Velocys plc
Annual report and accounts 2015

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.

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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:
  - Specialities, 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)

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."

* Defined as cash, cash equivalents and short term investments (see note 23)

Chairman's statement

A year of delivery for smaller scale GTL despite a challenging environment.

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, 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.

Pierre Jungels
Chairman
26 April 2016

Chief Executive's report

Velocys is the company at the forefront of smaller scale GTL.

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

Commercial reference plant

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

Chief Executive's report (continued)

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 offtake 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.

<u>Other projects</u>

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.

<u>Pilot plant and operational facilities</u>

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.

David Pummell
Chief Executive
26 April 2016

Strategic report

The Directors present their review of the Company's performance during the year to 31 December 2015 and their assessment of the risks faced by Velocys

Principal activities

Velocys is a leader in smaller scale gas-to-liquids (GTL), a technology that produces high value liquid fuels and speciality chemicals from undervalued natural gas, waste or biomass.

The primary focus of the business is on the emerging market for modular GTL plants with production in the range of 1,500 to 15,000 barrels per day.

The Company will announce the results during 2016 of a review of its strategy and business model following from the appointment of David Pummell as its CEO.

The current core business model incorporates the sale of reactors, licences for use of the reactor and catalyst technology, regular revenue from the catalyst, which is periodically renewed through the life of the plant, and fees for engineering and support services.

Velocys also holds a stake in ENVIA Energy, the joint venture that is building and will operate the plant in Oklahoma City, which will act as the commercial reference site for the Company's technology.

In addition, the Company, through its subsidiary Velocys Project Solutions, LLC, is working to bring potential GTL projects to the point of investment.

The principal activity of Velocys plc is a holding company. In 2015 its three operating subsidiaries were Velocys Technologies Limited in the UK, and Velocys, Inc. and Velocys Project Solutions, LLC in the US. In the financial statements these entities are referred to collectively as the "Company", while Velocys plc is referred to as the "parent company".

Business review

A review of the Company's activities during the year and its future outlook is made in the Chairman's statement on page 2 and the Chief Executive's report on pages 3-5.

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) (see note 9) 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).

Key performance indicators

Aside from the financial results outlined above, key performance metrics for the business centre on its commercial readiness – commercial pipeline, technological robustness, manufacturing capability, and its expertise and resources to support new sales and projects. The performance of the Company is expanded upon in the Chief Executive's report on pages 3-5.

Environment
Velocys is careful to monitor the environmental impact of its operations. Air travel and building operations have been identified as two of the major factors in the Company's CO_2 emissions.

In 2015 air travel on the Company's behalf contributed 497 tonnes of CO_2 (2014: 534t). This equates to 4.6 tonnes per employee (2014: 5.0t). The proportion of air travel that was between the Company's offices in Oxfordshire, Ohio and Texas was 51% (2014: 55%).

Emissions attributable to operation of its three sites included 1,042 tonnes from consumption of electricity (2014: 905t) and 1,137 tonnes from consumption of gas (2014: 746t). This latter increase was a result of running the pilot plant for most of the year.

Employees
Velocys is committed to being a good employer and endeavours to train staff well, to pay them fairly and to maintain a safe environment in which they can work. Velocys is committed to equal opportunity for all its employees.

Velocys keeps detailed environmental health and safety records and takes the safety and well-being of its employees very seriously. During 2015 there were no Lost-Time Accidents across the Company's sites, which took the total number of operating hours without such an accident to over 2.3 million.

Of the 103 people employed by Velocys at 31 December 2015, 31% were women, an increase of 6% on 2014 (2014: 25%). The percentage of female employees broken down by areas of the business was as follows.

	2015	2014
Scientific & engineering	25%	14%
Sales, finance, HR & admin	55%	53%
Senior managers	33%	29%

Two of the nine members of the Board are women (2014: two of eight members).

Operating risks

Since 2012, through a series of scale-up programmes the Company's catalyst and microchannel reactor technology has been proved from laboratory scale up to full commercial size. During 2016 the technology will be deployed in the commercial reference plant in Oklahoma. Management and employees are focussed on managing the risks inherent in this transition, and thereafter, on meeting the demands of this new commercial reality.

Pace of commercial adoption
Velocys believes that there is a significant potential market for its products however the pace of adoption for a new technology, particularly one with high capital requirements is difficult to predict and there is a risk that the pace of adoption may be slow. Velocys addresses this risk by working with major partners, by developing a pipeline of potential opportunities and by seeking to minimise technology performance risk by the measures outlined below.

Performance
The specification and performance of the catalyst and reactor have been rigorously tested at every stage of development. Measures put in place include:

- Installing a pilot plant at the Company's facility in Ohio to test target conditions for ENVIA Energy and other commercial-scale projects
- Modelling client-specific standard and upset conditions, and developing mitigation or remediation strategies where testing identifies areas of risk
- Building a set of robust quality assurance/control programmes in conjunction with third parties, and implementing, validating and reviewing them
- Reserving the first commercial reactor purely for testing.

In the context of the wider GTL plant, Velocys works with world-class partners and Engineering, Procurement and Construction (EPC) companies to combine its technology with other existing, well-proven technologies.

As the operation of customer plants is outside its control the Company's agreements with its customers state that it shall not be liable to licensees for environmental, toxic waste, hazardous waste or pollution liability.

Manufacturing
Velocys has developed a supply chain of leading equipment and catalyst manufacturers with proven track-records in their respective fields, and with the capability to fabricate the Company's proprietary catalysts and reactors to secure petrochemical industry-standard warranties.

By working with manufacturing partners, rather than developing in-house capability, manufacturing risk is considerably reduced.

Strategic report (continued)

Capacity
Velocys has significantly expanded its client-facing team, including process engineers and other specialists, who will provide client support and technical assistance through the design, construction, start up and initial operation of ENVIA Energy's plant and subsequent commercial plants.

During project negotiations care has been taken to agree commercial terms that do not commit the Company to performance beyond its current capability or contractual accountabilities.

The manufacturing partners that Velocys has selected have the capacity to deliver orders consistent with the timescales of GTL plant development.

IP protection
Velocys has invested a great deal of time and resources to develop, protect and enforce its IP portfolio, upon which its licence, catalyst and reactor revenue streams are dependent. Between 2010 and 2015 the Company successfully enforced its patents against infringement through the US and UK courts.

Velocys' legal and technical teams are continuing to protect the Company's technological innovation and are constantly monitoring industry activity to detect further infringement activity against which enforcement may be necessary.

Personnel
Velocys is a small company in a competitive market, and works hard to attract and retain high quality personnel. At the end of 2015 42% of employees had been with the Company less than two years. Management recognises the importance of building a strong community among these recruits.

Velocys promotes strong communication between its UK and US sites, harmonises policies where possible and, as well as its package of benefits, provides a range of schemes covering incentivisation, share options, training and performance evaluation.

External risks
The performance of Velocys is subject to macroeconomic conditions and changes in external factors such as oil and natural gas prices, and interest and foreign exchange rates.

The low oil price has affected the economics of GTL projects. However the Company has moved quickly to focus on those areas of the market for which plant economics remain attractive. These are projects that target high value speciality products, such as waxes, that access low price feedstock, or that exploit isolated markets where fuel prices are high. These markets are discussed in the Chairman's statement and Chief Executive's report.

At the same time the oil price situation has helped to sift the competition in this new and attractive market space. This positively benefits Velocys, which, with a strong balance sheet, best-in-class technology, supportive partners and plants that are already committed, is well equipped to address the market need and to exploit the available opportunities.

Velocys closely monitors the economic climate and the operating environment to ensure it has sufficient information to develop a thorough understanding of potential impacts, towards which it can target mitigating policies and contingencies.

Financial risks
The activities of Velocys expose it to a number of financial risks, which are dealt with specifically below.

The use of financial derivatives is governed by Company policies, which are approved by the Board of Directors, and which provide a set of written principles for the management of these risks. At present Velocys makes use of financial derivatives only in the management of the foreign exchange exposure arising from funding its US operations.

The financial instruments of the Company, including the parent company, comprise cash and cash equivalents, and short-term investments, as well as trade and other receivables, and trade and other payables. The main purpose of these financial instruments is to support the funding of business activities.

Credit
The Company's principal financial assets are cash and cash equivalents, short-term investments, and trade and other receivables.

The Company's credit risk is primarily attributable to its trade receivables, which are concentrated in a small number of high value customer accounts. The Company manages this risk by carrying out relevant financial checks on customers, and where necessary, requiring letters of credit or advance payments.

The credit risk of liquid funds is limited through a Company treasury policy, maintained to ensure that liquid assets are only placed with highly-rated institutions, and that the spread of such assets restricts exposure to any one counterparty.

Interest rates
Variations in interest rates affect only Velocys' cash holdings, as its borrowing is payable at a fixed rate. As far as the cash flow forecast allows for certainty, funds are placed on fixed rate deposits.

Liquidity
The Company maintains sufficient cash balances to meet anticipated requirements. Cash flow forecasts are regularly reviewed, cash balances are held immediately available as necessary, and surplus funds are placed on time deposits of varying duration.

Exchange rates
A significant proportion of commercial activity and R&D costs are US dollar denominated. Where possible, revenue is receipted in US dollars to act as a natural hedge against this exposure. Additionally, a proportion of liquid assets is held in US dollars, and future exchange rate uncertainty is managed through the use of forward contracts at fixed rates of exchange.

In the consolidated financial statements there are significant US-dollar denominated intangible assets relating to the 2008 acquisition of Velocys, Inc. Exchange rate fluctuations therefore result in movements in reserves. The Directors do not consider it necessary to hedge these movements as they do not have any impact on the cash position.

Capital management
The Company believes that equity is currently the most suitable form of funding for its activities, and this forms the basis of its capital. The Company's objectives when managing this capital are:
- to secure its ability to continue as a going concern
- to keep its cost of capital low through an optimised capital structure
- to preserve sufficient funds to protect it against unforeseen events and risks
- to be in a position to take advantage of opportunities that can deliver a return to shareholders.

Approved by the Board and signed on its behalf by:

David Pummell
Chief Executive
26 April 2016

Directors' report

The Directors present their report and the audited consolidated financial statements for the year ended 31 December 2015

Company

Velocys plc is the ultimate parent of the Company. It is a public limited company that was incorporated on 16 February 2006, and is registered in England and Wales.

The registered office address is:
115e Olympic Avenue
Milton Park
Abingdon
Oxfordshire
OX14 4SA

Substantial shareholdings

On 12 April 2016, the Company was notified of the following holdings of 3% or more of the issued share capital of Velocys plc.

	Number of shares held	Percentage of issued share capital
Ervington Investments Limited	30,200,946	21.08%
Lansdowne Partners	26,631,808	18.59%
Invesco Asset Management	23,600,000	16.47%
Henderson Global Investors	17,480,918	12.20%
Baillie Gifford & Co.	5,230,572	3.65%
Ruffer LLP	4,901,000	3.42%

Directors

The Directors of Velocys plc as at 31 December 2015, who served throughout the year and up to the date of approval of the financial statements, unless otherwise stated, were as follows:

- Pierre Jungels (Non-executive Chairman)
- Roy Lipski (Chief Executive Officer – resigned 10 August 2015)
- Susan Robertson (Chief Financial Officer)
- Paul Schubert (Chief Operating Officer)
- Andrew Jamieson (Non-executive Director – resigned 21 November 2015)
- Julian West (Senior Independent Director)
- Jan Verloop (Non-executive Director)
- Sandy Shaw (Non-executive Director)
- Mark Chatterji (Non-executive Director – appointed 29 September 2015)
- Ross Allonby (Non-executive Director – appointed 8 December 2015)

David Pummell was appointed as Chief Executive Officer on 6 January 2016.

On 29 September 2015 Susan Robertson resigned as Company Secretary and Jeremy Gorman was appointed.

Whilst the Company's Articles of Association require that all Directors are subject to election by shareholders at the first opportunity after their appointment, and to re-election thereafter at intervals of not more than three years, the Directors have decided that, in line with best corporate governance practice, at the 2016 Annual General Meeting all of the Directors will retire and offer themselves for re-election.

Directors' interests

The Directors who held office at 31 December 2015 had the following interests in the shares of parent company undertakings (as recorded in the Register of Directors' Interests and including those of the spouse or civil partner and children under 18).

	Velocys plc Ordinary shares	
	31 December 2015	31 December 2014
Susan Robertson	304,874	304,874
Pierre Jungels	223,031	223,031
Jan Verloop	150,837	150,837
Julian West	75,000	75,000
Sandy Shaw	17,758	17,758
Paul Schubert	–	–
Mark Chatterji	–	–
Ross Allonby	–	–

Directors' share options and service contracts are detailed in the Directors' remuneration report.

Donations

The Company made no political donations during 2015.

Dividends

The Directors do not recommend any dividend for the year ended 31 December 2015 (2014: nil).

Future developments

The Board aims to continue its corporate strategies as set out in the Chairman's statement and Chief Executive's report.

Company development activities

The Company's R&D activity includes continued research and development of its highly active GTL catalyst and of its efficient microchannel reactor. The Directors regard investment in research and development as essential for success in the medium to long term.

Business risks

A full explanation of the Company's risks and its risk management policies is made in the Strategic report.

Capital structure

The Company's capital structure is discussed in the Strategic report on page 9.

Directors' qualifying third-party indemnity provision

The Company maintains directors' qualifying third party indemnity insurance to provide cover for legal action against its Directors. This has been in place throughout the year and remains in place at the date of this report.

Annual General Meeting

The Annual General Meeting of the Company will be held at Milton Park Innovation Centre, 99 Park Drive, Milton Park, Oxfordshire OX14 4RY at 10.45am on Tuesday 14 June 2016.

Auditors and disclosure of information to auditors

Each of the persons who is a Director at the date of approval of this report confirms that:

- so far as the Director is aware, there is no relevant audit information of which the Company's auditors are unaware; and
- the Director has taken all the steps that he/she ought to have taken as a Director in order to make himself/herself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

PricewaterhouseCoopers LLP have expressed their willingness to continue in office as auditors and a resolution to reappoint them will be proposed at the forthcoming Annual General Meeting.

Approved by the Board and signed on its behalf by:

David Pummell
Chief Executive
26 April 2016

Corporate governance report

Corporate governance

Companies whose securities are traded on the AIM market of The London Stock Exchange are not required to comply with the principles and provisions of the UK Corporate Governance Code 2014 (Code). The Board, however, has determined that the Company should maintain high standards of corporate governance and, whilst not complying fully with the Code, including the full disclosure requirements, has adopted procedures and has taken steps to adopt the underlying principles in so far as the Board considers these to be appropriate given the size of the Company and the nature of its operations.

