Interim Report Petrotec AG
Quarterly Report September 30, 2014

Content

I INTRODUCTION

The consolidated interim financial report of Petrotec AG meets the requirements of an interim financial report pursuant to the applicable provisions of the German Securities Trading Act (WpHG) and in accordance with Sec. 37x of the WpHG, comprises the condensed consolidated interim financial statements and consolidated interim management report, as well as a declaration of assurance from the legal representative.

The consolidated interim financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) and the related interpretations issued by the International Accounting Standards Board (IASB), as adopted by the European Union (EU). The consolidated interim financial report should be read in connection with the annual report for 2013 and the additional information on the company contained therein.

Quarterly IFRS interim report

The current IFRS interim report outlines the business development of the first nine months of 2014 and reports on the first nine months (January 1 – September 30, 2014) of Petrotec AG's fiscal year 2014 (January 1 – December 31, 2014).

II GROUP INTERIM MANAGEMENT REPORT

II.1 GENERAL CONDITIONS

II.1.1 Market

Development of Crude and Gasoil

In the second quarter of 2014, geopolitical influences were the main driver for crude and gasoil prices. In the beginning of the third quarter, supply disruption fears were easing: production in Libya was increasing, negotiations with Iran on their nuclear facilities were peaceful and the potential lifting of sanctions seemed more likely. The focus for main influences on the oil prices thus shifted away from geopolitics.

On the fundamental side, dull economies in Europe and a continued slowdown in Chinese growth were seen. This combined with the US shale oil boom led to oil prices falling continuously in the third quarter.

Brent started on July 1 at USD 112.29, this also being the highest level in Q3. The OPEC and US oil production increase and demand worries led to the price dropping below USD 100.00 on September 9. Later in September, the price dropped further and Brent ended the quarter on the lowest level in Q3 at USD 94.67.

Gasoil started into the third quarter at USD 914.00 and ended on September 30, 2014 on the lowest level in this quarter at USD 805.50, thus following the trend of Brent.

Development of EUR/USD

In the third quarter of 2014, the EUR/USD continued its downward trend and fell from 1.3688 (July 1, 2014) to 1.2583 (September 30, 2014). While Europe´s economy remained sluggish, with growth in Germany (Europe´s growth engine) slowing down, data from the US showed firmer signs of recovery.

In the US as well as in Europe, interest rates were around zero. Both central banks announced that they will remain at that level for a “considerable time”. Officials of the Federal Reserve Bank raised median estimates for the Fed funds rate to 1.375% by end 2015 and 3.75% by end 2017. This would require 14 hikes of 25 basis points until 2017 – a pace of rate hikes that hasn´t been seen since 2004. It seems that these hikes combined with stronger economic data for the US resulted in a stronger US Dollar. In response to continued weakness in the European economy and with annual inflation of 0.4% in August (which is targeted just below 2%), ECB President Mario Draghi announced further rate cuts on September 4, 2014.

Development of biodiesel premiums

The paper (RED) FAME premium started on July 1, 2014 at USD 155.00 over ICE Gasoil and ended at USD 110.00 on September 30, 2014. On average, UCOME was traded a little below double the FAME 0 premium through the third quarter.

At the beginning of the third quarter, there was only a small spread between the premium for FAME 0 and RME of USD 10.00. Toward the end of the third quarter, seasonally, the demand for FAME 0 decreases while the demand for RME increases (mainly due to the lower cold filter plugging point = CFPP) – the higher RME/FAME 0 spread of USD 35.00 on September 30, 2014 reflects this situation.

For UCOME sales an additional premium of USD 20.00 could be achieved for ISCC DE certified volumes compared to ISCC EU certified product. Toward the end of the third quarter the premium vanished and both sustainability schemes, the ISCC EU and ISCC DE, were priced at the same level. The biodiesel market in the second half of the year remained backwardated, so many clients concentrated on covering their prompt demand, rather than buying biodiesel in advance.

In the past, falling Gasoil prices have led to rising FAME premiums, keeping the FAME flat price on a relatively stable level. At the end of the summer period the FAME premiums did not fully manage to compensate the fall in Gasoil prices, due to high expected yields for oil seeds – mainly soybean and rapeseed - resulting in lower FAME flat prices and more pressure on UCOME margins.

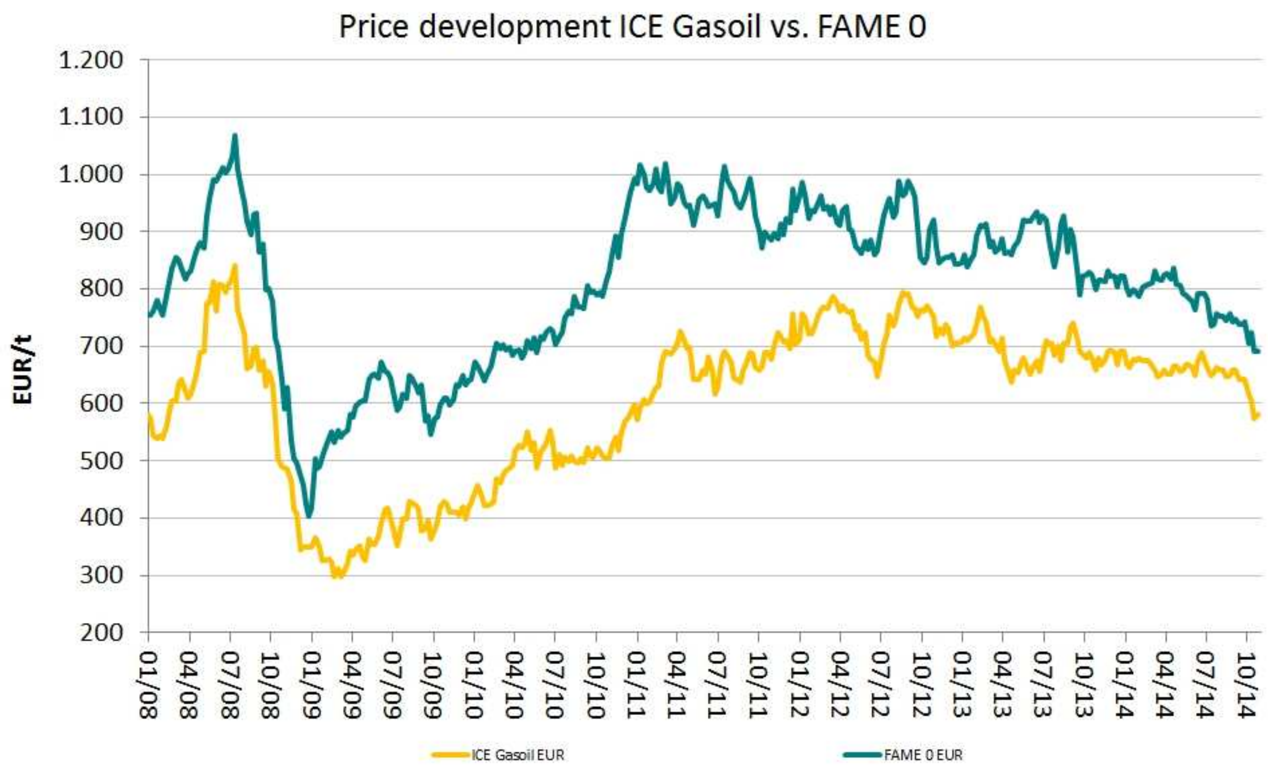
The weaker EUR/USD helped to maintain margins and despite the pressure on FAME 0 premiums and lower demand, Petrotec traded through additional volumes and thus secured further margins. Petrotec also managed to attract new customers, thus widening their customer base.

With its blending capabilities, Petrotec has already been able to sell significant volumes until end of this year, meeting customer´s requirements of CFPP -10 degree Celsius (a requirement for Biodiesel in the winter period in the German market).

Petrotec continuously improves its product quality and the company was able to sell volumes into the fourth quarter into the UK market, meeting the strict requirements there (especially in regard to lower monoglycerides). The company is therefore able to sell directly to end blenders and to traders.

Petrotec has proven to be a reliable UCOME producer, capable of providing high quality on-spec product (even better than required by the European Norm EN14214) and reliable sustainability documentation.

For by-products, such as glycerine and polymer from the production plants, Petrotec managed to increase and broaden its customer base and was therefore able to sell these products into new applications. By-product demand is expected to be stable for the winter months.


Price development ICE Gasoil vs. FAME 0
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ICE Gasoil EUR
FAME 0 EUR

II.1.2 Regulation

<u>EU</u>

The **formation of the EU Commission** took longer than the end of the quarter as the EU Parliament did not accept all Commissioners proposed by Commission President Juncker. Petrotec and the European Waste to Advanced Biofuels Association (EWABA) submitted questions to Energy and Climate Action Commissioner Candidate Miguel Arias Cañete by briefing more than 150 Members of European Parliament (MEP) and their advisors at the Environment and Industry and Energy (ENVI and ITRE) Committees in the European Parliament, more than 50 Brussels-based journalists from national and EU-wide media, a good number of NGOs, and Commissioner Candidate Miguel Arias Cañete's recently appointed Head of Cabinet. The questions stressed the environmental protection credentials of the UCO-to-UCOME business model as well as the disproportionately high CO2 savings towards transport sector emissions of the UCO industry; the aim was to ensure that the new Commissioner and DG ENERGY as well as the EU parliamentarians are cognizant of the advantages our industry offers to EU citizens, as supported by the environmental NGOs.

