News release

Velocys plc

("Velocys" or "the Company")

27th April 2016

Final results for the year ended 31 December 2015

Velocys plc (VLS.L), the company at the forefront of smaller scale gas-to-liquids (GTL), is pleased to announce its final audited results for the year ended 31 December 2015.

Highlights

- Strengthened management team with the appointment of David Pummell as new CEO (post period end)
- Good progress on ENVIA Energy's GTL project in Oklahoma City:
  - Manufacture of reactors and catalyst complete
  - Fabrication of all the modular process units complete; these modules, including those incorporating the Velocys reactors, have been delivered and set in place on site
  - Project expected to be fully funded through completion, commissioning and operation
  - Enhanced role and equity stake in the project for Velocys
  - Mechanical completion is expected in mid-year 2016
- Healthy opportunities pipeline for smaller scale GTL:
  - Speciality chemicals, remote markets and low feedstock drive attractive plant economics
  - Existing opportunities continue to progress with several new projects undergoing paid engineering studies, although timescales on some projects have been extended
- Velocys pilot plant demonstrated significant technology optimisation
- Revenue of £2.0 million (FY 2014: £1.7 million before exceptional items)
- Cash* at year end of £37.7 million (FY 2014: £59.8 million)

* Defined as cash, cash equivalents and short term investments (see note 6)

David Pummell, CEO of Velocys, said:

"From my first few months as CEO I am hugely impressed by the quality of the team and the momentum the Company is making on a number of fronts. Our technology is differentiated and is being rolled out at ENVIA, and the next challenge is to determine exactly where we must focus commercially. Even with current commodity prices the economics of smaller scale GTL plants are attractive in certain markets. Today's tough market environment still provides attractive opportunities that our leadership position allows us to pursue. It is clear that Velocys has great potential to deliver significant future value growth."

For further information, please contact:

Velocys +44 1235 841 700
David Pummell, CEO
Susan Robertson, CFO

Numis Securities (Nomad and Broker) +44 20 7260 1000
Alex Ham – Corporate Broking
Stuart Skinner / Jamie Lillywhite – Nominated Adviser

Camarco (financial communications & PR) +44 20 3757 4983
Billy Clegg / Georgia Mann

Notes to editors

About Velocys

Velocys is the company at the forefront of smaller scale gas-to-liquids (GTL) that turns natural gas or biomass into premium products such as diesel, jet fuel, waxes and base oils. Smaller scale GTL adds value to shale gas and bio-waste, and makes stranded or flared gas economic – an untapped market of up to 25 million barrels per day.

Velocys technology, protected by several hundred patents in over 30 countries, is specifically designed for smaller scales, combining super-active catalysts with intensified reactor systems. The Company's standardised modular plants are designed to be easier to ship and faster to install, at lower risk, even in the most remote or challenging locations. Together with world-class partners, Velocys works flexibly to unlock gas resources of 15,000 to 150,000 mmbtu per day, allowing more companies to take advantage of more opportunities.

Velocys plc is listed on the AIM market of the London Stock Exchange (LSE: VLS). The Company is well capitalised and has a multi-disciplinary staff of around 100 operating from its commercial centre in Houston, Texas, USA and technical facilities near Oxford, UK and Columbus, Ohio, USA. Its commercial reference plant, which will be located adjacent to Waste Management's East Oak landfill site, is expected to reach mechanical completion in mid-year 2016.
www.velocys.com

Think Smaller™. Velocys is changing the way fuels are made.

Chairman's statement

Pierre Jungels, CBE

Commercialising a new process technology is never easy, so I have been enormously encouraged by the great strides forward seen across all areas of the business during 2015; from supply chain delivery to intellectual property protection, from improvements in pilot plant results to progress on our commercial reference plant in Oklahoma City and on new projects. This headway and our market leading position in smaller scale GTL has been achieved whilst maintaining the highest health and safety standards and maintaining good relationships with stakeholders in a market unsettled by the low oil price.

There have been a number of recent Board and management changes to best equip Velocys during this, its next phase of growth. In January 2016 the Board was delighted to announce the appointment of David Pummell as Chief Executive Officer. David brings to the Company over 30 years of energy and oil industry experience, including 22 years at BP and previous experience as CEO at MAPS Technology Ltd, Ceres Power and ACAL Energy.

In David Pummell, the Board is confident it has found someone with experience in chemical sector business, operations and engineering management that is highly relevant to this stage of the Company's commercialisation. Coupled with this, he has the commercial expertise required to provide strategic vision, experience in business-to-business deal creation and execution around the world, and the understanding of how to finance such initiatives. We have every belief that David's inclusive management style will motivate and lead the team decisively and collaboratively, driving Velocys through its next opportunities and challenges.

