sustainable. efficient. progressive.

Pyrolyx AG

Munich

Appendix 4E Group Final Report
for the year ended 31 December 2017

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Contents

Group Management Report for the period January 1 to 31 December 2017

1. Principles and introduction

Pyrolyx AG is the parent company of a group of entities (the **Group**) that has developed and operates a specialised process that transforms waste tires into high-grade, valuable raw materials, primarily recovered carbon black (**rCB**). Carbon black is used in the manufacture of tires, and mechanical rubber products, as well as plastics and pigments. Pyrolyx's process delivers compelling benefits to the traditional manufacture of carbon black, including reduced carbon dioxide emissions.

The Pyrolyx technology comprises a slow pyrolysis process using waste tire shreds to produce valuable recovered Carbon Black, with quality properties enabling it to be used as a replacement for, or combined with, virgin Carbon Black.

Pyrolysis is the thermochemical decomposition of organic material at elevated temperatures in the absence of oxygen. The Pyrolyx process takes one key input, end-of-life tires, and produces four commercial outputs: recovered Carbon Black; pyrolysis oil; steel (capable of being sold as scrap steel), and gas. Pyrolysis oils can be used as fuel oil, feedstock or be further refined and blended with heating oil. – After the extraction of condensable components, pyrolysis gas has a calorific value comparable to natural gas and can be used to generate electricity.

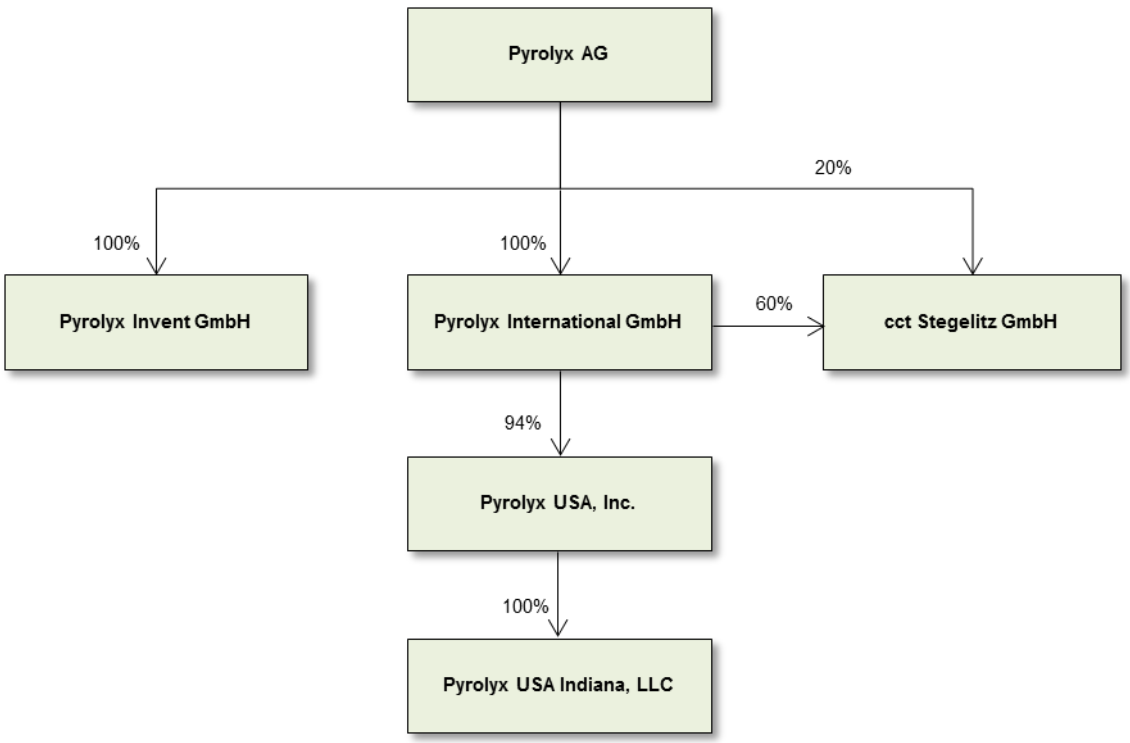
Carbon Black is a commodity with internationally standardized characteristics. Carbon Black is used as reinforcing filler in rubber products and as a black pigment in plastics, inks, toners and paints. It is essential in rubber products, improving tear-strength, abrasion-resistance, elasticity, resilience, and overall physical properties. Special types of carbon black are suitable for different applications depending on their specific characteristics. Experts estimate that global demand for carbon black in 2017 totaled about 13 million metric tons and expect the market to grow by about 3–4% annually. (Source: Notch Consulting)

1.1 Business model

Pyrolyx's objective is to globally establish its technologies for the sustainable recycling of end-of-life tires. The aim is for commercial industrial plants to be built and operated by Pyrolyx and/or 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 may vary from one place to the next.

Pyrolyx AG currently holds interests directly or indirectly in Pyrolyx Invent GmbH, Pyrolyx International GmbH, Pyrolyx USA, Inc., Pyrolyx Indiana LLC and cct Stegelitz GmbH (referred to together as the ‘Pyrolyx Group’). Pyrolyx holds no other investments in any other companies. Pyrolyx AG is not included in the scope of consolidation of any other company and is the management holding company at the helm of the Pyrolyx Group.

The following chart shows the corporate structure of the Pyrolyx Group as of 31 December 2017:



Pyrolyx Invent GmbH was founded in August 2013. The objectives of Pyrolyx Invent GmbH are (i) research and development related to the recovery of raw materials from end-of-life tires and other sources of rubber as well as the development and testing of associated industrial processes, and (ii) the production, distribution and marketing of plants, machinery, equipment and processes as well as parts thereof, particularly in the areas described in (i).

cct GmbH was acquired in 2015 and comprises the commercial production in Stegelitz (Germany) and co-located R&D activities. The deployed technology and processes are developed and tested at this plant and current rCB supply is to key customers as well as for material qualification in lab or production test is produced there.

Pyrolyx International GmbH was founded in 2015 in connection with the acquisition of cct Stegelitz GmbH and is intended to aggregate all other future subsidiaries engaged in the production of rCB.

On December 5, 2016, Pyrolyx International GmbH and Reklaim, Inc. signed a joint venture agreement in Washington, USA, and established Pyrolyx USA, Inc. The joint venture agreement outlines collaboration between the signatories with the aim of erecting and operating one or more production facilities for rCB in the USA and Canada as well as selling the resulting products (rCB, pyrolysis oils and steel) in the USA and Canada. In February 2017, Pyrolyx Indiana LLC was set up as the operating company for the Pyrolyx production plant in Terre Haute, Indiana, USA, the construction of which began in August 2017. Pyrolyx owns 94% of Pyrolyx USA.

1.2 Research & Development

Pyrolyx's research and development in 2017 concentrated on the following areas:

- Production trials with US tire shreds in relation to production in Indiana, USA.
- Continuation of material tests with leading companies in the tire, technical rubber, plastics and masterbatch industries, with the aim of acquiring new key customers and securing existing customers.
- Implementation of a development partnership with one of the world's top four tire manufacturer.
- Expanding internal laboratory and testing capabilities to strengthen and safeguard know-how and intellectual property in product development.
- Enlarging the network of manufacturing partners for the production of critical and internally developed plant components.
- Participating in developing a global ASTM standard for rCB together with industrial partners, including the identification of industry approved test methods to analyze the behavior of rCB in various industrial applications so that internationally recognized test methods and specifications can be developed and defined on this basis. (Note: ASTM International is an international standards organization that develops and publishes voluntary consensus technical standards for a wide range of materials, products, systems, and services.)
- Expanding the applications offered by pyrolysis technology to diverse other input materials in direct cooperation with auto manufacturers in order to close other material loops

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 analysed and monitored. The risk strategy applied always begins with an early assessment of the risks involved and the opportunities associated with them. System support is currently being strengthened in order to adequately accommodate the growing volume of business.

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 ruled out. Important decisions are only taken after consulting the Supervisory Board.

Non-financial operational performance indicators (project management, internationalisation, sales/collaboration with key accounts) are reported to the Supervisory Board alongside financial performance indicators (equity, profit and loss statement, and liquidity) to ensure a transparent and 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 2017

2.1 Course of business and economic environment

The 2017 year was pivotal for Pyrolyx dominated by the North American development strategy, in particular (i) securing the necessary expansion financing (ii) the preparation and start of construction of the first US production plant in Terre Haute, Indiana and (iii) initiation of testing US tire shreds in cct Stegelitz.

(i)

Total project funding for the US plant is expected to be approximately $40 million, comprising about a quarter equity funds and the remainder project finance.

On August 16, 2017, Pyrolyx AG began trading on the Australian Securities Exchange, having raised €23.9 million through the IPO of Chess Depositary Interests (CDIs) representing shares in Pyrolyx AG. On August 21, 2017, Pyrolyx Indiana LLC closed the debt financing for the construction of the production facility by floating Economic Development Solid Waste Facility Revenue Bonds with a total value of $30,185,000. The bonds bear interest at 7.25% and will mature in December 2028.

These two important financing efforts will underpin the project funding for the US plant.


The planned Pyrolyx production facility in Terre Haute, Indiana (USA) and construction progress in January 2018

(ii)

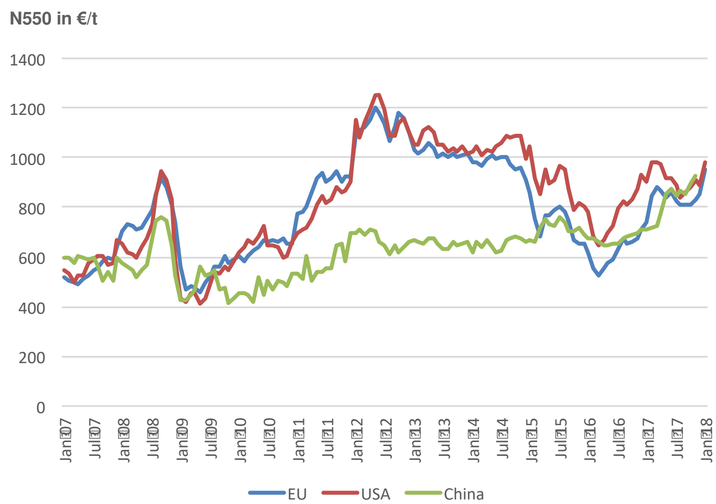
On completion of the two major financing projects, Pyrolyx USA commenced construction and, as at February 2018, has completed construction of the main building and main exterior areas of its new production plant in Terre Haute, Indiana. Pyrolyx and its partners are now working on interior finishes, and will begin installation of the process equipment in the coming months. Processing some 40,000 metric tons of end-life-tires annually, the plant in Terre Haute will have an annual output of about 13,000 metric tons of rCB, 17,500 metric tons of pyrolysis oil and 6,200 metric tons of steel. Commissioning of the plant is on track and scheduled for early 2019.

(iii)

In 2017, subsidiary cct Stegelitz GmbH carried out a number of tests in preparation for the future production plant in Terre Haute, as well as improvements in equipment required to manufacture rCB. While Stegelitz was previously expected to be operational on a 24 hour, 7 day a week basis from 1 January 2018, optimal production capacity is currently under review while assessing continued requirements for US testing and order schedule from major global customers.

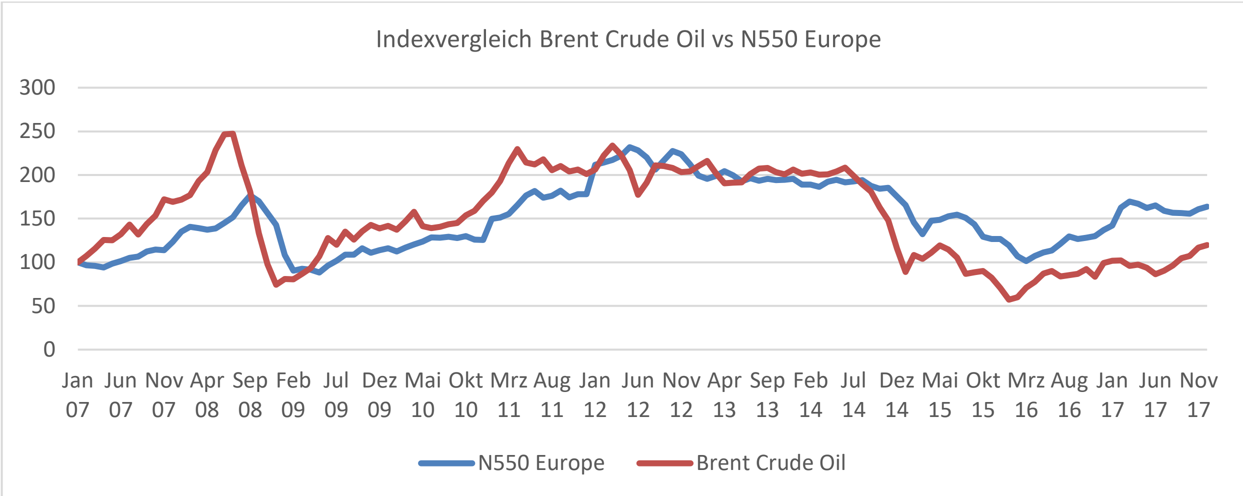
Economic environment

The price of industrial, non-recycled Carbon Black closely reflects the global price of crude oil, while the price of rCB mirrors that of industrial Carbon Black. In 2017, oil prices (WTI and Brent) remained stable around US$50 per barrel (about ± 10%) before rising at the end of the year to over US$60 per barrel. This had a positive impact on international Carbon Black prices. US Carbon Black prices increased by 27% from January 2017 to January 2018 (Notch Consulting: average of all grades).



Comparison of regional prices for carbon black N550 in euros (sources: Bloomberg, Notch Consulting)

The decreasing correlation between prices of Carbon Black and oil observed in recent years continued in 2017. This is partially attributable to higher environmental standards in the traditional Carbon Black industry and an increase in specific raw material costs as well as and European and US reduction of Carbon Black production capacities. In future, the industry assumes that these pricing links will continue to weaken, and all the leading manufacturers have indeed raised their prices over the past 24 months.



Comparison of prices of Brent crude and carbon black N550 (Europe) (sources: www.eia.gov, Notch Consulting)

Group structure

Pyrolyx International GmbH increased its stake in Pyrolyx USA, Inc. to 94%.

In February 2017, Pyrolyx Indiana LLC was founded as the operating company of the future production facility in Terre Haute, Indiana. It is a wholly owned subsidiary of Pyrolyx USA, Inc.

Pyrolyx shares

Pyrolyx AG's treasury stock held by Pyrolyx International GmbH was sold in October 2017.

A total of 1,599,396 new Pyrolyx shares were floated on the ASX in the form of 23,990,940 CDIs (CHESS Depositary Interests), with 15 CDIs representing one share in Pyrolyx. They are listed under the ticker symbol ASX:PLX. As a result, Pyrolyx AG generated proceeds of €23.9 million in equity before transaction costs.

The ASX is a regulated market, i.e. a market subject to stricter regulations than the OTC market where Pyrolyx shares are currently traded in Germany. Pyrolyx's listing in Germany has not changed and will not change in any way from current perspective. A securities prospectus had been prepared beforehand in accordance with Australian securities law. For this purpose, Pyrolyx AG underwent detailed legal, financial and technical due diligence. The placement was aided by the international investment bank Moelis & Company, which itself is listed on the stock markets in the US and Australia.

Patents

In 2017, Pyrolyx AG took another important step towards safeguarding its know-how when a patent for the inclusion of rCB in the conventional production of furnace black was granted in the USA (US 14/411,405 and US 15/589,425), Russia (RU 2015100232) and China (CN 201380034851). This creates cost and commercial advantages over other types of rCB as well as furnace black since Pyrolyx rCB is incorporated into the furnace process and pelleted with furnace black, enabling the finished product to be relatively undifferentiated from virgin Carbon Black.

Supervisory Board

There were the following changes to the membership of the Supervisory Board in 2017:

- Thorsten Gohlke, the chair of the Supervisory Board, resigned with effect from the close of the Extraordinary General Meeting on 21 February 2017. He was succeeded as chair of the Supervisory Board by Alexis Gurdjian. Mr. Gurdjian had been an ordinary member of the Supervisory Board of Pyrolyx AG since 2010.
- At the Annual General Meeting on 07 June 2017, Michael Carapiet was elected a new full member of the Supervisory Board of Pyrolyx AG.
- At the Extraordinary General Meeting on 09 October 2017, Amelia Salter was elected a new full member of the Supervisory Board of Pyrolyx AG.
- Professor Christian Langbein resigned from the Supervisory Board with effect from 31 December 2017.

2.2 Development of the asset and capital structure

At 31 December 2017, the subscribed share capital of the company totaled € 5,614,356.00, divided into 5,614,356 no-par-value registered shares each with a notional value of € 1.00 in the share capital. All 5,614,356 shares issued are fully paid-up.

The company held a total of three General Meetings in 2017:

1. At the Extraordinary General Meeting on 21 February 2017, Authorised Capital 2015/I was revoked and replaced by Authorised Capital 2017/I.
2. At the Annual General Meeting on 07 June 2017, the switch from no-par value bearer shares to no-par value registered shares in Pyrolyx AG was approved.
3. At the Extraordinary General Meeting on 09 October 2017, Authorised Capital 2017/II was created.

Authorised Capital 2017/I

In preparation for Pyrolyx's US expansion, the Board of Management decided not to wait until the 2017 Annual General Meeting, but to have the necessary capitals approved beforehand at an Extraordinary General Meeting. At the EGM on 21 February 2017, Authorised Capital 2015/I was revoked and replaced by Authorised Capital 2017/I. The Management Board was empowered by a resolution passed by this EGM to increase the share capital of the company on one or more occasions by 20 February 2022 subject to the approval of the Supervisory Board by a total of up to € 1,605,407 by issuing up to 1,605,407 new no-par-value bearer shares in return for cash and/or contributions in kind. Authorised Capital 2017/I is completely utilized in connection with the public offering in Germany in March/April 2017 and the additional public offering in Australia in summer 2017.

