MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR THE HISTORICAL FINANCIAL DATA AS OF AND FOR THE NINE MONTH PERIODS ENDED 30 SEPTEMBER, 2012 AND 2013

As of 1 September, 2013 CeramTec Holding GmbH obtained control of the advanced ceramics business consisting of CeramTec GmbH and its subsidiaries, CeramTec North America Corporation, PST Press + Sintertechnik Sp.z o.o. and Press and Sinter Technics de Mexico, S.A. de C.V. Accordingly, the condensed interim consolidated financial statements as of 30 September, 2013 do not include the advanced ceramics business until 31 August, 2013. The unaudited condensed interim consolidated financial statements of CeramTec Holding Group as of 30 September, 2013 contain additional disclosures to explain the effects of the business combination on the financial condition and the results of operations of the group. As a result the comparability and the significance of the financial data presented are limited.

The purpose of this MD&A is to show the development of the financial results of the operating business for the nine month period ended 30 September, 2013 in comparison to the nine month period ended 30 September, 2012. It must be noted that the current nine month period includes effects from the increased level of indebtedness as well as the purchase price accounting and does not show the advanced ceramics business on a Pro Forma basis in respect of the financial statements shown below.

The historical financial data as of and for the nine month periods ending 30 September, 2012 and 2013 has been derived from the unaudited condensed combined interim financial statements of the advanced ceramics business.

The following discussion should be read in conjunction with the information contained in our unaudited condensed interim consolidated financial statements for the period 15 July to 30 September, 2013 and the Pro Forma interim consolidated financial information for the period 1 July to 30 September, 2013 including the footnotes separately provided to you.

Results of Operations

The following table sets forth amounts from our combined financial information along with the percentage change for the nine month period ended 30 September, 2013 compared to the nine month period ended 30 September, 2012:

	Nine Months Ended 30 September,		
	2012	**2013**	**Change**
	(in EUR million)		*(%)*
Net sales	325.7	331.2	1.7
Cost of products sold	183.4	201.1	9.7
Gross profit on sales	**142.3**	**130.1**	**(8.6)**
Selling costs	40.8	44.8	9.8
General and administration costs	9.7	15.6	60.8
Other income	0.8	0.3	(62.5)
Other expenses	19.3	48.4	150.8
Profit from operations	**73.3**	**21.6**	**(70.5)**
Financial income	0.3	1.9	533.3
Financial expenses	11.0	18.8	70.9
Financial result	**(10.7)**	**(16.9)**	**(57.9)**
Earnings before taxes	**62.6**	**4.7**	**(92.5)**
Taxes on income	(3.3)	(7.8)	136.4
Net income / (Net loss)	**59.3**	**(3.1)**	**(105.2)**

Net Sales

The following table provides an overview of our sales in the first three quarters of 2013 compared to the respective comparative period in 2012 on a business unit level:

	Nine Months Ended 30 September,		
	2012	2013	Change
	(in EUR million)		*(%)*
Medical Applications(1)	**109.5**	**122.6**	**12.0**
Industrial Applications(1)	**216.2**	**208.6**	**(3.6)**
Thereof Multifunctional Ceramics	34.4	33.6	(2.3)
Thereof Electronic Applications	31.9	33.0	3.4
Thereof Cutting Tools	26.5	26.1	(1.5)
Thereof Mechanical Systems	26.1	29.0	11.1
Thereof Mechanical Applications	17.5	16.4	(6.3)
Thereof CeramTec-ETEC	16.5	12.4	(24.8)
Thereof Other Applications	88.5	88.6	0.1
Consolidation(2)	(25.2)	(30.5)	(21.0)
Total net sales	**325.7**	**331.2**	**1.7**

(1) The numbers presented for Medical Applications and Industrial Applications are external net sales to third parties.

(2) The sales presented for the business units of Industrial Applications include internal sales to Group companies. The line item "Consolidation" represents all internal sales between business units which are listed under Industrial Applications. Our management believes that sales including internal sales for our business units in Industrial Applications provide a better description of trends in these business units due to substantial internal sales between our business units in Industrial Applications.

Our net sales increased by 1.7% from EUR 325.7 million in the first three quarters of 2012 to EUR 331.2 million in the first three quarters of 2013. While the growth in Medical Applications and in Mechanical Systems continued in the first three quarters of 2013, the declining economy in several of our target markets resulted in a significant decrease in sales in our Industrial Applications.

Our net sales in Medical Applications continued to grow significantly by 12.0% from EUR 109.5 million in the first three quarters of 2012 to EUR 122.6 million in the first three quarters of 2013, principally due to our strong market position in the growing total hip replacement market and increased market share of ceramic components.

Net sales in Industrial Applications decreased by 3.6% from EUR 216.2 million in the first three quarters of 2012 to EUR 208.6 million in the first three quarters of 2013. Our sales in Multifunctional Ceramics decreased due to lower sales especially to one of our large customers. Cutting Tools declined mainly due to a slowdown in the automotive industry. Mechanical Applications' sales declined, mainly due to lower demand in the textile and textile-machinery market in China. Mechanical Systems developed favorably due to higher sales with cartridges for sanitary fittings. Sales in CeramTec-ETEC decreased because of lower demand for ballistic applications. Sales in Other Applications slowed down because of lower demand in Malaysia, North America and the Czech Republic.

