



Annual report and accounts 2008

eaga is a green support services company, the UK's leading provider of residential energy efficiency solutions and an established deliverer of a range of outsourced programmes, products and services that promote social and environmental justice.

www.eaga.com

Contents



02	Our Performance
04	Chairman's Statement
06	Operational Review
10	Financial Review
14	Board of Directors
16	Report of the Directors
19	Statement of Directors' Responsibilities
20	Remuneration Report
26	Corporate Governance
30	Corporate Social Responsibility
34	Financial Statements
35	Independent Auditors' Report to the Members of eaga plc
36	Consolidated Income Statement
36	Consolidated Statement of Recognised Income and Expense
37	Consolidated Balance Sheet
38	Consolidated Cash Flow Statement
39	Group Accounting Policies
45	Notes to the Financial Statements
71	Independent Auditors' Report to the Members of eaga plc: Parent Company Financial Statements
72	Parent Company Balance Sheet
73	Notes to the Parent Company Financial Statements

Last year we visited more than 750,000 homes, which equates to more than 3,000 every working day

Last year we fitted or repaired a central heating system every minute of every working day

Last year we were a business of more than 4,000 Partners, spread across four countries, changing lives – every day

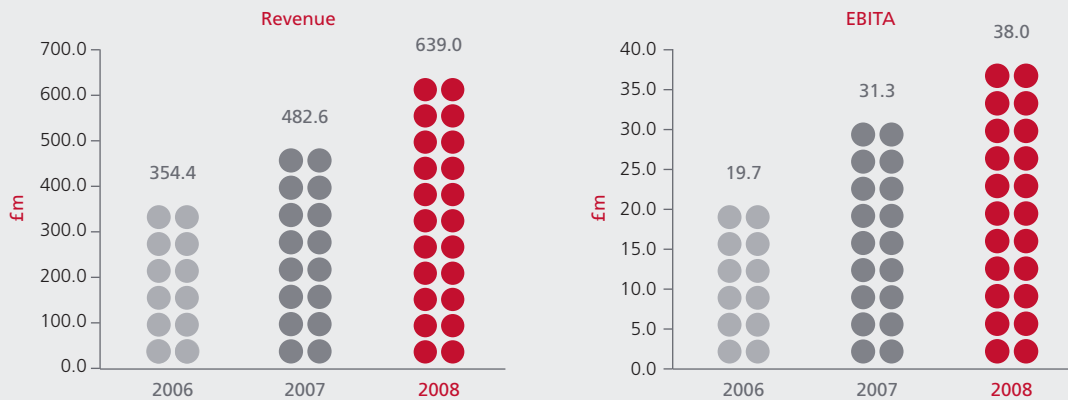
Our Performance

Financial highlights

- Revenue up **32%** to **£639.0 million**
- EBITA¹ up **22%** to **£38.0 million**
- Adjusted diluted earnings per share² up **11%** to **10.62p**
- Final dividend of **2p** per share, giving a total dividend for the year of **3p** per share
- Balance sheet remains net cash positive

¹ EBITA comprises profit on ordinary activities before interest, tax, amortisation of intangible fixed assets and exceptional items.

² Stated before charging amortisation of intangibles (£7.4m), exceptional costs (£2.6m) and exceptional tax expense (£1.2m).





Operational highlights

- Visibility of future funding for the Warm Front Scheme to 2011, with over £800m allocated to the Scheme over the next three years
- Confirmation from Government that the Carbon Emissions Reduction Target (CERT) would proceed at double the level of the previous programme, the Energy Efficiency Commitment, facilitating growth in a key market
- Four strategic acquisitions completed in the year, extending geographic reach and adding value and diversity to eaga's range of products and services
- Reinforcement of significant market share within the delivery of CERT, including a three-year outsourcing contract with a value in excess of £200m with Scottish Power for full end-to-end delivery of its obligation under CERT
- Secured major outsourcing contract to deliver the Digital Switchover Help Scheme on behalf of the BBC

Chairman's Statement

I am pleased to present this annual report, following completion of eaga's first full year as a listed company.

I am pleased to present this annual report, following completion of eaga's first full year as a listed company. The year has seen eaga continue its progression as a proven growth business; one built on sustainable foundations and firmly established in its key markets, which are driven by climate change and social inclusion.

As the pace of demographic and technological change increases, the opportunities for leveraging our knowledge and understanding of the needs of those groups most likely to require additional support and service are becoming increasingly evident. Our work to eradicate fuel poverty has led to similar activity on water efficiency, and we are now mobilising to ensure that vulnerable households and families are not left behind in a digital age, as evidenced in our successful contract bid to deliver the Digital Switchover Help Scheme (DSHS).

We are continuing to progress positively towards our longer-term strategic business aims, with major contract wins achieved as part of our ongoing diversification and the reinforcement of a significant market share within Carbon Emissions Reduction Target (CERT). Importantly, we have driven our successes whilst maintaining our focus on our operating culture, which sets us apart from our competitors.

Results

The Group's results for the year to 31 May 2008 show double digit growth in revenues and profits before exceptional charges.

Group revenue in the year to 31 May 2008 increased by 32% to £639.0 million (2007: £482.6 million), and Group earnings before interest, taxation, amortisation and exceptional items (EBITA) grew by 22% to £38.0 million (2007: £31.3 million). Of our 32% revenue growth, 63% was organic and 37% was delivered through acquisitions.

Our development continues to be based on robust organic revenue growth and targeted acquisitions, funded from our strong operating cash flows. The Group balance sheet at 31 May 2008 remained net cash positive (cash balances exceeding loans and borrowings). Our cash generative business model continues to position us well for further expansion, both organic and through acquisition, as the Group moves forward.

Dividend

The Board has proposed a final dividend of 2p per Ordinary Share, payable on 14 November 2008 to shareholders on the register at 17 October 2008. An interim dividend of 1p per Ordinary Share was paid on 18 March 2008, resulting in a total proposed dividend for the year of 3p per Ordinary Share.

Strategy

eaga provides outsourced services and products that address a wide range of environmental and social challenges. Our broad customer base includes central Government, energy suppliers, the BBC and a significant number of local authorities. In serving this customer base, we devise, develop and deliver outsourced solutions that help households and families deal with many different aspects of social, technological, economic and environmental change.

Our strategic aims for the year were: to continue the process of diversification in our key areas of operation, by widening our contract base and broadening our customer relationships; the reinforcement of our market position within an expanded CERT; the expansion of the spread of our service offering into the CERT market and the ongoing development of our geographic footprint. These aims have been progressed through a number of positive developments over the last year:

- the launch of CERT on 1 April 2008, which is proceeding at double the level of its predecessor, the Energy Efficiency Commitment (EEC). We remain a major provider in this market, worth an estimated £2.8bn¹ over the 2008-11 period
- securing the outsourcing contract to deliver DSHS on behalf of the BBC. Securing this contract, in respect of which some £500m has been allocated to service provision, clearly demonstrates our ability to compete with established outsource providers at the highest level
- a renewed commitment to the Warm Front Scheme beyond 2010, as part of the Government's ongoing dedication to tackling fuel poverty

¹ Based on official estimate contained in the Regulatory Impact Assessment for the Carbon Emissions Reduction Target, laid before Parliament in December 2007 and available at http://www.opsi.gov.uk/si/si2008/draft/em/ukdsiem_9780110805306_en.pdf

'we devise, develop and deliver outsourced solutions that help households and families deal with many different aspects of social, technological, economic and environmental change'



- continued diversification of the Group's core business by progressing the evolution of our contract base, reducing reliance on any one single contract whilst simultaneously expanding the range of products and services we offer
- we acquired R G Francis Limited (RG Francis) in June 2007 and AFR Limited (AFR) in September 2007. Together these acquisitions largely completed our nationwide delivery platform and strengthened our presence in Installation Services, particularly with regard to our social housing customers
- in October 2007 we acquired Horrocks Group plc (Horrocks) and George Howe Limited (Howe), two of the UK's leading external wall insulation specialists. These companies position eaga positively in the provision of solid wall insulation; a market where some five million homes remain to be treated and one that is directly incentivised for growth under CERT
- these four acquisitions are being integrated into our Installation Services segment to facilitate growth and diversity of our service offering in that segment

People & Culture

eaga's continued growth and success is delivered by its people who, as a co-owned business, we call Partners, and the engagement of our Partners is underpinned by our values-based business model. Our values shape all that we do. They are centred on remaining customer focused and professional; on maintaining a clear sense of urgency, an emphasis on safety and teamwork; and on a need to maintain a positive attitude. Our approach is to invest in our Partners: it is they who deliver success, which is manifested through growth, profitability, sustainability and our reputational standing.

An additional 1,069 people became part of eaga during the year, through our acquisitions and organic growth, and I would like to thank each one of our 4,417 Partners for their contributions to our continued success.

The Board

I am fortunate to have been able, again, to rely on the invaluable support of my colleagues over the past twelve months. Their ongoing rigour, commitment and insight have contributed immensely to eaga's continued growth and success over the year.

As a Board and indeed as a wider organisation, we were extremely saddened by the death of Richard Burns, our Senior Independent Director, on 20 May 2008. As a former senior partner in the law firm Hammonds LLP, Richard brought immense experience, intellect and vision to the Board's work. He is already hugely missed by his friends and colleagues, at eaga and beyond. We have supported the work of the Richard Burns Memorial Trust to help ensure Richard's influence lives on, and will look to continue this relationship.

Malcolm Simpson has assumed the role of Senior Independent Director on an interim basis.

There have been two other changes to the Board, the first of which was the addition of Tracy Clarke as a Non-Executive Director in October 2007. Tracy is Group Head of Human Resources for Standard Chartered plc and has already added real value to a highly experienced team. Michael Roberts OBE, who made such a significant contribution to eaga's growth and development, retired as planned at the AGM on 22 November 2007.

Outlook

The drivers within eaga's core markets remain positive. The Climate Change Bill, which legally commits the UK Government to substantial cuts in carbon emissions up to 2050 and beyond; set alongside sharp rises in oil prices over the last year and probable further increases in retail energy costs, all highlight the ongoing importance of the delivery of solutions to climate change; particularly those that are socially focused and equitable in nature.

With the scale of environmental challenges set alongside wider global economic pressures, advancing technological change and growing social need; the opportunities for eaga are both significant and long-term.

The Board is confident that eaga will continue its growth and make substantial progress in the year to 31 May 2009.

Charles Berry
Chairman

Operational Review

The business is structured in three inter-related segments: Managed Services, Installation Services and Specialist Support Services.

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- Managed Services (previously known as Government Contracts) provides the front-end management functions, including marketing, front office and back office activities, that drive the programmes we manage for a range of customers, such as Defra, the BBC and the Legal Services Commission. This segment also provides support for our internal infrastructure requirements
- Installation Services is the fastest growing of our operating segments, and is the area of our business where we carry out work in customers' homes; particularly the physical installation of measures such as loft and cavity wall insulation and efficient central heating, as well as our energy assessment and contact centre activities
- Specialist Support Services provides bespoke support businesses, which are driven by the same market dynamics as other segments whilst gaining value from activity in our other businesses

Our Culture

As a co-owned business, our employees, through the eaga Partnership Trust, are the biggest shareholder in eaga². For this reason, we call our people Partners, and encourage them to think and act as owners of our business. Our approach to co-ownership has, we believe, resulted in greater engagement and productivity from our Partner base, and our commitment to this unique business model remains resolute.

Our operating culture is best underlined in our core business commitment; which is to **care for our Partners, customers and communities with integrity, respect and enthusiasm**. This year we have worked with more Partners, dealt with more customers and been engaged in more communities, than ever before. Throughout, we have maintained our aim to have a positive impact in all of these areas; through personal and professional development, through the continuous improvement of our service; and a strong sense of our corporate social responsibilities.

We firmly believe that investing in our Partners, delivering excellent service and retaining a strong focus on our values-based approach are the key factors in our drive to further expand and permeate our brand and approach.

Our strongest people-related challenge over the last twelve months has been preserving our operating culture as our expansion – both organic and through acquisition – has continued to accelerate. We are committed to reinforcing, reinvigorating and renewing our value set as we continue our growth plans.

Managed Services

With a continued focus on rising domestic energy costs, ongoing pressure on the subject of environmental change and a concurrent focus on the demands of the social exclusion agenda, our work with central and local Government has retained a high profile throughout the year, with resultant increases in demand.

Increased demand has generated significantly higher levels of activity during the year in Government-funded fuel poverty schemes, increasing segment revenue by 17% to £420.3 million (2007: £359.3 million). EBITA was £8.6 million at a margin of 2.1% (2007: 2.1%).

Fuel Poverty Schemes

The Warm Front Scheme is the Government's main policy instrument in tackling fuel poverty in England, and is wholly delivered by eaga. The Scheme remains a key contract in this sector, and accounted for 86% of segment revenue in the year (2007: 82%). Warm Front forms a key part of the Government's statutory commitment to eradicate fuel poverty in vulnerable households (those containing children, the elderly, disabled or long term sick) by 2010, and in all homes by 2016.

As a result of the Government's Comprehensive Spending Review, it was announced in December 2007 that more than £800m would be allocated to Warm Front over the 2008-11 period; extending funding for the Scheme beyond the Government's first statutory fuel poverty commitment in 2010³ and demonstrating the Government's clear support for the policy of tackling fuel poverty in a sustainable way.

Last year we helped more than a quarter of a million homes under Warm Front, and we are pleased with the overall quality of work delivered. In particular, it is encouraging that waiting times for work to be carried out have remained very low in relation to contractual guidelines; running at around half the specified level, customer satisfaction has stayed high, remaining in excess of 90% over the year, and value for money was retained throughout.

² Post flotation the eaga Partnership Trusts (ePT) retain more than 37% of the issued shares in eaga on behalf of its employees, and together remain the largest shareholder in the business

³ eaga's contract to deliver Warm Front runs across England until 2010. Defra have the option of a two year contract extension.

'This year we have worked with more Partners, dealt with more customers and been engaged in more communities, than ever before'



The value for money aspects of our delivery were validated by Defra's independent auditors, White, Young & Green. They concluded that the Scheme offers excellent value for money; delivering heating systems more than a third cheaper than the private sector equivalent and 'at a level of quality that would be difficult for the private sector to consistently better or match'. Our regular pricing review with Defra under the terms of the Warm Front contract has continued to ensure that the impact of escalating commodity costs in this segment has largely been reflected in revised arrangements.

We deliver similar schemes to Warm Front in Wales (the Home Energy Efficiency Scheme, HEES Wales, for the Wales Assembly Government) and Northern Ireland (the Warm Homes Scheme for the Department for Social Development). Our contract in Northern Ireland was recently extended to 31 March 2009.

The Digital Switchover Help Scheme

On 27 February 2008, we announced that the BBC had selected eaga as service provider to deliver the Digital Switchover Help Scheme. eaga was chosen from a shortlist of three outsource providers, following a rigorous tender process.

The Help Scheme has been projected to cost £603 million, of which about £500 million has been allocated to the estimated service provider costs. Our contract as service provider is for five years until switchover is completed in early 2013.

Up to seven million people will be eligible for support from the Digital Switchover Help Scheme to convert one television set to digital during switchover. People eligible for the Help Scheme are those aged 75 and over, those able to get certain disability benefits, or those registered blind or partially sighted. The Scheme's purpose is to make sure that all eligible people who need help making the switch to digital TV receive the support they need, so they continue to receive television after switchover.

Our appointment to manage this Scheme bears out the knowledge, skills and experience we have in delivering outsourced solutions to vulnerable customers on a national scale.

The next region to switch to digital will be the ITV Border region, with the Selkirk transmitter next to switch in November 2008. We have already contacted eligible people in the area and begun to receive the first orders and install the first round of equipment in homes. A rapid escalation in activity is expected as more transmitters make the switch to digital over the next twelve months.

eaga Advice Services

We have seen extremely encouraging progress in the period from eaga Advice Services, which delivers a range of advice on welfare benefits, housing, debt and employment issues. Revenue in this business was up 148% to £5.7 million over the year (2007:£2.3 million). The team has now expanded to incorporate more than 140 dedicated, specialist advisers on the subject of welfare benefit advice (via our Benefit Entitlement Check service) and legal support work (via our contract with Community Legal Services Direct).

On the income advisory elements of our work, the team identified an average increase in income of almost £1,500 per year for those homes going on to claim additional benefits. This should be set in context of the fact that the team undertook some 50,000 Benefit Entitlement Checks last year.

A recent peer review of the welfare advice delivered under our Community Legal Services (CLS) Direct contract returned the highest possible rating, and a commendation from the Chief Executive of the Legal Services Commission. This is the first time such an award has been made for telephone-based advice services of this nature. Due to the fact that we have consistently been rated the top-ranked provider, able to deliver both the requisite quality and volume, we have been offered, and have accepted, additional work over the course of the year as other registered providers have left the Scheme.

Our progress in this area has been entirely organic, with success driven by the quality of advice provided and the levels of customer service delivered. As global economic conditions become increasingly uncertain; the impact on personal finances, debt and affordability of basic essentials are all drivers for potential growth in our advice services work.

Installation Services

Our Installation Services segment delivers into three main markets:

- **Utility customers:** Work carried out under CERT
- **Managed Services' customers:** The supply of installation services, servicing and maintenance work into the Schemes and programmes we deliver
- **Social housing customers:** Heating servicing, installation and maintenance work on behalf of local authorities and social housing providers across the country

Operational Review

Installation Services remains a rapidly expanding segment of our business, employing over 70% of our near 4,500 staff and accounting for 51% of Group EBITA on 33% of Group revenue⁴ during the year, compared with 52% and 28% respectively in 2007. Revenue grew by 57% to £249.1 million (2007: £158.5 million) and EBITA by 20% to £19.3 million (2007: £16.1 million), reflecting strong organic growth in our established operations as well as a series of strategic acquisitions.

Overall percentage margins in this sector stood at 7.8% (2007: 10.2%). The reduction in margins reflects a change in the mix of activities within the sector, alongside the effect of rising fuel and commodity costs over the course of the year. In addition, margins in individual business areas have been impacted by a number of specific factors. These are discussed within the sections below.

Utility Customers

CERT commenced on 1 April 2008 and is due to run to March 2011. This regulatory obligation requires energy suppliers to achieve twice the level of energy savings through the promotion of domestic energy efficiency than its predecessor, EEC. Energy suppliers rely primarily on loft and cavity wall insulation as the most cost-effective route to achieving these savings; however alternative solutions such as external wall insulation and household renewables are also heavily incentivised under CERT. In this regard, the acquisition of Horrocks and Howe, two of the leading external wall insulation providers in the UK, represent an excellent strategic fit for our future growth plans. The incentives provided for household-level renewables also bodes well for expansion in our Installation Services segment, particularly within our renewables business.

The CERT market is estimated to be worth £2.8bn⁵ over the next three years, and we have taken a number of substantive steps to secure our significant market share over recent months.

We opted to maintain a small element of excess delivery capacity during our second and third quarters, which had a consequent effect on end margins in this area. The decision to absorb these costs has been borne out by our subsequent strong position in the midst of an acceleration in demand from our energy supplier customers. As anticipated, we are seeing record volumes of work under CERT and are in a strong position to maintain this development and expansion in the current year.

We announced that framework agreements were in place with each of the major UK energy suppliers to deliver a proportion of their target under CERT. These framework agreements allow us to work closely with each of the suppliers in delivering savings across all areas of our business.

This was followed shortly after our year-end by the announcement of an agreement with Scottish Power on a contract, worth in excess of £200 million over three years, for the outsourced management and delivery of its entire CERT obligation. This agreement represented the first of its kind within the CERT market, and capitalises on eaga's broad suite of skills, in relation to customer understanding, targeting and management.

Collectively, these CERT agreements provide strong visibility of revenues as we move forward, and position us well for further growth and expansion within this market. We remain committed

to developing our existing relationships with other energy suppliers and are continuing to explore the possibility of leveraging other energy saving technologies into our CERT delivery.

Managed Services' Customers

We have again seen strong growth in revenues in this area, chiefly due to the peak levels of activity from fuel poverty schemes such as Warm Front. Our in-house contractors have demonstrated their ability to competitively deliver the increased levels of activity that have resulted from the record levels of popularity and activity in mainstream Schemes, whilst maintaining a strong focus on service standards. Our success in winning the regional National Business Awards' Customer Focus Award bears this out.

Similarly, the terms of our Welsh contract, which runs to 2010, mirror the arrangement in England, where we carry out a proportion of the required installation of measures ourselves.

We also retain a strong strategic presence in Scotland as an important sub-contractor to the main fuel poverty programme through our Livingston-based subsidiary eaga Scotland, the largest installer of domestic insulation in Scotland.

We have seen increased demand for our contact centre and in-house energy assessment services, as part of record numbers of homes being serviced by fuel poverty Schemes. Last year alone, our contact centre was dealing with more than 50,000 calls per week during the winter months, and we carried out more than 300,000 in-house energy assessments over the period.

The year has also shown ongoing growth in demand within our emergency breakdown and servicing business, WarmSure, a joint venture with Ideal Boilers Limited, part of the Ideal Stelrad Group. As an indication of the scale of our work in this area, our WarmSure venture alone will take over one million calls this year, visiting an average of 50,000 homes every month delivering a range of servicing, maintenance and emergency callouts.

The offer of vertically integrated solutions to customers will continue to present further opportunities for the development of Installation Services' operations in other sectors. Our close control over the respective quality, safety and compliance provided by in-house capacity into schemes such as Warm Front has added value to the overall delivery of these contracts, and has provided the opportunity over the year to rigorously control and verify the value for money delivered.

Social Housing Customers

The acquisitions of RG Francis and AFR have extended our geographic coverage and largely completed our desired footprint. This means that our delivery platform is now mostly complete, and we are focused on integrating and leveraging this platform to continue our progress in a currently fragmented marketplace.

Our share of the social housing market has grown from a position of having 170,000 boilers under maintenance and servicing contracts at the end of last year to the current position of having circa 200,000 boilers under contract at year-end. We have faced a number of challenges in the operation of this business. In part, the start-up costs relating to a small number of our organic contract wins, largely being delivered by RG Francis, were higher than

⁴ Revenues are quoted gross of inter segment revenues

⁵ See footnote 1 for reference on Government estimates

Operational Review

expected. We have therefore identified restructuring opportunities in our cost base within Installation Services. We also experienced some delay in anticipated volumes on heating system replacement activity as social housing customers sought to slow the rate of boiler replacement activity.

We are well advanced in the process of addressing these issues. We have examined and are carefully managing our cost base to address these points and have continued to work hard with our customers, through regular negotiation and periodic pricing reviews, to maintain our commercial position.

In spite of the challenges outlined in this sector, we have not wavered from our assessment that this remains an attractive marketplace; one that is currently fragmented but has sizeable opportunities for profitable rationalisation and expansion.

Specialist Support Services

This segment accounted for 10% of our revenue⁶ in 2008 (2007: 9%) and 27% of EBITA (2007: 24%). Revenue increased to £77.0 million (2007: £49.3 million), principally from additional sales to energy suppliers to meet their EEC obligations, with EBITA rising to £10.1 million (2007: £7.6 million).

Brokerage Services

Our Brokerage Services business enables the interaction between Managed Services and utility companies in the delivery of energy savings. This effectively increases the cash available for continued initiatives to eradicate fuel poverty and ensures householders experience a 'one-stop-shop' service.

With CERT proceeding at double the level of its predecessor, EEC, the demand from utilities in this area remains strong.

eaga Water Services

There is significant interest in the provision of water efficiency solutions, with a particular focus on water affordability as bills increase. eaga Water Services works with utility companies and Central Government in delivering a range of tailored water efficiency measures that can reduce consumption and lower household bills in a sustainable way.

The development of our Water Services business over the last twelve months has been bolstered by the launch of eaga ShowerSmart, a pressure-independent flow restrictor device that has now successfully completed a rigorous testing regime to gain approval under CERT. The gaining of this approval has opened the opportunity to leverage the product into our other key markets, and continues our development as a 'one-stop-shop' for retrofitted, domestic sustainability solutions.

The device is typically fitted in-line with existing showers, and reduces the amount of hot water used, usually without a perceptible difference in flow rate. This leads to a saving in energy bills as the energy used to heat hot water for showers also reduces. Estimates indicate that the device could save £30 a year off the average energy bill and a similar amount from the average water bill⁷.