Authorised Capital 2017/II

The Management Board was empowered by a resolution passed by the Annual General Meeting on 09 October 2017 to increase the share capital of the company on one or more occasions by 08 October 2022 subject to the approval of the Supervisory Board by a total of up to € 2,456,191 by issuing up to 2,456,191 new no-par-value registered shares in return for cash and/or contributions in kind.

Subject to the approval of the Supervisory Board, the Management Board is authorised to exclude shareholders' preemptive rights 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

Finally, the Management Board is authorised, 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.

In 2017 five capital increases from authorised capital in exchange for cash contributions and one capital increase from authorised capital in exchange for contributions in kind were agreed and carried out by the Management Board. Furthermore, partly using Contingent Capital 2013/I, parts of the Convertible Bond Issue 2013/18 were converted into equity. As a result, the company's share capital was increased by a total of € 2,449,176.00. The following table provides an overview of these capital increases:

Basis	Capital increase	Increase in subscribed capital		Capital increase entered in the Commercial Register
		by	to	
Resolution adopted by the Management Board on December 13, 2016 based on authorisation by the AGMs on 15 October 2015 and 16 August 2016	Capital increase from Authorised Capital 2015/I (cash contribution)	€ 45,455.00	€ 3,210,815.00	31 January 2017
Resolution adopted by the Management Board on February 2, 2017 based on authorisation by the AGMs on 15 October 2015 and 16 August 2016	Capital increase from Authorised Capital 2015/I (cash contribution)	€ 96,161.00	€ 3,306,976.00	10 March 2017
Resolution adopted by the Management Board on 24 March 2017 based on authorisation by the EGM on 21 February 2017	Capital increase from Authorised Capital 2017/I (cash contribution)	€ 6,011.00	€ 3,312,987.00	02 May 2017
Resolution adopted by the Management Board on 24 July 2017 based on authorisation by the EGM on 21 February 2017	Capital increase from Authorised Capital 2017/I (cash contribution)	€ 1,591,227.00	€ 4,904,214.00	02 August 2017
Resolution adopted by the Management Board on 24 July 2017 based on authorisation by the EGM on 21 February 2017	Capital increase from Authorised Capital 2017/I (cash contribution)	€ 8,169.00	€ 4,912,383.00	02 August 2017
Resolution adopted by the Management Board on 15 November 2017 based on authorisation by the EGM on 09 October 2017	Capital increase from Authorised Capital 2017/II (contribution in kind)	€ 295,828.00	€ 5,208,211.00	21 December 2017
Resolution adopted by the Management Board on 01 August 2013 and 10 October 2013 based on authorisation by the AGM on 26 June 2013	Capital increase from Contingent Capital 2013/I based on the conversion of convertible bonds from Convertible Bond Issue 2013/18	€ 406,325.00	€ 5,614,536.00	n.a.*

* not yet registered per 31 December 2017. Convertible bonds were converted on 29 December 2017 which in this case is relevant for consideration as equity according to German law.

The two cash capital increases from Authorised Capital 2015/I and the capital increase against contributions in kind from Authorised Capital 2017/II took place to the exclusion of shareholders' pre-emptive rights pursuant to Section 186(3), sentence 4 AktG German Stock Corporation Act. The two cash capital increases based on the resolutions of the Management Board on 24 July 2017, were carried out to the exclusion of shareholders' pre-emptive rights by means of an additional public offering in Australia.

Pre-emptive rights were granted to shareholders in connection with the cash capital increase from Authorised Capital 2017/I agreed by the Management Board on 24 March 2017.

Basis	Issue price	Proceeds
Resolution adopted by the Management Board on 13 December 2016 based on authorisation by the AGM on 15 October 2015 and 16 August 2016	€ 11.00	€ 500,005.00
Resolution adopted by the Management Board on 14 February 2017 based on authorisation by the AGM on 15 October 2015 and 16 August 2016	€ 13.00	€ 1,250,093.00
Resolution adopted by the Management Board on 24 March 2017 based on authorisation by the EGM on 21 February 2017	€ 13.50	€ 81,148.50
Resolution adopted by the Management Board on 24 July 2017 based on authorisation by the EGM on 21 February 2017	€ 14.96*	€ 23,931,970.27
Resolution adopted by the Management Board on 24 July 2017 based on authorisation by the EGM on 21 February 2017	€ 14.96*	
Resolution adopted by the Management Board on 15 November 2017 based on authorisation by the EGM on 09 October 2017	€ 10.20	€ 3,017,445.60**
Resolution adopted by the Management Board on 01 August 2013 and 10 October 2013 based on authorisation by the AGM on 26 June 2013	€ 14.00	€ 5,688,550.00**

* Issue price in euros rounded up or down since allotment in Australia took place at AU$22.05 per share or AU$1.47 per CDI.

** Conversions of loans into equity.

Capitals at 31 December 2017

At 31 December 2017, Pyrolyx AG held the following ***contingent capitals:***

- Contingent Capital 2013/I amounting to € 23,255.00 comprising not yet converted bonds from the 2013/18 Convertible Bond issued by Pyrolyx in October 2013

- Contingent Capital 2013/II amounting to € 179,850.00 to cover stock options under the 2013 Share Option Program of which € 7,640 still being valid and the remainder having lapsed per 31 December 2017
- Contingent Capital 2017/I amounting to € 895,207.00 to cover convertible bonds and/or bonds with warrants with a total nominal value of up to € 90 million issued with the authorisation of the company EGM on 21 February 2017

Contingent Capital 2015/I and Contingent Capital 2015/II were both revoked in 2017.

At 31 December 2017, Pyrolyx AG held the following ***authorised capital:***

- Authorised Capital 2017/II amounting to € 2,160,363.00

Treasury stock

Pyrolyx AG's treasury stock held by Pyrolyx International GmbH was sold in October 2017.

Development of the asset and capital structure

(Figures rounded up or down to the nearest € 1,000 may result in discrepancies.)

€'000	31 December 2017	%	31 December 2016	%	Change vs previous period	Change (%)
A S S E T S						
Current assets						
Cash and cash equivalents	5,502	9%	1,132	6%	4,370	386%
Trade receivables	108	0%	88	0%	20	23%
Inventories	512	1%	998	5%	-486	-49%
Other current assets	83	0%	148	1%	-65	-44%
Prepaid expenses	65	0%	17	0%	48	282%
Total current assets	**6,270**	11%	**2,383**	12%	**3,887**	163%
Non-current assets						
Restricted cash and cash equivalents	22,509	39%	-	0%	22,509	n.m.
Intangible assets	6,282	11%	6,926	36%	-644	-9%
Fixed assets	23,230	40%	10,075	52%	13,155	131%
Total non-current assets	**52,021**	89%	**17,001**	88%	**35,020**	206%
Total assets	**58,291**	100%	**19,384**	100%	**38,907**	201%

L I A B I L I T I E S A N D E Q U I T Y						
Current liabilities						
Trade payables	834	1%	784	4%	50	6%
Project financing loan	1,712	3%	-	0%	1,712	n.m.
Convertible bonds	472	1%	-	0%	472	n.m.
Liabilities due to banks	411	1%	477	2%	-66	-14%
Other financial liabilities	12,207	21%	3,494	18%	8,713	249%
Other non-financial liabilities	1,129	2%	1,640	8%	-511	-31%
Provisions	846	1%	-	0%	846	n.m.
Total current liabilities	**17,611**	30%	**6,395**	33%	**11,216**	175%
Non-current liabilities						
Trade payables	113	0%	-	0%	113	n.m.
Project financing loan	20,244	35%	-	0%	20,244	n.m.
Convertible bonds	-	0%	7,514	39%	-7,514	-100%
Liabilities due to banks	1,060	2%	1,470	8%	-410	-28%
Other financial liabilities	8,992	15%	10,048	52%	-1,056	-11%
Deferred income	2,433	4%	-	0%	2,433	n.m.
Total non-current liabilities	**32,842**	56%	**19,032**	98%	**13,810**	73%
Equity						
Share capital	5,615	10%	3,165	16%	2,450	77%
Treasury shares	-	0%	-112	-1%	112	-100%
Additional paid-in capital	39,755	68%	7,290	38%	32,465	445%
Retained earnings	-37,353	-64%	-16,378	-84%	-20,975	-128%
Other components of equity	-1,340	-2%	-	0%	-1,340	n.m.
Equity attributable to shareholders of Pyrolyx AG	**6,677**	11%	**-6,035**	-31%	**12,712**	n.m.
Equity attributable to non-controlling interests	**1,161**	2%	**-8**	0%	**1,169**	n.m.
Total equity	**7,838**	13%	**-6,043**	-31%	**13,881**	n.m.
Total liabilities and equity	**58,291**	100%	**19,384**	100%	**38,907**	201%

Changes in Balance Sheet are primarily driven by capital measures performed in 2017 and first time accounting for shareholder options (warrants).

The share capital increased by € 2,450 thousand to € 5,615 thousand because of various capital increases in return for cash contributions, a capital increase against contributions in kind and a capital increase from conversions of convertible bonds in 2017 (see also explanations and tables above in this section). This is also associated with the increase in the additional paid-in capital by € 32,465 thousand.

Increase in other current financial liabilities by € 8,713 thousand is driven primarily by first time accounting for shareholder options (warrants) with € 10,214 thousand offsetting reductions of € 3,017 thousand from conversions of shareholder loans into equity. Non-current other financial liabilities of € 8,992 thousand mainly comprise of € 5,000 thousand cct AG purchase price loans, the contingent purchase price liability in connection with the acquisition of cct Stegelitz GmbH of € 989 thousand, € 1,230 thousand shareholder loans and € 1,773 thousand other third party loans.

The project financing loans of € 21,956 thousand relates to the debt financing of the plant under construction in Terre Haute, Indiana (USA). Liabilities to banks are fully attributable to the German subsidiary, cct Stegelitz GmbH.

The increase in current provisions from € 0 to € 846 thousand is due to first time accounting for virtual shares.

2.3 Earnings and financial position

Consolidated income statement
For the financial years ended 31 December 2017

€'000	2017	2016	Change (€)	Change (%)
Sales revenues	347	234	113	48%
Increase or decrease of finished goods and work in progress	59	-29	88	-303%
Own work capitalised	198	-	198	n.m.
Other operating income	3,062	179	2,883	1611%
Material expenditure	--505	--237	--268	113%
Personnel expenses	-4,544	-2,220	-2,324	105%
Depreciation and amortisation	-1,838	-1,869	31	-2%
Impairment of inventory	-560	-1,581	1,021	-65%
Other operating expenses	-5,118	-2,445	-2,673	109%
Interest and similar income	1	-	1	n.m.
Interest and similar expenses	-12,727	-1,699	-11,028	649%
Loss before income tax expense	**-21,625**	**-9,667**	**-11,958**	**124%**
Income tax expense	-	-	-	n.m.
Loss after income tax expense	**-21,625**	**-9,667**	**-11,958**	**124%**
Thereof attributable to shareholders of Pyrolyx AG	-21,595	-9,659	-11,936	124%
Thereof attributable to non-controlling interests	-30	-8	-22	275%
Earnings per share in € (basic)	-5.29	-3.48	-1.82	52%
Earnings per share in € (diluted)	-5.29	-3.48	-1.82	52%

Revenues in 2017 show only a minor increase from € 234 thousand to € 347 thousand. This is less than the € 1 million forecasted for 2017 in the 2016 Group management report and is mainly due to blocked capacity for comprehensive trials at the German plant in preparation for the US plant in Terre Haute, Indiana, and due to re-schedule of off-take forecasts from major key account customers into 2018.

Increase in other operating income by € 2,883 thousand from € 179 thousand to € 3,062 thousand is mainly caused by a revaluation of cct contingent purchase price of € 2,070 thousand and foreign currency gains of € 950 thousand.

The personnel expenses increased by € 2,324 thousand to € 4,544 thousand. This is primarily a result of the first time full year consideration of virtual share expenses (€ 846 thousand) and of the US staff (€ 482 thousand) and one-time payments (€ 368 thousand) in relation to the IPO in Australia and an increase in bonuses (€ 220 thousand).

The increase in other operating expenses by € 2,673 thousand to € 5,118 thousand is mainly due to one-time costs in relation to the IPO (€ 1,569 thousand), higher consulting fees (€ 369 thousand), financial reporting costs (€ 139 thousand), insurances (€ 115 thousand), travel expenses (€ 104 thousand), and marketing (€ 85 thousand).

Interest and similar expenses increased by € 11,028 thousand to € 12,727 thousand, impacted by € 10,214 thousand first time accounting for the yet to be converted shareholder options (warrants) which were granted in consideration for historic bridge financing efforts. The remainder is driven by convertible bonds.

2.4 Cash flow statement

The accompanied cash flow statement provides an overview of the sources and uses of the company's financial resources in 2017. It shows cash flows using the indirect method and the principles of IAS 7.

In 2017, cash inflow of € 24,523 thousand was generated from the capital increases reported in section 2.2. Furthermore, € 24,305 thousand in financial loans was borrowed from investors. The funds raised were used to repay existing debts, on acquisitions of property, plant and equipment, and to finance the current operations of Pyrolyx Group.

Investments in property, plant and equipment relate primarily to the construction of the US plant in Terre Haute, Indiana.

Due to the changes in the anticipated operating environment in Germany, with blocked capacity for comprehensive trials for the US plant and rescheduling of forecasts from major key account customers to 2018, along with developments in the US plant roll out strategy, the Company is currently reviewing its capital requirements for 2018 and beyond.

The company is confident that it will still be able to have its financing needs met by the capital market in 2018 and beyond. However, should this prove difficult, this could have substantial repercussions for the company's net assets, financial position and results of operations, and might jeopardise the company's going concern.

3. Outlook, opportunities and risks

General

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.

In 2017, Pyrolyx moved from the market penetration phase to the market rollout phase. In the market rollout phase, the company's forecasting accuracy is still subject to above all scheduling challenges. In addition to possible delays during the construction of new production plants, Pyrolyx is a raw material supplier targeting customer markets which have high safety requirements and demand prolonged testing. Both factors may sometimes delay the market launch of Pyrolyx's products, especially rCB produced by Pyrolyx.

The general factors supporting the Pyrolyx Group's business model include rising living standards and consumption in Asia, the depletion of natural resources, and the demand for eco-friendly production. 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.

Pyrolyx's key current business focus is the construction of new production facilities in the USA. There are several key risks attached to this including the ability to achieve this in the expected timeframe or in a cost-effective manner. In particular, the commissioning and construction of any new facility is dependent on a number of contingencies some of which are beyond the Company's control. Pyrolyx has a number of high quality partners it is working with including Zeppelin operating under a PMC Agreement, Thompson Thrift LLC for civil construction, which includes liquidated damages provisions, and E3 Consulting, to help prevent or mitigate any such risks.

Procurement and sales markets

The procurement markets and the sales markets for Pyrolyx products present both opportunities and risks and are subject to global, dynamic 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. Then again, progress has been made in this regard in China over the past 24 months. In addition, if the quality of rCB is to be stable, the quality of the raw materials supplied must be consistent, too.

The following table shows the recycling of end-of-life tires in the 28 states of the European Union as well as Turkey, Norway, Serbia and Switzerland in 2015 in metric tons:

	Incineration for energy recovery	Material recovery	Retreading	Export	Reuse	Unknown	Total
Metric tons	1,096,750	1,792,250	236,000	245,000	197,000	301,000	3,868,000
	28.3%	46.3%	6.1%	6.3%	5.1%	7.8%	100.0%

Source: ETRMA 2017, End-of-Life Tire Report 2015

Between 2011 and 2015, about 11% (about 423,000 metric tons) of the end-of-life tires coming onto the market still went to landfill (source: https://rma.org).

As an input material, 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, depending on their size the tire granules can be used in for example surfacing for sports grounds and play areas (although this is being increasingly frowned upon in many countries) or as an additive in road construction and cement production.

The success of Pyrolyx's growth strategy is dependent upon securing additional customers for Pyrolyx's product on a larger scale and converting trial or pipeline customers and its strategic relationships with certain tire, mechanical rubber goods and masterbatch manufacturers into ongoing revenue-producing commercial supply arrangements. There is a risk that the customer approval process may take longer than expected and certain potential customers may be slow to accept the products produced by Pyrolyx or may not accept them at all.

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

Outlook

Pyrolyx was established with the vision of providing a sustainable, economic and environmentally friendly solution to the material and growing problem of disposing of end-of-life tires. Pyrolyx has a significant first mover advantage and scalable technology that enables it to access strong growth opportunities. Pyrolyx's initial plans are to develop two USA Plants on its purchased industrial site at Terre Haute, Indiana. The Company will consider using cash flow generated from these plants to fund the development of further plants in the US or Europe and may also explore opportunities for the commercialization of its technology outside of Germany and the United States.

In 2018, Pyrolyx anticipates group revenue from the sale of rCB, pyrolysis oil and steel to total about €1 million. No sales of technical components (by Pyrolyx Invent GmbH) are currently expected in 2018. Overall, it can be assumed that business operations in 2018 will still have to be funded externally.

To further finance current operations and the development of production resources in the USA, the Pyrolyx Group is also planning further corporate action in 2018. This could take the form of raising both equity and debt. Should this prove difficult for the company, this could have substantial repercussions for the company's net assets, financial position and results of operations and might jeopardise its going concern.

4. Other reporting items

cct Stegelitz GmbH is currently upgrading its process-based, EN ISO 9001 certified quality management system and its EN ISO 14001 environmental management system to the current 2015 standard.