Board of Directors

The Company is controlled by the Board of Directors which currently comprises an independent Non-executive Chairman (Pierre Jungels), three Executive Directors (David Pummell, Chief Executive Officer; Susan Robertson, Chief Financial Officer; and Paul Schubert, Chief Operating Officer) and five independent Non-executive Directors (Julian West, Senior Independent Director; Jan Verloop; Sandy Shaw; Mark Chatterji and Ross Allonby). Although Pierre Jungels and Jan Verloop have served more than three consecutive 3-year terms of office, the Board considers that they make a significant contribution to the Company and, in accordance with Code Provision B.7.1, resolutions will be proposed at the forthcoming Annual General Meeting for their re-appointment. The Board regards each of the other four Non-executive Directors as being fully independent.

There is a clear division of responsibilities between the running of the Board and the Executive who are responsible for managing the Company's business. The roles of the Chairman and the Chief Executive are separated, with clear written guidance to support the division of responsibilities. On 9 January 2015, Julian West, a Non-executive Director, was appointed as Senior Independent Director. The detailed biographies of all Directors are provided on the Company's web site.

The Board is responsible to shareholders for the proper management of Velocys and meets formally at least six times a year to set the overall direction and strategy of the Company, to review operating and financial performance and to consider and advise on senior management appointments. The Board also monitors and approves financial policy and budgets, including capital expenditure. All key operational decisions are subject to Board approval.

The minutes of the Audit and Risk, Remuneration and Nominations Committees are circulated to the Board. The Committee Chairmen also report to the Board on the outcome of Committee meetings at the subsequent Board meeting.

The Company Secretary, through the Chairman, is responsible for advising the Board on governance matters, for ensuring that Board procedures are followed and that applicable rules and regulations are complied with. All Directors have access to the advice and services of the Company Secretary. An agreed procedure exists for Directors in the furtherance of their duties to take independent professional advice.

The Company's Articles of Association provide that Directors are subject to election by shareholders at the first opportunity after their appointment. In addition, one third of Directors are subject to retirement by rotation at each Annual General Meeting. The Board has agreed that, in line with best corporate governance practice, all Directors should stand for re-appointment at the 2016 Annual General Meeting.

The 2015-16 evaluation of the Board, its committees and individual directors was carried out internally by the Company Secretary. The evaluation took the form of individual interviews with each director, and comprehensive questionnaires which provided all directors with an opportunity to comment on Board and Committee procedures. A performance evaluation of the Chairman was carried out, led by the Senior Independent Director, and taking into account the views of all Directors. Recommendations arising from the evaluation will be presented to the Board for consideration and, where appropriate, will be implemented.

In addition, the Board has introduced a process for the evaluation of performance of and provision of feedback to each individual Board member, including the Chairman.

During the interim period between the resignation of the former CEO and the appointment of David Pummell the Board took steps to preserve its corporate governance rules and procedures by appointing an independent Company Secretary, Jeremy Gorman. This appointment took effect on 29 September 2015, from which date the CFO stepped down from her additional role as Company Secretary.

Committees of the Board

The Board delegates certain powers to designated committees. Information on the work of the Remuneration, Audit and Risk, and Nomination Committees is set out below.

Remuneration Committee

The following served as members of the committee throughout the year ended 31 December 2015, except where otherwise shown:

- Sandy Shaw (Chair)
- Julian West
- Ross Allonby (appointed 8 December 2015)
- Pierre Jungels (stepped down 8 December 2015)
- Jan Verloop (stepped down 8 December 2015)
- Mark Chatterji (appointed 29 September 2015, stepped down 8 December 2015)
- Andrew Jamieson (resigned 21 November 2015)

This committee reviews, inter alia, the performance of the Executive Directors and sets the scale and structure of their remuneration and basis of their service agreements, having due regard to the interests of shareholders. The Remuneration committee also determines the allocation of share options to Executive Directors. No Director has a service agreement exceeding one year. Under its terms of reference, no Director is permitted to participate in decisions concerning his or her own remuneration. The Directors' remuneration report is set out on pages 16 to 21.

Audit and Risk Committee

The following served as members of the committee throughout the year ended 31 December 2015, except where otherwise shown:

- Mark Chatterji (appointed as a member and committee chairman 29 September 2015)
- Julian West
- Ross Allonby (appointed 8 December 2015)
- Pierre Jungels (stepped down 8 December 2015)
- Jan Verloop (stepped down as a member and committee chairman 8 December 2015)
- Sandy Shaw (stepped down 8 December 2015)
- Andrew Jamieson (resigned 21 November 2015)

The Audit Committee was renamed the Audit and Risk Committee on 8 December 2015, and adopted revised terms of reference on that date. Under its revised terms of reference, the committee will meet at least four times a year. Amongst other duties it reviews the Company's audit planning, risk and internal controls, accounting policies and financial reporting, and provides a forum through which the external auditors report. It meets at least once a year with the external auditors without Executive Directors present.

During the period 1 January 2015 to 29 September 2015 when Mark Chatterji was appointed as a member and committee chairman, the committee did not have a member with recent and relevant financial experience with competence in accounting and/or auditing.

The committee keeps under annual review whether an internal audit function should be established. Although this is not considered necessary at the present time given the size of the Company, this decision will be reviewed as the operations of the Company develop.

Nominations Committee

The following served as members of the Nominations Committee throughout the year ended 31 December 2015, except where otherwise shown:

- Pierre Jungels (committee chairman)
- Julian West
- Jan Verloop
- Sandy Shaw
- Mark Chatterji (appointed 29 September 2015)
- Ross Allonby (appointed 8 December 2015)
- Andrew Jamieson (resigned 21 November 2015)

Corporate governance report (continued)

The committee meets at least twice a year and, amongst its other duties, it reviews the composition of the Board and its succession planning, and keeps under review the leadership needs of the Company with a view to ensuring the continued ability of the Company to compete effectively in the marketplace.

Senior management team

The day-to-day management of the Company is overseen by the Executive Directors under the leadership of the Chief Executive.

Board and committee attendance at scheduled Board and committee meetings

	Board	Audit and Risk committee	Remuneration committee	Nominations committee
Number of meetings held in 2015	6	3	4	2
Attendance* by:				
– Pierre Jungels	6	3	4	2
– Susan Robertson	6	n/a	n/a	n/a
– Paul Schubert	6	n/a	n/a	n/a
– Jan Verloop	6	3	3/4	2
– Sandy Shaw	6	3	4	2
– Julian West	6	3	4	2
– Mark Chatterji	1/1	1/1	1/1	1/1
– Ross Allonby	n/a	n/a	n/a	n/a
– Roy Lipski	3/3	n/a	n/a	n/a
– Andrew Jamieson	5/5	2/2	3/3	1/1

* Directors are eligible to attend all meetings unless marked "n/a" or specified by an alternative denominator. Ross Allonby attended the December meeting as an observer.

Relations with shareholders

The Board considers effective communication with shareholders to be very important, and encourages regular dialogue with investors. The Board responds promptly to questions received verbally or in writing. Directors regularly attend meetings with shareholders and analysts throughout the year. Shareholders will be given at least 21 days' notice of the Annual General Meeting, at which they will have the opportunity to discuss the Company's development and performance.

The Company's web site www.velocys.com contains full details of the Company's activities, press releases and other details, as well as a link to the relevant web page of the London Stock Exchange web site for share price details, share trading activities and graphs, and Regulatory News Service (RNS) announcements.

Maintenance of a sound system of internal control

The Directors have overall responsibility for ensuring that the Company maintains a system of internal control to provide them with reasonable assurance that the assets of the Company are safeguarded and that shareholders' investments are protected. The system includes internal controls appropriate for a Company of the size of Velocys, and covers financial, operational, compliance (including health and safety) controls and risk management. Such systems are designed to manage, rather than eliminate, the risk of failure to achieve business objectives; any system can provide only reasonable, and not absolute, assurance against material misstatement or loss. The process in place for reviewing Velocys' system of internal control includes procedures designed to identify and evaluate failings and weaknesses, and to ensure that necessary action is taken to remedy the failings.

The Board has considered its policies with regard to internal controls as set out in the Code and undertakes assessments of the major areas of the business and methods used to monitor and control them. In addition to financial risk, the review covers operational, commercial, regulatory and health and safety risks. The risk review is an ongoing process with reviews being undertaken on a regular basis.

The key procedures designed to provide an effective system of internal controls that are operating up to the date of sign-off of this report are set out below.

Control environment

There is an organisational structure with clearly defined lines of responsibility and delegation of accountability and authority.

Risk management
The Company employs Directors and senior personnel with the appropriate knowledge and experience for a business engaged in activities in its field of operations, and undertakes regular risk assessments and reviews of its activities. Details of risks to the business which the Board considers to be potentially material are set out in the Strategic report on pages 7 to 9.

Financial information
The Company prepares detailed budget and working capital projections which are approved annually by the Board and are maintained and updated regularly throughout the year. Detailed management accounts and working capital cash flows are prepared on a monthly basis and compared to budgets and projections to identify any significant variances.

Management of liquid resources
The Board is risk averse when investing the Company's surplus cash. The Company's treasury management policy is reviewed periodically, and sets out strict procedures and limits on how surplus funds are invested.

Review of corporate governance disclosures
The Board has voluntarily complied with those key principles of the Code in so far as they are considered appropriate given the size of the Company and the nature of its operations. These have not been formally reviewed by the Company's auditors. The auditors' responsibility extends only to reading this report as a part of the Annual report and accounts and considering whether it is consistent with the audited financial statements.

Directors' remuneration report

Introduction

The Remuneration committee is committed to maintaining high standards of corporate governance and has taken steps to comply with the principles of best practice in so far as it can be applied practically given the size of the Company and the nature of its operations. Since it is not a requirement for companies which have securities listed on the AIM market of the London Stock Exchange to comply with the disclosure requirements of the Directors' Remuneration Report Regulations 2013 or to comply with the UKLA Listing Rules and the disclosure provisions under schedule 8 to SI 2008/410 of the large and medium-sized companies and groups (accounts and reports) regulations 2008, certain disclosures are not included below.

Unaudited information

Remuneration report

The Board has applied the principles of good governance relating to Directors' remuneration as described below.

Remuneration committee

The following served as members of the committee throughout the year ended 31 December 2015, except where otherwise shown:

- Sandy Shaw (Chair)
- Julian West
- Ross Allonby (appointed 8 December 2015)
- Pierre Jungels (stepped down 8 December 2015)
- Jan Verloop (stepped down 8 December 2015)
- Mark Chatterji (appointed 29 September 2015, stepped down 8 December 2015)
- Andrew Jamieson (resigned 21 November 2015)

The committee's constitution and operation is compliant with the provisions of the Code on Corporate Governance. When setting its remuneration policy for Executive Directors, the committee gives consideration to the provisions and principles of the Code and the guidelines published by the Investment Association (formerly the Association of British Insurers).

Remuneration policy for Executive Directors

The remuneration policy has been designed to ensure that Executive Directors receive appropriate incentive and reward given their performance, responsibility and experience. When assessing this, the Remuneration committee seeks to ensure that the policy aligns the interests of the Executive Directors with those of shareholders.

The Company's remuneration policy for Executive Directors is to:

- consider the individual's experience and the nature, complexity and responsibilities of their work in order to set a competitive salary that attracts and retains management of the highest quality
- link individual remuneration packages to the Company's long-term performance through bonus schemes and long-term share-based plans
- provide post-retirement benefits through payment into defined contribution pension schemes
- provide employment-related benefits including life assurance and medical insurance.

Remuneration of Executive Directors

Executive Directors' remuneration is considered annually. In addition, the Remuneration committee undertakes a comprehensive review using external advisors every three years. The current remuneration package is based on such a review commissioned by the Remuneration committee at the end of 2013. This review looked at the overall remuneration package for Executive Directors and made recommendations based on benchmarking with other companies similar in size, industry and stage of development, and taking into account the location of the Director concerned. The basic components of this package are set out below.

Base salary

The base salary is reviewed annually at the beginning of each year. The review process undertaken by the Remuneration committee has regard to the development of the Company and the contribution that individuals will continue to make. Consideration is also given to the need to retain and motivate individuals, and available information on the package levels in comparable organisations.

Annual performance incentive
All Executive Directors are eligible, at the discretion of the Remuneration committee, for an annual bonus. The target bonus award for each individual is based on a percentage of base salary for each individual, which for the year commencing 1 January 2016 is 75%. In the year ended 31 December 2015 the target percentage relating to the former Chief Executive was 100% (see note on Former Directors), and for the other Executive Directors was 75%. The maximum award for stretch target performance is twice the target amount. The Remuneration committee sets performance targets for bonus awards at the beginning of each year. Awards are determined by both the performance of the individual and the Company as a whole at the end of each year. The performance targets for the Company comprise measures of certain financial, as well as technical and business development goals.

Following the resignation of the former Chief Executive Officer, Susan Robertson was appointed as Acting Chief Executive Officer in addition to her role as Chief Financial Officer for the period 12 August 2015 to 5 January 2016. The committee agreed that, in these circumstances, it was appropriate to pay Susan Robertson an additional, non-recurring, interim bonus amounting to 25% of salary during this period, based on her achieving corporate and personal targets beneficial to the Company. The interim bonus paid is included in the total bonus paid for the year ended 31 December 2015 set out in the table of Directors' remuneration below.

Pensions and other benefits
The Company contributes to individuals' defined contribution pension plans.

Other benefits provided are life assurance, private medical insurance and relocation allowances where applicable, in line with the Company's standard policies.

The Velocys Group 2012 Share Option Scheme (2012 Option Scheme)
Following approval of revised headroom limits by shareholders at a general meeting held on 23 February 2015, the Company made awards to its Executive Directors under the Executive Long Term Incentive Plan (ELTIP) for both 2014 and 2015. The 2014 ELTIP awards include both time vesting and performance vesting elements.

The 2015 ELTIP awards have the following features:
- awards include both time vesting and performance vesting elements
- the performance criteria are designed to align with shareholder interests and are based on compound annual growth of the Company's market capitalisation excluding fund raising subsequent to 1 January 2015
- targets set for achievement of the maximum award are designed to be stretching
- a minimum performance threshold below which none of the performance awards vest
- pro rata vesting of award between minimum and stretch targets, up to maximum award amount
- all awards are subject to the detailed rules within the Velocys employee option plan and include malus and clawback provisions.

