30th September 2013

Velocys plc
(“Velocys” or “the Company”)
(Formerly known as Oxford Catalysts Group PLC)

Interim Results for the Period Ended 30th June 2013

Velocys plc (VLS.L), the leading technology innovator for synthetic fuels production, is pleased to announce its interim results for the six months ended 30th June 2013.

Highlights

- Velocys technology selected for further projects:
  - Red Rock Biofuels
  - Pinto Energy (announced post period end)
- Ventech order for 1,400 bpd capacity reactors received; their production is underway
- Rebranding exercise complete
- Two new board appointments
- Revenue of £1.7 million (H1 2012: £3.6 million)
- Cash* at period end of £31.8 million (FY 2012: £12.1 million)

Pierre Jungels, CBE, Chairman of Velocys, said:

“The first half of 2013 has seen the Company continuing to consolidate its position as the leading technology innovator for synthetic fuels production. We started the year completing a successful equity placing, which raised £30.6m (before expenses), to take Velocys forward during this current phase of commercialisation. Market conditions remain favourable, our pipeline of opportunities is healthy and our technology continues to be selected for projects ahead of competitors. During the period, the Company has made excellent progress in developing these opportunities through the engineering and evaluation stages that will lead to end sales. The Board looks forward to success in achieving these orders.”

* Defined as cash, cash equivalents, short-term investments and other financial assets.

There will be a conference call for analysts today at 9:30am; details of which can be obtained from Lionsgate Communications (see below).

For further information, please contact:

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Notes to Editors

Velocys (formerly Oxford Catalysts) enables modular Gas-to-Liquids (GTL) plants to convert unconventional, remote and problem gas into valuable liquid fuels. Systems based on the Company's technology are significantly smaller than those using conventional technology, enabling modular plants that can be deployed cost effectively in remote locations and on smaller fields than is possible with competing systems. Together with world-class partners, Velocys provides complete modular GTL solutions that address an untapped market of up to 25 million barrels of fuel a day

Velocys plc is listed on the AIM market of the London Stock Exchange (LSE: VLS). The Company has some 90 employees with facilities in Houston, Texas and near Columbus, Ohio, USA, as well as near Oxford, UK.

www.velocys.com

CHAIRMAN'S STATEMENT
Pierre Jungels, CBE

Having completed 2012 with our modular Fischer-Tropsch (FT) reactor and catalyst technology successfully positioned for commercial sales, I am pleased to report that our progress in the first half of 2013 in taking our future customers through the necessary steps to secure sales has been encouraging, and I am confident that this work will lead to orders. The sales process involves customer funded engineering studies and technical due diligence, and we have made good advances during the period progressing these activities.

The drivers for GTL continue to be strong; the availability of low cost gas, especially in North America but also in other regions, the desire for energy security, the push for cleaner fuel and flare reduction, and the attraction of unlocking value from previously unexploited gas assets. Velocys has continued to be selected for further projects, and the pool of prospective customers interested in Gas-to-Liquids (GTL), especially a smaller-scale modular solution, remains high. The Board is encouraged, at this early stage in our commercial development, as to the depth and variety of our opportunities pipeline.

An important milestone in the period was the receipt of an $8m order for 8 commercial reactors with a combined capacity of 1,400 barrels per day (bpd) from our engineering partner, Ventech Engineers International LLC (Ventech). This order was a key element of the partnership agreement we announced in November 2012, and provides the initial kick-start required to enable our fabrication supply chain. The first mass manufacturing cell is being completed and production of the reactors will start shortly. This puts the Company in a strong position to ramp up volumes as we receive further orders.

In July, we were pleased to welcome to our board two new members; Paul Schubert, our Chief Operating Officer, joined as an executive director, and Julian West as a non-executive director. Both bring highly complementary and relevant experience. In Paul’s case, this is in the petrochemical and natural gas industries in various technical and general management roles; whilst Julian has broad expertise in energy policy, privatisation, energy economics, and regulation of energy companies. Both have already been significant contributors to the Company in their roles prior to this appointment, and I am confident they will strengthen the Board in their new positions.

Total revenues for the period were £1.7 million (H1 2012: £3.6 million) due to the expected fall off in development revenue during this transition phase to commercialisation. Cash* at period end stood at £31.8 million (H1 2012: £12.1 million), while cash* outflow was £7.0 million (H1 2012: £5.0 million).