Munich, 13 March 2018

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Niels Raeder(CEO) | Sven Eric Molzahn (CFO) | Fikret Duelger (CTO)

Consolidated income statement

For the year ended 31 December 2017

€'000	**Note**	**2017**	**2016**
Sales revenues		347	234
Increase or decrease of finished goods and work in progress		59	-29
Own work capitalised		198	-
Other operating income	3.1	3,062	179
Material expenditure			
a) Expenses for raw materials, consumables and supplies and for purchased goods		-452	-237
b) Cost of purchased services		-53	-
Personnel expenses			
a) Wages and salaries		-4,213	-1,865
b) Social charges, old age pension costs and welfare expenses		-331	-355
Depreciation and amortisation		-1,838	-1,869
Impairment of inventory		-560	-1,581
Other operating expenses	3.2	-5,118	-2,445
Interest and similar income		1	-
Interest and similar expenses	3.3	-12,727	-1,699
Loss before income tax expense		**-21,625**	**-9,667**
Income tax expense	3.4	-	-
Loss after income tax expense		**-21,625**	**-9,667**
Thereof attributable to shareholders of Pyrolyx AG		-21,595	-9,659
Thereof attributable to non-controlling interests		-30	-8
Earnings per share in € (basic)	3.5	-5.29	-3.48
Earnings per share in € (diluted)	3.5	-5.29	-3.48

Consolidated statement of comprehensive income

For the year ended 31 December 2017

€'000	Note	2017	2016
Loss after income tax expense		**-21,625**	**-9,667**
Items that will be reclassified subsequently to profit or loss			
Exchange differences on translation of foreign operations		-1,421	-
Other comprehensive income after tax for items that will be reclassified to profit or loss		**-1,421**	**-**
Other comprehensive income net of tax		-1,421	-
Total comprehensive income		**-23,046**	**-9,667**
Thereof attributable to shareholders of Pyrolyx AG		-22,935	-9,659
Thereof attributable to non-controlling interests		-111	-8

Consolidated balance sheet

As of 31 December 2017

€'000	Note	31 December 2017	31 December 2016	1 January 2016
A S S E T S				
Current assets				
Cash and cash equivalents	4.1	5,502	1,132	1,055
Trade receivables	4.3	108	88	145
Inventories	4.4	512	998	2,603
Other current assets		83	148	127
Prepaid expenses		65	17	20
Total current assets		**6,270**	**2,383**	**3,950**
Non-current assets				
Restricted cash and cash equivalents	4.2	22,509	-	-
Intangible assets	4.5	6,282	6,926	7,818
Fixed assets	4.6	23,230	10,075	10,641
Total non-current assets		**52,021**	**17,001**	**18,459**
Total assets		**58,291**	**19,384**	**22,409**

Consolidated balance sheet

As of 31 December 2017

€'000	Note	31 December 2017	31 December 2016	1 January 2016
LIABILITIES AND EQUITY				
Current liabilities				
Trade payables	4.7	834	784	844
Project financing loan	4.8	1,712	-	-
Convertible bonds	4.9	472	-	-
Liabilities due to banks	4.1	411	477	477
Other financial liabilities	4.11	12,207	3,494	925
Other non-financial liabilities	4.12	1,129	1,640	1,223
Provisions	4.13	846	-	-
Total current liabilities		**17,611**	**6,395**	**3,469**
Non-current liabilities				
Trade payables	4.7	113	-	-
Project financing loan	4.8	20,244	-	-
Convertible bonds		-	7,514	6,557
Liabilities due to banks	4.1	1,060	1,470	1,947
Other financial liabilities	4.11	8,992	10,048	10,875
Deferred income	4.14	2,433	-	-
Total non-current liabilities		**32,842**	**19,032**	**19,379**
Equity				
Share capital	4.15	5,615	3,165	2,806
Treasury shares	4.15	-	-112	-112
Additional paid-in capital	4.15	39,755	7,290	3,586
Retained earnings		-37,353	-16,378	-6,719
Other components of equity		-1,340	-	-
Equity attributable to shareholders of Pyrolyx AG		**6,677**	**-6,035**	**-439**
Equity attributable to non-controlling interests		**1,161**	**-8**	-
Total equity		**7,838**	**-6,043**	**-439**
Total liabilities and equity		**58,291**	**19,384**	**22,409**

Consolidated statement of changes in equity

For the year ended 31 December 2017

	Attributable to shareholders of Pyrolyx AG							
€'000	**Share capital**	**Treasury shares**	**Additional paid-in capital**	**Retained earnings**	**Other components of equity**	**Total**	**Non-controlling interests**	**Total equity**
Balance at 1 January 2016	**2,806**	**-112**	**3,586**	**-6,719**	-	**-439**	-	**-439**
Issuance of shares, net of transaction costs and tax	359	-	3,592	-	-	**3,951**	-	**3,951**
Equity-settled share-based payment	-	-	112	-	-	**112**	-	**112**
Loss after tax	-	-	-	-9,659	-	**-9,659**	-8	**-9,667**
Balance at 31 December 2016	**3,165**	**-112**	**7,290**	**-16,378**	**-**	**-6,035**	**-8**	**-6,043**
Issuance of shares, net of transaction costs and tax	2,450	-	33,574	-	-	**36,024**	-	**36,024**
Treasury shares sold	-	112	675	-	-	**787**	-	**787**
Equity-settled share-based payment	-	-	-504	620	-	**116**	-	**116**
Loss after tax	-	-	-	-21,595	-	**-21,595**	-30	**-21,625**
Acquisition of non-controlling interests without change in control	-	-	-1,280	-	-	**-1,280**	1,280	-
Net exchange differences recognised in other comprehensive income	-	-	-	-	-1,340	**-1,340**	-81	**-1,421**
Balance at 31 December 2017	**5,615**	**-**	**39,755**	**-37,353**	**-1,340**	**6,677**	**1,161**	**7,838**

Consolidated cash flow statement

For the year ended 31 December 2017

€'000	Note	2017	2016
Cash flows from operating activities			
Loss after income tax expense		-21,625	-9,667
Adjustments for			
Depreciation and amortisation of non-current assets		1,838	1,869
Gain / loss on the disposal of fixed assets		-	-1
Expenses on equity settled share-based payments		117	113
Other non-cash income and expenses		11	-
Interest expenses / income		12,884	1,698
Changes in			
Inventories, trade receivables and other assets not attributable to investing or financing activities		-483	1,647
Trade and other liabilities not attributable to investing or financing activities		-1,061	409
Provisions		846	-
Net cash flows from operating activities		**-7,473**	**-3,932**
Cash flows from investing activities			
Disbursements for investments in intangible assets		-237	-10
Proceeds from disposals of fixed assets		-	2
Disbursements for investments in fixed assets		-13,810	-404
Interest received		1	-
Net cash flows from investing activities		**-14,046**	**-412**
Cash flows from financing activities			
Proceeds from equity increase by shareholders of Pyrolyx AG		24,523	3,951
Proceeds from borrowings	5	24,305	1,743
Proceeds from government grants	4.8	2,478	-
Repayments of borrowings	5	-2,294	-677
Interest paid	5	-326	-596
Net cash flows from financing activities		**48,686**	**4,421**
Net increase / decrease in cash and cash equivalents		**27,167**	**77**
Cash and cash equivalents at the beginning of the period*)	4.1	1,132	1,055
Effect of changes in foreign currency rates on cash and cash equivalents		-288	-
Cash and cash equivalents at the end of the period*)	**4.1**	**28,011**	**1,132**

*) Cash and cash equivalents include restricted cash and cash equivalents.

Notes to the consolidated financial statements
For the year ended 31 December 2017

1 Basis of preparation

Pyrolyx AG (the **Company** or **Pyrolyx**) is a listed stock company incorporated under German law with its registered office in Munich, Germany. Pyrolyx AG's legal address is as follows: Nymphenburger Strasse 70, 80335 Munich, Germany. Pyrolyx AG is listed on the OTC market in Germany and the Australian securities exchange (**ASX**).

Pyrolyx AG is the parent company of a group of entities (the Group) that has developed and operates a specialised process that transforms waste tires into high-grade, valuable raw materials, primarily recovered carbon black (rCB). Carbon black is used in the manufacture of tires, and mechanical rubber products, as well as plastics and pigments. Pyrolyx's process delivers compelling benefits to the traditional manufacture of carbon black, including reduced carbon dioxide emissions.

The Group prepares its consolidated financial statements in accordance with the rules of the International Accounting Standards Board (IASB), London, United Kingdom, applicable on the reporting date. It complies with the International Financial Reporting Standards (IFRS) as well as the interpretations of the International Financial Reporting Standards Interpretations Committee (IFRS IC), as adopted by the European Union, as well as with the supplementary commercial law regulations of Article 315a (1) of the German Commercial Code (HGB).

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments that are measured at revalued amounts or fair values at the end of each reporting period, as explained in the accounting policies in Note 16, shareholder options (warrants) in Note 4.11 a) and cash-settled share-based payments (Note 8.2).

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Notes to the consolidated financial statements (continued)

2 Interest in other entities

2.1 Subsidiaries

Pyrolyx is the ultimate parent entity of the following fully consolidated subsidiaries:

in %	Place of business / country of incorporation	Equity interest held by the group 31 December 2017	 31 December 2016
Subsidiaries			
Pyrolyx Invent GmbH	Munich, Germany	100.00	100.00
Pyrolyx International GmbH	Munich, Germany	100.00	100.00
cct Stegelitz GmbH	Moeckern, Germany	80.00 1)	80.00 1)
Pyrolyx USA, Inc.	Wilmington, USA	94.30	81.00
Pyrolyx USA Indiana, LLC	Indianapolis, USA	94.30	-

1) As of the reporting date Pyrolyx holds 80% of the shares on issue in cct Stegelitz GmbH. The remaining 20% shares on issue currently held by cct AG are to be transferred to Pyrolyx upon payment of final amounts under the loan agreement and respective share purchase agreement. Considering all facts and circumstances, all material opportunities and risks lie with Pyrolyx and Pyrolyx has 100% power to affect the amount of its returns from cct Stegelitz GmbH. Therefore cct Stegelitz GmbH is included in the consolidated financial statements based on a 100% interest.

In February 2017, Pyrolyx USA Indiana, LLC was set-up as a wholly owned subsidiary of Pyrolyx USA, Inc. established to manage the development of the first USA plant in Terre Haute, Indiana, USA.

As of 22 May 2017, Pyrolyx acquired additional 2,450 shares in Pyrolyx USA, Inc. for a consideration of US$ 24.5 million (€ 21.8 million) and increased its ownership interest in Pyrolyx USA, Inc. to 94.3%. The subscription for the additional shares was initially funded by the issue of a promissory note in the amount of US$ 24.5 million by Pyrolyx to Pyrolyx USA, Inc. Following the initial public offering (**IPO**) at the Australian securities exchange the promissory note was redeemed by cash payment from the proceeds of the IPO. For more information on the IPO see Note 4.15 b).

2.2 Non-controlling interests

Set out below is summarised financial information relating to the Pyrolyx subsidiaries in which significant non-controlling interests are held. The amounts disclosed include intercompany eliminations within the USA subgroup including Pyrolyx USA, Inc. and Pyrolyx USA Indiana, LLC, however, do not include intercompany eliminations between the USA subgroup and other group companies of the Group.

Notes to the consolidated financial statements (continued)

€'000	31 December 2017	31 December 2016
Summarised balance sheet		
Current assets	9,902	-
Non-current assets	36,160	-
Current liabilities	2,919	41
Non-current liabilities	22,810	-
Net assets	**20,333**	**-41**
Accumulated non-controlling interests	1,161	-8

€'000	2017	2016
Summarised statement of comprehensive income		
Revenue	-	-
Profit after tax	**-530**	**-41**
Other comprehensive income	-1,421	-
Total comprehensive income	**-1,951**	**-41**
Profit allocated to non-controlling interests	-111	-8

3 Income statement items

3.1 Other operating income

€'000	2017	2016
Revaluation contingent purchase price	2,070	-
Foreign currency gains	950	1
Rents and leases	30	30
Insurance compensation	11	6
Subsidies	-	92
Other	1	50
Total	**3,062**	**179**

The revaluation gain of the contingent purchase price in 2017 relates to the contingent purchase price for cct Stegelitz GmbH. For further details see Note 4.11 b).

The foreign currency gains in 2017 mainly relate to the promissory note issued by Pyrolyx to Pyrolyx USA, Inc. (see Note 2.1).

Notes to the consolidated financial statements (continued)

3.2 Other operating expenses

€'000	2017	2016
IPO costs	1,744	175
Consulting fees	1,016	647
Financial reporting costs	329	190
Travel expenses	266	162
Maintenance costs	235	182
Insurance	223	108
Rent and incidental rental costs	216	203
Production costs	186	146
Directors remuneration	148	97
Marketing	133	48
Vehicle costs	115	127
Other administration costs	110	90
Communication	97	79
Recruitment	85	3
Foreign currency losses	46	2
Patent costs	13	3
Revaluation contingent purchase price	-	36
Designated sponsoring	-	18
Other	156	129
Total	**5,118**	**2,445**

IPO costs (2017: € 1,744 thousand; 2016: € 175 thousand) within other operating expenses include that part of the costs incurred for the IPO in August 2017, which were not eligible to be directly charged to equity.

3.3 Interest and similar expenses

€'000	2017	2016
Financial liabilities at fair value through profit and loss		
- Designated on initial recognition	10,214	-
Financial liabilities measured at amortised cost - interest expense	2,513	1,699
	12,727	**1,699**

3.4 Income taxes

a) Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from loss before income tax expense as reported in the consolidated statement of profit or loss because of items of income or expenses that are taxable or deductible in other years and items that are never taxable or deductible. The Group's current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Notes to the consolidated financial statements (continued)

The Company and its German subsidiaries are subject to corporate income tax, solidarity surcharge and trade tax.

Deferred tax was calculated based on the following rates for 2017 and 2016:

in %	Place of business / country of incorporation	Tax rate 2017	Tax rate 2016
Subsidiaries			
Pryolyx AG	Munich, Germany	32.98 %	32.98%
Pyrolyx Invent GmbH	Munich, Germany	32.98 %	32.98%
Pyrolyx International GmbH	Munich, Germany	32.98 %	32.98%
cct Stegelitz GmbH	Moeckern, Germany	28.25 %	28.32%
Pyrolyx USA, Inc.	Wilmington, USA	28.10 %	33.70%
Pyrolyx USA Indiana, LLC	Indianapolis, USA	27.00 %	-

As a result of the losses incurred by the Group companies, so far income taxes have only accrued to a very small extent. As of 31 December 2017, the Group companies had cumulative tax loss carry forwards in Germany amounting to € 54,982 thousand (2016: € 33,234 thousand) and in the USA of € 1,195 thousand (2016: € 41 thousand). The Group's loss carryforwards hence totalled € 56,177 thousand (2016: € 33,275 thousand), of which € 15,094 thousand was accounted for by cct Stegelitz GmbH (2016: € 11,492 thousand).

From 2004 onwards, German tax law restricts the offset of taxable income against existing tax loss carry forwards to an annual amount of € 1 million plus 60% of taxable income above € 1 million. According to the German Corporation Tax Act (Körperschaftsteuergesetz (KStG)), taxes may be carried forward indefinitely. The deduction of tax losses carried forward is excluded if the Company loses its economic identity. A company is deemed to have lost its economic identity if both the following criteria are met simultaneously:

- More than 50% of the shares in the company have been transferred
- The company continues or relaunches its operations with predominantly new assets

Regarding equity transfers, this provision is to be replaced by Section 8c KStG to reflect the reform of corporation tax. Any transfer of between 25% and 50% of the subscribed capital triggers the partial elimination of tax losses carried forward, while any transfer of more than 50% triggers total elimination. The continuation of operations with predominantly new assets is no longer relevant. The regulation on tax loss carry forwards (both Section 8(4) KStG and Section 8c KStG) is generally regarded as uncertain for companies taxable in Germany. Under German tax law, loss carry forwards can be subject to tax audits.

b) Deferred Tax

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used

Notes to the consolidated financial statements (continued)

in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. In addition, deferred tax liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax liabilities and assets are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Unrecognised deductible temporary differences, unused tax losses and unused tax credits

Deferred taxes are not recognised since the tax advantages concerned can probably not be realised due to the Group’s loss history.

Deductible temporary differences, unused tax losses and unused tax credits for which no deferred tax assets have been recognised are attributable to the following:

Notes to the consolidated financial statements (continued)

€'000	31 December 2017	31 December 2016
Tax losses (revenue in nature)	-17,026	-10,348
Deductible temporary differences		
Purchased rights, concessions and similiar rights	-1,015	579
Convertible bonds	48	-495
Other accounts payable	-	-403
Other financial liablities	-1,215	-
Assets under construction	99	-
Deferred income	-657	-
Inventories	59	-
Fixed assets	-5	-

Tax reconciliation

The tax rate used for the 2017 and 2016 reconciliations above is the corporate tax rate of 32.98 % payable by corporate entities in Munich, Germany on taxable profits under tax law in that jurisdiction.