Former CEO Roy Lipski left the Company by mutual consent in August 2015. Through his entrepreneurial skills and spirit Roy led Velocys' transformation from an interesting idea to a substantial company on the verge of commercialisation. We are all grateful to him for his contribution.

I would like to extend my thanks to Susan Robertson, CFO, who took on the role of Acting CEO during the transition period. She, ably supported by the Company's capable and established senior management team, ensured that business proceeded uninterrupted during the second half of 2015. This gave the Board the time it needed to conduct a thorough search and selection process for a permanent CEO adhering to the highest standards of corporate governance. It is our collective belief that not only will Velocys become a great company, but a company that will achieve those great things in the right and proper way.

There have been other changes to the Board this year. Non-executive Director Andrew Jamieson stepped down from his role in order to devote more time to his many other interests. I thank him for his five and a half years of valued service. The considerable banking and finance sector experience that new Non-executive Directors Mark Chatterji and Ross Allonby have brought to the Board has been highly relevant at this stage in the growth of the Company.

Commodity prices are currently dominating the headlines, yet natural gas continues to be an abundant, low cost and, in many situations, under-utilised resource. During this, the early market adoption phase for smaller scale GTL, there are ample local opportunities that show every sign of retaining their value. In the medium term, we expect the much larger mainstream market for smaller scale GTL will become available as gas-oil arbitrage opportunities return.

It is healthy, at such times of very low oil price, for a company to review and test its current portfolio of opportunities, ensuring a robust business model that will allow it to thrive regardless of market cycles. Under David Pummell's leadership, Velocys is conducting a broad review of the strategy of the business, including its routes to market. The senior management team looks forward to setting out the Company's strategic vision later in the year.

As a strongly positioned, well-run company the challenging market conditions bring opportunities to Velocys. The Company not only has a leading technology advantage, it also has a commercial plant committed and under construction, one of the largest, most experienced Fischer-Tropsch teams in the industry, supportive partners and investors that take a strategic view of the business and a healthy balance sheet. It is from this position of strength that the Company is able to exploit selected attractive opportunities.

Outlook

Under David Pummell's leadership the reinvigorated Velocys team has started 2016 on a firm footing and is focused on delivering the completion and operation of ENVIA Energy's GTL plant. Once it is up and running, Velocys will be a very different business, with a leadership position in smaller scale GTL in the important North American market.

Chief Executive's report

David Pummell

Introduction

Since my appointment in January 2016 I have been excited to find in Velocys a company that has the potential and the requisite competencies to deliver smaller scale GTL on a world stage. Our global market-leading position combined with our impressive investor base together make a truly differentiated and robust platform from which to commercialise our technology. What has struck me most has been the unabashed, and to a person, deep desire for success from a strong and established team, and their will to go the extra mile to make it happen.

2015 was a challenging year, not least because of the oil price and changes in leadership within the Company. In the face of those challenges Velocys' management and its technical and commercial teams remained focused on project delivery, and in particular on the ENVIA Oklahoma City plant, the successful operation of which will be a transformational event for the Company.

Market conditions

Even in the current commodity price environment, a significant number of attractive opportunities continue to be found and developed for smaller scale GTL. Plant economics remain favourable for projects that access low price feedstock, exploit isolated markets where fuel prices are high, or target high value speciality products such as waxes.

The Company's understanding of and access to the wax market advanced significantly during 2015 through the development of its Ashtabula project. We have established the quality of the final cuts of our Fischer-Tropsch (FT) products for a range of speciality applications, have qualified the market demand for such products and verified that their price remains decoupled from oil price movements. Waxes produced by our FT process are expected to command prices that are many multiples of the oil price, and some FT wax cuts carry a premium on petroleum waxes. There is sufficient market demand for waxes to support a number of smaller scale GTL projects, and Velocys technology, which is perfectly adapted to match the scale of these opportunities, remains the best placed to take advantage of this opportunity.

Commodity prices are likely to challenge the oil and gas industry for months and years to come. The strategy review I intend to complete later this year will in part consider how we address such low points in the cycle, how we increase our robustness, and which markets we must focus on to commercialise at pace. My approach to this review of the business' future strategy will be to continuously drive simplicity, focus and delivery in all we do.

Commercialisation

<u>Commercial reference plant</u>
Good progress was made in 2015 on ENVIA Energy's GTL plant in Oklahoma City, which will act as the commercial reference plant for Velocys' technology. ENVIA Energy is the new name for the joint venture, in which Velocys holds a stake, which was formed in March 2014 to produce renewable fuels and chemicals from biogas and natural gas using GTL.

Manufacture of the full-scale commercial FT reactors and the initial catalyst charge for the plant were completed by Velocys' supply chain partners in 2015, and all certifications required at this stage were secured. Fabrication of all the modular process units has been completed and these modules, including those incorporating the Velocys reactors, have been delivered and set in place on site. Mechanical completion is expected in mid-year 2016.

