

3109613

**THE TEG GROUP PLC**  
**Financial Statements**  
**For the year ended 31 December 2010**

TUESDAY



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## Company Information

**Company registration number:** 3109613

**Registered office:** Westmarch House  
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**Directors:** N S J Moore FCA (Chairman)  
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I A Hislop  
M Fishwick  
T Willis

**Secretary:** T Willis

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Statutory Auditor  
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## Chairman's statement

I am delighted to present the Group's annual report for the year ended 31 December 2010, a period of further growth and expansion of trading activities

Trading for 2010 has been pleasing, and the Group continues to deliver significant growth. Full year revenue for 2010 increased by 35% to £20,740,000 (2009: £15,394,000) and the Group operating losses reduced by 45% to £398,000 (2009: £720,000) after adjusting for the gains of £15,000 (2009: £956,000) relating to negative goodwill arising from the acquisition of TEG Energy Limited in the prior year. No dividend is recommended

The Group maintains a healthy cash position with a closing balance as at 31 December 2010 of £3,389,000

### Greater Manchester Waste PFI Contract

Construction of the second facility (Bredbury) proceeded to plan and commissioning commenced in quarter 4 of 2010. Construction of the third facility (Trafford Park) also proceeded to plan in 2010 and commissioning is scheduled to commence in quarter 2 of 2011.

As announced on 6 January 2011, the anticipated Instruction to Proceed ("ITP") for the construction of the fourth facility was not received before the end of 2010 as the client was unable to complete all its necessary site investigations. It is now anticipated that the client will complete its site investigation works and issue the ITP in the first half of 2011. The fourth composting site is an integral part of TEG's contract with Costain and planning permission for the facility is in place.

### Perth AD Facility

The Group was pleased to announce it achieved the financial closure of its first anaerobic digestion ("AD") facility. The 16,000 tonnes per annum facility is being installed at TEG's Perth site and will generate 0.5 - 0.7 MW of electricity and 0.25 MW of heat, to be utilised on site in the Binn Eco Park development. The project is funded by Albion Ventures LLP ("Albion") and Zero Waste Scotland and is expected to be commissioned in quarter 2 of 2011. The Group retains a 50% shareholding in the project.

### Group Plant Operations

Revenues at all in-vessel composting ("IVC") sites continued to grow with an increase of 28% on 2009 through a combination of increased waste volumes and increased prices. The Sherdley farm facility was progressively run down throughout the year, waste transferred to Todmorden and plant and equipment transferred to TEG Energy Limited at Carleton Rode. The Sherdley Farm facility is being utilised by the Group for R&D and engineering activities.

During 2010, the Group completed the highly successful acquisition of Simpro Limited, the Midlands based green waste composting business. Simpro met its targets for 2010, is profitable and cash generative, and integration has proceeded well.

In aggregate, the Group processed 185,000 tonnes of organic waste in 2010 and now, following the acquisition of Simpro, has an annualised capacity in excess of 280,000 tonnes per annum.

The satisfactory overall plant performance was in spite of operational difficulties and waste shortages due to the unusually adverse weather conditions in the early and latter part of the year.

## Chairman's statement

### Strategic Activities

The AD market developed rapidly in 2010 and the Group has strengthened its ability to supply AD technology into the waste market. In June 2010, TEG announced the signing of a licensing agreement with UTS Biogastechnik GmbH ("UTS") giving the Group exclusivity in the UK waste sector for UTS technology. UTS is a Munich based market leader in AD technology with an impressive track record of facilities throughout Europe. TEG also continues to collaborate with Alkane Energy PLC ("Alkane") on a number of projects under the collaboration agreement signed in December 2009. The ability to offer both IVC and AD components on tenders, together with Alkane's expertise in methane to energy projects, has greatly enhanced TEG's attractiveness as a bidder to potential customers. It is pleasing to note a significantly improved interest from debt and project financiers in the funding of new projects.

The Group was very pleased to announce the support of the London Waste and Recycling Board ("LWaRB") for its proposed facility in Dagenham, East London. LWaRB is to provide £1.9m of funding to the project, with Albion expected to provide the balance of funding. The facility incorporates 30,000 tonnes per annum of AD capacity and 20,000 tonnes per annum of IVC capacity. Generating in excess of 1MW of electricity, enough to power 2,000 homes, it is expected that the plant will move into construction in 2011 and will be operational in 2012. The Group was delighted to announce on the 9<sup>th</sup> March 2011 that it had been awarded a contract by London Waste Limited for 12,000-15,000 tonnes per annum of co-mingled food and green waste, which will provide a solid initial contract base for the Dagenham facility.

### Market Update

The overall market has continued to grow as Local Authorities increasingly implement the separation of organic wastes from the municipal waste stream and the private sector increases its level of organic waste recycling. Statutory obligations to divert waste from landfill are increasing annually and are expected to increase continuously until 2020. Landfill Tax ("LFT") continues to rise annually, landfill tax rose by £8.00 per tonne in April 2010 and is expected to rise by a further £8.00 per tonne in April 2011, increasing the tax to a total of £56.00 per tonne. Government has confirmed that LFT will rise by £8.00 per tonne per annum until at least 2013. This is expected to continue to stimulate market growth for the foreseeable future. In addition, the Welsh Assembly Government has maintained its policy to procure the construction of a number of organic waste facilities in the period from 2011 to 2013 and the Scottish Assembly is intending to progressively introduce a ban on the landfill of organic waste in both the public and private sectors.

Two observations have been made with regards to the Government's Comprehensive Spending Review. Firstly, it is likely to reduce some recycling streams in the short term as some Local Authorities delay the cost of implementation of new collection rounds for segregated waste streams. However, this is considered to be localised and to be a short term delay. Secondly, as anticipated by the Company and previously reported, TEG has noted a significant change in procurement policy by Local Authorities to the letting of long term contracts in return for private sector investment, as opposed to direct plant procurement. Encouragingly, the Company has generated significant interest from potential financiers to fund such projects and the Board will continue to evaluate appropriate projects on a case by case basis.

TEG has also noted the continued increase in market interest in energy generation from food waste and the strengthening of interest in technologies such as AD. Government and Local Authorities have placed an emphasis on the implementation of AD and TEG is progressing a number of tender enquiries for AD capacity in addition to a continuing interest in IVC technology. Government incentives for AD and other renewable energy technologies are largely by subsidy for sales of power in the form of either renewable obligation certificates ("ROCs") or feed in tariffs ("FITs"). The level of subsidy available through ROCs and FITs for existing schemes has been determined by Government but the level of subsidy for future schemes will be reviewed in 2011.

## Chairman's statement

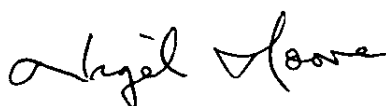
The Government announcement on Renewable Heat Incentives ("RHI") has been recently released and offers further incentives for AD through the sale of surplus heat

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

The longer term regulatory environment is also expected to benefit the Group. TEG has further invested in its facilities in 2010 to ensure they meet the enhanced guidance introduced by Defra in 2009 and the Group believes its technology lends itself to the additional level of containment required. In addition, the regulators have introduced policies to reduce the level of low grade green waste disposal which take effect in quarter 4 of 2011. This is expected to increase the volume of green waste diverted into the composting sector.

### Future Prospects

Market demand remains strong and the Group is well placed to continue to take advantage of the expanding market. TEG maintains a strong pipeline of tender opportunities and anticipates the successful conclusion of further projects in 2011, including the completion of its inaugural AD plant in Perth. The Board is confident that the Group has an exciting future with a strong outlook for trading in the remainder of 2011 and beyond.



**Nigel Moore**  
**Chairman**  
14 March 2011

## 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 2010.

### 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 £464,000 (2009: profit of £243,000) to be transferred to reserves.

### Revenue

Revenue has grown by 35% to £20,740,000 during the year. IVC plant sales to third party clients remained in line with 2009, whilst revenue in the build own and operate segment increased by 80% to £5,784,000 following the acquisition of Simpro. The group made its first revenue from AD plant sales of £3,120,000.

### Margins

The increasing maturity in our contract base helps drive margins upwards. We continue to invest in people and systems to improve our future business whilst ensuring that our cost base is efficient and fit for the anticipated growth of our business.

### 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. 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.

During the year, we successfully acquired and integrated Simpro Limited, operators of six green waste composting facilities based in the Midlands. We have been pleased by the success of the integration process and the acquisition represents a significant step forward in the expansion of TEG's waste management operations in the UK.

## 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 principle risks and uncertainties. In addition to the risks mentioned below, the table on pages 24 - 26 summarise further identified risk areas and the measures taken to mitigate those risks.



## Report of the Directors

### Commercial risk

Commercial risk is identified and 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 Business Development Manager and the Commercial Director.

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 the 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. 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 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 compost 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

## Report of the Directors

### Compost product

Compost 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 chose to use independent experts to chair and advise on the Hazop process.

TEG's health and safety management system which is integrated with the company'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.

In addition, the operations team utilises a balanced scorecard system for routine measurement of key operational statistics. These include cost control, process optimisation, compliance and HR management.

### Financial and Performance Trends

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

The following individual KPIs are utilised routinely throughout the business:

# Report of the Directors

## Plant operations

- Waste tonnage
- Plant utilisation - Plant utilisation is 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 - Waste mix ratio is 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 Engineering Director

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.