€'000	31 December 2017	31 December 2016
Loss before income tax expense	-21,625	-9,667
Income tax expense recognised in profit or loss		
Income tax expense calculated at 32.98 % (2016: 32.98%)	-7,131	-3,188
Effect of income that is exempt from taxation	35	-
Effect of expenses that are not deductible in determining taxable profit	10	13
Effect of different tax rates of subsidiaries operation in oher jurisdictions	236	200
Effect of convertible bonds	208	118
Effect of equity costs	-244	-
Effect of purchase price allocation	-434	260
Effect of unused tax losses and tax offsets not recognised as deferred tax	7,383	2,591
Others	-63	6
Total of income tax expense recognised in profit or loss	**0**	**0**

3.5 Earnings per share

The following table shows the calculation of basic and diluted earnings per ordinary share attributable to shareholders of Pyrolyx:

Notes to the consolidated financial statements (continued)

		2017	2016
Loss after income tax expense attributable to shareholders of Pyrolyx AG	€'000	-21,595	-9,659
Weighted average number of ordinary shares to calculate earnings per share			
Basic	Number	4,078,717	2,776,257
Diluted	Number	4,078,717	2,776,257
Earnings per share			
Basic	€	-5.29	-3.48
Diluted	€	-5.29	-3.48

When calculating the diluted weighted average of ordinary shares as of 31 December 2017, the following factors were disregarded as they would have counteracted dilution:

- Possible effects of the conversion of convertible bonds at the beginning of the reporting period into 429,580 shares (2016: 429,580 shares)
- The possible impact of the exercise of 175,800 employee stock options at the beginning of the reporting period (2016: 175,800 employee stock options)

These instruments could potentially dilute basic earnings per ordinary share in the future.

4 Balance sheet items

4.1 Cash and cash equivalents

€'000	31 December 2017	31 December 2016	1 January 2016
Cash and cash equivalents in the balance sheet	**5,502**	**1,132**	**1,055**
Restricted cash and cash equivalents	22,509	-	-
Cash and cash equivalents in the cash flow statement	**28,011**	**1,132**	**1,055**

For details on the restricted cash and cash equivalents see Note 4.2.

4.2 Restricted cash and cash equivalents

Restricted cash relates to the project financing loan agreement entered into with the City of Terre Haute, Indiana, USA (for details on the project financing loan agreement see Note 4.8). Under such loan agreement all loan proceeds are restricted in use for the construction of the USA plant in Terra Haute, Indiana, USA and for debt services under the loan agreement. Restrictions will expire with the last payment under the loan agreement in 2028. As such restricted cash is classified as non-current and not available for general use by the Group.

Notes to the consolidated financial statements (continued)

4.3 Trade receivables

The following table shows the carrying amount of trade receivables:

€'000	31 December 2017	31 December 2016	01 January 2016
Gross carrying amount	109	90	167
Allowance for doubtful accounts charged to expense	-2	-2	-22
Carrying amount trade receivables, net	**108**	**88**	**145**

The table below shows the maturity structure of trade receivables that were not impaired as of the reporting date:

€'000	31 December 2017	31 December 2016
Not past due and not individually impaired	60	57
Past due but not individually impaired		
Past due 1 to 30 days	14	8
Past due 31 to 120 days	34	13
Past due 121 to 365 days	0	10
Total past due but not individually impaired	**48**	**31**
Individually impaired, net of allowances	-	-
Carrying amount of trade receivables, net	**108**	**88**

Where trade receivables are neither impaired nor past due, there are no indications as of the reporting date that the debtors would not meet their payment obligations. With regard to the trade receivables that were past due as of the reporting date but not impaired, based on the customers' credit history and current credit rating, there are no indications that they are not able to meet their obligations.

The allowances on trade receivables report the following changes:

€'000	
1 January 2016	**22**
Addition	2
Utilisation	-22
31 December 2016	**2**
Addition	-
Utilisation	-
31 December 2017	**2**

The additions to and reversals of bad debt allowances for impaired receivables are presented under other operating expenses and other operating income. Utilisation covers the derecognition of former written down receivables.

Notes to the consolidated financial statements (continued)

4.4 Inventories

€'000	31 December 2017	31 December 2016	1 January 2016
Raw materials, consumables and supplies	28	13	8
Work in progress	1	2	77
Finished goods	333	833	2,368
Prepayments	150	150	150
Total	**512**	**998**	**2,603**

As of the reporting date finished goods in the amount of € 166 thousand (31 December 2016: € 659 thousand; 1 January 2016: € 2,196 thousand) are expected to be recovered after more than twelve months.

The impairment of inventory results from the probable deterioration of the products saleability and the respective write-down to its net realisable value (2017: € 560 thousand; 2016: € 1,581 thousand).

Inventories in the amount of € 229 thousand (31 December 2016: € 200 thousand; 1 January 2016: € 181 thousand) are pledged under the liabilities to banks.

4.5 Intangible assets

€'000	Purchased rights, concessions and similiar rights	Self generated rights, concessions and similiar rights	Prepayments and assets under development	Total
Cost				
Balance at 1 January 2016	**7,904**	**688**	**-**	**8,592**
Additions	3	5	-	8
Balance at 31 December 2016	**7,907**	**693**	**-**	**8,600**
Accumulated amortisation				
Balance at 1 January 2016	**-666**	**-108**	**-**	**-774**
Additions	-830	-70	-	-900
Balance at 31 December 2016	**-1,496**	**-178**	**-**	**-1,674**
Net book amount as of 1 January 2016	**7,238**	**580**	**-**	**7,818**
Net book amount as of 31 December 2016	**6,411**	**515**	**-**	**6,926**
Cost				
Balance at 1 January 2017	**7,907**	**693**	**-**	**8,600**
Additions	1	-	236	237
Balance at 31 December 2017	**7,908**	**693**	**236**	**8,837**
Accumulated amortisation				
Balance at 1 January 2017	**-1,496**	**-178**	**-**	**-1,674**
Additions	-811	-70	-	-881
Balance at 31 December 2017	**-2,307**	**-248**	**-**	**-2,555**
Net book amount as of 1 January 2017	**6,411**	**515**	**-**	**6,926**
Net book amount as of 31 December 2017	**5,601**	**445**	**236**	**6,282**

Notes to the consolidated financial statements (continued)

Purchased rights, concessions and similar rights include production technologies for the manufacturing of pyrolysis granulate. As of the reporting date the carrying amount of the production technologies is € 5,304 thousand (31 December 2016: € 6,041 thousand; 1 January 2016: € 6,777 thousand) with a remaining amortisation period of 7.5 years (31 December 2016: 8.5 years; 1 January 2016: 9.5 years).

All intangible assets are being amortised on a straight-line basis over their respective estimated useful life.

In the reporting period amortisation of intangible assets amounted to € 881 thousand (2016: € 900 thousand).

Self-generated rights, concessions and similar rights were transferred and assigned by way of security to shareholder loans as of 31 December 2016 in the amount of € 515 thousand and 1 January 2016 in the amount of € 580 thousand. In 2017 these rights were fully released.

4.6 Fixed assets

€'000	Technical equipment and machinery	Land, land rights and buildings	Equipment and furniture	Prepayments and assets under construction	Total
Cost					
Balance at 1 January 2016	**8,898**	**955**	**405**	**1,071**	**11,329**
Additions	13	10	56	325	404
Reclassifications	-	-	15	-15	-
Disposals	-	-	-6	-1	-7
Balance at 31 December 2016	**8,911**	**965**	**470**	**1,380**	**11,726**
Accumulated amortisation					
1 January 2016	**-521**	**-28**	**-139**	**-**	**-688**
Additions	-845	-49	-76	-	-970
Disposals	-2	-	5	-	7
Balance at 31 December 2016	**-1,364**	**-77**	**-210**	**-**	**-1,651**
Net book amount as of 1 January 2016	**8,377**	**927**	**266**	**1,071**	**10,641**
Net book amount as of 31 December 2016	**7,547**	**888**	**260**	**1,380**	**10,075**
Cost					
Balance at 1 January 2017	**8,911**	**965**	**470**	**1,380**	**11,726**
Currency translation differences	-	-5	-	-158	-163
Additions	26	248	27	13,974	14,275
Reclassifications	-	48	-	-48	-
Disposals	-	-	3	-	3
Balance at 31 December 2017	**8,937**	**1,256**	**500**	**15,148**	**25,841**
Accumulated amortisation					
Balance at 1 January 2017	**-1,364**	**-77**	**-210**	**-**	**-1,651**
Additions	-845	-49	-63	-	-957
Disposals	-	-	-3	-	-3
Balance at 31 December 2017	**-2,209**	**-126**	**-276**	**-**	**-2,611**
Net book amount as of 1 January 2017	**7,547**	**888**	**260**	**1,380**	**10,075**
Net book amount as of 31 December 2017	**6,728**	**1,130**	**224**	**15,148**	**23,230**

Except for assets under construction fixed assets are being depreciated on a straight-line basis over their respective estimated useful life. For assets under construction depreciation will not begin until the assets are available for use.

Notes to the consolidated financial statements (continued)

In the reporting period prepayments and assets under construction mainly relate to the construction of the Group's first USA plant in Terre Haute, Indiana, USA.

As the borrowing costs for the project financing loan are directly attributable to the construction of the USA plant, all interest expense incurred in the reporting period for the project financing loan net of any investment income on the temporary investment of those borrowings has been capitalised. As such an amount of € 695 thousand (31 December 2016: € Nil; 1 January 2016: € Nil) is included in assets under construction that represents borrowing costs capitalised during the year. In the reporting period the capitalisation rate used to determine the amount of borrowing costs eligible for capitalisation was 9.27%.

In the reporting period depreciation on fixed assets amounted to € 957 thousand (2016: € 970 thousand).

All fixed assets in the reporting period in the amount of € 23,230 thousand (31 December 2016: € 10,075 thousand; 1 January 2016: € 10,641 thousand) are pledged in numerous ways for the project financing loan, liabilities due to banks and the purchase price loan.

4.7 Trade payables

As of the reporting date trade payables include current trade payables in the amount of € 834 thousand (31 December 2016: € 784 thousand; 1 January 2016: € 844 thousand) and non-current trade payables in the amount of € 113 thousand (31 December 2016: € Nil; 1 January 2016: € Nil). Trade payables non-current consist of an IPO consulting fee. For details on the IPO consulting fee see Note 4.11 c).

4.8 Project financing loan

In order to meet the project funding requirements for the construction of the first USA Plant, Pyrolyx USA Indiana, LLC has received a project financing loan from the city of Terre Haute, Indiana, USA on 21 August 2017. The city of Terre Haute issued tax-exempt project finance bonds with the proceeds loaned to Pyrolyx USA Indiana, LLC pursuant to a loan agreement (project financing loan). The senior project debt amount being € 25,665 thousand (US$ 30,185 thousand) – comprised of € 25,508 thousand (US$ 30,000 thousand) related to the Series 2017A bonds tranche and € 157 thousand (US$ 185 thousand) related to the Series 2017B bonds tranche.

The loan was recognised at fair value (€ 22,105 thousand) on the date of acquisition on 21 August 2017. Transaction costs directly attributable to the issue of the bonds in the amount of € 1,082 thousand have been deducted from the fair value. The capitalisation rate used to calculate the fair value of the bond is 9.27%. Due to the interest rate below market rate the loan is considered to include a government grant. Upon inception the amount of the government grant (€ 2,478 thousand) has been determined by subtracting the fair value of the loan from the loan proceeds less transactions costs and has been recognised as deferred income. For accounting of the government grant see Note 17.8.

Notes to the consolidated financial statements (continued)

The loan was valued at the reporting date based on fair value less the corresponding transaction costs at the time of acquisition at amortised cost using the effective interest method.

The terms of that loan agreement correspond to the bond purchase agreement. The key terms are:

The proceeds of the senior project debt may only be used to: (i) acquire, construct, equip and install a tyre recycling facility that will reclaim carbon black from used tyres located in the City of Terre Haute (the facility); (ii) fund a debt service reserve fund for the bonds; (iii) finance capitalised interest in connection with the project; and (vi) pay the costs of issuing the bonds (collectively, the **project**).

The Series 2017A bonds tranche matures on 1 December 2028 and the Series 2017B bonds tranche on 1 December 2020. Principal payments have to be made annual beginning 1 December 2020 through 1 December 2028 based on a 10-year level debt service schedule.

The nominal interest rate is 7.25% with interest accruing from the date of issue. Interest is payable semi-annually on 1 June and 1 December based on the outstanding balance of the senior project debt amount.

The loan is secured by (i) a first lien security interest in all assets of the project; (ii) a pledge of a mortgage covering the project; (iii) a pledge of the limited liability company interests of Pyrolyx USA, Inc. in the Borrower; (iv) a collateral assignment of all agreements, contracts, warranties, licenses (including Pyrolyx technology licenses), permits and rights related to construction, ongoing operation, equipment, procurement, feedstock and offtake for/of the Project; and (v) gross revenue pledge: all revenues escrowed with debt service payable first.

The Series 2017A bonds tranche is to be repaid with a total of nine repayments. The Series 2017B bonds tranche is to be repaid in full at its maturity date.

Under the terms of the loan, Pyrolyx USA Indiana, LLC is required to adhere to certain debt covenants, such as debt service coverage, distribution test requirement and days cash on hand requirement. Pyrolyx USA Indiana, LLC has complied with all respective debt covenants during 2017.

4.9 Convertible bonds

On 11 November 2013, the Company issued convertible bonds. The five-year convertible bonds bear interest at the rate of 10% p.a. from the date of issue, which is due in a lump sum at maturity. If bondholders exercise their conversion rights with legal effect, their claim to interest is void. The bonds are divided into up to 143,880 convertible bearer bonds with a nominal value of € 70 each. The issue price is € 70 per bond.

Notes to the consolidated financial statements (continued)

Bondholders have the right to convert their convertible bonds at any time during the conversion period, subject to the non-exercise periods. The conversion right may only be exercised in units of at least 1,000 convertible bonds unless the total number of convertible bonds due to a bondholder is fewer. The conversion rate is five shares per convertible bond.

The convertible bonds will be redeemed on the day after the end of the term at their nominal value plus the interest accrued on the nominal value until the end of the term unless bondholders have exercised their conversion rights with legal effect beforehand.

The Company has existing contingent capital to enable the issue of new shares on conversion.

As of the reporting date 4,651 (2016: 85,916) convertible bonds are outstanding.

The convertible bond represents a compound instrument which is to be divided into a liability component and an equity component. The borrowed capital component (bonds) must initially be recognised at fair value at the time the contract is concluded. The fair value is determined by discounting the contractually agreed future payments with an interest rate customary for a comparable bond without conversion rights. In this context, the default risk of the issuer must also be taken into account. The corresponding equity component (conversion right) is to be calculated as the difference between the issue proceeds and the present value of the liability component.

The borrowed capital component is subsequently measured at amortised cost using the effective interest method. The equity component is not subject to any subsequent assessment.

In the reporting period the company and certain bondholders (representing approximately 94% of the convertible bonds on issue) have entered into an amendment agreement (early conversion agreement) pursuant to which those bondholders agreed to the early conversion of their bonds, subject to the entry by the company into an underwriting agreement in regard to the IPO at the Australian securities exchange in August 2017. The conversion was undertaken as of 29 December 2017.

The company has undertaken a meeting of the bondholders in order to pass the required resolutions to facilitate the early conversion and payment of the early conversion fee as described below (and in respect of which the bondholders voted in favour of).

The company has also agreed, in lieu of the forfeiture of accrued interest that occurs on early conversion, to pay an amount equivalent to 15% of the nominal value of the convertible bonds to the converting holders (early conversion fee). Such early conversion fee is shown within other financial liabilities (see Note 14.11 e). This early conversion fee is payable on the repayment date (November 11, 2018). At the request of the Company the early conversion fee may also be paid in shares of Pyrolyx at the stock price equal to the weighted average of the Xetra stock exchange price of the shares of Pyrolyx on the last twenty stock exchange trading days preceding the repayment date (the interest swap). The maximum number of shares of

Notes to the consolidated financial statements (continued)

Pyrolyx available for the interest swap shall be 64,208. If the interest swap claim exceeds the maximum amount of shares, any remaining amount outstanding is to be paid in cash on the repayment date.

Convertible Bond Issue 2013/18 was valued at amortised cost using the effective interest method. The effective interest rates used are in a range of 11.50% to 15.64% due to the originally contractually agreed retroactive interest of the convertible bond.

4.10 Liabilities due to banks

Liabilities due to banks comprise the drawn amounts under the respective credit facilities.

The loans require monthly or quarterly repayment instalments and interest payments.

The loans are each secured by (amongst other things) uncertified land charges totalling € 2,500 thousand on the cct Stegelitz GmbH real property in Stegelitz and Burg, Germany, transfers by way of security of certain assets (e.g. pyrolysis machine) of cct Stegelitz GmbH and transfers of claims under bank guarantees totalling € 3,500 thousand.

Under the terms of the loans, cct Stegelitz GmbH is required to maintain certain financial ratios. Furthermore cct Stegelitz GmbH may not, without consent of the bank, sell material fixed assets or company parts or acquire companies or company parts. cct Stegelitz GmbH has complied with the financial covenants of its bank borrowing facilities during 2017 and 2016.

4.11 Other financial liabilities

€'000	31 December 2017	31 December 2016	1 January 2016
Shareholder options	10,214	-	-
Purchase price loan	5,000	5,000	5,000
Contingent purchase price liabilities	989	3,059	3,023
Shareholder loans including accrued interest	1,230	3,100	1,570
Third party loans including accrued interest	2,925	2,210	2,148
Early conversion fee	770	-	-
Other	71	173	59
Total	**21,199**	**13,542**	**11,800**
thereof			
current	*12,207*	*3,494*	*925*
non-current	*8,992*	*10,048*	*10,875*

a) Shareholder options (warrant) agreement

On 17 December 2015, Pyrolyx AG, AVIV Investments Pty Ltd, Australia, Galaxis Advisory SA, Cayman Islands, and M-Invest GmbH, Germany, entered into an option agreement (**option agreement**) (as amended) pursuant to which virtual call and put options over the shares of Pyrolyx International GmbH (**virtual options**) have been granted to AVIV Investments Pty Ltd, Galaxis Advisory SA and M-Invest GmbH (**option holders**) in

Notes to the consolidated financial statements (continued)

consideration for their bridge financing efforts. Under the terms of the option agreement (as amended), each option holder may, at any time prior to 31 December 2025, and on 6 months written notice to the Company exercise those virtual options, which, following completion of an IPO and the Company having sufficient authorised capital to enable it to issue new shares, result in the following amounts being payable by the Company to the option holders:

- in respect of AVIV Investments Pty Ltd, an amount equal to € 31,372 thousand;
- in respect of Galaxis Advisory SA, an amount equal to € 3,111 thousand; and
- in respect of M-Invest GmbH, an amount equal to € 590 thousand.

