Pyrolyx AG

München

Interim Management Report

- Convenience Translation Only-

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Interim Management Report of Pyrolyx AG at June 30, 2015

Contents

1. Principles and introduction

Pyrolyx develops and implements new, innovative (environmental) technology for the production of basic chemicals and other substances used in the manufacture of rubber and plastic products. Pyrolyx has at its disposal a special process known as 'Pyrolyx technology' based on depolysis which is used for the environmentally friendly production of high-quality carbon black. In this process, organic compounds in rubber granules (especially from shredded end-of-life tires) are broken down under the exclusion of oxygen to create recovered carbon black, pyrolysis oils, and pyrolysis gas. Pyrolysis oils can be sold as valuable raw materials, processed, or used as an energy source. Once freed of condensable components, pyrolysis gas is comparable to natural gas and is therefore used by Pyrolyx to generate electricity.

Carbon black is a high-tech material with internationally standardized features which decisively influences the characteristics of the final products in which it is used. For example, when employed as filler, carbon black improves the mechanical properties of plastic and rubber products, increases the abrasion resistance of tires, and provides protection against heat and UV light. Special types of carbon black are suitable for different applications depending on their characteristic properties. Experts estimate that the global demand for carbon black rose in 2015 to over 13 million tons – and predict this market to grow by about 4–5% annually, chiefly driven by China and the Asian region.

1.1 Business model

Pyrolyx AG focuses on the functions of a holding company together with the development and protection of the intellectual property created within the group. All operational activities associated with Pyrolyx technology and the products obtained from its use are carried out via subsidiaries. This enables the management team of Pyrolyx AG to enter international markets in a flexible manner and to control the group's cost structure.

The aim of Pyrolyx AG is to establish Pyrolyx technology for the sustainable recycling of end-of-life tires around the world. Pyrolyx AG intends to build and operate industrial commercial plants itself and/or via affiliated companies and/or licensees throughout the world. For this purpose, the company continuously evaluates potentially suitable locations and partners. Depending on the region/location, different approaches may be applied and/or capital arrangements be agreed with potential partners.

1.2 R&D

The development of Pyrolyx technology began in 2005. Since that time, it has been continuously improved thanks to the construction of a number of non-industrial pilot reactors. Protracted development work in close collaboration with the internationally renowned plant engineering company Zeppelin Systems GmbH (based in Friedrichshafen) and Beek B.V./Celsius, a Dutch specialist in thermal screw conveyor systems (Drunen, the Netherlands), led to the construction of an industrial pilot plant in Drunen.

Research and development activities in H1 2015 largely concentrated on the same priorities as in 2014:

- The expansion of material tests with top international tire manufactures based on the recovered carbon black produced at the industrial pilot plant in Drunen. This led for example to the production of tires with the addition of recovered carbon black and the successful performance of the subsequent field trials.
- The definition of master specifications for the commercial supply of the tire industry with recovered carbon black.
- R&D collaboration with the University of Budapest in the field of applied polymer research. This strengthens the company's product development capabilities for the tire and industrial rubber industry.

- The development of internal engineering skills to strengthen and protect know-how and intellectual property.
- The expansion of the network of production partners for the manufacture of critical and internally developed system components.

1.3 Control system

Risk management is an integral part of the company's management strategy geared to value and growth. Under Pyrolyx AG's systematic risk management, the potential risks of all main business transactions and processes are analyzed and monitored. The risk strategy applied always begins with an early assessment of the risks and the opportunities associated with them.

In addition, the company management only assumes reasonable, manageable and controllable risks if they are likely to result in an increase in the company's value. Speculative transactions and measures are therefore precluded. Important decisions are only taken after consulting the Supervisory Board.

To control non-financial operating performance indicators, in 2014 the company introduced a project management system. The Supervisory Board receives regular detailed reports on financial (equity, profit and loss account, liquidity) and non-financial performance indicators. This creates a high degree of transparency and forms a solid basis for the assessment of risks and opportunities. As a result, the Management Board is immediately able to take appropriate action in order to ensure the company is stably controlled.

2. Course of business in H1 2015

2.1 Course of business and economic environment

In February 2015, Pyrolyx AG returned yet again to the world-famous Tire Technology Expo in Cologne with a joint stand in conjunction with its plant engineering partner Zeppelin Systems GmbH. In addition, in early 2015, field trials on tires with the addition of recovered carbon black produced by Pyrolyx were successfully completed. This was a significant milestone for Pyrolyx AG in the further planning and implementation of the commercial production of recovered carbon black.

