

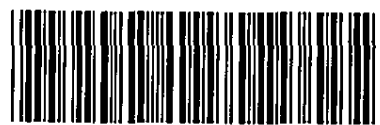
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eaga 

# Annual report and accounts 2007

making a difference

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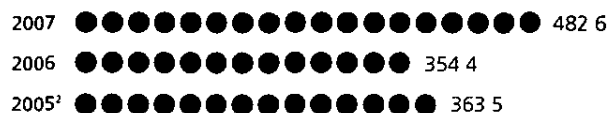
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COMPANIES HOUSE

# eaga is

- The UK's leading provider of residential energy efficiency solutions.
- A partner of governments, local authorities, social housing providers and utility companies in lowering carbon emissions and advancing social and environmental justice by combating fuel poverty, improving living conditions and reducing energy consumption.
- Committed to achieving growth for our shareholders and Partners (our employees) by making a real difference to the lives of the people we serve

## Turnover £(m)



2007 ●●●●●●●●●● 31.3  
2006 ●●●●●● 19.7  
2005<sup>2</sup> ●● 5.0

[illegible]<sup>2</sup> 17 months ended 31 May 2005

- Major acquisition programme funded from operating cash flow
- Net debt-free at year-end
- Energy improvements delivered to over 1,000 homes every day
- Installation Services doubled in size
- 1% of annual profits allocated to community and charitable activities

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## Chairman's Statement

It gives me great pleasure to present the first annual report of eaga as a public company, following our successful admission to the London Stock Exchange in June. I am delighted to welcome the many new shareholders who have taken a stake in the future of eaga, alongside our established Partners.

The Group's audited results for the year to 31 May 2007 demonstrate continued strong growth in revenues and profits before exceptional charges, in line with our expectations, and good progress towards the fulfilment of both our strategic business goals and social objectives

### Results

Group turnover in the year to 31 May 2007 grew by 36% to £482.6 million (2006: £354.4 million), and Group earnings before interest, taxation, amortisation and exceptional items (EBITA) increased by 59% to £31.3 million (2006: £19.7 million). Our growth was based on both continued robust organic growth and acquisitions, which were funded from our strong operating cash flow. This left the Group balance sheet at 31 May 2007 net debt-free (cash balances exceeding loans and borrowings) even before the inflow of new money from our flotation. All segments of the business made pleasing progress during the year, in line with our plans.

## Making a difference to our communities

As part of eaga's social responsibility programme, the £150,000 eaga Community Fund, administered by registered charity The Community Foundation, was set up in 2007 to support projects in the local communities eaga's Partners live and work in.

In June 2007 the fund made its first donation of £5,000 to the Scotswood Natural Community Garden in a deprived area of Newcastle, close to eaga's corporate headquarters.

As well as championing conservation, the Garden specialises in growing foods in harmony with nature and encouraging healthy eating. It also runs a range of wildlife education programmes and a weekly nature club. Last year it attracted more than 2,000 visitors.

# Chairman's Statement

## Dividend

As stated at the time of our flotation, the Board does not recommend a dividend for the year ended 31 May 2007. We expect to declare an interim dividend for the year ending 31 May 2008 in January 2008 and thenceforth to pay interim and final dividends in March and October each year. We intend to adopt a progressive dividend policy which will take account of the profitability of our businesses and the underlying growth of the Group, while maintaining an appropriate level of cover

## Strategy

eaga is focused principally on the delivery of residential improvement projects within the environmental, social justice and energy efficiency arenas. Our strategy aims to achieve a reasonably even balance between organic and inorganic growth, with the organic progress of our Government Contracts segment being complemented by a 'buy and build' approach in Installation Services designed to broaden our geographical coverage and service offering.

In line with this approach we acquired White Horse FM Group Limited and JD Heating Limited in December 2006 for cash considerations of up to £37.2 million and £6.0 million respectively. White Horse trades principally as HEAT and specialises in the design, installation and maintenance of domestic central heating systems in the social housing sector within Great Britain, Northern Ireland and the Republic of Ireland. JD Heating specialises in domestic central heating servicing and installation in the West Midlands.

Together these acquisitions almost doubled the size of our Heating division within Installation Services, and we have already demonstrated our ability to add value to these businesses since their purchase by helping them to achieve important contract gains. Since the beginning of the current financial year, we have further extended the geographical coverage of our Heating division through the acquisition for up to £11.3 million of RG Francis Limited, which specialises in the installation and servicing of central heating in the social housing market in South East England.

## Partners

eaga's success has been based on our ability to recruit, train, motivate and retain the very best people as Partners in eaga. The results we have delivered this year underline the effectiveness of our approach, with its strong emphasis on caring both for our own Partners, and for the individuals, families and communities we serve. During the year we welcomed an additional 1,302 people who joined our partnership through our acquisitions or organic growth, and I would like to thank all our 3,348 Partners at the year-end for their contributions to our continued success. Perhaps the most pleasing aspect of our admission to the stock

market was the opportunity it afforded to our Partners to realise some of the value they have created, while enhancing our opportunities for future growth and preserving our strong commitment to employee share ownership and our distinctive partnership culture. Immediately after our flotation in June 2007 51% of the business remained in the ownership of Partners, principally through the 37.6% holding of the eaga Partnership Trust.

## The Board

I joined the Board of eaga as a Non-Executive Director in February 2006 and became Non-Executive Chairman in June 2006. I am delighted to have had the continuing support of my predecessor Michael Roberts OBE, Chairman from 2000, who has served us ably as Deputy Chairman over the last year and who intends to retire from the Board at the Annual General Meeting on 22 November 2007. Michael chaired eaga through almost its whole life as an employee-owned organisation, overseeing a period of rapid and substantial growth during which the number of Partners increased from just 135 to more than 2,000.

During the year we were delighted to recruit two additional Non-Executive Directors with the right blend of experience and skills to lead eaga into its new life in the public company arena. Richard Burns, an experienced international lawyer, and Malcolm Simpson, who recently retired from the board of Greggs plc after over 30 years of service as the company's finance director.

## Outlook

Our new status as a public company enhances our ability to grasp the significant opportunities before us, by raising our profile and reinforcing our ability to recruit and retain excellent people. It has also given us increased financial flexibility to pursue our established strategy for growth.

The fundamentals for our business remain positive, with recent severe weather events underlining the relevance and urgency of action to tackle climate change by promoting energy efficiency and reducing carbon emissions. eaga is at the forefront of this work in the UK, through our businesses enhancing both domestic insulation and the efficiency of heating systems. We also expect opportunities to arise from the Government's commitment to its social justice agenda, with special emphasis on the creation of decent homes and the elimination of fuel poverty.

The current year has started. The Board is confident that eaga will continue to perform well in the year to 31 May 2008.

Charles Berry  
Chairman  
19 September 2007

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## Operational Review

eaga is a company that has done well by doing good.

Our position as a recognised deliverer of efficient, high-quality and often technically demanding services to our customers has facilitated rapid profitable expansion of the Group's operations, enabling us to combine first-class service delivery with making a real difference to the lives of those people whose homes we improve, and sharing the fruits of success with every Partner working in the business. We welcome to the eaga partnership the new stakeholders who have demonstrated their confidence in our philosophy and prospects by investing in our business. Our entry to the stock market as a "Green" Support Services business strengthens our ability to make a real contribution to the public good in the environmental, energy and social justice arenas, and to satisfy the aspirations of everyone with a stake in our future.

### The eaga difference

eaga's path to the stock market has been very different to that of most other companies. Established in Newcastle in 1990 with just three employees, we spent the first ten years of our life as a non-profit-distributing organisation leading Government-funded efforts to improve the living conditions of vulnerable families. In 2000, we became an employee-owned partnership, and since 2004 we have been pursuing a balanced organic and inorganic growth strategy designed to strengthen our delivery capabilities within our core areas of expertise: improving the environment, increasing energy efficiency and delivering social justice, particularly through the elimination of fuel poverty.

We are different from many businesses in making a real and important difference to the lives of the families and communities we serve. Since 1990, we have helped to lift several million people out of fuel poverty, and have improved living conditions and lowered fuel bills in some five million homes by installing energy efficiency measures. We are currently delivering improved energy efficiency in over 1,000 UK homes every day, and fitting or repairing a heating system every minute of each working day. Under our Community Legal Services (CLS) Direct contract, which commenced in April 2007, we have already helped almost 3,000 people with legal advice on welfare benefits, debt, housing and employment issues.

Underpinning everything we do is a distinctive culture based on one simple premise: eaga cares. We place huge emphasis on the

selection and induction of people who share our ethos and are committed to our goals. The watchwords of our approach to business are integrity, respect and enthusiasm for what we do. We recognise and reward achievement through initiatives such as our eaga STARS (Special Thanks And Recognition programme), through which Partners are encouraged to nominate colleagues for our monthly awards ceremony. The interests of our people are aligned with our broader business and social objectives through our commitment to employee share ownership. As the Chairman has noted, this has continued since flotation, at which point some 51% of the Company continued to be owned by its employees. The eaga Partnership Council, comprising five members democratically elected by our Partners, and two nominated by the Board, aids communication throughout the business and provides a forum for the discussion of any concerns.

By going public, we have enabled many of our Partners to realise some of the value they have built up over the years. We have also increased the visibility of the further value they will create through their efforts in the future. Share based awards with a value of £104.2 million were made to Partners across the Group at IPO. Our new status also enhances our public profile and gives us increased financial flexibility in driving forward our ambitious plans for growth. I am confident that we now have a structure which will allow us to protect our unique culture and enable us to meet the aspirations of both employee and external shareholders, as well as satisfying the needs of our customers and the communities we serve.

### eaga's markets

eaga is fundamentally concerned with the provision of services and products that promote energy efficiency and improve housing standards. Much of our work is underpinned by initiatives from the European Union, the UK Government and the devolved administrations, involving committed medium-term expenditure and longer-term targets for the improvement of energy efficiency and the elimination of fuel poverty. Concerns about climate change and carbon emissions mean that these issues are likely to remain high on the agenda of all political parties for the foreseeable future. The ageing profile of the UK population also means that fuel poverty is likely to remain an important issue in the years ahead.

## Operational Review

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

### Government Contracts

We are the UK market leader in the delivery of grant-funded programmes aimed at tackling fuel poverty. Our central objective is to identify clients with low incomes or who are vulnerable by virtue of their age or disabilities, and to make their homes warmer and easier to run by funding the installation of effective insulation and the provision of high-efficiency heating systems.

This is the business in which eaga started, and during the year it accounted for 74% of Group turnover (2006: 75%). Significantly higher levels of activity during the year were driven chiefly by the Government's commitment of further funding for fuel poverty schemes, increasing segment revenue by 36% to £359.3 million

(2006: £264.3 million). The lower-risk nature of the work means that margins in this segment will always be relatively modest; this year they were lower at 2.1% (2006: 3.0%, 2006 underlying after non-recurring profit described in the Financial Review: 2.3%) as we took on additional fixed costs to create the right infrastructure platform for the future.

Our largest contract is the Warm Front programme in England, which accounted for 82% of segment revenue last year. The Government is committed to eradicating fuel poverty in vulnerable households (those containing children, the elderly, disabled or long term sick) by 2010, and in all homes by 2016. To achieve this, it has allocated increased funding to the Warm Front programme, amounting to £350 million in its financial year to March 2008. We deliver Warm Front in all four English regions on behalf of Defra, the funding Department, under a contract to 2010, with the opportunity for a 2 year extension.

## Making a difference... to our Partners

The eaga Partners Council is elected by Partners (employees) from across the Group to represent their interests. The Partners Council acts as a channel of communication between management and Partners and regularly meets with the Executive Board to discuss the operational performance and direction of the business.

The eaga Partners Council also works to ensure that eaga's Partners are living our values and was integral to the development and delivery of the eaga cares programme rolled out to every Partner in 2007.

"Our culture at eaga is simple, and underpinned by a set of values that help guide us: eaga cares for our Partners, our customers and our communities with integrity, respect and enthusiasm," says Kim Steward, eaga Partners Council Chair.

## Operational Review

Our staff are responsible for all aspects of the programme, including raising awareness of the scheme and identifying and targeting vulnerable households, assessing their eligibility processing their grant applications, managing the installation of energy efficiency measures and ensuring that Government targets are met. We carry out up to 30% of this work through our own Installation Services segment, with the remainder being carried out by sub-contractors under our supervision. An important part of our contribution to vulnerable households is a free Benefit Entitlement Check, to ensure that they are receiving all the benefits to which they are entitled. Some 40% of checks result in the payment of additional benefits, enhancing household income on average by approximately £1,400 per annum.

We deliver similar schemes in Wales (the Home Energy Efficiency Scheme, HEES Wales, for the Wales Assembly Government) and Northern Ireland (the Warm Homes Schemes for the Department for Social Development). These accounted for 6% and 7% of segment revenue respectively last year. The terms of the Welsh contract, which runs to 2010, mirror the England arrangement in permitting us to carry out up to 30% of the required installation of measures ourselves. This is not currently the case in Northern Ireland, though the acquisition of HEAT in 2006 gives us a strong installation capability in the Province and means that we are well placed to tender for this work when the contract falls due for renewal in 2008. Our approach to developing our self-installation business aims to create a sustainable commercial arrangement with our customers by embedding 'profit sharing' mechanisms which provide us with appropriate incentives but also allow them to share in the benefit of improved efficiency.

## Making a difference to our customers

Navied Ahmed, from eaga Home Services Division, was awarded an eaga Star in May this year for going the extra mile to help a vulnerable and frail customer.

Mr Randall, who is in his 90s, is blind in one eye, nearly deaf and finds it difficult to walk. By taking the time to explain the process simply and clearly, Navied was not only able to ensure he received all Warm Front benefits available to him but he also helped him overcome a host of other problems. Navied explained: "Mr Randall told me he was unable to shop and cook and found it a real struggle to get up and down the stairs. A neighbour who used to help him had recently moved away.

"After completing the Warm Front survey I contacted a number of local agencies on Mr Randall's behalf and arranged a visit from a Shelter Tenancy Support Scheme. I am pleased to say he now has hot meals delivered and gets help with cleaning, gardening and shopping. They are also looking at installing a stair lift and care alarm, which he obviously needs.

"Thanks to eaga Mr Randall is now enjoying a better quality of life and it's great to be able to help our customers above and beyond the grant."

eaga promotes a culture of caring for our customers through our Special Thanks And Recognition awards scheme. Every month we celebrate with and reward those employees who have demonstrated exceptional service to our customers.



# Operational Review

We ceased to deliver the Warm Deal contract in Scotland in October 2006 when this was awarded to British Gas on terms that we considered commercially unattractive. However, we remain an important sub-contractor to the project through our Everwarm subsidiary, the largest installer of domestic insulation in Scotland, which was acquired in May 2006.

In December 2006 we submitted a successful bid to work under CLS Direct, which provides a telephone-based legal advice helpline to applicants who meet the criteria for Legal Aid eligibility across England and Wales. We have been appointed to provide advice in the areas of welfare benefits, debt, housing and employment. This further organic expansion of our Government Contracts work is in many ways a natural extension of our expertise in administering Benefit Entitlement Checks, and we were able to establish our initial presence by retraining existing staff in these new specialist areas of advice. The contract runs for an initial three years, with the opportunity for a two-year extension.

## Installation Services

This is the fastest-growing segment of our business, employing over 70% of our 3,500 staff and accounting for 51% of Group EBITA on 16% of Group revenue during the year, compared with 25% and 14% respectively in 2006. Turnover (inclusive of inter-segment revenues) grew by 103% to £158.5 million (2006: £77.9 million) and EBITA by 221% to £16.1 million (2006: £5.0 million), reflecting a series of strategic acquisitions as well as strong organic growth by our established operations.

Within Installation Services, our Heating division delivers energy-efficient heating systems both as a sub-contractor to Government Contracts and as a supplier to local authorities and housing associations. We currently install some 30,000 heating systems per year, giving us a market share in the UK second only to British Gas. We also undertake the repair and maintenance of heating systems for social housing providers, conducting annual service visits and installing replacement systems in the event of breakdowns.

The Heating division has grown rapidly since its inception in 2004, initially through an organic strategy focusing on the development of our installation business through the recruitment of skilled personnel. More recently, we have accelerated the division's expansion in the repair and maintenance sector, targeted at social housing providers, through the strategic acquisitions in December 2006 of HEAT (Heat Energy and Associated Technology), and JD Heating. HEAT, based in Northern Ireland, also had a strong presence in the North of England, while JD Heating gave us critical mass in the Birmingham area. Becoming part of a larger Group has helped these businesses to secure additional contracts which have delivered significant organic growth since their acquisition, ahead of our expectations at the time of purchase.

Since the beginning of the current year, we have continued to extend our geographic footprint in this fragmented market place through the acquisition of Essex-based RG Francis, taking us into the South East.

WarmSure, a 50/50 joint venture with Ideal Boilers Limited, part of the Ideal Stelrad Group, one of the UK's leading domestic boiler manufacturers, was established in 2006 to undertake servicing and repair work for customers of both companies. Since the establishment of the joint venture, we have more than doubled WarmSure's workforce to create a full, diagnostic, repair and servicing business, and improved utilisation of its capabilities by adding annual service visits and maintenance under Warm Front warranties to the workload of meeting Ideal Boilers' warranty commitments.

We also have a seed corn business, eaga Renewables, installing heating systems based on solar panels and other renewable technology such as air source heat pumps. Although this is currently a small business, it has a significant share of the UK solar thermal heating market in the social housing sector. This area offers substantial potential for future growth as increasing attention is focused on the potential of renewable technologies in ameliorating climate change.

The other part of our Installation Services segment is the Homes division, majoring on domestic insulation. eaga entered this market through the acquisition of the Mico Group in April 2005, creating eaga Home Services which is now one of the UK's leading installers of home insulation. Our nationwide coverage of England and Wales has enabled us to adopt a vertically integrated approach to the delivery of Warm Front and HEES Wales contracts, keeping down costs and maximising value for Government. The geographical reach of the division was further strengthened in May 2006 through the acquisition of Everwarm, Scotland's leading installer of domestic insulation.

In addition to undertaking conventional loft and cavity wall insulation, we have the capability to undertake external wall insulation, including specialist external cladding which has significant potential in the social housing sector as local authorities focus on the regeneration of mid- and high-rise housing schemes from the 1960s and 1970s.

Homes division benefits from agreements with many of the UK's major energy suppliers to undertake work on their customers' homes, designed to enable them to meet their obligations under the Energy Efficiency Commitment (EEC). This is a Government scheme designed to cut greenhouse gas emissions through the promotion of domestic energy efficiency. The work we undertake includes the installation of insulation and, through our Specialist Support Services Sector, the supply of low-energy light bulbs. Specialist Support Services also offer a complementary e-tailing service specialising in the supply of energy efficient domestic appliances.

# Operational Review

The Government's Decent Homes initiative to bring all public sector housing in England up to a decent standard, including a reasonable degree of thermal comfort, by 2010, creates additional opportunities for eaga, and we are progressively developing our relationships with the major contractors engaged to carry out this work. It seems likely that the programme will be extended beyond 2010, and that increased attention will also be focused on the estimated five million properties in the owner occupied and privately rented sectors that currently fall short of Decent Homes standards. We believe that this will create substantial future opportunities for our business, together with our planned expansion into the private 'able to pay' market.

In addition, the project management skills we have demonstrated in the installation of central heating systems and insulation create significant potential for us to widen our product and service offering to social housing providers.

To underline the eaga difference, we have defined all our Partners in Installation Services not as blue or white but green collar workers. We will look to develop this concept further as we continue to pioneer the expansion of "Green" Support Services in the United Kingdom and Ireland.

## Specialist Support Services

This is the smallest of our three business segments, accounting for 10% of our revenue in 2007 (2006: 11%) and 24% of EBITA (2006: 35%). Revenue (including inter-segment revenues) increased to £49.3 million (2006: £43.4 million), principally from additional sales to energy suppliers to meet their EEC obligations, with EBITA rising to £7.6 million (2006: £6.9 million). Our Carbon Trading business moved from spot arrangements to framework agreements during the year, this provided improved visibility over future revenues, at some cost to margins.

Our **Materials Procurement and Distribution** operations include 1st Insulation, which buys insulation and ancillary products for eaga's own Homes operation and for over 30 third-party customers. This enables it to leverage substantial buying power, helping to drive down costs for our customers in central and local Government and in the utilities sector. We also have a Fulfilment business focused on the procurement and delivery of compact, fluorescent, low-energy light bulbs, and last year supplied over 4 million of these under either Government Contracts or to help utilities meet their EEC commitments.

