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Eaga is a green support services company, the UK's leading provider of residential energy efficiency solutions and an established deliverer of a range of outsourced programmes.

Overview

Business Review

Group Financial Statements

Parent Company Financial Statements

Results highlights

- Continued revenue and profit growth
  3 1% rise in revenue to £762 2m
  (2009 £738 9m)
- 10 1% rise in EBITA[1] to £52 0m (2009 £47 2m)
- 7 5% rise in PBTA[1] to £51 0m (2009 £47 5m)
- 7 4% rise in adjusted[2] diluted earnings per share to 14 37p (2009 13 38p)
- 10 0% increase in final divided 2 64p (2009 2 40p)
- Closing net cash[3] balance of £37 9m (2009 £31 3m)
  Robust balance sheet and strong financial position

Key achievements

- Growth in Carbon Services despite delay in CERT funding
- Secured four CESP contracts with a combined value of approximately £50m
- Digital Switchover Help Scheme operating at scale in key regions
- Strategic partnerships in private sector heating operating at scale
- Significant progress on solar PV project with first social landlord contracts signed
- Other domestic renewables initiatives being advanced

1 EBITA and PBTA are stated before Eaga Partnership Trust ('EPT') funded charges, exceptional costs and amortisation of intangible assets
2 Adjusted diluted eps is stated before EPT funded charges, exceptional costs, amortisation of intangible assets and related tax adjustments
3 Net cash comprises cash and cash equivalents less loans and borrowings

Chairman's Statement

I am pleased to report another successful year for Eaga in which we have delivered growth and gained significant momentum in the delivery of our strategic objectives, particularly the development of key opportunities in domestic renewables and carbon services.

This progress is encouraging when taken in the context of the economic and political environment in the UK as well as certain factors that have impacted the key markets in which the Group operates

Revenues grew by 3 1% to £762 2m (2009 £738 9m) and EBITA[1] increased by 10 1% to £52 0m (2009 £47 2m) PBTA[1] increased by 7 5% to £51 0m (2009 £47 5m) These results are stated after absorbing approximately £1 6m of costs associated with the development of our solar PV project Excluding these costs, EBITA growth was 13 5% and PBTA growth was 11 0%

Adjusted[2] diluted earnings per share increased 7 4% to 14 37p (2009 13 38p)

Net cash generated from operations was £33 4m (2009 £40 2m) We absorbed approximately £6 8m of working capital into the development stage of our solar PV project Adjusting for this investment, net cash generated from operations was £40 2m and the Group has delivered an underlying operating cash conversion of 76%[3] (2009 85%) The Group held net cash balances (cash and cash equivalents less loans and borrowings) of £37 9m (2009 £31 3m) at the year end which together with our available banking facilities provides support and funding flexibility for future growth opportunities

Dividend

The Board is recommending a 10% increase in the dividend for the year as a whole, this will comprise a final dividend of 2 64p per share which, when added to the interim dividend of 1 21p per share, gives a total for the year of 3 85p At this level the dividend is covered 3 7 times by adjusted diluted eps Subject to approval by the shareholders, the final dividend will be paid on 12 November 2010 to shareholders on the Register at 15 October 2010

Strategic Progress

The strategic opportunities in Eaga's core markets are significant and continue to broaden In last year's Annual Report I set out the Group's key operational objectives for 2010 These were

Our key operational objectives for 2010 were:

Carbon Services:

To capitalise on the opportunities in the CERT and CESP markets

Heating and Renewables Services:

To continue to grow our domestic heating and renewables activities through the further development of strategic partnerships

Managed Services:

To continue to diversify our contracts base in the BPO market

1 EBITA and PBTA are stated before amortisation of intangible assets Eaga Partnership Trust ('EPT') funded charges and exceptional costs
2 Adjusted diluted eps is stated before EPT funded charges, exceptional costs amortisation of intangible assets and related tax adjustments
3 Underlying cash conversion is calculated as cash generated from operations excluding solar PV absorption of £6 8m and cash EPT-funded charges of £0 3m divided by EBITA excluding solar PV development costs of £1 6m
4 CERT – Carbon Emissions Reduction Target This is a ~£1bn programme requiring energy suppliers to deliver carbon savings through improvements in the energy efficiency of the UK housing stock
5 CESP – Community Energy Savings Programme This is a requirement for the energy generators and suppliers to spend £350m supporting localised community based energy efficiency schemes

- In our Carbon Services business, to capitalise on the opportunities in the CERT[4] and CESP[5] markets,
- In our Heating and Renewables business, to continue to grow our domestic heating and renewables activities through the further development of strategic partnerships, and
- In our Managed Services business, to continue to diversify our contract base in the BPO market

Overall we have made good progress against these key objectives when measured against a background of fiscal tightening and political change Alongside working to meet these objectives, the Group has also continued to identify and deliver efficiency and productivity savings by constantly challenging and improving the way we deliver for our customers

Our Carbon Services business performed well during the year as we have continued to work in partnership with a number of the UK's leading energy suppliers I am particularly pleased with this performance given it has been delivered in a market which became increasingly challenging across the year, given the delay in the announcement of the extension to the CERT programme Confirmation of the extension to CERT was made on 30 June 2010 and we are already seeing encouraging signs of improving demand following a slow-down towards the end of the 2010 financial year

Building upon our expertise in CERT, we have made good progress under the recently introduced CESP programme We have so far secured contracts with four UK power generators which have an aggregate value of approximately £50m and an opportunity to 'match-fund' Local Authority and social housing programmes

Our Heating business was subject to increasing pressure across the financial year as excess supply in the delivery chain led to fierce competition for work The business performed well during the first half of the year, despite early signs that the market was becoming increasingly competitive However as we indicated in the Interim Management Statement in April, during the second half of the year performance was impacted by reduced installation volumes arising from lower funding into the grant funded programmes, along with continued excess supply pressures in the wider market resulting in more competitive pricing In response to these pressures, we employed a strategy of not bidding for work on uncommercial terms which constrained growth but protected trading performance We expect to see a continuation of this competitive pressure through the current financial year

However, it is encouraging to report that there are a number of significant opportunities in the Heating and Renewables markets We have continued to develop strategic partnerships to deliver growth in domestic heating through the provision of services to a range of commercial customers We are also encouraged by the prospects in the domestic renewable energy market, which have been stimulated by the introduction of Feed-in Tariffs ('FiTs') in April 2010 and which we anticipate will further benefit from the expected introduction of the Renewable Heat Incentive during 2011 Of specific focus during the year was the development of our solar PV programme and I expect this project to begin delivering at scale during the current financial year

In our Managed Services segment performance of our existing contracts was good Demand under both the grant funded fuel poverty programmes and Digital Switchover Help Scheme has remained high Whilst Government has signalled that front line services will be least affected by a reduction in funding levels, we do not expect further announcements on the future funding levels for the fuel poverty programmes until the current Comprehensive Spending Review has been completed later this year

We started the financial year with a clear focus on diversifying our contract base within Managed Services and made good progress being shortlisted in the bidding for a number of contracts However, the General Election and early action of the new Government has slowed down the procurement processes for a number of large Government outsourcing programmes The resultant delays will inevitably impact on our Managed Services segment in the short-term, but we believe that Government's stated need to drive efficiencies and cost savings will provide significant medium and long-term opportunities

Key Objectives for 2011

Our key objectives as we look forward to 2011, set against the backdrop of the market factors outlined above, are to

- Maintain our leading position in the CERT and CESP markets whilst positioning Eaga for the opportunities presented by the Green Deal[6],
- Deliver both our solar PV project at scale and prepare for significant growth in other domestic renewables opportunities, and
- Capitalise on the momentum we have gained in diversifying our contract base

Our Partners

Eaga's unique ownership structure harnesses significant commitment from our staff, whom we refer to as Partners Our core values continue to be at the heart of everything we do, the clear aim of which is to deliver outstanding customer service On behalf of the Board I would like to thank all of our Partners for the contribution they have made to Eaga's success in 2010

The Board

In September 2009 we announced the appointment of Willie MacDiarmid to the Board in the role of Chief Operating Officer Willie brings a wealth of experience to Eaga having spent 19 years at ScottishPower, most recently in the role of Managing Director of Energy Retail

We also announced in June this year, that Ian McLeod, Chief Financial Officer, will step down from the Board at the Group's Annual General Meeting in October Ian's decision reflects his desire to take a break from corporate life We are grateful to Ian for his service and commitment and wish him well for the future Ian will be succeeded by Giles Sharp who has been with Eaga for over five years, most recently in the role of Group Finance and Investor Relations Director, a position he assumed after leading Eaga's IPO implementation programme in 2007

UK Corporate Governance Code

Although the new Code applies to accounting periods beginning on or after 29 June 2010, I am pleased to report that Eaga already embraces its principles We verify this each year through our Board Performance Review which I see as important in confirming that we operate to high standards and also in identifying opportunities to improve further Our reviews are externally facilitated every year and in every third year also involve external scrutiny and commentary We consider, in a rigorous and structured fashion, the performance of the Board, and its committees and individual Directors in terms of overall conduct and effectiveness as well as our evolution in terms of membership and skills

In order to capture fully the issues that I should bear in mind as I chair the Board, I meet with shareholders to gauge at first hand their views of all aspects of Eaga and its management My conclusions from these meetings are shared first with Non-Executive Directors and then with the Board as a whole Overall I believe this approach is effective in ensuring Eaga operates to high standards of governance

Key objectives for 2011

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6 Green Deal is a new Government proposal in which homeowners will be entitled to spend up to £6,500 improving the energy efficiency of their home with repayments funded from future energy bills

Strategic Positioning

Climate change, energy security and resource conservation remain high on the global political agenda These issues are here to stay and with them an ongoing commitment to reduce energy consumption and carbon emissions with a shift to more efficient low carbon solutions This is a priority area for our new Government where there is a clear appetite, through mechanisms such as the Green Deal, to increase the scale of domestic measures for low carbon energy generation and reduced resource consumption through improved energy efficiency

Equally, the Government has made it clear that significant savings are to be made in the delivery of public policy and services This is expected to be driven through a combination of funding reductions and efficiency improvements - with measures to include increased involvement of private sector financing in policy delivery, and greater outsourcing of Government programmes and services The implementation of such change will present some challenges as policies develop and significant longer term opportunity for Eaga with its track record of delivery in these markets

Over the last 15 years we have developed business platforms that allow us to deliver efficient and innovative solutions targeted at those most in need More recently we have also demonstrated the ability to broaden our offering to the retail market Whilst we are experiencing some near term competitive challenges and market uncertainty, I believe that Eaga's strategic positioning across its core markets leaves the business well placed to deliver future growth We have identified a number of opportunities for 2011 and the Board is confident about the prospects for the Group

Charles Berry, Chairman
2 September 2010

"Over the last 15 years we have developed business platforms that allow us to deliver efficient and innovative solutions targeted at those most in need."

We operate in three segments:

Carbon Services:

What we do:

Carbon Emission Reduction Target ('CERT')
Eaga is a leading partner with the major energy suppliers helping them meet their CERT obligations to improve the energy efficiency of UK housing stock The energy suppliers are required to spend approximately £1bn per annum under this programme

Community Energy Savings Programme ('CESP')
Through CESP, Eaga is helping energy generators and suppliers deliver their commitments to fund community-wide household energy efficiency savings Spending on CESP has been set at £350m over three years with an expectation of matched-funding from Social Landlords and other organisations

Partnership Energy Service Proposition
Working in green partnerships, Eaga offers domestic customers and SME businesses a range of carbon saving solutions

Our customers:

- Energy suppliers
- Energy generators
- Social Landlords
- House builders
- Domestic customers
- SME businesses

Services we provide:

In the year to 31 May 2010
- 11 9m tonnes of CO_2 savings delivered
- 1 7m innovative energy saving products delivered
- Energy efficiency improvements, such as loft and cavity wall insulation delivered to over 250,000 households
- Provision of low and zero carbon energy improvements to domestic customers and SME businesses

Key statistics:

Share of Group Revenue
28%

Heating and Renewables Services:

Central Heating Installation and Servicing
Eaga is one of the largest installers of central heating systems and a leading provider of heating service and repair contracts in the UK

Social Landlords
Eaga provides emergency breakdown cover and annual servicing for in excess of 160,000 Local Authority and social housing properties

Domestic Renewables
Our renewables business installs and maintains a wide range of green energy technologies, including solar PV, solar thermal, air and ground source heat pumps

- Social Landlords
- Strategic partnerships with private companies (e g Barclays, HomeSun)
- Domestic customers
- Fuel poverty grant funded programmes

In the year to 31 May 2010.
- 37,000 energy efficient heating systems installed
- 393,000 heating systems under 24/7 cover
- 525,000 breakdown visits
- 664 solar PV installations

Share of Group Revenue

23%

Managed Services:

Warm Front
England's flagship scheme to alleviate fuel poverty Delivered on behalf of DECC, it has assisted more than 2 1m households

Home Energy Efficiency Scheme
Fuel poverty scheme in Wales delivered on behalf of the Welsh Assembly Government It has assisted more than 125,000 households

Advice Services
Telephone-based advice service to ensure low income households receive benefits they are entitled to, together with advice in relation to housing, debt and employment matters Delivered on behalf of customers including DECC, Welsh Assembly Government, Legal Services Commission and certain water companies

Digital Switchover Help Scheme
Delivered on behalf of BBC to help customers over 75, partially sighted or in receipt of qualifying benefits make the switch from analogue to digital TV

Care Homes
Part of the Digital Switchover Help Scheme and delivered on behalf of DCMS to make sure people in care homes can make the shift from analogue to digital TV It has provided assistance to more than 32,000 residents in 3,000 care homes

- DECC
- Welsh Assembly Government
- DCMS
- BBC
- Legal Services Commission

In the year to 31 May 2010.
- 218,000 fuel poverty houses assisted
- 71,000 benefit entitlement checks completed
- 18,000 legal and other cases completed
- 343,000 households assisted under Digital Switchover Help Scheme
- Three million calls answered

Share of Group Revenue

49%

Carbon Services:
• CERT
• CESP

Case Study – Drax Group plc appoints Eaga. Power generator Drax Group plc has selected Eaga in an exclusive agreement to deliver its entire CESP obligation.

Energy suppliers and power generators, such as Drax Group plc, are obliged to contribute to CESP by offering a range of energy efficiency solutions such as solid wall insulation, modern central heating systems and renewable technologies

Adopting a whole house, house-by-house, street-by-street approach, Drax Group plc will work with Eaga to develop community-based partnerships and promote energy efficiency solutions Communities of up to 600 homes will be identified for help in CESP-eligible areas

Dorothy Thompson, Chief Executive of Drax Group plc said "This is the first time that generators have had an obligation which links them directly with end consumers Working with Eaga means our obligation can be managed in a very efficient way in what is very unfamiliar territory for us

"With almost 20 years' experience of improving the energy efficiency of UK housing stock, we believe Eaga is well placed to assist us in meeting our carbon emissions reduction obligation under CESP"

Heating and Renewables Services:
• Central heating installation and servicing
• Domestic Renewables

Case Study – Welwyn 100
Housing Minister visits 100th Clean Energy Programme customer in Welwyn.

Housing Minister, Grant Shapps MP, visited a green energy scheme in his Welwyn constituency to meet Jean Monk, the 100th householder to receive a free solar PV system under Eaga's Clean Energy Programme

Working with Welwyn Hatfield Community Housing Trust and the Council, Eaga hopes to fit more than 1,000 solar PV systems by the end of the year

Mr Shapps said "It is important that all households can benefit from low carbon living, regardless of their ability to pay, and I'm delighted the partnership between Eaga and Welwyn Hatfield is making this happen"

Mrs Monk added "This is a great opportunity to do my bit for the environment and to save money at the same time The installers were efficient, quick and they left no mess In fact the whole process was very simple"

Since the launch of FiTs in April 2010 Eaga has completed more than 650 installs through the Clean Energy Programme Households who have benefited say they are typically saving up to 35% or more on their energy bills

Case Study – First HomeSun install completed
Eaga has completed the first solar PV installation for renewable energy business HomeSun Limited.

Householder John Arnold, from Petersfield, said he was delighted with the work, which took less than a day and with no disruption

He added "I wanted to invest in renewable energy but had been put off by the cost, so this solution with HomeSun is ideal"

The agreement with HomeSun, which sees Eaga as the sole installer, means households can benefit from electricity generated from a solar PV system for just £500

Daniel Green, Chief Executive Officer for HomeSun, said "Our offer is all about making renewable energy more affordable to more people We believe it is precisely the kind of enterprise-inspired solution that the Government is looking for in the green revolution, and Eaga has the track record and scale to help us deliver"

Managed Services:
• Warm Front
• Home Energy Efficiency Scheme
• Advice Services
• Digital Switchover Help Scheme
• Care Homes

Case Study – Warm Front MP visits Warm Front customer.

Marlene Woodard from Portsmouth had a new boiler and loft insulation installed in December 2009 through the Warm Front scheme

Showing the work to her local MP Penny Mordaunt she said "It has been absolutely brilliant The installers worked really hard, were very courteous and always cleaned up after themselves We also have a thermostat, which we have never had before, and it is lovely being able to control the temperature so easily"

Case Study – Digital Switchover Help Scheme Broadcaster launches digital campaign in Scotland.

Broadcaster and former Tomorrow's World Presenter, Maggie Philbin, recently joined forces with the Digital Switchover Help Scheme team to officially launch the 'Helping Hand' campaign

Maggie, who is an ambassador for the Digital Switchover Help Scheme, made a visit to Longforgan Parish Church in Perth to talk to members of a luncheon group about how to make the change to digital

She said "Many people will find it simple to switch and lots of people already have But we understand that some people may struggle with what they need to do, especially if they are older, or if they have a disability For those who need a little extra help, we want them to know that they will get the additional support they need from the Digital Switchover Help Scheme"

Operational Review
I am pleased to present this review of the financial year.

The economic and political backdrops throughout the year have contributed to a challenging trading environment for the Group The fact that, despite these external factors, the Group has continued to deliver growth in both revenues and profits whilst maintaining our commitment to delivering high quality services to our customers shows the resilience of our business model Alongside strong operational delivery we have also made significant progress in the development of key strategic projects for the Group

During the first half of the year we completed an internal reorganisation to align our operating units more closely to the core markets in which we operate As such we now report our results in three segments

- Carbon Services – focuses on the developing carbon economy including delivery into the CERT and CESP markets along with the opportunities arising in the international carbon markets,
- Heating and Renewables Services – provides domestic central heating and renewable energy solutions to Social Landlords, fuel poverty programmes and private householders, and
- Managed Services – provision of outsourced end-to-end solutions to local and central Government and other commercial organisations

"Alongside strong operational delivery we have also made significant progress in the development of key strategic projects for the Group."

Carbon Services
CERT and CESP are the UK Government's mechanisms to obligate energy suppliers and generators to reduce carbon emissions from residential housing in the UK by making them more energy efficient Together these programmes are worth in excess of £1bn per annum and Eaga is a leading provider of carbon emissions savings in these markets Eaga has worked in this marketplace for over 15 years, during which time we have developed good relationships with our customers, the leading UK energy suppliers As I set out below, there have been a number of challenges in this market during the financial year, and it is our experience, expertise and strong customer relationships which have enabled us to deliver solid growth

The key performance indicators ('KPIs') for the Carbon Services business for the year to 31 May 2010 are as follows

KPI	Year to 31 May 10	Year to 31 May 09	Change
Revenue (£m)	**245 5**	216 2	+13 5%
EBITA (£m)	**23 9**	17 7	
EBITA %	**9 8%**	8 2%	+1 6%
Total CO_2 savings delivered ('000 tonnes)	**11,900**	9,100	+30 8%

The business performed well during the first half of the year despite wider market pressures stemming from lower levels of demand for traditional insulation measures This dynamic continued into the third quarter of the financial year, where our ability to deliver innovative energy efficiency solutions at scale was a key factor in maintaining our performance

Overall however, underlying demand from the energy suppliers during the second half of the year, especially during the fourth quarter, was weak, driven primarily by the continued delay in the finalisation of the extension to the CERT programme

We welcomed the confirmation on 30 June 2010 that the CERT programme would be extended to December 2012 The form of the extension was broadly in line with our expectations with the overall CERT targets being increased on a pro rata basis There were two important changes introduced to the structure of CERT for the extension period First, the CERT extension has set out a requirement to deliver a higher proportion of savings through professionally installed traditional insulation measures providing opportunities for our insulation business, and second, the extension increased the focus on the most vulnerable householders, through the creation of the 'Super Priority Group' – Eaga has particular expertise in working with this market segment We had expected that whilst the extension would be a catalyst to increased demand, it was likely to be the second half of the current financial year before this resulted in materially increased activity levels However, the response to the extension announcement has been more immediate and we now expect activity to increase during the second quarter

The increase in segmental EBITA margin primarily reflects the change in measure mix towards innovative measures in the second half of the financial year

We have made good progress in securing work under the recently introduced CESP initiative Through CESP we work on behalf of the UK power generators to develop and support community-based programmes which target energy efficiency improvements in key geographic areas across the UK The structure of CESP promotes matched-funding with Social Landlords and therefore we will seek to deliver programmes with a value materially higher than the CESP contribution At a time when public sector budgets are under strain we believe the opportunity to offer funding to Social Landlords will become increasingly attractive and will also provide significant opportunities for our external insulation business

"The most significant opportunity we have pursued in the year has been the development of a project to facilitate the large scale installation of solar PV systems on the roofs of Social Landlords across the UK."