Outlook

We have made a good start to the year as we move forward in the process of commercialisation. The market backdrop is favourable and our technology continues to lead the field as a pioneering enabler for smaller scale modular GTL. With a strong balance sheet and a healthy pipeline of opportunities which are making good progress through the engineering and evaluation stages that will lead to orders, the Company is well positioned to meet its commercial goals. The Board looks forward to success in achieving initial plant sales.

* Defined as cash, cash equivalents, short-term investments and other financial assets.

CHIEF EXECUTIVE'S REPORT
Roy Lipski

Introduction

During the first half of 2013, the Company continued to make progress on its commercial rollout, with particular focus on the development of our pipeline with key partners around the world and across the variety of applications in which our technology can be used.

Market Conditions

The outlook for distributed scale synthetic fuels production continues to look promising across a number of markets. As previously noted, shale gas and opportunities arising from associated or low value stranded gas create significant prospects for smaller scale GTL. Whilst North America continues to be an area of high interest, we have over the course of 2013 seen increasing attention from other regions, significantly from Russia and other CIS countries. Through our engineering and other partnerships, we are well placed to address these opportunities across the globe.

At this critical early adoption phase, it is important to note that the market and economic backdrop continue to be favourable and reinforce the compelling rationale for our potential customers to adopt smaller scale GTL. Gas prices remain at historically low levels, with the long-term outlook suggesting this will persist, leading to increased interest from a diverse range of likely customers and partners. These drivers are reinforced by many specific local factors that further enhance the attractiveness of our offering.

Commercialisation

Sales and Prospects

The Company has a healthy pipeline of prospects which continue to develop towards eventual sales. The nature of process technology is such that customers need to complete engineering studies and extensive technical due diligence before getting to the point of placing an order. Our sales pipeline keeps maturing in this way, and we have also had additional prospective customers initiate engineering studies during the period.

The Company is working closely with a number of engineering partners to progress plant opportunities. For example, Ventech has several potential plants in engineering, is considering investing in a number of GTL facilities, and is also progressing a GTL project of its own in Texas, USA.

During the period, we have successfully completed technical due diligence with a number of companies. Typically this includes site visits to ourselves, our engineering partners and our manufacturers, review of our data and in many cases a review by an independent engineer. For competitive reasons, the Company's policy is generally not to announce projects byname until such time as customers choose to discuss them publicly. Two such announcements were made since the last financial report.

During H1, we were selected as the FT technology provider for the design and possible construction of a commercial Biomass-to-Liquids (BTL) plant led by Red Rock Biofuels, a subsidiary of IR1 Group LLC (IR1). IR1 is an experienced biofuels project developer; the plant will be located in Oregon, USA and will be designed to convert some 170,000 tons per year of forestry derived biomass into approximately 1,100 bpd of liquid transportation fuels. Preliminary engineering on this facility is complete and the project was recently awarded a $4.1 million grant from the US Department of Defense (under the Defense Production Act Title III Advanced Drop-in Biofuel Production Project) which will help fund detailed engineering, following which the project will have an opportunity to apply for a further grant of up to $70 million to construct the proposed plant.

Another project for which our technology has been selected is with Pinto Energy, LLC (Pinto) at a site near the Port of Ashtabula, Ohio, USA. As announced post period end, Pinto plans to convert abundant low-cost natural gas from the nearby Utica and Marcellus shale region into high value specialty products (solvents, lubricants and waxes), as well as ultra clean transportation fuels. Pinto and Ventech began the design work for this plant in April 2013, and recently filed the project's air and water permit applications. Final notice to proceed is expected in the first half of 2014; mechanical completion of the plant is anticipated in late 2015, with start-up in early 2016. This 2,800 bpd project is planned to be the first phase of a multi-train facility at Ashtabula, which itself is the first of its portfolio of other sites where Pinto intends to develop smaller scale GTL plants with the Company's technology.

As previously reported, in July 2012, the Company was selected by project developer Solena Fuels Corporation (Solena) to provide its FT technology to GreenSky London, Europe's first commercial scale sustainable jet fuel facility being developed in partnership with British Airways, as well as to other similar plants planned by Solena for other cities. The GreenSky London project continues to progress and Solena expects pre-FEED engineering to be completed and FEED to commence before year end. The plant is being designed to convert 560,000 tonnes per annum of London's waste, currently sent to landfill or incinerated, into ~55,000 tonnes (~1,300 bpd) of sustainable low carbon jet fuel, and ~55,000 tonnes (~1,300 bpd) of ultra-low sulphur FT diesel, green naphtha and renewable power. Solena has advised that the operational date is expected to be 2016.