In the case of Executive Directors, the awards are made annually based on a multiple of base salary, and have a three year performance period, with re-testing of performance at the end of the fourth and fifth years in specific circumstances. Of these awards, 23% vest on a time basis. For the remaining performance based awards, 30% vest at a threshold level of performance with additional awards vesting pro rata for performance between the minimum and the maximum stretch target.

Remuneration policy for Non-executive Directors
The remuneration of the Non-executive Directors is determined by the Executive members of the Board in consultation with the Chairman, based on a review of current practices in other equivalent companies. The Non-executive Directors do not receive any pension payments, nor do they participate in any of the bonus schemes. Remuneration is based on a fixed fee, plus a separate fee for any additional consulting services.

The Non-executive Directors do not have service contracts with the Company but are appointed for an initial three-year term. Non-executive Directors are typically expected to serve for two three-year terms, although their appointment can be terminated either by them or by the Company on three month's written notice. The Chairman's notice period is also three months. The Company may invite a Non-executive Director to serve for further periods after the expiry of two three-year terms subject to a particularly rigorous review of performance and taking into account the need for progressive refreshing of the Board. Under the Company's Articles of Association, all Directors are required to stand for re-election by shareholders on appointment and thereafter at least once every three years.

Directors' remuneration report (continued)

Proposed amendment to the Company's Articles of Association (Articles) and ratification of breach of Article 92

During the two financial years ended 31 December 2015, fees have been paid to the Chairman and other Non-executive Directors in excess of the aggregate limit of £250,000 specified in Article 92 of the Articles adopted on 22 June 2011. The aggregate amount of the fees paid to the chairman and other Non-executive Directors, as set out in the Company's annual reports for the years ended 31 December 2014 and 2015, is as follows.

	2015 £	2014 £
Aggregate fees paid to Chairman and Non-executive Directors	271,853	258,705

Resolutions will therefore be proposed at the 2016 Annual General Meeting (i) to amend Article 92 so as to increase the aggregate limit set out therein from £250,000 to £350,000 and (ii) to approve and ratify any payments to the Chairman and other Non-executive Directors out of the funds of the Company by way of fees for their services in excess of the amount specified in Article 92 of the Articles as though the Directors had been authorised pursuant to Article 92 of the Articles to make payments of such amounts.

Further information is set out in the Notice of Annual General Meeting, which is being published together with this Report and Accounts.

Audited information

Directors' remuneration

Aggregate emoluments for current and former Directors in 2015 totalled £1,645,154 (2014: £2,099,087), and pension contributions were £31,734 (2014: £34,010).

The Directors who held office at 31 December 2015 received the following remuneration in relation to the year ended 31 December 2015.

Name of Director*	Salary and fees £	Bonus** £	Other benefits £	EBT payment £	**2015** Total £	**2015** Pension £	2014 Total £	2014 Pension £
Executive								
Susan Robertson	215,469	161,602	807	–	377,878	15,071	383,546	13,181
Paul Schubert	185,104	132,031	13,622	–	330,757	5,201	513,573	4,734
Non-executive								
Pierre Jungels	80,000	–	–	–	80,000	–	80,000	–
Jan Verloop	44,666	–	–	–	44,666	–	43,705	–
Julian West	45,000	–	–	–	45,000	–	45,000	–
Mark Chatterji	12,188	–	–	–	12,188	–	–	–
Ross Allonby	3,750	–	–	–	3,750	–	–	–
Sandy Shaw	45,000	–	–	–	45,000	–	45,000	–
Aggregate emoluments and pension contributions	631,177	293,633	14,429	–	939,239	20,272	1,110,824	17,915

* Remuneration for former Directors Roy Lipski (Executive) and Andrew Jamieson (Non-executive) is outlined separately below

** This is bonus accrued for 2015 to be paid in 2016

Directors' share options

Aggregate emoluments disclosed above include amounts paid through the Employee Benefit Trust (EBT) in relation to share options exercised, of which there were none during 2015.

In December 2014, Paul Schubert exercised options over 277,100 shares. This resulted in a net gain of £368,000 inclusive of a bonus award through the EBT, which is included in the 2014 total in the remuneration table above.

ELTIP awards made in 2015

Due to the need to obtain shareholder approval for the revised share plan, awards under the revised ELTIP plan for 2014 were not made until 26 February 2015. However, these were included in the calculation of the share-based payment charge for 2014. The awards were as follows.

Name of Director	Award type	Shares under award	% with performance conditions	Exercise price (£)	Earliest date of exercise	Date of expiry
Susan Robertson	Option	245,881	77%	Nil	02/01/17	26/02/25
Paul Schubert	RSU *	187.826	77%	Nil	02/01/17	02/01/18

* Restricted stock units

On 26 February 2015, further awards were made to two Executives Directors, representing the ELTIP annual awards for the year commencing 1 January 2015, as follows.

Name of Director	Award type	Shares under award	% with performance conditions	Exercise price (£)	Earliest date of exercise	Date of expiry
Susan Robertson	Option	205,508	77%	Nil	02/01/18	26/02/25
Paul Schubert	RSU	156,985	77%	Nil	02/01/18	02/01/19

Details of all Directors' shareholdings are disclosed on page 10 in the Directors' report.

Details of all options held by the Directors at 31 December 2015 are as follows.

Name of Director	At 31 December 2014	Granted	Exercised	Lapsed	At 31 December 2015	Exercise price (£)	Earliest date of exercise	Date of expiry	Exercisable at 31 December 2015
Susan Robertson									
EMI	62,893	–	–	–	62,893	1.59	29/10/10	01/04/18	62,893
Bonus 2008	42,105	–	–	–	42,105	0.01	31/03/09	31/03/19	42,105
Bonus 2010	37,655	–	–	–	37,655	0.01	20/03/11	20/03/21	37,655
ELTIP 2009	105,000	–	–	–	105,000	0.01	31/01/12	21/11/19	105,000
ELTIP 2011	390,625	–	–	–	390,625	0.01	20/09/11	20/09/21	390,625
ELTIP 2012	365,000	–	–	–	365,000	0.49	01/01/15	01/02/22	365,000
ELTIP 2012	273,803	–	–	–	273,803	0.49	01/01/12	01/02/22	273,803
ELTIP 2013	502,930	–	–	–	502,930	1.59	01/01/16	12/04/23	–
ELTIP 2013	125,732	–	–	–	125,732	1.59	12/04/13	12/04/23	125,732
ELTIP 2014	440,316	–	–	–	440,316	1.64	01/01/17	01/04/24	–
ELTIP 2014	110,079	–	–	–	110,079	1.64	01/04/14	01/04/24	73,386
ELTIP 2015	–	56,742	–	–	56,742	Nil	01/01/17	01/01/17	–
ELTIP 2015	–	189,139	–	–	189,139	Nil	01/01/17	01/01/19	–
ELTIP 2015	–	47,425	–	–	47,425	Nil	01/01/18	01/01/18	–
ELTIP 2015	–	158,083	–	–	158,083	Nil	01/01/18	01/01/20	–
Total	2,456,138	451,389	–	–	2,907,527				1,476,199
Paul Schubert									
EMI	207,894	–	–	–	207,894	0.92	04/10/14	04/10/21	207,894
ELTIP 2012	119,000	–	–	–	119,000	0.49	01/01/15	01/02/22	119,000
ELTIP 2013	502,930	–	–	–	502,930	1.59	01/01/16	12/04/23	–
ELTIP 2013	41,911	–	–	–	41,911	1.59	01/01/15	12/04/23	41,911
ELTIP 2014	336,711	–	–	–	336,711	1.64	01/01/17	01/04/24	–
ELTIP 2014	56,119	–	–	–	56,119	1.64	01/01/15	01/04/24	28,059
ELTIP 2015	–	43,344	–	–	43,344	Nil	01/01/17	01/01/17	–
ELTIP 2015	–	144,482	–	–	144,482	Nil	01/01/17	01/01/19	–
ELTIP 2015	–	36,227	–	–	36,227	Nil	01/01/18	01/01/18	–
ELTIP 2015	–	120,758	–	–	120,758	Nil	01/01/18	01/01/20	–
Total	1,264,565	344,811	–	–	1,609,376				396,864

No options were exercised by Directors during 2015.

Directors' remuneration report (continued)

Former Directors

The Directors listed below, who were members of the Board at 1 January 2015 and resigned during the year, received the following remuneration.

Name of Director	Salary and fees £	Pay in lieu of notice £	Other benefits £	EBT payment £	**2015** Total £	**2015** pension £	2014 Total £	2014 pension £
Executive								
Roy Lipski	258,196	382,061	24,408	–	664,665	11,462	943,262	16,095
Non-executive								
Andrew Jamieson	41,250	–	–	–	41,250	–	45,000	–
	299,446	382,061	24,408	–	705,915	11,462	988,262	16,095

Roy Lipski resigned on 10 August 2015 and Andrew Jamieson resigned on 21 November 2015.

Mr Lipski, who was Chief Executive Officer, was eligible, at the discretion of the Remuneration Committee, for an annual bonus in line with the terms for other Executive Directors, details of which are set out above, save that the target bonus award for Mr Lipski was based on 100% of his base salary. No bonus was paid to Mr Lipski in respect of the period 1 January 2015 to 11 August 2015.

Mr Lipski, who was located in the USA, was entitled to the standard medical benefits provided to all of the Company's US full-time employees.

During 2013, Mr Lipski relocated from Plain City to Houston and the Company paid for the costs of relocation for himself and his family including housing rental costs for a defined period of time to facilitate this move. Rental costs continued part way through 2014 and then ceased. Where these costs were taxable, the Company paid grossed up costs, which are included in the 2014 total in the table above.

The ELTIP awards made to Mr Lipski in February 2015 relating to 2014 comprised a single 5-year award, intended to ensure focus on growth targets over a longer horizon. This award included an element that vested on a time basis (30% of the award) with the remainder related to performance. Of the performance component, no awards would vest unless a minimum threshold performance was met with pro rata vesting between 0 -100% for performance between the minimum threshold and the maximum stretch target.

Name of Director	Award type	Shares under award	% with performance conditions	Exercise price (£)	Earliest date of exercise	Date of expiry
Roy Lipski	RSU	7,000,000	70%	n/a	02/01/19	02/01/20

Under the terms of a Settlement Agreement entered into by the Company and Mr Lipski, it was agreed that a total of 2,216,666 shares held under the RSU would vest and that the balance of 4,783,334 shares would lapse. 1,330,000 shares held under the RSU were allotted to Mr Lipski on 10 March 2016 in full settlement of this award, net of estimated taxation liabilities. Based on the opening share price on that date of 37.5p, this allotment was valued at £498,750.

At the date that Mr Lipski left the Company, he held options over the Company's shares as follows:

	Number of options	Exercise price (£)	Earliest date of exercise	Date of expiry	Vested
Roy Lipski					
Bonus 2009	342,000	0.01	31/03/10	31/03/20	Yes
ELTIP 2008	100,000	0.01	24/01/11	19/11/18	Yes
ELTIP 2009	140,000	0.01	31/01/12	04/11/19	Yes
ELTIP 2011	625,000	0.58	20/09/11	20/09/21	Yes
ELTIP 2012	818,000	0.49	01/01/15	01/02/22	Yes
ELTIP 2012	613,000	0.49	01/01/12	01/01/22	Yes
ELTIP 2013	1,126,563	1.59	01/01/16	12/04/23	No
ELTIP 2013	281,640	1.59	12/04/13	12/04/23	Yes
ELTIP 2014	986,306	1.64	01/01/17	01/04/24	No
ELTIP 2014	164,384	1.64	01/04/14	01/04/14	Yes
ELTIP 2014	82,192	1.64	01/04/14	01/04/24	No
Total	5,279,085				

Under the Settlement Agreement referred to above, the committee has exercised its discretion to permit Mr Lipski to exercise vested options over 3,084,024 shares. The remaining unvested options over 2,195,061 shares have lapsed.

Andrew Jamieson, who was a Director at 1 January 2015, held options over 20,094 ordinary shares exercisable at a price of 1p per share on 21 November 2015, the date of his resignation. The committee has exercised its discretion to permit Mr Jamieson to exercise these options during the 12 month period ending 9 December 2016.

Share price

The market price of the parent company's shares as at 31 December 2015 was 42p (2014: 144p) and the range during the year was 34p to 169p (2014: 140p to 237p). Details of options and the cost of share-based payments are given in note 15.

Statement of Directors' responsibilities

The Directors are responsible for preparing the annual report, the Strategic report, the Director's report, the Directors' remuneration 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 the financial statements for the parent company (Velocys plc) and the Company (Velocys plc and its subsidiaries) in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. 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 of the Company and of the parent company, and of the profit or loss of the Company 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 accounting estimates that are reasonable and prudent;
- state whether applicable IFRSs as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and of Velocys plc and enable them to ensure that the financial statements and the Directors' remuneration report comply with the Companies Act 2006 and, as regards the Company financial statements, Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Company and of Velocys plc and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the Company's web site. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The Directors consider that the annual report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy.

On behalf of the Board

David Pummell
Chief Executive
26 April 2016

Independent auditors' report
to the members of Velocys plc

Report on the financial statements

Our opinion

In our opinion:

- Velocys plc's group financial statements and parent company financial statements (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 2015 and of the group's loss and the group's and the parent company's cash flows for the year then ended;
- the group financial statements have been properly prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

What we have audited

The financial statements, included within the Annual report and accounts 2015 (the "Annual Report"), comprise:

- the consolidated statement of financial position and Velocys plc statement of financial position as at 31 December 2015;
- the consolidated income statement and consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of cash flows and Velocys plc statement of cash flows for the year then ended;
- the consolidated statement of changes in equity and Velocys plc statement of changes in equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

Certain required disclosures have been presented elsewhere in the Annual Report, rather than in the notes to the financial statements. These are cross-referenced from the financial statements and are identified as audited.

The financial reporting framework that has been applied in the preparation of the financial statements is IFRSs as adopted by the European Union, and applicable law and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion, the information given in the Strategic report and the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Opinion on additional disclosures

Directors' remuneration report

The parent company voluntarily prepares a Directors' remuneration report in accordance with the provisions of the Companies Act 2006. The directors have requested that we audit the part of the Directors' remuneration report specified by the Companies Act 2006 to be audited as if the parent company were a quoted company.

In our opinion, the part of the Directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- 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.