Following the further funding of up to US$12 million that Velocys has made available to ENVIA at the start of 2016 as part of a stakeholder capital contribution, the Company believes that the plant will be fully funded through construction, completion and operation. Of the US$12 million committed, US$3 million was an equity contribution, and US$9 million was provided as a loan secured on the project, with a 10% coupon. Velocys has the opportunity for early repayment of the loan after the plant is operational. The funding was accommodated from the Company's balance sheet.

The terms of the loan provide Velocys the opportunity to gain a greater equity share of the project and greater influence in the commissioning, start-up and operations of the plant, which will provide further assurance of delivery and generate additional revenue in 2016.

The Company's technical teams were strengthened further in 2015 with key appointments, including highly-skilled process engineers and scientists who have considerable experience in designing, commissioning and operating commercial GTL plants. One employee, who joined us directly from the successful start-up of the Escravos GTL plant in Nigeria, is currently taking a lead role in finalising procedures and protocols for commercial plant operation, after which he and others will mobilise to the ENVIA Oklahoma City site to lead the commissioning and start-up activities.

Commercial pipeline

Red Rock Biofuels, which is developing a biomass-to-liquids plant using forestry waste as feedstock in Lakeview, Oregon, USA, made a number of announcements over the course of 2015, including:

- An offtake agreement was signed with FedEx. Between Southwest Airlines and FedEx offtake of all the jet fuel that will be produced by the plant has been contracted.
- It secured partner financing from Flagship Ventures.
- It completed in 2016 the merger with Joule Unlimited, Inc., which is pioneering the production of ultra-low carbon fuels from recycled CO_2. Their demonstration unit is expected to be co-located at Lakeview.
- It signed a Long-term Rural Enterprise Zone Agreement and a Natural Gas Capacity Sharing Agreement with Lake County.

The merger with Joule, though bringing beneficial synergies to the project, has temporarily slowed progress with financing. Unforeseen but surmountable permitting delays are also being worked through. Velocys and Red Rock have signed extensions to the contracts for the supply of Velocys technology to the plant and the project developer remains confident of reaching final investment decision (FID) in 2016.

Velocys continued to develop its own pipeline of projects, the most advanced of which is the plan for a 5,000 barrels per day (bpd) GTL plant targeting speciality products in the US, scoped for the Company's site at Ashtabula in Ohio. Towards the end of 2015 the timeline of the project was extended while the Company furthered its work on the plant engineering and reviewed its strategy on the funding of the development activities needed to take a plant to FID. Despite this extended timeline, the high value of the speciality products that such a plant could produce means that projected plant economics remain attractive.

Progress on the project in 2015 included:

- Identification of product off-take partners and completion of qualification processes with a number of them. Letters of intent are in place with those companies.
- Securing letters of support from a major lender and a potential investor in the project.
- Developing a clear path to achieve the engineering procurement and construction and performance guarantee structure that will be needed to achieve project financing for the project, and securing the services of a major engineering firm with the influence to make this happen.
- Delivery in early 2016 of an engineering study for an integrated plant design, which validated the overall capital costs of the facility.

- Demonstration of above-expectation performance at target conditions by the Velocys pilot plant.

A large proportion of the work completed on this specialities plant would be readily transferable to other sites.

The Company continues to believe that the successful operation of ENVIA's plant in Oklahoma City will expedite third party sales opportunities. Even before this, significant advances continue to be made on new projects. For example, at the start of 2016 an engineering study was commissioned for a project being developed by a national gas company in Central Asia that is seeking to develop its stranded gas reserves.

Over the same timeframe Amec Foster Wheeler commenced an initial engineering study on the development of a new waste-to-liquids (WTL) project in the UK, where a combination of gate fees and fuel credits aid plant economics. Velocys is partnering on this project with a company affiliated to its largest shareholder, Ervington Investments. The Company sees significant commercial interest in WTL projects as FT technology is one of only a few commercial options for making sustainable jet fuel. Progress on GreenSky London ceased in 2015 when its project developer filed for bankruptcy.

Additionally, Velocys remains in active and ongoing discussions relating to an opportunity with a major fuels player. The project has an advantageous site with low-cost feedstock. Equity investors, feedstock suppliers and product offtakes are in place and the project has the potential to progress swiftly to FID.

Other projects

In 2014 Velocys announced that it had received an order from a CIS-based customer for a 175 bpd reactor for delivery in 2015. This reactor has been completed and partial payments have been received. Given the political and market situation the project developer has not been able to achieve full funding for its plant, which is now on hold. The original contract with the developer has been terminated, the reactor is in storage in the USA and confidential documents have been returned to Velocys.

Pilot plant and operational facilities

The Velocys pilot plant (VPP) has been one of our most significant resources for the validation of our technology and the support of project-specific business development activities.

