

THE TEG GROUP PLC
Interim Report
For the six months ended 30 June 2009

Company number 3109613

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Chairman's statement

I am delighted to present the Group's 2009 interim report for the half year ended 30 June 2009.

Trading for the period has exceeded expectations. Half year revenue for the interim period was in line with Board expectations at £4,484,000 (2008 interim: £6,592,000), reflecting anticipated project milestone scheduling for 2009 which is loaded towards the second half of the year. Profit for the interim period was £55,000 (2008 interim: £535,000 loss), after share based administration expenses of £71,000 (2008 interim £117,000) and a one-off gain of £851,000 relating to negative goodwill arising from the highly successful acquisition in June 2009 of Banham Compost Limited ("BCL"). The Group recorded a gross profit of £1,252,000 (2008 interim £1,144,000). No dividend is recommended.

The Group retains a healthy cash position with a closing balance as at 30 June 2009 of £5,816,000.

Greater Manchester Waste PFI Contract

The contract was signed on 8 April 2009. TEG's contract with Costain is for the construction of 4 in-vessel composting ("IVC") plants with a combined capacity of 175,000 tonnes per annum. The value of the contract is approximately £38 million over the period to 2011.

Construction of the first facility at Waithlands, Rochdale, has proceeded well and commissioning is underway. Construction at the second plant in Bredbury commenced in August 2009. Planning approval has been gained at the two remaining sites in Trafford and Bolton.

Banham Compost Limited Acquisition

As announced on 22 June 2009, the Group completed the acquisition of BCL following a successful share placing to raise £1.9 million before expenses. As part of the acquisition, the Group has acquired the freehold site, buildings and business of the composting operation based in Norfolk. The site has a capacity of 28,000 tonnes per annum.

Under the terms of the acquisition, TEG was able to acquire plant and equipment, including freehold land and buildings at below-fair market value, producing a provisional one-off gain of £851,000, subject to minor adjustment on finalisation of the completion accounts, reflected as a negative good will credit in the statement of comprehensive income.

Group Plant Operations

The contribution from the plant operations business has continued to increase; waste revenues have risen by 54% on the same period last year and the overall trading performance has improved considerably.

Sales at Sherdley Farm in Preston have continued to increase and demand now significantly exceeds capacity. Given that planning restrictions prevent further expansion at the site, the Board is considering options to relocate the plant to expand capacity.

Sales at Todmorden have continued to rise and the plant achieved peak revenues in the second quarter. Calderdale Council has completed the roll-out of its service across the region and waste volumes have grown significantly.

Perth sales have continued to grow steadily and were 13% higher than in the same period in 2008.

Plant Sales and Construction

Revenues for plant sales are recognised against completed programme milestones and are determined by activity levels at each project stage. Consequently, and as had been expected by the Board, as the first Manchester project drew to completion, recognised revenues were reduced on the same period on 2008.

The Group was pleased to announce it has secured the £1.6 million sale of a further TEG Silo Cage plant to Taywell Composting Limited ("TCL") to be installed at its plant in Matlock, Derbyshire. TCL now anticipates that it will enter into its Section 106 agreement in the fourth quarter of this year.

Market Update

The annual Landfill Tax ("LFT") escalator took effect in April 2009 taking LFT to £40 per tonne and together with the statutory targets given to Local Authorities for the diversion of waste from landfill, this has proved to be a significant stimulus for the market. The Group has observed strong market conditions in the first half of the year and it expects these to continue in 2009 and beyond.

In addition, there is a noticeable emphasis from Government on the potential for Anaerobic Digestion ("AD") as a form of renewable energy and TEG is well positioned to benefit from this by virtue of its partnership with UTS Biogastechnik GmbH ("UTS"). UTS is a Munich based market leader in AD technology with an impressive track record of facilities throughout Europe.

The Group has noted a significant and continued increase in Local Authority procurement activity and is pleased that the market is growing in line with expectations.

New Technologies

TEG continues to develop its Anaerobic Digestion partnership with UTS. The ability to offer both IVC and AD components on tenders greatly enhances TEG's attractiveness as a bidder to potential customers. A number of Local Authorities are seeking AD capacity in addition to the now well established TEG Silo Cage technology.

Future Prospects

The Group has continued to make excellent progress in the first half of 2009 as is reflected in the trading results. TEG is observing very good market growth and a continued increase in interest in the organic waste sector. The addition of AD technology to TEG's proposition has further broadened the range of opportunities open to TEG and its level of business development activity has significantly increased. The Group is actively developing a number of exciting investment opportunities that offer a high level of sustained, long term revenues.

