MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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

The purpose of this MD&A is to show the development of the financial results of the operating business for the twelve month period ended December 31, 2013 in comparison to the twelve month period ended December 31, 2012. It must be noted that the financial statements shown in this document are shown on a historical basis, rather than on a Pro Forma basis. This means that, among other things, the financial statements for 2013 include effects from the increased level of indebtedness as well as from the purchase price accounting.

The historical financial data as of and for the twelve month periods ending December 31, 2012 and 2013 has been derived from the audited combined financial statements of the advanced ceramics business (as of August 31, 2013) as well as consolidated financial statements of CeramTec Holding GmbH (as of December 31, 2013).

The following discussion should be read in conjunction with the information contained in our audited consolidated financial statements for the period July 15 to December 31, 2013 and the Pro Forma consolidated financial information for the period January 1 to December 31, 2013 including the footnotes separately provided to you.

Due to rounding differences, figures in tables and cross-references may differ slightly from the actual figures (units of currency, percentages, etc.).

Overview

We are a leading global developer, manufacturer and supplier of HPC (high performance ceramics) products. Our HPC products are made of advanced ceramics which are highly specialized materials with superior biological, mechanical, electrical, thermal or chemical properties compared to competing products made from metal or polymers (plastics). We have been engaged in the HPC industry for over 100 years, with operational expertise and experience in creating innovative system solutions for longstanding customers. We currently offer a wide range of HPC products from hip joint prostheses components to actuators in valves for diesel and gasoline injection systems and ceramic components for efficient cooling in LED lighting technology. The versatility of HPC products and resulting wide-range of applications provides us with a highly diversified end market and customer base.

Our operations can be divided into two business groups - Medical Applications and Industrial Applications.

Our core Medical Applications business accounted for 37.1% of Group net sales but contributed the majority of our EBITDA in 2013. Medical Applications benefit from relatively high margins and modest capital expenditure requirements compared to Industrial Applications, and are the major contributor to group cash flows, supplemented by Industrial Applications. In 2012 Medical Applications had a cash conversion ratio of 92%. In 2013 Medical Applications had a lower cash conversion ratio of 68% due to higher capital expenditures mainly for the capacity enlargement of the site in Marktredwitz. Industrial Applications had a cash conversion ratio of 58% in 2012 and 37% in 2013 due to growth projects in the business units Electronic Applications and Mechanical Systems as well as growth projects at CT Czech Republic and CT North America.

In 2013, we generated 75.3% of our net sales in Europe (including Germany). However, our customers have a strong export focus as their end-products, such as automotive parts, are exported world-wide. In addition, we have a global infrastructure with manufacturing facilities in Europe, North America, Asia and South America and with over 3,223 employees worldwide as of December 31, 2013. We believe that we are a truly global company with a global sales footprint.

In 2013 we generated net sales of €438.0 million and Adjusted EBITDA of €140.1 million representing a 32.0% Adjusted EBITDA margin. During the 2012 to 2013 period, our net sales and Adjusted EBITDA registered a compound annual growth rate (CAGR) of 3.0% and 4.5% respectively and our cash conversion ratio decreased from 78% to 56%. We believe that we have a highly cash generative business supported by modest maintenance capital expenditure requirements of approximately €16 million annually.

Economic, Industry and Other Developments in our Key Geographical Target Markets

Our sales to our customers are mostly concentrated in Europe and specifically in Germany. However, although our customers are concentrated in Europe, many of them, especially medical and automotive customers, are export oriented. As a result, while we currently generate approximately 75% of our net sales based on sales to our direct customers in Europe, we are globally more diversified due to the export focus of many of our European customers. The following table provides an overview of our net sales by geography in the last two years as a percentage of total net sales in the given period:

	Year Ended December 31,	
	2013	**2012**
	(%)	
Europe (including Germany)	75.3	74.8
Thereof Germany	30.5	30.7
North America	11.0	10.6
Asia	11.0	10.9
Other regions	2.7	3.7

While our Medical Applications are not particularly affected by macroeconomic developments, our net sales in our Industrial Applications are influenced by economic growth in our target markets, particularly in Europe. However, due to the large number of niche markets in which we operate, the effect of economic downturns has in the past been partially offset by the various different developments in our industrial target markets. Additionally, while 62.9% of our total net sales were attributable to our Industrial Applications in 2013, our Medical Applications generated more than half of our Adjusted EBITDA in 2013.