We have no exceptions to report arising from this responsibility.

Independent auditors' report
to the members of Velocys plc (continued)

Directors' remuneration
Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors
As explained more fully in the Statement of Directors' responsibilities set out on page 22, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)"). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the parent company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

What an audit of financial statements involves

We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the group's and the parent company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Sam Taylor (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Reading
26 April 2016

Consolidated income statement
for the year ended 31 December 2015

	Note	**2015** £'000	**2015** £'000	**2015** £'000	2014 £'000	2014 £'000	2014 £'000
		Before exceptional items	Exceptional items (note 4)	Total	Before exceptional items	Exceptional items (note 4)	Total
Revenue	6	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	15	(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	9	2,009	1,763	3,772	56	–	56
Operating income (loss)	10	(22,747)	559	(22,188)	(23,167)	(1,328)	(24,495)
Finance income	7	1,155	–	1,155	1,225	–	1,225
Finance costs	8	(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	13	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)	16	(14.52)		(14.13)	(17.24)		(18.33)

The notes on pages 33 to 63 are part of these consolidated financial statements.

The Company has elected to take the exemption under Section 408 of the Companies Act 2006 to not present the parent company income statement and statement of comprehensive income. The loss for the parent company for the year was £5,433,000 (2014: loss £5,649,000).

Consolidated statement of comprehensive income
for the year ended 31 December 2015

	2015 £'000 Before exceptional items	2015 £'000 Exceptional items (note 4)	2015 £'000 Total	2014 £'000 Before exceptional items	2014 £'000 Exceptional items (note 4)	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)

The notes on pages 33 to 63 are part of these consolidated financial statements.

Consolidated statement of financial position
as at 31 December 2015

	Note	**2015** £'000	2014 £'000
Assets			
Non-current assets			
Intangible assets	17	28,378	28,347
Property, plant and equipment	18	5,507	4,065
Investments	20	3,375	1,711
		37,260	34,123
Current assets			
Trade and other receivables	21	911	653
Current income tax asset		780	1,778
Inventories	22	1,393	291
Derivative financial instruments	27	156	435
Short term investments – funds held on deposit	23	3,000	28,083
Cash and cash equivalents	23	34,736	31,693
		40,976	62,933
Total assets		78,236	97,056
Liabilities			
Current liabilities			
Trade and other payables	24	(7,380)	(10,902)
Borrowings	26	(288)	(267)
		(7,668)	(11,169)
Non-current liabilities			
Trade and other payables	25	(1,327)	(69)
Borrowings	26	(759)	(999)
Deferred tax	14	–	(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	29	1,419	1,419
Share premium account	29	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

The notes on pages 33 to 63 are part of these consolidated financial statements.

The financial statements on pages 25 to 63 were approved by the Board of Directors and authorised for issue on 26 April 2016. They were signed on its behalf by:

Susan Robertson
Chief Financial Officer

Company number 5712187

Velocys plc statement of financial position
as at 31 December 2015

	Note	**2015** £'000	2014 £'000
Assets			
Non-current assets			
Investments in subsidiaries	19	126,289	128,752
Current assets			
Trade and other receivables	21	32	76
Current income tax asset		600	1,357
Total assets		126,921	130,185
Current liabilities			
Trade and other payables	24	(140)	(85)
Total liabilities		(140)	(85)
Net assets		126,781	130,100
Capital and reserves attributable to owners of Velocys plc			
Called up share capital	29	1,419	1,419
Share premium account	29	149,197	149,225
Share-based payment reserve		15,362	13,220
Accumulated losses		(39,197)	(33,764)
Total equity		126,781	130,100

The notes on pages 33 to 63 are part of these consolidated financial statements.

The financial statements on pages 25 to 63 were approved by the Board of Directors and authorised for issue on 26 April 2016. They were signed on its behalf by:

Susan Robertson
Chief Financial Officer

Company number 5712187

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

The notes on pages 33 to 63 are part of these consolidated financial statements.

Velocys plc statement of changes in equity
as at 31 December 2015

	Called up share capital £'000	Share premium account £'000	Share-based payments reserve £'000	Accumulated losses £'000	Total equity £'000
Balance at 1 January 2014	1,164	95,793	9,813	(28,115)	78,655
Comprehensive income					
Loss for the year	–	–	–	(5,649)	(5,649)
Total comprehensive expense	–	–	–	(5,649)	(5,649)
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	(33,764)	130,100
Comprehensive income					
Loss for the year	–	–	–	(5,433)	(5,433)
Total comprehensive expense	–	–	–	(5,433)	(5,433)
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	(39,197)	126,781

The notes on pages 33 to 63 are part of these consolidated financial statements.

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	23	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	26	(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	23	31,693	14,475
Exchange gains on cash and cash equivalents		1,055	927
Cash and cash equivalents at end of year	23	34,736	31,693

The notes on pages 33 to 63 are part of these consolidated financial statements.

Velocys plc statement of cash flows
for the year ended 31 December 2015

	2015 £'000	2014 £'000
Cash flows from operating activities		
Operating loss before taxation	(8,956)	(7,999)
Movement in intercompany balances	7,310	(44,219)
Changes in working capital (excluding the effects of exchange differences on consolidation)		
– Trade and other receivables	55	(78)
– Trade and other payables	46	85
Cash consumed by operations	(1,545)	(52,211)
Tax credit received	1,573	641
Net cash from (used in) operating activities	28	(51,570)
Cash flows from financing activities		
(Employee benefit trust reimbursement) net proceeds of issuance of ordinary shares	(28)	51,570
Net cash (used in) generated from financing activities	(28)	51,570
Net movement in cash and cash equivalents	–	–
Cash and cash equivalents at beginning of year	–	–
Cash and cash equivalents at end of year	–	–

The notes on pages 33 to 63 are part of these consolidated financial statements.

Notes to the financial statements

1. General information

Velocys plc is a company incorporated in England and Wales and domiciled in England. It operates through its subsidiaries Velocys Technologies Limited and Velocys (USA Holdings) LLC, which primarily holds Velocys, Inc. and Velocys Project Solutions, LLC, and collectively they are referred to in the Notes to the Financial Statements as the "Company", with Velocys plc as the "parent company". The nature of the Company's operations and its principal activities are set out in the summary on the inside front cover, on the highlights page, and in the Chairman's statement and Chief Executive's, Strategic and Directors' reports on pages 2 to 11.

The parent company is a public limited company that is listed on AIM.

2. Accounting policies

The principal accounting policies applied in the preparation of these consolidated and parent company financial statements are summarised below. The policies have been consistently applied to all the years presented unless otherwise stated.

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. They 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 preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. Areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in note 3.

Going concern

The Directors have, at the time of approving the financial statements, a reasonable expectation that the Company and the parent company have adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the financial statements.

Accounting developments

The following new standards, amendments to standards and interpretations are mandatory for the first time for the financial year beginning 1 January 2015:

- FRS 101, 'Reduced disclosure framework'. These standards summarise the requirements of the new standards with respect to the reduced disclosure framework. The standard is not applicable to the Company, but is to one of its subsidiaries, Velocys Technologies Limited.

The following new standards, amendments to standards and interpretations are mandatory for the first time for the financial year beginning 1 January 2016, but were not currently relevant for the Company:

- IAS 1, 'Presentation of financial statements' on the disclosure initiative. These amendments are part of the IASB initiative to improve presentation and disclosure in financial reports. These amendments are not currently relevant to the Company.
- IAS 16, 'Property, plant and equipment' and IAS 38,'Intangible assets', on depreciation and amortisation. In this amendment the IASB has clarified that the use of revenue-based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset. The IASB has also clarified that revenue is generally presumed to be an inappropriate basis for measuring the consumption of the economic benefits embodied in an intangible asset. These amendments are not currently relevant to the Company.
- IAS 27, 'Separate financial statements' on the equity method. These amendments in separate financial statements, allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. These amendments are not currently relevant to the Company.
- IFRS 11, 'Joint arrangements' on acquisition of an interest in a joint operation. This amendment adds new guidance on how to account for the acquisition of an interest in a joint operation that constitutes a business. The amendments specify the appropriate accounting treatment for such acquisitions. These amendments are not currently relevant to the Company.
- Annual improvements to IFRSs 2012-2014 cycle. These amendments are not currently relevant to the Company.
  - IFRS 5, 'Non-current assets held for sale and discontinued operations' regarding methods of disposal.

Notes to the financial statements (continued)

  - IFRS 7, 'Financial instruments: Disclosures', (with consequential amendments to IFRS 1) regarding servicing contracts and applicability of the amendments to IFRS 7 to condensed interim financial statements.
  - IAS 19,'Employee benefits' regarding discount rates.
  - IAS 34, 'Interim financial reporting' regarding disclosure of information.
- Amendment to IFRS 10 and IAS 28 on investment entities applying the consolidation exemption. These amendments clarify the application of the consolidation exception for investment entities and their subsidiaries. Not yet endorsed by the EU and hence required to be noted as not yet effective in the consolidated financial statements. This is not applicable to the Company.
- IFRS 14, 'Regulatory deferral accounts'. Permits first-time adopters to continue to recognise amounts related to rate regulation in accordance with their previous GAAP requirements when they adopt IFRS. However, to enhance comparability with entities that already apply IFRS and do not recognise such amounts, the standard requires that the effect of rate regulation must be presented separately from other items. This is not applicable to the Company.

The following new standards, amendments to standards and interpretations are mandatory for the first time for the financial year beginning 1 January 2017, but are not currently relevant for the Company:
- Amendment to IAS 7, 'Statement of cash flows' on disclosure initiative. These amendments to IAS 7 introduce an additional disclosure that will enable users of financial statements to evaluate changes in liabilities arising from financing activities. The amendment is part of the IASB's Disclosure Initiative, which continues to explore how financial statement disclosure can be improved. The Company has not chosen to early adopt this standard, but it is considered relevant for future accounting periods.
- Amendment to IAS 12, 'Income taxes' on recognition of deferred tax assets for unrealised losses. These amendments on the recognition of deferred tax assets for unrealised losses clarify how to account for deferred tax assets related to debt instruments measured at fair value. The Company has not chosen to early adopt this standard, but it is considered relevant for future accounting periods.

The following new standard is mandatory for the first time for the financial year beginning 1 January 2018, but is not currently relevant for the Company:
- IFRS 15, 'Revenue from contracts with customers'. This converged standard will improve the financial reporting of revenue and improve comparability of the top line in financial statements globally. Companies using IFRS will be required to apply the revenue standard for reporting periods beginning on or after 1 January 2018, subject to EU endorsement and public companies using US GAAP will be required to apply it for annual reporting periods beginning after 15 December 2016 (including interim reporting periods therein). The Company has not chosen to early adopt this standard, but it is considered relevant for future accounting periods.

The following new standard is mandatory for the first time for the financial year beginning 1 January 2019, but is not currently relevant for the Company:
- IFRS 16 'Leases'. This standard will replace IAS 17 'Leases' and sets out the principles for the recognition, measurement, presentation and disclosure of leases. Lessees will be required to recognise a lease liability reflecting future lease payments and a 'right-of-use asset' for lease contracts. The IASB has included an optional exemption which can be applied by lessees for certain short-term leases and leases of low-value assets. The Company has not chosen to early adopt this standard, but it is considered relevant for future accounting periods.

An assessment has not yet been done as to the impact of the developments in the future.

Financial risk management policies
Financial risk management policies are set out in the Strategic report on pages 8-9.

Capital management policies
Capital management policies are set out in the Strategic report on page 9.

Significant accounting policies
<u>Consolidation – subsidiaries</u>
The purchase method of accounting is used for the acquisition of subsidiaries by the Company. The cost of an acquisition is measured as the fair value of the assets acquired, equity instruments issued and liabilities incurred or assumed at the date of exchange plus, for acquisitions completed prior to 1 January 2010, costs directly attributable to the acquisition. For acquisitions completed on or after 1 January 2010, directly attributable costs are expensed. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the acquiring company's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired,

the difference is recognised directly in the income statement. Acquired subsidiaries are consolidated from the date on which control of the subsidiary is transferred to the Company.

Intercompany transactions, balances and unrealised gains and losses on transactions between Company entities are eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Company.

Contingent consideration is initially measured at fair value on the acquisition date and classified as a liability. It is remeasured at fair value at the balance sheet date and any change in value is recognised directly in the consolidated income statement.

Exceptional items
Items that are material because of their size or nature, and/or that are non-recurring are considered as exceptional items. Exceptional items are presented with the line items to which they best relate. During 2015 and 2014, exceptional items were included in the consolidated income statement.

Segment reporting
Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The person or persons responsible for allocating resources and assessing performance of the operating segments has been identified as the Senior Management Team, who take operational decisions.

Foreign currency translation
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.

Transactions and balances
Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated income statement. Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the Income statement within 'Finance income' or 'Finance costs'.

Entities within the Company
The results and financial position of all the Company entities that have a functional currency different from the presentation currency (none of which has the currency of a hyper-inflationary economy) are translated into the presentation currency as follows:
1. assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
2. income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and
3. all resulting exchange differences are recognised as a movement within equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations are taken to shareholders' equity.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

Cash and cash equivalents including short term deposits
Cash and cash equivalents includes cash in hand, deposits held at call with banks and other short-term, highly liquid investments with original maturities of three months or less.

Bank accounts held which have an original maturity of more than three months, or which are subject to significant restrictions over access, are not presented as cash and cash equivalents. Such amounts are shown separately as short term investments or other financial assets with appropriate disclosure of the related terms.

Notes to the financial statements (continued)

Inventories
Inventories are stated at the lower of cost or net realisable value. Cost is determined on a first-in, first-out basis and includes transport and handling costs. In the case of manufactured products, cost includes all direct expenditure including production overheads. Where necessary, provision is made for obsolete, slow-moving and defective inventories. Items purchased for use in externally funded research and development contracts are expensed to that contract immediately. Items held for the Company's own development are also expensed when acquired. Items purchased for ongoing commercial sale are held in inventory and expensed when used or sold.

Leases
Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

The Company leases certain property, plant and equipment. Leases under which the Company incurs substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised on commencement of the lease at the lower of the fair value of the leased property and the present value of the minimum lease payments.

Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in other long-term payables. The interest element of the finance cost is also charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases is depreciated over the shorter of the useful life of the asset and the lease term.

Revenue recognition
Revenue is measured at the fair value of consideration received or receivable, and represents goods and services provided in the normal course of business, net of trade discounts, VAT and other sales-related taxes after eliminating sales within the Company.