Revenues for plant sales are recognised against completed programme milestones and are determined by activity levels at each project stage. Although certain planned milestones are expected to be achieved after the current year end, the anticipated activity levels on the Greater Manchester build programmes accelerate in the second half of the year. The Board anticipates overall growth in 2009 and anticipates continued growth of the Group beyond this period. The Board is confident that the Group has an exciting future with a strong outlook for trading in the remainder of 2009 and beyond.

Nigel Moore
Chairman

15 September 2009

Consolidated statement of comprehensive income

For the six months ended 30 June 2009

	Note	6 months ended 30 June 2009 £'000	6 months ended 30 June 2008 £'000	Year ended 31 December 2008 £'000
Revenue	3	4,484	6,592	12,706
Cost of sales		(3,232)	(5,448)	(10,709)
Gross profit		1,252	1,144	1,997
Administrative expenses		(2,018)	(1,771)	(3,773)
Negative goodwill	6	851	-	-
Total operating expenses		(1,167)	(1,771)	(3,773)
Operating profit / (loss)		85	(627)	(1,776)
Finance income		50	217	407
Finance costs		(80)	(125)	(248)
Profit / (loss) before tax		55	(535)	(1,617)
Income tax		-	-	142
Profit / (loss) for the period	3	55	(535)	(1,475)
Other comprehensive income		-	-	-
Total comprehensive income / (loss) for the period		55	(535)	(1,475)
Attributable to:				
Equity holders of the parent		55	(535)	(1,475)
Retained profit / (loss)		55	(535)	(1,475)
Earnings / (loss) per share				
Basic earnings / (loss) per share (pence)	5	0.114	(1.108)	(3.055)
Diluted earnings / (loss) per share (pence)	5	0.110	(1.108)	(3.055)

Consolidated statement of financial position

As at 30 June 2009

	Note	30 June 2009 £'000	30 June 2008 £'000	31 December 2008 £'000
ASSETS				
Non-current assets				
Goodwill		2,270	2,270	2,270
Property, plant and equipment		13,671	10,526	11,014
Trade and other receivables		-	90	-
		15,941	12,886	13,284
Current assets				
Inventories		89	240	192
Trade and other receivables		4,595	5,817	3,646
Taxation receivable		-	86	142
Cash and cash equivalents		5,816	6,308	6,831
		10,500	12,451	10,811
Total assets		26,441	25,337	24,095
LIABILITIES				
Current liabilities				
Trade and other payables		4,152	4,497	4,189
Current portion of long-term borrowings		873	232	247
Current portion of deferred consideration		231	245	238
		5,256	4,974	4,674
Non-current liabilities				
Long-term borrowings		2,000	2,013	2,024
Long-term deferred consideration		1,287	1,487	1,390
		3,287	3,500	3,414
Total liabilities		8,543	8,474	8,088
Net assets		17,898	16,863	16,007
EQUITY				
Equity attributable to equity holders of the parent				
Share capital	4	2,652	2,414	2,414
Share premium		30,884	29,357	29,357
Other reserves		823	668	752
Retained losses		(16,461)	(15,576)	(16,516)
Total equity		17,898	16,863	16,007

Consolidated statement of changes in equity

For the six months ended 30 June 2009

	Share capital £'000	Share premium £'000	Other reserve £'000	Retained losses £'000	Total £'000
Balance at 1 January 2008	2,414	29,357	551	(15,041)	17,281
Recognition of share-based payments	-	-	117	-	117
Transactions with owners	-	-	117	-	117
Loss for the period	-	-	-	(535)	(535)
Total comprehensive income for the period	-	-	117	(535)	(418)
Balance at 30 June 2008	2,414	29,357	668	(15,576)	16,863
Recognition of share-based payments	-	-	84	-	84
Transactions with owners	-	-	84	-	84
Loss for the period	-	-	-	(940)	(940)
Total comprehensive income for the period	-	-	84	(940)	(856)
Balance at 31 December 2008	2,414	29,357	752	(16,516)	16,007
Issue of share capital	238	-	-	-	238
Premium on issue of share capital	-	1,663	-	-	1,663
Issue costs	-	(136)	-	-	(136)
Recognition of share-based payments	-	-	71	-	71
Transactions with owners	238	1,527	71	-	1,836
Profit for the period	-	-	-	55	55
Total comprehensive income for the period	238	1,527	71	55	1,891
Balance at 30 June 2009	2,652	30,884	823	(16,461)	17,898

