

# TEG Environmental PLC

Interim Report

For the six months ended 30 June 2006

**TEG ENVIRONMENTAL PLC**  
**Interim Report for the six months ended 30 June 2006**

**Chairman's Statement**

I am delighted to present the company's interim results for the first half of 2006. TEG has continued to make impressive progress and has pleasingly reached the £1.0million turnover level for the period, a very significant increase on the previous period and in line with expectations. Turnover was £1.07 million against £9,286 for the same period in 2005.

Following the major breakthroughs achieved in 2005, 2006 is proving to be the growth year we forecast. The first half of the year not only includes revenues from our operations in Perth and Preston, but also revenues from the build project in Swansea. The latter build project will be completed in the second half of the year and with the build project secured for Banham Compost Ltd, together with further growth at Preston and Perth, we expect a further significant step change in revenues for the remainder of the year.

These accounts are the first to apply FRS20, the newly introduced accounting standard that requires listed businesses to ascribe a cost to employee share options. This has introduced a non cash cost of £76k for the period, and the results for the same period in 2005 have been restated accordingly.

**Contract Wins**

The build project for The City and County of Swansea is ahead of programme and we confidently expect to hand over the facility to the customer ahead of anticipated schedule. We were delighted that Banham Compost Ltd finally received planning permission to build its plant in Norfolk and the construction project is now fully underway. We are still optimistic that the plant will be completed during 2006.

In February, TEG entered into a collaboration agreement with Glendale Managed Services Ltd to bid jointly for Local Authority contracts. Glendale is the leading parks maintenance business in the UK, with over 100 Local Authority contracts and the partnership offers the unique capability to turn Local Authority waste into compost for Local Authority parks.

**TEG Operations**

The installation of the TEG plant and equipment at our Perth operation in Scotland was completed ahead of schedule with the old technology being closed down. The transition from the old technology whilst maintaining the ongoing business proved challenging, but we are delighted with the progress made and the business is expected to ramp up in the second half of the year. Installation of the first line at our Preston plant was also successfully completed, the line is fully contracted and we are in the process of installing the second line, due to come on stream at the end of 2006. In addition to the contract with Schwan Consumer Brands UK Ltd, we were delighted to secure a contract with HJ Heinz for the composting of ABP materials from its factory near Wigan. In addition, we secured our first supply contract from Greater Manchester Waste, for the supply of green waste to Preston.

Development of TEG's largest facility at Todmorden, West Yorkshire is continuing ahead of schedule. The facility will be amongst the largest composting plants in the UK with a capacity of 50,000 tonnes per annum. We remain confident of securing further waste supply from Greater Manchester Waste, which will in turn supply our Todmorden and Preston facilities, when new contracts are let later in the year and commercial negotiations continue with a number of other parties, who have already committed to waste supply into Todmorden. It is anticipated that the first of the four lines at Todmorden will be operational by April 2007, a month ahead of schedule.

Development of the business at Kildare, Ireland, is continuing. Though further frustrated by local permitting processes, we still expect the plant to be operational by late 2006. Development at Claylands Corner, Somerset, has proceeded following the award of planning permission in April 2006 and it is expected that the plant will be operational by early 2007.

## **Fundraising**

Funding of our continued and rapid expansion was achieved through a further successful fundraising in May, one that was again oversubscribed. TEG was able to raise £8.05m before expenses, from both existing and new investors, the cost of which has been charged against the share premium account. In addition, the company secured its first tranche of debt, £2.4m from the Bank of Scotland, which has been utilised in the site purchase and development at Todmorden. The fundraising has secured the finance for the development of our plants at Todmorden, Claylands Corner, Sherdley Farm and Kildare.

## **Development projects**

We were delighted to secure a funded R&D contract with Shell to investigate the potential for remediation of oil-based mud drill cuttings, a waste product from drilling operations. Laboratory trials are close to completion and we are pleased to confirm regulatory approval has been granted for pilot plant trials of several tonnes of material at our site in Perth. These will commence in October 2006. Whilst maintaining a prudent position, we are of course fully aware of the global potential if the trials are successful.

We were similarly delighted to secure an order to build a full scale pilot plant for United Utilities at their site in Stretford, Manchester. The single cage plant will be used by United Utilities to assess the suitability of the TEG process for a variety of sewage-waste materials.

## **Management**

Doug Benjafield, a waste industry expert with over 30 years' experience, joined the board in April as non-executive Director, succeeding John Hough. Doug was a Director at Cleanaway and is a non-executive Director of a number of high profile waste management ventures. John stepped down from the Board in May this year following over 10 years of support and service to the Company. His advice and contribution will be very much missed.

