CeramTec Holding GmbH

(formerly: Faenza Germany GmbH)

Plochingen

Consolidated Financial Statements
as of
31 December 2013

CeramTec Holding GmbH, Plochingen

CeramTec
THE CERAMIC EXPERTS

Consolidated statement of comprehensive income

from 15 July to 31 December 2013

	Note	15 July to 31 December 2013 EUR k	3 June to 14 June 2013 EUR k
Revenue	3.1	145.444	0
Cost of sales	3.2	116.559	0
Gross profit		**28.885**	**0**
Selling costs	3.3	24.079	0
Research and development costs	3.4	6.887	0
General administrative costs	3.5	6.723	2
Other income	3.6	1.400	0
Other expenses	3.7	18.469	9
Operating income		**-25.873**	**-11**
Interest income and other finance income		8.874	0
Interest expenses and other finance costs		30.618	0
Financial result	**3.8**	**-21.744**	**0**
Earnings before tax	**3.9**	**-47.617**	**-11**
Tax income	3.9	4.162	0
Net loss for the year		**-43.455**	**-11**
Other comprehensive income, after income tax			
Items that will not be recycled through profit or loss in future			
Income from the remeasurement of pension provisions		1.170	0
Deferred taxes		-202	0
		968	0
Items that are recycled through profit or loss under certain conditions			
Gains/losses on cash flow hedges		-5.228	0
Deferred taxes		1.490	0
		-3.738	0
Difference from currency translation		-5.067	0
Other comprehensive income, after income tax		**-7.837**	**0**
Total comprehensive income		**-51.292**	**-11**

CeramTec Holding GmbH, Plochingen

Consolidated statement of financial position
as of 31 December 2013

Assets	Note	31 December 2013	14 July 2013	3 June 2013
		EUR k	EUR k	EUR k
Goodwill	4.1	548.872	0	0
Other intangible assets	4.1	681.814	0	0
Property, plant and equipment	4.2	306.894	0	0
Other financial assets	4.3	7.082	0	0
Other assets	4.4	1.925	0	0
Deferred taxes	3.9	2.399	0	0
Non-current assets		**1.548.986**	**0**	**0**
Inventories	4.5	71.354	0	0
Trade receivables	4.6	43.374	0	0
Other financial assets	4.3	858	0	0
Other receivables and assets	4.4	9.249	0	0
Cash and cash equivalents	4.7	66.963	75	25
Current assets		**191.798**	**75**	**25**
Total assets		**1.740.784**	**75**	**25**

Equity and liabilities

	Note	31 December 2013	14 July 2013	3 June 2013
		EUR k	EUR k	EUR k
Issued capital	4.8	25	25	25
Capital reserves	4.8	378.148	0	0
Revenue reserves and consolidated net income	4.8	-42.498	-11	0
Accumulated other comprehensive income	4.8	-8.805	0	0
Equity		**326.870**	**14**	**25**
Provisions for pension obligations	4.9	62.214	0	0
Other provisions	4.10	4.286	2	0
Financial liabilities to affiliates	4.11	123.338	0	0
Financial liabilities to third parties	4.12	918.636	0	0
Deferred taxes	3.9	190.555	0	0
Non-current liabilities		**1.299.029**	**2**	**0**
Other provisions	4.10	8.993	0	0
Provisions (taxes)	4.10	402	0	0
Financial liabilities to third parties	4.12	61.924	59	0
Trade payables		31.898	0	0
Other liabilities	4.13	11.668	0	0
Current liabilities		**114.885**	**59**	**0**
Liabilities, total		**1.413.914**	**61**	**0**
Total equity and liabilities		**1.740.784**	**75**	**25**

CeramTec Holding GmbH, Plochingen

Consolidated statement of changes in equity as of 31 December 2013

	Issued capital	Capital reserves	Revenue reserves and consolidated net income	Accumulated other comprehensive income		Equity
				Cash flow hedge reserve	Difference from currency translation	
Reference to disclosure in notes	(4.8)	(4.8)	(4.8)			
	EUR k	EUR k	EUR k	EUR k	EUR k	EUR k
3 Jun 2013	**25**	**0**	**0**	**0**	**0**	**25**
Net income for the period	-	-	(11)	-	-	(11)
Other comprehensive income	-	-	-	-	-	0
Total comprehensive income	-	-	*(11)*	-	-	(11)
14 Jul 2013	**25**	**0**	**(11)**	**0**	**0**	**14**
Net income for the period	-	-	(43.455)	-	-	(43.455)
Other comprehensive income	-	-	968	(3.738)	(5.067)	(7.837)
Total comprehensive income	-	-	*(42.487)*	*(3.738)*	*(5.067)*	(51.292)
Contribution by owners	-	378.148	-	-	-	378.148
31 Dec 2013	**25**	**378.148**	**(42.498)**	**(3.738)**	**(5.067)**	**326.870**

CeramTec Holding GmbH, Plochingen

Consolidated statement of cash flows from 15 July to 31 December 2013*

	15 July to 31 December 2013	3 June to 14 July 2013
	EUR k	EUR k
Net loss for the year	-43.455	-11
Tax income	-4.162	0
Interest result	28.738	0
Write-downs / write-ups (-) on non-current assets	41.543	0
Gain (-) / loss on disposal of fixed assets	-42	0
Increase / decrease (-) in provisions (excluding deferred taxes)	-17.637	2
Interest paid (-)	-7.756	0
Income tax payment (-)	-391	0
Other non-cash expenses/income (-)	-9.692	0
Increase (-) / decrease in inventories	17.746	0
Increase (-) / decrease in trade receivables	5.942	0
Increase (-) / decrease in other receivables and (financial) assets	-7.334	0
Increase / decrease (-) in trade payables	10.183	0
Increase / decrease (-) in other liabilities	8.929	59
Cash flow from operating activities	**22.612**	**50**
Cash received from disposals of property, plant and equipment	75	**0**
Cash paid (-) for investments in property, plant and equipment	-20.358	0
Cash received from grants	1.025	0
Cash paid (-) from investments in intangible assets	-449	0
Cash paid (-) for the acquisition of entities	-1.359.615	0
Cash flow from investing activities	**-1.379.322**	**0**
Cash received from contribution to capital reserve	378.148	0
Cash received from issuance of bond	299.799	0
Cash received from syndicated loan	625.625	0
Cash received from shareholder loan	120.000	0
Cash flow from financing activities	**1.423.572**	**0**
Change in cash and cash equivalents	66.862	50
Currency effects	26	0
Cash and cash equivalents at the beginning of the period	75	25
Cash and cash equivalents at the end of the period	**66.963**	**75**

*Please refer to notes chapter 5

CeramTec Holding GmbH

(formerly: Faenza Germany GmbH)

Plochingen

Notes to the Consolidated Financial Statements as of 31 December 2013

1 General

1.1 Corporate information and purpose of the Company

The purpose of CeramTec Holding GmbH (formerly: Faenza Germany GmbH; hereinafter “CeramTec Holding”) is to render management services as well as administrative, financial and business services in return for remuneration to entities in which it has a direct or indirect shareholding or which are controlled by its shareholder. It may set up branch offices in Germany and abroad, establish other entities in Germany and abroad despite their legal form, acquire, invest in and hold these investments and/or manage them as well as enter into and/or issue all kinds of financial instruments.

The subsidiaries of CeramTec Holding are leading global producers of high-performance ceramics and specialized in the development, production and sale of assemblies, components and products made from ceramic materials. The companies are primarily active in the following markets: automotive, electronic applications, energy and environmental applications, equipment and mechanical engineering and medical technology. Their activities focus on developing solutions for increasingly demanding application areas using many different and in part highly-specialized ceramic materials with unique mechanical, electrical, thermal and biochemical properties and property combinations.

CeramTec Holding’s registered office is located at CeramTec-Platz 1-9 in 73207 Plochingen, Germany. CeramTec Holding is the parent company of the Group (“CeramTec Holding Group”) and at the same time the ultimate parent, which prepares exempting consolidated financial statements.

CeramTec Holding was founded on 3 June 2013. The first fiscal year was an abbreviated fiscal year for the period from 3 June 2013 to 14 July 2013. This abbreviated fiscal year is referred to in the following as the comparative period. The second fiscal year is also an abbreviated fiscal year for the period from 15 July 2013 to 31 December 2013. This abbreviated fiscal year is referred to in the following as the fiscal year. As the acquisition of the operating business did not take place until during the fiscal year, the prior-year figures are not comparable. Where no prior-year figures are presented in the following, their value is EUR 0k. From fiscal year 2014 onwards, the fiscal year will correspond to the calendar year.

The management of CeramTec Holding approved the consolidated financial statements on 22 April 2014 for submission to the shareholder meeting.

1.2 Basis of preparation

The consolidated financial statements are prepared pursuant to Sec. 315a (3) HGB [“Handelsgesetzbuch”: German Commercial Code] in accordance with the International Financial Reporting Standards (IFRS/IAS) as adopted by the EU as well as the interpretations of the IFRS Interpretations Committee (IFRS IC) applicable for the fiscal year and the supplementary requirements of German commercial law. These consolidated financial statements are the first IFRS financial statements within the meaning of IFRS 1.

The requirements of the standards and interpretations adopted were satisfied in full. Furthermore, all applicable requirements of German commercial law were observed during the preparation. The financial statements give a true and fair view of the net assets, financial position and results of operations of the CeramTec Holding Group.

The financial statements are presented in euro. The amounts are in thousands of euros (EUR k). All amounts are rounded using standard commercial principles. In individual cases, adding individual values to the total value may therefore lead to differences.

For the purpose of clarity, various items in the statements of financial position and statement of comprehensive income were combined and explained accordingly in the notes to the financial statements. Assets and liabilities are broken down into current and non-current items. Assets and liabilities are classified as current if they are expected to be realized within twelve months from the reporting date. The expense recognized in profit or loss is broken down using the function of expense method. In the statement of cash flows, cash flow from operating activities is determined using the indirect method, while cash flow from investing and financing activities is determined using the direct method.

1.3 Entities included in the consolidated financial statements

In addition to the financial statements of the parent company, the financial statements of the following entities in which CeramTec Holding has a direct or indirect shareholding are included in the consolidated financial statements as of 31 December 2013:

Name of the entity	Share of capital in %
CeramTec Group GmbH, Plochingen	100.00
CeramTec Service GmbH, Plochingen	100.00
CeramTec GmbH, Plochingen	100.00
Cerasiv GmbH Innovatives Keramik-Engineering, Plochingen	100.00
CeramTec-ETEC GmbH, Lohmar	100.00
Emil Müller GmbH, Wilhermsdorf	100.00
CeramTec Italia s.r.l. in Liquidazione, Milan, Italy	100.00
CeramTec UK Ltd., Colyton, UK	100.00
CeramTec Czech Republic s.r.o., Sumperk, Czech Republic	100.00
CeramTec Ibérica Innovative Ceramic Engineering S.L., Vilassar de Mar, Spain	100.00
CeramTec Innovative Ceramic Engineering, (M) Sdn. Bhd., Seremban, Malaysia	100.00
CeramTec Korea Ltd., Suwon-Si, Republic of Korea	100.00
CeramTec Suzhou Ltd., Suzhou, China	100.00
PST Press Sintertécnica Brasil Ltda., Nova Odessa, Brazil	100.00
CeramTec India Innovative Ceramic Engineering Pvt. Ltd., Panaji - Goa, India	99.80
Press and Sinter Technics de Mexico S.A. de C.V., Puebla, Mexico	100.00
CeramTec Acquisition Corporation, Laurens, USA	100.00
CeramTec North America Corporation, Laurens, USA	100.00
Faenza Poland Sp. z.o.o., Gorzyce, Poland	100.00
PST Press + Sintertechnik Sp. z.o.o., Gorzyce, Poland	100.00
DuraWear Corporation, Birmingham, USA	100.00

CeramTec Holding has a direct shareholding in CeramTec Group GmbH and an indirect shareholding in the other subsidiaries.

CeramTec Group GmbH and CeramTec Service GmbH make use of the exemption from publishing the financial statements and the management report for the abbreviated fiscal year from 15 July to 31 December 2013 pursuant to Sec. 264 (3) HGB.

CeramTec GmbH, Cerasiv GmbH Innovatives Keramik-Engineering and Emil Müller GmbH as well as CeramTec-ETEC GmbH make use of the exemption from publishing the financial statements and the management report for the abbreviated fiscal year from 1 September to 31 December 2013 pursuant to Sec. 264 (3) HGB.

1.4 Changes to the consolidated group

Based on the purchase agreement dated 15 June 2013, CeramTec Service GmbH (formerly: Faenza Acquisition GmbH; hereinafter "CeramTec Service"), an indirect subsidiary of CeramTec Holding, purchased, effective as of 31 August 2013, 24:00 hours/1 September 2013, 0:00 hours (midnight transaction), the high-performance ceramics division from entities of the Rockwood Group; the division is allocated to the following entities:

- CeramTec GmbH, Plochingen, Germany (CeramTec GmbH)
- Press and Sinter Technics de Mexico S.A. de C.V., Puebla, Mexico (PST Mexico)
- CeramTec North America Corporation, Laurens, USA (CeramTec NA)
- PST Press + Sintertechnik Sp. z.o.o., Gorzyce/Poland (PST Poland)

Upon acquiring the shares in CeramTec GmbH, only 99.8% of the shares in CeramTec India Innovative Ceramic Engineering Pvt. Ltd., Panaji - Goa, India, were acquired indirectly. On the ground of immateriality, the business combination was accounted for as if 100% of the shares had been acquired. Consequently, the non-controlling interests are not reported separately under equity.

Through this acquisition, CeramTec Holding acquired indirect control over these entities and their subsidiaries and has consolidated these since 1 September 2013 pursuant to IAS 27.

The acquisition is intended to drive growth of the Group also outside of its European core markets. New product initiatives as well as additional investments in production locations are also to be pursued.

The acquisition of the shares was financed via capital increases as well as a shareholder loan of EUR 120,000k from the shareholder of CeramTec Holding, Faenza Luxembourg S.à.r.l., Luxembourg (Faenza Lux). In addition, a bond of EUR 306,700k was issued and a loan of EUR 647,420k taken out. There is also an undrawn line of credit of EUR 100,000k.

The consideration transferred to obtain control amounts to EUR 1,547,000k and contains the purchase price for the shares of EUR 1,527,838k as well as the purchase price for loan receivables from the acquired entities of EUR 19,162k. The total consideration transferred is rendered exclusively in the form of cash. The fair value of the acquired assets and liabilities amounts to EUR 996,723k, with

EUR 3,500k having not yet been paid as of 31 December 2013. The acquisition as of 1 September 2013 therefore resulted in goodwill of EUR 550,277k.