The segment's **Aftercare** services include the provision of insurance-backed two-year warranties for heating systems installed under Warm Front or the devolved administrations' equivalent fuel poverty contracts. Annual service visits and repair and maintenance work are undertaken chiefly by our WarmSure joint venture, supported by third party providers. We have launched an extended, insurance-backed aftercare product for customers, on expiry of their initial two year warranty, and are

developing a range of more economical options for longer term product protection.

Our **Insurance** business, eaga Insurance Services Limited, includes an 85%-owned, Guernsey based, authorised insurance intermediary which arranges cover for the warranties arising from our Government Contracts work, and for our private customers.

Finally, our **Brokerage Services** business acts as a carbon trader between Government Contracts and utility companies, identifying the improvements in energy efficiency achieved through fuel poverty programmes and facilitating the sale of these savings to utility companies, who can then count them towards meeting their demanding EEC targets. This effectively channels funds from those utility companies to Defra, increasing the cash available for continued initiatives to eradicate fuel poverty.

## Shared Services

We continue to operate with an extremely lean corporate overhead of approximately 30 central staff, handling the Group's finances, legal requirements, human resources and communications. Our Newcastle upon Tyne head office moved in July 2007 from Jesmond to South Benwell, a deprived inner city area which is currently the subject of a major redevelopment programme. We are working hard on the development of our Group Shared Services function, which aims to support our three operating segments by ensuring that common services are supplied efficiently and in accordance with best practice. Its key areas of focus include Marketing, Information and Communications Technology, Service Excellence, Learning and Development, and Transactions Processing. We also benefit from sharing across the Group our extensive experience in Contracts and Procurement and in Programme Management, comprising both the successful delivery of major projects and the management of change.

## Communities and the environment

Improving people's quality of life and their environment is at the heart of everything we do. Accordingly we seek to make a contribution to the communities in which we operate. The independent eaga Partnership Charitable Trust has received donations from eaga totalling over £3.1 million since its establishment in 1993, which it has used to make grants for the alleviation of poverty, particularly fuel poverty, and to fund research into the causes of fuel poverty and its impact on health.

Our intention is to allocate at least one per cent of our annual profit to our community and charitable activities. As part of this commitment, we have established a new £150,000 eaga Community Fund to assist community projects that benefit the environment, and are encouraging our Partners to identify appropriate causes for our support.

## Operational Review

In the environmental arena, we seek to minimise the impact of our operations on both the natural and built environment, by improving the efficiency of our own energy usage, reducing our carbon footprint, minimising waste and recycling wherever practicable. The Board resolved in July 2007 that the Group's operations should achieve an independently verified carbon neutral status during the financial year to 31 May 2008, and we aspire to go beyond this in the future.

A fuller account of our community involvement, environmental policies and health and safety standards is provided in the Corporate Social Responsibility section on page 26.

### Future opportunities

The achievement of international scientific consensus on the causes of climate change means that developing effective counter-measures is certain to remain a high priority for governments in the UK and across the developed world. eaga is well-positioned to contribute to the continuing drive to cut carbon emissions by enhancing domestic insulation and improving the efficiency of heating and lighting systems. In so doing, we will also improve the living conditions and reduce the fuel costs of many vulnerable people.

There are significant further opportunities for growth by pursuing our established strategy of consolidation in the fragmented Installation Services market, and by extending our product and

service offering into new areas compatible with our established skills, increasing our exposure to 'able to pay' customers and helping to drive the expansion of the renewable energy sector.

The organic development of our capabilities in CLS Direct demonstrates our ability to offer 'joined-up' services to Government and we will be looking both to expand our work for CLS Direct and at the possibility of rolling out our new specialist advisory capabilities across our Government Contracts business as a whole. We have ensured that our organisation is adapted to meet the needs of our clients whether they require our assistance at the central, regional or local government level, and are accordingly well-equipped to cope with any further devolution of responsibilities under the Government's Localisation Agenda.

I am confident that eaga has the right business model, ownership structure, culture of hard work and efficiency, and the right people to deliver continued growth both organically and by acquisition.

John Clough MBE  
Chief Executive  
19 September 2007

## Making a difference to our communities

eaga is helping hundreds of communities across Africa by donating its recycled computers and IT equipment to schools and hospitals.

The scheme provides vital technology to developing countries and benefits the environment by cutting the amount of non-recyclable waste being dumped in UK landfill sites.

Registered charity Computer Aid International, the world's largest non-profit supplier of computers to developing countries, manages the consignments and ensures they reach those in most need.

In the first delivery, eaga has sent 376 laptops, 97 monitors and 28 computers.

## Financial Review

The Group has delivered excellent growth in revenue, margin and profit before exceptional costs during the year, underpinned by a combination of vigorous organic growth and acquisitions. Strong operating cash flows have facilitated significant inorganic expansion of Installation Services activities whilst leaving the balance sheet net debt-free at the year end. We have further enhanced the strength of the balance sheet by raising new money at flotation to create a sound financial platform for future growth.

### 36% revenue growth

Group revenues increased by £128.2 million (36%), of which £36.5 million related to acquisitions undertaken immediately before and during the year, excluding the effect of acquisitions, Group revenues grew by £91.7 million (26%).

Government Contracts revenues rose by £95.0 million (36%) in line with increased funding levels for the Government-funded fuel poverty programmes delivered by the business.

Installation Services revenues increased by £80.6 million (103%) of which £53.6 million (69%) represented growth in intersegment sales as the Group continued to expand self-delivery of Government Contracts activity, and £27.0 million (34%) related to increased third party sales. Organic growth of £41.0 million (53%) was achieved with a further £39.6 million (50%) contributed by acquisitions in the year.

Specialist Support Services revenues were up by £6.0 million (14%), arising from increased sales to energy suppliers in connection with their EEC obligations, and delivery of aftercare services for additional Government Contracts-funded central heating systems.

### 59% EBITA growth

Group EBITA before exceptional costs increased to £31.3 million (2006: £19.7 million), representing growth of £11.6 million (59%), of which £3.6 million (18%) related to acquisitions undertaken immediately before and during the year. Excluding the effect of acquisitions, Group EBITA grew by £8.0 million (41%). EBITA margin of 6.5% (2006: 5.6%) represents a 0.9 percentage point increase. The year to 31 May 2006 included non-recurring profit of £1.7 million in the Government Contracts sector without which Group EBITA margin would have been 5.1%, giving an underlying increase of 1.4 percentage points primarily arising from the Group's rapid growth in the higher margin Installation Services sector through both organic development and acquisitions during the year.

Government Contracts EBITA margin reduced to 2.1% (2006: 3.0%, 2006 underlying after the non-recurring profit described above: 2.3%). This primarily reflects the impact of increased activity levels against a partially fixed fee structure combined

with investment in fixed costs to deliver significantly greater volumes during the year.

Installation Services' EBITA margin of 10.2% (2006: 6.4%) improved significantly through a combination of operational gearing from rapid organic growth and the beneficial impact of acquisitions.

Specialist Support Services' EBITA margin of 15.3% (2006: 15.8%) reduced primarily as a consequence of moving to longer-term framework arrangements in carbon trading, where there was a trade-off between reduced volatility and margins achieved, and additional spend on future business opportunities such as developing channels to market for delivery of energy performance certificates.

### Taxation

The tax credit for the Group of £25.8 million (2006: £2.3 million expense) comprises a deferred tax credit of £31.9 million (2006: £0.2 million credit) and a corporation tax charge of £6.1 million (2006: £2.5 million).

The exceptional charge of £104.2 million (2006: £nil) relating to the fair value of share options granted in the year, as described further below, is not an allowable deduction for corporation tax purposes. A statutory corporation tax deduction of £30.9 million is expected to be received in the year to 31 May 2008 under Schedule 23 Finance Act 2003 in respect of the share options exercised at IPO. This results in a deferred tax credit of £30.9 million. Without this exceptional charge, profits before tax would have been £16.8 million (2006: £6.6 million) resulting in an underlying effective rate of tax of 30.6% (2006: 34.1%).

The underlying effective rate of 30.6% (2006: 34.1%) is above the standard rate of 30% largely due to disallowable expenditure incurred by the Group.

### Dividends

The Company has not paid any dividends historically.

The Directors intend to adopt a progressive dividend policy which will take account of profitability and underlying growth, while maintaining an appropriate level of dividend cover.

The first dividend to holders of the Ordinary Shares is expected to be declared in January 2008 in respect of an interim dividend for the year ending 31 May 2008.

### Earnings per Share

Basic earnings per share decreased to (34.33)p (2006: 3.19p), reflecting the exceptional costs incurred in the current year as detailed below. Underlying earnings per share (adjusting for exceptional costs and amortisation of intangible assets) increased by 18.3% to 12.27p (2006: 10.37p).

# Financial Review

Exceptional costs in the year largely comprise

- A share based charge of £104.2 million arising in respect of the fair value of share options granted to employees by the Company, eaga Partnership Trustee Limited and eaga Partnership Trustee Two Limited (EPT) during the year. These awards reflect the 100% employee owned nature of the business in the period prior to IPO and 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 as a result of this charge. As noted above, the Group expects to receive a statutory corporation tax deduction in connection with the charge and accordingly, a deferred tax asset of £30.9 million and corresponding increase in net assets has been recognised in the balance sheet at 31 May 2007.
- Costs incurred in connection with the Company's listing on the London Stock Exchange on 7 June 2007 of £4.1 million which did not relate directly to the raising of new equity and therefore could not be charged to the share premium account.
- A partnership bonus charge of £7.2 million (2006: £10.7 million) representing amounts due to employees by virtue of their beneficial interest through the EPT in the ownership of the Group in the period prior to flotation.

Earnings per share have been calculated in accordance with IAS 33

## Investments

Installation Services' delivery capability in Northern Ireland and mainland UK was significantly increased by the Group's acquisition of the entire share capital of White Horse FM Group Limited and of JD Heating Limited in December 2006 for cash considerations of up to £37.2 million and £6.0 million respectively.

## Capital Structure

The Company received £28.5 million net proceeds from the raising of new money at flotation on 7 June 2007, further strengthening the cash position of the Group at that time.

## Treasury

### Strategy

The strength of the Group's balance sheet has enabled a flexible approach to be taken to meet its funding requirements, with the majority of working capital and investment needs being met from internal cash generation to date.

Any future debt funding requirements are expected to be sourced from an appropriate combination of short, medium and long-term arrangements.

## Treasury management

Each operation manages its own cash position on a day-to-day basis. The Group's banking arrangements are negotiated and monitored centrally with funds generated across the business being controlled by a central treasury function.

In December 2006 the Group entered into a three-year £35 million Revolving Credit Facility with Barclays Bank plc in anticipation of the acquisitions of White Horse FM Group Limited and JD Heating Limited. This facility was temporarily drawn to fund short-term cash requirements but was fully paid-down by 31 May 2007.

## Liquidity

The Group has historically been net debt-free. At 31 May 2007 the Group had cash and cash equivalents of £5.5 million (31 May 2006: £16.1 million) and loans and borrowings of £0.7 million (31 May 2006: £1.2 million), giving a net position of £4.8 million (31 May 2006: £14.9 million). This is after aggregate cash outflows during the year, net of balances acquired, of £31.0 million in relation to the acquisition of White Horse FM Group Limited and JD Heating Limited.

The Group's aggregate finance facilities total £35 million compared to a net positive position of £4.8 million at 31 May 2007 and the further £28.5 million net proceeds of new money raised at flotation.

## Cash Flows

The Group's cash and cash equivalents reduced in the year by £10.5 million to £5.5 million. This reduction largely reflects the combined effect of strong cash inflows generated from operating activities of £33.0 million (year to 31 May 2006: £20.1 million), cash outflows associated with the acquisition of White Horse Group and JD Heating (£31.0 million), and capital expenditure undertaken to support the continued expansion of the Group's operations (£8.5 million). The acquisitions were initially funded from banking facilities which were repaid in full during the year.

## Interest income

The Group's net finance income declined 95% to £40,000 (2006: £773,000), largely as a consequence of acquisitions.

## Interest rate management

Surplus funds are placed on money market deposit by the Group's central treasury function with a view to maximising investment income. Amounts placed with any single institution rated AA or better are restricted in order to manage overall credit risk exposure.

Ian McLeod

Group Finance Director  
19 September 2007

## Board of Directors

### Executive Directors

**John Clough MBE**  
**Chief Executive Officer (age 48)**

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

**Ian McLeod**  
**Finance Director (age 39)**

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

**Joseph (Drew) Johnson**  
**Commercial Director (age 48)**

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

**Dave Routledge**  
**Organisational Development Director (age 49)**

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

### Non-Executive Directors

**Charles Berry, Non-Executive Director and Chairman (age 55)**

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

**Michael Roberts OBE, Non-Executive Director and Deputy Chairman (age 70)**

Michael was appointed to eaga's Board as a Non-Executive Director in 2000. He chaired the Board from 2000 until he became Deputy Chairman in June 2006. He is a past President of the Institute of Energy and has senior executive experience in consultancy and blue chip companies. Michael will retire as a Non-Executive Director of eaga plc before the end of 2007. The process of identifying a suitable candidate with the appropriate expertise to replace Michael Roberts OBE is already well advanced.

**Richard Burns, Non-Executive Director (age 49)**

Richard was appointed to eaga's Board as a Non-Executive Director in November 2006; he is a partner in, and former senior partner of the international law firm, Hammonds LLP. At Hammonds, he has developed particular expertise advising on national and international mergers and acquisitions, flotations and the raising of equity finance.

**Malcolm Simpson, Non-Executive Director (age 65)**

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

**Quintin Oliver, Non-Executive Director (age 52)**

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.

### Board Committee

Audit	Remuneration	Nomination
Malcolm Simpson (Chair)	Michael Roberts OBE (Chair)	Charles Berry (Chair)
Michael Roberts OBE	Malcolm Simpson	Richard Burns
Richard Burns	Richard Burns	Quintin Oliver
Quintin Oliver	Quintin Oliver	Dave Routledge (Executive Director)
		John Clough MBE (Executive Director)

# Report of the Directors

The Directors present their report and the audited financial statements for the year ended 31 May 2007

## Principal Activities and Business Review

The Company re-registered as a public limited company on 27 February 2007 and floated on the London Stock Exchange on 7 June 2007

The Company and the principal subsidiaries and associated undertakings are engaged in the delivery of residential improvements in the environment, social justice and energy arenas. Its core focus is working with government, local authorities and utility companies to lower carbon emissions, combat fuel poverty, improve living conditions and reduce energy consumption. The work undertaken is primarily focused on the housing and social needs of low income and vulnerable households.

The principal subsidiaries and associated undertakings are listed in Note 34 to the accounts (herein referred to as "the Group")

The information that fulfils the requirement of the Business Review, and a summary of the Group's results, key risks and key performance indicators is included in the Operational and Financial Reviews

## Results

The Group result was a loss for the year of £61,626,000 (2006 profit of £4,362,000)

As indicated in the Prospectus the Directors do not recommend the declaration of a dividend for the year ended 31 May 2007 but expect the first dividend to holders of Ordinary shares to be declared in January 2008 in respect of an interim dividend for the year ending 31 May 2008

Details of post balance sheets events are given in Note 35 of the consolidated Group financial statements

## Close Company Status

So far as the Directors are aware the close company provisions of the Income and Corporation Taxes Act 1988 do not apply to the Company

## Interests in Shares

In the year ended 31 May 2007 the Company had a general right to purchase all or any of its own shares subject to compliance with the matters set out within article 15 of its Articles of Association. The following interests in the issued Ordinary share capital of the Company have been notified to the Company in accordance with the provisions of Chapter 5 of the Disclosure and Transparency Rules

	Number of Direct Shares	Percentage of Direct Shares (%)
Eaga Partnership		
Trustee Limited	46,916,842	18.75
Eaga Partnership		
Trustee Two Limited	46,916,842	18.75

## Directors

Details of the present Directors are listed on page 12. Jack Harrison retired from the Board on 30 September 2006. Richard Burns was appointed to the Board on 9 November 2006 and Malcolm Simpson was appointed to the Board on 1 January 2007. Michael Roberts OBE will retire from the Board at the AGM and will not seek re-election. The recruitment process is well advanced to appoint his successor.

Dave Routledge, Ian McLeod and Quintin Oliver will retire by rotation. They will seek reappointment which will be recommended by the Board in recognition of the valuable contribution all three directors made throughout the year, not least in their significant contribution in bringing the Company to a successful flotation on 7 June 2007.

The termination provisions in respect of the Executive Directors' contracts are set out in the Remuneration Report on page 18.

The interests of the Directors in the Ordinary share capital of the Company as at 31 May 2007 are set out in the Remuneration Report on page 19. The following are the details of the interests of the Directors in the Ordinary share capital of the Company as at the date of signature of this report -

Charles Berry	55,249
Richard Burns	55,249
John Clough MBE	6,269,340
Drew Johnson	5,015,472
Ian McLeod	5,015,472
Quintin Oliver	24,861
Michael Roberts OBE	22,099
Dave Routledge	5,015,472
Malcolm Simpson	33,149

There are no Preference shares in existence

## Directors' Indemnities

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

# Report of the Directors

## Donations

During the year the Company and the Group made charitable donations of £250,000 (2006 - £150,000) principally to the independent eaga Partnership Charitable Trust and the eaga Community Fund managed for eaga by the Community Foundation. In addition, support for vulnerable households was provided by eaga creating and making payments from a substantial hardship fund.

No political donations were made.

## Payment of suppliers

It is the Group's policy that UK operating companies should follow the CBI Prompt Payers Code. The Code requires the Company to agree the terms of payment with its suppliers, to ensure its suppliers are aware of those terms and to abide by them. The Company's creditor days outstanding as at 31 May 2007 were 35 days (2006 - 33 days).

## Employment issues and policies

The Company constantly endeavours to ensure a consistent and inclusive approach in its employment practices, reflected in its corporate 'Equal Opportunities and Dignity at Work' and 'Disabled Employees' policies.

It meets as a minimum standard all of its legal obligations towards employing disabled people and strives to go beyond that standard. Every effort is made to ensure that employees who become disabled whilst already employed are able to continue in employment by making reasonable adjustments in the workplace. The Company is currently engaged in discussions with a consultant in disability rights issues to ensure that best practice can be applied both in the provision of its services and towards its employees and applicants for employment. The focus of these discussions is to ensure that any improvements implemented are from the disabled perspective rather than from pure statutory compliance.

As a certified 'Two Ticks' employer, the Company has demonstrated its willingness to consider appropriate positive action to optimise employment opportunities for those with disabilities. The Company's commitment to such initiatives will be further embodied in its Diversity policy (currently in development) which will also detail the partnerships the Company is proactively building in all aspects of diversity, for example, the Company's recent membership of the engage business network supporting age diversity. These initiatives are central to the Company's ethos and processes are in place to ensure they are implemented across the Group and introduced to companies which become part of the Group by acquisition.

Employee and community engagement is at the heart of the Company's business ethos. The Company was, prior to flotation, wholly employee owned. Post flotation the eaga Partnership

Trust (EPT) retains a significant percentage of the issued shares and remains the largest shareholder. Employee ownership provides a solid foundation for the eaga cares programme, which aims to re-inforce our culture introduced in January 2007, ensuring new employees who join by organic or inorganic means are quickly introduced to the Group's values and behavioural standards and are coached in understanding and adopting the underlying principles. The Constitution of the Company and the EPT provides for a high level of employee involvement through its elected Partners' Council. In addition, Information and Consultative Committees have been proactively established in each of the larger Divisions. A schedule of all-people Partnership Engagement Surveys with periodicity not exceeding 18 months, is a powerful source of employee feedback and provides the basis for a comprehensive programme of team led improvement initiatives at every level in the organisation.

The Company's Corporate Social Responsibility (CSR) agenda provides further opportunities to promote employee involvement in community and charitable pursuits such as Prince's Trust, links with schools and raising environmental awareness. An Employer Supported Volunteering initiative is to be introduced shortly to combine valuable development experience whilst advancing the aims of our CSR agenda.

## Remuneration Report

The Remuneration Report, on pages 17 to 21, will (as required by the Directors' Remuneration Report Regulations 2002) be put to the shareholders for approval at the annual general meeting.

