THE TEG GROUP PLC
Financial Statements
For the year ended 31 December 2012

Company Information

Company registration number:	3109613
Registered office:	Westmarch House 42 Eaton Avenue Buckshaw Village Chorley Lancashire PR7 7NA
Directors:	R Maw (Chairman) D W Benjafield I A Hislop M Fishwick T Willis
Secretary:	T Willis
Bankers:	Bank of Scotland Plc 36 Castle Street Liverpool L2 0NT
Solicitors:	Jones Day LLP 21 Tudor Street London EC4Y 0DJ
Auditors:	Grant Thornton UK LLP Statutory Auditor Chartered Accountants 4 Hardman Square Spinningfields Manchester M3 3EB

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Chairman's Statement

I am delighted to present the Group's annual report for the year ended 31 December 2012 The second half of the year saw a marked improvement in trading Both revenues and profitability improved significantly on the half year position reported in September 2012 and I am pleased to be able to report that the Group returned to growth and is again making significant progress

Full year revenue for 2012 was £22,418,000 (2011 £17,871,000) and the Group loss was £1,037,000 (2011 £7,616,000) Overall, the Group recorded a gross profit of £4,614,000 (2011 £4,480,000). No dividend is recommended

The Group cash balance as at 31 December 2012 was £3,674,000 (2011. £1,557,000)

Group Plant Operations

Revenues and profit margins at the Group's own plant operations have continued to grow impressively in 2012 This reflects substantially increased productivity and utilisation from TEG's operating facilities, the continuous growth in the organics sector of the waste market together with some reduction in competitor capacity following stricter regulatory enforcement

Operational revenues grew by 16% in 2012 compared to 2011, with a 42% increase in gross margin. The volume of food based waste, including co-collected food and green waste, grew by approximately 24% Pure organic waste volumes recovered strongly in the second half of 2012 and overall grew by 17% on 2011

Since the year end, the Group has entered into a six year organic waste contract with a major waste management company This will increase waste volume for the Simpro business by approximately 15,000 tonnes per annum

Greater Manchester Waste PFI Contract

Construction of the fourth and final facility (Bolton) is progressing well and will continue until Quarter 2 of 2013, with commissioning and handover scheduled for completion in Quarter 3 of 2013.

TEG has successfully achieved take over on all three facilities constructed to date, and all are in full operation Acceptance of the facilities has still to be achieved and a total of £1 5m of retentions specific to those three facilities remain outstanding The Group continues to work towards securing their release

Perth AD Facility – ("TEG Biogas Perth")

The Company's move into the renewable energy sector is proceeding very well Commissioning of the Perth AD facility was highly successful and the plant is in full operation with power output currently ahead of design capacity The plant will process 15,000 tonnes per annum of food waste and generate approximately 0 7MW of electricity and 0 2 MW of heat, to be utilised on site in the Binn Eco Park development Ofgem has accredited the facility to receive Renewable Obligation Certificates ("ROCs") and as an AD facility it will be eligible for double ROCs (i e 2 ROCs for each unit of electrical output) The project is funded by Albion Ventures LLP ("Albion") and Zero Waste Scotland The Group retains a 50% shareholding in the Company

Chairman's statement

Dagenham Project

The Group was delighted to reach financial close on its Dagenham project on 31 August 2012, a combined in-vessel composting ("IVC") and anaerobic digestion ("AD") facility This project will bring approximately £16m in revenues to the Group from an engineering, procurement and construction ("EPC") contract and a further £1 3m per annum of operating revenues (escalated annually) over the term of a 15-year operating and maintenance contract. In addition, the Group retains a 24 5% shareholding in the newly created project company, TEG Biogas (London) Limited

The project funding was secured by the Foresight Group, who also attracted co-funding from other equity funders and investment banking, along with both UK and regional Government funding, including the UK GIB Revenues under the EPC contract commenced in the second half of the year with payments received on a milestone basis The remaining revenues will be recognised on a milestone basis over the remaining construction period Construction remains on programme for commissioning of the plant in quarter 3 of 2013 and handover in quarter 1 of 2014

Strategic Activities

Following the success with funding the Dagenham project, the Group continues to investigate further similar investments at the operating company and project level and is in discussion with other potential investors. Planning permission is in place for the development of a similar facility to the Dagenham plant, combined IVC and AD, on one of TEG's Simpro facilities Funding proposals have been received and options are under active consideration

Work has started on increasing capacity at the Todmorden facility to meet demand in the region In addition, capacity at the Telford site will be increased following the award of new contracts.

Market Update

The fundamental drivers remain in place for continued market growth as obligations increase on waste producers to divert organic waste from landfill These statutory obligations increase annually and are expected to increase continuously until 2020 Landfill Tax ("LFT") will rise by £8 00 per tonne in April 2013, increasing the tax to a total of £72 00 per tonne The UK Government has confirmed that LFT will rise by £8.00 per tonne per annum until at least 2014 and this is expected to continue to stimulate market growth for the foreseeable future In addition, the Scottish Assembly has passed legislation to progressively introduce a complete ban on the landfill of organic waste in both the public and private sectors from 2014

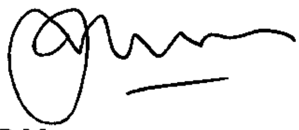
The Board is pleased to report a continued significant interest in IVC, often alongside AD Local Authority costs are often reduced by the collection of green and food wastes together, and this waste stream is better suited to IVC Whilst the Board can also report a continued market interest in energy generation from food waste and the strengthening of interest in technologies such as AD, this technology still relies upon Government subsidy in the form of either ROCs or FITs. The level of subsidy available remains under review by Government and may be reduced for future schemes The impact of this on future AD schemes is uncertain and the Board believes this underlines the merit of the Group policy to promote combined IVC and AD facilities wherever possible, allowing the Group to offer a comprehensive organic waste service irrespective of policy on the levels of subsidy available

The wider regulatory environment continues to benefit the Group, as its technology lends itself to the additional level of containment required by the regulators, which is now being enforced generally. In addition, the regulators have introduced policies to reduce the level of low-grade green waste disposal In time, this is expected to increase the volume of green waste diverted into the composting sector

Chairman's statement

Future Prospects

The financial close of the Dagenham project in the second half of 2012 was a significant milestone for the Group Market demand for more capacity remains strong and, given a secure funding position at the project level, the Group would be well placed to continue to take advantage of the expanding market. TEG maintains a strong pipeline of tender opportunities and has received funding proposals for its next project Assuming financial close can be reached on a reasonable timescale and that an appropriate funding structure can be negotiated, the Group will be in a strong position for 2013 The excellent performance of the Group's own plant operations and the continued growth in this segment demonstrate that if TEG can secure the appropriate level of capital funding it will develop a secure and successful operating platform. The Board is confident that the Group has an exciting future with a promising outlook



R Maw
Chairman
18 March 2013

Report of the Directors

This information has been prepared solely to assist shareholders to assess the Board's strategies and their potential to succeed It should not be relied on by any other party or for other purposes Forward-looking statements have been made up to the date of this report and such forward-looking statements should be regarded with caution because of the inherent uncertainties in economic trends and business risks

The Directors present their report together with the audited financial statements for the year ended 31 December 2012

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 The 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

Results and dividends

The results for the year and the Group's financial position at the end of the year are shown in the attached financial statements The Directors do not recommend the payment of a dividend leaving the loss of £1,037,000 (2011 £7,616,000) to be transferred from reserves

Revenue

Revenue has increased by 25% during the year The EPC Contracts division revenue increased by 35% to £12,037,000, whilst revenue from Plant Operations increased by 16% to £10,381,000 as a result of record volumes of waste processed during 2012

Future developments

An indication of future developments is contained in the Chairman's statement on pages 3 to 5

Report of the Directors

BUSINESS REVIEW

Strategy and objectives

TEG deploys an integrated service delivery model for its clients, where experience and resources are shared in order to maximise the value and effectiveness of the solutions we provide This ability to offer a wide range of integrated services is beneficial as clients seek to achieve 'more with less' and the service solutions we deliver become more complex

TEG's principal strategy remains to grow the business by a combination of

- Build, Own and Operate projects (BOO's) by delivering long term relationships through employing an outcome driven approach to service delivery This provides opportunities to win new long term contracts, to develop wider services with existing clients and to increase our geographical spread, and

- Plant sales which provide large revenues and cater for markets which prefer to run their own operations

Considering the purchasing patterns in its market place, the Board believes this strategy remains the most suitable for the UK market

TEG continues to develop its AD partnership with UTS Biogastechnik GmbH ('UTS') The ability to offer both IVC and AD components on tenders greatly enhances TEG's attractiveness as a bidder to potential customers and offers both defence and opportunities for growth

We appreciate the importance of delivering organic growth, whilst also maintaining a policy of selectively pursuing complementary, value-enhancing acquisitions It remains imperative that any potential acquisitions are based upon long-term client contracts or where there are skills that will enhance our existing service offering

RISK MANAGEMENT

We operate a robust risk management regime addressing all aspects of the business including bidding, project mobilisation, project implementation, operations and final account This regime ensures that risks are visible at every stage and risk management processes can be effectively implemented to maintain compliance and business efficiency and to maximise margins

The group has identified the following principal risks and uncertainties. In addition to the risks mentioned below, the table on pages 26 to 28 summarises further identified risk areas and the measures taken to mitigate those risks

Commercial risk
Commercial risk is identified as detailed in the Corporate Governance review and is reported to the Plc board and its management is delegated to the subsidiary boards

The Group monitors market activity through commercially available systems including trade press monitoring and tender monitoring systems Market information is electronically circulated amongst key managers

The Group has established price models and all prices are approved by a Director All capital sales prices are approved by the Chief Executive and Finance Director who consider market pricing, risk and target margins in establishing prices for each project Major contract tenders are managed by tender teams that as a minimum include a Contract Manager and the Head of Business Development

Key commercial risks for the business have been identified, including security and price of waste streams to TEG plants, stability of end markets for compost products and security and stability of the Group's engineering supply chain Standard contracts have been established for key suppliers to ensure commercial risk is adequately addressed and suppliers are monitored and audited against an established supplier review process

As TEG is exposed to changes in relationships with both customers and suppliers, it is a key task for operational management to maintain and develop relationships with these customers and suppliers and where possible TEG maintains at least two suppliers for key equipment

Environment risk
TEG has an Environmental Policy which is communicated clearly to all employees and which is detailed in the Corporate Governance review Effective management systems are in place which are independently reviewed and updated and environmental impact is monitored and reported to the Board. Risk assessment processes are in place to assess the potential environmental impact of operations, changes in legislation and guidance are monitored and dialogue is maintained with regulators

Management responsibility is clearly identified at all levels in the business and environmental performance is measured against clear objectives

Operations and facilities are designed to at least meet the environmental standards in place at the time and future standards are anticipated where possible Changes in legislation and guidance are implemented as soon as reasonably practicable

Product defect risks
Product defect risk falls into 2 categories, capital sales projects and end product

Capital sales projects
Defects in plant, equipment or buildings would result in financial penalty to the business through warranty claims, liquidated damages or other contract performance claims

TEG manages this risk through
- clearly constructed contracts with customers with clear agreement on specifications and performance
- delegation of contract obligations to sub-contractors, as far as is reasonable
- clear definitions of warranty obligations
- professional indemnity insurance

End product
End product defects would result in claims against the business for losses from agricultural customers

TEG manages this risk through
- product manufacture to recognised quality and compliance standards (publically available specifications, PAS and Animal By Product Regulations, ABPR)
- professional indemnity insurance

Health and safety risk
While the TEG composting facilities are relatively low risk waste management operations, there are still many risks that require control through competent health and safety ("H&S") management The main hazards are workplace transport, moving machinery and exposure to bioaerosols

The AD process presents a higher risk due to the production of biogas used to generate energy which also has the potential for explosion and contains toxic levels of hydrogen sulphide Other AD hazards are essentially the same as those listed for composting as the waste management processes are very similar

Control of all of these and other hazards is achieved through the company's environment, health & safety and quality ("EHSQ") management system which ensures that all risks are identified, assessed and managed

The design of new facilities is subject to Hazop (Hazard and operability study) assessment to identify risks and mitigate where possible through good design Due to the elevated level of risk with AD, TEG uses independent experts to chair and advise on the Hazop process.

TEG's health and safety management system, which is integrated with the Group's quality and environmental systems, ensures that all TEG personnel are trained and competent in the relevant H&S aspects for their job and all TEG activities are risk assessed and carried out under written instructions TEG has also identified a set of Golden Rules for Safety which are prominently displayed at each site The Golden Rules and other essential H&S issues are explained to personnel through the use of toolbox talks

TEG provides annual occupational health surveillance to its employees and H&S standards at each site are monitored through the use of audits and inspections. H&S performance is reported to the Boards on a monthly basis, and the independent H&S report is provided to the Plc Board on a quarterly basis

Key performance indicators ("KPIs")

TEG monitors KPIs in relation to all its capital projects and operational activities, and performance is reported to the subsidiary Board and the Plc Board on a monthly basis Summary KPIs for the Group are shown on pages 11 and 12

In addition, the operations team utilises a performance management system This includes a cost control, process optimisation, compliance and financial management

Financial and Performance Trends

The business monitors revenue, costs and EBITDA trends for each individual plant and overall on a monthly basis Trends are monitored by both the subsidiary Board and the Plc Board

The following individual KPIs are utilised routinely throughout the business

Plant operations

- Waste tonnage
- Plant utilisation - defined as the percentage of actual tonnage throughput against the design tonnage throughput This is a measure used routinely at operator level
- Waste mix ratio - defined as the ratio of animal by products tonnage against total tonnage
- Optimisation of loading and offloading regime
- Average gate fee per tonne
- Average cost per tonne

Product management

- Tonnes of compost produced
- Product revenue
- Cost of distribution of end product

Capital projects

- Average sales price
- Prices by detailed individual component
- Installation programme versus key milestones
- Project cost versus budget
- Post project review process led by the Head of Engineering

The business uses project tracking processes to monitor and report performance against KPIs

Compliance

- Accidents, incidents and near-misses
- Risk assessment action tracking
- Animal by product ('ABP') compliance
- Environmental compliance

The business employs an independent environmental health and safety ("EHS") consultant who reports monthly to the operational Boards and quarterly to the Plc Board

Human Resources

- Employee attrition rate
- Employee absence rate

Report of the Directors

Summary Key Performance Indicators for the Group

The following is a summary of KPI trends for the Group These figures are summaries of the detailed KPIs reported internally

	2012	2011
OPERATIONS		
Gate fee revenue	**£10,381,000**	£8,944,000
Average gate fee trend The overall increase or decrease in average revenue per tonne received as gate fee payable for waste streams, excluding end-product revenue[1]	**-4%**	16%
Average cost of sale trend The overall increase or decrease in the cost per tonne of waste processed, excluding end-product placement	**-7%**	12%
Total waste tonnage Total tonnes of waste processed across the Group's operations	**296,000**	244,000
IVC plant utilisation The overall plant utilisation defined as the percentage of actual annual tonnage throughput against the notional annual tonnage throughput	**100%**	100%
OAW utilisation The overall green waste utilisation defined as the percentage of the actual annual tonnage throughput	**82%**	70%
Tonnes of compost produced	**193,000**	159,000
Average compost price trend The overall increase or decrease in average revenue per tonne of compost across the Group's operations	**2%**	16%
CAPITAL SALES		
Average sales price The average overall value of capital plant sales secured during the year	**£16,682,000**	£12,760,000
SEGMENTAL REVENUE Business segment revenue as a percentage of total revenue		
▪ Plant Operations	**46%**	50%
▪ EPC Contracts	**54%**	50%

[1] Food waste gate fees rose by 2% but this was offset by a fall in gate fees for pure green waste

COMPLIANCE

Accident and incident analysis		
Reportable accidents and incidents	**0**	1
Major accidents and incidents	**1**	1

HUMAN RESOURCES

Employee attrition rate		
Rolling average attrition rate	**20%**	17%
Employee absence rate		
Rolling average absence rate	**2%**	1%

Treasury risk management

Surplus funds are intended to support short term working capital requirements and to place bonds necessary for plant build projects These funds are invested through the use of short term, medium term and period deposits, with a policy of maximising fixed interest returns as well as providing the flexibility required to fund on-going operations It is not Group policy to invest in financial derivatives

It is the Group's policy that no speculative trading in financial instruments shall be undertaken The use of financial instruments exposes the Group to a number of risks, the main ones being interest rate risk, credit risk, liquidity risk and foreign currency risk The Board reviews and agrees policies for managing each of these risks and they are summarised below.