The following table shows the allocation of the purchase price to the acquired assets and liabilities:

	Fair value EUR k
Trademarks	51,289
Technology	236,177
Customer relationships	406,384
Order backlog	10,758
Other intangible assets	3,267
Intangible assets	***707,875***
Land and buildings	102,307
Plant and machinery	169,772
Other equipment, furniture and fixtures	6,383
Assets under construction	27,183
Property, plant and equipment	***305,645***
Other assets	1,320
Deferred taxes	33,066
Inventories	89,100
Trade receivables	49,316
Other receivables and assets	5,338
Cash and cash equivalents	183,886
Assets	**1,375,545**
Provisions for pensions	(62,803)
Provisions and other liabilities	(59,644)
Financial liabilities to affiliates	(26,732)
Financial liabilities to third parties	(2,162)
Deferred taxes	(227,481)
Equity and liabilities	**(378,822)**
Total assets at fair value	**996,723**
Total consideration transferred	1,547,000
Goodwill from the acquisition	**550,277**

Deferred taxes were calculated using local tax rates of between 15% and 34%.

Goodwill reflects the value of expected future results that are to be realized in the next few years and cannot be allocated to individual assets. Tax-deductible goodwill amounts to EUR 75,021k as of the acquisition date. Deferred tax assets recognized thereon amount to EUR 20,055k.

Their fair value of the acquired receivables amounts to EUR 49,316k. The gross volume of the contractual receivables amounts to EUR 50,912k. It was assumed that receivables of EUR 1,596k were non-recoverable.

When determining the fair values, contingent liabilities of EUR 800k were recognized for environmental risks which had not previously been accounted for as provisions.

The costs associated with the business combination amount to EUR 17,787k. These are recognized in the consolidated statement of comprehensive income under the item “Other expenses”.

The acquisition caused the revenue of the CeramTec Holding Group to increase by EUR 145,398k. The net income for the period increased by EUR 2,139k as a result. Had the acquisition taken place on 15 July 2013, revenue would have increased by an additional EUR 69,486k in the fiscal year. Compared with the net income for the period that was disclosed, net income for the period would have decreased by EUR 19,833k. As no interim financial statements were prepared for the high-performance ceramics division as of 15 July 2013, these disclosures contain the revenue as well as the earnings contributions since 1 July 2013.

The business combination is recognized on a preliminary basis as of the reporting date as the purchase price allocation and therefore the identification and measurement of the acquired assets and liabilities has not yet been concluded.

2 Accounting principles

2.1 Basis of consolidation

Entities included in the consolidated financial statements are included as of the date on which CeramTec Holding obtains control over them. They are deconsolidated on the date on which CeramTec Holding ceases to have control.

In accordance with IAS 27, uniform accounting policies are used to prepare the separate financial statements of the companies included in the consolidated financial statements.

All significant intercompany receivables and liabilities, revenue, income and expenses and any intercompany profits and losses are eliminated. Pursuant to IAS 12, deferred taxes are recognized for temporary differences arising from consolidation entries.

If less than 100% of equity in a subsidiary is allocable to CeramTec Holding, the interests allocated to the other shareholders are generally disclosed separately under equity as non-controlling interests. For reasons of immateriality, this does not apply to the non-controlling interests in CeramTec India Innovative Ceramic Engineering Pvt. Ltd., Panaji - Goa, India.

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value. This is determined as the total of the acquisition-date fair values of the transferred assets, the liabilities assumed from the former owners of the acquired entity and the equity instruments issued by the acquirer in exchange for control of the acquiree. Acquisition-related costs are recognized in profit or loss as incurred.

Goodwill is measured as the excess of the aggregate of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the equity share in the acquiree previously held by the acquirer (if available) over the net of the acquisition-date fair value of the identifiable assets acquired and liabilities assumed. If the fair value of the acquired net assets is higher than the consideration transferred, CeramTec Holding reassesses and examines whether it has correctly identified all acquired assets and all assumed liabilities. In the event that - even after reassessment - excess remains, the resulting gain is recognized directly in profit or loss.

For acquisitions of equity investments with shares in capital below 100%, IFRS 3 allows for the goodwill attributable to non-controlling interests to also be recognized.

If CeramTec Holding acquires an entity, it measures the financial assets and liabilities for appropriate classification and designation in accordance with the contractual terms, economic conditions and pertinent conditions as of the acquisition date. This also includes separating embedded derivatives in host contracts of the acquiree.

If the business combination is achieved in stages, previously held equity interests are remeasured at their acquisition-date fair value. Any gain or loss is recognized through profit or loss. It is taken into account when determining the goodwill.

All contingent consideration transferred by the acquirer is recognized at fair value as of the date of acquisition. A contingent consideration classified as an asset or liability, which is recognized as a financial instrument under IAS 39 *Financial Instruments: Recognition and Measurement*, is measured at fair value. Changes in the fair value are recognized either through profit or loss or under other comprehensive income depending on the classification. Should the contingent consideration not fall under IAS 39, it is examined in line with IFRS requirements. If the contingent consideration is classified as equity, it is not remeasured and its subsequent settlement is accounted for within equity.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment at least once a year (in the fourth quarter) as well as if there are indications of impairment. For the purpose of impairment testing, goodwill acquired in a business combination must, from the acquisition date, be allocated to each of the cash-generating units of CeramTec Holding, which is expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units or groups.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. If the internal management reporting structure is reorganized, any goodwill allocated to a cash-generating unit is reallocated based on the new reporting structure. Any goodwill disposed of under these circumstances is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit.

The cash-generating units (CGU) identified by CeramTec Holding to which the goodwill was allocated as part of the acquisition of the high-performance ceramics division breaks down as follows:

CGU CeramTec GmbH:

- CeramTec GmbH, Plochingen
- Cerasiv GmbH Innovatives Keramik-Engineering, Plochingen
- CeramTec Italia s.r.l. in Liquidazione, Milan, Italy
- CeramTec UK Ltd., Colyton, UK
- CeramTec Czech Republic s.r.o., Sumperk, Czech Republic
- CeramTec Ibérica Innovative Ceramic Engineering S.L., Vilassar de Mar, Spain
- CeramTec Innovative Ceramic Engineering, (M) Sdn. Bhd., Seremban, Malaysia
- CeramTec Korea Ltd., Suwon-Si, Republic of Korea
- CeramTec Suzhou Ltd., Suzhou, China
- CeramTec North America Corporation, Laurens, USA
- CeramTec Acquisition Corporation, Laurens, USA
- DuraWear Corporation, Birmingham, USA
- CeramTec India Innovative Ceramic Engineering Pvt. Ltd., Panaji - Goa, India

CGU Emil Müller GmbH:

- Emil Müller GmbH, Wilhermsdorf
- PST Press + Sintertechnik Sp. z.o.o., Gorzyce, Poland
- PST Press Sintertécnica Brasil Ltda., Nova Odessa, Brazil
- Press and Sinter Technics de Mexico S.A. de C.V., Puebla, Mexico
- Faenza Poland Sp. z.o.o.

CGU CeramTec-ETEC GmbH:

- CeramTec-ETEC GmbH, Lohmar

Foreign currency translation

The consolidated financial statements are prepared in euros, the functional currency of the CeramTec Holding Group. The financial statements prepared by entities that use a different functional currency are translated into euros in accordance with IAS 21. The equity of the foreign entities included in the consolidated financial statements is translated at the historical rate. The remaining items of the statements of financial position are translated at the respective closing rates. Income and expenses are translated at average annual rates. These are calculated as the mean value from the individual average monthly rates of the past twelve months, or the past four months in the case of the fiscal year.

Differences from the currency translation of assets and liabilities compared to the translation of the prior year as well as exchange differences between the income statement and the statement of financial position are recognized under other comprehensive income and retained in equity under accumulated other comprehensive income. These amounts recognized under other comprehensive income are reclassified to the income statement upon the partial or complete disposal of an entity included in the consolidated financial statements.

Foreign currency transactions in the local financial statements are translated at the spot rate at the date of the transaction.

The exchange rates of significant currencies used for the currency translation to the euro is as follows:

		31 December 2013	
		Closing rate	Average rate
USD	USA	1.37430	1.35510
RMB/CNY	China	8.32040	8.26300
GBP	UK	0.83000	0.84090
PLN	Poland	4.15450	4.19620
CZK	Czech Republic	27.33550	26.46940

The individual items of the statement of cash flows are translated at average rates, while cash and cash equivalents are measured at the spot rate at the date of the transaction.

2.2 Accounting policies

Revenue recognition

Revenue is recognized to the extent that it is probable that the economic benefits from the transaction will flow to the CeramTec Holding Group and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received less any trade discounts and rebates granted. Revenue and other income is recognized as follows:

Revenue from the sale of goods

Revenue from the sale of goods is recognized upon delivering the goods and transfer of ownership if the following criteria are satisfied:

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

Services

Revenue from services is recognized using the percentage of completion method if

- The amount of revenue can be determined reliably
- It is probable that the economic benefits associated with the transaction will flow to the entity
- The stage of completion of the transaction at the end of the reporting period can be determined reliably
- The costs incurred for the transaction and the costs to complete the transaction can be determined reliably

Interest income, compensation fees and dividend income

Interest income is recognized pro rata temporis using the effective interest method. Income from compensation fees is recognized in accordance with the terms of the underlying contracts on an accrual and pro rata basis. Dividend income is recognized when the right to receive payment is established.

Research and development costs

Research costs are expensed as incurred. If the requirements for recognition are not satisfied, development costs are recognized in profit or loss in the period in which they are incurred.

Intangible assets

Intangible assets are recognized if a future economic benefit is probable and can be measured reliably.

Individually acquired intangible assets are stated at cost. The cost of intangible assets acquired in a business combination is their acquisition-date fair value. Internally generated intangible assets are stated at the cost that arises during the development phase if all of the following criteria are met:

- Evidence of technical feasibility
- Intention of completion
- Ability to use the asset
- Evidence of economic benefit
- Availability of adequate financial, technical and other resources
- Ability to measure costs reliably

Following initial recognition, intangible assets are carried at cost less accumulated amortization and any accumulated impairment losses.

Intangible assets with finite useful lives are amortized on a straight-line basis over their useful life. Intangible assets acquired during the year are amortized pro rata temporis. The useful life and amortization method are reviewed at least annually at the end of each fiscal year. Changes are treated as changes in accounting estimates. Amortization is recognized in the production, administrative and selling costs. The useful life for technology amounts to 10 to 18 years, for customer relationships 5 to 18 years, for order backlogs 4 months. Intangible assets with finite useful lives are tested for impairment if there is an indication that the asset may be impaired.

Intangible assets with an indefinite useful life are tested annually for impairment. If the carrying amount of the asset is no longer recoverable, an impairment loss is recognized. Trademarks are assigned an indefinite useful life based on expectations of future use.

Impairment is assessed by comparing the carrying amount of the intangible assets with its recoverable amount at the level of the cash-generating unit. Intangible assets are grouped at the lowest level for which the cash flows can be separately identified. The recoverable amount of a cash-generating unit is defined as the higher of the fair value less the costs to sell and the value in use of a cash-generating unit. An impairment loss is charged if the carrying amount exceeds the recoverable amount. In the event that the impairment loss is reversed, the amortized cost is written up.

Property, plant and equipment

Property, plant and equipment are recognized at cost if a future economic benefit is probable and can be measured reliably. The cost of internally generated property, plant and equipment comprises direct material and labor costs as well as the directly attributable material and labor overheads. If the requirements of a qualifying asset are met, the cost also includes borrowing costs incurred during production pursuant to IAS 23. A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale.

Following initial recognition, property, plant and equipment are carried at cost less accumulated amortization and any accumulated impairment losses.

Property, plant and equipment are generally depreciated using the straight-line method. Property, plant and equipment acquired during the year are depreciated pro rata temporis. The useful lives of property, plant and equipment amount to 10 to 40 years for buildings and building components, 3 to 25 years for plant and machinery as well as 3 to 12 years for other equipment, furniture and fixtures. Low-value assets with an acquisition cost not exceeding EUR 150.00 are expensed immediately in the year of acquisition. Low-value assets with a cost of between EUR 150 and EUR 1,000 are recognized in a catch-all item and depreciated collectively over five years using the straight-line method.

Property, plant and equipment are tested for impairment if there is an indication that the asset may be impaired. Impairment is assessed by comparing the carrying amount of the item of property, plant and equipment with its recoverable amount at the level of the cash-generating unit. Property, plant and equipment are grouped at the lowest level for which the cash flows can be separately identified. The recoverable amount of a cash-generating unit is defined as the higher of the fair value less the costs to sell and the value in use of a cash-generating unit. An impairment loss is charged if the carrying amount exceeds the recoverable amount. In the event that the impairment loss is reversed, the amortized cost is written up.

Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at inception date and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset. A reassessment after the inception of the lease is only performed under the conditions set forth in IFRIC 4.

A lease is classified as a finance lease if substantially all risks and rewards incidental to ownership are transferred to the lessee. Each leased asset is recognized under property, plant and equipment at its fair value or, if lower, at the present value of the minimum lease payments. The corresponding liability is disclosed as a finance lease obligation under financial liabilities to third parties. The leased asset is depreciated in subsequent periods over the contractual term or the shorter useful life. Payment to the lessor is divided into interest and repayment components, with the interest components recognized as a constant rate of interest of the remaining lease liability through profit or loss over the term of the lease.

All other leases are classified as operating leases. Rental payments under such lease arrangements are recognized as an expense on a straight-line basis.

Government grants

Government grants are recognized if there is reasonable assurance that they will be received and the Company will comply with the conditions attaching to them. Government grants are recognized in profit or loss in the period in which the corresponding expenses are recognized. Government grants for investment projects directly reduce the cost of the corresponding items of property, plant and equipment upon first-time recognition. Government grants related to income are offset against the corresponding expenses.

Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. Financial instruments comprise primary and derivative financial instruments.

Primary financial liabilities are generally measured at fair value upon first-time recognition. This includes current and non-current investments as well as granted loans and receivables and financial liabilities.

A derivative financial instrument is an agreement whose value changes in response to a variable that generally does not require a prepayment for acquisition or a prepayment that is lower than for other forms of agreement that can be expected to react to changes in market conditions in a similar way or is settled at a future date. All derivative financial items are recognized at fair value upon their first-time recognition on the trade date.