During January we were pleased to announce that we had reached agreement with Drax Group plc for the outsourced delivery of their entire CESP commitment In June we were able to announce further progress, having secured contracts with three additional power generators for the delivery of their CESP commitments In total this brings the value of CESP contracts secured for delivery by December 2012 to approximately £50m We are continuing discussions with a number of other power generators and are hopeful of securing additional contracts in this area Whilst the contribution from CESP during the year to 31 May 2010 has been modest there is a significant opportunity for the Group over the next two years

The CERT extension has provided a real stimulus to demand and with CESP provides visibility through to 2012 The Government's recently announced Green Deal initiative points to potential changes in the mechanisms to deliver residential energy efficiency improvements from 2013 Whilst this may mean some changes to the existing policy instruments, it reinforces the continued importance of improving the energy efficiency of UK housing stock Working in this marketplace has been at the heart of Eaga's activities for 20 years, and we have a track record of successful delivery on behalf of Government, Social Landlords and utility customers As such the Green Deal presents real opportunity for Eaga to play an increasingly important role in the delivery of these improvements What is clear, however is that the delivery mechanisms are likely to change from those currently in place and we recognise that we will need to maintain flexibility in our delivery models if we are to fully capitalise on the opportunity which Green Deal presents

Heating and Renewables Services
The KPIs for the Heating and Renewables Services business for the year to 31 May 2010 are as follows

KPI	**Year to 31 May 10**	Year to 31 May 09	Change
Revenue (£m)	**198 8**	202 2	-1 7%
EBITA (£m)	**17 5**	19 8	
EBITA (£m)	**19 1***	19 8	
EBITA %	**9 6%***	9 8%	-0 2%
Heating installations	**37,200**	44,800	-17 0%
Properties under cover	**393,000**	443,000	-11 3%
Number of breakdown visits	**525,000**	486,000	+8 2%

Excludes £1 6m development costs in relation to our solar PV project

Across the last 12 months, we have faced a number of challenges in our Heating business, driven primarily by excess supply issues in the wider marketplace Alongside this however we have undertaken significant development on a number of new long-term opportunities, particularly in domestic renewables

Revenue in this segment includes £15 1m in respect of the contribution from the acquisition of the remaining 50% of WarmSure Limited Underlying revenues were 9 1% lower compared to the prior year reflecting the impact of both lower delivery into the fuel poverty programmes and our active management of the effects of increased competition

Funding into the fuel poverty programmes was lower in the period compared to the prior year, resulting in reduced installation volumes I indicated in our interim results, that price competition had increased significantly during the first half of the financial year, resulting primarily from excess capacity in the market as a whole Given wider market conditions, we decided that we would not bid for new work unless it could be secured on acceptable commercial terms Whilst this strategy has meant that we have lost a small number of contracts, and has restricted the amount of new work we have been able to win, it is pleasing that we have continued to be successful on other tenders where quality and service have been more of a priority for the customer Overall across the financial year the number of properties for which we provide breakdown and maintenance cover has declined by 11 3% reflecting a reduction of the number of fuel poverty households under cover in line with the reduction in grant funding and a decrease in the number of social houses under cover

Competitively driven price pressure intensified during the second half of the financial year, particularly during the fourth quarter, impacting both fuel poverty programmes and the social housing market We have worked hard to minimise the impact on margins through a close focus on cost control and productivity Underlying margins, excluding the costs incurred in the development of our solar PV project, have softened Given current market conditions we expect these short-term challenges to continue through the current financial year, however we expect to maintain an acceptable level of margin

We have continued to focus on the development of opportunities in the private consumer market The agreement with Ideal Boilers Limited on 31 August 2009 to acquire their share of the WarmSure joint venture, our nationwide central heating emergency breakdown and servicing business, provided a platform from which we could broaden our delivery to a range of commercial customers We announced in our interim statement that we had secured a contract to deliver emergency response services to the customers of Barclays Bank and Marsh Insurance This contract is now operating at scale and we are responding to around 4,000 emergencies per month We are working on a small number of similar pilot programmes with other organisations and are hopeful that this will be an area which will develop further during the coming year

Our emergency breakdown services came under significant pressure at the beginning of the new calendar year, as a result of the severe weather conditions Whilst this presented operational pressure I am indebted to our Partners for their commitment and dedication which ensured that we minimised service delivery issues during this period

Following the introduction of FiTs in April 2010 an area of particular focus for the Group has been the opportunities arising from the growing domestic renewable energy market Through the Government's 'Clean Energy Cashback' programme, FiTs provide a mechanism to promote the generation of electricity in the home We expect that the focus on domestic renewable energy solutions will further benefit from the anticipated introduction of the Renewable Heat Incentive during 2011 There is an increasing range of opportunities in the growing renewable energy market which build upon our expertise in delivering residential improvements at scale across the UK

The most significant opportunity we have pursued in the year has been the development of a project to facilitate the large scale installation of solar PV systems on the roofs of Social Landlords across the UK The model, which has been under development since late 2009, will utilise third party investment to fund the installation of the equipment with a return being derived from the FiT revenue arising from the electricity generated We have invested significant time into the early stage development of the project to ensure that we have a scalable delivery model To this end we have in place a robust end-to-end operational platform We have secured key supply chain contracts with European manufacturers covering both PV panels and inverters which importantly provide protection against current component shortages in this market

During the second half of the financial year, we commenced a pilot installation programme of 1,200 systems funded initially by Eaga We have now installed 664 systems as part of this pilot In developing the model across the 2010 financial year we incurred costs totalling £1 6m, which have been charged against profit and absorbed £6 8m into working capital

Since the year end, discussions with Social Landlords have progressed well and we have now signed the first delivery contracts These contracts, with South Wight Housing and London Borough of Ealing, together provide access to survey over 16,000 properties Whilst relatively modest in size, these agreements represent an important milestone in the development of the project and provide a platform upon which the Group can continue to develop its installation capacity Discussions with other Social Landlords are progressing well and we expect further contracts to be signed in the near future

The Group's funding negotiations in relation to providing third party funding for this project are progressing well and we currently anticipate the completion of these negotiations during the first half of our financial year

In parallel, we are progressing a range of other potential renewable energy installation projects spanning both the residential and commercial markets One of the first of these to reach the implementation stage is an agreement reached in July 2010 with HomeSun Limited HomeSun is a consumer retail offering for the installation of solar PV systems, and Eaga has been appointed sole installation and aftercare partner We have taken just under a 10% equity stake in the business for consideration of £1m Following an initial publicity campaign in August it has a significant number of leads to help it to deliver its first year target of 2,000 installations

Managed Services

The KPIs for the Managed Services business for the year to 31 May 2010 are as follows

KPI	**Year to 31 May 10**	Year to 31 May 09	Change
Revenue (£m)	**429 5**	439 6	-2 3%
EBITA (£m)	**10 6**	9 7	
EBITA %	**2 5%**	2 2%	+0 3%
Fuel poverty households assisted	**218,000**	259,000	-15 8%
DSHS households assisted	**343,000**	69,000	+397 1%

Our Managed Services business performed well during the year Revenues declined marginally reflecting lower funding and delivery into the Government's fuel poverty programmes, partially offset by higher levels of activity in the Digital Switchover Help Scheme

Funding for the Warm Front scheme for the year to March 2010 was £350m, an 11% reduction on the comparable period in the prior year Revenue from the contract was impacted by a slower rate of delivery than had been anticipated towards the end of the financial year Funding for the year to March 2011 is broadly consistent with prior year at £345m The Warm Front contract runs to 31 March 2011 with the opportunity for a two year extension dependent on future funding levels We expect to get visibility of future funding levels beyond March 2011 when the Government's Comprehensive Spending Review is completed in October As part of our continuing focus on efficiency across the year we successfully implemented a number of delivery improvements to the Warm Front scheme These changes were focused on improving the customer experience, were phased across the year and concluded in May 2010

The first half of the financial year saw a significant increase in delivery activity for the Digital Switchover Help Scheme as this programme reached the Granada television region In total

"I believe that the Group is well placed to capitalise on the opportunities in both the short and medium-term."

across the year we provided on the ground assistance to over 343,000 eligible households and handled over 1 75m telephone calls We were encouraged with our performance across this period and are well positioned for delivery during 2011 as the programme moves to switchovers in the Central and Southern regions

The increase in segmental EBITA margin primarily reflects the benefit of the ongoing focus on efficiencies and process improvements as well as contract mix

At the start of the financial year we set out our clear objective to broaden our portfolio of outsourcing contracts We made significant progress against this objective during the first half of the financial year, being short-listed for a number of large central Government contracts However, as a result of the impact of the lead-up to the General Election and the subsequent change in Government, the procurement processes for the majority of these contracts have either been suspended or delayed As a result of these delays we have reviewed our short-term targets for growth in this segment and recognise that it will be more challenging to win material new revenues during the year to 31 May 2011 The experience we have gained during the last 12 months of bidding will be important as we develop our offering over the coming months For example, we made good progress in bidding for the Flexible New Deal programme until the tender process was suspended in early summer pending a wider review of the Welfare to Work agenda and we will use this experience during the tender process for the enlarged 'Work Programme' in the coming year

We are of the view that the economic pressures on Government will increase the drive for efficiency and are likely to result in an increasing number of outsourcing opportunities in the medium to long-term We expect further clarity on the shape of a number of Government programmes during the autumn

Summary and Outlook

The fundamental drivers underpinning each of our core markets, as set out above, remain strong and indeed in certain markets including renewables are significantly strengthening I believe that the Group is well placed to capitalise on the associated opportunities in both the short and medium-term

Looking across our businesses I am encouraged by the increased volumes being experienced in our Carbon business and this will pick up further momentum in the second half Our Heating and Renewable business is experiencing strong competitive pressures in the heating market, but our selective approach to tendering and focus on costs will mean we maintain an acceptable level of margin albeit on slightly reduced volumes, and looking ahead we are very much encouraged by the opportunities represented by the domestic renewables markets Given the current political processes our Managed Services business has yet to see the award of the next phase of outsourcing contracts or contract extensions, but we remain confident that we are well placed in this market

Subsequent to the year end we have completed a voluntary redundancy programme whereby we have agreed that 223 Partners will leave the business This programme is part of our ongoing efficiency programme to ensure that the Group is structured appropriately to capitalise on the opportunities ahead of us I would like to personally thank all of the Partners that have left the business under this programme for their contribution to the Group and wish them all the best for the future

Given the market and timing factors set out above we believe that the second half of the current financial year will represent a greater proportion of the full year performance than has been the case in the previous years and we remain confident of delivering a good performance for our shareholders in the current financial year In order to do so we need to ensure that the Group continues to keep our customers at the heart of what we do and both provide innovative solutions to customers' needs as well as delivering efficiencies and improvements to the way we do business

I am confident that the Group remains well placed to deliver against our strategic objectives

Drew Johnson, Chief Executive Officer
2 September 2010

Financial Review

Group Result

The Group has delivered growth in revenue and EBITA in the year to 31 May 2010

Revenue has increased by £23 3m (3 1%) to £762 2m (2009 £738 9m) Acquisitions accounted for £9 9m of this growth with the remaining £13 4m delivered by the existing business

EBITA increased by £4 8m (10 1%) to £52 0m (2009 £47 2m) Acquisitions accounted for £1 0m of this growth with the remaining £3 8m arising from existing businesses Included within this growth in the year is £1 6m of costs charged in respect of the solar PV project therefore underlying EBITA has grown by £5 4m This is summarised in the following table

	Revenue £m	Revenue growth %	EBITA £m
Year to 31 May 2009	738 9		47 2
Solar PV project development costs	-	-	(1 6)
Acquisition in the year	15 1		0 5
Inter-segment eliminations of current year acquisitions	(5 4)		-
Full year effect of prior year acquisitions	5 2		0 5
Inter-segment eliminations of prior year acquisitions	(5 0)		-
Sub total acquisition	9 9	1 3%	1 0
Other growth	13 4	1 8%	5 4
Year to 31 May 2010	**762 2**	**3 1%**	**52 0**

The Board has proposed a final dividend of 2 64p (2009 2 40p) per Ordinary Share, payable on 12 November 2010 to shareholders on the Register at 15 October 2010 Together with the interim dividend of 1 21p (2009 1 10p) this takes the total proposed dividend for the year to 3 85p (2009 3 50p), an increase of 10% reflecting both the strong financial performance in the year and future opportunities available to the Group

Segmental Performance

In the first half of the year the Group completed an internal reorganisation to align business and reporting structures with core markets As noted in the Operational Review following the restructuring the Group now reports under three primary reporting segments comprising Carbon Services, Heating and Renewables Services, and Managed Services The segmental information set out in note 1 for the year to 31 May 2009 has been restated to reflect this change, which does not have any impact on previously reported consolidated profits, net assets or earnings per share of the Group In addition, the Group has adopted the requirements of IFRS8 'Operating Segments', no further change to segmental reporting other than those set out above has been made as a result of the adoption of this accounting standard

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

	2010	2009 (restated)*	Change
Revenue (£m)			
Carbon Services	**245 5**	216 2	29 3
Heating and Renewables Services	**198 8**	202 2	(3 4)
Managed Services	**429 5**	439 6	(10 1)
Eliminations	**(111 6)**	(119 1)	7 5
	762 2	**738 9**	**23 3**
EBITA (£m)			
Carbon Services	**23 9**	17 7	6 2
Heating and Renewables Services	**17 5**	19 8	(2 3)
Heating and Renewables Services (excluding solar PV project development costs)	**19 1**	19 8	(0 7)
Managed Services	**10 6**	9 7	0 9
	52 0	**47 2**	**4 8**
EBITA margin (%)			
Carbon Services	**9 8%**	8 2%	1 6%
Heating and Renewables Services	**8 8%**	9 8%	(1 0%)
Heating and Renewables Services (excluding solar PV project development costs)	**9 6%**	9 8%	(0 2%)
Managed Services	**2 5%**	2 2%	0 3%
Group EBITA margin	**6 8%**	**6 4%**	**0 4%**
Group EBITA margin (excluding solar PV project development costs)	7 0%	6 4%	0 6%

* Restated following internal reorganisation and the adoption of IFRS8, as noted above

Carbon Services

Demand under CERT was high in the first half of the financial year, continuing into the beginning of the second half of the financial year In the latter part of the financial year the business experienced a significant reduction in demand for insulation measures from utility customers on the back of the delay in the announcement of the extension to CERT However our flexible model, has enabled us to deliver a good financial performance for the year to 31 May 2010, generating an increase in revenue in this segment of £29 3m (13 5%)

The EBITA margin has increased to 9 8% (2009 8 2%) This primarily reflects the change in mix of measures delivered in the second half of the financial year

Heating and Renewables Services

Revenue in this segment is £3 4m (1 7%) lower than in the prior year and EBITA is £2 3m (11 9%) lower than in the prior year As noted earlier in this report during the year to 31 May 2010 we have absorbed £1 6m of development costs in relation to our solar PV project These costs reflect the requirement to develop an appropriate infrastructure to operate at scale Excluding this cost, EBITA would have reduced by £0 7m (3 7%)

The reduction in revenue primarily reflects lower levels of installations on the fuel poverty programmes due to reduced funding levels in the year

During the year we have seen significantly increasing levels of competition and pricing pressure in both our fuel poverty delivery contracts and in the social housing sector This has resulted in a highly competitive landscape which has resulted in some pressure on our operating margins Excluding the solar PV start-up costs of £1 6m, the EBITA margin for the year is 9 6% compared to 9 8% in the prior year We have managed to broadly maintain our margin against this competitive landscape by continued focus on driving operational improvements and efficiencies This pressure on margins in the heating sector is likely to continue into the current financial year and we are focused on driving further efficiencies into our business processes and systems whilst making sure that we do not compromise on quality

Managed Services

Revenue in this segment is £10 1m (2 3%) lower than in the prior year This primarily reflects a reduction in funding levels on the Warm Front scheme and a reduction in revenue on the Northern Ireland fuel poverty programme which we no longer deliver partially offset by increased activity under the Digital Switchover Help Scheme

Warm Front revenue in the year to 31 May 2010 was £332m (2009 £374m) a reduction of 11% mainly reflecting a reduction in funding levels Funding under the Warm Front scheme reduced from £395m to £350m, a decrease of 11%, from the fiscal year 2008/09 to 2009/10 Funding has been further reduced in 2010/11 to £345m including the additional £150m included in the Pre-Budget Report announcement in December 2009

In the year to 31 May 2010 we have seen a significant increase in activity in the Digital Switchover Help Scheme We have now completed switchovers in some key regions including Granada and we have seen significantly increased revenues to £58 5m (2009 £12 0m)

EBITA margin increased to 2 5% (2009 2 2%), reflecting operational improvements and contract mix

Tax

The effective rate of tax is 28 6% for the year to 31 May 2010 (2009 28 5%) The effective tax rate is 0 6% (2009 0 5%) higher than the standard rate of tax of 28 0% (2009 28 0%) due to disallowable expenditure incurred by the Group Although the Chancellor announced changes to UK corporation tax rates for future periods, as these rates were not substantively enacted at the year end, we have continued to use 28 0% to calculate our current and deferred tax balances

Exceptional Costs

There are no exceptional costs in the current year (2009 £345k) In the prior year these costs related to a share-based payment charge arising on the fair value of share options granted to certain senior management under the IPO Key Management Plan which are now fully vested and will not recur

Earnings Per Share

Diluted adjusted eps has increased by 7 4% to 14 37p (2009 13 38p) Basic eps increased by 10 0% to 11 76p (2009 10 69p)

Acquisitions

The Group acquired the remaining 50% of WarmSure Limited, our previous joint venture company with Ideal Boilers Limited on 31 August 2009 for net consideration of £1 2m

Treasury

Strategy and management

The Group remains net cash positive and at 31 May 2010 had a £60m Revolving Credit Facility ('RCF') and a £5m overdraft facility in place with Barclays Bank plc This provides the Group with flexibility in funding day to day cash flow requirements although the majority of cash flow needs have to date been met from internal cash generation The Group's policy in relation to banking facilities is to ensure that we have sufficient facilities in place to facilitate financial flexibility The RCF facility is in place to 17 March 2012 and the overdraft is renewable on 17 March 2011

As at 31 May 2010 the Group's aggregate undrawn finance facilities were £65m These, together with the Group's net cash position of £37 9m (2009 £31 3m), provide headroom of approximately £102 9m (2009 £96 3m)

The Group operates a centralised Treasury function that works closely with the individual business units to ensure that the Group Treasury position is maximised and that the Group's Treasury policies and procedures are adhered to The key Group Treasury policies are

- Surplus cash is placed on deposit with a view to maximising investment return
- Individual limit for cash deposits of £20m with any one financial institution
- All institutions used for depositing of funds or indebtedness to be rated AA- or better by Moodys
- All indebtedness requires Group Treasury approval
- All foreign exchange transactions greater than £50k require Group Treasury approval
- All derivative financial instruments proposed require Group Treasury approval

The Group does not have major exposure to interest rate movements as it does not have any significant drawn floating rate liabilities in place If such liabilities are drawn down in the future then the Group will seek to manage its exposure via appropriate hedging instruments

The Group is experiencing an increased exposure to foreign currency transactions, in particular through the purchase of solar PV equipment The largest exposure is with the Euro although in the future we expect some further exposure to the US dollar The Group has developed a hedging strategy which looks to fix the exchange rate for a high percentage of the future probable purchase commitments on a rolling six monthly basis At the year end no open hedging instruments were in place Subsequent to the year end we have entered into some forward foreign exchange contracts to hedge against forecast highly probable cash flow requirements on our solar PV project

The Group purchases approximately 5m litres of fuel each year for the fleet of vans used by our installers Given the potential volatile changes in fuel prices, prior to the year end, the Group entered into a contract with a financial institution to fix the price of fuel purchased for 90% of our estimated fuel requirement for the year to 31 May 2011 More information is set out in note 19

Liquidity and cash flows

The Group continues to be cash positive and at 31 May 2010 had cash and cash equivalents of £38 4m (2009 £31 9m), an increase of £6 5m during the year This is after incurring a net cash outflow in the year in respect of our solar PV project of £7 3m, comprising a working capital absorption of £6 8m and capital expenditure of £0 5m Therefore on an underlying basis cash and cash equivalents increased by £13 8m

The following table summarises the cash flows for the Group

	2010 £m	2009 £m
Cash generated from operations	**33 4**	40 3
Interest and tax	**(7 0)**	(3 0)
Cash generated from operating activities	**26 4**	37 3
Net capital expenditure	**(8 3)**	(4 7)
Acquisitions	**(2 1)**	(4 6)
Net financing including dividends	**(9 5)**	(11 4)
Increase in cash	**6 5**	**16 6**

The increase in interest and tax cash outflow reflects the lower level of deposit interest received in the year together with additional tax payments in line with the increased profitability of the Group and reflecting the fact that the tax losses generated on the flotation of the Company are now fully utilised