Interest rate risk
The Group's exposure to interest rate risk arises from

- The fixed element of finance leases where the Group typically uses finance leases for fixed periods of up to 5 years to finance the purchase of assets where it is considered to be a more effective use of funds;
- The term loan facility which bears a floating interest rate; and
- Cash and short term deposits which bear floating interest rates

The Group's exposure in interest rate risk is detailed in note 22

Credit risk
The principal credit risk relates to recovery of amounts due under contracts The risk is mitigated by regular application for and certification of works completed under contract arrangements There is also credit risk in relation to trade receivables The Group mitigates this risk through regular credit checks as detailed in note 15

Liquidity risk
The Group seeks to manage financial risk by ensuring sufficient liquidity is available to meet foreseeable needs and to invest cash assets safely and profitably The Group has secured appropriate bank facilities and any surplus funds are placed on deposit to maximise returns to the Group whilst maintaining flexibility to meet day-to-day working capital requirements

Foreign currency risk
The Group only has one foreign currency denominated trade payable which amounted to £274,000 (2011 £65,000) at 31 December 2012 and therefore is subject to minimal foreign exchange risk

Borrowing facilities

In 2007, a facility of £2,000,000 was secured to help fund the acquisition of the property and the development costs of the Todmorden project At 31 December 2012, £2,000,000 (2011 £2,000,000) was drawn down as a term loan The floating interest rate on the term loan is 1 75% above the Bank of Scotland Plc base rate The outstanding balance at 31 December 2012 was £1,432,000 (2011 £1,510,000) and will be repaid over a further 116 monthly instalments, ending in August 2020

Government legislation

TEG operates in a commercial environment encompassing environmental, legal, health and safety, employment and tax matters. TEG is committed to complying with all of its legal requirements and the clear delegation of responsibility to operating management together with the employment of competent advisers supports this requirement Changes to legislation are considered carefully and appropriate actions taken to ensure they are incorporated into our business policies and procedures.

Corporate responsibility

Our business impacts on the lives of everyone in the community We therefore see it as our corporate responsibility to deliver social and environmental sustainability alongside our financial goals At TEG, corporate responsibility is much more than a set of policies It is delivered on the ground, every day through our operational teams working in partnership with our customers, our supply chain and our local communities.

As a sustainable business, our commitment is to establish the optimum balance of economic, environmental and social aspects We aim to help create a healthy environment and society through the management of our business

This commitment affects all areas of our business – our people, our customers, our performance, our supply chain, our investors, our health and safety and our environment. Our success has come from changing and influencing the behaviours of our stakeholders so that good social and environmental practice becomes a habit, delivering sustainability together, throughout our operations

We focus on developing long term relationships with key customers with whom we can develop innovative solutions We set high standards for ourselves, but additionally seek to develop an understanding of our customers' corporate responsibility and sustainability business drivers and provide leadership, added value and support

As a recycling business, the environmental impact of our work is of increasing concern to our customers and their customers – the public. Stakeholder expectations have changed and it is no longer sufficient to deliver economic value alone – we need to deliver social and environmental value too and are mindful of how our actions impact both present and future generations.

We ensure active relationships with local communities. We ensure there is clear communication with neighbours, we hold plant visits and we host community relation groups

Report of the Directors

TEG is regulated by the Environment Agency, Animal Health Department, Health and Safety Executive and Local Authorities Good relationships with regulators are key to an environmental business and we ensure proactive relations with regulators in all these fields In addition to routine communication, TEG hosts educational visits and sets itself as the benchmark organisation in its sector

People

We are committed to ensure that TEG is the best place to work By this, we mean that we have the best people in the right jobs, delivering the best solutions for our long term clients, that everyone knows what is required of them and has the right skills to do their job, and they are fairly rewarded for their success in the business and that their contribution is asked for and valued

The commitment, drive and enthusiasm of all TEG's employees are its greatest asset and TEG's ability to meet the demands of customers, suppliers and shareholders is dependent upon their efforts TEG is committed to providing employees with a professional working environment where hard work and commitment is encouraged and rewarded accordingly We aim to create an environment where our people can flourish

We actively seek to employ a diverse range of people Our Equality and Diversity policy aims to ensure all employees are aware of the Group's values in relation to diversity and to create a culture where employees understand, respect and value individual differences and the benefits that diversity brings In doing so, it aims to create a positive working environment that harnesses potential and helps to achieve the Group objective of being the best

TEG is dedicated to providing high quality service to its customers and therefore needs to have the most skilled and experienced staff available within the industry Training, coaching and the opportunity for personal career advancement within the Group are important features of how TEG seeks to recruit, retain and develop staff TEG has continued to invest more resources in developing and training its employees

TEG incentivises staff through paying market-based salaries, bonuses for individual and Group achievement and share options for key staff members TEG operates a loyalty based share option scheme

Employment policy

The Group is an Equal Opportunity Employer and its policy is to ensure that all employees and job applicants will be given equal opportunity, irrespective of their sex, race, ethnic origin, disability, age, marital status, sexual orientation or religious affiliation in all aspects of employment and training and that no such person is placed at a disadvantage by requirements or conditions which cannot be shown to be justified

Applications for employment by disabled persons are given full and fair consideration for all vacancies in accordance with their particular aptitudes and abilities In the event of an employee becoming disabled, every effort would be made to retain them in order that their employment with the Group would continue

It is the policy of the Group that training, career development and opportunities should be available to all employees

The Group places considerable value on the involvement of its employees and encourages the development of employee involvement in each of its operating companies through formal and informal meetings It is the Group's policy to ensure that all employees are made aware of significant matters affecting the performance of the Group through a variety of media including emails, meetings and newsletters A number of employees are shareholders of The TEG Group Plc

Within the bounds of commercial confidentiality, management disseminates information to all levels of staff about matters that affect the progress of the Group and are of interest and concern to them as employees

The Group operates a childcare voucher scheme whereby UK employees can elect to receive childcare vouchers in lieu of part of their salary in a tax efficient manner

The Group operates a defined contribution pension scheme which is open to all employees The Finance Director has responsibility for human resource issues within the Group

Health and safety

It is Group policy to fulfil its duties under the Health and Safety Act 1974 and all other associated acts and legal obligations applicable to the waste management industry TEG retains an independent consultant who reports quarterly on health and safety to the Board. In order to achieve the standards required, line management will provide suitable and sufficient resources and properly trained supervision to ensure all work places can carry out their activities in a safe manner

The health and safety of our workforce is our priority

The Health and Safety management system adapted across the operating business is continuously reviewed and enhanced to ensure it is sufficiently robust to protect the health and safety of all our employees We monitor the safety of our employees with a hierarchical safety reporting system and ultimately by the number of lost time accidents which is measured by lost time accident frequency rate, which has been 1 for 2012 (2011 1)

It is the responsibility of the Group's management at all levels to be conversant with the contents of the policy and to plan work such that foreseeable risks are identified and reduced to an acceptable level through the implementation of risk assessments All employees must take care of the health and safety of themselves and actively participate and co-operate with the Group to enable the Group to discharge its statutory responsibilities and fulfil its desire for continual improvement in all safety and welfare matters

Information systems

Our vision is that TEG has market leading technology solutions that provide competitive advantage

Leadership in information systems to support our long-term contracts and to add value to the solutions we deliver for our clients, is becoming increasingly important to both winning and retaining business This is why we have increased our investment in information systems over recent years and further enhanced the systems during 2012

We focus on five key business areas, to enable broader and more strategic service offerings to deliver differentiation and growth, to standardise and automate business processes to deliver efficiency, to deliver accurate and timely management information, to enable safe and sustainable methods of working, and to facilitate and support collaborative working and sharing of best practice across the Group

Major interest in shares

As at 7 March 2013, the Group had been notıfıed of the followıng ınterests ın 3% or more, of the Group's ıssued share capıtal

	Number of ordinary shares	% of issued ordinary share capital
Brıdges Communıty Ventures Nomınees	39,932,988	21 19%
Chase Nomınees Lımıted	34,307,715	18 21%
Vıdacos Nomınees Lımıted	13,584,604	7 21%
Nortrust Nomınees Lımıted	10,495,522	5 57%
TD Dırect Investıng Nomınees	7,176,530	3 81%
Barclayshare Nomınees Lımıted	6,446,900	3 42%

Property, plant and equipment

In the opınıon of the Dırectors, the market value of the freehold land and buıldıngs does not dıffer materıally from the carryıng value ın the fınancıal statements

Research and development

The research and development expendıture ıncurred durıng the year prımarıly relates to product development

Share options

The grant of share optıons ıs at the dıscretıon of the Board All grants are ıntended to promote a longer term ınvolvement ın the well-beıng of the Group and capıtal growth benefıts for optıon holders. Optıons are not routınely granted on an annual basıs but made on an ındıvıdual basıs to reflect performance, ıncreased responsıbılıtıes, promotıons and loyalty

An Enterprıse Management Incentıve Share Optıon Scheme was establıshed on 27 Aprıl 2001, granted under the provısıons of Sectıon 62 and Schedule 14 of the Fınance Act 2000 Thıs ıs a Group wıde scheme and optıons are granted at the share prıce at the date of the grant.

Health & Safety policy

TEG's busıness consısts of the development, construction and operatıon of sıtes and servıces assocıated wıth organıc waste recyclıng throughout the UK and Europe Everybody who works for the Group ıs responsıble for maıntaınıng EHSQ standards Good EHSQ performance and the health, safety and securıty of everyone who works for us are crıtıcal to the success of our busıness

Our goals are - no ınjurıes, no harm to health, no damage to the envıronment and 100% customer satısfactıon

To achieve these goals we will

- Implement an effective management system to comply with relevant EHSQ legislation and other identified requirements, and conduct regular audits to ensure compliance
- Systematically identify hazards, assess risks and implement appropriate controls with the aim of safeguarding the environment, employees and others from harm
- Seek to pursue continual improvement in the company's EHSQ management system and performance, as they are an integral part of a successful business
- Ensure that all our employees and contractors are well informed, well trained, and committed to the EHSQ control and improvement processes
- Promote an active EHSQ culture through the development of competent employees and by stating here that 'No TEG activity is so important that it cannot be done safely'
- Provide appropriate adequate resources to implement the EHSQ policy
- Openly report our EHSQ performance and consult with people outside the company to improve our understanding of EHSQ issues associated with our activities, products and services
- Consult, listen and respond openly to our customers, employees, neighbours, regulators, public interest groups and other stakeholders.

This policy is communicated to all employees, suppliers and sub contractors and is made available to the public Implementation is reported routinely to the Board The ultimate responsibility for Health & Safety lies with the Chief Executive who ensures that it is given equal priority with other major business objectives

The Bribery Act 2010

The Bribery Act 2010 became effective from 1 July 2011 and introduced significant changes to UK anti-corruption law The objectives and provisions of the Act accord with the values TEG applies in all its business dealings and which are reflective in its policies and procedures already in place Current policies and procedures has been reviewed and where necessary, training to staff has been provided to ensure ongoing compliance with the standards of the Act

The Bribery Act Policy

Introduction
As a UK company, the UK Bribery Act 2010 (the "Act") applies to the whole of The TEG Group (TEG) from 1 July 2011 as a group of companies as well as to our staff and business partners The Act requires all businesses to ensure that adequate and proportional procedures and codes of conduct are in place to prevent the company from becoming involved in bribery

The Board of Directors of The TEG Group Plc has formally adopted the Anti-Bribery Policy set out below and has appointed the Finance Director as the Director responsible for the Company's Policy
The main offences under the Act are

i Giving a bribe to another person
ii Accepting a bribe from another person
iii Bribery of a foreign official
iv Failure of a commercial organisation to prevent bribery

A successful prosecution by the UK authorities of either an individual or a company of one or more of the offences will result in a criminal conviction with up to 10 years in prison for an individual and / or an unlimited fine, or both, and for a company, an unlimited fine

The Policy
It is TEG's Policy to prohibit the following

The offering, giving, the solicitation or the acceptance of any bribe whether in cash or other form of inducement to or from any person or company, wherever situated and whether they are a public official or body or private person or company by any individual Director, employee, agent or other person or body acting on TEG's behalf in order for TEG or any other body to gain any commercial, contractual or regulatory advantage in a way that is unethical or in order for any individual or anyone connected with the individual to gain any personal advantage, financial or otherwise.

Guidance
This Policy prohibits any inducement which results in a personal gain or advantage to the recipient or any person or body associated with them, and which is intended to influence them to take action which may not be solely in the interests of TEG or the person or body employing them or whom they represent

For the purpose of the Policy, the "recipient" includes, but is not limited to

- a Director, employee or agent of TEG or anyone purporting to act on behalf of TEG,
- any individual with which TEG deals in any capacity,
- anybody with which TEG deals in any capacity,
- a Director, employee, agent or representative of such a body,
- any public official

Application
This Policy applies to all individuals working for TEG, including Directors, managers, employees, contractors, consultants, part-time and fixed-term employees and agency staff

Responsibility
The prevention, detection and reporting of bribery is the main responsibility of all employees throughout TEG and any other individual working for TEG Any employee that suspects that an act of bribery has been carried out, whether offering or receiving a bribe, is aware of the requirement to report this to the Finance Director, or in the event of a potential conflict with the Finance Director, to the Group's retained corporate solicitors.

Company Procedures
TEG has put in place procedures to reduce the risk of bribery for Directors and employees in the staff handbook and these cover the following

- expenses, gifts, corporate hospitality
- facilitation payments
- political and charitable donations
- sponsorships
- recruitment, vetting and discipline of staff
- risk assessment and due diligence on business partners
- how allegations of bribery may be reported and how these will be investigated and dealt with

Other individuals or organisations working with TEG will receive appropriate notification of this policy

Conclusion
Failure to comply with this Policy will result in disciplinary action for Directors and employees of TEG and may result in the termination of a Director's or employee's contract of employment It may also result in the termination of any other contract with any other individual working for the Group.

Supplier payment policy

The Group applies a policy of agreeing and clearly communicating terms and conditions for business transactions with its suppliers. Payment is then made in accordance with these terms, subject to terms and conditions met by suppliers Wherever possible, supplier terms for projects are matched with payment terms to TEG Key plant and equipment suppliers are normally paid on a milestone basis as parts are manufactured, delivered or installed At 31 December 2012, the trade payables of the Group and parent company represented 67 and 38 (2011 131 and 36) days of purchases respectively

Going concern

In forming their views, the Directors have prepared cash flow forecasts for a 12 month period following the date of approval As part of the preparation of these forecasts, the Directors have considered the overall financial market at this time, the challenges experienced in obtaining timely project funding and the impact such delays have on the cash flow position of the Group The Directors have estimated the likely conversion of potential future contracts, the likely timetable for release of the retentions due in respect of the Manchester contracts, the working capital required and the likely funding available to execute contracts Given these considerations, the Directors have adopted a prudent funding policy with regards to forecasts over the period

After reviewing the forecasts, the Directors have a reasonable expectation that planned projects will be financed in a reasonable period of time, and on that basis the Company and Group have adequate resources to maintain operations over the 12 month period For this reason they continue to adopt the going concern basis in preparing the financial statements

Statement of Directors' responsibilities

The Directors are responsible for preparing the Annual 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 prepared the financial statements for the Group in accordance with International Financial Reporting Standards as adopted by the European Union ("IFRSs") and elected to prepare financial statements for the parent company in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable laws) 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 and profit or loss of the company and 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 estimates that are reasonable and prudent,
- state whether applicable accounting standards have been followed subject to any material departures disclosed and explained in the financial statements; and
- 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 Group and enable them to ensure that the financial statements comply with the Companies Act 2006 They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Report of the Directors

The Directors confirm that·

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

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

Auditors

A resolution to re-appoint Grant Thornton UK LLP as auditors for the ensuing year will be proposed at the Annual General Meeting in accordance with section 489 of the Companies Act 2006

On behalf of the Board

18 March 2013
T Willis
Finance Director and Company Secretary

Corporate governance

The Board is committed to maintaining high standards of corporate governance Whilst the Company is not bound by the provisions of the UK Corporate Governance Code (June 2010) on Corporate Governance, the Board endeavours, so far as practical, to comply with the Code

The Board

At 31 December 2012, the Board comprised 5 Directors, 3 of whom, including the Chairman, are non-executive Directors Taking into account the provisions of the UK Corporate Governance Code (June 2010), Douglas Benjafield and Ian Hislop are considered by the Board to be independent of management, each other and free of any relationship which could materially interfere with the exercise of their independent judgement Rory Maw is the Chief Financial Officer of Bridges Ventures LLP, TEG's largest shareholder and is therefore considered not to be an independent non-executive Director.