Commercial returns in Water Services continue to depend on securing adequate scale, but this clear diversification of our product portfolio, allied with our continuing positive relationships with

major water companies, position the Group well for profitable growth in this area.

In addition, the launch of eaga ShowerSmart demonstrates the potential for joining up work on energy efficiency with water efficiency to deal holistically with sustainability. We remain well placed to develop this further as we continue to grow.

Fulfilment & Warranty Care

Our Fulfilment business, which is focused on the procurement and delivery of low-energy, compact fluorescent light bulbs (CFLs), last year supplied over eight million of these CFLs, either through Schemes delivered in Managed Services or CERT-facing commitments. We announced in June 2008 that we had agreed a partnership with eDF Energy and The Housing Corporation to deliver eight million CFLs to vulnerable households over the next twelve months; which demonstrates the scalability and size of this operation.

Our Warranty Care services include the provision of insurance-backed two-year warranties for heating systems installed under fuel poverty Schemes. Annual service visits and repair and maintenance work are undertaken chiefly by our WarmSure joint venture, supported by third party providers.

The potential for future development and expansion within our Specialist Support Services segment is strong. We have already signed four agreements under the Clean Development Mechanism involving carbon saving projects in India. This is one area that sits well with our core business strengths, and we are actively exploring opportunities for further profitable expansion.

Future opportunities

There can be no doubt that the environmental, social, economic and technological changes that are shaping our world are considerable, wide-ranging and increasingly visible. As a society we must, in the next 50 years, achieve a transition to low-carbon lifestyles in an inclusive way by deploying support, incentives and further regulation. In practice, a major element of that transition, for reasons of cost-effectiveness, will be achieved by significantly adapting – and retrofitting – our existing homes.

Adapting to these changes in an inclusive way remains a critical part of the process, which positions eaga well as an established provider of solutions in these areas for all social groups, but particularly those who are vulnerable and disadvantaged.

eaga's success has been built on doing everything we can reasonably do to change and improve the lives of the customers and communities we serve. In the services we manage and in the thousands of homes we visit every week, our focus will not waver from the relentless pursuit of market leading customer understanding and world class service.

With a strong first year as a listed company behind us, I remain confident that eaga has the business model, unique operating culture and the right people to deliver on the full range of our ambitious operational, strategic and financial goals as we move forward into the current year and beyond.

John Clough MBE
Chief Executive

⁶ Revenues are quoted gross of inter segment revenues

⁷ Based on family of four living in a metered home

Financial Review

The Group has again delivered growth in revenue and profit before exceptional costs during the year, arising from a combination of organic growth and acquisitions.

The Group has again delivered growth in revenue and profit before exceptional costs during the year, arising from a combination of organic growth and acquisitions. The acquisitions further the expansion of Installation Services' activities and were funded through cash raised at flotation together with cash generated from operations. Following this investing activity, the balance sheet remains net cash positive at the year-end.

Group result

Revenue increased by £156.4 million, 32%, to £639.0 million (2007: £482.6 million), of which acquisitions contributed £57.1 million and organic growth from existing operations contributed £99.3 million. EBITA increased by £6.7 million, 22%, to £38.0 million (2007: £31.3 million), of which acquisitions contributed £1.8 million and existing operations contributed £4.9 million.

£m	Revenue	EBITA
Year to 31 May 2007	482.6	31.3
Organic growth	99.3	4.9
Acquisitions in the year	32.0	0.1
Full year effect of prior year acquisitions	25.1	1.7
Year to 31 May 2008	639.0	38.0
Percentage growth	32%	22%

Segmental performance

The Group continues to monitor business performance using revenue, EBITA (profit on ordinary activities before interest, tax, amortisation of intangible fixed assets and exceptional items), and EBITA margin as the key indicators.

Managed Services

Managed Services' revenues rose by £61.0 million (17%) in line with increased funding levels for the Government-funded fuel poverty programmes delivered by the business. Managed Services' EBITA margin remained static at 2.1% (2007: 2.1%).

Installation Services

Installation Services' revenues increased by £90.6 million (57%) of which £23.2 million (15%) represented growth in inter-segment sales as the Group continued to expand self-delivery of Managed Services activity; and £67.4 million (42%) related to increased third party sales. Organic growth of £35.5 million (22%) was achieved with a further £55.1 million (35%) contributed by acquisitions. Installation Services' EBITA margin moved to 7.8% (2007: 10.2%) reflecting a change in the mix of activities within the sector, alongside the effect of rising fuel and commodity costs over the course of the year. In addition, certain areas of the business were impacted by specific factors which are discussed in the Operational Review.

Specialist Support Services

Specialist Support Services' revenues were up by £27.7 million (56%), arising from increased sales to energy suppliers in connection with their EEC and CERT obligations, and delivery of aftercare services for additional Managed Services funded central heating systems. The EBITA margin in this sector of 13.1% (2007: 15.3%) reduced primarily as a consequence of: moving to longer-term framework arrangements in carbon trading, where there was a trade-off between reduced volatility and margins achieved; and additional spend on future business opportunities such as developing eaga ShowerSmart.

Segmental Summary

£m	2008	2007	Change
Revenue			
Managed Services	420.3	359.3	61.0
Installation Services	249.1	158.5	90.6
Specialist Support Services	77.0	49.3	27.7
Eliminations	(107.4)	(84.5)	(22.9)
	639.0	482.6	156.4
EBITA			
Managed Services	8.6	7.6	1.0
Installation Services	19.3	16.1	3.2
Specialist Support Services	10.1	7.6	2.6
	38.0	31.3	6.7
EBITA margin			
Managed Services	2.1%	2.1%	- %
Installation Services	7.8%	10.2%	(2.4)%
Specialist Support Services	13.1%	15.3%	(2.2)%
	6.0%	6.5%	(0.5)%

'eaga has the business model, unique operating culture and the right people to deliver on the full range of our ambitious operational, strategic and financial goals as we move forward into the current year and beyond'



Taxation

The tax expense for the Group of £8.9 million (2007: £25.8 million credit) comprises a deferred tax charge of £10.5 million (2007: £31.9 million credit) and a corporation tax credit of £1.6 million (2007: £6.1 million charge).

The exceptional costs of £2.6 million (2007: £104.2 million) relating to the fair value of share options granted in the year is not an allowable deduction for corporation tax purposes, however a statutory deduction under Schedule 23 Finance Act 2003 is due at the point of exercise and accordingly a deferred tax asset is recognised on the balance sheet. Excluding the exceptional costs and associated tax credit, the underlying effective rate is 30.3% (2007: 30.6%) which is above the standard rate of 29.7% (2007: 30%) largely due to disallowable expenditure incurred by the Group.

With effect from 1 April 2008 the UK Corporation tax rate has reduced to 28%. The exceptional tax expense of £1.2 million (2007: nil) arises as the Group's deferred tax assets have been recalculated at this reduced rate.

Dividends

The Directors recommend a final dividend of 2p per share (2007: nil) giving a total for the year of 3p (2007: nil).

Earnings per share

Basic earnings per share increased to 7.20p (2007: 34.33p loss per share), with the loss per share in the prior year reflecting the exceptional costs incurred in that period. Adjusted diluted earnings per share (adjusting for exceptional costs and amortisation of intangible assets) increased by 10.9% to 10.62p (2007: 9.58p).

Exceptional costs in the current year comprise the exceptional tax expense and a share based charge arising in respect of the fair value of share options granted to certain Partners by ePT under the IPO Key Management Plan. There was no cash cost to the Group as a result of this charge which has been accounted for under IFRS2.

Acquisitions

Installation Services' delivery capacity was further extended in the year by the Group's acquisition of the entire share capital of four businesses; RG Francis, AFR, Horrocks and Howe. Total investment to date on these acquisitions, including expenses, is £25.3 million with further additional consideration of up to £2.4 million payable depending on post acquisition results. This further consideration is to be settled in cash with regard to AFR and Howe and in shares with regard to Horrocks.

£m	Initial consideration	Further consideration	Total consideration
Horrocks	9.7	1.0	10.7
RG Francis	9.2	–	9.2
Howe	3.3	0.8	4.1
AFR	3.1	0.6	3.7
	25.3	2.4	27.7

In addition during the year the Group paid a further £11.1 million of deferred cash consideration in connection with acquisitions made in prior years.

Financial Review

Treasury

Strategy and management

The strength of the Group's balance sheet has enabled a flexible approach to be taken to meet its funding requirements, with the majority of working capital and investment needs being met to date from internal cash generation and funds raised at flotation. Any future debt funding requirements are expected to be sourced from an appropriate combination of short, medium and long-term arrangements. Each operation manages its own cash position on a day-to-day basis. The Group's banking arrangements are negotiated and monitored centrally with funds generated across the business being controlled by a central treasury function. The Group has a £35 million Revolving Credit Facility in place with Barclays Bank plc until the end of November 2009; no amounts were drawn under the facility at 31 May 2008 (31 May 2007: £nil).

Surplus funds are placed on money market deposit by the Group's central treasury function with a view to maximising investment income. Amounts placed with any single institution rated AA or better are restricted in order to manage overall credit risk exposure. The Group's net finance income increased to £387,000 (2007: £40,000).

Liquidity and cash flows

The Group continues to be net cash positive and at 31 May 2008 had cash and cash equivalents of £15.3 million (31 May 2007: £5.5 million) and loans and borrowings of £0.5 million (31 May 2007: £0.7 million), giving a net position of £14.8 million (31 May 2007: £4.8 million).

Summary cash flows

£m	31 May 2008	31 May 2007
Cash generated from operations	21.9	37.7
Interest, tax and dividends	(0.8)	(4.7)
Net capital expenditure	(3.8)	(8.2)
Acquisitions	(35.9)	(31.6)
Funds raised at flotation	29.0	-
Net financing	(0.6)	(3.7)
Increase / (decrease) in cash	9.8	(10.5)

The Group's aggregate undrawn finance facilities were £35 million compared to a net cash positive position of £14.8 million at 31 May 2008, representing headroom of approximately £50 million.

Risks and uncertainties

The Company has a dedicated risk management team and has recently established a risk review board to monitor and evaluate the risk registers compiled by each business area of the Group. The risk review board reports to the Board and Audit Committee on a quarterly basis regarding the effectiveness of the risk identification process and of the action plans for the mitigation of such identified risks.

The key risks facing the Group include:

Financial risk

The Group's operations expose it to a range of financial risks with the principal risks being credit and liquidity risk. The Group has in place a risk management programme that seeks to limit the adverse effects of financial risks on the financial performance of the Group by monitoring levels of borrowings and the related finance costs through a central treasury function. In order to ensure stability of cash out flows, and hence manage interest rate risk, the Group has a policy of using a mixture of floating and fixed rate debt. The Group has a £35 million Revolving Credit Facility in place which can be drawn on demand, providing access to debt when required.

Government policy

The work undertaken by the Group in the areas of fuel poverty and social inclusion is influenced by Government policies. A significant change in Government's policies in these areas could have a significant affect on the Group's future revenues and profit streams.

Commercial relationships

eaga has close commercial relationships with its principal customers; Government, utility companies, social housing providers and the BBC. Many of these are long-term contractual relationships where contract loss or commercial disputes could have a significant affect on the Group's future profitability and cash flows. This risk is managed through regular reviews and contact with the senior management of these customers in order to ensure that we respond to their needs and deliver the service that they expect.

Financial Review



Acquisitions

All potential acquisitions are subjected to a detailed review including comprehensive due diligence and planning for integration. We have a dedicated acquisitions team who work with managers from our existing businesses and draw on the services of independent advisors when necessary. A detailed integration plan is prepared prior to completion of each transaction and implemented as soon as is practicable post acquisition. The performance of acquisitions is reported and reviewed by the Board at each Board meeting.

Health and safety

eaga's areas of activity expose it to the risk of material health and safety liabilities. The Group employs Health and Safety professionals who maintain the Group's policies and procedures and promote awareness with all Partners in this key area.

People

In order to meet its strategic growth plans the Group needs to be able to attract and retain people with the right skills and talents. This is supported by eaga's unique co-ownership structure and commitment to Partner engagement, reward and development.

IT Systems

The Group is reliant on its IT systems for operational efficiency as well as achieving its future growth plans. Potential significant changes to current systems are subject to Board approval following consideration of detailed project plans.

Ian McLeod

Group Finance Director

Board of Directors

Executive Directors

John Clough MBE, Chief Executive Officer (age 49)

John has been Chief Executive since the business was established in 1990, having previously worked in strategic management positions with British Coal. John has led the development of eaga, creating a unique employee engagement culture, broadening its core service and installation offerings, transforming its financial performance and delivering significant growth in both the private and public sectors.

Ian McLeod, Finance Director (age 40)

Ian joined eaga in 2004 and was appointed to the Board in early 2005. He is responsible for all aspects of financial management and reporting and works with Drew Johnson in delivering eaga's inorganic growth strategy. Ian spent 14 years with PricewaterhouseCoopers LLP prior to joining eaga, during which time he gained extensive experience in advising companies across a broad range of market sectors.

Joseph (Drew) Johnson, Commercial Director (age 49)

Drew joined eaga in 1991 having previously been with British Coal in supply chain management and logistics. He was appointed to eaga's Board in 1999. Drew has responsibility for eaga's commercial strategy, focusing on the identification, development and delivery of opportunities for both organic and inorganic growth.

Dave Routledge, Organisational Development Director (age 50)

Dave joined eaga in 2002 and was appointed to the Board in 2004. He is responsible for strategic organisational development, human resources, risk management and corporate and government affairs. Dave previously held main board level responsibilities for human resources and operations within the pharmaceutical sector.

Non-Executive Directors

Charles Berry, Non-Executive Director and Chairman (age 56)

Charles was appointed to eaga's Board as a Non-Executive Director and Chairman in 2006. He has extensive experience in the UK power sector as a former board member of Scottish Power plc where he served as UK Chief Executive. Charles is a Non-Executive Director of Securities Trust of Scotland plc, Impax Environmental Markets plc and having served as a Non-Executive Director of Drax Group plc, was this year appointed as its Chairman.

Malcolm Simpson, Non-Executive Director (age 66)

Malcolm was appointed to eaga's Board as a Non-Executive Director in 2007, he is a former Finance Director of Greggs plc. At Greggs Malcolm oversaw a period of strong growth as the company expanded both organically and inorganically and achieved flotation on the London Stock Exchange.

Quintin Oliver, Non-Executive Director (age 53)

Quintin was appointed to eaga's Board as a Non-Executive Director in 2004. He lives and works in Belfast, Northern Ireland, leading Stratagem – the first dedicated lobbying and public affairs company to emerge after the Northern Ireland peace process following the Good Friday agreement.

Tracy Clarke, Non-Executive Director (age 41)

Tracy was appointed to eaga's Board as a Non-Executive Director in October 2007. She is currently Group Head of Human Resources at Standard Chartered plc and a member of its Group Management Committee, having previously undertaken a variety of operational and strategic roles for the bank. Following Standard Chartered's acquisition of Korea First Bank in 2004, Tracy was appointed as a Non-Executive Director of this separately regulated subsidiary business.

Board Committees

Audit	Remuneration	Nomination
Malcolm Simpson (Chair)	Tracy Clarke (Chair)	Charles Berry (Chair)
Quintin Oliver	Malcolm Simpson	Malcolm Simpson
Tracy Clarke	Quintin Oliver	Quintin Oliver
		John Clough MBE (Executive Director)
		Dave Routledge (Executive Director)



Front: Charles Berry, Chairman

Pictured from left to right:
Malcolm Simpson, Joseph (Drew)
Johnson, Dave Routledge, John Clough,
Quintin Oliver, Tracy Clarke, Ian McLeod.

Report of the Directors

The Directors present their report and the audited financial statements for the year ended 31 May 2008.

Principal Activities and Business Review

The Group is engaged in the provision of outsourced services and products that address a wide range of environmental and social challenges. Its core focus is working with a broad customer base that includes central Government, energy suppliers, the BBC and a significant number of local authorities to devise, develop and deliver outsourced solutions that help households and families deal with many different aspects of social, technological, economic and environmental change.

Details of the Group's activities and a review of the business are set out in the Chairman's Statement, Operational Review and Financial Review on pages 4 to 13.

The Financial Review includes:

- details of the Key Performance Indicators used by the Directors to assist in the management of the business being; Revenue, EBITA and EBITA margin
- a description of the principal risks and uncertainties facing the Group

Information relating to the environment and Partners is included in the Corporate Social Responsibility report on pages 30 to 33.

Financial Results and Dividends

The Group's results are shown in the Group income statement on page 36. The Directors are recommending the payment of a final dividend of 2 pence per Ordinary Share to be paid on 14 November 2008 to shareholders on the register at the close of business on 17 October 2008 which, together with the interim dividend of 1 pence per Ordinary Share paid on 18 March 2008, results in a total dividend for the year of 3 pence per Ordinary Share (2007: nil).

Interests in shares

During the year ended 31 May 2008 the Company had a general right to purchase all or any of its own shares subject to compliance with the matters set out within article 15 of its Articles of Association and the specific right conferred by the resolution passed at the AGM of 22 November 2007 to acquire up to 10% of the Company's issued Ordinary Share Capital.

The Company is aware of or has been notified under Chapter 5 of the Disclosure and Transparency Rules of the FSA of the following significant holdings of voting rights in its shares:

	Number of Direct Shares	Percentage of Direct Shares (%)
Eaga Partnership Trustee Two Ltd	46,853,747	18.7
Eaga Partnership Trustee Ltd	46,853,300	18.7
Artemis Investment Management Ltd	18,701,703	7.5
Brewin Dolphin (Private clients)	12,303,308	4.9
Legal & General Investment Management Ltd. (UK)	8,928,480	3.6

All of the above shares are held directly. The Company has not been notified of any indirect holdings.

Directors

Details of the Directors who currently hold office are listed on page 14. During the year Tracy Clarke was appointed on 1 October 2007. Michael Roberts OBE retired on 22 November 2007 and Richard Burns died on 20 May 2008.

This year we installed enough energy efficient lighting to light the entire city of Nottingham



In accordance with the Company's Articles of Association, one third (or the nearest whole number below one third) of the Directors are required to retire at each annual general meeting (AGM), together with Directors appointed by the Board since the date of any notice convening the previous AGM.

In addition, under the Combined Code on Corporate Governance issued by the Financial Reporting Council in June 2006 (the Code), Directors are required to submit themselves for re-election by shareholders every three years and Non-Executive Directors who have served more than nine years are subject to annual re-election.

Having been appointed since the publication of the notice for the last AGM, Tracy Clarke will retire from the Board and, being eligible, will offer herself for election. John Clough and Charles Berry will retire by rotation and, being eligible, offer themselves for re-election. Profiles of all three Directors can be found on page 14. The Board has acknowledged and agreed the contribution of all three Directors to have been extremely valuable throughout the period and this has been borne out by an external performance evaluation process. Their re-election will be recommended by the Board.

The termination provisions in respect of the Executive Directors' contracts are set out in the Remuneration Report on pages 20 to 25.

The interests of the Directors in the Ordinary Share Capital of the Company as at 31 May 2008 and the date of signature of this report:-

Charles Berry	55,249
John Clough MBE	6,336,340
Ian McLeod	5,082,472
Drew Johnson	5,082,472
Quintin Oliver	24, 861
Dave Routledge	5,157,472
Malcolm Simpson	88,149
Tracy Clarke	Nil

Directors' Indemnities

The Directors have the benefit of qualifying third party indemnity provisions contained in the Company's Articles of Association which were in force throughout the financial year and remained in force as at the date of signing this report.

Donations

During the year the Company and the Group made charitable donations of £135,000 (2007 - £250,000) principally to the independent eaga Charitable Trust and the eaga Community Fund managed for eaga by the Community Foundation.

No political donations were made.

Payment of Suppliers

It is the Group's policy that UK operating companies should follow the CBI Prompt Payers Code. This Code requires the Company to agree the terms of payment with its suppliers, to ensure its suppliers are aware of those terms and to abide by them. The Company's creditor days outstanding as at 31 May 2008 were 34 days (2007: 35 days).

Employment issues and policies

As a co-owned business eaga's ongoing relationship with the two eaga Partnership Trust companies (ePT) continues to be an important element of how we engage our Partners. ePT holds more than 37% of the shares in the Company together with other assets arising from the sale of shares at flotation for a beneficial class which includes current Partners. ePT invests in a range of initiatives and programmes that provide direct benefit to Partners as a result of their employment with eaga. Such benefits may include a distribution to the beneficiaries either in cash or share-based which would be accounted for under IFRS2 and result in a charge to eaga's Income Statement. Any such distribution is wholly discretionary and ePT's independent board of directors have sole responsibility for such decisions in this regard. By working closely with the eaga plc Board of Directors and the eaga Partners' Council (ePC), ePT helps to uphold the "essence of eaga" as a co-owned, values-driven business.

Report of the Directors

We have a range of initiatives to assist in Partner engagement and participation:

- our cultural 'eaga Cares' programme, which is in place throughout the Group as a mechanism that energises and strengthens the Group's corporate mission and values. The eaga Cares framework is now firmly set within our performance and development process, which enables us to embed our value set throughout employee behaviours and development
- an annual Partner Engagement Survey, the results of which are shared with all Partners and 'improvement action plans' formulated with team leaders committed to implementation of the plans. The feedback from the survey has also assisted in the development of a new Performance and Development framework which ensures that every Partner understands the Group's strategic objectives and how their role fits within those objectives
- a Partner recognition scheme known as 'eaga Stars' which seeks to identify and reward those Partners who demonstrate role model behaviour in keeping with the eaga values and go beyond what would ordinarily be expected of them in a work situation
- the ePC, a consultative forum of Partners elected from all areas of the business meets regularly with the Executive Directors. The relationship has grown over the last year as the challenges of adapting to the plc environment coupled with part ownership by the Partners have seen levels of effective communication and co-operation increase significantly. Their input and assistance in developing the Company's 'people policies' has been invaluable. The divisional ePC representative also sits on the information and consultation committee (ICC) for the division, which ensures a cohesive information flow
- our internal publication 'Switched On', which is circulated to all Partners' homes every other month, keeps our people and their families up to date with latest developments and key areas of focus across the business. The magazine has a strong interactive feel which encourages Partners to participate and provide content of their own
- our Corporate Social Responsibility (CSR) agenda also provides an opportunity to engage with Partners in a diverse range of innovative and exciting projects. Further details of our CSR activity can be found on page 30

The Group's subsidiary based in Northern Ireland, Heat and Associated Technology Limited, achieved the top position in the 2007 Sunday Times "Best Places to Work" employee survey.

Equal Opportunities

We are committed to creating an inclusive working environment for our Partners from recruitment through to retirement. Our 'Equal Opportunities and Dignity at Work' policy promotes an environment that is free from discrimination, harassment and victimisation, with equity of treatment regardless of gender, colour, ethnic or national origin, disability, age, marital status, sexual orientation or religion. All employment decisions are based on objective criteria and are free from bias. As a certified 'Two Ticks' employer, we have demonstrated our willingness to consider appropriate positive action to optimise opportunities for those with disabilities, including a range of flexible and home-working arrangements. Our policies also include enhanced arrangements for maternity, paternity and adoption, thus demonstrating our support of family life.

Remuneration Report

The Remuneration Report on pages 20 to 25 will (as required by the Directors' Remuneration Report Regulations 2002) be put to the shareholders for approval at the AGM.

Power to allot shares and authority for the Company to purchase its own shares

The Directors propose to renew the general authority of the Company to make market purchases of its own shares to a total of twenty five million (25,000,000) Ordinary Shares (representing approximately 10% of the issued Ordinary Share Capital of the Company) and within the price constraints set out in the special resolution to be proposed at the AGM. There is no present intention of the Company to make any purchase of its own shares.

Articles of Association

The latest version of the Company's articles of association was adopted by special resolution on 30 May 2007. There are no proposals to alter those articles.

Financial instruments

A summary of the Company's treasury policies and objectives relating to financial risk management, including exposure to associated risks, is included in the Financial Review on pages 10 to 13.

Auditors

The auditors, PricewaterhouseCoopers LLP have signified their willingness to continue in office and a resolution reappointing them as auditors will be proposed at the AGM.