## **Market**

The market continues to grow as legislation introduced in 2005 takes effect. The Landfill Allowance Trading Scheme ("LATS") introduced under the Waste and Emissions Trading Act 2003 annually increases the requirements on Local Authorities to recycle and compost waste. As widely reported in the press, a number of Local Authorities are already failing to achieve targets and all Local Authorities are under increasing financial pressure to increase recycling and composting rates. To this end, TEG is in discussions with a number of Local Authorities.

The National Audit Office report (Reducing the Reliance on Landfill in England) indicated that a further step change in Local Authority procurement activity could reasonably be expected in late 2006 and early 2007.

We have also been pleased to receive interest from elsewhere in the EU. As the new entrants to the European Union further develop their waste and water treatment infrastructure, it is expected that a large number of opportunities will arise to build TEG plants. TEG has secured an engineering partner in Eastern Europe with the capability to manufacture and construct TEG plants, which presents both a potential sales opportunity and the further potential opportunity to reduce plant build costs.

## **Future Prospects**

In addition to the development projects discussed above, TEG maintains a healthy pipeline of opportunities and the development of the market continues to be strong. The company looks forward to the future with confidence and expects continued significant growth.



Nigel Moore  
**Chairman**  
**26 September 2006**

## SUMMARISED PROFIT AND LOSS ACCOUNT

For the six months ended 30 June 2006

	<i>Unaudited 6 months ended 30 June 2006</i>	<i>Restated Unaudited 6 months ended 30 June 2005</i>	<i>Restated Audited 12 months ended 31 December 2005</i>
<i>Note</i>	<b>£</b>	<b>£</b>	<b>£</b>
<b>Turnover</b>	<b>1,070,750</b>	9,286	555,250
Cost of Sales	<b>(838,496)</b>	(8,292)	(400,647)
<b>Gross profit</b>	<b>232,254</b>	994	154,603
Administrative expenses re share based payment	<b>(76,531)</b>	(52,459)	(104,917)
Other administrative expenses	<b>(857,557)</b>	(773,981)	(1,808,644)
Total administrative expenses	<b>(934,088)</b>	(826,440)	(1,913,561)
<b>Operating loss</b>	<b>(701,834)</b>	(825,446)	(1,758,958)
Interest receivable	<b>50,509</b>	22,446	69,971
Interest payable	<b>(57,409)</b>	(1,375)	(40,107)
<b>Loss on ordinary activities before taxation</b>	<b>(708,734)</b>	(804,375)	(1,729,094)
Taxation	-	(10,463)	53,110
<b>Loss for the period</b>	<b>(708,734)</b>	(814,838)	(1,675,984)
Loss per ordinary share	<b>(2.45p)</b>	(4.97p)	(8.44p)
- basic & diluted	2		

## SUMMARISED BALANCE SHEET

As at 30 June 2006

	Note	<i>Unaudited at 30 June 2006</i>	<i>Restated Unaudited at 30 June 2005</i>	<i>Restated Audited at 31 December 2005</i>
		£	£	£
<b>Fixed assets</b>				
Intangible assets		2,163,198	1,990	2,269,584
Tangible assets		4,915,181	179,071	1,093,289
Investments		2	-	2
		<u>7,078,381</u>	<u>181,061</u>	<u>3,362,875</u>
<b>Current assets</b>				
Stocks		355,833	3,362	123,070
Debtors		458,122	84,217	429,981
Cash at bank and in hand		5,467,677	771,650	2,414,392
		<u>6,281,632</u>	<u>859,229</u>	<u>2,967,443</u>
<b>Creditors: due within one year</b>		<u>(1,198,959)</u>	<u>(631,707)</u>	<u>(1,338,846)</u>
<b>Net current assets</b>		<u>5,082,673</u>	<u>227,522</u>	<u>1,628,597</u>
<b>Total assets less current liabilities</b>		<u>12,161,054</u>	<u>408,583</u>	<u>4,991,472</u>
<b>Creditors: due after more than one year</b>		<u>(2,155,878)</u>	<u>(24,517)</u>	<u>(1,958,644)</u>
<b>Net assets</b>		<u>10,005,176</u>	<u>384,066</u>	<u>3,032,828</u>
<b>Capital and reserves</b>				
Called up share capital		1,894,269	819,269	1,319,269
Share premium account		19,339,544	9,352,543	12,309,993
Other reserves		229,728	100,738	153,197
Profit and loss account		(11,458,365)	(9,888,484)	(10,749,631)
<b>Equity shareholders' funds</b>	6	<u>10,005,176</u>	<u>384,066</u>	<u>3,032,828</u>