The Directors believe that the Board continues to include an appropriate balance of skills and, with them, the ability to provide effective leadership for the Group The Board continues to review the composition of the Board and is aware that as the Group grows there may be the need for additional non-executive and/or executive Directors to be appointed

The Directors who held office during the year were as follows

Nigel Moore (non-executive, retired 29 June 2012)
Rory Maw (non-executive, appointed 6 June 2012)
Douglas Benjafield (non-executive)
Ian Hislop (non-executive)
Michael Fishwick
Tanja Willis

Details of the Directors' interest in shares in the Company appear in the Directors' remuneration report on pages 30 to 33

The role of the Board

The Board's principal responsibility is to deliver shareholder value and provide an overall vision and leadership for the Group. It also has an oversight role, monitoring operational plans and ensuring internal controls and risk management are effective There is a formal schedule of matters reserved for the Board which provides a framework for the Board to oversee the control of the Group's direction and affairs, these include

- Strategy and management – approval of annual operating and capital expenditure budgets, extension of the Group's activities into new business or geographic areas
- Structure and capital – changes to the Group's capital structure, major changes to the Group's corporate structure, changes to the Group's management or control structure
- Financial reporting and controls – approval of interim and preliminary announcements; approval of annual reports and accounts, approval of resolutions and documentation to be put to shareholders in general meeting
- Communication – approval of resolutions and documentation to be put to shareholders in general meeting, approval of press releases concerning matters decided by the Board
- Board membership.
- Corporate governance matters.

Corporate governance

The Group has an established strategic review process that involves the Directors of both the subsidiary Boards and the Group Board The business strategy is reviewed regularly throughout the year, the strategy is circulated to all Directors and the overall strategic objectives are communicated to all employees Whilst the Board is responsible for the overall strategy of the Group, and meets at least once a year to review strategy and the future of the business, the implementation of the strategy is delegated to the Chief Executive

The Board is assisted in carrying out its duties by the audit and remuneration committees, which have specific and documented responsibilities, described on page below

Directors' liability insurance

The Group maintains liability insurance for the Directors and officers of all Group companies The Directors and officers have also been granted a qualifying third party provision under Section 236 of the Companies Act 2006 Neither the Group's indemnity nor insurance providers cover in the event that a Director or officer is proved to have acted fraudulently or dishonestly.

Board procedures

To enable the Board to perform its duties effectively all Directors have full access to all relevant information and the services of the Company Secretary whose responsibility it is for ensuring that Board procedures and applicable rules and regulations are followed

The Company Secretary, in consultation with the Chief Executive, ensures that the information presented to the Board is not only timely but is of sufficient quality to enable members to make an informed decision The Board considers the wider implications of their decision by taking the following factors into account

- The likely consequences of any decision in the long term
- The interest of the Group's employees
- The need to foster the Group's business relationships with customers, suppliers and others
- The impact of the Group's operation on the community and the environment
- The desirability of the Group maintaining a reputation for high standards of business conduct
- The need to act fairly between members of the Group

There were 11 Board meetings during the year, excluding the AGM The table below details the attendance by Directors at Board meetings during the year.

	Attendance
Executive	
Michael Fishwick	11
Tanja Willis	11
Non-executive	
Rory Maw (appointed 6 June 2012)	4
Nigel Moore (retired 29 June 2012)	7
Douglas Benjafield	11
Ian Hislop	11

In accordance with the Articles of Association, Michael Fishwick and Tanja Willis will retire by rotation at the Company's Annual General Meeting and being eligible, offer themselves for re-election

The Board has considered the requirements of the UK Corporate Governance Code (June 2010) in respect of these matters and believes that these members continue to be effective and to demonstrate their commitment to their roles, the Board and the Group

The Company has adopted the Model Code for Directors' dealings as applicable to AIM companies

Committees of the Board

The Board has two committees, being the Audit Committee and the Remuneration Committee, each of which operate within defined terms of reference.

Audit Committee

The purpose of the Audit Committee is to provide formal and transparent arrangements for considering how to apply the financial reporting and internal control principles set out in the UK Corporate Governance Code (June 2010), and to maintain an appropriate relationship with the Group's auditors.

The audit committee is chaired by [Ian Hislop] and its membership comprises all three non-executive Directors and both executive Directors, by invitation

The committee meets on a bi-annual basis and its terms of reference give the committee responsibility for.

- Monitoring the integrity of the financial statements of the Group, and any formal announcement relating to financial performance,
- Reviewing significant financial reporting judgements and accounting policies,
- Reviewing the effectiveness of the Group's financial reporting and internal control systems,
- Considering, and making recommendations to the Board in relation to appointment, reappointment and removal of the Group's auditors,
- Monitoring the external auditor's independence and effectiveness,
- Considering the requirements of the AIM rules

The Committee does not consider that an internal audit function is yet required for the Group due to the size of the business

The audit committee has responsibility for monitoring the independence of the Group's auditors, Grant Thornton UK LLP ("Grant Thornton") The Group used Grant Thornton for non-audit matters such as tax compliance In accordance with auditing standards, Grant Thornton has advised the Group in writing that the firm is independent within the meaning of regulatory and professional requirements and that the objectivity of the engagement partner and audit staff is not impaired Having reviewed that opinion, the Board believes that the continuing provision to the Group of both audit and non-audit services has not compromised the independence of the auditors in relation to their audit of the affairs of the Company and the Group

Sums payable to Grant Thornton in relation to the 2012 audit of the Company and its subsidiaries were £34,000 and in relation to non-audit services provided in the year were £12,000 An analysis of the non-audit services provided is included in note 6 of the financial statements

Whistleblower policy

The Group has adopted a Whistleblower Policy Pursuant to its charter, the Audit Committee is responsible for ensuring that a confidential and anonymous process exists whereby persons can report accounting concerns relating to the company and its subsidiaries In order to carry out its responsibilities under its charter, the committee has adopted this Whistleblower policy

For the purpose of this policy, "Accounting Concerns" is intended to be broad and comprehensive and to include any matter, which in the view of the complainant, is illegal, unethical, contrary to the policies of the Group, or in some other manner not right or proper

All Directors, officers and employees are made aware of the policy and a copy of the policy has been distributed to Directors, officers and employees. All Directors, officers and employees will be informed whenever significant changes are made and new Directors, officers and employees will be provided with a copy of this policy

Remuneration Committee

The Remuneration Committee has formal terms of reference which are approved by the Board Its principal responsibility is to determine the framework or broad policy for the remuneration of the executive Directors, to consider and determine all elements of the remuneration of those Directors and to review Board performance. No Director takes part in any discussion concerning his own position The committee also determines and recommends the grant of share options under the company's Share Plan

In addition to the executive Directors' remuneration, the Remuneration Committee's terms of reference also extend to the Directors of the subsidiary companies

The Remuneration Committee comprises Douglas Benjafield as Chairman, Rory Maw and Ian Hislop The committee's report on Directors' remuneration may be found on pages 30 to 33

Non-executive Directors

The non-executive Directors are appointed by the Board for specific terms They are subject to periodic reappointment by shareholders and statutory provisions regarding removal.

The non-executives have significant external commercial experience, and bring expert advice and strong judgement to the Board The Board believes that, with the exception of Rory Maw, the non-executive Directors are independent of management and have no business or other relationships which could materially interfere with the exercise of their independent judgement.

The roles of the Chairman and Chief Executive are separate and clearly defined.

The remuneration of the non-executive Directors is detailed in the Directors' remuneration report, on page 32

Financial reporting

The Directors who have sole responsibility for the preparation and presentation of this report and accounts and other price sensitive public records, seek to prepare those reports in a way that represents a balanced and understandable assessment of the Group's position and prospects

Corporate governance

Risk management and internal control

The Board is responsible for establishing, reviewing and maintaining the Group's systems of internal control and risk management and ensuring that these systems are effective for managing the business risk within the Group The Group has established a framework for identifying, evaluating and managing significant risks faced by the Group The framework of risk management and internal control operating within the Group has been in place throughout the year and is designed to safeguard shareholders' investments and the Group's assets whilst ensuring that proper accounting records are maintained. The framework is reviewed on an ongoing basis

It is the responsibility of the management to ensure that the controls and procedures that operate within the framework are followed and that the Board is kept fully appraised of any risks and control issues, both operational and financial The Board recognises that any system of internal control exists to minimise the risk of failure rather than eliminate it, and that any system of internal control can only provide reasonable, not absolute assurance against material misstatement or loss

The risk management of joint ventures, associates and strategic partnerships is agreed between the parties and periodic reviews are carried out where appropriate The Group annually reviews the effectiveness of the risk management system and its internal controls This process is summarised as follows

- Operating management is charged with the ongoing responsibility for identifying risks facing each of the operating units and for putting in place procedures to mitigate, manage and monitor risks,
- Operating units formally review all business risks and set out the significant risks to the operations, the controls in place and additional controls, which could be implemented These proposals are approved by each operating unit's management and submitted to subsidiary board for review and approval Any significant matters arising from this review are formally reported to the Group Board by the Finance Director to ensure that appropriate initiatives are developed and implemented to manage these risks The Board is advised in this process by the Audit Committee

The key elements of the control framework within which the Group operated are·

- An organisational structure with clearly defined lines of responsibility, delegation of authority and reporting requirements,
- An embedded culture of openness of communication between operating divisional management and the Group executive management on matters relating to risk and control;
- Defined expenditure authorisation levels,
- Operating reviews covering all aspects of each business segment,
- Comprehensive system of financial reporting An annual budget for each operating segment is prepared in detail and approved by the Chief Executive The Group Board approves the overall Group budget and plans Monthly actual results are reported against budget and the forecast for the year is revised where necessary Any significant changes and adverse variances are questioned by the Board and remedial action is taken where appropriate There is weekly cash and treasury reporting to the Finance Director and monthly reporting to the Board on the Group's treasury position,
- Each operating plant and project has a defined budget which is clearly communicated to all staff members and is reviewed monthly,
- Operating plants utilise a performance management system Monthly reviews assess performance against targets covering operational, financial, compliance and HR matters Performance is reported to each operational site and to the Board;
- All operations are regularly risk assessed and a compliance action programme is in place to monitor corrective actions and approvals,
- Procedures are in place to ensure compliance of operations against the regulatory requirements in force and this is monitored continuously by the technical team.

Corporate governance

TEG recognises that the identification, assessment, monitoring and response to business risks are essential in the delivery of the Group's objectives TEG has policies and processes in place which are designed to enable the business to manage and mitigate its corporate, operational and financial risks This is reinforced through a programme to promote a corporate culture that seeks to reduce risks in the business Operational and financial risks are monitored and reviewed every month at Board, Group and Business Sector level

The following table is a summary of identified risk areas and the measures taken to mitigate those risks

Risk area	Description of risk	Risk mitigation
Health, safety and environment	Serious injury or death to an employee, a client or a member of the public	Responsibility for health, safety and the environment is clearly defined by the Board Health and Safety and Environmental Policies are maintained, updated annually, published and clearly displayed, and responsibility is delegated throughout the organisation Health, Safety and environmental performance is reported to the Board together with key issues
	Environmental pollution leading to financial penalties or loss of reputation	TEG retains an independent consultant who ensures that Group policies and legal requirements are complied with and that best practice is adopted
		Health and safety performance indicators are reviewed monthly at the operational board level
		Risk assessment processes are in place to assess potential environmental impact of operations, changes in legislation and guidance are monitored and dialogue is maintained with regulators
		Management responsibility is clearly indentified at all levels in the business and environmental performance is measured against clear objectives
		Operations and facilities are designed to at least meet the environmental standards in place at the time and future standards are anticipated where possible. Changes in legislation and guidance are implemented as soon as reasonably practicable
	Health and safety risks associated with AD processing, arising from the potentially toxic and explosive nature of biogas	Appointment of competent technology providers with a track record of managing the risks and providing training to operational and maintenance management and personnel. The plant is designed and operated in accordance with ATEX standards for explosive atmospheres.
Operational	Inability to deliver services to plan and programme and associated financial impact	Monthly reviews by the Board on key operational performance indicators covering health, safety and environment, employee statistics, sustainability targets, financial and commercial performance, business development and pipeline, sector and contract risks, customer satisfaction, product quality

		Performance management systems for routine measurement of key operational statistics
		Authority levels and spending controls are monitored and enforced
Capital Sales	Defects leading to financial claims	Contracts are prepared by senior management with legal advice as required, approved by Directors
	Delay in milestone payments or release of retention monies	Contract responsibility is assigned to a specific Director and a Project Manager is nominated
		Milestone agreed in detail with customer as set out in the contracts
		Terms for release of retentions are clearly defined within the contracts and a Project Manager is appointed for each specific contract who maintains close communication with the customer throughout the project
		The Company investigates sources of project finance on a regular basis and retains brokers and advisors to ensure appropriate funding
		Design processes are clearly defined and all designs are approved in accordance with TEG's Project Management Approvals procedure
		Contract performance is measured continuously at operational level
		Contract performance is reported monthly to the TEG Environmental Ltd board and to the Group board
		External project managers and industry experts are recruited as required to monitor and advise on progress
Financial	Failure to achieve financial plans and budgets	Authority levels for spending are clearly defined
	Insufficient credit facilities and project funding inhibit operations and growth of the business	Business plans are prepared annually and performance monitored regularly against the plans
		Financial performance, both profit and loss and cash, is monitored monthly against budget
		Stringent capex controls are in place
		The Group maintains and manages its credit facilities to ensure that it has sufficient funding for its growth
Bidding process	Failure to deliver on financial targets	Board and senior management team approve all major bids
	Poor market intelligence	Key contract terms are assessed for alignment with Group policy and strategic objectives
	Weak customer relationships	Rigorous tendering strategy, pricing and adjudication
	Inappropriate contract risk profile	Comprehensive risk assessment to ensure key risks are identified and mitigated
		All contracts scrutinised to ensure that they align with the Group tender strategy
		Rigorous competition analysis Trade press

		specialist services are employed to ensure competitor activity is comprehensively monitored
Commercial risk	Security and price of waste streams	Maintain and develop long-term relationships with customers and implementation of short, medium and long-term service contracts
	Stability of end product markets for products	Product produced to PAS100 standard
Acquisitions	Failure to deliver on financial targets	Board review and sign-off to ensure it fits with the culture and financial objectives of the Group
	Inappropriate culture in acquired business	Rigorous multi-discipline due diligence process
	Insufficient awareness of acquired risks	Clear and comprehensive integration planning
Business organisation and people	Shortage of skilled and experienced people	Corporate and business induction programmes for all new employees
	Poor employee retention	All employees have Personal Development Plans, this is undertaken on an annual basis
	Loss of TEG culture through dilution of new people	Management development and engagement programmes
		Mentoring of key employees by members of the senior management team is important in support of the coaching and management used in the business
Information systems	Failure of Group information systems leads to an inability to deliver services, monitor financial performance, pay creditors or collect cash from debtors	Group Finance Director monitors the performance of all information systems
	Failure to determine information technology requirements for new contracts	New systems user tested before deployment
		Information systems fully integrated
		Continued investment in upgrading software
Reputation	Exclusion from new bidding opportunities limits business growth	Monthly review of performance and identification if senior management intervention is required
	Investor perception damage	Training programmes for existing staff and induction programmes for new staff reinforces TEG's culture and behaviours
	Recruitment and retention of staff impacted	Watching brief on press coverage and proactive reputation management
Procurement	Lack of continuity of supply results in failure to deliver services or has a financial impact	Competitive tendering employed wherever possible and multiple suppliers identified as far as is technically practical
	Collusion or anti-competitive behaviour with suppliers	Supply chain management processes in place
		Compliance training given to all procurement staff
		Training and induction programmes reinforce TEG culture and behaviour

Corporate governance

Relations with shareholders

The Board is committed to a continuing dialogue with its shareholders. Following the announcement and presentation of the interim and year end results, there are a series of formal meetings with institutional shareholders. These meetings enable the executive Directors to appraise the investors of the Group's business and future plans and the shareholders can communicate any concerns they may have The Company's brokers and financial PR advisors provide feedback from the shareholder and analyst meetings and present the results to the Board

The investor presentation is posted on the Group's website for all shareholders to view

The Group responds to all queries and requests for information from existing and prospective shareholders In addition, the Chief Executive and Finance Director are available to shareholders to ensure that any potential concerns can be raised directly

The Group's investor relations section on its website contains information on the Group's financial results and its stock exchange announcements The Board recognises that the Annual General Meeting is the principal forum for dialogue with private shareholders and all shareholders are invited to attend The Board arranges for a separate presentation at the AGM meetings to further inform private shareholders All Directors attend the Annual General Meeting and are available to answer any questions that shareholders may wish to raise

This report has been approved by the Board and has been signed on behalf of the Board by

T Willis
Finance Director and Company Secretary
18 March 2013

Directors' remuneration report

Remuneration Committee

The Remuneration Committee comprises the three non-executive Directors and is chaired by Douglas Benjafield Executive Directors may also attend meetings as appropriate to the business in hand but are not members of the committee None of the executive Directors were present at meetings of the committee during consideration of their own remuneration

Executive Directors' remuneration policy
The committee's role is to set the remuneration policy for the executive Directors, with the aim of attracting, motivating and retaining executive Directors of a high calibre To this end, the remuneration committee takes external independent advice where it considers it appropriate to do so and monitors salaries in similar roles by means of benchmarking with reports and surveys

Basic salary
The salary of each Director is determined by the committee, taking into account their personal performance and the prevailing rates in the employment market for executives of comparable status, responsibility, skill, and position in other relevant companies When determining Directors' salaries, the committee is always sensitive to pay and employment conditions throughout the Group

Bonus scheme
There is no current bonus scheme in place.