Financial assets

Financial assets are allocated to the following categories:

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

Classification depends on the nature and purpose of the financial asset and is designated upon addition. Items are reclassified on the reporting date where permitted and necessary.

Financial assets are initially recognized at fair value. Transaction costs directly attributable to the acquisition of financial assets that are not measured at fair value through profit or loss increase the carrying amount of the financial asset initially recognized. Transaction costs directly allocated to financial assets that are recognized at fair value through profit or loss are recognized directly in the income statement.

Purchases or sales of financial instruments that require delivery of assets within a time frame established by regulations or conventions in the marketplace (securities spot transactions) are recognized on the trade date, i.e. the date that the CeramTec Holding Group commits to purchase or sell the asset.

The subsequent measurement of the financial assets depends on their designation to the above mentioned categories.

Financial assets at fair value through profit or loss encompass financial assets held for trading and financial assets designated upon initial recognition as measured at fair value. Financial assets are classified as held for trading if they were acquired for the purpose of selling or repurchasing in the near term. Derivative financial instruments, including embedded derivatives to be separated from the host contract, are also classified as held for trading if they are not designated as effective hedging instruments within the scope of IAS 39. As of the reporting date, the CeramTec Holding Group has not made use of the option to designate primary financial instruments upon initial recognition as financial assets at fair value through profit or loss. Changes in the fair value of financial assets measured at fair value through profit or loss are presented as finance income or finance costs in the income statement. Within the CeramTec Holding Group, the termination rights agreed in the bond represent embedded derivatives to be separated which are allocated to the held-for-trading category.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. In the case of the CeramTec Holding Group, this relates to trade receivables and other financial receivables. After initial recognition, financial assets categorized under loans and receivables are accounted for at amortized cost using the effective interest rate method, less any impairment losses. When calculating amortized cost, markdowns or markups are taken into account as well as fees or costs which are an integral part of the effective interest method. The effective interest rate is recognized in the interest result. If there is any indication of impairment of loans and receivables (e.g., with regard to considerable financial difficulties or significant changes in the environment of the debtor), impairment losses are charged and recognized under other operating expenses through profit or loss. For trade receivables, impairment losses are charged using an allowance account. Trade receivables are derecognized if a bad debt is actually incurred. The impairment loss is reversed if the reasons for charging the impairment loss again no longer apply.

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity which the CeramTec Holding Group intends to hold to maturity and is also generally able to do so. After initial recognition, financial assets under this category are accounted for at amortized cost using the effective interest rate method, less any impairment losses. The CeramTec Holding Group does not have any held-to-maturity investments.

Available-for-sale financial assets relate to acquired equity and debt instruments. Equity instruments classified as available for sale are those that are not held for trading or measured at fair value through profit or loss. Debt instruments allocated to this category which are held for an indefinite period of time may be sold in response to changes in market conditions or when liquidity is required. After initial recognition, available-for-sale financial assets are subsequently measured at fair value. Changes in fair value are recognized as unrealized gains and losses under other comprehensive income until the available-for-sale financial assets are derecognized or an impairment loss is charged. At this point in time the gains or losses are reclassified from other comprehensive income to the income statement. The CeramTec Holding Group does not hold any available-for-sale financial assets.

A financial asset is derecognized if the contractual rights to receive cash flows from the financial asset expire or if the Group has transferred its contractual rights to receive cash flows from the financial asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party to which the opportunities and risks or control were transferred.

Financial liabilities

Financial liabilities are categorized either as financial liabilities at fair value through profit or loss or as other financial liabilities upon initial recognition. Financial liabilities are initially recognized at fair value. Transaction costs directly attributable to the issue of financial assets that are not measured at fair value through profit or loss decrease the amount of the financial asset initially recognized. Transaction costs directly attributable to financial liabilities that are recognized at fair value through profit or loss are recognized directly in the income statement. The financial liabilities of the CeramTec Holding Group relate to trade payables, bonds and loans as well as liabilities to banks, finance lease liabilities, derivative financial instruments and other financial liabilities.

The subsequent measurement of financial liabilities depends on their designation to the following categories:

Financial liabilities at fair value through profit or loss include financial liabilities held for trading as well as financial liabilities categorized upon initial recognition as financial liabilities at fair value through profit or loss. Financial liabilities are classified as held for trading if they are held for the purpose of selling in the near future. Derivative financial instruments, including embedded derivatives to be separated from the host contract, are also classified as held for trading if they are not designated as effective hedging instruments within the scope of IAS 39. Changes in the fair value of financial liabilities measured at fair value through profit or loss are presented as finance income or finance costs in the income statement. Within the CeramTec Holding Group, the interest rate caps contained in the syndicated loan agreement represent separated embedded derivatives which are allocated to the held-for-trading category.

Other financial liabilities are all liabilities that are not measured at fair value through profit or loss. They are measured at amortized cost using the effective interest method. When calculating amortized cost, markdowns or markups are taken into account as well as fees or costs which are an integral part of the effective interest method. The effective interest rate is recognized in the interest result. Other financial liabilities of the CeramTec Holding Group include trade payables, bonds, liabilities to banks, finance lease liabilities and other financial liabilities.

A financial liability is derecognized when the obligations named in the agreement are settled, canceled or expire.

Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position if there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

Hedges

Hedge accounting denotes a special form of accounting that modifies the accounting treatment of the hedged item and hedging instrument in a hedging relationship such that the results of measuring the hedged item or hedging instrument are recognized in the period incurred directly in equity or in profit or loss. Accordingly, the application of hedge accounting is based on matching the offsetting values of the hedging instrument and the hedged item. IAS 39 provides for three types of hedging relationship where the strict requirements for hedge accounting in individual cases are met:

- Fair value hedge, when the risk of changes in the fair value of a recognized receivable or liability or an unrecognized contractual obligation is hedged.

- Cash flow hedge, when the risk of changes in cash flows is hedged, associated with a recognized receivable or liability or a highly probably forecast transaction, or with a currency risk of an unrecognized contractual obligation.

- Hedge of a net investment in a foreign operation.

The CeramTec Holding Group uses currency swaps in order to hedge most of the foreign currency risks resulting from the USD loan. These hedges are recognized as cash flow hedges, with the effective part of the change in fair value of derivatives designated as hedging instruments recorded under other comprehensive income, while the ineffective part of the change in value is immediately recognized in profit or loss. Changes in value recognized in other comprehensive income are reclassified to the income statement in the period in which the hedged item affects the profit or loss for the period.

Measurement at fair value

The CeramTec Holding Group measures derivative financial instruments at fair value. The fair value is also stated in the notes to the financial statements for all other financial instruments.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This applies regardless of whether the price is directly observable or has been determined by applying a valuation method. Measurement at fair value is based on the assumption that the transaction, in order to sell or transfer the asset or liability, is performed in one of the following places:

- On the principal market for the asset or the liability or,

- if there is no principal market, on the most advantageous market for the asset of the liability

The principal market or the most advantageous market must be accessible for the CeramTec Holding Group as of the reporting date.

When calculating the fair value of an asset or a liability, the Group takes into account certain characteristics of the asset or the liability (such as condition and location of the asset or limitations of sale and use) if market participants also took these characteristics into account when determining the price for the acquisition of the respective asset or transferring the asset as of the reporting date.

Fair value measurement of a non-financial asset takes into account the ability of a market participant to generate economic benefits through the best use of the asset or by selling it to another market participant that would find the best use for the asset.

Inventories

Inventories are measured at the lower of cost or net realizable value.

Costs of purchase comprise the purchase price as well as all other costs directly attributable to the acquisition. Costs of purchase are determined using the weighted average cost method.

In addition to direct material and labor costs, costs of conversion comprise a share of production-related material and labor overheads, including depreciation insofar as this is a consequence of the production process, as well as production-related administrative costs. Production costs do not contain any borrowing costs incurred during production as inventories held at the CeramTec Holding Group are not qualifying assets pursuant to IAS 23.

Inventories are written down to reflect risks from reduced salability. The net realizable value is the selling price during the ordinary course of business less the estimated costs of completion and selling costs. Previously recognized write-downs are reversed if the reasons for the write-downs cease to apply. In this case, the amount of the write-down is reversed and the reversal is limited to the amount of the original write-down.

Cash and cash equivalents

Cash and cash equivalents generally comprise cash in hand and bank deposits as well as cash and short-term deposits with an original term of up to three months. The cash and cash equivalents reported in the statement of cash flows correspond to the amounts recognized in the statement of financial position.

Provisions for pension obligations

Defined benefit obligations are measured using the projected unit credit method. These take into account the benefits vested in the current period and other periods in exchange for the work performed by employees. When calculating the amount of total obligations, adjustment to salaries and pensions expected in the future as well as the probability of employee turnover depending on age and gender are also factored into calculations. Pension obligations in Germany are determined on the basis of the 2005 G mortality tables of Prof. Dr. Klaus Heubeck. Pension obligations outside of Germany are determined taking into account country-specific parameters.

The obligations are discounted using discount rates derived from high-quality, fixed-interest corporate bonds with the same currency and term. If no high-quality, fixed-interest corporate bonds are available, yields on government bonds are used instead. Net interest on the net liability is determined by multiplying the net liability with the discount rate.

Remeasurements comprise actuarial gains and losses, the return on plan assets and changes in the effect of the asset ceiling while excluding amounts included in net interest on the net liability. These are recognized in other comprehensive income. Remeasurements are not reclassified to the income statement in later periods.

Past service cost results from the change in the present value of the defined benefit obligation arising from a plan amendment or curtailment and is recognized as an expense.

The fair value of the plan assets is deducted from the present value of the pension obligations. Plan assets are assets that are held by a long-term employee benefit fund. This fund must be legally separate from the reporting entity and exist solely to pay or fund employee benefits.

Provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event and it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate can be made of the amount of the provision.

The amount of the provision recognized is the best estimate of the expenditure required to settle the present obligation as of the reporting date. The best estimate must take account of inherent risks and uncertainties. If a provision is measured on the basis of the estimated cash flow required to settle the obligation, these cash flows are discounted in cases where the effect of the time value of money is significant.

If it can be assumed that portions of or the entire economic benefits required to settle the provision are reimbursed by an external third party, this claim is recognized as an asset if the reimbursement is virtually certain and its amount can be reliably determined. The amount recognized for the reimbursement should not exceed the amount of the provision.

Contingent liabilities and contingent assets

Contingent liabilities are not recognized in the consolidated financial statements. They are disclosed in the notes to the financial statements, unless an outflow of resources embodying economic benefits is very unlikely. Contingent assets are also not shown in the statement of financial position. They are described in the notes to the financial statements provided an inflow of economic benefits is regarded as probable.

Taxes

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities based on the tax rates and tax laws that have been enacted or substantively enacted as of the reporting date.

Deferred tax assets and liabilities are recorded for all deductible and taxable temporary differences between the carrying amounts in the tax accounts and the IFRS consolidated statement of financial position. Deferred tax assets also include tax refund claims that result from the expected utilization of existing unused tax losses or interest carryforwards in subsequent years, the realization of which can be assumed with reasonable assurance. Deferred tax assets and deferred tax liabilities are measured at the tax rates that are expected to apply when the temporary differences are likely to reverse, based on tax rates and tax laws that have been enacted or substantively enacted as of the reporting date.

Deferred tax relating to items recognized outside profit or loss is recognized outside profit or loss. They are recognized in line with the underlying transaction in other comprehensive income.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

There is a consolidated tax group for income tax purposes between CeramTec Holding (as the parent), CeramTec Group GmbH, CeramTec Service GmbH, CeramTec GmbH, Cerasiv GmbH, CeramTec-ETEC GmbH and Emil Müller GmbH. There is also a consolidated tax group for VAT purposes between CeramTec Service GmbH as the parent company and CeramTec GmbH, Cerasiv GmbH, CeramTec-ETEC GmbH and Emil Müller GmbH.

2.3 Estimation uncertainties and exercise of judgment

The preparation of the consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of income, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the reporting date. These estimates and assumptions are made to obtain an appropriate overview of the net assets, financial position and results of operations of the CeramTec Holding Group. The underlying assumptions are revised regularly. However, the actual results may vary from those anticipated.

In the process of applying the accounting policies of the CeramTec Holding Group, management performed the following measurements which have a significant impact on the consolidated financial statements.

Business combinations

Business combinations are accounted for using the acquisition method. The acquired assets and liabilities are measured at their acquisition-date fair value.

Using the acquisition method requires certain estimates and judgments, particularly with regard to determining the fair value of the acquired intangible assets and property, plant and equipment as well as the liabilities assumed. The expected useful lives of the acquired intangible assets and property, plant and equipment also have to be determined.

This measurement is largely based on estimated future cash flows. Deviations between the actual cash flows and those determined when calculating the fair value can have a significant effect on the future net income for the period of the CeramTec Holding Group.

Goodwill of EUR 548,872k (14 July 2013: EUR 0k) was recognized as of the reporting date. Furthermore, other intangible assets of EUR 681,814k (14 July 2013: EUR 0k) are disclosed.

Impairment of non-financial assets

Assumptions were made to calculate the recoverable amount to determine whether impairment losses had to be recognized on intangible assets and property, plant and equipment. In this regard, future cash flows were derived from the budget planning and medium-term forecast for each of the cash-generating units. Management assumes that the assumptions and estimates, on which the discounted cash flows are based, are accurate. Nevertheless, changes in the economic environment and growth assumptions can affect impairment testing resulting in the need to recognize impairment losses or to reverse impairment losses in the future.

As of the reporting date of the financial year and the comparative period, no impairment loss was identified as necessary for non-financial.

Valuation allowances on receivables

The recoverability of trade receivables was assessed based on the estimated likelihood of default. Accordingly, receivables from customers on whose assets insolvency proceedings have been initiated are written off in full (to the extent that any collateral provided is not recoverable). As of the reporting date, an impairment loss of EUR 471k (14 July 2013: EUR 0k) was identified as necessary.

Provisions for pensions

Defined benefit plans are measured using actuarial valuations. These contain assumptions of discount rates, future salary trends, mortality rates and future pension increases.

Pension provisions of EUR 62,214k (14 July 2013: EUR 0k) were recorded as of the end of the reporting period.

Provisions

Provisions are recognized if a past event has led to a current legal or constructive obligation to third parties which is expected to lead to a future outflow of resources that can be estimated reliably.

The provisions are reviewed at each reporting date and adjusted according to the best estimate. Where the effect of the time value of the money is material, the amount provided for is the present value of the expenditures expected to be required to settle the obligation.