Revenue is recognised only when the collection of related receivables is probable. When uncertainty arises about the collectability of an amount that has already been recorded in revenue, any provision required as a result of that uncertainty is recognised as an expense and not a reduction in revenue.

Revenue related to FT reactors and catalyst
FT reactor revenue and costs are recognised when substantially all risk and reward associated with the reactor has passed to the customer under IAS 18 (see note 4); this will be upon delivery of reactors as defined by the contract. Under the Company's standard contract terms, "delivery" means available for shipping to the customer's site, although this term varies as contracts are negotiated.

Prior to 2014 the Company recognised revenue and costs from its FT reactors over the manufacturing period, where the right to consideration was accrued on a percentage of completion basis under IAS 11. In 2014, after the restructuring of a major supply agreement, which provided a more consistent measure of the cost of each reactor, the Company changed its method to the one described above. As this process developed and evolved, the partners agreed that it would be appropriate for the contract to be amended to reflect this evolution.

Catalyst sales income will be recognised over the term of the arrangement, whilst the service element will be recognised when services are provided. Licence fee revenue will be recognised on commencement of the contract provided that the fair value of the licence fee can be determined. However, if no reliable fair value can be determined, any revenue associated with the licence fee will be deferred and recognised in line with the reactor sales.

Other revenue
Revenue from development contracts is measured in accordance with the Company's policy: revenue from most development contracts is earned on a time and materials basis, supplemented by milestones, and is recognised as the work is performed. In a situation where a contract is for fixed services and value, and where the outcome of a development contract can be estimated reliably, revenue and costs are recognised by reference to the stage of completion of the contract activity at the balance sheet date. This is normally measured as the proportion of costs incurred for work performed to date relative to the estimated total costs, except where this would not be representative of the stage of completion.

Where the outcome of a development contract cannot be estimated reliably, contract revenue is recognised to the extent that contract costs incurred are expected to be recoverable. Contract expenses are recognised as costs in the year in which they are incurred. When it is probable that total contract costs will exceed revenue, the total expected loss is recognised as an expense immediately.

Contracts for development work may include either upfront payments or milestone payments, payable on successful attainment of defined milestones. Where upfront non-refundable payments are received on signature of an agreement, such payments are deferred and amortised over the life of the agreement to which it relates. For milestone payments, revenue is only recognised when the milestone has been successfully achieved and no further obligations remain.

Grants are recognised as income over the periods necessary to match them, on a systematic basis, with the costs that they are intended to compensate. Grant income is not recognised until the conditions for its receipt have been complied with and there is assurance that the grant will be received. Where a grant is received to fund the acquisition of property, plant and equipment, the income is deferred and recognised over the useful economic life of the related asset.

Interest income is accrued on a time basis by reference to the principal outstanding and at the effective interest rate applicable.

Other income consists of items such as sales of fixed assets, legal settlements and any other operating income recognised outside of the Company's commercial activities. Other income derived from sales of fixed assets and non-commercial activities is recognised on an accrual basis. In 2015 other income consisted primarily of legal settlements. Legal settlements are recognised as income when a final judgement is received not subject to further appeals.

Provisions
Provisions for claims are recognised when the Company has a present constructive or legal obligation as a result of past events, and it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation.

Intangible assets
Licences
Purchased licences are capitalised at the present value of the minimum licence payments. Amortisation will commence when related revenue starts to be earned and it will be charged on a straight line basis over the life of the patents to which the licences relate. Provision is made for any impairment.

Patents and trademarks
Patents and trademarks are included at cost less accumulated amortisation, and are amortised in equal annual instalments over a period of 20 years, which is their estimated useful economic life. Provision is made for any impairment. Where patent expenditure is funded by arrangements with development partners, the costs of such patents are not capitalised, but are expensed as cost of sales.

Goodwill
Goodwill represents the excess of the cost of an acquisition over the fair value of the Company's share of the identifiable net assets of the acquired subsidiary at the date of acquisition. Goodwill on acquisition of subsidiaries is included in 'Intangible assets'. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment reviews are performed more frequently if events or changes in circumstances indicate a potential impairment. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose, identified according to operating segment.

Software
Purchased software is measured initially at cost and is amortised on a straight-line basis over its estimated useful life of 3 years. Provision is made for any impairment.

Notes to the financial statements (continued)

In process technology
In process technology consists of purchased intangibles and capitalised development costs and is carried at cost less accumulated amortisation and impairment losses. The development phase has been completed and delivery of commercial reactors commenced in 2015; consequently amortisation of the intangibles has begun. The Company uses the units-of-production method of amortisation with the measured unit being reactors sold. The number of units used for amortisation purposes is approximately 1,400 reactors based on projections of future sales. Amortisation for the capitalised development costs began in 2015 based on delivery of commercial reactors.

Purchased intangibles
Purchased intangibles arose from the acquisition of Velocys, Inc. and Velocys Project Solutions, LLC (VPS). These are valued using discounted cash flows of projected future benefits arising from the technology acquired. See "Impairment of non-financial assets" below.

Capitalised development costs
Development costs are normally charged to the income statement in the year they are incurred except in those circumstances where, during the development phase of a project, the Company is able to identify an intangible asset and demonstrate that the asset will generate probable future economic benefits. In such cases, provided the criteria defined under IAS 38 are met, the costs are capitalised as In process technology. The costs in respect of funded projects are recognised to the extent that they meet the relevant criteria, net of any amounts reimbursed by research partners.

Development costs are amortised from the point the asset is available for use in the manner intended by management, on a straight-line time basis or other appropriate basis, over the period of its expected benefit. See "Impairment of non-financial assets" below.

Customer contracts
Customer contracts in 2014 consisted of the discounted value of the project development fee negotiated in the acquisition of VPS. It is carried at cost less impairment losses. Per the terms of the acquisition agreement, if the development phase had been completed and delivery of commercial reactors had commenced in 2015, the project development fee would have been recognised in 2015. Since the final investment decision was not reached in 2015, the balance of customer contracts was written down to £nil in 2015.

Impairment of non-financial assets
Assets that have an indefinite useful life, for example goodwill and investments, are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed 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 carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date. Assets that are not yet being amortised are reviewed for impairment on an annual basis.

Property, plant and equipment
Property, plant and equipment is stated at cost, net of depreciation and any provision for impairment. Cost includes the original purchase price of the asset and the costs attributable to bringing the asset to a working condition for its intended use. Depreciation is provided on all property, plant and equipment at rates calculated to write off the cost or valuation of each asset, less estimated residual value, on a straight-line basis over its expected useful life, as follows: plant and machinery, 3-10 years. No depreciation is provided on land or assets under construction. Residual value is calculated on prices prevailing at the balance sheet date. Residual values and useful lives are reviewed annually and adjusted if appropriate at each balance sheet date.

Expenditure funded by research partners is only capitalised where there are no significant rights acquired by that third party over the asset, and the asset has a clear enduring use beyond the specific funding project; these are regularly reviewed.

Investments
Investments are shown at cost less provision for impairment. See "Impairment of non-financial assets" above.

Share-based payments
Velocys plc issues share options to certain Company employees, which are accounted for as equity settled. These are measured at fair value (excluding the effect of non market-based vesting conditions) at the date of grant, and are expensed on a straight-line basis over the vesting period, based on the Company's estimate of shares that will eventually vest and adjusted for the effect of non market-based vesting conditions.

Fair value of executive share options with market performance conditions attached is measured using a Monte Carlo pricing model. The expected life used in the model is assumed to be the earliest point at which the shares may vest. Fair value of all other share options is measured using the Black-Scholes pricing model. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations. Under both models, when options are exercised the proceeds received, net of attributable transaction costs, are credited to share capital and premium.

For executive options with market performance conditions attached the recognition period covers the period of service and the vesting period; for all other options the recognition period is the vesting period.

At each balance sheet date, the Company revises its estimates of the number of options that are expected to vest. It recognises any impact of the revision in the income statement with a corresponding adjustment to reserves.

The grant by the parent company of options of its equity instruments to employees of subsidiary undertakings is treated as a capital contribution. The fair value of employee services received, measured by reference to the grant date fair value, is recognised as an increase to investments in subsidiary undertakings with a corresponding credit to equity.

Short term employee benefits
Accruals are included to reflect the cost of short term compensation to employees for absences such as paid leave.

Pension costs
The Company operates various defined contribution pension schemes for its employees. The amount charged to the income statement in respect of pension costs and other post-retirement benefits is the contributions payable in the year. Differences between contributions payable and contributions actually paid are shown as either accruals or prepayments in the balance sheet. The Company has no further payment obligations once the contributions have been paid.

Taxation
Current tax, including UK corporation tax and foreign tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised using the liability method, on temporary differences arising between the tax basis of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affected neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. Deferred income tax is provided on temporary differences arising on investments in subsidiaries except where the timing of the reversal of the temporary difference is controlled by the parent company and it is probable that the temporary difference will not reverse in the foreseeable future.

Financial instruments
Trade receivables
Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to their original terms. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of

Notes to the financial statements (continued)

the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the income statement within 'cost of sales'. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against 'cost of sales' in the income statement.

Trade payables
Trade payables are stated at fair value and subsequently held at amortised cost.

Financial liabilities and equity instruments
Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Company after deducting all of its liabilities.

Borrowings
Interest bearing loans and overdrafts are initially recorded at fair value, taken as proceeds received net of direct issue costs, and thereafter at amortised cost. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are recognised in the income statement 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.

Provisions
Provisions are recognised when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and the amount has been reliably estimated.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as an interest expense.

Derivative financial instruments
The Company enters into forward contracts and options to fund its US operations. Derivative financial instruments are classified as current assets or current liabilities where they have a maturity period within 12 months. Where derivative financial instruments have a maturity period greater than 12 months, they are classified within either non-current assets or non-current liabilities. Financial assets and liabilities are initially recognised and subsequently measured at fair value. The gain or loss on re-measurement to fair value is recognised immediately in the income statement, in net finance income.

Financial assets
The Company classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables and available-for sale. The classification depends on the nature of the asset and the purpose for which the assets were acquired. Management determines the classification of its financial assets at initial recognition.

Classification
1. Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if it is acquired principally for the purpose of selling in the short term. Derivatives are also categorised as held for trading. Assets in this category are presented as current assets if they are expected to be realised within 12 months after the balance sheet date, otherwise they are classified as non-current.
2. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included as current assets, except for maturities greater than 12 months after the balance sheet date which are presented as non-current assets. Loans and receivables are presented as "trade and other receivables" (note 21) and "cash and cash equivalents" (note 23) on the balance sheet.
3. Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless the investment matures or management intends to dispose of the assets within 12 months after the balance sheet date.

Recognition and measurement
Regular purchases and sales of financial assets are recognised on the trade date – the date on which the Company commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the consolidated income statement.

Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and assets held at fair value through profit and loss are subsequently carried at fair value. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in the income statement in the period in which they arise. Dividend income from 'financial assets at fair value through profit or loss' is recognised in the income statement as part of other income when the Company's right to receive payments is established.

Changes in the fair value of monetary and non-monetary securities classified as available-for-sale are recognised in other comprehensive income.

When securities classified as available for sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the income statement as "Gains and losses from investment securities".

Interest on available-for-sale securities calculated using the effective interest method is recognised in the consolidated income statement as part of finance income. Dividends on available-for-sale equity instruments are recognised in the income statement as part of other income when the Company's right to receive is established.

3. Critical accounting estimates and judgements

The preparation of financial information in conformity with IFRS requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the reporting date and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results ultimately may differ from those estimates. Estimates and assumptions that have a significant risk of causing material adjustment to the carrying amounts of assets and liabilities within the next financial period are discussed below.

Valuation of acquired intangible assets

Estimation of the fair values of acquired intangible assets requires assumptions as to value, future life and future cash flows for impairment tests. There is a high degree of judgement required in making these assumptions, which impact both the initial fair value acquired and the carrying value as at the balance sheet date (see note 17).

When intangible assets are brought into use, they are amortised over their expected useful lives and are reviewed when there is an indication that impairment may have occurred. Intangible assets that are not yet ready for use are subject to an annual impairment review.

At 31 December 2015, the carrying value of the Company's intangible assets was £28,378,000 (2014: £28,347,000). The impairment charge for the year includes £1,473,000 in 2015 (2014: £1,328,000). The Company acquired intangible assets valued at £3,209,000 through the acquisition of Velocys Project Solutions, LLC in 2014. These are valued at £2,214,000 at 31 December 2015 after the impairment charge (see note 30).

Revenue recognition and cost of sales

In order to recognise revenue, the fair value of each component of the Fischer-Tropsch process is identified, which includes the sale of the reactor, an initial licence fee, the sale of catalyst and ongoing engineering services. This fair value is based on the sales contract and historical actual data.

Once the fair value of the components has been determined, revenue is recognised in line with the underlying nature of the contract. Revenue for the reactor is recognised upon delivery as defined by the contract. Where the fair value of the licence fee can be determined this is recognised on commencement of the contract. However, if no reliable fair value can be determined any revenue associated with the licence fee is deferred and recognised in line with the reactor sales. Catalyst sales income is recognised monthly, whilst the service element is recognised when services are provided.

Where the underlying costs associated with any component cannot be estimated, any profit element identified is deferred until such time as the costs can be reliably estimated.

Investments

The carrying value of investments is considered in the context of market capitalisation and future forecast earnings.

Notes to the financial statements (continued)

Share-based payments
The fair value calculation of share-based payments requires several assumptions and estimates, details of which are disclosed in note 15. Such assumptions and estimates could change and could affect the amount recorded.

4. 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 30). 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 (see note 17).

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.

5. 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 uses 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 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.

6. Revenue

The majority of revenue before exceptional items of the Company is derived from a small number of significant commercial customers and development partners, who are not related parties. The total amounts recognised from partners where revenue comprises 10% or more of Company revenue before exceptional items is as follows.

	2015 £'000	2014 £'000
Partner 1	–	532
Partner 2	–	312
Partner 3	–	250
Partner 4	–	183
Partners less than 10%	–	459
Reactors, licences and other revenue	2,002	–
Total before exceptional items	2,002	1,736

7. Finance income

	2015 £'000	2014 £'000
Interest income on bank deposits	329	164
Net fair value gains on forward foreign exchange contracts	381	394
Foreign exchange gains	445	667
	1,155	1,225

Notes to the financial statements (continued)

8. Finance costs

	2015 £'000	2014 £'000
Unwinding of discount on deferred licence payments payable	20	(8)
Interest on finance leases	9	12
Interest on borrowings	24	25
	53	29

Notice was given at the end of 2014 to terminate the licence, although final interest payments have been accrued.