The Group's net finance charge in the year was £0 9m (2009 £0 2m net income) The increase in net finance costs reflects significantly lower levels of deposit interest received together with a full year effect (2009 two months) of the increased amortised cost of our RCF facility agreement and related non-utilisation fee

The increase in net capital expenditure reflects expenditure on specific projects together with £2 8m incurred in relation to the fit out of leased business premises

Principal Risks and Uncertainties

The Group has a dedicated risk management team together with a risk forum and Risk Review Board ('RRB') to monitor and evaluate the results of the risk management process in each business unit The RRB reports to the Board and Audit Committee on a regular basis regarding the effectiveness of the risk identification process and the action plans developed by the business to mitigate significant risks

The key risks facing the Group are summarised in the following table

Key Risk	Impact and Description	Example of Mitigating Actions
Government funding may impact the Group	The level of Government funding would impact the delivery of current programmes and also delay the timing of awards of new BPO or similar contracts	• Diversified contract base • Appropriate contractual arrangements
Failure to manage financial risks being credit risk, liquidity risk and foreign currency risk	The Group could be exposed to financial loss if these risks are not well managed	• Access to £65m of banking facilities • Treasury risk management policy in place • Appropriate hedging strategy developed • Credit risk is assessed on a regular basis for significant customers
The Group's results could be impacted by a down turn in economic conditions	In certain parts of the business the Group is exposed to demand from organisations which in a further recessionary period could reduce demand e g house building sector for our insulation business	• Diversified business model • Cost mitigation strategies
Change in Government policy could impact the Group	A significant change in Government policy in relation to fuel poverty, energy efficiency or renewable technologies could impact on the Group's business model	• Diversified business model
Continued competition in heating business impacts Group results	We have seen significant competition in this business segment, which is placing pressure on operating margins	• Continued focus on efficiencies and improved working practices • Innovative service offerings to Social Landlords
Contracts may be lost through poor customer service	There is a risk that due to service or other quality issues that contracts are not renewed	• Regular quality and service meetings with customers • Annual service quality surveys and audits
The Group has a relatively small number of high value contracts	There is a risk of a contract loss or dispute on one of the large contracts that could have a material impact on the Group's results	• Regular contract/customer meetings on all significant contracts • Focus on quality and customer service • Ongoing diversification of contract concentration
There is reliance on IT systems for operational delivery and efficiency	A significant IT failure could impact our operational delivery	• Robust business continuity plans which are tested regularly • Board approval required for significant IT changes
The Group is reliant on a range of third party subcontractors for some of its operational commitments	There is a risk of either a failure of a subcontractor or poor performance or quality	• Ongoing financial appraisal of financial position of subcontractors • Ongoing monitoring of quality and health and safety performance of subcontractors
Adverse weather conditions impact our operational delivery of our field based operations	Several prolonged severe weather events could cause significant operational challenge and additional costs to the Group	• Business continuity and contingency plans in place
Failure to operate appropriate health and safety procedures	The Group's activities expose it to a range of health and safety issues	• Dedicated health and safety professionals • Regular health and safety programmes and audits
Failure to attract and retain key employees	Performance, knowledge and skills of Partners are central to the Group achieving its objectives	• Appropriate remuneration policies in place • Talent development programmes e g Future Leaders programme

Ian McLeod, Chief Financial Officer
2 September 2010

Board of Directors
Executive Directors

Board Committees

Audit
Malcolm Simpson (Chair)
Quintin Oliver
Tracy Clarke
Roger Aylard

Remuneration
Tracy Clarke (Chair)
Malcolm Simpson
Quintin Oliver
Roger Aylard

Nomination
Charles Berry (Chair)
Quintin Oliver
Roger Aylard
Drew Johnson
Dave Routledge*
Malcolm Simpson**
Tracy Clarke**

* Dave Routledge stepped down from the Nomination Committee on 23 July 2009
** Appointed 26 August 2010

1 Joseph (Drew) Johnson,
Chief Executive Officer (age 51)
Drew became Eaga CEO in April 2009 Having served in a number of executive roles, Drew has always been a key architect of Eaga's commercial strategy and operational development He joined the Company in 1991 and was appointed to the Board in 1999 Prior to joining Eaga, Drew worked for British Coal in supply chain management and logistics With his considerable industry experience Drew is ideally qualified to continue driving Eaga's growth and diversification in both the private and public sector

2 Ian McLeod,
Chief Financial Officer (age 42)
Ian joined Eaga in 2004 and was appointed to the Board in 2005 He is responsible for all aspects of financial management and reporting Ian spent fourteen years with PricewaterhouseCoopers LLP advising companies across a broad range of market sectors In June it was announced Ian would be stepping down as CFO at the Annual General Meeting in October He is being succeeded by Giles Sharp, who is currently Eaga's Group Finance and Investor Relations Director

3 Dave Routledge,
Organisational Development Director (age 52)
Dave has served on the Board since 2004 He is responsible for strategic organisational development, human resources, risk management, corporate and Government affairs and business transformation Dave previously held main board level responsibilities for human resources and operations within the pharmaceutical sector and has extensive experience of corporate restructuring in the UK, USA and Europe

4 Willie MacDiarmid,
Chief Operating Officer (age 49)
Willie joined Eaga in December 2009 from ScottishPower plc, where he had been Managing Director of Energy Retail since 2000 – a business with almost 5,000 staff and annual sales in excess of £3 3bn Having spent 19 years at ScottishPower in a variety of operational and strategic roles Willie has a wealth of industry experience and a deep knowledge of the energy market As a former Chairman of the Energy Retail Association, he is also widely known and well respected throughout the industry He is responsible for continuing to drive operational effectiveness and efficiencies across the Group, with the Divisional Managing Directors reporting to him

5 Giles Sharp,
Chief Financial Officer Designate (age 40)
Giles joined Eaga in 2005 and is currently Group Finance and Investor Relations Director, a role he assumed after successfully leading Eaga's IPO implementation programme in 2007 Giles spent nine years with PricewaterhouseCoopers LLP, latterly in Transaction Services He has worked closely with Ian McLeod over the past five years and has been instrumental in helping develop Eaga's growth strategy and strong financial base As such he is a natural successor to Ian and it is proposed that Giles joins the Board as Chief Financial Officer in October

Non-Executive Directors

6 Charles Berry,
Non-Executive Director and Chairman (age 58)
Charles was appointed to Eaga's Board as a Non-Executive Director and Chairman in 2006 He is currently Chairman of Drax Group plc, and Non-Executive Director of Securities Trust of Scotland plc and Impax Environmental Markets plc Charles has extensive experience in the UK power sector and has previously served as UK Chief Executive of ScottishPower plc

7 Malcolm Simpson,
Non-Executive Director (age 68)
Malcolm was appointed to Eaga's Board as a Non-Executive Director in 2007, he is a former Finance Director of Greggs plc At Greggs Malcolm oversaw a period of strong growth as the company expanded both organically and acquisitively and achieved flotation on the London Stock Exchange

8 Quintin Oliver,
Non-Executive Director (age 55)
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

9 Tracy Clarke,
Non-Executive Director (age 43)
Tracy was appointed to Eaga's Board as a Non-Executive Director in 2007 She is currently Group Head of Human Resources and Communications at Standard Chartered plc and a member of its Group Management Committee, having previously undertaken a variety of operational and strategic roles for the bank Until 2008, she was also a Non-Executive Director of SC First Bank, following Standard Chartered's acquisition of Korea First Bank in 2004

10 Roger Aylard,
Non-Executive Director and
Senior Independent Director (age 56)
Roger was appointed to Eaga's Board as a Non-Executive Director and Senior Independent Director on 1 April 2009 He retired as Head of UK Investment Banking at Deutsche Bank in August 2007 after a career encompassing ten years in the oil industry, six years as a research analyst and fifteen years in corporate broking and corporate finance During this time he acted as senior advisor to a wide range of major UK companies

Report of the Directors

The Directors present their report and the audited financial statements for the year ended 31 May 2010

Principal Activities and Business Review
The Group is a green support services group, a leading provider of residential energy efficiency solutions and deliverer of a range of outsourced programmes It works for and partners with a broad range of customers including central and local Government, utility companies, other private companies, domestic customers and the BBC

Details of the Group's activities and a review of the business are set out in the Chairman's Statement, Operational Review and Financial Review on pages 2 to 23

The Operational Review and Financial Review includes

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

Financial Results and Dividends
The Group's results are shown in the Consolidated Income Statement on page 44 The Directors are recommending the payment of a final dividend of 2 64p per Ordinary Share to be paid on 12 November 2010 to shareholders on the Register at the close of business on 15 October 2010 which, together with the interim dividend of 1 21p per Ordinary Share paid on 19 March 2010, results in a total dividend for the year of 3 85p per Ordinary Share (2009 3 50p)

Interests in Shares
During the year ended 31 May 2010 the Company had a general right to purchase all or any of its own shares subject to compliance with its Articles of Association and the specific right conferred by the resolution passed at the AGM of 14 October 2009 to acquire up to 10% of the Company's issued Ordinary Share Capital

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

	Number of Direct Shares	Percentage of Direct Shares (%)
Eaga Partnership Trustee Two	46,080,466	18 33
Eaga Partnership Trustee	46,067,300	18 32
Schroder Investment Management	17,420,425	6 93
Baillie Gifford	12,561,372	5 00
Brewin Dolphin Ltd	10,641,193	4 23
Legal & General Investment Management	8,403,879	3 34

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

Directors
Details of the Directors who currently hold office are listed on pages 24 and 25 On 14 December 2009 Willie MacDiarmid was appointed as an Executive Director With effect from the date of the AGM (14 October 2010), Ian McLeod will stand down as Chief Financial Officer and subject to the approval of the shareholders, Giles Sharp will be appointed to this role

In accordance with the Company's Articles of Association, one third (or the nearest whole number below one third) of the Directors are required to retire at each AGM, together with Directors appointed by the Board since the date of any notice convening the previous AGM In addition, under the Combined Code on Corporate Governance issued by the Financial Reporting Council in June 2008 ('the Code'), Directors are required to submit themselves for re-election by shareholders every three years and Non-Executive Directors who have served more than nine years are subject to annual re-election

In accordance with Code Provision A 7 2 that any term for Non-Executive Directors beyond six years should be subject to particularly rigorous review, on 16 December 2009 the Company adopted a policy that after having served six years, subject to continued satisfactory performance, Non-Executive Directors would only be offered one year terms up to a maximum of nine years

As Quintin Oliver had served in excess of six years as a Non-Executive Director at 31 May 2010, his re-appointment was subject to the rigorous review referred to above and he was re-appointed with a further term of one year He will retire by rotation and, being eligible, will offer himself for re-election His profile can be found on page 25 Quintin has an intimate knowledge of the business having served as a Non-Executive Director for almost seven years and his knowledge and experience in political matters brings an essential insight and balance to the Board both when considering strategy and the likely impact of political change Dave Routledge will retire by rotation and, being eligible, offer himself for re-election His profile can be found on page 24 Dave has worked within the business for eight years and been on the Board for six He was a valuable member of the team that successfully guided the business through IPO and has been a continuing influence in driving the business forward throughout the turbulent economic climate Having been appointed since the publication of the notice for the last AGM, Willie MacDiarmid will retire from the Board and, being eligible, will offer himself for election His profile can be found on page 24 Willie brings a wealth of experience from his time at ScottishPower plc and is seen as an inspirational and motivating force in taking the business forward through its next stage of development The contribution of all three is acknowledged by Board colleagues, following the performance evaluation review process, to have been extremely valuable throughout the period The Chairman specifically confirms that following the performance evaluation review Quintin Oliver's performance as a Non-Executive Director continues to be effective and to demonstrate commitment to the role The election of Willie MacDiarmid and the re-election of Dave Routledge and Quintin Oliver will be recommended by the Board Giles Sharp will assume the post of Chief Financial Officer following the AGM on 14 October His profile can be found on page 24 Giles' appointment was approved by the Board following a rigorous recruitment process including external evaluation and external comparator considerations He is regarded as a worthy successor to Ian McLeod in this role His election is recommended by the Board

The termination provisions in respect of the Executive Directors' contracts are set out in the Remuneration Report on pages 32 to 37

The interests of the Directors in the Ordinary Share Capital of the Company as at 31 May 2010 and the date of signature of this report together with comparative amounts for the prior year are

	2010	2009
Roger Aylard	**50,000**	50,000
Charles Berry	**55,249**	55,249
Tracy Clarke	**Nil**	Nil
Drew Johnson	**5,082,472**	5,082,472
Willie MacDiarmid	**Nil**	Nil
Ian McLeod	**3,982,472**	3,982,472
Quintin Oliver	**24,861**	24,861
Dave Routledge	**5,157,472**	5,157,472
Malcolm Simpson	**88,149**	88,149

Corporate Social Responsibility
Information relating to the environment and the work our Partners perform in the community is included in the Corporate Social Responsibility report on page 42

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

Donations
During the year the Company and the Group made charitable donations of £201,000 (2009 £245,000) principally to the independent Eaga Charitable Trust and the Eaga Community Fund managed for Eaga by the Community Foundation

No political donations were made in the year to 31 May 2010 (2009 £Nil)

Payment of Suppliers
The Company's UK operating companies follow the CBI Prompt Payment Code This Code requires the Company to agree the terms of payment with its suppliers, to ensure its suppliers are aware of those terms and to abide by them The Code can be found at the following web address http //www promptpaymentcode org uk/ The Company's creditor days outstanding as at 31 May 2010 were 35 days (2009 36 days)

Report of the Directors (continued)

Employment Issues and Policies

The Group regards its engagement with its Partners as a vital constituent of its continued success The Company has a unique structure for a UK listed company More than 36% of the Company's shares are owned by the two Eaga Partnership Trust companies ('EPT') which, together with other assets arising from the sale of shares at flotation are held on trust for a beneficial class which includes current Partners Thus, the Company is co-owned with its Partners

As the Company's largest shareholder, the EPT is wholly independent, but benefits the EPT provides for the Partners and the interrelationship between the Company, the EPT and the Eaga Partners' Council ('EPC') is a key element in ensuring the values-driven nature of the business is retained and preserved EPC comprises elected Partners, meets regularly with the Board and acts as the representative body of the Partners to ask questions, raise issues and make representations to the Board on behalf of the Partners

EPT invests in a range of initiatives and programmes that are designed solely to promote the welfare of Partners and to provide direct benefit to Partners as a result of their employment with Eaga Such benefits include owning a number of holiday homes for Partners' use and a waiver of dividend which was utilised to fund the acquisition of shares for the all employee Share Incentive Plan ('SIP') established by the Company which is accounted for under IFRS2 and results in a charge to the Consolidated Income Statement Such waiver is wholly discretionary and EPT's independent board of directors have sole responsibility for such decisions in this regard

The Group has a range of initiatives to enhance and develop Partner engagement and ensure that Partners are made aware of the various financial and economic factors that affect business performance

- our Executive teams provide bi-annual updates to all areas of the business via our roadshow events These forums enable Partners to engage with the Executive teams and obtain a better understanding of ongoing business performance,
- our values and culture are driven and supported by the 'Eaga Cares' programme which underpins our performance and development process and enables us to embed our value set throughout Partner behaviours,
- we are committed to supporting our leaders across the business and provide ongoing leadership development through our 'Future Leaders' programme,
- the annual Partner Engagement Survey ('PES') is a vital tool in collating feedback from Partners The results of the PES are shared with all Partners and 'improvement action plans' formulated with team leaders committed to implementation of the plans,
- the EPC is at the centre of all issues involving the Partners and has been instrumental in the development of the Group's 'people policies' The structure of the EPC has been broadened so that former information and consultation committee members now sit on the EPC to ensure full divisional representation and information flow,
- our internal publication 'Switched On' is circulated to all Partners at their home address and aims to keep all Partners and their families up to date with latest developments and key areas of focus across the business The magazine has a strong interactive feel which encourages Partners to participate and provide content of their own,
- 'Eaga Stars', which is the Group's Partner recognition scheme which seeks to identify and reward those Partners who demonstrate role model behaviour in keeping with the Eaga values and go beyond what would ordinarily be expected of them in a work situation, and
- our Corporate Social Responsibility agenda also provides an opportunity to engage with Partners in a diverse range of innovative and exciting projects Further details of our Corporate Social Responsibility activity can be found on page 42

Equal Opportunities

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

Remuneration Report

The Remuneration Report on pages 32 to 37 will (as required by the Schedule 8 of the Large and Medium Sized Companies and Groups (Accounts and Reports) Regulations 2008) be put to the shareholders for approval at the AGM

Power to Allot Shares and Authority for the Company to Purchase Its Own Shares

The Directors propose to renew the general authority of the Company to make market purchases of its own shares to a total of twenty five million (25,000,000) Ordinary Shares (representing approximately 10% of the issued Ordinary Share Capital of the Company) and within the price constraints set out in the special resolution to be proposed at the AGM In October 2009 the Company purchased 1,400,000 of its own shares via an Employee Benefit Trust to accommodate requirements for shares under the existing Management Incentive Plan

Articles of Association
The latest version of the Company's articles of association was adopted by special resolution at the AGM on 14 October 2009 There are no proposals to alter those articles at the date of this report

Financial Instruments
A summary of the Company's treasury policies and objectives relating to financial risk management, including exposure to associated risks, is included in the Financial Review on pages 22 and 23

Corporate Governance
A summary of the Company's compliance with the Code is set out in the Corporate Governance Report on pages 38 to 41

Land and Buildings
In the opinion of the Directors there is no material difference between the market value of the Group's interest in land and buildings and its net book value

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

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

Share capital
The Company has a single class of share capital which is divided into Ordinary Shares of £0 001 each

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

Full details of the deadlines for exercising voting rights in respect of the resolutions to be considered at the AGM to be held on 14 October 2010 are set out in the Notice of AGM

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

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

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

Transfer of shares
Subject to the articles of association, any member may transfer all or any of their certified shares by an instrument of transfer in any usual form or in any other form which the Board may approve The Board may, in its absolute discretion, decline to register any instrument of transfer of a certified share which is not a fully paid share or on which the Company has a lien The Board may also decline to register a transfer of a certified share unless the instrument of transfer is (i) left at the office, or at such other place as the Board may decide, for registration, and (ii) accompanied by the certificate for the shares to be transferred and such other evidence (if any) as the Board may reasonably require to prove the title of the intending transferor or right to transfer the shares The Board may permit any class of shares in the Company to be held in uncertified form and, subject to the articles of association, title to uncertified shares to be transferred by means of a relevant system and may revoke any such permission Registration of a transfer of an uncertified share may be refused where permitted by the Companies Act 2006 and the articles of association

Report of the Directors (continued)

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

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

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

Post balance sheet events
Significant post balance sheet events are set out in note 33 to this report

Disclosure of Information to Independent Auditors
Each of the persons who is a Director at the date of approval of this report confirms that

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

This confirmation is given and should be interpreted in accordance with the provisions of Section 418 of the Companies Act 2006 The Company number is 03858865

By order of the Board

Christopher Judd, Company Secretary
2 September 2010

Statement of Directors' Responsibilities

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

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

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

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

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

Each of the Directors, whose names and functions are listed in the Board of Directors section on pages 24 and 25 confirm that, to the best of their knowledge

- the Group financial statements, which have been prepared in accordance with IFRSs as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit of the Group, and
- the Report of the Directors contained on pages 26 to 30 includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal risks and uncertainties that it faces

Remuneration Report

This report has been prepared in accordance with the requirements of Schedule 8 of the Large and Medium Sized Companies and Groups (Accounts and Reports) Regulations 2008 and has been approved by the Remuneration Committee (the 'Committee') and the Board It represents the Company's policy on executive remuneration for the year under review and, subject to on-going review by the Committee, subsequent years

The Committee comprises four Independent Non-Executive Directors Quintin Oliver, Malcolm Simpson, Roger Aylard and is chaired by Tracy Clarke The Committee is governed by formal terms of reference which are reviewed annually and available on the Company's website The Committee continues to focus on ensuring that in designing and implementing the Company's executive remuneration strategy

- the interests of shareholders are protected and enhanced,
- the unique ethics and characteristics of Eaga, developed through its ownership structure are maintained, and
- the views of all shareholders, customers, Partners and other stakeholders in the business receive appropriate attention

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

Role of the Remuneration Committee

The Committee is responsible for approving and monitoring the specific remuneration packages and terms and conditions of employment of the Company's Executive Directors, Executive Committee members and certain other senior managers The Committee, in consultation with the Chief Executive, is responsible for determining which senior managers are included for this purpose, such determination to be approved by the Board as a whole The Committee is also responsible for agreeing Eaga's overall remuneration policy and has oversight of the governance process for remuneration generally The Committee has delegated responsibility for setting the Chairman's remuneration Non-Executive Directors' remuneration is set by the Executive Directors in consultation with the Chairman

The Committee is responsible for the appointment of independent external advisors to give advice on all matters relating to executive remuneration During the year the Committee has taken advice from Hewitt Associates Limited trading as Hewitt New Bridge Street ('HNBS') including advice on recruitment benchmarking, management share incentive plans and Directors' remuneration packages The Company had no other relationship with that firm HNBS' terms of business are available from the Company Secretary