By net sales, the automotive market was the largest single end market for our Industrial Applications, followed by the electronics market, textile, construction and various other industrial niche markets. Particularly for the automotive end market, but also various other industrial end markets such as construction, the economic developments in Germany and Europe have a significant effect on our net sales. In the past, Germany has registered a GDP growth of 0.7% in 2012 and 0.4% in 2013, while GDP in the European Union declined by 0.4% in 2012 and 0.1% in 2013. As of December 2013, the ifo Institut projects global growth of 2.7% in 2013 which is expected to accelerate to 3.3% in 2014. The United States is projected to grow by 1.7% in 2013 and 2.3% in 2014, while the Eurozone's GDP is projected to decline by 0.1% in 2013, but shall rebound in 2014 to 1.2% GDP growth.

Next to the overall GDP growth rate influencing the results of the operations of our Industrial Applications, each of our industrial markets is also influenced by separate and distinct factors and has a different economic cycle. In the past, we have, for example, been affected by political and fiscal decisions of the Chinese government that had an impact on the textile industry in China.

We are also among the market leaders in many of the industrial niche markets that we target. Most of our main HPC competitors have either a different target market or geographical focus. Additionally, due to the large variety of our products, we are the sole supplier of certain specialized products in certain niche areas. However, specifically in the automotive end market and the electronics end market we have faced pressure from competitors in certain niche markets.

Acquisition of the advanced ceramics business including the increase of indebtedness

CeramTec Holding GmbH acquired with effectiveness August 31, 2013 / September 1, 2013, 24:00 h CEST 100% of the shares of CeramTec GmbH, Press and Sinter Technics de Mexico, S.A. de C.V., CeramTec North America Corporation as well as PST Press + Sintertechnik Sp.z.o.o. and obtained control over these entities. The acquisition took place to accelerate CeramTec's growth targets, esp. outside the core European markets, supporting the launch of new product initiatives and investing in the expansion of production facilities to support further growth in the hip implants market.

The acquisition was financed by equity contributions and the granting of a shareholder loan of €120 million on August 29, 2013 of the shareholder of CeramTec Holding, Faenza Luxembourg, as well as the issuance of an unsecured bond (€307 million) and senior secured credit facilities (€647 million credit facilities used and revolver credit facilities of additional EUR €100 million unused).

The consideration transferred to obtain control amounts to €1,547 million. It includes the purchase price for the acquisition of the shares (€1,528 million) and the purchase price for the acquisition of loan receivables against the Advanced Ceramics Business (€19 million). The fair value of the assets acquired and the liabilities assumed amounts to €997 million. Taking into account the consideration transferred, the goodwill resulting from the acquisition of the Advanced Ceramics Business amounts to €550 million.

As of December 31, 2013, the accounting for this business combination is not yet finalized, as the purchase price allocation is still preliminary since the identification and valuation of assets and liabilities have not been completed yet. Rather the following figures represent the preliminary purchase price allocation and show the amounts recognized as of the acquisition date for each major class of assets acquired and liabilities assumed:

	Book value	PPA adjustment	Fair value
		(in € million)	
Trademarks	0.0	51.3	51.3
Technology	0.0	236.1	236.1
Customer Relationships	0.0	406.4	406.4
Order Backlog	0.0	10.8	10.8
Other intangible assets	3.3	0.0	3.3
Intangible assets	**3.3**	**704.6**	**707.9**
Land and buildings	82.4	19.9	102.3
Technical equipment and machinery	129.5	40.2	169.7
Other equipment, operating and office equipment	6.4	0.0	6.4
Construction in progress	27.2	0.0	27.2
Property, plant and equipment	**245.5**	**60.1**	**305.6**
Other assets	1.3	0.0	1.3
Deferred taxes	33.1	0.0	33.1
Inventories	72.3	16.8	89.1
Trade accounts receivable	49.2	0.1	49.3
Other accounts receivable and assets	5.3	0.0	5.3
Cash and cash equivalents	183.9	0.0	183.9
Total assets	**593.9**	**781.6**	**1,375.5**
Provisions for pensions	(60.8)	(2.0)	(62.8)
Provisions and other liabilities	(58.8)	(0.8)	(59.6)
Financial liabilities to affiliates	(45.9)	19.2	(26.7)
Financial liabilities to third parties	(2.2)	0.0	(2.2)
Deferred taxes	(59.8)	(167.7)	(227.5)
Total liabilities	**(227.5)**	**(151.3)**	**(378.8)**
Total identifiable net assets at fair value			996.7
Total consideration transferred			1,547.0
Goodwill arising on acquisition			**550.3**

Until December 31, 2013 additional expenses for the amortization and depreciation of the fair value adjustments of €18.4 million were recognized in the costs of products sold and €7.9 million were recognized in the selling costs, which represents only the additional expenses resulting from the acquisition of the advanced ceramics business and which exceed the amortization and depreciation expenses, which were already recorded until August 31, 2013 from the acquisition of the advanced ceramics business by Rockwood in 2004 and which would have been recorded until December 31, 2013, would the transaction not have been executed.