Each option holder then has the right to convert their claims in whole or in part against the issuance of:

- in respect of AVIV Investments Pty Ltd, up to 899,657 new shares;
- in respect of Galaxis Advisory SA, up to 89,227 new shares; and
- in respect of M-Invest GmbH, up to 16,933 new shares.

This totals 1,005,817 new shares. The Company has the corresponding right to request the option holders to exercise these conversion rights. The management board and supervisory board must use their best efforts to maintain a sufficient amount of authorised capital to enable the conversion of the claims and received shareholder approval for an increase in its authorised capital shortly following completion of the IPO at the ASX.

Each of the option holders has undertaken by the amendment of the option agreement as of 26 October 2016 to the Company to exercise their virtual options and convert their claims in full into new shares in the company upon completion of the IPO at the ASX and promptly upon the company having sufficient authorised capital to effect conversion. The parties have also agreed to waive the six-month notice period.

The conditions precedent regarding the shareholder options (**warrant**) agreement and its amendments – especially the amendment as of 26 October 2016 as mentioned above – were fulfilled during the reporting period, but shares have not yet been distributed. A shareholder options liability (at fair value) in the amount of € 10,214 thousand (1,005,817 shares multiplied by the share price of € 10.16 as of 29 December 2017) has been recorded with the expenses taken to interest and similar expenses. The shareholder options liability has been classified as financial liability that is designated as a liability at fair value through profit or loss upon initial recognition.

b) Purchase price loan and contingent purchase price liabilities

The purchase price loan and the contingent purchase price liabilities relate to the acquisition of the interest in cct Stegelitz GmbH in 2015. The interest on the purchase price loan is payable on a quarterly basis.

Notes to the consolidated financial statements (continued)

The contingent purchase price liabilities are measured at fair value taking into account the forecasted Group income after income tax expense in 2024 as well as an appropriate discount rate. Based on the Group plant roll-out plan, the fair value of the contingent purchase price liabilities had to be lowered in 2017.

c) Shareholder loans

The Company is party to several shareholder loan agreements as well as an agreement regarding a payment of an IPO consulting fee (included within trade payables – non-current). Following contribution agreements, an amount of € 3,017 thousand of the shareholder loans and the trade payable liability concerning the IPO consulting fee as of 31 October 2017 has been converted into new shares in Pyrolyx; the new shares became effective with 21 December 2017. On the remaining shareholder loans interest accrues from 1 November 2017 onwards. The nominal interest rates are respectively 10% and 15% for the shareholder loans. The relevant maturity date for all remaining shareholder loans as well as for the IPO consulting fee is 30 June 2019.

d) Third party loans

The third-party loans are related to the financing of cct Stegelitz GmbH and a previous pilot plant.

e) Early conversion fee

For details on the early conversion fee see Note 4.9.

4.12 Other non-financial liabilities

The split of other non-financial liabilities is as follows:

€'000	31 December 2017	31 December 2016	1 January 2016
Liabilities to employees	638	414	828
Liabilities to suppliers	279	347	84
Liabilities to supervisory board members	129	125	77
Wage and church tax	45	142	40
Capital increase not yet registered	-	500	0
Other	38	112	194
	1,129	**1,640**	**1,223**
thereof			
current	*1,129*	*1,640*	1,223

The € 500 thousand capital increase not yet filed and registered with the commercial register as of 31 December 2016 relating to the issue of 45,455 shares was filed and registered in January 2017.

Notes to the consolidated financial statements (continued)

4.13 Provisions

At 31 December 2017 provisions include liabilities in connection with the cash-settled share-based payments (virtual shares) to certain employees as outlined in Note 8.2.

€'000	**Virtual shares**
1 January 2016	**-**
Provisions made during the year	-
Provisions used during the year	-
Provisions reversed during the year	-
31 December 2016	**-**
Provisions made during the year	846
Provisions used during the year	-
Provisions reversed during the year	-
31 December 2017	**846**

4.14 Deferred income

The Group has been awarded a government grant in the form of the project financing loan from the City of Terre Haute, Indiana, USA bearing interest at below market rate. The amount of the government grant has been determined by subtracting the fair value of the loan upon inception from the loan proceeds less transactions costs and been recognised as deferred income (2017: € 2,433 thousand;31 December 2016: € Nil; 1 January 2016: € Nil).

Parts of the grant relating to the purchase of property, plant and equipment will be amortised over the useful life of the plant once operation of the plant has started. The parts of the grant that compensate the Group for expenses incurred will be recognised in profit or loss on a systematic basis in the periods in which the expenses are incurred.

Notes to the consolidated financial statements (continued)

4.15 Equity

a) Share capital, treasury shares and additional paid-in capital comprise the following:

				Additional paid-in capital				
€'000 (if not stated otherwise)	**Number of shares**	**Share capital**	**Treasury shares**	Share premium	Equity-settled employee benefits	*Convertible bonds equity component*	Acquisition of non-controlling interests without change in control	**Total of additional paid-in capital**
Balance at 1 January 2016	**2,806,205**	**2,806**	**-112**	3,004	414	168	**-**	**3,586**
Issuance of shares	359,155	359	-	3,591	-	-	-	3,591
Equity-settled share-based payments	-	-	-	-	113	-	-	113
Balance at 31 December 2016	**3,165,360**	**3,165**	**-112**	*6,595*	*527*	*168*	-	**7,290**
Issuance of shares, net of transaction costs and tax	2,042,851	2,043	-	25,998	-	-	-	25,998
Treasury shares sold	-	-	112	675	-	-	-	675
Equity-settled share-based payments	-	-	-	-	-504	-	-	-504
Conversion of convertible bonds under early conversion agreement	403,825	404	-	5,310	-	2,217	-	7,527
Conversion of convertible bonds	2,500	3	-	49	-	-	-	49
Acquisition of non-controlling interests without change in control	-	-	-	-	-	-	-1,280	-1,280
Balance at 31 December 2017	**5,614,536**	**5,615**	**-**	*38,627*	*23*	*2,385*	*-1,280*	**39,755**

The fully paid-in no-par-value bearer shares each with a notional value of € 1, carry one vote per share and a right to dividends.

The annual general meeting on 7 June 2017 approved the conversion at Pyrolyx from bearer shares to registered shares.

Notes to the consolidated financial statements (continued)

b) Share capital

The fully paid-in no-par-value bearer shares each with a notional value of € 1 carry one vote per share and a right to dividends.

The annual general meeting on 7 June 2017 approved the conversion at Pyrolyx from bearer shares to registered shares.

Since August 2017 Pyrolyx CHESS Depository Interests (**CDIs**) are quoted on the Australian securities exchange (ASX). The Company issued 23,990,940 CDIs, which are equivalent to 1,599,396 newly issued ordinary shares. The Company raised a total from the capital increase amounting to € 23.9 million (AU$ 35.3 million) before deduction of respective transaction costs in the amount of € 740 thousand.

c) Treasury shares

In October 2017 the 112,500 existing treasury shares were sold for a total consideration of € 788 thousand.

d) Equity-settled employee benefits

The above equity settled employee benefits reserve relates to share options granted by the Company to its employees under its employee stock option plan. Upon forfeiture of options the amounts are reclassified to retained earnings. Further information about equity-settled share-based payments to employees is set out in Note 8.1.

e) Convertible bonds equity component

The convertible bonds equity component represents the equity component (conversion rights) of the convertible bonds issued in 2013 (see Note 4.9).

The bondholder agreement specified in Note 4.9 contained a significant change to the contractual terms (early conversion agreement) of convertible bond issue 2013/18. Given this, the subscribed convertible bonds of the creditors concerned have been (partly) derecognized and revaluation carried out. Such revaluation given rise to the increase in the convertible bonds equity component of € 2,217 thousand in 2017.

f) Authorised capital and contingent capital

Authorised capital

At the extraordinary general meeting on 21 February 2017, Authorised Capital 2015/I was revoked and replaced by Authorised Capital 2017/I. By resolution of the extraordinary general meeting held on 21 February 2017, the management board was authorised to increase the share capital of the Company on one or more occasions by 20 February 2022 subject to the approval of the supervisory board by a total of up to € 1,605,407 by issuing up to 1,605,407 no-par-value bearer shares in return for cash and/or contributions in kind.

Notes to the consolidated financial statements (continued)

In the reporting period six capital increases from authorised capital partly in exchange for cash contributions or contributions in kind were agreed and carried out by the management board. Furthermore, partly using Contingent Capital 2013/I, parts of the convertible bond issue 2013/18 were converted into equity. The following table provides an overview of these equity increases:

€'000	Increase in Share capital	Increase in Additonal paid-in capital	Total capital increase
31 January 2017 (cash contribution)*)	45	455	**500**
10 March 2017 Capital increase from Authorised Capital 2015/I (cash contribution)	97	1,153	**1,250**
2 May 2017 Capital increase from Authorised Capital 2017/I (cash contribution)	6	75	**81**
2 August 2017 Capital increase from Authorised Capital 2017/I (cash contribution)	1,591	22,219	
Transaction costs		-740	**23,070**
2 August 2017 Capital increase from Authorised Capital 2017/I (cash contribution)	8	114	**122**
21 December 2017 Capital increase from Authorised Capital 2017/II (contribution in kind)	296	2,722	**3,018**
27 December 2017 Capital increase from Contingent Capital 2013/I (convertible bond conversion)	407	7,576	**7,983**
Total capital increase in 2017	**2,450**	**33,574**	**36,024**

*) Cash was already received in 2016; however, filing with the commercial register was still outstanding as of 31 December 2016. Thus, after registration with the commercial register in 2017, recorded liability in 2016 was taken to equity.

The two cash capital increases from Authorised Capital 2015/I and the capital increase against contributions in kind from Authorised Capital 2017/II took place to the exclusion of shareholders' pre-emptive rights pursuant to Section 186(3), sentence 4 AktG German Stock Corporation Act. The two cash capital increases based on the resolutions of the management board on 24 July 2017, were carried out to the exclusion of shareholders' pre-emptive rights by means of an additional public offering in Australia.

Pre-emptive rights were granted to shareholders in connection with the cash capital increase from Authorised Capital 2017/I agreed by the management board on 24 March 2017.

Notes to the consolidated financial statements (continued)

Contingent capital

Following the extraordinary general meeting on 9 October 2017, Pyrolyx has the following contingent capitals:

- Contingent Capital 2013/I amounting to € 23,255 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 of which € 7,640 still being valid and the remainder having lapsed per 31 December 2017
- Contingent Capital 2017/I amounting to € 895,207 serving the provision of convertible bonds and/or bonds with warrants with a total nominal value of up to € 90 million (Contingent Capital 2015/I and 2015/II were revoked in 2017)

5 Cash flow information

Reconciliation of movements of liabilities to cash flows arising from financing activities

€'000	Project financing loan	Convertible bonds	Liabilities due to banks	Other financial liabilities	Total
1 January 2017	**-**	**7,514**	**1,947**	**13,542**	**23,003**
Financing cash flow					
Proceeds from borrowings	22,105	-	-	2,200	**24,305**
Repayments of borrowings	-	-	-477	-1,817	**-2,294**
Interest paid	-	-	-85	-241	**-326**
Changes from financing cash flows	**22,105**	**-**	**-562**	**142**	**21,685**
Fair value					
Contingent purchase price adjustment	-	-	-	-2,070	**-2,070**
Changes in fair value	**-**	**-**	**-**	**-2,070**	**-2,070**
Changes in foreign exchange rates	**-405**	**-**	**-**	**-**	**-405**
Other non-cash items					
Interest expense	-	941	86	11,700	**12,727**
Conversion to equity	-	-7,983	-	-2,764	**-10,747**
Capitalised borrowing costs	764	-	-	-	**764**
Interest paid for capitalised borrowing costs	-508	-	-	-	**-508**
Reclassification from trade payables	-	-	-	649	**649**
Changes from other non-cash items	**256**	**-7,042**	**86**	**9,585**	**2,885**
31 December 2017	**21,956**	**472**	**1,471**	**21,199**	**45,098**

Notes to the consolidated financial statements (continued)

6 Segment reporting

Management has determined that the Group only has one reportable segment being the manufacture and supply of recovered carbon black and related recovered raw materials. The key indicator applied by Pyrolyx to assess its performance is the EBITDA according to German GAAP.

The following table shows the reconciliation of the Group's EBITDA according to German GAAP to the loss before income tax expense for the years ended 31 December 2017 and 2016:

€'000	**2017**	**2016**
Revenues from external customers	347	234
EBITDA according to German GAAP	**-9,192**	**-4,370**
Depreciation according to German GAAP	-1,611	-1,642
Impairment of inventory	-560	-1,581
Interest and similar income according to German GAAP	157	-
Interest and similar expenses according to German GAAP	-12,254	-1,342
Loss before income tax expense according to German GAAP	**-23,460.00**	**-8,935.00**
IFRS adjustments:		
Other operating income	2,070	-
Wages and salaries	-117	-113
Depreciation	-227	-227
Other operating expenses	740	-36
Interest and similar income	-156	-
Interest and similar expenses	-475	-356
Loss before income tax expense	**-21,625**	**-9,667**

Explanations of the IFRS adjustments are as follows:

Other operating income includes the adjustment for the fair value valuation of the contingent purchase price liability with respect to the acquisition of cct Stegelitz GmbH. Under German GAAP future purchase price components which are subject to a condition are only taken into account when the condition is met.

Wages and salaries include the adjustment for the employee and management options. According to German GAAP the employee and management options are only recognised when exercised. Under IFRS, the options were assessed as an equity-settled share-based payment at the respective date on which they were granted. The adjustment relates to the share-based payment being expensed for each respective year within wages and salaries in the statement of comprehensive income and being credited directly to additional paid-in capital.

Depreciation includes the depreciation charges for the IFRS purchase price allocation step up on purchased rights, concessions and similar rights in connection with the acquisition of cct Stegelitz GmbH.

Notes to the consolidated financial statements (continued)

Other operating expenses have been adjusted for the IPO costs allocated to the newly issued shares, which under IFRS have been directly charged to equity.

Interest and similar expenses, net include IFRS adjustments for the convertible bonds and the shareholder options. Under German GAAP interest expense for the convertible bonds comprise the nominal amount of interest, whereas under IFRS interest expense includes the interest expense resulting from the effective interest rate method. Under German GAAP the shareholder options need to be measured at acquisitions costs. The IFRS adjustments for the shareholder options results from the fair value through profit and loss valuation.

A breakdown of entity-wide information discloses revenues according to the domicile of the customer as well as non-current assets according to the registered office of each entity of Pyrolyx:

	Revenue sold to external customers		Non-current assets*)		
€'000	**2017**	**2016**	**31 December 2017**	**31 December 2016**	**1 January 2016**
Germany	173	186	15,906	17,001	18,459
Foreign	174	48	13,606	-	-
Total	**347**	**234**	**29,512**	**17,001**	**18,459**

*) Non-current assets comprise intangible assets and fixed assets.

The revenue from external customers mainly consists of the sale of recovered carbon black (2017: 73%; 2016: 67%).

The top three customers accounted for 54% of the revenues in 2017 and for 50% in 2016.

7 Additional disclosures regarding financial instruments

The table below shows the carrying amounts of financial assets and liabilities as well as fair values in accordance with the levels of the fair value hierarchy. The three levels based on the input factors used for the determination of the fair value are defined as follows:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Inputs other than quoted market prices included within level 1 that are observable for the asset or liability either directly or indirectly.

Level 3: Inputs for the asset or liability that are not based on observable market data.

Notes to the consolidated financial statements (continued)

€'000	Measurment category pursuant to IAS 39	Carrying amount as of 31 December 2017	At amortised cost	At fair value through profit and loss	Fair value as of 31 December 2017	Level in fair value hierarchy
Financial assets						
Cash and cash equivalents	LAR	5,502	5,502	-	5,502	
Trade receivables - current	LAR	108	108	-	108	
Restricted cash and cash equivalents - non-current	LAR	22,509	22,509	-	22,509	
Financial liabilities						
Trade payables - current	FLAC	834	834	-	834	
Project financing loan - current	FLAC	1,712	1,712	-	1,727	2
Convertible bonds - current	FLAC	472	472	-	472	2
Liabilities due to banks - current	FLAC	411	411	-	457	2
Other financial liabilities - current		12,207	-	-	-	
Shareholder options - current	FLaFVtPLD	10,214	-	10,214	10,214	1
Other other financial liabilities - current	FLAC	1,993	1,993	-	2,059	2
Trade payables - non-current	FLAC	113	113	-	113	
Project financing loan - non-current	FLAC	20,244	20,244	-	21,850	2
Convertible bonds - non-current	FLAC	-	-	-	-	2
Liabilities due to banks - non-current	FLAC	1,060	1,060	-	1,015	2
Other financial liabilities - non-current		8,992	-	-	-	
Contingent purchase price liabilities	n/a	989	-	989	989	3
Other other financial liabilities	FLAC	8,003	8,003	-	7,970	2
Of which aggregated by IAS 39 categories						
Loans and receivables	LAR	28,119				
Financial liabilities measured at amortised cost	FLAC	34,842				
Financial liabilities measured at fair value through profit or loss - designated	FLaFVtPLD	10,214				

€'000	Measurment category pursuant to IAS 39	Carrying amount as of 31 December 2016	At amortised cost	At fair value through profit and loss	Fair value as of 31 December 2016	Level in fair value hierarchy
Financial assets						
Cash and cash equivalents	LAR	1,132	1,132	-	1,132	
Trade receivables - current	LAR	88	88	-	88	
Financial liabilities				-		
Trade payables - current	FLAC	784	784	-	784	
Liabilities due to banks - current	FLAC	477	477	-	537	3
Other financial liabilities - current	FLAC	3,494	3,494	-	3,661	3
Convertible bonds - non current	FLAC	7,514	7,514	-	8,676	3
Liabilities due to banks - non current	FLAC	1,470	1,470	-	1,470	3
Other financial liabilities - non current		10,048	-	-	-	
Contingent purchase price liabilities	n/a	3,059	-	3,059	3,059	3
Other other financial liabilities	FLAC	6,989	6,989	-	6,997	3
Of which aggregated by IAS 39 categories						
Loans and receivables	LAR	1,220				
Financial liabilities measured at amortised cost	FLAC	20,728				

At 31 December 2016, the company rated all financial instruments as level 3. This was due to the lack of sufficient capital market information available about Pyrolyx required for an adequate, reliable credit assessment and rating of the company. Since August 2017, shares in the company have also been traded on the Australian Securities exchange (ASX). At 31 December 2017, access to more accurate information for Pyrolyx was available, allowing the financial instruments concerned, except the contingent purchase price liabilities, to be transferred from level 3 to level 2 of the fair value hierarchy.