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

The Directors propose to renew the general authority of the Company to make market purchases of its own shares to a total of twenty five million (25,000,000) ordinary shares (representing approximately 10% of the issued ordinary share capital of the Company) and within the price constraints set out in the special resolution to be proposed at the annual general meeting. There is no present intention of the Company to make any purchase of its own shares and if granted, the authority would only be exercised if to do so would result in an improvement per share for remaining shareholders.

## Articles of Association

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

## Financial Instruments

A summary of the Company's treasury policies and objectives relating to financial risk management, including exposure to associated risks, is set out on pages 54 to 55.



## Report of the Directors

### Directors' Responsibilities for the accounts

The Directors are responsible for preparing the Annual Report, the Directors' Remuneration Report and financial statements in accordance with the applicable regulations and the International Financial Reporting Standards (IFRS) as adopted by the European Union

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

In preparing those financial statements the Directors are required to

- select suitable accounting policies and apply them consistently
- make judgements and estimates that are reasonable and prudent
- state whether the financial statements comply with IFRS and whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements

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

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at all times the financial position of the Company and the Group to enable them

to ensure that the Group financial statements comply with all relevant statutory and regulatory requirements. They are also responsible for safeguarding the assets of the Company and the Group and in that context to take such reasonable steps as are required in relation to the prevention and detection of fraud and other irregularities

So far as the Directors are aware there is no relevant information that may be required by the Company's auditors that is not available to them or of which they are not aware

Each Director has taken all steps that he reasonably ought to have taken in his duty as a Director in order to make himself aware of any relevant information which may be required by the Company's auditors and to establish that the auditors are aware of that information

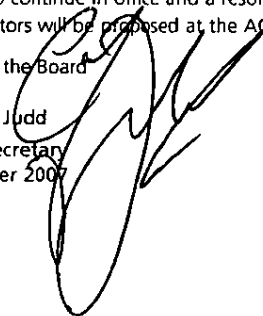
### Independent Auditors

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

On behalf of the Board

Christopher Judd

Company Secretary  
19 September 2007



## Making a difference to our Partners

Team eaga triumphed against 800 competitors from other leading UK companies to win the Individual Team Fundraising trophy in the 2007 Microsoft UK Challenge

After 4 gruelling days of mental and physical challenge the team was delighted to pick up the trophy

Support from eaga Partners, installers and suppliers raised more than £12,500 in sponsorship for children's charity the NSPCC

Adrian Hull, eaga's senior manager on the team said "eaga supported us all the way through the challenge and our Partners' generosity was second to none as usual"

# Remuneration Report

The Remuneration Committee is comprised of Quintin Oliver, Richard Burns, Malcolm Simpson and chaired by Michael Roberts OBE. It has terms of reference which are available on the Company's website.

The Company completed its transition from an employee-owned partnership to a listed plc on 7 June 2007. Throughout this fundamental change process the Remuneration Committee has been focused on ensuring that:

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

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

During the year and prior to the listing, key management received share-based awards under the IPO Plans, as described in detail overleaf. No further awards will be granted under the IPO Plans and a new remuneration framework will apply going forward.

Immediately after our flotation in June 2007, 51% of the business remained in the ownership of Partners, principally through the 37.6% holding of the eaga Partnership Trust.

## Purpose of the Report

This report sets out the policy and disclosures on Directors' remuneration as required by the Directors' Remuneration Report Regulations 2002 ('the Regulations') contained in Schedule 7A of the Companies Act 1985 for the year ended 31 May 2007. In accordance with the Regulations, a resolution to approve this report will be proposed at the forthcoming annual general meeting of the Company. As required by the legislation, the information on pages 20 to 21 of this report has been audited by PricewaterhouseCoopers LLP as it contains the information upon which the auditors are required to report to the Company's shareholders.

## Role

The Committee is responsible for making recommendations to the Board on the specific remuneration packages and terms and conditions of employment of the Company's Executive Directors, Company Secretary and certain senior managers. The Committee, in consultation with the Chief Executive, is responsible for determining which Partners comprise the Senior Managers, such determination to be approved by the Board as a whole.

The Committee is responsible for the appointment of independent external advisors to advise on matters relating to remuneration.

During the year the Committee has taken advice from KPMG LLP. KPMG provided no other services to the Company during the year.

## Remuneration Policy

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

Post-IPO, a balanced executive remuneration framework has been adopted. This framework includes "traditional" FTSE 250 incentives which are appropriate for the purpose of recruiting and motivating executive talent and has been agreed by the Remuneration Committee. This framework has the following five elements:

- Basic salary
- Partnership bonus
- Long-term incentives
- Pension plan
- Benefits

## Basic Salary

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

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

All were last reviewed on 1 April 2007.

The Company's Executive Director basic salaries are reviewed annually to ensure they remain internally consistent and externally competitive, taking into account the requirements of the roles, individual and business performance, the size of the Company and its complexity. To assist the Remuneration Committee the Executive Director roles are benchmarked against a Pay Peer Group of some 13 companies selected on the basis of those most closely matching the Company in terms of a combination of business model, turnover and market capitalisation. This analysis showed that the Executive Directors' basic salaries are competitive. Further benchmarking against the FTSE 250 (under £750m market capitalisation) confirmed this view. It was concluded, therefore, that existing basic salaries were appropriate.

# Remuneration Report

## Incentive Arrangements

### Partnership Bonus

Historically, the Executive Directors have received annual partnership bonus payments by virtue of their beneficial interest through EPT in the ownership of the Company along with other Qualifying Partners (qualified through length of service in the business). Amounts paid under this mechanism have been distributed amongst all Qualifying Partners on similar terms, typically representing a fixed number of weeks of salary. The eaga Board recommend the level of payment to the EPT trustees who then decide upon the final payment level. The last payment of this type is expected to be made during the year ending 31 May 2008 in respect of trading results for the year ended 31 May 2007 amounting to approximately 10 weeks of salary for each Qualifying Partner (approximately 1,600 Partners of 3,348).

For periods after flotation, any awards made in respect of that element of employee ownership reflected by EPT's residual shareholding in eaga plc are expected to be made directly by EPT to all Qualifying Partners. As the Executive Directors will remain as Qualifying Partners this element of reward would be at the gift of EPT trustees outwith the remuneration committee mandate.

### Share Plans

#### IPO Plans

The Company and EPT granted share-based awards during the year to Partners under two separate option plans, the IPO Option Plan and the IPO Key Management Plan.

The IPO Option Plan granted nil-cost options over the Company's Ordinary and Preferred Ordinary Shares to all Partners and certain former Partners (at EPT discretion). The options were granted in February and March 2007 and became exercisable on listing, they would have lapsed on 31 July 2007 had listing not been achieved.

The IPO Key Management Plan was designed to both retain and incentivise certain key management excluding Executive Directors, after listing and provide an element of reward for past performance. Nil-cost options were granted over the Company's Ordinary Shares on 31 May 2007 conditional on listing. Half of the options awarded to each individual become exercisable on the first anniversary of the date of grant and the remainder become exercisable on the second anniversary of the date of grant. The options are conditional on participants' continued employment over the relevant period. No further awards are intended to be made under this plan. Options over 2,073,340 shares were outstanding at 31 May 2007.

## Incentive Plans

The Company currently has a further two schemes under which no options have been granted to date, the Share Incentive Plan (SIP) and the Management Incentive Plan (MIP).

The SIP is an Inland Revenue approved all-employee plan. Under the plan the Board may determine that free or matching shares may be awarded to employees. The Board will have the discretion to set a minimum service requirement of 18 months for employees to participate in the plan. Shares awarded under the plan will be subject to holding periods of between three and five years in an employee benefit trust. Awards under the plan are subject to a maximum value of £3,000 per employee in each tax year. The Executive Directors are eligible to participate in the SIP.

The MIP allows the granting of both nil-cost options and contingent share awards to Partners of the Group. The maximum annual value that can be awarded to participants is 100% of salary, although the Remuneration Committee may award up to 200% of salary in exceptional circumstances. The vesting of any award made under the plan will be subject to the achievement of performance targets intended to enhance shareholder value.

In normal circumstances, no awards will become vested or exercisable before the third anniversary of the date of grant. The current Executive Directors have voluntarily chosen not to participate in the MIP under the new remuneration framework.

The Executive Directors believe, and the Remuneration Committee agrees, that their interests are currently aligned with those of all other shareholders through their existing shareholdings.

## Service Contracts

The Executive Directors have rolling contracts which may be terminated by 12 months notice on either side. In the event of early termination of any Executive Directors' service contract the liability will be based upon base salary plus benefits. The Non-Executive Directors have entered into letters of three year appointment with the Company which may be terminated by 3 months notice on either side.

The details of the Directors' Letters of Appointment and Contracts of Service as at 31 May 2007 are shown in the table opposite.

## 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

# Remuneration Report

## Directors' Letters of Appointment and Contracts of Service

	Date of Appointment	Date of Current Letter of Appointment / Contract	Unexpired term
<b>Non-Executive</b>			
Charles Berry	9 February 2006	6 April 2006	c16 months
Richard Burns	9 November 2006	3 November 2006	c25 months
Quintin Oliver	1 January 2004	3 November 2006	c25 months
Michael Roberts OBE	14 October 1999	24 November 2006	c26 months
Malcolm Simpson	1 January 2007	19 December 2006	c27 months
<b>Executive</b>			
John Clough MBE	14 October 1999	31 May 2006	Rolling 12 months
Drew Johnson	14 October 1999	31 May 2006	Rolling 12 months
Ian McLeod	28 April 2005	31 May 2006	Rolling 12 months
David Routledge	23 April 2004	31 May 2006	Rolling 12 months

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 Executive Director duties and performance.

Currently, no Executive Director holds any such external appointments.

## Pension Schemes

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 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.

## Performance Graph

As required by The Directors' Remuneration Report Regulations 2002, the Company will report performance measured by Total Shareholder Return (share price growth plus dividends paid) against an appropriate market index, likely to be the FTSE 250.

## Directors' interests in shares

The Directors held the following beneficial interests in the Ordinary Shares of the Company:

	Ordinary shares of £0.001 each 31 May 2007 & 2006
John Clough MBE	2,000
Drew Johnson	1,600
Ian McLeod	1,600
Dave Routledge	1,600

The above shares were issued on 31 May 2006. Immediately prior to its Admission to the Stock Exchange on 7 June 2007, the Company restructured its share capital including allotting, by way of bonus issue, new Ordinary Shares to the existing Ordinary Shareholders in the ratio of 4.542 to 1.

# Remuneration Report

## AUDITED INFORMATION

### Directors' emoluments

	Salary £'000	Compensation on loss of office £'000	Bonuses £'000	Benefits £'000 <sup>11</sup>	Pension contributions £'000	Long term incentives £'000 <sup>9</sup>	Total 2007 £'000	Total 2006 £'000
<b>Executive</b>								
John Clough MBE	385 <sup>6</sup>	–	100	13	–	–	498	1,071
Jack Harrison MBE <sup>1</sup>	45	30	–	4	711 <sup>7</sup>	480	1,270	324
Drew Johnson	281 <sup>6</sup>	–	68	17	–	–	366	731
Ian McLeod	261 <sup>6</sup>	–	63	13	–	–	337	539
Dave Routledge	231	–	–	13	106 <sup>8</sup>	–	350	683
<b>Non-Executive</b>								
Charles Berry <sup>2</sup>	80 <sup>10</sup>	–	–	–	–	–	80	27
Richard Burns <sup>3</sup>	21 <sup>10</sup>	–	–	–	–	–	21	–
Quintin Oliver	30 <sup>10</sup>	–	–	–	–	–	30	16
Michael Roberts OBE	54 <sup>10</sup>	–	–	–	–	–	54	30
Malcolm Simpson <sup>4</sup>	19	–	–	–	–	–	19	–
Julia Green <sup>5</sup>	–	–	–	–	–	–	–	4
<b>Total 2007</b>	<b>1,407</b>	<b>30</b>	<b>231</b>	<b>60</b>	<b>817</b>	<b>480</b>	<b>3,025</b>	<b>–</b>
<b>Total 2006</b>	<b>971</b>	<b>–</b>	<b>411</b>	<b>74</b>	<b>216</b>	<b>1,753</b>	<b>–</b>	<b>3,425</b>

## NOTES

<sup>1</sup> Resigned 30 September 2006

<sup>2</sup> Appointed 9 February 2006

<sup>3</sup> Appointed 9 November 2006

<sup>4</sup> Appointed 1 January 2007

<sup>5</sup> Resigned 5 October 2005

<sup>6</sup> Includes amounts relating to pension benefits paid as salary

<sup>7</sup> Includes £546,000 in relation to compensation for loss of office and £160,000 salary and bonuses paid in the form of pension contributions

<sup>8</sup> Includes £63,000 in relation to bonuses which were paid in the form of pension contributions

<sup>9</sup> A five year Long Term Incentive Plan ("the LTIP" or "the Scheme") for Executive Directors was inceptioned at the beginning of 2003, with performance targets based on certain financial targets. The Executive Directors were entitled to a bonus of up to four times their annual salary on achievement of the LTIP targets, with further amounts payable if the targets were exceeded, as effective at the time of the inception of the Scheme. The bonus was to be awarded on the achievement of specified targets in relation to turnover and profits of the Group over the five years to 31 December 2007, subject to an additional "leadership index" adjustment as determined by the Remuneration Committee in the range of 80%-120%. Business performance improvements were such that the LTIP targets were met during the financial year ended 31 May 2006, at which time it became apparent that the LTIP targets could be significantly exceeded over the full LTIP period. At the request of the LTIP beneficiaries, the Chair of the Remuneration Committee agreed that it was appropriate to close the Scheme during the year ended 31 May 2006 and make early discounted settlements to the beneficiaries in order to prevent the possibility of much greater amounts becoming due over the full LTIP period. No similar scheme has been put in place to replace that closed.

<sup>10</sup> Non-Executive Directors' fees to 31 May 2007 include additional amounts for increased time commitment for the IPO

<sup>11</sup> Benefits include, car or cash allowance in lieu, permanent health insurance and life assurance

# Remuneration Report

## IPO Option Plan

	As at 1 June 2006	Number granted	Exercise price p	At 31 May 2007
John Clough MBE	–	1,520,208	nil	1,520,208
Jack Harrison MBE <sup>1</sup>	–	1,082,897	nil	1,082,897
Drew Johnson	–	1,023,328	nil	1,023,328
Ian McLeod	–	612,779	nil	612,779
Dave Routledge	–	610,148	nil	610,148
<b>Other Partners</b>		<b>52,664,767</b>	<b>nil</b>	<b>52,664,767</b>
<b>Total options at 31 May 2007</b>	<b>–</b>	<b>57,514,127</b>	<b>–</b>	<b>57,514,127</b>

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

All of the above options were exercised immediately prior to listing on 7 June 2007 at the listing price of £1.81. No further options will be issued under the IPO Option Plan. A share based charge of £104.2 million arising in respect of the fair value of awards is recognised in the Income Statement as an exceptional cost. There was no cash cost to the Group as a result of these awards. The Group expects to receive a statutory corporation tax deduction in connection with the charge and accordingly, a deferred tax asset of £30.9 million and corresponding increase in net assets has been recognised in the balance sheet at 31 May 2007.

At 31 May 2007 the Directors have no other options under any of the Group's share plans.

Michael Roberts OBE  
Chair, Remuneration Committee  
19 September 2007

*Michael Roberts.*

## Making a difference to our communities

In February 2007 eaga's Warm Front Team headed down to China Town in Newcastle to celebrate Chinese New Year.

Nicola Mather and Sally Harrison from eaga's Network Team, linked up with Newcastle's Age Concern and arranged a stall at the New Year festivities to promote the Warm Front scheme.

Sally said "This kind of activity helps us to make sure we get Warm Front help to every section of our local communities."

Sally has delivered a series of talks to Chinese community groups with a local translator, supported the Chinese Mental Health conference and also had a slot on local Chinese radio.

## Corporate Governance

### Compliance with Combined Code

The Board is committed to the highest standards of corporate governance and professional integrity. In accordance with the Rules of the UK Listing Authority, the Company is required to state whether it has complied with the provisions set out in Section 1 of the Combined Code on Corporate Governance issued by the Financial Reporting Council in June 2003 ("the Code") and where the provisions have not been complied with, to provide an explanation. The Company is also required to set out how it has applied the principles set out within the Code.

The following paragraphs together with the Directors' Remuneration Report on pages 17 to 21 provide details of how the Company applies the principles and complies with the provisions of the Code.

Whilst not technically bound by the Code prior to flotation the Directors consider there has been substantial compliance with the Code throughout the year ended 31 May 2007. There are two issues of potential non-compliance. Firstly the balance of the Board between Executive and Non-Executive Directors. This balance

was rectified so that there are now five Non-Executive Directors as compared to four Executive Directors following the appointments of Richard Burns on 9 November 2006 and Malcolm Simpson on 1 January 2007. Secondly, the Board is putting in place a process to ensure that Executive Directors are subject to objective evaluation of their performance on a regular basis.

### Operation of the Board

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

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

## Making a difference to our communities

In 2007 eaga announced a partnership with regional development agency One North East, renewable energy centre of excellence NaREC and the Centre for Design Research at Northumbria University, to bring solar power to local schools.

This pioneering scheme will see eaga supply solar thermal demonstration kits to every secondary school in the North East. The project aims to generate interest among students in engineering and science careers and increase their understanding of the relevance of carbon emissions and low carbon technologies in everyday life.

Project coordinators (NaREC) New and Renewable Energy Centre will oversee the creation of additional curriculum support and teaching aids to deliver a complete hands-on approach to renewables for schools.

eaga Chief Executive John Clough MBE said: "We want kids to see for themselves how solar power can provide a reliable energy source. This is a big step in the right direction and we aim to do more of it."

Keith Melton, Director of Technology and Innovation at NaREC said: "By delivering an exciting, state-of-the-art, hands-on engineering demonstrator to schools, we can encourage more students to consider science and engineering as a career, plugging one of the skills gaps in the region."

# Corporate Governance

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

The Board has also established three principal committees which operate within written terms of reference approved by the Board which are available for inspection on the Company's website

## Audit Committee

The Audit Committee is comprised of four independent Non-Executive Directors Richard Burns, Quintin Oliver, Michael Roberts OBE and chaired by Malcolm Simpson. It will at all times consist of not less than three independent Non-Executive Directors one of whom will have relevant financial experience. A quorum is two members and the Committee meets a minimum of four times each year.

The Committee's main functions are to endeavour (i) to ensure that the accounting and financial policies of the Company are proper and effective, (ii) to monitor the integrity and clarity of the accounts and information published by the Company, (iii) to review the effectiveness of the Company's internal controls and approach to risk management, (iv) to monitor compliance with the Listing Rules and the recommendations of the Combined Code and (v) to assess the independence and objectivity of the external auditors.

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

The Committee also considers and makes recommendations to the Board in relation to the independence and objectivity of the external auditors (including the impact of any non-audit work undertaken by them) and the suitability for reappointment. The Audit Committee determines the scope of the external audit in discussion with the external auditors and agrees their fees in respect of the audit.

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

The Committee also monitors and reviews the effectiveness of the internal audit activities.

As required by the Combined Code the Board is satisfied that at least one member of the Audit Committee has recent and relevant financial experience.

In addition, as the Company has significant contracts with government departments, it is subject to audit by the National Audit Office.

## Remuneration Committee

The Remuneration Committee is comprised of Quintin Oliver, Richard Burns, Malcolm Simpson and chaired by Michael Roberts OBE. It will at all times consist of not less than three members who are independent Non-Executive Directors. A quorum is two members and the Committee meets a minimum of twice each year.

Their responsibilities include determining and agreeing with the Board the framework and broad policy for the remuneration (including benefits, pension arrangements and termination payments) of the Chairman, Chief Executive and senior management of the Company. A full Remuneration Committee Report can be found at pages 17 to 21.

## Nomination Committee

The Nomination Committee is comprised of John Clough MBE, Dave Routledge, Richard Burns, Quintin Oliver and chaired by Charles Berry. It will consist at all times of five members, three of whom are independent Non-Executive Directors. A quorum is three members who are all independent Non-Executive Directors and shall meet a minimum of once each year.

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

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

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

## Attendance at meetings

The table overleaf sets out the attendance at meetings of the Board and its Committees during the year.