Share options
An Enterprise Management Incentive Share Option Scheme ("EMI") was established on 27 April 2001, granted under the provisions of Section 62 and Schedule 14 of the Finance Act 2000 All employees of the Company and any of its subsidiaries may be granted options over ordinary shares under the EMI scheme provided that they are not prohibited under the relevant legislation relating to HMRC approved company share option plans from being granted an option by virtue of having a material interest in the Company

The remuneration committee has absolute discretion to select the persons to whom options are to be granted Options are not routinely granted on an annual basis but made on an individual basis to reflect performance, increased responsibilities, promotions and loyalty All grants are intended to promote a longer term involvement in the well-being of the Group and capital growth benefits for option holders No consideration is payable for the grant of an option

Each employees' participation is limited so that the total outstanding share options shall not exceed 10% of the Company's issued share capital.

Options are exercisable at a price equal to the average quoted market price of the Company's shares on the date of grant Options are forfeited if the employee leaves the Group before the options vest The only vesting conditions relating to the options is the continuing employment of the holder

Retirement benefit plan
The Group operates a defined contribution pension scheme

Michael Fishwick and Tanja Willis are both members of the scheme. Michael Fishwick is entitled under the terms of engagement to an annual pension contribution of 10% of his basic salary and Tanja Willis is entitled under her terms of engagement to an annual pension contribution of 7 5% of her basic salary. The Company contributes the pension allowance to the Group pension scheme. The Company contributed a sum of £40,000 and £17,000 towards Michael Fishwick's and Tanja Willis' pension provision during the year respectively.

Directors' remuneration report

Other benefits
Each of the executive Directors is provided by the Group with a car for their use

Non-executive Directors' remuneration policy

The non-executive Directors' remuneration is determined by the Board The level of remuneration reflects the time commitment and responsibilities of the roles

Service contracts
Details of the Directors' service contracts are set out below

Directors		Date of agreement	Unexpired term	Notice period by company	Notice period by director
Executive					
Michael Fishwick	- Chief Executive	17 01 2005	-	1 year	1 year
Tanja Willis	- Finance Director and Company Secretary	28 06 2004	-	1 year	1 year
Non-executive					
Rory Maw	- Non-executive Chairman	22 06 2012	6 months	1 month	1 month
Douglas Benjafield	- Non-executive Director	01 05 2014	16 months	3 months	3 months
Ian Hislop	- Non-executive Director	02 07 2010	7 months	3 months	3 months

Directors' remuneration report

Directors' emoluments

Directors	Salary/ Fees £'000	Pension £'000	Total 2012 £'000	Total 2011 £'000
Executive				
Michael Fishwick	166	40	206	203
Tanja Willis	96	17	113	112
Non-Executive				
Rory Maw	14	-	14	-
Nigel Moore	28	-	28	55
Douglas Benjafield	34	-	34	33
Ian Hislop	31	-	31	31
Total	369	57	426	434

Share Options

Directors held options over ordinary shares as follows.

Directors	Date of award	Exercise price	Earliest vesting date	Awarded at 1 January 2012	Granted in the year	Awarded as at 31 December 2012	Vested
Michael Fishwick	03 03 2005	£ 0 360	04.03 2008	277,778	-	277,778	277,778
	23 08 2005	£ 0 370	24 08 2008	249,930	-	249,930	249,930
	15 08 2006	£ 0 700	16 08 2009	230,000	-	230,000	230,000
	18 07 2007	£ 1 130	19 07 2010	207,640	-	207,640	207,640
	01 07 2009	£ 0 460	02 07 2012	625,803	-	625,803	625,803
Tanja Willis	03 03 2005	£ 0 380	04 03 2008	131,581	-	131,581	131,581
	23 05.2005	£ 0 370	24 05 2008	132,275	-	132,275	132,275
	18 07 2007	£ 1 130	19.07 2010	120,721	-	120,721	120,721
	06 05 2008	£ 0.700	07 05 2011	96,577	-	96,577	96,577
	01 07.2009	£ 0 460	02 07 2012	314,423	-	314,423	314,423
Douglas Benjafield	15 02 2007	£ 1 215	16 02 2010	76,000	-	76,000	76,000

Directors' interest in shares

The interest of the Directors (including their spouses' interest) in the shares of the Company at 31 December 2012 were as follows:

Directors	1p ordinary shares at 31 December 2012	5p ordinary shares at 31 December 2011
Beneficial		
Michael Fishwick	294,623	128,857
Tanja Willis	62,812	62,812
Rory Maw	-	-
Douglas Benjafield	130,483	130,483
Ian Hislop	333,333	333,333

The figures stated above are in relation to Directors of The TEG Group Plc and not of its subsidiary companies

This report has been approved by the Board and has been signed on behalf of the Board by

D Benjafield
Chairman of the Remuneration Committee
18 March 2013

Independent auditor's report to the members of The TEG Group Plc

We have audited the financial statements of The TEG Group Plc for the year ended 31 December 2012 which comprise 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, the related notes 1 to 32 on pages 36 to 73, and the parent company balance sheet and notes 1 to 14 on pages 74 to 81 The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice)

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006 Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's 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 and the company's members as a body, for our audit work, for this report, or for the opinions we have formed

Respective responsibilities of directors and auditor
As explained more fully in the Statement of Directors' responsibilities set out in the Report of the Directors set out on page 20, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the 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 (APB's) Ethical Standards for Auditors

Scope of the audit of the financial statements
A description of the scope of an audit of financial statements is provided on the APB's website at www frc org uk/apb/scope/private cfm

Opinion on financial statements
In our opinion·

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2012 and of the group's loss for the year then ended,
- the group financial statements have been properly prepared in accordance with IFRS as adopted by the European Union,
- the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006

Separate opinion in relation to IFRSs as issued by the IASB
As explained in Note 1 to the group financial statements, the group in addition to complying with its legal obligation to apply IFRSs as adopted by the European Union, has also applied IFRSs as issued by the International Accounting Standards Board (IASB)

In our opinion the group financial statements comply with IFRSs as issued by the IASB

Opinion on other matter 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 financial statements are prepared is consistent with the financial statements.

Independent auditor's report to the members of The TEG Group Plc

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 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

Grant Thornton UK LLP

Stuart Muskett
Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
Manchester
18 March 2013

Consolidated statement of comprehensive income
For the year ended 31 December 2012

	Note	Before exceptional costs 2012 £'000	Exceptional costs 2012 £'000	Total 2012 £'000	Total 2011 £'000
Continuing operations					
Revenue	2	**22,418**	**-**	**22,418**	17,871
Cost of sales		**(17,804)**	**-**	**(17,804)**	(13,391)
Gross profit		**4,614**	**-**	**4,614**	4,480
Administrative expenses - other		**(5,336)**	**(151)**	**(5,487)**	(5,762)
Amortisation of intangible assets		**(304)**	**-**	**(304)**	(304)
Exceptional impairment charges		**-**	**-**	**-**	(6,264)
Total administrative expenses		**(5,640)**	**(151)**	**(5,791)**	(12,330)
Operating loss from continuing operations		**(1,026)**	**(151)**	**(1,177)**	(7,850)
Finance income	4	**70**	**-**	**70**	16
Finance costs	5	**(172)**	**-**	**(172)**	(170)
Loss before tax		**(1,128)**	**(151)**	**(1,279)**	(8,004)
Income tax	9	**242**	**-**	**242**	388
Loss and total comprehensive income for the year		**(886)**	**(151)**	**(1,037)**	(7,616)
Attributable to:					
Equity holders of the parent					
Retained loss		**(886)**	**(151)**	**(1,037)**	(7,616)
Loss per share					
Basic and diluted loss per share (pence)	10	**(0.60)**	**(0.10)**	**(0.70)**	(7 90)

Consolidated statement of financial position
At 31 December 2012

	Note	2012 £'000	2011 £'000
ASSETS			
Non-current assets			
Goodwill	11	**3,883**	3,883
Intangible assets	12	**951**	1,255
Property, plant and equipment	13	**15,453**	16,196
Trade and other receivables	15	**1,594**	1,000
		21,881	22,334
Current assets			
Inventories	14	**232**	555
Trade and other receivables	15	**9,353**	7,329
Taxation receivable		**102**	166
Cash and cash equivalents	16	**3,674**	1,557
		13,361	9,607
Total assets		**35,242**	31,941
LIABILITIES			
Current liabilities			
Trade and other payables	18	**9,239**	6,477
Current portion of long-term borrowings	19	**385**	421
Current portion of deferred consideration	20	**265**	253
Provisions	21	**453**	265
		10,342	7,416
Non-current liabilities			
Long-term borrowings	19	**1,791**	1,833
Long-term deferred consideration	20	**418**	684
Deferred tax	9	**307**	447
Provisions	21	**10**	50
		2,526	3,014
Total liabilities		**12,868**	10,430
Net assets		**22,374**	21,511
EQUITY			
Equity attributable to equity holders of the parent			
Share capital	23	**6,582**	5,872
Share premium account		**39,214**	38,045
Merger relief reserve		**886**	886
Other reserve		**1,082**	1,061
Retained losses		**(25,390)**	(24,353)
Total equity		**22,374**	21,511

These financial statements were approved by the Board of Directors on 18 March 2013

M Fishwick
Director

T Willis
Director

Consolidated statement of changes in equity
for the year ended 31 December 2012

	Share capital £'000	Merger relief reserve £'000	Share premium account £'000	Other reserve £'000	Retained losses £'000	Total £'000
Balance at 1 January 2011	**3,781**	**-**	**36,876**	**1,005**	**(16,737)**	**24,925**
Issue of share capital	2,091	-	-	-	-	2,091
Premium on issue of share capital	-	285	1,912	-	-	2,197
Issue costs	-	-	(142)	-	-	(142)
Transfer from share premium	-	601	(601)	-	-	-
Recognition of share-based payments	-	-	-	56	-	56
Transactions with owners	2,091	886	1,169	56	-	4,202
Loss for the financial year and total comprehensive income	-	-	-	-	(7,616)	(7,616)
Balance at 1 January 2012	**5,872**	**886**	**38,045**	**1,061**	**(24,353)**	**21,511**
Issue of share capital	710	-	-	-	-	710
Premium on issue of share capital	-	-	1,419	-	-	1,419
Issue costs	-	-	(250)	-		(250)
Recognition of share-based payments	-	-	-	21	-	21
Transactions with owners	710	-	1,169	21	-	1,900
Loss for the financial year and total comprehensive income	-	-	-	-	(1,037)	(1,037)
Balance at 31 December 2012	**6,582**	**886**	**39,214**	**1,082**	**(25,390)**	**22,374**

Consolidated statement of cash flows
For the year ended 31 December 2012

	Note	2012 £'000	2011 £'000
Cash flows from operating activities			
Loss after taxation		**(1,037)**	(7,616)
Adjustments for			
Depreciation		**1,318**	1,661
Amortisation of intangibles		**304**	304
Goodwill impairment charge		**-**	2,269
Property, plant and equipment impairment charge		**-**	3,904
Share-based payment administrative expense		**21**	56
Taxation credit recognised in consolidated statement of comprehensive income		**(242)**	(388)
Interest expense		**172**	170
Interest income		**(70)**	(16)
Loss / (profit) on sale of property, plant and equipment		**366**	(65)
Increase in trade and other receivables		**(2,618)**	(1,077)
Decrease in inventories		**323**	61
Increase / (decrease) in trade payables		**2,762**	(1,184)
Increase in provisions for other liabilities		**148**	90
Cash from / (used in) operations		**1,447**	(1,831)
Interest paid		**(126)**	(111)
Income taxes received / (paid)		**166**	(171)
Net cash from / (used in) operating activities		**1,487**	(2,113)
Cash flows from investing activities			
Acquisition of business - deferred consideration		**(300)**	(300)
Purchase of property, plant and equipment		**(716)**	(2,464)
Proceeds from sale of property, plant and equipment		**46**	73
Interest received		**70**	16
Net cash used in investing activities		**(900)**	(2,675)
Cash flows from financing activities			
Proceeds from issue of share capital		**1,879**	3,696
Repayment of loan		**(78)**	(173)
Payment of finance lease liabilities		**(271)**	(567)
Net cash from financing activities		**1,530**	2,956
Net increase / (decrease) in cash and cash equivalents		**2,117**	(1,832)
Cash and cash equivalents at beginning of the year		**1,557**	3,389
Cash and cash equivalents at end of the year	16	**3,674**	1,557

Notes to the consolidated financial statements
For the year ended 31 December 2012

General information
The TEG Group Plc is a company incorporated in the United Kingdom under the Companies Act 2006 The address and registered office is Westmarch House, 42 Eaton Avenue, Buckshaw Village, Chorley, PR7 7NA The nature of the Group's operations and its principal activities are set out in the Report of the Directors on page 6

The financial statements are presented in Pounds Sterling (£), which is also the functional currency of the parent company, as this is the currency of the primary economic environment in which the Company operates

1. Significant accounting policies

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU) Further standards may be issued by the International Accounting Standards Board (IASB) and standards currently in issue and endorsed by the EU may be subject to interpretations issued by IFRIC

IFRS, as adopted by the EU, differs in certain respects from IFRS as issued by the IASB However, the consolidated financial statements for the period presented would be no different had the Group applied IFRS as issued by the IASB References to IFRS hereafter should be construed as references to IFRS as adopted by the EU

The preparation of financial statements, in conformity with generally accepted accounting principles under IFRS, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period Although these estimates are based on management's best knowledge of the amount, event or actions, actual results may ultimately differ from those estimates

Critical judgements in applying accounting policies
The following is the critical judgement, apart from those involving estimations, that the Directors have made in the process of applying the entity's accounting policies and that has the most significant effect on the amounts recognised in the financial statements

i. The Group applies the stage of completion method in accounting for revenue on fixed price construction contracts This requires the Group to calculate the proportion of the total contract that has been completed at the balance sheet date by reference to the physical completion of key milestones

Key sources of estimation uncertainty
The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the statement of financial position, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year

i Future cash flows and discount rates applied in the 'value in use' goodwill and property, plant and equipment impairment tests in respect of the build, own, operate sites incorporate the inherent uncertainties involved in predicting future cash flows, operating performance, cost of capital and other variables Further details of the key assumptions used within the impairment review are detailed in note 11

ii The Group applies an estimated total contract profit margin when applying the stage of completion method in accounting for construction contracts This requires estimates to be made of costs to complete on each contract and hence involves an element of uncertainty.

The financial statements have been prepared using the measurement basis specified by IFRS for each type of asset, liability, income and expense The measurement bases are more fully described in the detailed accounting policies below

The accounting policies that have been applied in the opening balance sheet have also been applied throughout all periods presented in these financial statements These accounting policies comply with each IFRS that is mandatory for accounting periods ending on 31 December 2012.