The regional split of the sales is 30.7 % for Germany, 45.1 % for Europe, 10.8 % for North America, 10.8 % for Asia and 2.6 % for other regions. The split is broadly similar to the same period in the prior year.

Cost of Products Sold and Gross Profit on Sales

The following table shows a break-down of our costs of products sold for the nine month period ended 30 September, 2012 and 2013:

	Nine Months Ended 30 September,			
	2012		2013	
	(in EUR million)	*(% of net sales)*	*(in EUR million)*	*(% of net sales)*
Cost of materials and packing	63.4	19.5	64.8	19.6
Energies	11.9	3.7	12.5	3.8
Other variable costs	5.2	1.6	3.6	1.0
Personnel expenses	71.2	21.8	76.9	23.2
Amortization and depreciation expenses	18.6	5.7	26.1	7.9
Maintenance expenses of factory building and equipment	6.3	1.9	7.2	2.2
Other costs	6.8	2.1	10.0	3.0
Cost of products sold	**183.4**	**56.3**	**201.1**	**60.7**

Cost of products sold increased by 3.9% from EUR 183.4 million or 56.3% of net sales in the first three quarters of 2012 to EUR 190.5 million (excluding effects from the purchase price allocation of EUR 10.6 million) or 57.5% of net sales resulting in total cost of products sold of EUR 201.1 million or 60.7 % of net sales in the first three quarters of 2013. The increase was primarily caused by price increases and a less favourable sales mix. Our gross profit on sales decreased from EUR 142.3 million in the first three quarters of 2012 to EUR 130.1 million in the first three quarters of 2013. Our gross profit margin developed negatively from 43.7% in the first three quarters of 2012 to 39.3% as a result of a declining share of some higher margin industrial sales in the first three quarters of 2013.

Selling Costs

Our selling costs increased from EUR 40.8 million or 12.5% of net sales in the first three quarters of 2012 to EUR 42.5 million (excluding effects from the purchase price allocation of EUR 2.3 million) or 12.8% of net sales in the first three quarters of 2013 in line with our strategy to increase our sales force globally and develop stronger customer relationships. Most notably, our expenses increased because of sales force and sales activity increases in Medical Applications and Electronic Applications. Additionally, we invested in selling activities related to our project to develop new medical products.

General and Administration Costs

Our general and administration costs increased from EUR 9.7 million or 3.0% of net sales in the first three quarters of 2012 to EUR 15.6 million or 4.7% of net sales in the first three quarters of 2013, mainly due to increased stock option expenses (EUR 3.4 million) as well as pension costs (EUR 0.5 million).

Other Income

Other income decreased from EUR 0.8 million in the first three quarters of 2012 to EUR 0.3 million in the first three quarters of 2013, due to lower currency gains.

Other Expenses

Other expenses increased by 58.5% from EUR 19.3 million in the nine month period ended 30 September, 2012 to EUR 30.6 million (excluding acquisition related costs of EUR 17.8 million) in the nine month period ended 30 September, 2013 due to an increase in research and development cost of EUR 1.8 million, as well as costs of EUR 8.0 million which relate to the acquisition process of the Group.

Financial Income

Financial income increased from EUR 0.3 million in the first three quarters of 2012 by EUR 1.6 million up to EUR 1.9 million in the first three quarters of 2013 because of currency valuation of loans and from derivatives.

Financial Expenses

Financial expenses increased from EUR 11.0 million in the nine month period ended 30 September, 2012 to EUR 18.8 million in the nine month period ended 30 September, 2013, because of the new finance structure after the acquisition and the valuation of derivatives.

Taxes on Income

Taxes on income decreased from EUR 3.3 million as tax expense in the nine month period ended 30 September, 2012 to EUR 7.8 million as tax income in the nine month period ended 30 September, 2013 mainly due to the recognition of deferred tax assets of EUR 9.0 million on tax losses carried forward mainly resulting from acquisition related costs, which must be expensed for tax purposes. In addition to that taxes on income are also affected by the release of deferred income tax liabilities of EUR 3.7 million as a result of the purchase price allocation.

Net income

Our net income declined from EUR 59.3 million in the first three quarters of 2012 to a loss after tax of EUR 3.1 million in the first three quarters of 2013. Several factors had an influence on our net income, especially the additional expenses from the purchase price allocation, the acquisition related costs as well as our increased level of indebtedness.

Financial Condition, Liquidity and Capital Resources

As of September 30, 2013 the gross financial debt, the cash balance as well as the undrawn Revolving Credit Facility show the following numbers.