# Corporate Governance

	Board	Audit	Remuneration	Nomination
Number of meetings held	16	3	4	1
<b>Meetings attended</b>				
Charles Berry	16	–	–	1
John Clough MBE	16	–	–	1
Drew Johnson	16	–	–	–
Ian McLeod	16	–	–	–
Dave Routledge	16	–	–	1
Michael Roberts OBE	15	0	4	–
Malcolm Simpson*	11 (of 12)	3	3 (of 3)	–
Richard Burns*	12 (of 14)	2	3	0
Quintin Oliver	14	3	3	1
Jack Harrison MBE**	1 (of 1)	–	–	–

\* Appointed during the year \*\* Resigned during the year

## Performance Evaluation

It has been an exceptional year for the Company, having achieved flotation on 7 June 2007. Following this period of major change the Board has taken steps to ensure full performance evaluation. This process is being completed throughout the financial year ending 31 May 2008 and involves internal and external scrutiny.

## Relationship with Shareholders

As a relatively newly floated business and having entered a close period within one month of float, the Company has not yet had the opportunity to build up any mature pattern of investor communication. That being said the Directors, on the Company's behalf recognise the need to maintain an active dialogue with its investors. The Board encourages investors to attend the AGM and is always willing to answer questions either in the meeting itself, or informally afterwards. Investors may also contact the Company direct through its website or by telephoning the offices.

The Company's brokers and public relations advisors will also provide regular analysis of the Company's shareholder register which will be provided to the Board when available together with analysts' research on an ongoing basis.

## Financial Reporting

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

- Interim Report and Accounts
- Annual Report and Accounts
- Announcements regarding significant developments and contract wins which may affect the share price
- The publication of Interim Management Statements at the appropriate times in accordance with Rule 4.3 of the Listing, Disclosure and Transparency Rules

## Going Concern

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

## Risk Management

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

The Company has a dedicated risk management team which maintains the corporate risk management system which is embedded across all trading sectors within the Company, collating risk information and reporting to the Board on a quarterly basis or as and when required if there are any specific risks the Board need to know about.

A system for identifying and evaluating risks was in place during the year ended 31 May 2007 however the dedicated risk team are in the final stages of upgrading the present system with a live time reporting portal which will identify specific risks and will also enable instantaneous reporting of any risk events. It contains specific reporting functions for any issues relating to health and safety, which can be vetted and monitored on an ongoing basis and reported directly to the necessary authorities if appropriate.

The reports generated by the risk management team are considered by the Board on a quarterly basis and specific areas of risk considered by the Audit Committee.

The risk management team also undertakes specific workshops to ensure that across the business every sector is aware of the risk.

# Corporate Governance

and health and safety issues that affect their part of the business and are compliant with all necessary regulations

Appropriate levels of insurance were in place throughout the year ended 31 May 2007 to cover any of the Directors' actions or omissions, excluding dishonest and fraudulent actions

## Internal Control

The Company has complied in all material respects throughout the year with the provisions of the Code relating to internal controls, having implemented the recommendations set out within the Turnbull Guidance (2005) and report as set out in the following paragraphs

The Board have implemented a system which in accordance with their responsibility seeks to minimise and mitigate risk of failure to achieve business objectives but cannot be regarded as an absolute assurance against material misstatement or loss

The key elements of the system to identify, evaluate, manage and minimise significant risks includes the following

- The Company has in place a system whereby on a monthly basis all areas of the business complete and submit a risk register to a central risk management team, who correlate all identified risks consider them in terms of immediacy and significance of the risk and also consider the actions proposed to eliminate or mitigate the risk. They then compile a report of any significant risks which is communicated to the Board
- A clear organisational structure is in place with clear lines of duty and accountability. There are clearly defined authorisation limits for individual managers, with all transactions being approved at the appropriate level of authority
- Annual, three-year and longer-term strategy plans, budgets and proposals are submitted by all areas of the business, reviewed, considered and approved subject to appropriate amendment by the Board

- The Company has a dedicated internal audit team which reports into the Board and as appropriate the Audit Committee and proposes actions in respect of identified risks
- Financial results and cash flows are reported to the Board on a monthly basis with the divisional heads having a monthly accountability review with the Board to assess any areas of weakness and to agree any necessary corrective action or mitigate any discrepancies between budget and actual financial results
- Appropriate financial controls policies are in place within finance teams
- The Company has a formal 'whistleblowing' policy for employees who wish to report any issues of concern to them on a confidential basis
- The Company has an integration process to ensure the risk management processes are introduced to any newly acquired business from acquisition with a plan to fully implement those systems as soon as reasonably practicable after acquisition
- The Audit Committee will meet at least four times a year and will review annually the report prepared by the risk management team highlighting significant risks across the business and the action/planned action to eradicate or minimise those risks
- The effectiveness of the Group's system of internal controls will be reviewed by the Board during the forthcoming financial year and annually thereafter and reported upon to the shareholders

On behalf of the Board

Christopher Judd  
Company Secretary  
19 September 2007

## Making a difference to our customers

Pensioners John and Rosemary Beardsley had to rely on a coal open fire to heat their small terraced home in Craven, Shropshire before they applied for help from Warm Front

Like many pensioners living without adequate central heating they had no choice but to use coal and often found they were too cold – especially in winter

Mr Beardsley said 'Having central heating has made a huge difference to our lives. We are now enjoying living in a warmer home and it's much more comfortable as a result'

## Corporate Social Responsibility

As a leading "Green" Support Services Company, improving vulnerable people's quality of life and the environment sits at the heart of our business strategy.

Through the engagement of our Partners, our customers and our local communities we will seek to demonstrate leadership in tackling climate change and improve the living standards of socially excluded communities

You will see examples of our work to make a difference to our communities, our customers and our Partners throughout this report. As already outlined by eaga Partner's Council Chair, Kim Steward, earlier in this report, eaga's culture and business strategy is underpinned by a set of values that help to guide us in everything that we do. eaga cares for our Partners, our customers and our communities with integrity, respect and enthusiasm.

### Making a difference to our Partners

Most listed companies say that they recognise that their employees are their most important asset. Our path to the stock market has been different to that of most other companies.

At flotation in June 2007 approximately 51% of eaga's shares remained in employee ownership and today the eaga Partnership Trust, is the Company's largest shareholder with a 37.6% stake.

Our commitment to partnership and the eaga Partnership Trust are a natural progression for an organisation with a proud history as an employee owned partnership. As shareholders our Partners' interests are clearly aligned with those of our external shareholders.

We were proud to be able to distribute in excess of £104 million to over 3,000 Partners at flotation, recognising their hard work, commitment and the powerful engagement and customer service ethos that a partnership approach delivers.

In addition to building on our partnership ethos we are committed to motivating and developing our people as well as protecting their welfare. This includes a commitment to ensuring that they have the opportunity to achieve their full potential. eaga's People Development team is focused on delivering learning and development programmes that support our people and our business strategy in this way.

### Making a difference to our customers

We have helped to lift several million people out of fuel poverty, and improved living conditions and lowered fuel bills in some five million homes by installing energy efficiency measures. Today we deliver improved energy efficiency to over 1,000 UK homes every day and fit or repair a heating system every minute of every working day.

We reduce our customers carbon emissions by an average of one tonne every time we make energy efficiency improvements to their home. Since 2000 we have reduced UK carbon emissions by over 500,000 tonnes.

This year additional support for our most vulnerable customers was provided by eaga creating and making payments from a substantial hardship fund.

### Making a difference to our communities

Much of what we do is about making a difference to the communities that our Partners live and work in. This year we continued to support our Partners to realise their full potential through volunteering programmes and community-based social and environmental projects.

As stated in the Operational Review, it is our intention to allocate at least one percent of our annual profits to our community and charitable activities. As part of this commitment, eaga has established a new £150,000 Community Fund to support local communities to deliver projects that benefit the environment.

### Carbon Neutral

eaga's Board resolved in June 2007 that the Group's operations during 2007-08 will be Carbon Neutral and we will progressively move to a net carbon negative status. It is our aim to reduce the impact of our operations on the environment and we are implementing continuous improvement plans throughout our business designed to achieve this.

In addition to reducing our own impact on the environment we are actively seeking to help our stakeholders to achieve carbon savings.

"As shareholders our Partners' interests are clearly aligned with those of our external shareholders "

John Clough MBE eaga Chief Executive

# Financial Statements

# Independent Auditors' Report to the Members of eaga plc

We have audited the Group financial statements of eaga plc for the year ended 31 May 2007 which comprise the Consolidated Income Statement the Consolidated Statement of Recognised Income and Expense the Consolidated Balance Sheet, the Consolidated Cash Flow Statement the Group Accounting Policies and the related notes. These Group financial statements have been prepared under the accounting policies set out therein.

We have reported separately on the parent company financial statements of eaga plc for the year ended 31 May 2007 and on the information in the Directors' Remuneration Report that is described as having been audited.

## Respective responsibilities of Directors and auditors

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

Our responsibility is to audit the Group financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose.

We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing. We report to you our opinion as to whether the Group financial statements give a true and fair view and whether the Group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the Group financial statements. The information given in the Directors' Report includes that specific information presented in the Operational Review and the Financial Review that is cross referred from the Business Review section of the Directors' Report.

In addition we report to you if, in our opinion, we have not received all the information and explanations we require for our audit or if information specified by law regarding Directors' remuneration and other transactions is not disclosed.

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

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

The maintenance and integrity of the eaga plc website is the responsibility of the Directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

## Basis of audit opinion

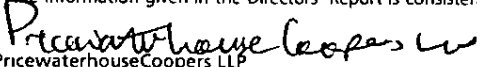
We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Group financial statements. It also includes an assessment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

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

## Opinion

In our opinion:

- the Group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the Group's affairs as at 31 May 2007 and of its loss and cash flows for the year then ended;
- the Group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation;
- the information given in the Directors' Report is consistent with the Group financial statements.

  
PricewaterhouseCoopers LLP

Chartered Accountants and Registered Auditors  
Newcastle upon Tyne  
19 September 2007

## Consolidated Income Statement

For the year ended 31 May 2007

		Year ended 31 May 2007 £ 000	Year ended 31 May 2006 £ 000
Continuing operations	Notes		
Revenue	2	482,560	354,380
Cost of sales		(383,549)	(291,384)
<b>Gross profit</b>		<b>99,011</b>	<b>62,996</b>
Administrative expenses		(186,438)	(57,148)
Amortisation of intangible fixed assets	13	(3,245)	(228)
Exceptional costs	7	(115,480)	(13,654)
<b>EBITA</b>		<b>31,298</b>	<b>19,730</b>
<b>Operating (loss)/profit after exceptional items</b>	<b>3</b>	<b>(87,427)</b>	<b>5,848</b>
Finance income	8	1,226	1,044
Finance expense	9	(1,186)	(271)
<b>(Loss)/profit before tax</b>		<b>(87,387)</b>	<b>6,621</b>
Tax credit/(expense)	10	25,761	(2,259)
<b>(Loss)/profit for the year</b>		<b>(61,626)</b>	<b>4,362</b>
<b>(Loss)/profit for the year attributable to</b>			
Equity holders of the Company		(61,715)	4,357
Minority interests		89	5
		<b>(61,626)</b>	<b>4,362</b>
<b>(Loss)/earnings per share (pence)</b>			
- basic	11	(34.33)	3.19
- diluted	11	(34.33)	3.19
<b>Adjusted earnings per share (pence)</b>			
- basic	11	12.27	10.37
- diluted	11	9.58	10.36

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

## Consolidated Statement of Recognised Income and Expense

For the year ended 31 May 2007

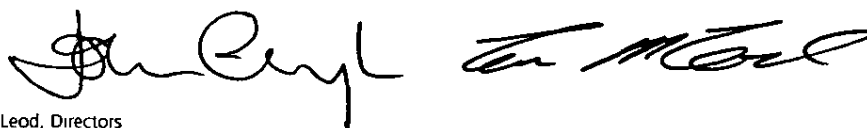
		Year ended 31 May 2007 £ 000	Year ended 31 May 2006 £ 000
	Notes		
<b>(Loss)/profit for the year</b>	<b>26</b>	<b>(61,626)</b>	<b>4,362</b>
Net exchange differences arising on consolidation	27	42	(143)
<b>Total recognised (expense)/income for the year</b>		<b>(61,584)</b>	<b>4,219</b>
<b>Attributable to</b>			
Equity holders of the Company		(61,673)	4,214
Minority interests		89	5
		<b>(61,584)</b>	<b>4,219</b>

# Consolidated Balance Sheet

As at 31 May 2007

	Notes	31 May 2007 £'000	31 May 2006 £'000
<b>Non-current assets</b>			
Goodwill	12	38,055	7 166
Intangible assets	13	15,699	1,383
Property, plant and equipment	14	11,083	5 285
Available for sale financial assets	15	–	60
Deferred tax assets	10	26,980	293
		<b>91,817</b>	<b>14 187</b>
<b>Current assets</b>			
Inventories	17	4,479	3,713
Trade and other receivables	18	52,401	38 596
Derivative financial instruments	19	548	500
Current tax assets		–	34
Current asset investments	20	4,632	1 375
Cash and cash equivalents	21	6,776	18 147
		<b>68,836</b>	<b>62 365</b>
<b>Current liabilities</b>			
Trade and other payables	22	95,923	55,994
Loans and borrowings	23	1,625	2 616
Current tax liabilities		1,354	523
		<b>98,902</b>	<b>59 133</b>
<b>Net current (liabilities)/assets</b>		<b>(30,066)</b>	<b>3,232</b>
<b>Non-current liabilities</b>			
Other non-current liabilities	22	2,437	401
Loans and borrowings	23	306	680
Provisions for other liabilities and charges	24	342	342
		<b>3,085</b>	<b>1,423</b>
<b>Net assets</b>		<b>58,666</b>	<b>15 996</b>
<b>Equity</b>			
Share capital	25	50	1
Retained earnings	26	54,856	12 346
Other reserves	27	3,648	3 586
<b>Total shareholders' equity</b>		<b>58,554</b>	<b>15,933</b>
<b>Minority interest in equity</b>	26	<b>112</b>	<b>63</b>
<b>Total equity</b>		<b>58,666</b>	<b>15,996</b>

The Group financial statements were approved by the Board of Directors on 19 September 2007 and signed on its behalf by



John Clough MBE Ian McLeod, Directors

The notes on pages 39 to 66 form part of these Group financial statements



# Consolidated Cash Flow Statement

For the year ended 31 May 2007

	Notes	Year ended 31 May 2007 £'000	Year ended 31 May 2006 £'000
Operating (loss)/profit after exceptional items		(87,427)	5,848
Depreciation of property, plant and equipment		2,353	1,545
Amortisation of intangible assets		3,245	228
Increase in inventories		(179)	(731)
Increase in trade and other receivables		(5,680)	(14,047)
Increase in trade and other payables		20,985	29,274
Profit on sale of investments		(23)	-
Loss on sale of property, plant and equipment		260	44
Share based exceptional cost credited directly to equity		104,225	-
Increase in derivatives		(48)	(108)
Exchange differences		35	(97)
Decrease in provisions		-	(366)
Negative goodwill recognised in profit		(6)	-
<b>Cash generated from operations</b>		<b>37,740</b>	<b>21,590</b>
Finance income		1,208	1,044
Finance expense		(694)	(208)
Taxation paid		(5,209)	(2,335)
<b>Cash generated from operating activities</b>		<b>33,045</b>	<b>20,091</b>
<b>Cash flows from investing activities</b>			
Purchase of intangible assets		(437)	(608)
Purchase of property, plant and equipment		(8,040)	(2,878)
Proceeds from sale of property, plant and equipment		170	41
Proceeds from sale of investments		83	-
Purchase of subsidiary undertakings net of cash/(overdrafts) acquired	30	(31,093)	(5,577)
Payment of deferred consideration including finance costs		(475)	-
<b>Net cash outflow from investing activities</b>		<b>(39,792)</b>	<b>(9,022)</b>
<b>Cash flows from financing activities</b>			
Repayment of bank loans		(335)	(77)
Capital element of hire purchase agreements		(243)	(270)
Dividends paid to minority shareholders of subsidiaries		(15)	-
Increase in short term investments	20	(3,257)	(1,375)
Proceeds from issue of shares	27	69	170
<b>Net cash outflow from financing activities</b>		<b>(3,781)</b>	<b>(1,552)</b>
<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>(10,528)</b>	<b>9,517</b>
Cash and cash equivalents at start of year	21	16,060	6,543
<b>Cash and cash equivalents at end of year</b>	<b>21</b>	<b>5,532</b>	<b>16,060</b>

# Group Accounting Policies

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

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

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

## Basis of preparation

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (including International Financial Reporting Interpretations Committee ("IFRIC") interpretations) as adopted by the European Union (IFRSs as adopted by the EU) and have been prepared in accordance with the Listing Rules of the UK Financial Services Authority, although trading in the Company's shares did not commence until after the year end on 7 June 2007 and the Companies Act 1985, 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 available for sale investments and derivatives. The consolidated financial statements are presented in Pounds Sterling which is the Group's presentational and functional currency.

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

## Standards and interpretations not yet effective

The following IFRSs and IFRIC interpretations have been issued but have not been early adopted by the Group in the year ended 31 May 2007, the adoption of these standards is not expected to have a material impact on the Group's consolidated financial statements.

- IFRS 7 – Financial Instruments: Disclosures (effective from 1 June 2007)
- IFRS 8 – Operating segments (effective from 1 June 2009)
- IFRIC 10 – Interim financial reporting and impairment (effective from 1 June 2007)
- IFRIC 11 – Group and treasury share transactions (effective from 1 June 2007)
- IFRIC 12 – Service concession arrangements (effective from 1 June 2008)
- IAS 1 Amendment – Presentation of financial statements (effective from 1 June 2007)
- IAS 23 Revised – Borrowing costs (effective from 1 June 2009)

## Basis of consolidation

### Subsidiaries

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

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

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

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

#### Joint ventures

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

#### Property, plant and equipment

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

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

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

Assets' residual values, useful lives and methods of depreciation are reviewed and adjusted if appropriate, at each financial period end.

#### Borrowing costs

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

#### Business combinations and goodwill

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

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

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

Each cash generating unit or group of cash generating units to which the goodwill is allocated represents the lowest level within the Group at which the goodwill is monitored for internal management purposes and is not larger than a segment based on either the Group's primary or secondary reporting format determined in accordance with IAS 14 Segment Reporting.

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

#### Intangible assets

Intangible assets acquired separately are measured at cost on initial recognition. The cost of intangible assets acquired in a business combination is measured at fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses.

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

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

Customer relationships/contracts	Over life of contract/relationship (typically 2-10 years)
Computer software and related licenses	2-5 years
Patent assets	Over life of patent (typically 5-20 years)

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

Gains and losses arising from the de-recognition of intangible assets are measured as the difference between the net disposal proceeds and the carrying amount of the assets and are recognised in the income statement when the assets are de-recognised.

## **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 present location and condition at the balance sheet date. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution. Provision is made for obsolete, slow moving or defective items where appropriate.

## **Cash and cash equivalents**

Cash and cash equivalents in the balance sheet comprise cash at bank and in hand, short term deposits with an original maturity of three months or less and bank overdrafts.

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

## **Provisions**

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

## **Employee pension obligations**

The Group operates a number of defined contribution plans. The Group pays contributions to publicly or privately administered pension plans on a mandatory, contractual or voluntary basis. The Group has no further obligations once the contributions have been paid. The contributions are recognised as an employee benefit expense as they fall due.

## **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 or 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.

The Group generates revenue from three main sectors being:

### **Government Contracts**

The Group acts as lead contractor and principal on a number of government 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.

Typically, Government Contracts will also involve the sub-contracting of the installation of certain energy efficient measures to third parties. Revenue for the sub-contracted installations is recognised on a principal basis as the Group ultimately retains the risks and rewards of these installations.

### **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 services related to the other activities of the Group including aftercare services and the sale to utility companies of energy savings accredited to energy efficient measures installed. Revenue is recognised at the date of sale except if services are to be provided over future periods where the income is deferred and recognised over the relevant period.

### **Interest income**

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

## Financial instruments

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

## Available for sale financial assets

Equity instruments held by the Group and designated as available for sale are carried at fair value, with movements in fair value recognised directly in equity. On disposal of these assets the difference between the carrying value and consideration received (including any cumulative gain or loss previously recognised directly in equity) is included in the income statement.