The worldwide patenting of Pyrolyx technology continues to be successful. Following China, the USA, Russia and Ukraine, in H1 2015 the Japanese patent authority registered the patent to protect Pyrolyx AG's core technology under number JP 2012-530134.

cct Stegelitz GmbH

The acquisition of cct Stegelitz GmbH by Pyrolyx AG announced in February 2015 was successfully completed in June 2015. Both companies complement each other superbly in the areas of production, R&D, sales and finance. The fact that cct Stegelitz GmbH already manufactures and sells recovered carbon black and pyrolysis oil at its existing industrial production plant means that joint marketing can now be stepped up.

Another important aspect of the takeover is the expansion of cct Stegelitz GmbH's existing production capacities by means of the planned erection of an additional manufacturing plant based on Pyrolyx's patented technology alongside cct's existing plant.

CH2E (USA)

A strategic partnership was agreed between the CH2E Group (USA) and Pyrolyx AG in a non-binding memorandum of understanding. CH2E has the largest landfill for waste tires in the US with a volume of approximately 600,000 tons. Under the future partnership, Pyrolyx AG plans to build a commercially viable production plant based on its patented technology on CH2E's site in Hudson (Colorado). CH2E will then provide high-quality shredded used tires and the production area for the construction of the plant. Meetings to finalize the partnership were still ongoing on the balance sheet date.

2.2 Development of the asset and capital structure

The following corporate actions were carried out in Q2 2015 in connection with the acquisition of cct Stegelitz GmbH:

Capital increase in kind dated June 1, 2015

Under Section 3(4) of the Articles of Association of Pyrolyx AG, in accordance with the resolution adopted by the AGM on June 30, 2014 and entered in the Register of Companies on August 6, 2014, the Management Board was authorized with the approval of the Supervisory Board to increase the share capital of the Company on one or more occasions by June 29, 2019 to a total of up to €197,886 by issuing up to 197,886 no-par-value bearer shares in return for cash and/or contributions in kind (Authorized Capital 2014/I). Authorized Capital 2014/I included the authorization of the Management Board to exclude subscription rights for shareholders if the shares were issued within a capital increase in kind.

Partly using the above authorization, the Management Board availed itself of this authorization on June 1, 2015 with the approval of the Supervisory Board on June 2, 2015 and decided to increase the Company's share capital amounting to €411,687 from Authorized Capital 2014/I by €104,000 to €515,687 in return for contributions in kind to the exclusion of shareholders' subscription rights. The capital increase was subscribed to the full amount of €104,000. The performance of the capital increase was entered in the Register of Companies on June 11, 2015.

The new shares were issued to the exclusion of existing shareholders' subscription rights at a subscription price of €55.00 per share. They carry full dividend rights from January 1, 2015.

The issue price was 11.3% above the arithmetic mean (€49.40) of the closing prices of the Company's shares on the primary market at Dusseldorf Stock Exchange on the five trading days prior to the Management Board's resolution to issue the new shares.

By excluding shareholders' subscription rights, the Company exercised the possibility to exclude subscription rights in connection with capital increases in kind. This exclusion of subscription rights was required in this case in order to be able to act quickly and flexibly and acquire the 20% interest in cct Stegelitz GmbH to improve the Company's competitive position. The granting of shares in return was expedient in order to protect the Company's liquidity. In addition, pricing the shares above the current market price at that time adequately protected the shareholders' interest and ensured that the capital increase did not result in an economical dilution of shareholders. From the foregoing, the exclusion of subscription rights in compliance with the requirements of Authorized Capital 2014/I during its utilization was altogether objectively justified.

Capital increase dated June 1, 2015

Under Section 3(4) of the Articles of Association of Pyrolyx AG, in accordance with the resolution adopted by the AGM on June 30, 2014 and entered in the Register of Companies on August 6, 2014, the Management Board was authorized with the approval of the Supervisory Board to increase the share capital of the Company on one or more occasions by June 29, 2019 to a total of up to €197,886 by issuing up to 197,886 no-par-value bearer shares in return for cash and/or contributions in kind (Authorized Capital 2014/I). Authorized Capital 2014/I included the authorization of the Management Board to exclude subscription rights for shareholders if the capital increase against cash contributions did not exceed 10% of the share capital and the issue price was not significantly below the shares' market price.

Partly using the above authorization, the Management Board availed itself of this authorization on June 1, 2015 with the approval of the Supervisory Board on the same day and decided to increase the Company's share capital amounting to €515,687 from Authorized Capital 2014/I by up to €39,577 to up to €555,264 to the exclusion of shareholders' subscription rights. The capital increase was subscribed to the full amount of €39,577. The performance of the capital increase was entered in the Register of Companies on June 30, 2015.

