

THE TEG GROUP PLC
Interim Report
For the six months ended 30 June 2011

Company number 3109613

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Chairman's statement

I am delighted to present the Group's interim report for the half year ended 30 June 2011.

The Group continues to deliver solid growth with recurring revenues continuing to rise substantially, accounting for 42% of revenue during the period. Half year turnover for the interim period was £9,333,000 (2010 interim: £8,797,000). Loss for the interim period was £765,000 (2010 interim: £376,000 loss), reflecting the delays to the higher margin projects, as announced in June of this year, and increased depreciation charges. The Group recorded a gross profit of £2,345,000 (2010 interim: £2,231,000 profit). No dividend is recommended.

The Group cash balance as at 30 June 2011 was £1,520,000.

Post period fund raising

On 7 July 2011, the Group completed a Placing and Open Offer to raise approximately £3.8m before expenses. The detailed background to this fundraising was announced to the market on 20 June 2011. The Board was very pleased to receive the support of its shareholders, and to bring new institutional investors into its shareholder base, and is pleased that good progress has been made in relation to both the growth prospects of the Group and also in resolving the issues highlighted at the time.

Greater Manchester Waste PFI Contract

As announced on 30 June 2011, the instruction to proceed on the fourth site in Bolton was received from Costain. The Board is delighted that this project has been confirmed and is underway, though the majority of construction activity and revenues will not occur before 2012.

The second facility (Bredbury) was handed over to the customer in the first half of 2011. Construction of the third facility (Trafford Park) proceeded to plan and commissioning is nearing completion, with hand over anticipated, on schedule, in Q3 of the current year.

I am pleased to report that good progress has been made with respect to the issues highlighted during the fundraising and a number of payments have been received.

Anaerobic Digestion ("AD")

Construction of the Perth AD facility was unfortunately delayed over the winter period due to adverse weather, and the ground works and concreting for the facility have proved to be more extensive and higher cost than had been planned. Nevertheless, construction is proceeding well and the Group still anticipates commissioning to commence in Q4 of the current year.

A further post period event was the award of Preferred Bidder status to the TEG-Alkane consortium by the North East Wales Hub, as announced on 31 August 2011. The award of this 15 year waste contract by a Local Authority Hub is very satisfying and it is pleasing that we have been given a firm indication that the project will be supported by bank debt. This is the first of the Welsh Government's sponsored organic waste projects. The consortium intends to construct a 20,000 tonnes per annum food waste AD facility to be operational in 2013, underpinned by a contract guarantee of food waste for the facility for approximately 55 per cent of its capacity. Financial Close of the project is expected before the end of 2011.

Further opportunities in the AD sector are being pursued under the licensing agreement with UTS Biogastechnik GmbH ("UTS"). TEG is bidding for a number of these prospects in partnership with Alkane Energy PLC.

Group Plant Operations

Revenues have continued to grow strongly with an increase of 79% on the same period in 2010 through a combination of increased waste volumes and increased prices. The plants have performed strongly in the period.

The acquisition of Simpro Limited, the Midlands based green waste composting business, has proved to be highly successful with integration having proceeded well and planning permission having been achieved at the Gaydon site for an In Vessel Composting ("IVC") and AD plant.

Strategic Activities

The Group continues the development of its proposed London Dagenham facility and was very pleased to announce the support of the London Waste and Recycling Board ("LWaRB") in providing £1.9m of funding to the project. The Group secured exclusivity for this facility from the London Thames Gateway Development Corporation. The facility incorporates 30,000 tonnes per annum of AD capacity, generating in excess of 1MW of electricity, and 20,000 tonnes per annum of IVC capacity. The Group was delighted to announce on the 9th March 2011 that it had been awarded a contract by LondonWaste Limited for 12,000-15,000 tonnes per annum of co-mingled food and green waste, which will provide a solid initial contract base for the Dagenham facility. The planning application for the facility is due to be determined in Quarter 3 2011.

Market Update

Statutory obligations to divert waste from landfill continue to increase annually and are expected to increase continuously until 2020. Landfill Tax ("LFT") rose by £8.00 per tonne in April 2011, increasing the tax to a total of £56.00 per tonne. The Government has confirmed that LFT will rise by £8.00 per tonne per annum until at least 2014. This is expected to continue to stimulate market growth for the foreseeable future as Local Authorities increasingly implement the separation of organic wastes from the municipal waste stream and the private sector increases its level of organic waste recycling. In addition, the Welsh Assembly Government is continuing with its policy to procure the construction of a number of organic waste facilities across the country in the period from 2011 to 2013 and the Scottish Assembly is intending to progressively introduce a ban on the landfill of organic waste in both the public and private sectors.