Also as previously reported in September 2012, the Company's FT technology was selected by Calumet Specialty Product Partners, L.P. (Calumet) for a potential commercial GTL plant at their Karns City, Pennsylvania, USA refinery. Calumet has now completed the first phase of engineering with Ventech and is evaluating options for configuring the GTL facility, prior to a decision to proceed.

<u>Demonstration and Training Facility</u>

The Company has continued its demonstration, which includes both its FT and Steam Methane Reforming (SMR) reactors, in Fortaleza, Brazil that began in late 2011. This project has been entirely funded and managed by the Company's offshore GTL partners Toyo Engineering (Toyo) and MODEC in collaboration with the Brazilian national oil company Petrobras. During the period, the Company has received an additional milestone payment for progress on this project, bringing the total received to date to 4 out of 5 expected milestone payments. Progress towards full qualification is being made, with the current phase of operations at Petrobras anticipated to be complete by year end.

Our pilot plant, constructed during 2012 at our facilities in Ohio, USA, began operating during the period and has provided useful commercial data, as well as producing product samples for potential customers.

<u>Manufacturing and Supply Capability</u>

The Company has made good progress in moving its supply chain forward. Our strategy is to have qualified manufacturers to make reactors and catalysts to our design and specification.

During the first quarter of the year, we completed the manufacture of a multi-core reactor which is now located at the site of our partner, Ventech. Fabrication of this commercial scale reactor has allowed us to optimise the final design for manufacture of reactors at volume, as well as giving us a commercial reactor which has been certified by an independent third party expert as fit for deployment. Furthermore, this reactor is being used to train our service partners in loading and unloading catalyst, and to demonstrate and finalise the service, manufacturing and quality protocols.

Also during the period, we worked with our partners to finalise the development of a supply chain which includes a replicable and scalable, automated manufacturing cell incorporating state-of-the-art equipment designed to produce reactors cost effectively and in a highly quality-controlled way. Following the first order from Ventech, building of the first such cell at our manufacturer's site has commenced and will be complete by year end. Initial capability will support annual sales of up to 10,000 bpd of capacity, and plans are in place to enable expansion by several fold in due course.

The targeted completion date for the reactors for Ventech is around 18-20 months from date of order, although the schedule will be monitored and may be adjusted subject to customer requirements. We are very pleased with the progress made to date by our manufacturing partners in the execution of this order, and are confident in the plans for our supply chain to meet increasing numbers of sales going forward.

Intellectual Property
The Company has continued to grow and protect its intellectual property (IP) portfolio which now includes 871 patents granted and pending, and an even larger number of invention records. During the period, the Company filed 4 new patent applications, while 41 patents were granted in jurisdictions including the US, Australia, Canada, China, Japan, and various European countries.

Where it sees infringement by others, the Company has taken action to protect its IP. In March 2013, Velocys filed a case against CompactGTL in the UK alleging infringement of two patents; as at the date of these financial statements this case is progressing through the courts.

This is in addition to legal action taken out in April 2010, previously reported, in which the Company claimed infringement of its IP against a supplier of CompactGTL (Velocys v. Catacel). The current status of this US case is that the Federal judge has found in favour of the Company for its motion for sanctions relating to conduct exhibited by the defendant and their counsel. Claims construction arguments have been heard and a ruling is pending.

In response to Velocys filing the US case against its supplier, CompactGTL challenged eight of the Company's patents in the US and seven in the UK. Of the eight in the US, seven have been processed by the US Patents office and have successfully passed re-examination, including one of the patents at suit in the US. The remaining US patent under challenge is awaiting re-examination. CompactGTL did not continue its challenge in the UK after its initial filing in June 2010, and two of these patents are now included within the UK case. These are UK equivalents of US patents that were challenged and successfully passed re-examination.

In the meantime, management will continue to seek business solutions that promote the Company's interests, in preference to resolution through legal means.

Rebranding
Earlier this month, we formally completed the name change from Oxford Catalysts Group PLC to Velocys plc and rolled out our new brand identity. This enables us to present a single front to our customers and investors, and completes the integration of the two companies, Oxford Catalysts and Velocys, which joined forces in 2008.