	2010	2009
<b>OPERATIONS</b>		
<b>Gate fee revenue</b>	<b>£5,784,000</b>	<b>£3,206,000</b>
<b>Average IVC gate fee trend <sup>1</sup></b>	<b>6%</b>	<b>7%</b>
The overall increase or decrease in average revenue per tonne received as gate fee payable for waste streams delivered to IVC facilities		
<b>Average IVC cost of sale trend <sup>1</sup></b>	<b>-13%</b>	<b>16%</b>
The overall increase or decrease in the cost per tonne of waste processed at IVC facilities		
<b>Total waste tonnage</b>	<b>185,000</b>	<b>93,000</b>
Total tonnes of waste processed across the Group's operations		
<b>IVC plant utilisation <sup>1</sup></b>	<b>100%</b>	<b>81%</b>
The overall plant utilisation defined as the percentage of actual annual tonnage throughput against the notional annual tonnage throughput		
<b>PRODUCT MANAGEMENT</b>		
<b>Tonnes of compost produced</b>	<b>123,000</b>	<b>71,000</b>
<b>Average compost price trend <sup>1</sup></b>	<b>19%</b>	<b>49%</b>
The overall increase or decrease in average revenue per tonne of compost across the Group's operations		
<b>CAPITAL SALES</b>		
<b>Average sales price</b>	<b>£4,160,000</b>	<b>£6,866,000</b>
The average overall value of capital plant sales secured during the year		
<b>SEGMENTAL REVENUE</b>		
Business segment revenue as a percentage of total revenue		
▪ Build own operate	<b>28%</b>	<b>20%</b>
▪ Third party sales	<b>71%</b>	<b>78%</b>
▪ Product management	<b>1%</b>	<b>1%</b>
▪ Other	<b>-</b>	<b>1%</b>

<sup>1</sup>2010 figures do not include results for open windrow operations as no historical data for KPI comparisons is available

# Report of the Directors

## COMPLIANCE

### Accident and incident analysis

Reportable accidents and incidents	0	3
Major accidents and incidents	2	7

## HUMAN RESOURCES

### Employee attrition rate

Rolling average attrition rate	16%	Not measured
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### Employee absence rate

Rolling average absence rate	1%	Not measured
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### 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 currency risk. The Board reviews and agrees policies for managing each of these risks and they are summarised below.

### Interest rate risk

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 21.

### 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 a 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.

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 £192,000 at 31 December 2010 and therefore is subject to minimal foreign exchange risk.

# Report of the Directors

## 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 2010, £2,000,000 (2009: £2,000,000) was drawn down as a term loan. This loan is repayable over 180 equal monthly instalments commencing in January 2009. 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 2010 was £1,683,000 (2009: £1,856,000).

## 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.

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.

## Report of the Directors

### 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 of the Company'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 Company 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 personnel 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, and has further strengthened the sales and project delivery team to capitalise on opportunities.

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 quarterly 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.

## Report of the Directors

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 Nil for 2010 (2009: 3).

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 in 2010 and plan to further enhance the systems during 2011.

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 22 February 2011, the Group had been notified of the following interests in 3% or more, of the Group's issued share capital:

	Number of ordinary shares	% of issued ordinary share capital
Canaccord Nominees Limited	18,883,869	24.97%
Nortrust Nominees Limited	4,777,527	6.32%
Aurora Nominees Limited	4,777,500	6.32%
The Bank of New York Nominees Limited	3,153,989	4.17%
Barclayshare Nominees Limited	2,386,398	3.16%



## Report of the Directors

### Property, plant and equipment

In the opinion of the Directors, the market value of the freehold land and buildings does not differ materially from the carrying value in the financial statements

### Research and development

The research and development expenditure incurred during the year primarily relates to product development

### Share options

The grant of share options is at the discretion of the Board. All grants are intended to promote a longer term involvement in the well-being of the Group and capital growth benefits for option holders. Options are not routinely granted on an annual basis but made on an individual basis to reflect performance, increased responsibilities, promotions and loyalty.

An Enterprise Management Incentive Share Option Scheme was established on 27 April 2001, granted under the provisions of Section 62 and Schedule 14 of the Finance Act 2000. This is a Group wide scheme and options are granted at market value.

### Environmental policy

TEG's business consists of the development, construction and operation of sites and services associated with organic waste recycling throughout the UK and Europe. Everybody who works for the Group is responsible for maintaining EHSQ standards. Good EHSQ performance and the health, safety and security of everyone who works for us are critical to the success of our business.

Our goals are - no injuries, no harm to health, no damage to the environment and 100% customer satisfaction.

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.

# Report of the Directors

## 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 2010, the Group's trade payables represented 118 (2009: 90) days of purchases.

## Going concern

In forming their views, the Directors have prepared cash flow forecasts for a 2 year period following the balance sheet date. As part of the preparation of these forecasts, the Directors have estimated the likely conversion of potential future contracts. Before entering into a contract, the Directors ensure that the Group has sufficient working capital facilities available to allow the completion of the contract. Based on these forecasts, the Directors have confirmed that there are sufficient cash reserves to fund the ongoing build, own and operate business for the period under review. After reviewing these forecasts, consideration of the Group's cash resources and other appropriate enquiries, the Directors have a reasonable expectation that the Company and Group have adequate resources to continue in operational existence for the foreseeable future. For this reason they continue to adopt the going concern basis in preparing the 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 have prepared financial statements for the Group in accordance with International Financial Reporting Standards as adopted by the European Union ("IFRSs") and financial statements for the parent company in accordance with United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice). 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 Group will continue in business.

The Directors are responsible for maintaining adequate accounting records which 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 the system of internal control, for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

## Report of the Directors

In so far as each of the Directors are aware

- there is no relevant audit information of which the company's auditors are unaware; and
- the Directors have taken all steps that they ought to have taken 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



14 March 2011

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 Combined Code on Corporate Governance, the Board endeavours, so far as practical, to comply with the Code.

### The Board

At 31 December 2010, the Board comprised five directors, three of whom, including the Chairman, are non-executive directors. Taking into account the provisions of the 2008 Combined Code, that although one non-executive Director acts as a consultant to a significant shareholder, the non-executive Directors 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.

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 Company 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)  
Douglas Benjafield (non-executive)  
Ian Hislop (non-executive)  
Alan Heyworth  
Michael Fishwick  
Tanja Willis

On 2 July 2010, Ian Hislop was appointed as a non-executive Director.

Alan Heyworth resigned as Director on 7 September 2010.

Details of the director's interest in shares in the Company appear in the Director's remuneration report on pages 28 to 31.

### 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, approval of press releases concerning matters decided by the Board
- 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 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 company's employees
- The need to foster the company's business relationships with customers, suppliers and others
- The impact of the company's operation on the community and the environment
- The desirability of the company maintaining a reputation for high standards of business conduct
- The need to act fairly between members of the company

There were 10 Board meetings during the year, excluding the AGM. The table below details the attendance by Directors at Board meetings during the year.

	Attendance
<b>Executive</b>	
Michael Fishwick	10
Alan Heyworth (resigned 7 September 2010)	7
Tanja Willis	10
<b>Non-executive</b>	
Nigel Moore	10
Douglas Benjafield	10
Ian Hislop (appointed 2 July 2010)	6

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. In addition, Ian Hislop was appointed as a Director on 2 July 2010 and therefore being eligible offers himself for election at the Annual General Meeting.

## Corporate governance

The Board has considered the requirements of the Combined Code 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 Combined Code, and to maintain an appropriate relationship with the Group's auditors

The audit committee is chaired by Nigel Moore 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 2010 audit of the Company and its subsidiaries was £51,000 and in relation to non-audit services provided in the year were £29,000 An analysis of the non-audit services provided is included in note 6 of the financial statements

## Corporate governance

### 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 Company, 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 principle responsibility is to determine the framework or broad policy for the remuneration of the executive Directors, to consider and determine all elements of their 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 and 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, Nigel Moore and Ian Hislop. The committee's report on Director's remuneration may be found on pages 28 to 31.

### 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 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 29.

### 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 apprised 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 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's 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 periodic reporting to the Board on the Group's treasury position;
- Each operating plant and each project has a defined budget which is clearly communicated to all staff members and is reviewed monthly,
- Operating plants operate a balanced scorecard management process. 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,



## Corporate governance

- Procedures are in place to ensure compliance of operations against the regulatory requirements in force and this is monitored continuously by the technical team

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
<b>Health, safety and environment</b>	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 process 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 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.
<b>Operational</b>	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.
		Balance scorecard systems for routine measurement of key operational statistics.
		Authority levels and spending controls are monitored and enforced.

## Corporate governance

<b>Capital Sales</b>	Defects leading to financial claims	Contracts are constructed by senior management with legal advice as required, approved by Directors
		Contract responsibility is assigned to a specific Director and a Project Manager is nominated
		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
<b>Financial</b>	Failure to achieve financial plans and budgets	Authority levels for spending are clearly defined
	Insufficient credit facilities inhibit operations and growth of the business	Business plans are prepared annually and performance monitored regularly against the plans
		Financial performance, both p&l 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
<b>Bidding process</b>	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
<b>Commercial risk</b>	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
<b>Acquisitions</b>	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
<b>Business organisation and people</b>	Shortage of skilled and experienced people	Corporate and business induction programmes for all new employees
	Poor employee retention	All employees have Personal Development Plans;

## Corporate governance

		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
<b>Information systems</b>	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
<b>Reputation</b>	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
<b>Procurement</b>	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

### 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

## Corporate governance

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  
14 March 2011

# 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

Each of the executive Directors participates in an annual bonus scheme. The payment of any such bonus is dependent upon the extent to which certain financial targets of the Group are met, or exceeded. Payment is also dependent on the extent to which each director achieves, or exceeds, personal objectives in the year. Such targets and objectives are determined by the remuneration committee in relation to each director at the beginning of the financial year. Any such bonus is paid in the financial year following the period during which the targets and objectives have been met.

### 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 employee's 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 performance criteria relating to the options is the continuing employment of the holder.

It is the intention of the Company to review the performance conditions applying to awards made in 2011.

## Directors' remuneration report

### 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 £38,000 and £15,000 towards Michael Fishwick's and Tanja Willis' pension provision during the year respectively.