As of 31 December 2017 and 2016 the fair values of cash and cash equivalents, trade receivables, restricted cash and cash equivalents and trade payables was assumed to correspond to their book value.

Notes to the consolidated financial statements (continued)

On trade receivables Pyrolyx calculates bad debt allowances to reflect expected defaults based on the measurement results.

Project financing loan

For the project financing loan, the fair value was calculated using the discounted cash flow method. The capitalisation interest rate applied at 31 December 2017 is 8.77%. The fair value can be assigned to level 2 of the fair value hierarchy according to IFRS 13.

Convertible bonds

The fair value of convertible bonds was calculated using the discounted cash flow method. The capitalisation interest rate used reflects the market interest rate of comparable bonds without a corresponding conversion right at 31 December 2017. The interest rate used is 11.58%. The fair value can be assigned to level 2 of the fair value hierarchy according to IFRS 13.

Liabilities due to banks

For fixed-interest loans, the fair value of liabilities to banks was calculated using the discounted cash flow method. The capitalisation interest rates applied at 31 December 2017 is 6.75%. They are classified as level 2 fair values in the fair value hierarchy.

For variable-interest loans, the fair value of liabilities to banks was calculated only for disclosure purposes and carried at the value of the outstanding nominal amount.

Other financial liabilities

The fair value for the other financial liabilities (without the shareholder options and contingent purchase price liabilities) is based on discounted cash flow models using current market interest rates. The market interest rates used for liabilities are within a range of 11.31–11.58%. The fair value can be assigned to level 2 of the fair value hierarchy according to IFRS 13.

The shareholder options are recognised and reported at fair value on the reporting date and can be assigned to level 1 of the fair value hierarchy according to IFRS 13. For details on the shareholder options see Note 4.11 a).

The contingent purchase price liabilities are recorded at fair value and are assigned to level 3 of the fair value hierarchy according to IFRS 13.

Notes to the consolidated financial statements (continued)

The following table presents the changes in level 3 instruments (contingent purchase price liabilities) for the respective periods:

€'000	2017	2016
Opening balance	**3,059**	**3,023**
Total result for the period reported in income statement under "other operating income/expenses"	-2,070	36
Closing balance	**989**	**3,059**
Change in unrealised gains (-)/ losses (+) for the period included in the income statement under "other operating income/expenses" for contingent purchase price liabilities at the end of the reporting period	-2,070	36

In the measurement of the contingent purchase price liabilities the main unobservable input parameter is the expectation regarding the purchase price component still to be paid.

The following net gains and losses were allocated to the categories pursuant to IAS 39:

€'000	Measurement category pursuant to IAS 39	2017	2016
Loans and receivables	LAR	1	-1
Financial liabilities measured at amortised cost	FLAC	-2,513	-1,698
Financial liabilities measured at fair value through profit or loss - designated	FLaFVtPLD	-10,214	-
Closing balance		**-12,726**	**-1,699**

The net result from “FLAC” measurement category includes interest expenses from applying the effective interest method for the convertible bonds and the other borrowings except the shareholder options. Expenses from the shareholder options are shown in the net result for the FLaFVtPLD category.

8 Share-based payments

8.1 Equity-settled share-based payments

The Company has set up a stock option plan for employees and members of the management board. Grant dates being August 2013 (tranche 2013) and August 2014 (tranche 2014). Options were granted to acquire up to 175,800 shares. Approximately 61.40% of the options were allocated to the management board members with the remaining approximate 38.60% to other employees of the Group.

Notes to the consolidated financial statements (continued)

Vesting period is 4 years from the grant date for the relevant options. Options granted will vest subject to the following conditions:

- 50% of the options will vest if the price of the Company's shares on the primary OTC market of the Düsseldorf stock exchange or any other more liquid German stock exchange on which the Company's shares are traded is equal to 180% of the exercise price during a period of at least 20 successive stock trading days until 31 December 2017 (for tranche 2013) and until 31 December 2018 (for tranche 2014); and
- 50% of the options will vest where the cumulative consolidated EBITDA of the Company is at least €10 million (including negative EBITDA) for FY2014-FY2017 (for the tranche 2013) and FY2015-FY2018 (for tranche 2014).

Options may be exercised during certain trading windows for a period of 6 years from the end of the vesting period. The exercise price is €12.94 per share for the tranche 2013 and €9.34 for the tranche 2014.

In the event of a capital increase from Company funds (being a share split), the entitlement to shares under each option shall increase on a pro rata basis.

Upon exercise by a holder, Pyrolyx has the option at its discretion to:

- issue new shares (from existing conditional capital) on cash payment of the exercise price;
- transfer existing shares on cash payment of the exercise price; or
- pay the option holder the difference between the exercise price and the average unweighted closing price of price of shares on the primary OTC market of the Düsseldorf stock exchange during the 20 trading days immediately preceding exercise.

The options do not carry dividend or voting rights prior to exercise.

Holders must not sell, transfer or otherwise deal with the options.

Options automatically expire if the holder's employment with the Company or an affiliated company of the Company ceases:

- in respect of the tranche 2013, prior to 8 August 2015 (subject to certain exceptions), or their employment is terminated for cause between 8 August 2015 and 7 August 2017; and
- in respect of the tranche 2014, prior to 12 August 2016 (subject to certain exceptions), or their employment is terminated for cause between 12 August 2016 and 11 August 2018.

Notes to the consolidated financial statements (continued)

The following table provides an overview of the stock options issued split by the grant date August 2013 (tranche 2013) and August 2014 (tranche 2014):

	Tranche 2013	Tranche 2014
Year of resolution	2013	2013
Year of issue	2013	2014
Strike price	€ 12.94	€ 9.36
Outstanding options at 31 December 2017	**-**	**7,640**

As of 31 December 2017, 0 (tranche 2013) and 7,640 (tranche 2014) stock options were outstanding. No additional options were granted and 168,160 (tranche 2013) individual options forfeited. No stock options can be exercised yet due to the vesting period.

Options were priced using a binomial option pricing model at the time they were granted. The following table provides an overview of the relevant valuation parameters:

	Tranche 2013		Tranche 2014	
	Performance	EBITDA target	Performance	EBITDA target
No. of share options	84,080	84,080	3,820	3,820
Grant share date price	€ 12.20	€ 12.20	€ 9.40	€ 9.40
Excercise price	€ 12.94	€ 12.94	€ 9.36	€ 9.36
Expected volatility	58.55%	58.55%	72.16%	72.16%
Risk free interest rate	1.62%	1.62%	1.18%	1.18%
Option life	10	10	9	9
Vesting period in years	4	4	3	3
Performance target	€ 23.29		€ 16.85	
Fair value of share options at grant date	**€ 7.65**	**€ 7.84**	**€ 6.58**	**€ 6.67**

The expense or income from the stock option plan is recognised directly in equity because the option rights will be serviced with company shares.

8.2 Cash-settled share-based payments

In the reporting period certain employees as well as certain members of the management board of the Company have each been granted entitlement to variable remuneration (also known as share-based compensation, starting 1 January 2017), the calculation of which is directly linked to the Company's share price. For this purpose, the employees and members of the management board concerned receive virtual shares in the Company.

Notes to the consolidated financial statements (continued)

The following table shows the maximum number of virtual shares from the entitlements granted and the allocation dates:

Allocation dates for virtual shares	Number
1 January 2017	117,047
1 January 2018	18,622
31 December 2018	21,282
1 January 2019	18,622
1 January 2020	18,622
Total	**194,195**

The employees and the members of the management board of the Company can claim their variable remuneration from the Company following the allocation of virtual shares but no later than midnight on 31 December 2021 (**exercise period**). Entitlements not claimed by this time shall be forfeited without compensation.

The underlying share price of one virtual share has been set at € 11.

The exercise price of a virtual share always corresponds to the average weighted market value of a company share determined for the 60 trading days preceding exercise.

As soon as variable remuneration is claimed, the underlying share price of virtual shares is compared to the exercise price. If the exercise price exceeds the underlying share price, the variable remuneration entitlement equals the difference multiplied by the number of redeemed virtual shares.

The following table shows an overview of the virtual shares issued by 31 December 2017:

	Number	Weighted average of
Virtual shares		
Granted between 1 January 2017 and 31 December 2017	117,047	€ 11.07
thereof outstanding at 1 January 2017	98,428	€ 7.06
thereof forfeited between 1 January 2017 and 31 December 2017	-	-
Exercised between 1 January 2017 and 31 December 2017	-	-
Lapsed between 1 January 2017 and 31 December 2017	21,282	-
Outstanding at 31 December 2017	77,148	€ 9.93
Exercisable at 31 December 2017	117,047	€ 9.93

Notes to the consolidated financial statements (continued)

The fair value of the virtual shares was calculated using a binomial option pricing model. The following table provides an overview of the relevant measurement parameters:

	31 December 2017	**1 January 2017**
Assessment parameters		
Number of virtual share options	146,310	117,047
Shares for work already performed	117,047	117,047
Shares based on future work	29,263	–
Share price at the reporting date	€ 10.25	€ 8.00
Exercise price	€ 9.93	€ 7.06
Volatility	86%	92%
Risk free interest rate at the reporting date	-0.60%	-0.45%
Option term in years	4.0	5.0
Blocking period in years	–	–
Performance target	–	–
Fair value of virtual shares	€ 5.78	€ 5.10

The virtual shares were recognised as provisions on the balance sheet with respective expenses in personnel expenses (wages and salaries). The virtual shares for work already performed were recognised as a provision to the full amount of their fair value, whereas for the virtual shares based on future work to be performed, the provision is increased over the waiting period pro rata temporis.

In the reporting period the Company recognised personnel expenses in the amount of € 846 thousand (2016: € 0 thousand) with respect to its virtual share plan – the offsetting account being provisions.

9 Critical estimates and judgements

The preparation of the consolidated financial statements requires judgements, estimates and assumptions for certain items that have an impact on the recognition and measurement of recognised assets, liabilities, income, expenses and contingent liabilities. These estimates and assumptions are based on historical data and other factors that are considered to be relevant and are reviewed on an ongoing basis. Actual amounts may differ from the estimates made.

Primary areas of application for judgements, estimates and assumptions are the following:

Consolidation decision on cct Stegelitz GmbH

Note 2.1 describes that although the Group holds in cct Stegelitz GmbH only an 80% equity interest cct Stegelitz GmbH is included in the consolidated financial statements based on a 100% interest equity interest. Considering all facts and circumstances the management board of the Company concluded that all material opportunities and risks lie with Pyrolyx and Pyrolyx

Notes to the consolidated financial statements (continued)

has 100% power to affect the amount of its returns from cct Stegelitz GmbH. See Note 2.1 for further information

Deferred tax accounting

In determining the recoverability of the carrying amount of deferred tax assets significant judgement is required with respect to the availability of sufficient taxable profits. For further details see Note 3.4.

Subsequent accounting for intangible assets

The Group's purchased rights, concessions and similar rights include production technologies for the manufacturing of pyrolysis granulate. As of the reporting date the Group estimates the remaining useful life of the production technologies to be at least 7.5 years based on the expected technical obsolescence of such assets. However, the actual remaining useful live may be shorter or longer than 7.5 years, depending on technical innovations and competitor actions. For further details see Note 4.5.

Accounting for project financing loan

Upon receipt of the cash proceeds for the project financing loan from the City of Terre Haute the Group had to derive the fair value of the project financing loan at inception based on an appropriate market interest rate with the difference between the initial carrying value of the loan at fair value and the proceeds received being the government grant part of the proceeds received. Significant judgement is required to determine such appropriate market interest rate. The interest rate used to discount the Project Financing Loan of Pyrolyx USA, Inc. has been determined on the basis of yields on 6 to 10 years USD bonds, taking into account the securitization. The management had to exercise significant discretionary decisions regarding the derivation of the market interest rate from the available data as there were significant differences in bond yields, although the features of the bonds were comparable. The management finally applied an interest rate of 9.87% at the time of acquisition. With regard to the derivation of the spread between secured and unsecured bonds, the resulting interest rates for appropriate rating classes were compared and thus an adjustment of -0.60% was determined for the securitization. For further details see Note 4.8.

Fair value measurements and valuation process

Some of the Group's assets and liabilities are measured at fair value for financial reporting purposes. The chief financial officer of the Company determines the appropriate valuation techniques and inputs for fair value measurements.

In estimating the fair value of an asset or a liability, the Group uses market-observable data to the extent it is available. Where Level 1 inputs are not available, the Group engages third party qualified external valuers to establish the appropriate valuation techniques and inputs to the

Notes to the consolidated financial statements (continued)

model. In determining the appropriate valuation techniques and inputs to the respective models significant judgements is required.

Information about the valuation techniques and inputs used in determining the fair value of various liabilities are disclosed in Note 4.9 convertible bonds, Note 4.11 a) shareholder options liabilities, Note 4.11 b) Purchase price loan and contingent purchase price liabilities, Note 7 additional disclosures regarding financial instruments and Note 8 share-based payments.

Assessment of legal risks and contingent liabilities

The assessment of legal risks and contingent liabilities require significant judgement on the likelihood of a possible outflow of resources. See Note 12 for further information.

10 Financial risk management

The Group is exposed to various financial risk that arise as a result of its operating and financing activities such as credit risk, liquidity risk and market risk (interest rate risk, equity price risk and foreign currency risk). Financial risk management is carried out by the Group treasury. Group treasury identifies and measures financial risks. Appropriate changes are made to processes in reaction to changes in the risk situation. The objective of risk management is to reduce the financial risk through planned measures.

10.1 Credit risk

Credit risk is the risk of financial loss to the Group if a counterparty to a financial instrument fails to meet its contractual obligations. The Group's credit risks arise from cash and cash equivalents, restricted cash and trade receivables. Customer risks are systematically recorded, analysed and managed in the respective subsidiary, whereby both internal and external information sources are utilised. The Group's cash and cash equivalents as well as the restricted cash consist of cash in bank accounts lodged with reputable banks. Accordingly, the Group views credit risk as minimal. The maximum credit risk is reflected by the carrying amounts of the financial assets recognised in the balance sheet.

10.2 Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group aims to maintain sufficient capital in order to meet short-term business requirements, after taking into account cash flows from operations and the consolidated entity's holdings of cash and cash equivalents. The consolidated entity's cash and cash equivalents are invested in business accounts, which are available upon demand for the consolidated entity's requirements.

The consolidated entity manages liquidity risk by maintaining adequate cash reserves or by facilitating additional capital raising and continuously monitoring actual and forecast cash flows and matching the maturity profiles of financial assets and liabilities. Liquidity however will

Notes to the consolidated financial statements (continued)

continue to be a closely monitored risk until construction of the new operation in Terre Haute has been finalised and revenues will be generated on a stable ongoing basis. The Company is confident that it will still be able to have its financing needs met by the capital market in 2018 and beyond. However, should this prove difficult, this could have substantial repercussions for the Company's net assets, financial position and results of operations, and might jeopardise the Company's going concern.

The following table shows the future undiscounted cash outflows (interest and principal) with respect to the existing financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the financial liabilities are required to be paid. The amounts are accordingly not reconcilable with the amounts in the balance sheet; solely the amounts for trade payables are reconcilable, since these are not discounted due to immateriality.

2017

€'000	Up to 1 year	1-5 years	More than 5 years	Total
Trade payables	834	113	-	947
Project financing loan	1,827	13,560	23,438	38,825
Convertible bonds	468	-	-	468
Liabilities due to banks	478	1,074	97	1,649
Other financial liabilities	2,242	5,370	4,880	12,492
	5,849	**20,117**	**28,415**	**54,381**

2016

€'000	Up to 1 year	1-5 years	More than 5 years	Total
Trade payables	784	-	-	784
Project financing loan	-	-	-	0
Convertible bonds	-	7,100	-	7,100
Liabilities due to banks	477	1,322	148	1,947
Other financial liabilities	2,566	4,016	7,150	13,732
	3,827	**12,438**	**7,298**	**23,563**

The future undiscounted cash flow for other financial liabilities within the next year (up to 1 year) include cash outflows for the early conversion fee (2017: € 848 thousand; 2016: € Nil), which might be settled by conversion to equity. For details on the early conversion fee see Note 4.11 e).

For the purpose of above table future undiscounted cash flow originating in USD have been converted to EUR using the USD/EUR spot rate as of 31 December 2017.