TEG further invested in its facilities in 2010 and 2011 to ensure they meet the enhanced guidance introduced by Defra in 2009 and it has been noted that the regulators are imposing similar standards across the industry. The stricter regulatory environment is expected to benefit the Group and significant pressure on the rest of the sector is being observed. The Group believes that this pressure will accelerate consolidation across the industry and lead to a further increase in gate fees.

TEG has noted the continued market interest in energy generation from food waste and the interest in technologies such as AD. Government incentives are in place for AD and other renewable energy technologies in the form of subsidy for sales of power, either through renewable obligation certificates ("ROCs") or feed in tariffs ("FITs"). However, the Group has also observed a renewed level of interest in IVC as a number of Local Authorities consider the lifecycle cost, including waste collection costs, to be lower.

TEG anticipates that Government policy will continue to support the expansion of the market for the foreseeable future.

Future Prospects

Since the period end, trading in the Group plant operations has continued strongly. Market demand remains strong and TEG maintains a strong pipeline of tender opportunities. Whilst tender periods for larger contracts are long, they offer secure, long term revenue growth and the Group anticipates the successful conclusion of further projects, underpinning long term shareholder value. TEG's technology is robust, is well received in the market and its facilities are operating well. The Group anticipates a further strengthening of the organic waste market in the short to medium term. The Board is confident that the Group has an exciting future with a strong outlook.



Nigel Moore
Chairman
20 September 2011

Consolidated statement of comprehensive income

For the six months ended 30 June 2011

	Note	6 months ended 30 June 2011 £'000	6 months ended 30 June 2010 £'000	Year ended 31 December 2010 £'000
Revenue	3	9,333	8,797	20,740
Cost of sales		(6,988)	(6,566)	(15,876)
Gross profit		2,345	2,231	4,864
Administrative expenses		(2,958)	(2,386)	(4,968)
Acquisition costs		-	(87)	(142)
Amortisation of intangible assets		(152)	-	(152)
Negative goodwill		-	15	15
Total administrative expenses		(3,110)	(2,458)	(5,247)
Operating loss		(765)	(227)	(383)
Finance income		8	4	9
Finance costs		(90)	(153)	(254)
Loss before tax		(847)	(376)	(628)
Income tax		49	-	164
Loss for the period	3	(798)	(376)	(464)
Other comprehensive income		-	-	-
Total comprehensive loss for the period		(798)	(376)	(464)
Attributable to:				
Equity holders of the parent		(798)	(376)	(464)
Retained loss		(798)	(376)	(464)
Loss per share				
Basic and diluted loss per share (pence)	5	(1.05)	(0.69)	(0.71)

Consolidated statement of financial position

As at 30 June 2011

	Note	30 June 2011 £'000	30 June 2010 £'000	31 December 2010 £'000
ASSETS				
Non-current assets				
Goodwill		6,152	5,111	6,152
Property, plant and equipment		19,564	17,123	18,977
Trade and other receivables		700	-	-
Intangible assets		1,407	1,711	1,559
		27,823	23,945	26,688
Current assets				
Inventories		517	615	616
Trade and other receivables		9,357	9,003	7,252
Taxation receivable		-	88	59
Cash and cash equivalents		1,520	4,650	3,389
		11,394	14,356	11,316
Total assets		39,217	38,301	38,004
LIABILITIES				
Current liabilities				
Trade and other payables		10,471	7,873	7,865
Taxation payable		71	-	258
Contingent consideration		300	600	450
Current portion of long-term borrowings		781	704	951
Current portion of deferred consideration		206	218	211
		11,829	9,395	9,735
Non-current liabilities				
Long-term borrowings		1,607	2,220	1,716
Long-term deferred consideration		851	1,075	966
Deferred tax		620	792	662
		3,078	4,087	3,344
Total liabilities		14,907	13,482	13,079
Net assets		24,310	24,819	24,925
EQUITY				
Equity attributable to equity holders of the parent				
Share capital	4	3,811	3,761	3,781
Share premium		36,995	36,745	36,876
Other reserves		1,039	962	1,005
Retained losses		(17,535)	(16,649)	(16,737)
Total equity		24,310	24,819	24,925

