

Annual Report and Accounts  
Year ended 31 May 2009



# Delivering sustainable living



making a difference

**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.

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# Highlights

## Results highlights

- Revenue up 15.6% to £738.9m (2008: £639.0m), largely organic growth
- EBITA<sup>1</sup> up 24.1% to £47.2m (2008: £38.0m)
- PBTA<sup>2</sup> up 23.5% to £47.5m (2008: £38.4m)
- Adjusted diluted earnings per share<sup>3</sup> up 26.0% to 13.4p (2008: 10.6p)
- Final dividend of 2.4p per share; 3.5p for the year, up 16.7% (2008: 3.0p)
- Strong cash generation
- Year end closing cash balance £31.9m (2008: £15.3m)

## Key achievements

- Another year of strong delivery and continued growth
- Warm Front Scheme contract extended to 31 March 2011, with provision for a further two year extension
- Delivery of BBC Switchover Help Scheme well under way, reaching over 1.1m eligible customers so far
- Continued development of heating platform
- Increase in Carbon Emissions Reduction target ('CERT') activities with all six major utilities, estimated to have saved over 9.1m tonnes of CO<sub>2</sub> during the period
- Strategic alliance established with organisations such as Solar century and Consensus Business Group, building on our strong position in the growing domestic low carbon and renewable energy markets



**£738.9m**

Revenue up 16%



**£47.2m**

EBITA<sup>1</sup> up 24%



<sup>1</sup> Adjusted for amortisation of intangible assets, ePT-funded charges and exceptional costs

<sup>2</sup> PBTA is calculated as profit before tax adjusted for amortisation of intangible assets, ePT-funded charges and exceptional costs

<sup>3</sup> Adjusted for amortisation of intangible assets, ePT-funded charges, exceptional costs and related tax adjustments

# Chairman's Statement

## Charles Berry

Chairman

I am pleased to present this annual report, which charts the progress of another successful year. The year has seen eaga continue to build on its track record as an established growth business and despite the wider context of a challenging economic climate, eaga has succeeded in increasing both revenues and profits across each of its business segments.

The drivers within eaga's markets remain strong and with a range of emerging opportunities in our core markets, the business is well placed to make good progress. We are focused on building on the Group's strong foundations to achieve further diversification and growth.

### Results

The Group's results for the year to 31 May 2009 show double digit growth in revenues and profits before exceptional items. Group revenue increased by 15.6% to £738.9m (2008: £639.0m) and Group earnings before interest, tax, amortisation of intangible assets, eaga Partnership Trust ('ePT')-funded charges and exceptional costs ('EBITA') grew by 24.1% to £47.2m (2008: £38.0m). It is pleasing that 12.9% of our 15.6% revenue growth was organic.

Adjusted diluted earnings per share (adjusted for amortisation of intangible assets, ePT-funded charges, exceptional costs and associated taxation) has increased by 26.0% to 13.38p.

The Group held net cash balances (cash balances less loans and borrowings) of £31.3m (2008: £14.8m) at the year end. Our cash generative business model, alongside the agreement of new credit facilities, provides the flexibility to support the Group's future growth opportunities.

### Dividend

An interim dividend of 1.1p per Ordinary Share was paid on 23 March 2009. The Board has proposed a final dividend of 2.4p per Ordinary Share, payable on 13 November 2009 to shareholders on the register at 16 October 2009, resulting in a total proposed dividend for the year of 3.5p per Ordinary Share (2008: 3.0p per Ordinary Share), an increase of 16.7%, reflecting our confidence in the growth of the business.

### Strategy

Our strategic aims for 2009 were to enhance our business process outsourcing ('BPO') activities, to continue the development of our activities in the domestic heating and renewables markets and to capitalise further on our position within an expanded Carbon Emissions Reduction Target ('CERT') market. I am pleased to report progression on all of these aims.

The agreement reached with Government to extend eaga's contract to deliver the Warm Front Scheme to the end of the current Government spending period, 31 March 2011, with provision for a further two year extension beyond that point strengthens our position in this key outsourced contract. Our delivery of the Digital Switchover Help Scheme for the BBC is also well underway, with eaga interacting with more than 1.1m eligible customers as part of that delivery. Our activities in this area have been further strengthened as we were appointed by the Department of Culture, Media and Sport ('DCMS') to deliver the digital switchover contract for care homes across the UK.



Our activities in the social housing heating market have recovered well in the year following last year's challenges around contract profitability and integration. This recovery, together with several new contract wins and the development of a number of strategic partnerships to provide heating services, ensures that we have a strong platform for continued growth in the domestic heating and renewables markets.

Our delivery into the CERT market over the period has been at a greater volume than ever before – we estimate that our activity with all six utilities has saved more than 9.1m tonnes of CO<sub>2</sub> during the year ended 31 May 2009. The roll out of the outsource contract for ScottishPower has been a success for both eaga and our customer. We believe the opportunities in the CERT market remain strong, supported by the Government's announced 20% increase to the CERT obligation and reinforced by ongoing consultation to extend the CERT period by a further 21 months to 31 December 2012.

The domestic carbon saving agenda was further boosted in the year with the launch of the Community Energy Saving Programme ('CESP'). This initiative funded by energy suppliers and generators is intended to incentivise higher value retrofit interventions, such as renewable technologies and external wall insulation, in communities across the UK, where the Group is strategically well positioned.

As we look forward to 2010 our key objectives are to continue to diversify our contract base in the BPO market, continue to grow our domestic heating and renewables businesses through the further development of key strategic partnerships, and to capitalise on the ongoing opportunities in the CERT and CESP markets.

### People and Culture

The performance eaga achieves is delivered by its people or, as we like to call them, Partners. Our Partners sustain and energise our approach to business, which is based on a number of core values. Those values are at the heart of eaga's success and are focused on a primary aim of delivering outstanding customer service. We encourage and actively facilitate an operating culture in which our Partners can anticipate, understand and act upon the needs of our customers.

On behalf of all stakeholders, I would like to personally thank all of our Partners for their commitment, dedication and overall contribution to our continued success.

### The Board

I am grateful to my Board colleagues for their ongoing support and counsel over the past twelve months. Their continued care, determination and foresight have contributed hugely to eaga's development during the year.

The Board welcomed Roger Aylard as a Non-Executive Director and Senior Independent Director on 1 April 2009. Roger retired as Head of UK Investment Banking at Deutsche Bank in August 2007 after a career encompassing ten years in the oil industry, six years as a research analyst and fifteen years in corporate broking and corporate finance. During this time he acted as senior advisor to a wide range of major UK companies. His insight and experience add considerable value to a well established team.



# Chairman's Statement

Continued

On 27 April 2009, eaga announced that John Clough MBE, the Company's Chief Executive since its formation in 1990, was to retire with immediate effect. John's decision to retire allows him to protect his long-term health. On behalf of the Board and his friends, colleagues and Partners, we thank him for his service and recognise him for the immense contribution he has made to eaga's growth, development and success.

Following John's retirement, the Board announced that Drew Johnson would be appointed Chief Executive with immediate effect. Drew has been the key architect of eaga's commercial strategy and operational development that have been key to the growth of eaga throughout the eighteen years he has been with the business. His understanding of eaga's business model and knowledge of the markets in which the Group operates is unparalleled. The Board is delighted with Drew's appointment as Chief Executive and believe that he, together with the backing of a strong senior management team, will further develop the strategic direction of the business.

## Outlook

The 2009 results demonstrate the Group's ability to deliver continued strong growth, despite difficult economic conditions. The secured sales order book delivers strong revenue visibility for 2010 and eaga continues to be well positioned in its core markets, which offer positive and sustainable opportunities for further growth.

Building on our established platform, the Group has a clear focus on opportunities in the BPO, domestic heating and residential carbon saving markets to actively grow a diversified customer and contract base. Trading during the first quarter has been in line with expectations and the Board is confident that eaga will continue its growth, extend its successful track record and make further significant progress in the year to 31 May 2010.

**Charles Berry, Chairman**

1 September 2009

## Our Partners



## Our Values

All eaga Partners are recruited and assessed against strong corporate values. The values are supported by Corporate Standards and Performance Management.

More than 37% of the shares in eaga are held in trust on behalf of Partners by ePT. This means that our Partners are the biggest shareholder in eaga. Our commitment to a co-owned business model drives engagement, an entrepreneurial spirit and significant added value from our Partners, and we believe this structure offers the strongest route to drive our future success.

eaga is defined by its culture and the values and behaviours that our Partners display. We each share an obligation to care for our Partners, customers and communities with integrity, respect and enthusiasm. As we grow as a business, so our reach and impact across our business locations widens and the imperative on each of us to continually re-energise and revitalise our culture remains strong. Corporate responsibility is not an add-on to eaga's business, it is at the heart of everything we do and our desire to make a positive difference in the communities around us is what drives us forward.

Our operating culture and our co-owned business model are key factors in focusing the minds of our Partners on delivering excellent customer service. We believe passionately in giving our Partners the tools, the investment and the freedom to focus on and meet the needs of our customers.

As with any business of our size, there is a challenge in maintaining our culture as we expand and develop into new markets. At all levels of the organisation, we are committed to reinforcing, reinvigorating and renewing our values as we continue our growth plans.

eaga's values, combined with a commitment to co-ownership, are at the centre of what makes the business a success and drives the performance and outstanding customer service of our employees.

Our values are:

We are a  
**winning team**

We are  
**customer focused**

We are dedicated to  
**continuous improvement**

We have a  
**sense of urgency**

We act  
**responsibly and safely**

We are  
**professionals**

We embrace change and will maintain  
**a sense of fun**

Making  
heating  
more  
efficient  
across the  
country





Leeds City Council is just one of the customers for whom eaga provides heating servicing, maintenance and repair, ensuring that their tenants are able heat their homes efficiently.

eaga provides central heating installation, repair and maintenance services to a wide range of customers across the public and private sector. One of these customers is Leeds City Council, with whom eaga has a five year contract to provide heating breakdown and annual service cover for over 7,000 homes across the Leeds area.

eaga has successfully retained the Leeds contract based on a track record of understanding the client's needs in providing effective delivery and ensuring excellent service to the end customer in the home.

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

## Installation Services

Installation Services is eaga's fastest growing segment. Through both organic growth and acquisitions we have built up one of the UK's largest delivery platforms for the installation and maintenance of energy efficient heating systems, domestic insulation and renewable technologies.

Our customers in this segment typically include social landlords, Government-funded programmes, energy utilities and able to pay customers.

The increasing demand for energy efficiency improvements has enabled eaga to build a business of significant scale and our Installation Services segment has more than 3,500 of our Partners across the UK.

### eagaheat

The domestic heating market in the UK is worth approximately £5bn annually and is currently served by a highly fragmented supply chain. Through our workforce of qualified heating engineers we are well placed to capitalise on the significant opportunities in this market place. This scale enables us to install over 40,000 central heating systems annually and provide service and breakdown cover to over 400,000 households across the UK.

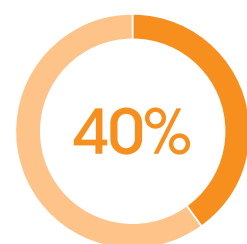
During 2009 we have re-branded the majority of our heating businesses under the 'eagaheat'

brand. This strategic consolidation of our branding brings together a number of well-established, proven businesses under one eaga brand.

### eaga Insulation

eaga Insulation is one of the largest installers of loft and cavity wall insulation and related energy efficiency measures in the UK. There are significant opportunities in the domestic insulation market, particularly given the Government's stated commitment to insulate 6m homes across the UK by 2012. The increasing scale of programmes such as CERT will drive this opportunity.

As well as domestic insulation we also provide a range of external wall insulation offerings for both domestic and commercial customers through our Horrocks and Howe subsidiaries.



Installation Services  
Revenue contribution to eaga

# Supporting the switch to digital television





## Managed Services

The Switchover Help Scheme will offer support and advice to millions of homes across the country as we move from analogue to digital television.

eaga delivers the Switchover Help Scheme on behalf of the BBC. The Scheme has been set up by the BBC through an agreement with Government to make sure that those who need it most benefit from practical support and advice during the digital switchover process. More than 7m eligible people are expected to qualify for assistance under the scheme.

The Switchover Help Scheme offers to convert one television set per eligible household between now and 2013. Eligible customers include those aged over 75, partially sighted or in receipt of certain disability benefits.

The support they can obtain includes:

- help to chose the right equipment;
- easy to use equipment that suits individual needs;
- installation, including new aerial if required; and
- dedicated helpline.

eaga's experience in dealing with this customer group and our understanding of the specific dynamics of providing sensitive and appropriate service in this area, underpins our delivery of the Scheme across the country.

Managed Services is a market leader in delivering large scale complex outsourced programmes.

This segment delivers a number of high profile outsourced programmes across a broad and diverse contract base.

### Warm Front

Warm Front is the UK's largest grant-funded programme for tackling fuel poverty and is funded by the Department for Energy and Climate Change. The Scheme has provided central heating and insulation measures, as well as income checks and energy advice to over 750,000 households in the last three years.

### The Home Energy Efficiency Scheme in Wales

We deliver a similar scheme to Warm Front in Wales (the Home Energy Efficiency Scheme, HEES Wales) on behalf of the Welsh Assembly Government. The Scheme offers a similar range of measures to Warm Front and has helped more than 100,000 households across Wales since it was launched in 2000.

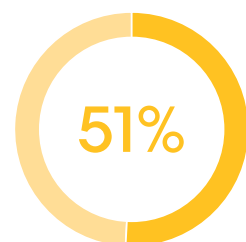
### Advice Services

We have over 170 Partners delivering telephone based advice to a variety of customers focusing on benefit entitlement, debt, housing and legal advice.

The growth in our advice services business 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.

### Digital Switchover Help Scheme

As noted overleaf the BBC has chosen eaga to deliver the Switchover Help Scheme, we estimate that there are more than 7m eligible people in the UK that can be assisted by the Scheme.



**Managed Services**  
Revenue contribution to eaga

# Delivering innovative carbon savings





## Specialist Support Services

Through a range of innovative products and services, eaga's activities are helping to save millions of tonnes of carbon on behalf of a range of customers every year.

eaga works with all six energy suppliers in helping them to meet their commitment under the CERT programme.

For example, eaga has worked with NPower for more than 7 years on their commitments under CERT and predecessor

programmes, delivering a mixture of energy efficient lighting and ground-breaking residential carbon saving measures such as eaga ShowerSmart, consistently providing NPower with a proven, cost effective means of meeting carbon saving targets.

Specialist Support Services provides products and services into the CERT market that offer low cost, high volume carbon saving and also houses our aftercare services on heating.

This segment draws on eaga's established delivery platform and customer base and provides a diverse range of innovative carbon saving services and products.

### Innovative Carbon Saving Solutions

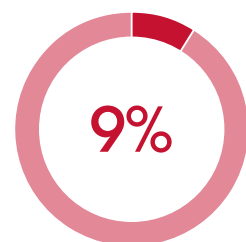
Our Specialist Support Services segment has developed and now delivers a wide spectrum of innovative carbon saving measures, including the eaga ShowerSmart and a Powerdown device, the "Standbyoff". The eaga ShowerSmart is an innovative device that can be fitted to a non-electric shower and will save 12,000 litres of water per year, which equates to £30 off both gas and water bills and one tonne of CO<sub>2</sub> for an average four person household.

eaga's nationwide delivery platform also means that other carbon saving

measures, such as energy saving lighting, can be delivered at scale in this segment through our fulfilment operation. Building on both the Schemes delivered in Managed Services and our CERT-facing commitments, our fulfilment business last year supplied over 14 million energy efficient light bulbs across the UK.

### Central Heating Aftercare

Our aftercare 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 WarmSure, supported by third party providers.



**Specialist Support Services**  
Revenue contribution to eaga

## Q&A with our new CEO Drew Johnson

Drew Johnson was appointed as our new Chief Executive Officer on 27 April 2009. He answers some questions about the progress and future of eaga.

### Q1

What is your background – how long have you been with eaga?

I've been with eaga since 1991, so almost twenty years now. Prior to coming to eaga, I worked in supply chain logistics at British Coal, where I began my working relationship with John Clough, eaga's previous Chief Executive. John brought me to eaga, and I worked closely alongside him in the commercial development and growth of the business.

Over the years, I've led eaga's commercial expansion strategy, identifying and driving forward opportunities for acquisitive growth, at the same time I have ensured that businesses such as eagaheat, our central heating subsidiary, have grown organically from a standing start in 2004 to a business now turning over more than £70m annually.

### Q2

What do you see as eaga's main strengths?

One important strength is that we operate in very attractive, sustainable markets – the demand for proven outsource providers, established national deliverers of heating and renewables and sources of scalable residential carbon savings is clear. eaga's infrastructure, customer-focused approach and track record for delivery means that we're really well placed to continue growing in these markets.

Our most important asset is our ability to understand and meet the needs of our customers – whether that's central or local Government or a major energy supplier, we know what is driving their agenda and can shape and alter the services we provide to meet those needs. Our Partners bring this ability to life. Their professionalism, dedication, flexibility and focus on customer service is crucial to our success.

### Q3

What is the biggest challenge facing you as Chief Executive?

For any business that's growing as quickly as eaga, it's always a priority for us to remember the key success factors that have brought us this far as we expand. We're competing for, and winning, new contracts across the country and the challenge for me is to maintain that customer-focused approach throughout all of our business units. As a company we've grown up with a clear set of values, placing our customers at the heart of everything we do – as we grow and diversify into new areas of business, it's critical that we don't lose sight of those foundations of our success.

### Q4

What do you think are your key priorities for the next twelve months?

We've grown and developed an impressive platform for the business – both in terms of geographic spread and in terms of the range of products and services we're able to deliver. The challenge for us now is to really drive that platform and secure additional new work; both in our core markets with our existing customer base and into new markets as we take advantage of the scale and the infrastructure we've built.

The priority has to be on maintaining our momentum, during our growth by maximising the number of opportunities that are out there, whilst at the same time ensuring that we select the right opportunities to go for; ones that will add value to our contract portfolio and strengthen our reputation for delivery with key audiences as well enhancing as our profitability and sustainability as a business.



## Q5

What sort of company would you like eaga to be in five years' time?

It's important that we retain some of the key characteristics that have taken us this far – remembering that our ability to anticipate, understand and deliver on the needs of our customer base should always take priority. Their requirements and the products and services we deliver on their behalf, will inevitably change as the underlying conditions change – what's important for us is that we're ready to meet those changing priorities ahead of time.

To do that, it's vitally important that we have the right management structure and leadership team in place to deliver; building on the strong unit we have now and supplementing it with the right people to capitalise on the opportunities that are out there.

Above all else, I'd like the business in five years time to be continuing to maximise the opportunities that present themselves by leading the way in its core markets – driving excellent customer service in the BPO arena; implementing at scale the domestic heating and renewable energy technologies of the future and continuing to provide the innovative residential carbon saving solutions; all of which will drive our growth.

## Q6

What makes eaga different?

A number of things. First, our business is structured in such a way that the interaction between our business segments adds real value to the component parts – we're able to maximise the expertise and the commercial relationships that exist in different parts of eaga to bring value to the whole Group. Second, our focus on our values-driven approach is important – it drives everything that we do.

eaga Partners are recruited, developed and retained based on the strength of their ability to live those values, and in turn that drives forward excellent service for our customers.

Finally, I think we're different because we act on the things we stand for. Our commitment to our communities, to sustainability and to the customer group we serve is real; it runs through the heart of the business and it adds real value to the commercial proposition we bring. Our ability to not just keep this alive, but re-energise and refresh it as we grow, is hugely important.