### 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
<b>Executive</b>					
Michael Fishwick	- Chief Executive	17 01 2005	-	1 year	1 year
Alan Heyworth <sup>1</sup>	- Research Director	12 11 1995	-	2 years	6 months
Tanja Willis	- Finance Director and Company Secretary	28 06 2004	-	1 year	1 year
<b>Non-executive</b>					
Nigel Moore	- Non-executive Chairman	08 01 2010	24 months	3 months	3 months
Douglas Benjafield	- Non-executive Director	08 01 2010	17 months	3 months	3 months
Ian Hislop <sup>2</sup>	- Non-executive Director	02 07 2010	31 months	3 months	3 months

<sup>1</sup> Alan Heyworth resigned as a director on 7 September 2010

<sup>2</sup> Ian Hislop was appointed as a director on 2 July 2010

## Directors' remuneration report

### Directors' emoluments

Directors	Salary/ Fees £'000	Bonus Scheme £'000	Pension £'000	Total 2010 £'000	Total 2009 £'000
<b>Executive</b>					
Michael Fishwick	159	1	38	198	194
Alan Heyworth <sup>1</sup>	4	1	24	29	42
Tanja Willis	84	1	15	100	93
<b>Non-Executive</b>					
Nigel Moore	54	-	-	54	52
Douglas Benjafield	32	-	-	32	31
Ian Hislop <sup>2</sup>	15	-	-	15	-

### Total

The bonus figures above relate to payments received in the year ended 31 December 2010

### Share Options

Directors held awards over ordinary shares as follows

Directors	Date of award	Exercise price	Earliest vesting date	Awarded at 1 January 2010	Granted in the year	Awarded as at 31 December 2010	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	-
Alan Heyworth	01 05 2001	£ 1 300	02 05 2004	56,731	-	56,731	56,731
	23 08 2005	£ 0 370	24 08 2008	132,122	-	132,122	132,122
Tanja Willis	03 03 2005	£ 0 380	04 03 2008	131,580	-	131,581	131,580
	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	-
	01 07 2009	£ 0 460	02 07 2012	314,423	-	314,423	-
Douglas Benjafield	15 02 2007	£ 1 215	16 02 2010	76,000	-	76,000	76,000

<sup>1</sup> Alan Heyworth resigned as a director on 7 September 2010

<sup>2</sup> Ian Hislop was appointed as a director on 2 July 2010

## Directors' remuneration report

### Directors' interest in shares

The interest of the Directors (including their spouses' interest) in the shares of the Company at 31 December 2010 were as follows.

Directors	5p ordinary shares at 31 December 2010	5p ordinary shares at 31 December 2009
<b>Beneficial</b>		
Michael Fishwick	101,606	41,000
Alan Heyworth (resigned 7 September 2010)	224,634	209,482
Tanja Willis	51,303	21,000
Nigel Moore	382,153	321,547
Douglas Benjafield	100,303	70,000
Ian Hislop (appointed 2 July 2010)	303,030	-

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  
14 March 2011



# Report of the independent auditors to the members of The TEG Group Plc

We have audited the group and parent company financial statements (the "financial statements") of The TEG Group plc for the year ended 31 December 2010 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 38 to 74, and the parent company balance sheet and notes 1 to 14 on pages 75 to 84. 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 auditors**

As explained more fully in the Statement of Directors' responsibilities set out in the Report of the Directors, 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 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](http://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 2010 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 comply with IFRSs as adopted by the European Union, has also complied with 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.

## Report of the independent auditors 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  
14 March 2011

**Consolidated statement of comprehensive income**  
For the year ended 31 December 2010

	Note	2010 £'000	2009 £'000
<b>Continuing operations</b>			
Revenue	2	20,740	15,394
Cost of sales		(15,876)	(11,905)
<b>Gross profit</b>		<b>4,864</b>	<b>3,489</b>
Administrative expenses - other		(4,968)	(4,344)
Amortisation of intangible assets		(152)	-
Acquisition costs		(142)	-
Profit on sale of joint venture	24	-	135
Negative goodwill	25	15	956
<b>Total administrative expenses</b>		<b>(5,247)</b>	<b>(3,253)</b>
<b>Operating (loss) / profit from continuing operations</b>	3	<b>(383)</b>	<b>236</b>
Finance income	4	9	71
Finance costs	5	(254)	(152)
<b>(Loss) / profit before tax</b>	6	<b>(628)</b>	<b>155</b>
Income tax	9	164	88
<b>(Loss) / profit for the year</b>		<b>(464)</b>	<b>243</b>
Other comprehensive income		-	-
<b>Total comprehensive (loss) / income for the year</b>		<b>(464)</b>	<b>243</b>
<b>Attributable to:</b>			
Equity holders of the parent		(464)	243
<b>Retained (loss) / profit</b>		<b>(464)</b>	<b>243</b>
<b>(Loss) / earnings per share</b>			
Basic (loss) / earnings per share (pence)	10	(0.71)	0.48
Diluted (loss) / earnings per share (pence)	10	(0.71)	0.48
Underlying loss per share (pence)	10	(0.74)	(1.41)

**Consolidated statement of financial position**  
at 31 December 2010

	Note	2010 £'000	2009 £'000
<b>ASSETS</b>			
<b>Non-current assets</b>			
Goodwill	11	6,152	2,270
Intangible assets	12	1,559	-
Property, plant and equipment	13	18,977	14,400
		<u>26,688</u>	<u>16,670</u>
<b>Current assets</b>			
Inventories	14	616	407
Trade and other receivables	15	7,252	8,880
Taxation receivable		59	88
Cash and cash equivalents	16	3,389	3,770
		<u>11,316</u>	<u>13,145</u>
<b>Total assets</b>		<u><b>38,004</b></u>	<u><b>29,815</b></u>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Trade and other payables	18	7,865	7,955
Taxation payable		258	-
Contingent consideration	25	450	-
Current portion of long-term borrowings	19	951	328
Current portion of deferred consideration	20	211	224
		<u>9,735</u>	<u>8,507</u>
<b>Non-current liabilities</b>			
Long-term borrowings	19	1,716	1,942
Long-term deferred consideration	20	966	1,183
Deferred tax	9	662	-
		<u>3,344</u>	<u>3,125</u>
<b>Total liabilities</b>		<u><b>13,079</b></u>	<u><b>11,632</b></u>
<b>Net assets</b>		<u><b>24,925</b></u>	<u><b>18,183</b></u>
<b>EQUITY</b>			
<b>Equity attributable to equity holders of the parent</b>			
Share capital	22	3,781	2,651
Share premium		36,876	30,907
Other reserve		1,005	898
Retained losses		(16,737)	(16,273)
<b>Total equity</b>		<u><b>24,925</b></u>	<u><b>18,183</b></u>

These financial statements were approved by the Board of Directors on 14 March 2011



M Fishwick  
Director



T Willis  
Director

**Consolidated statement of changes in equity**  
for the year ended 31 December 2010

	Share capital £'000	Share premium £'000	Other reserve £'000	Retained losses £'000	Total £'000
<b>Balance at 1 January 2009</b>	<b>2,414</b>	<b>29,357</b>	<b>752</b>	<b>(16,516)</b>	<b>16,007</b>
Issue of share capital	237	-	-	-	237
Premium on issue of share capital	-	1,663	-	-	1,663
Issue costs	-	(113)	-	-	(113)
Recognition of share-based payments	-	-	146	-	146
Transactions with owners	237	1,550	146	-	1,933
Profit for the financial year and total comprehensive income	-	-	-	243	243
<b>Balance at 1 January 2010</b>	<b>2,651</b>	<b>30,907</b>	<b>898</b>	<b>(16,273)</b>	<b>18,183</b>
Issue of share capital	1,130	-	-	-	1,130
Premium on issue of share capital	-	6,369	-	-	6,369
Issue costs	-	(400)	-	-	(400)
Recognition of share-based payments	-	-	107	-	107
Transactions with owners	1,130	5,969	107	-	7,206
Loss for the financial year and total comprehensive income	-	-	-	(464)	(464)
<b>Balance at 31 December 2010</b>	<b>3,781</b>	<b>36,876</b>	<b>1,005</b>	<b>(16,737)</b>	<b>24,925</b>

**Consolidated statement of cash flows**

For the year ended 31 December 2010

	Note	2010 £'000	2009 £'000
<b>Cash flows from operating activities</b>			
(Loss) / profit after taxation		(464)	243
Adjustments for			
Negative goodwill		(15)	(956)
Depreciation		1,311	1,140
Amortisation of intangibles		152	-
Share-based administrative expense		107	146
Taxation credit recognised in consolidated statement of comprehensive income		(164)	(88)
Interest expense		254	152
Interest income		(9)	(71)
Loss on sale of property, plant and equipment		195	6
Profit on sale of joint venture		-	(135)
Decrease / (Increase) in trade and other receivables		2,385	(5,112)
Increase in inventories		(209)	(215)
(Decrease) / Increase in trade payables		(580)	2,887
Cash from / (used) in operations		2,963	(2,003)
Interest paid		(184)	(73)
Income taxes received		87	142
<b>Net cash from / (used) in operating activities</b>		<b>2,866</b>	<b>(1,934)</b>
<b>Cash flows from investing activities</b>			
Acquisition of business - deferred consideration		(300)	(300)
Acquisition of subsidiary net of cash acquired		(4,863)	(612)
Purchase of property, plant and equipment		(3,808)	(1,922)
Proceeds from sale of property, plant and equipment		53	18
Proceeds from sale of joint venture		-	135
Interest received		9	71
<b>Net cash used in investing activities</b>		<b>(8,909)</b>	<b>(2,610)</b>
<b>Cash flows from financing activities</b>			
Proceeds from issue of share capital		6,399	1,787
Repayment of loan		(173)	(215)
Payment of finance lease liabilities		(564)	(89)
<b>Net cash from financing activities</b>		<b>5,662</b>	<b>1,483</b>
<b>Net decrease in cash and cash equivalents</b>		<b>(381)</b>	<b>(3,061)</b>
<b>Cash and cash equivalents at beginning of the year</b>		<b>3,770</b>	<b>6,831</b>
<b>Cash and cash equivalents at end of the year</b>	16	<b>3,389</b>	<b>3,770</b>

# Notes to the consolidated financial statements

For the year ended 31 December 2010

## 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 is the key assumption concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that has 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. The carrying value of goodwill at 31 December 2010 was £6,152,000, the carrying value of the intangibles was £1,559,000 whilst the carrying value of property, plant and equipment at cash-generating units subject to impairment review was £17,432,000.
- ii The Group applies an estimated total contract profit margin when applying the stage of completion method in accounting for fixed price construction contracts. This requires estimates to be made of costs to complete on each contract and hence involves an element of uncertainty.