On behalf of the Board

Christopher Judd
Company Secretary
1 September 2008

Statement of Directors' Responsibilities



The Directors are responsible for preparing the Annual Report, the Directors' Remuneration Report and financial statements in accordance with applicable regulations and International Financial Reporting Standards (IFRS) as adopted by the European Union (EU) and issued by the IASB and for preparing the parent company financial statements in accordance with applicable law and United Kingdom Accounting Standards.

The Directors are responsible in the preparation of those financial statements to give a true and fair view of the profit or loss of the Group and the state of affairs of the Company and of the Group in accordance with relevant GAAP.

In preparing those financial statements the Directors are required to:

- select suitable accounting policies and apply them consistently
- make judgements and estimates that are reasonable and prudent
- state whether the financial statements comply with IFRS as adopted by the EU and issued by the IASB and whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements
- prepare the consolidated and parent company financial statements on a going concern basis unless it is inappropriate to presume that the Group will continue in business

The Directors confirm that they have complied with the above requirements in preparing the financial statements.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at all times the financial position of the Company and the Group to enable them to ensure that the Group financial statements comply with the Companies Act 1985 and Article 4 of the IAS Regulation. They are also responsible for the preparation of the Directors' Remuneration Report, safeguarding the assets of the Company and the Group and, in that context to take such reasonable steps as are required in relation to the prevention and detection of fraud and other irregularities.

The Directors confirm, to the best of their knowledge:

- that the consolidated financial statements, which have been prepared in accordance with IFRS as adopted by the EU and issued by the IASB, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group
- that the Operational and Financial Reviews which are incorporated in the Directors Report include a fair review of the information required by rules 4.1.8 - 4.1.11 of the Disclosure and Transparency Rules of the United Kingdom Financial Services Authority

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website (www.eaga.com). Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Remuneration Report

The Remuneration Committee comprises three independent Non-Executive Directors; Quintin Oliver, Malcolm Simpson and is chaired by Tracy Clarke.

The Remuneration Committee comprises three independent Non-Executive Directors; Quintin Oliver, Malcolm Simpson and is chaired by Tracy Clarke. Richard Burns, Senior Independent Director was also a Committee member until he sadly passed away in May 2008.

The Remuneration Committee continues to focus on ensuring that in constructing and implementing the Company's executive compensation strategy:

- the interests of shareholders are protected and enhanced
- the unique ethics and characteristics of eaga, developed through its ownership structure, history, sense of social purpose, and significant relationships with Government, are maintained
- the views of all shareholders, customers, employees (referred to by the Company as Partners) and other stakeholders in the business receive appropriate attention

The Company has a strong desire to be responsible in its approach to executive pay whilst ensuring the remuneration policies are sufficient to attract and retain appropriately qualified and highly motivated Executive Directors.

Role of the Board Remuneration Committee

The Committee is responsible for approving the specific remuneration packages and terms and conditions of employment of the Company's Executive Directors and certain senior managers. The Committee, in consultation with the Chief Executive, is responsible for determining which senior managers are included for this purpose, such determination to be approved by the Board as a whole. The Committee also reviews the packages of any other manager earning in excess of £100,000 base pay per annum.

The Committee has delegated responsibility for setting the Chairman's remuneration. Non-Executive Directors' remuneration is set by the Executive Directors in consultation with the Chairman.

The Committee is responsible for the appointment of independent external advisors to give advice on all matters relating to executive remuneration packages. During the year the Committee has taken such advice from KPMG LLP. KPMG LLP also provided advice on all employee and management share incentive plans during the year.

The terms of reference of the Remuneration Committee are available on the Company's website.

Remuneration Policy

The Remuneration Committee aims to ensure that the total remuneration package for the Executive Directors is soundly based, internally consistent, externally competitive, and fully aligned with the interests of shareholders for both the short- and long-term. In developing the remuneration strategy the Committee considers the business strategy and the unique characteristics of eaga. No Director takes part in any decision regarding their personal remuneration.

The Remuneration Committee has agreed a balanced executive remuneration framework, which includes typical market incentives. The Committee considers that this framework is appropriate for the purpose of recruiting and motivating executive talent and comprises the following elements:

- Basic salary
- Annual cash bonus
- Long-term incentives (Management Incentive Plan (MIP))
- Pension plan
- Other benefits

Although each of these elements have been agreed by the Remuneration Committee, the incumbent Executive Directors have elected not to participate in the annual cash bonus plan or the MIP. The incumbents consider themselves to have significant personal shareholdings in the Company to the extent that their long- and short-term interests are aligned with those of other shareholders. The Remuneration Committee has agreed this position. It is expected that any newly appointed Executive Director will participate in the annual bonus plan and MIP.

Basic Salary

The current basic annual salaries paid to the Executive Directors are as follows:

John Clough MBE	£340,000
Drew Johnson	£248,200
Ian McLeod	£231,200
Dave Routledge	£231,200

This year we have become carbon neutral, with a plan in place to become net carbon negative over the next twelve months.



The Company's Executive Director basic salaries are reviewed annually to ensure they remain externally competitive, taking into account the requirements of the roles, the performance of individuals, the size of the Company and its complexity. To assist the Remuneration Committee the Executive Director roles are benchmarked against a Pay Peer Group of some 15 companies selected on the basis of those most closely matching the Company in terms of a combination of business model, turnover and market capitalisation.

The Remuneration Committee reviewed Executive Directors' base salaries in April 2008 and increases were proposed. However, in consideration of the current economic climate and the level of pay awards for the wider population of employees within the Company, the Executive Directors declined to accept the proposed increase at that time.

The current Executive Directors' service contracts have 12 month notice periods from either side. Contracts do not provide additional compensation for severance as a result of change of control. The Remuneration Committee is currently reviewing its policy in respect of severance payments, mitigation and liquidated damages and this will be applied to future Executive Directors' appointments.

Annual Cash Bonus

The Remuneration Committee has approved an annual cash bonus for Executive Directors up to a maximum of 100% of annual basic salary (and for certain senior managers, as agreed with the Board, an annual cash bonus of up to 50% of annual basic salary) for the delivery of exceptional performance measured against a balanced scorecard of results.

The incumbent Executive Directors have elected not to participate in the annual bonus plan. However, any appointment of new Executive Directors would include access to the annual cash bonus plan at the appropriate level as approved by the Remuneration Committee.

It is the intention of the Remuneration Committee to implement the annual cash bonus plan to the agreed senior managers (but not incumbent Executive Directors) for performance in the financial year ending 31 May 2009.

Long Term Incentive (MIP)

The MIP allows the granting of performance shares to Executive Directors and certain senior managers. Under normal circumstances the maximum market value of shares over which individual awards could be made is 100% of salary. In exceptional circumstances the Remuneration Committee has the authority to award up to 200% of salary. The vesting of any awards made under the MIP will be subject to the achievement of Company performance targets intended to enhance shareholder value. Half of any award will vest depending on TSR (Total Shareholder Return, being the change in share price plus dividends paid) performance relative to the FTSE mid 250 (the constituents of the FTSE350 excluding FTSE100 and excluding Investment Trusts), and half the award against eps performance. The performance period will be three years beginning at the start of the financial year during which awards are made. The start and end points used to establish the vesting of awards will be based on the average of the quoted daily closing share price in the three months preceding the beginning and end of the relevant performance period. In normal circumstances, no awards will become vested or exercisable before the third anniversary of the date of grant.

The vesting under each part of the award will be as follows:

MIP Performance criteria: Total maximum award is 100% of salary at date of award:

50% to vest against TSR performance and
50% to vest against eps performance

TSR Performance relative to the FTSE mid 250	percentage of award
Below median	0%
At median	16⅔%
Between median and upper quartile	16⅔% to 50% on a straight line
Upper quartile	50%

eps Performance – compound annual increase	percentage of award
Below 10%	0%
At 10%	10%
Between 10% and 20%	10% to 50% on a straight line
Above 20%	50%

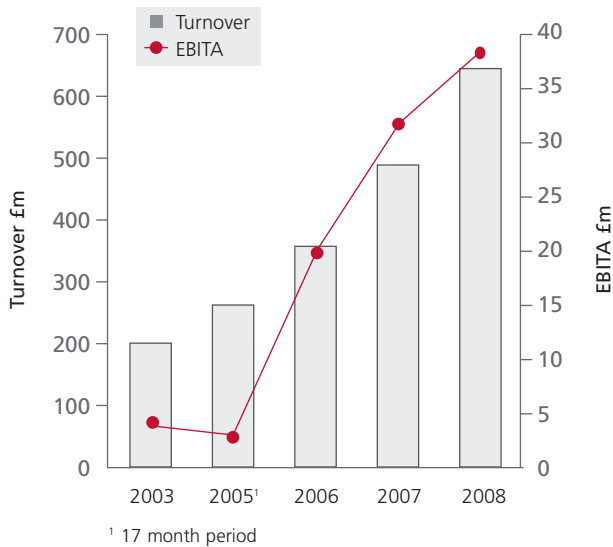
Remuneration Report

The incumbent Executive Directors have elected not to participate in the MIP. However, any appointment of new Executive Directors would include access to the MIP as approved by the Remuneration Committee.

It is the intention of the Remuneration Committee to make awards of performance shares under the MIP to certain senior managers as agreed with the Board (excluding incumbent Executive Directors) immediately after the publication of results.

As required by The Directors' Remuneration Report Regulations 2002, the Company reports performance measured by TSR against an appropriate market index. The Committee has determined that the FTSE mid 250 without Investment Trusts is the appropriate market index.

The performance of the Company in terms of business growth in revenues and EBITA is further illustrated below:



Pension Plan

The Executive Directors are members of the Company's group personal pension plan, a defined contribution scheme, under which the Company makes an annual contribution or salary supplement of up to 15% of basic salary. This may be supplemented by each member as desired, and as permitted under current pension legislation. Annual bonuses, were they to be awarded, would not be pensionable.

Other Benefits

Other benefits include fully expensed company car or equivalent cash allowance, permanent health insurance and life assurance. The range of benefits and their value are considered to be broadly in line with those provided to executive directors in similar companies in the FTSE 250.

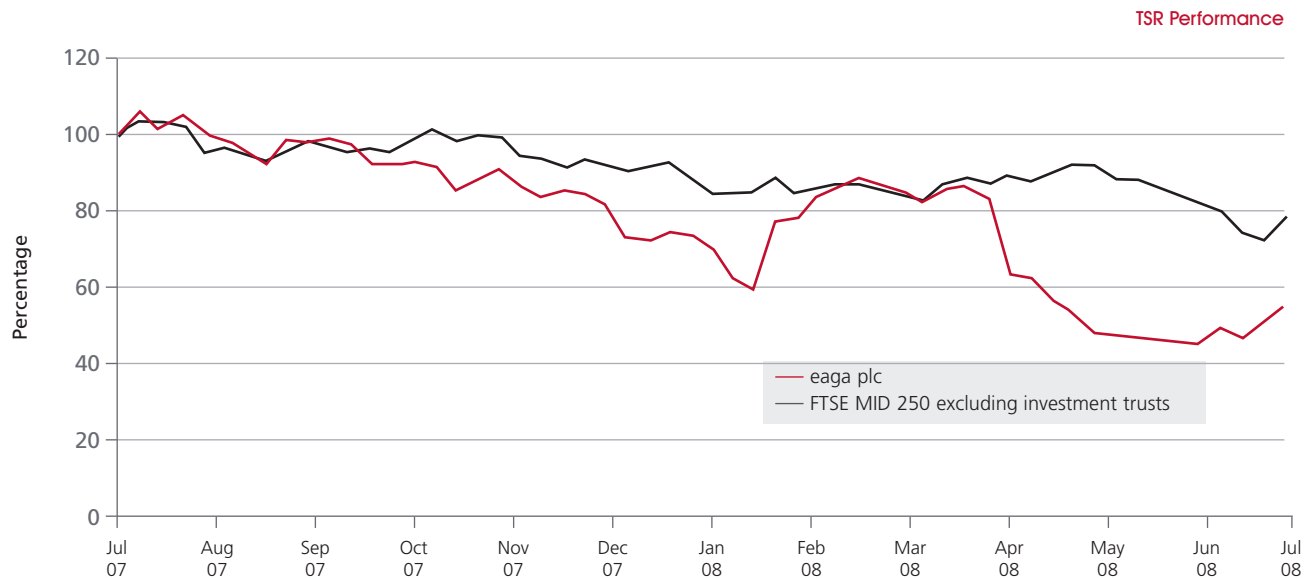
Share Incentive Plan (SIP)

The Company operates an HMRC approved SIP for the benefit of qualifying Partners, including the Executive Directors. All qualifying Partners are beneficiaries under the eaga Partnership Trusts (ePT). ePT is the vehicle in which shares in the Company and cash are held in trust for the benefits of all qualifying Partners.

The activities of ePT are subject to a constitution and trust deed and are independent to the Company. ePT's affairs are managed by a board of trustees including: independent trustees, Partners elected by the eaga Partners' Council and one trustee nominated by the eaga Board Nomination Committee.

The SIP will be funded by ePT and awards will be made to all qualifying Partners on a flat rate basis. The first awards under the SIP are anticipated before the end of the 2008 calendar year.

This arrangement replaces the Partnership Bonus. The cost of implementing and administering this plan is borne by ePT.



Remuneration Report

Directors' Letters of Appointment and Contracts of Service

	Date of Appointment	Date of Current Letter of Appointment / Contract	Unexpired term
Non-Executive			
Charles Berry	1 January 2006	6 April 2006	c4 months
Tracy Clarke	1 October 2007	17 September 2007	c25 months
Quintin Oliver	1 January 2007	29 August 2008	c16months
Malcolm Simpson	1 January 2007	19 December 2006	c16 months
Executive			
John Clough MBE	14 October 1999	31 May 2006	Rolling 12 months
Drew Johnson	14 October 1999	31 May 2006	Rolling 12 months
Ian McLeod	28 April 2005	31 May 2006	Rolling 12 months
Dave Routledge	23 April 2004	31 May 2006	Rolling 12 months

Service Contracts

The Executive Directors have rolling contracts which may be terminated by 12 months' notice in writing on either side. In the event of termination of any Executive Director's service contract the termination payment will be based upon base salary plus benefits. As the incumbent Executive Directors have elected not to participate in the annual cash bonus plan or the MIP these elements will not be considered for Company liability purposes in the event of early termination.

The Non-Executive Directors have entered into letters of three year appointment with the Company which may be terminated by 3 months' notice on either side.

External Appointments

The Company recognises that its senior executives and the Company can benefit from its Executive Directors serving in a personal capacity as non-executive directors of other companies. Subject to approval by the Board, Executive Directors are permitted to hold one external non-executive directorship and retain any fees received for holding such a position. Such appointments will only be approved if there is no potential conflict of interest and the time commitments do not interfere with the Executive Director's duties and performance.

Currently, one Executive Director (Dave Routledge) holds a non-executive appointment on a pro bono basis for the Employee Ownership Association, a not for profit organisation dedicated to the development and expansion of employee ownership.

Remuneration Report

AUDITED INFORMATION

Directors' emoluments

	Salary £'000	Fees £'000	Compensation on loss of office £'000	Bonuses ⁵ £'000	Benefits ⁶ £'000	Pension contributions £'000	Long term incentives £'000	Total 2008 £'000	Total 2007 £'000
Executive									
John Clough MBE	385 ⁴	–	–	68	13	–	–	466	498
Jack Harrison MBE ¹	–	–	–	–	–	–	–	–	1,270
Drew Johnson	281 ⁴	–	–	50	18	–	–	349	366
Ian McLeod	262 ⁴	–	–	47	13	–	–	322	337
Dave Routledge	231	–	–	47	13	35	–	326	350
Non-Executive									
Charles Berry	–	80	–	–	–	–	–	80	80
Richard Burns	–	47	–	–	–	–	–	47	21
Tracy Clarke ²	–	20	–	–	–	–	–	20	–
Quintin Oliver	–	35	–	–	–	–	–	35	30
Michael Roberts OBE ³	–	25	–	–	–	–	–	25	54
Malcolm Simpson	–	39	–	–	–	–	–	39	19
Total 2008	1,159	246	–	212	57	35	–	1,709	
Total 2007	1,203	204	30	231	60	817	480		3,025

NOTES

¹ Resigned 30 September 2006.

² Appointed 1 October 2007.

³ Resigned 22 November 2007.

⁴ Includes amounts relating to pension benefits paid as salary

⁵ Bonuses paid in the year relate to final awards under the Partnership Bonus scheme that was payable to all Qualifying Partners prior to flotation. The payments relate to the year ended 31 May 2007 and are the final bonus payments under that arrangement.

⁶ Benefits include car or cash allowance in lieu, permanent health insurance and life assurance

Remuneration Report



IPO Option Plan

	31 May 2007	Granted during the year	Exercised during the year	31 May 2008	Option price (p)	Date Exercised
John Clough MBE	1,520,208	–	1,520,208	–	nil	7 June 2007
Jack Harrison MBE	1,082,897	–	1,082,897	–	nil	7 June 2007
Drew Johnson	1,023,328	–	1,023,328	–	nil	7 June 2007
Ian McLeod	612,779	–	612,779	–	nil	7 June 2007
Dave Routledge	610,148	–	610,148	–	nil	7 June 2007
Other Partners	52,664,767	–	52,664,767	–	nil	7 June 2007
	57,514,127	–	57,514,127	–		

The IPO Option Plan granted nil-cost options over the Company's Ordinary and Preferred Ordinary Shares to all Partners including Executive Directors and certain former Partners (at ePT discretion). This plan was put in place to recognise Partners' contribution to the market capitalisation of the Group achieved at flotation, and enabled value to be transferred to individuals as part of the transition from 100% employee ownership to the present shareholding structure as a listed company.

The options were exercised immediately prior to listing on 7 June 2007 at the listing price of £1.81. No further options will be issued under the IPO Option Plan.

At 31 May 2008 the Directors have no other options under any of the Group's share plans.

Tracy Clarke

Chair, Remuneration Committee
1 September 2008

Corporate Governance

The Board is committed to the highest standards of corporate governance and professional integrity.

In accordance with the Rules of the UK Listing Authority, the Company is required to state whether it has complied with the provisions set out in Section 1 of the Combined Code on Corporate Governance issued by the Financial Reporting Council in June 2006 (the Code) and where the provisions have not been complied with, to provide an explanation. The Company is also required to set out how it has applied the principles set out within the Code.

The following paragraphs together with the Directors' Remuneration Report on pages 20 to 25 provide details of how the Company applies the principles and complies with the provisions of the Code.

Operation of the Board

The primary roles of the Board are to determine overall strategy and business objectives, to ensure adequate resources are available to meet objectives, to maintain and monitor an effective risk management system, to monitor and assess compliance with corporate responsibility and health and safety requirements and ensure all responsibilities to stakeholders and shareholders are met.

During the year the Board was led by its Chairman, Charles Berry, who also chairs the Nomination Committee. The Chairman's responsibilities have been agreed by the Board and clearly delineate between the roles of the Chief Executive Officer and Chairman. The Board was satisfied at the date of appointment and remains satisfied that the Chairman and the other Non-Executive Directors were and are independent of management and free from any business or other relationship that could materially interfere with the exercise of their independent judgement.

The Board has approved a list of matters that are reserved for its decision/approval.

The Board operates three committees: Audit, Remuneration and Nomination, to which it has delegated certain specific responsibilities and each of which operate within Board approved terms of reference. The terms of reference of each committee can be viewed on the Company's website.

Audit Committee

During the year the Audit Committee was chaired by Malcolm Simpson who was initially supported by three independent Non-Executive Directors, (Michael Roberts, Richard Burns and Quintin Oliver). Tracy Clarke became a member of the Committee upon her appointment as a Non-Executive Director on 1 October 2007 and Michael Roberts left the Committee upon his retirement on 22 November 2007. The Committee continued in this form until the death of Richard Burns on 20 May 2008. It has at all times consisted and will continue in the future to consist of not less than three independent Non-Executive Directors, one of whom will have relevant financial experience. A quorum is two members and the Committee has met and shall continue to meet a minimum of four times each year. The Code requires that at least one member of the Audit Committee has recent and relevant financial experience – the Chairman of the Committee, Malcolm Simpson, as the former Finance Director of Greggs plc, fulfils this requirement.

The Committee's main functions are to endeavour:

- to ensure that the accounting and financial policies of the Company are proper and effective
- to monitor the integrity and clarity of the financial statements and information published by the Company
- to review the effectiveness of the Company's internal controls and approach to risk management
- to monitor the effectiveness of the internal audit function
- to assess the independence and objectivity of the external auditors and to set policy regarding the provision of non-audit services by the external auditors
- to make recommendations to the Board in relation to appointment of external auditors

The Committee, in performing these functions, reviews the annual and interim accounts issued to shareholders, compliance with financial reporting standards and the size and remit of the internal audit function.

This year we had more than 1,800 vehicles in our fleet. We plan to reduce our CO₂ density by more than 10% over the next 12 months



The Committee has recently developed a policy relating to the provision of non-audit services by the external auditors which provides that the total fees payable for such work in any financial year should not normally be more than 80% of the total fees payable in respect of audit and compliance services. The policy is effective from 1 June 2008.

The Audit Committee determines the scope of the external audit in discussion with the external auditors and agrees their fees in respect of the audit.

The Committee normally meets with the Finance Director and the Chief Executive in attendance, and time is set aside annually for discussion between the Committee and the external auditors and with the internal auditors, each in the absence of all Executive Directors. The Committee has the power to engage outside advisors if it sees fit and in common with all of the Non-Executive Directors personally has the ability to take independent advice at the Company's expense if needed. The Committee also has access to the services of the Company Secretary.

Remuneration Committee

The Remuneration Committee comprised Quintin Oliver, Malcolm Simpson, Richard Burns (until his death on 20 May 2008) and was chaired by Michael Roberts (until his retirement on 22 November 2007). Tracy Clarke became a member of the Committee on 1 October 2007 and assumed the chair upon Michael Roberts' retirement.

The Committee must at all times consist of not less than three members who are independent Non-Executive Directors. A quorum is two members and the Committee meets a minimum of twice each year.

The Committee's responsibilities include determining and agreeing with the Board the framework and broad policy for the remuneration (including benefits, pension arrangements and termination payments) of the Chairman, Chief Executive and senior management of the Company. A full Remuneration Committee Report can be found on pages 20 to 25.

Nomination Committee

The Nomination Committee comprised John Clough, Dave Routledge, Quintin Oliver, Richard Burns (until his death on 20 May 2008) and was chaired by Charles Berry. Malcolm Simpson became a member of the Committee on 25 June 2008 as an interim appointment.

The Committee must consist at all times of five members, three of whom are independent Non-Executive Directors. A quorum is three members two of whom must be independent Non-Executive Directors and the Committee meets a minimum of once each year.

The Committee's role is to make recommendations to the Board on the appointment of Directors and to support and assist the Board in fulfilling its responsibilities to shareholders in ensuring that the Board comprises individuals who are best able to fulfil the responsibilities of Directors. The Committee's responsibilities include:

- reviewing the structure, size and composition of the Board together with assessing the skills, knowledge, expertise and diversity of individual Directors
- establishing processes for the review of the performance of individual Directors, Board Committees and the Board as a whole
- establishing processes for the identification of suitable candidates for appointment to the Board
- preparing a description of the role and capabilities required for a particular Board appointment
- giving full consideration to succession planning for the Board
- reviewing the performance of any Director retiring by rotation who is planning to stand for re-election

The Executive Directors' service contracts and Non-Executive Directors' letters of appointment are available for inspection by prior arrangement during normal business hours at the Company's registered office.

Corporate Governance

Attendance at meetings

The table below sets out the attendance at meetings of the Board and its committees during the year:

	Board	Audit	Remuneration	Nomination
Number of meetings held	13	4	2	3
Meetings attended				
Charles Berry	13	–	–	3
John Clough MBE	13	–	–	3
Ian McLeod	12	–	–	–
Drew Johnson	13	–	–	–
Dave Routledge	13	–	–	3
Michael Roberts OBE ¹	8 (of 9)	2 (of 2)	1 (of 1)	–
Quintin Oliver	11	3	2	3
Malcolm Simpson	13	4	2	–
Richard Burns ²	9 (of 12)	3	1	2
Tracy Clarke ³	7 (of 7)	2 (of 2)	1 (of 1)	–

¹ Retired on 22 November 2007

² Deceased 20 May 2008

³ Appointed 1 October 2007

Performance Evaluation

During the year the Board has undergone an external performance evaluation process undertaken by the Institute of Company Secretaries and Administrators (ICSA). The result of that evaluation was positive and recommendations have been noted and actioned as appropriate.