Provisions for the expected expenses from warranty obligations in accordance with national sales contract law are recognized as of the date on which the relevant products are sold according to the management's best estimate regarding the expenses required to settle the Group's obligation.

A provision is set up for the obligation to eliminate environmental damage if it is likely to be utilized and the costs can be estimate reliably. With ongoing examination and over the course of performing renovation measures, the provisions are adjusted in line with the knowledge gained. The amount of the individual provisions is influenced by factors such as the extent of the contamination, the renovation measures called for and additional demands from authorities, companies or private persons.

Provisions of EUR 13,681k (14 July 2013: EUR 2k) were recorded as of the end of the reporting period.

Deferred tax assets:

The calculation of deferred tax assets requires assumptions to be made relating to the future taxable income and temporal use of deferred tax assets. These assumptions take into account the anticipated development and effect on earnings from the reversal of taxable temporary differences. As future business developments cannot be foreseen with certainty and are not entirely within the CeramTec Holding Group's sphere of influence, the measurement of deferred tax assets involves a level of uncertainty.

As of the reporting date, deferred tax assets of EUR 2,399k (14 July 2013: EUR 0k) were recognized.

2.4 Adoption of amended and new standards and interpretations: Changes in accounting policies due to first-time adoption of revised and new IFRS and IFRIC

The following amended IFRSs and IFRICs were adopted for the first time in the fiscal year:

Amendments to IFRS 1: "Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters"

The amendment to IFRS 1 was issued in December 2010 and becomes effective for the first time for fiscal years beginning on or after 1 January 2013. The amendment regulates how an entity should resume preparing its financial statements in accordance with IFRSs when its functional currency ceases to be subject to hyperinflation. This amendment does not have any effect on the financial statements of the CeramTec Holding Group.

Amendments to IFRS 1: "Government Loans"

The amendment to IFRS 1 was issued by the IASB in March 2012 and becomes effective for the first time for fiscal years beginning on or after 1 January 2013. The IASB added an exception from the retroactive application of IFRS 9 and IAS 20. This amendment requires first-time adopters to apply the requirements of IAS 20 prospectively to government loans existing at the date of transition to IFRS. This amendment does not have any effect on the financial statements of the CeramTec Holding Group.

Amendments to IFRS 7: "Financial Instruments: Disclosures"

The amendments require extended disclosures in the notes on rights to set off. In addition to extended disclosures relating to offsetting actually applied in accordance with IAS 32, the amendments introduce disclosures for existing rights to set off irrespective of whether offsetting is actually performed in accordance with IAS 32. The amendments are effective retroactively for fiscal years beginning on or after 1 January 2013. This amendment does not have any effect on the CeramTec Holding Group, as it had already taken this into account in its first financial statements.

IFRS 13: "Fair Value Measurement"

IFRS 13 defines fair value, provides a framework for measuring fair value in one single IFRS and prescribes disclosures on the measurement of fair value. IFRS 13 is applied if another IFRS prescribes or permits measurement at fair value, or disclosures on the measurement of fair value are required. IFRS 13 is applicable prospectively for fiscal years beginning on or after 1 January 2013. This amendment does not have any effect on the CeramTec Holding Group, as it had already taken this into account in its first financial statements.

Amendment to IAS 1: "Presentation of Financial Statements"

As a result of the amendment, "other comprehensive income" presented in the statement of comprehensive income must be broken down to distinguish between items that are later recycled through profit or loss, and items that are not. The statement of comprehensive income in the consolidated financial statements contains income which is reclassified to profit or loss at a later date under certain conditions and income which is not reclassified to profit or loss. This amendment does not have any effect on the CeramTec Holding Group, as it had already taken this into account in its first financial statements.

Amendments to IAS 12: "Income Taxes" (Deferred Tax: Recovery of Underlying Assets)

Pursuant to IAS 12, the measurement of deferred taxes generally hinges on whether the Company recovers the carrying amount of an asset through use or through sale. If the asset is measured using the remeasurement method pursuant to IAS 40 ("Investment Property") or IAS 16 ("Property, Plant and Equipment"), it is difficult and subjective to assess whether an asset is recovered through sale or through use. The amendment introduces a rebuttable presumption that the carrying amount is recovered through sale. This amendment does not have any effect on the consolidated financial statements of CeramTec Holding because the remeasurement method is not used.

Amendments to IAS 19: "Employee Benefits"

The most significant amendment to IAS 19 is that in future cumulative actuarial gains and losses will be recognized directly in equity. The corridor method to smooth unexpected fluctuations in pension obligations is eliminated, including the recognition, in profit or loss, of actuarial gains and losses exceeding the 10% corridor. The expected return on plan assets will in future be calculated using the discount rate for the pension obligations. Future top-up amounts relating to German phased retirement obligations will in future be added to the associated provisions in installments. More extensive disclosures in the notes (e.g., disclosures on the financing strategy, sensitivity analyses) will also be required in future. The amendments are effective retroactively for fiscal years beginning on or after 1 January 2013. This amendment does not have any effect on the CeramTec Holding Group, as it had already taken this into account in its first financial statements.

Annual Improvements Project (2009 – 2011) – May 2012

The amendments encompass corrections and clarification of content and terminology of the standards IFRS 1 and IAS 1, 16, 32 and 34. The amendments are effective for the first time for fiscal years beginning on or after 1 January 2013. This amendment does not have any effect on the CeramTec Holding Group, as it had already taken this into account in its first financial statements.

- *IFRS 1: "First-time Adoption of IFRSs":* Repeated adoption of IFRS 1
- *IFRS 1: "First-time Adoption of IFRSs":* Borrowing costs
- *IAS 1: "Presentation of Financial Statements":* Disclosure of comparative information
- *IAS 16: "Property, Plant and Equipment":* Ability to recognize spare parts, stand-by equipment and servicing equipment
- *IAS 32: "Financial Instruments: Presentation":* Tax effects of dividends to holders of equity instruments
- *IAS 34: "Interim Financial Reporting":* Segment disclosures for total assets and liabilities in interim reporting

Amendments to IAS 36: "Impairment of assets"

The amendment to IAS 36 serves to clarify the disclosure obligations with regard to the measurement of the recoverable amount of impaired assets. The amendments are mandatory with retroactive effect for fiscal years beginning on or after 1 January 2014. This amendment does not have any effect on the CeramTec Holding Group, as it had already taken this into account in its first financial statements.

Not yet compulsory and newly issued IFRSs and IFRIC

Adoption of the following IFRSs and IFRIC was not yet compulsory in the fiscal year and/or they had not yet been endorsed by the European Commission for adoption in the European Union. In the fiscal year, none of these new or amended standards and interpretations were adopted earlier.

IFRS 9: "Financial Instruments"

The International Accounting Standards Board (IASB) has issued a new International Financial Reporting Standard (IFRS) on the classification and measurement of financial instruments. This marks the completion of the first phase of a three-phase project to replace IAS 39 Financial Instruments: Recognition and Measurement with a new standard. IFRS 9 introduces new regulations for the classification and measurement of financial assets. The previous date for first-time application as of 1 January 2015 was canceled by the IASB. In its meeting in November 2013, the IASB provisionally decided that a mandatory first-time application of IFRS 9 would apply at the earliest for fiscal years starting on or after 1 January 2017. On account of the IASB making ongoing amendments to IFRS 9, the CeramTec Holding Group has not yet concluded its assessment of any potential impact.

IFRS 9: "Financial Instruments"

In November 2013, the IASB added rules on hedge accounting to IFRS 9. The standard, intended to supplement and amend the version of IFRS 9 previously published, outlines in derogation from the legal position to date in particular new rules on the ability to designate instruments and risks, the effectiveness requirements, the adjustment and reversal of hedging relationships and in some cases the accounting treatment of hedging relationships. The standard results in a range of amendments to existing standards, including IFRS 7, which regulates the disclosure requirements for financial instruments, and the rules in versions of IFRS 9 already published in 2009 and 2010. The standard can be applied from the date of its publication, but presupposes the application of IFRS 9 in its entirety and contains extensive transition disclosures. On account of the IASB making ongoing amendments to IFRS 9, the CeramTec Holding Group has not yet concluded its assessment of any potential impact.

IFRS 10: "Consolidated Financial Statements"

IFRS 10 establishes a uniform definition for control and thus a uniform basis for determining whether a parent-subsidiary relationship exists and, in turn, for delimiting the consolidated Group. The new standard replaces the previously applicable IAS 27 (2008) Consolidated and Separate Financial Statements and SIC-12 Consolidation - Special Purpose Entities. IFRS 10 is applicable for fiscal years from 1 January 2014. No effects are expected on the consolidated financial statements of CeramTec Holding.

IFRS 11: "Joint Arrangements"

IFRS 11 governs the accounting treatment of situations where a company exercises joint control over a joint venture or a joint operation. The new standard replaces IAS 31 Interests in Joint Ventures and SIC-13 Jointly Controlled Entities – Non-Monetary Contributions by Venturers, which had previously governed the accounting treatment of joint ventures. The most significant change in IFRS 11 compared with IAS 31 is the removal of proportionate consolidation for joint ventures; in future, joint ventures must always be accounted for using the equity method. IFRS 11 is applicable for fiscal years from 1 January 2014. No effects are expected on the consolidated financial statements of CeramTec Holding.

IFRS 12: "Disclosure of Interests in Other Entities"

The objective of IFRS 12 is to prescribe disclosures on information that provides the users of financial statements with a basis for assessing the nature of interests in other entities (e.g. subsidiaries, associates) and the related risks and effects of these interests on the Group's net assets, financial position and results of operations. IFRS 12 is applicable for fiscal years from 1 January 2014. This does not result in any effects for the CeramTec Holding Group.

Amendments to IFRS 10, IFRS 11 and IFRS 12: "Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transitional Provisions"

The amendments contain clarifications on certain transitional provisions upon the first-time application of IFRS 10, IFRS 11 and IFRS 12. The date on which these amendments come into force is the same as that for IFRS 10, IFRS 11 and IFRS 12.

Amendments to IFRS 10, IFRS 12 and IAS 27: "Consolidated Financial Statements, Disclosure of Interests in Other Entities and Separate Financial Statements: Investment entities"

An additional amendment, which was published by IASB in October 2012, relates to the definition of investment entities. The amendment stipulates that investment entities be removed from the scope of the consolidation provisions of IFRS 10 and that all investments they control be measured at fair value through profit or loss. The standard is effective for fiscal years beginning on or after 1 January 2014. No effects are expected on the consolidated financial statements of CeramTec Holding.

Amendments to IFRS 14: "Accounting for Prepaid Expenses and Deferred Income"

IFRS 14 was published in January 2014 and is effective for fiscal years beginning on or after 1 January 2014. The standard permits companies to continue to account for regulatory deferral accounts from rate regulation in their first IFRS financial statements in accordance with their previous generally accepted accounting principles when they adopt IFRS. No effects are expected on the consolidated financial statements of CeramTec Holding.

Amendments to IAS 19: "Employee Benefits"

The amendment to IAS 19 was published in November 2013 and is effective for the first time in fiscal years beginning on or after 1 July 2014. The amendment regulates the recognition of contributions by employees or third parties to a pension plan as a reduction in service cost provided that these reflect the service rendered in the reporting period. The amendment is applicable retrospectively. Early adoption is permitted. No effects are expected on the consolidated financial statements of CeramTec Holding.

IAS 27: "Separate Financial Statements"

The amendment to IAS 27 was issued in May 2011 and becomes effective for the first time for fiscal years beginning on or after 1 January 2014. As a consequence of the new IFRS 10 and IFRS 12, the scope of IAS 27 is limited to the accounting treatment of subsidiaries, jointly controlled entities, and associates in separate financial statements. No effects are expected on the consolidated financial statements of CeramTec Holding.

IAS 28: "Investments in Associates"

The amendment to IAS 28 was issued in May 2011 and becomes effective for the first time for fiscal years beginning on or after 1 January 2014. This relates to the follow-up changes from the new IFRS 10, 11 and 12. The scope of IAS 28 has been extended to include the accounting treatment of joint ventures. No effects are expected on the consolidated financial statements of CeramTec Holding.

Amendments to IAS 32: "Financial Instruments: Presentation"

The amendment specifies the rules on offsetting. In order to satisfy the new offsetting criteria in accordance with IAS 32, the current, legally enforceable right of the reporting entity must not be contingent on any future event and must be applicable in the normal course of business as well as in the event of default or insolvency of a counterparty. In addition, the standard clarifies that a gross settlement mechanism satisfies the criteria for offsetting provided it eliminates or results in insignificant credit and liquidity risks, processes receivables and payables in a single settlement process or cycle and, therefore, ultimately is equivalent to a net settlement. The amendments will become effective for the first time for fiscal years beginning on or after January 1, 2014. No effects are expected on the consolidated financial statements of CeramTec Holding.

Amendments to IAS 39: "Novation of Derivatives and Continuation of Hedge Accounting"

The amendments to IAS 39 allow hedge accounting to be continued even in those cases where a counterparty to a non-listed hedging instrument changes in order to meet the clearing obligations for the instrument. The instrument must remain otherwise unchanged and the novation must be due to laws or regulatory requirements. The effects on the consolidated financial statements are currently being assessed. The amendments take effect on 1 January 2014, whereby early adoption is permitted. No effects are expected on the consolidated financial statements of CeramTec Holding.

IFRIC 21 "Levies"

IFRIC 21 provides guidance on when to recognize a liability for a levy imposed by a government. The interpretation applies both to levies that are recognized pursuant to IAS 37 "Provisions, Contingent Liabilities and Contingent Assets" and to levies for which both the timing and amount are already known. The interpretation governs the accounting treatment of levies which are imposed by governments (including public authorities and similar bodies) on the Company within the framework of laws and regulations. The effects on the consolidated financial statements are currently being assessed. IFRIC 21 is effective for accounting periods beginning on or after 1 January 2014. No effects are expected on the consolidated financial statements of CeramTec Holding.

Annual Improvements Project (2010 - 2012) – December 2013

The amendments encompass corrections and clarification of content and terminology of the standards IFRS 2, 3, 8, 13 and IAS 7, 16/38 and 24. The amendments are effective for the first time for fiscal years beginning on or after 1 July 2014. No effects are expected on the consolidated financial statements of CeramTec Holding.