The **proposal to modify the Waste Framework Directive**, included in the Circular Economy Package as presented by the Commission in last July, is to be discussed at first reading in the European Parliament ENVI Committee in the coming months. The proposal includes new definitions (affecting key concepts such as energy recovery, material recovery, end-of-waste, etc.) and intends to promote a new conceptual approach, namely that "**waste is a resource**". Therefore, this proposal constitutes a clear window of opportunity for the UCOME industry which aims to get the contribution of UCOME recognized and to mention UCO Collection in the Waste Framework Directive. This would have a transversal position within EU policies, spanning from Environment to Energy and thus engaging with the sustainability and resource efficiency discourse, which is on the rise in a moment in which the Commission seems to be leaving Climate Change and Biofuels in a second row of policy priorities. Appropriate actions have been focused on DG ENVI at the EU Commission and the ENVI Committee of the EU Parliament.

Petrotec continues to closely follow the fate of the **ILUC proposal** at the European Parliament (the ILUC proposal amends the Renewable Energy and Fuel Quality Directives for the period between its future entry into force and 2020. It contains key elements such as the double counting mechanism for the promotion of waste-based biofuels, a cap on conventional biofuels, and a list of different types of feedstock to be considered as advanced, second-generation biofuels). In terms of timeline and procedure, the current text of the proposal as approved during the Greek Presidency of the Council of the EU, "the Greek Compromise", is being held at the Council for longer than expected in order to let the Juncker Commission (and the new Commissioner for Energy and Climate Action) take over. It is expected that the Greek compromise will reach the Parliament in November to start its second reading. This stage of the procedure compulsorily takes no more than 4 months. Therefore a final agreement may be in place by February or March. In case the Parliament and the Council cannot agree by then, the legislative file will pass to a stage that is unusual nowadays: the third reading, also known as Conciliation Committee, which would bring a final agreement by mid-2015.

The European Parliament's ENVI Committee has already appointed new lead and shadow rapporteurs to work on the Greek Compromise of the ILUC proposal. Appropriate discussions with the office of the lead rapporteur Nils Torvalds are taking place. Tabling amendments during a second reading procedure is much more cumbersome, but threats to waste-based biofuels and related support mechanisms, such as double counting, are still present. For instance, the more pro-conventional biofuels Industry and Energy (ITRE) Committee cannot discuss on the ILUC file on equal footing with the ENVI Committee as during the first reading, but the ITRE Committee as a whole may present amendments directly to the plenary of the European Parliament ahead of the final vote on second reading. For these reasons is important to give visibility and liaise with these key MEPs.

After the end of this reporting period, in October, the 28 Heads of State at the EU Council gave the Commission a clear mandate to further examine instruments in order to reduce dependency on fossil fuels after 2020 in a technology neutral way, which is particularly good news for UCOME, TME and other advanced biofuels, since any definition of advanced biofuels, and any discrimination or preference amongst biofuels will need to be done on the origin of the raw materials and/or on their Green House Gas Emissions (GHG) content, but not on technology.

Germany

As expected during the whole Q3, Germany's Lower House of Parliament passed a government bill in mid-October introducing a cap on GHG for road fuels. The so-called decarbonisation will take effect January 1, 2015 and will mandate a CO2 reduction for fuels companies of 3.5% from 2015, 4.0% from 2017 and 6% from 2020. The Upper House of Parliament (= the Federal States "Länder") is expected to also pass the bill. The implementation directive, which is expected very late in the year, remains an issue. This late start-date creates huge uncertainty amongst market players. Controls on GHG reduction values are also not defined, which is a risk as it may encourage fraud. Junior environment minister Ms Rita Schwarzeluehr-Sutter stated in the parliament that biofuels with a more favourable carbon footprint, such as biofuels from waste, will enjoy "clear prospects" starting in 2015 (thanks to the new law). Nevertheless, an opposite impact on the demand for UCOME in the German market might well be the eventual outcome, as producers of virgin oil based biodiesel are claiming to have much higher GHG savings compared to the RED standard values. Consequently, UCOME in Germany might no longer count double over virgin oil based biodiesel (Though it will still count double in other European member states still implementing the double counting scheme). This might result in German UCOME producers seeking better values for their products in export markets.

II.1.3 Movement of inventories

The balance sheet position of inventories decreased in total from EUR 15,087k by EUR 7,766k to EUR 7,321k compared to year end, which reflects a decrease of 51.5%. The main share of this decrease (59.8%) is attributable to the change in finished and unfinished goods.

Since December 31, 2013 the raw materials have decreased by EUR 3,123k from EUR 6,459k to EUR 3,336k. As Biodiesel prices keep declining in a backwardated market with very prompt sales, the company has been postponing feedstock purchase decisions to keep the feedstock level at the plant at a sufficient level to ensure continuous production on the one hand while diminishing inventory loss risk on the other. In addition, the decrease in raw material prices has also contributed to the lower inventory position. In the period under review the purchase volume of treated feedstock remained stable compared to previous year, although the production volume did decline slightly in the same period. Petrotec sourced comparable volumes of untreated feedstock from its suppliers during the period of 9M/2014 vs. previous year.

The finished and unfinished goods position contains biodiesel and the by-products from biodiesel production. This position declined in total by EUR 4,643k (53.8%) from EUR 8,628k to EUR 3,985k. At year end the value of by-products equalled to EUR 3,221k, which accounted for 37.3% of the finished and unfinished goods. The majority of the accumulated by-product position had been sold by the end of the second quarter, so that the by-products decreased by EUR 2,212k to EUR 1,009k at end of September. By the end of September Petrotec had sold a total of 133,425 tons of biodiesel (previous year: 129,449 tons). The sales volume increased versus the previous year due to high trading volumes (18,105 tons in 9M/2014 vs. 9,754 tons in 9M/2013) while the production volume from its own plants declined by 3,152 tons to 105,694 tons (previous year: 108,846 tons). On the balance sheet dated September 30, 2014 the finished and unfinished goods without by-products decreased by EUR 2,432k to EUR 2,976k.

II.2 MOVEMENTS OF REVENUES AND RESULTS

II.2.1 Key Figures

KEY FIGURES	**Unit**	**9M/2014**	**9M/2013**	**Deviance**
Profitability				
Sales	KEUR	134,341	144,559	-10,218
EBITDA	KEUR	1,633	8,122	-6,489
EBIT	KEUR	-386	6,185	-6,571
EBIT-margin	%	-0.3%	4.3%	
EBT	KEUR	-1,627	4,837	-6,464
Net profit / loss	KEUR	-1,627	4,722	-6,349
Profit per share undiluted	EUR	-0.0663	0.1920	-0.2583
Profit per share diluted	EUR	-0.0657	0.1920	-0.2577
Asset position		**Sep. 30, 14**	**Dec. 31, 13**	
Working capital	KEUR	7,159	16,573	-9,414
Non-current assets	KEUR	21,939	21,630	309
Total assets	KEUR	49,709	58,223	-8,514
Debt(1)	KEUR	13,974	19,075	-5,101
Equity	KEUR	26,279	27,714	-1,435
Equity-ratio	%	52.9%	47.6%	
Cash flow		**9M/2014**	**9M/2013**	
Adjusted net profits from non accounts	KEUR	1,884	8,357	-6,473
Change in working capital	KEUR	9,360	5,217	4,143
Operating cash flow	KEUR	11,247	13,584	-2,337
Cash at period end	KEUR	12,426	10,674	1,752

(1) Loans from shareholders and banks

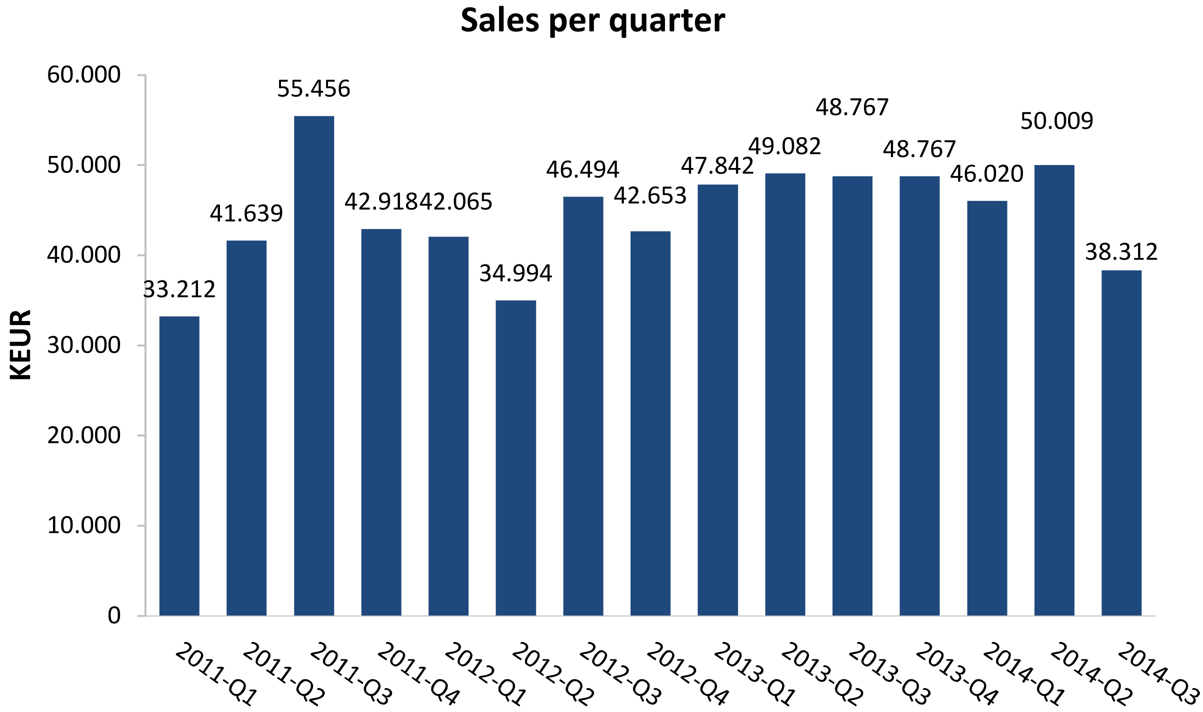
II.2.2 Management Overview

The challenging market conditions were carried over from the first half-year into the third (and seasonally stronger) quarter. Due to the expected excellent harvest for oil producers, the BOGO (Bean-oil to Gasoil) spread sharply declined throughout the third quarter. As a result, the FAME 0 margin also sharply declined with a strong backwardation, lowering in turn the UCOME premium. This in turn somewhat reduced the demand for UCOME in the market as the relative value for blenders diminished and was further pushed down by the high supply for virgin oil based biodiesel, resulting in lower UCOME sales volumes compared to the previous year.