There were five meetings of the Committee held in the year to 31 May 2010

Remuneration Policy

The Committee aims to ensure that the total remuneration package for the Executive Directors is soundly based, internally consistent, externally competitive and fully aligned with the interests of shareholders for both the short and long-term No Director takes any part in decisions regarding their personal remuneration

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

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

In line with the Association of British Insurers' Guidelines on Responsible Investment Disclosure, the Committee will ensure that the incentive structure for Executive Directors and senior management will not raise environmental, social or governance ('ESG') risks by inadvertently motivating irresponsible behaviour More generally, with regard to the overall remuneration structure, there is no restriction on the Committee which prevents it from taking into account corporate governance on ESG matters and takes due account of issues of general operational risk when structuring incentives

When setting remuneration policy for the Executive Directors and senior executives for the current financial year, the Committee considered pay and employment conditions elsewhere within Eaga The Committee was informed of the proposed salary budget for Eaga as a whole and the changes to pay practices and staffing levels that took place during the year These factors were considered at the time of setting the Executive Directors' salary levels and other elements of remuneration in conjunction with pay data supplied by HNBS (see below) and the need to retain and motive our highly regarded team within the parameters of our remuneration policy

In light of the recent publication of the UK Corporate Governance Code, the Committee has resolved to undertake a review of the existing remuneration policy during the current year and, as a minimum, will report in next year's Remuneration Report on any revisions arising from this review Should the review suggest substantive changes to be appropriate, the Committee would seek to engage with the Company's major shareholders

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

Drew Johnson	£410,000
Willie MacDiarmid	£350,000
Ian McLeod	£275,000
Dave Routledge	£275,000

In order to further strengthen the executive team, on 14 December 2009, Willie MacDiarmid was appointed as Chief Operating Officer Upon Willie's appointment, the Committee took the opportunity, to review the package of the CEO and remaining Executive Directors using data supplied by HNBS as it felt it critical to apply a market consistent approach to salaries for all Executive Directors The external benchmarking was against comparable companies to ensure that our packages remain externally competitive, taking into account the requirements of the roles, the performance of individuals, the size of the Company and its complexity An increase of approximately 10% was proposed and accepted by the Executive Directors in December 2009 This concluded the Committee's strategy of increasing salaries to an appropriate mid-market level after a period of salary freezes for the Executive Directors from April 2006 until December 2008 The Committee is now comfortable that the remuneration arrangements for the executive team are appropriate and no further catch-up salary increases are envisaged

Now that an appropriate mid-market level for salaries has been achieved, the Committee will next review Executive Directors salaries in August 2011 In future years, August is to be the annual review date for Executive Directors and senior managers with salaries set having due regard to salary levels and inflation elsewhere at Eaga, the performance of the Group, the individual executive and to external benchmark data

As announced on 24 June 2010 Ian McLeod is to step down from the Board at the AGM to be replaced as Chief Financial Officer by Giles Sharp from that date Giles Sharp is to receive a base salary of £233,750 which reflects his recent appointment and will be next reviewed, along with other Executive Directors, based on his performance in post in August 2011 Ian McLeod is to continue his employment with Eaga for a further period of time to complete his work towards securing and embedding the financial infrastructure for the Group's solar PV project For this period of time Ian McLeod will continue to be paid at his current rate of salary (on a monthly basis) until the solar PV financing is complete He will not be eligible for incentives during his continued employment No further payments have or will be made in relation to his departure from the Board and leaving service as an employee

Annual Cash Bonus
As disclosed last year, the Committee has approved an annual cash bonus for Executive Directors up to a maximum of 100% of annual basic salary for the delivery of exceptional performance against a balanced scorecard of results Certain senior managers, as agreed with the Board, have a maximum opportunity of up to 75% of annual basic salary upon also delivering exceptional performance The bonus to be awarded depends on the achievement of respective divisional and Group EBITA targets together with a number of individual personal objectives including leadership, health and safety and risk management

The Annual Cash Bonus Plan is designed to be self-funding in so far as the bonus targets are inclusive of the potential cost of the bonus payable

Although Eaga enjoyed another strong year the bonus trigger points were not met and therefore no cash bonuses will be paid to Executive Directors or Executive Committee members

The Plan will operate on the same basic terms for the financial year commencing on 1 June 2010

Long-Term Incentive Schemes
Management Incentive Plan ('MIP')
The MIP allows the granting of performance shares to Executive Directors and certain senior managers Under normal circumstances the maximum market value of shares over which individual awards could be made is 100% of salary In exceptional circumstances, the Committee has the authority to award up to 200% of salary

The Executive Directors (other than Willie MacDiarmid) have elected not to participate in the MIP since its establishment in 2008 believing that their personal shareholdings align their long-term interests with those of other shareholders

On 2 February 2010, Willie MacDiarmid was granted an award under the MIP of 200% of salary along with the recruitment award detailed on page 35 to facilitate his recruitment The Committee was satisfied that this exceptional award was appropriate to recruit an executive of his calibre It is envisaged that Willie MacDiarmid will receive annual awards of up to 100% of salary going forwards subject to performance in accordance with the stated policy for Executive Directors under the MIP

Remuneration Report (continued)

Long-Term Incentive Schemes (continued)
Management Incentive Plan ('MIP') (continued)
Vesting will normally take place at the third anniversary of the grant date subject to the satisfaction of the performance conditions described below It is expected that any other newly appointed Executive Director would also participate in the MIP Performance conditions have been reviewed during the period and the Committee are satisfied that these continue to be appropriate

In total 1,704,335 nil cost options were awarded to certain senior managers in October 2009 and 494,245 to Willie MacDiarmid in February 2010 and will vest subject to the performance conditions set out below To hedge against this and previous awards under the MIP the Group purchased 1 4m Ordinary Shares on 22 October 2009 at a cost of £2 1m

The vesting of any awards made under the MIP are subject to the achievement of Group performance targets intended to enhance shareholder value For the most senior participants, half of any award will vest depending on TSR (Total Shareholder Return, being the change in share price plus dividends paid being reinvested) performance relative to the FTSE mid 250 excluding Investment Trusts and half of the awards against adjusted diluted eps performance Less senior participants receive awards wholly subject to the eps condition The Committee believes the use of these targets will improve the financial performance of the Company and deliver value to shareholders The performance period is three years beginning at the start of the financial year during which awards are made The start and end points used to establish the vesting of awards is based on the average of the quoted daily closing share price in the three months preceding the beginning and end of the relevant performance period In normal circumstances, no awards will become vested before the third anniversary of the date of grant

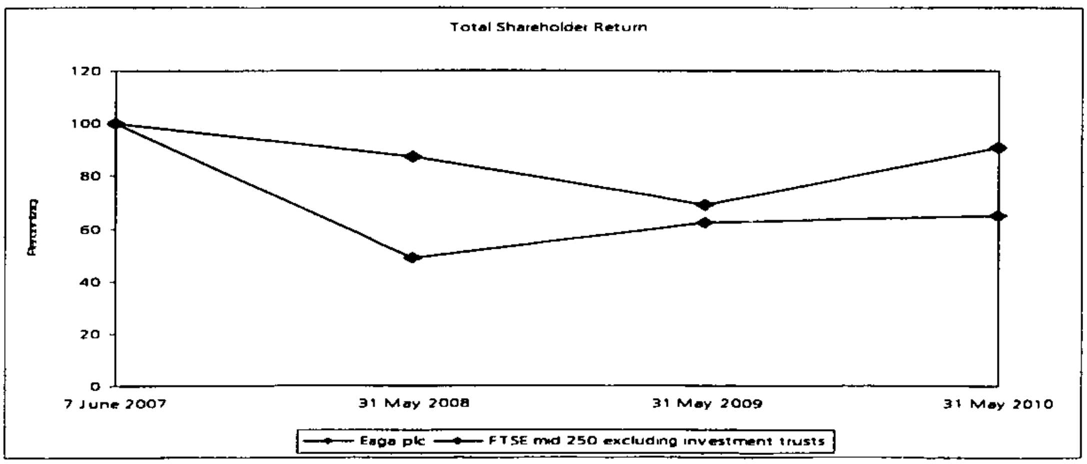
The vesting under each part of the award will be as follows

TSR performance relative to the FTSE mid 250	Percentage of award
Below median	0%
At median	$16\frac{2}{3}$%
Between median and upper quartile	$16\frac{2}{3}$% to 50% on a straight line
Upper quartile	50%

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

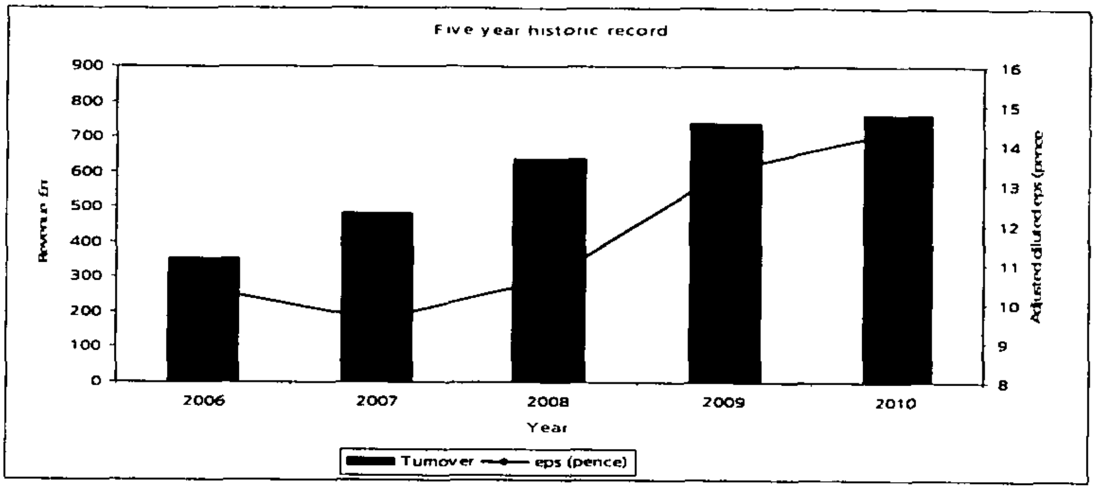
In relation to the current financial year, awards are to be granted to Willie MacDiarmid at 100% of salary As has been the case in prior years, the other current Executive Directors have elected not to receive awards in the current financial year Giles Sharp, Chief Financial Officer Designate is also to receive an award at 100% of salary

As required by the Large and Medium-Sized Companies and Groups Regulations 2008, the Company reports performance measured by TSR against an appropriate market index The Committee has determined that the FTSE mid 250 excluding Investment Trusts is the appropriate market index since it is the index within which Eaga currently resides This comparison of TSR performance is illustrated in the following graph



Source Datastream

The performance of the Group in terms of eps performance is illustrated below



Recruitment Award
On 2 February 2010, in addition to his performance related MIP award described above, Willie MacDiarmid was also granted a one-off share award of 100% of salary which represented a conservative estimate of the value lost as a result of his leaving his previous employer The Committee felt that the award was appropriate in connection with Willie's recruitment to provide compensation for share arrangements forfeited in the process of joining Eaga plc and, in doing so, assist with his recruitment and alignment with the interests of the Company's shareholders

The award was granted in accordance with Listing Rule 9 4 2(2), the principal terms of the award are summarised below

The award will lapse in the event of cessation of employment by reason of resignation or dismissal for gross misconduct prior to the exercise of the award (or relevant vested portion thereof) In the event of a takeover or winding up of the Company the award will vest early at such time

The award granted was a nil cost option over 247,122 Ordinary Shares Subject to the terms of the award, the award will ordinarily vest as to one half on 2 February 2011 and as to the remainder on 2 February 2012 Therefore at 31 May 2010 no awards had vested (2009 N/A) and no awards had lapsed (2009 N/A)

Once vested, subject to the terms of the award, the award may be exercised over the relevant shares until the fifth anniversary of the grant of the award The award will not be transferable (save on death) or pensionable

The award may only be satisfied with market purchased shares, no newly issued shares may be used in connection with the award

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

The activities of EPT are subject to a constitution and trust deed and are independent to the Company EPT's affairs are managed by two corporate trustees, each governed by a board of directors including independent trustees, Partners elected by the Eaga Partners' Council and one director nominated by the Eaga Board Nomination Committee

EPT waived its interim dividend in relation to the year to 31 May 2010 and final dividend relating to the year to 31 May 2009, amounting to £3 3m These funds have been used by the Company to finance the 'free share' award under the SIP On 30 October 2009, the Company awarded 2,017,278 nil cost shares to Partners in the business The accounting charge required for the nil cost shares issued to Partners was £4 2m (2009 £1 6m) as further set out in note 6 to the financial statements To fund the award, the Company purchased 1 8m Ordinary Shares on 29 October 2009 at a cost of £2 7m Until these shares are exercised by the individual, they are shown as own shares held in trust, as shown in the Consolidated Statement of Changes in Equity The SIP has been well received by Partners with over 91% participation The incumbent Executive Directors declined to participate in the SIP in the current year

The cost of implementing and administering this plan is borne by EPT

Remuneration Report (continued)

Retirement Benefits

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

Other Benefits

Other benefits include fully expensed company car, permanent health insurance and life assurance The range of benefits and their value are considered to be broadly in line with similar companies in the FTSE mid 250

Directors Letters of Appointment and Contracts of Service

The Executive Directors have rolling contracts which may be terminated by twelve months' notice in writing on either side In the event of termination of any Executive Director's service contract the termination payment will be based upon base salary plus benefits Variable pay will not be reflected in any termination payment and any amount due will be assessed under general principles with due regard to the duty of mitigation Contracts do not provide additional compensation for severance as a result of a change of control

The Company has adopted a policy whereby Non-Executive Directors are appointed up to a maximum of six years and thereafter on annual terms up to a maximum of nine years total Appointments may be terminated by three months' notice on either side

The following table summarises the Board's current Service Contracts

	Date of current letter of appointment/contract	Unexpired term
Non-Executive		
Charles Berry	23 March 2009	16 months
Tracy Clarke	17 September 2007	1 month
Quintin Oliver	27 January 2010	4 months
Malcolm Simpson	27 January 2010	28 months
Roger Aylard	6 March 2009	17 months
Executive		
Drew Johnson	31 May 2006	Rolling 12 months
Willie MacDiarmid	14 December 2009	Rolling 12 months
Ian McLeod	31 May 2006	Rolling 12 months
Dave Routledge	31 May 2006	Rolling 12 months

Non-Executive Fees

The letters of appointment set an expectation of a 20 day per annum commitment of Non-Executive Directors (and 35 for the Chairman) and provide for payment of a daily fee to the extent that this commitment is exceeded To date, no such additional payments have been claimed by the Directors

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

	Current fees per annum £ 000
Chairman	125 0
Non-Executive Director	32 1
Supplements	
Senior Independent Director	7 0
Chair Audit Committee	9 5
Chair Remuneration Committee	7 0
Chair Nomination Committee	3 5
Committee Member	1 5

These fees were reviewed in the period using benchmarked data from independent advisors With the exception of the Chairman, no change was made to Non-Executive Directors' base fees however, Committee Chairs were increased to bring them to around median Fees for the Chairman were increased to reflect the increasing responsibilities associated with the regulatory framework and to bring total fees in line with median for FTSE mid 250 (bottom half)

External Appointments

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

Currently Drew Johnson holds a non-remunerated post for a Sunderland AFC Children's Charity Currently Dave Routledge holds a non-executive appointment on a pro-bono basis for the Employee Ownership Association, a not for profit organisation dedicated to the development and expansion of employee ownership In addition he holds a non-remunerated post for the Strategic Advisory Board of the Newcastle Business School

Audited Information

Directors' emoluments

Information subject to audit

Year ended 31 May 2010	Salary £000	Fees £000	Benefits £000	**Total 2010 £'000**	Total 2009 £'000	**Pension contributions 2010 £'000**	Pension contributions 2009 £'000
Executive							
Drew Johnson	457[1]	–	–	**457**	349	–	–
Willie MacDiarmid[2]	190[1]	–	–	**190**	–	–	–
Ian McLeod	311[1]	–	–	**311**	286	–	–
Dave Routledge	262	–	15	**277**	255	**39**	36
John Clough MBE[3]	–	–	–	**–**	380	–	–
Non-Executive							
Roger Aylard[4]	–	42	–	**42**	7	–	–
Charles Berry	–	105	–	**105**	83	–	–
Tracy Clarke	–	39	–	**39**	41	–	–
Quintin Oliver	–	37	–	**37**	36	–	–
Malcolm Simpson	–	41	–	**41**	45	–	–
	1,220	264	15	**1,499**	1,482	**39**	36

1 Includes amounts relating to pensions and car allowance paid as salary
2 From date of appointment on 14 December 2009
3 Resigned in the prior year
4 Appointed in the prior year

Long-Term Incentive Schemes and Share Options

With the exception of Willie MacDiarmid the Executive Directors have not participated in the MIP or SIP At 31 May 2010 the Directors have no other options under any of the Group's share plans The awards granted to Willie MacDiarmid were nil cost options over 247,122 Ordinary Shares in relation to the recruitment award and 494,245 nil cost options over Ordinary Shares in relation to the MIP Subject to the terms of the award, the recruitment award will ordinarily vest as to one half on 2 February 2011 and as to the remainder on 2 February 2012 and the MIP will vest on the third anniversary of the MIP award Therefore at 31 May 2010 no awards had vested (2009 N/A) and no awards had lapsed (2009 N/A) The Directors' interests in the shares of the Company are set out in the Report of the Directors

Tracy Clarke, Chair, Remuneration Committee
2 September 2010

Corporate Governance

The Board continues in its determination to aim for the highest standards of corporate governance and professional integrity. In accordance with the Rules of the UK Listing Authority, the Company is required to state whether it has complied with the provisions set out in Section 1 of the Combined Code on Corporate Governance issued by the Financial Reporting Council in June 2008 ('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. A copy of the Code is available http://www.frc.org.uk/corporate/ukcgcode.cfm

The following paragraphs together with the Remuneration Report on pages 32 to 37 provide details of how the Company applies the principles and complies with the provisions of the Code.

Operation of the Board

The primary roles of the Board are to determine overall strategy and business objectives, ensure structure and capital are sufficient to meet business needs, maintain and monitor effective systems for financial reporting, internal control, contracts and communication, regularly review Board membership, consider remuneration issues (upon recommendation from the Remuneration Committee), to delegate authority as appropriate, ensure standards of corporate governance are maintained and attend to other Company policies. All of these functions are recorded in a Schedule of Matters reserved to the Board for its decision/approval.

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

All Directors have disclosed any additional appointments or other business interests outside of the Company. The Non-Executive Directors have at all times been independent of management and free from any business or other relationship that could materially interfere with the exercise of their independent judgement. In reaching this view the Board has considered the relationship between the Company and Stratagem (NI) Limited in which Quintin Oliver is a director. Stratagem provide political consultancy services to the Company. The fees received by Stratagem from the Company throughout the year were £24,000 which equates to a little over 2% of Stratagem's turnover. The Chairman has discussed this specific relationship with major shareholders, none of whom regard the relationship as material, nor impacting upon Quintin's independence. Having taken these factors into account the Board have determined that Quintin Oliver remains independent.

Roger Aylard started a new business in partnership with two other individuals called Citywise Partners which offers training in Investor and City relations. The partnership undertook a one-off project for the Company during the period for which it was paid a fee of £3,500. The Board regard the payment of such a fee as immaterial and one which does not impact upon Roger's independence.

Charles Berry is Chairman of Drax Group plc. On 7 January 2010 the Company announced that it had entered into a contract with Drax to deliver its entire CESP commitment. Charles' position as Chairman of Drax is a matter of public record and is approved by the Board as a 'Relevant Situation' within the terms of Article 104.2 of the Company's articles of association. He withdrew from all discussions relating to contract negotiations between the parties.

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

Audit Committee

During the year the Audit Committee was chaired by Malcolm Simpson who was supported by three independent Non-Executive Directors: Quintin Oliver, Tracy Clarke and Roger Aylard. The Committee has at all times consisted and will continue in the future to consist of not less than three independent Non-Executive Directors one of whom will have recent and relevant financial experience. Malcolm Simpson, the Chair of the Committee and former Finance Director of Greggs plc has been assessed as having this relevant financial experience. A quorum is two members and the Committee has met and shall continue to meet a minimum of four times each year. There were five meetings during the year.

The Committee's main functions are to endeavour:

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

The Committee reviewed its terms of reference on 26 August 2010.