Our most important asset  
is our ability to understand  
and meet the needs of  
our customers.

# Operational Review

## Drew Johnson

Chief Executive Officer

I am pleased to present this review of the last twelve months and, as Chief Executive, to be in a position to drive forward eaga's continuing commercial growth and diversification. The business has gone through a number of changes over the last twelve months, but the imperatives that will not change are our focus on delivering for our customers and the drive to keep our values at the heart of what we do.

### eaga's Markets

eaga's expansion and strategic development over the last two years has been focused on realising the emerging potential evident in the Group's core markets. These are centred around:

- business process outsourcing ('BPO'), where we deliver large scale programmes for a range of customers, such as the Department of Energy and Climate Change ('DECC'), the BBC and the Legal Services Commission ('LSC');
- the provision of energy efficient central heating and renewable energy solutions, along with associated repair, maintenance and servicing products; and
- residential carbon saving solutions, providing services for energy utilities and residential social landlords.

### Business Process Outsourcing

eaga has an established infrastructure and customer-focused approach, built up primarily in our Managed Services segment through a wealth of experience in delivering schemes such as Warm Front and the Switchover Help Scheme. This strong base ensures that we are well placed to take advantage of the sizeable opportunities

in the wider central and local Government outsourcing market, which is estimated to be worth £7bn<sup>1</sup> annually. With pressures mounting on the public purse, the need to target cost savings and efficiencies by outsourcing processes and services to reliable partners is increasingly evident across both central and local Government.

### Fuel Poverty Schemes

The Warm Front Scheme is one of the major outsourced programmes delivered on behalf of central Government. The Scheme is Government's central instrument for tackling energy affordability in England, and is wholly delivered by eaga. Warm Front continues to form a critical element within 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. The value for money provided by eaga as lead contractor for Warm Front was endorsed in a National Audit Office report released in February 2009.

Activity under the Scheme is dependent upon the funding made available by Government. In recognising both the Scheme's popularity and the increasing imperative to take further action on its fuel poverty objectives, the Government announced two separate increases in Warm Front funding over the last twelve months. The first, an additional £74m for the 2008/09 and 2009/10 financial years, was announced on 11 September 2008 as part of the Home Energy Saving Programme. This was followed by the announcement in the Pre-Budget Report on 24 November 2008 that the Scheme would benefit from an additional £100m over the three year period to March 2011. These funding increases took annual funding for Warm Front to £395m for the twelve months to 31 March 2009, compared to £350m during the twelve months to 31 March 2008.

eaga has worked closely with DECC as our customer in outlining and implementing several changes to the Scheme over the last twelve months. The structural changes that have been announced over the period include an increase in the maximum grant available, changes to the supply chain allocation process and some changes to the delivery process aimed at making the Scheme more seamless for the end customer. The new contract, which was finalised on 22 July 2009, extends eaga's tenure to 31 March 2011 and has provision for a further two year extension beyond that point.

<sup>1</sup> ICT and business process outsourcing in the UK public sector to 2012. Kable.

**16%**  
Rise in revenue

2009	£738.9m
2008	£639.0m



The equivalent fuel poverty scheme in Wales ('HEES') continues to operate well with additional funding secured in the year. Whilst being unsuccessful in the retender for the Northern Ireland programme, we are currently in the process of tendering for delivery and management of the fuel poverty programmes in Scotland.

#### Switchover Help Scheme

We have seen a ramp up in activity on the delivery of the Switchover Help Scheme with four transmitter regions switched in the year, covering Borders and the West Country. The process of switchover went well in each area, with the Switchover Help Scheme offering effective support throughout to elderly and disabled householders.

**Whilst we are still relatively early in the life of the contract to deliver the Switchover Help Scheme, at year end we had already written and offered assistance to more than 1.1m households across the country.**

In managing the Switchover Help Scheme, eaga is continuing to strengthen relationships with potential partners in this arena, which may offer future potential for extending relationships into wider commercial opportunities as the digitisation agenda gathers pace. This was illustrated during the year by eaga's successful bid to manage the care homes element of the Switchover Help Scheme which was tendered separately to the main programme by the Department of Culture, Media and Sport.

Whilst we are still relatively early in the life of the Switchover Help Scheme, at year end we had already written and offered assistance to more than 1.1m households across the country, providing help and support across a range of available options to make the switch to digital television.

The next areas to switch to digital will be Wales and Granada. More than 1.7m households are estimated to be eligible in these areas alone, and we are already actively increasing our capacity further to meet the challenge of delivering in these regions.

#### Advice Services

eaga delivers telephone based advice services for a variety of customers focusing principally on benefits, debt and legal advice. As global economic conditions become increasingly difficult the impact on personal finances, debt and affordability of basic essentials are all drivers for growth in our advice services work.

Activity under our contracts with the LSC, as well as for the fuel poverty schemes we manage, has continued its growth over the period. This growth has been entirely organic, with success driven by the quality of advice provided and the levels of customer service delivered. This was pivotal in the decision by the LSC to exercise a two year extension to March 2011 to eaga's contract as one of its preferred suppliers. In the year to 31 May 2009 we have opened some 20,000 cases under our contract with the LSC, an increase of 31% from the prior year.

On the income advisory elements of our work, the team completed some 84,000 Benefit Entitlement Checks last year, an increase of 21% from the prior year. Where a check revealed additional entitlement to benefit, as it does in more than 40% of cases, our advisors identified an average increase in income of more than £1,600 per year for those householders.

#### Future Opportunities

eaga's prospects for ongoing development in the wider BPO market are promising. As local authority budgets become increasingly pressured, so the imperative to consider cost savings and efficiencies by outsourcing processes becomes increasingly compelling.

# Operational Review

Continued

An important element of our development in this area has been our agreement to form a joint venture with Newcastle City Council to compete effectively in the local authority market. The venture, to be branded 'The Real Partnership', brings together eaga's established infrastructure and delivery model and Newcastle City Council's knowledge and understanding of the market drivers. The venture is likely to have a six to twelve month lead in time to secure new contracts as processes become established, but offers potential for significant growth and expansion into the local authority BPO market.

## Domestic Heating and Renewable Energy Services

Through the Group's Installation Services segment eaga is one of the largest installers of energy efficient central heating in the UK. It is estimated that this fragmented market is worth in excess of £5bn<sup>2</sup> annually. Our customers in these markets include social landlords, Government-funded fuel poverty schemes, strategic commercial partners and private able to pay customers.

We have seen installation activity increase by approximately 7% during the year, with 44,800 (2008: 41,700) installations completed. This is significant in the current economic context, where some areas of the market have seen a slowing of installation programmes in light of fiscal tightening.

A key element of our development in the domestic heating market during the past twelve months has been a focus on brand identity. To support this development our heating businesses have commenced a strategic re-branding exercise to bring several of our established central heating operations under the single brand identity of eagaheat. This re-branding process will continue over the next twelve months in order to unify the eaga brand across the markets in which we compete.

Improved delivery into the social housing heating market during the year reflects our focus on recovery following the challenges last year relating to contract integration. I am pleased to confirm that those areas of the business are now performing strongly and provide a solid platform for growth.

This recovery, allied to ongoing success winning new contracts supports our view that this remains an attractive marketplace. Overall, our market share within the social housing arena remains significant, with 189,000 (2008: 205,000) boilers under maintenance and servicing contracts at year end. The reduction in properties under cover reflects our decision to withdraw from a small number of unprofitable contracts during the early part of the financial year. Since the year end we have seen a number of successful contract retentions, along with new contract wins.

## Future Opportunities

The private heating market is addressed by eaga through programmes such as Warm Front and through a number of strategic partnerships. We are ideally placed to deliver high quality services to our strategic partners given our established nationwide platform, which provides us with significant opportunity for further growth. Our capacity is clearly demonstrated by eaga securing a contract to deliver emergency heating breakdown services to the customers of a leading credit card provider.

In order to better realise the full range of opportunities available through the development of our emergency breakdown and servicing business, eaga reached agreement with Ideal Boilers Limited on 31 August 2009 to acquire their share of the WarmSure joint venture. During the year to 31 May 2009 WarmSure, which offers nationwide heating repair and maintenance services, performed 247,000 annual service visits and 177,000 breakdown visits, increases of 26% and 24% respectively. The development of the WarmSure business is already offering opportunities to deliver central heating servicing and repair services into new customer relationships.

eaga has a strong position in the small but growing domestic low carbon and renewable energy markets. The market has seen limited growth during the year to 31 May 2009, but we have worked hard to position ourselves for the opportunities that we expect to unfold following the launch of the Government's Low Carbon Transition Plan<sup>3</sup> and related Renewable Energy Strategy<sup>4</sup> during July 2009. It is our expectation that developments such as feed-in tariffs will provide a significant stimulus to this market.

The confirmation of additional strategic alliances with organisations such as Solar century have secured a platform to further grow our renewables business. Solar century is the UK's leading solar energy company and our partnership will provide opportunities for delivery of installation and related services for our renewables business. Drawing together the full range of our products and services in the heating installation, servicing and repair market is likely to lead to further opportunities for strategic partnerships and bundled service offerings in new markets.

## Residential Carbon Saving

The UK residential carbon savings market is driven primarily through long-term regulatory requirements imposed by Government on the energy suppliers and electricity generators. The CERT and soon to be implemented CESP programmes require the suppliers and generators to invest in energy efficiency improvements in UK residential housing stock. The current targets require estimated

<sup>2</sup> BRG consultant and Ideal Stelrad Limited manufacturing data

<sup>3</sup> [www.decc.gov.uk/en/content/cms/publications](http://www.decc.gov.uk/en/content/cms/publications)

<sup>4</sup> [www.berr.gov.uk/consultations](http://www.berr.gov.uk/consultations)



annual expenditure in excess of £1bn. eaga is one of the key solution providers for the energy companies and we estimate that our market share is close to 20%.

As the drive for residential carbon savings continues to gather momentum, through the expansion of these programmes, there will continue to be significant opportunities for proven delivery providers who are focused on innovative, high volume, scalable carbon saving products and services. Through the Installation Services and Specialist Support Services segments, the Group has a strong position in the delivery of carbon savings to UK energy suppliers. The Government's decision to broaden the statutory obligation to deliver residential carbon savings by extending the requirement to the UK electricity generators extends our revenue potential and target customer base in this market.

Our delivery into this market is characterised by our ability to generate domestic residential carbon savings from a range of solutions; the key being our capacity to deliver, at scale, both traditional solutions, such as loft and cavity wall insulation, alongside more innovative solutions such as eaga ShowerSmart and external wall insulation.

Volume delivery of new carbon saving technologies such as eaga ShowerSmart is becoming increasingly important in this marketplace. The eaga ShowerSmart device typically results in a saving on household energy bills, with reduced energy used to heat hot water. For the average household, the device could save £30 a year off the average energy bill and a similar amount from the average water bill. Last year almost 450,000 eaga ShowerSmart devices were distributed to homes across the country, each one having the potential to save a tonne of carbon in the domestic setting. We are already working on a portfolio of other innovative solutions which, when delivered at the scale that eaga can offer, will provide the next platform for further domestic energy and carbon savings at rates attractive to our customers.

eaga's position in the CERT market was boosted by the Government's announcement on 11 September 2008 to increase the CERT obligation on energy suppliers by 20% and more recently, their intention to extend the end date of the obligation by 21 months to December 2012. The increase in the targets positions us positively for further growth in this area by supporting our customers' delivery of additional savings against their increased obligations.

Our delivery into the residential carbon savings market has benefited over the period from the commercial relationships in place with all six of the UK's major energy suppliers. Of particular importance is the Group's contract with ScottishPower to deliver their entire CERT target. This contract is the first of its kind within the CERT market and bears out eaga's expertise and experience in relation to market understanding, targeting and carbon management. Delivery commenced in September 2008 and has driven significant activity – we have already seen more than 5.2m tonnes of CO<sub>2</sub> saved.

#### Future Opportunities

As part of the announcement to expand CERT, the Government also launched CESP, which is projected to be worth £350m over the 2009/12 period, drawing in contributions from electricity generators as well as energy suppliers. We have already made progress in building relationships with generators as we seek to develop opportunities under CESP, using our national infrastructure to support localised delivery of energy efficiency measures and initiatives. Since the year end, we have reached an advanced stage of negotiation with a key electricity generator to deliver their whole CESP programme in the UK and we are pursuing a number of other similar opportunities.

Collectively, the developments on CERT and CESP provide strong visibility of revenues as we move forward and position us well for further growth and expansion within this market. Moreover, we remain relatively well positioned to deal with volatility in market demand. The size of our business, the diversity of our product offering and our captive volumes mean that eaga has a broader range of alternative opportunities and significant flexibility to manage our activities in this area.

#### Segmental Performance Managed Services

eaga's Managed Services segment provides outsourced solutions to local and central Government and other commercial organisations.

Revenues increased 4.5% to £439.2m (2008: £420.3m). This growth reflected increased Warm Front revenue following the incremental funding discussed earlier and the first year impact of the Switchover Help Scheme. EBITA increased 11.6% to £9.6m (2008: £8.6m) and operating margins were in line with our expectations at 2.2% (2008: 2.1%).

# Operational Review

Continued

Under Warm Front, we assisted 233,000 households in the year (2008: 264,000), we continue to deliver short waiting times, high levels of customer satisfaction and a solid track record on health and safety. Increasing levels of activity under the Switchover Help Scheme, alongside continued growth in our Advice Services business, have also contributed to increased revenues and stable margins in this segment.

## Installation Services

eaga's Installation Services segment delivers energy efficiency improvements, along with central heating installation and related services to homes across the UK.

The segment continued to grow strongly during the year, primarily through organic development. Revenues increased 36.8% to £340.8m (2008: £249.1m). EBITA increased by 38.8% to £26.8m (2008: £19.3m) and operating margins increased to 7.9% (2008: 7.8%) reflecting changes in business mix, improvements in social housing contract delivery and focus on maintaining efficiency across our operations.

The majority of the growth in this segment has been organic in nature, driven by increasing levels of activity on behalf of utility customers in the CERT market and within that, specifically the delivery of our ScottishPower outsourcing contract. We have directly delivered 199,000 main measure insulation improvements in the year representing a 24% increase on the prior year.

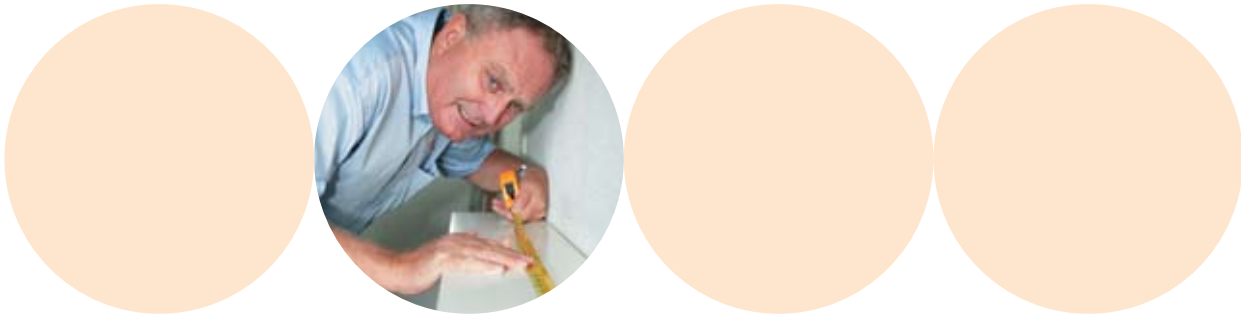
## Specialist Support Services

eaga's Specialist Support Services segment provides a range of solutions which support the contracts and customers we serve in our other segments. These include central heating aftercare and insurance services, wholesale insulation and fulfilment and brokerage activities in support of the delivery of energy saving products to the CERT market.

Our service offerings in this segment provide us with a flexible model to allow us to provide our customers with cost effective solutions whilst maintaining our margins. During the year we have achieved a shift in the mix of carbon savings delivered to our CERT market customers through the introduction of innovative energy saving products such as eaga ShowerSmart.

Revenues increased by 1.3% to £78.0m (2008: £77.0m). This reflects £6.9m revenue contributed from the acquisition of the Protocol group of companies during the year to enhance the Group's fulfilment and distribution capability, partially offset by reduced revenues arising primarily from a change in CERT product mix.

EBITA has increased by 6.7% to £10.8m (2008: £10.1m), with EBITA margin of 13.8% (2008: 13.1%). This increase in margin principally reflects the impact of the mix switch towards innovative CERT solutions.



### Summary

Since we last updated the market the fundamental drivers behind eaga's ongoing growth have continued to strengthen and the outlook in the Group's core markets remains positive. We see significant opportunities in all of our markets. We believe that the retrofitting of energy efficient measures to the existing housing stock will continue to be a major driver of the shift towards a low carbon economy. The social pressures exerted by the current economic challenges and technological change will continue to stimulate interest in the products and services that we offer supported, at all times by the customer understanding and commitment to service that is at the heart of eaga's business.

In order to take advantage of these opportunities, the challenge ahead is to continue building and developing the right partnerships, to enhance our strong market position and our established business platform. Crucially for eaga, we know that our greatest strength is our ability to deliver for our customers; keeping them at the heart of everything that we do and building on our success as we move forward.

With another positive year of growth and success behind us, a strong balance sheet, and a diverse range of promising opportunities coming more sharply into view, I am confident that eaga remains well placed to deliver continued profitable growth.

**Drew Johnson, Chief Executive**  
1 September 2009

# Improving our local environment





## Supporting the communities in which we live and work with structured and sustainable financial and human resource.

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 Partners are particularly welcome, as we feel we have a role to play in encouraging our Partners to become engaged and contribute positively to their local communities.

## eaga in the Community

eaga is a people business with more than 4,000 Partners committed to delivering outstanding service to its customers.

Central to our success is our commitment to the principles of employee ownership ('Partnership') and a strong set of corporate and social values. The company's Partnership ethos underpins our approach to business and how we interact with the local communities in which its employees live and work.

eaga was founded to lead Government-funded efforts to improve the living conditions of vulnerable people living in cold, damp and energy inefficient homes. More than £3m has been invested in the independent eaga Partnership Charitable Trust and funded vital research into solutions to fuel poverty. Local community organisations, charities, schools and individuals can also apply for funding from the eaga Community Foundation fund which supports projects related to the environment and education in the local communities in which eaga's Partners live and work.

# £3m

More than £3m has been invested cumulatively in the independent eaga Partnership Charitable Trust and funded vital research into solutions to fuel poverty.

# Financial Review

## Ian McLeod

Group Finance Director

The Group has continued its track record of delivering growth in both revenue and EBITA (profit before interest, tax, amortisation of intangible assets, ePT-funded charges and exceptional costs), as well as strong cash generation. This has principally been delivered via organic growth across the business with further contribution from acquisitions. The Group remains cash positive at the year end with net cash, being cash and cash equivalents less loans and borrowings, of £31.3m at 31 May 2009 (2008: £14.8m).

### Group Result

Revenue has increased by £99.9m (15.6%) to £738.9m (2008: £639.0m). Acquisitions accounted for £17.2m of this growth with the remaining £82.7m delivered organically.