# Notes to the consolidated financial statements

For the year ended 31 December 2010

- III The Group has made assumptions in relation to the potential future cash flows to be determined from separable assets acquired as part of business combinations in respect of customer relationships and contracts. This assessment involves assumptions relating to potential future revenues relating to those customer relationships and contracts, appropriate discount rates and the useful life of such assets.

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, with the exception of IFRS 3 Business Combinations (Revised 2008) which was adopted as of 1 January 2010. The impact of the adoption of this revised standard is detailed on page 46. These accounting policies comply with each IFRS that is mandatory for accounting periods ending on 31 December 2010.

## Going concern

The Group meets its day to day working capital requirements through the significant level of cash reserves held. The Group's forecasts and projections, which take into account reasonable possible changes in trading performance, show that the Group has sufficient levels of cash resources to allow the Group to continue in operational existence for the foreseeable future. As such the financial statements have been prepared using the going concern assumption.

## 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 balance sheet at their fair values, which are also used as the bases for subsequent measurement in accordance with the Group accounting policies.

## Intangible assets and goodwill

Goodwill represents the difference between the cost of the acquisition 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 the cost of acquisition 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.



# Notes to the consolidated financial statements

For the year ended 31 December 2010

In respect of acquisitions where there is a contingent consideration element, a liability is recognised for the estimated amount payable if it is probable that the outflow of economic benefit will be required to settle the obligation and this can be measured reliably

## Amortisation of intangible assets

Amortisation is charge to the statement of comprehensive income 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 generally restricted to that proportion of the gain that is attributable to the interests of the other ventures.

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.

## 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 the consolidated statement of comprehensive income.

## Depreciation

Depreciation is calculated to write down the cost less accumulated depreciation 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
	3 - 25 years reducing balance
Plant and machinery	25% reducing balance
Fixtures and fittings	5 - 25 years straight line
Silo-cage systems	4% - 20% straight line
Buildings and site infrastructure	

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

# Notes to the consolidated financial statements

For the year ended 31 December 2010

## **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 cash flows.

Goodwill, other individual assets or 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, whilst the income tax expense represents the sum of the tax currently payable and deferred tax.

The tax payable in respect of the year is based on taxable (loss) / profit for the year. Taxable profit differs from net profit 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.

Taxable loss differs from loss before tax as reported in the statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's asset for current tax is calculated using the rates 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.

# Notes to the consolidated financial statements

For the year ended 31 December 2010

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 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

# Notes to the consolidated financial statements

For the year ended 31 December 2010

- Functional testing
- Commissioning

The stage of completion at the balance sheet date is determined by confirmation from the customer with regards 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. In the case of a fixed price contract, 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 losses on all contracts in the year in which the loss is first foreseen

## Interest

Interest is recognised using the effective interest method which calculates the amortised cost of a financial asset and allocates the interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset

## Employee benefits – retirement benefit costs

The Group operates a defined contribution pension scheme. The pension costs charged to the statement of comprehensive income 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 the consolidated statement of comprehensive income over the period of the lease

All other leases are regarded as operating leases and the payments made under them are charged to the statement of comprehensive income on a straight line basis over the lease term. Lease incentives are spread over the term of the lease

# Notes to the consolidated financial statements

For the year ended 31 December 2010

## **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 the consolidated statement of comprehensive income 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. The designation of financial assets is re-evaluated at every reporting date at which a choice of classification or accounting treatment is available.

All financial assets are recognised when the Group becomes a party to the contractual provisions of the instrument. Financial assets other than those categorised as at fair value through profit or loss are recognised at fair value plus transaction costs. Financial assets categorised as at fair value through profit or loss are recognised initially at fair value with transaction costs expensed through the consolidated statement of comprehensive income.

Financial assets at fair value through profit or loss include financial assets that are either classified as held for trading or are designated by the entity as at fair value through profit or loss upon initial recognition. Subsequent to initial recognition, the financial assets included in this category are measured at fair value with changes in fair value recognised in the consolidated statement of comprehensive income. Financial assets originally designated as financial assets at fair value through profit or loss may not be reclassified subsequently.

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 the consolidated statement of comprehensive income.

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. An assessment for impairment is undertaken at least at each balance sheet date.

# Notes to the consolidated financial statements

For the year ended 31 December 2010

- 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 on 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 the statement of comprehensive income 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.

## 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.

## 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 the consolidated statement of comprehensive income in the period in which they are incurred.

# Notes to the consolidated financial statements

For the year ended 31 December 2010

## **Adoption of new and revised standards**

During the year, the Group has applied IFRS 3 Business Combinations (Revised 2008). The revised standard was adopted as of 1 January 2010 and has introduced major changes to the accounting requirements for business combinations. It retains the major features of the purchase method of accounting, now referred to as the acquisition method. The most significant changes in IFRS 3 Business Combinations (Revised 2008) that had an impact on the Group's acquisitions in 2010 are as follows:

- Acquisition-related costs of the combination are recorded as an expense in the statement of comprehensive income. Previously, these costs would have been accounted for as a part of the cost of the acquisition.
- Any contingent consideration is measured at fair value at the acquisition date. If the contingent consideration arrangement gives rise to a financial liability, any subsequent changes are generally recognised in profit and loss. Previously, contingent consideration was recognised at the acquisition date only if its payment was probable.

IFRS 3 Business Combinations (Revised 2008) has been applied prospectively to business combinations for which the acquisition date is on or after 1 January 2010. For the year ended 31 December 2010, the adoption of IFRS 3 Business Combinations (Revised 2008) has affected the accounting for the Group's acquisition of Simpro Limited (see note 25) by increasing the Group's expenses related to acquisition-related costs by £142,000. Previously these costs would have been accounted for as part of the cost of acquisition.

Business combinations for which the acquisition date is before 1 January 2010 have not been restated.

## **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. Information on new standards, amendments and interpretations that are expected to be relevant to the Group's financial statements is provided below. Certain other new standards have been issued but are not expected to have a material impact on the Group's financial statements.

## **Revised IAS 24 Related Party Transactions (effective from 1 January 2011)**

The revised standard broadens the definition of related parties. Based on transactions currently undertaken by the Group, the revised standard is not expected to have a significant effect on the consolidated financial statements.

## **IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments (effective from 1 July 2010)**

IFRIC 19 addresses the accounting by an entity when the terms of a financial liability are renegotiated and result in the entity issuing equity instruments to a creditor to extinguish all or part of the financial liability. These transactions are sometimes referred to as 'debt for equity swaps'. IFRIC 19 only addresses the accounting by the borrower, it does not address the accounting by the lender. This standard is not expected to have a significant effect on the consolidated financial statements.

# Notes to the consolidated financial statements

For the year ended 31 December 2010

## IFRS 9 Financial Instruments (effective from 1 January 2013)

The IASB aims to replace a significant proportion of IAS 39 *Financial Instruments Recognition and Measurement*, with the replacement standard to be effective for annual periods beginning 1 January 2013. The main phases are

Phase 1 Classification and Measurement

Phase 2 Impairment methodology

Phase 3 Hedge accounting

Management have yet to assess the impact that this amendment is likely to have on the financial statements of the Group. However, they do not expect to implement the amendments until all chapters of the IAS 39 replacement have been published and they can comprehensively assess the impact of all changes.

## 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:

	2010 £'000	2009 £'000
Revenue from build, own and operate	5,784	3,206
Other revenue	36	128
<b>Rendering of services</b>	<b>5,820</b>	<b>3,334</b>
Revenue from sales of equipment to third parties	14,760	11,949
Product management	160	111
<b>Sale of goods</b>	<b>14,920</b>	<b>12,060</b>
<b>Total revenue</b>	<b>20,740</b>	<b>15,394</b>

Of the total revenue from sales to third parties £11,612,000 (2009: £11,478,000) relates to transactions with a single customer. All of this amount relates to IVC sales to third parties.