The new shares were issued to the exclusion of existing shareholders' subscription rights pursuant to Section 186(3), clause 4 AktG (German Stock Corporation Act) at a subscription price of €103.00 per share. They carry full dividend rights from January 1, 2014.

The issue price was 108.5% above the arithmetic mean (€49.40) of the closing prices of the Company's shares on the primary market at Dusseldorf Stock Exchange on the five trading days prior to the Management Board's resolution to issue the new shares.

Moreover, as the 39,577 new shares did not exceed 10% of the share capital, the volume limit for shares issued with the exclusion of subscription rights in return for cash contributions provided for in Authorized Capital 2014/I was met.

By excluding shareholders' subscription rights, the Company exercised the possibility to exclude subscription rights in connection with cash increases legally provided for in Section 186(3), clause 4 AktG. This exclusion of stock options was required in this case in order to exploit the favorable situation (in the management's view) for a capital increase of this type at short notice at the time of the partial utilization of Authorized Capital 2014/I and to be able to achieve the highest possible proceeds by pricing above the current average market price. A successful placement in connection with a capital increase with subscription rights usually entails a discount on the current average market price and would probably not have resulted in such favorable terms. For the foregoing reasons, excluding subscription rights was in the Company's interests. On the other hand, owing to pricing above the current market price and the limitation of the quantity of newly issued shares with the exclusion of subscription rights to 9.6% of the previous share capital, the shareholders' interests were also adequately protected. For in principle the shareholders are able to maintain their relative stake in the Company by purchasing shares on the stock exchange on similar terms. Furthermore, issuing new shares for a price far exceeding their current market price ensured that the capital increase did not result in an economical dilution of shareholders.

From the foregoing, the exclusion of subscription rights in compliance with the requirements of Authorized Capital 2014/I during its utilization was altogether objectively justified.

The capital increase was fully subscribed. The premium of €102.00 per new share was allocated to the capital reserve. Thanks to this capital increase, Pyrolyx AG released new funding totaling €4.076 million (before expenses) for further business development.

Contingent Capital 2013/I

The Management Board of Pyrolyx AG decided on October 10, 2013 with the approval of the Supervisory Board to issue convertible bonds. The bonds with a total volume of up to €10,071,600 were offered to Pyrolyx shareholders from October 23, 2013. After the subscription period had expired on November 6, 2013, the convertible bonds not taken up by shareholders were offered to other investors under a private placement. By July 31, 2015, the convertible bond had been fully subscribed and therefore closed.

The five-year convertible bonds bear interest at the rate of 10% p.a. from the date of issue which is due at maturity. If bondholders exercise their conversion rights with legal effect, their claim to interest is void. The bonds were divided into up to 143,880 convertible bearer bonds with a nominal value of €70.00 each. Since December 1, 2013, bondholders have been able to convert their bonds at any time (except during certain time windows) into no-par value bearer shares in Pyrolyx AG. Conversion rights may only be exercised in units of at least 1,000 convertible bonds (unless the total number of convertible bonds to which a bondholder is entitled is below 1,000).

The conversion rights were secured by Contingent Capital 2013/I of €143,880 approved by the shareholders' meeting of Pyrolyx AG on June 26, 2013 and entered in the Register of Companies on June 28, 2013.

Development of assets

		30.06.2015		31.12.2014		Change	
		TEUR	%	TEUR	%	TEUR	%
A.	**Fixed assets**						
I.	Intangible assets						
	1. Properietary IP	224.7	1.3	3.3	0.0	221.4	6,723.9
II.	Tangible assets						
	1. Technical plant and equipment	54.8	0.3	58.4	0.7	-3.6	-6.1
	2. Other equipment, stationary	96.2	0.5	112.0	1.4	-15.8	-14.1
	3. Payments in advance, plants under construction	12.4	0.1	129.8	1.6	-117.4	-90.4
III.	Financial assets						
	1. Shares in affiliated companies	12,418.2	69.9	4,078.0	50.2	8,340.2	204.5
		12,806.4	72.1	4,381.4	53.9	8,425.0	192.3
B.	**Current assets**						
I.	Receivables & other assets						
	1. Accounts receivable	44.3	0.2	51.2	0.6	-6.9	-13.5
	2. Receivables to affiliated companies	340.7	1.9	303.1	3.7	37.6	12.4
	3. Other short term assets	87.0	0.5	177.3	2.2	-90.3	-50.9
II.	Liquid funds	4,472.9	25.2	137.6	1.7	4,335.4	3,151.4
		4,944.8	27.8	669.1	8.2	4,275.7	639.0
C.	**Prepaid expenses**	22.8	0.1	37.8	0.5	-14.9	-39.5
D.	**Deferred taxes**	0.0	0.0	3,038.5	37.4	-3,038.5	-100.0
		17,774.1	**100.0**	**8,126.9**	**100.0**	**9,647.2**	**118.7**

Total assets rose on the previous year (December 31, 2014) by €9,647.2 thousand or 118.7% to €17,774.1 thousand.