Relationship with Shareholders

The Board recognises the importance of maintaining an effective investor relations and communication programme as part of its ongoing relationship with the Company's shareholders.

The Company maintains a regular dialogue with institutional investors and broker analysts, providing them with such information on the Company's progress and future plans as is permitted under the guidelines of the Listing Rules. In particular, twice a year, following announcement of the interim and full-year results, they are invited to briefings given by the Chief Executive and Finance Director where they have the opportunity to raise any questions as appropriate.

The Company's main institutional shareholders have been advised that in line with the provisions of the Code, the Senior Independent Director (SID) and the other Non-Executives may attend those briefings and, in any event, would attend if requested to do so.

The Chairman is briefed periodically on investors' perceptions and such issues are discussed in the context of regular Board meetings.

The AGM provides all shareholders with the opportunity to develop their understanding of the Company and ask questions of the Board on matters put to the meeting including the Annual Report and Accounts.

Financial Reporting

The financial position of the Company and its Group companies has been and will continue to be presented in a number of ways during the year to ensure shareholders and potential shareholders can make a balanced assessment of the Company. This includes:

- Interim Management Statements
- Half yearly Report and Accounts
- Announcements regarding significant developments and contract wins which may affect the share price

Going Concern

After making all proper enquiries the Directors have a reasonable expectation that the Company and its Group companies have adequate resources to continue in operational existence for the foreseeable future. For this reason they continue to adopt the going concern basis in preparing the accounts.

Risk Management

The Board has overall responsibility for the Company's system of internal control and risk management. The matters reserved to the Board ensure that the Directors control all significant strategic, financial and organisational issues. An Executive Director, Dave Routledge, has been assigned the specific responsibility of health, safety, environment and security and reports to the Board accordingly.

Appropriate levels of insurance were in place throughout the period ended 31 May 2008 to cover Directors' actions or omissions.

Corporate Governance



Internal Control

As required by the UK Listing Authority, the Company has complied throughout the year with the provisions of the Code relating to internal controls, having implemented the procedures necessary to comply with the guidance on internal control published in October 2005 (Turnbull Guidance) and to report in line with that guidance.

The Board is responsible for the Group's system of internal control and for reviewing its effectiveness. Such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss. There is an established internal control framework in place, which is continually reviewed and updated taking into account the changing nature of the Group's operations. The key elements of the system which has been in place for the whole of the year and up to the date of approval of this Report and Accounts are as follows:

Control environment

An organisational structure is in place with clear lines of duty and accountability. There are clearly defined authorisation limits for individual managers, with transactions being approved at the appropriate level of authority. The business is required to comply with the financial policies and procedures as documented in the Group's internal manuals.

The Company has a formal 'whistleblowing' policy for Partners to report any issues of concern relating to dishonesty or malpractice in the Group. All concerns reported are investigated by senior management.

Risk management

The Company has a dedicated risk management team and has recently established a risk review board to monitor and evaluate the risk registers compiled by each business area of the Group. The risk review board reports to the Board and Audit Committee on a quarterly basis regarding the effectiveness of the risk identification process and of the action plans for the mitigation of such identified risks.

The Company has an integration process to ensure the risk management processes are introduced to any newly acquired business from acquisition with a plan to fully implement those systems as soon as reasonably practicable after acquisition.

Information and Communication

Budgets are prepared by management and approved by the Board on an annual basis. Financial results and cash flows are reported to the Board at each Board meeting and operational management have a monthly accountability review with the Executive Directors to assess any areas of weakness and to agree any necessary corrective action or mitigate any significant variances between budget and actual financial results. Forecasts are updated periodically throughout the financial year.

Audit

The Group's internal audit function reports to the Board and the Audit Committee on the outcomes of work undertaken which follows an approved internal audit programme. The role of the Audit Committee is detailed earlier in this report.

Compliance with the Code

The Board considers that the Company complied with the provisions of the Code throughout the year 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. Following the death of Richard Burns in May 2008 and until the appointment of his replacement, the Board composition does not meet the provisions of the Code in this regard.

Malcolm Simpson has been appointed Senior Independent Director on a temporary basis.

On behalf of the Board

Christopher Judd
Company Secretary
1 September 2008

Corporate Social Responsibility

Social Responsibility (SR) is an integral part of who we are and how we develop as an organisation.

An integrated approach, one that successfully embraces SR into our overall business strategy, culture and operations, is a crucial factor in eaga's fundamental commitment to stand for something different, and to deliver something more.

As a co-owned company with clear underlying social and environmental principles, we are always looking for ways in which we can capitalise on our enormous potential to demonstrate how core business success can fit alongside a clear commitment to social and environmental responsibility.

Our commitment to SR is driven by eaga's central mission, which is to care for our Partners, customers and communities with integrity, respect and enthusiasm. This approach over the last twelve months has seen engagement in the following areas:

- Partners – engaging our Partners in our SR work through a range of social and environmental initiatives that educate and inform, encouraging participation, decision making and ownership throughout the business
- customers – working with the vulnerable customers we serve to ensure that we deliver all the extra assistance we can to those most in need
- communities – supporting the communities in which we live and work with structured and sustainable financial and human resource
- environment – further reducing our impact on the environment by achieving carbon neutral status through our business operations during 2008 and delivering an ambitious programme of continuous development to improve upon this year on year

Supporting our Partners – Environment Champions

As a large employer, engaging our Partners in the urgency and seriousness of the environmental challenges that face us is critical for our ongoing growth and development. To be able to assess the environmental impact that our business has and create a network of our Partners to drive operational and behavioural change throughout the business, we established the Environment Champions programme.

Our Environment Champions are the heartbeat of this environmental engagement - educating, supporting and rallying other eaga Partners to engage and make those all important

individual contributions. Over the year, we have taken a cross-section of more than 50 of our Partners across the UK through an intensive training schedule and empowered them to identify opportunities to implement a range of new initiatives, raise awareness and improve our environmental performance.

Achievements of the Environment Champions programme to date include:

- full audits of waste, recycling and energy use across all main sites
- a complete transport audit for field-based Partners including vehicles' fuel use, mileage, tyre pressures and load values
- high profile Environment Champions launch events across all main sites

Resulting in:

- audit results providing a benchmark and starting point from which to drive and demonstrate change throughout the business
- provision of improved recycling facilities throughout the business
- energy waste reduction initiatives designed to challenge behaviour
- reduced consumption of paper and other goods through targeted campaigns

Our network of Environment Champions are also starting to drive other initiatives such as travel and transport developments and we anticipate further developing this network as the business continues to grow.

"The Environment Champions initiative has proven hugely successful – it's given Partners the opportunity to gain a more in-depth knowledge and understanding of the environmental impact of some of the practical improvements that can be quickly implemented. The Champions have made quite an impression across the entire business, and we're already seeing the real difference that some of our changes have made".

Sarah Europe-Finner,
Environment Champion, eaga House



Supporting our Customers – Warm Front

As part of our commitment to supporting the vulnerable customers with which we work, we wanted to find a solution to help address, where possible, the cost of customer contributions under the hugely popular Warm Front Scheme.

While the independent review commissioned by Defra confirmed that the Scheme was excellent value for money, rising costs in the market and finite Government grant funding meant that more customers were being asked to contribute towards the cost of their work than in previous years.

As a result, eaga made over £1m worth of further funding available to these customers from April 2007 to March 2008, all of which has allowed work to proceed under Warm Front that would not otherwise have gone ahead, due to the inability of those customers to fund the contributions required.

Support of this magnitude has made a profound difference to the many thousands of customers that we were able to help, and has allowed many jobs under Warm Front to proceed that would have otherwise stalled.

“We have built our business on doing everything we can to recognise, understand and – wherever possible – support the needs of the vulnerable customer group that we serve. Helping out where we can with the cost of customer contributions has meant that an increased number of homes have been able to benefit from Warm Front which would otherwise have missed out on the assistance they badly need”.

Paul Varley, Managing Director,
eaga Managed Services Division



Corporate Social Responsibility

Supporting our Communities – Flood Victims

By creating a unique multi-agency partnership of regional Fire & Rescue teams, the Environment Agency, Local Authorities, Parish Councils and local Flood Action Groups, we were able to bring much needed practical support to hundreds of previously flooded households and community buildings.

We identified areas in Morpeth, Northumberland and Catcliffe, South Yorkshire as amongst the worst hit areas by the severe floods during the summer of 2007. Over one year on many families and homeowners remain displaced as a result, some still living in caravans and temporary accommodation, many having lost practically all their possessions along the way.

Having identified the need and designed an appropriate programme of distribution, including community demonstrations and supporting flood awareness information, we distributed over 5,000 'FloodSax' to the most at risk communities.

FloodSax are a high-absorbency, super-lightweight alternative to sand bags, have a five year shelf life and are fully biodegradable. This product is particularly beneficial for elderly and disabled homeowners, two groups that are often most at risk during flooding. FloodSax were distributed to areas identified as at severe risk of further flooding, including a school, church and other community buildings.

"I welcome this joint initiative to provide all previously flooded households in the Catcliffe area of Rotherham with added protection against flooding. Last summer's floods caused misery for thousands of people with widespread damage across large parts of the country. Thousands of homes and businesses were affected with further damage to schools, roads and leisure facilities. Agriculture and the tourist industry were also hit."

John Healey MP, Minister of State,
Communities & Local Government



Supporting our Communities – the eaga Community Fund

We established the eaga Community Fund during 2007 to support community organisations as they seek to tackle, at a local level, the social and environmental issues that are aligned with our own business interests. The fund supports projects that educate, raise awareness and demonstrate engagement in addressing environmental issues at a grass roots level. Applications that also offer opportunities for participation and direct involvement for eaga staff are particularly welcome, as we feel we have a role to play in encouraging our employees to become engaged and contribute positively to their local communities.

The fund is currently active in regions where eaga has substantial areas of operations: namely, North East England; South Yorkshire; Wales; Scotland; and Northern Ireland. Looking forward our objective is to significantly increase the size of this fund and number and range of projects funded and develop a volunteering scheme running alongside it to provide practical help and support.

The most recent round of funding has seen us support a total of 33 local projects across the five funding regions, representing a huge array of activity from renewables demonstration kits and Historic Woodland management to supporting Community Farms and community clean-ups.

Kids Kabin -

an example of the eaga Community Fund in action

As part of a local environmental scheme to demonstrate how much energy is used to 'feed' electrical appliances, children at Newcastle's Byker-based community project - Kids Kabin - use their pent-up energy to power household gadgets. The centre, which provides activities for children aged between 8 and 16, was successful in applying to the eaga Community Fund and awarded £4,000 to further develop their scheme.

"This is a very simple and practical yet highly educational local scheme that demonstrates the importance of energy efficiency and teaches children about the wider issues such as climate change. The clever use of bikes and a certain amount of creativity and practicality injects all important fun into this project, which in turn provides these children with a desire to learn and creates discussion and debate around these crucial issues".

Nicola Andrews,
eaga Community Fund Committee Member



Corporate Social Responsibility



Supporting the Environment – Computer Aid International

Every year at eaga we turn over high volumes of ICT equipment as it becomes obsolete, or simply worn out. We saw this as an opportunity to turn a potentially hazardous waste into a useful resource, whilst operating under a zero-landfill policy and within the Waste, Electrical and Electronic Equipment (WEEE) Directive.

Having researched the options we decided to partner up with Computer Aid International, who would be able to refurbish our equipment and ship it to developing countries for use in schools, hospitals and community organisations.

All data is securely wiped using Government-approved techniques that guarantee to destroy and make 100% of hard disk data unrecoverable. Due to the amount of data that we process and the vulnerable communities that we work with, this had to be very clearly demonstrated before we were able to donate equipment.

Where items are not able to be refurbished they are shipped to licenced waste management companies in Belgium and Holland, where they are disposed of in an environmentally friendly way.

To date we have donated over 500 laptops, PCs and monitors, all of which have been refurbished and are now in use in developing countries. In addition we have supplied Computer Aid with printers, scanners, cables and telephony equipment.

Our last consignment during the year went to Todo Chilenter in Chile - a partner organisation that Computer Aid work closely with. Todo Chilenter then distribute the computers to schools throughout Chile, including some of the most disadvantaged and rural schools in the extreme north and south of the country that would otherwise have no access to digital information. Todo Chilenter also works with the organisation La Junta Nacional de Jardines Infantiles and Foundation Integra in setting up computer labs in nurseries to introduce ICT to single mothers from the economically deprived neighbourhoods of Santiago and its region.

Our portfolio of Social Responsibility programmes and initiatives is varied and wide-reaching; indeed we have only scratched the surface here. Through even stronger engagement, clear thought leadership and tangible results, we are focused on using our SR activity as a key vehicle in underlining our core commitment to making a positive difference for our Partners, customers and communities as we move forward.

“The diversity and depth of our Social Responsibility work is hugely important, and we’re already looking at ways to further expand our reach and double our impact. We want to drive our efforts on, putting sustainability at the core of what we do to improve communities and change lives, every day.”

Sam Robinson, Social Responsibility Manager



Financial Statements

Independent Auditors' Report to the Members of eaga plc



We have audited the Group financial statements of eaga plc for the year ended 31 May 2008 which comprise the Consolidated Income Statement, the Consolidated Statement of Recognised Income and Expense, the Consolidated Balance Sheet, the Consolidated Cash Flow Statement, the Group Accounting Policies 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 eaga plc for the year ended 31 May 2008 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 whether in our opinion the information given in the Directors' Report is consistent with the Group financial statements. The information given in the Directors' Report includes that specific information presented in the Operational Review and the Financial Review that is cross referred from the Principal Activities and Business Review section of the Directors' Report.

In addition we report to you if, in our opinion, 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 Combined Code (2006) 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, the Operational Review, the Financial Review 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 May 2008 and of its profit and cash flows for the year then ended;
- the Group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation; and
- the information given in the Directors' Report is consistent with the Group financial statements.

PricewaterhouseCoopers LLP

Chartered Accountants and Registered Auditors

Newcastle upon Tyne

1 September 2008

Consolidated Income Statement

For the year ended 31 May 2008

	Notes	Year ended 31 May 2008 £'000	Year ended 31 May 2007 £'000
Continuing operations			
Revenue	2	638,960	482,560
Cost of sales		(518,508)	(383,549)
Gross profit		120,452	99,011
Administrative expenses		(92,474)	(186,438)
EBITA		38,044	31,298
Amortisation of intangible fixed assets	14	(7,417)	(3,245)
Exceptional costs	7	(2,649)	(115,480)
Operating profit/(loss) after exceptional items	3	27,978	(87,427)
Finance income	8	1,759	1,226
Finance expense	9	(1,372)	(1,186)
Profit/(loss) before tax		28,365	(87,387)
Tax (expense)/credit	10	(8,945)	25,761
Exceptional tax expense	7	(1,189)	–
Profit/(loss) for the year		18,231	(61,626)
Profit/(loss) for the year attributable to:			
Equity holders of the Company		17,945	(61,715)
Minority interests		286	89
		18,231	(61,626)
Earnings/(loss) per share (pence)			
– basic	12	7.20	(34.33)
– diluted	12	7.17	(34.33)

EBITA comprises profit on ordinary activities before interest, tax, amortisation of intangible fixed assets and exceptional costs.

Consolidated Statement of Recognised Income and Expense

For the year ended 31 May 2008

	Notes	Year ended 31 May 2008 £'000	Year ended 31 May 2007 £'000
Profit/(loss) for the year	26	18,231	(61,626)
Net exchange differences arising on consolidation	26	68	42
Total recognised income/(expense) for the year		18,299	(61,584)
Attributable to:			
Equity holders of the Company		18,015	(61,673)
Minority interests		284	89
		18,299	(61,584)

Consolidated Balance Sheet

As at 31 May 2008

	Notes	31 May 2008 £'000	31 May 2007 £'000 Restated (note 30)
Non-current assets			
Goodwill	13	57,029	38,133
Intangible assets	14	15,161	15,699
Property, plant and equipment	15	11,633	11,083
Deferred tax assets	10	13,453	26,980
		97,276	91,895
Current assets			
Inventories	17	8,568	4,479
Trade and other receivables	18	76,652	52,401
Derivative financial instruments	19	559	548
Current tax assets		163	–
Current asset investments	20	4,938	4,632
Cash and cash equivalents	21	15,322	6,776
		106,202	68,836
Current liabilities			
Trade and other payables	22	95,051	96,001
Loans and borrowings	23	206	1,625
Current tax liabilities		–	1,354
		95,257	98,980
Net current assets / (liabilities)		10,945	(30,144)
Non-current liabilities			
Other non-current liabilities	22	608	2,437
Loans and borrowings	23	266	306
Provisions for other liabilities and charges	24	586	342
		1,460	3,085
Net assets		106,761	58,666
Equity			
Share capital	25	251	50
Retained earnings	26	73,882	54,856
Other reserves	27	32,266	3,648
Total shareholders' equity		106,399	58,554
Minority interest in equity	26	362	112
Total equity		106,761	58,666

The Group financial statements were approved by the Board of Directors on 1 September 2008 and signed on its behalf by

John Clough MBE, Ian McLeod, Directors

The notes on pages 45 to 70 form part of these Group financial statements.

Consolidated Cash Flow Statement

For the year ended 31 May 2008

	Notes	Year ended 31 May 2008 £'000	Year ended 31 May 2007 £'000
Operating profit/(loss) after exceptional items		27,978	(87,427)
Depreciation of property, plant and equipment	15	3,514	2,353
Amortisation of intangible assets	14	7,417	3,245
Increase in inventories		(2,030)	(179)
Increase in trade and other receivables		(15,167)	(5,680)
(Decrease)/increase in trade and other payables		(2,675)	20,985
Profit on sale of investments		-	(23)
Loss on sale of property, plant and equipment		312	260
Share based exceptional cost credited directly to equity		2,649	104,225
Fair value movements in derivatives		(11)	(48)
Exchange differences		(57)	35
Negative goodwill recognised in profit		-	(6)
Cash generated from operations		21,930	37,740
Finance income		1,759	1,208
Finance expense		(476)	(694)
Taxation paid		(523)	(5,209)
Cash generated from operating activities		22,690	33,045
Cash flows from investing activities			
Purchase of intangible assets		(369)	(437)
Purchase of property, plant and equipment		(3,999)	(8,040)
Proceeds from sale of property, plant and equipment		522	170
Proceeds from sale of investments		-	83
Purchase of subsidiary undertakings net of cash/overdrafts acquired	30	(24,805)	(31,093)
Payment of deferred consideration including finance costs	30	(11,054)	(475)
Net cash outflow from investing activities		(39,705)	(39,792)
Cash flows from financing activities			
Repayment of bank loans		(6)	(335)
Capital element of hire purchase agreements		(237)	(243)
Dividends paid to minority shareholders of subsidiaries		(34)	(15)
Dividends paid to equity holders of the Company		(1,568)	-
Increase in current asset investments	20	(306)	(3,257)
Proceeds from issue of shares	25	28,956	69
Net cash inflow/(outflow) from financing activities		26,805	(3,781)
Net increase/(decrease) in cash and cash equivalents		9,790	(10,528)
Cash and cash equivalents at start of year	21	5,532	16,060
Cash and cash equivalents at end of year	21	15,322	5,532

Group Accounting Policies



eaga plc is a public company limited by shares and incorporated in England and Wales under the Companies Act 1985. The address of the registered office is eaga House, Archbold Terrace, Jesmond, Newcastle upon Tyne, NE2 1DB. The Company has its primary listing on the London Stock Exchange.

The principal activities of the Group are the delivery of products and services within the residential energy efficiency market.

The principal accounting policies adopted in the preparation of this consolidated financial information are set out below. These policies have been consistently applied to all periods presented, unless otherwise stated.

Basis of preparation

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (including International Financial Reporting Interpretations Committee ("IFRIC") interpretations) as adopted by the European Union (IFRSs as adopted by the EU) and have been prepared in accordance with the Listing Rules of the UK Financial Services Authority, and the Companies Act 1985, as applicable to companies reporting under IFRS.

The consolidated financial statements have been prepared under the historical cost convention, except as modified by the revaluation of certain financial instruments. The consolidated financial statements are presented in Pounds Sterling which is the Company's presentational and functional currency.

The preparation of consolidated financial statements in conformity with IFRS 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 consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed at the end of these Group accounting policies.

New standards and interpretations

From 1 June 2007 the following standard, amendments and interpretations became effective and were adopted by the Group:

- IFRIC10 Interim financial reporting and impairment
- IFRIC11 Group and treasury share transactions
- IFRS4 Insurance Contracts revised Implementation Guidance
- IFRS7 Financial Instruments: Disclosures
- IAS1 Amendment – Presentation of financial statements

The adoption of these amendments and interpretations has not had a significant impact on the Group's profit for the year or equity. IFRS7 has impacted the disclosures in the notes to the consolidated financial statements.

The following standards, amendments and interpretations are not yet effective and have not been adopted early by the Group:

- IFRIC12 Service concession arrangements
- IFRIC13 Customer loyalty programmes
- IFRIC14 The limit on a defined benefit asset, minimum funding requirements and their interaction
- IFRIC15 Agreements for the construction of real estate
- IFRIC16 Hedges of a net investment in a foreign operation
- IFRS8 Operating segments
- IFRS3 Revised – Business combinations
- IAS23 Revised – Borrowing costs
- IAS27 Revised – Consolidated and separate financial statements
- IFRS1 Amendment – First time adoption of international financial reporting standards
- IFRS2 Amendment – Share-based payment
- IAS1 Amendment – Presentation of financial statements
- IAS28 Amendment – Interests in associates
- IAS31 Amendment – Interests in joint ventures
- IAS32 Amendment – Financial instruments: Presentation
- IAS39 Amendment – Financial instruments: Recognition and measurement

Amendments the following standards arising from the May 2008 Annual Improvements process: IFRS5, IAS1, IAS16, IAS19, IAS20, IAS23, IAS27, IAS28, IAS29, IAS31, IAS36, IAS38, IAS39, IAS40 and IAS41.

IFRIC12 and IFRIC14 are effective for the Group from 1 June 2008. IFRS3 Revised, IAS27 Revised, IAS28 Amendment, IAS31 Amendment and IAS39 Amendment are effective for the Group from 1 June 2010. The other standards, amendments and revisions are effective for the Group from 1 June 2009. The adoption of these standards, amendments and interpretations is not expected to have a material impact on the Group's profits or equity. The adoptions may affect disclosures in the Group's financial statements.

Basis of consolidation

Subsidiaries

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies, generally accompanying a shareholding of more than 50 per cent of the voting rights. Subsidiaries are consolidated from the date at which control is transferred to the Group using the purchase method of accounting, whereby the recognised identifiable assets, liabilities and contingent liabilities are measured at their fair value at the date of acquisition. They are excluded from the consolidated financial statements from the date that control ceases.

The interest of minority shareholders is stated at the minority's proportion of the assets, liabilities and contingent liabilities recognised. The Group applies a policy of treating transactions with minority interests as transactions with parties external to the Group. Purchases of minority interests' shareholdings result in goodwill, being the difference between any consideration paid and of the share acquired of the carrying value of the net assets of the relevant subsidiary. Disposals to minority interests result in gains and losses for the Group that are recorded in the income statement.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies into line with those used by the Group. All inter-company transactions and balances between Group entities are eliminated on consolidation. When the financial year end of a subsidiary differs from the Group's year end, the subsidiary is consolidated using management accounts for the relevant period.

In accordance with SIC 12 'Consolidation – Special Purpose Entities', the results of one entity, an insurance cell, are consolidated as a special purpose entity as the activities of the insurance cell are conducted on behalf of the Group according to its specific business needs so that the Group obtains the benefits of the insurance cell's operation.

Joint ventures

An entity is regarded as a joint venture if the Group has joint control over its operating and financial policies. The Group's interests in jointly controlled entities are accounted for by proportionate consolidation, whereby the Group's share of joint venture income and expenses, assets and liabilities and cash flows are combined on a line-by-line basis with similar items in the Group's consolidated financial statements. Where necessary, adjustments are made to the consolidated financial statements of joint ventures to bring the accounting policies used in to line with those used by the Group. The Group recognises only the proportion of gains or losses on the sale of assets to joint ventures that is attributable to other venturers. The Group does not recognise its share of gains or losses from joint ventures that result from the Group's purchase of assets from them until it re-sells those assets to an external entity.