- *IFRS 2: "Share-based Compensation":* Definition of vesting conditions
- *IFRS 3: "Business Combinations":* Classification of contingent consideration
- *IFRS 8 "Operating segments":* Aggregation of operating segments and reconciliation of segment assets to the entity's assets
- *IFRS 13: "Fair Value Measurement":* IFRS 13 was adjusted by subsequent amendments made to IFRS 9 and IAS 39
- *IAS 16/IAS 38: "Property, Plant and Equipment/Intangible Assets":* Treatment of accumulated depreciation using the revaluation method
- *IAS 24: "Related Party Disclosures":* Key management personnel

Annual Improvements Project (2011 - 2013) – December 2013

The amendments encompass corrections and clarification of content and terminology of the standards IFRS 1, 3, 13 and IAS 40. The amendments are effective for the first time for fiscal years beginning on or after 1 July 2014. No effects are expected on the consolidated financial statements of CeramTec Holding.

- *IFRS 1: "First-time Adoption of IFRSs":* Clarification of the relevant version of the standard
- *IFRS 3: "Business Combinations":* Exclusion of the founding of joint ventures from the scope of IFRS 3
- *IFRS 13: "Fair value measurement":* Scope of measurement on a portfolio basis
- *IAS 40: "Investment Property":* Clarification of the mutual relationship of IAS 40 and IFRS 3

3 Notes to the consolidated statement of comprehensive income

3.1 Revenue

Revenue results primarily from the sale of goods and merchandise and was realized since the acquisition of the operating subsidiaries. Revenue breaks down into regions and product groups as follows:

	15 July to 31 December 2013 EUR k	3 June to 14 July 2013 EUR k
Regions		
Europe	64,260	0
Germany	44,066	0
North America	16,778	0
Asia	16,586	0
Rest of world	3,754	0
Total	**145,444**	**0**
Product groups		
Industrial applications	90,736	0
Medical technology	54,708	0
Total	**145,444**	**0**

3.2 Cost of sales

The cost of sales breaks down as follows:

	15 July to 31 December 2013 EUR k	3 June to 14 July 2013 EUR k
Material and packaging costs	42,894	0
Amortization and depreciation	30,529	0
Personnel expenses	30,120	0
Other costs of sales	13,016	0
Total	**116,559**	**0**

Other costs of sales primarily contain energy costs and maintenance expenses.

3.3 Selling costs

Selling costs primarily contain amortization and depreciation as well as personnel expenses.

3.4 Research and development costs

Research and development costs mainly contain personnel expenses.

3.5 General administrative costs

General administrative costs primarily contain personnel expenses.

3.6 Other income

Other income of EUR 1,400k (3 June to 14 July 2013: EUR 0k) mainly result from income from cash receipts for receivables of EUR 1,095k that had been purchased at a lower fair value.

3.7 Other expenses

Other expenses of EUR 18,469k (3 June to 14 July 2013: EUR 9k) primarily contain transaction costs of EUR 17,787k for the acquisition of the high-performance ceramics division as well as exchange rate losses of EUR 509k. In the comparative period, transaction costs of EUR 9k related to the acquisition of the CeramTec Group GmbH and CeramTec Service GmbH.

3.8 Financial result

The financial result breaks down as follows:

	15 July to 31 December 2013 EUR k	3 June to 14 July 2013 EUR k
Interest income and other finance income		
Interest income from derivatives	5,231	0
Exchange rate gains	3,575	0
Other interest income	68	0
Total interest income and other finance income	**8,874**	**0**
Interest expenses and other finance costs		
Interest expense from external financing	24,467	0
Interest expense from shareholder loans	3,338	0
Interest expenses from derivatives	1,295	0
Exchange rate losses	330	0
Other interest expenses	1,187	0
Total interest expenses and other finance costs	**30,618**	**0**
Total financial result	**-21,744**	**0**

The exchange rate gains and losses result from loans that are not granted in the functional currency of the group companies concerned. More information on interest income and interest expenses from derivatives can be found in note 4.15.

Of the interest expense, EUR 9,981k (3 June to 14 July 2013: EUR 0k) results from the bond and EUR 10,163k (3 June to 14 July 2013: EUR 0k) from the syndicated loan. An additional EUR 4,579k (3 June to 14 July 2013: EUR 0k) is attributable to the effective interest rate of the syndicated loan and the bond. Borrowing costs of EUR 255k were capitalized in property, plant and equipment pursuant to IAS 23.

Other interest expenses of EUR 726k (3 June to 14 July 2013: EUR 0k) are due to unwinding the discount on provisions.

3.9 Income tax expense

There is a consolidated tax group for income tax purposes between CeramTec Holding and its German subsidiaries. This means that German corporate income tax and trade tax is only levied at the level of the parent company, CeramTec Holding. CeramTec Holding also has direct shareholdings in foreign corporations. The income tax expense of the CeramTec Holding Group therefore includes, in addition to German corporate income tax and trade tax, the tax expense of the foreign corporations, which was calculated based on taxable income according to local tax law and the tax rate applicable in each case.

Negative earnings before tax of EUR 47,617k (3 June to 14 July 2013: negative earnings of EUR 11k) is allocable to Germany and abroad as follows:

	15 July to 31 December 2013 EUR k	3 June to 14 July 2013 EUR k
Germany	-47,431	-11
Abroad	-186	0
Total	**-47,617**	**-11**

Tax income of EUR 4,162k (3 June to 14 July 2013: EUR 0k) breaks down as follows:

	15 July to 31 December 2013 EUR k	3 June to 14 July 2013 EUR k
Current income tax expense	-680	0
Deferred tax income	4,842	0
Tax income	**4,162**	**0**

Overall, this produces a weighted tax rate for the CeramTec Holding Group of 28.5% (3 June to 14 July 2013: 28.5%). The following table presents a reconciliation of the nominal to the effective tax rate (i.e., tax expense in relation to earnings before tax). The effective tax rate factors in both the current and the deferred tax rate and takes into account all influences, such as non-deductible operating expenses or a change in the assessment base.

	15 July to 31 December 2013		3 June to 14 July 2013	
	EUR k	%	EUR k	%
Earnings before tax	**-47,617**		**-11**	
Expected tax income	13,570	-28%	-3	29%
Permanent differences	-3,685	8%	0	0%
Non-recognition of deferred taxes on interest carryforwards	-5,767	12%	0	0%
Adjustments from prior years	-7	0%	0	0%
Other adjustments	51	0%	3	-29%
Tax income and effective interest rate	**4,162**	-9%	**0**	0%

Deferred taxes

Deferred income taxes were calculated using the expected tax rate. The deferred taxes are offset where there is an enforceable legal right to do so and they are levied by the same tax authority. The deferred tax assets and liabilities stem from the following:

	31 December 2013		14 July 2013	
	Assets	Liabilities	Assets	Liabilities
	EUR k	EUR k	EUR k	EUR k
Tax loss carryforwards	5,571	0	0	0
Property, plant and equipment	268	29,012	0	0
Goodwill and other intangible assets	19,120	182,793	0	0
Inventories, receivables and other assets	3,918	4,751	0	0
Non-current provisions	8,462	327	0	0
Current provisions and other liabilities	8,134	16,745	0	0
Other	0	1	0	0
Total deferred taxes	**45,473**	**233,629**	**0**	**0**
Offsetting	-43,074	-43,074	0	0
Deferred taxes	**2,399**	**190,555**	**0**	**0**

Other comprehensive income contains accumulated deferred tax expenses on the remeasurement of pension provisions of EUR 202k (14 July 2013: EUR 0k) and accumulated deferred tax income on gains/losses from cash flows hedges of EUR 1,490k (14 July 2013: EUR 0k).

Unused tax losses

Unused tax losses break down as follows:

	31 December 2013	14 July 2013
	EUR k	EUR k
Interest carryforwards	22,675	0
on which no deferred tax assets are recognized	22,675	0
Foreign unused tax losses	3,813	0
on which no deferred tax assets are recognized	767	0
Total unused tax losses	38,410	0
on which no deferred tax assets are recognized	767	0

Deferred tax assets were recognized on unused tax losses of EUR 37,643k (14 July 2013: EUR 0k).

Foreign unused tax losses mainly result from the earnings of group companies in the Czech Republic EUR 2,550k (14 July 2013: EUR 0k) and in Spain EUR 292k (14 July 2013: EUR 0k) as well as the UK EUR 203k (14 July 2013: EUR 0k). They are, with the exception of the losses from the UK, can only be utilized for a limited time.

Temporary differences in connection with shares in affiliated companies in the amount of EUR 4,218k are not subject to deferred tax liabilities, because it is not likely that such temporary differences will reverse in the foreseeable future.

3.10 Additional information on the type of expenses

Cost of materials

In fiscal year 2013, cost of materials amounted to EUR 50,481k (3 June to 14 July 2013: EUR 0k).

Personnel expenses

Personnel expenses break down as follows:

	15 July to 31 December 2013 EUR k	3 June to 14 July 2013 EUR k
Wages and salaries	36,244	0
Social security contributions incl. pension expenses	9,112	0
Total	**45,356**	**0**

Personnel expenses are contained in cost of sales, selling, research and development and general administration costs as well as other expenses.

Employees

On average, the Group employed 3,196 people in the fiscal year. These break down as follows:

	31 December 2013 Headcount	14 July 2013 Headcount
Salaried employees	1,101	0
Wage earners	2,095	0
Total	**3,196**	**0**

Amortization and depreciation

Amortization and depreciation break down as follows:

	15 July to 31 December 2013 EUR k	3 June to 14 July 2013 EUR k
Amortization of intangible assets	25,782	0
Depreciation of property, plant and equipment	15,760	0
Total	**41,542**	**0**

4 Notes to the consolidated statement of financial position

4.1 Intangible assets

Intangible assets break down as follows:

		Other intangible assets					
	Goodwill	Trademarks	Technology	Customer relationships	Order backlog	Other	**Total**
	EUR k	EUR k	EUR k	EUR k	EUR k	EUR k	EUR k
Cost							
3 June 2013	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Additions from business combinations	0	0	0	0	0	0	0
Additions	0	0	0	0	0	0	0
Government grants	0	0	0	0	0	0	0
Disposals	0	0	0	0	0	0	0
Reclassifications	0	0	0	0	0	0	0
Exchange differences	0	0	0	0	0	0	0
14 July 2013	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Additions from business combinations	550,277	51,289	236,177	406,384	10,758	3,267	1,258,152
Additions	0	0	0	0	0	449	449
Government grants	0	0	0	0	0	-18	-18
Disposals	0	0	0	0	0	0	0
Reclassifications	0	0	0	0	0	0	0
Exchange differences	-1,405	0	0	-686	0	-30	-2,121
31 December 2013	**548,872**	**51,289**	**236,177**	**405,698**	**10,758**	**3,668**	**1,256,462**

	Goodwill	Other intangible assets					
		Trade-marks	Technology	Customer relationships	Order backlog	Other	**Total**
	EUR k	EUR k	EUR k	EUR k	EUR k	EUR k	EUR k
Amortization/ impairment							
3 June 2013	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Additions to amortization	0	0	0	0	0	0	0
Additions to impairment	0	0	0	0	0	0	0
Disposals	0	0	0	0	0	0	0
Reclassifications	0	0	0	0	0	0	0
Exchange differences	0	0	0	0	0	0	0
14 July 2013	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Additions to amortization	0	0	4,659	9,530	10,758	835	25,782
Additions to impairment	0	0	0	0	0	0	0
Disposals	0	0	0	0	0	0	0
Reclassifications	0	0	0	0	0	0	0
Exchange differences	0	0	-2	-1	0	-3	-6
31 December 2013	**0**	**0**	**4,657**	**9,529**	**10,758**	**832**	**25,776**
Net carrying amounts							
31 December 2013	548,872	51,289	231,520	396,169	0	2,836	1,230,686
14 July 2013	0	0	0	0	0	0	0

Goodwill is attributable to the acquisition of the high-performance ceramics division by CeramTec Holding. This was allocated to the cash-generating units CeramTec GmbH (EUR 490,032k), Emil Müller GmbH (EUR 39,563k) and CeramTec-ETEC GmbH (EUR 19,277k).

The purchase price allocation involved the trademarks CeramTec, BIOLOX and SPK being identified and recognized. These recorded a carrying amount of EUR 51,289k as of 31 December 2013 (14 July 2013: EUR 0k). As the recognized trademarks do not represent a product-specific trademark and do not have a limited life, the useful life for the recognized trademarks was classified as indefinite. The trademarks were allocated to the cash-generating unit CeramTec GmbH.

Technology has a carrying amount of EUR 231,520k (14 July 2013: EUR 0k) and primarily contains the basic technology underlying high-performance ceramics. This has an average weighted remaining useful life of 17.0 years.

Customer relationships have a carrying amount of EUR 396,169k (14 July 2013: EUR 0k) and primarily contain customer relationships from the medical technology division. This has an average weighted remaining useful life of 15.7 years.

Amortization of other intangible assets is recognized under production, selling and general administrative expenses as well as other expenses.

For the cash-generating units, the annual impairment test was performed as of 31 December 2013. The recoverable amount was calculated based on the fair value less the costs of disposal. The fair value is calculated by discounting the future cash flows. The measurement is therefore allocable to level 3 pursuant to IFRS 13. The projected future cash flows are based on the approved earnings, investment and liquidity planning for the years 2014, 2015 and 2016. The planning is prepared on the basis of historical experience. A long-term growth rate of 2% was determined for the years after 2017, which is in line with external information sources. The weighted average cost of capital results from equity costs of 9.17% and borrowing costs (before taxes) of 3.59%. Equity costs were calculated using a base interest rate of 2.75% and a market risk premium of 6%.

	Cash-generating units		
	CeramTec GmbH	Emil Müller GmbH	CeramTec-ETEC GmbH
Weighted average cost of capital	8.57%	8.58%	8.56%
Tax rate	28.50%	26.50%	31.93%
EBITDA margin	33.94%	37.87%	28.00%
Recoverable amount (in EUR k)	1,401,139	78,250	48,119

As the fair value less costs of disposal of the cash-generating units exceeded each carrying amount, there was no need to recognize impairment losses as of 31 December 2013.

If the weighted average cost of capital were to exceed the following values, the recoverable amount of the cash-generating units would fall short of their carrying amount:

	Cash-generating unit		
	CeramTec GmbH	Emil Müller GmbH	CeramTec-ETEC GmbH
Weighted average cost of capital	8.84%	10.48%	9.40%

A plausible change in the EBITDA margin or the long-term growth rate would not result in the recoverable amount falling short of the carrying amount for any of the cash-generating units.