The share of fixed assets within total assets rose by €8,245.0 thousand from 53.9% at December 31, 2014 to 72.1% at June 30, 2015. This is primarily due to the acquisition of cct Stegelitz GmbH.

The share of medium and short term assets consisting of current assets, prepaid expenses and deferred taxes rose compared to December 31, 2014 by €1,222.3 thousand or 32.6% to €4,967.7 thousand at June 30, 2015. The main drivers were the increase in the cash balance due to the corporate actions carried out and the deferred taxes released by the company at June 30, 2015 due to the fact that a respective usage is not expected with sufficient certainty within the next 5 years.

Development of the capital structure

		30.06.2015		31.12.2014		Change	
		TEUR	%	TEUR	%	TEUR	%
A.	**Equity**						
I.	Paid-in capital	555.3	3.1	411.7	5.1	143.6	34.9
II.	Capital reserve	6,014.7	33.8	9,661.7	118.9	-3,647.1	-37.7
III.	Profit/ Loss for the year	0.0	0.0	-8,295.4	-102.1	8,295.4	-100.0
		6,570.0	37.0	1,778.0	21.9	4,791.9	269.5
B.	**Provisions**						
	1. Other provisions	729.0	4.1	529.3	6.5	199.7	37.7
		729.0	4.1	529.3	6.5	199.7	37.7
C.	**Liabilities**						
	1. Bonds	4,514.0	25.4	1,089.2	13.4	3,424.8	314.4
	2. Accounts payable	993.2	5.6	861.7	10.6	131.4	15.3
	3. Liabilities to affiliated companies	31.9	0.2	0.0	0.0	31.9	0.0
	4. Other liabilities	4,936.1	27.8	3,868.7	47.6	1,067.4	27.6
		10,475.1	58.9	5,819.6	71.6	4,655.6	80.0
		17,774.1	**100.0**	**8,126.9**	**100.0**	**9,647.2**	**118.7**

The company's equity rose by €4,791.9 thousand or 269.5% to €6,570.0 thousand. The equity ratio of the company at the balance sheet date was 37.0%. This positive development is explained by the corporate actions carried out.

The liabilities increased by €4,655.6 thousand or 80.0% to €10,475.1 thousand. This is mainly due to the increase in 'Bonds', which includes the 2013/18 convertible bond. In July 2015, a further €1,918 thousand of the convertible bond was subscribed. By July 31, 2015, the convertible bond had been fully subscribed and therefore closed.

The increase in 'Other liabilities' is mainly due to the balance of bullet interest payable on existing loans and taking out new loans. In July 2015, €3,686 thousand was repaid.

2.3 Earnings and financial position

The development of the earnings situation is shown by a comparison of the income statements derived from the profit and loss statements for H1 2015 and H1 2014:

	Profit & Loss Statement	01.01. - 30.06.2015 TEUR	%	01.01. - 30.06.2014 TEUR	%	Change TEUR	%
+	Revenues	101.7	0.0	0.0	0.0	101.7	0.0
+	Other operating income	54.8	0.0	47.3	0.0	7.4	15.7
-	Raw material	0.0	0.0	1.5	0.0	-1.5	-100.0
=	Gross earnings	156.5	0.0	45.8	0.0	110.7	241.5
-	Personnel	827.9	0.0	757.3	0.0	70.6	9.3
-	Depreciation	22.8	0.0	19.9	0.0	2.9	14.3
-	Other operating expenses	879.3	0.0	1,064.3	0.0	-185.0	-17.4
=	Operating income	-1,573.5	0.0	-1,795.7	0.0	222.3	-12.4
+	Financial income	0.0	0.0	73.7	0.0	-73.7	-100.0
-	Financial expenses	387.9	0.0	293.7	0.0	94.2	32.1
=	Financial result	-387.9	0.0	-220.0	0.0	-167.9	76.3
=	Earnings before taxes	-1,961.4	0.0	-2,015.7	0.0	54.3	-2.7
-	Income taxes	-3,042.3	0.0	654.5	0.0	-3,696.8	-564.8
-	Other taxes	0.8	0.0	0.8	0.0	0.0	3.6
=	**Net earnings**	**-5,004.5**	**0.0**	**-1,362.0**	**0.0**	**-3,642.5**	**267.4**