EBITA increased by £9.2m (24.1%) to £47.2m (2008: £38.0m). Acquisitions accounted for £1.7m of this growth with the remaining £7.5m arising organically. This is summarised in the following table:

	Revenue £m	Revenue growth %	EBITA £m	EBITA %
Year to 31 May 2008	639.0	-	38.0	6.0%
Organic growth	82.7	12.9%	7.5	9.0%
Acquisition in the year	6.9	1.1%	0.7	9.7%
Inter-segment eliminations of acquisitions*	(6.9)	(1.1%)	-	-
Full year effect of prior year acquisitions	17.2	2.7%	1.0	6.1%
<b>Year to 31 May 2009</b>	<b>738.9</b>	<b>15.6%</b>	<b>47.2</b>	<b>6.4%</b>

\*Whilst the acquisition of the Protocol group of companies has increased segmental revenues of Specialist Support Services, as these services are primarily delivered to other segments the acquisition has not increased Group revenue.

### Segmental Performance

The Group continues to monitor business performance using revenue, EBITA and EBITA margin as the key indicators of performance. Year on year differences in these performance metrics are summarised in the following table:

	2009 £m	2008 £m	Change £m
<b>Revenue</b>			
Managed Services	439.2	420.3	18.9
Installation Services	340.8	249.1	91.7
Specialist Support Services	78.0	77.0	1.0
Eliminations	(119.1)	(107.4)	(11.7)
	<b>738.9</b>	<b>639.0</b>	<b>99.9</b>

<b>EBITA</b>			
Managed Services	9.6	8.6	1.0
Installation Services	26.8	19.3	7.5
Specialist Support Services	10.8	10.1	0.7
	<b>47.2</b>	<b>38.0</b>	<b>9.2</b>

<b>EBITA margin</b>			
Managed Services	2.2%	2.1%	0.1%
Installation Services	7.9%	7.8%	0.1%
Specialist Support Services	13.8%	13.1%	0.7%
	<b>6.4%</b>	<b>6.0%</b>	<b>0.4%</b>

### Managed Services

Managed Services revenues increased by £18.9m (4.5%) to £439.2m (2008: £420.3m). This has been mainly driven by increased funding levels for Government-funded fuel poverty programmes and the first full year of the Switchover Help Scheme.

We started the current financial year with funding for the year to 31 March 2009 on Warm Front of £295m compared to £350m in the prior year. However during the autumn of 2008 the Government announced an additional £174m of funding for Warm Front spread over the fiscal years 2008/9 to 2010/11. We have assisted 233,000 customers in the year through Warm Front and generated revenue of approximately £374m in 2009 (2008: £364m).

EBITA margin has remained relatively constant in 2009 at 2.2% (2008: 2.1%).



### Installation Services

Installation Services revenues have grown by £91.7m (36.8%) to £340.8m (2008: £249.1m). This increase comprises £3.7m relating to the continued growth in the delivery of Managed Services contracts, £17.2m relating to full year effect of the prior year acquisitions of Horrocks Group plc, George Howe Limited, AFR Limited and RG Francis Limited and £70.8m of other organic growth. The organic growth is principally driven from the first year impact of the ScottishPower contract together with other contract wins in the social housing and CERT parts of our business.

EBITA margin has shown slight growth to 7.9% (2008: 7.8%). This reflects the recovery of our social housing businesses, in particular RG Francis Limited, together with the impact of mix shift towards insulation and maintaining efficiencies across our operations.

### Specialist Support Services

Specialist Support Services revenues have increased marginally by £1.0m (1.3%) to £78.0m (2008: £77.0m). This reflects growth from the acquisition of the Protocol group of companies in the year which has generated turnover of £6.9m partially offset by some reductions in turnover from other revenue streams in this segment. This reduction mainly reflects a flexing of the mix of products delivered into CERT with a lower volume of brokerage services and the sale of products such as eaga ShowerSmart with a resultant decrease in headline sales levels.

EBITA margin has shown growth in 2009 at 13.8% (2008: 13.1%). This primarily reflects the switch in the delivery of CERT obligations in 2009 compared to 2008 as noted above.

### Taxation

The tax expense for the Group is £10.8m (2008: £8.9m). This represents an effective rate of 28.5% (2008: 31.5%). Excluding the impact of exceptional costs, ePT-funded charges and associated tax adjustments this results in an underlying effective rate of 28.7% (2008: 30.3%).

The underlying effective rate is 0.7% higher (2008: 0.6%) than the standard rate of taxation of 28.0% (2008: 29.7%) due to disallowable expenditure incurred by the Group.

### Dividends

The Directors recommend a final dividend of 2.4p per share (2008: 2.0p) giving a total dividend for the year of 3.5p (2008: 3.0p). This represents a growth of 16.7% in line with the Group's progressive policy of returning value to shareholders.

### Earnings per Share

Basic earnings per share increased by 48.5% to 10.69p (2008: 7.20p). Adjusted diluted earnings per share (adjusted for amortisation of intangible assets, ePT-funded charges, exceptional costs and associated tax adjustments) increased by 26% to 13.38p (2008: 10.62p).

Exceptional costs in the current year comprise a share-based payment charge in respect of the fair value of share options granted to certain Partners by ePT under the IPO Key Management Plan of £0.3m (2008: £2.6m). The ePT-funded Share Incentive Plan ('SIP') cost of £1.6m (2008: £Nil) represents the share-based payment charge in respect of the fair value of shares granted under the SIP. Because the expense is fully funded by ePT and not the Company, via the waiver of its interim and final dividends relating to the year ended 31 May 2008, this cost has been separately disclosed on the face of the income statement.

### Acquisitions

On 14 October 2008 the Group acquired Protocol Communications Management Limited ('Protocol') providing the Group with a cost effective in-house fulfilment and distribution operation to support activities in our Government and CERT-funded contracts. The initial consideration paid was £1.5m with up to a further £1.5m contingent consideration payable depending on the post acquisition results of Protocol.

In addition, during the year the Group paid a further net £3.1m of deferred cash consideration in connection with acquisitions made in prior years.

# Financial Review

Continued

## Treasury

### Strategy and Management

The Group's balance sheet strength has enabled a flexible approach to be taken to meet its funding requirements with the majority of working capital requirements being met from internal cash generation. This position has been further strengthened by the signing, on 17 March 2009, of new credit facilities with Barclays Bank plc. The new facilities provide the Group with £75m of available facilities comprising £60m revolving credit facility of which none was drawn down at year end, a £5m overdraft facility of which none was drawn down at year end and a £10m letter of credit required on a major contract in the Group. The revolving credit facility is in place for a period of three years to 17 March 2012, the overdraft is renewable on 17 March 2010 and the letter of credit is in place up to 31 December 2013. Costs incurred in connection with the new facilities of £0.8m are being amortised to the income statement over the life of the relevant facility.

These facilities will provide the Group with greater flexibility on the funding of working capital or other investment requirements in the short to medium term.

At 31 May 2009 the Group's aggregate undrawn finance facilities were £65m, together with the Group's net cash position of £31.3m, provides headroom of approximately £96.3m (2008: £51.2m).

Each business unit in the Group manages its own cash position on a day to day basis subject to the majority of bank accounts being part of a central netting facility with Barclays Bank plc. The Group's banking arrangements are negotiated and monitored by a central treasury function. Surplus cash is placed on deposit with a view to maximising investment income. The Group has a limit of not placing more than £20m with any single institution and all institutions used for the depositing funds are required to be rated by Standard and Poor as A or better. Typically deposits of surplus funds are made for a period of up to three months.

The Group does not have major exposure to interest rate movements as it does not have any significant drawn floating rate liabilities in place. If such liabilities are drawn down in the future then the Group will seek to manage the exposure to floating interest rates via appropriate hedging instruments where it is cost effective for the Group to do so.

The Group does have some exposure to foreign currency transactions predominately through the purchase of equipment/stock from overseas. Whilst the exposure is not yet significant, the Group is exploring a number of hedging strategies that will be implemented if the level of exposure increases appreciably.

The Group's net finance income was £0.2m compared to £0.4m in the prior year, principally reflecting lower interest rates in the year.

### Liquidity and Cash Flows

The Group continues to be cash positive and at 31 May 2009 had cash and cash equivalents of £31.9m (2008: £15.3m), an increase of £16.6m during the year.

The following table summarises the cash flows for the Group:

	2009 £m	2008 £m
Cash generated from operations	40.3	21.9
Interest and tax	(3.0)	0.8
<b>Cash generated from operating activities</b>	<b>37.3</b>	22.7
Net capital expenditure	(4.7)	(3.8)
Acquisitions	(4.6)	(35.9)
Funds raised at flotation	-	29.0
Net financing including dividends	(11.4)	(2.2)
<b>Increase in cash</b>	<b>16.6</b>	<b>9.8</b>

### Risks and Uncertainties

The Group has a dedicated risk management team together with a risk forum and Risk Review Board to monitor and evaluate the results of the risk management process in each business unit. The Risk Review Board reports to the Board and Audit Committee on a regular basis regarding the effectiveness of the risk identification process and the actions plans developed by the business to mitigate significant 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 risks. As noted above the Group monitors the level of cash flow requirements and borrowings through its central treasury function. The Group has access to £65m of available facilities which can be drawn on demand providing access to debt when required.

The Group manages its credit risk through credit checks on potential and existing customers. A significant proportion of the Group's receivables balances are with central and local Government, BBC and energy suppliers in the UK which lowers the credit default risk for the Group.

#### Economic Conditions

Certain of the Group's operations could be impacted by a downturn in the UK economy and, for some parts of our business, specifically a downturn in the housing market and building sectors. The Group has mitigated the impact of the risk of a downturn in these sectors through cost management strategies and by having a diversified contract base.

#### Government Policy

A significant change in Government policies in relation to fuel poverty, energy efficiency and social inclusion could have a significant impact on the Group's future revenues and profitability. The Group mitigates this risk by having a diversified contact base and working closely with Government customers.

#### Customer Relationships

eaga has a number of long-term contractual relationships. The risk of a contract loss or dispute having a significant impact on the Group's future profitability is managed through regular contract reviews and meetings with senior management of customers in order that we respond to their needs and deliver service that meets or exceeds their expectations.

### Health and Safety

eaga's activities expose it to the risk of material health and safety liabilities. The Group employs health and safety professionals who develop and maintain the Group's policies and procedures and awareness with Partners and contractors in this key area.

### Acquisitions

Acquisitions bring increased risk in terms of transaction execution and the integration of new personnel and activities into the Group's established base of operations. All potential acquisitions are subject 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 business and draw on the services of advisors when necessary. The performance of acquisitions is reported and reviewed by the Board at each Board meeting for a period of twelve months after acquisition.

### 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 IT systems for operational delivery and efficiency. Potential significant changes to current systems are subject to Board approval following consideration of detailed project plans. We also have robust business continuity plans in place across all of our key business systems, which are tested on a regular basis.

### Pandemic

The Group's operations could be impacted if a significant number of our Partners were unable to come to work as a result of a pandemic. This risk is mitigated through our business continuity planning and processes.

### Sub-contractors

The Group is reliant on third party sub-contractors for the delivery of some of our contractual commitments. We monitor the financial stability and operational delivery of all significant sub-contractors to manage the risk of sub-contract delivery or failure.

Ian McLeod, Group Finance Director  
1 September 2009

## Board of Directors Executive Directors

### Drew Johnson

Chief Executive Officer



### Ian McLeod

Group Finance Director



### Dave Routledge

Organisational  
Development Director



#### **Joseph (Drew) Johnson, Chief Executive Officer (age 50)**

Drew joined eaga in 1991 having previously worked for British Coal in supply chain management and logistics. He was appointed to eaga's Board in 1999. Drew has had responsibility for eaga's commercial strategy, focusing on the identification, development and delivery of opportunities for both organic and acquisitive growth and from 27 April 2009 took up the role of CEO upon John Clough's retirement.

#### **Ian McLeod, Group Finance Director (age 41)**

Ian joined eaga in 2004 and was appointed to the Board in 2005. He is responsible for all aspects of financial management and reporting. Ian spent fourteen 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.

#### **Dave Routledge, Organisational Development Director (age 51)**

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.

#### **Board Committees**

##### **Audit**

Malcolm Simpson (Chair)  
Quintin Oliver  
Tracy Clarke  
Roger Aylard

##### **Remuneration**

Tracy Clarke (Chair)  
Malcolm Simpson  
Quintin Oliver  
Roger Aylard

##### **Nomination**

Charles Berry (Chair)  
Quintin Oliver  
Roger Aylard  
Dave Routledge<sup>1</sup>  
Drew Johnson

<sup>1</sup> Dave Routledge stepped down from the Nomination Committee on 23 July 2009

## Non-Executive Directors

### Charles Berry

Non-Executive Director and Chairman

### Malcolm Simpson

Non-Executive Director

### Quintin Oliver

Non-Executive Director

### Tracy Clarke

Non-Executive Director

### Roger Aylard

Non-Executive Director and Senior Independent Director



#### **Charles Berry, Non-Executive Director and Chairman (age 57)**

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 ScottishPower 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 Chairman of Drax Group plc.

#### **Malcolm Simpson, Non-Executive Director (age 67)**

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 acquisitively and achieved flotation on the London Stock Exchange.

#### **Quintin Oliver, Non-Executive Director (age 54)**

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 42)**

Tracy was appointed to eaga's Board as a Non-Executive Director in 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. Until 2008, she was also a Non-Executive Director of SC First Bank, following Standard Chartered's acquisition of Korea First Bank in 2004.

#### **Roger Aylard, Non-Executive Director and Senior Independent Director (age 55)**

Roger was appointed to eaga's Board as a Non-Executive Director and Senior Independent Director on 1 April 2009. He retired as Head of UK Investment Banking at Deutsche Bank in August 2007 after a career encompassing ten years in the oil industry, six years as a research analyst and fifteen years in corporate broking and corporate finance. During this time he acted as senior advisor to a wide range of major UK companies.

## Report of the Directors

### Report of the Directors

The Directors present their report and the audited financial statements for the year ended 31 May 2009.

### Principal Activities and Business Review

The Company and Group continue to provide outsourced services and products that help households and families deal with many different aspects of environmental, social, economic and technological change. The Group also provides installation services including heating, insulation and renewable technologies, together with the development and fulfilment of carbon saving measures. In doing so, it serves a broad customer base which includes central and local Government, utility companies, private sector organisations and the BBC.

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 2 to 25.

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; and
- a description of the principal risks and uncertainties facing the Group.

### Financial Results and Dividends

The Group's results are shown in the Group Income Statement on page 46. The Directors are recommending the payment of a final dividend of 2.4p per Ordinary Share to be paid on 13 November 2009 to shareholders on the register at the close of business on 16 October 2009 which, together with the interim dividend of 1.1p per Ordinary Share paid on 23 March 2009, results in a total dividend for the year of 3.5p per Ordinary Share (2008: 3.0p).

### Interests in Shares

During the year ended 31 May 2009 the Company had a general right to purchase all or any of its own shares subject to compliance with its articles of association and the specific right conferred by the resolution passed at the AGM of 16 October 2008 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	46,509,368	18.5
eaga Partnership Trustee Ltd	46,496,183	18.5
Brewin Dolphin Ltd	11,583,280	4.6
Baillie Gifford & Co Ltd	9,956,110	4.0
Legal & General Investment Management Ltd	8,002,741	3.2

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 pages 26 and 27. During the year Roger Aylard was appointed as a Non-Executive Director and Senior Independent Director on 1 April 2009 and John Clough MBE retired on 27 April 2009.

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, Roger Aylard will retire from the Board and, being eligible, will offer himself for election. Drew Johnson and Malcolm Simpson will retire by rotation and, being eligible, offer themselves for re-election.

The termination provisions in respect of the Executive Directors' contracts are set out in the Remuneration Report on pages 33 to 38.

The interests of the Directors in the Ordinary Share Capital of the Company as at 31 May 2009 and the date of signature of this report are:

	Number of Shares
Roger Aylard	50,000
Charles Berry	55,249
Tracy Clarke	Nil
Drew Johnson	5,082,472
Ian McLeod	3,982,472
Quintin Oliver	24,861
Dave Routledge	5,157,472
Malcolm Simpson	88,149

### Corporate Social Responsibility

Information relating to the Company's activities in this area is included in the Corporate Social Responsibility Report on page 44.

### 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 remain in force as at the date of signing this report.

### Donations

During the year the Company and the Group made charitable donations of £245,000 (2008: £135,000) principally to the independent eaga Charitable Trust and the eaga Community Fund managed for eaga by the Community Foundation.

No political donations were made in the year to 31 May 2009 (2008: £Nil).

### Payment of Suppliers

The Group's UK operating companies follow the CBI Prompt Payers Code. This Code requires the Company to agree the terms of payment with suppliers, to ensure suppliers are aware of those terms and to abide by them. The Group's creditor days outstanding as at 31 May 2009 were 36 days (2008: 34 days).

### Employment Issues and Policies

The Group regards its engagement with its Partners as a vital constituent of continued success. The Company has a unique structure for a UK listed company. Approximately 37% of the Company's shares are owned by the two eaga Partnership Trust companies ('ePT') which, together with other assets are held in trust for a beneficial class which includes current Partners.

As the Company's largest shareholder, ePT is wholly independent, but the interrelationship between the Company, ePT and the eaga Partners' Council ('ePC') is a key element in ensuring the values-driven nature of the business is retained and preserved. ePC is comprised of elected Partners, meets regularly with the Board and acts as the representative body of the Partners to make enquiries, raise issues and make representations to the Board on behalf of the Partners.

ePT invests in a range of initiatives and programmes that are designed solely to promote the welfare of Partners and to provide direct benefit to Partners as a result of their employment with eaga. During the year such benefits included the acquisition of a number of holiday homes for Partners' use and the funding of the acquisition of shares for an all Partner Share Incentive Plan established by the Company, financed through a waiver of dividends by ePT. Such waiver is wholly discretionary and ePT's independent board of directors have sole responsibility for such decisions in this regard.

The Group has a range of initiatives to enhance and develop Partner engagement and participation:

- our values and culture are driven and supported by the 'eaga Cares' programme, which underpins our performance and development process and enables us to embed our value set throughout Partner behaviours;
- the annual Partner Engagement Survey ('PES') is a vital tool in collating feedback from Partners. The results of the PES are shared with all Partners and 'improvement action plans' formulated with team leaders;
- ePC is at the centre of all issues involving the Partners and has been instrumental in the development of the Group's 'people policies'. The divisional ePC representative also sits on the relevant information and consultative committee (referred to as Partners' Voice) which are active in each division and ensure a cohesive information flow;
- our internal publication 'Switched On' goes from strength to strength and continues to attract external critical acclaim. It is circulated to all Partners at their home address and aims to keep Partners 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;

## Report of the Directors

### Continued

- 'eaga Stars', the Group's Partner recognition scheme 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; and
- our Corporate Social Responsibility ('CSR') agenda also provides an opportunity for our Partners to participate on and contribute to a diverse range of innovative projects. Further details of our CSR activities can be found on page 44.

### Equal Opportunities

All of the Group's employment decisions are based on objective criteria, sound human resources principles and are demonstrably free from bias. The Group's 'Equal Opportunities and Dignity at Work' policy strives to ensure all Partners work in an environment that is free from discrimination, harassment and victimisation, with equality of treatment regardless of gender, colour, ethnic or national origin, disability, age, marital status, sexual orientation or religion. The Group has a willingness to consider appropriate positive action to optimise opportunities for those with disabilities, offering training and career development and a range of flexible and home-working arrangements. If Partners become disabled, the Group continues employment wherever possible and arranges retraining. The Group is a certified 'Two Ticks' employer. Work/life balance is also important to the Group as is demonstrated by enhanced policies for maternity, paternity and adoption.

### Remuneration Report

The Remuneration Report on pages 33 to 38 will (as required by Section 420 of Companies Act 2006) 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 25m 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.

### Articles of Association

The latest version of the Company's articles of association was adopted by special resolution on 28 January 2009. It is intended to further amend the articles of association to reflect the final round of changes to be implemented by the Companies Act 2006 on 1 October 2009. Details of these proposed changes are contained in the Appendix to the Notice of the Annual General Meeting.