## SUMMARISED STATEMENT OF CASHFLOWS

For the six months ended 30 June 2006

		<i>Unaudited 6 months ended 30 June 2006</i>	<i>Unaudited 6 months ended 30 June 2005</i>	<i>Audited 12 months ended 31 December 2005</i>
	<i>Note</i>	£	£	£
<b>Net cash outflow from operating activities</b>	3	<b>(1,478,752)</b>	(397,557)	(1,126,123)
<b>Returns on investment and servicing of finance</b>				
Interest received		<b>50,509</b>	22,446	69,971
Interest element of finance lease and hire purchase payments		<b>(1,375)</b>	(1,375)	(2,749)
<b>Net cash inflow from returns on investments and servicing of finance</b>		<b>49,134</b>	21,071	67,222
<b>R &amp; D tax credit received</b>		-	-	65,311
<b>Capital expenditure and financial investments</b>				
Purchase of tangible fixed assets		<b>(3,542,430)</b>	(6,708)	(841,771)
Sale of tangible fixed assets		<b>6,452</b>	2,230	3,859
<b>Net cash outflow from capital expenditure and financial investments</b>		<b>(3,535,978)</b>	(4,478)	(837,912)
<b>Acquisitions and disposals</b>				
Acquisition of business		-	-	(352,500)
<b>Financing</b>				
Issue of shares		<b>8,050,000</b>	-	3,700,000
Expenses paid in connection with share issues		<b>(445,449)</b>	-	(242,550)
Loan Receipt		<b>426,000</b>	-	-
Capital Element of finance lease rentals		<b>(11,670)</b>	(11,670)	(23,340)
		<b>8,018,881</b>	(11,670)	3,434,110
<b>Increase / (decrease) in cash</b>		<b>3,053,285</b>	(392,634)	1,250,108

## NOTES TO THE UNAUDITED INTERIM RESULTS

### 1. Basis of preparation of interim financial information

The financial information contained in this statement does not constitute statutory accounts as defined in section 240 of the Companies Act 1985. The figures for the 12 month period ended 31 December 2005 have been extracted from the Statutory Financial Statements which have been filed with the Registrar of Companies. The 2005 analysis of cost of sales and administrative expenses has been reclassified during the period. The auditors' report on those financial statements was unqualified and did not contain a statement under Section 237(2) of the Companies Act 1985.

The accounts have been prepared in accordance with applicable accounting standards and under the historical cost convention.

The principal accounting policies of the company have remained unchanged from those set out in the Company's 2005 Annual Report and Financial Statements with the exception of accounting for Share Based Payments. This follows the adoption of FRS 20, Share Based Payments, for the year ended 31 December 2006. The interim results include the impact of the FRS 20 charge and both 2005 comparative results have been restated to reflect this change in accounting policy.

The interim report has been reviewed by the Company's auditors. A copy of the auditors' review report is attached to this interim report.

### 2. Loss per share

The loss per share is calculated by reference to the loss attributable to ordinary shareholders divided by the weighted average of 28,926,817 ordinary shares for the 6 months to 30 June 2006, 16,385,381 ordinary shares for the 6 months to 30 June 2005, and 19,859,354 for the 12 months to 31 December 2005.

	<i><b>Unaudited 6 months ended 30 June 2006</b></i>	<i>Restated Unaudited 6 months ended 30 June 2004</i>	<i>Restated Audited 12 months ended 31 December 2005</i>
Attributable loss (£)	<b>(708,734)</b>	(814,838)	(1,675,984)
Average number of ordinary shares in issue for basic and diluted loss per share	<b>28,926,817</b>	16,385,381	19,859,354
Basic and diluted loss per share	<b>(2.45p)</b>	(4.97p)	(8.44p)

The loss for each period and the weighted average number of ordinary shares for calculating the diluted loss per share for each period are identical to those used for the basic loss per share. This is because the outstanding share options would not be dilutive under the terms of Financial Reporting Standard No. 14 'Earnings per share' (FRS 14).

