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Interim Management Report of Pyrolyx AG

- Convenience Translation only -

Munich

June 30, 2016

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1. Principles and introduction

Pyrolyx AG (**‘Pyrolyx’**) develops and implements new, cutting-edge (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 a combination of pyrolysis and depolymerization 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 has a heat of combustion comparable to natural gas and can be used to generate electricity.

Carbon black is a high-tech substance with internationally standardized features and 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 global demand for carbon black in 2016 exceeded 12 million tons and expect the market to grow by about 3–4% annually, chiefly driven the Asian region.

1.1 Business model

Pyrolyx focuses on the role of a holding company as well as on developing and protecting the industrial property (‘IP’) created within the group. All the operational activities associated with the Pyrolyx technologies and the

products made with them are handled by subsidiaries. This enables the Pyrolyx management team to keep its international marketing flexible and internal costs under control.

The objective of Pyrolyx is to establish these technologies for the global sustainable recycling of end-of-life tires. The aim is for industrial commercial plants to be built and run by Pyrolyx as well as by affiliated companies and licensees throughout the world. For this purpose, the company continuously evaluates potentially suitable locations and partners. The exact approach and the financial arrangements agreed with future partners vary from one region to the next.

1.2 R&D

Pyrolyx's research and development in H1 2016 concentrated on the following areas:

- Stepping up material tests with leading international companies in the tire, industrial rubber, plastic and masterbatch industries to develop new key accounts and secure existing ones.
- The implementation of a development partnership with one of the world's top five tire manufacturers, which was signed in early February 2016. Under this development partnership, the properties of recovered carbon black are being specially adapted for widespread use in various tire applications. Another aspect of this partnership is the optimization of pyrolysis oil in order to further improve this technology's environmental footprint. Both partners are convinced that pyrolysis technology still has plenty of untapped potential for the recycling of end-of-life tires and rubber waste in order to produce new tires. An agreement of this nature is currently regarded as unique and confirms Pyrolyx's foremost technological position in the recovery of carbon black from scrap tires.
- Expanding internal laboratory and testing capabilities to strengthen and safeguard know-how and IP in product development.
- Enlarging the network of manufacturing partners for the production of critical, internally developed plant components.

1.3 Control system

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

In addition, the management team only takes on 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 always precluded. Important decisions are only taken after consulting the Supervisory Board.

Non-financial operational performance indicators are regularly reported in detail to the Supervisory Board alongside financial performance indicators (equity, profit and loss statement, and liquidity). This creates high transparency and forms a solid basis for the assessment of risks and opportunities. As a result, the Management Board and other executives are immediately able to take appropriate action in order to constantly ensure the stable control of the company.

2. Course of business in H1 2016

2.1 Course of business and economic environment

Overall, Pyrolyx can look back on an eventful, positive H1 2016.

Operationally, the integration of cct Stegelitz GmbH was completed, and the first international tire customer as well as key accounts from the industrial rubber and masterbatch/plastics industries repeatedly placed commercial orders with cct Stegelitz GmbH.

On the other hand, intended national and international growth was slowed down by distortions in the global oil markets. The price of industrial, non-recycled carbon black is closely linked to the global price of crude oil, while the price of recovered carbon black is geared to that of industrial carbon black. After two years of significant price decline, in January 2016 oil prices reached a twelve-year low. Since then, although prices have recovered slightly, they are still low compared to recent years. This creates significant challenges for sales of pyrolysis oil.

Pyrolyx AG continues to constantly evaluate new ways to access international markets, especially the important US market.

No further patents were granted for IP in H1 2016.

A purchase price adjustment was agreed on April 1, 2016 between Pyrolyx AG and cct AG, the seller of cct Stegelitz GmbH. In connection with this, cct AG transferred 112,500 shares to Pyrolyx International GmbH, a wholly owned subsidiary of Pyrolyx AG, in July 2016.

In H1 2016, Bernhard Meder resigned from the Supervisory Board of Pyrolyx AG in March, and was followed by Bernhard von Reiche in April.

2.2 Development of the asset and capital structure

At June 30, 2016, the subscribed share capital of the company amounted to €2,918,083 divided into 2,918,083 no-par-value bearer shares each with a notional value of €1.00 in the share capital. All 2,918,083 shares issued are fully paid-up and are traded on the primary OTC market at Düsseldorf Stock Exchange.

Authorized Capital 2015/I

The Management Board was authorized by a resolution passed by the AGM on October 15, 2015 to increase the share capital of the company on one or more occasions until October 14, 2020 with the approval of the Supervisory Board by a total of up to €1,403,102 by issuing up to 1,403,102 new no-par-value bearer shares in return for cash and/or contributions in kind.