Influenced by previous years' experience, the feedstock market was driven by the expectation for increasing feedstock prices in the seasonally stronger third quarter for UCOME. Thus, suppliers maintained relatively high feedstock prices, despite the downward trading trend of biodiesel and specifically for UCOME throughout the entire quarter. Consequently, the UCOME-UCO spread in the third quarter, as well as the captured margins throughout this same period, has been significantly lower compared to the parallel period last year. The pressure on the spread is also explained by the tendency of UCO suppliers to anchor their pricing to the virgin oil market. While this could well work for single counting producers, in a falling FAME 0 margin environment the UCO should be adjusting with twice the decline in the FAME 0 margin to compensate the loss of value in the UCOME. Moreover, since the UCO market is far less liquid compared to the biodiesel market, said expected adjustment lags behind, as collectors and traders require a longer time period to aggregate UCO at sufficient volumes to sell to the UCOME producers. Through this aggregation time, biodiesel prices dropped and caused the supplier inventory losses, which they aim to share with the UCOME producers. On the sustainability front, the company maintained its capacity to supply sustainable waste-based feedstock, complying with the regulatory requirements addressing its customers' markets. The ISCC DE-EU premium saw a sharp decline towards the end of the third quarter, due to the preference of German blenders to use low CFPP biodiesel in the winter season.

The above described market conditions resulted in significantly lower margins, and therefore profits, for the third quarter this year compared to the parallel period last year. The short term operation mode that the company operated in during the third quarter required more control of the logistic activity for scheduling the delivery of the product to the customers. Therefore, a greater share of the transactions with customers was done on CIF basis, increasing the cost of operation incurred by the company. The average selling price for the company's products during the third quarter this year declined by more than 21% compared to the third quarter of last year, resulting in a negative impact on the company's revenues. The sales volumes of the company in the third quarter declined by 4.5% compared to the parallel period last year, mainly due to weaker trading activity in this quarter. Nevertheless, overall, in the first nine month period of 2014, the company managed to increase its volume sales, mainly thanks to a significant increase its trading activity.

The biodiesel production volume in the plants owned by the company declined in the third quarter by 4%. The short operation mode in this quarter resulted in few situations in which plants were required to slow down production due to logistic (mainly supply side) disruptions. In the third quarter of the year 2014, the company finalized an important technical upgrade in one of its plants that is now allowing the plant to comply with the more strict specification requirements set by customers and widen the raw material variety the plant is capable of processing.

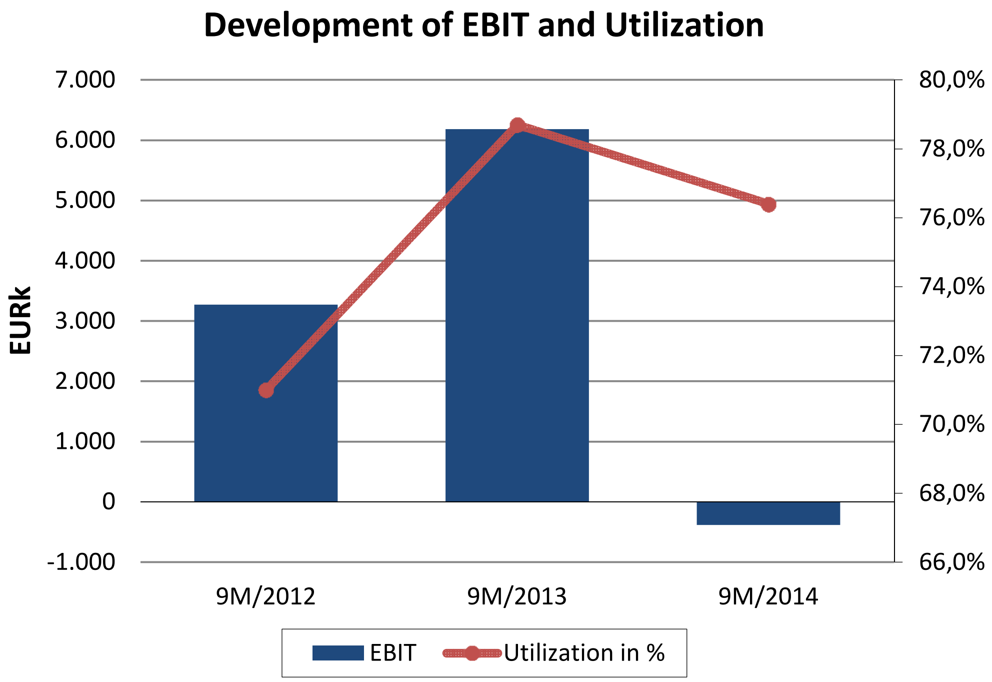


II.2.3 Movement of profit & loss indicators

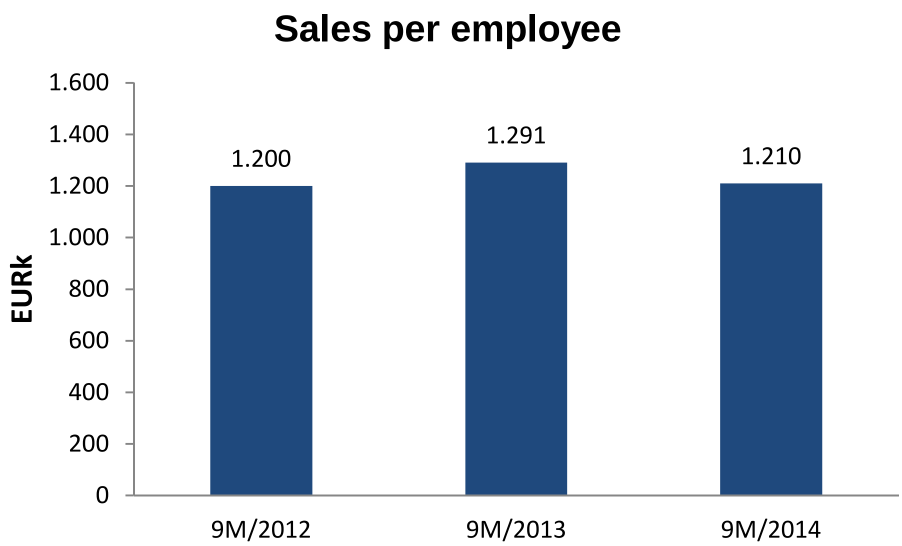
In the first nine months of 2014, **sales** amounted to EUR 134.3m, representing a decline of EUR 10.3m (7.1%) compared to EUR 144.6m for the first nine months of 2013. The decrease in sales volume was especially sharp in the third quarter of 2014. The primary reason for the decline was a sharp drop in sales prices due to the current market situation (Q3/14 - 21.3%). Overall sales volumes increased by 3.0% 9M/14 due to higher trading volumes compared to the previous year, although sold quantities for the third quarter declined by 4.6%.

The production volume of Petrotec's own plants declined slightly by 3,152 tons (-2.9%) as Petrotec produced in total 105,694 tons of its EcoPremium biodiesel in the first nine months of 2014 compared to the volume of 108,846 tons in the comparable period of 2013. The reduced production volume was caused by the general market situation and an adjusted production cycle. Petrotec's reaction to the falling market prices was to adjust production to a more short term cycle.

The **cost of material** decreased by EUR 7,237k to EUR 116,055k within the comparable period of the first three quarters 2014 to 2013. This effect is primarily due to declining prices and volumes. The cost of material ratio, taking the change of inventory in account, rose significantly compared to the Q3/2013 ratio. The ratio climbed from 86.0% in Q3/2013 to 89.8% in Q3/2014. The current market price development as well as the higher portion of trade volumes led to the overall reduction of the margin due to the higher cost of material ratio. The increased ratio is the primary reason for the weaker financial result.



Personnel expenses during the first nine months period in 2014 amounted to EUR 4.6m; a decline of 6.5% compared to EUR 4.9m of the parallel period in 2013, mainly due to the adjustment of salary related provisions to the current financial results. The sales per employee declined by 6.2% compared to the same period in 2013. Yet, the volume sales per employee increased by 3.9%.