The revenues are sales to affiliated companies. The other operating income primarily comprises reimbursable expenses relating to trade fairs, benefits in kind and also the release of provisions. ‘Personnel’ costs were higher due to the arrival of new employees. ‘Other operating expenses’ were reduced by €185.0 thousand or 17.4% compared to H1 2014. The main drivers here were the reduction of consulting costs and strict cost management. The reduced interest income results from the fact that unlike in the previous year, default interest from a no longer collectible claim was no longer entered. The increased interest expenses are due to the interest rate structure of existing loans and interest related to the convertible bonds. The income taxes of €3,042.3 thousand reflect the release of deferred tax assets.

3. Events after the reporting period

Apart from the events discussed in Section 2 in the course of business in H1 2015, there have been no events of material significance to the course of business since the end of the reporting period.

4. Outlook

Innovative technology and business concepts always contain risks in the introductory phase which may hamper or delay the medium and long term establishment of these new projects. The Company always takes a preventive approach to such risks or reduces them by for instance working closely together with a high-quality network of plant engineers, technology experts and market players with the strong support of financially powerful partners, enabling any barriers to be overcome jointly, quickly and effectively.

Especially during the market entry phase, the company's forecasting accuracy is subject particularly to scheduling challenges. For example, extensive regulatory approval is required for the construction of a production plant using Pyrolyx technology. However, since licensing rules vary considerably from one location to the next, the approval process may upset the original schedule. Furthermore, Pyrolyx is a potential raw material supplier addressing customer markets which have high safety requirements and demand lengthy testing. This could sometimes delay the market launch of Pyrolyx products, especially recovered carbon black produced by Pyrolyx.

The general factors supporting Pyrolyx AG's business model include rising living standards and consumption in Asia, the depletion of natural resources and the demand for environmental sustainability. Pyrolyx technology provides positive answers to these trends such as significantly reduced CO_2 emissions compared to conventionally produced carbon black and the conservation of fossil fuels.

The procurement markets (end-of-life tires, as whole, as shreds or granulate) and the sales markets for Pyrolyx products are characterized by both opportunities and risks and are subject to global, dynamic processes of change driven by economic and political factors. In some regions of the world, there is a growing oversupply of end-of-life tires. On the other hand, other regions, especially the rapidly growing automotive and tire markets in Asia and Russia, are still in the development phase and have yet to set up structures for the management of end-of-life tires. In addition, if the quality of recovered carbon black is to be consistent, the quality of the waste tire raw material supplied must be consistent, too.

Bearing in mind the different uses to which end-of-life tires are put, Pyrolyx will be competing with the incineration and recycling of end-of-life tires. Incineration involves burning scrap tires in whole or in part in power plants to generate energy. One of the biggest buyers of scrap tires for incineration is the cement industry. In recycling, once the steel, textiles and fibers have been removed, the tire granules are used depending on their size in for example subsurfaces for sports grounds and play areas or as an additive for asphalt in road construction.

The success of Pyrolyx technology hinges on the results of testing recovered carbon black and pyrolysis oil among potential customers, who have mainly examined recovered carbon black's suitability for tires and industrial rubber applications. The agreement of the first detailed master specifications and the successful conclusion of field trials using tires produced with the addition of recovered carbon black made by Pyrolyx was a major milestone towards future commercial orders by the tire-manufacturing industry. In addition, owing to the acquisition of cct Stegelitz GmbH, pyrolysis oil has already been supplied to new customers while recovered carbon black has been delivered to the plastic and industrial rubber industry.

Apart from the qualitative acceptance of recovered carbon black and pyrolysis oils, the scale of the company's success partly depends on how global crude oil prices develop. The price of industrial, non-recycled carbon black is closely correlated to the global crude oil price. The price of recovered carbon black is linked to the price of industrial carbon black.

Weighing up all the opportunities and risks, the company assumes that no material sales or income with third parties will be achieved in H2 2015. Sales or income from the sale of recovered carbon black and pyrolysis oil are however expected from the ongoing business of the new subsidiary, cct Stegelitz GmbH. Even so, the company does not expect a positive operating result in H2 2015. Accordingly, in 2015 the company will continue to depend on refinancing via the capital market and external investors.

5. Other reporting items

The initiated implementation of a process-based, EN ISO 9001 certified quality management system will be aligned to the processes of the already completed ISO 9001 certification of cct Stegelitz GmbH.

Munich, September 10, 2015

Pyrolyx AG

Management Board:

Niels Raeder	Fikret Dülger
Michael Hommert	Dr. Philipp Theden