### Financial Instruments

A summary of the Group's treasury policies and objectives relating to financial risk management, including exposure to associated risks, is included in the Financial Review on pages 22 to 25.

### Additional Information for Shareholders

Following the implementation of the EU Takeover Directive into UK law, the following description provides the required information for shareholders where not already provided elsewhere in this report.

#### Share Capital

The Company has a single class of share capital which is divided into Ordinary Shares of £0.001 each.

#### Rights and Obligations Attaching to Shares

In a general meeting of the Company, subject to the provisions of the articles of association and to any special rights or restrictions as to voting attached to any class of shares in the Company (of which there are none), the holders of the Ordinary Shares are entitled to one vote in a poll for every Ordinary Share held. No member shall be entitled to vote at any general meeting or class meeting in respect of any shares held if any call or other sum then payable in respect of that share remains unpaid. Currently, all issued shares are fully paid.

Full details of the deadlines for exercising voting rights in respect of the resolutions to be considered at the Annual General Meeting to be held on 14 October 2009 are set out in the Notice of Annual General Meeting.

Subject to the provisions of the Companies Act 2006, the Company may, by ordinary resolution, declare a dividend to be paid to the members, but no dividend shall exceed the amount recommended by the Board. The Board may pay interim dividends, and also any fixed rate dividend, whenever the financial position of the Company, in the opinion of the Board, justifies its payment. All dividends shall be apportioned and paid pro rata according to the amounts paid up on the shares.

If the Company is in liquidation, the liquidator may, with the authority of a special resolution of the Company and any other authority required by the Statutes (as defined in the articles of association):

- divide among the members in specie the whole or any part of the assets of the Company; or
- vest the whole or any part of the assets in trustees upon such trusts for the benefit of members as the liquidator, with the like authority, shall think fit.

### Transfer of Shares

Subject to the articles of association, any member may transfer all or any of their certified shares by an instrument of transfer in any usual form or in any other form which the Board may approve. The Board may, in its absolute discretion, decline to register any instrument of transfer of a certified share which is not a fully paid share or on which the Company has a lien. The Board may also decline to register a transfer of a certified share unless the instrument of transfer is: (i) left at the office, or at such other place as the Board may decide, for registration; and (ii) accompanied by the certificate for the shares to be transferred and such other evidence (if any) as the Board may reasonably require to prove the title of the intending transferor or right to transfer the shares. The Board may permit any class of shares in the Company to be held in uncertified form and, subject to the articles of association, title to uncertified shares to be transferred by means of a relevant system and may revoke any such permission. Registration of a transfer of an uncertified share may be refused where permitted by the Statutes.

### Appointment and Replacement of Directors

Directors shall be no less than two and no more than fifteen in number. Directors may be appointed by the Company by ordinary resolution or by the Board. A Director appointed by the Board holds office only until the next following Annual General Meeting and is then eligible for election by the shareholders. The Board may from time to time appoint one or more Directors to hold employment or executive office for such period (subject to the Companies Act 2006) and on such terms as they may determine and may revoke or terminate any such appointment.

At every Annual General Meeting of the Company, any Director in office who (a) has been appointed by the Board since the previous Annual General Meeting or (b) at the start of business on the date which is thirty clear days prior to the date of the notice convening the Annual General Meeting had held office for more than thirty months since he or she was elected or last re-elected shall in either case retire from office (but shall be eligible for election or re-election by the shareholders). The Company may by special resolution (or by ordinary resolution of which special notice has been given) remove and the Board by unanimous decision may remove any Director before the expiration of his term of office. The office of Director shall be vacated if: (i) he or she resigns; (ii) he or she is or may be suffering from a mental disorder; (iii) he or she is absent without permission of the Board from meetings of the Board for six consecutive months and the Board resolves that the office is vacated; (iv) he or she becomes bankrupt or compounds with his or her creditors generally; (v) he or she is prohibited by law from being a Director; or (vi) he or she is removed from office pursuant to the articles of association.

### Powers of the Directors

The business of the Company will be managed by the Board who exercise all the powers of the Company, subject to the provisions of the Company's memorandum of association, the articles of association, the Companies Act 2006 and any ordinary resolution of the Company.

### 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.

### Disclosure of Information to Auditors

Each of the persons who is a Director at the date of approval of this report confirms that:

- so far as the Director is aware, there is no relevant audit information of which the Group's auditors are unaware; and
- each Director has taken all the steps that they ought to have taken as a Director in order to make themselves aware of any relevant audit information and to establish that the Group's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of Section 418 of the Companies Act 2006.

On behalf of the Board

**Christopher Judd, Company Secretary**

1 September 2009

## Statement of Directors' Responsibilities

The Directors are responsible for preparing the Annual Report, the Remuneration Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the Group financial statements in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union, and the Parent Company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the Company and of the profit or loss of the Group for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether IFRSs as adopted by the European Union and applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the Group and Parent Company financial statements respectively; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and the Group and enable them to ensure that the financial statements and the Remuneration Report comply with the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Each of the Directors, whose names and functions are listed on pages 26 and 27 confirm that, to the best of their knowledge:

- the Group financial statements, which have been prepared in accordance with IFRSs as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit of the Group; and
- the Operational Review on pages 14 to 19 and Financial Review on pages 22 to 25 include a fair review of the development and performance of the business and the position of the Group, together with a description of the principal risks and uncertainties that it faces.

## Remuneration Report

This report has been prepared in accordance with the requirements of Schedule 8 to SI 2008/410 and has been approved by the Remuneration Committee and the Board.

The Remuneration Committee comprises four Independent Non-Executive Directors: Quintin Oliver, Malcolm Simpson, Roger Aylard and is chaired by Tracy Clarke. The Remuneration Committee is governed by formal terms of reference which are reviewed annually and available from the Company Secretary upon request. The Remuneration Committee continues to focus on ensuring that in designing 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 are maintained; and
- the view of all shareholders, customers, 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 that the remuneration policies are sufficient to attract and retain appropriately qualified and highly motivated Executive Directors.

### Role of the Remuneration Committee

The Committee is responsible for approving and monitoring the specific remuneration packages and terms and conditions of employment of the Company's Executive Directors and certain other 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 is also responsible for agreeing eaga's overall remuneration policy and has oversight of the governance process for remuneration generally.

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. During the year the Committee has taken advice from Hewitt Associates Limited trading as Hewitt New Bridge Street and KPMG LLP including advice on employee and management share incentive plans and Directors' Remuneration packages. The Company had no other relationship with either firm.

There were six meetings held of the Committee in the year to 31 May 2009.

### 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. No Director takes any part in the 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:

- basic salary;
- annual cash bonus;
- long-term incentive schemes (Management Incentive Plan and Share Incentive Plan);
- retirement benefits; and
- other benefits.

## Remuneration Report

Continued

### Basic Salary

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

Drew Johnson	£370,000
Ian McLeod	£250,000
Dave Routledge	£250,000

Up to his date of resignation, John Clough's basic annual salary was £370,000. Upon his retirement John Clough did not receive any further payments or compensation from the Company.

The Executive Director basic salaries are reviewed annually using external benchmarking against comparable companies to ensure that they remain externally competitive, taking into account the requirements of the roles, the performance of individuals, the size of the Company and its complexity.

The Remuneration Committee reviewed the Executive Directors' base salary during December 2008 using third party independent consultants and increases were proposed. Having last received a salary increase in April 2007, base salaries for Executive Directors had fallen behind market median by some margin and an 8% increase was applied to bring the Directors more in line with that median based pay and also reflect the growing size and complexity at eaga. Upon appointment as Chief Executive Officer, Drew Johnson received an increase to base salary to reflect his new responsibilities.

### 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 for the delivery of exceptional performance against a balanced scorecard of results. Certain senior managers, as agreed with the Board, have a maximum opportunity of up to 50% of annual basic salary upon also delivering exceptional performance. The annual cash bonus scheme has been implemented in 2009 for certain senior managers in the business. The bonus to be awarded depends on the achievement of respective Divisional and Group EBITA targets together with a number of individual personal objectives including leadership, health and safety and risk management.

The incumbent Executive Directors have, to date, elected not to participate in the annual bonus plan. However, in light of a refreshed vision, the growth of the business and the challenge ahead, the Executive Directors have elected to participate for the year commencing 1 June 2009. It is expected that any newly appointed Executive Directors would also participate in the annual cash bonus plan at the appropriate levels as approved by the Committee.

### Long-term Incentive Schemes

#### Management Incentive Plan ('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 Committee has the authority to award up to 200% of salary.

The Executive Directors have elected not to participate in the MIP believing that their personal shareholdings align their long-term interests with those of other shareholders. However, it is expected that any newly appointed Executive Director would participate in the MIP.

Performance conditions have been reviewed during the period and the Remuneration Committee are satisfied that these continue to be appropriate.

In total 1,366,245 nil cost options were awarded to certain senior managers in October 2008 and will vest subject to the performance conditions set out below.

The vesting of any awards made under the MIP will be subject to the achievement of Group 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 excluding investment trusts and half of the awards against eps performance. The Committee believes the use of these targets will improve the financial performance of the Company and deliver value to shareholders. 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 before the third anniversary of the date of grant.

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

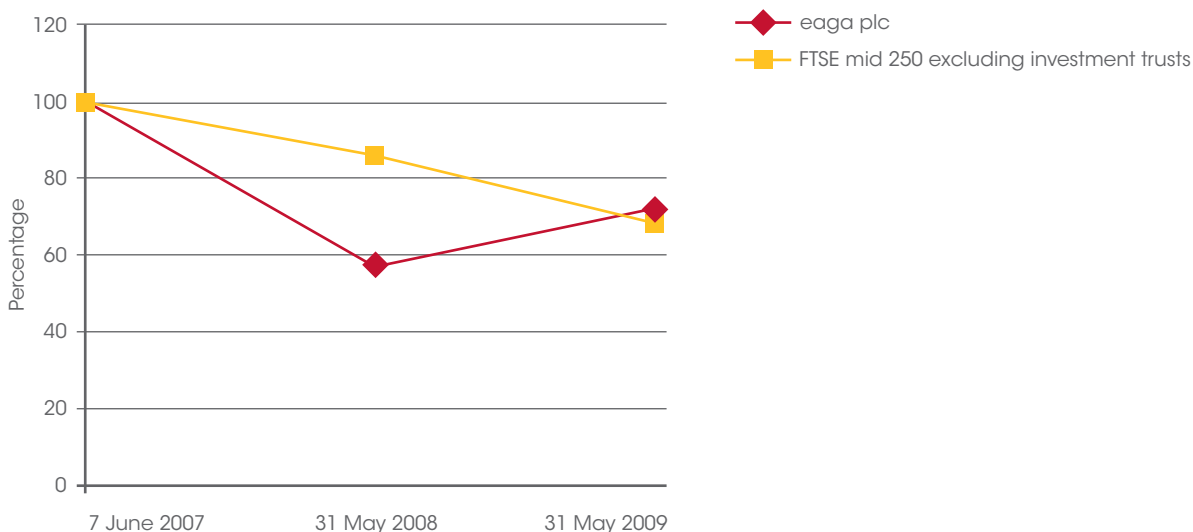
TSR performance relative to the FTSE mid 250 excluding investment trusts	Percentage of award
Below median	0%
At median	16%
Between median and upper quartile	16% to 50% on a straight line
Upper quartile	50%

eps Performance - compound annual increase	Percentage of award
Below 10%	0%
At 10%	10%
10% to 20%	10% to 50% straight line
Above 20%	50%

As required by the Large and Medium-Sized Companies and Groups Regulations 2008, 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. This comparison of TSR performance is illustrated in the following graph:

### Total Shareholder Return

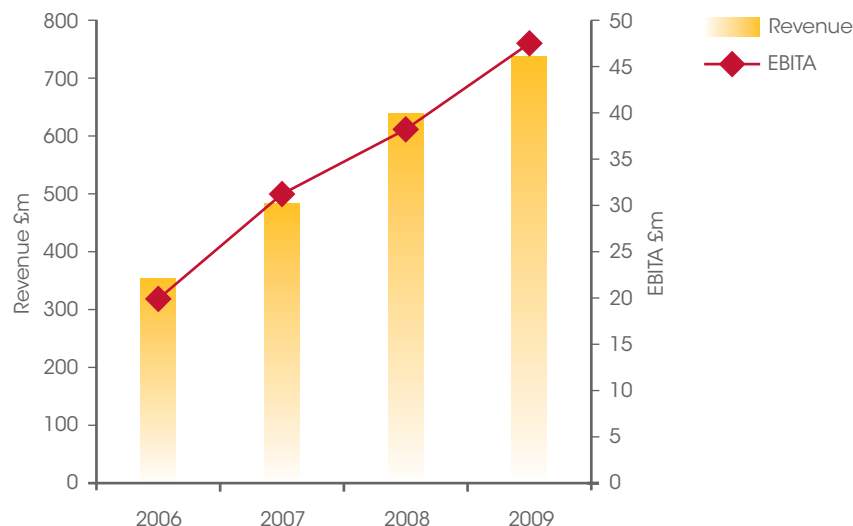


Source: Datastream

## Remuneration Report

Continued

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



### Share Incentive Plan ('SIP')

The Company operates an HMRC approved SIP for the benefit of all qualifying Partners, including the Executive Directors. All qualifying Partners are beneficiaries of the eaga Partnership Trust ('ePT'). ePT is the vehicle in which shares in the Company and other assets are held on trust for the benefit 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.

ePT waived its interim and final dividends relating to the year to 31 May 2008, amounting to £2.8m. These funds have been used by the Company to finance the first 'free share' award under the SIP. On 31 October 2008, the Company awarded 2,269,903 nil cost shares to Partners in the business. The accounting charge required for the nil cost shares issued to Partners in the year is £1.6m and further set out in note 7 of the financial statements. To fund the award of these shares, the Group via a SIP Trustee, purchased 2.2m Ordinary Shares on 27 October 2008 at a cost of £2.7m. Until these shares vest with the individual, they are shown as own shares held in trust, as shown in note 28 to the financial statements. The SIP has been well received by Partners with over 90% participation in the SIP. The incumbent Executive Directors declined to participate in the SIP in the current year.

The cost of implementing and administering this plan is borne by ePT.

### Retirement Benefits

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 similar companies in the FTSE mid 250.

### Directors Letters of Appointment and Contracts of Service

The following table summarises the Board's current Service Contracts:

	Date of Current Letter of Appointment/Contract	Unexpired Term
<b>Non-Executive</b>		
Charles Berry	23 March 2009	28 months
Tracy Clarke	17 September 2007	13 months
Quintin Oliver	29 August 2008	4 months
Malcolm Simpson	19 December 2006	4 months
Roger Aylard	6 March 2009	31 months
<b>Executive</b>		
Drew Johnson	31 May 2006	Rolling 12 months
Ian McLeod	31 May 2006	Rolling 12 months
Dave Routledge	31 May 2006	Rolling 12 months

### Non-Executive Fees

Non-Executive Directors' fees are benchmarked against the FTSE 250 and include base fees with supplemental fees dependent upon additional responsibilities such as: Senior Independent Director, Committee Chair or Committee members as summarised below:

	Current fees per annum (£'000)
Chairman	82.0
Non-Executive Director	32.1
Supplements:	
Senior Independent Director	5.0
Chair Audit Committee	7.5
Chair Remuneration Committee	5.0
Chair Nomination Committee	3.5
Committee Member	1.5

These fees were reviewed in the period using benchmarked data from independent advisors and were increased by 7%.

### Service Contracts

The Executive Directors have rolling contracts which may be terminated by twelve 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 MIP or SIP, these elements will not be considered for Company liability purposes in the event of early termination. Contracts do not provide additional compensation for severance as a result of a change of control.

The Non-Executive Directors have entered into letters of three year appointment with the Company which may be terminated by three 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 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

Continued

## AUDITED INFORMATION

### Directors' Emoluments

Year ended 31 May 2009

	Salary £'000	Fees £'000	Benefits £'000	Total 2009 £'000	Total 2008 £'000	Pension contributions 2009 £'000	Pension contributions 2008 £'000
<b>Executive</b>							
John Clough MBE*	367 <sup>1</sup>	-	13	<b>380</b>	466	-	-
Drew Johnson	334 <sup>1</sup>	-	15	<b>349</b>	349	-	-
Ian McLeod	273 <sup>1</sup>	-	13	<b>286</b>	322	-	-
Dave Routledge	241	-	14	<b>255</b>	291	<b>36</b>	35
<b>Non-Executive</b>							
Roger Aylard**	-	7	-	<b>7</b>	-	-	-
Charles Berry	-	83	-	<b>83</b>	80	-	-
Tracy Clarke	-	41	-	<b>41</b>	20	-	-
Quintin Oliver	-	36	-	<b>36</b>	35	-	-
Malcolm Simpson	-	45	-	<b>45</b>	39	-	-
Richard Burns***	-	-	-	-	47	-	-
Michael Roberts***	-	-	-	-	25	-	-
	<b>1,215</b>	<b>212</b>	<b>55</b>	<b>1,482</b>	<b>1,674</b>	<b>36</b>	<b>35</b>

\* Up to date of retirement on 27 April 2009

\*\* From date of appointment on 1 April 2009

\*\*\* Retired in the prior year

<sup>1</sup> Includes amounts relating to pension benefits paid as salary

### Long-term Incentive Schemes and Share Options

The Executive Directors have not participated in the MIP or SIP. At 31 May 2009 the Directors have no other options under any of the Group's share plans. The Directors' interests in the shares of the Company are set out in the Report of the Directors.

Tracy Clarke, Chair, Remuneration Committee

1 September 2009

## Corporate Governance

The Board continues in its determination to aim for 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 Remuneration Report on pages 33 to 38 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, ensure structure and capital are sufficient to meet business needs, maintain and monitor effective systems for financial reporting, internal control, contracts and communication, regularly review board membership, consider remuneration issues (upon recommendation from the Remuneration Committee), to delegate authority as appropriate, ensure standards of corporate governance are maintained and attend to other Company policies. All of these functions are recorded in a Schedule of Matters reserved to the Board for its decision/approval. Each Executive Director has been given responsibility for specific aspects of the Group's affairs. A clearly defined organisation structure exists within which individual responsibilities are identified and can be monitored. The management of the Group as a whole is delegated to the Chief Executive and the Executive Directors. The conduct of the Group's individual businesses is delegated to the divisional management teams. These teams are accountable for the conduct and performance of their businesses within the agreed business strategy. They have full authority to act subject to the reserved powers and sanctioning limits laid down by the Board and to Group policies and guidelines.

Throughout the year the Board was again led by its Chairman, Charles Berry, who also continues to chair the Nomination Committee. There is a clear division of responsibility between the roles of the Chairman and the Chief Executive Officer which has been agreed by the Board and set out in writing. Malcolm Simpson fulfilled the role of Senior Independent Director ('SID') until this position passed to Roger Aylard on his appointment to the Board.

All Directors have disclosed any additional appointments or other business interests outside of the Company. In particular, the Board has considered the relationship between the Company and Stratagem (NI) Limited, in which Quintin Oliver is a Director. The Board has determined that the business relationship between the two organisations does not impugn Quintin's independence. The Board also satisfied itself that the Chairman was independent from the Company at the time of his appointment and the other Non-Executive Directors have at all times been independent of management and free from any business or other relationship that could materially interfere with the exercise of their independent judgement.