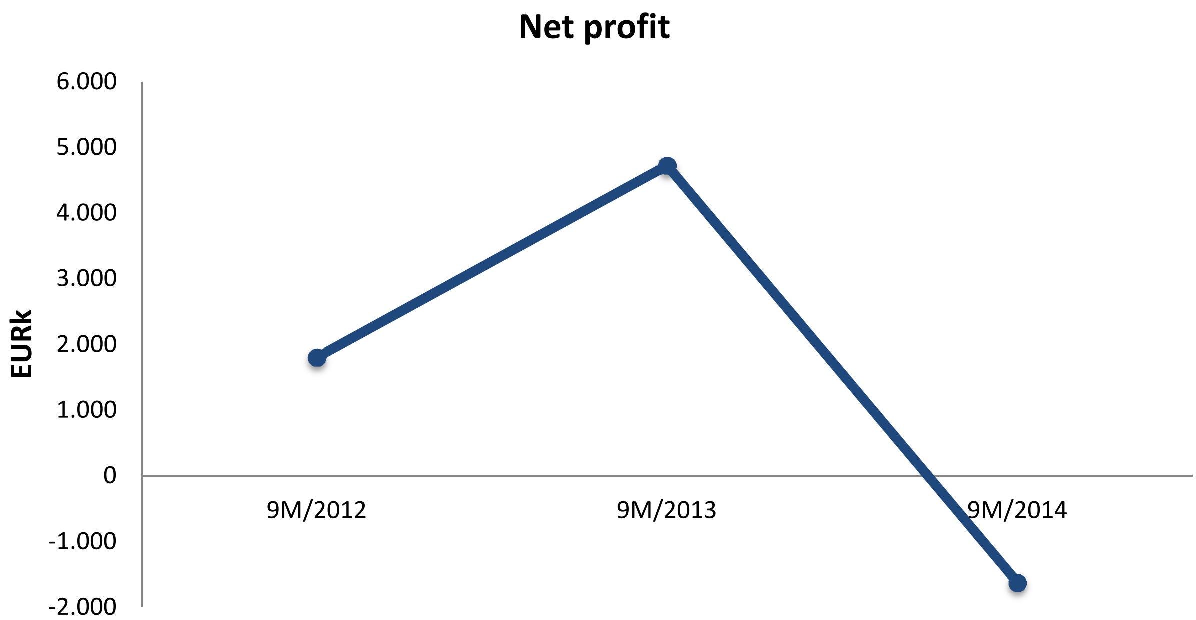
Other operating expenses increased by EUR 0.6m to EUR 8.7m compared to the first nine months of 2013. The development is due to several single movements of other operating expenses. Increased rents (storage/ trucks/ cars) (+EUR 0.3m), freight out costs (+EUR 0.2m), mainly attributed to the higher trading activity; other production costs (+EUR 0.2m) and maintenance costs (+EUR 0.2m) were mainly attributable for the increase in operational costs; while insurance

& dues (-EUR 0.1m), consultancy costs (-EUR 0.2m) as well as commissions and other sales costs (-EUR 0.1m) declined.

The freight-out expenses also rose as consequence of the logistical terms in the sales contracts. Relocation costs for by-products from the plants to an external storage affected the freight costs as well. The higher biodiesel and by-product stock levels from the beginning of the year till June led to an increase of storage costs versus the comparable period of 2013. Overall the increase of other operating expenses had negative effects on the performance during the first nine month of 2014.

The **financial result** is characterized by minor declining financial expenses compared to 2013. The financial result cumulates to EUR 1.2m. The lion share of the financial expenses was interest on loans provided by the major shareholder IC Green Energy Ltd.

The group generated a **Net Loss** of EUR 1,627k in the first nine months of 2014 compared to a profit of EUR 4,722k in the pervious year. As a result of an increased cost of material ratio, increases in other operating expenses and declining sales the company generated a net loss for the first nine months of 2014.



The undiluted **Profit per share** for the first nine months of 2014 amounts to EUR –0.0663 (diluted: EUR –0.0657).

II.3 NET ASSETS AND FINANCIAL POSITION

II.3.1 Net Assets

Total assets as of September 30, 2014 have declined to the comparable at year end 2013 and amount to EUR 49.7m. The decline from EUR 58.2m at year end is primarily due to the decline in inventories by EUR 7.8m.

While cash increased by EUR 2.5m, fixed assets increased by EUR 0.3m as investments in tangible assets primarily for trucks (EUR +0.5m), plant upgrades (EUR +1.3m) and prepayments on assets under construction (EUR +0.5m) exceeded the regular depreciation.

Petrotec's working capital declined significantly. The reason for the decline is primarily due to the reduction of inventory. Facing backwardated market conditions Petrotec adjusted its feedstock purchasing policy, and likewise, end product inventory days were decreased to minimize possible inventory losses. Finally, the value of the inventory declined also due to the lower prices per ton of the utilized raw materials and finished products:

Working Capital	Unit	Sep. 30, 14	Dec. 31, 13	Deviance
Inventories	EUR mio.	7.3	15.1	-7.8
Trade receivables and other receivables	EUR mio.	8.0	11.6	-3.6
Trade payables and other payables	EUR mio.	8.1	10.1	-2.0
TTL	EUR mio.	7.2	16.6	-9.4

On September 30, 2014, Petrotec's equity ratio improved to 52.9% compared to 47.6% as of the balance sheet date on December 31, 2013, which is mainly attributable to the reduced asset position.

IC Green Energy Ltd. (ICG) continues to prove to be a very supportive shareholder. As of September 2014, ICG has provided Petrotec with financial debt amounting to EUR 12.5m unchanged to the year end 2013. By an agreement dated March 17, 2014 the current loans of IC Green Energy Ltd. in an amount of EUR 7.3m due on March 19, 2014 could be extended at least until March 31, 2015. Along with the extension of the loan, the interest rate has been adjusted from 8% to 10%.

II.3.2 Cash flow

Thanks to the decrease in inventories and trade receivables Petrotec was able to generate a net cash flow from operating activities amounting to EUR 11.2m.

The positive cash flow was used to finance the investing activities amounting to EUR 2.3m and to redeem the short term loans build up at year end for financing the investment in working capital. Due to the ability to finance working capital not solely with the shareholder loans by ICG, Petrotec also financed a material amount of its working capital, and part of its investments in assets, through external banking institutions. The short term bank loans were redeemed during the current period. New provided loans are primarily short term based and used to gain more flexibility in financing the working capital. The short term based loans are constantly redeemed.

The abovementioned cash flow activity resulted in an overall increase of cash and cash equivalents from EUR 9.9m for December 31, 2013 to EUR 12.4m for September 30, 2014.

II.4 EMPLOYEES

As of September 30, 2014, Petrotec had a total of 111 full and part-time employees, including three trainees. In 2014 the number of employees was adjusted to the changed operational needs of the company.

Employees of the Petrotec group:

Employees* of the Petrotec Group

	Sep. 30, 14	Sep. 30, 13	Change %	Dec. 31, 13	Change %
Production	69	72	-4.2%	74	-6.8%
Sales & administration	42	40	5.0%	41	2.4%
Thereof trainees	3	4	-25.0%	4	-25.0%
Total	111	112	-0.9%	115	-3.5%

* As of the balance sheet date (not acc. to the annual average)

II.5 RESEARCH AND DEVELOPMENT

Petrotec places great value on optimization of the delivery process and the improvement of production technology. Optimization activities are carried out throughout the entire production process, i.e. in recording and conditioning used cooking oil, as well as in refinery and biodiesel production. Optimizing the processes and technology helps to strengthen and expand competitive advantage. In addition, Petrotec strives to reduce costs and implement improvement measures to preserve the environment and conserve resources.

II.6 SHARE PORTFOLIO OF BOARD MEMBERS

As of September 30, 2014 Petrotec AG does not hold any of its own shares. The members of the supervisory and of the management board indirectly held the following shares in Petrotec AG as of the balance sheet date:

Share portfolio of board members:

Stakes in the Group held by related persons	Unit	Quantity	Mathematical percentage in the capital stock
Rainer Laufs			
Sep. 30, 2014	QTY	12,388	0.05%
Dec. 31, 2013	QTY	12,388	0.05%

II.7 RISKS AND OPPORTUNITIES

The following risks and opportunities should be read in conjunction with the parallel explanations to the financial statement for 2013. The Petrotec group´s risk and opportunity position has not changed significantly vis-à-vis the time of the assessment. The following illustration sums up the major explanations to the financials for 2013.

Operating and other risks

The industry in which Petrotec is operating is characterized by particular sensitivity to cyclical and legislative influences that might have a severe impact on the financial position and financial performance of the Petrotec group. In its operating environment Petrotec is facing the following risks:

Operating risk

As part of Petrotec's business activity there are a number of operational risks while running and operating a melting plant, a refinery and two biodiesel production plants including respective logistics. Malfunction of a plant or parts of a plant could cause a complete or partial stop of production.

Regulation risks

To a certain extent, the existence of the biodiesel market depends on the mandatory blending of biodiesel with fossil diesel. The political debate of recent years has cast a critical eye on the effectiveness and actual environmental sustainability of the use of biodiesel as a substitute for fossil diesel. One of the consequences of this debate is that the development opportunities for enterprises in this industrial sector are being dictated by the respective statutory provisions of a country. In recent years, the development has shown that the binding force and sustainability of statutory provisions regarding biofuels was hardly predictable from an entrepreneurial point of view.