# Notes to the consolidated financial statements

For the year ended 31 December 2010

## 3. Business Segments

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

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

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

IVC sales to third parties includes the design, production and installation of Silo-cage plants for sale to third party clients AD sales to third parties includes the production and installation of Anaerobic Digestion plants for sale to third party clients The build, own and operate segment relates to facilities which are owned and operated by the Group These sites process waste received from customers Product management is the management of the compost produced by the facilities that are owned and operated Other revenue is as a result of maintenance contracts and consulting work carried out for third parties The revenues and net result generated by each of the Group's business segments are summarised as follows

2010

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

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

# Notes to the consolidated financial statements

For the year ended 31 December 2010

## 2009

	Build, own and operate £'000	IVC Sales to third parties £'000	AD sales to third parties £'000	Product management and other revenue £'000	Other corporate expenses £'000	Consolidated £'000
<b>External revenue</b>	3,206	11,949	-	239	-	15,394
<b>Gross (loss) / profit</b>	(76)	3,563	-	2	-	3,489
Segment corporate expenses	(309)	(868)	-	(413)	(1,333)	(2,923)
Negative goodwill	956	-	-	-	-	956
Depreciation	(1,018)	-	-	(29)	(93)	(1,140)
<b>Segment (loss) / profit before taxation</b>	(447)	2,695	-	(440)	(1,426)	382
Share-based payment expense						(146)
<b>Operating profit</b>						236
Finance income						71
Finance costs						(152)
<b>Profit before taxation</b>						155
Taxation						88
<b>Profit for the year</b>						243

Other corporate expenses include £694,000 in respect of future business and research and development costs

# Notes to the consolidated financial statements

For the year ended 31 December 2010

## Other information 2010

	Build, own and operate £'000	IVC sales to third parties £'000	AD sales to third parties £'000	Product management and other £'000	Corporate £'000	Consolidated £'000
Capital additions	4,679	-	-	1	165	4,845
Depreciation	1,236	-	-	22	53	1,311

	Build, own and operate £'000	Sales to third parties £'000	AD Sales to third parties £'000	Product management and other £'000	Corporate £'000	Consolidated £'000
<b>Assets</b>						
Segment assets	28,586	4,043	1,494	212	3,552	37,887
<b>Liabilities</b>						
Segment liabilities	6,124	4,073	1,929	184	758	13,068

## Other information 2009

	Build, own and operate £'000	Sales to third parties £'000	AD Sales to third parties £'000	Product management and other £'000	Corporate £'000	Consolidated £'000
Capital additions	1,650	-	-	-	486	2,136
Depreciation	1,018	-	-	29	93	1,140

	Build, own and operate £'000	Sales to third parties £'000	AD Sales to third parties £'000	Product management and other £'000	Corporate £'000	Consolidated £'000
<b>Assets</b>						
Segment assets	16,680	7,996	-	181	4,958	29,815
<b>Liabilities</b>						
Segment liabilities	4,235	6,640	-	123	634	11,632

# Notes to the consolidated financial statements

For the year ended 31 December 2010

## 4. Finance income

	2010 £'000	2009 £'000
Bank interest receivable	9	71

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

Loans and receivables (including cash and bank balances)	9	71
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## 5. Finance costs

	2010 £'000	2009 £'000
Interest on obligations under hire purchase	18	17
Interest on bank loans	166	55
	184	72
Unwinding of discount	70	80
Total finance costs	254	152

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

## 6. (Loss) / profit before taxation

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

	2010 £'000	2009 £'000
Research and development costs	15	58
Depreciation		
- owned	1,070	1,058
- held under finance leases and hire purchase contracts	241	82
Intangible amortisation	152	-
Auditors' remuneration		
- audit services for audit of parent company and consolidated financial statements	12	12
- non audit services	68	35
Loss on disposal of property, plant and equipment	195	6
Share-based payments charge	107	146
Operating lease costs		
- land & buildings	226	226
- other	77	282

# Notes to the consolidated financial statements

For the year ended 31 December 2010

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

	2010 £'000	2009 £'000
Audit of subsidiary undertakings pursuant to legislation	31	25
Other advisory services pursuant to legislation	6	
Tax advisory	10	4
Other advisory	21	6
<b>Total</b>	<b>68</b>	<b>35</b>

## 7. Employee costs

Staff costs during the year were as follows

	2010 £'000	2009 £'000
Wages and salaries	2,409	2,014
Social security costs	261	210
Pension costs	236	230
Equity settled share-based payment charge	107	146
<b>Total</b>	<b>3,013</b>	<b>2,600</b>

The average number of employees during the year was

	2010 Number	2009 Number
Directors	5	5
Sales	9	9
Engineering	12	8
Technical	7	6
Administrative	10	7
Site	28	16
<b>Total</b>	<b>71</b>	<b>51</b>

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 27.

# Notes to the consolidated financial statements

For the year ended 31 December 2010

## 8. Directors' remuneration

### Aggregate remuneration

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

	2010 £'000	2009 £'000
Emoluments	351	323
Pension costs	77	89
	<b>428</b>	<b>412</b>

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

	2010 £'000	2009 £'000
Emoluments	160	157
Pension costs	38	37
	<b>198</b>	<b>194</b>

The number of directors participating in the defined contribution pension scheme was 2 (2009 3). 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 28 to 31.

## 9. Income tax

	2010 £'000	2009 £'000
<b>Current tax</b>		
Research and development tax credit	(58)	(88)
Corporation tax	(27)	-
Total current tax	<b>(85)</b>	<b>(88)</b>
<b>Deferred tax</b>		
Deferred tax credit	(79)	-
Total deferred tax	<b>(79)</b>	<b>-</b>
<b>Total tax credit for the year</b>	<b>(164)</b>	<b>(88)</b>

The taxation assessed for the year differs from the standard rate of corporation tax in the United Kingdom (28%). The charge is affected by a number of factors in addition to the standard United Kingdom rate.

# Notes to the consolidated financial statements

For the year ended 31 December 2010

The differences are explained as follows

	2010 £'000	2009 £'000
(Loss) / profit before tax	(628)	155
Income tax credit / (charge) calculated at 28% (2009 28%)	(176)	43
Effect of expenses not deductible / (income that is not chargeable)	119	(38)
Losses surrendered for R&D tax credit	116	177
Repayable R&D tax credit	(58)	(88)
Movement in unprovided deferred tax asset	(335)	(182)
Adjustment for tax rate differences	170	-
Total tax credit for the year	(164)	(88)

## Deferred tax liability

	2010 £'000	2009 £'000
Liability at 1 January	-	-
Acquired with subsidiaries (see note 25)	262	-
Arising on recognition of intangible assets (see note 25)	479	-
Amount credited to income in the year	(79)	-
Liability at 31 December	662	-

The rate at which deferred tax is expected to unwind is 27% (2009 28%) 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

	2010 £'000	2009 £'000
Tax losses	(5,114)	(5,369)
Accelerated tax depreciation	255	264
Intangible assets	-	238
Temporary differences	(8)	(68)
	(4,867)	(4,935)

# Notes to the consolidated financial statements

For the year ended 31 December 2010

## 10. (Loss) / earnings per share

	2010 £'000	2009 £'000
(Loss) / profit for the financial year after tax	(464)	243
<b>Adjustments to basic earnings</b>		
Negative goodwill	(15)	(956)
Underlying losses	(479)	(713)
	Number	Number
Weighted average number of shares for the purposes of basic earnings per share	65,089,854	50,760,984
Effect of dilutive potential ordinary shares	-	244,885
Weighted average number of shares for the purposes of diluted earnings per share	65,089,854	51,005,869
Weighted average number of shares for the purposes of underlying earnings per share	65,089,854	50,760,984
	Pence	Pence
Basic (loss) / earnings per share	(0.71)	0.48
Diluted (loss) / earnings per share	(0.71)	0.48
Basic underlying loss per share	(0.74)	(1.41)

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

Diluted earnings per share is the basic earnings per share after allowing for the dilutive effect of the conversion into ordinary shares of the number of options outstanding during the period. The share options in issue at 31 December 2010 are anti-dilutive in respect of the basic loss per share calculation and have therefore not been included.

The contingent consideration relating to the acquisition of Simpro Limited (note 25) may have a dilutive effect on the future earnings per share.



# Notes to the consolidated financial statements

For the year ended 31 December 2010

## 11. Goodwill

	<b>Goodwill £'000</b>
<b>Cost and net book value</b>	
At 1 January 2009 and 31 December 2009	2,270
Additions (note 25)	3,882
At 31 December 2010	<u>6,152</u>

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

	<b>2010 £'000</b>	<b>2009 £'000</b>
Build, own and operate	<u>6,152</u>	<u>2,270</u>

The goodwill relates to the acquisition of the composting business in Perthshire in 2005 and the acquisition of Simpro Limited in 2010 (see note 25)

### Annual test for impairment

The Group tests goodwill annually for impairment in accordance with IAS 36 'Impairment of assets', or more frequently if there are incidents which indicate that the goodwill might be impaired

The recoverable amounts of the cash generating unit (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 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 6% (2009 6%) 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% (2009 assumed rate. 5%) per annum is considered reasonable and is consistent with past experience

Changes in direct costs of 3% (2009 assumed rate 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 (2009 assumed rate 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

# Notes to the consolidated financial statements

For the year ended 31 December 2010

## 12. Other intangible assets

	Customer contracts £'000	Intellectual property rights £'000	Total £'000
<b>Cost</b>			
At 1 January 2009 and 31 December 2009	-	40	40
Additions through business combinations	1,711	-	1,711
At 31 December 2010	1,711	40	1,751
<b>Amortisation</b>			
At 1 January 2009 and 31 December 2009	-	40	40
Amortisation	152	-	152
At 31 December 2010	152	40	192
<b>Net book amount</b>			
At 31 December 2010	1,559	-	1,559
At 31 December 2009	-	-	-

Customer contracts represent the ongoing relationship with customers acquired as part of the Simpro acquisition (see note 25). 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.