## Loans and receivables

Non current receivables and loans are carried at amortised cost less provisions for impairment. Movements in carrying value are recognised in the income statement.

## 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.

## Trade payables

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

## Borrowings

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

## Derivatives

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

## Redeemable preference shares

The component of redeemable preference shares that exhibits the characteristic of a liability is 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 assets and liabilities

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.

## Impairment of financial assets

The Group assesses at each balance sheet date whether a financial asset or group of financial assets is impaired.

If there is objective evidence that an impairment loss on loans and receivables at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rates. The amount of the loss is recognised in the income statement.

## Impairment of non-financial assets

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

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

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

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

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Group makes an estimate of any amount recoverable. A previously recognised impairment loss is only reversed if there has been a change in the estimates used to determine the asset's recoverable amount since the impairment loss was recognised.

## Foreign currency translation

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

The functional currency of the Group's foreign operations is the Canadian Dollar for eaga Canada Inc, Ark Solar Products Limited, Integrated Energy Systems Limited and Homeworks Services Inc and Indian Rupees for eaga Energy India Private Limited. As at the balance sheet date, the assets and liabilities of these subsidiaries are translated into Sterling at the rate of exchange at that date and their income statements are translated at the weighted average exchange rates for the period. The exchange differences arising on the translation are taken directly to a separate component of equity. On transition to IFRS, the translation reserve was set to zero as permitted under IFRS 1. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the income statement.

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

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

## Taxes

### Current tax

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

### Deferred tax

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

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

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

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

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

### Share capital

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

### Exceptional items

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

### Partnership bonus

An annual partnership bonus is payable to all employees who are Qualifying Partners. The partnership bonus is determined in relation to the results for the financial period and allocated to Qualifying Partners based on a percentage of pay. An accrual for this bonus is included in the accounts for the relevant financial period based on the Directors' estimate of the level payable. This bonus structure ceased from the date of flotation on the London Stock Exchange such that the year to 31 May 2007 is the final bonus under this arrangement.

### Self insurance

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

### Share-based payments

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

### Significant accounting judgements, estimates and assumptions

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

#### Impairment of Goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the "value in use" of the cash generating units to which the goodwill is allocated. Estimating a value in use amount requires management to make an estimate of the expected future cash flows from the cash generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying value of goodwill at 31 May 2007 was £38,055,000 (31 May 2006: £7,166,000). Further details are given in note 12.

# 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

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

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

Year ended 31 May 2007

	Government Contracts £'000	Installation Services £'000	Specialist Support Services £'000	Eliminations £'000	Total £'000
Revenue					
Third party	359,279	76,841	46,440	–	482,560
Inter-segment	–	81,623	2,899	(84,522)	–
<b>Total</b>	<b>359,279</b>	<b>158,464</b>	<b>49,339</b>	<b>(84,522)</b>	<b>482,560</b>
Segmental operating profit	7,560	12,999	7,494	–	28,053
Unallocated exceptional costs					(115,480)
<b>Operating loss</b>					<b>(87,427)</b>
Net finance income					40
Tax credit					25,761
<b>Loss for the year</b>					<b>(61,626)</b>
Segment assets	28,690	85,454	12,243	–	126,387
Unallocated assets					34,266
<b>Total assets</b>					<b>160,653</b>
Segment liabilities	(36,247)	(40,821)	(12,382)	–	(89,450)
Unallocated liabilities					(12,537)
<b>Total liabilities</b>					<b>(101,987)</b>
Other segment information					
Capital expenditure (intangible and tangible assets)					
– additions	2,439	4,689	1,361	–	8,489
– acquisitions	–	17,550	103	–	17,653
Depreciation	491	1,435	427	–	2,353
Amortisation of intangibles	80	3,110	55	–	3,245
EBITA	7,640	16,109	7,549	–	31,298

An analysis of the unallocated exceptional costs is given in note 7

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



## 1 SEGMENTAL ANALYSIS (continued)

Year ended 31 May 2006

	Government Contracts £'000	Installation Services £'000	Specialist Support Services £'000	Eliminations £'000	Total £'000
Revenue					
Third party	264 276	49,886	40 218	–	354,380
Inter-segment	–	28 013	3,132	(31,145)	–
<b>Total</b>	<b>264,276</b>	<b>77,899</b>	<b>43,350</b>	<b>(31,145)</b>	<b>354 380</b>
Segmental operating profit	7,809	4,860	6 833	–	19 502
Unallocated exceptional costs					(13,654)
<b>Operating profit</b>					<b>5 848</b>
Net finance income					773
Tax expense					(2,259)
<b>Profit for the year</b>					<b>4,362</b>
Segment assets	24 848	24,174	9 056	–	58,078
Unallocated assets					18,474
<b>Total assets</b>					<b>76 552</b>
Segment liabilities	27 623	14,430	8,898	–	50,951
Unallocated liabilities					9 605
<b>Total liabilities</b>					<b>60 556</b>
<b>Other segment information</b>					
Capital expenditure (intangible and tangible assets)					
– additions	1,323	1,671	492	–	3 486
– acquisitions	–	712	33	–	745
Depreciation	611	652	282	–	1,545
Amortisation of intangibles	40	159	29	–	228
EBITA	7 849	5,019	6,862	–	19,730

An analysis of the unallocated exceptional costs is given in note 7

Unallocated assets comprise cash of £18 147,000, a deferred taxation asset of £293,000 and a current taxation asset of £34,000. Unallocated liabilities comprise, loans and borrowings of £3 296,000, a corporation taxation creditor of £523,000, accrued partnership bonuses of £5 218 000 and a long-term incentive plan accrual of £568 000.

## 1 SEGMENTAL ANALYSIS (continued)

### Secondary reporting format – geographical segments

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

Year ended 31 May 2007

	Revenue £'000	Segment assets £'000	Capital expenditure £'000
United Kingdom and Republic of Ireland	476,571	122,804	8,106
Canada	5,658	3,163	126
India	331	420	257
	482,560	126,387	8,489
Unallocated assets	–	34,266	–
	482,560	160,653	8,489

Year ended 31 May 2006

	Revenue £'000	Segment assets £'000	Capital expenditure £'000
United Kingdom and Republic of Ireland	348,898	56,674	3,392
Canada	5,332	1,247	14
India	150	157	80
	354,380	58,078	3,486
Unallocated assets	–	18,474	–
	354,380	76,552	3,486

## 2 REVENUE

Analysis by category

	Year ended 31 May 2007 £'000	Year ended 31 May 2006 £'000
Sales of goods and services (excluding share of joint ventures' sales)	478,969	354,238
Share of sales of joint ventures	3,591	142
	482,560	354,380

### 3 OPERATING (LOSS)/PROFIT AFTER EXCEPTIONAL ITEMS

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

	Year ended 31 May 2007 £'000	Year ended 31 May 2006 £'000
Staff costs (note 5)	77,183	55 590
Sub-contractor costs	303,994	257,355
Inventories		
– cost of inventories recognised as an expense in the period	46,221	13 707
– impairment of inventories recognised in the period	–	117
Depreciation of property, plant and equipment	2,353	1,545
Amortisation of intangible assets	3,245	228
Negative goodwill recognised as profit	(6)	–
Loss on sale of property plant and equipment	260	44
Operating lease rentals		
– property	1,605	1 228
– plant and machinery	2,600	1,387
Impairment of trade receivables	807	2

### 4 AUDITORS' REMUNERATION

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

	Year ended 31 May 2007 £ 000	Year ended 31 May 2006 £'000
Fees payable to the Company's auditor for the audit of the Company's annual accounts	74	60
Fees payable to the Company's auditor for other services		
The auditing of accounts of undertakings of the Company pursuant to legislation	126	95
Other services supplied pursuant to legislation	1,276	18
Other services relating to taxation	578	127
Services relating to corporate finance transactions entered into or proposed to be entered into by or on behalf of the Company or any of its undertakings	220	196
	2,274	496

Included in the above are costs of £1 935,000 (31 May 2006 £Nil) in relation to the Company's listing on the London Stock Exchange. These costs are non-recurring in nature and are included within the above captions as follows

	Year ended 31 May 2007 £ 000	Year ended 31 May 2006 £ 000
Other services pursuant to legislation	1,257	–
Other services relating to taxation	458	–
Services relating to corporate finance transactions entered into or proposed to be entered into by or on behalf of the Company or any of its undertakings	220	–
	1,935	–

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

The Group also capitalised £533 000 (2006 £158 000) of non-audit fees within goodwill relating to various acquisitions.

## 5 STAFF COSTS

Staff costs for the Group during the year

	Year ended 31 May 2007 £'000	Year ended 31 May 2006 £'000
Wages and salaries	67,894	49,075
Social security costs	6,750	4,057
Other pension costs (note 31)	2,539	2,458
	77,183	55,590

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

By business segment

	Year ended 31 May 2007 Number	Year ended 31 May 2006 Number
Government Contracts	450	396
Installation Services	2,397	1,071
Specialist Support Services	194	114
	3,041	1,581

Key management compensation

	Year ended 31 May 2007 £'000	Year ended 31 May 2006 £'000
Salaries and short-term employee benefits	1,728	1,456
Post-employment benefits	817	216
Long term incentive plan	480	1,753
	3,025	3,425

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

## 6 SHARE BASED PAYMENTS

The IPO Option Plan granted nil-cost options over the Company's Ordinary and Preferred Ordinary Shares to all Partners and certain former Partners (at EPT discretion). Options were granted in February and March 2007 and became exercisable on listing. Options would have lapsed on 31 July 2007 had listing not been achieved.

The total number of options outstanding at 31 May 2007 was 57,514,127 which were all exercised immediately prior to listing on 7 June 2007. No further options will be issued under the IPO Option Plan. A share based charge of £104.2 million arising in respect of the fair value of these options is recognised in the Income Statement as an exceptional cost. The listing price of £1.81 per share, set in a pricing meeting on 22 May 2007, is deemed to be the market value and therefore fair value used in determining the exceptional cost.

There was no cash cost to the Group as a result of these awards. The Group expects to receive a statutory corporation tax deduction in connection with the charge and accordingly, a deferred tax asset of £30.9 million and corresponding increase in net assets has been recognised in the balance sheet at 31 May 2007.

## 7 EXCEPTIONAL ITEMS

	Year ended 31 May 2007 £'000	Year ended 31 May 2006 £'000
Flotation expenses	4,051	626
Share based payments	104,225	-
Partnership bonus	7,155	10,700
Long-term incentive plan	49	2,328
	<b>115,480</b>	<b>13,654</b>

### Flotation expenses

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

### Share based payments

Share based payments comprise the IFRS2 charge arising in respect of the fair value of share options granted to employees by the Company eaga Partnership Trustee Limited and eaga Partnership Trustee Two Limited ('EPT') during the year. These awards reflect the 100% employee owned nature of the business in the period prior to IPO and 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 share based payments. A credit of equal quantum was made to reserves resulting in unchanged net assets

A statutory corporation tax deduction of £30.9 million is expected to be received in the year to 31 May 2008 under Schedule 23 Finance Act 2003 in respect of the share options exercised at IPO. This results in a deferred tax credit and an increase in the Group's net assets of £30.9 million at 31 May 2007

### Partnership bonus

Partnership bonus payments represent amounts due to employees by virtue of their beneficial interest through EPT in the ownership of the Group in the period prior to flotation

For periods after flotation, any awards made in respect of that element of employee ownership reflected by EPT's residual shareholding in eaga plc are expected to be made directly by EPT to employees. To the extent that such awards are made through share based payment mechanisms, no cash cost to the Group is expected to arise and any related IFRS2 charge and statutory corporation tax deduction are expected to be accounted for in the same way as the IPO related share based payments outlined above

### Long-term incentive plan

A Directors' long-term incentive plan expired during the year to 31 May 2006. No replacement scheme has been introduced and there is currently no intention to re-introduce such a scheme

## 8 FINANCE INCOME

	Year ended 31 May 2007 £'000	Year ended 31 May 2006 £'000
Bank interest receivable	1,001	940
Interest on loans to joint ventures	52	10
Income from investments	173	94
	<b>1,226</b>	<b>1,044</b>

## 9 FINANCE EXPENSE

	Year ended 31 May 2007 £'000	Year ended 31 May 2006 £'000
Interest payable on bank loans and overdrafts	605	76
Interest payable on hire purchase agreements	34	56
Amortisation of deferred consideration	492	63
Other interest payable	–	27
Share of joint venture interest payable	55	49
	<b>1,186</b>	<b>271</b>

## 10 TAXATION

### (a) Tax recognised in the income statement

	Year ended 31 May 2007 £'000	Year ended 31 May 2006 £'000
Current tax charge	6,293	2,289
Adjustment in respect of current tax of previous years	(231)	163
Share of joint venture tax	21	(39)
	<b>6,083</b>	<b>2,413</b>
Deferred tax relating to origination and reversal of temporary differences	(31,431)	81
Adjustment in respect of deferred tax of previous years	(413)	(235)
Tax on (loss)/profit for the year	<b>(25,761)</b>	<b>2,259</b>

### (b) Reconciliation of tax (credit) / charge

The effective tax rate for the year relating to continuing operations as a proportion of (loss)/profit before tax is 29.5% (2006: 34.1%). This compares with the standard rate of corporation tax in the United Kingdom of 30% (2006: 30%) as follows:

	Year ended 31 May 2007 £'000	Year ended 31 May 2006 £'000
(Loss)/profit before taxation	(87,387)	6,621
At United Kingdom tax rate of 30% (2006: 30%)	(26,216)	1,986
Adjustment in respect of previous years	(644)	(72)
Expenditure not allowable for tax purposes	1,030	343
Deferred tax not provided	69	78
Tax losses	–	(76)
Tax on (loss)/profit for the year	<b>(25,761)</b>	<b>2,259</b>

## 10 TAXATION (continued)

### (c) Deferred tax

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

	Share based payments £'000	Decelerated capital allowances £'000	Intangible assets £'000	Derivatives £'000	Other temporary differences £'000	Total £'000
At 1 June 2005	–	349	(140)	(118)	178	269
Credited/(charged) in the income statement	–	(24)	50	(32)	160	154
Acquired in business combination	–	–	(130)	–	–	(130)
At 31 May 2006	–	325	(220)	(150)	338	293
Credited/(charged) in the income statement	30,909	(93)	902	(14)	140	31,844
Acquired in a business combination	–	(23)	(5,134)	–	–	(5,157)
At 31 May 2007	30,909	209	(4,452)	(164)	478	26,980

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 2007 £'000	31 May 2006 £'000
Excess of depreciation over capital allowances	8	41
Losses	240	534
Other temporary differences	–	1
	248	576

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

## 11 (LOSS) / EARNINGS PER SHARE

The following incorporates the impact of the bonus issue made to the Preferred Ordinary shareholders on 24 February 2007, and Ordinary shareholders on 6 June 2007 in accordance with IAS33 'Earnings per Share' further details of which are given in notes 25 and 35

### Basic

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

	2007	2006
(Loss)/profit attributable to equity shareholders of the Company £(thousands)	(61,715)	4,357
Weighted average number of Ordinary Shares in issue (thousands)	179,750	136,375
Basic (loss)/earnings per share (pence)	(34.33)	3.19

### Diluted

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

	2007	2006
(Loss)/profit attributable to equity shareholders of the Company £(thousands)	(61,715)	4,357
Weighted average number of Ordinary Shares in issue (thousands)	179,750	136,375
Adjustments for dilutive effect of Preferred Ordinary Shares (thousands) (note i)	–	136
Weighted average number of Ordinary Shares for diluted earnings per share (thousands)	179,750	136,511
Diluted (loss)/earnings per share (pence)	(34.33)	3.19

(i) The adjustment for the dilutive effect of Preferred Ordinary Shares in the year ended 31 May 2007 has not been reflected in the calculation of the diluted loss per share as the effect would be anti-dilutive

## 11 (LOSS) / EARNINGS PER SHARE (continued)

### Adjusted earnings per share

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

	2007	2006
(Loss)/profit attributable to equity shareholders of the Company £(thousands)	(61,715)	4 357
– exceptional items (note 7)	115,480	13,654
– amortisation of intangible assets	3,245	228
– tax effect of above adjustments	(34,959)	(4 096)
Adjusted profit £(thousands)	22,051	14,143
<b>Adjusted basic earnings per share</b>		
Weighted average number of Ordinary Shares in issue (thousands)	179,750	136,375
Adjusted basic earnings per share (pence)	12 27	10 37
<b>Adjusted diluted earnings per share</b>		
Weighted average number of Ordinary Shares in issue (thousands)	230,190	136,513
Adjusted diluted earnings per share (pence)	9 58	10 36

## 12 GOODWILL

	31 May 2007 £'000	31 May 2006 £'000
<b>Cost</b>		
As at 1 June 2006	7,516	2 414
Acquisitions (note 30)	31,047	5 102
Additional interest in joint venture (note 30)	256	–
Reassessment of consideration payable (note 30)	(414)	–
As at 31 May 2007	38,405	7,516
<b>Impairment</b>		
As at 1 June 2006 and 31 May 2007	350	350
<b>Net book value</b>		
As at 31 May 2007	38,055	7,166
As at 31 May 2006	7,166	2 064

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 by CGUs is as follows:

	31 May 2007 £'000	31 May 2006 £'000
Mico Group Limited	1,768	1 768
Everwarm Group Limited	4,472	4,886
APA (Asset Protection Administration) Limited	216	216
White Horse F M Group Limited	26,709	–
J D Heating Limited	3,379	–
Integrated Energy Systems Limited	808	–
eaga Renewables Limited (formerly Zen eaga Solar Limited)	256	–
Other	447	296
	<b>38,055</b>	<b>7,166</b>



## 12 GOODWILL (continued)

The recoverable amount of goodwill has been determined based on a value in use calculated for each CGU using estimated future cash flows from management internal forecasts of future trading performance for the next three years. For the purpose of the impairment reviews the pre tax discount rate used was 12 per cent and no growth was assumed in perpetuity. As a result of this review management has concluded that the recoverable amount on a value in use basis of the CGUs is greater than the remaining net book value of goodwill and consequently no impairment is required.

The calculation of value in use is most sensitive to changes in the forecast cash flows and the discount rate used.

The Directors consider the cash flow forecasts to be realistically achievable and have therefore not presented any sensitivity analysis.

## 13 INTANGIBLE ASSETS

	Patents £'000	Software costs £'000	Customer contracts £'000	Total £'000
<b>Cost</b>				
As at 1 June 2006	100	1,474	902	2,476
Additions	10	437	–	447
Acquisitions (note 30)	–	–	17,114	17,114
<b>As at 31 May 2007</b>	<b>110</b>	<b>1,911</b>	<b>18,016</b>	<b>20,037</b>
<b>Amortisation</b>				
As at 1 June 2006	–	869	224	1,093
Charge for the year	10	210	3,025	3,245
<b>As at 31 May 2007</b>	<b>10</b>	<b>1,079</b>	<b>3,249</b>	<b>4,338</b>
<b>Net book value</b>				
<b>As at 31 May 2007</b>	<b>100</b>	<b>832</b>	<b>14,767</b>	<b>15,699</b>
<b>As at 31 May 2006</b>	<b>100</b>	<b>605</b>	<b>678</b>	<b>1,383</b>

	Patents £'000	Software costs £'000	Customer contracts £'000	Total £'000
<b>Cost</b>				
As at 1 June 2005	–	866	569	1,435
Additions	–	608	–	608
Acquisitions	100	–	333	433
<b>As at 31 May 2006</b>	<b>100</b>	<b>1,474</b>	<b>902</b>	<b>2,476</b>
<b>Amortisation</b>				
As at 1 June 2005	–	821	44	865
Charge for the year	–	48	180	228
<b>As at 31 May 2006</b>	<b>–</b>	<b>869</b>	<b>224</b>	<b>1,093</b>
<b>Net book value</b>				
<b>As at 31 May 2006</b>	<b>100</b>	<b>605</b>	<b>678</b>	<b>1,383</b>
<b>As at 31 May 2005</b>	<b>–</b>	<b>45</b>	<b>525</b>	<b>570</b>

All software has been externally acquired.

Customer contracts are separately identifiable intangible assets which have been valued using discounted cashflow techniques, in relation to certain acquisitions made by the Group.