Property, plant and equipment

Property, plant and equipment are stated at cost, less accumulated depreciation and any impairment in value. Cost includes expenditure that is directly attributable to the acquisition of the asset. Depreciation is calculated so as to write off the cost of property, plant and equipment, less their estimated residual values, on a straight-line basis over the expected useful economic lives on the following rates:

Long leasehold land and buildings	Period of lease
Alterations to leasehold property	Period of lease
Fixtures and fittings	20-33%
Equipment	20-50%
Motor vehicles	20-33%
Buildings	2%

An item of property, plant and equipment is de-recognised upon disposal or when no future economic benefits are expected from its use. Any gain or loss arising on de-recognition of the asset is recognised in the income statement in the period the asset is de-recognised.

Assets' residual values, useful lives and methods of depreciation are reviewed, and adjusted if appropriate, at each financial period end. Changes in expected useful lives are accounted for as a change in accounting estimate.

Borrowing costs incurred on the acquisition of property, plant and equipment are recognised as an expense when incurred.

Business combinations and goodwill

Business combinations are accounted for using the purchase method of accounting. This involves recognising identifiable assets (including intangible assets not previously recognised by the acquiree) and liabilities (including contingent liabilities) of acquired businesses at fair value.

Goodwill acquired in a business combination is initially measured at cost being the excess of the fair value of the consideration exchanged including directly attributable acquisition costs over the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities. Where the net fair value of the acquired identifiable assets, liabilities and contingent liabilities exceeds consideration, the excess or "negative goodwill" is recognised immediately in the income statement.

Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash generating units.

Each cash generating unit or group of cash generating units to which the goodwill is allocated represents the lowest level within the Group at which the goodwill is monitored for internal management purposes and is not larger than a segment based on either the Group's primary or secondary reporting format determined in accordance with IAS14 Segment Reporting.



Gains and losses on the disposal of a business component are calculated on a basis which incorporates the carrying amount of goodwill relating to the business sold.

Intangible assets

Intangible assets acquired separately are measured at cost on initial recognition. The cost of intangible assets acquired in a business combination is measured at fair value as at the date of acquisition. Fair values are based on market values where available. Where market values are not readily available, the Group establishes fair value using valuation techniques; these include the use of recent arm's length transactions, reference to other similar instruments and discounted cash flow analysis. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses.

The Group has no internally generated intangibles which meet the recognition criteria. Expenditure on internally generated intangibles is recognised in the income statement in the year in which the expenditure is incurred.

The useful lives of intangible assets, representing the period of their expected benefit to the Group, are as follows:

Acquisition intangibles	Over life of the intangible asset (typically 2-10 years)
Computer software	2-5 years
Patent assets	Over life of patent (typically 5-20 years)

Intangible assets are assessed for impairment whenever there is an indication that the intangible asset may be impaired. Assets' amortisation periods and amortisation methods are reviewed, and adjusted if appropriate, at each financial period end. Changes in expected useful lives are accounted for as a change in accounting estimate.

Any gain or loss arising on de-recognition of intangible assets is measured as the difference between the net disposal proceeds and the carrying amount of the assets and is recognised in the income statement in the period the asset is de-recognised.

Impairment of non-financial assets

At each reporting date, the Group assesses whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. Where fair value cannot be determined then the recoverable amount will be determined by reference to value in use. Value in use is determined for an individual asset, unless the asset does not generate cash flows that are largely independent of those from other assets or groups of assets.

Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used.

Impairment losses of continuing operations are recognised in the income statement in that expense category consistent with the function of the impaired asset.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Group makes an estimate of any amount recoverable. A previously recognised impairment loss is only reversed if there has been a change in the estimates used to determine the asset's recoverable amount since the impairment loss was recognised. Impairment losses on goodwill are not reversed.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on a "first in – first out" basis and comprises direct materials and where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their location and condition at the balance sheet date. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution. Provision is made for obsolete, slow moving or defective items where appropriate.

Cash and cash equivalents

Cash and cash equivalents in the balance sheet comprise cash at bank and in hand, short term deposits with an original maturity of three months or less. Bank overdrafts are included within borrowings in current liabilities on the balance sheet and within cash and cash equivalents in the cash flow statement.

The Group holds certain restricted cash balances in relation to its insurance activities which are included in current asset investments.

Provisions

Provisions for liabilities and charges are recognised when the Group has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation and the amount can be reliably measured. If the effect is material, provisions are discounted using a pre-tax discount rate.

Employee pension obligations

The Group operates a number of defined contribution plans. The Group pays contributions to corporate or individually administered pension plans on a mandatory, contractual or voluntary basis. The Group has no further obligation under these plans once the contributions have been paid.

Horrocks Group plc, which the Group acquired during the year, has a defined benefit plan for the benefit of less than twenty Partners. The plan is closed to new members and all benefits accruing to current members are frozen. The Group recognises a liability in the financial statements representing the net obligation under the plan based on a valuation from an independent actuary which is updated at least annually. Movements in the net obligation are credited/charged to the income statement. Full IAS19 defined benefit disclosures are not given because the defined benefit obligation, plan assets and net deficit are not material.

Leases

Leases where the Group assumes substantially all of the risks and rewards of ownership are classified as finance leases. Assets held under finance leases and hire purchase contracts are capitalised at the lower of the fair value of the leased asset and the present value of the minimum lease payments. Capitalised leased assets are depreciated over the shorter of the estimated useful economic life of the asset and the lease term. The corresponding leasing commitments, net of finance charges, are included in liabilities.

Leasing payments are analysed between capital and interest components so that the interest element is charged to the income statement over the period of the lease at a constant rate of interest on the remaining balance of the liability outstanding.

All other leases are treated as operating leases with annual rentals, net of any incentives received, recognised as an expense on a straight-line basis over the term of the lease.

Revenue recognition

Revenue is recognised to the extent that it is probable that economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration receivable, excluding discounts, rebates, value added tax and other sales taxes.

Certain of the Group's activities will also involve the sub-contracting of installation of works to third parties. Revenue for sub-contracted installations is recognised on a principal basis as the Group ultimately retains the risks and rewards of these installations.

The Group generates revenue from three main sectors being:

Managed Services (formerly Government Contracts)

The Group acts as lead contractor and principal on a number of contracts. These contracts will typically involve multiple revenue streams. Revenue is generated from a combination of fixed and variable fees. Revenue is based on the fair value of each revenue stream and is recognised when the Group is contractually entitled to recognise the revenue.

Installation Services

Installation Services generates revenue from the installation of energy efficient measures such as central heating and insulation. Revenue is recognised by reference to the number of energy efficient measures installed.

Specialist Support Services

Specialist Support Services generates revenue from the provision of bespoke support services which are driven by the same market dynamics as other segments. Revenue is recognised at the date of sale except if services are to be provided over future periods where the income is deferred and recognised over the relevant period.

Interest income

Interest income is recognised on a time-proportion basis using the effective interest method.

Financial instruments

Financial assets and liabilities are recognised on the Group's balance sheet when the Group becomes party to the contractual provisions of the instrument. The Group considers whether a contract contains an embedded derivative at inception. Any embedded derivative is separated from the host contract where the associated economic characteristics and risks are not closely related to those of the host contract. The Group has reviewed its contracts and has not identified any embedded derivatives.

Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. The amount of the provision is measured as the difference between the receivable's carrying amount and the present value of estimated future cash flows discounted at the receivable's original effective interest rates. The amount of the provision is recognised in the income statement.



Trade payables

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost and any difference between the net proceeds and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method. Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

Derivatives

All derivatives are carried at fair value with movements in fair value recognised in the income statement. Hedge accounting is not applied.

Redeemable preference shares

Where redeemable preference shares exhibit the characteristics of a liability, they are recognised as a liability in the balance sheet, net of transaction costs. The corresponding dividends on these shares are charged as interest expense in the income statement.

Fair valuation

Fair values are based on market values where available. Where market values are not readily available, the Group establishes fair value using valuation techniques; these include the use of recent arm's length transactions, reference to other similar instruments and discounted cash flow analysis.

De-recognition of financial instruments

A financial asset is de-recognised when: the rights to receive cash flows from the asset have expired; the Group retains the right to receive cash flows from the asset but has assumed an obligation to pay them in full without material delay to a third party; or the Group has transferred its rights to receive cash flows.

A financial liability is de-recognised when the obligation under the liability is discharged, cancelled or expires.

Foreign currency translation

Items included in the financial statements of each of the Group's entities are recorded using the currency of the primary economic environment in which the entity operates ("the functional currency").

The functional currency of the Group's foreign operations is the Canadian Dollar for eaga Canada Inc, Ark Solar Products Limited, Integrated Energy Systems Limited and Homeworks Services Inc and Indian Rupees for eaga Energy India Private Limited. As at the balance sheet date, the assets and liabilities of these subsidiaries are translated into Sterling at the rate of exchange at that date and their income statements are translated at the weighted average exchange rates for the period. The exchange differences arising on the translation are taken directly to a separate component of equity. On transition to IFRS, the translation reserve was set to zero as permitted under IFRS1. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the income statement.

Transactions in foreign currencies are initially recorded at the functional currency by applying the spot exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated to Sterling at the rate of exchange ruling at the balance sheet date. All differences are taken to the income statement. Non-monetary items that are measured at historical cost are translated using the exchange rate as at the date of the original transaction. Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rate when the fair value was determined.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying value of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operation and translated at the closing rate.

Taxes

Current tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the tax authorities. The tax rates used to compute the amounts are those that are enacted or substantively enacted at the balance sheet date.

Deferred tax

Deferred tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts at the balance sheet date. Deferred tax liabilities are recognised for all temporary differences, except

- where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss
- in respect of taxable temporary differences associated with investments in subsidiaries or joint ventures, where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future

Deferred tax assets are recognised for all temporary differences, carry forward of unused tax credits and unused tax losses to the extent that it is probable that taxable profit will be available against which the temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised except

- where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and in respect of deductible temporary differences associated with investments in subsidiaries and joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary difference will reverse in the foreseeable future and taxable profits will be available against which the temporary differences can be utilised

Deferred tax is calculated using the enacted or substantively enacted rates that are expected to apply when the asset or liability is settled. Deferred tax is charged or credited to the income statement, except when it relates to items credited or charged direct to equity in which case the deferred tax is also credited or charged to equity.

Share capital

Ordinary and Preferred Ordinary Shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Exceptional items

Exceptional items comprise items of income and expense that are material in amount and unlikely to recur and which merit separate disclosure in order to provide an understanding of the Group's underlying financial performance. Examples of events giving rise to the disclosure of material items of income and expense as exceptional items include, but are not limited to, impairment events, disposals of operations or individual assets, litigation claims by or against the Group and the restructuring of components of the Group's operations.

Partnership bonus

Prior to the Company's flotation on the London Stock Exchange on 7 June 2007, arrangements existed such that an annual partnership bonus was payable to all employees who were Qualifying Partners. The partnership bonus was determined in relation to the results for the financial period and allocated to Qualifying Partners based on a percentage of pay. An accrual for this bonus was included in the accounts for the relevant financial period based on the Directors' estimate of the level payable. This bonus structure ceased from the date of flotation.

Dividends

Dividends paid on Ordinary shares are recognised as a liability in the financial statements in the period in which the dividends are paid or approved by the Company's shareholders, whichever is earlier.

Self insurance

The Group has access to a protected cell which is registered and operational in Guernsey. The protected cell provides insurance cover against the costs incurred by the Group in relation to certain repairs of new or refurbished central heating systems installed under certain government contracts. A liability, included within accruals and deferred income, is established based on the estimated costs of settling known and outstanding claims.

Share-based payments

The Group allows employees to acquire shares of the Company through share option schemes, details of which are in the Remuneration Committee Report. The fair value of share options granted is recognised as an employee expense with a corresponding increase in equity. The fair value is measured at grant date, using an appropriate model, taking into account the terms and conditions upon which the share options were granted, and is spread over the period during which the employees become unconditionally entitled to the options. The amount recognised as an expense is adjusted to reflect the actual number of share options that vest except where forfeiture is only due to share prices not achieving the threshold for vesting.

Significant accounting judgements, estimates and assumptions

In order to prepare these consolidated financial statements in accordance with the above accounting policies, management has used estimates and judgements to establish the amounts at which certain items are recorded. Critical accounting estimates and judgements are those which have the greatest impact on the consolidated financial statements and require the most difficult, subjective and complex judgements about matters that are inherently uncertain and are set out below.

Impairment of Goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash generating units to which the goodwill is allocated. Estimating a value in use amount requires management to make an estimate of the expected future cash flows from the cash generating unit and also to select a suitable discount rate in order to calculate the present value of those cash flows. The carrying value of goodwill at 31 May 2008 was £57,029,000 (31 May 2007: £38,133,000 restated). Further details are given in note 13.

Notes to the Financial Statements



1. SEGMENTAL ANALYSIS

The Group's primary format is business segments and its secondary format is geographical segments.

Primary reporting format – business segments

The Group is organised into three main businesses

- Managed Services: undertaking programmes for government and commercial organisations
- Installation Services: installation of insulation, central heating systems and energy efficient related products
- Specialist Support Services: aftercare services, wholesale insulation, on-line retail of energy efficient white goods, sale to utility companies of energy savings accredited to energy efficient measures installed, insurance and overseas activities

Eliminations represent the elimination of inter-segment sales. Transfer pricing between business segments is set on an arm's length basis in a manner similar to transactions with third parties. Revenue, costs, assets and liabilities have been allocated between segments firstly on those items specific to the segment; any remaining items have been allocated using a reasonable basis such as revenue. Certain costs have not been allocated as identified below.

Year ended 31 May 2008

	Managed Services £'000	Installation Services £'000	Specialist Support Services £'000	Eliminations £'000	Total £'000
Revenue					
Third party	420,262	144,314	74,384	–	638,960
Inter-segment	–	104,808	2,641	(107,449)	–
Total	420,262	249,122	77,025	(107,449)	638,960
Segmental operating profit	8,506	12,066	10,055	–	30,627
Unallocated exceptional costs (note 7)					(2,649)
Operating profit					27,978
Net finance income					387
Total tax expense					(10,134)
Profit for the year					18,231
Segment assets	35,705	123,031	15,804	–	174,540
Unallocated assets					28,938
Total assets					203,478
Segment liabilities	(42,880)	(43,207)	(10,158)	–	(96,245)
Unallocated liabilities					(472)
Total liabilities					(96,717)
Other segment information					
Capital expenditure (intangible assets and property, plant and equipment)					
– additions	800	3,390	552	–	4,742
– acquisitions	–	7,920	–	–	7,920
Depreciation	628	2,412	474	–	3,514
Amortisation of intangibles	113	7,249	55	–	7,417
EBITA	8,619	19,315	10,110	–	38,044

Unallocated assets comprise cash of £15,322,000, a deferred tax asset of £13,453,000 and a current tax asset of £163,000. Unallocated liabilities comprise, loans and borrowings of £472,000.

1. SEGMENTAL ANALYSIS (continued)

Year ended 31 May 2007

	Managed Services £'000	Installation Services £'000 Restated (note 30)	Specialist Support Services £'000	Eliminations £'000	Total £'000 Restated (note 30)
Revenue					
Third party	359,279	76,841	46,440	–	482,560
Inter-segment	–	81,623	2,899	(84,522)	–
Total	359,279	158,464	49,339	(84,522)	482,560
Segmental operating profit	7,560	12,999	7,494	–	28,053
Unallocated exceptional costs (note 7)					(115,480)
Operating loss					(87,427)
Net finance income					40
Tax credit					25,761
Loss for the year					(61,626)
Segment assets	28,690	85,532	12,243	–	126,465
Unallocated assets					34,266
Total assets					160,731
Segment liabilities	(36,247)	(40,899)	(12,382)	–	(89,528)
Unallocated liabilities					(12,537)
Total liabilities					(102,065)
Other segment information					
Capital expenditure (intangible assets and property, plant and equipment)					
– additions	2,439	4,689	1,361	–	8,489
– acquisitions	–	17,550	103	–	17,653
Depreciation	491	1,435	427	–	2,353
Amortisation of intangibles	80	3,110	55	–	3,245
EBITA	7,640	16,109	7,549	–	31,298

Unallocated assets comprise cash of £6,776,000, a deferred tax asset of £26,980,000, and prepaid flotation expenses of £510,000. Unallocated liabilities comprise, loans and borrowings of £1,931,000, current tax liability of £1,354,000, the accrued partnership bonuses of £7,155,000 and accrued flotation expenses of £2,097,000.

1. SEGMENTAL ANALYSIS (continued)

Secondary reporting format – geographical segments

The Group is based in the United Kingdom and substantially all the Group's operations occur within the United Kingdom. No other individual country contributed more than 10 per cent of consolidated revenue or assets. Revenue is based on the country in which the customer is located. Total assets and capital expenditure are based on asset location.

Year ended 31 May 2008

	Revenue £'000	Segment assets £'000	Capital expenditure £'000
United Kingdom and Republic of Ireland	632,412	170,701	4,486
Canada	6,431	3,491	225
India	117	348	31
	638,960	174,540	4,742
Unallocated assets	–	28,938	–
	638,960	203,478	4,742

Year ended 31 May 2007

	Revenue £'000	Segment assets £'000 Restated (note 30)	Capital expenditure £'000
United Kingdom and Republic of Ireland	476,571	122,882	8,106
Canada	5,658	3,163	126
India	331	420	257
	482,560	126,465	8,489
Unallocated assets	–	34,266	–
	482,560	160,731	8,489

2. REVENUE

Analysis by category:

	Year ended 31 May 2008 £'000	Year ended 31 May 2007 £'000
Sales of goods and services (excluding share of joint ventures' sales)	633,706	478,969
Share of sales of joint ventures	5,254	3,591
	638,960	482,560

3. OPERATING PROFIT / (LOSS) AFTER EXCEPTIONAL ITEMS

Operating profit / (loss) after exceptional items is stated after charging / (crediting)

	Year ended 31 May 2008 £'000	Year ended 31 May 2007 £'000
Staff costs (note 5)	115,041	77,183
Sub-contractor costs	233,401	303,994
Inventories recognised as an expense	155,824	46,221
Depreciation of property, plant and equipment	3,514	2,353
Amortisation of intangible assets	7,417	3,245
Negative goodwill recognised as profit	–	(6)
Loss on sale of property, plant and equipment	312	260
Operating lease rentals:		
– property	2,049	1,605
– plant and machinery	2,422	2,600
Hire of motor vehicles	4,898	4,550
Impairment of trade receivables	650	807

4. AUDITORS' REMUNERATION

During the year the Group (including its overseas subsidiaries) obtained the following services from their auditors and network firms at costs detailed below:

	Year ended 31 May 2008 £'000	Year ended 31 May 2007 £'000
Fees payable to the Company's auditor for the audit of the Company's annual accounts	100	74
Fees payable to the Company's auditor for other services:		
The auditing of accounts of undertakings of the Company pursuant to legislation	150	126
Other services supplied pursuant to legislation	49	1,276
Other services relating to taxation	157	578
Services relating to corporate finance transactions entered into or proposed to be entered into by or on behalf of the Company or any of its undertakings	–	220
	456	2,274

Included in the above are costs of £Nil (31 May 2007: £1,935,000) in relation to the Company's listing on the London Stock Exchange. These costs are non-recurring in nature and are included within the above captions as follows:

	Year ended 31 May 2008 £'000	Year ended 31 May 2007 £'000
Other services pursuant to legislation	–	1,257
Other services relating to taxation	–	458
Services relating to corporate finance transactions entered into or proposed to be entered into by or on behalf of the Company or any of its undertakings	–	220
	–	1,935

Fees for other services pursuant to legislation related to public reporting on the short form reports included within the Company's Prospectus as well as private reporting on the Company's financial and working capital position along with related required work. The taxation services related to advice regarding the restructuring of the employee based ownership of the Company and share option structure in advance of the IPO. The corporate finance fees related to advice provided to the Company in connection with the listing process.

The Group also capitalised £16,000 (2007: £533,000) of non-audit fees within goodwill relating to acquisitions.

5. STAFF COSTS

Staff costs for the Group during the year:

	Year ended 31 May 2008 £'000	Year ended 31 May 2007 £'000
Wages and salaries	101,206	67,894
Social security costs	10,538	6,750
Other pension costs (note 32)	3,297	2,539
	115,041	77,183

The average monthly number of people employed by the Group, including a proportionate share of people employed by joint ventures, is set out in the table below.

By business segment

	Year ended 31 May 2008 Number	Year ended 31 May 2007 Number
Managed Services	526	450
Installation Services	3,374	2,397
Specialist Support Services	250	194
	4,150	3,041

Key management compensation

	Year ended 31 May 2008 £'000	Year ended 31 May 2007 £'000
Salaries and short-term employee benefits	1,674	1,728
Post-employment benefits	35	817
Long term incentive plan	–	480
	1,709	3,025

Key management personnel comprise the Company's Board, details of whose remuneration are given the Remuneration Report.

6. SHARE BASED PAYMENTS

During the year to 31 May 2008 two equity-settled share-based payment arrangements existed, which are described below:

Type of arrangement	IPO Option Plan	IPO Key Management Plan
Date of grant	February 2007	May 2007
Number of options granted in year to 31 May 2008	–	–
Number of options granted in year to 31 May 2007	57,514,127	2,073,340
Fair value per share (pence)	181	176
Valuation basis	Listing Price	Black – Scholes ¹
Contractual life	7 June 2007	1-2 years
Vesting conditions	(i)	(ii)

(i) Options granted were by invitation at nil cost, all options were exercised immediately prior to listing on 7 June 2007.

(ii) Options granted were by invitation at nil cost, options are exercisable 50% after one year and 50% after two years.

In the year ended 31 May 2008 the total number of share options that lapsed under the IPO Key Management Plan was 70,042 (31 May 2007: Nil).

There was no cash cost to the Group as a result of these awards. The Group recognised total charges of £2,649,000 (2007: £104,225,000) related to equity settled share-based payment transactions during the year.

¹ Any change in the assumptions within the Black-Scholes pricing model would have no material affect on the valuation as the options were granted at nil cost.

7. EXCEPTIONAL COSTS

	Year ended 31 May 2008 £'000	Year ended 31 May 2007 £'000
Share based payments	2,649	104,225
Flotation expenses	–	4,051
Partnership bonus	–	7,155
Long-term incentive plan	–	49
	2,649	115,480
Exceptional tax expense	1,189	–

Share based payments

Share based payments comprise the IFRS2 charge arising in respect of the fair value of share options granted to Partners by the Company, Eaga Partnership Trustee Limited and Eaga Partnership Trustee Two Limited ("ePT"). These share based payments are exceptional items in accordance with the Group's accounting policies and reflect the 100% employee owned nature of the business prior to flotation. There is no cash cost to the Group in respect of the IFRS2 charge for these share based payments and a credit of equal quantum is made to reserves resulting in unchanged net assets before recognising a deferred tax asset of £429,000 (2007: £30.9 million) in the balance sheet, being the benefit of a statutory corporation tax deduction under Schedule 23 Finance Act 2003 in respect of the share options when they are exercised.

Awards were made under two option plans: the IPO Option Plan and the IPO Key Management Plan:

- The IPO Option Plan awards were granted in February and March 2007 solely in relation to successful admission of the Company's shares to the London Stock Exchange which was effected on 7 June 2007. The charge in the year to 31 May 2007 relates to this plan.
- The IPO Key Management Plan awards were granted on 31 May 2007 and were also conditional on successful admission of the Company's shares to the London Stock Exchange. The awards vest over the 2 years ending 7 June 2009. The charge in the year to 31 May 2008 relates to this plan.

Exceptional tax expense

The impact of the reduction to the UK Corporation Tax rate from 30% to 28% with effect from 1 April 2008 on the Group's deferred tax assets at 31 May 2008 has been included in the income statement as an exceptional tax expense.

Flotation expenses

The Flotation expenses related to expenditure incurred in relation to the Company's listing on the London Stock Exchange which did not relate directly to the raising of new equity and therefore could not be charged to the share premium account.

Partnership bonus

Partnership bonuses represented amounts due to Partners by virtue of their beneficial interest through the ePT in the ownership of the Group in the period prior to flotation.