# Notes to the consolidated financial statements

For the year ended 31 December 2010

## 13. Property, plant and equipment

	Vehicles	Plant and Machinery	Fixtures and fittings	Silo-Cage Systems	Assets in the course of construction	Freehold land, buildings and site infrastructure	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
<b>Cost</b>							
At 1 January 2009	72	2,334	246	4,988	12	5,192	12,844
Acquisition of company	10	323	20	150	-	1,911	2,414
Additions	-	852	146	786	46	306	2,136
Disposals	-	(74)	(2)	-	-	-	(76)
At 31 December 2009	82	3,435	410	5,924	58	7,409	17,318
Acquisition of company	30	265	2	-	-	993	1,290
Additions	-	1,824	30	1,988	138	866	4,846
Disposals	(14)	(103)	(17)	(194)	(52)	-	(380)
<b>At 31 December 2010</b>	<b>98</b>	<b>5,421</b>	<b>425</b>	<b>7,718</b>	<b>144</b>	<b>9,268</b>	<b>23,074</b>
<b>Accumulated depreciation</b>							
At 1 January 2009	72	712	78	703	-	265	1,830
Charge for the year	1	566	37	391	-	145	1,140
Disposals	-	(52)	-	-	-	-	(52)
At 31 December 2009	73	1,226	115	1,094	-	410	2,918
Charge for the year	8	480	58	492	-	273	1,311
Disposals	(14)	(64)	(8)	(46)	-	-	(132)
At 31 December 2010	67	1,642	165	1,540	-	683	4,097
<b>Net book amount</b>							
At 31 December 2010	31	3,779	260	6,178	144	8,585	18,977
At 31 December 2009	9	2,209	295	4,830	58	6,999	14,400

Assets in the course of construction include capitalised interest of £Nil (2009 Nil)

### Assets pledged as security

Freehold land with a carrying value of £2,136,000 (2009 £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 £1,318,000 (2009 £410,000).

## Notes to the consolidated financial statements

For the year ended 31 December 2010

During the year, the Group carried out a review of the recoverable amount of its plant and machinery and its Silo-Cage systems. The assets are used in the Group's reportable segments. The review did not lead to a recognition of an impairment. The recoverable amounts of the CGU's have been determined based on a value in use calculation which uses cashflow projections based on financial budgets approved by the Director's 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 and direct costs.

The discount rate of 6% (2009: 6%) 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.

Cashflows beyond the five year period have been extrapolated using a steady 2.5% per annum growth rate (2009: 2.5%) which is based on historic trends, anticipated market demand and the prospective increase in landfill tax 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.

### 14. Inventories

	2010 £'000	2009 £'000
Raw materials	17	17
Work in progress	510	345
Consumables	89	45
	<u>616</u>	<u>407</u>

There were no write downs of inventory in the year (2009: £Nil). The cost of inventories recognised as a cost of sale in the year was £84,000 (2009: £111,000).

### 15. Trade and other receivables

	2010 £'000	2009 £'000
Trade receivables	990	646
Other receivables	141	397
Amounts due from related party (note 32)	1,588	-
Prepayments	300	319
Accrued income	4,233	7,518
	<u>7,252</u>	<u>8,880</u>

# Notes to the consolidated financial statements

For the year ended 31 December 2010

The average credit period taken on trade receivables excluding construction contracts is 60 days (2009 68 days)  
Average credit period taken on application for payment on construction contracts excluding retentions is 50 days (2009 50 days)  
Trade receivables do not carry interest A provision of £7,300 (2009 £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 21 The value of trade receivables that are past due at the reporting date is £191,000 (2009 £17,000)

## 16. Cash and cash equivalents

	2010 £'000	2009 £'000
Cash in hand and at bank	<u>3,389</u>	<u>3,770</u>

## 17. Construction contracts

Contracts in progress at the balance sheet date

	2010 £'000	2009 £'000
Construction costs incurred plus recognised profits less recognised losses to date	14,760	11,949
Less progress billings	(9,618)	(4,431)
Accrued income	<u>5,142</u>	<u>7,518</u>
Recognised and included in accrued income (note 15) as amounts due		
From customers under construction contracts	<u>4,393</u>	<u>7,066</u>

At 31 December 2010, retentions held by customers for contract work amounted to £749,000 (2009 £452,000)

The total revenue arising from construction contracts during the year was £14,760,000 (2009 £11,949,000)

Within accruals and deferred income there is a provision of £636,000 (2009. £315,000) in respect of warranty and contingency costs relating to ongoing contracts at the year end

## Notes to the consolidated financial statements

For the year ended 31 December 2010

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

	Warranty / contingency provision £'000
<b>At 1 January 2009</b>	130
Provided	485
Utilised	(300)
<b>At 31 December 2009</b>	315
Provided	321
<b>At 31 December 2010</b>	636

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

	2010 £'000	2009 £'000
Trade payables	7,284	2,942
Other payables	25	349
Other taxation and social security	170	83
Accruals	386	4,581
	<b>7,865</b>	<b>7,955</b>

Trade payables and accruals principally comprise amounts outstanding from trade purchases and ongoing costs. The average credit period taken for trade purchases is 118 days (2009: 90 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

	2010 £'000	Current 2009 £'000	2010 £'000	Non-current 2009 £'000
<b>Secured – at amortised cost</b>				
Term loan (i)	173	173	1,510	1,683
Hire Purchase agreements (ii) (note 21)	778	155	206	259
	<b>951</b>	<b>328</b>	<b>1,716</b>	<b>1,942</b>

# Notes to the consolidated financial statements

For the year ended 31 December 2010

## Summary of borrowing arrangements

- (i) Secured against freehold land The term loan is repayable over a remaining 156 equal monthly instalments The interest rate on the facility is 1.75% above the Bank of Scotland Plc base rate
- (ii) Secured by the leased assets The borrowings are at fixed interest rates with repayment periods not exceeding 4 years

## 20. Deferred consideration

	Current		Non-current	
	2010	2009	2010	2009
	£'000	£'000	£'000	£'000
Deferred consideration	300	300	1,050	1,350
Discounted element	(89)	(76)	(84)	(167)
	<b>211</b>	<b>224</b>	<b>966</b>	<b>1,183</b>

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 5 years.

## 21. 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 22.

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 2010 and 31 December 2009.

### 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.

# Notes to the consolidated financial statements

For the year ended 31 December 2010

## Categories of financial instruments

	2010 £'000	2009 £'000
<b>Financial assets</b>		
Cash and cash equivalents	3,389	3,770
Loans and receivables	7,152	8,880
	<b>10,541</b>	<b>12,650</b>
<b>Financial liabilities</b>		
Financial liabilities measured at amortised cost	<b>12,159</b>	<b>11,632</b>

## 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 bear 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 profit for the ended 31 December 2010 would increase/decrease by £85,000 (2009 increase/decrease by £11,000). This is attributable to the Group's exposure to interest rates on its variable rate borrowings.

## Financial Instruments

At 31 December 2010, 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	
	2010 £'000	2009 £'000	2010 £'000	2009 £'000	2010 £'000	2009 £'000	2009 £'000	2008 £'000
Long-term bank loans	86	108	87	108	864	860	646	1,235
Finance lease obligations	331	101	511	78	237	306	-	-
Trade payables	7,284	2,942	-	-	-	-	-	-
Other short-term financial liabilities	581	5,013	-	-	-	-	-	-
<b>Totals</b>	<b>8,282</b>	<b>8,164</b>	<b>598</b>	<b>186</b>	<b>1,101</b>	<b>1,166</b>	<b>646</b>	<b>1,235</b>



# Notes to the consolidated financial statements

For the year ended 31 December 2010

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

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	
	2010 £'000	2009 £'000
Amounts payable under finance leases		
Within 6 months	331	101
Between 6 and 12 months	511	78
In the second to fifth years inclusive	237	306
	<b>1,079</b>	<b>485</b>
Less future charges	<b>(95)</b>	<b>(71)</b>
Present value of lease obligations	<b>984</b>	<b>414</b>

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 £990,000 (2009: £646,000) includes 7 (2009: 3) customers who represent more than 5% of the total balance. At 31 December 2010, 70% (2009: 49%) 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 £191,000 (2009: £17,000). 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.

Surplus funds are invested on a short term basis at money market rates and therefore such funds are available at short notice.

# Notes to the consolidated financial statements

For the year ended 31 December 2010

## Foreign currency risk management

The Group does not have any foreign currency denominated trade receivables or payables and therefore is not subject to foreign exchange risk

## Borrowing facilities

£2,000,000 (2009 £2,000,000) has been secured to help fund the acquisition of the property and the development costs of the Todmorden project, of which £1,683,000 (2009 £1,856,000) 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
	£'000	£'000	£'000	£'000
<b>Financial assets</b>				
At December 2010				
Cash and cash equivalents	-	3,389	-	3,389
Trade and other receivables	-	-	7,152	7,152
	-	3,389	7,152	10,541
<b>Financial liabilities</b>				
At December 2010				
Trade and other payables	-	-	7,865	7,865
Deferred consideration	-	-	1,177	1,177
Contingent consideration	-	-	450	450
Term loan	-	1,683	-	1,683
Hire purchase agreements	984	-	-	984
	984	1,683	9,492	12,159

## 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.

# Notes to the consolidated financial statements

For the year ended 31 December 2010

## 22 Issued capital

	2010 £'000	2009 £'000
<b>Authorised</b>		
100,000,000 (2009 100,000,000) Ordinary shares of £0.05 each	<u>5,000</u>	<u>5,000</u>
<b>Allotted, called up and fully paid</b>		
75,617,825 (2009 53,038,381) Ordinary shares of £0.05 each	<u>3,781</u>	<u>2,651</u>
	<b>Number</b>	<b>£'000</b>
<b>At 1 January 2009</b>	48,288,381	2,414
Issue of shares at £0.40 per share	<u>4,750,000</u>	<u>237</u>
<b>At 31 December 2009</b>	53,038,381	2,651
Issue of shares at £0.33 per share	<u>21,810,606</u>	<u>1,091</u>
Issue of shares at £0.39 per share	<u>768,838</u>	<u>39</u>
<b>At 31 December 2010</b>	<u>75,617,825</u>	<u>3,781</u>

On 18 June 2010, the Company placed 20,598,484 new ordinary shares of £0.05 at a price of £0.33 per share raising £6,797,000 before issue costs of £400,000. The difference between the consideration of £6,797,000 and the nominal value of £1,030,000 and related issue cost of £400,000 has been credited to the share premium account.