The political market intervention of politics through regulation has become more specific over the past years. The RED legislation passed by the EU Commission has triggered this effect. In order to create incentives for the use of particularly environmentally friendly biodiesel such as waste based biodiesel, some EU member states have introduced preference schemes. Such incentive systems – dominated by the "double counting" scheme promote in particular the use of biodiesel with low CO2 emissions. Legislators can also change such incentives at the spur of a moment, because they are also always the subject matter of conflicting groups who represent different interests. In the UK, for example, a new scheme was introduced at the end of 2011, replacing the GBP 200 per cubic meter scheme with the more widely used double counting scheme. As anticipated, the percentages of basic commodities for biodiesel production in Great Britain saw a considerable shift. UCO lost percentages, while animal fats gained shares. This risk, which arises from legislation or the political will power, can be limited by Petrotec only within very minimal boundaries. Petrotec is a member of the respective lobbyist associations in Germany and Europe who represent the interests of the biodiesel industry on the political platform and vis-à-vis other interest groups on the national level and also try to push them through on the level of the EU Commission.

One such development was the new requirements in relation to double counting eligibility in Germany. At the end of 2012 (December, 28), the BLE (the German Federal Authority for Agricultural and Nutrition) introduced the 36. BImSchV with new certification requirements to qualify feedstock for double counting in Germany. According to this new scheme, each and every collection point needs to be involved in the certification process as well as having any respective UCO collectors audited and certified. All further parts of the collection chain (aggregators, UCO traders, production plants, and traders of the finished biodiesel) should also be certified and operate in a way that would make it possible to audit and trace back the origins of the feedstock. Moreover, these requirements should apply not only in Germany but also worldwide for each and every restaurant, collector, aggregator, trader supplying UCO for biodiesel production into the German market as of January 1, 2013. This new requirement has put significant additional operational burden as well as reduce the flexibility of the company when selling the product to different target markets. The company took the necessary measures to control and limit this risk, but its ability to efficiently do so should be considered in connection to the complexity of this task, per the description above. This regulation is expected to expire at the end of the year 2014, where no replacing regulation for the year 2015 onwards, has been yet published.

Another regulation change is expected to be introduced via the “de-carbonization” framework for the German biodiesel market as of January 2015. According to this new scheme, only producers which could prove a minimal contribution of CO2 emission savings would be eligible to count for the blending obligation. Producing the highly sustainable waste-based Biodiesel, Petrotec is well positioned to be one of the eligible producers for the German market. Yet, one should consider that many of the virgin oil biodiesel producers will strive to claim the sustainability production facilities to be beyond the existing RED standard values, in order to improve their ability to sell biodiesel within this new framework. Our team is still reviewing all relevant publications on this matter, in order to better understand many of the still open questions around this matter. Those are expected to be clarified with a significant delay by the end of this year in the circles of the industry associations, the certification bodies and relevant authorities. The eventual clarification of said questions may have significant influence on the eventual market position and relative advantage of the company and its products within the German market. The management is concerned by the delayed publishing of said expected clarifications, which might result in a repeated (to the 36. BImSchV above) last minute challenge in implementation of regulation requirements at the beginning of 2015.

On a wider European perspective - the current development can be described as follows: an increasing number of countries (such as Germany, Italy, Denmark) followed the double counting scheme in one way or another in the past years. Other countries, including Spain and Poland - as well as other eastern European countries- are expected to introduce the double counting scheme shortly. At this time, Petrotec presumes that the introduction of double counting will result in an increase in demand for waste-based biodiesel. As a result, the relative value for waste-based biodiesel is expected to increase presuming that the double counting system will be accepted by market participants and does not allow for any exceptions or loop holes.

On the longer term perspective – the EU has recently reviewed the long term objectives for GHG emissions moving toward the year 2030. Despite the ambitious target of reducing 40% of GHG emissions (including increasing the share of renewable energies to at least 27% by 2030), no specific targets have been set for the transportation sector. On the contrary, the binding targets of the RED are expected to be removed as of January 1, 2021. This represents the following risks for the biodiesel industry:

1. After 2020, the demand for biofuels may significantly decrease.
2. Before 2020 the existing 10% of targets risk losing credibility.

Many Member States might chose not to fulfill it as the EU would be left with no leverage in claiming for fulfilling this "temporary" obligation.

The tendency of the regulators is to come back to the basic fundamentals for supporting renewable energy activities in the EU-namely cutting GHG emissions. Despite the fact that this factor has always been one of the strengths of Petrotec products (contributing significant GHG savings of up to 83% compared to mineral oil)Petrotec is still part of the overall biodiesel industry, and any threat to this industry will eventually also represent a threat to Petrotec.

The "Operating risk" section above should also be read in conjunction with this "Regulation risk" section.

Price risks

Given the above described sales price setting for Petrotec biodiesel as a premium of derivatives traded on the commodity exchange, the biodiesel sales price is subject to extreme price fluctuations of the commodities prices it is based upon. The value of the used cooking oil based biodiesel is therefore tied to and often priced on the basis of the price levels of FAME 0 and diesel. The commodities price of used cooking oil, on the other hand, is highly dependent on palm oil or the price of soybean oil, and the waste-based biodiesel price with a certain time lag. Consequently, the purchasing and sales departments of Petrotec frequently find themselves in conflict with each other as far as their supply and demand goals are concerned. This is further compounded by the price risk, which arises from the holding of the commodities derivatives over a certain period of time. This means specifically that the value of an item can constantly change throughout any given day and that this can lead to a margin call, which in turn requires a larger amount of monetary resources to have on hand. These margin call obligations can affect both the derivatives from the biodiesel business and the currency positions. In order to mitigate that risk, Petrotec applies a back-to-back feedstock procurement practice to cover feedstock purchases with biodiesel sales, as much as possible. Nevertheless, this approach is not always practical as offers in the feedstock market are not always synchronized with the demand in the biodiesel market. The company, hence, is exposed to a certain extend to possible movement in biodiesel prices after having secured the feedstock for its production.

Procurement risks

Substantial competitive risks for the group arise from the complex procurement of commodities. In order to reduce this risk, the company focuses on extending and varying its supplier base. This is achieved through the continuous deepening of supplier relationships and by expanding the procurement regionally beyond the borders of Germany. The requirements for feedstock eligibility for double counting according to the 36. BImSchV should also be read in connection to the procurement risk. Please refer on that to the "regulation risk" section above.

In addition, the company is constantly striving to yield efficiency increases in the disciplines of preparation and yields. Structured procurement policies on electricity, natural gas as well as other additive markets reduce the price change risks for the Petrotec group. Based on a new computation and consumption model, Petrotec has successfully negotiated more favorable purchasing terms with pertinent suppliers.

Currency risk

Currency risk is the risk that a financial instrument’s fair value or future cash flow will be exposed to price variations due to changes in the exchange rates. Owing to its international business activities, Petrotec is primarily exposed to currency risks. The company transacts a significant portion of its business in USD. Currency fluctuation can have a substantial impact on its result. Petrotec buys and sells merchandise in USD as well as EUR. To control currency risk, the group hedges such transactions as are expected to occur. In order to minimize the currency risk, the company is required, according to group-wide policy, to comply with a term-congruent securing obligation at the time the risk is created. Currency futures are being used as a hedging tool in conjunction with mitigating this currency risk.

Market risks

Market risk is the risk of variation in a financial instrument’s fair value or future cash flows due to changes in market prices. Market risk includes the following four types of risk: currency risk, interest rate risk, commodity price risk and other price risks such as share price risk. The financial instruments exposed to market risk include, among others, interest-bearing loans, deposits of financial assets available for sale and derivative financial instruments.

The "Price risk" and “Currency risk” sections above should also be read in conjunction with this "Market risk" section.

Commodity price risk

The volatility of certain commodity prices has an effect on the group. This relates in particular to the correlation of biodiesel and the price of fossil diesel. Due to the essentially increased volatility of the commodity price, Management has developed and introduced a risk management strategy for the commodity price risk and its mitigation.

The "Price risk" section above should also be read in conjunction with this "Market risk" section.

Liquidity risk

The Petrotec group classifies as liquidity risks any risk of potentially not being able to meet its financial obligations. Risk segments are among others the servicing of loans or the payments due to suppliers.

In the Petrotec group, access to liquid funds is gained alongside operating business, primarily through current and non-current loans from its majority shareholder IC Green Energy Ltd. The liquid funds generated are used for investments and to finance working capital. By the agreement dated March 17, 2014 the current loans of IC Green Energy Ltd. in an amount of EUR 7.3 million due on March 19, 2014 could be extended till March 31, 2015. A claim for an immediate loan repayment could be possible in the case that ICG loses the majority in shareholding. That liquidity risk could be compensated by cash management. A trade facility agreement exists with a leading European bank to finance the working capital. This trade line is prolonged on a yearly basis and is subject to the fulfillment of certain covenants within the year.

The group’s goal is to find a balance between constantly covering its liquidity needs and ensuring flexibility by using current and non-current loans from ICG and current bank loans. Liquidity management is achieved through the ongoing alignment of the liquidity needs with inflow of funds from operating activities.

Tax Risk

In the first quarter of 2010, Vital Fettrecycling GmbH, a wholly owned subsidiary and part of the tax group of Petrotec AG, closed a debt waiver transaction with IKB Deutsche Industriebank AG as part of the restructuring effort done at the time by the company. The agreement stipulated that

IKB Deutsche Industriebank AG would waive a repayment for loans granted to Vital Fettrecycling GmbH in 2007 totaling EUR 18.9 million in exchange for a one-time payment of EUR 2.2 million. As a result of this transaction, IKB Deutsche Industriebank AG effectively waived EUR 16.7 million of its claims against Vital Fettrecycling GmbH and, accordingly, Vital Fettrecycling GmbH had to account for extraordinary income from cancellation of debt. Consequently the 2010 result of Petrotec AG included an extraordinary one-time income of EUR 16.7 million from the charge off of the loans, which turned the annual result being positive for the same year.