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

The Committee determines the scope of the external audit in discussion with the external auditors and agrees their fees in respect of the audit The Committee has a policy relating to the provision of non-audit services by the external auditors which provides that the total fee payable for such work in any financial year should not normally be more than 80% of the total fees payable in respect of audit and compliance services

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

Remuneration Committee
During the year the Remuneration Committee was chaired by Tracy Clarke Additional members were Malcolm Simpson, Quintin Oliver and Roger Aylard All are independent Non-Executive Directors The Committee has at all times consisted of not less than three members who are independent Non-Executive Directors A quorum is two members and the Committee meets a minimum of twice each year There were five meetings during the year

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

The Committee reviewed its terms of reference on 21 July 2010

The full Remuneration Report can be found at pages 32 to 37

Nomination Committee
During the year the Nomination Committee was chaired by Charles Berry Additional members were, Dave Routledge (who stood down from the Committee on 23 July 2009), Quintin Oliver, Roger Aylard and Drew Johnson Tracy Clarke and Malcolm Simpson were appointed to the Committee on 26 August 2010 The Committee has at all times contained a majority of independent Non-Executive Directors (including the Chairman) A quorum is three members two of whom must be independent Non-Executive Directors The Committee meets a minimum of once each year There were four meetings during the year

The Committee reviewed its terms of reference on 26 August 2010

The Committee's role is to make recommendations to the Board on the appointment of Directors and to support and assist the Board in fulfilling its responsibilities to shareholders in ensuring that the Board comprises 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, and
- reviewing the performance of any Director retiring by rotation who is planning to stand for re-election

The Executive Directors' service contracts and Non-Executive Directors' letters of appointment are available for inspection by prior arrangement during normal business hours

Evaluation
Having undergone an external performance evaluation process which was undertaken by the Institute of Chartered Secretaries and Administrators ('ICSA') in 2008 the Board undertook an internal evaluation process both in 2009 and 2010 This process is internally crafted, but externally facilitated and involves the collation and presentation of data by an external third party provider followed by individual meetings between the Chairman and each member of the Board in order to collate direct feedback and prepare recommendations as appropriate The process for 2009 highlighted the desire for improvements in the administration of Board papers, increased focus on Non-Executive Director update training and greater exposure to tiers of management below main Board and Executive Committee level

Corporate Governance (continued)

Evaluation (continued)
Significant improvements have been made in all of these areas The process for 2010 included structured questions concerning the effectiveness of the Board in its roles and responsibilities and was completed in August 2010 The general conclusion was the Board was operating effectively Whilst the balance on the Board was considered to be appropriate, attention was paid to the need to ensure an effective mix of skills when considering Director succession planning

Relationship with Shareholders
The Board recognises the importance of maintaining an effective investor relations and communication programme as part of its ongoing relationship with the Company's shareholders The Company maintains a regular dialogue with institutional investors and broker analysts, providing them with such information that is appropriate and necessary on the Company's progress and future plans as is permitted under the guidelines of the Listing Rules In particular, twice a year, following announcement of the interim and full-year results, they are invited to briefings given by the Chief Executive Officer and Chief Financial Officer where they have the opportunity to raise any questions as appropriate The Company has also arranged presentations to shareholders to share with them plans for a specific innovative project relating to the installation of solar PV systems onto social residential housing across the country

The Company's main institutional shareholders have been advised that in line with the provisions of the Code, the SID and the other Non-Executive Directors may attend those briefings and, in any event, would attend if requested to do so The Chairman is briefed periodically on investors' perceptions and such issues are discussed in the context of regular Board meetings The Chairman has met personally with the major investors to discuss the Company's business and strategy generally and to listen to any feedback they had and address any issues they wished to raise

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

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

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

Going Concern
The Directors confirm that after having reviewed the Group's budget and projected cash flows they have a reasonable expectation that the Company and its Group companies have adequate resources to continue in operational existence for the foreseeable future For this reason they continue to adopt the going concern basis in preparing the financial statements

Attendance at Meetings
The table below sets out the attendance at meetings of the Board and its Committees during the year The Board consider eight formally scheduled meetings per year enable it to properly attend to the business of the Company The Board however does arrange additional telephone conferences to ensure that all Directors are kept up to date with any material developments and will, as necessary arrange formal telephone conferences if a decision is required on any matter reserved to the Board that cannot be attended to at a scheduled meeting Such telephone conferences (whether they involve the taking of any decision or not) are not represented within the table below

	Board	Audit	Remuneration	Nomination
No of meetings held	8	5	5	4
Meetings attended				
Roger Aylard	8	5	5	4
Charles Berry	8	-	-	4
Tracy Clarke	7	4	5	-
Drew Johnson	8	-	-	4
Ian McLeod	8	-	-	-
Willie MacDiarmid*	5 (of 5)	-	-	-
Dave Routledge	7	-	-	1 (of 1)
Quintin Oliver	8	5	5	4
Malcolm Simpson	8	5	5	-

* Appointed 14 December 2009

Risk Management
The Board has overall responsibility for the Company's system of internal control and risk management The matters contained within the Matters Reserved to the Board ensure that the Directors control all significant strategic, financial and organisational issues Dave Routledge is the designated Executive Director with responsibility for health, safety, environment and security and chairs the RRB which meets monthly Dave formally reports to the Board upon such issues at each Board meeting The Board as a whole also undertake an annual review of all major risks as reported upon during the course of the year During the year appropriate levels of insurance were in place to cover Directors' actions or omissions

Internal Control
The Company has complied throughout the year and up to the date of approval of the Annual Report and Accounts with the provisions of the Code relating to internal controls as required by the UK Listing Authority It has implemented the procedures necessary to comply and report in line with the Turnbull Guidance published in October 2005 on internal control

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

- the Company has a dedicated risk management team and a RRB which is comprised of the Executive Committee, the Director of Health Safety Environment and Quality, the Group Risk Manager, the Head of Internal Audit and is chaired by Dave Routledge The RRB monitors and evaluates the risk registers compiled by each business area within the Group The major risks facing the business together with any mitigating action proposed and whether the action has been effective is reviewed by the Executive Directors and presented to the full Board at each Board Meeting The RRB reports to the Audit Committee on a quarterly basis regarding the effectiveness of the risk identification process and of the action plans for the mitigation of such identified risks
- the Company has an established integration process to ensure the risk management processes are introduced to any newly acquired business from acquisition with a plan to fully implement those systems as soon as reasonably practicable after acquisition
- the Company has a clearly identified organisational structure with defined reporting lines, duties and accountability There are defined authorisation limits for individual managers, with transactions being approved at the appropriate level of authority All parts of the business are required to comply with the policies and procedures set out in the Group's finance manual
- financial forecasts are prepared by the senior management and approved by the Board on an annual basis Operational management have a monthly accountability review with the Executive Directors to identify any variances between forecast and actual results and to agree any necessary corrective or mitigating action Financial results and cash flows, including a comparison against forecast are reported to the Board at each Board meeting and forecasts are updated quarterly throughout the financial year
- appropriate treasury policies are in place
- the Company has a formal 'whistleblowing' policy for Partners who wish to raise any issues of concern relating to the Company's activities on a confidential basis All concerns reported are investigated by senior management
- the Group's internal audit team reports to the Audit Committee and the Board at least twice a year on the outcomes of work undertaken which follows an approved internal audit programme The role of the Audit Committee is detailed earlier in this report
- the review of the effectiveness of internal controls carried out did not identify any significant weaknesses in internal controls

Compliance with the Code
The Directors consider there has been compliance with the Code throughout the year ended 31 May 2010

On behalf of the Board

Christopher Judd, Company Secretary
2 September 2010

Corporate Social Responsibility

Eaga's commitment to social responsibility is driven by our core values, to care for our Partners, customers and communities Corporate social responsibility sits at the core of the business and complements our business objectives Eaga's innovative and holistic approach to social responsibility ensures that we adopt a creative approach to the social and environmental needs of the communities that we serve

Our most valuable resource is our Partners The content of our second annual Corporate Social Responsibility Report is driven by our Partners' achievements, who understand their responsibilities and want to make a difference As an employer, we understand our corporate responsibilities and by supporting Corporate Social Responsibility projects, initiatives and campaigns, we create shared value, having a positive and lasting impact upon our Partners, within our communities, amongst our customers and in the challenges and opportunities that the changing climate of our environment can bring

Our aim is to identify the creation of shared value, benefit and opportunities to further develop our Partners and broaden their horizons and experiences whilst supporting our communities

The 2010 Corporate Social Responsibility Report is available both as a hard copy and in an interactive online format at www Eaga com

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 2010 which comprise the consolidated income statement, the consolidated statement of comprehensive income, the consolidated balance sheet, the consolidated cash flow statement, the consolidated statement of changes in equity, the Group accounting policies and the related notes The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards ('IFRSs') as adopted by the European Union

Respective Responsibilities of Directors and Auditors

As explained more fully in the Statement of Directors' Responsibilities set out on page 31, the Directors are responsible for the preparation of the Group financial statements and for being satisfied that they give a true and fair view Our responsibility is to audit the Group financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing

Scope of the Audit of the Financial Statements

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

Opinion on Financial Statements

In our opinion the Group financial statements

- give a true and fair view of the state of the Group's affairs as at 31 May 2010 and of its profit and cash flows for the year then ended,
- have been properly prepared in accordance with IFRSs as adopted by the European Union, and
- have been prepared in accordance with the requirements of the Companies Act 2006 and Article 4 of the IAS Regulation

Opinion on Other Matters Prescribed by the Companies Act 2006

In our opinion

- the information given in the Report of the Directors for the financial year for which the Group financial statements are prepared is consistent with the Group financial statements, and
- the information given in the Corporate Governance Statement set out on pages 38 to 41 with respect to internal control and risk management systems is consistent with the financial statements

Matters on Which we are Required to Report by Exception

We have nothing to report in respect of the following

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

- certain disclosures of Directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit, or
- a corporate governance statement has not been prepared by the Parent Company

Under the Listing Rules we are required to review

- the Directors' statement, set out on page 40, in relation to going concern, and
- the part of the Corporate Governance Statement relating to the Company's compliance with the nine provisions of the June 2008 Combined Code specified for our review

Other Matter

We have reported separately on the Parent Company financial statements of Eaga plc for the year ended 31 May 2010 and on the information in the Remuneration Report that is described as having been audited

Bill Macleod

Bill Macleod (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Newcastle upon Tyne
2 September 2010

Consolidated Income Statement

For the year ended 31 May 2010

	Notes	**Year ended 31 May 2010 £'000**	Year ended 31 May 2009 £'000
Revenue		**762,179**	738,904
Cost of sales		**(607,093)**	(591,946)
Gross profit		**155,086**	146,958
Administrative expenses		**(112,687)**	(109,475)
EBITA[1]		**51,961**	47,207
Amortisation of intangible assets	14	**(5,332)**	(7,820)
EPT-funded charges	6	**(4,230)**	(1,559)
Exceptional costs	7	**-**	(345)
Operating profit	2	**42,399**	37,483
Finance income	8	**173**	782
Finance expense	9	**(1,101)**	(537)
Profit before tax		**41,471**	37,728
Tax expense	10	**(11,864)**	(10,758)
Profit for the year attributable to			
Equity holders of the Company		**29,349**	26,703
Minority interests		**258**	267
Earnings per share (pence)			
- basic	12	**11 76**	10 69
- diluted	12	**11 64**	10 63
- adjusted diluted[2]	12	**14 37**	13 38

1 EBITA comprises profit before tax interest amortisation of intangible assets, EPT-funded charges and exceptional costs
2 Adjusted for amortisation of intangible assets, EPT funded charges exceptional costs and related tax adjustments

Consolidated Statement of Comprehensive Income

For the year ended 31 May 2010

	Year ended 31 May 2010 £'000	Year ended 31 May 2009 £ 000
Profit for the year	**29,607**	26,970
Cash flow hedge	**(170)**	-
Currency translation differences	**262**	225
Total recognised comprehensive income for the year	**29,699**	**27,195**
Attributable to		
Equity holders of the Company	**29,444**	26,925
Minority interests	**255**	270
	29,699	**27,195**

Consolidated Balance Sheet

As at 31 May 2010

	Notes	31 May 2010 £'000	31 May 2009 £'000
Non-current assets			
Goodwill	13	**60,094**	59,111
Intangible assets	14	**3,771**	8,054
Property, plant and equipment	15	**16,494**	13,712
Deferred tax assets	10	**1,885**	8,109
		82,244	88,986
Current assets			
Inventories	17	**22,479**	12,721
Trade and other receivables	18	**109,196**	97,530
Derivative financial instruments	19	**182**	566
Current asset investments	20	**7,713**	8,644
Cash and cash equivalents	21	**38,439**	31,905
		178,009	151,366
Current liabilities			
Trade and other payables	22	**103,205**	106,338
Derivative financial instruments	19	**170**	-
Loans and borrowings	23	**203**	207
Current tax liabilities		**2,081**	2,873
		105,659	109,418
Net current assets		**72,350**	41,948
Non-current liabilities			
Other non-current liabilities	22	**522**	474
Loans and borrowings	23	**347**	416
Provisions for other liabilities and charges	24	**437**	542
		1,306	1,432
Net assets		**153,288**	**129,502**
Equity			
Share capital	25	**251**	251
Retained earnings		**125,747**	97,709
Other reserves	26	**26,547**	30,968
Total shareholders' equity		**152,545**	128,928
Minority interest in equity		**743**	574
Total equity		**153,288**	**129,502**

The Group financial statements were approved by the Board of Directors on 2 September 2010 and signed on its behalf by

Drew Johnson, Ian McLeod, Directors

The notes on pages 48 to 77 form part of the Group financial statements

Consolidated Cash Flow Statement

For the year ended 31 May 2010

	Notes	Year ended 31 May 2010 £'000	Year ended 31 May 2009 £'000
Operating profit		**42,399**	37,483
Depreciation of property, plant and equipment	15	**5,394**	4,721
Amortisation of intangible assets	14	**5,332**	7,820
Increase in inventories		**(9,658)**	(3,825)
Increase in trade and other receivables		**(10,573)**	(21,674)
Decrease/(increase) in trade and other payables		**(4,507)**	13,482
Decrease in provisions		**(105)**	(44)
Loss on sale of property, plant and equipment		**144**	186
Share-based payments credited directly to equity		**4,727**	2,055
Fair value movements in derivatives		**122**	48
Exchange differences		**153**	6
Cash generated from operations		**33,428**	40,258
Finance income		**133**	782
Finance expense		**(797)**	(1,152)
Tax paid		**(6,398)**	(2,543)
Cash generated from operating activities		**26,366**	37,345
Cash flows from investing activities			
Purchase of intangible assets		**(1,047)**	(681)
Purchase of property, plant and equipment		**(7,431)**	(4,949)
Proceeds from sale of property, plant and equipment		**244**	885
Purchase of subsidiary undertakings net of cash/overdrafts acquired	28	**(1,166)**	(748)
Payment of deferred consideration including finance costs	28	**(965)**	(3,852)
Net cash outflow from investing activities		**(10,365)**	(9,345)
Cash flows from financing activities			
Repayment of bank loans		**(10)**	(6)
Capital element of hire purchase agreements		**(66)**	(96)
Purchase of own shares held in trust	26	**(4,820)**	(2,658)
Dividends paid to minority shareholders of subsidiary		**(99)**	(67)
Dividends paid to equity holders of the Company		**(5,721)**	(4,884)
Decrease/(increase) in current asset investments		**931**	(3,706)
Proceeds from sale of derivative financial instruments		**318**	-
Net cash outflow from financing activities		**(9,467)**	(11,417)
Net increase in cash and cash equivalents		**6,534**	16,583
Cash and cash equivalents at start of year	21	**31,905**	15,322
Cash and cash equivalents at end of year	**21**	**38,439**	**31,905**

Consolidated Statement of Changes in Equity

For the year ended 31 May 2010

	Share capital £'000	Retained earnings £'000	Other reserves £'000	Attributable to the equity holders of the Company £'000	Minority interest £'000	Total equity £'000
At 1 June 2008	251	73,882	32,266	106,399	362	106,761
Profit for the year	-	26,703	-	26,703	267	26,970
Share-based payments (note 5)	-	2,046	-	2,046	9	2,055
Dividends paid to minority shareholders of subsidiary	-	-	-	-	(67)	(67)
Dividends paid to equity shareholders of the Company (note 11)	-	(4,884)	-	(4,884)	-	(4,884)
Purchase of own shares held in trust	-	-	(2,658)	(2,658)	-	(2,658)
Share options exercised in the year	-	(38)	38	-	-	-
Currency translation differences	-	-	222	222	3	225
Issue of share capital	0	-	1,100	1,100	-	1,100
At 31 May 2009	**251**	**97,709**	**30,968**	**128,928**	**574**	**129,502**
Profit for the year	-	29,349	-	29,349	258	29,607
Share-based payments (note 5)	-	4,714	-	4,714	13	4,727
Dividends paid to minority shareholders of subsidiary	-	-	-	-	(99)	(99)
Dividends paid to equity shareholders of the Company (note 11)	-	(5,721)	-	(5,721)	-	(5,721)
Purchase of own shares held in trust	-	-	(4,820)	(4,820)	-	(4,820)
Share options exercised in the year	-	(304)	304	-	-	-
Cash flow hedges	-	-	(170)	(170)	-	(170)
Currency translation differences	-	-	265	265	(3)	262
At 31 May 2010	**251**	**125,747**	**26,547**	**152,545**	**743**	**153,288**

Group Accounting Policies

Eaga plc is a public company limited by shares, incorporated and domiciled in England and Wales under the Companies Act 2006 (Registered No 03858865) The address of the registered office is Eaga House, Archbold Terrace, Jesmond, Newcastle upon Tyne, NE2 1DB The Company has its primary listing on the London Stock Exchange

Eaga plc is a green support services group, a leading provider of residential energy efficiency solutions and deliverer of a range of outsourced programmes It works for and partners with a broad range of customers including central and local Government, utility companies, other private companies, domestic customers and the BBC

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below These policies have been consistently applied to all periods presented, with the exception of segmental reporting as explained below

Basis of Preparation
The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the European Union and International Financial Reporting Interpretations Committee ('IFRIC') Interpretations and the Companies Act 2006, as applicable to companies reporting under IFRS

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

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates It also requires management to exercise its judgement in the process of applying the Group's accounting policies The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed at the end of the Group accounting policies section

Segmental Reporting
During the period, the Group has completed an internal reorganisation to align business and reporting structures more closely to the Group's core markets This is the first set of full year financial results presented under this revised reporting structure The change in reporting segments does not have any impact on previously reported consolidated profits, net assets or earnings per share of the Group

Following this restructuring the Group will report under the three following primary reporting segments

- **Carbon Services** - focuses on the developing carbon economy, including delivery into the CERT and CESP markets along with the opportunities arising in the international carbon markets,
- **Heating and Renewables Services** - provides domestic heating and renewable energy solutions to Social Landlords, fuel poverty programmes and private householders, and
- **Managed Services** - provision of outsourced end-to-end solutions to local and central Government and other commercial organisations

The segmental information set out in note 1 to this report for year to 31 May 2009 has been restated to reflect this change in reporting structure

In addition, the Group has adopted the requirements of IFRS8 'Operating Segments' The standard requires the reporting of segmental information in line with the information reviewed regularly by the Chief Operating Decision Maker ('CODM') The Group has concluded that the CODM is the main Board of Directors The revised reporting segments, as set out in note 1, are in line with the format of reporting to the main Board of Directors

New Standards and Interpretations
From 1 June 2009 the following standards, amendments and interpretations became effective and were adopted by the Group

- IFRS8 'Operating segments'
- IAS1 Revised 'Presentation of financial statements'
- IAS23 Revised 'Borrowing costs'
- IFRIC13 'Customer Loyalty Programmes'
- IFRIC14 'The Limit on a Defined Benefit Asset'
- IFRIC15 'Agreements for the Construction of Real Estate'
- Amendment to IAS39 'Financial instruments Recognition and measurement', and IFRS7 'Financial instruments Disclosures', on the 'reclassification of financial assets'
- Amendment to IFRIC9 and IAS39 regarding embedded derivatives
- Amendment to IFRS1 'First time adoption of IFRS' and IAS27 'Consolidated and separate financial statements' on the 'cost of an investment in a subsidiary, jointly controlled entity or associate'
- Annual improvements to IFRSs (2008)
- Amendment to IAS32 'Financial instruments Presentation', and IAS1 'Presentation of financial statements' on 'puttable financial instruments and obligations arising on liquidation'
- Amendment to IFRS2 'Share-based payments' on 'vesting conditions and cancellations'
- Annual improvements 2009
- Amendment to IFRS2 'Share-based payments – Group cash-settled share-based payment transactions'
- Amendments to IFRS1 for additional exemptions
- Amendments to IAS32 'Financial instruments Presentation' on 'classification of rights issues'

The adoption of these amendments and interpretations has not had a significant impact on the Group's profit for the year or equity The impact of adopting IFRS8 is stated above, under IAS1 Revised, the Group has decided to present two separate performance statements

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

- IFRS3 Revised 'Business combinations'
- Amendment to IFRIC14 'Pre-payments of a Minimum Funding Requirement'
- IFRIC16 'Hedges of a net investment including foreign operations'
- IFRIC17 'Distribution of non-cash assets to owners'
- IFRIC18 'Transfer of assets from customers'
- IFRIC19 'Extinguishing financial liabilities with equity instruments'
- IFRS9 'Financial instruments'
- Amendment to IFRS1 'First time adoption'
- Amendment to IAS24 'Related party disclosures'
- Amendment to IFRS7 'Financial instruments Disclosures'
- Amendment to IAS39 'Financial instruments Recognition and measurement' on 'eligible hedged items'
- IAS27 Revised 'Consolidated and separate financial statements'

The adoption of these standards, amendments and interpretations is not expected to have a material impact on the Group's profits or equity The adoptions may affect disclosures in the Group's financial statements

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

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

Group Accounting Policies (continued)