In the 18 months to November 2015 the VPP demonstrated a greater than 50% increase in capacity without changing the commercial catalyst formulation or the reactor design. This was achieved due to improvements in the details in the reactor manufacturing process and optimisation of operating conditions (while simultaneously maintaining the superior yields of high-value products). These improvements have been locked into build protocols for the Company's commercial reactors and incorporated in operating procedures that will be used at ENVIA and all other proposed plants in the sales pipeline.

Our commercial plants will be subject to feedstock and situational variances and a robust technology needs to be resilient to these changes. Piloting, at the VPP and elsewhere, has demonstrated our technology's ability to perform in various operational modes including upset conditions; approximately 1,000 hours of VPP testing were dedicated to such alternative modes and regimes during 2015. The operating protocols developed at the VPP in 2015 for plant start-up, catalyst regeneration, shut-down, and operation, including potential upset and transient conditions will maximise the up-time of commercial plants.

During 2015 extensive tests were performed at the VPP establishing the operating parameters for optimum performance over a wide range of gas feed compositions. This data was directly correlated with the laboratory scale data. Having completed this programme, we do not require further pilot scale testing to support client plants (using natural gas, biomass or waste as feedstock) operating within that defined range of conditions. This will allow us to put the VPP into standby mode in Q2 2016, but to keep it available for specific client-supported studies. This brings two substantial benefits: reduced operating costs for Velocys and de-risking the ENVIA plant start-up. The operators and engineers who have supported the VPP operations now, as planned, form the core of the start-up team for this and future commercial plants.

The current Velocys FT four-core reactor, which has a capacity of 175 bpd, is well suited for deployment in plants with a total capacity of a few thousand bpd. Adding further standard reactor cores within a single pressure vessel will be accomplished through standard engineering design practices. This approach is consistent with the modular construction methods adopted by Velocys and its partners, and is desirable for deployment in GTL plants of intermediate size. The Company has successfully scaled up its reactor design to individual reactors with capacities in the range 350 to 1,000 bpd and has generated very positive performance data from the extensive modelling programme. In smaller plants the 175 bpd reactors are typically deployed in trains of two or four reactors. In larger plants the larger reactor designs will allow replacement of such trains with a single reactor, substantially reducing the plant footprint and simplifying piping.

Manufacturing and supply capability

Our reactor and catalyst supply chains were fully validated in 2015 through the manufacture of the reactors and catalyst for ENVIA Energy's plant. This has enabled Velocys to ensure that various processes, including quality assurance and quality control, are operating effectively, and that we and our supply chain partners are ready to deliver future orders.

Intellectual property

Two intellectual property (IP) disputes were successfully resolved in 2015. Velocys continues to focus on the commercial roll-out of its technology without any outstanding legal positions.

Velocys settled with Johnson Matthey regarding the patent infringement case Velocys had filed in the US against Catacel Corporation in April 2010. Catacel, a supplier of catalysts to CompactGTL's demonstration unit at Petrobras' facility in Aracaju, Brazil, was purchased by Johnson Matthey in 2014. Under the terms of the settlement, Johnson Matthey has paid to Velocys an undisclosed amount in recognition of the Company's IP, and has acknowledged the validity of Velocys' patent rights and committed to respect them.

Velocys also came to a settlement in the UK IP infringement case that it filed with CompactGTL in 2013. In 2014, the UK High Court upheld the validity of the two Velocys patents in suit, found certain CompactGTL activities at its Wilton pilot plant facility to be infringing both patents and awarded an injunction. With this settlement, both the pending appeal by CompactGTL on validity of some of the claims and an enquiry by the UK High Court into damages have been discontinued. Under the terms of the settlement, CompactGTL has made an undisclosed one-off payment to Velocys in recognition of its IP.

Financial review

Revenue in 2015 was £2.0m (2014: £1.7m before exceptional items, £nil after exceptional items), which included the first revenue to be recognised by Velocys for completed reactors, as well as fees for engineering studies. Gross margin was £0.7m (2014: £1.2m).

All revenue in 2015 was commercial revenue; there was no income from development partners. There was one key contract, with ENVIA Energy, relating to the development of Velocys' commercial reference plant.

Total administrative expenses increased to £25.5m before exceptional items and £26.7m after exceptional items (2014: £24.4m/£25.8m before/after exceptional items). The increase reflected full-year costs for an expanded commercial support and engineering team, and for development activities undertaken by Velocys Project Solutions, LLC.

Other income of £2.0m before exceptional items (2014: £nil m) was mostly made up of proceeds from legal settlements as referred to under Intellectual property in the Chief Executive's report, which offsets costs previously booked in Administrative expenses.