Consolidated statement of cash flows

For the six months ended 30 June 2009

	6 months ended 30 June 2009 £'000	6 months ended 30 June 2008 £'000	Year ended 31 December 2008 £'000
Cash flows from operating activities			
Profit / (loss) after taxation	55	(535)	(1,475)
Adjustments for:			
Negative goodwill	(851)	-	-
Depreciation	493	365	804
Share based administrative expense	71	117	201
Taxation credit recognised in the statement of comprehensive income	-	-	(142)
Finance costs	80	125	248
Finance income	(50)	(217)	(407)
Loss on sale of property, plant and equipment	1	17	47
Increase in trade and other receivables	(908)	(4,801)	(2,540)
Decrease/(increase) in inventories	103	(6)	42
(Decrease)/increase in trade payables	(589)	3,413	3,106
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Cash used in operations	(1,595)	(1,522)	(116)
Interest paid	(40)	(80)	(158)
Income taxes received	142	-	86
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Net cash outflow from operating activities	(1,493)	(1,602)	(188)
Cash flows from investing activities			
Acquisition of business - deferred consideration	(150)	(150)	(300)
Acquisition of subsidiary net of cash acquired	(390)	-	-
Purchase of property, plant and equipment	(647)	(995)	(1,861)
Proceeds from sale of equipment	-	-	47
Interest received	50	217	407
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Net cash outflow from investing activities	(1,137)	(928)	(1,707)
Cash flows from financing activities			
Proceeds from issue of share capital	1,765	-	-
Repayment of loan	(129)	(71)	(142)
Payment of finance lease liabilities	(21)	(7)	(48)
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Net cash inflow / (outflow) from financing activities	1,615	(78)	(190)
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Net decrease in cash and cash equivalents	(1,015)	(2,608)	(2,085)
Cash and cash equivalents at beginning of period	6,831	8,916	8,916
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Cash and cash equivalents at end of period	5,816	6,308	6,831

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') continue to be the design and production of Silo-cage plants for sale to third party clients, and the design, build and operation of TEG owned 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. 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 15 September 2009.

The comparative figures 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 within the meaning of section 240 of the Companies Act 1985. Statutory financial statements for the year ended 31 December 2008 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 not qualified and did not contain a statement under section 273(2) or (3) of the Companies Act 1985.

2. Basis of preparation

The Group's interim condensed consolidated financial statements are for the six months ended 30 June 2009 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 2008.

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 2008 except for the adoption of IAS 1 Presentation of Financial Statements (Revised 2007) and IFRS 8 Operating Segments.

During the period, the Group has applied IAS 1 Presentation of Financial Statements (Revised 2007) which has introduced a number of terminology changes (including titles for the condensed financial statements) and has resulted in a number of changes in presentation and disclosure. The revised standard has had no impact on the reported results or financial position of the Group.

The adoption of IFRS 8 has not changed the segments that are disclosed in the interim financial statements. The previous annual and interim financial statements identified segments by reference to the dominant source and nature of the group's risks and returns. These segments are consistent with those used within internal management reporting information that is regularly reviewed by the chief operating decision maker, as required by IFRS 8.

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 and as such, the interim financial statements have been prepared on a Going Concern basis.

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, Sales to third parties, Product management and Other revenue.

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

6 months to 30 June 2009

	Build, own and operate £'000	Sales to third parties £'000	Product management £'000	Other revenue £'000	Consolidated £'000
Revenue from external customers	1,355	2,971	50	108	4,484
Gross profit / (loss)	144	1,059	(57)	106	1,252
Segment corporate expenses	(576)	(427)	(129)	-	(1,132)
Segment profit / (loss) before taxation	(432)	632	(186)	106	120
Negative goodwill					851
Share-based payment expense					(71)
Unallocated corporate expenses					(815)
Finance income					50
Finance costs					(80)
Profit before taxation					55
Taxation					-
Profit for the period					55

Unallocated corporate expenses include £375,000 in respect of future business and research and development costs.

6 months to 30 June 2008

	Build, own and operate £'000	Sales to third parties £'000	Product management £'000	Other revenue £'000	Consolidated £'000
Revenue from external customers	917	5,648	27	-	6,592
Gross profit / (loss)	31	1,251	(138)	-	1,144
Segment corporate expenses	(544)	(234)	(126)	-	(904)
Segment profit / (loss) before taxation	(513)	1,017	(264)	-	240
Share-based payment expense					(117)
Unallocated corporate expenses					(750)
Finance income					217
Finance costs					(125)
Loss before taxation					(535)
Taxation					-
Loss for the period					(535)

Unallocated corporate expenses include £213,000 in respect of future business and research and development costs.