Based on a tax field audit, the local tax authorities of the German state of Northrhine-Westphalia (NRW) have assessed income tax payments for fiscal year 2010 against Petrotec AG amounting to EUR 892.094,05 corporate and trade tax. The tax assessment is based on the authorities' opinion that the proceeds from the above described debt waiver transaction do not meet the requirements of a so-called restructuring profit (Sanierungsgewinn) pursuant to the decree of the German Ministry of Finance (BMF) of March 27, 2003 (so-called bail-out decree, Sanierungserlass). The calculation of the stated amount took the minimum taxation into account as Petrotec was able to only partially use its loss carry forwards, the company had at that time.

In the 2nd quarter of the 2011 Petrotec executed a capital increase transactions in which IC Green Energy participated and pursuant to which passed the 50% holding threshold. As a result, Petrotec lost all of its tax loss carry forwards.

On August 26, 2010, in another similar particular case, the federal fiscal court (BFH) raised serious doubts that the minimum taxation fulfills the constitutional requirements when the possibility of loss offsetting in the following assessment periods is not granted. In its letter from October 19, 2011, the German Ministry of Finance (BMF) followed a decision of the federal fiscal court (BFH) that the taxation, for similar cases, should be suspended till a final legal judgment is given. Petrotec submitted an application to suspend the tax payment until the federal fiscal court (BFH) will decide upon the matter. The request was approved by financial authorities Borken enabling the company not to pay the sum due till a decision in court is taken.

The management still assumes that the above mentioned waiver agreement - contrary to the opinion of the tax authorities - meets the requirements for a so-called restructuring profit (Sanierungsgewinn). Additionally, the management shares the doubts raised by the federal fiscal court (BFH) concerning the decision of the ministry of finance (BMF) and assumes that it is more likely that a tax liability will not finally concluded. For this reason a tax provision has neither been recognized for the fiscal year 2012 nor for the fiscal year 2013. A tax expert review is supporting the management in its decision. No changes have come to effect during the first nine months of 2014.

Opportunities and risks with short term effects

Among the largest opportunities and risks is the development of the demand for biodiesel on its trading markets, which are characterized by the regulatory environment. Our assumptions with regard to the short term growth outlook in the European countries that are planning to implement double counting have already been discussed above. We are planning the development of new markets or countries within Europe based on this fundamental scenario. Beyond the fundamental scenario, we are also evaluating risk scenarios, and especially those related to the expected "decarbonisation" regulatory requirements in Germany, and the risk that other producer in the market might be in position to compete on our market share.

Our average facility capacity utilization has already reached a high level. In some cases, we still have the opportunity to take advantage of opportunities inherent in increased demand within our still available production capacities, with only relatively small investment consideration.

In addition, the biodiesel price is contingent upon the oil price. With some delay, the used cooking oil price is tied to the UCOME price. Given the solid demand and the relatively soft supply, we have so far been able to pass on most of the commodities price increases to our customers. However, if a significant decline in demand should occur or significant other supply sources may become available in the double counting market, this could lead to significant margin reductions. Likewise, situation of feedstock shortage might lead to parallel margin reduction result.

We are striving to prevent unplanned facility shutdowns by complying with high technical standards and through the continuous optimization and maintenance of our facilities.

II.8 OUTLOOK FOR THE PETROTEC GROUP

Biodiesel market situation

The recent developments in the feedstock and biodiesel markets have put a lot of pressure on UCOME margins. In the single counting biodiesel market, the company has observed a sharp decrease in prices and margins. Being tied to the FAME 0 and RME margins to gasoil, weaker margins for the latter have doubled the negative effect on UCOME prices. In a way the double counting mechanism creates leverage on the UCOME price, and thus increases its volatility. In addition, although the local demand for the company's product in the second quarter of 2014 improved relative to the first quarter, FAME 0 trends became negative again towards the end of the quarter and through the third quarter, causing a further decline in UCOME prices and margins. In the medium term perspective, the company continues to see an increasing demand trend for double counting biodiesel, where other European member states are expected to adopt the double counting mechanism for waste biodiesel in 2014-2015. Moreover for a waste material like UCO, that just exists and thus needs an outlet, the market price is expected to be limited to its value given by the competitive UCOME producers. Therefore, despite the current lower margin, in the mid-term, the company expects prices of feedstock to rationalize (with a certain time lag) and allow UCOME producers to realize reasonable margins again. In addition, the uncertainty of the German market players around many unclear points on the newly introduced "de-carbonisation" targets for biofuels in 2015 have caused many of those players to act more carefully with over-blending in 2014, and have resulted in lower appetite for biodiesel blending toward the year end.

The different certification requirements for ISCC EU and ISCC DE UCOME have created further complications for managing supply and demand, and are also reducing the company's flexibility in marketing its products. Yet, Petrotec has been able to successfully balance the supply of its feedstock and the demand in the market according to these rigorous market requirements. The lower demand from the German market has significantly reduced last year's premiums for ISCC DE over ISCC EU UCOME, which reached parity by the end of the third quarter.

Being the largest independent European UCOME producer, Petrotec keeps its excellent relationship with large mineral oil producers by providing a high level of product and services.

Feedstock market

On the feedstock side, following the previous years' experience, suppliers in the market expected to see rising prices approaching the second quarter and through third quarter. Unfortunately, due to the abovementioned weaker biodiesel margins, producers such as Petrotec could not realize these expectations. Adjusting the prices on the feedstock side often takes more time, as a longer supply chain going down to the restaurants, needs time to adjust expectations. The company maintains its efforts to continuously increase and diversify the availability of feedstock for its plants. The management believes that feedstock prices will eventually adjust and margins will become healthy again once prices for biodiesel stabilize.

Future outlook

(Subject to and with reference to the description in the "Risk Report") Despite the previously described short-term outlook, in the longer term the management sees a further increasing demand for waste-based biodiesel. This is mainly thanks to an increasing number of countries adopting the double counting scheme and to higher blending obligations in order to achieve GHG saving targets. These factors are expected to support Petrotec´s further positioning in the market as one of the largest waste-based biodiesel producers in Europe. Petrotec´s efforts to constantly increase production and sales output by improving its processing yields and its logistics network flexibility stand as a basic assumption to support this general positive view.

In the original guideline given in March 2014 with the publication of the 2013 annual results, the management expected sales between EUR 150m and EUR 220m and an EBIT-margin of 2%-4%. Due to a short term decreasing trend of the UCOME prices following the decrease in the FAME 0 margin over gasoil, the management expected a relatively weak third quarter. Having to secure its plants' continuous operations, the company often purchases feedstock in advance of its actual production and sales. In weak market conditions, with prompt demand for its product, and raw material adjusting with a lag, this might result in capturing lower than initially anticipated margins on the purchased feedstock.

Considering those market conditions, the actual results of the third quarter for 2014, the significant drop in unit price and the erosion in the margins captured by the company, the management holds its expectations for sales to be within the lower range of the provided original guideline, however sees a high probability that a positive EBIT for the year 2014 can no longer be achieved.

III INTERIM CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

Consolidated Balance Sheet (unaudited)

(EUR)	Note	Sep. 30, 2014	Dec. 31, 2013
Non-current assets			
Tangible assets		20,325,354	19,662,548
Intangible assets		655,807	1,001,924
Other financial assets (long-term)		57,525	65,012
Deferred tax assets		900,750	900,750
Total non-current assets		**21,939,436**	**21,630,234**
Current assets			
Inventories		7,320,916	15,087,427
Trade receivables and other receivables		8,022,611	11,570,880
Cash and equivalents, current assets		12,425,918	9,934,860
Total current assets		**27,769,446**	**36,593,167**
Total assets		**49,708,882**	**58,223,401**
Equity			
Subscribed capital		24,543,741	24,543,741
Capital reserve		86,475,418	86,283,723
Revenue reserves		-84,740,513	-83,113,852
Total equity capital		**26,278,646**	**27,713,612**
Non-current liabilities			
Interest-bearing bank loans		310,461	154,021
Liabilities from finance lease (long term)		1,009,308	1,074,592
Interest-bearing loans against shareholders		5,250,000	5,250,000
Provision for part-time work in years before retirement		129,748	151,061
Total non-current liabilities		**6,699,517**	**6,629,674**
Current liabilities			
Interest-bearing bank loans		1,157,031	6,414,974
Trade payables and other liabilities		8,184,421	10,084,977
Interest-bearing loans against shareholders		7,255,993	7,255,993
Liabilities from finance lease (short term)		92,860	124,171
Accruals		40,414	0
Total current liabilities		**16,730,719**	**23,880,115**
Total equity and liabilities		**49,708,882**	**58,223,401**

Consolidated Statement of Comprehensive Income (unaudited)