Notes to the consolidated financial statements (continued)

10.3 Market risk

a) Equity price risk

The Group's exposure to equity price risk arises from its shareholder options liability, which is valued at fair value through profit and loss. The fair value of that shareholder options liability is dependent on the Company's stock price. The table below summarises the impact of increase and decrease of the Company's stock price on the Group's loss before income tax expense.

Equity price risk

	10% increase of stock price		10% decrease of stock price	
€'000	**2017**	**2016**	**2017**	**2016**
Effects on loss before income tax expense	-1,021	-	1,021	-

b) Foreign currency risk

The Group is exposed to changes in the USD exchange rate arising from intragroup loans and liabilities.

A change in the USD of 10 percent (starting from the closing rate) against EUR would have the following implications:

F/X risk

	10% increase of USD		10% decrease of USD	
€'000	**2017**	**2016**	**2017**	**2016**
Effects on loss before income tax expense	-674	-	674	-

c) Interest rate risk

The Group is subject to interest rate risk due to the long-term external financing as well as the long-term purchase price loan and contingent purchase price liability.

Based on the simulations carried out, the Group determined the effects on results of defined interest rate changes. Given an assumed change in the market interest rate as of the reporting date of -100 or +100 basis points, the following effects on loss before income tax expense would arise:

Interest rate risk

	2017 basis points		2016 basis points	
€'000	**-100**	**+ 100**	**-100**	**+ 100**
Effects on loss before income tax expense	26	-61	136	-182

11 Capital management

The Group's capital management is especially aligned to ensure the Group's financing. Directly managed by the executive board, Pyrolyx is responsible for planning and monitoring the Group's liquidity as well as the raising of capital. Short-term liquidity management is carried

Notes to the consolidated financial statements (continued)

out with a planning horizon of 90 days. Generally, the corresponding planning is updated once a week.

As of the reporting date, the capital structure is presented as follows:

€'000	2017	2017 % of total equity and liabilities	2016	2016 % of total equity and liabilities
Equity	7,838	13%	-6,043	-31%
Current liabilities	17,611	30%	6,395	33%
Non-current liabilities	32,842	56%	19,032	98%
Liabilities	50,453	87%	25,427	131%
Total equity and liabilities	**58,291**	**100%**	**19,384**	**100%**

12 Contingent liabilities

As further consideration for their financing efforts and services provided to Pyrolyx in connection with the initial public offering at the Australian securities exchange (ASX) and the project finance arrangements for the USA plants, the supervisory board has agreed to cause the issue (or transfer) of shares in Pyrolyx USA, Inc. to entities associated with Michael Triguboff and Alexis Gurdjian following completion of the initial public offering. These shares may be newly issued shares or a transfer of existing shares held by Pyrolyx AG and will represent 2.00% of the total issued shares in Pyrolyx USA, with 1.65% being allocated to entities associated with Michael Triguboff and 0.35% to entities associated with Alexis Gurdjian. These shares may also be issued in the form of virtual (or synthetic) shares. These arrangements will be effected at a time to be determined by the supervisory board and the recipients. As of the reporting date such a decision has not yet been made.

13 Financial commitments

Obligations for purchasing commitments as of the reporting date amount to € 141 thousand (2016: € Nil).

The commitments for minimum lease payments in relation to non-cancellable operating leases as of the reporting date are as follows:

€'000	2017	2016
Non-cancellable operating leases		
Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:		
Up to 1 year	199	233
1-5 years	226	292
Total	**425**	**525**

Notes to the consolidated financial statements (continued)

Future minimum lease payments expected to be received in relation to non-cancellable sub-leases of operating leases as of the reporting date amount to € 3 thousand (2016: € 3 thousand).

Non-cancellable operating leases mainly relate to office rentals and car leases.

Rental expense relating to non-cancellable operating leases can be summarised as follows for the reporting period:

€'000	2017	2016
Rental expenses relating to operating leases		
Minimum lease payments in the reporting period	130	121
Sub-leases received in the reporting period	-30	-30
Total	**100**	**91**

14 Related party transactions

Pyrolyx AG is the ultimate holding company of the Group. For interests in subsidiaries see Note 2.1.

Key management personnel compensation

€'000	2017	2016
Short-term employee benefits	870	443
Post-employment benefits	12	12
Termination benefits	164	-
Share-based payment expenses	226	47
	1,272	**502**
Expenses incurred for consultancy of key management personnel	293	144
	1,565	**646**

Supervisory board compensation and costs reimbursements

€'000	2017	2016
Compensation and costs reimbursements of the members of the supervisory board	-148	-97

Notes to the consolidated financial statements (continued)

Transactions with related parties

€'000	2017	2016
Purchase of services from		
- Other related parties	366	-
- Key management personnel	12	12
	378	**12**
Interest expenses to other related parties for		
- Shareholder options	10,214	-
- Loans	314	238
- Early conversion fee	31	-
- Convertible bonds	27	36
	10,586	**274**
Other transactions with other related parties		
- Conversion of loans into equity	2,278	-
- Repayments of loans	1,023	189
- Conversion of convertible bonds into equity	319	-
- Conversion of trade payables into equity	254	-

For the interest expense on the shareholder options see Note 4.11 a).

Outstanding balances to related parties

€'000	31 December 2017	31 December 2016
Non-financial liabilities to		
- Key management personnel	386	140
- Supervisory board	129	125
	515	**265**
Financial liabilities to		
- Other related parties		
- Shareholder options	10,214	-
- Shareholder loans	2,005	3,100
- Trade payables	112	-
- Early conversion fee	31	-
- Convertible bonds	-	282
	12,362	**3,382**

15 Additional information according to HGB

The average headcount of the Group in the reporting period was 39 employees (2016: 35 employees).

During the reporting period the Company's business was managed by the management board:

- Niels Raeder (CEO)
- Fikret Duelger (CTO)
- Michael Hommert (CFO) – until 13 November 2017

Notes to the consolidated financial statements (continued)

16 Events after the reporting period

Final cut-off date will be day of audit opinion in March 2018. Effective 1 February 2018 (registered with the commercial register on 22 February 2018), the supervisory board appointed Sven Eric Molzahn to the management board.

17 Summary of significant accounting policies

This note provides a list of the significant accounting policies adopted in the preparation of these consolidated financial statements. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial statements are for the Group consisting of Pyrolyx and its subsidiaries.

17.1 First-time adoption of International Financial Reporting Standards

These financial statements, for the year ended 31 December 2017, are the first the Group has prepared in accordance with IFRS. For periods up to and including the year ended 31 December 2016, the Group prepared its financial statements in accordance with German generally accepted accounting principles (**HGB**).

Accordingly, the Group has prepared financial statements that comply with IFRS applicable as at 31 December 2017, together with the comparative period data for the year ended 31 December 2016. In preparing the financial statements, the Group's opening balance sheet was prepared as at 1 January 2016, the Group's date of transition to IFRS. This note explains the principal adjustments made by the Group in the transition from its local GAAP financial statements, including the statement of financial position as at 1 January 2016 and the financial statements for the year ended 31 December 2016.

None of the optional exemptions permitted by IFRS 1 was applied in the consolidated financial statements.

Below please find the required reconciliations by IFRS 1.24. Compared to the Group's first IFRS interim financial statements as of 30 June 2017, certain line items of the equity reconciliations as of 1 January 2016 and 31 December 2016 have been condensed to align with the structure of the IFRS balance sheet as of 31 December 2017. In addition in the reconciliation of equity as of 1 January 2016 provisions under German GAAP were reclassified to other non-financial liabilities in the amount of € 1,000 thousand to derive at the respective IFRS figures, with no impact on equity and earnings:

Notes to the consolidated financial statements (continued)

Group reconciliation of equity as at 1 January 2016 (date of transition to IFRS)

€'000	Ref.	01 January 2016	Reclassi-fications	Remeasure-ments	01 January 2016
A S S E T S					
Current Assets					
Cash and cash equivalents		1,055	-	-	1,055
Trade receivables		145	-	-	145
Inventories		2,603			2,603
Other current assets		127	-	-	127
Prepaid expenses	A	28	-	-8	20
Total current assets		**3,958**	**-**	**-8**	**3,950**
Non-current assets					
Intangible assets		5,833	-	1,985	7,818
Fixed assets		10,641	-	-	10,641
Total non-current assets		**16,474**	**-**	**1,985**	**18,459**
Deficit not covered by equity		**93**	**-93**	**-**	**-**
Total Assets		**20,525**	**-93**	**1,977**	**22,409**
L I A B I L I T I E S A N D E Q U I T Y					
Current Liabilities					
Trade payables		844	-	-	844
Liabilities due to banks		477	-	-	477
Other financial liabilities		-	925	-	925
Other non-financial liabilities		1,148	75	-	1,223
Provisions		1,000	-1,000	-	-
Total current liabilities		**3,469**	**-**	**-**	**3,469**
Non-current liabilities					
Convertible bonds	A	6,014	493	50	6,557
Liabilities due to banks		1,947	-	-	1,947
Other financial liabilities	B	-	8,602	2,273	10,875
Other non-financial liabilities		9,095	-9,095	-	-
Total non-current liabilities		**17,056**	**-**	**2,323**	**19,379**
Equity					
Share capital		2,806	-	-	2,806
Treasury shares		-112	-	-	-112
Additional paid-in capital	A, C	3,057	-	529	3,586
Retained earnings	A, B, C	-5,844	-	-875	-6,719
Deficit not covered by equity		93	-93	-	-
Equity attributable to shareholders of Pyrolyx AG		-	-	-	-439
Equity attributable to non-controlling interests		-	-	-	-
Total equity		**-**	**-93**	**-346**	**-439**
Total liabilities and equity		**20,525**	**-93**	**1,977**	**22,409**

Notes to the consolidated financial statements (continued)

Group reconciliation of equity as at 31 December 2016

€'000	Ref.	German GAAP 31 December 2016	Reclassi-fications	Remeasure-ments	IFRS 31 December 2016
A S S E T S					
Current Assets					
Cash and cash equivalents		1,132	-	-	1,132
Trade receivables		88	-	-	88
Inventories		998			998
Other current assets		148	-	-	148
Prepaid expenses	A	17	-	-	17
Total current assets		**2,383**	**-**	**-**	**2,383**
Non-current assets					
Intangible assets		5,170	-	1,756	6,926
Fixed assets		10,075	-	-	10,075
Total non-current assets		**15,245**	**-**	**1,756**	**17,001**
Deficit not covered by equity		**5,077**	**-5,077**	**-**	**-**
Total Assets		**22,705**	**-5,077**	**1,756**	**19,384**
L I A B I L I T I E S A N D E Q U I T Y					
Current Liabilities					
Trade payables		784	-	-	784
Liabilities due to banks		477	-	-	477
Other financial liabilities		-	3,494	-	3,494
Other non-financial liabilities		3,762	-2,122	-	1,640
Provisions		872	-872	-	-
Total current liabilities		**5,895**	**500**	**-**	**6,395**
Non-current liabilities					
Convertible bonds	A	6,014	1,086	414	7,514
Liabilities due to banks		1,470	-	-	1,470
Other financial liabilities	B		7,740	2,308	10,048
Other non-financial liabilities		8,826	-8,826	-	-
Total non-current liabilities		**16,310**	**-**	**2,722**	**19,032**
Equity					
Share capital		3,165	-	-	3,165
Treasury shares		-112	-	-	-112
Additional paid-in capital	A, C	6,649	-	641	7,290
Retained earnings	A, B, C	-14,771	-	-1,607	-16,378
Deficit not covered by equity		5,077	-5,077	-	-
Equity attributable to shareholders of Pyrolyx AG		-	-	-	-6,035
Equity attributable to non-controlling interests		-8	-	-	-8
Total equity		**-**	**-5,077**	**-966**	**-6,043**
Capital contribution of not yet registered capital reserve		**500**	**-500**	**-**	**-**
Total liabilities and equity		**22,705**	**-5,077**	**1,756**	**19,384**

Notes to the consolidated financial statements (continued)

Group reconciliation of total comprehensive income for the full year ended 31 December 2016

€'000	Ref.	German GAAP 2016	Reclassi-fications	Remeasure-ments	IFRS 2016
Sales revenues		264	-30	-	234
Increase or decrease of finished goods and work in progress		-29	-	-	-29
Other operating income		589	-410	-	179
Material expenditure					
a) Expenses for raw materials, consumables and supplies and for purchased goods		-237	-	-	-237
b) Cost of purchased services		-	-	-	-
Personnel expenses					
a) Wages and salaries	C	-2,192	440	-113	-1,865
b) Social charges, old age pension costs and welfare expenses		-355	-	-	-355
Depreciation	B	-1,642	-	-227	-1,869
Impairment of inventory		-1,581	-		-1,581
Other operating expenses	B	-2,405	-4	-36	-2,445
Interest and similar expenses	A	-1,342	-	-357	-1,699
Loss before income tax expense		**-8,930**	**-4**	**-733**	**-9,667**
Income tax expense		-	-	-	-
Other taxes		-4	4	-	-
Loss after income tax expense		**-8,934**	**-**	**-733**	**-9,667**
Thereof attributable to shareholders of Pyrolyx AG	A, B, C	-8,926	-	-733	-9,659
Thereof attributable to non-controlling interests		-8	-	-	-8
Other comprehensive income					
Items that will be reclassified subsequently to profit or loss					
Exchange differences on translation of foreign operations		-	-	-	-
Other comprehensive income after tax for items that will be reclassified to profit or loss		**-**	**-**	**-**	**-**
Other comprehensive income net of tax		**-**	**-**	**-**	**-**
Total comprehensive income		**-8,934**	**-**	**-733**	**-9,667**

Below please find the explanation of the specific reconciliation items as outlined above for the reconciliation of equity as at 1 January 2016 and 31 December 2016 and total comprehensive income for year ended 31 December 2016:

Reclassifications of line items from German GAAP to IFRS had no impact on equity nor on total comprehensive income.

Notes to the consolidated financial statements (continued)

Specific re-measurement reconciliation items are explained below:

A Convertible bonds
The issue of convertible bonds creates a liability carried at the nominal value as a financial obligation exists before the exercise of the conversion right. Under German GAAP the valuation of the conversion right is recorded in interest and similar expenses and an adjustment made against the carrying value. Under IFRS the convertible bonds represent a composite financial instrument which is to be divided into a liability component and an equity component. The borrowed capital component (bond) must be recognised at fair value at the time the contract is concluded. The fair value is determined by discounting the contractually agreed future payments with an interest rate customary for a comparable bond without conversion rights. The corresponding equity component (conversion right) is to be calculated as the difference between the issue proceeds and the present value of the liability. The borrowed capital component is measured at amortised cost using the effective interest rate method. The adjustment relates to the interest and similar expenses and carrying value of the convertible bonds as well as the adjustment to additional paid-in capital for the equity component at the date of issue.

B Business combination cct Stegelitz GmbH
In June 2015 Pyrolyx acquired cct Stegelitz GmbH. Under German GAAP the acquisition price capitalised is the purchase price set out in the purchase agreement in addition to ancillary costs and any subsequent acquisition costs. Future purchase price components which are subject to a condition are only taken into account when the condition is met. Under IFRS a business combination is to be accounted for using the acquisition method. Any contingent purchase price components need to be measured at their fair value as of the acquisition date and as such increase the consideration transferred. Subsequent changes to the value are recognised either through profit or loss or directly in equity. The acquirer has to report the acquired identifiable assets, the liabilities assumed and all non-controlling interests in the acquired company separately from the goodwill at the time of acquisition. The acquired identifiable assets and assumed liabilities are to be measured at their fair value at the date of acquisition. The balance sheet adjustment within other financial liabilities relates to the contingent purchase price component with subsequent fair value adjustments taken to other operating expenses in the statement of total comprehensive income. The balance sheet adjustment within purchased rights, concessions and similar rights relates to the purchase price allocation step up in the balance sheet with subsequent depreciation charges taken to the line item depreciation in the statement of total comprehensive income.

C Employee and management options
According to German GAAP the employee and management options are only recognised when exercised. Under IFRS, the options were assessed as an equity-settled share-based payment at the respective date on which they were granted. The adjustment relates to the share-based payment being expensed for each respective year within wages and salaries in the statement

Notes to the consolidated financial statements (continued)

of comprehensive income and being credited directly to additional paid-in capital on the balance sheet.

The transition from German GAAP to IFRS has not had a material impact on the statement of cash flows.

17.2 New standards and interpretations not yet adopted

Certain new accounting standards and interpretations have been published that are effective for annual periods beginning on or after 1 January 2018 and earlier application is permitted. However, the Group has not early applied the following new or amended standards in preparing these consolidated statements.

Title of standard	**IFRS 9 Financial Instruments**
Nature of change	IFRS 9 addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets.
Impact	The impact of IFRS 9 on the group's financial statements regarding classification and measurements is as follows: • In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under IAS 39. Cash and cash equivalents are deposited with banks or financial institutions with ratings of between A and A- by the ratings agencies Standard & Poor's and Moody's at December 31, 2017. The estimated value adjustment on cash and cash equivalents was calculated on the basis of expected losses within 12 months and reflects the 12-month expected credit losses. The Company believes that its cash and cash equivalents have a low default risk based on external ratings by banks and financial institutions. It is expected that the application of the impairment requirements of IFRS 9 as of January 1, 2018 in cash and cash equivalents would lead to an increase in recognised impairment losses of € 10 thousand compared to the recognized impairment losses under IAS 39.