Consolidated statement of changes in equity

For the six months ended 30 June 2011

	Share capital £'000	Share premium £'000	Other reserves £'000	Retained losses £'000	Total £'000
Balance at 1 January 2010	2,651	30,907	898	(16,273)	18,183
Loss for the period	-	-	-	(376)	(376)
Total comprehensive income for the period	-	-	-	(376)	(376)
Issue of share capital	1,110	-	-	-	1,110
Premium on issue of share capital	-	6,238	-	-	6,238
Issue costs	-	(400)	-	-	(400)
Recognition of share-based payments	-	-	64	-	64
Transactions with owners	1,110	5,838	64	-	7,012
Balance at 30 June 2010	3,761	36,745	962	(16,649)	24,819
Loss for the period	-	-	-	(88)	(88)
Total comprehensive income for the period	-	-	-	(88)	(88)
Issue of share capital	20	-	-	-	20
Premium on issue of share capital	-	131	-	-	131
Recognition of share based payments	-	-	43	-	43
Transactions with owners	20	131	43	-	194
Balance at 31 December 2010	3,781	36,876	1,005	(16,737)	24,925
Loss for the period	-	-	-	(798)	(798)
Total comprehensive income for the period	-	-	-	(798)	(798)
Issue of share capital	30	-	-	-	30
Premium on issue of share capital	-	119	-	-	119
Recognition of share based payments	-	-	34	-	34
Transactions with owners	30	119	34	-	183
Balance at 30 June 2011	3,811	36,995	1,039	(17,535)	24,310

Consolidated statement of cash flows

For the six months ended 30 June 2011

	6 months ended 30 June 2011 £'000	6 months ended 30 June 2010 £'000	Year ended 31 December 2010 £'000
Cash flows from operating activities			
Loss after taxation	(798)	(376)	(464)
Adjustments for:			
Negative goodwill	-	(15)	(15)
Depreciation	880	703	1,311
Amortisation of intangibles	152	-	152
Share based administrative expense	34	64	107
Taxation credit recognised in the statement of comprehensive income	(49)	-	(164)
Finance costs	90	153	254
Finance income	(8)	(4)	(9)
(Profit) / loss on sale of property, plant and equipment	(14)	(6)	195
(Increase) / decrease in trade and other receivables	(2,805)	634	2,385
Decrease / (increase) in inventories	99	(208)	(209)
Increase / (decrease) in trade payables	2,604	(675)	(580)
Cash from operations	185	270	2,963
Interest paid	(61)	(118)	(184)
Taxation	(121)	-	87
Net cash from operating activities	3	152	2,866
Cash flows from investing activities			
Acquisition of business - deferred consideration	(150)	(150)	(300)
Acquisition of subsidiary net of cash acquired	-	(3,952)	(4,863)
Purchase of property, plant and equipment	(1,406)	(1,108)	(3,808)
Proceeds from sale of property, plant and equipment	56	16	53
Interest received	8	4	9
Net cash used in investing activities	(1,492)	(5,190)	(8,909)
Cash flows from financing activities			
Proceeds from issue of share capital	-	6,398	6,399
Repayment of loan	(86)	(86)	(173)
Payment of finance lease liabilities	(294)	(394)	(564)
Net cash (used in) / from financing activities	(380)	5,918	5,662
Net (decrease) / increase in cash and cash equivalents	(1,869)	880	(381)
Cash and cash equivalents at beginning of period	3,389	3,770	3,770
Cash and cash equivalents at end of period	1,520	4,650	3,389

Notes to the interim report

1. Nature of operations and general information

The principal activities of The TEG Group Plc and its subsidiaries ('the Group') are the design and production of Silo-cage composting plants and Anaerobic Digestion (AD) plants for sale to third party clients, and the design, build and operation of TEG owned waste recycling facilities.

The TEG Group Plc is the Group's ultimate parent company. It is incorporated and domiciled in Great Britain. The address of TEG Group Plc's registered office, which is also its principal place of business, is Westmarch House, 42 Eaton Avenue, Buckshaw Village, Chorley, PR7 7NA. The TEG Group Plc's shares are listed on the Alternative Investment Market of the London Stock Exchange.

The TEG Group Plc's consolidated financial statements are presented in Pounds Sterling (£), which is also the functional currency of the parent company.

These consolidated condensed interim financial statements have been approved for issue by the Board of Directors on 20 September 2011.

The figures for 31 December 2010 are an abridged version of the Group's full financial statements and, together with other financial information contained in this interim report, do not constitute statutory financial statements of the Group as defined in Section 434 of the Companies Act 2006. Statutory financial statements for the year ended 31 December 2010 have been filed with the Registrar of Companies for England and Wales and have been reported on by the Group's auditors. The report of the auditors was unqualified and did not contain a statement under section 498 (2) or Section 498 (3) of the Companies Act 2006.