On 21 June 2010 the Company issued 1,212,122 new ordinary shares of £0.05 at a price of £0.33 per share. These shares were issued in relation to the acquisition of Simpro Limited (see note 25). The difference between the nominal value of £61,000 and the issue price has been credited to the share premium account.

On 28 June 2010 and 5 October 2010, the Company placed 384,616 and 384,222 new ordinary shares of £0.05 respectively at a price of £0.39 per share. These shares were issued in relation to the acquisition of Simpro Limited (see note 25). The difference between the nominal value of £39,000 and the issue price has been credited to the share premium account.

## Notes to the consolidated financial statements

For the year ended 31 December 2010

### 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
01 05 2001	£1 300	02 05 2006	01 05 2011	69,731
22 04 2002	£1 150	23 04 2007	22 04 2012	25,000
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	355,235
03 03 2005	£0 360	04 03 2008	03 03 2015	277,778
23 08 2005	£0 370	24 08 2008	23 08 2015	514,327
17 10 2005	£0 370	18 10 2008	17 10 2015	263,854
30 06 2006	£0 370	01 07 2009	30 06 2016	66,138
15 08 2006	£0 700	16 08 2009	15 08 2016	328,063
15 12 2006	£0 715	16 12 2009	15 12 2016	189,427
15 02 2007	£1 125	16 02 2010	15 02 2017	76,000
18 07 2007	£1 130	19 07 2010	18 07 2017	487,712
02 01 2008	£0 775	03 01 2011	02 01 2018	48,288
06 05 2008	£0 700	07 05 2011	06 05 2018	410,451
19 11 2008	£0 345	20 11 2011	19 11 2018	120,720
01 07 2009	£0 460	02 07 2012	01 07 2019	940,226
				<u>4,318,250</u>

The mid market price of the Company's shares on 31 December 2010 was 27 pence. The highest and lowest mid market prices during the year were 46 pence and 27 pence respectively.

# Notes to the consolidated financial statements

For the year ended 31 December 2010

## 23. Subsidiaries

Details of the Company's subsidiaries at 31 December 2010 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	End product placement
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

# Notes to the consolidated financial statements

For the year ended 31 December 2010

## 24. 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 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.

	2010 £'000	2009 £'000
Current assets	505	-
Non-current assets	1,565	-
Current liabilities	(216)	-
Non-current liabilities	(1,100)	-
Net assets	754	-
Group's share of net assets	377	-
Restriction in net assets recognised	(377)	-
Group's share of net assets recognised	-	-
Total revenue	-	-
Expenses	(196)	-
Total loss for the year	(196)	-
Group's share of the loss	(98)	-
Restriction in losses recognised	98	-
Group's share of losses recognised	-	-

As noted above, during the year TEG Biogas (Perth) Limited made losses of £196,000 of which £98,000 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 capital commitments of £2,596,000 at 31 December 2010. The share of these commitments relating to the Group has not been disclosed due to the fact that the commitment relates to plant and equipment acquired from TEG Environmental Limited.

### Verdia Horticulture Limited

During the prior year, the Group disposed of its 50% share in the ownership of Verdia Horticulture Limited, a joint venture company established in the United Kingdom, for a total consideration after legal fees of £135,000. The Group's share of the net assets at the date of disposal was £Nil. As such, the Group recognised the profit on disposal of £135,000 in respect of its disposal of its shares in Verdia Horticulture Limited.

## 25. Business combination

### Simpro Limited

On 21 June 2010, the Group acquired 100% of the issued share capital of Simpro Limited, a company resident in the United Kingdom, for a consideration of £7,053,000 including £142,000 of acquisition-related costs which was settled by a combination of cash and equity. The registered address of Simpro Limited is Westmarch House, 42 Eaton Avenue, Buckshaw Village, Chorley, Lancashire, PR7 7NA. All of the acquisition-related costs have been recorded as an expense on the face of the consolidated statement of comprehensive income. The transaction has

# Notes to the consolidated financial statements

For the year ended 31 December 2010

- been accounted for through the application of IFRS 3 Business Combination (Revised 2008) and using the acquisition method of accounting

The acquisition represents a major step forward in the expansion of TEG's waste management operations in the UK

The strategic reasons for the acquisition included

- Strong financials and excellent platform for further growth
- Site development
- No competing technology on sites
- Multiple sites
- No geographic overlap
- Contracts and local authority relationships
- Compost product quality

The impact on Group revenues and profit attributable to the equity holders if the acquisition had been completed on the first day of the financial year would have been £2,670,000 and £666,000 respectively

Fair values are provisional and will be reviewed during the hindsight period as further information is gathered relating to the fair values at the acquisition date

The amounts provisionally realised for each class of the acquiree's assets and liabilities recognised at the acquisition date are as follows

	Carrying amount under IFRS £'000	Provisional fair value adjustments £'000	Provisional fair value to the group £'000
<b>Net assets acquired</b>			
Intangible assets	-	1,711	1,711
Property, plant and equipment	1,290	-	1,290
Trade and other receivables	755	-	755
Cash and cash equivalents	898	-	898
<b>Total assets</b>	<b>2,943</b>	<b>1,711</b>	<b>4,654</b>
Trade and other payables	(490)	(13)	(503)
Short-term debt	(96)	-	(96)
Current tax liability	-	(285)	(285)
Deferred tax liability	(313)	(428)	(741)
<b>Total liabilities</b>	<b>(899)</b>	<b>(726)</b>	<b>(1,625)</b>
<b>Net assets</b>	<b>2,044</b>	<b>985</b>	<b>3,029</b>
Goodwill arising on the acquisition			3,882
			<b>6,911</b>
<b>Satisfied by</b>			
Cash consideration			5,761
Equity issued			400
Contingent equity consideration			750
			<b>6,911</b>

# Notes to the consolidated financial statements

For the year ended 31 December 2010

Under IFRS 3 Business Combinations (Revised 2008), the Group is required to apportion the purchase consideration between the tangible and intangible assets and liabilities of Simpro Limited. A provisional fair value adjustment to recognise intangible assets of £1,711,000 and the related provisional deferred tax provision of £479,000 is directly attributable to customer contracts and relationships. The estimated useful life of each contract and customer relationship is determined on an individual basis based on contractual agreements and historical relationships. The estimated useful life varies between four and eight years.

The £750,000 contingent equity consideration relates to specific milestone targets. The number of shares issued is calculated by reference to the prevailing market price at the time the deferred consideration shares are issued. Of this amount, £300,000 has been satisfied by the issue of shares prior to 31 December 2010 (note 22) leaving contingent consideration payable of £450,000.

A further £150,000 was issued on 4 March 2011 (see note 31). It is likely that the remaining £300,000 of the contingent equity will be issued during 2011.

All shares issued in relation to the contingent consideration are issued at market value.

Simpro Limited contributed £1,673,000 of revenue and £395,000 of profit before tax to the Group's results for the period between the date of acquisition and the balance sheet date.

## TEG Energy Limited (formerly known as Banham Compost Limited)

In the prior year, the Group acquired 100% of the issued share capital of Banham Compost Limited, a company based in the UK for a consideration of £615,000 including costs, which was settled in cash. The transaction has been accounted for by the purchase method of accounting.

The provisional fair values have been reassessed during the hindsight period, giving rise to £15,000 of revisions to the provisional fair values and therefore a credit of this amount has been recognised as income in the statement of comprehensive income.

## 26. Operating lease arrangements

	2010 £'000	2009 £'000
Operating lease payments recognised as an expense in the year	310	245

### 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	
	2010 £'000	2009 £'000	2010 £'000	2009 £'000
- within one year	299	226	92	463
- in the second to fifth years inclusive	888	790	106	368
- after five years	398	402	-	-
	<b>1,585</b>	<b>1,418</b>	<b>198</b>	<b>831</b>

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.



# Notes to the consolidated financial statements

For the year ended 31 December 2010

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.

## 27. 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 performance criteria relating to the options is the continuing employment of the holder.

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

	2010 Number of share options	2010 Weighted average exercise price £	2009 Number of share options	2009 Weighted average exercise price £
Outstanding at beginning of year	4,318,250	0.59	3,414,168	0.63
Granted during the year	-	-	940,226	0.46
Lapsed during the year	-	-	(36,144)	0.64
Outstanding at the end of the year	4,318,250	0.59	4,318,250	0.59
Exercisable at the end of the year	2,798,565	0.62	2,234,853	0.49

The options outstanding at 31 December 2010 had a weighted average exercise price of 59 pence. No options were granted in 2010. In 2009, options were granted on 1 July 2009. The aggregate of the estimated fair values of the options granted on that date was £145,000. The weighted average contractual life of share options outstanding at the 31 December 2010 was 5 years.

No share options were exercised in 2010 (2009: 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.

### Equity-settled share option scheme (continued)

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

	2010	2009
Weighted average exercise price	£0.59	£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%

# Notes to the consolidated financial statements

For the year ended 31 December 2010

- 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 £107,000 (2009: £146,000) related to equity-settled share-based payment transactions in the period

## 28. 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 £237,000 (2009: £230,000)

## 29. Capital Commitments

At 31 December 2010, the Group had outstanding capital commitments for the acquisition of property, plant and equipment of £151,000 (2009: £254,000)

## 30. 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 2010, the outstanding debt was approximately £1,189,000 (2009: £1,399,000). 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.

## 31. Post balance sheet event

On 4 March 2011, the Company placed 608,520 new ordinary shares of £0.05 at a price of £0.25 per share. These shares were issued in relation to the acquisition of Simpro Limited (see note 25).