(EUR)	Q1/2014	Q2/2014	Q3/2014	9M/2014	Q1/2013	Q2/2013	Q3/2013	9M/2013
Sales revenues including energy tax	46,020,252	50,008,690	38,312,240	134,341,182	47,842,020	49,082,395	47,635,434	144,559,849
Energy tax	0	0	0	0	0	-687	0	-687
Sales revenues	**46,020,252**	**50,008,690**	**38,312,240**	**134,341,182**	**47,842,020**	**49,081,708**	**47,635,434**	**144,559,162**
Other operating income	281,541	604,294	370,149	1,255,985	621,404	106,101	213,907	941,412
Changes in inventories of finished and unfinished goods	3,479,683	-7,195,368	-927,682	-4,643,366	-131,085	-5,142,785	4,239,534	-1,034,336
Cost of materials	-44,910,705	-37,435,948	-33,708,448	-116,055,101	-42,325,443	-37,047,206	-43,918,938	-123,291,587
Personnel expenses	-1,734,948	-1,614,988	-1,282,350	-4,632,286	-1,478,863	-1,545,687	-1,930,433	-4,954,984
Depreciation	-662,384	-670,543	-686,275	-2,019,202	-631,641	-652,447	-653,121	-1,937,209
Other operating expenses	-3,205,014	-3,020,124	-2,494,924	-8,720,062	-2,375,257	-2,584,299	-3,175,761	-8,135,317
Result from hedging activity	-23,646	69,964	40,214	86,531	16,353	-22,283	43,640	37,710
Earnings before interest and taxes (EBIT)	**-755,219**	**745,976**	**-377,075**	**-386,319**	**1,537,487**	**2,193,103**	**2,454,261**	**6,184,851**
Finance income	765	710	692	2,167	1,975	854	7,757	10,586
Finance costs	-413,513	-429,317	-399,680	-1,242,509	-484,941	-459,181	-414,378	-1,358,501
Earnings before taxes (EBT)	**-1,167,967**	**317,369**	**-776,063**	**-1,626,661**	**1,054,521**	**1,734,775**	**2,047,640**	**4,836,936**
Income taxes	0	0	0	0	0	0	0	0
Profit for the year	**-1,167,967**	**317,369**	**-776,063**	**-1,626,661**	**1,054,521**	**1,734,775**	**2,047,640**	**4,836,936**
Other comprehensive income for the year, net of tax	0	0	0	0	0	0	-115,000	-115,000
Total comprehensive income for the year	**-1,167,967**	**317,369**	**-776,063**	**-1,626,661**	**1,054,521**	**1,734,775**	**1,932,640**	**4,721,936**
Earnings per share (EPS)								
- undiluted earnings per share	-0.0476	0.0129	-0.0316	-0.0663	0.0430	0.0707	0.0787	0.1924
- diluted earnings per share	-0.0469	0.0127	-0.0315	-0.0657	0.0430	0.0707	0.0787	0.1924

Consolidated Cash Flow Statement (unaudited)

(EUR)	9M/2014	9M/2013
Profit before tax	**-1,626,661**	**4,721,936**
Non-cash adjustments for the reconciliation		
of earnings before taxes to net cash flow		
Depreciation/amortisation	2,019,202	1,937,209
Share based payment expenses	191,695	314,599
Market value of hedge	32,505	3,290
Income from sale of plant	-13,107	24,868
Financial income	-2,167	-10,586
Financial expenses	1,242,509	1,358,501
Changes in accruals	40,414	6,836
	1,884,390	**8,356,653**
Changes in working capital		
Changes in inventories	7,766,511	3,545,960
Changes in trade receivables and other receivables and other assets	2,928,888	-389,291
Changes in trade payables and other liabilities	-1,334,995	2,060,026
	9,360,405	**5,216,695**
Received interests	**2,167**	**10,586**
Net cash from operating activities	**11,246,962**	**13,583,934**
Payments from the sale of tangible assets	29,261	34,821
Payments for the purchase of tangible assets	-2,350,761	-930,818
Payments for the purchase of intangible assets	-1,283	-7,150
Payments for the payback of other financial assets	32,487	49,999
Payments for the purchase of other financial assets	-25,000	-19,792
Net cash from investing activities	**-2,315,297**	**-872,940**
Loan redemption	-50,670,189	-22,924,593
Loan increase	45,568,686	15,575,622
Redemption Finance Lease	-88,283	-80,705
Interest payments	-1,250,822	-2,547,986
Transaction costs from the issue of shares	0	0
Net cash from financing activities	**-6,440,607**	**-9,977,662**
Change in cash and cash equivalents	**2,491,058**	**2,733,333**
Cash and cash equivalents at the beginning of the period	**9,934,860**	**7,940,385**
Cash and cash equivalents at the end of the period	**12,425,918**	**10,673,718**

Consolidated Statement of Changes in Equity (unaudited)

(EUR)	Subscribed capital	Additional paid-in capital	Retained earnings	Total
Balance as of Jan. 1, 2014	**24,543,741**	**86,283,723**	**-83,113,852**	**27,713,612**
Income of the period	0	0	-1,626,661	-1,626,661
Other comprehensive income for the year, net of tax	0	0	0	0
Total comprehensive income	**0**	**0**	**-1,626,661**	**-1,626,661**
Stock options issued	0	191,695	0	191,695
Total result directly attributed to equity capital	**0**	**191,695**	**0**	**191,695**
Balance as of September 30, 2014	**24,543,741**	**86,475,418**	**-84,740,513**	**26,278,646**

(EUR)	Subscribed capital	Additional paid-in capital	Retained earnings	Total equity
Balance as of Jan. 1, 2013	**24,543,741**	**85,901,380**	**-87,129,654**	**23,315,467**
Income of the period	0	0	4,721,936	4,721,936
Other comprehensive income for the year, net of tax	0	0	0	0
Total comprehensive income	**0**	**0**	**4,721,936**	**4,721,936**
Stock options issued	0	314,599	0	314,599
Total result directly attributed to equity capital	**0**	**314,599**	**0**	**314,599**
Balance as of September 30, 2013	**24,543,741**	**86,215,979**	**-82,407,718**	**28,352,003**

IV SELECTED EXPLANATORY NOTES ON THE CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of preparation and changes to Group accounting policies

Basis of preparation

The condensed consolidated interim financial statements (consolidated interim financial statements) as of September 30, 2014 of Petrotec AG, Borken, have been prepared in accordance with the International Accounting Reporting Standards (IFRSs) and the related interpretations issued by the International Accounting Standards Board (IASB) for interim reporting, as adopted by the European Union (EU). Consequently, these consolidated financial statements do not contain all the information and disclosures that are required by the IFRSs for end of fiscal year consolidated financial statements, but are to be read together with the company's published IFRS consolidated financial statements for fiscal year 2013. Unless expressly indicated otherwise, the accounting policies for consolidated interim financial statements for quarterly reporting correspond to those adopted for the most recent consolidated financial report for the end of the fiscal year. A detailed description of these methods can be found in the notes to the consolidated financial statements as of December 31, 2013.

In the opinion of the Management Board, the unaudited quarterly report includes all standard adjustments to be applied on an ongoing basis that are required to give a true and fair view of the net assets, financial position and results of operations of the group. The results obtained in the first nine months of fiscal year 2014 do not necessarily represent a prediction of the development of the continuing performance of the business.

The preparation of the consolidated financial statements is based on the assumptions and estimations made by the Management Board. These influence the amount and disclosure of the amounts reported for assets and liabilities, as well as for income and expenses for the reporting period. The actual amounts may differ from these estimates. The quarterly financial statements include the figures from the financial statement, in addition to the notes with explanations of selected items.

The interim condensed consolidated financial statements for the nine months ending September 30, 2014 have been prepared in accordance with IAS 34 Interim Financial Reporting.

In the quarterly financial statements as of September 30, 2014 two companies in Germany were included (December 31, 2013: 2). There were no changes made to the consolidated financial statements on the basis of consolidation.

New Standards, interpretations and amendments

IAS 34 Interim financial reporting and segment information for total assets and liabilities (amendment)

The amendment clarifies the requirements in IAS 34 to segment information for total assets and liabilities for each reportable segment to enhance consistency with the requirements in IFRS 8 Operating Segments. As the group does not have a segment reporting due to the single segment product, this change did not have an impact on the interim reporting.

IFRS 12 Disclosures of Interests in Other Entities

IFRS 12 sets out the requirements for disclosures in relation to an entity´s interests in subsidiaries, joint arrangements, associates and structured entities. None of these disclosure requirements are applicable for interim condensed consolidated financial statements, unless significant events and transactions in the interim period require that they are provided. Accordingly, the group has not made such disclosures.

Overall during the first nine months of 2014 there were no changes to the group accounting policies with effect on the financials.

2. Impairments

Tangible Assets

No significant impairments have taken place during the reporting period.

3. Income taxes

The current income tax expense presented in the interim financial statements has been determined on the basis of the expected full-year income tax rate. The company does not expect income tax charges for the current full year due to the tax claims available through the taxable goodwill. We refer to the notes of the financial statements ending December 31, 2013.

4. Property, plant and equipment

During the nine months ending September 30, 2014 the group acquired assets with a cost of EUR 2,352,044.49 and disposed assets with a net value of EUR 16,153.18.

5. Inventories

In the first nine months of 2014, no write-downs were charged on the inventory assets. Inventory assets were valued at purchase cost. According to IAS 2, no impairment on the value of inventory was necessary.

6. Other financial assets and financial liabilities

Hedge Activities

Fair Value Hedges

The price and currency risks of specific sales and purchase transactions were hedged by entering into swap or option transactions. Those derivative financial instruments are measured at fair value as of the date of signature of the contract and re-measured at fair value in the subsequent periods. Derivative financial instruments are reported as assets if the going-concern value is positive and as liabilities if it is negative.

The valuation categories of “fair value option”, “financial instruments held to maturity” and “financial instruments held for sale” are not relevant to the existing financial assets and financial liabilities.

Hierarchy of fair values

The group uses the following hierarchy to determine fair values of financial instruments and corresponding valuation methods for the purposes of the disclosures:

Level 1: Listed (non-adjusted) prices on active markets for similar assets or liabilities,

Level 2: Methods in which all input parameters having a material impact on the fair value recognized are observable either directly or indirectly,

Level 3: Methods using input parameters having a material impact on the fair value recognized and not based on observable market data.