Going concern
In forming their views, the Directors have prepared cash flow forecasts for a 12 month period following the date of approval As part of the preparation of these forecasts, the Directors have considered the overall financial market at this time, the challenges experienced in obtaining timely project funding and the impact such delays have on the cash flow position of the Group The Directors have estimated the likely conversion of potential future contracts, the likely timetable for release of the retentions due in respect of the Manchester contracts, the working capital required and the likely funding available to execute contracts Given these considerations, the Directors have adopted a prudent funding policy with regards to forecasts over the period

After reviewing the forecasts, the Directors have a reasonable expectation that planned projects will be financed in a reasonable period of time, and on that basis the Company and Group have adequate resources to maintain operations over the 12 month period For this reason they continue to adopt the going concern basis in preparing the financial statements

Basis of consolidation
The consolidated financial statements consolidate those of the Company and its subsidiary undertakings drawn up to the balance sheet date Subsidiaries are entities over which the Group has the power to control the financial and operating policies so as to obtain benefits from its activities The Group obtains and exercises control through voting rights

Unrealised gains on transactions between the Group and its subsidiaries are eliminated Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred Amounts reported in the financial statements of subsidiaries have been adjusted where necessary to ensure consistency with the accounting policies adopted by the Group

Acquisitions of subsidiaries are dealt with by the acquisition method The acquisition method involves the recognition at fair value of all identifiable assets and liabilities, including contingent liabilities of the subsidiary, at the acquisition date, regardless of whether or not they were recorded in the financial statements of the subsidiary prior to acquisition On initial recognition, the assets and liabilities of the subsidiary are included in the consolidated statement of financial position at their fair values, which are also used as the bases for subsequent measurement in accordance with the Group accounting policies

Provisions
Onerous contract provisions are recognised for losses on contracts where the forecast costs of fulfilling the contract throughout the contract period exceed the economic benefits expected to be receivable The provision is calculated based on discounted cash flows to the end of the contract Warranty and contingency provisions are recognised to cover possible future costs relating to ongoing contracts The provision is based upon historical warranty and contingency cost data

Intangible assets and goodwill
Goodwill represents the difference between the fair value of the consideration transferred and the net fair value of the identifiable assets, liabilities and contingent liabilities acquired Identifiable intangible assets are those which can be sold separately or which arise from legal rights regardless of whether those rights are separable

Goodwill representing the excess of fair value of the consideration transferred over the fair value of the Group's share of the identifiable net assets acquired, is capitalised and reviewed annually for impairment Goodwill is carried at cost less accumulated impairment losses

Negative goodwill arising on an acquisition is recognised immediately in profit or loss

In respect of acquisitions where there is a contingent consideration element, a liability is recognised for the fair value, with any resulting gain or loss recognised in profit and loss

Amortisation of intangible assets
Amortisation is charged to profit or loss on a straight line basis over the estimated useful lives of intangible assets Other intangible assets are amortised from the date they are available for use The estimated useful lives are as follows:

Customer contracts and relationships	4 – 8 years
Intellectual property rights	10 years

Joint venture
A joint venture is a contractual arrangement whereby the Group undertakes an economic activity which is subject to joint control with third parties The Group's interests in joint ventures are accounted for using the equity method

Under this method the Group's share of the profit less losses of joint ventures is included in the consolidated statement of comprehensive income and its interest in the net assets is included in non-current assets in the consolidated statement of financial position Where the share of losses in a joint venture exceeds the interest in the entity, the carrying amount is reduced to nil and recognition of further losses is discontinued unless there is a legal or constructive obligation by the Group to make further investment The profit recognised on sales to joint ventures, where the asset is retained by the joint venture, is restricted to that proportion of the gain that is attributable to the interests of the other venturers.

The exception to this being when the elimination of the unrealised profit element would create a liability in relation to the Group's interest in the joint venture. In this situation, the restriction of the unrealised profit element would be limited to the amount which would reduce the Group's interest in the joint venture to nil and any remaining profit arising on the transaction would be recognised

Associates
An associate is an entity over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights Investments in associates are accounted for using the equity method of accounting Under the equity method, the investment is initially recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition The group's investment in associates includes goodwill identified on acquisition

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income is reclassified to profit and loss where appropriate

The Group's share of post-acquisition profit or loss is recognised in the income statement, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income with a corresponding adjustment to the carrying amount of the investment When the Group's share of losses in an associate equals or exceeds its interest in the associate, the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate

Profit and losses resulting from upstream and downstream transactions between the Group and associate are recognised in the Group's financial statements only to the extent of unrelated investor's interests in the associates The exception to this being when the Group's shareholding does not entitle it to any share of the profits generated by the associate. In this situation, as there is not an unrealised element from the Group's perspective, the Group would recognise the profit arising on the transaction Unrealised losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred

Property, plant and equipment
Property, plant and equipment is stated at cost, net of depreciation and any provision for impairment No depreciation is charged during the period of construction.

Disposal of assets
The gain or loss arising on the disposal of an asset is determined as the difference between the disposal proceeds and the carrying amount of the asset and is recognised in profit and loss.

Depreciation
Depreciation is calculated to write down the cost less any residual value of all property, plant and equipment other than freehold land over their estimated useful economic lives The rates generally applicable are

Vehicles	3 - 4 years straight line
Plant and machinery	3 - 5 years reducing balance
Fixtures and fittings	25% reducing balance
Silo-cage systems	5 - 25 years straight line
Buildings and site infrastructure	4% - 20% straight line

Freehold land and assets in the course of construction are not depreciated.

Material residual value estimates are updated as required, but at least annually

Notes to the consolidated financial statements
For the year ended 31 December 2012

Impairment testing of goodwill, intangible assets and property, plant and equipment
For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level Goodwill is allocated to those cash-generating units that are expected to benefit from synergies of the related business combination and represent the lowest level within the Group at which management monitors the related goodwill

Cash-generating units that include goodwill are tested for impairment at least annually All other individual assets or cash-generating units are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable

An impairment loss is recognised for the amount by which the asset's or cash-generating unit's carrying amount exceeds its recoverable amount The recoverable amount is the higher of fair value, reflecting market conditions less costs to sell and value in use based on an internal discounted cash flow evaluation Impairment losses recognised for cash-generating units, to which goodwill has been allocated, are credited initially to the carrying amount of goodwill Any remaining impairment loss is charged pro rata to the other assets in the cash generating unit With the exception of goodwill, all assets are subsequently reassessed for indications that an impairment loss previously recognised may no longer exist

Taxation
The income tax credit represents the tax currently receivable in respect of research and development tax credits

The tax payable in respect of the year is based on taxable loss for the year Taxable loss differs from net loss as reported in the consolidated statement of comprehensive income because it excludes items of income or expenses that are taxable or deductible in other years and it further excludes items that are never taxable or deductible The Group's liability for current tax is calculated using tax rates and laws that have been enacted or substantively enacted by the balance sheet date

Deferred tax is the tax expected to be payable or recoverable on the differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method Deferred tax liabilities are generally recognised for all temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill nor from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit

Deferred tax liabilities are recognised for taxable temporary differences arising on interest in subsidiaries and associates, and interest in joint ventures where the Group is able to control the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered Deferred tax is calculated at the average tax rates that are expected to apply in the periods in which the timing difference are expected to reverse based on tax rates and laws that have been substantively enacted by the balance sheet date.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis

Research and development
Expenditure on research (or the research phase of an internal project) is recognised as an expense in the period in which it is incurred Developments costs that do not meet the relevant recognition criteria are expensed as incurred

Inventories
Inventories are stated at the lower of cost and net realisable value after making allowance for obsolete and slow moving items

Cost includes materials, direct labour and an attributable proportion of manufacturing overheads based on normal levels of activity Cost is calculated using the weighted average method Net realisable value is based on estimated selling price less further costs expected to be incurred to completion

Revenue
Revenue is measured by reference to the fair value of consideration received or receivable by the Group for goods supplied and services provided, excluding VAT and trade discounts

Rendering of services relating to processing waste
When the outcome of a transaction involving the processing of waste can be estimated reliably, revenue associated with the transaction is recognised when the Group receives and processes the waste, being the point at which it fulfils its contractual obligation to the customer The outcome of the transaction is deemed to be able to be estimated reliably when all the following conditions are satisfied:

- the amount of revenue can be measured reliably
- it is probable that the economic benefits associated with the transaction will flow to the entity
- the Group receives and processes the waste, being the point at which it fulfils its contractual obligation to the customer and
- the costs incurred in processing the waste can be measured reliably

Construction contracts
Contract revenue reflects the contract activity during the year and is measured at the fair value of consideration received or receivable When the outcome can be assessed reliably, contract revenue and associated costs are recognised as revenue and expenses respectively by reference to the stage of completion of the contract activity at the balance sheet date The stage of completion of the contract at the balance sheet date is assessed by reference to completed key milestones, those being.

- Design
- Procurement
- Component manufacture
- Enabling works
- Civil Engineering
- Building fabrication
- Mechanical and electrical installation of various components of the TEG Silo-cage plant
- Functional testing
- Commissioning

The stage of completion at the balance sheet date is determined by reference to the key milestones that have been completed.

Where the outcome of construction contracts cannot be estimated reliably, revenue is recognised only to the extent of contract costs incurred that it is probable will be recoverable, and contract costs are recognised as an expense in the period in which they are incurred The outcome of a construction contract is deemed to be estimated reliably when all the following conditions are satisfied·

- total contract revenue can be measured reliably
- it is probable that economic benefits associated with the contract will flow to the Group
- both the contract costs to complete the contract and the stage of completion at the balance sheet date can be measured reliably, and
- the contract costs attributable to the contract can be clearly identified and measured reliably so that actual contract costs incurred can be compared with prior estimates

The gross amount due from customers for contract work is presented as an asset for all contracts in progress for which costs incurred plus recognised profits (less recognised losses) exceeds progress billings The gross amount due to customers for contract work is presented as a liability for all contracts in progress for which progress billings exceed costs incurred plus recognised profits (less losses)

Full provision is made for expected losses on all contracts in the year in which the loss is first foreseen

Exceptional items
Exceptional items are material items which individually, or if of a similar type, in aggregate, need to be disclosed by virtue to their size or incidence in order to assist in understanding the Group's financial performance

Employee benefits – retirement benefit costs
The Group operates a defined contribution pension scheme The pension costs charged to profit or loss are the contributions payable to the scheme in respect of the accounting period

Leased assets
In accordance with IAS 17, the economic ownership of a leased asset is transferred to the lessee if the lessee bears substantially all the risks and rewards related to the ownership of the leased asset The related asset is recognised at the time of inception of the lease at the fair value of the leased asset or, if lower, the present value of the minimum lease payments plus incidental payments, if any, to be borne by the lessee A corresponding amount is recognised as a finance leasing liability Leases of land and buildings are split into land and buildings elements according to the relative fair values of the leasehold interests at the date of entering into the lease agreement.

The interest element of leasing payments represents a constant proportion of the capital balance outstanding and is charged to profit or loss over the period of the lease

All other leases are regarded as operating leases and the payments made under them are charged to profit or loss on a straight line basis over the lease term Lease incentives are spread over the term of the lease

Share-based payment - equity settled
All share-based payment arrangements granted after 7 November 2002 that had not vested prior to 1 January 2006 are recognised in the financial statements

All goods and services received in exchange for the grant of any share-based payment are measured at their fair values Where employees are rewarded using share-based payments, the fair values of employees' services are determined indirectly by reference to the fair value of the instrument granted to the employee This fair value is appraised at the grant date

All equity-settled share-based payments are ultimately recognised as an expense in profit or loss with a corresponding credit to "other reserve"

The expense is allocated over the vesting period, based on the best available estimate of the number of share options expected to vest Estimates are subsequently revised if there is any indication that the number of share options expected to vest differs from previous estimates Any cumulative adjustment prior to vesting is recognised in the current period No adjustment is made to any expense recognised in prior periods if share options ultimately exercised are different to that estimated on vesting

Upon exercise of share options the proceeds received net of attributable transaction costs are credited to share capital, and where appropriate share premium

Financial assets
Financial assets are divided into the following categories· loans and receivables and financial assets at fair value through profit or loss Financial assets are assigned to the different categories by management on initial recognition, depending on the purpose for which they were acquired All of the Group's financial assets are categorised as loans and receivables

All financial assets are recognised when the Group becomes a party to the contractual provisions of the instrument Financial assets categorised as loans and receivables are recognised at fair value plus transaction costs

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market Trade receivables are classified as loans and receivables Loans and receivables are measured subsequent to initial recognition at amortised cost using the effective interest method, less provision for impairment Any change in their value through impairment or reversal of impairment is recognised in profit or loss

Provision against trade receivables is made when there is objective evidence that the Group will not be able to collect all amounts due to it in accordance with the original terms of those receivables The amount of the write-down is determined as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the original effective interest rate An assessment for impairment is undertaken at least at each balance sheet date

A financial asset is derecognised only where the contractual rights to the cash flows from the asset expire or the financial asset is transferred and that transfer qualifies for de-recognition A financial asset is transferred if the contractual rights to receive the cash flows of the asset have been transferred or the Group retains the contractual rights to receive the cash flows of the asset but assumes a contractual obligation to pay the cash flows to one or more recipients A financial asset that is transferred qualifies for de-recognition if the Group transfers substantially all the risks and rewards of ownership of the asset, or if the Group neither retains nor transfers substantially all the risks and rewards of ownership but does transfer control of that asset

Cash and cash equivalents
Cash and cash equivalents comprise cash in hand and demand deposits, together with other short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to insignificant risk of changes in value

Financial liabilities
Financial liabilities are obligations to pay cash or other financial assets and are recognised when the Group becomes a party to the contractual provisions of the instrument Financial liabilities categorised as at fair value through profit or loss are recorded initially at fair value, all transaction costs are recognised immediately in the statement of comprehensive income All other financial liabilities are recorded initially at fair value, net of direct issue costs.

Financial liabilities are recorded at amortised cost using the effective interest method, with interest-related charges recognised as an expense in finance costs in the statement of comprehensive income Finance charges, including premiums payable on settlement or redemption and direct issue costs, are charged to profit or loss on an accruals basis using the effective interest method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise

A financial liability is derecognised only when the obligation is extinguished, that is, when the obligation is discharged or cancelled or expires

Interest
Interest income and expenses are reported on an accruals basis using the effective interest method

Borrowing costs
Borrowing costs directly attributable to the acquisition and construction of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use, are added to the cost of those assets until such time as the assets are substantially ready for their intended use All other borrowing costs are recognised in profit or loss in the period in which they are incurred

Classification as debt or equity
Debt and equity instruments are classified as either financial liabilities or equity in accordance with the substance of the contractual arrangement

Equity
Equity comprises the following

- "Share capital" represents the nominal value of equity shares
- "Share premium" represents the excess over nominal value of the fair value of consideration received for equity shares, net of expenses of the share issue
- "Other reserve" represents equity-settled share-based employee remuneration until such share options are exercised
- "Retained losses" represents retained losses

Standards and interpretations in issue not yet adopted

At the date of authorisation of these financial statements, certain new standards, amendments and interpretations to existing standards have been published but are not yet effective, and have not been adopted early by the Group The Directors anticipate that all of the pronouncements will be adopted in the Group's accounting policies for the first period beginning after the effective date of the pronouncement The following standards and interpretations, which have not been applied in these Group financial statements, were in issue but not yet effective

- IFRS 9 Financial Instruments (effective from 1 January 2015)
- IFRS 10 Consolidated Financial statements (effective from 1 January 2014)
- IFRS 11 Joint Arrangements (effective from 1 January 2014)
- IFRS 12 Disclosure of Interest in Other Entities (effective from 1 January 2014)
- IFRS 13 Fair value measurement (effective from 1 January 2013)
- IAS 27 (Revised) Separate Financial statements (effective from 1 January 2014)
- IAS 28 (Revised) Investments in Associates and Joint ventures (effective from 1 January 2014)
- Presentation of Items of Other Comprehensive Income – Amendments to IAS 1 (effective from 1 July 2012)
- Disclosures – Offsetting Financial Assets and Financial Liabilities – Amendments to IFRS 7 (effective from 1 January 2013)
- Offsetting Financial Assets and Financial Liabilities – Amendments to IAS 32 (effective from 1 January 2014)
- Mandatory Effective Date and Transition Disclosures – Amendments to IFRS 9 and IFRS 7 (effective from 1 January 2015)
- Annual Improvements 2009 – 2011 cycle (effective from 1 January 2013)
- Transition guidance – Amendments to IFRS 10, IFRS 11 and IFRS 12 (effective 1 January 2013)
- Investment Entities – Amendments to IFRS 10, IFRS 11, IFRS 12 and IAS 27 (effective 1 January 2014)

The Directors anticipate that the adoption of these standards and interpretations in future periods will have no material impact on the financial statements of the Group.