Long-term incentive plan

A Directors' long-term incentive plan expired during the year to 31 May 2007.

8. FINANCE INCOME

	Year ended 31 May 2008 £'000	Year ended 31 May 2007 £'000
Bank interest receivable	1,511	1,001
Interest on loans to joint ventures	33	52
Income from current asset investments	215	173
	1,759	1,226

9. FINANCE EXPENSE

	Year ended 31 May 2008 £'000	Year ended 31 May 2007 £'000
Interest payable on bank loans and overdrafts	423	605
Interest payable on hire purchase agreements	22	34
Amortisation of deferred consideration	746	492
Share of joint venture interest payable	55	55
Other interest payable	126	–
	1,372	1,186

10. TAXATION

(a) Tax recognised in the income statement

	Year ended 31 May 2008 £'000	Year ended 31 May 2007 £'000
Current tax (credit)/expense	(1,531)	6,293
Adjustment in respect of current tax of previous years	(56)	(231)
Share of joint venture tax	4	21
	(1,583)	6,083
Deferred tax relating to origination and reversal of temporary differences	10,912	(31,431)
Adjustment in respect of deferred tax of previous years	(384)	(413)
Tax on profit/(loss) for the year	8,945	(25,761)

(b) Reconciliation of tax expense / (credit)

The effective tax rate for the year relating to continuing operations as a proportion of profit / (loss) before tax is 31.5% (2007: 29.5%). This compares with the standard rate of corporation tax in the United Kingdom of 29.7% (2007: 30%) as follows:

	Year ended 31 May 2008 £'000	Year ended 31 May 2007 £'000
Profit/(loss) before taxation	28,365	(87,387)
At United Kingdom tax rate of 29.7% (2007: 30%)	8,415	(26,216)
Adjustment in respect of previous years	(440)	(644)
Expenditure not allowable for tax purposes	693	1,030
Deferred tax not provided	277	69
Tax on profit/(loss) for the year	8,945	(25,761)

10. TAXATION (continued)

(c) Deferred tax

The deferred tax assets/(liabilities) included in the balance sheet are as follows:

	Share based payments £'000	Decelerated capital allowances £'000	Intangible assets £'000	Losses £'000	Other temporary differences £'000	Total £'000
At 1 June 2006	–	325	(220)	–	188	293
Credited/(charged) in the income statement	30,909	(93)	902	242	(116)	31,844
Acquired in business combination	–	(23)	(5,134)	–	–	(5,157)
At 31 May 2007	30,909	209	(4,452)	242	72	26,980
Credited/(charged) in the income statement	455	1,535	2,147	(14,614)	(51)	(10,528)
Impact of changes in UK tax rate	(26)	(73)	174	(1,263)	(1)	(1,189)
Transfer between categories	(30,909)	–	–	30,909	–	–
Acquired in a business combination	–	12	(1,822)	–	–	(1,810)
At 31 May 2008	429	1,683	(3,953)	15,274	20	13,453

Deferred tax assets and liabilities have been offset as there is a legally enforceable right of offset and there is an intention to settle the balances net.

The Group has the following unprovided deferred tax assets:

	31 May 2008 £'000	31 May 2007 £'000
Excess of depreciation over capital allowances	–	8
Losses	456	240
	456	248

These deferred tax assets have not been provided for due to the uncertainty of generating sufficient taxable profits in the companies in which they arise.

11. DIVIDENDS

	Year ended 31 May 2008	Year ended 31 May 2007
Interim dividend paid – 1p per share	1,568	–

In addition the Directors have proposed a final dividend for the year ended 31 May 2008 of 2p per share which is subject to approval by the shareholders at the Annual General Meeting and which has not been included as a liability as at 31 May 2008.

ePT waived its right to the interim dividend resulting in a reduced charge to equity in respect of that dividend.

12. EARNINGS / (LOSS) PER SHARE

The following incorporates the impact of the bonus issue made to the Preferred Ordinary shareholders on 24 February 2007, and Ordinary shareholders on 6 June 2007 in accordance with IAS33 'Earnings per Share', further details of which are given in note 25.

Basic

Basic earnings/(loss) per share is calculated by dividing the profit/(loss) attributable to equity holders of the Company by the weighted average number of Ordinary Shares in issue during the year.

	2008	2007
Profit/(loss) attributable to equity shareholders of the Company £(thousands)	17,945	(61,715)
Weighted average number of Ordinary Shares in issue (thousands)	249,330	179,750
Basic earnings/(loss) per share (pence)	7.20	(34.33)

Diluted

Diluted earnings/(loss) per share is calculated by adjusting the weighted average number of Ordinary Shares outstanding to assume conversion of all potentially dilutive ordinary shares. Potentially dilutive ordinary shares arise from any conversion of Preferred Ordinary Shares into Ordinary Shares.

	2008	2007
Profit/(loss) attributable to equity shareholders of the Company £(thousands)	17,945	(61,715)
Weighted average number of Ordinary Shares in issue (thousands)	249,330	179,750
Adjustments for dilutive effect of Preferred Ordinary Shares (thousands) ¹	827	–
Weighted average number of Ordinary Shares for diluted earnings per share (thousands)	250,157	179,750
Diluted earnings/(loss) per share (pence)	7.17	(34.33)

¹ The adjustment for the dilutive effect of Preferred Ordinary Shares in the year ended 31 May 2007 of 50,440,000 shares has not been reflected in the calculation of the diluted loss per share as the effect would be anti-dilutive.

Adjusted earnings per share

Adjusted earnings per share is stated excluding exceptional items and amortisation of intangible assets as follows:

	2008	2007
Profit/(loss) attributable to equity shareholders of the Company £(thousands)	17,945	(61,715)
– exceptional costs (note 7)	2,649	115,480
– amortisation of intangible assets	7,417	3,245
– tax effect of above adjustments	(2,629)	(34,959)
– exceptional tax expense (note 7)	1,189	–
Adjusted profit £(thousands)	26,571	22,051
Adjusted basic earnings per share		
Weighted average number of Ordinary Shares in issue (thousands)	249,330	179,750
Adjusted basic earnings per share (pence)	10.66	12.27
Adjusted diluted earnings per share		
Weighted average number of Ordinary Shares in issue (thousands)	250,157	230,190
Adjusted diluted earnings per share (pence)	10.62	9.58

13. GOODWILL

	31 May 2008 £'000	31 May 2007 £'000 Restated (note 30)
Cost		
As at 1 June 2007	38,483	7,516
Acquisitions (note 30)	19,461	31,047
Additional interest in joint venture (note 30)	–	256
Exchange differences	69	–
Reassessment of fair value of assets acquired (note 30)	–	78
Reassessment of consideration payable (note 30)	(634)	(414)
As at 31 May 2008	57,379	38,483
Impairment		
As at 1 June 2007 and 31 May 2008	350	350
Net book value		
At end of year	57,029	38,133
At start of year	38,133	7,166

Goodwill acquired through acquisitions has been allocated to individual cash generating units (“CGUs”) for impairment testing. These are independent sources of income streams and represent the lowest level within the Group at which the associated goodwill is monitored for management purposes. The carrying value of goodwill is as follows:

	31 May 2008 £'000	31 May 2007 £'000 Restated (note 30)
Installation Services	55,594	36,767
Specialist Support Services	1,435	1,366
	57,029	38,133

The recoverable amounts of the CGUs are determined from value in use calculations. The key assumptions for the value in use calculations are those regarding the discount rates, growth rates and expected changes to selling prices and direct costs. Management estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the CGUs.

The Group prepares cash flow forecasts derived from the most recent financial budgets approved by the Board and extrapolates cash flows based on an estimated growth rate of 2%. The pre-tax rate used to discount the forecast cash flows for all CGUs is 12.2% which is estimated from the Group’s weighted average cost of capital of 8.8% post tax.

As at 31 May 2008 the Directors are satisfied that the values in use exceed their carrying value.



14. INTANGIBLE ASSETS

	Patent assets £'000	Computer software £'000	Acquisition intangibles £'000	Total £'000
Cost				
As at 1 June 2007	110	1,911	18,016	20,037
Additions	–	369	–	369
Acquisitions (note 30)	–	–	6,510	6,510
As at 31 May 2008	110	2,280	24,526	26,916
Amortisation				
As at 1 June 2007	10	1,079	3,249	4,338
Charge for the year	20	254	7,143	7,417
As at 31 May 2008	30	1,333	10,392	11,755
Net book value				
As at 31 May 2008	80	947	14,134	15,161
As at 31 May 2007	100	832	14,767	15,699

	Patents £'000	Computer software £'000	Acquisition intangibles £'000	Total £'000
Cost				
As at 1 June 2006	100	1,474	902	2,476
Additions	10	437	–	447
Acquisitions	–	–	17,114	17,114
As at 31 May 2007	110	1,911	18,016	20,037
Amortisation				
As at 1 June 2006	–	869	224	1,093
Charge for the year	10	210	3,025	3,245
As at 31 May 2007	10	1,079	3,249	4,338
Net book value				
As at 31 May 2007	100	832	14,767	15,699
As at 31 May 2006	100	605	678	1,383

Amortisation of intangible assets is charged within administrative expenses in the Income Statement.

Acquisition intangibles represent non-monetary assets separately identifiable from goodwill and include contractual customer-relationships, trade names and patented and unpatented technology.

15. PROPERTY, PLANT AND EQUIPMENT

	Long leasehold land and buildings £'000	Alterations to leasehold property £'000	Fixtures and fittings £'000	Equipment £'000	Motor vehicles £'000	Total £'000
Cost						
As at 1 June 2007	2,807	1,221	1,787	10,671	2,009	18,495
Additions	–	227	542	3,432	172	4,373
Acquisitions	691	3	293	422	807	2,216
Exchange differences	51	–	–	13	5	69
Disposals	(176)	(9)	(131)	(858)	(2,253)	(3,427)
As at 31 May 2008	3,373	1,442	2,491	13,680	740	21,726
Depreciation						
As at 1 June 2007	2	447	811	5,678	474	7,412
Charge for the year	–	176	410	2,516	412	3,514
Acquisitions	42	3	98	190	473	806
Disposals	(19)	(4)	(117)	(428)	(1,071)	(1,639)
As at 31 May 2008	25	622	1,202	7,956	288	10,093
Net book value						
As at 31 May 2008	3,348	820	1,289	5,724	452	11,633
As at 31 May 2007	2,805	774	976	4,993	1,535	11,083

	Long leasehold land and buildings £'000	Alterations to leasehold property £'000	Fixtures and fittings £'000	Equipment £'000	Motor vehicles £'000	Total £'000
Cost						
As at 1 June 2006	666	803	866	6,810	1,534	10,679
Additions	2,141	479	941	3,890	591	8,042
Acquisitions	–	3	7	416	113	539
Disposals	–	(64)	(27)	(445)	(229)	(765)
As at 31 May 2007	2,807	1,221	1,787	10,671	2,009	18,495
Depreciation						
As at 1 June 2006	2	305	629	4,229	229	5,394
Charge for the year	–	159	194	1,631	369	2,353
Disposals	–	(17)	(12)	(182)	(124)	(335)
As at 31 May 2007	2	447	811	5,678	474	7,412
Net book value						
As at 31 May 2007	2,805	774	976	4,993	1,535	11,083
As at 31 May 2006	664	498	237	2,581	1,305	5,285

The net book value of property, plant and equipment includes £195,000 (31 May 2007: £538,000) in respect of motor vehicles held under hire purchase contracts.

16. INVESTMENTS IN JOINT VENTURES

The Group's joint ventures, which are proportionately consolidated are N.E.S.T. Makers Limited and WarmSure Limited.

The amounts proportionately consolidated in the Group income statement and balance sheet are summarised below:

Income statement

	Year ended 31 May 2008 £'000	Year ended 31 May 2007 £'000
Revenue	12,767	5,492
Cost of sales	(12,368)	(425)
Administrative expenses	(677)	(4,991)
Finance income	16	8
Finance expense	(55)	(55)
(Loss)/profit before tax	(317)	29
Tax credit/(expense)	27	(21)
(Loss)/profit for the year	(290)	8

Revenue includes £7,513,000 (31 May 2007: £1,901,000) of intergroup sales in the period.

Balance sheet

	31 May 2008 £'000	31 May 2007 £'000
Assets		
Non-current assets	497	154
Cash and cash equivalents	594	349
Other current assets	814	945
	1,905	1,448
Liabilities		
Other non-current liabilities	(452)	(432)
Other current liabilities	(2,697)	(1,085)
	(3,149)	(1,517)
Net liabilities	(1,244)	(69)

The Group's proportionate interest in joint ventures' capital commitments and contingent liabilities was £Nil (31 May 2007: £Nil).

17. INVENTORIES

	31 May 2008 £'000	31 May 2007 £'000
Raw materials and consumables	2,726	2,020
Work in progress	4,551	1,989
Finished goods	1,291	470
	8,568	4,479

There have been no reversals of previous inventory write-offs in either period.

18. TRADE AND OTHER RECEIVABLES

	31 May 2008 £'000	31 May 2007 £'000
Trade receivables	57,519	38,329
Less: provision for impairment of receivables	(1,375)	(725)
Trade receivables – net	56,144	37,604
Amounts owed by related parties	1,368	682
Prepayments and accrued income	14,923	9,790
Other receivables	4,217	4,325
	76,652	52,401

Trade and other receivables are non-interest bearing. The Group has no significant concentration of credit risk, with exposure spread across a large number of customers. £11.4m (2007: £12.3m) is due from the Department of Environment and Rural Affairs, the Groups largest customer. There are no other customers who represent more than 5% of the total balance of trade receivables.

The carrying value of trade and other receivables is stated after a provision for impairment of receivables has been made. The provision is made by Group management based upon their assessment of the current economic environment and previous trading history with the counterparty. The Directors consider that the carrying value of trade and other receivables approximates to their fair value.

	2008 £'000	2007 £'000
At 1 June	725	336
Charged to current year income statement	650	807
Unused amounts reversed	–	(418)
At 31 May	1,375	725

Ageing of unimpaired trade receivables

	2008 £'000	2007 £'000
Current	44,044	28,234
Past due less than three months	10,286	6,863
Past due more than three months but less than six months	918	1,559
Past due more than six months but less than one year	643	750
Past due more than one year	253	198
	56,144	37,604

19. DERIVATIVE FINANCIAL INSTRUMENTS

	31 May 2008 £'000	31 May 2007 £'000
Derivative contract	559	548

The derivative contract comprises a contract in one of the Group companies that generates revenue based on the value of a third party loan book. The derivative is held at fair value which has been calculated based on discounted future forecast cash flows of revenue receivable.

20. CURRENT ASSET INVESTMENTS

	31 May 2008 £'000	31 May 2007 £'000
Current asset investments	4,938	4,632

Current asset investments comprise specific cash balances held on deposit for periods greater than three months and those held in relation to the Group's self insurance activities which have not yet been remitted to other companies within the Group. These balances have been excluded from cash in the Group's balance sheet and cash flow statement.

21. CASH AND CASH EQUIVALENTS

	31 May 2008 £'000	31 May 2007 £'000
Cash at bank and in hand	15,322	6,776

Cash at bank is held at floating interest rates linked to UK Bank Base Rate.

The following table provides a reconciliation to cash and cash equivalents included in the consolidated cash flow statement:

	31 May 2008 £'000	31 May 2007 £'000
Cash at bank and in hand	15,322	6,776
Bank overdrafts (note 23)	–	(1,244)
	15,322	5,532

22. TRADE AND OTHER PAYABLES

	31 May 2008 £'000	31 May 2007 £'000 Restated (note 30)
Current trade and other payables		
Trade payables	50,385	42,645
Taxes and social security, excluding current tax	3,662	3,179
Amounts owed to related parties	1,594	932
Accruals and deferred income	29,185	33,043
Other payables	5,697	5,338
Deferred consideration	4,528	10,864
	95,051	96,001
Non-current trade and other payables		
Deferred consideration	156	2,005
Other payables	452	432
	608	2,437

Deferred consideration has been discounted based on the expected settlement dates. The Directors consider that the carrying value of the current trade and other payables approximates to fair value as a result of the short maturity period of the amounts as at the balance sheet date. The non-current other payables are unsecured and non-interest bearing. The Directors consider that the carrying value of these payables approximates to fair value as they are carried at their discounted present value of expected future cash flows using the effective interest rate method.

23. LOANS AND BORROWINGS

	31 May 2008 £'000	31 May 2007 £'000
Bank overdrafts (note 21)	–	1,244
Hire purchase obligations	90	330
Property loan	264	248
Cumulative redeemable preference shares	118	109
	472	1,931

The borrowings are repayable as follows:

	31 May 2008 £'000	31 May 2007 £'000
On demand or within one year (shown under current liabilities)		
Bank overdrafts	–	1,244
Hire purchase obligations	82	250
Property loan	6	22
Cumulative redeemable preference shares	118	109
	206	1,625
In the second to fifth years		
Hire purchase obligations	8	80
Property loan	20	87
	28	167
Due after more than five years		
Property loan	238	139
	238	139
Total borrowings	472	1,931
Less: Amount due for settlement within one year (shown under current liabilities)	(206)	(1,625)
Amount due for settlement after one year	266	306

The creditors falling due after more than one year comprise bank loans, finance lease obligations and the property loan. The Directors consider that the carrying amounts of the Group's borrowings approximate to their fair value.

Bank overdrafts

Bank overdrafts are repayable on demand and are unsecured. The overdrafts bear interest at floating rates linked to the UK Bank Base Rate. The facilities were not utilised as at the balance sheet date.

Bank loans

At 31 May 2008, the Company has a committed term loan facility with Barclays Bank plc which has a floating interest rate, linked to UK Bank Base Rate. The total facility of £35,000,000 (31 May 2007: £35,000,000) has a commitment date three years from the agreement date of 1 December 2006. The amount drawn under the facility at 31 May 2008 was £Nil (31 May 2007: £Nil).

23. LOANS AND BORROWINGS (continued)

Hire purchase obligations

	Minimum lease payments		Present value of minimum lease payments	
	31 May 2008 £'000	31 May 2007 £'000	31 May 2008 £'000	31 May 2007 £'000
Amounts payable under hire purchase agreements:				
Within one year	89	291	82	250
In the second year to fifth years inclusive	10	92	8	80
	99	383	90	330
Less future finance charges	(9)	(53)	–	–
Present value of hire purchase obligations	90	330	90	330
Less amount due for settlement within one year (shown under current liabilities)	(82)	(250)	(82)	(250)
Amount due for settlement after one year	8	80	8	80

The hire purchase obligations are secured against the related assets.

Property loan

The property loan relates to a building held in Canada. The loan is secured on the property to which it relates. The loan term is 25 years, is denominated in Canadian Dollars and is held at floating interest rates based on posted residential rates in Canada. The loan is on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

Cumulative redeemable preference shares

The cumulative redeemable preference shares are held in Homeworks Services Inc (a Canadian subsidiary) and entitle the holder to receive a cumulative preferential dividend at the rate of 3 per cent on the paid up capital and the right to a return of capital at either winding up or a repayment of capital. The cumulative redeemable preference shares do not entitle the holder to any other participation in the profits or assets of Homeworks Services Inc and are redeemable on demand. These shares have no voting rights.

The total number of authorised cumulative redeemable preference shares is 2,500 (31 May 2007: 2,500) of which 2,500 (31 May 2007: 2,500) were allotted and fully paid at the balance sheet date.

24. PROVISIONS FOR OTHER LIABILITIES AND CHARGES

	Dilapidation provision £'000	Pension provision £'000	Total £'000
As at 1 June 2007	342	–	342
Acquired in the year	–	244	244
As at 31 May 2008	342	244	586

The dilapidations provision held by the Group as at 31 May 2008 is held to cover dilapidations on leased properties and is expected to be fully utilised within two years.

The pension provision held by the Group as at 31 May 2008 is held to cover post employment benefits accruing to certain employees of a subsidiary of Horrocks Group plc. Horrocks Group plc was acquired by the Company on 31 October 2007.

25. SHARE CAPITAL

	31 May 2008 £'000	31 May 2007 £'000
Authorised equity share capital		
330,000,000 (31 May 2007: 40,001) Ordinary Shares of £0.001 each	330	–
Nil (31 May 2007: 52,959,999) Preferred Ordinary Shares of £0.001 each	–	53
Authorised equity share capital	330	53
Allotted and called up equity share capital		
250,593,245 (31 May 2007: 40,001) Ordinary Shares of £0.001 each	251	–
Nil (31 May 2007: 50,440,000) Preferred Ordinary Shares of £0.001 each	–	50
Allotted, called up and fully paid equity share capital	251	50

Year ended 31 May 2008

Immediately prior to the Company's admission to the Main Market of the London Stock Exchange on 7 June 2007, the Company restructured its share capital by

- increasing the authorised share capital of the Company from £53,000 to £330,000 by the creation of 277,000,000 Ordinary Shares of £0.001
- issuing a further 1,520,208 Preferred Ordinary Shares
- allotting, by way of bonus issue a total of 181,684,542 new Ordinary Shares to the existing Ordinary Shareholders the nominal amount of such new Ordinary Shares being paid up from the Company's distributable profits and such shares being allotted pro rata amongst the existing holders of Ordinary Shares
- converting each of the Preferred Ordinary Shares into Ordinary Shares
- allotting, by way of Public Placing, 16,574,586 Ordinary Shares.

On 31 October 2007 333,908 Ordinary Shares of £0.001 were allotted at a mid-market price of 191.15p in respect of acquiring Horrocks Group plc.

Except as disclosed below, the Preferred Ordinary Shares and Ordinary Shares ranked *pari passu* in all respects.

The holders of the Preferred Ordinary Shares had no right to share in the profits of the Company available for distribution until the holders of the Ordinary Shares have received aggregate dividends of £10,000 per Share, whereafter the holders of the Preferred Ordinary Shares had the right to a dividend of £0.01 per Share for every £100 per Share paid to the holders of the Ordinary Shares.

The holders of the Preferred Ordinary Shares were entitled to one vote in a poll for every forty Preferred Ordinary Shares held. The holders of the Ordinary Shares are entitled to one vote in a poll for every Ordinary Share held.

The capital value attributable to the Preferred Ordinary Shares was set by reference to a fixed sum at 31 May 2006 of £89.5 million increased cumulatively by 5 per cent per annum.

Year ended 31 May 2007

On 9 June 2006 2,380 Ordinary Shares of £0.001 were issued at £25 to various employees of the Company.

On 19 July 2006 380 Ordinary Shares of £0.001 were issued at £25 to various employees of the Company.

On 24 February 2007 the authorised Ordinary Share capital of 40,000 Ordinary Shares of £0.001 each was increased by 1 Share of £0.001. On the same date eaga Partnership Trustee Limited and eaga Partnership Trustee Two Limited subscribed for an additional 441 Ordinary Shares at nominal value.

On 24 February 2007 the authorised Preferred Ordinary Share capital of 970,000 Preferred Ordinary Shares of £0.001 each was increased by 51,989,999 Shares of £0.001 each. On the same date a bonus issue was made on the Preferred Ordinary Shares on the basis of the issue of 51 new Preferred Ordinary Shares for each existing issued Preferred Ordinary Share. The new Preferred Ordinary Shares had the same rights attaching to them as the original Preferred Ordinary Shares, save that the voting rights were diluted by a factor of 51.