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 supported by two independent Non-Executive Directors, Quintin Oliver and Tracy Clarke. Roger Aylard also joined the Audit Committee upon his appointment to the Board. The Committee 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. Malcolm Simpson, the Chair of the Committee and former Finance Director of Greggs plc has been assessed as having this 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.

## Corporate Governance

### Continued

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; and
- to make recommendations to the Board in relation to appointment of external auditors.

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

The Committee determines the scope of the external audit in discussion with the external auditors, agrees their fees in respect of the audit and makes a recommendation to the Board as to whether the auditors should be reappointed.

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

#### **Remuneration Committee**

During the year the Remuneration Committee was chaired by Tracy Clarke, who was supported by two independent Non-Executive Directors, Quintin Oliver and Malcolm Simpson. Roger Aylard also joined the Committee upon his appointment to the Board. All are independent Non-Executive Directors. The Committee must consist and has at all times consisted 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. There were six meetings during the year.

The Remuneration Committee is primarily responsible for determining and agreeing with the Board the remuneration policy (including benefits, pension arrangements and termination payments) relating to the Chairman, Executive Directors and senior management of the Company; ensuring the market compatibility and structures necessary to ensure appropriate levels of remuneration and incentive.

The full Remuneration Committee Report can be found on pages 33 to 38.

#### **Nomination Committee**

During the year the Nomination Committee was chaired by Charles Berry. Additional members were John Clough (until his retirement), Drew Johnson (on his appointment as CEO), Dave Routledge and Quintin Oliver. Malcolm Simpson sat as a member until Roger Aylard became a member of the Committee on appointment to the Board. Dave Routledge stepped down from the Nomination Committee on 23 July 2009. During the year the Committee consisted of five members, three of whom were Independent Non-Executive Members (including the Chairman). The Committee currently consists of four members, being the Chairman, one Executive Director and two Independent Non-Executive Directors. A quorum is three members two of whom must be independent Non-Executive Directors. The Committee meets a minimum of once each year. There were seven meetings during the 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; and
- 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.

### **Performance Evaluation**

Having undergone an external performance evaluation process which was undertaken by the Institute of Chartered Secretaries and Administrators in the previous financial year and acted upon the recommendations, the Board decided to undertake an internal evaluation process which has been completed. The evaluation considered the main Board, each sub-committee and the individual Directors and concluded that the Board and sub-committees were operating and performing effectively.

### **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 SID and the other Non-Executive Directors 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 presented in a number of ways during the year to ensure shareholders and potential shareholders can make a balanced assessment of the Company. This has included and will continue to include:

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

### **Going Concern**

The Directors confirm that after having reviewed the Group's budget and projected cash flows they 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 financial statements.

## Corporate Governance

Continued

### 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
No. of meetings held	8	4	6	7
Meetings attended				
Roger Aylard*	2 (of 2)	1 (of 1)	1 (of 1)	2 (of 2)
Charles Berry	8	-	-	7
Tracy Clarke	8	4	6	-
John Clough MBE**	4 (of 7)	-	-	3 (of 6)
Drew Johnson	8	-	-	1 (of 1)
Ian McLeod	8	-	-	-
Dave Routledge	7	-	-	7
Quintin Oliver	7	3	5	5
Malcolm Simpson	7	4	6	6 (of 6)

\* Appointed 1 April 2009

\*\* Retired 27 April 2009

### Risk Management

The Board has overall responsibility for the Group's system of internal control and risk management. The matters contained within the Matters Reserved to the Board ensure that the Directors control all significant strategic, financial and organisational issues. Dave Routledge is the designated Executive Director with responsibility for health, safety, environment and security. He regularly reports to the Board upon such issues. Appropriate levels of insurance were in place during the year to cover Directors' actions or omissions.

### Internal Control

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

The Board is responsible for implementing and reviewing the effectiveness of the Group's system of internal control. The system is designed to manage rather than eliminate the risk of failure to achieve business objectives and cannot therefore provide absolute assurance against material misstatement or loss. The established internal control framework is continually reviewed (and updated as appropriate) to take into account the changing nature of the Group's business. The system has been in place during the year and contains the following key elements:

- The Group has a dedicated risk management team and a Risk Review Board ('RRB') which comprises Dave Routledge, the Group Operating Board and the Director of Health and Safety, Environment and Quality. The RRB monitors and evaluates the risk registers compiled by each business area within the Group. The major risks facing the business together with any mitigating action proposed and whether the action has been effective is reviewed by the RRB and presented to the full Board at each Board Meeting. The RRB reports to the Audit Committee on a regular basis regarding the effectiveness of the risk identification process and of the action plans for the mitigation of such identified risks. The Executive Directors also undertake a formal annual assessment of the risks facing the Group.
- The Group has an established 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.
- The Group has a clearly identified organisational structure with defined reporting lines, duties and accountability. There are defined authorisation limits for individual managers, with transactions being approved at the appropriate level of authority. All parts of the business are required to comply with the policies and procedures set out in the Group's finance manual.

- Financial forecasts are prepared by the Operating Board and approved by the Board on an annual basis. Operational management have a monthly accountability review with the Executive Directors to identify any variances between forecast and actual results and to agree any necessary corrective or mitigating action. Financial results and cash flows, including a comparison against forecast are reported to the Board at each Board meeting and forecasts are updated quarterly throughout the financial year.
- Appropriate treasury policies are in place.
- The Group has a formal 'whistleblowing' policy for Partners who wish to raise any issues of concern relating to the Group's activities on a confidential basis. All concerns reported are investigated by senior management.
- The Group's internal audit team reports to the Audit Committee and the Board at least twice a year 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.

The Board confirms that it has reviewed the effectiveness of the system of internal controls, in accordance with the Combined Code and is satisfied that the Group is compliant. An assessment is made of the financial, operational, compliance and risk management controls. No significant failings or weaknesses have been identified in the year.

#### **Compliance with the Code**

The Directors consider there has been substantial compliance with the Code throughout the year ended 31 May 2009. The main exception is that until the appointment of Roger Aylard on 1 April 2009, there was an equal number of independent Non-Executive Directors (including the Chairman) and Executive Directors following the death of Richard Burns in May 2008. Roger's appointment was confirmed after an extensive recruitment process. Until that appointment however, the composition of the Board was not in strict compliance with the Code which recommends that at least half the Board excluding the Chairman should be independent Non-Executive Directors.

On behalf of the Board

**Christopher Judd, Company Secretary**  
1 September 2009

## Corporate Social Responsibility

### Social Responsibility – an eaga Priority

eaga's commitment to social responsibility continues to be at the heart of our business and is driven by our core value: to care for our Partners, customers and communities with integrity, respect and enthusiasm.

As a co-owned business, it is extremely important to our Partners that our core business success can fit alongside a clear commitment to social and environmental responsibility.

eaga has an integrated and holistic approach to social responsibility; one which aims to incorporate social responsibility in our overall strategy as well as culture and operations.

Our approach to social responsibility is in the following key areas:

- **Partners** – engaging our Partners in our social responsibility work through a range of social and environmental initiatives that educate and inform, encouraging participation, decision making and ownership throughout the business;
- **Customers** – our diverse and often underrepresented customer base drives us to work with many stakeholders to identify opportunities to deliver all the extra assistance we can to those most in need;
- **Communities** – supporting the communities in which we live and work with a structured approach to grant-giving through our 'Community Fund', giving time and expertise to those that need it, innovative event managing and fund raising; and
- **Environment** – further reducing our impact on the environment by achieving carbon neutral status through our business operations during the year 31 May 2009 and delivering an ambitious programme of continuous development to improve upon this year on year.

### Our Social Responsibility Future

As social responsibility is intrinsically part of our culture, it is natural that we should embrace opportunities at both a grass roots level and by contributing to developing policy.

Achieving status as thought leaders in this area of community, social and environmental responsibility and further embedding a sustainable approach to business across the Group continues to be our overriding priority.

There are many opportunities to develop and support both organically, through existing links to our core business and beliefs, and through new developing initiatives. As such, as eaga continues to grow and diversify, we must establish new networks to manage an increasingly diverse and innovative portfolio of social responsibility activity.

Further details regarding social responsibility activity can be found in the Social Responsibility Report 2009.

# 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 2009 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. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards ('IFRSs') as adopted by the European Union.

## Respective Responsibilities of Directors and Auditors

As explained more fully in the Statement of Directors' Responsibilities on page 32, the Directors are responsible for the preparation of the Group financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the Group financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Sections 495 and 496 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, 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.

## Scope of the Audit of the Financial Statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements.

## Opinion on Financial Statements

In our opinion the Group financial statements:

- give a true and fair view of the state of the Group's affairs as at 31 May 2009 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006 and Article 4 of the IAS Regulation.

## Opinion on Other Matter Prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the Group financial statements are prepared is consistent with the Group financial statements.

## Matters on Which We Are Required to Report by Exception

We have nothing to report in respect of the following:

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Under the Listing Rules we are required to review:

- the Directors' statement, on page 41, in relation to going concern; and
- the part of the Corporate Governance Statement relating to the Company's compliance with the nine provisions of the 2006 Combined Code specified for our review.

## Other Matter

We have reported separately on the Parent Company financial statements of eaga plc for the year ended 31 May 2009 and on the information in the Remuneration Report that is described as having been audited.

## Bill MacLeod, Senior Statutory Auditor

for and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
Newcastle Upon Tyne  
1 September 2009

## Consolidated Income Statement

For the year ended 31 May 2009

	Notes	Year ended 31 May 2009 £'000	Year ended 31 May 2008 £'000
Revenue	2	738,904	638,960
Cost of sales		(591,946)	(518,508)
<b>Gross profit</b>		<b>146,958</b>	120,452
Administrative expenses		(109,475)	(92,474)
EBITA <sup>1</sup>		47,207	38,044
Amortisation of intangible assets	15	(7,820)	(7,417)
ePT-funded charges	7	(1,559)	-
Exceptional costs	8	(345)	(2,649)
<b>Operating profit after exceptional items</b>	3	<b>37,483</b>	27,978
Finance income	9	782	1,759
Finance expense	10	(537)	(1,372)
<b>Profit before tax</b>		<b>37,728</b>	28,365
Tax expense	11	(10,758)	(8,945)
Exceptional tax expense	8	-	(1,189)
<b>Profit for the year</b>		<b>26,970</b>	<b>18,231</b>
<b>Profit for the year attributable to:</b>			
Equity holders of the Company		26,703	17,945
Minority interests		267	286
		<b>26,970</b>	<b>18,231</b>
Earnings per share (pence)			
- basic	13	10.69	7.20
- diluted	13	10.63	7.17
- adjusted diluted <sup>2</sup>	13	13.38	10.62

<sup>1</sup> EBITA comprises profit on ordinary activities before interest, tax, amortisation of intangible assets, ePT-funded charges and exceptional costs.

<sup>2</sup> Adjusted for amortisation of intangible assets, ePT-funded charges, exceptional costs and related tax adjustments.

## Consolidated Statement of Recognised Income and Expense

For the year ended 31 May 2009

	Notes	Year ended 31 May 2009 £'000	Year ended 31 May 2008 £'000
Profit for the year	27	26,970	18,231
Currency translation differences	27	225	68
<b>Total recognised income for the year</b>		<b>27,195</b>	<b>18,299</b>
Attributable to:			
Equity holders of the Company		26,925	18,015
Minority interests		270	284
		<b>27,195</b>	<b>18,299</b>

# Consolidated Balance Sheet

As at 31 May 2009

	Notes	31 May 2009 £'000	31 May 2008 £'000
<b>Non-current assets</b>			
Goodwill	14	59,111	57,029
Intangible assets	15	8,054	15,161
Property, plant and equipment	16	13,712	11,633
Deferred tax assets	11	8,109	13,453
		<b>88,986</b>	<b>97,276</b>
<b>Current assets</b>			
Inventories	18	12,721	8,568
Trade and other receivables	19	97,530	76,652
Derivative financial instruments	20	566	559
Current tax assets		-	163
Current asset investments	21	8,644	4,938
Cash and cash equivalents	22	31,905	15,322
		<b>151,366</b>	<b>106,202</b>
<b>Current liabilities</b>			
Trade and other payables	23	106,338	95,051
Loans and borrowings	24	207	206
Current tax liabilities		2,873	-
		<b>109,418</b>	<b>95,257</b>
<b>Net current assets</b>			
		<b>41,948</b>	<b>10,945</b>
<b>Non-current liabilities</b>			
Other non-current liabilities	23	474	608
Loans and borrowings	24	416	266
Provisions for other liabilities and charges	25	542	586
		<b>1,432</b>	<b>1,460</b>
<b>Net assets</b>			
		<b>129,502</b>	<b>106,761</b>
<b>Equity</b>			
Share capital	26	251	251
Retained earnings	27	97,709	73,882
Other reserves	28	30,968	32,266
<b>Total shareholders' equity</b>		<b>128,928</b>	<b>106,399</b>
Minority interest in equity	27	574	362
<b>Total equity</b>		<b>129,502</b>	<b>106,761</b>

The Group financial statements were approved by the Board of Directors on 1 September 2009 and signed on its behalf by

Drew Johnson, Ian McLeod, Directors

The notes on pages 49 to 78 form part of the Group financial statements.

# Consolidated Cash Flow Statement

For the year ended 31 May 2009

	Notes	Year ended 31 May 2009 £'000	Year ended 31 May 2008 £'000
<b>Operating profit after exceptional items</b>		<b>37,483</b>	27,978
Depreciation of property, plant and equipment	16	4,721	3,514
Amortisation of intangible assets	15	7,820	7,417
Increase in inventories		(3,825)	(2,030)
Increase in trade and other receivables		(21,674)	(15,167)
Increase/(decrease) in trade and other payables		13,482	(2,675)
Decrease in provisions		(44)	-
Loss on sale of property, plant and equipment		186	312
Share-based exceptional cost credited directly to equity		2,055	2,649
Fair value movements in derivatives		48	(11)
Exchange differences		6	(57)
<b>Cash generated from operations</b>		<b>40,258</b>	21,930
Finance income		782	1,759
Finance expense		(1,152)	(476)
Taxation paid		(2,543)	(523)
<b>Cash generated from operating activities</b>		<b>37,345</b>	22,690
<b>Cash flows from investing activities</b>			
Purchase of intangible assets		(681)	(369)
Purchase of property, plant and equipment		(4,949)	(3,999)
Proceeds from sale of property, plant and equipment		885	522
Purchase of subsidiary undertakings net of cash/overdrafts acquired	30	(748)	(24,805)
Payment of deferred consideration including finance costs	30	(3,852)	(11,054)
<b>Net cash outflow from investing activities</b>		<b>(9,345)</b>	(39,705)
<b>Cash flows from financing activities</b>			
Repayment of bank loans		(6)	(6)
Capital element of hire purchase agreements		(96)	(237)
Purchase of own shares held in trust	28	(2,658)	-
Dividends paid to minority shareholders of subsidiaries		(67)	(34)
Dividends paid to equity holders of the Company		(4,884)	(1,568)
Increase in current asset investments		(3,706)	(306)
Proceeds from issue of shares	26	-	28,956
<b>Net cash (outflow)/inflow from financing activities</b>		<b>(11,417)</b>	26,805
<b>Net increase in cash and cash equivalents</b>		<b>16,583</b>	9,790
Cash and cash equivalents at start of year	22	15,322	5,532
<b>Cash and cash equivalents at end of year</b>	22	<b>31,905</b>	15,322

## Group Accounting Policies

eaga plc is a public company limited by shares, incorporated and domiciled in England and Wales under the Companies Act 2006 (Registered No. 3858865). 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 provision of outsourced services and products that help households and families deal with many different aspects of environmental, social, economic and technological change. The Group also provides installation services including heating, insulation and renewable technologies, together with the development and fulfilment of carbon saving measures. In doing so, it serves a broad customer base which includes central and local Government, utility companies, private sector organisations and the BBC.

The principal accounting policies applied in the preparation of these consolidated financial statements 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 as adopted by the European Union (IFRSs as adopted by the EU) and International Financial Reporting Interpretations Committee ('IFRIC') Interpretations and the Companies Act 2006, as applicable to companies reporting under IFRS.

The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of certain financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. 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 the Group accounting policies.

### New Standards and Interpretations

From 1 June 2008 the following standards, amendments and interpretations became effective and were adopted by the Group:

- IFRS7 Amendment – Financial instruments: disclosure
- IAS27 Amendment – Consolidated and separate financial statements
- IAS39 Amendment – Financial instruments
- IFRIC12 Service concession arrangements

The adoption of these amendments and interpretations has not had a significant impact on the Group's profit for the year or equity.

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

- IFRS1 Revised – First time adoption of international financial reporting standards
- IFRS2 Amendment – Share-based payments: Vesting conditions and cancellations
- IFRS2 Amendment – Share-based payments: Group cash-settled share-based payment transactions
- IFRS3 Revised – Business combinations
- IFRS8 Operating segments
- IAS1 Revised – Presentation of financial statements
- IAS1 Amendment – Presentation of financial statements: Puttable Financial Instruments and Obligations Arising on Liquidation
- IAS23 Amendment – Borrowing costs
- IAS27 Revised – Consolidated and separate financial statements
- IAS32 Amendment – Financial instruments: Presentation
- IFRIC9 Amendment – Embedded derivatives
- IFRIC13 Customer loyalty programmes
- IFRIC14 The limit on a defined benefit asset, minimum funding requirements and their interaction
- IFRIC15 Agreements for construction of real estates

## Group Accounting Policies

Continued

- IFRIC16 Hedges of a net investment in a foreign operation
- Amendments to the following standards arising from the April 2009 Annual Improvements process: IFRS2, IFRS5, IFRS8, IAS1, IAS7, IAS17, IAS18, IAS36, IAS38, IAS39, IFRIC9 and IFRIC16.

IFRS2 Amendment, IFRS3 and IAS27 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 (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than 50% of the voting rights. Subsidiaries are consolidated from the date on 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 the share acquired of the carrying value of net assets of the subsidiary. Disposals to minority interests result in gains and losses for the Group and 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.

#### 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, expenses, assets, liabilities and cash flows are combined on a line-by-line basis with equivalent items in the Group's consolidated financial statements. Accounting policies of joint ventures have been changed where necessary to ensure consistency with the policies adopted 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.

### Foreign Currency Translation

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in Pounds Sterling which is the Company's functional and the Group's presentation currency.

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

The functional currency of the Group's foreign subsidiaries is the Canadian Dollar for eaga Canada Inc, eaga Canada Services 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 closing 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 translation are recognised as a separate component of equity. On transition to IFRS, the translation reserve was set to zero, as permitted under IFRS1. On consolidation, exchange differences arising from the translation of the net investment in foreign subsidiaries, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign subsidiary is partially disposed of or sold, exchange differences that were recorded in equity are recognised in the income statement as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign subsidiary are treated as assets and liabilities of the foreign subsidiary and translated at the closing rate.

### Property, Plant and Equipment

Property, plant and equipment is stated at historical cost, less accumulated depreciation and any impairment in value. Historical cost includes expenditure that is directly attributable to the acquisition of the items. 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 at the following rates:

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

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 balance sheet date.

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

### Business Combinations and Goodwill

Goodwill acquired in a business combination is recognised in intangible assets and 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 fair value of the acquiree's net identifiable assets at the date of acquisition. Where the fair value of the acquired net identifiable assets 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 allocated to those cash generating units that are expected to benefit from the business combination in which the goodwill arose, identified according to operating segment.

Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity 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. 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 period in which the expenditure is incurred.

Amortisation is calculated to write off the cost of intangible assets on a straight-line basis over their estimated useful lives, as follows:

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

Intangible assets are assessed for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Assets' amortisation periods and amortisation methods are reviewed, and adjusted if appropriate, at each balance sheet date.