4.2 Property, plant and equipment

Property, plant and equipment breaks down as follows:

	Land and buildings	Plant and machinery	Other equipment	Assets under construction	Total
	EUR k	EUR k	EUR k	EUR k	EUR k
Cost					
3 June 2013	**0**	**0**	**0**	**0**	**0**
Additions from business combinations	0	0	0	0	0
Additions	0	0	0	0	0
Government grants	0	0	0	0	0
Disposals	0	0	0	0	0
Reclassifications	0	0	0	0	0
Exchange differences	0	0	0	0	0
14 July 2013	**0**	**0**	**0**	**0**	**0**
Additions from business combinations	102,308	169,772	6,383	27,183	305,646
Additions	672	1,692	942	17,052	20,358
Government grants	-37	-42	-3	-925	-1,007
Disposals	-4	-198	-124	0	-326
Reclassifications	542	4,351	146	-5,039	0
Exchange differences	-1,257	-988	155	-254	-2,344
31 December 2013	**102,224**	**174,587**	**7,499**	**38,017**	**322,327**
Depreciation/impairment					
3 June 2013	**0**	**0**	**0**	**0**	**0**
Additions to depreciation	0	0	0	0	0
Additions to impairment	0	0	0	0	0
Disposals	0	0	0	0	0
Reclassifications	0	0	0	0	0
Exchange differences	0	0	0	0	0
14 July 2013	**0**	**0**	**0**	**0**	**0**
Additions to depreciation	2,021	12,533	1,206		15,760
Additions to impairment	0	0	0	0	0
Disposals	-3	-167	-123	0	-293
Reclassifications	0	0	0	0	0
Exchange differences	-7	-25	-2	0	-34
31 December 2013	**2,011**	**12,341**	**1,081**	**0**	**15,433**
Net carrying amounts					
31 December 2013	100,213	162,246	6,418	38,017	306,894
14 July 2013	0	0	0	0	0

Depreciation of property, plant and equipment is recognized under production, selling and general administrative expenses as well as other expenses.

Borrowing costs capitalized in property, plant and equipment amounted to EUR 255k in the fiscal year. Capitalized interest is based on an interest rate of 3.95%.

There were contractual commitments to acquire property, plant and equipment of EUR 38,682k as of the reporting date (14 July 2013: EUR 0k).

Property, plant and equipment under finance leases contains rented buildings with a net carrying amount of EUR 1,398k (14 July 2013: EUR 0k) and furniture and fixtures with a net carrying amount of EUR 567k (14 July 2013: EUR 0k). The corresponding lease liabilities are explained under finance liabilities to third parties (note 4.12).

4.3 Other financial assets

The following table breaks down other financial assets by their maturity:

	31 December 2013 EUR k	14 July 2013 EUR k
Other non-current financial assets		
Separated termination rights	6,918	0
Insurance claims	164	0
Total	**7,082**	**0**
Other current financial assets		
Receivables from energy tax refunds	826	0
Other financial assets	32	0
Total	**858**	**0**

The CeramTec Holding Group has a termination option for the issued bond. This termination option represents an embedded derivative, which is accounted for separately from the underlying transaction. Further explanations can be found in note 4.15.

4.4 Other assets

The following table breaks down other assets by their maturity:

	31 December 2013 EUR k	14 July 2013 EUR k
Other non-current assets		
Accrued finance costs for the revolving credit line	1,725	0
Other assets	200	0
Total	**1,925**	**0**
Other current assets		
VAT receivables	3,516	0
Investment grants	3,009	0
Sundry assets	2,724	0
Total	**9,249**	**0**

Sundry current assets primarily contain prepayments as well as the current portion of accrued finance costs for the revolving credit line of EUR 471k.

4.5 Inventories

Inventories break down as follows:

	31 December 2013 EUR k	14 July 2013 EUR k
Raw materials	23,849	0
Work in progress	24,580	0
Finished goods	19,512	0
Merchandise	2,050	0
Other	1,363	0
Total	**71,354**	**0**

In the fair value of the acquired inventories write-downs of EUR 11,702k were considered. At the reporting date the write-downs on inventories amount to EUR 10,921k. The reduction of EUR 781k is reported under cost of sales.

4.6 Trade receivables

Trade receivables of EUR 43,374k (14 July 2013: EUR 0k) are recognized in the statement of financial position after taking into account impairment of EUR 471k (14 July 2013: EUR 0k).

The value and maturity structure of trade receivables before impairment breaks down as follows:

	31 December 2013 EUR k	14 July 2013 EUR k
Carrying amount before impairment	**43,845**	**0**
thereof not yet due on the reporting date	38,192	0
thereof past due on the reporting date	5,653	0
past due up to 30 days	4,443	0
past due up to 60 days	596	0
past due up to 90 days	130	0
past due more than 90 days	484	0

The age structure of the impairment losses recognized through profit or loss as of the reporting date breaks down as follows:

	31 December 2013 EUR k	14 July 2013 EUR k
past due up to 30 days	18	0
past due up to 60 days	48	0
past due up to 90 days	66	0
past due more than 90 days	339	0
Total	**471**	**0**

The impairment losses are based on the estimated likelihood of default. They primarily relate to specific bad debt allowances on receivables from customers on whose assets insolvency proceedings were initiated or who are experiencing significant financial difficulty.

The age structure of receivables past due which are not impaired breaks down as follows:

	31 December 2013 EUR k	14 July 2013 EUR k
past due up to 30 days	4,336	0
past due up to 60 days	546	0
past due up to 90 days	0	0
past due more than 90 days	0	0
Total	**4,882**	**0**

There was no indication as of the reporting date that the debtors of receivables that were not impaired and not past due would not meet their payment obligations.

The following table shows the development of valuation allowances on trade receivables during the past reporting period.

	31 December 2013 EUR k	14 July 2013 EUR k
Valuation allowance as of 14 July 2013	**0**	**0**
Addition	471	0
Reversed	0	0
Utilization	0	0
Foreign currency translation and other	0	0
Valuation allowance on 31 December 2013	**471**	**0**

4.7 Cash and cash equivalents

Cash and cash equivalents contain bank balances of EUR 66,938k (14 July 2013: EUR 75k; 3 June 2013: EUR 25k) and cash in hand of EUR 25k (14 July 2013: EUR 0k).

4.8 Equity

Issued capital

The fully paid in capital stock of the parent company CeramTec Holding amounts to EUR 25k (14 July 2013: EUR 25k/ 3 June 2013: EUR 25k).

Capital reserves

Effective as of 31 August 2013/ 1 September 2013, Faenza Lux increased CeramTec Holding's capital reserves by EUR 378,148k. The capital reserves are freely available and not subject to any earmarking.

Revenue reserves and net income for the period

The revenue reserves contain current losses incurred by CeramTec Holding and the subsidiaries and those incurred in the comparative period. This also includes the remeasurement of pension obligations amounting to EUR 968k (14 July 2013: EUR 0k).

Other comprehensive income

Accumulated other comprehensive income relates to the reserves for currency translation and cash flow hedges, each of which take into account of deferred taxes incurred thereon.

4.9 Provisions for pension obligations

Within the CeramTec Holding Group, there are defined benefit and contribution plans in place granting eligible employees benefits in the event of retirement, occupational disability or death – in the latter case to employees' surviving dependents. These benefits are generally based on the length of employee service and level of remuneration or contributions of the eligible employees taking into account conditions in terms of tax, labor and welfare law in the respective country.

In Germany, there are various direct commitments which depend on the pay and period of service and are capped. These commitments do not contain any rights to inflation-related pension adjustments. These defined benefit plans were closed for employees that joined after 1 January 2002. There is also a defined benefit plan in place with direct commitments for a fixed pension amount which depends on the employee's length of service. This plan was also closed for employees that joined after 1 January 2002. For the management of the German CeramTec Holding group companies, there are direct commitments in place comprising benefits that depend on pay and length of service and are capped as well as benefits that are calculated based on the performance of the Company. The eligible employees are also entitled to deferred compensation which is subsidized by the CeramTec Holding Group depending on the achievement of personal targets by employees. The obligation is measured annually by an actuarial expert.

The pension plan in the UK is a funded defined benefit plan. The plan is administered by an external institution managed by employer and employee representatives. The representatives are legally obligated to represent the interests of the entitled employees and are responsible for investment decisions and managing the asset. The pension plan is closed. The plan grants the entitled employees annual pension payments, the amount of which depends on the length of service and the last salary earned. Pension payments are also made in the event of death. The obligation is measured annually by an actuarial expert.

The provisions for pension obligations of EUR 62,214k break down as follows:

	31 December 2013 EUR k	14 July 2013 EUR k
Germany	55,599	0
UK	6,360	0
Other	255	0
Total	**62,214**	**0**

The following table shows the amount of the obligation and plan assets as well as the provisions disclosed in the consolidated statement of financial position as of 31 December 2013. There were no pension obligations in the comparative period.

	2013		
	German plans	Foreign plans	Total
Change in benefit obligations	EUR k	EUR k	EUR k
Benefit obligations at the beginning of the fiscal year	**0**	**0**	**0**
Addition from changes to the consolidated group	56,344	10,959	67,303
Service cost	470	11	481
Interest expense	634	134	768
Remeasurements	-1,069	30	-1,039
from the change in financial assumptions	*-850*	*29*	*-821*
Experience adjustments	*-219*	*1*	*-218*
Foreign currency translation	0	255	255
Benefits paid	-780	-99	-879
Other changes	0	29	29
Benefit obligations at the end of the year	**55,599**	**11,319**	**66,918**
Change in plan assets			
Market value of plan assets at the beginning of the fiscal year	**0**	**0**	**0**
Addition from changes to the consolidated group	0	4,500	4,500
Interest income from plan assets	0	66	66
Expense for managing the plans	0	-67	-67
Employer contributions	0	82	82
Remeasurements	0	130	130
from the change in financial assumptions	*0*	*130*	*130*
Foreign currency translation	0	92	92
Benefits paid	0	-99	-99
Market value of the plan assets at the end of the year	**0**	**4,704**	**4,704**
Net obligation amount/provisions for benefits	**55,599**	**6,615**	**62,214**

The calculation of the pension obligation was based on the following assumptions as of 31 December 2013:

	Germany	Abroad
Interest rate (in %)	3.50%	4.25%
Wage and salary trend (in %)	3.00%	N/A
Pension increases (in %)	2.00%	3.25%
Life expectancy	2005 G mortality tables	Mortality tables

The average term of the benefit obligations amounts to 15.8 years in Germany and 16.3 years abroad.

The contributions, which the employer is expected to pay into the plans as of the reporting date 31 December 2014 amount to EUR 341k. Benefit payments of EUR 3,279k are expected to be paid for fiscal year 2014.

The risk from changes in actuarial assumptions underlying the measurement of defined pension plans is borne by the CeramTec Holding Group. The sensitivity analyses presented in the table below were performed based on reasonably possible changes in assumptions as of the reporting date (note 4.9). The change in key actuarial assumptions would have the following impact (in EUR k) on the present value of pension obligations:

	Change	Effect 31 December 2013
Discount rate	- 0.50% points	5,246
	+ 0.50% points	-4,669
Wage and salary trend	- 0.25% points	-57
	+ 0.25% points	58
Increase in pensions	- 0.25% points	-2,088
	+ 0.25% points	2,180
Life expectancy	+ 1 year	1,949

There are no plan assets for German plans. The plan assets of the foreign plans break down into the following assets:

	31 December 2013 EUR k	14 July 2013 EUR k
Securities/shares	3,426	0
Fixed-interest securities	913	0
Real estate	365	0
	4,704	**0**

The fair value of the securities and shares were determined based on prices quoted on active markets, while the fair value of real estate was not based on prices quoted on active markets. The real estate contained in plan assets does not relate to owner-occupied property in the UK. The investment horizon for plan assets takes into account the expected payout profile.

Since 1 January 2002, all new hires at CeramTec GmbH, CeramTec Service GmbH and Emil Müller GmbH have joined the pension fund Dynamit Nobel VVaG. Furthermore, some active and former employees of CeramTec GmbH and Emil Müller GmbH are members of the pension fund Hoechst-Gruppe VVaG. These pension funds are multi-employer plans which are basically defined benefit plans. The two pension funds are subject to regulatory supervision. In the event that the funds are unable to settle their obligations, the employer is legally liable for the vested benefits. This obligation remains in place even if the CeramTec Group were to terminate its participation in the plans. However, terminating its participation would generally not directly result in having to make supplementary payments. In the consolidated financial statements, these pension plans are classified as defined contribution plans in accordance with IAS 19.34. As several employees are responsible for these pension funds, contributions made by the CeramTec Holding Group can under certain circumstances be used to finance another entity's employee benefits.

Dynamit Nobel VVaG is funded for commitments made before 1 December 2007 with income-based contributions by entitled employees as well as variable employer contributions. The employers' contribution must, together with the member contributions and return on plan assets, sufficiently fund the agreed payments according to actuarial principles. Once pension payments have begun, the pension fund assumes the statutory pension adjustments provided it has the sufficient means to do so. In the last few years, the pension adjustments could not be assumed by the pension fund and had to be funded by the employers. For commitments made as of 1 December 2007, the employees and employer made a fixed, income-based contribution. There is no obligation on the part of the employer to adjust current pension benefits. Surpluses are used to increase the pension benefits. Although the existing obligations were fully covered by assets in accordance with German accounting standards for pension funds, the additional capital requirements have not been satisfied. There is a plan approved by regulatory authorities in place to remedy the contravention of requirements by 31 December 2014. Deficits, for example due to the pension fund earning an insufficient return on assets, may result in the CeramTec Holding Group having to make additional payments. EUR 2,200k is recognized under current other provisions and EUR 2,197k under liabilities to provide for this obligation. The proportion of members whose membership is based on an existing or former work contract with

CeramTec GmbH, CeramTec Service GmbH or Emil Müller GmbH of the total number of pension fund members amounts to around 26% for active employees, around 11% for non-contributory employees and around 4% for pensioners.

The pension fund Hoechst-Gruppe VVaG is funded with income-based contributions by entitled employees as well as variable employer contributions. The employers' contribution must, together with the employees' member contributions and pension fund surpluses, sufficiently fund the statutory payments according to actuarial principles. Once pension payments have begun, the pension funds assumes the statutory pension adjustments provided it has the sufficient means to do so. The proportion of members whose membership is based on an existing or former work contract with the CeramTec Holding Group for active employees, non-contributory employees and pensioners ranges between around 0.1% and 0.15% in each case.

The contributions made to the pension fund amounted to EUR 878k in the fiscal year (14 July 2013: EUR 0k). The expenses are recorded in production, selling and general administrative expenses. Contributions of EUR 2,577k are expected to be made in 2014.

Expenses for additional defined contribution plans amount to EUR 3,550k (3 June to 14 July 2013: EUR 0k).