9. Other income

	2015 £'000	2014 £'000
Legal settlements	1,996	–
Sale of fixed assets	13	56
Total before exceptional items	2,009	56

Other income included receipt of settlements arising from two legal disputes, with CompactGTL and Johnson Matthey, which offset costs previously booked through Administrative expenses.

10. Expenses by nature

	2015 £'000	2014 £'000
Employee benefit expense (see note 12)	13,480	14,014
Sub-contractor and consultant costs	2,385	2,714
Depreciation of property, plant and equipment: owned (note 18)	975	680
Depreciation of property, plant and equipment: leased (note 18)	50	48
Amortisation of intangible assets (note 17)	252	181
Operating lease payments – plant and machinery	31	13
Operating lease payments – other	475	418
Patent and other IP costs	579	914
Materials expense	3,924	2,018
Services	738	811
Other expenses	3,869	3,148
Total costs of sales, research and development costs, share-based payments and administrative expenses before exceptional items	26,758	24,959

11. Auditors remuneration

	2015 £'000	2014 £'000
Fees payable to Company's auditors for the audit of parent company and consolidated financial statements	31	26
Fees payable for the audit of Company's subsidiaries pursuant to legislation	62	55
Fees payable to the Company's auditors for other services		
– Taxation compliance services	13	23
	106	104

12. Employee benefit expense

The average monthly number of Company employees (including Executive Directors) was as follows.

	2015 number	2014 number
Research, design and development	79	79
Administration	29	26
Total average headcount	108	105

Their aggregate remuneration comprised the following items.

	2015 £'000	2014 £'000
Wages and salaries	9,822	9,684
Social security costs	679	649
Other pension costs	326	252
Severance expense	511	22
Share-based payments granted to Directors and employees	2,142	3,407
	13,480	14,014

Details of Directors' remuneration are given in the audited information in the Directors' remuneration report on pages 18-21, which forms part of these financial statements.

13. Income tax

Company	**2015** £'000	2014 £'000
Current tax:		
R&D tax credit relating to prior years	(255)	(129)
R&D tax credit relating to current year	(780)	(800)
Current tax total	(1,035)	(929)
Deferred tax:		
Write off (Purchase) of intangible assets	269	(269)
Income tax total	(766)	(1,198)

Due to the availability of losses incurred in the year, there is no charge to corporation tax. The Company recovered £1,035,000 through R&D tax credits (2014: £929,000).

The actual tax charge for the current and previous year is higher (2014: higher) than the theoretical amount that would arise using the weighted average tax rate applicable to the results of the consolidated entities, for the reasons set out in the following reconciliation.

Company	**2015** £'000	2014 £'000
Loss before income tax	(21,086)	(23,299)
Tax calculated at domestic tax rates applicable to losses in the respective countries	(5,594)	(6,184)
Tax effects of:		
– Expenses not deductible for tax purposes	468	401
– Unutilised tax losses	5,126	5,783
– R&D tax credit	(1,035)	(929)
Current tax total	(1,035)	(929)

The weighted average applicable tax rate was 26.5% (2014: 27.3%).

The standard rate of corporation tax in the United Kingdom changed from 21% to 20% with effect from 1 April 2015. Accordingly, profits in the United Kingdom were taxed at an effective rate of 20.25%. Legislation to reduce the main rate of corporation tax to 19% from 1 April 2017 and to 18% from 1 April 2020 was enacted on 18 November 2015. Legislation to further reduce the rate to 17% from 1 April 2020 was announced but has not been substantively enacted at the end of the year. Deferred tax balances have been measured at 18%.

Notes to the financial statements (continued)

14. Deferred tax

The movement in deferred tax in the year was as follows.

Company	2015 £'000	2014 £'000
Recognised		
Deferred tax liability	269	–
Purchase of intangible assets through acquisition of subsidiary (see note 30)	–	269
Write off of intangible assets (see note 30)	(269)	–
Deferred tax carried forward	–	269

Company	2015 £'000	2014 £'000
Unrecognised		
Deferred tax assets		
– Trading losses	(22,918)	(16,298)
– Equity settled options	(605)	(1,081)
	(23,523)	(17,379)

At 31 December 2015 the Company had a net unrecognised deferred tax asset of £22,918,000 (2014: £16,298,000) arising from trading losses from incorporation. No recognition (2014: £nil) of the net deferred tax asset has been made at 31 December 2015 on the grounds of uncertainty over its recoverability in light of the Company's nascent revenue streams and commitment to continued investment in research and development and therefore there is no impact on the current or prior year income statement.

Of this unrecognised deferred tax asset, £16,580,000 (2014: £10,929,000) is anticipated to remain available indefinitely to offset against future taxable trading profits of the companies in which the losses arose. The remainder has expiry dates between 2023 and 2035 (2014: 2023 and 2033).

15. Share-based payments

Equity settled share option scheme

The Company has four share option schemes that cover all employees. The number of options outstanding at 31 December 2015 and the expense recognised in the profit and loss for these schemes, along with bonus shares and other schemes, are as follows.

	2015		2014	
Scheme	Options outstanding	Income statement £'000	Options outstanding	Income statement £'000
All employees UK/US	4,188,283	281	4,179,111	308
ELTIP	1,520,000	–	1,520,000	–
NELTIP	9,392,628	1,843	8,006,636	3,068
Velocys, Inc.	95,978	–	130,062	3
Bonus shares	421,760	–	421,760	–
Other	253,879	18	92,129	28
Total	15,872,528	2,142	14,349,698	3,407

All employees scheme

This scheme covers all employees of the Company, and was previously referred to as the EMI scheme; however, the Company no longer qualifies for EMI status due to the value of its gross assets. Options granted under this scheme are exercisable at a price equal to the mid-market value of the parent company's ordinary shares on the day prior to grant, and vest after three, four or five years from the earlier of grant date or date of joining the Company. Options expire after 10 years and are forfeited if the employee leaves the Company before the options vest. In addition, during 2015 options were granted to certain employees that will vest in January 2017 subject to meeting certain non-market performance conditions; other conditions are per the main scheme.

Movements in the number of EMI scheme share options outstanding and their related weighted average exercise prices are as follows.

	2015		2014	
	Weighted average exercise price	Number of options	Weighted average exercise price	Number of options
At 1 January	119.33p	4,179,111	80.17p	3,811,236
Granted	107.09p	1,159,173	180.64p	1,264,000
Forfeited	161.30p	(1,138,335)	78.12p	(350,934)
Exercised	59.16p	(11,666)	86.89p	(545,191)
At 31 December	109.60p	4,188,283	119.33p	4,179,111

Of the 4,188,283 options outstanding at 31 December 2015, 1,371,533 were exercisable (2014: 740,705). The weighted average exercise price of the exercisable shares was 71.38p (2014: 67.84p).

Share options outstanding at the end of the year have the following expiry dates and exercise prices.

		2015		2014	
Year of expiry	Range of exercise price	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
2017	124.00p	16,129	124.00p	16,129	124.00p
2018	159.00p	62,893	159.00p	62,893	159.00p
2019	54.50p	–	–	10,000	54.50p
2020	56.01 – 57.50p	51,748	58.55p	51,748	56.19p
2021	50.22 – 59.50p	1,316,140	59.72p	1,506,141	57.73p
2022	46.36 – 156.00p	468,200	79.19p	468,200	76.21p
2023	126.19 – 179.79p	514,000	168.18p	984,000	152.82p
2024	146.00 – 257.40p	603,334	196.17p	1,080,000	194.65p
2025	51.94 – 180.00p	1,155,839	106.88p	–	–
Total	46.36 – 257.40p	4,188,283	109.60p	4,179,111	119.33p

The weighted average fair value of options granted during the year determined using the Black-Scholes valuation model was 29.32p (2014: 52.46p) per option. The significant inputs into the model were as follows.

	2015	2014
Weighted average share price at grant date	107.09	180.64
Weighted average exercise price	107.09	180.64
Expected volatility (i)	44%	30%
Weighted average annual risk free rate	0.8%	3%
Dividend yield	0%	0%
Weighted average expected life	2.9 years	4.0 years

(i) The expected volatility was determined by a review of historic actual volatility based on statistical analysis of daily share prices since the date of Velocys plc's listing on AIM.

Total expense recognised in the income statement for share options granted to Directors and employees was £281,000 in 2015 (2014: £308,000).

Executive options

Executive options, documented as 'ELTIP' in the Directors' Remuneration Report, have been awarded under two schemes, ELTIP and NELTIP, as set out below.

Executive Long Term Incentive Plan (ELTIP)

The ELTIP scheme covers executives of the Company. Options are exercisable at a price of 1p or at a price equal to the mid-market value of the parent company's ordinary shares on the day prior to the grant. Options vest after a period of one, two or three years from grant, expire after 10 years and are forfeited if the employee leaves the Company before the options vest.

Notes to the financial statements (continued)

Movements in the number of ELTIP share options outstanding and their related weighted average exercise prices are as follows:

	2015		2014	
	Weighted average exercise price	Number of options	Weighted average exercise price	Number of options
At 1 January	30.41p	1,520,000	31.71p	1,595,000
Exercised	–	–	58.00p	(75,000)
At 31 December	30.41p	1,520,000	30.41p	1,520,000

Of the 1,520,000 options outstanding at 31 December 2015, 1,520,000 were exercisable (2014: 1,520,000). The weighted average exercise price of the exercisable shares was 30.41p (2014: 30.41p).

Share options outstanding at the end of the year have the following expiry dates and exercise prices.

		2015		2014	
Year of expiry	Range of exercise price	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
2018	1.00p	100,000	1.00p	100,000	1.00p
2019	1.00p	245,000	1.00p	245,000	1.00p
2021	1.00 – 58.00p	1,175,000	39.05p	1,175,000	39.05p
Total	1.00 – 58.00p	1,520,000	30.41p	1,520,000	30.41p

No share options were issued in 2015 (2014: nil). Total expense recognised in the income statement for share options granted to Directors and employees was £nil in 2015 (2014: £nil).

At the time of exercising their share options, executives of the Company may apply to an employee benefit trust managed by Oxford Catalysts Trustees Limited for a distribution in respect of the exercise value of their options. The trustees then request a contribution from the Company in respect of the grant made. The total value of funds distributed to executives by Oxford Catalysts Trustees Limited during the year in respect of ELTIP options was £nil. The reported 2014 was £nil; however this has been restated to £28,000, which is represented by the “Employee benefit trust reimbursement” in the financial statements.

New Executive Long Term Incentive Plan (NELTIP)
The NELTIP scheme also covers executives of the Company. On 27 February 2015 grants were made of 7,588,613 options in respect of financial year 2014 and 535,773 options in respect of 2015; a further 240,000 were granted in respect of 2015 in October. The fair value of the share options was recognised over a period combining the year during which performance was measured, the time from the end of that year to the options’ grant date, and the vesting period.

Under the NELTIP scheme, options awarded up to and including 2014 are, subject to the Board’s decision, exercisable at a price either equal to the mid-market value of the parent company’s ordinary shares on the day prior to the grant, or to the nominal value of the shares. Options vest immediately, or after a period of one, two or three years from grant, they expire after 10 years and are forfeited if the employee leaves the Company before the options vest.

Options awarded in 2015 are divided into time lapse options and market performance options. Time lapse options represent 23% of the total award; they vest two years after the conclusion of the period over which performance is measured. The market performance conditions on which the rest of the award is based pertain to the Compound Annual Growth Rate of the Company’s market capitalisation excluding fund raising subsequent to 1 January 2015. Market performance options are measured after 3 years from the start of the service period, with possible re-measurements one, and two years later. Options are subject to the discretion of the Board if the employee leaves the Company before the options vest.

For the former CEO, time lapse options represented 30% of the potential total award. Market performance options were measured after 5 years from the start of the service period, with a possible re-measurement one year later. Under the terms of the Settlement Agreement between the Company and the former CEO, 2,216,666 options from this award were deemed to have vested.

Movements in the number of NELTIP share options outstanding and their related weighted average exercise prices are as follows.

	2015		2014	
	Weighted average exercise price	Number of options	Weighted average exercise price	Number of options
At 1 January	125.96p	8,006,635	108.92p	5,603,325
Granted	98.10p	8,364,386	97.54p	2,567,791
Forfeited	50.70p	(6,978,394)	–	–
Exercised	–	–	124.59p	(164,481)
At 31 December	69.70p	9,392,627	125.96p	8,006,635

Of the 9,392,627 options outstanding at 31 December 2015, 5,555,571 were exercisable (2014: 1,485,503). The weighted average exercise price of the exercisable shares was 46.32p (2014: 83.89p).

Share options and RSU's outstanding at the end of the year have the following expiry dates (RSU latest exercise dates) and exercise prices.

		2015		2014	
Year of expiry	Range of exercise price	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
2016	Nil	2,216,667	Nil		
2017	Nil	135,834	Nil	–	–
2018	Nil	243,639	Nil	–	–
2019	Nil	452,779	Nil	–	–
2020	Nil	532,134	Nil	–	–
2022	49.00p	2,498,503	49.00p	2,498,503	49.00p
2023	159.00p	1,841,837	159.00p	2,968,400	159.00p
2024	153.00p – 163.50p	1,471,235	162.72p	2,539,732	163.05p
Total	Nil – 163.50p	9,392,628	68.51p	8,006,635	125.96p

The weighted average fair value of the market performance options and the time lapse options to be granted in respect of year ended 31 December 2015 using respectively the Monte Carlo and Black-Scholes valuation models is 108.13p (2014: 155.00p) per option. The significant inputs into the model were as follows.

	2015	2014
Weighted average share price at grant date	155.00p	155.00p
Weighted average exercise price	Nil	0.01p
Weighted average expected volatility (i)	51%	46%
Weighted average annual risk free rate	0.79%	1.03%
Dividend yield	0%	0%
Weighted average expected life	2.68 years	3.77 years

(i) The expected volatility under Black-Scholes was determined by a review of historic actual volatility based on statistical analysis of daily share prices since the date of Velocys plc's listing on AIM. The expected volatility under Monte Carlo was calculated using statistical analysis of historic share prices over an equivalent period to the vesting period.

Total expense recognised in the income statement for share options granted to Directors and employees was £1,843,000 in 2015 (2014: £1,390,000). No further expense was accrued within the share-based payments charge (2014: £1,678,000) as all options pertaining to the financial year were granted during 2015.