2. Revenue

All revenue reported in the period under review arose within the United Kingdom An analysis of the Group's revenue for the year (excluding finance income – see note 4) is as follows·

	2012	2011
	£'000	£'000
Revenue from Plant Operations	**10,204**	8,754
Rendering of services	**10,204**	8,754
Revenue from EPC Construction Contracts	**12,037**	8,927
Revenue from Plant Operations	**177**	190
Sale of goods	**12,214**	9,117
Total revenue	**22,418**	17,871

Notes to the consolidated financial statements

For the year ended 31 December 2012

3. Operating segments

For management purposes, the Group is organised into the following operating segments Plant Operations and EPC Contracts During the year, the organisational structure of the Group has been restructured with amounts previously reported as Operations now being classified as Plant Operations, whilst amounts previously reported as Projects now being classified as EPC Contracts

All revenues from external customers and non-current assets are attributable to, and located in, Great Britain

In identifying its operating segments, management follows the Group's service lines which represent the main products and services provided by the Group These operating segments are monitored and strategic decisions are made on the basis of segment operating results

The EPC Contracts segment includes IVC and AD sales to third parties including the design, production and installation of plants for sale to third party clients The Plant Operations segment relates to facilities which are owned and operated by the Group These sites process waste received from customers and manage the compost produced by the facilities The Plant Operations segment is also responsible for the maintenance and operating contracts carried out for third parties The revenues and net result generated by each of the Group's operating segments are summarised as follows

2012

	Plant Operations £'000	EPC contracts £'000	Other corporate expenses £'000	Consolidated £'000
External revenue	10,381	12,037	-	22,418
Gross profit	2,611	2,003	-	4,614
Segment corporate expenses	(1,263)	(2,207)	(678)	(4,148)
EBITDA	1,348	(204)	(678)	466
Depreciation	(1,260)	(58)	-	(1,318)
Amortisation	(304)	-	-	(304)
Segment loss	(216)	(262)	(678)	(1,156)
Share-based payment expense				(21)
Operating loss				(1,177)
Finance income				70
Finance costs				(172)
Loss before taxation				(1,279)

All of the revenue from EPC contract sales relates to transactions with two customers All of this amount relates to IVC sales to third parties Other corporate expenses include £164,000 in respect of future business and research and development costs

2011

	Plant Operations £'000	EPC Contracts £'000	Other corporate expenses £'000	Consolidated £'000
External revenue	8,944	8,927	-	17,871
Gross profit	1,834	2,646	-	4,480
Segment corporate expenses	(1,110)	(2,320)	(615)	(4,045)
EBITDA	724	326	(615)	435
Impairment charges	(6,264)	-	-	(6,264)
Depreciation	(1,613)	(48)	-	(1,661)
Amortisation	(304)	-	-	(304)
Segment (loss) / profit	(7,457)	278	(615)	(7,794)
Share-based payment expense				(56)
Operating loss				(7,850)
Finance income				16
Finance costs				(170)
Loss before taxation				(8,004)

Of the total revenue from EPC contract sales, £7,687,000 relates to transactions with a single customer All of this amount relates to IVC sales to third parties Other corporate expenses include £190,000 in respect of future business and research and development costs

Other information
2012

	Plant Operations £'000	EPC Contracts £'000	Corporate £'000	Consolidated £'000
Capital additions	938	49	-	987
Depreciation	1,260	58	-	1,318

	Plant Operations £'000	EPC Contracts £'000	Corporate £'000	Consolidated £'000
Assets				
Segment assets	22,865	8,902	3,475	35,242
Liabilities				
Segment liabilities	4,891	6,989	988	12,868

Other information
2011

	Plant Operations £'000	EPC Contracts £'000	Corporate £'000	Consolidated £'000
Capital additions	2,522	270	-	2,792
Depreciation	1,613	48	-	1,661

	Plant Operations £'000	EPC Contracts £'000	Corporate £'000	Consolidated £'000
Assets				
Segment assets	24,608	5,638	1,695	31,941
Liabilities				
Segment liabilities	5,996	4,112	322	10,430

4. Finance income

	2012 £'000	2011 £'000
Loan interest receivable	**70**	16

Investment income earned on financial assets, analysed by category of assets is as follows

Loans and receivables (including cash and bank balances)	**70**	16

5. Finance costs

	2012 £'000	2011 £'000
Interest on obligations under hire purchase	**76**	75
Interest on bank facilities	**49**	36
	125	111
Unwinding of discount	**47**	59
Total finance costs	**172**	170

The unwinding of discount arises on the deferred consideration arising on the Binns Skips acquisition. See note 20 for further details

6. Loss before taxation

The loss on ordinary activities before tax is stated after charging / (crediting)

	2012 £'000	2011 £'000
Research and development costs	**54**	95
Depreciation		
- owned	**1,060**	1,426
- held under finance leases and hire purchase contracts	**258**	235
Intangible amortisation	**304**	304
Auditors' remuneration		
- audit services for audit of parent company and consolidated financial statements	**12**	12
- non audit services	**34**	40
Loss / (profit) on disposal of property, plant and equipment	**366**	(65)
Share-based payments charge	**21**	56
Operating lease costs		
- land & buildings	**252**	303
- other	**127**	115

A more detailed analysis of auditors' remuneration for non audit services is provided below

	2012 £'000	2011 £'000
Audit of subsidiary undertakings pursuant to legislation	**22**	24
Other advisory services pursuant to legislation	**5**	7
Tax compliance	**7**	9
Total	**34**	40

7. Employee costs

Staff costs during the year were as follows.	2012 £'000	2011 £'000
Wages and salaries	**2,858**	2,862
Social security costs	**290**	295
Pension costs	**228**	228
Equity settled share-based payment charge	**21**	56
	3,397	3,441

The average number of employees during the year was

	2012 Number	2011 Number
Directors	**5**	5
Sales	**6**	9
Engineering	**10**	12
Technical	**4**	7
Administrative	**12**	12
Site	**24**	25
Total	**61**	70

The Group's equity-settled share-based payments comprise the Enterprise Management Incentive Share Option Scheme The amount of shares held in the Employee Share Option plan and details of shares and share options subject to equity-settled share-based payment charges are set out in note 28

8. Directors' remuneration

Aggregate remuneration
The total amounts for Directors' remuneration and other benefits were as follows

	2012 £'000	2011 £'000
Emoluments	**368**	378
Pension costs	**57**	56
	425	434

Directors' remuneration shown above included the following amounts payable in respect of the highest paid director.

	2012 £'000	2011 £'000
Emoluments	**166**	164
Pension costs	**40**	39
	206	203

The number of directors participating in the defined contribution pension scheme was 2 (2011 2) An analysis of Directors' emoluments, pension entitlements and their interests in the share capital of the Company is contained in the Directors' remuneration report on pages 30 to 33.

9. Income tax

	2012 £'000	2011 £'000
Current tax		
Research and development tax credit	**(102)**	(173)
Total current tax	**(102)**	(173)
Deferred tax		
Deferred tax credit	**(140)**	(215)
Total deferred tax	**(140)**	(215)
Total tax credit for the year	**(242)**	(388)

The taxation assessed for the year differs from the standard rate of corporation tax in the United Kingdom 24 5% (26 5%) The charge is affected by a number of factors in addition to the standard United Kingdom rate

The differences are explained as follows

	2012 £'000	2011 £'000
Loss before tax	**(1,279)**	(8,004)
Income tax credit calculated at 24.5% (2011 26 5%)	**(313)**	(2,121)
Effect of expenses not deductible	**220**	676
Losses surrendered for R&D tax credit	**221**	343
Repayable R&D tax credit	**(120)**	(166)
Movement in unprovided deferred tax asset	**(179)**	518
Adjustment for tax rate differences	**(71)**	362
Total tax credit for the year	**(242)**	(388)

Deferred tax liability

	2012 £'000	2011 £'000
Liability at 1 January	**447**	662
Amount credited to profit or loss in the year	**(140)**	(215)
Liability at 31 December	**307**	447

The rate at which deferred tax is expected to unwind is 23% (2011 25%) and this has been used to calculate the deferred tax liability

Unrecognised deferred tax asset

The following deferred tax assets have not been recognised at the balance sheet date on the basis that there is insufficient evidence that the deferred tax asset will be recoverable against future profits of the Group

	2012	2011
	£'000	£'000
Tax losses	**(4,606)**	(5,236)
Accelerated tax depreciation	**253**	223
Temporary differences	**13**	(28)
	4,340	(5,041)

10. Loss per share

	2012	2011
	£'000	£'000
Loss for the financial year after tax	**(1,037)**	(7,616)
Adjustments to basic earnings		
Exceptional costs	**151**	6,264
Underlying losses before exceptional costs	**(886)**	(1,352)
	Number	Number
Weighted average number of shares for the purposes of basic, diluted and underlying earnings per share	**148,278,969**	96,334,294
	Pence	Pence
Basic loss per share	**(0.70)**	(7 90)
Diluted loss per share	**(0.70)**	(7 90)
Basic underlying loss per share before exceptional costs	**(0.60)**	(1 40)

Underlying losses 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 losses per share is equal to the basic loss per share as the share options in issue at 31 December 2012 are anti-dilutive in respect of the diluted loss per share calculation and have therefore not been included.

11. Goodwill

	Goodwill £'000
Cost	
At 1 January 2011, 31 December 2011 and 31 December 2012	6,152
Impairment	
At 1 January 2011	-
Provision	2,269
At 31 December 2011 and 31 December 2012	2,269
Net book amount	
At 31 December 2011 and 31 December 2012	3,883

The carrying amount of goodwill has been allocated to the following cash generating units

	2012 £'000	2011 £'000
Operations	**3,883**	3,883

Annual test for impairment

The Group tests goodwill annually for impairment in accordance with IAS 36 'Impairment of assets', or more frequently if there is indication that the goodwill might be impaired The remaining goodwill relates to the acquisition of Simpro Limited in 2010 and goodwill is tested for impairment at this level

The recoverable amounts of the CGU have been determined based on a value in use calculation which uses cashflow projections based on financial budgets approved by the Directors' covering the next five year period
The key assumptions to the value in use calculation are those regarding the discount rate, growth rate and expected changes to the selling prices, volumes and direct costs

The discount rate has been calculated using the Capital Asset Pricing Model (CAPM) which takes into account the required rate of return of the asset, market risk as well as the expected return of the market The discount rate of 10% (2011 10%) is consistent with the rate of return expected by the market considering the CGU forecast cashflow amounts, timing and risk profile.

Selling prices are based on current practices and future expected changes in the market With the continued increase in Landfill Tax (LFT) of £8 per tonne per annum and the observed increase in recycling activity, the selling price growth rate assumption of 5% (2011 5%) per annum is considered reasonable and is consistent with past experience Changes in direct costs of 3% (2011 · 3%) per annum are based on historic trends

Cashflows beyond the five year period have been extrapolated using a steady 2 5% per annum growth rate (2011 2 5%) which is based on historic trends, anticipated market demand and the prospective increase in LFT over the period The Group considers that 2 5% is an appropriate but conservative growth rate based upon current rates of inflation, the Group's targeted growth rates and the rate of growth that the Directors believe to be achievable from the market

The Directors do not believe that any reasonably possible changes in the value of the key assumptions noted above would cause the CGU carrying amount to exceed its recoverable amount

12. Other intangible assets

	Customer contracts £'000	Intellectual property rights £'000	Total £'000
Cost			
At 1 January 2011, 31 December 2011 and 31 December 2012	1,711	40	1,751
Amortisation			
At 1 January 2011	152	40	192
Amortisation	304	-	304
At 31 December 2011	456	40	496
Amortisation	304	-	304
At 31 December 2012	760	40	800
Net book amount			
At 31 December 2012	951	-	951
At 31 December 2011	1,255	-	1,255

Customer contracts represent the ongoing relationship with customers acquired as part of the Simpro acquisition in 2010 The intellectual property rights represent the purchase of an innovative system of accelerated composting for £35,000 and the design of the Twin Cage Composter for £5,000

13. Property, plant and equipment

	Vehicles £'000	Plant and Machinery £'000	Fixtures and fittings £'000	Silo-Cage Systems £'000	Assets in the course of construction £'000	Freehold land, buildings and site infra-structure £'000	Total £'000
Cost							
At 1 January 2011	98	5,421	425	7,718	144	9,268	23,074
Transfer between categories	13	(9)	-	-	-	(4)	-
Additions	-	1,056	33	94	241	1,368	2,792
Disposals	(33)	(87)	(3)	(75)	-	-	(198)
At 31 December 2011	78	6,381	455	7,737	385	10,632	25,668
Transfer between categories	-	(67)	-	-	-	67	-
Additions	-	444	49	8	-	486	987
Disposals	(39)	(217)	(5)	(7)	(385)	(17)	(670)
At 31 December 2012	39	6,541	499	7,738	-	11,168	25,985
Accumulated depreciation							
At 1 January 2011	67	1,642	165	1,540	-	683	4,097
Charge for the year	13	698	54	613	-	283	1,661
Impairments	-	1,524	4	1,292	-	1,084	3,904
Disposals	(27)	(82)	(6)	(75)	-	-	(190)
Transfer between categories	13	(12)	-	-	-	(1)	-
At 31 December 2011	66	3,770	217	3,370	-	2,049	9,472
Charge for the year	4	444	51	492	-	327	1,318
Disposals	(31)	(204)	(5)	(7)	-	(11)	(258)
Transfer between categories	-	(56)	-	-	-	56	-
At 31 December 2012	39	3,954	263	3,855	-	2,421	10,532
Net book amount							
At 31 December 2012	-	2,587	236	3,883	-	8,747	15,453
At 31 December 2011	12	2,611	238	4,367	385	8,583	16,196

Assets in the course of construction include capitalised interest of £Nil (2011· £Nil)

Assets pledged as security
Freehold land with a carrying value of £2,136,000 (2011 £2,136,000) has been pledged to secure the term loan of the Group (see note 19) The Group is not allowed to pledge these assets as security for other borrowings or to sell them to another entity In addition, the Group's obligation under finance leases are secured by the lessors' title to the leased assets, which have a carrying amount of £1,551,000 (2011 £1,525,000)

14. Inventories

	2012 £'000	2011 £'000
Raw materials	**49**	88
Work in progress	**-**	350
Consumables	**183**	117
	232	555

There were no write downs of inventory in the year (2011: £Nil) The cost of inventories recognised as a cost of sale in the year was £350,000 (2011 £38,000)

15. Trade and other receivables

	2012 £'000	2011 £'000
Trade receivables	**1,285**	1,561
Other receivables	**11**	153
Amounts due from related party (note 32)	**4,268**	1,323
Prepayments and accrued income	**5,383**	5,292
	10,947	8,329
Less non-current Amounts due from related party (note 32)	**(993)**	(893)
Less non-current Accrued income	**(601)**	(107)
Total non-current	**1,594**	1,000
Current	**9,353**	7,329

The average credit period taken on trade receivables excluding construction contracts is 36 days (2011 51 days) Average credit period taken on application for payment on construction contracts excluding retentions is 45 days (2011 50 days) Trade receivables do not carry interest A provision of £Nil (2010 £Nil) has been made for overdue receivables

Before accepting any new customers, the Group uses an external credit scoring system to assess the potential customer's credit quality and defines credit limits by customer Limits attributed to customers are reviewed twice a year

The proportion of the trade receivables balance relating to customers who represent more than 5% of the total is disclosed in note 22 The value of trade receivables that are past due at the reporting date is £140,000 (2011 . £479,000)

As noted in the Chairman's statement, there were also overdue retentions which totalled £1,520,000 at 31 December 2012 The Group continues to work towards securing their release.