2. Basis of preparation

The Group's interim condensed consolidated financial statements are for the six months ended 30 June 2011 and have been prepared in accordance with the recognition and measurement principles of International Financial Reporting Standards (IFRS). They do not include all of the information required for full annual financial statements, and should be read in conjunction with the consolidated financial statements of the Group for the year ended 31 December 2010.

These condensed consolidated interim financial statements (the interim financial statements) have been prepared in accordance with the accounting policies adopted in the last annual financial statements for the year 31 December 2010.

Following the placing and open offer on 7 July 2011 (see note 7) the Group has considerable financial resources available. As a consequence, the Directors believe that the Group is well placed to manage its business risks successfully. The Directors have also prepared cash flow forecasts for the period until December 2012. As part of the preparation of these forecasts, the Directors have estimated the likely conversion of potential future contracts. Before entering into a contract, the Directors ensure that the Group has sufficient working capital facilities available to allow the completion of the contract. Based on these forecasts, the Directors have confirmed that there are sufficient cash reserves to fund the ongoing build, own and operate business for the period under review. After reviewing these forecasts, consideration of the Group's cash resources and other appropriate enquiries, the Directors have a reasonable expectation that the Company and Group 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 interim statements.

The accounting policies have been applied consistently throughout the Group for the purposes of preparation of these condensed consolidated interim financial statements.

3. Business segments

For management purposes, the Group is organised into the following business segments: Build own and operate facilities, IVC and AD Sales to third parties, Product management and Other revenue.

The revenues and net result generated by each of The TEG Group Plc's business segments are summarised as follows:

6 months to 30 June 2011

	Build, own and operate £'000	IVC Sales to third parties £'000	AD sales to third parties £'000	Product management and other revenue £'000	Other corporate and other £'000	Consolidated £'000
External revenue	3,837	4,677	639	180	-	9,333
Gross profit / (loss)	781	1,534	88	(58)	-	2,345
Segment corporate expenses	(393)	(565)	(9)	(94)	(983)	(2,044)
Depreciation	(821)	-	-	(8)	(51)	(880)
Amortisation	(152)	-	-	-	-	(152)
Segment (loss) / profit before taxation	(585)	969	79	(160)	(1,034)	(731)
Share-based payment expense						(34)
Operating loss						(765)
Finance income						8
Finance costs						(90)
Loss before taxation						(847)
Taxation						49
Loss for the period						(798)

Unallocated corporate expenses include £502,000 in respect of future business and research and development costs.

6 months to 30 June 2010

	Build, own and operate £'000	IVC Sales to third parties £'000	AD sales to third parties £'000	Product management and other revenue £'000	Other corporate and other £'000	Consolidated £'000
External revenue	2,147	6,567	-	72	11	8,797
Gross profit / (loss)	617	1,706	-	(103)	11	2,231
Segment corporate expenses	(174)	(465)	-	(150)	(830)	(1,619)
Acquisition costs	(87)	-	-	-	-	(87)
Negative goodwill	15	-	-	-	-	15
Depreciation	(612)	(20)	-	(31)	(40)	(703)
Segment (loss) / profit before taxation	(241)	1,221	-	(284)	(859)	(163)
Share-based payment expense						(64)
Operating loss						(227)
Finance income						4
Finance costs						(153)
Loss before taxation						(376)
Taxation						-
Loss for the period						(376)

Unallocated corporate expenses include £380,000 of future business and research and development costs.

Year to 31 December 2010

	Build, own and operate £'000	IVC Sales to third parties £'000	AD sales to third parties £'000	Product management and other revenue £'000	Other corporate and other £'000	Consolidated £'000
External revenue	5,784	11,640	3,120	196	-	20,740
Gross profit / (loss)	1,544	3,189	317	(186)	-	4,864
Segment corporate expenses	(640)	(958)	(16)	(288)	(1,648)	(3,550)
Acquisition costs	(142)	-	-	-	-	(142)
Negative goodwill	15	-	-	-	-	15
Depreciation	(1,236)	-	-	(22)	(53)	(1,311)
Amortisation	(152)	-	-	-	-	(152)
Segment (loss) / profit before taxation	(611)	2,231	301	(496)	(1,701)	(276)
Share-based payment expense						(107)
Operating loss						(383)
Finance income						9
Finance costs						(254)
Loss before taxation						(628)
Taxation						164
Loss for the year						(464)

Other corporate expenses include £673,000 in respect of future business and research and development costs.