Resources
The Company has continued to develop its commercial capability and has recruited additional staff in business development, marketing, engineering and operations, making

several key appointments in the first half of 2013. This brings the total number of Company employees to 93, with approximately three-quarters in the US and the remainder in the UK.

Recognising the importance of Houston as a centre for activity and talent in the oil and gas industry, we are establishing an office there which will be a base for commercial and engineering activities. Our new recruits in these fields, as well as certain key existing employees who have been relocated, will be based there. Our base in Houston is already providing benefits and will help to further accelerate commercial roll out and consolidation of the Company's leading position in smaller scale GTL.

Financial Review

As the Company transitions from its R&D activities to a commercial operation, inevitably revenues from development funding have reduced; revenues during the period were £1.7 million (H1 2012: £3.6 million). This derives primarily from milestone payments on the Petrobras demonstration and from revenue recognised on the sale of reactors to Ventech.

Unfunded research and development costs and Other administrative expenses have increased to £7.8m (H1 2012: £6.1m) due to the ramp up of commercial activities. Losses for the period were £7.1 million (H1 2012: £4.9 million). Cash* outflow in the period was £7.0 million (H1 2012: £5.0 million).

The Company is well capitalised to see it through this pre-commercial phase, having successfully closed an equity funding on 3 January 2013 which raised £30.6 million (before expenses). At period end, the Company had £31.8 million of cash* (FY 2012: £12.1 million).

* Defined as cash, cash equivalents, short-term investments and other financial assets.

CONSOLIDATED INCOME STATEMENT

FOR THE SIX MONTHS ENDED 30 JUNE 2013

	Note	**6 months ended 30 June 2013 (unaudited)** £'000	6 months ended 30 June 2012 (unaudited) £'000	Year ended 31 December 2012 (audited) £'000
Revenue	3	1,731	3,640	7,632
Cost of sales		(1,204)	(2,208)	(4,769)
Gross profit		527	1,432	2,863
Unfunded research and development costs		(4,741)	(3,463)	(7,088)
Share-based payments		(677)	(380)	(1,341)
Other administrative expenses		(3,020)	(2,655)	(5,369)
Total administrative expenses		(8,438)	(6,498)	(13,798)
Operating loss		(7,911)	(5,066)	(10,935)
Finance income	4	631	84	152
Finance costs		(42)	(114)	(53)
Other income		50	-	-
Finance income (costs), net		639	(30)	99
Income tax credit		187	225	437
Loss for the period attributable to equity holders of the Company		(7,085)	(4,871)	(10,399)
Loss per share attributable to equity holders of the Company				
Basic and diluted (pence)	5	(6.13)	(5.40)	(11.47)

The results from the periods shown above are derived entirely from continuing operations.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2013

	Note	**6 months ended 30 June 2013 (unaudited)** £'000	6 months ended 30 June 2012 (unaudited) £'000	Year ended 31 December 2012 (audited) £'000
Loss for the period		(7,085)	(4,871)	(10,399)
Other comprehensive income				
Foreign currency translation differences	6	1,602	(236)	(1,269)
Total comprehensive expense for the period		(5,483)	(5,107)	(11,668)

CONSOLIDATED BALANCE SHEET
AS AT 30 JUNE 2013

	Note	**30 June 2013 (unaudited)** £'000	30 June 2012 (unaudited) £'000	31 December 2012 (audited) £'000
Non-current assets				
Intangible assets		26,922	25,986	25,205
Property, plant and equipment		2,045	2,096	1,896
		28,967	28,082	27,101
Current assets				
Trade and other receivables		1,139	1,408	1,592
Current income tax asset		825	775	600
Inventory		349	358	330
Financial assets – restricted access escrow account		-	393	-
Short-term investments – funds held on long-term deposit		16,375	1,941	-
Cash and cash equivalents		15,395	9,774	9,451
		34,083	14,649	11,973
Total assets		63,050	42,731	39,074
Current liabilities				
Trade and other payables		(3,216)	(3,282)	(3,927)
Borrowings		(75)	(79)	(74)
		(3,291)	(3,361)	(4,001)
Non-current liabilities				
Trade and other payables		(280)	(195)	(147)
Borrowings		(1,218)	(1,234)	(1,181)
Total liabilities		(4,789)	(4,790)	(5,329)
Net assets		58,261	37,941	33,745
Capital and reserves attributable to owners of the Company				
Called up share capital	7	1,162	902	914
Share premium account	7	95,736	65,270	66,662
Merger reserve	7	369	369	369
Share-based payment reserve	7	7,708	6,070	7,031
Accumulated losses	7	(46,714)	(34,670)	(41,231)
Total equity		58,261	37,941	33,745