## 14 PROPERTY, PLANT AND EQUIPMENT

	Long leasehold land and buildings £'000	Alterations to leasehold property £'000	Fixtures and fittings £'000	Equipment £'000	Motor vehicles £'000	Total £'000
<b>Cost</b>						
As at 1 June 2006	666	803	866	6 810	1 534	10 679
Additions	2,141	479	941	3,890	591	8,042
Acquisitions (note 30)	–	3	7	416	113	539
Disposals	–	(64)	(27)	(445)	(229)	(765)
<b>As at 31 May 2007</b>	<b>2,807</b>	<b>1,221</b>	<b>1,787</b>	<b>10,671</b>	<b>2,009</b>	<b>18,495</b>
<b>Depreciation</b>						
As at 1 June 2006	2	305	629	4,229	229	5,394
Charge for the year	–	159	194	1,631	369	2,353
Disposals	–	(17)	(12)	(182)	(124)	(335)
<b>As at 31 May 2007</b>	<b>2</b>	<b>447</b>	<b>811</b>	<b>5,678</b>	<b>474</b>	<b>7,412</b>
<b>Net book value</b>						
<b>As at 31 May 2007</b>	<b>2,805</b>	<b>774</b>	<b>976</b>	<b>4,993</b>	<b>1,535</b>	<b>11,083</b>
As at 31 May 2006	664	498	237	2,581	1 305	5,285

	Long leasehold 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 2005	463	634	1,194	5 909	1,113	9 313
Additions	203	154	108	2,019	394	2,878
Acquisitions	–	15	33	166	98	312
Disposals	–	–	(469)	(1 284)	(71)	(1,824)
<b>As at 31 May 2006</b>	<b>666</b>	<b>803</b>	<b>866</b>	<b>6,810</b>	<b>1 534</b>	<b>10,679</b>
<b>Depreciation</b>						
As at 1 June 2005	–	161	920	4 494	13	5,588
Charge for the year	2	144	146	996	257	1,545
Disposals	–	–	(437)	(1,261)	(41)	(1,739)
<b>As at 31 May 2006</b>	<b>2</b>	<b>305</b>	<b>629</b>	<b>4 229</b>	<b>229</b>	<b>5,394</b>
<b>Net book value</b>						
<b>As at 31 May 2006</b>	<b>664</b>	<b>498</b>	<b>237</b>	<b>2,581</b>	<b>1,305</b>	<b>5 285</b>
As at 31 May 2005	463	473	274	1,415	1,100	3 725

The net book value of property plant and equipment includes £538,000 (31 May 2006 £815,000) in respect of motor vehicles held under hire purchase contracts

## 15 AVAILABLE FOR SALE FINANCIAL ASSETS

	31 May 2007 £'000	31 May 2006 £'000
Available for sale financial assets	–	60

The available for sale financial asset as at 31 May 2006 comprised a managed portfolio bond which was disposed of in the year ended 31 May 2007

## 16 INVESTMENTS IN JOINT VENTURES

The Group's joint ventures, which are proportionately consolidated are as follows

- Year to 31 May 2007 – N E S T Makers Limited and WarmSure Limited
- Year to 31 May 2006 – N E S T Makers Limited and eaga Renewables Limited

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

### Income statement

	Year ended 31 May 2007 £'000	Year ended 31 May 2006 £'000
Revenue	5,492	142
Cost of sales	(425)	(112)
Administration expenses	(4,991)	(112)
Finance income	8	–
Finance expense	(55)	(50)
Profit/(loss) before tax	29	(132)
Tax expense	(21)	39
Profit/(loss) for the year	8	(93)

Revenue includes £1,901,000 (31 May 2006 £Nil) of intergroup sales in the period

### Balance sheet

	31 May 2007 £'000	31 May 2006 £'000
<b>Assets</b>		
Non-current assets	154	–
Cash and cash equivalents	349	47
Other current assets	945	145
	1,448	192
<b>Liabilities</b>		
Other non-current liabilities	(432)	(401)
Other current liabilities	(1,085)	(168)
	(1,517)	(569)
<b>Net liabilities</b>	(69)	(377)

The Group's proportionate interest in joint ventures' capital commitments and contingent liabilities was £Nil (31 May 2006 £Nil)

## 17 INVENTORIES

	31 May 2007 £'000	31 May 2006 £'000
Raw materials and consumables	2,020	1,405
Work in progress	1,989	2,141
Finished goods	470	167
	<b>4,479</b>	<b>3,713</b>

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

## 18 TRADE AND OTHER RECEIVABLES

	31 May 2007 £'000	31 May 2006 £'000
Trade receivables	38,329	29,743
Less: provision for impairment of receivables	(725)	(336)
Trade receivables – net	37,604	29,407
Amounts owed by related parties	682	548
Prepayments and accrued income	9,790	2,317
Other receivables	4,325	6,323
Called up share capital not paid	–	1
	<b>52,401</b>	<b>38,596</b>

Trade and other receivables are non interest bearing. The Group has some concentration of credit risk with blue chip companies and certain government departments.

The carrying value of trade and other receivables is stated after a provision for impairment of receivables has been made. The provision has been estimated by Group management based upon their assessment of the current economic environment.

The Directors consider that the carrying value of trade and other receivables approximates to their fair value.

The called up share capital not paid as at 31 May 2006 was held by eaga Partnership Trustee Limited and eaga Partnership Trustee Two Limited.

## 19 DERIVATIVE FINANCIAL INSTRUMENTS

	31 May 2007 £'000	31 May 2006 £'000
Derivative contract	548	500

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

## 20 CURRENT ASSET INVESTMENTS

	31 May 2007 £'000	31 May 2006 £'000
Current asset investments	4,632	1,375

Current asset investments comprise specific cash balances held in relation to the Group's self insurance activities which have not yet been remitted to other companies within the Group and have therefore been excluded from cash in the Group's balance sheet and cash flow statement.

## 21 CASH AND CASH EQUIVALENTS

	31 May 2007 £'000	31 May 2006 £'000
Cash at bank and in hand	6,776	18,147

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

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

	31 May 2007 £'000	31 May 2006 £'000
Cash at bank and in hand	6,776	18,147
Bank overdrafts (note 23)	(1,244)	(2,087)
	5,532	16,060

## 22 TRADE AND OTHER PAYABLES

	31 May 2007 £'000	31 May 2006 £'000
<b>Current trade and other payables</b>		
Trade payables	42,645	29,497
Taxes and social security excluding current tax	3,179	5,532
Amounts owed to related parties	932	52
Accruals and deferred income	33,043	17,763
Other payables	5,260	2,675
Deferred consideration (note 30)	10,864	475
	95,923	55,994
<b>Non-current trade and other payables</b>		
Deferred consideration (note 30)	2,005	–
Other payables	432	401
	2,437	401

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

## 23 LOANS AND BORROWINGS

	31 May 2007 £ 000	31 May 2006 £ 000
Bank overdrafts (note 21)	1,244	2,087
Bank loans	–	330
Hire purchase obligations	330	508
Property loan	248	258
Cumulative redeemable preference shares	109	113
	<b>1,931</b>	<b>3,296</b>

The borrowings are repayable as follows

	31 May 2007 £'000	31 May 2006 £'000
<b>On demand or within one year (shown under current liabilities)</b>		
Bank overdrafts	1,244	2 087
Bank loans	–	45
Hire purchase obligations	250	348
Property loan	22	23
Cumulative redeemable preference shares	109	113
	<b>1,625</b>	<b>2 616</b>
<b>In the second to fifth years</b>		
Bank loans	–	285
Hire purchase obligations	80	160
Property loan	87	90
	<b>167</b>	<b>535</b>
<b>Due after more than five years</b>		
Property loan	139	145
	<b>139</b>	<b>145</b>
<b>Total borrowings</b>	<b>1,931</b>	<b>3,296</b>
Less: Amount due for settlement within one year (shown under current liabilities)	(1,625)	(2 616)
<b>Amount due for settlement after one year</b>	<b>306</b>	<b>680</b>

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

### Bank overdraft

The bank overdraft is unsecured, with a floating interest rate linked to UK Bank Base Rate. The Directors consider that the carrying value of the bank overdraft is approximate to fair value as the interest rate on the bank overdraft is linked to UK Bank Base Rate.

### Bank loans

At 31 May 2007, the Company has a committed term loan facility with Barclays plc. The total facility of £35,000,000 (31 May 2006: £3,000,000 with HSBC plc) has a commitment date three years from the agreement date of 1 December 2006.

The bank loans are held at a floating interest rate, linked to UK Bank Base Rate. The Directors consider that the carrying value of the bank loans is approximate to fair value as the interest rate on the bank loans are linked to UK Bank Base Rate.

## 23 LOANS AND BORROWINGS (continued)

### Hire purchase obligations

	Minimum lease payments		Present value of minimum lease payments	
	31 May 2007 £'000	31 May 2006 £'000	31 May 2007 £'000	31 May 2006 £'000
Amounts payable under hire purchase agreements				
Within one year	291	392	250	348
In the second year to fifth years inclusive	92	185	80	160
	383	577	330	508
Less future finance charges	(53)	(69)	–	–
Present value of hire purchase obligations	330	508	330	508
Less amount due for settlement within one year (shown under current liabilities)	(250)	(348)	(250)	(348)
Amount due for settlement after one year	80	160	80	160

The hire purchase obligations are secured against the related assets

### Property loan

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

### Cumulative redeemable preference shares

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

The total number of authorised cumulative redeemable preference shares is 2,500 (31 May 2006 2,500) of which 2,500 (31 May 2006 2,500) were allotted and fully paid at the balance sheet date.

### Total borrowing facilities

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

	31 May 2007 £'000	31 May 2006 £'000
Within one year	320	–
In two to five years	35,000	3,000
	35,320	3,000

### Financial risk management policy

The Group's operations expose it to a variety of financial risks that include the effects of changes in debt market prices, credit risk, liquidity risk 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.

## 23 LOANS AND BORROWINGS (continued)

### Price risk

The Group is exposed to commodity price risk as a result of its operations as movements in certain commodity prices can impact the cost of materials purchased by the Group. However, given the size of the Group's operations, the costs of managing exposure to commodity price risk are considered to exceed any potential benefits. The Directors will revisit the appropriateness of this policy should the Group's operations change in size or nature. The Group has no exposure to equity securities price risk as it holds no listed or other equity investments.

### Credit risk

The Group has implemented policies that require appropriate credit checks on potential customers before sales are made. Where borrowings are utilised, this is subject to pre-approval by the Board and such approval is limited to financial institutions with an AA rating or better.

### Liquidity risk

The Group actively maintains a mixture of short, medium and long-term debt finance that is designed to ensure the Group has sufficient available funds for operations and planned expansions.

### 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 LIBOR. The Group maintains its debt at a floating rate of interest due to the low gearing ratio 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 2007 £'000	31 May 2006 £'000
Floating rate borrowings		
Bank overdrafts	1,244	2,087
Bank loans	–	330
Property loan	248	258
	1,492	2,675
Fixed rate borrowings		
Hire purchase obligations	330	508
Cumulative redeemable preference shares	109	113
	439	621
Total borrowings	1,931	3,296

## 24 PROVISIONS FOR OTHER LIABILITIES AND CHARGES

	Dilapidations provision £'000	Other provision £'000	Total £'000
As at 1 June 2005	358	350	708
Released to income statement during the prior year	(16)	(350)	(366)
As at 31 May 2006 and 31 May 2007	342	–	342

The dilapidations provision held by the Group as at 31 May 2007 is held to cover dilapidations on leased properties and is expected to be fully utilised within two years.

Other provisions related to amounts in respect of potential exposures arising from legal and contractual claims, these did not crystallise in the year ended 31 May 2006 and the Directors considered it appropriate to release the amount provided.



## 25 SHARE CAPITAL

	31 May 2007 £'000	31 May 2006 £'000
<b>Authorised equity share capital</b>		
40,001 (31 May 2006 40,000) Ordinary Shares of £0.001 each	–	–
52,959,999 (31 May 2006 970,000) Preferred Ordinary Shares of £0.001 each	53	1
<b>Authorised equity share capital</b>	<b>53</b>	<b>1</b>
<b>Allotted and called up equity share capital</b>		
40,001 (31 May 2006 36,800) Ordinary Shares of £0.001 each	–	–
50,440,000 (31 May 2006 970,000) Preferred Ordinary Shares of £0.001 each	50	1
<b>Allotted and called up equity share capital</b>	<b>50</b>	<b>1</b>

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

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

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

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

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

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

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

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

The following is a reconciliation of the authorised and issued share capital at the start and end of the financial year.

	Authorised Ordinary Shares at £0.001 each	Allotted Ordinary Shares at £0.001 each	Authorised Preferred Ordinary Shares at £0.001 each	Allotted Preferred Ordinary Shares at £0.001 each
At 1 June 2006	40,000	36,800	970,000	970,000
Ordinary Shares allotted on 9 June 2006	–	2,380	–	–
Ordinary Shares allotted on 19 July 2006	–	380	–	–
Increase in authorised share capital on 24 February 2007	1	–	51,989,999	–
Ordinary Shares allotted on 24 February 2007	–	441	–	–
Bonus issue of Preferred Ordinary Shares on 24 February 2007	–	–	–	49,470,000
<b>At 31 May 2007</b>	<b>40,001</b>	<b>40,001</b>	<b>52,959,999</b>	<b>50,440,000</b>

Further details of movements in share capital since the year end can be found in note 35 Post Balance Sheet Events.

## 26 CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital £'000	Other reserves £'000	Retained earnings £'000	Attributable to the equity holders of the Company £'000	Minority Interest £'000	Total equity £'000
As at 1 June 2005	1	3 559	7,989	11,549	58	11,607
Profit for the year	–	–	4,357	4,357	5	4,362
Net loss recognised directly in equity	–	(143)	–	(143)	–	(143)
Issue of share capital	–	170	–	170	–	170
At 31 May 2006	1	3,586	12 346	15,933	63	15,996
Loss for the year	–	–	(61 715)	(61,715)	89	(61,626)
Shared based payments (note 6)	–	–	104,225	104,225	–	104,225
Bonus issue of shares	49	(49)	–	–	–	–
Dividends paid to minority shareholders of subsidiary	–	–	–	–	(15)	(15)
Acquisition of minority interests (note 30)	–	–	–	–	(25)	(25)
Currency translation differences	–	42	–	42	–	42
Issue of share capital	–	69	–	69	–	69
At 31 May 2007	50	3,648	54,856	58,554	112	58,666

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 £54,856,000 (2006 £12 346,000)

## 27 OTHER RESERVES

	Share premium account £ 000	Capital redemption reserve £ 000	Translation reserve £'000	Total £ 000
As at 1 June 2005	–	3 600	(41)	3,559
Currency translation differences	–	–	(143)	(143)
Issue of share capital	170	–	–	170
As at 31 May 2006	170	3 600	(184)	3,586
Bonus issue of shares	(49)	–	–	(49)
Currency translation differences	–	–	42	42
Issue of share capital	69	–	–	69
As at 31 May 2007	190	3,600	(142)	3,648

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

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

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

## 28 FINANCIAL COMMITMENTS

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

	Land and buildings		Vehicles, plant and equipment	
	31 May 2007 £'000	31 May 2006 £'000	31 May 2007 £'000	31 May 2006 £'000
Within one year	1,923	1,642	1,923	1,250
In the second to fifth years inclusive	6,258	5,086	3,212	1,950
After five years	6,627	6,747	7	40
	14,808	13,475	5,142	3,240

## 29. CAPITAL COMMITMENTS AND CONTINGENT LIABILITIES

The Group had no capital commitments or contingent liabilities as at 31 May 2007 or 31 May 2006.

## 30 BUSINESS COMBINATIONS

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

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

### 30 BUSINESS COMBINATIONS (continued)

#### White Horse FM Group Limited

On 4 December 2006, the Group acquired 100 per cent of the issued share capital of White Horse FM Group Limited, a company registered in Northern Ireland. The initial consideration paid was £25,956,000 including acquisition expenses of £781,000. There is further consideration payable of up to £12,000,000. This comprises £2,000,000 payable 12 months from the date of acquisition, up to £8,000,000 payable within 12 months depending on post acquisition results of White Horse FM Group Limited, and £2,000,000 payable within 24 months depending on certain performance criteria.

The White Horse FM Group Limited installs and services domestic central heating systems in Northern Ireland, England and The Republic of Ireland. The acquisition returned a profit of £2,532,000 in the period from 4 December 2006 to 31 May 2007 which had the effect of lowering the Group's operating loss after exceptional items. If the acquisition had been completed on 1 June 2006, Group sales for the year to 31 May 2007 would have been £496,594,000 and Group operating loss after exceptional items would have been £88,352,000.

As at the date of acquisition, the consolidated net assets of the White Horse FM Group Limited and its subsidiary undertakings determined using the Group's accounting policies were as follows:

	Book value £'000	Fair value adjustments £'000	Fair value £'000
Goodwill	3,281	(3,281)	–
Intangible assets	–	14,407	14,407
Property, plant and equipment	384	–	384
Inventories	256	–	256
Trade and other receivables	6,240	–	6,240
Cash and cash equivalents	(768)	–	(768)
Trade and other payables	(6,044)	(87)	(6,131)
Deferred taxation	(6)	(4,322)	(4,328)
	<b>3,343</b>	<b>6,717</b>	<b>10,060</b>
Goodwill			<b>26,709</b>
Cash consideration			<b>25,175</b>
Acquisition expenses			<b>781</b>
Deferred consideration			<b>1,888</b>
Further consideration			<b>1,643</b>
Additional consideration			<b>7,282</b>
			<b>36,769</b>

Intangible assets identified on acquisition represents the Directors' estimate of the value of contractual customer relationships at acquisition. The value of the contractual customer relationships was derived using a discounted cash flow analysis based on the forecast profitability of the relationships using a discount rate of 7.8%.

A related deferred tax liability of £4,322,000 has been recognised in association with the valuation of contractual relationships.

The fair value adjustment of £87,000 relates to the creation of a holiday pay accrual not previously recognised.

Goodwill arose on the acquisition of White Horse FM Group Limited because of future growth opportunities, added value to the Group in respect of non-contractual customer relationships, an assembled workforce and anticipated synergies for which the recognition of discrete intangible assets is not permitted.

In the above acquisition, the fair values represent the Directors' current estimates of the net assets acquired. In accordance with IFRS3, the values attributed may be revised as further information becomes available.

### 30 BUSINESS COMBINATIONS (continued)

#### JD Heating Limited

On 21 December 2006 the Group acquired 100 per cent of the issued share capital of JD Heating Limited, a company registered in England. The initial consideration paid was £4 923 000 including acquisition expenses of £123 000. There is further consideration payable of up to £1 200 000 payable 12 months from the date of acquisition depending on post acquisition results of JD Heating Limited.

JD Heating Limited installs and services domestic central heating systems in England.

The acquisition returned a profit of £319 000 in the period from 21 December 2006 to 31 May 2007 which had the effect of lowering the Group's operating loss after exceptional items. If the acquisition had been completed on 1 June 2006, Group sales for the year to 31 May 2007 would have been £489 265 000 and Group operating loss after exceptional items would have been £86,880,000.

As at the date of acquisition the net assets of JD Heating Limited determined using the Group's accounting policies were as follows:

	Book value £'000	Fair value adjustments £'000	Fair value £'000
Goodwill	27	(27)	–
Intangible assets	–	2,707	2 707
Property, plant and equipment	50	–	50
Inventories	20	–	20
Trade and other receivables	1,686	–	1 686
Cash and cash equivalents	634	–	634
Trade and other payables	(1,657)	–	(1 657)
Deferred taxation	(2)	(812)	(814)
	<b>758</b>	<b>1,868</b>	<b>2,626</b>
Goodwill			<b>3,379</b>
Cash consideration			<b>4,800</b>
Acquisition expenses			<b>123</b>
Further consideration			<b>1,082</b>
			<b>6,005</b>

Intangible assets identified on acquisition represents the Directors' estimate of the value of contractual customer relationships at acquisition. The value of the contractual customer relationships was derived using a discounted cash flow analysis based on the forecast profitability of the relationships using a discount rate of 9.5%.

A related deferred tax liability of £812 000 has been recognised in association with the valuation of contractual relationships.

Goodwill arose on the acquisition of JD Heating Limited because of future growth opportunities, added value to the Group in respect of non contractual customer relationships, an assembled workforce and anticipated synergies for which the recognition of discrete intangible assets is not permitted.

In the above acquisition, the fair values represent the Directors' current estimates of the assets acquired. In accordance with IFRS3, the values attributed may be revised as further information becomes available.