Operating loss was £22.7m before exceptional items and £22.2m after exceptional items (2014: £23.2m/£24.5m before/after exceptional items), which reflected the Company's position of early stage commercialisation, with small but growing revenues and a cost base that includes both R&D and commercial support teams. Cash outflow (excluding share issues) was £22.0m (2014: £18.1m). Outflow was reduced from £13.6m in the first half of the year to £8.4m in the second half, reflecting measures Velocys has taken, and will continue to take, to preserve cash given the market environment.

The exceptional items in 2015 included the full impairment of a customer contract representing the discounted value of expected future income, which the Company had expected to receive in 2015 upon obtaining a final investment decision by outside investors in the Ashtabula project. Since the final investment decision was not reached in 2015, this balance was written down to £nil along with a related deferred tax liability. The exceptional items in 2014 were a write down of revenue due to the restructuring of a key contract, and an impairment of intangible assets.

Net assets of the Company were £68.5m, down from £84.6m in 2014; the main change was due to the cash outflow. Velocys' balance sheet remains healthy with cash, cash equivalents and short-term investments at year end totalling £37.7m (2014: £59.8m).

Consolidated income statement

for the year ended 31 December 2015

	Note	**2015** £'000 Before exceptional items	**2015** £'000 Exceptional items (note 2)	**2015** £'000 Total	2014 £'000 Before exceptional items	2014 £'000 Exceptional items (note 2)	2014 £'000 Total
Revenue	3	2,002	-	2,002	1,736	(1,742)	(6)
Cost of sales		(1,275)	-	(1,275)	(536)	1,742	1,206
Gross profit		727	-	727	1,200	-	1,200
Research and development costs		(13,199)	-	(13,199)	(11,163)	-	(11,163)
Share-based payments		(2,142)	-	(2,142)	(3,407)	-	(3,407)
Administrative expenses		(10,142)	(1,204)	(11,346)	(9,853)	(1,328)	(11,181)
Total administrative expenses		(25,483)	(1,204)	(26,687)	(24,423)	(1,328)	(25,751)
Other income		2,009	1,763	3,772	56	-	56
Operating income (loss)		(22,747)	559	(22,188)	(23,167)	(1,328)	(24,495)
Finance income		1,155	-	1,155	1,225	-	1,225
Finance costs		(53)	-	(53)	(29)	-	(29)
Finance income, net		1,102	-	1,102	1,196	-	1,196
Income (loss) before income tax		(21,645)	559	(21,086)	(21,971)	(1,328)	(23,299)
Income tax credit		1,035	-	1,035	929	-	929
Income (loss) for the financial year attributable to the owners of Velocys plc		(20,610)	559	(20,051)	(21,042)	(1,328)	(22,370)
Loss per share attributable to the owners of Velocys plc							
Basic and diluted loss per share (pence)	4	(14.52)		(14.13)	(17.24)		(18.33)

Consolidated statement of comprehensive income

for the year ended 31 December 2015

	2015 £'000 Before exceptional items	**2015** £'000 Exceptional items (note 2)	**2015** £'000 Total	2014 £'000 Before exceptional items	2014 £'000 Exceptional items (note 2)	2014 £'000 Total
Income (loss) for the year	(20,610)	559	(20,051)	(21,042)	(1,328)	(22,370)
Other comprehensive income						
Items that may be reclassified subsequently to profit or loss if certain conditions are met						
Foreign currency translation differences	1,869		1,869	1,108	-	1,108
Total comprehensive income (expense) for the year	(18,741)	559	(18,182)	(19,934)	(1,328)	(21,262)

Consolidated statement of financial position

As at 31 December 2015

	Note	**2015** £'000	2014 £'000
Assets			
Non-current assets			
Intangible assets		28,378	28,347
Property, plant and equipment		5,507	4,065
Investments	5	3,375	1,711
		37,260	34,123
Current assets			
Trade and other receivables		911	653
Current income tax asset		780	1,778
Inventories		1,393	291
Derivative financial instruments	7	156	435
Short term investments – funds held on deposit	6	3,000	28,083
Cash and cash equivalents	6	34,736	31,693
		40,976	62,933
Total assets		78,236	97,056
Liabilities			
Current liabilities			
Trade and other payables		(7,380)	(10,902)
Borrowings		(288)	(267)
		(7,668)	(11,169)
Non-current liabilities			
Trade and other payables		(1,327)	(69)
Borrowings		(759)	(999)
Deferred tax		-	(269)
		(2,086)	(1,337)
Total liabilities		(9,754)	(12,506)
Net assets		68,482	84,550
Capital and reserves attributable to owners of Velocys plc			
Called up share capital		1,419	1,419
Share premium account		149,197	149,225
Merger reserve		369	369
Share-based payment reserve		15,362	13,220
Foreign exchange reserve		(282)	(2,151)
Accumulated losses		(97,583)	(77,532)
Total equity		68,482	84,550