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 balance sheet 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. The 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, in this case an individual asset will be included in a larger cash generating unit.

## Group Accounting Policies

### Continued

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.

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

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 include cash at bank and in hand and short-term deposits with original maturities of three months or less.

Current asset investments include cash balances held on deposit for periods greater than three months and certain restricted cash balances including those in relation to the Group's self insurance activities. These balances have been excluded from cash in the Group's balance sheet and cash flow statement.

### 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.

A provision is recognised to cover dilapidations on buildings leased by the Group, as required in the leasing agreement. The amount recognised is management's best estimate of the costs likely to be incurred in carrying out the remedial work required.

### 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. The contributions are recognised as an employee benefit expense when they are due.

Permarock Products Limited, a subsidiary company, 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, but does not recognise an asset. 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 surplus/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. Where revenue has not been invoiced it is held within accrued income.

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 where the Group ultimately retains the risks and rewards of these installations.

The Group generates revenue from three main sectors being:

#### Managed Services

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.

### Construction Contracts

Where the outcome of a construction contract can be estimated reliably, revenue and costs are recognised by reference to the stage of completion of the contract activity at the balance sheet date. This is measured by surveys or valuations of work performed to date.

Where the outcome of a construction contract cannot be estimated reliably, revenue is recognised to the extent of costs incurred where it is probable those costs will be recoverable. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised immediately. Contract costs are recognised as expenses in the period in which they are incurred.

### 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 twelve months after the balance sheet date.

## Group Accounting Policies

### Continued

#### Derivatives

All derivatives are carried at fair value with movements in fair value recognised through 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 those 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.

#### 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; and
- 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 Costs

Exceptional costs 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 costs 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.

**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. A liability, included within accruals and deferred income, is established based on the estimated costs of settling 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 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 market-based performance not achieving the threshold for vesting.

The Group also operates a SIP under which qualifying Partners may receive free shares. The fair value of the free shares are recognised as an expense in the income statement over the vesting period of the shares.

**ePT-funded Charges**

To the extent that costs incurred by the Group are funded by ePT, whether by waiver of dividend or otherwise, the associated charges are treated in accordance with the Group's accounting policies with the exception that they are separately disclosed on the face of the income statement and excluded from EBITA.

**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 2009 was £59,111,000 (2008: £57,029,000). Further details are given in note 14.

**Depreciation and Amortisation**

The Group determines appropriate depreciation and amortisation periods for property, plant and equipment and intangible assets held. This requires the use of judgement as to the appropriate lives for each category of property, plant and equipment and intangible asset. Asset lives are reviewed annually to ensure that they remain appropriate. There have been no significant changes in asset lives in the current financial year.

## 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 outsourced programmes for central and local Government and other commercial organisations;
- Installation Services: installation of energy efficient improvements, along with central heating installation and related services in homes across the UK; and
- Specialist Support Services: providing a range of solutions which support the customers we serve in other segments. These include aftercare and insurance services, wholesale insulation, on-line retail of energy efficient white goods, sale to utility companies of energy savings accredited to energy efficient measures installed 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 2009

	Managed Services £'000	Installation Services £'000	Specialist Support Services £'000	Eliminations £'000	Total £'000
<b>Revenue</b>					
Third party	439,229	231,754	67,921	-	738,904
Inter-segment	-	109,066	10,119	(119,185)	-
<b>Total</b>	<b>439,229</b>	<b>340,820</b>	<b>78,040</b>	<b>(119,185)</b>	<b>738,904</b>
Segmental operating profit	9,364	19,330	10,693	-	39,387
Unallocated ePT-funded charges (note 7)					(1,559)
Unallocated exceptional costs (note 8)					(345)
<b>Operating profit after exceptional items</b>					<b>37,483</b>
Net finance income					245
Tax expense					(10,758)
<b>Profit for the year</b>					<b>26,970</b>
Segment assets	49,371	121,912	29,055	-	200,338
Unallocated assets					40,014
<b>Total assets</b>					<b>240,352</b>
Segment liabilities	(53,658)	(31,722)	(21,974)	-	(107,354)
Unallocated liabilities					(3,496)
<b>Total liabilities</b>					<b>(110,850)</b>
<b>Other segment information</b>					
Capital expenditure (intangible assets and property, plant and equipment)					
- additions	5,160	1,388	877	-	7,425
- acquisitions	-	-	236	-	236
Depreciation of property, plant and equipment	1,885	2,131	705	-	4,721
Amortisation of intangible assets	256	7,470	94	-	7,820
EBITA	9,620	26,800	10,787	-	47,207

Unallocated assets comprise cash of £31,905,000 and a deferred tax asset of £8,109,000. Unallocated liabilities comprise loans and borrowings of £623,000 and current tax liability of £2,873,000.

## 1. SEGMENTAL ANALYSIS *continued*

Year ended 31 May 2008

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

### 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. Revenue is based on the country in which the customer is located. Total assets and capital expenditure are based on asset location. No individual country other than the United Kingdom contributed more than 10% of consolidated revenue or assets therefore no further analysis is presented.

## 2. REVENUE

Analysis by category:

	Year ended 31 May 2009 £'000	Year ended 31 May 2008 £'000
Sales of goods and services (excluding share of joint ventures' sales)	<b>732,571</b>	633,706
Share of sales of joint ventures	<b>6,333</b>	5,254
	<b>738,904</b>	<b>638,960</b>

## Notes to the Financial Statements

Continued

### 3. OPERATING PROFIT AFTER EXCEPTIONAL ITEMS

Operating profit after exceptional items is stated after charging:

	Year ended 31 May 2009 £'000	Year ended 31 May 2008 £'000
Staff costs (note 5)	133,712	115,041
Subcontractor costs	247,557	233,401
Inventories recognised as an expense	191,538	155,824
Depreciation of property, plant and equipment	4,721	3,514
Amortisation of intangible assets	7,820	7,417
Loss on sale of property, plant and equipment	186	312
Operating lease rentals:		
– property	3,041	2,049
– plant and machinery	2,133	2,422
Hire of motor vehicles	9,603	4,898
Impairment of trade receivables	331	650

### 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 2009 £'000	Year ended 31 May 2008 £'000
Fees payable to the Company's auditor for the audit of the Company's annual financial statements (including consolidated financial statements)	100	100
Fees payable to the Company's auditor for other services:		
The auditing of financial statements of undertakings of the Company pursuant to legislation	160	150
Other services supplied pursuant to legislation	43	49
Other services relating to taxation	99	157
Services relating to corporate finance transactions entered into or proposed to be entered into by or on behalf of the Company	147	–
Other services	33	–
	<b>582</b>	<b>456</b>

The Group also capitalised £Nil (2008: £16,000) of non-audit fees within goodwill relating to acquisitions.

### 5. STAFF COSTS

Staff costs for the Group during the year:

	Year ended 31 May 2009 £'000	Year ended 31 May 2008 £'000
Wages and salaries	118,436	98,557
Charge in respect of share options (note 6)	2,055	2,649
Social security costs	10,131	10,538
Other pension costs (note 32)	3,090	3,297
	<b>133,712</b>	<b>115,041</b>

**5. STAFF COSTS** continued

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 Category**

	Year ended 31 May 2009 Number	Year ended 31 May 2008 Number
Clerical and management	1,442	1,233
Insulation and heating installers	1,660	1,618
Surveyors and similar roles	458	458
Other	915	841
	<b>4,475</b>	<b>4,150</b>

**Key Management Compensation**

	Year ended 31 May 2009 £'000	Year ended 31 May 2008 £'000
Salaries and short-term employee benefits	1,482	1,674
Post-employment benefits	36	35
	<b>1,518</b>	<b>1,709</b>

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

**6. SHARE-BASED PAYMENTS**

During the years ended 31 May 2009 and 31 May 2008, the Group had four share-based payment arrangements which are summarised below, further details of the plans are detailed in the Remuneration Report on pages 33 to 38.

- (i) **IPO Option Plan ('IPO OP')**  
The IPO OP provided for the grant of nil cost options. The awards were granted to Partners in February and March 2007, the awards vested and were exercised on successful admission to the Company's shares to the London Stock Exchange which was affected on 7 June 2007.
- (ii) **IPO Key Management Plan ('IPO KMP')**  
The IPO KMP provided for the grant of nil cost options. The awards were granted to certain Partners on 31 May 2007 and were conditional on successful admission of the Company's shares to the London Stock Exchange. The awards vested 50% on the first anniversary of admission and 50% on the second anniversary of admission to the London Stock Exchange.
- (iii) **Management Incentive Plan ('MIP')**  
The MIP provides for the grant of nil cost options. The awards were granted to certain Partners on 14 October 2008. The vesting period is three years of which 50% is dependent upon the level of increase in earnings per share over the vesting period, and the remaining 50% is dependent upon the Total Shareholder Return performance of the Group compared to the FTSE mid 250 index over the vesting period.
- (iv) **Share Incentive Plan ('SIP')**  
The SIP provided for the grant of free shares to all eligible Partners. The awards were granted to all Partners on 31 October 2008. The vesting period over these awards is one year.

## Notes to the Financial Statements

Continued

### 6. SHARE-BASED PAYMENTS continued

Type of arrangement	IPO OP	IPO KMP	SIP	MIP
<b>Year ended 31 May 2009</b>				
Outstanding at 1 June 2008	-	2,003,298	-	-
Granted in the year	-	-	2,269,903	1,366,245
Exercised in the year	-	(791,697)	(30,656)	-
Expired in the year	-	(298,112)	(61,309)	-
Outstanding at 31 May 2009	-	913,489	2,177,938	1,366,245
Exercisable at 31 May 2009	n/a	87,291	-	-
Weighted average remaining contractual life	n/a	7 days	5 months	2.4 years
Weighted average fair value of options granted in 2009 (pence)	n/a	n/a	114.5	86.1
Weighted average share price at date of exercise (pence)	-	122.7	133.3	-
<b>Year ended 31 May 2008</b>				
Outstanding at 1 June 2007	57,514,127	2,073,340	-	-
Exercised in the year	(57,514,127)	-	-	-
Expired in the year	-	(70,042)	-	-
Outstanding at 31 May 2008	-	2,003,298	-	-
Exercisable at 31 May 2008	n/a	-	n/a	n/a
Weighted average remaining contractual life	n/a	6 months	n/a	n/a
Weighted average share price at date of exercise (pence)	181.0	-	-	-

All of the share options above have a nil cost exercise price.

The estimated fair values are calculated by applying a Black-Scholes option pricing model for all schemes other than the MIP, which has been calculated by applying a Monte Carlo pricing model. As all share options have been granted at nil cost, the assumptions used in the models that impact on valuation are as follows:

Share price	Price at date of grant
Option life	Per scheme rules
Expected dividends	Based on historical dividend yield

Levels of early exercises and lapses are estimated using historical averages.

The Group recognised total expenses of £2,055,000 (2008: £2,649,000) related to equity-settled share-based payment transactions.

### 7. ePT-FUNDED CHARGES

	Year ended 31 May 2009 £'000	Year ended 31 May 2008 £'000
<b>ePT-funded Share Incentive Plan</b>	<b>1,559</b>	<b>-</b>

The Group operates a SIP under which qualifying Partners may receive free shares. ePT waived its interim and final dividends for the year ended 31 May 2008 amounting to £2.8m (2008: £Nil). These funds have been used to finance initial awards under the SIP. This funding was utilised by the SIP trustee in October 2008 to acquire a number of shares in the Company to be held in order to meet the future commitment of the SIP. Further details of the share purchases are set out in note 28.

The SIP has no commitment to make any awards to Partners in excess of those funded to date by ePT. Because this expense has been fully funded by ePT, there is no material net impact on the Group's reserves over the contractual life of the plan, cash or net assets against that which would have occurred had ePT not waived its dividends. Accordingly, the associated share-based payment charge incurred by the Company has been separately disclosed on the face of the income statement and excluded from EBITA.

**8. EXCEPTIONAL COSTS**

	Year ended 31 May 2009 £'000	Year ended 31 May 2008 £'000
Share-based payments	345	2,649
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 certain key management under the IPO Key Management Plan by ePT. These awards were made solely in relation to successful admission of the Company's shares to the London Stock Exchange. There was 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 £325,000 (2008: £429,000) 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.

**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 was included in the income statement as an exceptional tax expense in respect of the year ended 31 May 2008.

**9. FINANCE INCOME**

	Year ended 31 May 2009 £'000	Year ended 31 May 2008 £'000
Bank interest receivable	616	1,511
Interest on loans to joint ventures	48	33
Income from current asset investments	118	215
	<b>782</b>	<b>1,759</b>

**10. FINANCE EXPENSE**

	Year ended 31 May 2009 £'000	Year ended 31 May 2008 £'000
Interest payable on bank loans and overdrafts	307	423
Interest payable on hire purchase agreements	34	22
Amortisation of deferred consideration	140	746
Share of joint venture interest payable	56	55
Other interest payable	-	126
	<b>537</b>	<b>1,372</b>

**11. TAXATION****(a) Tax Recognised in the Income Statement**

	Year ended 31 May 2009 £'000	Year ended 31 May 2008 £'000
Current tax expense/(credit)	5,439	(1,531)
Adjustment in respect of current tax of previous years	(115)	(56)
Share of joint venture tax	(6)	4
	<b>5,318</b>	<b>(1,583)</b>
Deferred tax relating to origination and reversal of temporary differences	5,571	10,912
Adjustment in respect of deferred tax of previous years	(131)	(384)
<b>Tax on profit for the year</b>	<b>10,758</b>	<b>8,945</b>

## Notes to the Financial Statements

Continued

### 11. TAXATION continued

#### (b) Reconciliation of Tax Expense

The effective tax rate for the year relating to continuing operations as a proportion of profit before tax is 28.5% (2008: 31.5%). This compares with the standard rate of corporation tax in the United Kingdom of 28% (2008: 29.7%) as follows:

	Year ended 31 May 2009 £'000	Year ended 31 May 2008 £'000
Profit before taxation	37,728	28,365
At United Kingdom tax rate of 28% (2008: 29.7%)	10,564	8,415
Adjustment in respect of previous years	(246)	(440)
Expenditure not allowable for tax purposes	98	693
Deferred tax not provided	342	277
<b>Tax on profit for the year</b>	<b>10,758</b>	<b>8,945</b>

#### (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 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)
Transfer between categories	(30,909)	-	-	30,909	-	-
Impact of changes in UK tax rate	(26)	(73)	174	(1,263)	(1)	(1,189)
Acquired in business combination	-	12	(1,822)	-	-	(1,810)
<b>At 31 May 2008</b>	<b>429</b>	<b>1,683</b>	<b>(3,953)</b>	<b>15,274</b>	<b>20</b>	<b>13,453</b>
Transfer from provisions (note 25)	-	-	-	-	95	95
Credited/(charged) in the income statement	(303)	756	2,048	(7,923)	(18)	(5,440)
Acquired in a business combination	-	1	-	-	-	1
<b>At 31 May 2009</b>	<b>126</b>	<b>2,440</b>	<b>(1,905)</b>	<b>7,351</b>	<b>97</b>	<b>8,109</b>

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 2009 £'000	31 May 2008 £'000
<b>Losses</b>	<b>1,047</b>	<b>456</b>

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

### 12. DIVIDENDS

	Year ended 31 May 2009 £'000	Year ended 31 May 2008 £'000
Amounts recognised as distributions to equity holders in the year:		
Final dividend for the year ended 31 May 2008 – 2.0p per share (2007: Nil)	3,142	-
Interim dividend for the year ended 31 May 2009 – 1.1p per share (2008: 1.0p per share)	1,742	1,568
	<b>4,884</b>	<b>1,568</b>

The Directors have proposed a final dividend for the year ended 31 May 2009 of 2.4p per share amounting to £6.1m (2008: 2.0p per share amounting to £5.1m), which is subject to approval by the shareholders at the Annual General Meeting. This final dividend has not been included as a liability in the financial statements as at 31 May 2009.

ePT waived its right to the both the interim and final dividends relating to the year ended 31 May 2008, reducing the charge to equity by £2.8m. The funds waived were used to fund the SIP (see note 7).

### 13. EARNINGS PER SHARE

#### Basic

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

	Year ended 31 May 2009	Year ended 31 May 2008
Profit attributable to equity shareholders of the Company £(thousands)	26,703	17,945
Weighted average number of Ordinary Shares in issue (thousands)	249,896	249,330
<b>Basic earnings per share (pence)</b>	<b>10.69</b>	<b>7.20</b>

#### Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of Ordinary Shares outstanding to assume conversion of all potentially dilutive Ordinary Shares.

	Year ended 31 May 2009	Year ended 31 May 2008
Profit attributable to equity shareholders of the Company £(thousands)	26,703	17,945
Weighted average number of Ordinary Shares in issue (thousands)	249,896	249,330
Adjustments for dilutive effect of share options (thousands)	1,256	-
Adjustments for dilutive effect of Preferred Ordinary Shares (thousands)	-	827
Weighted average number of Ordinary Shares for diluted earnings per share (thousands)	251,152	250,157
<b>Diluted earnings per share (pence)</b>	<b>10.63</b>	<b>7.17</b>

#### Adjusted earnings per share

Adjusted earnings per share is stated excluding amortisation of intangible assets, ePT-funded charges and exceptional costs as follows:

	Year ended 31 May 2009	Year ended 31 May 2008
Profit attributable to equity shareholders of the Company £(thousands)	26,703	17,945
- ePT-funded charges (note 7)	1,559	-
- exceptional costs (note 8)	345	2,649
- amortisation of intangible assets	7,820	7,417
- tax effect of above adjustments	(2,816)	(2,629)
- exceptional tax expense (note 8)	-	1,189
Adjusted profit £(thousands)	33,611	26,571

#### Adjusted basic earnings per share

Weighted average number of Ordinary Shares in issue (thousands)	249,896	249,330
<b>Adjusted basic earnings per share (pence)</b>	<b>13.45</b>	<b>10.66</b>

#### Adjusted diluted earnings per share

Weighted average number of Ordinary Shares in issue (thousands)	251,152	250,157
<b>Adjusted diluted earnings per share (pence)</b>	<b>13.38</b>	<b>10.62</b>

## Notes to the Financial Statements

Continued

### 14. GOODWILL

	31 May 2009 £'000	31 May 2008 £'000
<b>Cost</b>		
As at 1 June	57,379	38,483
Acquisitions (note 30)	1,970	19,461
Exchange differences	112	69
Reassessment of consideration payable	-	(634)
As at 31 May	59,461	57,379
<b>Impairment</b>		
As at 1 June and 31 May	350	350
<b>Net book value</b>		
At end of year	59,111	57,029
At start of year	57,029	38,133

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 2009 £'000	31 May 2008 £'000
Installation Services	55,594	55,594
Specialist Support Services	3,517	1,435
	59,111	57,029

The following CGUs include goodwill with a carrying value in excess of £5m:

	31 May 2009 £'000	31 May 2008 £'000
eagaheat	23,124	-
Horrocks Group plc	7,776	7,776
RG Francis Limited	6,963	6,963
White Horse FM Group Limited ('HEAT')	6,409	26,709
Other CGUs	14,839	15,581
	59,111	57,029

During the year ended 31 May 2009 the Group undertook a strategic reorganisation and rebranding exercise within its domestic heating businesses. This resulted in a change in composition of two CGUs to which goodwill had previously been allocated. The goodwill previously recognised on the acquisition of JD Heating (£2,824,000) and on the English operations of HEAT (£20,300,000) have been reallocated to the eagaheat CGU.

