting firm by multiple industry sources. Visit www.aon.com for more information on Aon and www.aon.com/manchesterunited to learn about Aon's global partnership and shirt sponsorship with Manchester United.

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Aon Gil y Carvajal, S.A. Insurance Brokerage, Single Shareholder Company.

Entered in the Madrid Mercantile Register, Sheet M-19857, Volume 15321, Page 133, Fiscal Identity Number A-28109247.

Entered in the Special Register of Insurance Broker Companies with code J-107. Financial capacity and Public Liability Insurance taken out in accordance with that which is provisioned for in Law 26/2006, dated 17th July.

In accordance with that which is provisioned for in article 44 of Law 26/2006 dated 17th July, any claim in regard to the Insurance Brokerage Services must be sent to Post Office Box Number 2053 or alternatively the web page "quejasyreclamaciones.com"

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