Consolidated statement of changes in equity

as at 31 December 2015

	Called up share capital £'000	Share premium account £'000	Share-based payments reserve £'000	Merger reserve £'000	Foreign exchange reserve £'000	Accumulated losses £'000	Total equity £'000
Balance at 1 January 2014	1,164	95,793	9,813	369	(3,259)	(55,162)	48,718
Comprehensive income							
Loss for the year	–	–	–	–	–	(22,370)	(22,370)
Other comprehensive income							
Foreign currency translation differences	–	–	–	–	1,108	–	1,108
Total comprehensive expense	–	–	–	–	1,108	(22,370)	(21,262)
Transactions with owners							
Share-based payments – value of employee services	–	–	3,407	–	–	–	3,407
Proceeds from share issues	247	51,785	–	–	–	–	52,032
Issue of ordinary shares in relation to business combination	8	1,647	–	–	–	–	1,655
Total transactions with owners	255	53,432	3,407	–	–	–	57,094
Balance at 1 January 2015	1,419	149,225	13,220	369	(2,151)	(77,532)	84,550
Comprehensive income							
Loss for the year	–	–	–	–	–	(20,051)	(20,051)
Other comprehensive income							
Foreign currency translation differences	–	–	–	–	1,869	–	1,869
Total comprehensive expense	–	–	–	–	1,869	(20,051)	(18,182)
Transactions with owners							
Share-based payments – value of employee services	–	–	2,142	–	–	–	2,142
Employee benefit trust reimbursement	–	(28)	–	–	–	–	(28)
Total transactions with owners	–	(28)	2,142	–	–	–	2,114
Balance at 31 December 2015	1,419	149,197	15,362	369	(282)	(97,583)	68,482

Consolidated statement of cash flows

for the year ended 31 December 2015

	Note	**2015** £'000	2014 £'000
Cash flows from operating activities			
Operating loss before taxation		(22,188)	(24,495)
Depreciation and amortisation		1,277	909
Loss on disposal of property, plant and equipment		5	11
Loss on disposal of intangible assets		383	154
Impairment of intangible assets		1,473	1,328
Write-down of deferred consideration and deferred tax liability		(2,032)	-
Share-based payments		2,142	3,407
Loss (gain) on derivative financial instruments		279	(698)
Changes in working capital (excluding the effects of exchange differences on consolidation)			
-Trade and other receivables		(301)	282
-Trade and other payables		(975)	2,507
-Inventory		(1,066)	(8)
Tax credits received		2,031	901
Net cash used in operating activities		(18,972)	(15,702)
Cash flows from investing activities			
Purchase of property, plant and equipment		(2,262)	(1,544)
Purchase of intangible assets		(395)	(429)
Investment in ENVIA (formerly GTL JV)		(1,535)	(1,613)
Interest received		401	358
Interest paid		(33)	(37)
Decrease (increase) in funds placed on deposit	6	25,083	(16,208)
Net cash generated from (used in) investing activities		21,259	(19,473)
Cash flows from financing activities			
(Employee benefit trust reimbursement) net proceeds of issuance of ordinary shares		(28)	51,570
Decrease in borrowings		(271)	(104)
Net cash (used in) generated from financing activities		(299)	51,466
Net increase in cash and cash equivalents		1,988	16,291
Cash and cash equivalents at beginning of year	6	31,693	14,475
Exchange gains on cash and cash equivalents		1,055	927
Cash and cash equivalents at end of year	6	34,736	31,693

Notes to the financial statements

1. Principal accounting policies

Basis of preparation
The consolidated and parent company financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU), IFRS IC Interpretations and the Companies Act 2006 applicable to companies reporting under IFRS and Article 4 of the IAS Regulation. The consolidated and parent company financial statements have been prepared under the historical cost convention, as modified for fair value required under IFRS and measured in accordance with IFRS 13 'Fair value measurement'.

The accounting policies adopted are consistent with those disclosed in the Company's statutory accounts for the year ended 31 December 2015.

These accounts have been audited and the audit report is unqualified and does not contain a statement under section 237 of the Companies Act. The accounts will be delivered to the Registrar of Companies following the Company's Annual General Meeting on 14 June 2016.

Functional and presentation currency
Items included in the financial statements of each of the Company's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in sterling (£), which is Velocys plc's functional and the Company's presentation currency.

2. Exceptional items

Items that are material because of their size or nature, and/or that are non-recurring are considered as exceptional items and are presented with the line items to which they best relate. Exceptional items, as detailed below, have been included in the consolidated income statement.