The financial statements were approved by the Board of Directors on 30th September 2013, and were signed on its behalf by:

Susan Robertson
Chief Financial Officer

CONSOLIDATED CASH FLOW STATEMENT

FOR THE SIX MONTHS ENDED 30 JUNE 2013

	6 months ended 30 June 2013 (unaudited) £'000	6 months ended 30 June 2012 (unaudited) £'000	Year ended 31 December 2012 (audited) £'000
Cash flows from operating activities			
Operating loss before taxation	(7,911)	(5,066)	(10,935)
Depreciation and amortisation	407	593	1,170
Share-based payments	677	380	1,341
Changes in working capital (excluding the effects of exchange differences on consolidation)			
- Trade and other receivables	664	(146)	(234)
- Trade and other payables	(750)	(253)	441
- Inventory	5	(53)	(34)
Tax credit received	-	225	387
Income tax paid	(38)	-	-
Other	-	(2)	-
Net cash used in operating activities	(6,946)	(4,322)	(7,864)
Cash flows from investing activities			
Purchases of property, plant and equipment	(415)	(330)	(696)
Purchases of intangible fixed assets	(230)	(226)	(358)
Interest received	107	84	225
Interest paid	(16)	(17)	(53)
Sale of assets	44	-	-
Decrease (increase) in cash placed on deposit and restricted access escrow account	(16,375)	4,131	6,459
Net cash (used in) from investing activities	(16,885)	3,642	5,577
Cash flows from financing activities			
Proceeds of issuance of ordinary shares	29,322	-	1,404
Decrease in borrowing	(38)	(48)	(63)
Net cash from (used in) financing activities	29,284	(48)	1,341
Net increase (decrease) in cash and cash equivalents	5,453	(728)	(946)
Cash and cash equivalents at the beginning of the period	9,451	10,579	10,579
Exchange gains/(losses) on cash and cash equivalents	491	(77)	(182)
Cash and cash equivalents at the end of the period	15,395	9,774	9,451

NOTES TO THE ACCOUNTS

FOR THE SIX MONTHS ENDED 30 JUNE 2013

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

Basis of Preparation

The unaudited interim financial statements have been prepared in accordance with International Financial Reporting Standards and International Accounting Standards (collectively IFRS) as adopted by the EU including those applicable to accounting periods ending 31 December 2013 and the accounting policies set out in Velocys plc's Annual Report for the year ended 31 December 2012. These unaudited interim financial statements have been prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting". They do not include all the statements required for full annual financial statements, and should be read in conjunction with the consolidated financial statements of the Company as at 31 December 2012.

Revenue Recognition

The Company is usually able to reliably estimate the outcome of a contract at inception and accordingly recognises revenue and cost of sales by reference to the stage of completion of the contract. Revenue is typically measured by applying to the total contract revenue, the proportion of costs incurred in the period for work performed in relation to the total estimated contract costs. Where it is not possible to reliably estimate the outcome of a contract, revenue is recognised equal to the costs incurred, provided recovery of such costs is probable. If total contract costs are forecast to exceed total contract revenue, then the expected loss is recorded immediately in the income statement. Where a contract contains multiple elements, the individual elements are accounted for separately where appropriate. Provision is made for all foreseeable losses in the period in which it is identified.

2. PUBLICATION OF NON-STATUTORY ACCOUNTS

The financial information for the six month periods ended 30 June 2013 and 30 June 2012 has not been audited and does not constitute full financial statements within the meaning of Section 240 of the Companies Act 1985.

The financial information relating to the year ended 31 December 2012 does not constitute a full financial statement within the meaning of Section 240 of the Companies Act 1985. This information is based on the Company's statutory accounts for that period. The statutory accounts were prepared in accordance with IFRS, received an unqualified audit report, did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying the report and did not contain statements under section 237(2) or (3) of the Companies Act 1985. These accounts have been filed with the Registrar of Companies.

3. SEGMENTAL INFORMATION

Business Segments

At 30 June 2013 the Company is organised as a world-wide business comprising a single segment.

Geographic Segments

The Company's business operates in three main geographical areas. Revenue is allocated based on the country in which the customer is located.