4.10 Other provisions

Provisions developed as follows in the fiscal year:

	Invent-ories as of 14 July 2013	Addition from acquisition	Additions	Utilization	Reversal	Unwind-ing of the discount	Invent-ories as of 31 Dec-ember 2013
Provisions for employee bonuses	0	13,881	886	11,705	186	0	2.876
Provisions for warranties	0	3,053	188	359	500	0	2,382
Provisions for environmental risks	0	1,392	31	3	0	24	1,444
Provisions for long-service awards	0	1,121	8	47	0	0	1,083
Provisions for litigation risks	0	1,155	88	152	50	0	1,041
Provisions for taxes	0	12	401	11	0	0	402
Other provisions	2	4,599	540	684	5	0	4,453
	2	25,213	2,142	12,960	740	24	13,681

Provisions for environmental risks relate to the elimination of residual pollution, renovation measures and water conservation practices. Estimations and, where possible, external expert opinions were used to measure the amount of the provision.

The provision for taxes includes anticipated income tax payments for past assessment periods.

Other provisions primarily comprise provisions for litigation risks, legal and consulting fees as well as provisions for other contingent liabilities.

The maturities of the provisions were as follows:

	31 December 2013 EUR k	14 July 2013 EUR k
Current provisions	9,395	0
Non-current provisions	4,286	2
	13,681	2

The cash outflow of other provisions is expected to be 69% within one year and 31% between one and 16 years.

4.11 Financial liabilities to affiliates

Financial liabilities to affiliates are non-current and comprise a loan to Faenza Luxembourg S.à.r.l, Luxembourg, of EUR 120,000k dated 31 August 2013 and interest expenses for the fiscal year of EUR 3,338k. The loan increases every year as of 29 August by the amount of interest expenses accrued.

4.12 Financial liabilities to third parties

The financial liabilities to third parties are broken down as follows:

	31 December 2013 EUR k	14 July 2013 EUR k
Non-current financial liabilities		
Liabilities to banks	600,195	0
Liabilities from the bond	295,765	0
Derivative financial instruments	20,815	0
Finance lease liabilities	1,371	0
Purchase price for technology	490	0
Total	**918,636**	**0**
Current financial liabilities		
Profit transfer to RSGG	26,922	0
Liabilities to banks	11,525	0
Liabilities from the bond	9,981	0
Derivative financial instruments	5,873	0
Subsequent purchase price payment	3,500	0
Discounts and bonuses	1,746	0
Liabilities from finance leases	275	0
Liabilities to the shareholder	0	59
Other current financial liabilities	2,103	0
Total	**61,924**	**59**

Liabilities to banks nominally amount to EUR 291,300k from a tranche in EUR and EUR 343,811k from a tranche in USD. These loans have variable interest rates and mature on 30 August 2020. Transaction costs associated with the loan of EUR 19,733k are spread over the term of the loan using the effective interest method. The tranche in USD of EUR 269,500k is secured by currency swaps concluded against foreign currency risks. This hedging relationship is recognized as a cash flow hedge.

The bond has a fixed interest rate and a nominal volume of EUR 306,700k. This bond matures on 15 August 2021. The CeramTec Holding Group has a termination option for this bond, which is recognized as a separate financial asset (note 4.3). Associated transaction costs of EUR 13,120k are spread over the term of the bond using the effective interest method. Further information on the loans, the bond and derivatives can be found in note 4.15.

Current financial liabilities include, among other things, the amount of EUR 26,922k (14 July 2013: EUR 0k) to be distributed to Rockwood Specialties Group, Inc. (RSGG), the former parent company of CeramTec GmbH, in line with the profit and loss transfer agreement as of 31 August 2013 as well as the subsequent purchase price payment for the acquisition of the high-performance ceramics division of EUR 3,500k (14 July 2013: EUR 0k).

Payment obligations from finance leases break down as follows over future years:

	Total	up to 1 year	1 to 5 years	more than 5 years
Present value of minimum lease payments	1,645	275	354	1,016
Interest effect	1,157	15	279	863
Minimum lease payments	2,802	290	633	1,879

Lease payments of EUR 275k, which are due in 2014, are recognized under current financial liabilities.

Reference is made to note 4.2 as regards the items of property, plant and equipment recognized under finance leases.

All leases include contractually agreed installments. There are no sub-lease arrangements. CeramTec Suzhou has a renewal option for real estate leases.

4.13 Other liabilities

Other liabilities break down as follows:

	31 December 2013 EUR k	14 July 2013 EUR k
Other current liabilities		
Wages and salaries including taxes	4,459	0
Real estate transfer tax	4,108	0
Other current liabilities	3,101	0
Total	**11,668**	**0**

Other current liabilities are mainly attributable to liabilities to employees, liabilities from social security contributions, liabilities to pension funds as well as deferred income.

4.14 Rental and lease obligations

Operating lease commitments mainly relate to land and buildings as well as technical equipment and machinery.

The corresponding payment obligations break down as follows over future fiscal years:

	31 December 2013 EUR k	14 July 2013 EUR k
up to 1 year	1,742	0
1 to 5 years	1,504	0
more than 5 years	518	0
Total	**3,764**	**0**

In the fiscal year, expenses from rental and lease agreements amounted to EUR 1,107k (3 June to 14 July 2013: EUR 0k).

4.15 Financial instruments

The following table shows the carrying amounts and fair values of the financial assets and financial liabilities reported in the consolidated financial statements, sorted by class and measurement category in accordance with IAS 39.

	Measurement category of IAS 39[1]	31 December 2013 Carrying amount EUR k	Fair value EUR k
Financial assets			
Trade receivables	LaR	43,374	43,374
Other financial assets	LaR	1,022	1,022
Cash and cash equivalents[2]	LaR	66,963	66,963
Separated termination rights – HfT	FVtPL	6,918	6,918
Total		**118,277**	**118,277**
Financial liabilities			
Bond liabilities	FLAC	305,745	335,837
Liabilities to banks	FLAC	611,719	635,579
Trade payables	FLAC	31,898	31,898
Finance lease liabilities	FLAC	1,646	1,646
Other financial liabilities	FLAC	34,761	34,712
Liabilities to affiliates	FLAC	123,338	131,510
Separated interest rate caps – HfT	FVtPL	12,571	12,571
Currency swaps in effective hedges	Hedge	14,117	14,117
Total		**1,135,795**	**1,197,869**

[1] HfT: held for trading; LaR: loans and receivables; FVtPL: measured at fair value through profit or loss; FLAC: financial liabilities measured at amortized cost; hedge: hedge accounting

[2] Cash and cash equivalents came to EUR 75k on 14 July 2013

If the fair value is not available in the form of a market price, it is calculated based on different valuation parameters. Depending on the availability of observable parameters and the significance of these parameters when calculating the fair value, the fair value is allocated to level 1, 2 or 3 of the fair value hierarchy. The allocation is based on the following factors:

- **Level 1:** Quoted (unadjusted) market prices in active markets for identical assets or liabilities for the Company on the measurement date

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

- **Level 3:** Non-observable measurement parameters for the asset or liability

The following table shows the fair value hierarchy for derivative financial instruments that are recognized at fair value in the consolidated financial statements:

	31 December 2013		
	Level 1 EUR k	Level 2 EUR k	Level 3 EUR k
Financial assets			
Separated termination rights – HfT	0	6,918	0
Currency swaps in effective hedges	0	0	0
Financial liabilities			
Separated interest rate caps – HfT	0	12,571	0
Currency swaps in effective hedges	0	14,117	0

The following table shows the fair value hierarchy for the financial instruments that are not recognized at fair value in the consolidated financial statements; however, their fair value is provided in the notes to the financial statements:

	31 December 2013		
	Level 1 EUR k	Level 2 EUR k	Level 3 EUR k
Financial assets			
Trade receivables	0	43,374	0
Other financial assets	0	1,022	0
Cash and cash equivalents[1]	66,963	0	0
Financial liabilities			
Bond liabilities	335,837	0	0
Liabilities to banks	0	635,579	0
Trade payables	0	31,898	0
Finance lease liabilities	0	1,646	0
Other financial liabilities	0	34,712	0
Liabilities to affiliates	0	131,510	0

[1] The fair value of cash and cash equivalents came to EUR 75k on 14 July 2013

The fair value of the bond is equal to the nominal value multiplied by the market value at the end of the reporting period. Accordingly, the fair value measurement is allocated to level 1 of the fair value hierarchy.

Liabilities to banks are subject to interest based on the interest rates observable on the market, such as EURIBOR or LIBOR, on the basis of which the fair value is calculated. Accordingly, these are allocated to level 2 of the fair value hierarchy.

The fair values of the separated derivatives are measured using the Black-Scholes/Hull-White valuation model, which considers both the observable yield curves and the fluctuation (volatility) of the currencies concerned. All key input parameters were directly or indirectly derived from observable market data. The fair value measurement is therefore allocated to level 2 of the fair value hierarchy.

Currency swaps are measured on the basis of a discounted cash flow method, which takes into account the observable mean closing rates, yield curves and currency spreads between currencies. All currency swaps had a negative market value as of the end of the reporting period. All key input parameters were directly or indirectly derived from observable market data. The fair value measurement of the currency swaps is therefore allocated to level 2 of the fair value hierarchy.

The fair value of all other financial instruments is calculated using a discounted cash flow method as well as by taking into account measurement parameters that can be directly or indirectly observed on the market. Accordingly, these financial instruments were allocated to level 2 of the fair value hierarchy.

For assets and liabilities that are recognized at fair value in the consolidated financial statements on a recurring basis, the CeramTec Holding Group assesses whether a transfer between the levels of the fair value hierarchy took place as of the end of each reporting period (based on the lowest level that is significant to fair value measurement as a whole). There were no transfers between level 1 and 2 in the past reporting period.

Net gains and losses as well as total interest income and expenses

The following table presents the net gains and losses from financial assets and liabilities in accordance with IAS 39.

	31 December 2013			
	Change in fair value	Currency translation	Impairment loss	Total
	EUR k	EUR k	EUR k	EUR k
Loans and receivables (LaR)	0	0	-471	**-471**
Separated termination rights/ interest rate caps – HfT (FVtPL)	3,952	0	0	**3,952**
Financial liabilities at amortized cost (FLAC)	0	1,907	0	**1,907**
Intercompany loans	0	1,338	0	**1,338**
Total	**3,952**	**3,245**	**-471**	**6,726**

Net gains from the changes in fair value of embedded derivatives are primarily due to changes in market interest rates.

The following table shows the total interest income and expenses from financial assets and liabilities that are measured at amortized cost using the effective interest method.

	31 December 2013 EUR k	14 July 2013 EUR k
Total interest expense	28,015	0
Total interest income	68	0

Furthermore, borrowing costs of EUR 184k, which are not part of the effective interest method, were recognized in profit or loss during the reporting period.

Derivative financial instruments and hedge accounting

The following table shows the fair value and nominal value of derivative financial instruments as of 31 December 2013:

	31 December 2013	
	Nominal value EUR k	Fair value EUR k
Derivatives with a positive fair value		
Separated termination rights – HfT	306,700	6,918
Derivatives with a negative fair value		
Separated interest rate floor – HfT	635,111	-12,571
Currency swaps in effective hedges	269,500	-14,117
Total	**1,211,311**	**-19,770**

Embedded derivatives

As described in note 4.12, the CeramTec Holding Group took out a syndicated loan with several USD and EUR tranches with different banks in August 2013. This loan includes embedded interest rate caps (interest floors), which obliges the CeramTec Holding Group to pay a minimum interest rate that exceeds the variable interest rate. Furthermore, the bond issued in August 2013 contains various agreements that entitle the CeramTec Holding Group to prematurely repay the bond. Both the interest rate caps and termination rights were separated from the host contract in accordance with the provisions of IAS 39 and recognized as stand-alone derivatives at fair value through profit or loss.

Cash flow hedges

The currency swaps were designated as hedging instruments in cash flow hedges in order to hedge a portion of the foreign currency risk resulting from the loans in USD. The ongoing interest and principal repayments from the loans and the currency swaps are made at the same time each quarter and will have an impact on profit or loss until the swaps mature in 2018. There were no ineffective cash flow hedges recognized in the reporting period.

The following table shows the amount for the reporting period recognized in other comprehensive income and reclassified from there to profit or loss:

	31 December 2013 EUR k	14 July 2013 EUR k
Currency swaps in effective hedges		
Net gains/losses recognized in other comprehensive income	-14,117	0
Reclassification from other comprehensive income to profit or loss	8,889	0
Total other comprehensive income at the end of the period	**-5,228**	**0**

The amounts reclassified from other comprehensive income to profit or loss were recognized in the financial result, so as to offset the effects from foreign currency translation of the secured loans in USD.

5 Additional notes to the consolidated statement of cash flows

In the statement of cash flows, cash flow from operating activities is determined using the indirect method, while cash flow from investing and financing activities is determined using the direct method. The cash and cash equivalents presented in the statement of cash flows correspond to the item of the statement of financial position and comprise cash in hand, bank balances and cash investments with an original term of up to three months. There are no restrictions on disposal.

The cash flow from investment activities includes the purchase price payment of EUR 1,359,615k for the acquisition of the high-performance ceramics division. Cash and cash equivalents of EUR 183,886k were taken over from subsidiaries. The purchase price of EUR 3,500k had not yet affected cash and cash equivalents. More information can be found under “Business combinations” (note 2).

Other non-cash income and expenses primarily contain changes in the market value of financial instruments and accrued interest.

6 Other notes

6.1 Management of financial risks

The CeramTec Holding Group is exposed to credit risks and various market risks. The credit risk is mainly due to receivables from customers. Market risks are primarily attributable to the risk of changes in variable interest rates as well as exchange rate risks. Furthermore, the CeramTec Holding Group is exposed to liquidity risks, which mainly result from the loans in EUR and USD taken out in August 2013 as well as the bond also issued in August 2013.

The CeramTec Holding Group operates on the basis of an appropriate framework to manage financial risks, which is an integral part of ongoing business operations and financing activities. Taking these risk management objectives into consideration, risks are identified, assessed and managed on an ongoing basis. The CeramTec Holding Group contracts on a case-by-case basis derivative financial instruments to hedge certain financial risks. By contrast, it is not permitted to enter into derivative financial instruments for speculative purposes.

Market risks

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risks comprise in particular exchange rate risks, interest rate risks and other price risks, such as share price risks and commodity price risks.

Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. In connection with the loan in USD, the CeramTec Holding Group is in particular exposed to foreign currency risks from changes in the USD/EUR exchange rate.