At the time of exercising their share options, executives of the Company may apply to an employee benefit trust managed by Oxford Catalysts Trustees Limited for a distribution in respect of the exercise value of their options. The trustees then request a contribution from the Company in respect of the grant made. The total value of funds distributed to executives by Oxford Catalysts Trustees Limited during the year in respect of NELTIP options was £nil (2014: £205,000).

Notes to the financial statements (continued)

Velocys, Inc. scheme

The Velocys, Inc. Stock Compensation Plan ("Pre-Acquisition Scheme") was acquired as part of the acquisition of Velocys, Inc. by Velocys plc, formerly Oxford Catalysts Group PLC, on 20 November 2008. The scheme was started in 2001 and covers all US based employees. Prior to the acquisition, Velocys, Inc.'s Board of Directors granted non-qualified share options to employees with expiry 10 years from grant date. The options' exercise price was equal to the stock's fair market value at the date of grant. Options are forfeited if an employee leaves the Company. Generally, options vest as follows.

After 1 year of service from vest start date:	25% of grant
Each month subsequent to 1 year of service:	1/48th of grant

Pursuant to the terms and conditions of the acquisition of Velocys, Inc., each vested and unvested Pre-Acquisition Scheme option existing on the acquisition date was converted into 0.3659 of a Velocys plc, formerly Oxford Catalyst Group PLC, option (the ratio of the value of one share of Velocys, Inc. stock to one share of Velocys plc, formerly Oxford Catalyst Group PLC stock) with a corresponding increase to the exercise price. Share options are exercisable in US dollars.

During 2011, the Company reviewed employee incentives and concluded that the Pre-Acquisition Scheme options did not provide the intended incentive or retention value for its employees due to significant shifts in the market price since the original grants. Consequently, holders of these options were offered the opportunity to forfeit their options and have new options issued. All such new issues vest in three years and expire 10 years from date of grant.

Details of the share options outstanding under the Pre-Acquisition Scheme are as follows.

	2015		2014	
	Weighted average exercise price	Number of options	Weighted average exercise price	Number of options
At 1 January	$1.00	130,062	$0.94	202,415
Forfeited	$0.82	(21,503)	$0.77	(951)
Exercised	$0.77	(12,581)	$0.86	(71,402)
At 31 December	$1.08	95,978	$1.00	130,062

Of the options outstanding presented above, 95,978 (2014: 130,062) were exercisable as of 31 December 2015. The weighted average share price of the exercisable shares was $1.08 (2014: $0.91).

Share options outstanding at the end of the year have the following expiry dates and exercise prices.

		2015		2014	
Year of expiry	Range of exercise price per share	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
2015	$0.77	–	–	27,410	$0.77
2017	$2.21 – $2.54	9,218	$2.45	9,218	$2.45
2021	$0.93	86,760	$0.93	93,434	$0.93
Total	$0.77 – $2.54	95,978	$1.08	130,062	$1.00

Total expense recognised in the income statement for share options granted under the Velocys, Inc. plan was £nil (2014: £3,000).

Bonus shares

The Company previously maintained two bonus share schemes for certain executives: one in respect of employees of Velocys Technologies Limited and one in respect of employees of Velocys, Inc. Under both schemes, the value of the bonus was based upon the executive's salary as well as the Company and the executive achieving certain targets throughout the year. No awards were, or will be, made under these schemes during, or in respect of, 2015.

The Velocys Technologies Limited bonus share scheme awarded nominal value share options (1p) that were issued subsequent to the end of previous financial years. The awards vested on the date of grant and expire 10 years thereafter. Details of the bonus shares outstanding under the Velocys Technologies Limited bonus share scheme are as follows.

	2015		2014	
	Exercise price	Number of options	Exercise price	Number of options
At 1 January	1.00p	421,760	1.00p	421,760
At 31 December	1.00p	421,760	1.00p	421,760

Velocys Technologies Limited bonus share options outstanding at the end of the year have the following expiry dates.

		2015	2014
Year of expiry	Exercise price	Number of options	Number of options
2019	1.00p	42,105	42,105
2020	1.00p	342,000	342,000
2021	1.00p	37,655	37,655
Total	1.00p	421,760	421,760

The Velocys, Inc. bonus share scheme consists of deferred shares awarded subsequent to year end at a nominal price of 1p. 20% of the award is granted on each anniversary of the date of award. Shares remaining to be granted in future years totalled 16,418. No bonus share awards were made in respect of 2015 (2014: nil).

The share-based payment expense for the year includes a cost of £nil (2014: £nil) relating to shares granted under either the Velocys Technologies Limited or the Velocys, Inc. bonus share schemes.

Other share options
The Board has approved the granting of share options to a small number of consultants who provide a strategic service to the business.

Movements in the number of consultants' share options outstanding and their related weighted average exercise prices are as follows.

	2015		2014	
	Weighted average exercise price	Number of options	Weighted average exercise price	Number of options
At 1 January	51.15p	92,129	58.38p	232,264
Granted	108.03p	161,750	145.25p	21,375
Forfeited	–	–	–	–
Exercised	–	–	73.99p	(161,510)
At 31 December	87.39p	253,879	51.15p	92,129

Of the 253,879 options outstanding at 31 December 2015, 103,879 were exercisable (2014: 70,969). The weighted average exercise price of the exercisable shares was 51.88p (2014: 66.10p).

Notes to the financial statements (continued)

Share options outstanding at the end of the year have the following expiry dates and exercise prices.

		2015		2014	
Year of expiry	Range of exercise price	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
2021	1.00p	6,500	1.00p	6,500	1.00p
2022	1.00p	10,204	1.00p	10,204	1.00p
2023	1.00 – 53.10p	54,050	29.44p	54,050	29.44p
2024	145.25p	21,375	145.25p	21,375	145.25p
2024	105.25 – 143.5p	161,750	108.03p	–	–
Total	1.00 – 145.25p	253,879	84.67p	92,129	51.15p

As in 2014 options were granted at market price. Vesting periods varied from immediate to 3 years; in 2014 all options vested immediately. The weighted average fair value of options granted during the year determined using the Black-Scholes valuation model was 22.51p (2014: 0.92p) per option. The significant inputs into the model were as follows.

	2015	2014
Weighted average share price at grant date	108.03p	145.25p
Weighted average exercise price	108.03p	145.25p
Weighted average expected volatility (i)	43%	30%
Weighted average annual risk free rate	0.8%	3%
Dividend yield	0%	0%
Weighted average expected life	1.66 years	0.01 years

(i) The expected volatility was determined by a review of historic actual volatility based on statistical analysis of daily share prices since the date of Velocys plc's listing on AIM.

The share-based payment expense for the year includes a cost of £18,000 (2014: £28,000) related to options granted to consultants.

Share-based payments charge
The total charge for share-based payments during the year was £2,142,000 (2014: £3,407,000) of which £1,544,000 (2014: £2,864,000) relates to options granted to Directors and the remainder to other employees.

16. 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. Details of share options are given in note 15.

17. Intangible assets

Company **2015**	Goodwill £'000	In process technology £'000	Patents, licence and trademarks £'000	Customer contracts £'000	Software £'000	Total £'000
Cost						
At 1 January 2015	5,958	20,610	1,995	1,473	328	30,364
Additions	–	–	393	–	2	395
Disposals	–	–	(523)	–	(208)	(731)
Foreign exchange movement	775	919	62	–	6	1,762
At 31 December 2015	6,733	21,529	1,927	1,473	128	31,790
Accumulated amortisation						
At 1 January 2015	–	1,328	528	–	161	2,017
Charge for the year	–	28	152	–	72	252
Disposals	–	–	(148)	–	(200)	(348)
Impairment	–	–	–	1,473	–	1,473
Foreign exchange movement	–	–	15	–	3	18
At 31 December 2015	–	1,356	547	1,473	36	3,412
Net book amount						
At 31 December 2015	6,733	20,173	1,380	–	92	28,378

2014	Goodwill £'000	In process technology £'000	Patents, licence and trademarks £'000	Customer contracts £'000	Software £'000	Total £'000
Cost						
At 1 January 2014	4,062	19,440	1,752	–	211	25,465
Additions	–	–	329	–	100	429
Disposals	–	–	(167)	–	–	(167)
Acquisition of subsidiary	1,865	–	–	1,344	–	3,209
Foreign exchange movement	31	1,170	81	129	17	1,428
At 31 December 2014	5,958	20,610	1,995	1,473	328	30,364
Accumulated amortisation						
At 1 January 2014	–	–	382	–	112	494
Charge for the year	–	–	138	–	43	181
Disposals	–	–	(13)	–	–	(13)
Impairment	–	1,328	–	–	–	1,328
Foreign exchange movement	–	–	21	–	6	27
At 31 December 2014	–	1,328	528	–	161	2,017
Net book amount						
At 31 December 2014	5,958	19,282	1,467	1,473	167	28,347

The majority of the intangibles balance, including the Goodwill, In process technology and Customer contracts has arisen from the acquisitions of Velocys Inc. in 2008 and Velocys Project Solutions (VPS) in 2014. Further details of the VPS acquisition are included in note 30, including an explanation of the impairment of Customer contracts. The remainder of Intangibles, (Patents, licence and trademarks, and Software) are internally generated.

Goodwill of £4,519,000 (2014: £4,062,000) originates from the acquisition of Velocys, Inc. in 2008. Goodwill of £2,214,000 (2014: £1,865,000) originates from the acquisition of Velocys Project Solutions in 2014.

As part of its IP strategy, the Company decided to abandon certain patents in 2015. This resulted in a loss on disposal of patents of £375,000.

Assets in use and amortisation
In 2015, as a result of the first sale of reactors to a commercial plant, all the In Process technology was brought into use for the first time. When intangible assets are brought into use, they are amortised over their expected useful lives. Amortisation of intangible assets is charged to administrative expenses in the consolidated income statement.

Notes to the financial statements (continued)

Impairment of Goodwill and In-process technology
Goodwill and 'In process technology' intangible assets were subject to an impairment review. The impairment review for In process technology and Goodwill is performed for each 'Cash Generating Unit' (CGU) identified in accordance with the Company's accounting policy. The In process technology, all arises from the acquisition of Velocys Inc. At the time of the acquisition in 2008, it was determined that there were six CGU's, each representing a separate technology stream for which distinct revenue streams could be identified. In 2014 one CGU, which represented one of the Company's non-core technologies and which the Company determined that it did not currently have the intention to pursue, was impaired. In 2015 the Company determined that the remaining CGU's should be combined into one CGU, being the business segment, synthetic fuels. All of the Goodwill is considered to relate to this same segment.

The Company carried out an impairment test on its In process technology and Goodwill as at 31 December 2015 based on a value in use ('VIU') calculation. The VIU calculation is based on the estimated discounted future cash flows to be generated by the respective technology stream.

Key assumptions
The key assumptions in the VIU calculations are the discount rate applied, and the sales and gross margin forecasts for the period of the expected useful life of the technology.

Sales and gross margin forecasts
Future sales forecasts are based upon the commercialisation of the Company's technology in what is an emerging and nascent market. Forecast sales and gross margin levels are therefore dependent upon speed of uptake of the Company's technology, the size of the markets and the penetration achieved in those markets.

In all cases the approved budget for the following financial year forms the initial basis for the forecasts. Growth rate assumptions have then been applied to revenue for periods of between 6 and 7 years with steady state sales for periods beyond this since it is considered difficult at this stage to assess a long term growth rate. This period of growth is considered reasonable given the long development cycle for projects using the Company's technology. The expected units of production for synthetic fuels CGU has been estimated to be approximately 1,400 reactors.

Discount rate
The discount rate applied represents a pre-tax rate that reflects market assessment of the time value of money at the balance sheet date and the specific risks. The pre-tax discount rates applied was 25% in 2015 (2014: 25%).

Sensitivities
The key sensitivity in the forecasts is the rate of sales of units (a unit being a reactor). The technology is new and so there are no comparable industry growth rates. In addition, since the Company's commercial sales growth is projected off a very early stage and consequently a low starting point, the rate of growth projected is relatively high. Different forecast rates have been applied to test the sensitivity of the model to lower rates and it is considered that even at the lower end of possible growth rates, there is still sufficient head room to suggest no impairment is required.

Summary of results
Based on the impairment testing carried out, it was determined that there was no impairment of Goodwill and In process technology intangible assets. In 2014, impairment testing of In process technology resulted in an impairment charge of £1,328,000.

The forecast used in the impairment review of In process technology as at 31 December 2015 indicates significant headroom when comparing the recoverable amount against carrying value. However, given the early stage of adoption there remains a significant level of judgement involved in making the assumptions for revenues and margins. Other significant areas of judgement include the assumptions of just one CGU and of longevity of the technology.

Parent company
The parent company has no intangible assets (2014: £nil).

18. Property, plant and equipment

Company 2015	Assets under construction £'000	Land £'000	Plant and machinery £'000	Total £'000
Cost				
At 1 January 2015	778	1,053	7,827	9,658
Additions	224	–	2,038	2,262
Disposals	–	–	(1,082)	(1,082)
Transfers to plant and machinery	(954)	–	954	–
Foreign exchange	15	51	381	447
At 31 December 2015	63	1,104	10,118	11,285
Accumulated depreciation				
At 1 January 2015	–	–	5,593	5,593
Charge for the year	–	–	1,025	1,025
Disposals	–	–	(1,077)	(1,077)
Foreign exchange	–	–	237	237
At 31 December 2015	–	–	5,778	5,778
Net book amount				
At 31 December 2015	63	1,104	4,340	5,507

2014	Assets under construction £'000	Land £'000	Plant and machinery £'000	Total £'000
Cost				
At 1 January 2014	160	–	6,953	7,113
Additions	1,203	23	318	1,544
Disposals	–	–	(450)	(450)
Assets acquired on acquisition of subsidiary	–	940	–	940
Transfers to plant and machinery	(630)	–	630	–
Foreign exchange	45	90	376	511
At 31 December 2014	778	1,053	7,827	9,658
Accumulated depreciation				
At 1 January 2014	–	–	5,029	5,029
Charge for the year	–	–	728	728
Disposals	–	–	(439)	(439)
Foreign exchange	–	–	275	275
At 31 December 2014	–	–	5,593	5,593
Net book amount				
At 31 December 2014	778	1,053	2,234	4,065

The costs of leased assets included above is £207,000 (2014: £214,000). The net book amount of leased assets included above is £73,000 (2014: £121,000). Depreciation is charged to administrative expenses in the consolidated income statement.