	Nine Months Ended 30 September, 2013
	(in EUR million)
Gross financial debt (without accrued transaction costs)	957.6
thereof bond	*306.7*
thereof term loans	*640.6*
thereof mark-to-market measure cross-currency swaps	*10.3*
Cash	63.9
Net debt	893.7
Undrawn revolver credit facility	100.0

In the last quarter of 2013 we expect to use a further EUR 47 million of cash to settle remaining purchase price adjustments and transaction costs.

The following table shows the cashflow for the nine months period ended 30 September, 2013:

	Nine Months Ended September 30, 2013
	(in EUR million)
Net income	(3.1)
Taxes on income	7.8
Profit before taxes	4.7
Income taxes paid (-)	(1.0)
Depreciation and amortization on non-current assets	38.6
Gains / Losses from disposal of non-current assets	0.3
Increase in provisions	23.7
Finance income	(2.0)
Interest expenses	8.4
Other Financial Expenses	1.3
Change in fair value measurement of financial instruments	(4.0)
Increase (-)/ decrease in inventories	(2.4)
Increase (-)/ decrease in Trade receivables	(3.3)
Increase (-) / decrease in other accounts receivable	(18.0)
Increase/ decrease (-) in trade accounts payable	(2.4)
Increase/ decrease (-) in other accounts payable	15.1
Expense recognized in respect of share-based payments	4.0
Cash flow from operating activities	**63.0**
Cash inflow from disposal of property, plant and equipment	0.1
Cash outflow for capital investments in property, plant and equipment	(32.7)
Cash outflow for capital investments in other intangible assets	(2.0)
Acquisition of businesses	(1,543.5)
Cash flow from investing activities	**(1,578.1)**
Repayment of borrowings	(7.9)
Proceeds from loans to affiliated companies	81.1
Cash outflow from current accounts with affiliated companies	(213.0)
Cash outflow from profit transfer agreement	(26.9)
Cash outflow from the repurchase of treasury shares	(4.0)
Cash inflow from capital contribution from shareholder	689.4
Cash inflow from issue of bonds	300.0
Proceeds from borrowings	627.7
Cash inflow from shareholder loan	120.0
Cash outflow from the repurchase of instruments within the scope of the share-based payment program, in excess of capital contribution	1.6
Cash flow from financing activities	**1,568.0**
Change in cash and cash equivalents	52.9
Effects of exchange rate changes on cash and cash equivalents	1.5
Cash and cash equivalents at the beginning of the period	9.5
Cash and cash equivalents at the end of the period	**63.9**

EBITDA and Adjusted EBITDA

The following table reconciles net income to EBITDA and Adjusted EBITDA for the periods presented:

	Nine Months Ended September 30,	
	2012	**2013**
	(in EUR million)	
Net income	59.3	(3,1)
Taxes on income	3,3	7,8
Financial result	10,7	16,9
Amortization and depreciation	29,5	38,6
EBITDA	**102,8**	**60,2**
Rockwood management fee[(a)]	3,9	3,3
Restructuring costs[(b)]	0,8	0,6
Exchange losses/(gains) on financing activities	(0,5)	0,5
Adjustment for rebate to a customer[(c)]	0,6	0,5
Share-based remuneration[(d)]	0,5	4,0
Non-recurring items[(e)]	0,5	33,9
Release of inventory fair value step-up[(f)]	0,0	4,2
Estimated standalone costs[(g)]	2,9	2,9
Adjusted EBITDA	**111,5**	**110,1**

(a) The Rockwood management fee relates to payments made to Rockwood for providing certain group functions and services to the Group, mainly insurance coverage, treasury and tax support until the acquisition by CeramTec Holding. Since 1 September, 2013 no additional management fees were paid to Rockwood. Instead, it is expected to incur standalone costs in connection with building up group functions and services provided to us by Rockwood, most notably insurance coverage, treasury and tax support. See footnote (g) below.

(b) Restructuring costs refers to headcount reductions and severance payments.

(c) The adjustment for a rebate paid to a customer refers to price calculation adjustments in 2011, 2012 and the first quarter of 2013 and a subsequent refund to this customer in the first quarter of 2013. The price adjustment for the nine months period ended 30 September, 2012 is based on the assumption that first three quarters of the adjustments related to 2012 are allocated to this nine months period.

(d) Share-based remuneration relates to costs in connection with the Rockwood share-based payment plan until 31 August, 2013.

(e) Non-recurring items mainly include acquisition related costs to acquire the advanced ceramics business incurred by the acquirer as well as transaction related costs incurred by CeramTec GmbH. Furthermore the non-recurring items include increased one-off costs due to pension plan amendments and funding obligations to pension schemes. In addition this line item comprises a valuation allowance on a trade receivable sundry non-recurring items especially gains and losses on asset disposals.

(f) Release of inventory fair value step-up relates to the fair value measurement of inventories acquired within the business combination, which were expensed in the costs of products sold in September 2013 due to the consumption of the respective inventory items.

(g) Estimated standalone costs are management's estimates established in connection with the acquisition of Rockwoods advanced ceramics business for recurring costs for group functions and services previously provided to us by Rockwood, mainly insurance coverage, audit fees, headcount costs, treasury, tax and accounting support.

Recent Developments

Currently there are no developments to report.