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 for the year to 31 May 2010 approved by the Board and extrapolates cash flows based on an estimated growth rate of 2-3% excluding inflation. The pre-tax rate used to discount the forecast cash flows for all CGUs is 12.2% which is calculated based on the Group's weighted average cost of capital of 8.8% post tax. The Directors consider that the assumptions used in the cash flow forecasts are consistent with the historical performance of each CGU and to be realistically achievable in light of economic and market forecasts. It is believed that any reasonably foreseeable movement on assumptions will not lead to an impairment and therefore sensitivity analysis has not been presented.

As at 31 May 2009 the Directors are satisfied that the values in use exceed their carrying value.

**15. INTANGIBLE ASSETS**

	Patent assets £'000	Computer software £'000	Acquisition intangibles £'000	Total £'000
<b>Cost</b>				
As at 1 June 2008	110	2,280	24,526	26,916
Additions	270	411	-	681
Acquisitions (note 30)	-	31	-	31
Exchange differences	-	3	-	3
<b>As at 31 May 2009</b>	<b>380</b>	<b>2,725</b>	<b>24,526</b>	<b>27,631</b>
<b>Amortisation</b>				
As at 1 June 2008	30	1,333	10,392	11,755
Charge for the year	74	431	7,315	7,820
Acquisitions (note 30)	-	2	-	2
<b>As at 31 May 2009</b>	<b>104</b>	<b>1,766</b>	<b>17,707</b>	<b>19,577</b>
<b>Net book value</b>				
<b>As at 31 May 2009</b>	<b>276</b>	<b>959</b>	<b>6,819</b>	<b>8,054</b>
As at 31 May 2008	80	947	14,134	15,161
	Patent assets £'000	Computer software £'000	Acquisition intangibles £'000	Total £'000
<b>Cost</b>				
As at 1 June 2007	110	1,911	18,016	20,037
Additions	-	369	-	369
Acquisitions	-	-	6,510	6,510
<b>As at 31 May 2008</b>	<b>110</b>	<b>2,280</b>	<b>24,526</b>	<b>26,916</b>
<b>Amortisation</b>				
As at 1 June 2007	10	1,079	3,249	4,338
Charge for the year	20	254	7,143	7,417
<b>As at 31 May 2008</b>	<b>30</b>	<b>1,333</b>	<b>10,392</b>	<b>11,755</b>
<b>Net book value</b>				
<b>As at 31 May 2008</b>	<b>80</b>	<b>947</b>	<b>14,134</b>	<b>15,161</b>
As at 31 May 2007	100	832	14,767	15,699

Amortisation of intangible assets is charged within administrative expenses in the income statement.

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

## Notes to the Financial Statements

Continued

### 16. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings £'000	Alterations to leasehold property £'000	Fixtures and fittings £'000	Equipment £'000	Motor vehicles £'000	Total £'000
<b>Cost</b>						
As at 1 June 2008	3,373	1,442	2,491	13,680	740	21,726
Additions	-	60	677	5,883	124	6,744
Acquisitions (note 30)	-	-	61	193	24	278
Exchange differences	41	18	1	28	8	96
Disposals	-	(283)	(128)	(379)	(94)	(884)
<b>As at 31 May 2009</b>	<b>3,414</b>	<b>1,237</b>	<b>3,102</b>	<b>19,405</b>	<b>802</b>	<b>27,960</b>
<b>Depreciation</b>						
As at 1 June 2008	25	622	1,202	7,956	288	10,093
Charge for the year	52	163	554	3,795	157	4,721
Acquisitions (note 30)	-	-	10	53	8	71
Disposals	-	(181)	(104)	(286)	(66)	(637)
<b>As at 31 May 2009</b>	<b>77</b>	<b>604</b>	<b>1,662</b>	<b>11,518</b>	<b>387</b>	<b>14,248</b>
<b>Net book value</b>						
<b>As at 31 May 2009</b>	<b>3,337</b>	<b>633</b>	<b>1,440</b>	<b>7,887</b>	<b>415</b>	<b>13,712</b>
As at 31 May 2008	3,348	820	1,289	5,724	452	11,633

	Land and buildings £'000	Alterations to leasehold property £'000	Fixtures and fittings £'000	Equipment £'000	Motor vehicles £'000	Total £'000
<b>Cost</b>						
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)
<b>As at 31 May 2008</b>	<b>3,373</b>	<b>1,442</b>	<b>2,491</b>	<b>13,680</b>	<b>740</b>	<b>21,726</b>
<b>Depreciation</b>						
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)
<b>As at 31 May 2008</b>	<b>25</b>	<b>622</b>	<b>1,202</b>	<b>7,956</b>	<b>288</b>	<b>10,093</b>
<b>Net book value</b>						
<b>As at 31 May 2008</b>	<b>3,348</b>	<b>820</b>	<b>1,289</b>	<b>5,724</b>	<b>452</b>	<b>11,633</b>
As at 31 May 2007	2,805	774	976	4,993	1,535	11,083

Depreciation of property, plant and equipment is charged within administrative expenses in the income statement.

The net book value of property, plant and equipment includes £215,000 (2008: £195,000) in respect of assets held under finance leases and hire purchase contracts.

## 17. INVESTMENTS IN JOINT VENTURES

The Group's joint ventures, which are proportionately consolidated are N.E.S.T. Makers Limited and WarmSure Limited. As set out in note 35, since the year end the Group acquired the remaining 50% of the share capital of WarmSure Limited.

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

### Income statement

	Year ended 31 May 2009 £'000	Year ended 31 May 2008 £'000
Revenue	14,999	12,767
Cost of sales	(12,645)	(12,368)
Administrative expenses	(2,898)	(677)
Finance income	8	16
Finance expense	(64)	(55)
Loss before tax	(600)	(317)
Tax (charges)/credit	(61)	27
<b>Loss for the year</b>	<b>(661)</b>	<b>(290)</b>

Revenue includes £8,666,000 (2008: £7,513,000) of intragroup sales in the year.

### Balance sheet

	31 May 2009 £'000	31 May 2008 £'000
<b>Assets</b>		
Non-current assets	463	497
Cash and cash equivalents	993	594
Other current assets	169	814
	<b>1,625</b>	<b>1,905</b>
<b>Liabilities</b>		
Other non-current liabilities	(474)	(452)
Other current liabilities	(3,066)	(2,697)
	<b>(3,540)</b>	<b>(3,149)</b>
<b>Net liabilities</b>	<b>(1,915)</b>	<b>(1,244)</b>

The Group's proportionate interest in joint ventures' capital commitments and contingent liabilities was £Nil (2008: £Nil).

## 18. INVENTORIES

	31 May 2009 £'000	31 May 2008 £'000
Raw materials and consumables	3,067	2,726
Work in progress	3,870	4,551
Finished goods	5,784	1,291
	<b>12,721</b>	<b>8,568</b>

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

## Notes to the Financial Statements

Continued

### 19. TRADE AND OTHER RECEIVABLES

	31 May 2009 £'000	31 May 2008 £'000
Trade receivables	57,409	57,519
Less: provision for impairment of receivables	(1,706)	(1,375)
Trade receivables – net	55,703	56,144
Amounts owed by related parties	1,260	1,368
Prepayments and accrued income	37,537	14,923
Other receivables	3,030	4,217
	<b>97,530</b>	<b>76,652</b>

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. £21.6m (2008: £11.4m) is due from the Department of Energy and Climate Change (formerly the Department of Environment and Rural Affairs), the Group's largest customer. £3.7m (2008: £1.3m) is due from DSHS Limited in relation to the Switchover Help Scheme. 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 management based upon their assessment of the current economic environment and previous trading history with the counterparty. Given the nature of the counterparties which include local and central Government, there is no concern over the credit quality of amounts past due not impaired. The Directors consider that the carrying value of trade and other receivables approximates to their fair value.

	31 May 2009 £'000	31 May 2008 £'000
At 1 June	1,375	725
Charged to current year income statement	967	650
Unused amounts reversed	(636)	-
<b>At 31 May</b>	<b>1,706</b>	<b>1,375</b>

The amount charged to the income statement is within administrative expenses.

### Ageing of trade receivables

	31 May 2009		31 May 2008	
	Gross £'000	Impairment £'000	Gross £'000	Impairment £'000
Current	40,650	-	43,490	-
Past due less than three months	13,520	-	9,467	-
Past due more than three months but less than six months	1,808	(436)	1,283	-
Past due more than six months but less than one year	803	(642)	2,498	(594)
Past due more than one year	628	(628)	781	(781)
	<b>57,409</b>	<b>(1,706)</b>	<b>57,519</b>	<b>(1,375)</b>

### 20. DERIVATIVE FINANCIAL INSTRUMENTS

	31 May 2009 £'000	31 May 2008 £'000
<b>Derivative contracts</b>	<b>566</b>	<b>559</b>

The derivative contracts comprise contracts in one of the Group companies that generate revenue based on the value of third party loan books. The derivatives are held at fair value which has been calculated based on discounted future forecast cash flows of revenue receivable.

**21. CURRENT ASSET INVESTMENTS**

	31 May 2009 £'000	31 May 2008 £'000
<b>Current asset investments</b>	<b>8,644</b>	<b>4,938</b>

Current asset investments are held at floating interest rates linked to UK Bank Base Rate.

**22. CASH AND CASH EQUIVALENTS**

	31 May 2009 £'000	31 May 2008 £'000
<b>Cash at bank and in hand</b>	<b>31,905</b>	<b>15,322</b>

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

**23. TRADE AND OTHER PAYABLES**

	31 May 2009 £'000	31 May 2008 £'000
<b>Current trade and other payables</b>		
Trade payables	57,988	50,385
Taxes and social security, excluding current tax	4,048	3,662
Amounts owed to related parties	1,480	1,594
Accruals and deferred income	36,911	29,185
Other payables	5,375	5,697
Deferred consideration	536	4,528
	<b>106,338</b>	<b>95,051</b>
<b>Non-current trade and other payables</b>		
Deferred consideration	-	156
Other payables	474	452
	<b>474</b>	<b>608</b>

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.

**24. LOANS AND BORROWINGS**

	31 May 2009 £'000	31 May 2008 £'000
Hire purchase obligations	205	90
Property loan	289	264
Cumulative redeemable preference shares	129	118
	<b>623</b>	<b>472</b>

## Notes to the Financial Statements

Continued

### 24. LOANS AND BORROWINGS continued

The borrowings are repayable as follows:

	31 May 2009 £'000	31 May 2008 £'000
<b>On demand or within one year (shown under current liabilities)</b>		
Hire purchase obligations	72	82
Property loan	6	6
Cumulative redeemable preference shares	129	118
	<b>207</b>	<b>206</b>
<b>In the second to fifth years</b>		
Hire purchase obligations	133	8
Property loan	21	20
	<b>154</b>	<b>28</b>
<b>Due after more than five years</b>		
Property loan	262	238
	<b>262</b>	<b>238</b>
<b>Total borrowings</b>	<b>623</b>	<b>472</b>
Less: amount due for settlement within one year (shown under current liabilities)	<b>(207)</b>	<b>(206)</b>
<b>Amount due for settlement after one year</b>	<b>416</b>	<b>266</b>

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

#### Bank Loans

At 31 May 2009, the Company has committed term loan facilities with Barclays Bank plc which have a floating interest rate, linked to LIBOR. The total facility of £75,000,000 comprises:

- £60,000,000 revolving credit facility expiring on 17 March 2012. At 31 May 2009 this facility was undrawn;
- £5,000,000 overdraft facility expiring on 17 March 2010. At 31 May 2009 this facility was undrawn; and
- £10,000,000 letter of credit on a major contract expiring on 31 December 2013. At 31 May 2009 this facility was drawn.

At 31 May 2008, the Company had committed facilities of £46,400,000 comprising a £35,000,000 loan facility with Barclays Bank plc, £10,000,000 letter of credit with Royal Bank of Scotland and other overdraft facilities of £1,400,000.

#### Hire Purchase Obligations

	Minimum lease payments		Present value of minimum lease payments	
	31 May 2009 £'000	31 May 2008 £'000	31 May 2009 £'000	31 May 2008 £'000
<b>Amounts payable under hire purchase agreements</b>				
Within one year	83	89	72	82
In the second year to fifth years inclusive	159	10	133	8
	<b>242</b>	<b>99</b>	<b>205</b>	<b>90</b>
Less: future finance charges	<b>(37)</b>	<b>(9)</b>	<b>-</b>	<b>-</b>
<b>Present value of hire purchase obligations</b>	<b>205</b>	<b>90</b>	<b>205</b>	<b>90</b>
Less: amount due for settlement within one year (shown under current liabilities)	<b>(72)</b>	<b>(82)</b>	<b>(72)</b>	<b>(82)</b>
<b>Amount due for settlement after one year</b>	<b>133</b>	<b>8</b>	<b>133</b>	<b>8</b>

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.

**24. LOANS AND BORROWINGS** continued**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% 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 (2008: 2,500) of which 2,500 (2008: 2,500) were allotted and fully paid at the balance sheet date.

**25. PROVISIONS FOR OTHER LIABILITIES AND CHARGES**

	Dilapidation provision £'000	Pension provision £'000	Total £'000
As at 1 June 2008	342	244	586
Charged/(credited) in the year to income statement	200	(339)	(139)
Transfer to deferred taxation (note 11)	-	95	95
<b>As at 31 May 2009</b>	<b>542</b>	<b>-</b>	<b>542</b>

The dilapidations provision held by the Group as at 31 May 2009 is held to cover dilapidations on leased properties.

The pension provision held by the Group as at 31 May 2008 was held to cover post-employment benefits accruing to certain employees of Permarock Products Limited. At 31 May 2009 the pension scheme's deficit has reversed to a small surplus and as such there is no provision. See note 32 for further details.

**26. SHARE CAPITAL**

	31 May 2009 £'000	31 May 2008 £'000
<b>Authorised equity share capital</b>		
<b>330,000,000 (2008: 330,000,000) Ordinary Shares of £0.001 each</b>	<b>330</b>	<b>330</b>
<b>Allotted and called up equity share capital</b>		
<b>251,408,802 (2008: 250,593,245) Ordinary Shares of £0.001 each</b>	<b>251</b>	<b>251</b>

**Year ended 31 May 2009**

On 31 August 2008 815,557 Ordinary Shares of £0.001 were allotted at a mid-market price of 134.88p in respect of the acquisition of Horrocks Group plc.

**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; and
- 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 the acquisition of Horrocks Group plc.

## Notes to the Financial Statements

Continued

### 26. 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 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	-	-
Ordinary Shares allotted on 31 August 2008	-	815,557	-	-
<b>At 31 May 2009</b>	<b>330,000,000</b>	<b>251,408,802</b>	<b>-</b>	<b>-</b>

### 27. CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital £'000	Retained earnings £'000	Other reserves £'000	Attributable to the equity holders of the Company £'000	Minority interest £'000	Total equity £'000
As at 1 June 2007	50	54,856	3,648	58,554	112	58,666
Profit for the year	-	17,945	-	17,945	286	18,231
Share-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	73,882	32,266	106,399	362	106,761
Profit for the year	-	26,703	-	26,703	267	26,970
Share-based payments (note 6)	-	2,046	-	2,046	9	2,055
Dividends paid to minority shareholders of subsidiary	-	-	-	-	(67)	(67)
Dividends paid to equity shareholders of the Company	-	(4,884)	-	(4,884)	-	(4,884)
Purchase of own shares held in trust	-	-	(2,658)	(2,658)	-	(2,658)
Share options exercised in the year	-	(38)	38	-	-	-
Currency translation differences	-	-	222	222	3	225
Issue of share capital	0	-	1,100	1,100	-	1,100
<b>At 31 May 2009</b>	<b>251</b>	<b>97,709</b>	<b>30,968</b>	<b>128,928</b>	<b>574</b>	<b>129,502</b>

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 £97,709,000 (2008: £73,882,000).

**28. OTHER RESERVES**

	Share premium account £'000	Capital redemption reserve £'000	Own share reserve £'000	Translation reserve £'000	Total £'000
As at 1 June 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
<b>As at 31 May 2008</b>	<b>28,738</b>	<b>3,600</b>	<b>-</b>	<b>(72)</b>	<b>32,266</b>
Purchase of own shares held in trust	-	-	(2,658)	-	(2,658)
Share options exercised in the year	-	-	38	-	38
Currency translation differences	-	-	-	222	222
Issue of share capital	1,100	-	-	-	1,100
<b>As at 31 May 2009</b>	<b>29,838</b>	<b>3,600</b>	<b>(2,620)</b>	<b>150</b>	<b>30,968</b>

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 own share reserve represents the shares purchased to fund the SIP together with shares issued to Partners under that plan.

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

**29. 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 2009 £'000	31 May 2008 £'000	31 May 2009 £'000	31 May 2008 £'000
Within one year	2,092	2,048	1,523	3,638
In the second to fifth years inclusive	7,153	6,457	493	1,982
After five years	6,172	7,613	-	-
	<b>15,417</b>	<b>16,118</b>	<b>2,016</b>	<b>5,620</b>

**30. BUSINESS COMBINATIONS**

The following table summarises the cash outflow as a result of the acquisitions during the year to 31 May 2009:

	£'000
Acquisition of Protocol Communications Management Limited	(1,543)
Protocol Communications Management Limited net cash acquired	795
<b>Total net consideration paid</b>	<b>(748)</b>
Deferred consideration on Protocol Communications Management Limited	(750)
Deferred consideration on White Horse FM Group Limited	(2,000)
Deferred consideration on George Howe Limited	(847)
Deferred consideration on AFR Limited	(600)
Deferred consideration on Integrated Energy Systems Limited	(167)
Reclaimable consideration on RG Francis Limited	512
<b>Total deferred consideration paid</b>	<b>(3,852)</b>

## Notes to the Financial Statements

Continued

### 30. BUSINESS COMBINATIONS continued

On 14 October 2008, the Group acquired 100% of the issued share capital of Protocol Communications Management Limited a company registered in England and Wales. Protocol Communications Management Limited is a fulfilment and distribution company. The consideration paid was £1,543,000 including acquisition expenses of £43,000. There is further consideration of up to £1,500,000 payable fourteen months from the date of acquisition depending on the post-acquisition results of the company.

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

	Total £'000
<b>Net assets acquired</b>	
Intangible assets	29
Property, plant and equipment	207
Inventories	328
Trade and other receivables	1,179
Deferred tax asset	1
Cash and cash equivalents	795
Trade and other payables	(1,685)
Corporation tax liability	(164)
Loans and borrowings	(17)
	<b>673</b>
Goodwill	1,970
Cash consideration	1,500
Contingent cash consideration	1,100
Acquisition expenses	43
	<b>2,643</b>

If all the acquisitions had been completed on 1 June 2008 Group revenues for the year and Group profit before taxation would have been £738,965,000 and £38,286,000 respectively.

The post-acquisition profit before taxation from this acquisition in the year ended 31 May 2009 was £665,000.

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
<b>Total net consideration paid</b>	<b>(24,805)</b>
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)
<b>Total deferred consideration paid</b>	<b>(11,054)</b>

On 22 June 2007, the Group acquired 100% 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 31 May 2008 £618,000 was receivable from the vendors on finalisation of the completion accounts.

**30. BUSINESS COMBINATIONS** continued

On 25 September 2007, the Group acquired 100% 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 was further consideration of up to £600,000 payable within twelve months from the date of acquisition depending on the post-acquisition results of AFR Limited.

On 26 October 2007, the Group acquired 100% 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 was further consideration of up to £800,000 payable within twelve months from the date of acquisition depending on the post-acquisition results of George Howe Limited.