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

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

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

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

The functional currency of the Group's foreign subsidiaries is the Canadian Dollar for Eaga Canada Inc, Eaga Canada Services Inc, Ark Solar Products Limited, Integrated Energy Systems Limited and Homeworks Services Inc, and Indian Rupees for Eaga Energy India Private Limited

As at the balance sheet date, the assets and liabilities of those subsidiaries are translated into Sterling at the closing rate of exchange at that date and their income statements are translated at the weighted average exchange rates for the period The exchange differences arising on translation are recognised as a separate component of equity On transition to IFRS, the translation reserve was set to zero, as permitted under IFRS1 On consolidation, exchange differences arising from the translation of the net investment in foreign subsidiaries, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity When a foreign subsidiary is partially disposed of or sold, exchange differences that were recorded in equity are recognised in the income statement as part of the gain or loss on sale

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

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

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

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

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

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

Business Combinations and Goodwill
Goodwill acquired in a business combination is recognised in non-current assets and measured at cost, being the excess of the fair value of the consideration exchanged, including directly attributable acquisition costs, over the Group's interest in the fair value of the acquiree's net identifiable assets at the date of acquisition Where the fair value of the acquired net identifiable assets exceeds consideration, the excess or 'negative goodwill' is recognised immediately in the income statement

Following initial recognition, goodwill is measured at cost less any accumulated impairment losses Goodwill is tested for impairment at least annually or whenever events or changes in circumstances indicate that the carrying value may not be recoverable For the purpose of impairment testing, goodwill acquired in a business combination is allocated to those cash generating units that are expected to benefit from the business combination in which the goodwill arose, identified according to operating segment

Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold

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

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

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

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

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

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

Impairment of Non-financial Assets
At each balance sheet date, the Group assesses whether there is an indication that an asset may be impaired If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount The recoverable amount is the higher of an asset's fair value less costs to sell and its value in use Where fair value cannot be determined then the recoverable amount will be determined by reference to value in use Value in use is determined for an individual asset, unless the asset does not generate cash flows that are largely independent of those from other assets or groups of assets, in this case an individual asset will be included in a larger cash generating unit

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

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

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

For assets excluding goodwill, an assessment is made at each balance sheet date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased If such indication exists, the Group makes an estimate of any amount recoverable

A previously recognised impairment loss is only reversed if there has been a change in the estimates used to determine the asset's recoverable amount since the impairment loss was recognised Impairment losses on goodwill are not reversed

Group Accounting Policies (continued)

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

Cash and Cash Equivalents
Cash and cash equivalents in the balance sheet include cash at bank and in hand and short-term deposits with original maturities of three months or less

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

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

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

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

Permarock Products Limited, a subsidiary company, has a defined benefit plan for the benefit of 24 Partners The plan is closed to new members and all benefits accruing to current members are frozen The Group recognises a liability in the financial statements representing the net obligation under the plan based on a valuation from an independent actuary which is updated at least annually, but does not recognise an asset Movements in the net obligation are credited/charged to the income statement Full IAS19 defined benefit disclosures are not given because the defined benefit obligation, plan assets and net surplus/deficit are not material

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

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

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

Revenue Recognition
Revenue is recognised to the extent that it is probable that economic benefits will flow to the Group and the revenue can be reliably measured Revenue is measured at the fair value of the consideration receivable, excluding discounts, rebates, value added tax and other sales taxes Where revenue has not been invoiced it is held within accrued income

Certain of the Group's activities will also involve the subcontracting of installation of works to third parties Revenue for subcontracted installations is recognised on a principal basis where the Group ultimately retains the risks and rewards of these installations

The Group generates revenue from three main segments being

Carbon Services
Carbon Services generates revenue from the delivery of carbon saving measures to utility companies together with other related activities 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

Heating and Renewables Services
Heating and Renewables Services generates revenue from the installation of energy efficient measures such as central heating and other renewable technologies including solar Revenue is recognised by reference to the number of energy efficient measures installed

Managed Services
The Group acts as lead contractor and principal on a number of contracts These contracts will typically involve multiple revenue streams Revenue is based on the fair value of each revenue stream and is recognised when the Group is contractually entitled to recognise the revenue Under certain long-term outsourcing contracts, revenue and profit are recognised based on the percentage completion method where the contract performance can be estimated reliably

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

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

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

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

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

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

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

Derivatives
Derivatives are initially recognised at fair value on the date a derivative contract is entered into and subsequently re-measured at fair value The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument The Group designates certain derivatives as either

- hedges of a particular risk associated with a highly probable forecast transaction (cash flow hedge), or
- hedges of a net investment in a foreign operation (net investment hedge)

The Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedging transactions The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in cash flows of hedged items

Group Accounting Policies (continued)

The fair value movements of derivative instruments used for hedging purposes are disclosed in note 19 Movements on the hedging reserve in shareholders' equity are shown in note 26 The fair value of the hedging derivative is classified as a current asset or liability when the remaining maturity of the hedged item is less than 12 months Trading derivatives are classified as current assets

Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income The gain or loss relating to the ineffective portion is recognised immediately in the income statement within administrative expenses Amounts accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects the income statement When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement within administrative expenses

Net investment hedge

Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised in other comprehensive income The gain or loss relating to the ineffective portion is recognised immediately in the income statement within administrative expenses Gain and losses accumulated in equity are included in the income statement when the foreign operation is partially disposed of or sold

Redeemable preference shares

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

Fair valuation

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

De-recognition of financial instruments

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

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

Taxes

Current tax

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

Deferred tax

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

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

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

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

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

Exceptional Costs
Exceptional costs comprise items of 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 expense as exceptional costs include, but are not limited to, impairment events, disposals of operations or individual assets, litigation claims against the Group and the restructuring of components of the Group's operations

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

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

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

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

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

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

Impairment of goodwill
The Group determines whether goodwill is impaired at least on an annual basis This requires an estimation of the value in use of the cash generating units to which the goodwill is allocated Estimating a value in use amount requires management to make an estimate of the expected future cash flows from the cash generating unit and also to select a suitable discount rate in order to calculate the present value of those cash flows The carrying value of goodwill at 31 May 2010 was £60,094,000 (2009 £59,111,000) Further details are given in note 13

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

Revenue recognition
Under certain long-term outsourcing contracts, the Group recognises revenue and profits based on the percentage completion method This requires management to make an assessment of the overall profitability of the entire contract in order to determine the level of revenue and profit to recognise

Notes to the Financial Statements

1 SEGMENTAL ANALYSIS

The Group is organised into three main businesses

- Carbon Services – focuses on the developing carbon economy, including delivery into the CERT and CESP markets along with the opportunities arising in the international carbon markets,
- Heating and Renewables Services – provides domestic heating and renewable energy solutions to Social Landlords, fuel poverty programmes and private householders, and
- Managed Services – provision of outsourced end-to-end solutions to local and central Government and other commercial organisations

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, with any remaining items being allocated using a reasonable basis such as revenue

The Directors have determined that the operating segments are based on the information contained in reports reviewed by the Board of Directors that are used to make strategic decisions

The Board of Directors assesses the performance of the operating segments based on EBITA Interest income and expenditure are not allocated to segments, as this type of activity is driven by the central treasury function, which manages the cash position for the Group

The segment information provided to the Board of Directors for the reportable segments for the year ended 31 May 2010 is as follows

	Carbon Services £'000	Heating and Renewables Services £'000	Managed Services £'000	Eliminations £'000	Total £'000
Revenue					
Third party	223,170	110,425	428,584	-	762,179
Inter-segment	22,291	88,381	961	(111,633)	-
Total	245,461	198,806	429,545	(111,633)	762,179
EBITA	23,943	17,458	10,560	-	51,961
Amortisation of intangible assets	(827)	(4,053)	(452)	-	(5,332)
Segmental operating profit	23,116	13,405	10,108	-	46,629
EPT-funded charges (note 6)					(4,230)
Operating profit					42,399
Net finance expense					(928)
Profit before tax					41,471
Tax expense	(5,881)	(3,411)	(2,572)	-	(11,864)
Profit for the year					**29,607**
Segment assets	95,296	87,821	36,812	-	219,929
Unallocated assets					40,324
Total assets				- -	**260,253**
Segment liabilities	(38,421)	(34,992)	(30,921)	-	(104,334)
Unallocated liabilities					(2,631)
Total liabilities					**(106,965)**
Additions to non-current assets included in above	2,195	2,494	4,392	-	9,081

Unallocated assets comprise cash and cash equivalents of £38,439,000 and a deferred tax asset of £1,885,000 Unallocated liabilities comprise loans and borrowings of £550,000 and a current tax liability of £2,081,000

1 SEGMENTAL ANALYSIS (continued)

The segment information for the year ended 31 May 2009 (restated) is as follows

	Carbon Services £'000	Heating and Renewables Services £'000	Managed Services £'000	Eliminations £'000	Total £'000
Revenue					
Third party	190,980	108,347	439,577	-	738,904
Inter-segment	25,247	93,868	40	(119,155)	-
Total	216,227	202,215	439,617	(119,155)	738,904
EBITA	17,689	19,824	9,694	-	47,207
Amortisation of intangible assets	(840)	(6,597)	(383)	-	(7,820)
Segmental operating profit	16,849	13,227	9,311	-	39,387
EPT-funded charges (note 6)					(1,559)
Exceptional costs (note 7)					(345)
Operating profit					37,483
Net finance income					245
Profit before tax					37,728
Tax expense	(4,602)	(3,613)	(2,543)	-	(10,758)
Profit for the year					**26,970**
Segment assets	80,864	69,257	50,217	-	200,338
Unallocated assets					40,014
Total assets					**240,352**
Segment liabilities	(26,770)	(25,224)	(55,360)	-	(107,354)
Unallocated liabilities					(3,496)
Total liabilities					**(110,850)**
Additions to non-current assets included in above	1,365	1,159	4,901	-	7,425

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

Other Segment Information

Revenues from external customers are derived from the provision of services by individual business segments The breakdown of revenue by business segment is provided above

The Company is domiciled in the UK The result of its revenue from external customers in the UK is £753,321,000 (2009 £729,993,000) and the total revenue from external customers from other countries is £8,858,000 (2009 £8,911,000)

The total non-current assets other than deferred tax assets located in the UK are £78,295,000 (2009 £79,045,000) and the total of these non-current assets located in other countries are £2,064,000 (2009 £1,832,000)

Revenues of approximately £332m and £80 2m (2009 £374m and £80 0m) are derived from two customers which account for more than 10% of Group revenue individually These revenues are attributable to the Managed Services and Carbon Services segments respectively

Notes to the Financial Statements (continued)

2 OPERATING PROFIT

Operating profit is stated after charging

	Year ended 31 May 2010 £'000	Year ended 31 May 2009 £'000
Staff costs (note 4)	**141,606**	133,712
Subcontractor costs	**244,743**	247,557
Inventories recognised as an expense	**203,190**	191,538
Depreciation of property, plant and equipment	**5,394**	4,721
Amortisation of intangible assets	**5,332**	7,820
Loss on sale of property, plant and equipment	**144**	186
Foreign exchange differences	**506**	171
Operating lease rentals		
– property	**3,572**	3,041
– plant and machinery	**2,347**	2,133
Hire of motor vehicles	**11,355**	9,603
Impairment of trade receivables	**526**	331

3 AUDITORS' REMUNERATION

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

	Year ended 31 May 2010 £'000	Year ended 31 May 2009 £'000
Fees payable to the Company's auditor for the audit of the Company's annual financial statements (including consolidated financial statements)	**100**	100
Fees payable to the Company's auditor for other services		
The auditing of financial statements of undertakings of the Company pursuant to legislation	**168**	160
Other services supplied pursuant to legislation	**19**	43
Other services relating to tax	**15**	99
Services relating to corporate finance transactions entered into or proposed to be entered into by or on behalf of the Company	**–**	147
Other services	**20**	33
	322	**582**

The Group capitalised £Nil (2009 £Nil) of non-audit fees within goodwill relating to acquisitions

4 STAFF COSTS

Staff costs for the Group during the year

	Year ended 31 May 2010 £'000	Year ended 31 May 2009 £'000
Wages and salaries	**121,951**	118,436
Charge in respect of share options/awards (note 5)	**4,727**	2,055
Social security costs	**10,899**	10,131
Other pension costs	**4,029**	3,090
	141,606	**133,712**

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

By Category

	Year ended 31 May 2010 Number	Year ended 31 May 2009 Number
Clerical and management	**1,690**	1,442
Insulation and heating installers	**1,830**	1,660
Surveyors and similar roles	**466**	458
Other	**698**	915
	4,684	**4,475**

Key Management Compensation

	Year ended 31 May 2010 £'000	Year ended 31 May 2009 £'000
Salaries and short-term employee benefits	**1,499**	1,482
Charge in respect of share options/awards	**130**	-
Post-employment benefits	**39**	36
	1,668	**1,518**

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

5 SHARE-BASED PAYMENTS

During the years ended 31 May 2010 and 31 May 2009, the Group had four share-based payment arrangements which are summarised below, further details of the plans are detailed in the Remuneration Report on pages 32 to 37

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

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

(ii) Management Incentive Plan ('MIP')

The MIP provides for the grant of nil cost options The awards were granted to certain Partners on 13 October 2009 and 2 February 2010 (2009 14 October 2008) The vesting period is three years and is dependent upon the level of increase in adjusted diluted eps over the vesting period, and upon the TSR performance of the Group compared to the FTSE mid 250 index excluding Investment Trusts, over the vesting period

(iii) Share Incentive Plan ('SIP')

The SIP provided for the grant of free shares to all eligible Partners The initial awards were granted to all Partners on 31 October 2008 The vesting period over these awards is one year for UK based Partners and three years for non-UK based Partners Further awards were granted to all Partners on 30 October 2009, funded by EPT waived dividends These awards vested on date of grant for UK Partners and over three years for non-UK based Partners

Notes to the Financial Statements (continued)

5 SHARE-BASED PAYMENTS (continued)

(iv) Executive Plan ('EP')

The EP allows for the grant of free shares to new Executive Directors on joining the Group, to ensure that their personal long-term interests are aligned to those of other external shareholders The awards were granted on 2 February 2010 The awards vest 50% on the first anniversary of the award and 50% on the second anniversary of the award

Type of arrangement	IPO KMP	MIP	SIP	EP
Year ended 31 May 2010				
Outstanding at 1 June 2009	913,489	1,366,245	2,177,938	-
Granted in the year	-	2,198,581	2,100,295	247,122
Exercised in the year	(851,799)	-	(256,424)	-
Expired in the year	(61,690)	(202,269)	(154,742)	-
Outstanding at 31 May 2010	**-**	**3,362,557**	**3,867,067**	**247,122**
Exercisable at 31 May 2010	-	-	3,730,454	-
Weighted average remaining contractual life (non-exercisable)	-	25 months	23 months	14 months
Weighted average fair value of options granted in 2010 (pence)	-	99 9	145 8	144 3
Weighted average share price at date of exercise (pence)	142 6	-	136 6	-
Year ended 31 May 2009				
Outstanding at 1 June 2008	2,003,298	-	-	-
Granted in the year	-	1,366,245	2,269,903	-
Exercised in the year	(791,697)	-	(30,656)	-
Expired in the year	(298,112)	-	(61,309)	-
Outstanding at 31 May 2009	**913,489**	**1,366,245**	**2,177,938**	**-**
Exercisable at 31 May 2009	87,291	-	-	-
Weighted average remaining contractual life (non-exercisable)	7 days	28 months	5 months	-
Weighted average fair value of options granted in 2009 (pence)	n/a	86 1	114 5	-
Weighted average share price at date of exercise (pence)	122 7	-	133 3	-

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

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

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

Levels of early exercises and lapses are estimated using historical averages

The Group recognised total expenses of £4,727,000 (2009 £2,055,000) related to equity-settled share-based payment transactions during the year

6 EPT-FUNDED CHARGES

	Year ended 31 May 2010 £'000	Year ended 31 May 2009 £'000
EPT-funded SIP	**4,230**	**1,559**

The Group operates a SIP under which qualifying Partners may receive free shares EPT waived its interim and final dividends paid during the year ended 31 May 2010 amounting to £3 3m (2009 £2 8m) These funds have been used to finance awards under the SIP This funding was utilised by the SIP trustee in the year to acquire a number of shares in the Company to be held in order to meet the future commitment of the SIP Further details of the share purchases are set out in note 26

6 EPT-FUNDED CHARGES (continued)

There is no commitment under the SIP to make any awards to Partners in excess of those funded to date by EPT Because this expense has been fully funded by EPT, there is no material net impact on the Group's reserves over the contractual life of the plan, cash or net assets against that which would have occurred had EPT not waived its dividends Accordingly, the associated share-based payment charge incurred by the Company has been separately disclosed on the face of the income statement and excluded from EBITA The increase in the current year charge reflects both the higher level of dividend waived by the EPT and the removal of the previously included forfeiture provision in the SIP which means that the awards impacted by the change vest immediately and the charge is required to be taken in full

7 EXCEPTIONAL COSTS

	Year ended 31 May 2010 £'000	Year ended 31 May 2009 £'000
Share-based payments	**–**	**345**

Share-based payments comprise the IFRS2 charge arising in respect of the fair value of share options granted to certain key management under the IPO Key Management Plan by EPT These awards were made solely in relation to successful admission of the Company's shares to the London Stock Exchange There was no cash cost to the Group in respect of the IFRS2 charge for these share-based payments and a credit of equal quantum was made to reserves resulting in unchanged net assets before recognising a deferred tax asset of £Nil (2009 £325,000) in the balance sheet, being the benefit of a statutory corporation tax deduction under Schedule 23 Finance Act 2003 in respect of the share options when they are exercised

8 FINANCE INCOME

	Year ended 31 May 2010 £'000	Year ended 31 May 2009 £'000
Bank interest receivable	**146**	616
Interest on loans to joint ventures	**–**	48
Income from current asset investments	**27**	118
	173	**782**

9 FINANCE EXPENSE

	Year ended 31 May 2010 £'000	Year ended 31 May 2009 £'000
Interest payable on bank loans and overdrafts	**1,081**	307
Interest payable on hire purchase agreements	**10**	34
Amortisation of deferred consideration	**10**	140
Share of joint venture interest payable	**–**	56
	1,101	**537**

10 TAX EXPENSE

(a) Tax Recognised in the Income Statement

	Year ended 31 May 2010 £'000	Year ended 31 May 2009 £'000
Current tax expense	**5,503**	5,439
Adjustments in respect of current tax of previous years	**101**	(115)
Share of joint venture tax	**–**	(6)
Current tax	**5,604**	5,318
Deferred tax relating to origination and reversal of temporary differences	**6,345**	5,571
Adjustments in respect of deferred tax of previous years	**(85)**	(131)
Deferred tax	**6,260**	5,440
Tax expense	**11,864**	**10,758**

Notes to the Financial Statements (continued)

10 TAX EXPENSE (continued)

(b) Reconciliation of Tax Expense

The effective tax rate for the year relating to continuing operations as a proportion of profit before tax is 28 6% (2009 28 5%) This compares with the standard rate of corporation tax in the United Kingdom of 28 0% (2009 28 0%) as follows

	Year ended 31 May 2010 £'000	Year ended 31 May 2009 £ 000
Profit before tax	**41,471**	37,728
At United Kingdom tax rate of 28 0%	**11,612**	10,564
Adjustment in respect of previous years	**16**	(246)
Expenditure not allowable for tax purposes	**161**	98
Deferred tax not provided	**75**	342
Tax on profit for the year	**11,864**	**10,758**

(c) Deferred Tax

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

	Share based payments £ 000	Decelerated capital allowances £'000	Intangible assets £'000	Losses £ 000	Other temporary differences £ 000	Total £'000
At 1 June 2008	429	1,683	(3,953)	15,274	20	13,453
Transfer from provisions	–	–	–	–	95	95
(Charged)/credited in the income statement	(303)	756	2,048	(7,923)	(18)	(5,440)
Acquired in a business combination	–	1	–	–	–	1
At 31 May 2009	**126**	**2,440**	**(1,905)**	**7,351**	**97**	**8,109**
(Charged)/credited in the income statement	162	(643)	1,294	(7,193)	120	(6,260)
Acquired in a business combination (note 28)	–	36	–	–	–	36
At 31 May 2010	**288**	**1,833**	**(611)**	**158**	**217**	**1,885**

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 2010 £ 000	31 May 2009 £'000
Losses	**1,259**	**1,047**

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

(d) Effect of Future Tax Changes

Subsequent to the year end the Government announced changes to future corporation tax rates Given these tax rates were not substantively enacted at the balance sheet date the financial statements have been prepared on the current rates, not allowing for the future rate changes announced If the rates had been used then this would have decreased the tax expense in the income statement by £67,000

11 DIVIDENDS

	Year ended 31 May 2010 £'000	Year ended 31 May 2009 £'000
Amounts recognised as distributions to equity holders in the year		
Final dividend for the year ended 31 May 2009 - 2 40p per share (2008 2 00p per share)	**3,811**	3,142
Interim dividend for the year ended 31 May 2010 – 1 21p per share (2009 1 10p per share)	**1,910**	1,742
	5,721	**4,884**