The Management Board is authorized to exclude shareholders' subscription rights with the approval of the Supervisory Board in the following cases:

- a) If the capital increase in return for cash contributions does not exceed 10% of the share capital and the issue price is not significantly below the market price of shares in the company
- b) In connection with fractional amounts resulting from the subscription ratio
- c) If the new shares are issued in connection with a capital increase in return for contributions in kind

The Management Board is also authorized, subject to the Supervisory Board's approval, to decide the conditions under which shares are issued, including the issue price and the content of share rights. The start of dividend entitlement may be backdated to the beginning of a fiscal year which is already over if the distribution of profits for the year concerned has not yet been decided.

Partly availing itself of this authorization, on April 28, 2016 the Management Board (acting with the Supervisory Board's approval from the same date) subsequently increased the share capital by means of Authorized Capital 2015/I by €111,878 from €2,806,205 to €2,918,083. 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 an issue price of €11 per share. The capital increase was entered in the Register of Companies on June 30, 2016. The new shares carry full dividend rights from January 1, 2015.

The issue price was 80.9% above the arithmetic mean (€6.08) 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 date of the Management Board's resolution to issue the new shares.

Furthermore, the 111,878 new shares did not exceed 10% of the share capital. The volume limit for shares issued in return for cash contributions to the exclusion of subscription rights contained in Authorized Capital 2015/I was therefore complied with.

The capital increase was subscribed by domestic and international investors. The premium of €10 per new share was allocated to the capital reserve. This capital increase raised additional funding of €1,230,658 (before costs) for further business development for Pyrolyx AG.

Furthermore, on August 15, 2016, with the approval of the Supervisory Board, the Management Board made partial use of the aforementioned authorization to pass the following resolution:

The share capital of Pyrolyx is to be increased against cash contributions by up to €45,455.00 from €2,918,083.00 to up to €2,963,538.00 through the issue of up to 45,455 new no-par-value bearer shares (the “New Shares”) each with a notional value of €1.00 in the share capital. This equates to an increase in the existing share capital of up to 1.56%. The issue price is set at €11.00 per New Share. The New Shares will carry dividend rights from January 1, 2015. The subscription rights of shareholders of Pyrolyx are excluded.

The capital increase had not yet been entered in the Register of Companies by August 31, 2016.

Contingent capital

Pyrolyx AG has the following contingent capitals:

- Contingent Capital 2013/I amounting to €429,580 comprising not yet converted bonds from the 2013/18 Convertible Bond issued by Pyrolyx in October 2013
- Contingent Capital 2013/II amounting to €179,850 serving the provision of share options under the 2013 Share Option Program
- Contingent Capital 2015/I amounting to €692,900 serving the provision of convertible bonds and/or bonds with warrants with a total nominal value of up to €70 million
- Contingent Capital 2015/II amounting to €100,770 serving the provision of share options in connection with the 2015 Share Option Program

Treasury stock

A purchase price adjustment was agreed on April 1, 2016 between Pyrolyx AG and cct AG, the seller of cct Stegelitz GmbH. In connection with this, cct AG transferred 112,500 shares to Pyrolyx International GmbH, a wholly owned subsidiary of Pyrolyx AG, in July 2016.

In this connection, the AGM on August 16, 2016 passed the following resolution:

The Management Board is authorized with the approval of the Supervisory Board to use treasury stock for all legally permissible purposes, especially the following:

- a) The shares may be sold on the stock exchange.
- b) The shares may be sold on the basis of an offer directed at all shareholders maintaining subscription rights.
- c) Shares equating to up to 10% of the share capital at the time this authorization becomes effective may be sold in some other way than on the stock exchange or via an offer to all shareholders as long as they are sold for cash at a purchase price that is not significantly below the market price of shares in the company at the time of sale.

Shareholders' subscription rights can be excluded if the Management Board uses the shares for the purposes referred to in c). In addition, in the event of the sale of treasury stock in accordance with b), the Management Board may exclude shareholders' subscription rights for fractional amounts.

The authorizations contained in this resolution may each be used separately, once or multiply, individually or jointly, and in whole or in parts.

Figures in the following tables have been rounded up or down to the nearest €1,000, possibly resulting in discrepancies.