On 31 October 2007, the Group acquired 100% 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 was further consideration of up to £1,100,000 to be settled in Ordinary Shares of eaga plc, payable within twelve months from the date of acquisition depending on the post-acquisition results of Horrocks Group plc.

**31. FINANCIAL RISK MANAGEMENT**

The Group's operations expose it to a variety of financial risks that include the effects of changes in 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 A rating or higher.

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

	31 May 2009 £'000	31 May 2008 £'000
Cash and cash equivalents	<b>31,905</b>	15,322
Trade and other receivables	<b>97,530</b>	76,652
Derivative financial instruments	<b>566</b>	559
Current asset investments	<b>8,644</b>	4,938

## Notes to the Financial Statements

Continued

### 31. FINANCIAL RISK MANAGEMENT continued

#### 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. This has been further strengthened by the new bank facility entered into during the year.

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

	31 May 2009 £'000	31 May 2008 £'000
Within one year	5,000	1,400
In two to five years	60,000	35,000
	<b>65,000</b>	<b>36,400</b>

The Group monitors compliance against all its financial obligations so as to operate well within covenanted restrictions at all times.

#### 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, as well as the purchase of certain items of stock denominated in foreign currencies.

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

	31 May 2009	31 May 2008
<b>Monetary assets</b>		
Canadian dollar (C\$000)	3,291	3,609
Euro (€000)	1,922	1,370
Indian rupee (INR000)	21,356	17,952
<b>Monetary liabilities</b>		
Canadian dollar (C\$000)	3,043	2,613
Euro (€000)	363	505
Indian rupee (INR000)	8,252	3,309

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 2009 £'000	31 May 2008 £'000
<b>Floating rate borrowings</b>		
Property loan	289	264
	<b>289</b>	<b>264</b>
<b>Fixed rate borrowings</b>		
Hire purchase obligations	205	90
Cumulative redeemable preference share	129	118
	<b>334</b>	<b>208</b>
<b>Total borrowings</b>	<b>623</b>	<b>472</b>

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 £3,090,000 (31 May 2008: £3,297,000).

The Group operates a defined benefit plan for less than twenty Partners in a subsidiary acquired in the prior year. The plan is closed to new members and all benefits accruing to current members are frozen. Full IAS19 disclosures are not presented because the defined benefit plan assets and net surplus are not material. As at 31 May 2009 the net surplus in the plan was £54,000 (2008: net deficit £244,000).

### 33. RELATED PARTY TRANSACTIONS

#### Identity of Related Parties

The Group has related party relationships with its shareholders including 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 2009 the Group purchased services with an aggregate value of £20,447 (2008: £20,000) from Stratagem (NI) Limited, a company in which Mr Quintin Oliver, Non-Executive Director of the Company, is a shareholder. At 31 May 2009 the balance owed to Stratagem (NI) Limited by eaga plc was £2,300 (2008: £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 £Nil (2008: £22,266). All services were provided on an arm's length basis and £Nil was outstanding as at 31 May 2009 (2008: £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:

	Year ended 31 May 2009 £'000	Year ended 31 May 2008 £'000
<b>Purchases of goods and services</b>		
- from joint ventures	<b>8,666</b>	7,513
<b>Receivables</b>		
- due from joint ventures	<b>2,531</b>	2,736
<b>Payables</b>		
- due to joint ventures	<b>2,969</b>	3,188

## Notes to the Financial Statements

Continued

### 34. SUBSIDIARIES AND JOINT VENTURES

The main unquoted investments held by eaga plc as at 31 May 2009 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 May
Ark Solar Products Limited*	Energy efficiency services	100%	31 May
Debind International (UK) Limited	IT consulting	100%	31 May
eaga Canada Services Inc*	Energy efficiency services	100%	31 May
eaga Energy India Private Limited*	IT consulting	90%	31 March
eaga Energy Solutions Limited	Energy efficiency services	100%	31 May
eaga Home Services 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
EJ Horrocks Limited*	Provision of external wall insulation services	100%	31 May
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
eaga Heating Services Limited (formerly Iguana Services Limited)	Energy efficiency services	100%	31 May
Integrated Energy Systems Limited*	Energy efficiency services	100%	31 May
Permarock Products Limited*	Provision of external wall insulation services	100%	31 May
Protocol Communications Management Limited	Fulfilment and distribution	100%	31 May
Protocol Distribution Centre Limited*	Fulfilment and distribution	100%	31 May
RG Francis Limited	Energy efficiency services	100%	31 May
<b>Joint ventures</b>			
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, which is incorporated in Scotland, Heat, Energy and Associated Technology Limited which is incorporated in Northern Ireland, Homeworks Services Inc, Ark Solar Products Limited, Integrated Energy Systems Limited and eaga Canada Services Inc 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 is annexed to the Company's annual return.

### 35. POST BALANCE SHEET EVENTS

On 31 August 2009 the Group acquired the remaining 50% shareholding in its previous joint venture, WarmSure Limited. It is not expected that this transaction will result in significant goodwill or other intangible assets.

# 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 2009 which comprise the Parent Company balance sheet and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

## Respective Responsibilities of Directors and Auditors

As explained more fully in the Statement of Directors' Responsibilities on page 32, the Directors are responsible for the preparation of the Parent Company financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the Parent Company financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Sections 495 to 497 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, 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.

## Scope of the Audit of the Financial Statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Parent Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements.

## Opinion on Financial Statements

In our opinion the Parent Company financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 May 2009;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

## Opinion on Other Matters Prescribed by the Companies Act 2006

In our opinion:

- the part of the Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Directors' Report for the financial year for which the Parent Company financial statements are prepared is consistent with the Parent Company financial statements.

## Matters on Which We Are Required to Report by Exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Parent Company financial statements and the part of the Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

## Other Matter

We have reported separately on the Group financial statements of eaga plc for the year ended 31 May 2009.

## Bill MacLeod, Senior Statutory Auditor

for and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
Newcastle Upon Tyne  
1 September 2009

## Parent Company Balance Sheet

As at 31 May 2009

	Notes	31 May 2009 £'000	31 May 2008 £'000
<b>Fixed assets</b>			
Tangible assets	2	<b>8,034</b>	4,953
Investments	3	<b>85,876</b>	83,233
		<b>93,910</b>	88,186
<b>Current assets</b>			
Stock	4	<b>5,187</b>	907
Debtors: Due within one year	5	<b>85,188</b>	51,910
Debtors: Due after one year - Deferred tax asset	5	<b>9,294</b>	16,708
Cash at bank and in hand		<b>20,271</b>	10,621
		<b>119,940</b>	80,146
Creditors: Due within one year	6	<b>(82,627)</b>	(68,718)
<b>Net current assets</b>		<b>37,313</b>	11,428
Total assets less current liabilities		<b>131,223</b>	99,614
Creditors: Due after more than one year	7	<b>(35)</b>	-
Provisions for liabilities and charges	9	<b>(542)</b>	(342)
<b>Net assets</b>		<b>130,646</b>	<b>99,272</b>
<b>Capital and reserves</b>			
Called up share capital	10	<b>251</b>	251
Share premium account	11	<b>29,838</b>	28,738
Capital redemption reserve	11	<b>3,600</b>	3,600
Own share reserve	11	<b>(2,620)</b>	-
Profit and loss account	11	<b>99,577</b>	66,683
<b>Total equity</b>		<b>130,646</b>	<b>99,272</b>

The Parent Company financial statements were approved by the Board of Directors on 1 September 2009 and signed on its behalf by:

**Drew Johnson, Ian McLeod, Directors**

The notes on pages 81 to 86 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 2006 and applicable UK accounting standards. As permitted by Section 408 of the Companies Act 2006, the Company's profit and loss account is not presented in these financial statements. The eaga plc consolidated financial statements for the year ended 31 May 2009 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 historical cost, less accumulated depreciation and any impairment in value. Historical cost includes expenditure that is directly attributable to the acquisition of the items. 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 on the following rates:

Land and buildings	2%
Alterations to leasehold property	Period of lease
Fixtures and fittings	20-33.3%
Equipment	20-50%

A tangible fixed asset 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 period the asset is de-recognised.

Assets' residual values, useful lives and methods of depreciation are reviewed, and adjusted if appropriate, at each balance sheet date.

Borrowing costs incurred on the acquisition of tangible fixed assets are recognised as an expense when incurred.

### 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. 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.

### Leases

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

### Pension Scheme

The Company operates a number of defined contribution plans. The Company pays contributions to corporate or individually administered pension plans on a mandatory, contractual or voluntary basis. The Company has no further obligation under these plans once the contributions have been paid. The contributions are recognised as an employee benefit expense when they are due.

### 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.

# Notes to the Parent Company Financial Statements

Continued

## 1. PARENT COMPANY ACCOUNTING POLICIES continued

### 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 market-based performance not achieving the threshold for vesting.

The Company also operates a SIP under which qualifying Partners may receive free shares. The fair value of the free shares is recognised as an expense over the vesting period of the shares.

### 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 cost less impairment depending on when they fall due.

### Accrued Income

Accrued income represents turnover that has not yet been invoiced to the customer.

## 2. TANGIBLE FIXED ASSETS

	Land and buildings £'000	Alterations to leasehold property £'000	Fixtures and fittings £'000	Equipment £'000	Total £'000
<b>Cost</b>					
As at 1 June 2008	2,491	545	1,447	7,985	12,468
Additions	-	23	484	5,040	5,547
<b>As at 31 May 2009</b>	<b>2,491</b>	<b>568</b>	<b>1,931</b>	<b>13,025</b>	<b>18,015</b>
<b>Depreciation</b>					
As at 1 June 2008	-	408	893	6,214	7,515
Charge for the year	50	69	357	1,990	2,466
<b>As at 31 May 2009</b>	<b>50</b>	<b>477</b>	<b>1,250</b>	<b>8,204</b>	<b>9,981</b>
<b>Net book value</b>					
<b>As at 31 May 2009</b>	<b>2,441</b>	<b>91</b>	<b>681</b>	<b>4,821</b>	<b>8,034</b>
As at 1 June 2008	2,491	137	554	1,771	4,953

## 3. INVESTMENTS

	Investments in subsidiary undertakings £'000	Investments in joint ventures £'000	Total £'000
<b>Cost</b>			
As at 1 June 2008	84,108	22	84,130
Acquisitions	2,643	-	2,643
<b>As at 31 May 2009</b>	<b>86,751</b>	<b>22</b>	<b>86,773</b>
<b>Provision</b>			
<b>As at 1 June 2008 and 31 May 2009</b>	<b>875</b>	<b>22</b>	<b>897</b>
<b>Net book value</b>			
<b>As at 31 May 2009</b>	<b>85,876</b>	<b>-</b>	<b>85,876</b>
As at 31 May 2008	83,233	-	83,233

A list of the main subsidiary and joint venture undertakings is given in note 34 of the Group financial statements. The Directors believe that the carrying value of investments is supported by their underlying trading results and net assets.

**4. STOCK**

	31 May 2009 £'000	31 May 2008 £'000
<b>Finished goods</b>	<b>5,187</b>	<b>907</b>

**5. DEBTORS**

	31 May 2009 £'000	31 May 2008 £'000
<b>Due within one year</b>		
Trade debtors	30,952	29,174
Amounts due from Group undertakings	23,243	12,520
Other debtors	1,507	3,240
Prepayments and accrued income	29,486	6,976
	<b>85,188</b>	<b>51,910</b>
<b>Due after more than one year</b>		
Deferred taxation (note 8)	9,294	16,708
	<b>9,294</b>	<b>16,708</b>

**6. CREDITORS - DUE WITHIN ONE YEAR**

	31 May 2009 £'000	31 May 2008 £'000
Trade creditors	38,658	29,279
Amounts owed to Group undertakings	21,502	17,303
Corporation tax	-	170
Other taxation and social security	1,033	596
Other creditors	1,517	2,823
Accruals and deferred income	19,538	14,047
Hire purchase obligations	14	-
Deferred consideration on acquisition of subsidiaries	365	4,500
	<b>82,627</b>	<b>68,718</b>

**7. CREDITORS - DUE AFTER MORE THAN ONE YEAR**

	31 May 2009 £'000	31 May 2008 £'000
<b>Hire purchase obligations</b>	<b>35</b>	<b>-</b>

## Notes to the Parent Company Financial Statements

Continued

### 8. DEFERRED TAXATION

A deferred tax asset has been recognised as shown below:

	Amounts recognised	
	31 May 2009 £'000	31 May 2008 £'000
<b>Tax effect of timing differences because of</b>		
Share-based payments	250	429
Losses	7,192	15,175
Short term timing differences	74	102
Excess of depreciation over capital allowances	1,778	1,002
	<b>9,294</b>	<b>16,708</b>

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 2008	429	1,002	15,175	102	16,708
Credited/(charged) in the year	(14)	776	(7,983)	(28)	(7,249)
Transfer to Group undertakings	(165)	-	-	-	(165)
<b>At 31 May 2009</b>	<b>250</b>	<b>1,778</b>	<b>7,192</b>	<b>74</b>	<b>9,294</b>

### 9. PROVISIONS FOR LIABILITIES AND CHARGES

	Dilapidation provision £'000
As at 1 June 2008	342
Charged in the year	200
<b>As at 31 May 2009</b>	<b>542</b>

The dilapidations provision held by the Company as at 31 May 2009 is held to cover dilapidations on leased properties, as required in various lease agreements. The amount recognised is management's best estimate of the costs likely to be incurred in carrying out the remedial work required.

### 10. SHARE CAPITAL

	31 May 2009 £'000	31 May 2008 £'000
<b>Authorised equity share capital</b>		
330,000,000 (2008: 330,000,000) Ordinary Shares of £0.001 each	330	330
<b>Allotted and called up equity share capital</b>		
251,408,802 (2008: 250,593,245) Ordinary Shares of £0.001 each	251	251

On 31 August 2008 the Company issued 815,557 £0.001 shares to settled deferred consideration due in respect of the acquisition of the Horrocks Group plc. The market price at this date was 134.88p.

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
As at 1 June 2008	330,000,000	250,593,245
Ordinary Shares allotted on 31 August 2008	-	815,557
<b>As at 31 May 2009</b>	<b>330,000,000</b>	<b>251,408,802</b>

**11. RESERVES**

	Share premium account £'000	Capital redemption reserve £'000	Own share reserve £'000	Profit and loss account £'000
As at 1 June 2008	28,738	3,600	-	66,683
Profit for the year	-	-	-	36,800
Dividends	-	-	-	(4,884)
Share-based payments	-	-	-	1,016
Purchase of own shares	-	-	(2,658)	-
Share options exercised in the year	-	-	38	(38)
Issue of share capital	1,100	-	-	-
<b>As at 31 May 2009</b>	<b>29,838</b>	<b>3,600</b>	<b>(2,620)</b>	<b>99,577</b>

**12. RECONCILIATION OF MOVEMENT IN EQUITY SHAREHOLDERS' FUNDS**

	31 May 2009 £'000	31 May 2008 £'000
Profit for the year	<b>36,800</b>	31,071
Dividends	<b>(4,884)</b>	(1,568)
Share-based payments	<b>1,016</b>	2,649
Acquisition of own shares	<b>(2,658)</b>	-
Issue of share capital	<b>1,100</b>	28,749
<b>Net increase in equity shareholders' funds</b>	<b>31,374</b>	60,901
<b>Opening equity shareholders' funds</b>	<b>99,272</b>	38,371
<b>Closing equity shareholders' funds</b>	<b>130,646</b>	<b>99,272</b>

**13. PROFIT AND LOSS DISCLOSURES**

As permitted by section 408 of the Companies Act 2006, the Company has not presented its own profit and loss account. The profit of the Company for the financial year was £36,800,000 (2008: £31,071,000).

Directors' emoluments disclosures are provided in the Remuneration Report in the Group financial statements.

**14. SHARE-BASED PAYMENTS**

During the year ended 31 May 2009, the Company had three share-based payment arrangements which are summarised below, further details of the plans are detailed in the Remuneration Report.

**(i) IPO Key Management Plan (IPO KMP)**

The IPO KMP provided for the grant of nil cost options. The awards were granted to certain Partners on 31 May 2007 and were conditional on successful admission of the Company's shares to the London Stock Exchange. The awards vested 50% on the first anniversary of admission and 50% on the second anniversary of admission to the London Stock Exchange.

**(ii) Management Incentive Plan (MIP)**

The MIP provides for the grant of nil cost options. The awards were granted to certain Partners on 14 October 2008. The vesting period is three years of which 50% is dependent upon the level of increase in Earnings Per Share over the vesting period, and the remaining 50% is dependent upon the Total Shareholder Return performance of the Company compared to the FTSE mid 250 index over the vesting period.

## Notes to the Parent Company Financial Statements

Continued

### 14. SHARE-BASED PAYMENTS *continued*

#### (iii) Share Incentive Plan (SIP)

The SIP provided for the grant of nil cost options to all eligible Partners. The awards were granted to participating Partners on 31 October 2008. The vesting period over these awards is one year.

Type of arrangement	IPO OP	IPO KMP	SIP	MIP
<b>Year ended 31 May 2009</b>				
Outstanding at 1 June 2008	-	2,003,298	-	-
Granted in the year	-	-	451,342	969,365
Exercised in the year	-	(791,697)	(1,646)	-
Expired in the year	-	(298,112)	(8,367)	-
Outstanding at 31 May 2009	-	913,489	441,329	969,365
Exercisable at 31 May 2009	n/a	87,291	-	-
Weighted average remaining contractual life	n/a	7 days	5 months	2.4 years
Weighted average fair value of options granted in 2009 (pence)	n/a	n/a	114.5	86.1
Weighted average share price at date of exercise (pence)	-	122.7	133.3	-
<b>Year ended 31 May 2008</b>				
Outstanding at 1 June 2007	57,514,127	2,073,340	-	-
Exercised in the year	(57,514,127)	-	-	-
Expired in the year	-	(70,042)	-	-
Outstanding at 31 May 2008	-	2,003,298	-	-
Exercisable at 31 May 2008	n/a	-	n/a	n/a
Weighted average remaining contractual life	n/a	6 months	n/a	n/a
Weighted average share price at date of exercise (pence)	181.0	-	-	-

All of the share options above have a nil cost exercise price.

The estimated fair values are calculated by applying a Black-Scholes option pricing model for all schemes other than the MIP, which has been calculated by applying a Monte Carlo pricing model. As all share options have been granted at nil cost, the assumptions used in the models that impact on valuation are as follows:

Share price	Price at date of grant
Option life	Per scheme rules
Expected dividends	Based on historical dividend yield

Levels of early exercises and lapses are estimated using historical averages.

The Company recognised total expenses of £1,016,000 (2008: £2,649,000) related to equity-settled share-based payment transactions.

### 15. DIVIDENDS

Details of the Company's dividends are set out in Note 12 of the Group financial statements.

### 16. RELATED PARTY TRANSACTIONS

As permitted by FRS8 Related Party Disclosures, disclosure of related party transactions with 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 2009 was £948,000 (2008: £904,000).

The net amount due to WarmSure Limited, a joint venture of eaga plc at 31 May 2009 was £866,000 (2008: £1,239,000). £8,666,000 (31 May 2008: £7,245,000) of services were purchased from WarmSure Limited in the year.

During the year eaga plc purchased services with an aggregate value of £20,447 (2008: £20,000) from Stratagem (NI) Limited, a company in which Mr Quintin Oliver, Non-Executive Director of eaga plc, is a shareholder. At 31 May 2009 the balance owed to Stratagem (NI) Limited by eaga plc was £2,300 (2008: £1,469).

## Notes

## Notes



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