4. Share Capital

During the period to 30 June 2011, the Group issued 608,520 shares. Shares issued and authorised for the period to 30 June 2011 may be summarised as follows:

6 months to 30 June 2011

	Number	£'000
At 1 January 2011	75,617,825	3,781
Issue of shares	608,520	30
At 30 June 2011	<u>76,226,345</u>	<u>3,811</u>

6 months to 30 June 2010

	Number	£'000
At 1 January 2010	53,038,381	2,651
Issue of shares	22,195,222	1,110
At 30 June 2010	<u>75,233,603</u>	<u>3,761</u>

Year to 31 December 2010

	Number	£'000
At 1 January 2010	53,038,381	2,651
Issue of shares	22,579,444	1,130
As at 31 December 2010	<u>75,617,825</u>	<u>3,781</u>

The shares issued were in relation to deferred consideration in respect of the acquisition of Simpro Limited.

5. Loss per share

	6 months ended 30 June 2011 £'000	6 months ended 30 June 2010 £'000	Year ended 31 December 2010 £'000
Loss for the period	<u>(798)</u>	<u>(376)</u>	<u>(464)</u>
Basic/diluted losses	(798)	(376)	(464)
Adjustments to basic losses			
Negative goodwill	-	(15)	(15)
Underlying losses	<u>(798)</u>	<u>(391)</u>	<u>(479)</u>

	Number		
Weighted average number of shares for the purposes of basic losses per share	<u>76,017,902</u>	<u>54,713,799</u>	<u>65,089,854</u>
Weighted average number of shares for the purposes of diluted losses per share	<u>76,017,902</u>	<u>54,713,799</u>	<u>65,089,854</u>

	Pence		
Basic loss per share	(1.05)	(0.69)	(0.71)
Diluted loss per share	(1.05)	(0.69)	(0.71)

Diluted earnings per share is the basic earnings per share after allowing for the dilutive effect of the conversion into ordinary shares of the number of options outstanding during the period. The share options in issue at 30 June 2011 are anti-dilutive in respect of the basic loss per share calculation and have therefore not been included in the current period.

6. Business combinations

On 21 June 2010, the Group acquired 100% of the issued share capital of Simpro Limited, a company based in the UK, for a consideration of £7,053,000 including £142,000 of acquisition-related costs which was settled by a combination of cash and equity. The transaction has been accounted for through the application of IFRS 3 Business Combination (Revised 2008) and using the acquisition method of accounting.

There has been no change in the provisional fair values which have been reassessed during the hindsight period.

7. Post balance sheet events

On 7 July 2011, the Company placed 38,389,485 new ordinary shares of £0.05 at a price of £0.10 per share, raising £3,839,000 before issue costs of £149,000.

In addition, on 7 July 2011, the Company issued 2,823,530 new ordinary shares of £0.05 at a price of £0.11 per share. These shares were issued in relation to the acquisition of Simpro Limited.

Independent review report to The TEG Group PLC

Introduction

We have been engaged by the company to review the condensed financial information in the interim report for the six months ended 30 June 2011 which comprises the consolidated statement of comprehensive income, the consolidated statement of financial position, the consolidated statement of changes in equity, the consolidated statement of cash flows and notes 1 to 7. We have read the other information contained in the interim report which comprises only the Chairman's statement and considered whether it contains any misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the company in accordance with guidance contained in ISRE (UK and Ireland) 2410, 'Review of Interim Financial Information performed by the Independent Auditor of the Entity'. Our review work has been undertaken so that we might state to the company 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 is the responsibility of, and has been approved by, the directors. The AIM rules of the London Stock Exchange require that the accounting policies and presentation applied to the interim figures are consistent with those which will be adopted in the annual accounts having regard to the accounting standards applicable for such accounts.

The annual financial statements of The TEG Group Plc are prepared in accordance with IFRSs as adopted by The European Union. The financial information in the half-yearly financial report has been prepared in accordance with the basis of preparation in note 2.

Our responsibility

Our responsibility is to express to the company a conclusion on the financial information in the interim report based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity' issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the financial information in the interim report for the six months ended 30 June 2011 is not prepared, in all material respects, in accordance with the basis of accounting described in note 1.

**GRANT THORNTON UK LLP
CHARTERED ACCOUNTANTS
MANCHESTER**

20 September 2011