Development of assets

	30.06.2016		31.12.2015		Change	
	TEUR	%	TEUR	%	TEUR	%
A.						
I. Intangible assets						
1. Proprietary IP	200.3	1.2	212.5	1.4	-12.2	-5.7
			0.0		-3.3	-100.0
II. Tangible assets						
1. Technical plant and equipment	47.7	0.3	51.3	0.3	-3.6	-7.0
2. Other equipment, stationary	67.2	0.4	82.3	0.5	-15.0	-18.3
3. Payments in advance, plants under construction	12.4	0.1	12.4	0.1	0.0	0.0
III. Financial assets						
1. Shares in affiliated companies	12,418.2	75.1	12,418.2	81.9	0.0	0.0
2. Loans to affiliated companies	1,850.0	11.2	1,155.4	7.6	694.6	60.1
	<u>14,595.9</u>	<u>88.3</u>	<u>13,932.1</u>	<u>91.8</u>	<u>663.8</u>	<u>4.8</u>
B.						
I. Receivables & other assets						
1. Accounts receivable	46.6	0.3	46.3	0.3	0.3	0.6
2. Receivables from affiliated companies	1,340.7	8.1	764.6	5.0	576.1	75.3
3. Other short term assets	45.8	0.3	42.0	0.3	3.8	9.1
II. Liquid funds	<u>488.7</u>	<u>3.0</u>	<u>364.9</u>	<u>2.4</u>	<u>123.7</u>	<u>33.9</u>
	<u>1,921.8</u>	<u>11.6</u>	<u>1,217.9</u>	<u>8.0</u>	<u>703.9</u>	<u>57.8</u>
C. Accruals	18.0	0.1	21.5	0.1	-3.5	-16.2
D. Deferred taxes	0.0	0.0	0.0	0.0	0.0	0.0
	<u>16,535.7</u>	<u>100.0</u>	<u>15,171.5</u>	<u>100.0</u>	<u>1,364.2</u>	<u>9.0</u>

Compared to December 31, 2015, total assets increased by k€1,364.2 or 9.0% to k€16,535.7. The main asset drivers were loans to and receivables from affiliated companies.

The share of non-current assets within total assets declined from 91.8% to 88.3% at June 30, 2016. Accordingly, the share of medium and short term assets (current assets, prepaid expenses and deferred tax assets) rose from 8.2% to 11.7% at June 30, 2016.

Development of the capital structure

	30.06.2016		31.12.2015		Change	
	TEUR	%	TEUR	%	TEUR	%
A. Equity						
I. Paid-in capital	2,918.1	17.6	2,806.2	18.5	111.9	4.0
II. Capital reserve	5,300.9	32.1	4,182.1	27.6	1,118.8	26.8
III. Profit/ Loss for the year	-3,638.0	-22.0	-1,928.1	-12.7	-1,710.0	88.7
	<u>4,581.0</u>	<u>27.7</u>	<u>5,060.3</u>	<u>33.4</u>	<u>-479.3</u>	<u>-9.5</u>
B. Provisions						
1. Other provisions	1,305.4	7.9	928.6	6.1	376.8	40.6
	<u>1,305.4</u>	<u>7.9</u>	<u>928.6</u>	<u>6.1</u>	<u>376.8</u>	<u>40.6</u>
C. Liabilities						
1. Bonds	6,014.1	36.4	6,014.1	39.6	0.0	0.0
2. Liabilities to banks	0.0	0.0	0.0	0.0	0.0	-100.0
3. Accounts payable	859.5	5.2	785.3	5.2	74.2	9.5
4. Other liabilities	3,775.7	22.8	2,381.7	15.7	1,393.9	58.5
	<u>10,649.3</u>	<u>64.4</u>	<u>9,181.1</u>	<u>60.5</u>	<u>1,468.2</u>	<u>16.0</u>
D. Accruals	0.0	0.0	1.4	0.0	-1.4	-100.0
	<u>16,535.7</u>	<u>100.0</u>	<u>15,171.5</u>	<u>100.0</u>	<u>1,364.2</u>	<u>9.0</u>

Compared to the end of 2015, the company's equity declined by k€479.3 or 9.5% to k€4,581.0. The equity ratio of the company at the balance sheet date was 27.7%.

The increase in the item 'Other accruals' from k€928.6 to k€1,305.4 is mainly due to the creation of bonus accruals.

Liabilities increased by k€1,468.2 or 16.0% to k€10,649.3. This is mainly due to the increase in 'Other liabilities', and largely results from taking out new loans from investors and the balance of bullet interest payable on existing loans.