Parent company
The parent company has no property, plant or equipment (2014: £nil).

As at 31 December 2015, the Company had entered into contractual commitments for the acquisition of property, plant and equipment amounting to £23,000 (2014: £60,000).

Notes to the financial statements (continued)

19. Investments in subsidiaries

Velocys plc	2015 Loan to subsidiaries £'000	2015 Capital contributions to subsidiaries £'000	2015 Total investment in subsidiaries £'000	2014 Loan to subsidiaries £'000	2014 Capital contributions to subsidiaries £'000	2014 Total investment in subsidiaries £'000
Investments in subsidiaries						
At 1 January	93,820	34,932	128,752	47,948	29,407	77,355
Movement in loans	(3,655)	–	(3,655)	47,080	–	47,080
Capital contributions	–	1,988	1,988	–	5,525	5,525
Foreign exchange	(796)	–	(796)	(1,208)	–	(1,208)
At 31 December	89,369	36,920	126,289	93,820	34,932	128,752

The Directors believe the carrying value of the investments is supported by their expected future cash flows. Investments include long term loans to Velocys, Inc., Velocys Technologies Limited and Velocys (USA Holdings) LLC. Investments are stated at cost.

The parent company has direct investments in the following subsidiary undertakings.

Subsidiary undertakings	Country of incorporation or principal business address	Principal activity	% Holding (all ordinary share capital)
Velocys Technologies Limited	England and Wales	Design and development of catalysts, and exploitation of platform catalyst technologies	100
Velocys (USA Holdings) LLC	Ohio, USA	Holding company for US subsidiaries	100
Oxford Catalysts Trustees Limited	England and Wales	Holds assets and makes distributions in respect of employee remuneration	100

The following companies are subsidiaries of the Company whose immediate parent is not Velocys plc.

Subsidiary undertakings	Country of incorporation or principal business address	Principal activity	% Holding (all ordinary share capital)
Velocys, Inc.	Delaware, USA	Design, development and exploitation of its microchannel technologies	100
Velocys Project Solutions, LLC	Delaware, USA	Project development of smaller scale GTL plants	100
Ashtabula Energy, LLC	Delaware, USA	Project development of smaller scale GTL plant in Ashtabula, Ohio	100
VMH Assets LLC	Ohio, USA	Hold manufacturing assets in Ohio	100
JAB Land-Ashtabula	Ohio USA	Hold land for small scale GTL plant in Ashtabula Ohio	100

Velocys plc has an investment in the following dormant subsidiary.

Dormant subsidiary	Incorporated	Principal activity	% Holding
Oxford Catalysts UK Limited	England and Wales (07671880)	Dormant company	100

20. Investments

	2015 £'000	2014 £'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.

21. Trade and other receivables

	Company	
	2015 £'000	2014 £'000
Current		
Trade receivables	4	43
Prepayments and accrued income	324	420
Other receivables	583	190
	911	653

	Parent company	
	2015 £'000	2014 £'000
Current		
Prepayments and accrued income	15	15
Other receivables	17	61
	32	76

The fair value of trade and other receivables is not materially different to the book value above (2014: not materially different). The trade receivables hold a low credit risk. The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivable plus cash balances held. The Company does not hold any collateral as security (2014: £nil).

As at 31 December 2015 Company trade receivables of £4,000 (2014: £ nil) were past due but not impaired. The aging analysis for the 2015 amounts past the due date, which were received in full in 2016, is as follows.

	Company	
	2015 £'000	2014 £'000
Up to 3 months	4	–
	4	–

The parent company had no trade and other receivables past due but not impaired (2014: £nil).

Trade receivables outstanding at year end represent approximately 1 days' sales (2014: 9 days).

The Company believes that the full amount of trade receivables recognised is recoverable after allowance has been made for doubtful debts. At 31 December 2015, the parent company had no overdue trade receivables (2014: £nil). The other classes within trade and other receivables do not contain impaired assets (2014: £ nil).

Notes to the financial statements (continued)

Trade and other receivables are denominated in the following currencies:

	2015 £'000	2014 £'000
UK sterling	233	331
US dollars	678	322
	911	653

22. Inventories

	Company	
	2015 £'000	2014 £'000
Raw materials and consumables	77	8
Finished goods	1,316	283
Total	1,393	291

£218,000 has been written off the value of an inventoried reactor as a reflection of slight differences between it and the current model.

The parent company has no inventory.

23. Short term investments, cash and cash equivalents

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

The parent company has no cash or cash equivalents (2014: £ nil).

24. Trade and other payables: current

	Company	
	2015 £'000	2014 £'000
Trade payables	1,372	728
Other payables	–	875
Other taxation and social security	14	62
Accruals	3,265	3,260
Deferred income	2,638	4,214
Deferred consideration	91	1,763
	7,380	10,902

The parent company has trade and other payables of £140,000 (2014: £85,000), all of which are accruals.

The fair value of trade and other payables are not considered to be materially different to their carrying values based on discounted cash flows.

In circumstances in which an award for costs from an external entity is subject to a final settlement, such as awarded costs from a court judgement, the Company does not recognise awarded amounts until the settlement is finalised and are therefore included in other payables.

All trade payables are due in 60 days or less (2014: 60 days or less).

The Deferred consideration relates to the acquisition of VPS, as explained in note 30.

25. Trade and other payables: non-current

	Company	
	2015 £'000	2014 £'000
Accruals	65	53
Deferred income	1,262	16
	1,327	69

The parent company has no non-current trade and other payables (2014: £nil).

The fair value of trade and other payables are not considered to be materially different to their carrying values based on discounted cash flows.

Deferred income for 2015 includes funds received for catalyst to be earned over a 2-year lease period.

26. Borrowings

The parent company had no borrowings in 2015 (2014: £nil). Maturity of borrowings for the Company is as follows.

	Company	
	2015 £'000	2014 £'000
Within 1 year	288	267
Within 2 to 5 years	759	999
	1,047	1,266

The majority of the Borrowings relates to a loan entered into on 1 December 2009 by Velocys plc's wholly owned subsidiary, Velocys, Inc. (Velocys) with the State of Ohio (the State) allowing Velocys to borrow up to $2.25 million to fund qualified capital projects for research and development projects. All such projects were required to be completed by 31 August 2012 and have 25% of costs funded by Velocys. The interest rate for the loan is 2.00% per annum with a service fee of 0.25% of the principal balance. The loan is repaid to the State using a blended payment schedule as follows.

Notes to the financial statements (continued)

- For the first five years of the loan, the principal is paid in consecutive monthly instalments based upon an original amortisation over 20 years with any interest accrued during that particular month.
- For the remaining term of the loan, the principal is paid in consecutive monthly instalments based upon the remaining term of the loan (5 years) with any interest accrued during that particular month.

The loan is secured by all plant and machinery acquired using the loan proceeds as well as a guarantee of payment provided by the parent company. The gross book value of the capital projects secured is £2,217,000 (2014: £2,116,000). The loan was fully drawn down in 2012. After repayments of principal, the amount outstanding on the loan as at 31 December 2015 is £964,000 (2014: £1,138,000).

All remaining borrowings of £83,000 (2014: £128,000) arise from finance lease obligations. The fair values of borrowings are not considered to be materially different to their carrying values based on discounted cash flows.

27. 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.

28. Financial instruments

	31 December 2015			
Company	Loans and receivables £'000	Assets at fair value through profit and loss £'000	Available for sale £'000	Total £'000
Assets as per balance sheet				
Available-for-sale financial assets	–	–	3,375	3,375
Derivative financial instruments	–	156	–	156
Trade and other receivables excluding non-financial assets	587	–	–	587
Short term investments – funds held on deposit	3,000	–	–	3,000
Cash and cash equivalents	34,736	–	–	34,736
	38,323	156	3,375	41,854

	31 December 2014			
Company	Loans and receivables £'000	Assets at fair value through profit and loss £'000	Available for sale £'000	Total £'000
Assets as per balance sheet				
Available-for-sale financial assets	–	–	1,711	1,711
Derivative financial instruments	–	435	–	435
Trade and other receivables excluding non-financial assets	233	–	–	233
Short term investments – funds held on deposit	28,083	–	–	28,083
Cash and cash equivalents	31,693	–	–	31,693
	60,009	435	1,711	62,155

The credit risk of short term investments and cash and cash equivalents, summarised in the following table, is assessed using an external credit rating agency's long-term ratings.

	2015		2014	
Short-term bank deposits, cash at bank and in hand	£'000	%	£'000	%
Aa2	3,447	9%	–	–
Aa3	5,698	15%	11,504	19%
A1	15,044	40%	8,951	15%
A2	12,034	32%	27,496	46%
A3	1,513	4%	11,825	20%
	37,736		59,776	

	31 December 2015		
Company	Liabilities at fair value through the profit and loss £'000	Other financial liabilities at amortised cost £'000	Total £'000
Liabilities as per balance sheet			
Borrowings	–	964	964
Trade and other payables excluding non-financial liabilities	–	4,637	4,637
Finance lease liabilities	–	83	83
	–	5,684	5,684

	31 December 2014		
Company	Liabilities at fair value through the profit and loss £'000	Other financial liabilities at amortised cost £'000	Total £'000
Liabilities as per balance sheet			
Borrowings	–	1,139	1,139
Trade and other payables excluding non-financial liabilities	–	6,626	6,626
Finance lease liabilities	–	127	127
	–	7,892	7,892

Derivative financial instruments are forward foreign exchange contracts. Risks associated with these contracts include foreign exchange risk from adverse movements during the maturity period of the contract, or from a default by the contracting party, which could leave the Company with un-hedged dollar liabilities.

29. Called up share capital

Company and parent company	Number of shares (thousands)	Ordinary shares £'000	Share premium £'000
At 1 January 2014	116,411	1,164	95,793
Employee share options scheme: Shares issued	1,018	10	506
Investment by Shiloh Industries, Inc.	601	6	1,197
Consideration for purchase of Pinto Energy, LLC	755	8	1,647
Fund raising October 2014	23,111	231	50,082
At 31 December 2014	141,896	1,419	149,225
Employee share options scheme: Shares issued including 1p exercise price options	27	–	(28)
At 31 December 2015	141,923	1,419	149,197

A total of 15,613,701 (2014: 13,927,937) options to subscribe for ordinary shares of Velocys plc have been granted and are outstanding at 31 December 2015 under the employee options schemes operated within the Company and contracts for options granted to a limited number of consultants. Details are given in note 15.

Notes to the financial statements (continued)

On 25 June 2014 the Company acquired Pinto Energy, LLC, now known as Velocys Project Solutions, LLC. A number of holdback shares was designated to cover adjustments in the period after acquisition. The remaining balance of these shares, which will be issued during 2016, is 41,644. Details of the acquisition are contained in note 30.

30. 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. Ashtabula GTL is a GTL plant designed to produce approximately 5,000 barrels per day (bpd), and scoped 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.

Consideration at 25 June 2014	Fair value £'000
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.

31. Commitments
Capital commitments are disclosed in note 18.

The Company is committed to a further investment in ENVIA of £1,636,000 and a loan of £6.3m repayable by 31 December 2020.

Operating lease commitments

The Company leases various offices under non-cancellable operating lease agreements. The lease terms are between 2 and 5 years and the majority of lease agreements are renewable at the end of the lease period at market rate.

	2015 £'000	2014 £'000
Future aggregate minimum lease payments under non-cancellable property leases:		
– Within one year	408	412
– Between one and five years	1,217	1,419
– After more than five years	415	575
	2,040	2,406

	2015 £'000	2014 £'000
Future commitments under non-cancellable operating plant and equipment leases:		
– Within one year	2	1
– Between one and five years	3	3
	5	4

32. Pension arrangements

The Company operates a number of defined contribution schemes for which the pension cost charge for the year amounted to £326,000 (2014: £252,000).

33. Related party transactions

The parent company has the following amounts due from its subsidiaries:

Balances with subsidiary companies	**2015** £'000	2014 £'000
Velocys Technologies Limited	58,637	78,565
Velocys (USA Holdings) LLC	6,191	1,711
Velocys, Inc.	24,541	13,544
Total due from subsidiaries	89,369	93,820

All amounts are unsecured and have no fixed date of repayment.

Oxford Catalysts Trustees Limited

At the time of exercising their share options, executives of the Company may apply to the employee benefit trust managed by Oxford Catalysts Trustees Limited for a distribution in respect of the exercise value of their options. The trustees then request a contribution from the Company in respect of the grant made. The total value of funds contributed by the Company to Oxford Catalysts Trustees Limited during the year was £nil (2014: £205,000).

34. Post-financial position events

On 5 February 2016 the Company announced that it had made available to ENVIA Energy up to US$12 million of further funding as part of a stakeholder capital contribution. As a result of this contribution the Company expects that the commercial reference plant will be fully funded through construction, completion and operation. Of the US$12 million committed, US$3 million is Velocys' equity contribution and US$9 million will be provided as a loan secured on the project. The terms of the loan provide the Company with the opportunity to gain a greater equity share of the project and greater influence in the commissioning, start-up and operations of the plant. The funding will be accommodated from the Company's balance sheet. This loan will have a 10% coupon, and the Company has the opportunity for early repayment of the loan after the plant is operational.

Directors, secretary and advisors to the Company

Velocys plc registration no.	5712187
Registered office	115e Olympic Avenue Milton Park Abingdon Oxfordshire OX14 4SA
Directors	Pierre Jungels (Non-executive Chairman) David Pummell (Chief Executive Officer since 6 January 2016) Susan Robertson (Chief Financial Officer) Paul Schubert (Chief Operating Officer) Julian West (Senior Independent Director) Jan Verloop (Non-executive Director) Mark Chatterji (Non-executive Director) Ross Allonby (Non-executive Director) Sandy Shaw (Non-executive Director)
Company secretary	Jeremy Gorman
Brokers & nominated advisors	Numis Securities Limited The London Stock Exchange Building 10 Paternoster Square St Pauls London EC4M 7LT
Registrars	Capita Registrars Ltd The Registry 34 Beckenham Road Beckenham Kent BR3 4TU
Bankers	Barclays Bank Plc Wytham Court 11 West Way Oxford OX2 0JB
Public relations	Camarco 107 Cheapside London EC2V 6DN
Independent auditors	PricewaterhouseCoopers LLP 3 Forbury Place 23 Forbury Road Reading Berkshire RG1 3JH

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