Exceptional items were as follows:

	2015 £'000	2014 £'000
Impairment of intangible assets	(1,473)	(1,328)
Deferred tax liability write down	269	-
Deferred consideration write down	1,763	-
Reversal of revenue	-	(1,742)
Reversal of cost of sales	-	1,742
	559	(1,328)

In 2015, the impairment of intangible assets relates to the full impairment of customer contracts. Customer contracts represented the discounted value of expected future income which the Company had expected to receive in 2015 upon obtaining a final investment decision by outside investors in the Ashtabula project (see note 8). Since the final investment decision was not reached in 2015, this balance was written down to £nil. In addition, the related deferred tax liability was written down to £nil.

The deferred consideration arrangement required the Company to issue shares in Velocys plc to the former owners of VPS contingent upon the achievement of final investment decision on the plant in Ashtabula in a specified time frame. The deferred consideration was written down to £nil in 2015 as the final investment decision was not achieved.

The exceptional items in 2014 resulted from the restructuring of a key contract and an impairment of intangible assets. The impairment of intangible assets relates to the full impairment of one of the Company's six cash-generating units.

The 2014 reversals of revenue and costs of sales are related to the restructuring of a major multi-year supply contract for FT reactor cores which was formally agreed in early 2015. The terms of the revised agreement, which provides a more consistent measure of cost of each reactor, resulted in a change in the method of recognising the revenue and costs related to the build of the commercial reactors. The Company will now recognise revenue and costs upon delivery of the commercial reactors under IAS 18 and no longer use the percentage of completion method under IAS 11. The reversals of revenue and costs of sales represent the unwinding of the percentage of completion method for 2013.

The revenue reversed was generated in the Americas.

None of the exceptional items described above had any cash flow impact.

3. Segmental information

The chief operating decision-maker has been identified as the Senior Management Team ("SMT"). This committee reviews the Company's internal reporting in order to assess performance and allocate resources. The SMT has determined the operating segments based on these reports.

The SMT considers that the business comprises a single activity which is the design and development of technology for synthetic fuels production. The SMT reviews the Company's profit or loss and its cash flows, assets and liabilities on a Company-wide basis. In carrying out these reviews, the SMT considers all material items of income and expenditure that are directly attributable to individual commercial projects and development programmes. The internal management reports do not allocate assets and liabilities or shared overheads to individual products or projects.

Based on the above considerations, there is considered to be one reportable segment, synthetic fuels. The business is segmented on the basis that the key end use market is that of synthetic fuels production. At this stage, the synthetic fuels segment represents over 90% of the business and therefore represents the only material segment. The remaining 10% does not constitute a segment and is related to other end markets, such as selective oxidations, which use technology developed for FT.

Internal and external reporting is on a consolidated basis, with purchases and sales between subsidiaries eliminated on consolidation. Therefore, the segmental and financial information is the same as that set out in the consolidated income statement, consolidated statement of comprehensive income, the consolidated statement of financial position, the consolidated statement of cash flows and the consolidated statement of changes in equity.

The SMT assesses the performance of the operating segment based on a measure of operating loss.

The Company's operating segment operates in three main geographical areas. Revenue before exceptional items is allocated based on the country in which the customer is located.

	2015			2014		
	Europe £'000	Americas £'000	Asia Pacific £'000	Europe £'000	Americas £'000	Asia Pacific £'000
Total revenue before exceptional items	400	1,589	13	207	1,090	439

Revenues during the year were generated in the United Kingdom and United States.

Non-current assets, consisting primarily of goodwill, other intangible assets, investment in ENVIA JV and property, plant and equipment, totalling £36,406,000 (2014: £33,157,000) were located in the United States. All other non-current assets were held in the United Kingdom.

4. Loss per share

The basic loss per share is calculated by dividing the loss attributable to owners of the parent company by the weighted average number of ordinary shares in issue during the year.

	2015	2014
Loss attributable to owners of Velocys plc (£'000s)	(20,051)	(22,370)
Weighted average number of ordinary shares in issue	141,915,307	122,062,050
Basic and diluted loss per share (pence)	(14.13)	(18.33)

Diluted loss per share is calculated by adjusting the weighted average number of shares in issue to assume conversion of all potential dilutive shares. Share options have not been included in the number of shares used for the purpose of calculating diluted loss per share since these would be anti-dilutive for the period presented. There are no other potentially dilutive instruments.

5. Investments

	2015	2014
	£'000	£'000
Investment in ENVIA (formerly GTL JV)	3,246	1,613
Foreign exchange	129	98
	3,375	1,711

Available for sale financial assets purchased for cash in 2014 represent the acquisition of a minority interest in a GTL joint venture. In 2014 the Company entered into a joint venture (ENVIA) with established players in the gas and energy markets to develop GTL plants using a combination of renewable biogas (including landfill gas) and natural gas. The investment is measured at fair value on the statement of financial position date and any changes in value are included in the other comprehensive income statement. The investment was remeasured at 31 December 2015 and there was no change in value. This is a level 3 fair value measurement. The investment is denominated in US dollars. The Company is committed to a further investment of £1,636,000. The parent company had no investments (2014: £nil). The Company invested additional funds into ENVIA of £1,535,000 in 2015.