The Directors have proposed a final dividend for the year ended 31 May 2010 of 2 64p per share amounting to £6 6m (2009 2 40p per share amounting to £6 1m), which is subject to approval by the shareholders at the Annual General Meeting This final dividend has not been included as a liability in the financial statements as at 31 May 2010

EPT waived its right to the interim and final dividends relating to the year ended 31 May 2009, reducing the charge to equity by £3 2m and also the right to the interim dividend relating to the year ended 31 May 2010 reducing the charge to equity by £1 1m The funds waived were used to fund the SIP (note 6)

12 EARNINGS PER SHARE

Basic

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

	Year ended 31 May 2010	Year ended 31 May 2009
Profit attributable to equity shareholders of the Company (£'000)	**29,349**	26,703
Weighted average number of Ordinary Shares in issue (thousands)	**249,640**	249,896
Basic earnings per share (pence)	**11 76**	**10 69**

Diluted

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

	Year ended 31 May 2010	Year ended 31 May 2009
Profit attributable to equity shareholders of the Company (£'000)	**29,349**	26,703
Weighted average number of Ordinary Shares in issue (thousands)	**249,640**	249,896
Adjustments for dilutive effect of share options (thousands)	**2,526**	1,256
Weighted average number of Ordinary Shares for diluted earnings per share (thousands)	**252,166**	251,152
Diluted earnings per share (pence)	**11 64**	**10 63**

Adjusted Earnings per Share

Adjusted earnings per share is stated excluding amortisation of intangible assets, EPT-funded charges, exceptional costs and related tax adjustments as follows

	Year ended 31 May 2010	Year ended 31 May 2009
Profit attributable to equity shareholders of the Company (£'000)	**29,349**	26,703
- EPT-funded charges (note 6)	**4,230**	1,559
– exceptional costs (note 7)	–	345
– amortisation of intangible assets	**5,332**	7,820
– tax effect of above adjustments	**(2,677)**	(2,816)
Adjusted profit (£'000)	**36,234**	33,611
Adjusted basic earnings per share		
Weighted average number of Ordinary Shares in issue (thousands)	**249,640**	249,896
Adjusted basic earnings per share (pence)	**14 51**	**13 45**
Adjusted diluted earnings per share		
Weighted average number of Ordinary Shares for diluted earnings per share (thousands)	**252,166**	251,152
Adjusted diluted earnings per share (pence)	**14 37**	**13 38**

Notes to the Financial Statements (continued)

13 GOODWILL

	31 May 2010 £'000	31 May 2009 £'000
Cost		
As at 1 June	**59,461**	57,379
Acquisitions (note 28)	**426**	1,970
Exchange differences	**182**	112
Reassessment of deferred consideration payable	**375**	-
As at 31 May	**60,444**	**59,461**
Accumulated impairment		
As at 1 June and 31 May	**350**	**350**
Net book value		
At end of year	**60,094**	**59,111**
At start of year	**59,111**	57,029

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 An operating segment level summary of goodwill allocation is presented below

	31 May 2010 £'000	31 May 2009 £'000
Carbon Services	**19,295**	18,920
Heating and Renewables Services	**40,799**	40,191
	60,094	**59,111**

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

	31 May 2010 £'000	31 May 2009 £'000
Eagaheat	**23,124**	23,124
Horrocks Group plc	**7,776**	7,776
RG Francis Limited	**6,963**	6,963
Eaga NI Limited ('HEAT')	**6,409**	6,409
Other CGUs	**15,822**	14,839
	60,094	**59,111**

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

The Group prepares cash flow forecasts derived from the most recent financial budgets for the year to 31 May 2011 approved by the Board and extrapolates cash flows based on an estimated growth rate of 2-3% excluding inflation The pre-tax rate used to discount the forecast cash flows for all CGUs is 9 1% (2009 12 2%) which is calculated based on the Group's weighted average cost of capital of 6 5% (2009 8 8%) post-tax The Directors consider that the assumptions used in the cash flow forecasts are consistent with the historical performance of each CGU and to be realistically achievable in light of economic and market forecasts It is believed that any reasonably forseeable movement on assumptions will not lead to an impairment and therefore sensitivity analysis has not been presented

As at 31 May 2010 the Directors are satisfied that the values in use exceed their carrying value

14 INTANGIBLE ASSETS

	Patent assets £'000	Computer software £'000	Acquisition intangibles £'000	Total £'000
Cost				
As at 1 June 2009	380	2,725	24,526	27,631
Additions	315	751	-	1,066
Disposals	(5)	(31)	-	(36)
Exchange differences	-	2	-	2
As at 31 May 2010	**690**	**3,447**	**24,526**	**28,663**
Accumulated amortisation				
As at 1 June 2009	104	1,766	17,707	19,577
Charge for the year	186	524	4,622	5,332
Disposals	(5)	(12)	-	(17)
As at 31 May 2010	**285**	**2,278**	**22,329**	**24,892**
Net book value				
As at 31 May 2010	**405**	**1,169**	**2,197**	**3,771**
As at 31 May 2009	276	959	6,819	8,054

	Patent assets £'000	Computer software £'000	Acquisition intangibles £ 000	Total £'000
Cost				
As at 1 June 2008	110	2,280	24,526	26,916
Additions	270	411	-	681
Acquisitions	-	31	-	31
Exchange differences	-	3	-	3
As at 31 May 2009	**380**	**2,725**	**24,526**	**27,631**
Accumulated amortisation				
As at 1 June 2008	30	1,333	10,392	11,755
Charge for the year	74	431	7,315	7,820
Acquisitions	-	2	-	2
As at 31 May 2009	**104**	**1,766**	**17,707**	**19,577**
Net book value				
As at 31 May 2009	**276**	**959**	**6,819**	**8,054**
As at 31 May 2008	80	947	14,134	15,161

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

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

Notes to the Financial Statements (continued)

15 PROPERTY, PLANT AND EQUIPMENT

	Land and buildings £'000	Alterations to leasehold property £'000	Fixtures and fittings £'000	Equipment £'000	Motor vehicles £'000	Total £'000
Cost						
As at 1 June 2009	3,414	1,237	3,102	19,405	802	27,960
Additions	-	2,278	622	4,982	133	8,015
Acquisitions (note 28)	-	-	42	679	-	721
Exchange differences	66	16	4	29	8	123
Disposals	-	(84)	(221)	(511)	(205)	(1,021)
As at 31 May 2010	**3,480**	**3,447**	**3,549**	**24,584**	**738**	**35,798**
Accumulated depreciation						
As at 1 June 2009	77	604	1,662	11,518	387	14,248
Charge for the year	56	213	916	4,051	158	5,394
Acquisitions (note 28)	-	-	8	241	-	249
Disposals	-	(38)	(139)	(321)	(89)	(587)
As at 31 May 2010	**133**	**779**	**2,447**	**15,489**	**456**	**19,304**
Net book value						
As at 31 May 2010	**3,347**	**2,668**	**1,102**	**9,095**	**282**	**16,494**
As at 31 May 2009	3,337	633	1,440	7,887	415	13,712

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

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

The net book value of property, plant and equipment includes £95,000 (2009 £215,000) in respect of assets held under finance leases and hire purchase contracts

16 INVESTMENTS IN JOINT VENTURES

The Group's joint ventures, which are proportionately consolidated are Hothouse Technologies Limited, N E S T Makers Limited and WarmSure Limited On 31 August 2009, the Group acquired the remaining 50% of the share capital of WarmSure Limited (note 28)

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

Income Statement

	Year ended 31 May 2010 £'000	Year ended 31 May 2009 £ 000
Revenue	**3,067**	14,999
Cost of sales	**(742)**	(12,645)
Administrative expenses	**(2,382)**	(2,898)
Finance income	**1**	8
Finance expense	**–**	(64)
Loss before tax	**(56)**	**(600)**
Tax charge	**–**	(61)
Loss for the year	**(56)**	**(661)**

Revenue includes £1,845,000 (2009 £8,666,000) of intra-group sales in the year

Balance Sheet

	31 May 2010 £'000	31 May 2009 £'000
Assets		
Non-current assets	**–**	463
Cash and cash equivalents	**11**	993
Other current assets	**200**	169
	211	1,625
Liabilities		
Other non-current liabilities	**(522)**	(474)
Other current liabilities	**(676)**	(3,066)
	(1,198)	(3,540)
Net liabilities	**(987)**	**(1,915)**

The Group's proportionate interest in joint ventures' capital commitments and contingent liabilities was £Nil (2009 £Nil)

17 INVENTORIES

	31 May 2010 £'000	31 May 2009 £ 000
Raw materials and consumables	**10,797**	3,067
Work in progress	**416**	3,870
Finished goods	**11,266**	5,784
	22,479	**12,721**

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

Notes to the Financial Statements (continued)

18 TRADE AND OTHER RECEIVABLES

	31 May 2010 £'000	31 May 2009 £'000
Trade receivables	**40,074**	57,409
Less provision for impairment of receivables	**(2,232)**	(1,706)
Trade receivables - net	**37,842**	55,703
Amounts owed by related parties	**623**	1,260
Prepayments and accrued income	**66,746**	37,537
Other receivables	**3,985**	3,030
	109,196	**97,530**

Trade and other receivables are non-interest bearing The Group has no significant concentration of credit risk, with exposure spread across a large number of customers £5 3m (2009 £21 6m) is due from DECC, the Group's largest customer £2 6m (2009 £3 7m) is due from DSHS Limited in relation to the Digital Switchover Help Scheme There are no other customers who represent more than 5% of the total balance of trade receivables

The carrying value of trade and other receivables is stated after a provision for impairment of receivables has been made The provision is made by management based upon their assessment of the current economic environment and previous trading history with the counterparty Given the nature of the counterparties which include local and central Government, there is less concern over the credit quality of amounts past due not impaired The Directors consider that the carrying value of trade and other receivables approximates to their fair value

	31 May 2010 £'000	31 May 2009 £'000
At 1 June	**1,706**	1,375
Charged to current year income statement	**538**	967
Unused amounts reversed	**(12)**	(636)
At 31 May	**2,232**	**1,706**

The amount charged to the income statement is within administrative expenses

Ageing of Trade Receivables

	31 May 2010		31 May 2009	
	Gross £'000	Impairment £'000	Gross £'000	Impairment £'000
Current	**28,169**	**-**	40,650	-
Past due less than three months	**8,016**	**-**	13,520	-
Past due more than three months but less than six months	**1,735**	**(451)**	1,808	(436)
Past due more than six months but less than one year	**1,342**	**(969)**	803	(642)
Past due more than one year	**812**	**(812)**	628	(628)
	40,074	**(2,232)**	**57,409**	**(1,706)**

Prepayments and accrued income primarily represents normal trading prepayments (2010 £11 9m, 2009 £8 5m) and revenue for work done not yet billed on a number of contracts in the normal course of business (2010 £54 8m, 2009 £29 0m)

19 DERIVATIVE FINANCIAL INSTRUMENTS

	31 May 2010 £'000	31 May 2009 £'000
Assets		
Derivative contracts	**182**	**566**
Liabilities		
Fuel purchase contract – cash flow hedge	**170**	**-**

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

The hedged highly probable fuel purchase transactions are expected to occur at various dates during the next 12 months

20 CURRENT ASSET INVESTMENTS

	31 May 2010 £'000	31 May 2009 £'000
Current asset investments	**7,713**	**8,644**

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

21 CASH AND CASH EQUIVALENTS

	31 May 2010 £'000	31 May 2009 £'000
Cash at bank and in hand	**38,439**	**31,905**

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

22 TRADE AND OTHER PAYABLES

	31 May 2010 £'000	31 May 2009 £'000
Current trade and other payables		
Trade payables	**44,570**	57,988
Taxes and social security, excluding current tax	**3,872**	4,048
Amounts owed to related parties	**-**	1,480
Accruals and deferred income	**47,706**	36,911
Other payables	**7,057**	5,375
Deferred consideration	**-**	536
	103,205	**106,338**
Non-current trade and other payables		
Other payables	**522**	474
	522	**474**

Deferred consideration in the previous year was discounted based on 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

Notes to the Financial Statements (continued)

23 LOANS AND BORROWINGS

	31 May 2010 £'000	31 May 2009 £'000
Hire purchase obligations	**92**	205
Property loan	**306**	289
Cumulative redeemable preference shares	**152**	129
	550	**623**

The borrowings are repayable as follows

	31 May 2010 £'000	31 May 2009 £'000
On demand or within one year (shown under current liabilities)		
Hire purchase obligations	**41**	72
Property loan	**10**	6
Cumulative redeemable preference shares	**152**	129
	203	207
In the second to fifth years		
Hire purchase obligations	**51**	133
Property loan	**55**	21
	106	154
Due after more than five years		
Property loan	**241**	262
	241	262
Total borrowings	**550**	**623**
Less amount due for settlement within one year (shown under current liabilities)	**(203)**	(207)
Amount due for settlement after one year	**347**	**416**

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

Bank Loans
At 31 May 2010 and 31 May 2009, the Company has committed term loan facilities with Barclays Bank plc which have a floating interest rate, linked to LIBOR The total facility of £75m comprises

- £60m revolving credit facility expiring on 17 March 2012 At 31 May 2010 this facility was undrawn,
- £5m overdraft facility expiring on 17 March 2011 (2009 17 March 2010) At 31 May 2010 this facility was undrawn, and
- £10m letter of credit on a major contract expiring on 31 December 2013 At 31 May 2010 this facility was drawn

23 LOANS AND BORROWINGS (continued)

Hire Purchase Obligations

	Minimum lease payments		Present value of minimum lease payments	
	31 May 2010 £'000	31 May 2009 £'000	31 May 2010 £'000	31 May 2009 £'000
Amounts payable under hire purchase agreements				
Within one year	**47**	83	**41**	72
In the second year to fifth years inclusive	**56**	159	**51**	133
	103	242	**92**	205
Less future finance charges	**(11)**	(37)	**-**	-
Present value of hire purchase obligations	**92**	**205**	**92**	**205**
Less amount due for settlement within one year (shown under current liabilities)	**(41)**	(72)	**(41)**	(72)
Amount due for settlement after one year	**51**	**133**	**51**	**133**

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 has a term of 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% on the paid up capital and the right to a return of capital at either winding up or a repayment of capital The cumulative redeemable preference shares do not entitle the holder to any other participation in the profits or assets of Homeworks Services Inc and are redeemable on demand These shares have no voting rights

The total number of authorised cumulative redeemable preference shares is 2,500 (2009 2,500) of which 2,500 (2009 2,500) were allotted and fully paid at the balance sheet date

24 PROVISIONS FOR OTHER LIABILITIES AND CHARGES

	Dilapidation provision £'000	Pension provision £'000	Total £'000
As at 1 June 2009	542	-	542
(Credited)/charged in the year to the income statement	(300)	195	(105)
As at 31 May 2010	**242**	**195**	**437**

The dilapidation provision held by the Group as at 31 May 2010 is held to cover dilapidations on leased properties

The pension provision held by the Group as at 31 May 2010 was held to cover post-employment benefits accruing to certain employees of Permarock Products Limited At 31 May 2009 the pension scheme's funding position was reversed to a small surplus and as such there was no provision See note 30 for further details

Notes to the Financial Statements (continued)

25 SHARE CAPITAL

	31 May 2010 £'000	31 May 2009 £'000
Authorised equity share capital		
330,000,000 (2009 330,000,000) Ordinary Shares of £0 001 each	**330**	**330**
Allotted and fully paid equity share capital		
251,408,802 (2009 251,408,802) Ordinary Shares of £0 001 each	**251**	**251**

Year ended 31 May 2009

On 31 August 2008 815,557 Ordinary Shares of £0 001 were allotted at a mid-market price of 134 88p in respect of the acquisition of Horrocks Group plc

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

	Authorised Ordinary Shares at £0 001 each	Allotted Ordinary Shares at £0 001 each
At 1 June 2008	330,000,000	250,593,245
Ordinary Shares allotted on 31 August 2008	–	815,557
At 31 May 2009 and 31 May 2010	**330,000,000**	**251,408,802**

26 OTHER RESERVES

	Share premium account £'000	Capital redemption reserve £'000	Own share reserve £'000	Hedging reserve £'000	Translation reserve £'000	Total £'000
As at 1 June 2008	28,738	3,600	–	–	(72)	32,266
Purchase of own shares held in trust	–	–	(2,658)	–	–	(2,658)
Share options exercised in the year	–	–	38	–	–	38
Currency translation differences	–	–	–	–	222	222
Issue of share capital	1,100	–	–	–	–	1,100
As at 31 May 2009	**29,838**	**3,600**	**(2,620)**	**–**	**150**	**30,968**
Purchase of own shares held in trust	–	–	(4,820)	–	–	(4,820)
Share options exercised in the year	–	–	304	–	–	304
Cash flow hedge	–	–	–	(170)	–	(170)
Currency translation differences	–	–	–	–	265	265
As at 31 May 2010	**29,838**	**3,600**	**(7,136)**	**(170)**	**415**	**26,547**

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

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

The own share reserve represents the purchase price of shares to fund the SIP and MIP not yet exercised by Partners under those plans

The hedging reserve represents the movement in the fair value of cash flow hedges which have not yet been recognised in the income statement

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

27 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 2010 £'000	31 May 2009 £'000	**31 May 2010 £'000**	31 May 2009 £'000
Within one year	**3,878**	2,092	**1,760**	1,523
In the second to fifth years inclusive	**13,464**	7,153	**352**	493
After five years	**10,394**	6,172	**–**	-
	27,736	15,417	**2,112**	2,016

The increase in total future minimum lease payments in land and buildings of £12,319,000 largely reflects the completion of a new lease on a property in Newcastle upon Tyne during the year

28 BUSINESS COMBINATIONS

The following table summarises the cash outflow as a result of the acquisitions during the year to 31 May 2010

	£'000
Acquisition of WarmSure Limited	(1,997)
WarmSure Limited net cash acquired	831
Total net consideration paid	**(1,166)**
Deferred consideration on Protocol Communications Management Limited	(750)
Deferred consideration on Integrated Energy Systems Limited	(215)
Total deferred consideration paid	**(965)**

On 31 August 2009, the Group acquired the remaining 50% shareholding in its joint venture, WarmSure Limited, a company registered in England and Wales The consideration paid was £1,997,000 including acquisition expenses of £30,000

The book and provisional fair values of the acquired identifiable assets and liabilities of the acquisition were

	Book value £'000	Fair value £'000
Net assets acquired		
Property, plant and equipment	472	472
Inventories	100	100
Trade and other receivables	1,499	1,499
Deferred tax (liability)/asset	(40)	36
Cash and cash equivalents	831	831
Trade and other payables	(1,234)	(1,367)
	1,628	1,571
Goodwill		426
		1,997
Cash consideration		1,967
Acquisition expenses		30
		1,997

The fair value adjustments reflected the recognition of previously unrecognised deferred tax assets of £76,000 and unrecorded liabilities of £133,000

If the acquisition had been completed on 1 June 2009 Group revenues for the year and Group profit before tax would have been £764,025,000 and £41,415,000 respectively

The post-acquisition profit before tax from this acquisition in the year ended 31 May 2010 was £467,000

Notes to the Financial Statements (continued)

28 BUSINESS COMBINATIONS (continued)

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

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

On 14 October 2008, the Group acquired 100% of the issued share capital of Protocol Communications Management Limited a company registered in England and Wales Protocol Communications Management Limited is a fulfilment and distribution company The consideration paid was £1,543,000 including acquisition expenses of £43,000 In the year, under the terms of the sale and purchase agreement the Group paid £750,000 to the vendor in the finalisation of consideration, resulting in an increase of goodwill of £375,000

29 FINANCIAL INSTRUMENTS

The Group's financial instruments, other than derivatives, comprise cash, bank loans, finance leases and various items such as trade receivables and trade payables that arise directly from its operations All financial instruments other than derivatives are stated at amortised cost

Risk Management

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

Capital Risk

The Group's primary objectives in managing its capital are to safeguard the business as a going concern, to maintain financial flexibility to undertake its investment plans, and to optimise capital structure in order to reduce the cost of capital The Group monitors its ratio of net debt to EBITDA and EBITDA to total finance expense, to ensure adequate headroom is maintained against banking covenants of 2 5 times (not more than) and 3 0 times (not less than) respectively

Credit Risk

The Group's credit risk primarily arises from trade and other receivables on contracts A large proportion of the Group's customers are predominately energy supply companies, public sector and Government organisations and as such the Directors consider that the risk of default is lower than average because of the nature of these customer groupings

Liquidity Risk

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

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

	31 May 2010 £'000	31 May 2009 £'000
Within one year	**5,000**	5,000
In two to five years	**60,000**	60,000
	65,000	**65,000**

29 FINANCIAL INSTRUMENTS (continued)

Foreign Currency Risk

The Group has operations in Canada, India and the Republic of Ireland which are affected by foreign exchange movements, and is exposed to foreign exchange risks arising from the purchase of certain items of inventory denominated in foreign currencies

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

	31 May 2010 £'000	31 May 2009 £'000
Monetary assets		
Canadian dollar	**1,528**	1,861
Euro	**1,404**	1,679
Indian rupee	**274**	277
Monetary liabilities		
Canadian dollar	**997**	1,721
Euro	**2,308**	317
Indian rupee	**140**	107