Year to 31 December 2008

	Build, own and operate £'000	Sales to third parties £'000	Product management £'000	Other revenue £'000	Consolidated £'000
Revenue from external customers	2,108	10,518	57	23	12,706
Gross profit / (loss)	120	2,074	(197)	-	1,997
Segment corporate expenses	(997)	(775)	(216)	-	(1,988)
Segment profit / (loss) before taxation	(877)	1,299	(413)	-	9
Share-based payment expense					(201)
Unallocated corporate expenses					(1,584)
Finance income					407
Finance costs					(248)
Loss before taxation					(1,617)
Taxation					142
Loss for the year					(1,475)

Unallocated corporate expenses include £768,000 in respect of future business and research and development costs.

4. Share Capital

During the period to 30 June 2009, the group issued 4,750,000 shares. Shares issued and authorised for the period to 30 June 2009 may be summarised as follows:

6 months to 30 June 2009

	Number	£'000
At 1 January 2009	48,288,381	2,414
Issue of shares	4,750,000	238
At 30 June 2009	<u>53,038,381</u>	<u>2,652</u>

6 months to 30 June 2008

	Number	£'000
At 1 January 2008 and 30 June 2008	<u>48,288,381</u>	<u>2,414</u>

Year to 31 December 2008

	Number	£'000
At 1 January 2008 and 31 December 2008	<u>48,288,381</u>	<u>2,414</u>

The share issue yielded £1,900,000 before expenses and increased equity by £1,765,000.

5. Earnings / (loss) per share

	6 months ended 30 June 2009 £'000	6 months ended 30 June 2008 £'000	Year ended 31 December 2008 £'000
Profit / (loss) for the period	55	(535)	(1,475)
Basic/diluted earnings / (losses)	55	(535)	(1,475)
Adjustments to basic earnings			
Negative goodwill	(851)	-	-
Underlying losses	<u>(796)</u>	<u>(535)</u>	<u>(1,475)</u>
	Number	Number	Number
Weighted average number of shares for the purposes of basic earnings per share	48,445,840	48,288,381	48,288,381
Effect of dilutive potential ordinary shares	1,585,182	-	-
Weighted average number of shares for the purposes of diluted earnings per share	<u>50,031,022</u>	<u>48,288,381</u>	<u>48,288,381</u>
Weighted average number of shares for the purposes of underlying earnings per share	<u>48,445,840</u>	<u>48,288,381</u>	<u>48,288,381</u>
	Pence	Pence	Pence
Basic earnings / (loss) per share	0.114	(1.108)	(3.055)
Diluted earnings / (loss) per share	0.110	(1.108)	(3.055)
Underlying loss per share	(1.643)	(1.108)	(3.055)

Underlying earnings per share has been disclosed to give a clear understanding of the Group's underlying trading performance. It has been calculated using the underlying earnings figures above and the weighted average number of ordinary shares above.

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.

6. Business combination

On 25 June 2009, the Group acquired 100% of the issued share capital of Banham Compost Limited, a company based in the UK, for a consideration of £393,000 including costs which was settled in cash. The transaction has been accounted for by the purchase method of accounting.

The allocation of the purchase price to the assets and liabilities of Banham Compost Limited was only provisionally completed by 30 June 2009 due to the timing of the acquisition. The amounts provisionally recognised for each class of the acquiree's assets and liabilities recognised at the acquisition date are as follows:

	Carrying amount under IFRS £'000	Provisional fair value adjustments £'000	Provisional fair value to the group £'000
Net assets acquired			
Property, plant and equipment	2,479	(55)	2,424
Trade and other receivables	228	(16)	212
Cash and cash equivalents	3	-	3
Total assets	<u>2,710</u>	<u>(71)</u>	<u>2,639</u>
Trade and other payables	(617)	(28)	(645)
Short-term debt	(750)	-	(750)
Total liabilities	<u>(1,367)</u>	<u>(28)</u>	<u>(1,395)</u>
Net assets			<u>1,244</u>
Negative goodwill arising on the acquisition			<u>(851)</u>
			<u>393</u>
Satisfied by			
Acquisition Costs			87
Cash Consideration			<u>306</u>
			<u>393</u>

The negative goodwill arising on the above business combination has been recognised as income in the statement of comprehensive income in the period.

On acquisition, the company name was changed to TEG Energy Limited.

Independent review report to 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 2009 which comprises the consolidated statement of comprehensive income, the consolidated statement of financial position, the consolidated statement of changes in equity, the consolidated cash flow statement and notes 1 to 6. 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.

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 2009 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**

15 September 2009