Notes to the consolidated financial statements (continued)

	• Regarding the estimated expected credit losses in trade receivables the company expects only insignificant impact in the recognised impairment losses under IFRS 9 compared to the recognized impairment losses under IAS 39. All other financial assets and financial liabilities will continue to be measured on the same basis as currently adopted under IAS 39.
Mandatory application date/ Date of adoption by Group	IFRS 9 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted. The Group will adopt the standard as of 1 January 2018.
Title of standard	**IFRS 15 Revenue from Contracts with Customers**
Nature of change	IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including IAS 18 Revenue, IAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programs. The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer. The standard permits either a full retrospective or a modified retrospective approach for the adoption.
Impact	For the sale of its products, revenue is currently recognised when the goods are delivered to the customers' premises, which is taken to be the point in time at which the customer accepts the goods and the related risks and rewards of ownership transfer. Revenue is recognised at this point provided that the revenue and costs can be measured reliably, the recovery of the consideration is probable and there is no continuing management involvement with the goods. Under IFRS 15, revenue will be recognised when a customer obtains control of the goods. For the Group's sale of its products

Notes to the consolidated financial statements (continued)

	this is considered the same point in time as in recent accounting for revenue. The Group estimates no impact from the initial application of IFRS 15 on its Group equity as at 1 January 2018.
Mandatory application date/ Date of adoption by Group	IFRS 15 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted. The Group will adopt the standard as of 1 January 2018.
Title of standard	**IFRS 16 Leases**
Nature of change	IFRS 16 was issued in January 2016. It will result in almost all leases being recognised on the balance sheet, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short term and low-value leases. The accounting for lessors will not significantly change.
Impact	The standard will affect primarily the accounting for the Group's operating leases. The Group has not yet determined to what extent these commitments will result in the recognition of an asset and a liability for future payments and how this will affect the Groups' profit and classification of cash flows. Some of the commitments may be covered by the exception for short-term and low-value leases and some commitments may relate to arrangements that will not qualify as leases under IFRS 16. However, due to the Group's current operating lease commitments management does not expect material impact on its financial statements from the implementation of IFRS 16.
Mandatory application date/ Date of adoption by Group	IFRS 16 is mandatory for financial years commencing on or after 1 January 2019. At this stage, the Group does not intend to adopt the standard before its effective date.

Notes to the consolidated financial statements (continued)

17.3 Principles of consolidation

Subsidiaries are all entities over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated income statement, statement of comprehensive income, balance sheet and statement of changes in equity respectively.

17.4 Foreign currency translation

Items included in the financial statements of each of the Group'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 euro (€), which is Pyrolyx AG's functional and presentation currency.

Foreign currency transactions are translated into the functional currency using the exchange rates at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year end exchange rates are generally recognised in profit or loss.

Foreign exchange gains and losses are presented in the income statement within other income or other expenses.

The results and financial position of foreign operations (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet
- income and expenses for each income statement and statement of comprehensive income are translated at average exchange rates, and
- all resulting exchange differences are recognised in other comprehensive income.

Notes to the consolidated financial statements (continued)

On consolidation, exchange differences arising from the translation of any net investment in foreign entities, are recognised in other comprehensive income. When a foreign operation is sold, the associated exchange differences are reclassified to profit or loss, as part of the gain or loss on sale.

17.5 Business combinations

Business combinations are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition related costs are recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value, except that:

- Deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with IAS 12 *Income Taxes* and IAS 19 *Employee Benefits*

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, a deficit arises, it is recognised immediately in profit or loss.

If the consideration transferred by the Group includes a contingent consideration, the contingent consideration is measured at its fair value at the date of acquisition. Subsequent changes to the value are recognised either through profit or loss or directly in equity.

17.6 Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique.

In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability (e.g. the nature and location of the asset as well as limitations regarding its sale or use) if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for

Notes to the consolidated financial statements (continued)

- Share-based payment transactions that are within the scope of IFRS 2 *Share-based Payment*
- Measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 *Inventories* or value in use in IAS 36 *Impairment of Assets*.

Fair value is not always available as market value and must often be determined on the basis of various valuation parameters. These are mainly quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date. In addition, quoted prices that are either directly observable for the asset or liability or can be indirectly derived from other prices can be consulted to determine fair value.

17.7 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Amounts disclosed as revenue are net of returns, trade allowances, rebates and amounts collected on behalf of third parties.

Revenue from the sale of goods is recognised when the following conditions are satisfied:

- The Group has transferred to the buyer the significant risks and rewards of ownership of the goods
- The Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold
- The amount of revenue can be measured reliably
- It is probable that the economic benefits associated with the transaction will flow to the Group
- The costs incurred or to be incurred in respect of the transaction can be measured reliably

Revenues include revenue from the sale of recovered carbon black, recovered steel and pyrolysis oil.

17.8 Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the group will comply with all attached conditions.

Government grants relating to costs are deferred and recognised in the profit or loss over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to the purchase of property, plant and equipment are included in non-current liabilities as deferred income and are credited to profit or loss on a straight-line basis over the expected lives of the related assets.

Notes to the consolidated financial statements (continued)

17.9 Interest income and interest expenses

Interest income and interest expenses are recognised using the effective interest method.

17.10 Income taxes

The income tax expense or credit for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the Company's subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill. Deferred income tax is also 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 affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in foreign operations where the Company is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax are recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

Notes to the consolidated financial statements (continued)

17.11 Earnings per share

Basic earnings per share is calculated by dividing:

- the profit attributable to owners of the Company
- by the weighted average number of ordinary shares outstanding during the financial year

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account:

- the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares, and
- the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

17.12 Impairment of assets

Assets that are subject to amortisation or depreciation are tested for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying value exceeds its recoverable value. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

17.13 Financial assets

Financial assets and financial liabilities are recognised when a Group entity becomes a party to the contractual provisions of the instrument.

Financial assets are initially measured at fair value. Transaction costs that are directly attributable to the acquisition of financial assets (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets on initial recognition. Transaction costs directly attributable to the acquisition of financial assets at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets are classified into the following specified categories:

- Financial assets at fair value through profit or loss (FVTPL)
- Held-to-maturity investments
- Available-for-sale financial assets
- Loans and receivables

Notes to the consolidated financial statements (continued)

The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

a) Classification and measurement

Effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Income is recognised on an effective interest basis for debt instruments other than those financial assets classified as at FVTPL.

Financial assets at FVTPL

Financial assets are classified as at FVTPL when the financial asset is held for trading, or it is designated as at FVTPL.

A financial asset is classified as held for trading if:

- It has been acquired principally for the purpose of selling it in the near term; or
- On initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- It is a derivative that is not designated and effective as a hedging instrument and is not a financial guarantee.

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:

- Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- The financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group’s documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- It forms part of a contract containing one or more embedded derivatives, and IAS 39 *Financial Instruments: Recognition and Measurement* permits the entire combined contract to be designated as at FVTPL.

Notes to the consolidated financial statements (continued)

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any dividend or interest earned on the financial asset and is included in the 'other gains and losses' line item. Fair value is determined in the manner described in Note 25.

Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity dates that the Group has the positive intent and ability to hold to maturity. Subsequent to initial recognition, held-to-maturity investments are measured at amortised cost using the effective interest method less any impairment.

Available-for-sale (AFS) financial assets

AFS financial assets are non-derivatives that are either designated as AFS or are not classified as

(a) Loans and receivables,
(b) Held-to-maturity investments
(c) Financial assets at fair value through profit or loss

Listed redeemable notes that are traded in an active market are classified as AFS and are stated at fair value at the end of each reporting period.

Investments in unlisted shares that are not traded in an active market but that are also classified as AFS financial assets and stated at fair value at the end of each reporting period if the management board considers that fair value can be reliably measured.

Fair value is determined in the manner described in Note 17.6. Changes in the carrying amount of AFS monetary financial assets relating to changes in foreign currency rates, interest income calculated using the effective interest method and dividends on AFS equity investments are recognised in profit or loss and accumulated under the heading of investments revaluation reserve. When the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss.

Dividends on AFS equity instruments are recognised in consolidated profit or loss when the Group's right to receive the dividends is established.

The fair value of AFS monetary financial assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate prevailing at the end of the reporting period. The foreign exchange gains and losses that are recognised in profit or loss are determined based on the amortised cost of the monetary asset. Other foreign exchange gains and losses are recognised in other comprehensive income.

Notes to the consolidated financial statements (continued)

AFS equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity investments are measured at cost less any identified impairment losses at the end of each reporting period.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables (including trade and other receivables, bank balances and cash) are measured at amortised cost using the effective interest method, less any impairment.

Interest income is recognised by applying the effective interest rate, except for short-term receivables when the effect of discounting is immaterial.

b) Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been negatively affected.

For available-for-sale equity investments, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:

- Significant financial difficulty of the issuer or counterparty
- Breach of contract, such as a default or delinquency in interest or principal payments
- It becoming probable that the borrower will enter bankruptcy or financial reorganisation
- The disappearance of an active market for that financial asset because of financial difficulties

For certain categories of financial assets, such as trade receivables, assets are assessed for impairment on a collective basis even if they were assessed not to be impaired individually. Objective evidence of impairment for a portfolio of receivables could include the Group’s past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 60 days, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset’s carrying amount and the present value of estimated future cash flows, discounted at the financial asset’s original effective interest rate.

Notes to the consolidated financial statements (continued)

For financial assets that are carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

When an AFS financial asset is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss in the period.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

In respect of AFS equity securities, impairment losses previously recognised in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognised in other comprehensive income and accumulated under the heading of investments revaluation reserve.

In respect of AFS debt securities, impairment losses are subsequently reversed through profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

c) Derecognition of financial assets

The Group derecognises a financial asset only if the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party.

If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay.

If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

Notes to the consolidated financial statements (continued)

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

On derecognition of a financial asset other than in its entirety (e.g. when the Group retains an option to repurchase part of a transferred asset), the Group allocates the previous carrying amount of the financial asset between the part it continues to recognise under continuing involvement, and the part it no longer recognises on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognised and the sum of the consideration received for the part no longer recognised and any cumulative gain or loss allocated to it that had been recognised in other comprehensive income is recognised in profit or loss. A cumulative gain or loss that had been recognised in other comprehensive income is allocated between the part that continues to be recognised and the part that is no longer recognised on the basis of the relative fair values of those parts.

d) Cash and cash equivalents

Cash and cash equivalents includes cash on hand, bank balances and term deposits with original maturities of up to three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

e) Restricted cash and cash equivalents

Restricted cash and cash equivalent balances are those which meet the definition of cash and cash equivalents but are not available for use by the group as certain restrictions are imposed on these cash and cash equivalent balances. E.g. they can arise from 'pledged' bank balances and amounts placed in escrow accounts.

f) Trade receivables

The carrying amount of trade receivables corresponds to their respective invoiced amount, less valuation allowances. If there is objective evidence that the receivables may be impaired, specific valuation allowances are recognised.

17.14 Intangible assets

a) Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is recognised on a straight-line basis over their estimated useful lives and reported as an expense in the income statement. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

Notes to the consolidated financial statements (continued)

Intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses.

The following useful lives are used in the calculation of amortisation:

Patents	10-20 years
Trademarks	20 years
Licenses	20 years

b) Self-generated intangible assets - research and development costs

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

A self-generated intangible asset arising from development or from the development phase of an internal project is recognised if all of the following have been demonstrated

- The technical feasibility of completing the intangible asset so that it will be available for use or sale
- The intention to complete the intangible asset and use or sell it
- The ability to use or sell the intangible asset
- How the intangible asset will generate probable future economic benefits
- The availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset
- The ability to measure reliably the expenditure attributable to the intangible asset during its development

The amount initially recognised for self-generated intangible assets is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally generated intangible asset can be recognised or no intangible asset exists, development expenditure is recognised in profit or loss in the period in which it is incurred.

Subsequent to initial recognition, self-generated intangible assets and also acquired intangible assets are reported at cost less accumulated amortisation and accumulated impairment losses. Amortisation of capitalised development is generally recognised in the Group on a straight-line basis over a useful life of 5 years.

c) Intangible assets acquired in a business combination

Intangible assets acquired in a business combination are recognised separately from goodwill and recognised at their fair value at the acquisition date.

Notes to the consolidated financial statements (continued)

Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

d) Derecognition of intangible assets

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised. They are recognised in the 'other gains and losses' line.

17.15 Property, plant and equipment

a) Land and buildings

Land and buildings held for use in the production or supply of goods or services, or for administrative purposes, are stated at their revalued amounts, being the fair value at the date of revaluation, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are performed with sufficient regularity such that the carrying amounts do not differ materially from those that would be determined using fair values at the end of each reporting period.

Any revaluation increase arising on the revaluation of such land and buildings is recognised in other comprehensive income and accumulated in the item revaluation reserve for land and buildings. This only applies except to the extent that it reverses a revaluation decrease for the same asset previously recognised in profit or loss, in which case the increase is credited to profit or loss to the extent of the decrease previously expensed (less any scheduled depreciation). A decrease in the carrying amount arising on the revaluation of such land and buildings is recognised in profit or loss to the extent that it exceeds the balance, if any, held in the properties revaluation reserve relating to a previous revaluation of that asset.

Properties in the course of construction for production, sale or administrative purposes or with no defined purpose are carried at cost, less any recognised impairment loss. Cost includes professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Such properties are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Depreciation on revalued buildings is recognised in profit or loss. On the subsequent sale or retirement of a revalued property, the attributable revaluation surplus remaining in the properties revaluation reserve is transferred directly to retained earnings.

Freehold land is not depreciated.

Notes to the consolidated financial statements (continued)

b) Other tangible assets

Fixtures and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

Depreciation is recognised so as to write off the cost or valuation of assets (other than freehold land and properties under construction) less their residual values over their useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

The following useful lives are used in the calculation of depreciation of property, plant and equipment:

Buildings	20-30 years
Plant and equipment	5-15 years

An item of tangible assets is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of tangible assets is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

17.16 Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

Cash flows related to capitalised borrowing costs are classified as cash flows from investing activities.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred and related cash flows are classified as cash flows from financing activities.

17.17 Equity

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by a Group entity are recognised at the proceeds received, net of direct issue costs. Issue costs are costs that would not have been incurred without the issue of the equity instrument

Notes to the consolidated financial statements (continued)

Repurchase of the Company's own equity instruments is recognised and deducted directly in equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

Financial liabilities and equity instruments issued by a Group company are classified as a financial liability or equity according to the economic content of the contractual agreement and the definitions.

17.18 Financial liabilities

Financial liabilities are recognised when a Group entity becomes a party to the contractual provisions of the financial instrument. They are classified as either financial liabilities 'at FVTPL' or 'other financial liabilities'.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial liabilities not assessed at fair value through profit or loss are deducted from the fair value of the financial liabilities on initial recognition. Transaction costs directly attributable to the issue of financial liabilities at fair value on initial recognition are recognised immediately in profit or loss.

a) Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL when the financial liability is held for trading, or it is designated as at FVTPL.

A financial liability is classified as held for trading if:

- It has been incurred principally for the purpose of repurchasing it in the near term;
- On initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit taking; or
- It is a derivative that is not designated and effective as a hedging instrument.

A financial liability other than a financial liability held for trading may be designated as at FVTPL upon initial recognition if:

- Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise;
- The financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- It forms part of a contract containing one or more embedded derivatives, and IAS 39 *Financial Instruments: Recognition and Measurement* permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Notes to the consolidated financial statements (continued)

Financial liabilities at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any interest paid on the financial liability and is included in the 'other gains and losses' line item. Fair value is determined in the manner described in Note 25.

b) Other financial liabilities

Other financial liabilities (including borrowings and trade payables) are subsequently measured at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

c) Derecognition of financial liabilities

The Group derecognises financial liabilities if the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid or payable is recognised in profit or loss.

17.19 Compound instruments

The component parts of compound instruments (convertible bonds) issued by the Company are classified separately as financial liabilities and equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument. A conversion option that will be settled by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments is an equity instrument.

At the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate for similar non-convertible instruments. This amount is recorded as a liability on an amortised cost basis using the effective interest method until extinguished upon conversion or at the instrument's maturity date.

The conversion option classified as equity is determined by deducting the amount of the liability component from the fair value of the compound instrument as a whole. This is recognised and included in equity, net of income tax effects, and is not subsequently remeasured. In addition, the conversion option classified as equity will remain in equity until the conversion option is exercised, in which case the balance recognised in equity will be transferred to the capital reserves. When the conversion option remains unexercised at the maturity date of the convertible bond, the balance recognised in equity will be transferred to the capital reserve.

Notes to the consolidated financial statements (continued)

No gain or loss is recognised in profit or loss upon conversion or expiration of the conversion option.

Transaction costs that relate to the issue of the convertible notes are allocated to the liability and equity components in proportion to the allocation of the gross proceeds. Transaction costs relating to the equity component are recognised directly in equity. Transaction costs relating to the liability component are included in the carrying amount of the liability component and are amortised over the lives of the convertible notes using the effective interest method.

17.20 Share based payments

a) Equity-settled share-based payments

The fair value of options granted under the Company's management and employee stock option plan (see Note 7.1) is recognised as an employee benefits expense with a corresponding increase in equity. The total amount to be expensed is determined by reference to the fair value of the options granted:

- including any market performance conditions (eg the entity's share price)

- excluding the impact of any service and non-market performance vesting conditions (e.g. profitability, sales growth targets and remaining an employee of the entity over a specified time period), and

- including the impact of any non-vesting conditions (e.g. the requirement for employees to save or holdings shares for a specific period of time).

The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At the end of each period, the entity revises its estimates of the number of options that are expected to vest based on the non-market vesting and service conditions. It recognises the impact of the revision to original estimates, if any, in profit or loss, with a corresponding adjustment to equity.

b) Cash-settled share-based payments

For cash settled share based payment transactions, the Company measures the goods or services acquired and the liability incurred at the fair value of the liability. Until the liability is settled, the Company remeasures the fair value of the liability at the end of each reporting period and at the date of settlement, with any changes in fair value recognised in profit or loss for the period.

17.21 Rounding of amounts

Unless otherwise stated, figures are generally presented in thousands of euros. The tables and information presented can contain differences due to rounding.