The table below shows the impact of the sensitivity to a reasonable possible change of 10% increase in Pounds Sterling against the relevant foreign currencies, with all other variables remaining constant, on the Group's profit before tax and net assets

	31 May 2010 £'000	31 May 2009 £'000
Increase in £ CAD$ of 10%		
Effect on profit before tax	**61**	124
Effect on equity	**468**	354
Increase in £ € of 10%		
Effect on profit before tax	**136**	(76)
Effect on equity	**136**	(0)
Increase in £ INR of 10%		
Effect on profit before tax	**19**	7
Effect on equity	**(109)**	6

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 the UK Bank Base Rate

The Group maintains its debt at a floating rate of interest due to the low gearing of the Group other than the hire purchase obligations and redeemable preference shares that are held at a fixed rate of interest

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

Notes to the Financial Statements (continued)

30 RETIREMENT BENEFITS

The Group operates a number of defined contribution pension schemes The assets of the schemes are held separately from those of the Group in independently administered funds managed by third parties The pension cost charged to the income statement represents contributions payable by the Group to the funds and amounted to £3,834,000 (2009 £3,090,000)

The Group operates a defined benefit plan for 24 Partners in a subsidiary company The plan is closed to new members and all benefits accruing to current members are frozen Full IAS19 disclosures are not presented because the defined benefit plan assets and net deficit are not material As at 31 May 2010 the net deficit in the plan was £195,000 (2009 net surplus £54,000)

The net deficit has been recognised in the income statement in full in the year, in the prior year the surplus was not recognised

31 RELATED PARTY TRANSACTIONS

Identity of Related Parties

The Group has related party relationships with its shareholders including EPT, 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 2010 the Group purchased services with an aggregate value of £24,000 (2009 £20,447) from Stratagem (NI) Limited, a company in which Mr Quintin Oliver, Non-Executive Director of the Company, is a shareholder At 31 May 2010 the balance owed to Stratagem (NI) Limited by Eaga plc was £2,300 (2009 £2,300)

Subsidiaries and Joint Ventures

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

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

	Year ended 31 May 2010 £'000	Year ended 31 May 2009 £'000
Purchases of goods and services		
- from joint ventures	**1,845**	8,666
Receivables		
- due from joint ventures	**1,246**	2,531
Payables		
- due to joint ventures	**-**	2,969

32 SUBSIDIARIES

The main unquoted investments held by Eaga plc as at 31 May 2010 are as follows

Subsidiaries	Principal activity	Percentage of Ordinary Shares attributable to Eaga plc	Year end
1st Insulation Partners Limited	Sales of insulation materials	100%	31 May
AFR Limited	Energy efficiency services	100%	31 May
Ark Solar Products Limited*	Energy efficiency services	100%	31 May
Deblnd International (UK) Limited	IT consulting	100%	31 May
Eaga Canada Services Inc*	Energy efficiency services	100%	31 May
Eaga Clean Energy Limited	Installation of solar PV systems	100%	31 May
Eaga Contract Services East Limited (formerly George Howe Limited)	Provision of external wall insulation services	100%	31 May
Eaga Contract Services Limited (formerly E J Horrocks Limited)*	Provision of external wall insulation services	100%	31 May
Eaga Energy India Private Limited*	IT consulting	90%	31 March
Eaga Energy Solutions Limited	Energy efficiency services	100%	31 May
Eaga Heating Services Limited	Energy efficiency services	100%	31 May
Eaga Home Services Limited	Energy efficiency services	100%	31 May
Eaga Insurance Services Limited	Administration and claims settlements	85%	31 May
Eaga Renewables Limited	Installation of thermal energy water heating systems	100%	31 May
Eaga Scotland Limited	Energy efficiency services	100%	31 May
Heat, Energy and Associated Technology Limited*	Energy efficiency services	100%	31 May
Homeworks Services Inc*	Energy efficiency services	100%	31 May
Integrated Energy Systems Limited*	Energy efficiency services	100%	31 May
Permarock Products Limited*	Provision of external wall insulation services	100%	31 May
Protocol Communications Management Limited	Fulfilment and distribution	100%	31 May
RG Francis Limited	Energy efficiency services	100%	31 May
WarmSure Limited*	Energy efficiency services	100%	31 May

* Held indirectly

All of the above companies are incorporated in England and Wales, with the exception of Eaga Scotland Limited, which is incorporated in Scotland, Heat, Energy and Associated Technology Limited which is incorporated in Northern Ireland, Homeworks Services Inc, Ark Solar Products Limited, Integrated Energy Systems Limited and Eaga Canada Services Inc which are incorporated in Canada, and Eaga Energy India Private Limited which is incorporated in India

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

33 POST BALANCE SHEET EVENTS

Subsequent to the year end the Group announced a voluntary redundancy programme The cost of this programme is currently estimated to be £3 1m which will be recognised in the year to 31 May 2011

On 13 July 2010 the Group made an investment of £1m in HomeSun Holdings Limited, a group involved in the sale of solar PV panels This investment represents a 9 1% share of HomeSun Holdings Limited's issued share capital

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 2010 which comprise the Parent Company Balance Sheet and related notes The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice)

Respective Responsibilities of Directors and Auditors

As explained more fully in the Statement of Directors' Responsibilities set out on page 31, the Directors are responsible for the preparation of the Parent Company financial statements and for being satisfied that they give a true and fair view Our responsibility is to audit the Parent Company financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing

Scope of the Audit of the Financial Statements

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

Opinion on Financial Statements

In our opinion the Parent Company financial statements

- give a true and fair view of the state of the Company's affairs as at 31 May 2010,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006

Opinion on Other Matters Prescribed by the Companies Act 2006

In our opinion

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

Matters on Which we are Required to Report by Exception

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

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

Other Matter

We have reported separately on the Group financial statements of Eaga plc for the year ended 31 May 2010

Bill Macleod

Bill Macleod (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Newcastle upon Tyne
2 September 2010

Parent Company Balance Sheet

As at 31 May 2010

	Notes	31 May 2010 £'000	31 May 2009 £'000
Fixed assets			
Tangible assets	2	**11,301**	8,034
Investments	3	**88,595**	85,876
		99,896	93,910
Current assets			
Stock	4	**7,501**	5,187
Debtors due within one year	5	**88,113**	85,188
Debtors due after one year - Deferred tax asset	5	**1,393**	9,294
Cash at bank and in hand		**40,655**	20,271
		137,662	119,940
Creditors due within one year	6	**(72,070)**	(82,627)
Net current assets		**65,592**	37,313
Total assets less current liabilities		**165,488**	131,223
Creditors due after more than one year	7	**-**	(35)
Provisions for liabilities and charges	9	**(242)**	(542)
Net assets		**165,246**	**130,646**
Capital and reserves			
Called up share capital	10	**251**	251
Share premium account	11	**29,838**	29,838
Capital redemption reserve	11	**3,600**	3,600
Hedging reserve	11	**(170)**	-
Own share reserve	11	**(7,136)**	(2,620)
Profit and loss account	11	**138,863**	99,577
Total equity	**12**	**165,246**	**130,646**

The Parent Company financial statements were approved by the Board of Directors on 2 September 2010 and signed on its behalf by

Drew Johnson, Ian McLeod, Directors

The notes on pages 80 to 86 form part of these Parent Company financial statements

Notes to the Parent Company Financial Statements

1 PARENT COMPANY ACCOUNTING POLICIES

Basis of Accounting

The Parent Company financial statements are prepared on a going concern basis under the historical cost convention, except as disclosed below, in accordance with the Companies Act 2006 and applicable UK accounting standards As permitted by Section 408 of the Companies Act 2006, the Company's profit and loss account is not presented in these financial statements The Eaga plc consolidated financial statements for the year ended 31 May 2010 contain a consolidated cash flow statement, consequently, the Company has taken the exemption available in FRS1 (Revised 1996) Cash Flow Statements, and has not presented its own cash flow statement

Tangible Fixed Assets

Tangible fixed assets are stated at historical cost, less accumulated depreciation and any impairment in value Historical cost includes expenditure that is directly attributable to the acquisition of the items Depreciation is calculated so as to write off the cost of tangible fixed assets, less their estimated residual values, on a straight-line basis over the expected useful economic lives at the following rates

Land and buildings	2%
Alterations to leasehold property	Period of lease
Fixtures and fittings	20-33%
Equipment (including IT equipment and software)	20-50%

A tangible fixed asset is de-recognised upon disposal or when no future economic benefits are expected from its use Any gain or loss arising on de-recognition of the asset is recognised in the profit and loss account in the period the asset is de-recognised

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

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

Fixed Asset Investments

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

Stock

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

Leases

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

Pension Scheme

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

Deferred Tax

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

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

Deferred tax assets are recognised for all temporary differences, carry forward of unused tax credits and unused tax losses to the extent that it is probable that taxable profit will be available against which the temporary differences and the carry forward of unused tax credits and unused tax losses can be utilised except where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the

1 PARENT COMPANY ACCOUNTING POLICIES (continued)
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 profit and loss account, 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

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

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

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

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

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and subsequently re-measured at fair value The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument The Company designates certain derivatives as hedges of a particular risk associated with a highly probable forecast transaction (cash flow hedge)

The Company documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedging transactions The Company also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in cash flows of hedged items

The fair value movements of derivative instruments used for hedging purposes are disclosed in note 6 Movements on the hedging reserve in shareholders' equity are show in note 11 The fair value of the hedging derivative is classified as a current asset or liability when the remaining maturity of the hedged item is less than 12 months

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in reserves The gain or loss relating to the ineffective portion is recognised immediately in the profit and loss account Amounts accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects the profit and loss account When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the profit and loss account When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the profit and loss account

Accrued Income
Accrued income represents revenue that has not yet been invoiced to the customer Further details of the Group's revenue recognition policy is set out on pages 52 and 53 of the Group financial statements

Notes to the Parent Company Financial Statements (continued)

2 TANGIBLE FIXED ASSETS

	Land and buildings £'000	Alterations to leasehold property £'000	Fixtures and fittings £'000	Equipment £'000	Total £'000
Cost					
As at 1 June 2009	2,491	568	1,931	13,025	18,015
Additions	-	1,300	55	5,106	6,461
Disposals	-	-	-	(96)	(96)
As at 31 May 2010	**2,491**	**1,868**	**1,986**	**18,035**	**24,380**
Accumulated depreciation					
As at 1 June 2009	50	477	1,250	8,204	9,981
Charge for the year	46	42	378	2,682	3,148
Disposals	-	-	-	(50)	(50)
As at 31 May 2010	**96**	**519**	**1,628**	**10,836**	**13,079**
Net book value					
As at 31 May 2010	**2,395**	**1,349**	**358**	**7,199**	**11,301**
As at 1 June 2009	2,441	91	681	4,821	8,034

3 INVESTMENTS

	Investments in subsidiary undertakings £'000	Investments in joint ventures £'000	Total £'000
Cost			
As at 1 June 2009	86,751	22	86,773
Acquisitions	2,719	-	2,719
As at 31 May 2010	**89,470**	**22**	**89,492**
Accumulated impairment			
As at 1 June 2009 and 31 May 2010	**875**	**22**	**897**
Net book value			
As at 31 May 2010	**88,595**	**-**	**88,595**
As at 31 May 2009	85,876	-	85,876

A list of the main subsidiary and joint venture undertakings is given in note 32 of the Group financial statements

The Directors believe that the carrying value of investments is supported by their underlying trading results and net assets

4 STOCK

	31 May 2010 £'000	31 May 2009 £'000
Finished goods	**7,501**	**5,187**

5 DEBTORS

	31 May 2010 £'000	31 May 2009 £'000
Due within one year		
Trade debtors	**10,244**	30,952
Amounts due from Group undertakings	**30,436**	23,243
Other debtors	**1,961**	1,507
Prepayments and accrued income	**45,472**	29,486
	88,113	**85,188**
Due after more than one year		
Deferred tax (note 8)	**1,393**	9,294
	1,393	**9,294**

6 CREDITORS – DUE WITHIN ONE YEAR

	31 May 2010 £'000	31 May 2009 £'000
Trade creditors	**20,578**	38,658
Amounts owed to Group undertakings	**23,359**	21,502
Other tax and social security	**2,154**	1,033
Other creditors	**624**	1,517
Accruals and deferred income	**25,185**	19,538
Hire purchase obligations	**–**	14
Derivative financial instruments	**170**	–
Deferred consideration on acquisition of subsidiaries	**–**	365
	72,070	**82,627**

7 CREDITORS – DUE AFTER MORE THAN ONE YEAR

	31 May 2010 £'000	31 May 2009 £'000
Hire purchase obligations	**–**	**35**

Notes to the Parent Company Financial Statements (continued)

8 DEFERRED TAX

A deferred tax asset has been recognised as shown below

	Amounts recognised 31 May 2010 £'000	31 May 2009 £'000
Tax effect of timing differences because of		
– share-based payments	**311**	250
– losses	**–**	7,192
– short-term timing differences	**116**	74
– excess of depreciation over capital allowances	**966**	1,778
	1,393	**9,294**

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

	Share based payments £'000	Decelerated capital allowances £'000	Losses £'000	Other temporary differences £'000	Total £'000
At 1 June 2009	250	1,778	7,192	74	9,294
(Charged)/credited in the year	61	(812)	(7,192)	42	(7,901)
At 31 May 2010	**311**	**966**	**–**	**116**	**1,393**

9 PROVISIONS FOR LIABILITIES AND CHARGES

	Dilapidation provision £'000
As at 1 June 2009	542
Released or utilised in the year	(300)
As at 31 May 2010	**242**

The dilapidation provision held by the Company as at 31 May 2010 is held to cover dilapidations on leased properties, as required in various lease agreements The amount recognised is management's best estimate of the costs likely to be incurred in carrying out the remedial work required

10 SHARE CAPITAL

	31 May 2010 £'000	31 May 2009 £'000
Authorised equity share capital		
330,000,000 (2009 330,000,000) Ordinary Shares of £0 001 each	**330**	**330**
Allotted and fully paid equity share capital		
251,408,802 (2009 251,408,802) Ordinary Shares of £0 001 each	**251**	**251**

The following is a reconciliation of the authorised and alloted share capital

	Authorised Ordinary Shares at £0 001 each	Allotted Ordinary Shares at £0 001 each
As at 1 June 2009 and 31 May 2010	**330,000,000**	**251,408,802**

11 RESERVES

	Share premium account £'000	Capital redemption reserve £'000	Own share reserve £'000	Hedging reserve £'000	Profit and loss account £'000
As at 1 June 2009	29,838	3,600	(2,620)	-	99,577
Profit for the year	-	-	-	-	40,584
Dividends	-	-	-	-	(5,721)
Share-based payments	-	-	-	-	4,727
Purchase of own shares	-	-	(4,820)	-	-
Cash flow hedge	-	-	-	(170)	-
Share options exercised in the year	-	-	304	-	(304)
As at 31 May 2010	**29,838**	**3,600**	**(7,136)**	**(170)**	**138,863**

12 RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	31 May 2010 £'000	31 May 2009 £'000
Profit for the year	**40,584**	36,800
Dividends	**(5,721)**	(4,884)
Share-based payments	**4,727**	1,016
Acquisition of own shares	**(4,820)**	(2,658)
Cash flow hedge	**(170)**	-
Issue of share capital	-	1,100
Net increase in shareholders' funds	**34,600**	31,374
Opening shareholders' funds	**130,646**	99,272
Closing shareholders' funds	**165,246**	130,646

13 PROFIT AND LOSS DISCLOSURES

As permitted by section 408 of the Companies Act 2006, the Company has not presented its own profit and loss account The profit of the Company for the financial year was £40,584,000 (2009 £36,800,000) There is no material difference between the profits and losses as reported above and historical cost profits and losses and there were no other gains and losses arising in the year

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

14 SHARE-BASED PAYMENTS

During the years ended 31 May 2010 and 31 May 2009, the Company had four share-based payment arrangements which are summarised below, further details of the plans are detailed in the Remuneration Report

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

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

(ii) Management Incentive Plan ('MIP')

The MIP provides for the grant of nil cost options The awards were granted to certain Partners on 13 October 2009 and 2 February 2010 (2009 14 October 2008) The vesting period is three years and is dependent upon the level of increase in adjusted diluted eps over the vesting period, dependent upon the TSR performance of the Company compared to the FTSE mid 250 index excluding Investment Trusts over the vesting period

(iii) Share Incentive Plan ('SIP')

The SIP provided for the grant of free shares to all eligible Partners The initial awards were granted to participating Partners on 31 October 2008 The vesting period over these awards is one year for UK based Partners and three years for non-UK based Partners Further awards were granted to all Partners on 30 October 2009 funded by EPT waived dividends These awards vested on date of grant for UK Partners and over three years for non-UK based Partners

(iv) Executive Plan ('EP')

The EP allows for the grant of free shares to new Executive Directors on joining the Company, to ensure that their personal long-term interests are aligned to those of other external shareholders The awards were granted on 2 February 2010 The awards vest 50% on the first anniversary of the award and 50% on the second anniversary of the award

Notes to the Parent Company Financial Statements (continued)

14 SHARE-BASED PAYMENTS (continued)

Type of arrangement	IPO KMP	MIP	SIP	EP
Year ended 31 May 2010				
Outstanding at 1 June 2009	913,489	969,365	441,329	–
Granted in the year	–	1,925,295	441,248	247,122
Exercised in the year	(894,221)	–	(67,978)	–
Expired in the year	(19,268)	(202,269)	(13,785)	–
Outstanding at 31 May 2010	**–**	**2,692,391**	**800,814**	**247,122**
Exercisable at 31 May 2010	–	–	800,814	–
Weighted average remaining contractual life	–	25 months	–	20 months
Weighted average fair value of options granted in 2010 (pence)	–	99 9	145 8	144 3
Weighted average share price at date of exercise (pence)	142 6	–	136 6	–
Year ended 31 May 2009				
Outstanding at 1 June 2008	2,003,298	–	–	–
Granted in the year	–	969,365	451,342	–
Exercised in the year	(791,697)	–	(1,646)	–
Expired in the year	(298,112)	–	(8,367)	–
Outstanding at 31 May 2009	**913,489**	**969,365**	**441,329**	**–**
Exercisable at 31 May 2009	87,291	–	–	n/a
Weighted average remaining contractual life	7 days	2 4 years	5 months	n/a
Weighted average fair value of options granted in 2009 (pence)	n/a	86 1	114 5	n/a
Weighted average share price at date of exercise (pence)	122 7	–	133 3	–

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

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

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

Levels of early exercises and lapses are estimated using historical averages

The Company recognised total expenses of £1,482,000 (2009 £1,016,000) related to equity-settled share-based payment transactions

15 DIVIDENDS
Details of the Company's dividends are set out in note 11 of the Group financial statements

16 RELATED PARTY TRANSACTIONS
As permitted by FRS8 Related Party Disclosures, disclosure of related party transactions with companies controlled by Eaga plc is not provided

The net amount due from N E S T Makers Limited, a joint venture of Eaga plc, at 31 May 2010 was £1,046,000 (2009 £948,000)

The net amount due from Hothouse Technologies Limited, a joint venture of Eaga plc at 31 May 2010 was £200,000 (2009 £Nil)

During the year Eaga plc purchased services with an aggregate value of £24,000 (2009 £20,447) from Stratagem (NI) Limited, a company in which Mr Quintin Oliver, Non-Executive Director of Eaga plc, is a shareholder At 31 May 2010 the balance owed to Stratagem (NI) Limited by Eaga plc was £2,300 (2009 £2,300)

Glossary of Terms

Throughout this report there are a number of abbreviations, acronyms and sector-specific references This glossary of terms explains these

BEC	Benefit Entitlement Check
BPO	Business Process Outsourcing
CERT	Carbon Emissions Reduction Target
CESP	Community Energy Saving Programme
CSR	Corporate Social Responsibility
DCMS	Department for Culture, Media and Sport
DECC	Department of Energy and Climate Change
DSHS	Digital Switchover Help Scheme
EBITA	Profit before interest, tax, amortisation of intangible assets, Eaga Partnership Trust-funded charges and exceptional costs
EPC	Eaga Partners' Council
EPS	Earnings per share
EPT	Eaga Partnership Trust
FiT	Feed-in Tariff
HEES	Home Energy Efficiency Scheme
MIP	Management Incentive Plan
Partners	Eaga employee
PBTA	Profit before tax, amortisation of intangible assets, Eaga Partnership Trust-funded charges and exceptional costs
RRB	Risk Review Board
SIP	Share Incentive Plan
TSR	Total Shareholder Return

Useful Information for Shareholders

e-communications for Shareholders
Help us communicate with you in a greener, more efficient and cost effective way by switching from postal to email communications Shareholders can receive important information online, including annual reports and notice of meetings If you would like to register for this service please contact Capita Registrars by telephone on 0871 664 0300 or online at www capitashareportal com

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Shareholder services@capitaregistrars com

Shareholder Enquiries
Shareholders who have questions relating to the Group's business or wish to receive further copies of annual reports should contact Eaga's investor relations team on 0191 247 3800 or email investorrelations@eaga com

Financial Calendar
Annual General Meeting
14 October 2010

Final Dividend payment
12 November 2010

Half year results
27 January 2011

Interim Dividend payment
18 March 2011

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