25. SHARE CAPITAL (continued)

The following is a reconciliation of the authorised and issued share capital:

	Authorised Ordinary Shares at £0.001 each	Allotted Ordinary Shares at £0.001 each	Authorised Preferred Ordinary Shares at £0.001 each	Allotted Preferred Ordinary Shares at £0.001 each
At 1 June 2006	40,000	36,800	970,000	970,000
Ordinary Shares allotted on 9 June 2006	–	2,380	–	–
Ordinary Shares allotted on 19 July 2006	–	380	–	–
Increase in authorised share capital on 24 February 2007	1	–	51,989,999	–
Ordinary Shares allotted on 24 February 2007	–	441	–	–
Bonus issue of Preferred Ordinary Shares on 24 February 2007	–	–	–	49,470,000
At 31 May 2007	40,001	40,001	52,959,999	50,440,000
Increase in authorised share capital on 6 June 2007	277,000,000	–	–	–
Preferred Ordinary Shares allotted on 6 June 2007	–	–	–	1,520,208
Bonus issue of Ordinary Shares on 6 June 2007	–	181,684,542	–	–
Conversion of Preferred Ordinary Shares to Ordinary Shares on 6 June 2007	52,959,999	51,960,208	(52,959,999)	(51,960,208)
Ordinary Shares allotted on 7 June 2007	–	16,574,586	–	–
Ordinary Shares allotted on 31 October 2007	–	333,908	–	–
At 31 May 2008	330,000,000	250,593,245	–	–

26. CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital £'000	Other reserves £'000	Retained earnings £'000	Attributable to the equity holders of the Company £'000	Minority Interest £'000	Total equity £'000
As at 1 June 2006	1	3,586	12,346	15,933	63	15,996
(Loss)/profit for the year	–	–	(61,715)	(61,715)	89	(61,626)
Share based payments (note 6)	–	–	104,225	104,225	–	104,225
Bonus issue of shares	49	(49)	–	–	–	–
Dividends paid to minority shareholders of subsidiary	–	–	–	–	(15)	(15)
Acquisition of minority interests	–	–	–	–	(25)	(25)
Currency translation differences	–	42	–	42	–	42
Issue of share capital	–	69	–	69	–	69
At 31 May 2007	50	3,648	54,856	58,554	112	58,666
Profit for the year	–	–	17,945	17,945	286	18,231
Shared based payments (note 6)	–	–	2,649	2,649	–	2,649
Bonus issue of shares	182	(182)	–	–	–	–
Dividends paid to minority shareholders of subsidiary	–	–	–	–	(34)	(34)
Dividends paid to equity shareholders of the Company	–	–	(1,568)	(1,568)	–	(1,568)
Currency translation differences	–	70	–	70	(2)	68
Issue of share capital	19	28,730	–	28,749	–	28,749
At 31 May 2008	251	32,266	73,882	106,399	362	106,761

Share capital represents the nominal value of the Company's issued share capital.

The total equity available for distribution to the equity holders of the Company is £73,882,000 (2007: £54,856,000).

27. OTHER RESERVES

	Share premium account £'000	Capital redemption reserve £'000	Translation reserve £'000	Total £'000
As at 1 June 2006	170	3,600	(184)	3,586
Bonus issue of shares	(49)	–	–	(49)
Currency translation differences	–	–	42	42
Issue of share capital	69	–	–	69
As at 31 May 2007	190	3,600	(142)	3,648
Bonus issue of shares	(182)	–	–	(182)
Currency translation differences	–	–	70	70
Issue of share capital	28,730	–	–	28,730
As at 31 May 2008	28,738	3,600	(72)	32,266

The share premium account represents the amount received on the issue of shares in excess of the nominal value.

The capital redemption reserve represents a reserve credited upon the redemption of the Company's own shares in order to maintain the Company's reserves.

The translation reserve represents cumulative foreign exchange differences on the retranslation of the net assets of foreign subsidiaries.

28. FINANCIAL COMMITMENTS

The Group leases various properties comprising offices and warehouses and other items such as vehicles under non-cancellable operating lease agreements. The total future minimum lease payments under non-cancellable operating leases are as follows:

	Land and buildings		Vehicles, plant and equipment	
	31 May 2008 £'000	31 May 2007 £'000	31 May 2008 £'000	31 May 2007 £'000
Within one year	2,048	1,923	3,638	1,923
In the second to fifth years inclusive	6,457	6,258	1,982	3,212
After five years	7,613	6,627	–	7
	16,118	14,808	5,620	5,142

29. CAPITAL COMMITMENTS AND CONTINGENT LIABILITIES

The Group had no capital commitments or contingent liabilities as at 31 May 2008 or 31 May 2007.

30. BUSINESS COMBINATIONS

The following table summarises the cash outflow as a result of the acquisitions during the year to 31 May 2008:

	£'000
Acquisition of Horrocks Group plc	(9,067)
Horrocks Group plc net overdraft acquired	(214)
Acquisition of RG Francis Limited	(9,820)
RG Francis Limited net overdraft acquired	(115)
Acquisition of AFR Limited	(3,107)
AFR Limited net cash acquired	657
Acquisition of George Howe Limited	(3,312)
George Howe Limited net cash acquired	173
Total net consideration paid	(24,805)
Deferred consideration on White Horse FM Group Limited	(10,000)
Deferred consideration on JD Heating Limited	(500)
Contingent consideration on Everwarm Group Limited	(400)
Deferred consideration on Integrated Energy Systems Limited	(110)
Deferred consideration on Ark Solar Products Limited	(44)
Total deferred consideration paid	(11,054)

30. BUSINESS COMBINATIONS (continued)

On 22 June 2007, the Group acquired 100 per cent of the issued share capital of RG Francis Limited a company registered in England and Wales. RG Francis Limited, installs, services and repairs domestic central heating systems in the South-East of England. The consideration paid was £9,820,000 including acquisition expenses of £220,000. At the year end £618,000 is receivable from the vendors on finalisation of the completion accounts.

On 25 September 2007, the Group acquired 100 per cent of the issued share capital of AFR Limited a company registered in England and Wales. AFR Limited installs, services and repairs domestic central heating systems in the South-East of England. The initial consideration paid was £2,507,000 including acquisition expenses of £107,000. A further £600,000 was paid to the vendors on finalisation of the completion accounts. There is further consideration of up to £600,000 payable within 12 months from the date of acquisition depending on the post acquisition results of AFR Limited.

On 26 October 2007, the Group acquired 100 per cent of the issued share capital of George Howe Limited a company registered in England and Wales. George Howe Limited provides internal and external wall insulation in England and Wales. The initial consideration paid was £3,312,000 including acquisition expenses of £112,000. There is further consideration of up to £800,000 payable within 12 months from the date of acquisition depending on the post acquisition results of George Howe Limited.

On 31 October 2007, the Group acquired 100 per cent of the issued share capital of Horrocks Group plc a company registered in England and Wales. Horrocks Group plc manufactures, installs and supplies external wall insulation products in England and Wales. The initial consideration paid was £9,729,000 including acquisition expenses of £266,000. There is further consideration of up to £1,100,000 to be settled in Ordinary Shares of eaga plc, payable within 12 months from the date of acquisition depending on the post acquisition results of Horrocks Group plc.

All of these transactions have been accounted for using the purchase method of accounting. Fair values represent the Directors' current estimates of the net assets acquired. In accordance with IFRS3, the values attributed may be revised for a period of 12 months following acquisition as further information becomes available.

The book values and provisional fair value adjustments of the identifiable assets and liabilities of the acquisitions were:

	RG Francis £'000	AFR £'000	George Howe £'000	Horrocks Group £'000	Total £'000
Net assets acquired:					
Goodwill	–	–	–	1,187	1,187
Property, plant and equipment	63	85	394	868	1,410
Inventories	124	391	2	1,542	2,059
Trade and other receivables	2,320	692	2,628	1,845	7,485
Cash and cash equivalents	(115)	657	173	(214)	501
Trade and other payables	(1,799)	(755)	(2,065)	(3,025)	(7,644)
Provisions for other liabilities and charges	–	–	–	(244)	(244)
Deferred taxation	7	(2)	7	–	12
	600	1,068	1,139	1,959	4,766
Fair value adjustments					
Goodwill acquired	–	–	–	(1,187)	(1,187)
Intangible assets identified on acquisition	2,275	878	275	3,082	6,510
Deferred taxation on intangible assets identified	(636)	(246)	(77)	(863)	(1,822)
	2,239	1,700	1,337	2,991	8,267
Goodwill	6,963	1,984	2,738	7,776	19,461
Cash consideration	9,600	3,000	3,200	8,825	24,625
Consideration repayable	(618)	–	–	–	(618)
Share consideration	–	–	–	638	638
Contingent cash consideration	–	577	763	–	1,340
Contingent share consideration	–	–	–	1,038	1,038
Acquisition expenses	220	107	112	266	705
	9,202	3,684	4,075	10,767	27,728

Intangible assets identified on acquisitions represents the Directors' estimates of the value of those acquisition intangibles. Goodwill arose on the acquisitions in respect of non contractual customer relationships, an assembled workforce, future cross sell opportunities and anticipated synergies and efficiencies for which the recognition of discrete intangible assets is not permitted.

If all the acquisitions had been completed on 1 June 2007 Group revenues for the year and Group operating profit after exceptional items would have been £657,571,000 and £29,016,000 respectively.

The post acquisition operating (loss)/profit from these acquisitions in the year ended 31 May 2008 was as follows:

	RG Francis £'000	AFR £'000	George Howe £'000	Horrocks Group £'000	Total £'000
Operating (loss)/profit after exceptional items	(1,363)	380	464	631	112

30. BUSINESS COMBINATIONS (continued)

The following table summaries the cash outflow as a result of the acquisitions during the year to 31 May 2007.

Acquisition of White Horse FM Group Limited	(25,956)
White Horse FM Group Limited net overdraft acquired	(768)
Acquisition of JD Heating Limited	(4,923)
JD Heating Limited cash acquired	634
Acquisition of Ark Solar Products Limited	(134)
Ark Solar Products Limited net overdraft acquired	(68)
Acquisition of Integrated Energy Systems Limited	(611)
Integrated Energy Systems Limited cash acquired	39
Acquisition of eaga Renewables Limited	(125)
eaga Renewables Limited cash acquired	28
Adjustments to cash consideration on acquisition of eaga Scotland Limited (formerly Everwarm Services Limited)	814
Other acquisitions	(23)
	(31,093)

On 4 December 2006, the Group acquired 100 per cent of the issued share capital of White Horse FM Group Limited for £25,956,000. In the current year, under the terms of the sale and purchase agreement the Group paid £10,000,000 to the vendor. Further consideration of £2,000,000 is payable within 24 months following acquisition depending on certain performance criteria.

On 21 December 2006, the Group acquired 100 per cent of the issued share capital of JD Heating Limited for £4,923,000. In the current year, under the terms of the sale and purchase agreement the Group paid £500,000 to the vendor in the finalisation of consideration, resulting in a reduction of goodwill of £634,000 in the year. During the year the Group finalised the fair values of the assets acquired, accordingly the fair values previously reported have been restated with an increase in goodwill of £78,000 recognised, the corresponding credit has been recognised within other creditors. The total goodwill recognised on the acquisition of JD Heating has been reduced to £2,798,000 as a result of these adjustments.

On 26 January 2007 the Group acquired 100 per cent of the issued share capital of Integrated Energy Systems Limited for CAD\$1,051,000. In the current year, under the terms of the sale and purchase agreement the Group paid CAD\$220,000 to the vendor. Further consideration of CAD\$615,000 is payable in two instalments, 24 months and 36 months following acquisition.

During the year ended 31 May 2007 the Group also acquired; the remaining 50 per cent of the issued share capital of eaga Renewables Limited for £125,000; the remaining 30 per cent of the issued share capital of Eaglebrook Limited for £15,000; and a further 20 per cent of the issued share capital of Nationbrook Limited for £8,000.

31. FINANCIAL RISK MANAGEMENT

The Group's operations expose it to a variety of financial risks that include the effects of changes in debt market prices, credit risk, liquidity risk, foreign currency risk and interest rate risk. The Group has in place a risk management programme that seeks to limit the adverse effects of the following types of financial risk on the financial performance of the Group by monitoring levels of borrowings and the related finance costs.

In order to ensure stability of cash out flows, and hence manage interest rate risk, the Group has a policy of using a mixture of floating and fixed rate debt. Further to this the Group seeks to minimise the risk of uncertain funding in its operations by borrowing within a spread of maturity periods. The Group does not use derivative financial instruments to manage interest rate costs and as such no hedge accounting is applied.

Capital Risk Management

The Group's primary objectives in managing its capital are to safeguard the business as a going concern; to maintain sufficient financial flexibility to undertake its investment plans; and to optimise capital structure in order to reduce the cost of capital.

The Group's financial profile and level of financial risk is assessed on a regular basis in the light of changes to the economic conditions, business environment, changes to the Group's business profile and the risk characteristics of its businesses. In order to maintain or adjust capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders or issue new shares.

Credit Risk

The Group has implemented policies that require appropriate credit checks on potential customers before sales are made.

The Group has Board approved maximum counterparty exposure limits for specified banks and financial institutions limited to financial institutions with an AA rating or higher.

The Group considers its maximum exposure to credit risk as follows:

	31 May 2008 £'000	31 May 2007 £'000
Cash and cash equivalents	15,322	6,776
Trade and other receivables	78,027	53,126
Derivative financial instruments	559	548
Current asset investments	4,938	4,632

Liquidity Risk

The Group actively manages its exposure to liquidity risk and ensures maximum flexibility in meeting changing business needs. The Group ensures that it has sufficient undrawn committed bank facilities to provide liquidity back-up for the foreseeable future.

The undrawn committed facilities and maturity profiles available to the Group at the balance sheet date are as follows:

	31 May 2008 £'000	31 May 2007 £'000
Within one year	1,400	320
In two to five years	35,000	35,000
	36,400	35,320

The Group monitors compliance against all its financial obligations and it is Group policy to manage the consolidated balance sheet so as to operate well within these covenanted restrictions at all times.

31. FINANCIAL RISK MANAGEMENT (continued)

Foreign Currency Risk

The Group operates in Canada, India and the Republic of Ireland and is exposed to foreign exchange risks arising from commercial transactions, and from recognised assets, liabilities and investments in foreign operations.

The carrying amounts of the Group's foreign currency denominated monetary assets and liabilities at the year end are as follows:

	31 May 2008	31 May 2007
Monetary assets		
Canadian dollar (C\$000)	3,609	3,911
Euro (€000)	1,370	–
Indian rupee (INR000)	17,952	17,312
Monetary liabilities		
Canadian dollar (C\$000)	2,613	3,224
Euro (€000)	505	–
Indian rupee (INR000)	3,309	7,163

Foreign currency risk is not considered to represent a significant risk at this time as the level of foreign currency transactions is immaterial in the context of the Group and accordingly a sensitivity analysis is not presented.

Interest rate risk

The Group has both interest bearing assets and interest bearing liabilities. Interest bearing assets include only cash balances and current asset investments, which earn interest at a floating rate of interest linked to UK Bank Base Rate. The Group maintains its debt at a floating rate of interest due to the low gearing of the Group other than the hire purchase obligations and redeemable preference shares that are held at a fixed rate of interest. The following table summarises the Group's borrowings between fixed and floating rate borrowings.

	31 May 2008 £'000	31 May 2007 £'000
Floating rate borrowings:		
Bank overdrafts	–	1,244
Property loan	264	248
	264	1,492
Fixed rate borrowings:		
Hire purchase obligations	90	330
Cumulative redeemable preference share	118	109
	208	439
Total borrowings	472	1,931

Interest rate risk is not considered significant at this time as the Group is net cash positive and accordingly a sensitivity analysis is not presented.

32. RETIREMENT BENEFITS

The Group operates a number of defined contribution pension schemes. The assets of the schemes are held separately from those of the Group in independently administered funds managed by third parties. The pension cost charged to the income statement represents contributions payable by the Group to the funds and amounted to £3,297,000 (31 May 2007: £2,539,000).



33. RELATED PARTY TRANSACTIONS

Identity of related parties

The Group has related party relationships with its shareholders including the ePT's, subsidiaries, joint ventures and with key management. No related party relationships with close family members of the Group's key management existed in the current or prior years.

During the year to 31 May 2008 the Group purchased services with an aggregate value of £20,000 (31 May 2007: £13,345) from Stratagem (NI) Limited, a company in which Mr Quintin Oliver, Non-Executive Director of the Company, is a shareholder. At 31 May 2008 the balance owed to Stratagem (NI) Limited by eaga plc was £1,469 (31 May 2007: £1,469).

During the year to 31 May 2008 various Group companies provided services to Drew Johnson, Executive Director of the Company. The total value of services provided was £22,266 (31 May 2007: £Nil). All services were provided on an arm's length basis and £Nil was outstanding as at 31 May 2008 (31 May 2007: £Nil).

Subsidiaries and joint ventures

Transactions entered into by the Company with subsidiaries and between subsidiaries, as well as the resultant balances of receivables and payables, are eliminated on consolidation and are not required to be disclosed. Similarly, the Group's share of transactions entered into by the Company and its subsidiaries with joint ventures and the Group's share of the resultant balances of receivables and payables are eliminated on consolidation.

Transactions and balances with joint ventures before consolidation eliminations were as follows:

	31 May 2008 £'000	31 May 2007 £'000
Sales of goods and services		
– to joint ventures	–	–
Purchases of goods and services		
– from joint ventures	7,513	1,901
Receivables		
– due from joint ventures	2,736	1,364
Payables		
– due to joint ventures	3,188	1,864

34. SUBSIDIARIES AND JOINT VENTURES

The main unquoted investments held by eaga plc as at 31 May 2008 are as follows:

Subsidiaries	Principal activity	Percentage of ordinary shares attributable to eaga plc	Year end
1st Insulation Partners Limited	Sales of insulation materials	100%	31 May
AFR Limited	Energy efficiency services	100%	31 March
Ark Solar Products Limited *	Energy efficiency services	100%	31 May
Debind International (UK) Limited *	IT consulting	100%	31 May
eaga Energy India Private Limited *	IT consulting	90%	31 March
eaga Energy Solutions Limited (formerly Advanced Total Energy Care Limited)	Energy efficiency services	100%	31 May
eaga Home Services Limited (formerly Millfold Group Limited)	Energy efficiency services	100%	31 May
eaga Insurance Services Limited	Administration and claims settlements	85%	31 May
eaga Renewables Limited	Installation of thermal energy water heating systems	100%	31 May
eaga Scotland Limited	Energy efficiency services	100%	31 May
eaga Social Housing Services Limited	Energy efficiency services	100%	31 May
EJ Horrocks Limited *	Provision of external wall insulation services	100%	31 October
George Howe Limited	Provision of external wall insulation services	100%	31 May
Heat, Energy and Associated Technology Limited *	Energy efficiency services	100%	31 May
Homeworks Services Inc *	Energy efficiency services	100%	31 May
Iguana Services Limited	Energy efficiency services	100%	31 May
Integrated Energy Systems Limited *	Energy efficiency services	100%	31 May
JD Heating Limited	Energy efficiency services	100%	31 May
Mico Services Limited	Energy efficiency services	100%	31 May
Options (Scotland) Limited	Supply and retail of bathrooms and fireplaces	100%	31 May
Permarock Products Limited *	Provision of external wall insulation services	100%	31 October
RG Francis Limited	Energy efficiency services	100%	30 September
Resin Polymer Applications Limited	Provision of external thermal insulation services	100%	31 May
Joint ventures			
WarmSure Limited	Energy efficiency services	50%	31 May

* Held indirectly

All of the above companies are incorporated in England and Wales, with the exception of eaga Scotland Limited, Options (Scotland) Limited and Resin Polymer Applications Limited which are incorporated in Scotland, Heat, Energy and Associated Technology Limited which is incorporated in Northern Ireland, Homeworks Services Inc, Ark Solar Products Limited and Integrated Energy Systems Limited which are incorporated in Canada, and eaga Energy India Private Limited which is incorporated in India.

Dormant and non-trading undertakings are not shown above because disclosure would be excessively lengthy. A full list of subsidiary undertakings will be annexed to the Company's next annual return.

Independent Auditors' Report to the Members of eaga plc



We have audited the Parent Company financial statements of eaga plc for the year ended 31 May 2008 which comprise the Parent Company balance sheet, and the notes to the Parent Company financial statements. 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 eaga plc for the year ended 31 May 2008.

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. The information given in the Directors' Report includes that specific information presented in the Operational Review and the Financial Review that is cross referred from the Principal Activities and Business Review section of the Directors' Report.

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 Chairman's Statement, the Operational Review, the Financial Review, the Directors' Report and the unaudited part of the Directors' Remuneration Report.

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 Parent 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 May 2008;
- 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
Newcastle upon Tyne
1 September 2008

Parent Company Balance Sheet

As at 31 May 2008

	Notes	31 May 2008 £'000	31 May 2007 £'000
Fixed assets			
Tangible assets	2	4,953	5,045
Investments	3	83,233	55,682
		88,186	60,727
Current assets			
Stock	4	907	68
Debtors: Due within one year	5	51,910	33,093
Debtors: Due after more than one year	5	16,708	25,821
Cash at bank and in hand		10,621	–
		80,146	58,982
Creditors: Due within one year	6	(68,718)	(78,996)
Net current assets/(liabilities)		11,428	(20,014)
Total assets less current liabilities		99,614	40,713
Creditors: Due after more than one year	7	–	(2,000)
Provisions for liabilities and charges	9	(342)	(342)
Net assets		99,272	38,371
Capital and reserves			
Called up share capital	10	251	50
Share premium account	11	28,738	190
Capital redemption reserve	11	3,600	3,600
Profit and loss account	11	66,683	34,531
Total equity		99,272	38,371

The Parent Company financial statements were approved by the Board of Directors on 1 September 2008 and signed on its behalf by:

John Clough MBE, Ian McLeod, Directors
Registered No. 3858865

The notes on pages 73 to 79 form part of these Parent Company financial statements.

Notes to the Parent Company Financial Statements



1. PARENT COMPANY ACCOUNTING POLICIES

Basis of accounting

The Parent Company financial statements are prepared on a going concern basis under the historical cost convention, except as disclosed below, in accordance with the Companies Act 1985 and applicable UK accounting standards. As permitted by Section 230 of the Companies Act 1985, the Company's profit and loss account and statement of total recognised gains and losses are not presented in these financial statements. The eaga plc consolidated financial statements for the year ended 31 May 2008 contain a consolidated cash flow statement. Consequently, the Company has taken the exemption available in FRS1 (Revised 1996) Cash flow statements, and has not presented its own cash flow statement.

Tangible fixed assets

Tangible fixed assets are stated at cost, including incidental expenses incurred on acquisition, less accumulated depreciation. Depreciation is calculated so as to write off the cost of tangible fixed assets, less their estimated residual values, on a straight-line basis over the expected useful economic lives of the assets concerned. The principal annual rates used for this purpose are:

Long leasehold land and buildings	Period of lease
Alterations to leasehold property	Period of lease
Fixtures and fittings	20 – 33.3%
Equipment	20 – 50%

Fixed asset investments

Fixed asset investments are stated at cost, less any provision for impairment in value.

Stocks

Stocks are stated at the lower of cost and net realisable value.

Leases

Costs in respect of operating leases are charged on a straight-line basis over the lease term.

Turnover

Turnover is the total amount receivable by the Company for goods and services provided, excluding value added tax and net of trade discounts, and includes contract revenue, on a gross basis, administered in respect of the central government and utility schemes. Turnover is recognised at the point at which income is contractually due to the Company or, in the absence of any formal contractual agreement, on a cash received basis.

Pension scheme

The Company operates a number of defined contribution pension schemes for the benefit of its employees. The Company's contributions to these schemes, which are based on employee earnings, are recognised in the year in which the related payroll costs are incurred.

Deferred taxation

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax or a right to pay less tax in the future have occurred at the balance sheet date. A net deferred tax asset is recognised as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits against which to recover carried forward tax losses and from which the future reversal of underlying timing differences can be deducted. Deferred tax is measured at the tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax is not discounted.

Foreign currencies

Transactions denominated in foreign currencies are recorded at the rates of exchange ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are re-translated at year-end exchange rates.

Share-based payments

The Company allows employees to acquire its shares through share option schemes, details of which are in the Remuneration Committee Report. The fair value of share options granted is recognised as an employee expense with a corresponding increase in equity. The fair value is measured at grant date, using an appropriate model, taking into account the terms and conditions upon which the share options were granted, and is spread over the period during which the employees become unconditionally entitled to the options. The amount recognised as an expense is adjusted to reflect the actual number of share options that vest except where forfeiture is only due to share prices not achieving the threshold for vesting.

Financial instruments

Debtors and creditors are non-derivative financial assets or liabilities with fixed or determinable payments that are not quoted on an active market. They are included within assets or liabilities at amortised cost depending on when they fall due.