The CeramTec Holding Group has secured 81.4% of the nominal volume of the loan in USD against risks from fluctuations in the USD/EUR exchange rate by entering into USD/EUR currency swaps (further information on hedging cash flow risks can be found in note 4.15)

The following sensitivity analysis in terms of the currency risk was prepared taking into account the hedges in place on 31 December 2013 and on the basis of the assumption that the portion of financial instruments in foreign currency will remain constant. The table shows the effects on the net income for the period as well as group equity taking into account a hypothetical change of +/- 10% to the closing rate and forward rate as of the reporting date for the CeramTec Holding Group’s main foreign currency items.

	31 December 2013						
EUR k	Change in the spot rate %	Change in the forward rate %	USD	GBP	CZK	PLN	***Total***
Earnings effect before tax	+10%		5,435	-178	-842	-3,472	**943**
	-10%		-6,643	217	1,029	4,243	**-1,153**
Effect on equity		+10%	4,237	0	0	0	**4,237**
		-10%	-6,589	0	0	0	**-6,589**

The effects on the net income for the period are attributable to the hypothetical change in the carrying amount of non-derivative assets and liabilities in the respective foreign currency. The effect on group equity stems from the hypothetical change in the market value of the USD/EUR currency swaps, which are recognized in other comprehensive income as a result of the designation as a hedging instrument.

Interest rate risk

Interest rate risk is the risk that the fair value of fixed-interest rate financial instruments or the future cash flows of variable-interest rate financial instruments will fluctuate because of changes in market interest rates.

The variable-interest rate loans in USD and EUR expose the CeramTec Holding Group in particular to a cash flow risk from the change in the EURIBOR and LIBOR interest rates. By comparison, changes in variable interest rates relating to the fixed-interest rate bond lead to a change in fair value. However, this risk does not impact the net income for the period or group equity, as the bond is carried at amortized cost and changes in fair value are not recognized.

As a result of the continued low interest rate, the CeramTec Holding Group has thus far refrained from hedging the cash flow risk from changes in variable interest rates. However, this risk can be hedged at any time by entering into derivative financial instruments (e.g., interest rate swaps or interest rate caps) if necessary.

The following table shows the effects on the interest result assuming a hypothetical change of +/- 100 basis points to the variable USD and EUR interest rates.

	31 December 2013	
	Increase/decrease in basis points	Effect on interest expense
		EUR k
Euro	+100	441
	-100	0
US dollar	+100	69
	-100	0

A decline in the interest rate has no effect on the interest expense as a result of the interest rate floor of 1% agreed in the syndicated loan agreement.

Credit risk

Credit risk is the risk that a counterparty will not meet its obligations from financial instruments, leading to a financial loss for the creditor. At the CeramTec Holding Group, the credit risk is primarily due to trade receivables, cash and cash equivalents and other receivables.

Trade receivables are due to numerous customers in various sectors and regions. Default risks in trade receivables are locally monitored, assessed and limited by using credit insurance. After taking credit insurance into account, the maximum default risk on trade receivables comes to around 57% of the carrying amount.

Cash and cash equivalents mainly comprise bank balances and cash in hand. In connection with the investment of cash and cash equivalents, the CeramTec Holding Group is exposed to losses from credit risks if counterparties do not meet their obligations. The resulting risk position is managed by diversifying its counterparties. For example, cash and cash equivalents are only invested at banks with excellent credit ratings. There are no cash and cash equivalents past due or impaired as of the reporting date. The maximum credit risk for cash and cash equivalents corresponds to the carrying amount.

The credit risk position from other financial assets corresponds to the carrying amount of these instruments. The CeramTec Holding Group considers this credit risk to be immaterial as of the reporting date.

The termination option separated from the bond is not exposed to any credit risk as of the reporting date, because the positive market value is based solely on a potential premature repayment of the bond and an associated more favorable opportunity to refinance for the CeramTec Holding Group; there is no actual cash receivable from the banks.

Liquidity risk

Liquidity risk is the risk that the CeramTec Holding Group will not be able to fulfill its financial obligations when they fall due. The CeramTec Holding Group's objective is to minimize the liquidity risk as far as possible by ensuring sufficient financing and credit lines from banks. In light of this, the CeramTec Holding Group had an undrawn and confirmed credit line of EUR 100,000k as of the reporting date. Furthermore, the CeramTec Holding Group had cash and cash equivalents of EUR 66,963k as of the reporting date.

The table below shows the contractually agreed undiscounted cash flows for the financial liabilities and derivative financial instruments as of the reporting date. The following cash flows were taken into account:

- Undiscounted, contractually agreed interest and principal payments from the loans in USD and EUR, including payments that are included in the separated interest cap. Cash flows in USD were translated into EUR based on the USD/EUR forward rate applicable as of the reporting date. Premature, voluntary special payments or repayments have not been taken into account.

- Undiscounted, contractually agreed interest and principal payments for the bond. Premature, voluntary special payments or repayments have not been taken into account.

- Undiscounted, contractually agreed interest and principal payments for the EUR payer leg of the currency swaps.

			31 December 2013				
	Carrying amount	2014	2015	2016	2017	2018	> 2019
	EUR k	EUR k	EUR k	EUR k	EUR k	EUR k	EUR k
Trade payables	31,898	31,898	0	0	0	0	0
Liabilities to banks	611,719	30,692	31,031	34,320	39,314	43,413	669,753
Bond liabilities	305,745	25,795	25,303	25,303	25,303	25,303	382,609
Liabilities to affiliates	123,338	0	0	0	0	0	265,441
Finance lease liabilities	1,646	290	171	175	155	132	1,879
Other financial liabilities	34,761	34,271	114	97	94	93	93
Derivatives with a negative fair value							
Currency swaps in effective hedges	14,117	14,666	23,332	32,968	39,216	193,395	0

The cash inflow of EUR 320,885k from the USD receiver leg of the currency swaps until maturity in 2018 has not been included in the above table.

Offsetting financial assets against financial liabilities

The USD/EUR currency swaps were entered into on the basis of ISDA Master Agreements, which include conditional claims to offset financial assets and financial liabilities. These offsetting rights are only legally effective if future events (e.g., insolvency, payment arrears) should occur. As the currency swaps only had negative market values as of the reporting date, derivative liabilities were not matched with any corresponding assets that would have enabled a potential offsetting.

Collateral

In connection with the syndicated loan, the assets of the German and American companies were provided as collateral to the extent that the syndicated loan is drawn. CeramTec Service GmbH, CeramTec Acquisition Corporation and CeramTec GmbH are the borrowers of the syndicated loan. In the USA, shares in CeramTec Acquisition Corporation, CeramTec North America Corporation, Durawear Corporation, all additional assets in CeramTec Acquisition, CeramTec North America Corporation and Durawear Corporation as well as CeramTec GmbH's intellectual property registered in the USA were provided as collateral. In Germany, shares in CeramTec Service GmbH, CeramTec GmbH, CeramTec-ETEC GmbH, Cerasiv GmbH and Emil Müller GmbH, all intercompany receivables and CeramTec Group GmbH's and CeramTec Service GmbH's bank accounts, all intercompany receivables, insurance receivables and trade receivables as well as CeramTec GmbH's, CeramTec-ETEC GmbH's, Emil Müller GmbH's and Cerasiv GmbH Innovatives Keramik Engineering's bank accounts were provided as collateral. Furthermore, the intellectual property and land of CeramTec GmbH, CeramTec-ETEC GmbH, Emil Müller GmbH and Cerasiv GmbH Innovatives Keramik Engineering were provided as collateral for the syndicated loan.

Risk from compliance with financial covenants

Compliance with a financial covenant was also agreed in connection with the syndicated loan obtained. This must be done by the CeramTec Holding Group if the revolving credit line for EUR 100m is drawn by an amount set in the loan agreement.

Capital management

The CeramTec Holding Group's objective of capital management is securing liquidity to make investments that increase the value of the organization. The focus is therefore on optimizing the operating cash flow as well as repaying liabilities on schedule. Recognized equity amounted to EUR 326,870k (14 July 2013: EUR 14k). Liabilities of EUR 1,413,914k (14 July 2013: EUR 61k) were recognized as of the reporting date. The equity ratio stands at 18.78% (14 July 2013: 18.67%).

6.2 Contingent liabilities

There were no significant contingent liabilities as of 31 December 2013. The group companies are involved as parties in a number of lawsuits. These proceedings are linked to ordinary business activities and mainly relate to commercial, product liability and environmental processes. The group companies postpone such obligations if a liability is likely to arise and the amount of the potential claim can be sufficiently estimated. These obligations are disclosed in the notes to the financial statements if there are reasonable grounds to assume that a significant expense was incurred.

6.3 Related party disclosures

Key management personnel

Key management personnel are people who are directly or indirectly responsible for the planning, directing and controlling the activities of the CeramTec Holding Group. This comprises the management of CeramTec Holding and the supervisory board of CeramTec GmbH.

In the fiscal year, the **general managers** of CeramTec Holding were:

Dr. Ulf-D. Zimmermann
Chief Executive Officer / HR director

Rolf-Michael Müller
Chief Financial Officer

Sigurd Adler
Chief Technology Officer

The members of management received total remuneration in the form of short-term employee benefits amounting to EUR 278k in the fiscal year. The service cost for pension obligations comes to EUR 164k. As of 31 December 2013, general managers are also due bonus obligations of EUR 469k and pension obligations of EUR 5,059k. For members of management, contributions of EUR 11k were made to the defined contribution plans.

In the comparative prior-year period, the general managers of CeramTec Holding were:

Dr. Klaus Peter Bleyer
Manager

Pontus Pettersson
Investment manager

As part of a management participation program (MPP), the general managers were offered the option to acquire indirect shares in parent company Faenza Holding S.à.r.l. via Faenza MEP GmbH & Co. KG. These indirect shares were acquired at fair value, which is calculated based on the purchase price for the acquisition of the high-performance ceramics division by the ultimate parent company. The shares primarily enable them to participate in earnings if certain events occur. The Company has no obligations from the management participation program. The MPP is therefore accounted for as equity-settled share-based payments in these consolidated financial statements in accordance with IFRS 2. As the shares were acquired at fair value, no benefits were granted to the general managers. This means that no personnel expenses are incurred if or before the defined events occur.

In the fiscal year, the members of the **supervisory board** of CeramTec GmbH were:

Pontus Pettersson
(since 3 September 2013)
Chair (since 11 October 2013)
Investment manager, London, England

Jürgen Klemenz*
Chair of the central works council of Rockwood Specialties Group GmbH
Chair of the works council of CeramTec GmbH, Plochingen

Bernd Westphal*
(until 30 November 2013)
Management division 2 of the trade union IG Bergbau, Chemie, Energie, Hanover

Roland Nosko*
Deputy chair
District manager of IG Bergbau, Chemie und Energie, Nuremberg

Rudolf Röll*
Head of Materials Management at CeramTec GmbH, Marktredwitz

Klaus Wespatat*
Chair of the works council of
CeramTec GmbH, Marktredwitz

Guy Davison
(since 3 September 2013)
Investment manager, East Sussex, England

Immo Rupf
(since 3 September 2013)
Investment manager, London, England

Astrid Meier*
(since 27 December 2013)
Deputy district manager of IG BCE, Bavaria

Jürgen Haas*
Chair of the central works council of CeramTec GmbH, Plochingen
Chair of the works council of CeramTec GmbH, Lauf

Thilo Sautter
(since 3 September 2013)
Investment manager, Slough, England

Prof. Dr. Jürgen Huber
(since 3 September 2013)
University professor, Selb

Joseph Wan
(since 3 September 2013)
Investment manager, Hong Kong, China

* Employee representative

The total remuneration of the supervisory board in the fiscal year 2013 amounted to EUR 14k. There was no supervisory board in the comparative prior-year period, as CeramTec GmbH was acquired on 1 September 2013.

Transactions with related parties

Entities and natural persons are deemed to be related parties when they exercise control over the reporting company or over its subsidiaries or when they have a significant influence on the reporting company’s financial and business policy. A loan of EUR 120,000k with a fixed interest rate of 8.255% has been obtained from CeramTec Holding’s controlling shareholder, Faenza Luxembourg S.à.r.l., Luxembourg. Interest expenses of EUR 3,338k accrued in the fiscal year 2013. These were not paid to the shareholder; instead, the loan will be increased with effect from 29 August 2014. The loan is not secured.

6.4 Auditor's fees

Overall, CeramTec Holding's auditor's fees for the fiscal year break down as follows:

	31 December 2013 EUR k	14 July 2013 EUR k
Audit services	411	0
Audit-related services	113	0
Total	**524**	**0**

6.5 Subsequent events

On 24 February 2014, a subsequent purchase price payment of EUR 3,500k was agreed for the acquisition of the high-performance ceramics division. However, this liability has already been taken into account in these financial statements.

There were no significant events after the end of the reporting date.

7 Reconciliation to CeramTec Group GmbH (formerly: Faenza GmbH)

If the consolidated statement of comprehensive income of CeramTec Group had been prepared instead of the consolidated statement of comprehensive income of CeramTec Holding, which is presented in these financial statements, this would have resulted in the following changes for the fiscal year:

- Lower general administrative expenses of EUR 1,065k
- Lower other expense of EUR 3k
- Lower interest expenses of EUR 3,338k
- Higher tax expenses of EUR 346k

The total comprehensive income of CeramTec Group would therefore have been EUR 4,060k higher compared to the total comprehensive income recognized in these financial statements.

If the consolidated statement of financial position of CeramTec Group had been prepared instead of the consolidated statement of financial position of CeramTec Holding, which is presented in these financial statements, this would have resulted in the following changes as of 31 December 2013:

- Lower cash and cash equivalents of EUR 24k
- Higher receivables of EUR 37,804k resulting from the loss transfer obligation of CeramTec Holding GmbH and higher receivables of EUR 90k against CeramTec GmbH
- Lower deferred tax assets of EUR 346k
- Lower trade payables of EUR 403k
- Lower provisions of EUR 575k
- Lower financial liabilities to affiliates of EUR 123,338k

This would have resulted in a EUR 161,840k higher level of group equity for the CeramTec Group compared to the group equity recognized in these financial statements. Taking into account the change in total comprehensive income, group equity for the CeramTec Group would have been EUR 165,900k higher.

There would have been no impact on the consolidated statement of cash flows if the consolidated statement of cash flows of CeramTec Group had been prepared instead of the consolidated statement of cash flows presented in these financial statements.

Plochingen, 22 April 2014

CeramTec Holding GmbH

The management

Dr. Zimmermann	Müller	Adler