### 30 BUSINESS COMBINATIONS (continued)

#### Integrated Energy Systems Limited

On 26 January 2007 the Group acquired 100 per cent of the issued capital of Integrated Energy Systems Limited, a company registered in Canada. The initial consideration paid was CAN\$1 051 000 including acquisition expenses of CAN\$312,000. There is further consideration payable of up to CAN\$1 673,000 payable within 5 years. This comprises CAN\$923,000 payable in three equal instalments over the next 3 years and up to CAN\$750 000 depending on post acquisition results of Integrated Energy Systems Limited.

Integrated Energy Systems Limited installs insulation and other energy efficiency measures in Canada.

The acquisition returned a profit of £14,000 in the period from 26 January 2006 to 31 May 2007 which had the effect of reducing the Group's operating loss after exceptional items. If the acquisition had been completed on 1 June 2006, Group sales for the year to 31 May 2007 would have been £483,620,000 and Group operating loss after exceptional items would have been £87,387,000.

As at the date of acquisition, the net assets of Integrated Energy Systems Limited determined using the Group's accounting policies were as follows:

	Book value £'000	Fair value adjustments £'000	Fair value £'000
Property, plant and equipment	101	–	101
Inventories	148	–	148
Trade and other receivables	294	–	294
Cash and cash equivalents	39	–	39
Trade and other payables	(279)	–	(279)
Loans and borrowings	(65)	–	(65)
	<b>238</b>	<b>–</b>	<b>238</b>
Goodwill			<b>808</b>
Cash consideration			471
Acquisition expenses			140
Deferred consideration			435
			<b>1,046</b>

Goodwill arose on the acquisition of Integrated Energy Systems Limited because of future growth opportunities, added value to the Group in respect of non-contractual customer relationships, an assembled workforce and anticipated synergies for which the recognition of discrete intangible assets is not permitted.

In the above acquisition, the fair values represent the Directors' current estimates of the assets acquired. In accordance with IFRS3, the values attributed may be revised as further information becomes available.

### 30 BUSINESS COMBINATIONS (continued)

#### Ark Solar Products Limited

On 31 January 2007 the Group acquired 100 per cent of the issued share capital of Ark Solar Products Limited, a company registered in Canada. The initial consideration paid was CAN\$284,000 including acquisition expenses of CAN\$42,000. There is further consideration payable of CAN\$100,000 payable within one year.

Ark Solar Products Limited installs insulation and other energy efficiency measures in Canada.

The acquisition returned a loss of £24,000 in the period from 31 January 2007 to 31 May 2007 which had the effect of increasing the Group's operating loss after exceptional items. If the acquisition had been completed on 1 June 2006, Group sales for the year to 31 May 2007 would have been £482,965,000 and Group operating loss after exceptional items would have been £87,347,000.

As at the date of acquisition the net assets of Ark Solar Products Limited determined using the Group's accounting policies were as follows:

	Book value £'000	Fair value adjustments £'000	Fair value £'000
Property, plant and equipment	3	–	3
Inventories	143	–	143
Trade and other receivables	56	–	56
Cash and cash equivalents	(68)	–	(68)
Trade and other payables	(98)	–	(98)
	36	–	36
Goodwill			145
Cash consideration			114
Acquisition expenses			20
Deferred consideration			47
			181

Goodwill arose on the acquisition of Ark Solar Products Limited because of future growth opportunities added value to the Group in respect of non-contractual customer relationships, an assembled workforce and anticipated synergies for which the recognition of discrete intangible assets is not permitted.

In the above acquisition, the fair values represent the Directors' current estimates of the assets acquired. In accordance with IFRS3, the values attributed may be revised as further information becomes available.

### 30 BUSINESS COMBINATIONS (continued)

#### eaga Renewables Limited (formerly Zen eaga Solar Limited)

On 1 June 2006 the Group acquired the remaining 50% of the issued share capital of eaga Renewables Limited a company registered in England

eaga Renewables Limited installs thermal energy water heating systems

The acquisition returned a loss of £40 000 in the period from 1 June 2006 to 31 May 2007 which had the effect of increasing the Group's operating loss after exceptional items

As at the date of acquisition the consolidated net liabilities of eaga Renewables Limited, determined using the Group's accounting policies were as follows

	Book value £1000	Fair value adjustment £1000	Fair value £'000
Property, plant and equipment	1	—	1
Inventories	41	—	41
Trade and other receivables	181	—	181
Cash and cash equivalents	57	—	57
Trade and other payables	(542)	—	(542)
	(262)	—	(262)
Net liabilities already held			131
			(131)
Goodwill			256
Cash consideration			125

Goodwill arose on the acquisition of eaga Renewables Limited because of future growth opportunities added value to the Group in respect of non contractual customer relationships, and an assembled workforce and anticipated synergies for which the recognition of discrete intangible assets is not permitted

#### Other acquisitions

During the period the Group acquired the remaining 30% of the share capital of Eaglebrook Limited, the cost of the acquisition was £15,000 and generated £6,000 of goodwill on consolidation of Eaglebrook Limited and its subsidiary company, Debind International (UK) Limited

During the period, the Group acquired a further 20% of the share capital of Nationbrook Limited the cost of the acquisition was £8,000 and generated negative goodwill of £6,000 on consolidation of Nationbrook Limited and its subsidiary company, eaga Energy India Private Limited



### 30 BUSINESS COMBINATIONS (continued)

The following table summarises the cash outflow as a result of the acquisitions during the year to 31 May 2006

Purchase of Everwarm Group Limited	(6,066)
Cash acquired with Everwarm Group Limited	534
Acquisition of APA (Asset Protection Administration) Limited	(255)
Cash acquired with APA (Asset Protection Administration) Limited	210
	(5 577)

#### Everwarm Group Limited

On 26 May 2006 the Group acquired 100 per cent of the issued share capital of Everwarm Group Limited for £6 066 000

In the current year, under the terms of the sale and purchase agreement the Group were repaid £814 000 by the vendor in the finalisation of consideration

Following the Group's flotation on the London Stock Exchange on 7 June 2007, contingent consideration of £400 000 became due to the vendors, and is fully recognised in the balance sheet as at 31 May 2007 within other payables

The goodwill recognised on the acquisition of Everwarm Group Limited has been reduced by £414,000 in the year to £4,472,000 as a result of the above adjustments to consideration

#### APA (Asset Protection Administration) Limited

On 9 November 2005, eaga Insurance Services Limited acquired 100 per cent of the issued share capital of APA (Asset Protection Administration) Limited for £255 000

### 31 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 £2,539,000 (31 May 2006 £2,458,000)

### 32 RELATED PARTY TRANSACTIONS

#### Identity of related parties

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

During the year to 31 May 2007 the Group purchased services with an aggregate value of £13 345 (31 May 2006 £12,000) from Stratagem (NI) Limited, a company in which Mr Quintin Oliver, Non-Executive Director of the Company, is a shareholder. At 31 May 2007 the balance owed to Stratagem (NI) Limited by eaga plc was £1,469 (31 May 2006 £3 525)

#### Subsidiaries and joint ventures

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

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

	31 May 2007 £'000	31 May 2006 £'000
Sales of goods and services		
– to joint ventures	–	–
Purchases of goods and services		
– from joint ventures	1,901	70
Receivables		
– due from joint ventures	1,364	1,096
Payables		
– due to joint ventures	1,864	104

### 33 ULTIMATE CONTROLLING PARTY

The majority of the shares and voting rights in the Company and therefore control of eaga plc are held in trust for the Partners of the Group by eaga Partnership Trustee Limited and eaga Partnership Trustee Two Limited

### 34 SUBSIDIARIES AND JOINT VENTURES

The main unquoted investments held by eaga plc as at 31 May 2007 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
Advanced Total Energy Care Limited	Energy efficiency services and advice	100%	31 May
Ark Solar Products Limited (*)	Energy efficiency services	100%	31 May
Debind International (UK) Limited	IT consulting	100%	31 May
Eaga Energy India Private Limited (*)	IT consulting	90%	31 March
eaga Insurance Services Limited	Administration and claims settlements	85%	31 May
eaga Renewables Limited	Installation of thermal energy water heating systems	100%	31 May
eaga Social Housing Services Limited (*)	Energy efficiency services	100%	31 May
Everwarm Services Limited (*)	Energy efficiency services	100%	31 May
Heat, Energy and Associated Technology Limited (*)	Energy efficiency services	100%	31 May
Homeworks Services Inc (*)	Energy efficiency services	100%	31 May
Iguana Services Limited	Energy efficiency services	100%	31 May
Insu-Build Direct Limited (*)	Energy efficiency services	100%	31 May
Integrated Energy Systems Limited (*)	Energy efficiency services	100%	31 May
JD Heating Limited	Energy efficiency services	100%	31 May
Mico Services Limited (*)	Energy efficiency services	100%	31 May
Millfold Group Limited (*)	Energy efficiency services	100%	31 May
Options (Scotland) Limited (*)	Supply and retail of bathrooms and fireplaces	100%	31 May
Resin Polymer Applications Limited (*)	Provision of external thermal insulation 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 Everwarm Services Limited, Options (Scotland) Limited and Resin Polymer Applications Limited which are incorporated in Scotland, Heat, Energy and Associated Technology Limited which is incorporated in Northern Ireland, Homeworks Services Inc, Ark Solar Products Limited and Integrated Energy Systems Limited which are incorporated in Canada and eaga Energy India Private Limited which is incorporated in India

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

Those entities which have non-coterminous year-ends are consolidated in the Group accounts using management accounts for the relevant financial period.

### 35 POST BALANCE SHEET EVENTS

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

- increasing the authorised share capital of the Company from £53 000 to £330,000 by the creation of 277,000,000 Ordinary Shares of £0 001
- issuing a further 1,520,208 Preferred Ordinary Shares
- allotting, by way of bonus issue a total of 181,684,542 new Ordinary Shares to the existing Ordinary Shareholders the nominal amount of such new Ordinary Shares being paid up from the Company's distributable profits and such shares being allotted pro rata amongst the existing holders of Ordinary Shares
- converting each of the Preferred Ordinary Shares into Ordinary Shares
- allotting by way of Public Placing, 16 574 586 Ordinary Shares

The following is a reconciliation of the authorised and issued shares from 31 May 2007 to the date of Admission

	Authorised Ordinary Shares of £0 001 each	Issued Ordinary Shares of £0 001 each	Authorised Preferred Ordinary Shares of £0 001 each	Issued Preferred Ordinary Shares of £0 001 each
At 1 June 2007	40,001	40,001	52,959,999	50,440,000
Increase in authorised share capital	277 000 000	–	–	–
Preferred Ordinary Shares allotted	–	–	–	1,520,208
Bonus issue of Ordinary Shares	–	181 684 542	–	–
Conversion of Preferred Ordinary Shares to Ordinary Shares	52,959,999	51 960,208	(52,959 999)	(51,960,208)
Allotment of Ordinary Shares on Initial Public Offering	–	16,574,586	–	–
At 7 June 2007	330,000,000	250,259,337	–	–

(ii) On 25 June 2007 the Group acquired 100 per cent of the issued share capital of RG Francis Limited. The initial consideration paid was £9.7 million including initial acquisition expenses of £140,000. There is further consideration payable during the year to 31 May 2008 of up to £1.6 million based on certain performance criteria. The provisional net book value of assets acquired was £1.4 million. The assessment of fair values of the net assets is not yet completed.

(iii) On 21 March 2007 the Chancellor of the Exchequer presented the 2007 budget which announced a reduction in the rate of UK Corporation Tax from 30% to 28% effective 1 April 2008. As the change was not substantively enacted as at 31 May 2007 the effect is treated as a non-adjusting post balance sheet event. The effect of this change in corporation tax rate if recognised would be to reduce the Group's deferred tax asset at 31 May 2007 and at 31 May 2006 to £25,683,000 and £289,000 respectively. No adjustment is expected as a result of the anticipated withdrawal of Industrial Buildings Allowances as from April 2008.

### 36 FIRST TIME ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

eaga plc adopted IFRS, as adopted by the EU with effect from 1 January 2004. Details of the conversion of previously reported UK GAAP figures are included in the Company's Prospectus for the Admission to the Official List, copies of which are available from the Registered Office.

# 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 2007 which comprise the Parent Company balance sheet and the notes to the Parent Company financial statements. These Parent Company financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Directors' Remuneration Report that is described as having been audited.

We have reported separately on the Group financial statements of eaga plc for the year ended 31 May 2007.

## Respective responsibilities of Directors and auditors

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

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

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

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

The maintenance and integrity of the eaga plc website is the responsibility of the Directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

## Basis of audit opinion

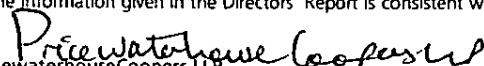
We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Parent Company financial statements and the part of the Directors'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

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

## Opinion

In our opinion:

- the Parent Company financial statements give a true and fair view in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Company's affairs as at 31 May 2007
- the Parent Company financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985
- the information given in the Directors' Report is consistent with the Parent Company financial statements

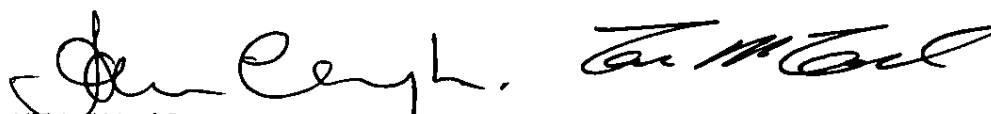
  
PricewaterhouseCoopers LLP  
Chartered Accountants and Registered Auditors  
Newcastle upon Tyne  
19 September 2007

# Parent Company Balance Sheet

As at 31 May 2007

	Notes	31 May 2007 £'000	31 May 2006 £'000
<b>Fixed assets</b>			
Tangible assets	2	5,045	2,100
Investments	3	55,682	12,019
		60,727	14,119
<b>Current assets</b>			
Stock	4	68	115
Debtors Due within one year	5	33,093	28,421
Debtors Due after more than one year	5	25,821	713
Cash at bank and in hand		-	12,952
		58,982	42,201
Creditors Due within one year	6	(78,996)	(44,399)
<b>Net current liabilities</b>		(20,014)	(2,198)
<b>Total assets less current liabilities</b>		40,713	11,921
Creditors Due after more than one year	7	(2,000)	-
Provisions for liabilities and charges	9	(342)	(342)
<b>Net assets</b>		38,371	11,579
<b>Capital and reserves</b>			
Called up share capital	10	50	1
Share premium account	11	190	170
Capital redemption reserve	11	3,600	3,600
Profit and loss account	11	34,531	7,808
<b>Total equity</b>		38,371	11,579

The Parent Company financial statements were approved by the Board of Directors on 19 September 2007 and signed on its behalf by



John Clough MBE, Ian McLeod Directors  
Registered No. 385865

The notes on pages 69 to 75 form part of these Parent Company financial statements

# Notes to the Parent Company Financial Statements

## 1 PARENT COMPANY ACCOUNTING POLICIES

### Basis of accounting

The Parent Company financial statements are prepared on a going concern basis under the historical cost convention, except as disclosed below in accordance with the Companies Act 1985 and applicable UK accounting standards. As permitted by Section 230 of the Companies Act 1985, the Company's profit and loss account and statement of total recognised gains and losses are not presented in these financial statements. The eaga plc consolidated financial statements for the year ended 31 May 2007 contain a consolidated cash flow statement. Consequently the Company has taken the exemption available in FRS1 (Revised 1996) Cash flow statements and has not presented its own cash flow statement.

### Tangible fixed assets

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

Long leasehold land and buildings	Period of lease
Alterations to leasehold property	Period of lease
Fixtures and fittings	20 – 33 3%
Equipment	20 – 50%

### Fixed asset investments

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

### Stocks

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

### Leases

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

### Turnover

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

### Pension scheme

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

### Deferred taxation

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more, or a right to pay less tax in the future have occurred at the balance sheet date. Deferred tax assets are recognised only to the extent that they are considered recoverable in the future. Deferred tax balances are not discounted.

### Foreign currencies

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

### Share-based payments

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

### 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 book value depending on when they fall due.

## 2 TANGIBLE FIXED ASSETS

	Long leasehold land and buildings £'000	Alterations to leasehold property £'000	Fixtures and fittings £'000	Equipment £'000	Total £'000
<b>Cost</b>					
As at 1 June 2006	350	561	633	5,938	7,482
Additions	2,141	9	593	1,230	3,973
Disposals	-	(60)	(27)	(45)	(132)
<b>As at 31 May 2007</b>	<b>2,491</b>	<b>510</b>	<b>1,199</b>	<b>7,123</b>	<b>11,323</b>
<b>Depreciation</b>					
As at 1 June 2006	-	254	571	4,557	5,382
Charge for the year	-	93	84	784	961
Disposals	-	(14)	(12)	(39)	(65)
<b>As at 31 May 2007</b>	<b>-</b>	<b>333</b>	<b>643</b>	<b>5,302</b>	<b>6,278</b>
<b>Net book value</b>					
As at 31 May 2007	2,491	177	556	1,821	5,045
As at 1 June 2006	350	307	62	1,381	2,100

## 3 INVESTMENTS

	Investments in Subsidiary Undertakings £'000	Investments in Joint Ventures £'000	Total £'000
<b>Cost</b>			
As at 1 June 2006	12,594	22	12,616
Acquisitions	44,228	-	44,228
Reassessment of consideration payable	(265)	-	(265)
<b>As at 31 May 2007</b>	<b>56,557</b>	<b>22</b>	<b>56,579</b>
<b>Provision</b>			
As at 1 June 2006	575	22	597
Charge in year	300	-	300
<b>As at 31 May 2007</b>	<b>875</b>	<b>22</b>	<b>897</b>
<b>Net book value</b>			
As at 31 May 2007	55,682	-	55,682
As at 31 May 2006	12,019	-	12,019

The charge for the year relates to the write off of the Company's investment in Lumen Reivers Limited

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

#### 4 STOCK

	31 May 2007 £'000	31 May 2006 £'000
Work in progress	–	33
Finished goods	68	82
	68	115

#### 5 DEBTORS

	31 May 2007 £'000	31 May 2006 £'000
Due within one year		
Trade debtors	21,534	21,909
Amounts due from group undertakings	4,413	1,730
Other debtors	1,544	3,126
Corporation tax	891	645
Prepayments and accrued income	4,711	1,010
Called up share capital not paid	–	1
	33,093	28,421
Due after more than one year		
Deferred taxation (note 8)	25,821	713
	25,821	713

The called up share capital not paid as at 31 May 2006 was held by eaga Partnership Trustee Limited and eaga Partnership Trustee Two Limited

#### 6 CREDITORS – DUE WITHIN ONE YEAR

	31 May 2007 £'000	31 May 2006 £'000
Bank overdraft	4,427	571
Trade creditors	27,638	20,138
Amounts owed to group undertaking	11,652	4,858
Other taxation and social security	496	3,033
Other creditors	4,961	2,578
Accruals and deferred income	18,622	12,746
Deferred consideration on acquisition of subsidiaries	11,200	475
	78,996	44,399



## 7 CREDITORS – DUE AFTER MORE THAN ONE YEAR

	31 May 2007 £ 000	31 May 2006 £ 000
Deferred consideration on acquisition of subsidiaries	2,000	–

## 8 DEFERRED TAXATION

A deferred tax asset has been recognised as shown below

	Amounts recognised	
	31 May 2007 £'000	31 May 2006 £'000
Tax effect of timing differences because of		
Share based payments	25,286	–
Short term timing differences	150	283
Excess of depreciation over capital allowances	385	430
	25,821	713

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

## 9 PROVISIONS FOR LIABILITIES AND CHARGES

	Dilapidation provision £'000
As at 1 June 2006 and 31 May 2007	342

The dilapidations provision held by the Company as at 31 May 2007 is held to cover dilapidations on leased properties and is expected to be fully utilised within two years

## 10 SHARE CAPITAL

	31 May 2007 £'000	31 May 2006 £'000
<b>Authorised equity share capital</b>		
40,001 (31 May 2006 40,000) Ordinary Shares of £0.001 each	–	–
52,959,999 (31 May 2006 970,000) Preferred Ordinary Shares of £0.001 each	53	1
<b>Authorised equity share capital</b>	<b>53</b>	<b>1</b>
<b>Allotted and called up equity share capital</b>		
40,001 (31 May 2006 36,800) Ordinary Shares of £0.001 each	–	–
50,440,000 (31 May 2006 970,000) Preferred Ordinary Shares of £0.001 each	50	1
<b>Allotted and called up equity share capital</b>	<b>50</b>	<b>1</b>