	6 months ended 30 June 2013 (unaudited)			6 months ended 30 June 2012 (unaudited)		
	Europe £'000	Americas £'000	Asia Pacific £'000	Europe £'000	Americas £'000	Asia Pacific £'000
Revenue	9	663	1,059	162	1,424	2,054

4. FINANCE INCOME

	6 months ended 30 June 2013 (unaudited) £'000	6 months ended 30 June 2012 (unaudited) £'000	Year ended 31 December 2012 (audited) £'000
Interest income on bank deposits	221	80	136
Foreign exchange gains	410	4	16
	631	84	152

Finance income for the period includes £221,000 (H1 2012: £80,000) of interest income arising from cash balances held by the Company, which increased in January 2013 due to the fund raising. Of the remainder, £275,000 (H1 2012: nil) arises from foreign exchange gains on forward contracts held to hedge future dollar costs, and the remainder £135,000 (H1 2012: £4,000) is foreign exchange gains on dollar cash balances.

5. EARNINGS PER SHARE

The calculation of earnings per share is based on the following losses and number of shares:

	6 months ended 30 June 2013 (unaudited)			6 months ended 30 June 2012 (unaudited)			Year ended 31 December 2012 (audited)		
	Loss £'000	Number of shares '000	Pence per share	Loss £'000	Number of shares '000	Pence per share	Loss £'000	Number of shares '000	Pence per share
Basic & fully diluted	(7,085)	115,513	(6.13)	(4,871)	90,210	(5.40)	(10,399)	90,660	(11.47)

6. FOREIGN CURRENCY TRANSLATION

The foreign currency translation differences included in the Consolidated Statement of Comprehensive Income primarily relate to differences arising on the translation into pounds Sterling of a) the Company's net investment in Velocys whose assets and liabilities are denominated in US dollars, and b) goodwill and fair value adjustments arising from the acquisition of Velocys in 2008 which are also denominated in US dollars.

7. RECONCILIATION OF MOVEMENT IN TOTAL EQUITY

	Called up share capital	Share premium account	Merger reserve	Share-based payments reserve	Accumulated Losses	**Total**
	£'000	£'000	£'000	£'000	£'000	£'000
At 1 January 2013	914	66,662	369	7,031	(41,231)	33,745
Loss for the period	-	-	-	-	(7,085)	(7,085)
Share-based payments – value of employee services	-	-	-	677	-	677
Proceeds from share issues	248	29,074	-	-	-	29,322
Foreign currency translation differences	-	-	-	-	1,602	1,602
At 30 June 2013	1,162	95,736	369	7,708	(46,714)	58,261

8. CONTINGENT LIABILITIES

In April 2010, Velocys Inc., a subsidiary of the Company, filed a lawsuit in the US against Catacel Corp. ("Catacel"), a supplier of catalysts to CompactGTL plc ("CompactGTL"), claiming infringement of several of the Company's United States patents. In October 2011, the judge in this case, found in favour of a sanctions motion against the other side. A ruling on damages to be awarded to Velocys in relation to this is still pending at the date of these financial statements.

In response to this case, CompactGTL challenged the validity of 8 Company patents in the US, one of which is included in the infringement claim. As at the date of these financial statements, 7 of these patents have already successfully passed re-examination (including the one which is included in the US infringement claim) and one is still pending. In addition, CompactGTL filed a case in the UK courts challenging the validity of 7 UK Company patents but did not progress this further.

In March 2013, Velocys Inc. filed a case against CompactGTL in the UK courts alleging infringement of two Company patents, which are among the 7 UK patents previously challenged by CompactGTL. These patents are the UK equivalent of 3 of the US patents referred to above that successfully passed re-examination in the US. It has been agreed with the courts that the validity claims by CompactGTL for these two patents will be incorporated into this case.

Whilst the outcome of these cases is not certain, the Directors are confident of the Company's infringement cases against Catacel and CompactGTL, and of the validity of those of its patents that are being challenged, particularly in light of the successful re-examination record to-date. Furthermore, the Directors consider that even in the unlikely event of a successful challenge to the few remaining patents in question, this would have no material detrimental impact on the Company's business or the overall strength of its patent portfolio.

Costs incurred to date relating to these cases have been expensed. However, given the nature of UK patent challenges, should its case be unsuccessful, the Company may be liable for some of CompactGTL's UK legal costs (and vice versa). On this basis, no provision has been recognised in respect of this action.