16. Cash and cash equivalents

	2012 £'000	2011 £'000
Cash in hand and at bank	**3,674**	1,557

17. Construction contracts

Contracts in progress at the balance sheet date

	2012	2011
	£'000	£'000
Construction costs incurred plus recognised profits less recognised losses to date	**12,037**	8,927
Less progress billings	**(2,616)**	(3,865)
Accrued income	**9,421**	5,062
Recognised and included in accrued income as amounts due		
From customers under construction contracts	**9,100**	4,221

At 31 December 2012, retentions held by customers for contract work amounted to £2,366,000 (2011 £841,000)

The total revenue arising from construction contracts during the year was £12,037,000 (2011: £8,927,000)

There is a provision of £413,000 (2011 £225,000) in respect of warranty and contingency costs relating to ongoing contracts at the year end as disclosed in note 21

An analysis of the movement of these provisions is set out below

	Warranty / contingency provision £'000
At 1 January 2011	636
Utilised	(411)
At 31 December 2011	225
Provided	188
At 31 December 2012	413

The provision is made for future warranty and contingency costs relating to construction contracts ongoing at the year end The policy for release of warranty and contingency provisions is project specific

18. Trade and other payables

	2012 £'000	2011 £'000
Trade payables	**4,056**	6,029
Other payables	**25**	6
Other taxation and social security	**515**	178
Amounts due to related party (note 32)	**133**	-
Accruals and deferred income	**4,510**	264
	9,239	6,477

Trade payables and accruals principally comprise amounts outstanding from trade purchases and ongoing costs The average credit period taken for trade purchases is 67 days (2011 131 days) No interest is charged on the trade payables The Directors consider that the carrying amount of trade payables approximates to their fair value

19. Borrowings

	Current		Non-current	
	2012 £'000	2011 £'000	**2012 £'000**	2011 £'000
Secured – at amortised cost				
Term loan (i)	**148**	173	**1,284**	1,337
Hire Purchase agreements (ii) (note 22)	**237**	248	**507**	496
	385	421	**1,791**	1,833

Summary of borrowing arrangements

(i) Secured against freehold land The term loan is repayable over a remaining 132 equal monthly instalments The interest rate on the facility is 1 75% above the Bank of Scotland Plc base rate

(ii) Secured against the leased assets The borrowings are at fixed interest rates with repayment periods not exceeding 4 years

20. Deferred consideration

	Current		Non-current	
	2012 £'000	2011 £'000	**2012 £'000**	2011 £'000
Deferred consideration	**300**	300	**450**	750
Discounted element	**(35)**	(47)	**(32)**	(66)
	265	253	**418**	684

The deferred consideration relates to the acquisition of the Binns Skips composting business in Perthshire in 2005. The consideration is payable in equal quarterly instalments over a remaining period of 4 years.

21. Provisions

	Warranty/ contingency £'000	Onerous lease £'000	Total £'000
At 1 January 2011	-	-	-
Reclassified from accruals	225	90	315
At 1 January 2011 and 31 December 2011	225	90	315
Charged/(utilised) in the year	188	(40)	148
At 31 December 2012	413	50	463

Analysis of provisions

	2012 £'000	2011 £'000
Current	**453**	265
Non-current	**10**	50
	463	315

The onerous lease provision relates to buildings at Sherdley Farm This lease expires on 1 April 2014

22. Financial Instruments

Capital risk management
The Group manages capital to ensure that entities in the Group will be able to continue as a going concern whilst maximising the return to stakeholders through optimisation of the debt and equity balance.

The capital structure of the Group consists of debt, which includes the borrowings disclosed in note 19, cash and cash equivalents disclosed in note 16 and equity attributable to equity holders of the parent as disclosed in note 23

The disclosure of the gearing ratio has not been included on the basis that the Group was in a net funds position at both 31 December 2012 and 31 December 2011

Significant accounting policies
Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in note 1 to the financial statements.

Treasury policies and financial risk
Surplus funds are intended to support short term working capital requirements These funds are invested through the use of short term and period deposits, with a policy of maximising fixed interest returns as well as providing the flexibility required to fund on-going operations It is not a Group policy to invest in financial derivatives.

Categories of financial instruments

	2012 £'000	2011 £'000
Financial assets		
Cash and cash equivalents	**3,674**	1,557
Other loans and receivables	**5,564**	3,037
Loans and receivables	**9,238**	4,594
Financial liabilities		
Financial liabilities measured at amortised cost	**12,046**	8,746

Interest rate risk management

The Group is exposed to interest rate risk as the Group borrows funds at both fixed and floating interest rates Interest rate risk arises from

- The fixed element of finance leases where the Group typically uses finance leases for fixed periods of up to 5 years to finance the purchase of assets where it is considered to be a more effective use of funds,
- The term loan facility which bears a floating interest rate, and
- Cash and short term deposits which earn floating interest rates

Other bank loans are subject to fixed interest rates

Interest rate sensitivity analysis

If interest rates had been 50 basis points higher/lower and all other variables were held constant, the Group's loss for the year ended 31 December 2012 would increase/decrease by £11,000 (2011 increase/decrease by £2,000). This is attributable to the Group's exposure to interest rates on its variable rate borrowings

Financial Instruments

At 31 December 2012, the Group's financial liabilities have contractual maturities which are summarised below

	Current				**Non-current**			
	within 6 months		**6 to 12 months**		**1 to 5 years**		**Later than 5 years**	
	2012 £'000	2011 £'000	**2012 £'000**	2011 £'000	**2012 £'000**	2011 £'000	**2012 £'000**	2011 £'000
Long-term bank loans	**74**	86	**74**	86	**593**	691	**691**	1,209
Finance lease obligations	**158**	168	**129**	156	**577**	574	-	-
Trade payables	**4,056**	6,029	-	-	-	-	-	-
Deferred consideration	**150**	150	**150**	150	**450**	750	-	-
Other short-term financial liabilities	-	651	-	-	-	-	-	-
Totals	**4,438**	7,084	**353**	392	**1,620**	2,015	**691**	1,209

The carrying amounts of the financial instruments at the balance sheet date are not materially different from the gross cash flows as detailed above

Notes to the consolidated financial statements

For the year ended 31 December 2012

A reconciliation between the total of future minimum lease payments at the balance sheet date and their present value is noted below.

	Minimum lease payments	
	2012	2011
	£'000	£'000
Amounts payable under finance leases		
Within 6 months	**158**	168
Between 6 and 12 months	**129**	156
In the second to fifth years inclusive	**577**	574
	864	898
Less future charges	**(120)**	(154)
Present value of lease obligations	**744**	744

Finance lease payments represent rentals payable by the Group for certain items of its plant and equipment Leases have varying terms and renewal rights The above leasing arrangements do not contain any restrictive covenants, contingent rents or purchase options Security over assets held under finance leases is held by the entity providing the facility to which those assets relate

Credit risk management

Credit risk refers to the credit risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group The principal credit risk arises from the Group's trade receivables The trade receivable balance of £1,285,000 (2011 £1,561,000) includes 7 (2011: 5) customers who individually represent more than 5% of the total balance At 31 December 2012, 65% (2011 63%) of the trade receivables balance related to these customers

In order to manage credit risk, the Directors set limits for customers based on a combination of payment history, third party credit references and an independent rating agency The Group's exposure and the credit rating of its counterparties are continuously monitored Credit exposure is controlled by counterparty limits that are reviewed bi-annually The value of trade receivables that are past due at the reporting date is £140,000 (2011 £479,000) Ongoing credit evaluation is performed on the financial condition of accounts receivable None are deemed to be impaired, therefore a provision for credit losses is not necessary.

Liquidity risk management

The Group seeks to manage financial risk by ensuring sufficient liquidity is available to meet foreseeable needs and to invest cash assets safely and profitably The Group has secured appropriate bank facilities and surplus funds are invested on a short term basis at money market rates and therefore such funds are available at short notice

Foreign currency risk management

The Group does not have any significant foreign currency denominated trade receivables or payables and therefore its exposure to foreign exchange risk is minimal

Borrowing facilities
£2,000,000 (2011 £2,000,000) has been secured to help fund the acquisition of the property and the development costs of the Todmorden project, of which £1,432,000 (2011 £1,510,000) was outstanding at the year end The floating interest rate on the term loan is 1 75% above the Bank of Scotland Plc base rate

Interest rate risk profile of financial assets and liabilities

		Interest rate		
	Fixed	**Floating**	**Zero**	**Total**
Financial assets	**£'000**	**£'000**	**£'000**	**£'000**
At December 2012				
Cash and cash equivalents	-	3,674	-	3,674
Trade and other receivables	-	-	12,141	12,141
	-	3,674	12,141	15,815
Financial liabilities				
At December 2012				
Trade and other payables	-	-	10,433	10,433
Deferred consideration	-	-	683	683
Term loan	-	1,432	-	1,432
Hire purchase agreements	744	-	-	744
	744	1,432	11,116	13,292

Fair value of financial assets and financial liabilities
The fair value based upon the market value or discounted cash flows, of the financial instruments detailed above, was not materially different from the book values

23. Issued capital

	2012	2011
	£'000	£'000
Allotted, called up and fully paid		
Nil (2011 117,439,360) Ordinary shares of £0 05 each	-	5,872
188,428,648 (2011· Nil) Ordinary shares of £0 01 each	**1,884**	-
117,439,360 (2011 Nil) Deferred shares of £0 04 each	**4,698**	-
	6,582	5,872

Ordinary Shares of £0 05 each

	Number	£'000
At 1 January 2011	75,617,825	3,781
Issue of shares at £0 24 per share	608,520	30
Issue of shares at £0 11 per share	2,823,530	141
Issue of shares at £0 10 per share	38,389,485	1,920
At 31 December 2011	117,439,360	5,872
Capital reorganisation	(117,439,360)	(5,872)
At 31 December 2012	-	-

Ordinary Shares of £0 01 each

	Number	£'000
At 1 January 2011 and 31 December 2011	-	-
Capital reorganisation	117,439,360	1,174
Issue of shares at £0.03 per share	70,989,288	710
At 31 December 2012	188,428,648	1,884

Deferred Shares of £0 04 each

	Number	£'000
At 1 January 2011 and 31 December 2011	-	-
Capital reorganisation	117,439,360	4,698
At 31 December 2012	117,439,360	4,698

On 25 June 2012, the Group converted 117,439,360 Ordinary Shares with a nominal value of £0 05 each into 117,439,360 Ordinary Shares with a nominal value of £0 01 each and 117,439,360 Deferred Shares with a nominal value of £0 04 each

Immediately following this capital reorganisation, the Group issued 70,989,288 Ordinary Shares of £0.01 at a price of £0 03 per share, raising £2,129,000 before issue costs of £250,000

The deferred shares have no voting rights The shares are not entitled to any dividend or other distribution or to participate in any way in the income or profits of the Group

24. Subsidiaries

Details of the Company's subsidiaries at 31 December 2012 are as follows

Name of subsidiary	Place of incorporation and operation	Proportion of ownership interest %	Proportion of voting power held %	Principal activity
TEG Environmental Limited	England and Wales	100	100	Design, build and operation of TEG owned facilities and the sale of Silo-cage and Anaerobic Digestion plants to third parties
Natural Organic Fertiliser Company Limited	England and Wales	100	100	Dormant
TEG Energy Limited	England and Wales	100	100	Operation of TEG leased facility
Simpro Limited	England and Wales	100	100	Operators of green waste composting sites
West Country Composting Limited	England and Wales	100	100	Dormant

25. Joint ventures

TEG Biogas (Perth) Limited
On 26 July 2010, the Group formed a joint venture TEG Biogas (Perth) Limited, a company incorporated and resident in the United Kingdom The Group owns a 50% share of TEG Biogas (Perth) Limited The registered address of TEG Biogas (Perth) Limited is Westmarch House, 42 Eaton Avenue, Buckshaw Village, Chorley, Lancashire, PR7 7NA The following table shows the Group's share of the results and the Group's share of assets and liabilities relating to the investment, accounted for under the equity method

	2012 £'000	2011 £'000
Current assets	**659**	23
Non-current assets	**3,465**	3,757
Current liabilities	**(1,134)**	(1,371)
Non-current liabilities	**(3,234)**	(2,200)
Net (liabilities)/assets	**(244)**	209
Group's share of net (liabilities)/assets	**(122)**	105
Restriction in net liabilities/(assets) recognised	**122**	(105)
Group's share of net assets recognised	**-**	-
Total revenue	**740**	3
Expenses	**(1,194)**	(523)
Total loss for the year	**(454)**	(520)
Group's share of the loss	**(227)**	(260)
Restriction in losses recognised	**227**	260
Group's share of losses recognised	**-**	-

As noted above, during the year TEG Biogas (Perth) Limited made losses of £454,000 of which £227,000 are attributable to the Group However, all losses are unrecognised as the carrying amount of the investment has been reduced to £Nil TEG Biogas (Perth) Limited had no capital commitments at 31 December 2012

26. Associates

TEG Biogas (London) Limited

On 31 August 2012, the Group acquired 100% of the B shares of TEG Biogas (London) Limited, a company incorporated and resident in England and Wales, which at that time had not traded The B shares held by the Group represent 24 5% of the overall share capital of TEG Biogas (London) Limited These shares do not entitle the Group to any share of the profits of TEG Biogas (London) Limited The following amounts show the Group's share of the results and the Group's Share of assets and liabilities relating to the investment, accounted for under the equity method

	2012	2011
	£'000	£'000
Current assets	**2,952**	-
Non-current assets	**10,184**	-
Current liabilities	**(1,701)**	-
Non-current liabilities	**(7,610)**	-
Net assets	**3,825**	-
Group's share of net assets	**937**	-
Restriction in net assets recognised	**(937)**	-
Group's share of net assets recognised	-	-
Total revenue	-	-
Expenses	**(76)**	-
Total loss for the year	**(76)**	-
Group's share of the loss	**(19)**	-
Restriction in losses recognised	**19**	-
Group's share of losses recognised	-	-

27. Operating lease arrangements

	2012	2011
	£'000	£'000
Operating lease payments recognised as an expense in the year	**379**	418

Operating lease arrangements

At the balance sheet date, the Group had outstanding commitments for future minimum lease payments under non cancellable operating leases, which fall due as follows

	Land and buildings		**Other**	
	2012	2011	**2012**	2011
	£'000	£'000	**£'000**	£'000
- within one year	**40**	274	**8**	71
- in the second to fifth years inclusive	**396**	743	**260**	65
- after five years	**421**	146	**-**	-
	857	1,163	**268**	136

Leases of land and buildings are typically subject to rent reviews at specific intervals and provide for the lessee to pay all insurance, maintenance and repair costs

Operating lease payments represent rentals payable by the Group for certain items of property plant and equipment Leases have varying terms and renewal rights The above leasing arrangements do not contain any restrictive covenants, contingent rents or purchase options

28. Share-based payments

Equity-settled share option scheme

The Group has a share option scheme for all employees of the Group Options are exercisable at a price equal to the average quoted market price of the Company's shares on the date of grant Options are forfeited if the employee leaves the Group before the options vest The only vesting conditions relating to the options is the continuing employment of the holder, with options vesting three years after grant

The following reconciles the outstanding share options granted under the employee share option scheme at the beginning and end of the financial year

	2012 Number of share options	**2012 Weighted average exercise price £**	2011 Number of share options	2011 Weighted average exercise price £
Outstanding at beginning of year	**3,764,533**	**0.56**	4,318,250	0 59
Lapsed during the year	**(472,098)**	**0.56**	(553,717)	0 82
Outstanding at the end of the year	**3,292,435**	**0.56**	3,764,533	0 56
Exercisable at the end of the year	**3,292,435**	**0.56**	3,308,293	0 59

The options outstanding at 31 December 2012 had a weighted average exercise price of 56 pence. No options were granted in 2012 The weighted average contractual life of share options outstanding at the 31 December 2012 was 5 years

No share options were exercised in 2012 (2011. Nil).