As of September 30, 2014 the group’s balance sheet contained the following financial instruments measured at fair value:

Hierarchy of fair values	Unit	Sep. 30, 14	Level 1	Level 2	Level 3
Financial assets valued at the applicable fair value					
Financial instruments measured at fair value through profit or loss					
Currency future contracts in a hedging relationship	KEUR	300	0	300	0
Currency future contracts without hedging relationship	KEUR	0	0	0	0
Swaps and futures in a hedging relationship	KEUR	101	0	101	0
Swaps and futures without a hedging relationship	KEUR	17	0	17	0
Change in fair value of underlying transactions in a hedging relationship	KEUR	168	0	168	0
Liabilities valued at the applicable fair value					
Financial liabilities measured at fair value through profit or loss					
Currency future contracts in a hedging relationship	KEUR	203	0	203	0
Currency future contracts without hedging relationship	KEUR	33	0	33	0
Swaps and futures in a hedging relationship	KEUR	0	0	0	0
Swaps and futures without a hedging relationship	KEUR	7	0	7	0
Change in fair value of underlying transactions in a hedging relationship	KEUR	275	0	275	0

Hierarchy of fair values	Unit	Dec. 31, 13	Level 1	Level 2	Level 3
Financial assets valued at the applicable fair value					
Financial instruments measured at fair value through profit or loss					
Currency future contracts in a hedging relationship	KEUR	45	0	45	0
Currency future contracts without hedging relationship	KEUR	0	0	0	0
Swaps and futures in a hedging relationship	KEUR	39	0	39	0
Change in fair value of underlying transactions in a hedging relationship	KEUR	39	0	39	0
Liabilities valued at the applicable fair value					
Financial liabilities measured at fair value through profit or loss					
Currency future contracts in a hedging relationship	KEUR	64	0	64	0
Currency future contracts without hedging relationship	KEUR	0	0	0	0
Swaps and futures in a hedging relationship	KEUR	0	0	0	0
Change in fair value of underlying transactions in a hedging relationship	KEUR	62	0	62	0

During the first nine months of the year, ending September 30, 2014 there were no transfers between Level 1, Level 2 and Level 3 fair value measurements. The movements into and out of Level 2 resulted from the ongoing hedge activities.

The table above illustrates the classification of the group´s financial instruments based on the fair value hierarchy as required for complete sets of financial statements. This classification provides a reasonable basis to illustrate the nature and extent of risks associated with those financial instruments.

Derivatives

The following table shows the stated derivative assets and liabilities with their fair values and the underlying nominal volumes.

Derivatives	**Nominal-volumes**		**Derivative assets = positive market values**	**Derivative liabilities = negative market values**
	KUSD	**KGBP**	**KEUR**	**KEUR**
Sep. 30, 2014				
Derivatives in a hedging relationship				
Fair value hedge				
Biodiesel hedge	8,264		101	0
Currency hedge	19,547		300	203
Derivatives without hedging relationship				
Fair value hedge				
Biodiesel hedge	3,155		17	7
Currency hedge	3,000		0	33
TTL			418	243
Dec. 31, 2013				
Derivatives in a hedging relationship				
Fair value hedge				
Biodiesel hedge	10,051		39	0
Currency hedge	21,800		45	64
TTL			84	64

The fair values of the derivatives were determined according to the mark-to-market method.

Description of the existing derivatives as of the reporting date

Biodiesel swap transactions (in a hedging relationship)
To hedge the proceeds from sales contracts linked to petroleum prices, hedges in the form of fixed biodiesel sales are against variable petroleum prices. The inefficiencies resulting from the valuation of the current open contracts were recognized on the income statement. The prospective efficiency measurement was in the acceptable range. The retrospective efficiency was calculated using the Dollar-Offset Method.

Currency transactions (in a hedging relationship)
To hedge the foreign currency receivables resulting from the sale of biodiesel, hedges were used in the form of fixed currency sales. In contrast to that fixed currency purchases were used to hedge raw material purchases in foreign currencies. The inefficiencies resulting from the valuation of the current open contracts were recognized on the income statement. The prospective efficiency measurement was in the acceptable range. The retrospective efficiency was calculated using the Dollar-Offset Method.

Biodiesel swap transactions (in a none hedging relationship)
Petrotec performed hedging activity reflecting the general market expectation in a minor volume. Those transactions are not in a hedging relationship.

7. Finance Lease Liabilities

Trade Payables and other liabilites contain EUR 93k within short term and EUR 1,009k within long term related to finance lease liabilities, mainly comprising the finance lease of the tank storage facility in Emden.

8. Cash and equivalents

For the purposes of the interim consolidated statement of cash flow, cash and cash equivalents are comprised of the following:

Cash and equivalents, current assets	Unit	Sep. 30, 14	Dec. 31, 13
Cash equivalents	KEUR	93	0
Cash	KEUR	12,333	9,935
TTL	KEUR	12,426	9,935

9. Related Party Disclosures

The ultimate parent corporation, headquartered in Tel Aviv, Israel is IC Green Energy Ltd. The ultimate controlling parent corporation is Israel Corporation Ltd., in Tel Aviv, Israel.

During the first nine months, except for drawing on shareholder loans and the positions stated in the table below, there were neither any business relations between the Petrotec group and IC Green Energy Ltd. nor with the ultimate controlling parent corporation of Israel Corporation Ltd.

The following table shows the total for transactions between related parties in the respective first nine months of 2014:

Related party disclosures	Unit	Sales / services to related parties	Purchases / services rendered by related parties	Receivables from related parties	Liabilities owed to related parties
IC Green Energy Ltd., Tel Aviv (Israel) Q3/2014	KEUR	171	0	0	12,506
IC Green Energy Ltd., Tel Aviv (Israel) 2013	KEUR	0	0	0	12,506

10. Share-based payments

During the first nine months of 2014 no new stock options were granted. Out of the Senior Executive Plan 2013 a total of EUR 192k was allocated to personnel expenses during the first nine months of 2014.

11. Contingent liabilities

Income taxes for previous periods

In the first quarter of 2010, Vital Fettrecycling GmbH, a wholly owned subsidiary and part of the tax group of Petrotec AG, closed a debt waiver transaction with IKB Deutsche Industriebank AG as part of the restructuring effort done at the time by the company. The agreement stipulated that IKB Deutsche Industriebank AG would waive a repayment for loans granted to Vital Fettrecycling GmbH in 2007 totaling EUR 18.9 million in exchange for a one-time payment of EUR 2.2 million. As a result of this transaction, IKB Deutsche Industriebank AG effectively waived EUR 16.7 million of its claims against Vital Fettrecycling GmbH and, accordingly, Vital Fettrecycling GmbH had to account for extraordinary income from cancellation of debt. Consequently the 2010 result of Petrotec AG included an extraordinary one-time income of EUR 16.7 million from the charge off of the loans, which turned the annual result being positive for the same year.

Based on a tax field audit, the local tax authorities of the German state of Northrhine-Westphalia (NRW) have assessed income tax payments for fiscal year 2010 against Petrotec AG amounting to EUR 892.094,05 corporate and trade tax. The tax assessment is based on the authorities' opinion that the proceeds from the above described debt waiver transaction do not meet the requirements of a so-called restructuring profit (Sanierungsgewinn) pursuant to the decree of the German Ministry of Finance (BMF) of March 27, 2003 (so-called bail-out decree, Sanierungserlass). The calculation of the stated amount took the minimum taxation into account as Petrotec was able to only partially use its loss carry forwards, the company had at that time.

In the 2nd quarter of the 2011 Petrotec executed a capital increase transactions in which IC Green Energy participated and pursuant to which passed the 50% holding threshold. As a result, Petrotec lost all of its tax loss carry forwards.

On August 26, 2010, in another similar particular case, the federal fiscal court (BFH) raised serious doubts that the minimum taxation fulfills the constitutional requirements when the possibility of loss offsetting in the following assessment periods is not granted. In its letter from October 19, 2011, the German Ministry of Finance (BMF) followed a decision of the federal fiscal court (BFH) that the taxation, for similar cases, should be suspended until a final legal judgment is given. Petrotec submitted an application to suspend the tax payment until the federal fiscal court (BFH) will decide upon the matter. The request was approved by financial authorities in Borken enabling the company not to pay the sum due until a decision in court is taken.

The management still assumes that the above mentioned waiver agreement - contrary to the opinion of the tax authorities - meets the requirements for a so-called restructuring profit (Sanierungsgewinn). Additionally the management shares the doubts raised by the federal fiscal court (BFH) concerning the decision of the ministry of finance (BMF) and assumes that it is more likely that a tax liability will not finally concluded. For this reason a tax provision has neither been recognized for the fiscal year 2012 nor for the fiscal year 2013. A tax expert review supports the management in its decision. No changes have come to effect during the first nine months of 2014.

12. Declaration of the legal representative

We assure to the best of our knowledge that in accordance with the applicable accounting principles, the interim consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the group and that the interim group management report gives a true and fair view of the business development including the result and situation of the group and also describes the significant opportunities and risks relating to the anticipated development of the group for the remaining fiscal year.

Borken, November 7, 2014

Jean Scemama
Management Board
Petrotec AG

V FINANCIAL CALENDER 2014

Annual Report 2013	March 18, 2014
Q1 Report	May 14, 2014
Annual General Meeting	May 28, 2014
H1 Report	August 13, 2014
Q3 Report	November 12, 2014
Annual Report 2014	March 18, 2015

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