2.3 Earnings and financial position

The development of the earnings situation is shown by a comparison of the performance summaries derived from the profit and loss statements for H1 2016 and H1 2015:

Profit & Loss Statement	01.01. - 30.06.2016		01.01. - 30.06.2015		Change	
	TEUR	%	TEUR	%	TEUR	%
+ Revenues	28.0	0.0	101.7	0.0	-73.7	-72.5
+ Other operating income	354.3	0.0	54.8	0.0	299.6	546.8
- Raw material	0.0	0.0	0.0	0.0	0.0	0.0
= Gross earnings	382.3	0.0	156.5	0.0	225.9	144.3
- Personnel	1,004.2	0.0	827.9	0.0	176.3	21.3
- Depreciation	31.1	0.0	22.8	0.0	8.3	36.5
- Other operating expenses	624.4	0.0	879.3	0.0	-254.8	-29.0
= Operating income	-1,277.4	0.0	-1,573.5	0.0	296.1	-18.8
+ Financial income	31.5	0.0	0.0	0.0	31.5	0.0
- Financial expenses	462.9	0.0	387.9	0.0	75.0	19.3
= Financial result	-431.4	0.0	-387.9	0.0	-43.5	11.2
= Earnings before taxes	-1,708.8	0.0	-1,961.4	0.0	252.6	-12.9
- Income taxes	0.0	0.0	-3,042.3	0.0	3,042.3	-100.0
- Other taxes	1.2	0.0	0.8	0.0	0.4	50.6
= Net earnings	-1,710.0	0.0	-5,004.5	0.0	3,294.5	-65.8

The revenues and other operating income primarily comprise income from affiliated companies, services for third parties and income from the reversal of provisions.

Personnel costs were higher due to an increase in bonus accruals. The current personnel costs decreased compared to H1 2015 by 7.1%.

'Other operating expenses' were reduced by 29.0% to k€624.4 thanks to strict cost management.

Interest income results from loans to affiliated enterprises. Increased interest expenditure is due to the interest rate structure of existing loans and interest associated with the convertible bond. Overall, the result from ordinary activities remained at the same level as the previous period.

3. Events after the reporting period

Apart from the events during the course of H1 2016 discussed above in Section 2, no other significant concluded events are to be recorded which would be relevant to the period following H1 2016.

4. Outlook

Leading-edge technology and business concepts always contain risks in the introductory phase which may hamper or delay the medium and long term establishment of new projects. The company always takes a preventive approach to such risks or mitigates 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 to scheduling challenges. For example, extensive regulatory approval is required for the construction of a production plant using Pyrolyx technologies. However, since permission 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 targeting customer markets which have high safety requirements and demand prolonged testing. This may sometimes delay the market launch of Pyrolyx products, especially recovered carbon black produced by Pyrolyx.

The general factors supporting Pyrolyx'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 CO₂ emissions compared to conventionally produced carbon black and the conservation of fossil fuels.

The procurement markets 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 raw materials in the form of end-of-life tires (i.e. shredded or granulated scrap tires). On the other hand, other regions, especially the fast 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 raw materials supplied must be consistent, too.

Bearing in mind the different uses to which end-of-life tires are put, Pyrolyx is competing with the incineration and material recycling of used 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 material recycling, once the steel, textiles and fibers have been removed, the tire granules can be used depending on their size in for example surfacing for sports grounds and play areas or as an additive for asphalt in road construction.

Pyrolyx's success hinges on the acceptance of recovered carbon black and pyrolysis oil among potential customers, who are mainly examining recovered carbon black's suitability for tires, plastic and industrial rubber applications. Customers in the tire, industrial rubber and plastics industries are already regularly supplied with recovered carbon black via subsidiary cct Stegelitz GmbH.

In addition to the qualitative acceptance of recovered carbon black and pyrolysis oils, Pyrolyx's success is also affected by world oil prices. The price of industrial, non-recycled carbon black is closely linked to the global price of crude oil. Moreover, the price of recovered carbon black is geared to the price of industrial carbon black.

Weighing up all the opportunities and risks, the company assumes that significant turnover and earnings (e.g. from licenses) will still not be earned from transactions with external customers in H2 2016. However, revenue is expected from sales of recovered carbon black and pyrolysis oil within the current operations of Pyrolyx's subsidiary, cctStegelitz GmbH.

Once again, a positive operating result is not expected in H2 2016. Pyrolyx will therefore continue to rely in H2 2016 on refinancing from the capital market and external investors.

To continue financing current operations and possible international expansion, especially in the USA, the company is planning extensive capital measures again in H2 2016. These could take the form of both equity and debt. Should this prove difficult for the company, this might have substantial negative repercussions for the company's net assets, financial position and results of operations and could jeopardize the company's going concern.

5. Other reporting items

The introduction of a process-based, EN ISO 9001 certified quality management system currently underway is being geared to the processes used at cct Stegelitz GmbH, which is already ISO 9001 certified.

Munich, August 31, 2016

Pyrolyx AG

Management Board:

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Signed: Niels Raeder

Signed: Fikret Dülger

Signed: Michael Hommert