The fair value of the employees services received in exchange for the grant of share options is recognised as an expense The total amount to be expensed over the vesting period of three years is determined by reference to the fair value of the share options granted Fair value is determined by reference to the Black-Scholes option pricing model

The inputs into the Black-Scholes option pricing model are as follows·

	2012	2011
Weighted average exercise price	**£0.56**	£0 59
Expected volatility	**34.26% - 104.98%**	34.26% - 104.98%
Expected life	**5 years**	5 years
Risk-free rate	**2.41 – 5.63%**	2 41 – 5 63%
Expected dividends	**0.00%**	0 00%

The volatility of the Group's share price on each date of grant was calculated as the average of volatilities of share prices of companies in the peer group on the corresponding dates The volatility of share price of each company in the peer group was calculated as the average of annualized standard deviations of daily continuously compounded returns on the company's stock, calculated over 1, 2, 3, 4 and 5 years back from the date of grant, where applicable

The Group recognised total expenses of £21,000 (2011 £56,000) related to equity-settled share-based payment transactions in the period

Share options
In accordance with the terms of the Company share option schemes, options granted and remaining in issue are as follows

Date Granted	Exercise Price	First Date of Exercise	Expiry Date	Number of Shares
20 02 2003	£0 500	21 02 2006	20 02 2013	25,000
03 10 2003	£0.500	04 10 2006	03 10 2013	120,300
03 03 2005	£0 380	04 03 2008	03 03 2015	289,455
03 03.2005	£0 360	04 03 2008	03 03 2015	277,778
23 08 2005	£0 370	24 08 2008	23 08 2015	382,205
17 10 2005	£0 370	18 10 2008	17 10 2015	263,854
15.08 2006	£0 700	16 08 2009	15 08 2016	270,554
15 02 2007	£1 125	16 02 2010	15 02 2017	76,000
18 07.2007	£1 130	19 07 2010	18 07 2017	381,478
02 01 2008	£0 775	03 01 2011	02 01 2018	24,144
06 05 2008	£0 700	07 05 2011	06 05 2018	169,009
19.11 2008	£0.345	20.11 2011	19 11 2018	72,432
01 07 2009	£0 460	02 07 2012	01 07 2019	940,226
				3,292,435

The mid market price of the Company's shares on 31 December 2012 was 4 pence. The highest and lowest mid market prices during the year were 10 pence and 3 pence respectively

29. Retirement benefit plan
The Group operates a defined contribution pension scheme The pension cost charge for the period represents contributions payable by the Group to the scheme and amounted to £278,000 (2011 £228,000)

30. Capital Commitments
At 31 December 2012, the Group had outstanding capital commitments for the acquisition of property, plant and equipment of £319,000 (2011 £20,500)

31. Other Commitments
The Group remains a joint guarantor in relation to the debt finance for the plant procured by its former joint venture company Verdia Horticulture Limited At 31 December 2012, the outstanding debt was approximately £797,316 (2011 £1,015,000). Parkwood Holdings Plc (the ultimate parent company of Verdia Horticulture Limited) has provided a full guarantee to the Group in relation to any possible liabilities.

32. Related party transactions

Transactions between the Company and its 100% owned subsidiaries, which are related parties of the Company, have been eliminated on consolidation and are not disclosed in this note Apart from those disclosed below, there are no other related party transactions to be disclosed

Key management compensation

The remuneration of Directors, who are the key management personnel of the Group, is set out below, in aggregate for each of the categories specified in IAS 24 'Related Party Disclosures'

	2012 £'000	2011 £'000
Short term employee benefits	**686**	761
Charge to profit or loss in respect of share based payments	**21**	56
	707	817

Joint venture transactions

The Group has a 50% share in the ownership of TEG Biogas (Perth) Limited, a joint venture company established in the United Kingdom (see note 25) Transactions during the year with the joint venture were all at arm's length and are set out below

	2012 £'000	2011 £'000
Sale of Anaerobic digestion plant and equipment	**-**	1,241
Sale of food waste	**359**	-
Management fee receivable	**100**	100
Interest receivable on loan	**70**	15

The balances due to the Group at 31 December 2012 in respect of transactions with TEG Biogas (Perth) Limited totalled £1,616,000 of which £993,000 relates to working capital funding that falls due after more than one year and has been disclosed within trade and other receivables (see note 15) The balances due from the Group in respect of transactions with TEG Biogas (Perth) Limited totalled £133,000 and have been disclosed within trade and other payables (see note 18)

Transactions with associates

The Group has a 24 5% share in the ownership of TEG Biogas (London) Limited, an associate company established in the United Kingdom (see note 26) Transactions during the year with the associate were all at arm's length and are set out below

	2012 £'000	2011 £'000
Sale of IVC and Anaerobic digestion plant and equipment	**7,348**	-

The balances due to the Group at 31 December 2012 in respect of transactions with TEG Biogas (London) Limited totalled £2,652,000 and have been disclosed within trade and other receivables (see note 15)

Company balance sheet
as at 31 December 2012

	Note	2012	2011
		£'000	£'000
Fixed assets			
Investments	4	**7,718**	7,718
		7,718	7,718
Current assets			
Debtors	5	**15,244**	13,255
Cash at bank and in hand		**32**	545
		15,276	13,800
Creditors: amounts falling due within one year	6	**(95)**	(55)
Net current assets		**15,181**	13,745
Total assets less current liabilities		**22,899**	21,463
Net assets		**22,899**	21,463
Capital and reserves			
Called up share capital	7	**6,582**	5,872
Share premium account	9	**39,214**	38,045
Merger relief reserve	9	**886**	886
Other reserve	9	**771**	750
Profit and loss account	9	**(24,554)**	(24,090)
Shareholders' funds		**22,899**	21,463

The financial statements were approved by the Board of Directors on 18 March 2013 and signed on their behalf by

M Fishwick
Director

T Willis
Director

The TEG Group Plc
Company number 03109613

Notes to the company financial statements
For the year ended 31 December 2012

Basis of preparation
The accounts have been prepared in accordance with the Companies Act 2006 and United Kingdom Generally Accepted Accounting Practice ("UK GAAP"), under the historical cost convention

The consolidated financial statements of The TEG Group Plc, which are presented separately, have been prepared in accordance with International Financial Reporting Standards

1. Principal accounting policies

The principal accounting policies of the Company, applied under UK GAAP, have remained unchanged during the year The Directors have reviewed the accounting policies in accordance with FRS 18 and believe them to be the most appropriate to the Company

Investments
Investments are included at cost less any provision for impairment

Financial instruments
Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into

A financial liability exists where there is a contractual obligation to deliver cash or another financial asset to another entity, or to exchange financial assets or financial liabilities under potentially unfavourable conditions

Finance costs and gains or losses relating to financial liabilities are included in the profit and loss account The carrying amount of the liability is increased by the finance cost and reduced by payments made in respect of that liability Finance costs are calculated so as to produce a constant rate of charge on the outstanding liability

An equity instrument is any contract that evidences a residual interest in the assets of the Company after deducting all of its liabilities Dividends and distributions relating to equity instruments are debited directly to reserves

Deferred taxation
Deferred tax is recognised on all timing differences where the transactions or events that give the Company an obligation to pay more tax in the future, or a right to pay less in the future, have occurred by the balance sheet date Deferred tax assets are recognised when it is more likely than not that they will be recovered Deferred tax is measured using rates of tax that have been enacted or substantively enacted by the balance sheet date

Leased assets
Assets held under finance leases and hire purchase contracts are capitalised in the balance sheet and depreciated over their expected useful lives The interest element of leasing payments represents a constant proportion of the capital balance outstanding and is charged to the profit and loss account over the period of the lease

All other leases are regarded as operating leases and the payments made under them are charged to the profit and loss account on a straight line basis over the lease term

Notes to the company financial statements
For the year ended 31 December 2012

Share based payments
In accordance with FRS 20, the fair value of equity-settled share-based payments to employees is determined at the date of grant and is expensed on a straight-line basis over the vesting period based on the Company's estimate of shares or options that will eventually vest In the case of options granted, fair value is measured by the Black-Scholes pricing model Further details are set out in note 8

Contribution to pension funds
The pension costs charged against profits represents the amount of the contributions payable to the defined contribution scheme in respect of the accounting period

2. Directors and employees

Staff costs during the year were as follows·

	2012	2011
	£'000	£'000
Wages and salaries	**369**	379
Social security costs	**40**	42
Pension costs	**57**	55
Equity settled share based payment charge	**21**	44
	487	520

The average number of employees during the year was	2012	2011
	Number	Number
Directors	**5**	5

Directors' remuneration disclosure is included in note 8 to the consolidated financial statements

The Company's equity-settled share-based payments comprise the Enterprise Management Incentive Share Option Scheme The amount of shares held in the Employee Share Option plan and details of shares and share options subject to equity-settled share based payment charges are set out in note 8

3. Loss for the financial year

The parent company has taken advantage of Section 408 of the Companies Act 2006 and has not included its own profit and loss account in these financial statements The parent company's loss for the year was £464,000 (2011. £10,454,000)

Notes to the company financial statements
For the year ended 31 December 2012

4. Investments

	Subsidiary undertakings	Joint venture	Associate	Total
	£'000	£'000	£'000	£'000
Cost				
At 1 January 2012 and 31 December 2012	7,668	50	-	7,718

At 31 December 2012, the Company held 20% or more of the allotted share capital of the following companies

Company name	Country of Incorporation	Shareholding %	Principal business activities
TEG Environmental Limited	England and Wales	100%	Design and construction of Silo-Cage and Anaerobic Digestion plants
Natural Organic Fertiliser Company Limited	England and Wales	100%	Dormant
TEG Energy Limited	England and Wales	100%	Operation of TEG leased facility
Simpro Limited	England and Wales	100%	Operation of green waste composting facilities
West Country Composting Limited	England and Wales	100%	Dormant
TEG Biogas (Perth) Limited	UK	50%	Operation of Anaerobic Digestion facilities
TEG Biogas (London) Limited	England and Wales	24.5%	Operation of silo-cage and Anaerobic Digestion facilities

5. Debtors

	2012	2011
	£'000	£'000
Amounts due from subsidiary undertakings	14,995	13,120
Amounts due from related parties (note 14)	220	104
Other debtors	29	31
	15,244	13,255

Included within amounts due from related parties is an amount of £200,000 (2011 £100,000) which falls due after more than one year

Notes to the company financial statements
For the year ended 31 December 2012

6. Creditors: amounts falling due within one year

	2012	2011
	£'000	£'000
Trade creditors	**43**	27
Other taxation and social security	**15**	15
Accruals and deferred income	**37**	13
	95	55

7. Share capital

	2012	2011
	£'000	£'000
Allotted, called up and fully paid		
Nil (2011 117,439,360) Ordinary shares of £0 05 each	-	5,872
188,428,648 (2011. Nil) Ordinary shares of £0 01 each	**1,884**	-
117,439,360 (2011 Nil) Deferred shares of £0 04 each	**4,698**	-
	6,582	5,872

On 25 June 2012, the Group converted 117,439,360 Ordinary Shares with a nominal value of £0 05 each into 117,439,360 Ordinary Shares with a nominal value of £0.01 each and 117,439,360 Deferred Shares with a nominal value of £0 04 each

Immediately following this capital reorganisation, the Group issued 70,989,288 Ordinary Shares of £0 01 at a price of £0 03 per share, raising £2,129,000 before issue costs of £250,000.

The deferred shares have no voting rights. The shares are not entitled to any dividend or other distribution or to participate in any way in the income or profits of the Group

Ordinary Shares of £0 05 each	**Number**	**£'000**
At 1 January 2011	75,617,825	3,781
Issue of shares at £0 24 per share	608,520	30
Issue of shares at £0.11 per share	2,823,530	141
Issue of shares at £0 10 per share	38,389,485	1,920
At 31 December 2011	117,439,360	5,872
Capital reorganisation	(117,439,360)	(5,872)
At 31 December 2012	-	-

Ordinary Shares of £0 01 each	**Number**	**£'000**
At 1 January 2011 and 31 December 2011	-	-
Capital reorganisation	117,439,360	1,174
Issue of shares at £0 03	70,989,288	710
At 31 December 2012	188,428,648	1,884

Deferred Shares of £0 04 each	**Number**	**£'000**
At 1 January 2011 and 31 December 2011	-	-
Capital reorganisation	117,439,360	4,698
At 31 December 2012	117,439,360	4,698

Notes to the company financial statements
For the year ended 31 December 2012

8. Share-based payments

Equity-settled share option scheme

The Company has a share option scheme for all employees of the Company Options are exercisable at a price equal to the average quoted market price of the Company's shares on the date of grant Options are forfeited if the employee leaves the Company before the options vest The only performance criteria relating to the options is the continuing employment of the holder.

	2012 Number of share options	**2012 Weighted average exercise price £**	2011 Number of share options	2011 Weighted average exercise price £
Outstanding at beginning of year	**3,764,533**	**0.56**	4,318,250	0 59
Lapsed during the year	**(472,098)**	**0.56**	(553,717)	0 82
Outstanding at the end of the year	**3,292,435**	**0.56**	3,764,533	0 56
Exercisable at the end of the year	**3,292,435**	**0.56**	3,308,293	0 59

The options outstanding at 31 December 2012 had a weighted average exercise price of 56 pence No options were granted in 2012

The fair value of the employees services received in exchange for the grant of share options is recognised as an expense The total amount to be expensed over the vesting period of three years is determined by reference to the fair value of the share options granted Fair value is determined by reference to the Black-Scholes option pricing model

The inputs into the Black-Scholes option pricing model are as follows

	2012	2011
Weighted average exercise price	**£0.56**	£0 59
Expected volatility	**34.26% - 104.98%**	34 26% - 104 98%
Expected life	**5 years**	5 years
Risk-free rate	**2.41% - 5.63%**	2.41% - 5.63%
Expected dividends	**0.00%**	0 00%

The volatility of the Company's share price on each date of grant was calculated as the average of volatilities of share prices of companies in the peer group on the corresponding dates The volatility of share price of each company in the peer group was calculated as the average of annualized standard deviations of daily continuously compounded returns on the company's stock, calculated over 1, 2, 3, 4 and 5 years back from the date of grant, where applicable.

The Company recognised total expenses of £21,000 (2011 £44,000) related to equity-settled share-based payment transactions in the period

The Company has applied the requirements of 'FRS 20 Share-Based Payments' In accordance with the transition provisions, FRS 20 has been applied only to grants of equity instruments after 7 November 2002 that had not vested as at 1 January 2005.

Notes to the company financial statements
For the year ended 31 December 2012

In accordance with the terms of the Company share option schemes, options granted and remaining in issue are as follows

Date Granted	Exercise Price	First Date of Exercise	Expiry Date	Number of Shares
20 02 2003	£0 500	21 02.2006	20 02 2013	25,000
03 10 2003	£0 500	04.10 2006	03 10 2013	120,300
03 03 2005	£0 380	04 03 2008	03 03 2015	289,455
03 03 2005	£0 360	04 03 2008	03 03 2015	277,778
23 08 2005	£0 370	24 08 2008	23 08 2015	382,205
17 10 2005	£0 370	18 10 2008	17 10 2015	263,854
15 08.2006	£0 700	16 08 2009	15 08 2016	270,554
15 02 2007	£1 125	16 02 2010	15 02 2017	76,000
18 07 2007	£1 130	19 07 2010	18 07 2017	381,478
02 01.2008	£0 775	03 01 2011	02 01 2018	24,144
06 05 2008	£0 700	07 05 2011	06.05 2018	169,009
19 11 2008	£0 345	20 11.2011	19.11 2018	72,432
01 07 2009	£0.460	02 07 2012	01 07 2019	940,226
				3,292,435

The mid market price of the Company's shares on 31 December 2012 was 4 pence The highest and lowest mid market prices during the year were 10 pence and 3 pence respectively

9. Reserves

	Share premium account £'000	Merger relief reserve £'000	Other reserves £'000	Profit and loss account £'000
At 1 January 2012	38,045	886	750	(24,090)
Premium on issue of share capital	1,419	-	-	-
Issue costs	(250)	-	-	-
Loss for the financial year	-	-	-	(464)
FRS 20 share option charge	-	-	21	-
At 31 December 2012	39,214	886	771	(24,554)

'Other reserves' arises on the grant of share options to employees under the share option plan Further information about share-based payments to employees is set out in note 8

Notes to the company financial statements
For the year ended 31 December 2012

10. Reconciliation of movement in shareholders' funds

	2012 £'000	2011 £'000
Loss for the financial year	**(464)**	(10,454)
Issue of shares	**1,879**	4,146
FRS 20 share option charge	**21**	44
Net addition/(reduction) to shareholders' funds	**1,436**	(6,264)
Opening shareholders' funds	**21,463**	27,727
Closing shareholders' funds	**22,899**	21,463

11. Leasing commitments

	Land and buildings £'000	2012 Other £'000	Land and buildings £'000	2011 Other £'000
- within two to five years	**-**	**22**	24	15

12. Pension scheme
The Company operates a defined contribution pension scheme The pension cost charge for the period represents contributions payable by the Company to the scheme and amounted to £57,000 (2011 £59,000)

13. Capital Commitments
At 31 December 2012, the Company had outstanding capital commitments of £Nil (2011 £Nil)

14. Related party transactions
Transactions between the Company and its 100% owned subsidiaries, which are related parties of the Company, are not disclosed in this note due to the exemption provided by FRS 8 Related Party Disclosures
Apart from those disclosed below, there are no other related party transactions to be disclosed

Joint venture transactions
The Company has a 50% share in the ownership of TEG Biogas (Perth) Limited, a joint venture company established in the United Kingdom (see note 25 of the consolidated financial statements). Transactions during the year with the joint venture were all at arm's length and are set below:

	2012 £'000	2011 £'000
Interest receivable on loan	**70**	15

The balances due to the Company at 31 December 2012 in respect of transactions with TEG Biogas (Perth) Limited totalled £220,000 and has been disclosed within debtors (see note 5)