2. TANGIBLE FIXED ASSETS

	Long leasehold land and buildings £'000	Alterations to leasehold property £'000	Fixtures and fittings £'000	Equipment £'000	Motor Vehicles £'000	Total £'000
Cost						
As at 1 June 2007	2,491	510	1,199	7,123	–	11,323
Additions	–	35	248	970	–	1,253
Transfers in	–	–	–	–	981	981
Disposals	–	–	–	(108)	(981)	(1,089)
As at 31 May 2008	2,491	545	1,447	7,985	–	12,468
Depreciation						
As at 1 June 2007	–	333	643	5,302	–	6,278
Charge for the year	–	75	250	914	–	1,239
Disposals	–	–	–	(2)	–	(2)
As at 31 May 2008	–	408	893	6,214	–	7,515
Net book value						
As at 31 May 2008	2,491	137	554	1,771	–	4,953
As at 1 June 2007	2,491	177	556	1,821	–	5,045

3. INVESTMENTS

	Investments in Subsidiary Undertakings £'000	Investments in Joint Ventures £'000	Total £'000
Cost			
As at 1 June 2007	56,557	22	56,579
Acquisitions	27,851	–	27,851
Reassessment of consideration payable	(300)	–	(300)
As at 31 May 2008	84,108	22	84,130
Provision			
As at 1 June 2007 and 31 May 2008	875	22	897
Net book value			
As at 31 May 2008	83,233	–	83,233
As at 31 May 2007	55,682	–	55,682

A list of the main subsidiary and joint venture undertakings is given in note 34 of the Group Financial Statements.



4. STOCK

	31 May 2008 £'000	31 May 2007 £'000
Finished goods	907	68

5. DEBTORS

	31 May 2008 £'000	31 May 2007 £'000
Due within one year		
Trade debtors	29,174	21,534
Amounts due from group undertakings	12,520	4,413
Other debtors	3,240	1,544
Corporation tax	–	891
Prepayments and accrued income	6,976	4,711
	51,910	33,093
Due after more than one year		
Deferred taxation (note 8)	16,708	25,821
	16,708	25,821

6. CREDITORS – DUE WITHIN ONE YEAR

	31 May 2008 £'000	31 May 2007 £'000
Bank overdraft	–	4,427
Trade creditors	29,279	27,638
Amounts owed to group undertakings	17,303	11,652
Corporation tax	170	–
Other taxation and social security	596	496
Other creditors	2,823	4,961
Accruals and deferred income	14,047	18,622
Deferred consideration on acquisition of subsidiaries	4,500	11,200
	68,718	78,996

7. CREDITORS – DUE AFTER MORE THAN ONE YEAR

	31 May 2008 £'000	31 May 2007 £'000
Deferred consideration on acquisition of subsidiaries	–	2,000

8. DEFERRED TAXATION

A deferred tax asset has been recognised as shown below:

	Amounts recognised	
	31 May 2008 £'000	31 May 2007 £'000
Tax effect of timing differences because of:		
Share based payments	429	25,286
Losses	15,175	–
Short term timing differences	102	150
Excess of depreciation over capital allowances	1,002	385
	16,708	25,821

All movements in deferred taxation in the year have been (charged)/ credited to the profit and loss account.

	Share based payments £'000	Decelerated capital allowances £'000	Losses £'000	Other temporary differences £'000	Total £'000
At 1 June 2007	25,286	385	–	150	25,821
Credited/(charged) in the income statement	454	684	(8,927)	(40)	(7,829)
Impact of changes in UK tax rate	(25)	(67)	(1,184)	(8)	(1,284)
Transfer between category	(25,286)	–	25,286	–	–
At 31 May 2008	429	1,002	15,175	102	16,708

9. PROVISIONS FOR LIABILITIES AND CHARGES

	Dilapidation provision £'000
As at 1 June 2007 and 31 May 2008	342

The dilapidations provision held by the Company as at 31 May 2008 is held to cover dilapidations on leased properties and is expected to be fully utilised within two years.

10. SHARE CAPITAL

	31 May 2008 £'000	31 May 2007 £'000
Authorised equity share capital		
330,000,000 (31 May 2007: 40,001) Ordinary Shares of £0.001 each	330	–
Nil (31 May 2007: 52,959,999) Preferred Ordinary Shares of £0.001 each	–	53
Authorised equity share capital	330	53
Allotted and called up equity share capital		
250,593,245 (31 May 2007: 40,001) Ordinary Shares of £0.001 each	251	–
Nil (31 May 2007: 50,440,000) Preferred Ordinary Shares of £0.001 each	–	50
Allotted, called up and fully paid equity share capital	251	50

Immediately prior to the Company's admission to the Main Market of the London Stock Exchange on 7 June 2007, the Company restructured its share capital by

- increasing the authorised share capital of the Company from £53,000 to £330,000 by the creation of 277,000,000 Ordinary Shares of £0.001
- issuing a further 1,520,208 Preferred Ordinary Shares
- allotting, by way of bonus issue a total of 181,684,542 new Ordinary Shares to the existing Ordinary Shareholders the nominal amount of such new Ordinary Shares being paid up from the Company's distributable profits and such shares being allotted pro rata amongst the existing holders of Ordinary Shares
- converting each of the Preferred Ordinary Shares into Ordinary Shares
- allotting, by way of Public Placing, 16,574,586 Ordinary Shares.

On 31 October 2007 333,908 ordinary shares of £0.001 were allotted at a mid-market price of 191.15p in respect of acquiring Horrocks Group plc. Except as disclosed below, the Preferred Ordinary Shares and Ordinary Shares shall rank *pari passu* in all respects.

The holders of the Preferred Ordinary Shares have no right to share in the profits of the Company available for distribution until the holders of the Ordinary Shares have received aggregate dividends of £10,000 per Share, whereafter the holders of the Preferred Ordinary Shares shall have the right to a dividend of £0.01 per Share for every £100 per Share paid to the holders of the Ordinary Shares.

The holders of the Preferred Ordinary Shares are entitled to one vote in a poll for every forty Preferred Ordinary Shares held. The holders of the Ordinary Shares are entitled to one vote in a poll for every Ordinary Share held.

The capital value attributable to the Preferred Ordinary Shares was set by reference to a fixed sum at 31 May 2006 of £89.5 million increased cumulatively by 5 per cent per annum.

The following is a reconciliation of the authorised and issued share capital:

	Authorised Ordinary Shares at £0.001 each	Allotted Ordinary Shares at £0.001 each	Authorised Preferred Ordinary Shares at £0.001 each	Allotted Preferred Ordinary Shares at £0.001 each
As at 1 June 2007	40,001	40,001	52,959,999	50,440,000
Increase in authorised share capital on 6 June 2007	277,000,000	–	–	–
Preferred Ordinary Shares allotted on 6 June 2007	–	–	–	1,520,208
Bonus issue of Ordinary Shares on 6 June 2007	–	181,684,542	–	–
Conversion of Preferred Ordinary Shares to Ordinary Shares on 6 June 2007	52,959,999	51,960,208	(52,959,999)	(51,960,208)
Ordinary Shares allotted on 7 June 2007	–	16,574,586	–	–
Ordinary Shares allotted on 31 October 2007	–	333,908	–	–
As at 31 May 2008	330,000,000	250,593,245	–	–

11. RESERVES

	Share premium account £'000	Capital redemption reserve £'000	Profit and loss account £'000
As at 1 June 2007	190	3,600	34,531
Profit for the year	–	–	31,071
Dividends	–	–	(1,568)
Share based payments	–	–	2,649
Bonus issue of shares	(182)	–	–
Issue of share capital	28,730	–	–
As at 31 May 2008	28,738	3,600	66,683

12. RECONCILIATION OF MOVEMENT IN EQUITY SHAREHOLDERS' FUNDS

	31 May 2008 £'000	31 May 2007 £'000
Profit/(loss) for the year	31,071	(57,565)
Dividends	(1,568)	–
Share based payments	2,649	84,288
Issue of share capital	28,749	69
Net increase in equity shareholders' funds	60,901	26,792
Opening equity shareholders' funds	38,371	11,579
Closing equity shareholders' funds	99,272	38,371

13. CAPITAL COMMITMENTS AND CONTINGENT LIABILITIES

There were no capital commitments or contingent liabilities at the year end, or at the prior year end.

14. PROFIT AND LOSS DISCLOSURES

As permitted by Section 230 of the Companies Act 1985, the Company has not presented its own profit and loss account. The profit for the financial year of the company was £31,071,000 (year ended 31 May 2007: £57,565,000 loss)

The audit fee in respect of the Parent Company financial statements for the year ended 31 May 2008 was £100,000 (2007: £74,000).

	31 May 2008 £'000	31 May 2007 £'000
Wages and salaries	16,557	13,964
Social security costs	1,718	1,215
Pension costs	1,551	1,984
	19,826	17,163

Directors emoluments disclosures are provided in the Directors' Remuneration Report in this annual report.

The average monthly number of people employed by the Company is set out in the table below:

	31 May 2008 number	31 May 2007 number
Administration staff	638	522



15. SHARE BASED PAYMENTS

During the year to 31 May 2008 two equity-settled share-based payment arrangements existed, which are described below:

Type of arrangement	IPO Option Plan	IPO Key Management Plan
Date of grant	February 2007	May 2007
Number of options granted in year to 31 May 2008	–	–
Number of options granted in year to 31 May 2007	46,499,182	2,073,340
Fair value per share (pence)	181	176
Valuation basis	Listing Price	Black – Scholes ¹
Contractual life	7 June 2007	1-2 years
Vesting conditions	(i)	(ii)

(i) Options granted were by invitation at nil cost, all options were exercised immediately prior to listing on 7 June 2007.

(ii) Options granted were by invitation at nil cost, options are exercisable 50% after one year and 50% after two years.

In the year ended 31 May 2008 the total number of share options that lapsed under the IPO Key Management Plan was 70,042 (31 May 2007: Nil).

There was no cash cost to the Company as a result of these awards. The Company recognised total charges of £2,649,000 (2007: £84,288,000) related to equity settled share-based payment transactions during the year.

¹ Any changes in the assumptions within the Black-Scholes pricing model would have no material affect on the valuation as the options were granted at nil cost.

16. DIVIDENDS

Details of the Company's dividends are set out in Note 11 of the Group financial statements.

17. RELATED PARTY TRANSACTIONS

As permitted by FRS8 Related Party Disclosures, disclosure of related party transactions with other companies controlled by eaga plc is not provided.

The net amount due from N.E.S.T. MAKERS Limited, a joint venture of eaga plc, at 31 May 2008 was £904,000 (31 May 2007 £864,000).

The net amount due to WarmSure Limited, a joint venture of eaga plc at 31 May 2008 was £1,239,000 (31 May 2007 £1,364,000). £7,245,000 (31 May 2007 £1,901,000) of services were purchased from WarmSure Limited in the year.

During the year eaga plc purchased services with an aggregate value of £20,000 (31 May 2007 £13,345) from Stratagem (NI) Limited, a company in which Mr Quintin Oliver, Non-Executive Director of eaga plc, is a shareholder. At 31 May 2008 the balance owed to Stratagem (NI) Limited by eaga plc was £1,469 (31 May 2007 £1,469).

Notice of Annual General Meeting

Notice is given that the Annual General Meeting of eaga plc (the Company) will be held at the offices of Muckle LLP, Time Central, 32 Gallowgate, Newcastle upon Tyne, NE1 4BF on 16 October 2008 at 11.00 am for the following purposes:

ORDINARY BUSINESS

To consider and if thought fit, to pass the following resolutions which will be proposed as ordinary resolutions:

1. THAT the Company's annual accounts for the financial year ended 31 May 2008 together with the last directors' report, the last directors' remuneration report and the auditors' report on those accounts and the auditable part of the remuneration report be received.
2. THAT the directors' remuneration report for the financial year ended 31 May 2008 contained in the Company's annual accounts be approved.
3. THAT a final dividend of 2p per Ordinary Share be declared for the year ended 31 May 2008.
4. THAT Tracy Clarke be elected as a Director.
5. THAT John Clough be re-elected as a Director.
6. THAT Charles Berry be re-elected as a Director.
7. THAT PricewaterhouseCoopers LLP be reappointed as auditors to hold office from the conclusion of the meeting to the conclusion of the next meeting at which the accounts are laid before the Company at a remuneration to be determined by the Directors.

SPECIAL BUSINESS

To consider and, if thought fit, pass the following resolutions, of which resolution 8 will be proposed as an ordinary resolution and resolutions 9 and 10 will be proposed as a special resolutions.

8. THAT the Directors be and they are generally and unconditionally authorised for the purposes of section 80 of the Companies Act 1985 (the Act) to exercise all the powers of the Company to allot relevant securities (within the meaning of that section) up to an aggregate nominal amount of £79,406.75 provided that this authority shall, unless previously renewed, varied or revoked, expire at the conclusion of the annual general meeting of the Company in 2009 but the Company may before such expiry make an offer or agreement which would or might require relevant securities to be allotted after such expiry and the Directors may allot relevant securities in pursuance of such offer or agreement notwithstanding that the authority conferred by this resolution has expired. This authority is in substitution for all subsisting authorities, to the extent unused.
9. THAT subject to the passing of the previous resolution the Directors be and they are empowered pursuant to section 95 of the Act to allot equity securities (within the meaning of section 94(2) to section 94(3A) of the Act) wholly for cash pursuant to the authority conferred by the previous resolution as if section 89(1) of the Act did not apply to any such allotment, provided that this power shall be limited to the allotment of equity securities:

- (a) In connection with an offer of such securities by way of rights to holders of ordinary shares in proportion (as nearly as may be practicable) to their respective holdings of such shares, but subject to such exclusions or other arrangements as the Directors may deem necessary or expedient in relation to fractional entitlements or any legal or practical problems under the laws of any territory, or the requirements of any regulatory body or stock exchange; and
- (b) Otherwise than pursuant to sub-paragraph (a) above up to an aggregate nominal amount of £12,500;

and unless previously renewed, varied or revoked shall expire at the conclusion of the annual general meeting of the Company in 2009 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 any such offer or agreement notwithstanding that the power conferred by this resolution has expired.

This power applies in relation to a sale of shares which is an allotment of equity securities by virtue of section 94(3A) of the Act as if in the first paragraph of this resolution the words "pursuant to the authority conferred by the previous resolution" were omitted.

10. THAT the Company be and is generally and unconditionally authorised for the purposes of section 166 of the Act to make one or more market purchases (within the meaning of section 163(3) of the Act) on the London Stock Exchange of Ordinary Shares of £0.001 each in the capital of the Company provided that:
 - (a) The maximum aggregate number of Ordinary Shares authorised to be purchased is 25,000,000 (representing ten per cent (10%) of the Company's issued ordinary share capital);
 - (b) The minimum price which may be paid for such shares is £0.001 per share;
 - (c) The maximum price which may be paid for an Ordinary Share shall not be more than 5 per cent. above 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 date on which the Ordinary Share is purchased;

- (d) Unless previously renewed, varied or revoked, the authority conferred shall expire at the conclusion of the annual general meeting of the Company in 2009;
- (e) The Company may make a contract or contracts to purchase Ordinary Shares under the authority conferred prior to the expiry of such authority which will or may be executed wholly or partly after the expiry of such authority and may make a purchase of Ordinary Shares in pursuance of any such contract or contracts.

By order of the Board

Christopher Judd
Company Secretary
1 September 2008

Registered office

eaga House
Archbold Terrace
Jesmond
Newcastle upon Tyne
NE2 1DB

NOTES:

- 1 A form of proxy is enclosed for use by shareholders and, if appropriate, must be deposited with the Company's registrars, Capita Registrars, Proxy Department, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU not less than 48 hours before the time of the Annual General Meeting (AGM). Appointment of a proxy does not preclude a shareholder from attending the AGM and voting in person.
- 2 A member entitled to attend and vote at the AGM may appoint one or more proxies (who need not be a member of the Company) to attend and to speak and to vote on his or her behalf whether by show of hands or on a poll. A member can appoint more than one proxy in relation to the meeting, provided that each proxy is appointed to exercise the rights attaching to different shares held by him. In order to be valid an appointment of proxy (together with any authority under which it is executed or a copy of the authority certified notari ally) must be returned by one of the following methods:
 - in hard copy form by post, by courier or by hand to the Company's registrars, Capita Registrars, Proxy Department, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU;
 - via www.capitashares.co.uk; or
 - in the case of CREST members, by utilising the CREST electronic proxy appointment service in accordance with the procedures set out below and in each case must be received by the Company not less than 48 hours before the time of the meeting.

CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so for the AGM and any adjournment thereof by using 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, or instruction, made by means of CREST to be valid, the appropriate CREST message (a "CREST Proxy Instruction") must be properly authenticated in accordance with Euroclear UK & Ireland Limited's ("EUI") specifications and must contain the information required for such instructions, as described in the CREST Manual. The message regardless of whether it relates to the appointment of a proxy or to an amendment to the instruction given to a previously appointed proxy must, in order to be valid, be transmitted so as to be received by the issuer's agent (ID RA 10) by the latest time(s) for receipt of proxy appointments specified in the Notice of Meeting. 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. The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5) of the Uncertificated Securities Regulations 2001. CREST members and where applicable, their CREST sponsors or voting service providers should note that EUI 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 therefore 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 or her 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.

Notice of Annual General Meeting

- 3 The right to appoint a proxy does not apply to persons whose shares are held on their behalf by another person and who have been nominated to receive communication from the Company in accordance with Section 146 of the Companies Act 2006 (nominated persons). Nominated persons may have a right under an agreement with the registered shareholder who holds shares on their behalf to be appointed (or to have someone else appointed) as a proxy. Alternatively, if nominated persons do not have such a right, or do not wish to exercise it, they may have a right under such an agreement to give instructions to the person holding the shares as to the exercise of voting rights.
- 4 In order to facilitate voting by corporate representatives at the meeting, arrangements will be put in place at the meeting so that (i) if a corporate shareholder has appointed the Chairman of the meeting as its corporate representative with instructions to vote on a poll in accordance with the directions of all of the other corporate representatives for that shareholder at the meeting, then on a poll those corporate representatives will give voting directions to the Chairman and the Chairman will vote (or withhold a vote) as corporate representative in accordance with those directions; and (ii) if more than one corporate representative for the same corporate shareholder attends the meeting but the corporate shareholder has not appointed the Chairman of the meeting as its corporate representative, a designated corporate representative will be nominated, from those corporate representatives who attend, who will vote on a poll and the other corporate representatives will give voting directions to that designated corporate representative. Corporate shareholders are referred to the guidance issued by the Institute of Chartered Secretaries and Administrators on proxies and corporate representatives (www.icsa.org.uk) for further details of this procedure. The guidance includes a sample form of representation letter if the Chairman is being appointed as described in (i) above.
- 5 Pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, in order to be able to attend and vote at the AGM or any adjourned meeting (and also for the purpose of calculating how many votes a person may cast), a person must have his/her name entered on the register of members of the Company by 6.00 pm on 13 October 2008 (or 6.00 pm on the date two days before any adjourned meeting). Changes to entries on the register of members after this time shall be disregarded in determining the rights of any person to attend or vote at the meeting.
- 6 Biographical details of the Directors are shown on page 14 of the Annual Report and Accounts 2008.
- 7 The issued share capital of the Company as at 1 September 2008 was 250,593,245 Ordinary Shares, carrying one vote each. The Company holds no Ordinary Shares in treasury and would not be permitted to exercise voting rights in respect of those shares. Therefore, the total number of voting rights in the Company on 1 September 2008 was 250,593,245.
- 8 The following documents are available for inspection by prior arrangement at the registered office of the Company during normal business hours on any weekday and will be available at the place of the AGM from 15 minutes before the meeting until it ends:
 - Executive Directors' service contracts
 - Non-Executive Directors' letters of appointment
- 9 Please note that the Company takes all reasonable precautions to ensure no viruses are present in any electronic communication it sends out but the Company cannot accept responsibility for loss or damage arising from the opening or use of any email or attachments from the Company and recommends that the members subject all messages to virus checking procedures prior to use. Any electronic communication received by the Company that is found to contain any virus will not be accepted.

Proxy Card

EAGA PLC ("the Company") ANNUAL GENERAL MEETING

Before completing this form, please read the explanatory notes overleaf.

I/We

of

being a member of the Company appoint

as proxy over shares or, failing him/her, the Chairman of the Meeting (see note 1) to act as my/our proxy to attend and vote on my/our behalf at the Annual General Meeting of the Company to be held on 16 October 2008 and at any adjournment of the meeting and I/we direct my/our proxy to vote as follows: (INDICATE WITH AN X IN THE BOXES BELOW)

If you wish to appoint multiple proxies please see note 2. Please also tick here if you are appointing more than one proxy. []

Resolutions

For Against **Votes withheld** Discretionary
(see note 4)

ORDINARY BUSINESS

- | | | | | |
|--|--------------------------|--------------------------|--------------------------|--------------------------|
| 1. To receive and adopt the Company's annual accounts for the year ended 31 May 2008 | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 2. To approve the Directors' Remuneration Report | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 3. To declare a final dividend of 2p per Ordinary Share | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 4. To elect Tracy Clarke as Director | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 5. To re-elect John Clough as Director | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 6. To re-elect Charles Berry as Director | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 7. To re-appoint PricewaterhouseCoopers LLP as auditors | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |

SPECIAL BUSINESS

- | | | | | |
|--|--------------------------|--------------------------|--------------------------|--------------------------|
| 8. To grant the Directors authority to allot relevant securities | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 9. To approve the disapplication of pre-emption rights | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 10. To authorise the Company to make market purchases of Ordinary Shares in the capital of the Company | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |

Your Board recommends that you vote in favour of all the above resolutions.

Signature or common seal: _____

Any one joint holder may sign, but please note in the event of two or more joint holders attempting to register a vote, the vote of the senior who tenders a vote shall be accepted to the exclusion of any other joint holders in accordance with Article 59.2.

Date: 1 September 2008

Proxy Card

Notes to the proxy form

1. Every holder has the right to appoint some other person(s) of their choice, who need not be a shareholder as his proxy to exercise all or any of his rights, to attend, speak and vote on their behalf at the meeting. If you wish to appoint a person other than the Chairman, please insert the name of your chosen proxy holder in the space provided (see below). If the proxy is being appointed in relation to less than your full voting entitlement, please enter in the box next to the proxy holder's name (see below) the number of shares in relation to which they are authorised to act as your proxy. If left blank your proxy will be deemed to be authorised in respect of your full voting entitlement (or if this proxy form has been issued in respect of a designated account for a shareholder, the full voting entitlement for that designated account).

2. To appoint more than one proxy you may photocopy this form. Please indicate the proxy holder's name and the number of shares in relation to which they are authorised to act as your proxy (which, in aggregate, should not exceed the number of shares held by you). Please also indicate if the proxy instruction is one of multiple instructions being given. All forms must be signed and should be returned together in the same envelope.

3. The right to appoint a proxy does not apply to persons whose shares are held on their behalf by another person and who have been nominated to receive communication from the Company in accordance with section 146 of the Companies Act 2006 (nominated persons). Nominated persons may have a right under an agreement with the registered shareholder who holds shares on their behalf to be appointed (or to have someone else appointed) as a proxy. Alternatively, if nominated persons do not have such a right, or do not wish to exercise it, they may have a right under such an agreement to give instructions to the person holding the shares as to the exercise of voting rights.

4. The 'Vote Withheld' option overleaf is provided to enable you to abstain on any particular resolution. However, it should be noted that a 'Vote Withheld' is not a vote in law and will not be counted in the calculation of the proportion of the votes 'For' and 'Against' a resolution.

5. Pursuant to regulation 41 of the Uncertificated Securities Regulations 2001, entitlement to attend and vote at the meeting and the number of votes which may be cast thereat will be determined by reference to the Register of Members of the Company at 6pm on the day which is two days before the day of the meeting or adjourned meeting. Changes to entries on the Register of Members after that time shall be disregarded in determining the rights of any person to attend and vote at the meeting.

6. To appoint one or more proxies or to give an instruction to a proxy (whether previously appointed or otherwise) via the CREST system, CREST messages must be received by the issuer's agent (ID number RA10) not later than 48 hours before the time appointed for holding the meeting. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp generated by the CREST system) from which the issuer's agent is able to retrieve the message. The Company may treat as invalid a proxy appointment sent by CREST in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.

7. The completion and return of this form will not preclude a member from attending the meeting and voting in person. If you attend the meeting in person, your proxy appointment will automatically be terminated.

8. To be effective, all votes must be lodged not less than 48 hours before the time of the meeting at the office of the Company's registrars at: Capita Registrars, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU.

Signed: _____ Date: _____ 2008

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