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

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

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

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

Except as disclosed below the Preferred Ordinary Shares and Ordinary Shares shall rank pari passu in all respects

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

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

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

The following is a reconciliation of the authorised and issued share capital at the start and end of the financial year

	Authorised Ordinary Shares at £0.001 each	Allotted Ordinary Shares at £0.001 each	Authorised Preferred Ordinary Shares at £0.001 each	Allotted Preferred Ordinary Shares at £0.001 each
At 1 June 2006	40,000	36,800	970,000	970,000
Ordinary Shares allotted on 9 June 2006	–	2,380	–	–
Ordinary Shares allotted on 19 July 2006	–	380	–	–
Increase in authorised share capital on 24 February 2007	1	–	51,989,999	–
Ordinary Shares allotted on 24 February 2007	–	441	–	–
Bonus issue of Preferred Ordinary Shares on 24 February 2007	–	–	–	49,470,000
At 31 May 2007	40,001	40,001	52,959,999	50,440,000

Further details of movements in share capital since the year end can be found in note 17, Post Balance Sheet Events

## 11 RESERVES

	Share premium account £'000	Capital redemption reserve £'000	Profit and loss account £'000
As at 1 June 2006	170	3,600	7,808
Loss for the year	–	–	(57,565)
Share based payments	–	–	84,288
Bonus issue of shares	(49)	–	–
Issue of share capital	69	–	–
As at 31 May 2007	190	3,600	34,531

## 12 RECONCILIATION OF MOVEMENT IN EQUITY SHAREHOLDERS' FUNDS

	31 May 2007 £'000	31 May 2006 £'000
(Loss)/profit for the year	(57,565)	793
Share based payments	84,288	–
Issue of share capital	69	170
Net increase in equity shareholders' funds	26,792	963
Opening equity shareholders' funds	11,579	10,616
Closing equity shareholders' funds	38,371	11,579

### 13 CAPITAL COMMITMENTS AND CONTINGENT LIABILITIES

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

### 14 PROFIT AND LOSS DISCLOSURES

As permitted by Section 230 of the Companies Act 1985 the Company has not presented its own Profit and Loss account

The audit fee in respect of the Parent Company financial statements for the year ended 31 May 2007 was £74 000 (2006 £60,000)

The Company employed 522 staff including Directors (2006 448) and the total staff costs are shown below

	31 May 2007 £ 000	31 May 2006 £'000
Wages and salaries	13,964	24,239
Social security costs	1,215	1,766
Pension costs	1,984	1 857
	<b>17,163</b>	<b>27,862</b>

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

### 15 SHARE BASED PAYMENTS

The IPO Option Plan granted nil-cost options over the Company's Ordinary and Preferred Ordinary Shares to all Partners and certain former Partners (at EPT discretion) Options were granted in February and March 2007 and became exercisable on listing Options would have lapsed on 31 July 2007 had listing not been achieved

The total number of options outstanding at 31 May 2007 was 46 499 182 which were all exercised immediately on 7 June 2007 No further options will be issued under the IPO Option Plan A share based charge of £84.3 million arising in respect of the fair value of these options is recognised in the Profit and Loss account The listing price of £1.81 per share, set in a pricing meeting on 22 May 2007, is deemed to be the market value and therefore fair value used in determining the charge

There was no cash cost to the Company as a result of these awards The Company expects to receive a statutory corporation tax deduction in connection with the charge and accordingly a deferred tax asset of £25.3 million and a corresponding increase in net assets has been recognised in the balance sheet at 31 May 2007

### 16 RELATED PARTY TRANSACTIONS

As permitted by FR58 Related Party Disclosures disclosure of related party transactions with other companies controlled by eaga plc is not provided

The net amount due from NEST MAKERS Limited, a joint venture of eaga plc, at 31 May 2007 was £864 000 (31 May 2006 £802 000)

The net amount due to WarmSure Limited, a joint venture of eaga plc at 31 May 2007 was £1,364,000 (31 May 2006 £Nil) £1,901,000 (31 May 2006 £Nil) of services were purchased from WarmSure Limited in the year

During the year eaga plc purchased services with an aggregate value of £13,345 (31 May 2006 £12 000) for Stratagem (NI) Limited a company in which Mr Quintin Oliver Non-Executive Director of eaga plc, is a shareholder At 31 May 2007 the balance owed to Stratagem (NI) Limited by eaga plc was £1 469 (31 May 2006 £3 525)

## 17 POST BALANCE SHEET EVENTS

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

- increasing the authorised share capital of the Company from £53 000 to £330 000 by the creation of 277 000 000 Ordinary Shares of £0 001
- issuing a further 1 520,208 Preferred Ordinary Shares
- allotting, by way of bonus issue a total of 181,684,542 new Ordinary Shares to the existing Ordinary Shareholders the nominal amount of such new Ordinary Shares being paid up from the Company's distributable profits and such shares being allotted pro rata amongst the existing holders of Ordinary Shares
- converting each of the Preferred Ordinary Shares into Ordinary Shares
- allotting, by way of Public Placing 16,574,586 Ordinary Shares

The following is a reconciliation of the authorised and issued shares from 31 May 2007 to the date of Admission

	Authorised Ordinary Shares of £0 001 each	Issued Ordinary Shares of £0 001 each	Authorised Preferred Ordinary Shares of £0 001 each	Issued Preferred Ordinary Shares of £0 001 each
At 1 June 2007	40 001	40,001	52,959 999	50 440,000
Increase in authorised share capital	277 000,000	–	–	–
Preferred Ordinary Shares allotted	–	–	–	1 520 208
Bonus issue of Ordinary Shares	–	181,684,542	–	–
Conversion of Preferred Ordinary Shares to Ordinary Shares	52 959 999	51 960,208	(52,959 999)	(51 960 208)
Allotment of Ordinary Shares on IPO	–	16 574 586	–	–
At 7 June 2007	330,000,000	250,259,337	–	–

(ii) On 25 June 2007 the Company acquired 100 per cent of the issued share capital of RG Francis Limited. The initial consideration paid was £9.7 million including initial acquisition expenses of £140,000. There is further consideration payable during the year to 31 May 2008 of up to £1.6 million based on certain performance criteria. The provisional net book value of assets acquired was £1.4 million. The assessment of fair values of the net assets is not yet completed.

(iii) On 21 March 2007 the Chancellor of the Exchequer presented the 2007 budget which announced a reduction in the rate of UK Corporation Tax from 30% to 28% effective 1 April 2008. As the change was not substantively enacted as at 31 May 2007 the effect is treated as a non-adjusting post balance sheet event. The effect of this change in corporation tax rate, if recognised would be to reduce the Company's deferred tax asset at 31 May 2007 and at 31 May 2006 to £24,316,000 and £694 000 respectively. No adjustment is expected as a result of the anticipated withdrawal of Industrial Buildings Allowances as from April 2008.

# Notice of Annual General Meeting

Notice is given that the Annual General Meeting of eaga plc ('the Company') will be held at the Lower Ballroom Suite, The Assembly Rooms Fenkle Street, Newcastle upon Tyne NE1 5Xl on 22 November 2007 at 11 00 am for the following purposes

## ORDINARY BUSINESS

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

- 1 THAT the Company's annual accounts for the financial year ended 31 May 2007 together with the last Directors' Report, the last Directors' Remuneration Report and the Auditors' Report on those accounts and the auditable part of the remuneration report be received
- 2 THAT the Directors' Remuneration Report for the financial year ended 31 May 2007 contained in the Company's annual accounts be approved
- 3 THAT no dividend be declared for the year ended 31 May 2007
- 4 THAT Ian Daniel McLeod be reappointed as a Director
- 5 THAT David Routledge be reappointed as a Director
- 6 THAT Quintin Oliver be reappointed as a Director
- 7 THAT the resignation of Michael Collingwood Roberts be accepted and that he not be reappointed as Director on not seeking reappointment
- 8 THAT PricewaterhouseCoopers LLP be reappointed as auditors to hold office from the conclusion of the meeting to the conclusion of the next meeting at which the accounts are laid before the Company at a remuneration to be determined by the Directors

## SPECIAL BUSINESS

To consider and, if thought fit, pass the following resolutions, of which resolution 9 will be proposed as an ordinary resolution and resolutions 10 and 11 will be proposed as a special resolutions

- 9 THAT the Directors be and they are generally and unconditionally authorised for the purposes of section 80 of the Companies Act 1985 (the 'Act') to exercise all the powers of the Company to allot relevant securities (within the meaning of that section) up to an aggregate nominal amount of £79,740 66 provided that this authority is for a period expiring five years from the date of this resolution but the Company may before such expiry make an offer or agreement which would or might require relevant securities to be allotted after such expiry and the Directors may allot relevant securities in pursuance of such offer or agreement notwithstanding that the authority conferred by this resolution has expired. This authority is in substitution for all subsisting authorities, to the extent unused
- 10 THAT subject to the passing of the previous resolution the Directors be and they are empowered pursuant to section 95 of the Act to allot equity securities (within the meaning of section 94(2) to section 94(3A) of the Act) wholly for cash pursuant to the authority conferred by the previous resolution as if section 89(1) of the Act did not apply to any such allotment, provided that this power shall be limited to the allotment of equity securities
  - (a) In connection with an offer of such securities by way of rights to holders of ordinary shares in proportion (as nearly as may be practicable) to their respective holdings of such shares but subject to such exclusions or other arrangements as the Directors may deem necessary or expedient in relation to fractional entitlements or any legal or practical problems under the laws of any territory, or the requirements of any regulatory body or stock exchange, and
  - (b) Otherwise than pursuant to sub-paragraph (a) above up to an aggregate nominal amount of £12,500,

and shall expire five years from the date of this resolution/on the conclusion of the next Annual General Meeting of the Company after the passing of this resolution save that the Company may, before such expiry make an offer or agreement which would or might require equity securities to be allotted after such expiry and the Directors may allot equity securities in pursuance of any such offer or agreement notwithstanding that the power conferred by this resolution has expired

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

- 11 THAT the Company be and is generally and unconditionally authorised for the purposes of section 166 of the Act to make one or more market purchases (within the meaning of section 163(3) of the Act) on the London Stock Exchange of ordinary shares of £0.001 each in the capital of the Company provided that
- (a) The maximum aggregate number of ordinary shares authorised to be purchased is 25,000,000 (representing 10 per cent (10%) of the Company's issued ordinary share capital),
  - (b) The minimum price which may be paid for such shares is £0.001 per share,
  - (c) The maximum price which may be paid for an Ordinary Share shall not be more than 5 per cent above the average of the middle market quotations for an ordinary share as derived from the London Stock Exchange Daily Official List for the five business days immediately preceding the date on which the ordinary share is purchased,
  - (d) Unless previously renewed, varied or revoked, the authority conferred shall expire at the conclusion of the Company's next AGM or 12 months from the date of passing this resolution, if earlier,
  - (e) The Company may make a contract or contracts to purchase ordinary shares under the authority conferred prior to the expiry of such authority which will or may be executed wholly or partly after the expiry of such authority and may make a purchase of ordinary shares in pursuance of any such contract or contracts

By order of the Board

Christopher Judd  
Company Secretary  
19 September 2007

**Registered office**  
eaga House  
Archbold Terrace  
Jesmond  
Newcastle upon Tyne  
NE2 1DB

#### NOTES

- 1 A member entitled to attend and vote at the meeting convened by the notice set out above is entitled to appoint a proxy (or proxies) to attend and, on a poll, to vote in his or her place. A proxy need not be a member of the Company.
- 2 A form of proxy is enclosed. To be effective, it must be deposited at the office of the Company's registrars so as to be received not later than 48 hours before the time appointed for holding the Annual General Meeting. Completion of the proxy does not preclude a member from subsequently attending and voting at the meeting in person if he or she so wishes.
- 3 The register of interests of the Directors and their families in the share capital of the Company and copies of contracts of service of Directors with the Company or with any of its subsidiary undertakings will be available for inspection at the registered office of the Company during normal business hours (Saturdays and public holidays excepted) from the date of this notice until the conclusion of the AGM.
- 4 In accordance with Regulation 41 of the Uncertificated Securities Regulations 2001, only those members entered on the Company's register of members not later than 11.00am on 20 November 2007 or, if the meeting is adjourned, shareholders entered on the Company's register of members not later than 48 hours before the time fixed for the adjourned meeting shall be entitled to attend and vote at the meeting.
- 5 To register your proxy electronically, log onto the Company's registrars website at [www.capitaregistrars.com](http://www.capitaregistrars.com) and follow the instructions. You will need to input your Investor Code which can be found on your share certificate. To be valid, your proxy must be lodged no later than 48 hours before the time fixed for holding the meeting.

# Proxy Card

## EAGA PLC ("the Company") ANNUAL GENERAL MEETING

Before completing this form, please read the explanatory notes below

I/We being a member of the Company appoint \_\_\_\_\_

or, failing him/her, the Chairman of the Meeting (see note 6) to act as my/our proxy to attend and vote on my/our behalf at the Annual General Meeting of the Company to be held on 22 November 2007 and at any adjournment of the meeting

I/We direct my/our proxy to vote as follows  
(INDICATE WITH AN X IN THE BOXES BELOW)

### Resolutions

#### ORDINARY BUSINESS

- 1 THAT the Company's annual accounts for the financial year ended 31 May 2007 together with the last Directors' Report, the last Directors' Remuneration Report and the Auditors' Report on those accounts and the auditable part of the remuneration report be received
- 2 THAT the Directors' Remuneration Report for the financial year ended 31 May 2007 contained in the Company's annual accounts be approved
- 3 THAT no dividend be declared for the year ended 31 May 2007
- 4 THAT Ian Daniel McLeod be reappointed as a Director
- 5 THAT David Routledge be reappointed as a Director
- 6 THAT Quintin Oliver be reappointed as a Director
- 7 THAT the resignation of Michael Collingwood Roberts be accepted and that he not be reappointed as Director on not seeking reappointment
- 8 THAT PricewaterhouseCoopers LLP be reappointed as auditors to hold office from the conclusion of the meeting to the conclusion of the next meeting at which the accounts are laid before the Company at a remuneration to be determined by the Directors

For	Against	Votes withheld (see note 5)	Discretionary (see note 5)
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<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

#### SPECIAL BUSINESS

- 9 THAT the Directors be and they are generally and unconditionally authorised for the purposes of section 80 of the Companies Act 1985 (the "Act") to exercise all the powers of the Company to allot relevant securities (within the meaning of that section) up to an aggregate nominal amount of £79,740 66 provided that this authority is for a period expiring five years from the date of this resolution but the Company may before such expiry make an offer or agreement which would or might require relevant securities to be allotted after such expiry and the Directors may allot relevant securities in pursuance of such offer or agreement notwithstanding that the authority conferred by this resolution has expired. This authority is in substitution for all subsisting authorities, to the extent unused
- 10 THAT subject to the passing of the previous resolution the Directors be and they are empowered pursuant to section 95 of the Act to allot equity securities (within the meaning of section 94(2) to section 94(3A) of the Act) wholly for cash pursuant to the authority conferred by the previous resolution as if section 89(1) of the Act did not apply to any such allotment, provided that this power shall be limited to the allotment of equity securities
  - (a) In connection with an offer of such securities by way of rights to holders of ordinary shares in proportion (as nearly as may be practicable) to their respective holdings of such shares, but subject to such exclusions or other arrangements as the Directors may deem necessary or expedient in relation to fractional entitlements or any legal or practical problems under the laws of any territory, the requirements of any regulatory body or stock exchange, and
  - (b) Otherwise than pursuant to sub-paragraph (a) above up to an aggregate nominal amount of £12,500, and shall expire five years from the date of this resolution/on the conclusion of the next Annual General Meeting of the Company after the passing of this resolution save that the Company may, before such expiry make an offer or agreement which would or might require equity securities to be allotted after such expiry and the Directors may allot equity securities in pursuance of any such offer or agreement notwithstanding that the power conferred by this resolution has expired

<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
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# Proxy Card

	For	Against	Votes withheld (see note 5)	Discretionary (see note 5)
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This power applies in relation to a sale of shares which is an allotment of equity securities by virtue of section 94(3A) of the Act as if in the first paragraph of this resolution the words "pursuant to the authority conferred by the previous resolution" were omitted

- |   |                          |                          |                          |                          |
|---|--------------------------|--------------------------|--------------------------|--------------------------|
| 11 THAT the Company be and is generally and unconditionally authorised for the purposes of section 166 of the Act to make one or more market purchases (within the meaning of section 163(3) of the Act) on the London Stock Exchange of ordinary shares of £0.001 each in the capital of the Company provided that                       | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| (a) The maximum aggregate number of ordinary shares authorised to be purchased is 25,000,000 (representing 10 per cent (10%) of the Company's issued ordinary share capital),   |                          |                          |                          |                          |
| (b) The minimum price which may be paid for such shares is £0.001 per share   |                          |                          |                          |                          |
| (c) The maximum price which may be paid for an Ordinary Share shall not be more than 5 per cent above the average of the middle market quotations for an ordinary share as derived from the London Stock Exchange Daily Official List for the five business days immediately preceding the date on which the ordinary share is purchased, |                          |                          |                          |                          |
| (d) Unless previously renewed, varied or revoked, the authority conferred shall expire at the conclusion of the Company's next AGM or 12 months from the date of passing this resolution, if earlier,   |                          |                          |                          |                          |
| (e) The Company may make a contract or contracts to purchase ordinary shares under the authority conferred prior to the expiry of such authority which will or may be executed wholly or partly after the expiry of such authority and may make a purchase of ordinary shares in pursuance of any such contract or contracts              |                          |                          |                          |                          |

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

Signature or common seal

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

Date 19 September 2007

## Notes to the proxy form

- Only holders of ordinary shares entered on the register of members of the Company at 5.00pm on the second day prior to the date of the meeting or any adjournment of it shall (unless otherwise entitled to do so) be entitled to attend and vote at the meeting or at any such adjournment. This is in accordance with Regulation 41 of the Uncertificated Securities Regulations 2001.
- A member entitled to attend and vote at the meeting may appoint one or more proxies to attend and, on a poll, to vote instead of him/her. A proxy need not be a member of the Company.
- To be valid for the meeting, a form of proxy should be completed, signed and lodged (together with any power of authority or any other authority under which it is signed or a duly certified copy of such power of authority) with the Company's registrars, Capita Registrars of The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU, no later than 48 hours before the time for which the meeting is convened.
- The register of Directors' interests in the share capital of the Company and copies of Directors' service contracts are available for inspection during usual business hours at the registered office of the Company on any weekday (Saturday and public holidays excepted) from the date of this notice until the date of the Annual General Meeting and also at the place of the Annual General Meeting for at least 15 minutes prior to, and until the conclusion of the meeting.
- To abstain from voting on a resolution, tick the box "votes withheld". A "votes withheld" is not a vote in law which means that the vote will not be counted in the calculation of votes "for" and "against" the resolution. Ticking "Discretionary" or failing to tick any box against a resolution will mean your proxy can vote as he or she wishes or can decide not to vote at all.
- The Chairman of the Meeting shall act as a proxy unless another proxy is desired. In which case, insert full name of your proxy in the space provided above. A proxy will act in his/her discretion in relation to any business, other than that above, at the meeting (including any resolution to amend a resolution or to adjourn the meeting).
- In the case of a corporation, this form of proxy must be executed under its common seal or signed on its behalf by an attorney or officer of the corporation.
- In the case of joint holders, the vote of the senior holder shall be accepted to the exclusion of the votes of other joint holders. For this purpose, seniority shall be determined by the order in which the names of such holders stand in the register of members in respect of the joint holding in accordance with Article 59.2 of the Company's Articles of Association.
- CREST users should note that they can lodge their proxy votes for the meeting through the CREST electronic appointment system. For further instructions, users should refer to the CREST user manual.
- To register your vote electronically, log on to the Company's registrars website at [www.capitaregistrars.com](http://www.capitaregistrars.com) and follow the instructions. You will need to input your Investor Code which can be found on your share certificate. To be valid, your proxy must be lodged no later than 48 hours before the time fixed for holding the meeting.

Signed \_\_\_\_\_ Date \_\_\_\_\_ 2007