3. Reconciliation of operating loss to net cash flow from operating activities

	<i>Unaudited 6 months ended 30 June 2006</i>	<i>Restated Unaudited 6 months ended 30 June 2005</i>	<i>Restated Audited 12 months ended 31 December 2005</i>
Operating loss	<b>(701,834)</b>	(825,446)	(1,758,958)
Amortisation	<b>106,386</b>	2,000	74,914
Depreciation of tangible fixed assets	<b>125,114</b>	31,687	75,640
Administrative expense re share based payment	<b>76,531</b>	52,459	104,917
Goodwill on acquisition of business	-	-	(2,340,508)
(Profit)/loss on sale of tangible fixed assets	<b>(9,559)</b>	270	78,032
(Increase)/decrease in stocks and work in progress	<b>(232,763)</b>	4,804	(114,904)
(Increase)/decrease in debtors	<b>(28,141)</b>	5,442	(342,060)
(Decrease)/increase in creditors	<b>(263,018)</b>	331,227	756,296
(Decrease)/increase in deferred consideration	<b>(150,000)</b>	-	2,340,508
Increase in deferred development	<b>(401,468)</b>	-	-
	<b>(1,478,752)</b>	(397,557)	(1,126,123)

4. Reconciliation of net cash flow to movement in net funds

	<i>Unaudited 6 months ended 30 June 2006</i>	<i>Unaudited 6 months ended 30 June 2005</i>	<i>Audited 12 months ended 31 December 2005</i>
Increase / (decrease) in cash during the period	<b>3,053,285</b>	(392,634)	1,250,108
Cash outflow from hire purchase	<b>11,670</b>	11,670	23,340
Change in net funds resulting from cashflows	<b>3,064,955</b>	(380,964)	1,273,448
Movement in net funds during the period	<b>3,064,955</b>	(380,964)	1,273,448
Opening net funds	<b>2,378,199</b>	1,104,751	1,104,751
Closing net funds	<b>5,443,154</b>	723,787	2,378,199

5. Analysis of movement in net funds

	At 1 January 2006 £	Cash flow £	30 June 2006 £
Cash at bank and in hand	2,414,392	3,053,285	5,467,677
Finance leases	(36,193)	11,670	(24,523)
	<u>2,378,199</u>	<u>3,064,955</u>	<u>5,443,154</u>

6. Reconciliation of equity shareholders' funds

	<i>Unaudited At 30 June 2006</i>	<i>Restated Unaudited At 30 June 2005</i>	<i>Restated Audited At 31 December 2005</i> £
Loss for the financial period	(708,734)	(814,838)	(1,675,984)
Issue of share capital	7,604,551	-	3,457,450
Other reserves re share based payments	76,531	52,459	104,917
<b>Increase / (decrease) in equity shareholders' funds</b>	<u>6,972,348</u>	<u>(762,379)</u>	<u>1,886,383</u>
Opening equity shareholders' funds	3,032,828	1,146,445	1,146,445
Closing equity shareholders' funds	<u>10,005,176</u>	<u>384,066</u>	<u>3,032,828</u>

7. Copies will be available on request from the Company Secretary, TEG Environmental plc, Houston House, 12 Sceptre Court, Sceptre Point, Preston, PR5 6AW

8. The interim report was approved by the board of directors on 26 September 2006.

## **INDEPENDENT REVIEW REPORT TO TEG ENVIRONMENTAL PLC**

### **Introduction**

We have been instructed by the company to review the financial information for the six months ended 30 June 2006 which comprises the profit and loss account, balance sheet, cash flow statement and the related notes 1 to 8. We have read the other information contained in the interim report, which comprises only the Chairman's statement, and considered whether it contains any apparent misstatements or material inconsistencies with the financial information. Our responsibilities do not extend to any other information.

This report is made solely to the company in accordance with guidance contained in APB Bulletin 1999/4 "Review of interim financial information". Our review work has been undertaken so that we might state to the company's members those matters we are required to state to them in a review report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company for our review work, for this report, or for the conclusion we have formed.

### **Directors' responsibilities**

The interim report, including the financial information contained therein, is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the interim report and ensuring that the accounting policies and presentation applied to the interim figures are consistent with those applied in preparing the preceding annual accounts except where any changes, and the reasons for them, are disclosed.

### **Review work performed**

We conducted our review having regard to the guidance contained in Bulletin 1999/4 'Review of interim financial information' issued by the Auditing Practices Board for use in the United Kingdom. A review consists principally of making enquiries of group management and applying analytical procedures to the financial information and underlying financial data, and based thereon, assessing whether the accounting policies and presentation have been consistently applied, unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit performed in accordance with United Kingdom Auditing Standards and therefore provides a lower level of assurance than an audit. Accordingly, we do not express an audit opinion on the financial information.

### **Review conclusion**

On the basis of our review we are not aware of any material modifications that should be made to the financial information as presented for the six months ended 30 June 2006.

**Grant Thornton UK LLP**  
**Chartered Accountants**  
**Manchester**  
**26 September 2006**