6. Short term investments, cash and cash equivalents

	Company	
	2015	2014
	£'000	£'000
Short term bank deposits	3,000	28,083
Cash at bank and in hand	34,736	31,693
Total cash and cash equivalents	37,736	59,776

Under IAS 7, cash held on term deposits of greater than 3 months has been classified as a short term investment.

Both short term investments, and cash and cash equivalents, are denominated in UK sterling and in US dollars, as follows:

UK sterling denominated:

	Company	
	2015	2014
	£'000	£'000
Short term bank deposits	3,000	21,000
Cash at bank and in hand	23,570	24,039
	26,570	45,039

US dollar denominated:

	Company	
	2015	2014
	£'000	£'000
Short term bank deposits	-	7,083
Cash at bank and in hand	11,166	7,654
	11,166	14,737

7. Derivative financial instruments

The Company sells sterling and buys US dollars to fund its operations in the United States, which exposes it to foreign exchange risk. This is mitigated through the use of forward contracts at fixed rates of exchange with fixed maturity dates. The contracts are initially measured at fair value on the date the contract is entered into. This is a level 2 fair value measurement. Gains and losses against the US dollar exchange rate as at 31 December 2015 are recognised in Finance income in the Consolidated income statement and in Current assets in the Consolidated statement of financial position. At 31 December 2015 the notional principal amounts of the outstanding forward foreign exchange contracts were £3,217,000 (2014: £14,000,000), and the revalued amounts were £3,373,000 (2014: £14,435,000). The foreign exchange gain on these contracts as at 31 December 2015 was £156,000. All the outstanding contracts will mature during 2016.

8. Acquisition of a subsidiary

On 25 June 2014, the Company acquired 100% of a project development company that was subsequently rebranded Velocys Project Solutions, LLC (VPS), along with its Ashtabula GTL project and a pipeline of other opportunities. The Ashtabula project is for the development of a GTL plant to produce approximately 5,000 barrels per day (bpd), originally intended for an 80-acre industrial site that VPS owns near the Port of Ashtabula in Ohio, USA. The following table summarises the consideration for VPS, the fair values of the assets acquired and liabilities assumed at the acquisition date.

	Fair value £'000
Consideration at 25 June 2014	
Equity	1,655
Cash	462
Deferred consideration - contingent	1,763
Total consideration	3,880
Assets acquired and liabilities assumed at acquisition	
Land	940
Customer contracts	1,344
Total identifiable net assets	2,284
Deferred tax liability	(269)
Goodwill arising on acquisition	1,865
Total	3,880

Purchase consideration of £3,880,000 comprised an initial amount of £1,655,000 from the issue of 754,887 shares in Velocys plc, £462,000 paid in cash for outstanding obligations, and deferred consideration of £1,763,000 to have been settled by a further issue of shares in Velocys plc. During 2015 the cash consideration was adjusted to reflect accrued expenses at acquisition, and replaced with a deferred consideration of 41,644 ‘holdback’ shares, which are to be issued in 2016.

The fair value of the initial 754,887 shares issued was based on an average of the published share price from 17 June to 24 June 2014. Acquisition costs were charged to Administrative expenses in the consolidated income statement for 2014.

The initial Goodwill of £1,865,000 arising from the acquisition is attributable to the acquired project development capability and pipeline of potential projects. Due to exchange rate differences, this Goodwill figure is £2,214,000 (2014: £1,646,000). This has been reviewed for impairment in 2015, with no impairment resulting.

The customer contract of £1,344,000 and deferred consideration of £1,763,000 were elements of the acquisition agreement relating to the Ashtabula project reaching Final Investment Decision (FID). The customer contract represented a development fee due to the Company from investors in the project, who were then being sought. The fair value estimate was based on a discount of 63% reflecting the probable level of the eventual fee as well as the likelihood of the project proceeding; this is a level 3 fair value measurement. The deferred consideration was contingent on the achievement of FID within a specified time frame. The fair value estimate was based on a discount of 25%; this is also a level 3 fair value measurement.

FID was not achieved during the specified time frame, which fell during 2015. As a result, the value of both the customer contract and the deferred consideration have been fully impaired, with a remaining value of £nil in each case.

9. Statutory information

Copies of the 2015 annual report will be posted to shareholders at least 21 days before the Company’s Annual General Meeting and may be obtained from the date of posting for one month free of charge from the registered office of Velocys plc, 115e Olympic Avenue, Milton Park, Abingdon, OX14 4SA, as well as from the Company’s website www.velocys.com.

10. Annual General Meeting

The Annual General Meeting (“AGM”) is to be held on 14 June 2016. Notice of the AGM will be dispatched to shareholders with the Company’s report and accounts.