## 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'

	2010 £'000	2009 £'000
Short term employee benefits	875	846
Charge to income in the year in respect of share based payments	107	146
	<b>982</b>	<b>992</b>

## Notes to the consolidated financial statements

For the year ended 31 December 2010

- *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 24 ) Transactions during the year with the joint venture were all at arm's length and are set below

	2010 £'000	2009 £'000
Sale of Anaerobic digestion plant and equipment	3,207	-
Management fee receivable	21	-
Working capital loan	100	-
Interest receivable on loan	3	-

The balances due to the Group at 31 December 2010 in respect of transactions with TEG Biogas (Perth) Limited totalled £1,588,000 and has been disclosed within trade and other receivables (see note 15)

# Company balance sheet

as at 31 December 2010

	Note	2010 £'000	2009 £'000
<b>Fixed assets</b>			
Investments	4	<u>7,718</u>	<u>615</u>
<b>Current assets</b>			
Debtors	5	20,147	18,153
Cash at bank and in hand		<u>364</u>	<u>2,283</u>
		20,511	20,436
<b>Creditors: amounts falling due within one year</b>	6	<u>(502)</u>	<u>(42)</u>
<b>Net current assets</b>		<u>20,009</u>	<u>20,394</u>
<b>Total assets less current liabilities</b>		<u>27,727</u>	<u>21,009</u>
<b>Net assets</b>		<u>27,727</u>	<u>21,009</u>
<b>Capital and reserves</b>			
Called up share capital	7	3,781	2,651
Share premium account	9	36,876	30,907
Other reserve	9	706	640
Profit and loss account	9	(13,636)	(13,189)
<b>Shareholders' funds</b>	10	<u>27,727</u>	<u>21,009</u>

The financial statements were approved by the Board of Directors on 14 March 2011 and signed on their behalf by



M Fishwick  
Director



T Willis  
Director

The TEG Group Plc  
Company number 3109613

# Notes to the company financial statements

For the year ended 31 December 2010

## **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.

### **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

# Notes to the company financial statements

For the year ended 31 December 2010

- 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

	2010 £'000	2009 £'000
Wages and salaries	349	323
Social security costs	39	35
Pension costs	77	89
Equity settled share based payment charge	66	78
	<b>531</b>	<b>525</b>

The average number of employees during the year was

	2010 Number	2009 Number
Directors	<b>5</b>	<b>5</b>

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 £447,000 (2009 £172,000)

# Notes to the company financial statements

For the year ended 31 December 2010

## 4. Investments

	Subsidiary undertakings £'000	Joint venture £'000	Total £'000
<b>Cost</b>			
At 1 January 2010	615	-	615
Additions	7,053	50	7,103
As at 31 December 2010	7,668	50	7,718

On 21 June 2010, the Company subscribed to 100% of the share capital of Simpro Limited for a consideration of £7,053,000

On 26 July 2010, the Company subscribed to 50% of the share capital of TEG Biogas (Perth) Limited for a consideration of £50,000

At 31 December 2010, 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	UK	100%	Design and construction of Silo-Cage and Anaerobic Digestion plants
Natural Organic Fertiliser Company Limited	UK	100%	End product placement
TEG Energy Limited	UK	100%	Operation of TEG leased facility
Simpro Limited	UK	100%	Operation of green waste composting facilities
TEG Biogas (Perth) Limited	UK	50%	Operation of Anaerobic Digestion facilities

## 5. Debtors

	2010 £'000	2009 £'000
Amounts due from subsidiary undertakings	20,029	18,128
Amounts due from related parties	103	-
Other debtors	15	25
	<b>20,147</b>	<b>18,153</b>

# Notes to the company financial statements

For the year ended 31 December 2010

## 6. Creditors: amounts falling due within one year

	2010 £'000	2009 £'000
Trade creditors	30	17
Contingent consideration	450	-
Other taxation and social security	21	19
Accruals and deferred income	1	6
	<u>502</u>	<u>42</u>

## 7. Share capital

	2010 £'000	2009 £'000
<b>Authorised</b>		
100,000,000 (2009 100,000,000) Ordinary shares of £0.05 each	<u>5,000</u>	<u>5,000</u>
<b>Allotted, called up and fully paid</b>		
75,617,825 (2009 53,038,381) Ordinary shares of £0.05 each	<u>3,781</u>	<u>2,651</u>

	Number	£'000
<b>At 1 January 2009</b>	48,288,381	2,414
Issue of shares at £0.40 per share	4,750,000	237
<b>At 31 December 2009</b>	53,038,381	2,651
Issue of shares at £0.33 per share	21,810,606	1,091
Issue of shares at £0.39 per share	768,838	39
<b>At 31 December 2010</b>	<u>75,617,825</u>	<u>3,781</u>

On 18 June 2010 the Company placed 20,598,484 new ordinary shares of £0.05 at a price of £0.33 per share raising £6,797,000 before issue costs of £400,000. The difference between the consideration of £6,797,000 and the nominal value of £1,030,000 and related issue cost of £400,000 has been credited to the share premium account.

On 21 June 2010 the Company issued 1,212,122 new ordinary shares of £0.05 at a price of £0.33 per share. These shares were issued in relation to the acquisition of Simpro Limited (see note 25 of the consolidated financial statements). The difference between the nominal value of £61,000 and the issue price has been credited to the share premium account.

On 28 June 2010 and 5 October 2010, the Company placed 384,616 and 384,222 new ordinary shares of £0.05 respectively at a price of £0.39 per share. These shares were issued in relation to the acquisition of Simpro Limited (see note 25 of the consolidated financial statements). The difference between the nominal value of £39,000 and the issue price has been credited to the share premium account.



## Notes to the company financial statements

For the year ended 31 December 2010

- 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
01 05 2001	£1 300	02 05 2006	01 05 2011	69,731
22 04 2002	£1 150	23 04 2007	22 04 2012	25,000
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	355,235
03 03 2005	£0 360	04 03 2008	03 03 2015	277,778
23 08 2005	£0 370	24 08 2008	23 08 2015	514,327
17 10 2005	£0 370	18 10 2008	17 10 2015	263,854
30 06 2006	£0 370	01 07 2009	30 06 2016	66,138
15 08 2006	£0 700	16 08 2009	15 08 2016	328,063
15 12 2006	£0 715	16 12 2009	15 12 2016	189,427
15 02 2007	£1 125	16 02 2010	15 02 2017	76,000
18 07 2007	£1 130	19 07 2010	18 07 2017	487,712
02 01 2008	£0 775	03 01 2011	02 01 2018	48,288
06 05 2008	£0 700	07 05 2011	06 05 2018	410,451
19 11 2008	£0 345	20 11 2011	19 11 2018	120,720
01 07 2009	£0 460	02 07 2012	01 07 2019	940,226
				<u>4,318,250</u>

The mid market price of the Company's shares on 31 December 2010 was 27 pence. The highest and lowest mid market prices during the year were 46 pence and 27 pence respectively.

# Notes to the company financial statements

For the year ended 31 December 2010

## 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.

	<b>2010</b>	<b>2010</b>	<b>2009</b>	<b>2009</b>
	<b>Number of</b>	<b>Weighted</b>	<b>Number of</b>	<b>Weighted</b>
	<b>share options</b>	<b>average</b>	<b>share options</b>	<b>average</b>
		<b>exercise price</b>		<b>exercise price</b>
		<b>£</b>		<b>£</b>
Outstanding at beginning of year	<b>4,318,250</b>	<b>0.59</b>	3,414,168	0.63
Granted during the year	-	-	940,226	0.46
Lapsed during the year	-	-	(36,144)	0.64
Outstanding at the end of the year	<b>4,318,250</b>	<b>0.59</b>	4,318,250	0.59
Exercisable at the end of the year	<b>2,798,565</b>	<b>0.62</b>	2,234,853	0.49

The options outstanding at 31 December 2010 had a weighted average exercise price of 59 pence. No options were granted on in 2010. In 2009, options were granted on 1 July 2009. The aggregate of the estimated fair values of the options granted on that date was £145,000.

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:

	<b>2010</b>	<b>2009</b>
Weighted average exercise price	<b>£0.59</b>	£0.59
Expected volatility	<b>34.26% - 104.98%</b>	34.26% - 104.98%
Expected life	<b>5 years</b>	5 years
Risk-free rate	<b>2.41% - 5.63%</b>	2.41% - 5.63%
Expected dividends	<b>0.00%</b>	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 £66,000 (2009: £78,000) related to equity-settled share-based payment transactions in the period.

# Notes to the company financial statements

For the year ended 31 December 2010

- 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

## 9. Reserves

	Share premium account £'000	Other reserves £'000	Profit and loss account £'000
At 1 January 2010	30,907	640	(13,189)
Premium on issue of share capital	6,369	-	-
Issue costs	(400)	-	-
Loss for the financial year	-	-	(447)
FRS 20 share option charge	-	66	-
At 31 December 2010	36,876	706	(13,636)

'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 7

## 10. Reconciliation of movement in shareholders' funds

	2010 £'000	2009 £'000
Loss for the financial year	(447)	(172)
Issue of shares	7,099	1,787
FRS 20 share option charge	66	78
Net addition to shareholders' funds	6,718	1,693
Opening shareholders' funds	21,009	19,316
Closing shareholders' funds	27,727	21,009

## 11. Leasing commitments

	Land and buildings £'000	2010 Other £'000	Land and buildings £'000	2009 Other £'000
- within two to five years	24	15	36	-
- in five years or more	-	-	-	-
	24	15	36	-

# Notes to the company financial statements

For the year ended 31 December 2010

## 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 £77,000 (2009 £89,000)

## 13. Capital Commitments

At 31 December 2010, the Company had outstanding capital commitments of £Nil (2009 £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 24 of the consolidated financial statements). Transactions during the year with the joint venture were all at arm's length and are set below

	2010 £'000	2009 £'000
Working capital loan	100	-
Interest receivable on loan	3	-

The balances due to the Company at 31 December 2010 in respect of transactions with TEG Biogas (Perth) Limited totalled £100,000 and has been disclosed within debtors (see note 5)