Deferred taxes are calculated on the basis of the applicable local tax rates ranging from 15% to 34%.

The goodwill recognized mainly comprises future profits, which are expected to be realized within the next years and which cannot be recognized as separate assets. Total consideration transferred consists only of cash. No other class of consideration was transferred to obtain control.

The acquisition related costs amount to €17.8 million. The line item of the income statement is other expenses, in which the acquisition related costs were recognized.

The goodwills which are deductible for tax purposes amount to €75.0 million as of the acquisition date. A deferred tax asset of €20.1 million was recognized.

Results of Operations

The following discussion should be read in conjunction with the information contained in our audited consolidated financial statements for the period July 15 to December 31, 2013 and the Pro Forma consolidated financial information for the period January 1 to December 31, 2013 including the footnotes separately provided to you.

With effectiveness of September 1, 2013 CeramTec Holding GmbH acquired the advanced ceramics business from Rockwood. Prior to this acquisition we have already prepared and published an analysis of our results of operations for Q2/2013, Q1/2013 as well as for 2012. We also presented an analysis of Q3/2013, which comprises two months prior to the acquisition and one month after the acquisition. The figures presented there were (for Q3/2013 partly) based on accounting principles as set by Rockwood and which were in accordance with IFRS as adopted in the EU. In light of the new stakeholder structure from the acquisition onwards CeramTec Holding GmbH modified the presentation of certain items of income and expenses in order to mainly increase the transparency.

- R&D expenses. These were not shown separately on the face of the income statement prior to the sale of the advanced ceramics business from Rockwood to CeramTec Holding GmbH. But as we regard the R&D expenses as a substantial position, we now disclose them in a separate line item on the face of the income statement.

- Depreciation and amortization expenses. These are now more cause-based allocated to the respective functions. Especially the amortization of technology is now presented in the costs of products sold as we think that the amortization of technology forms part of the production costs as technology is used within the production cycle to produce goods sold.

- FX gains and losses, which are of financing nature. These FX gains and losses were presented until the sale of the advanced ceramics business from Rockwood to CeramTec Holding GmbH within other income and other expenses. As a result of the transaction we have concluded that they, as long as FX gains or losses are of operating nature, should be presented in other income or other expenses and as long as they are of financing nature should be presented within the financial result.

Due to the described changes in the presentation of particular items of income and expenses we adjusted the presentation format of our already published discussions of our results of operations, for the sake of comparability and consistency.

As already communicated via our investor relations homepage we further adjusted the reconciliation of our EBITDA to our Adjusted EBITDA. The adjustments were necessary for the following reasons:

- We made a new assessment of our estimation for standalone costs to incur (mainly insurance coverage, audit fees, headcount costs, treasury, tax and accounting support, investor relation).

- We noted that we erroneously added rather than deducted the standalone costs in Q3/2013 and Q2/2013.

- As we adjusted the presentation of FX gains and losses attributable to the financing, we had to adjust our EBITDA and our Adjusted EBITDA, accordingly.

The following table shows our income statement for the period 2013 compared to 2012, which was adjusted due to the above described reasons.

	Year Ended December 31		
	2013	2012	Change
	(in € million)		(%)
Net sales	438.0	425.2	3.0
Costs of products sold	289.4	246.5	17.4
Thereof Amortization	20.7	6.5	>100.0
Thereof Depreciation	31.0	23.8	30.3
Thereof reversal step up inventories	16.8		
Gross profit on sales	**148.6**	**178.7**	**(16.8)**
Selling costs	59.0	48.5	21.6
Research and Development Costs	20.2	17.5	15.4
General administration costs	21.9	14.9	47.0
Other income	0.5	0.5	0.0
Other expenses	31.3	7.4	>100.0
Profit from operations	**16.7**	**90.9**	**(81.6)**
Financial income	9.2	1.2	>100.0
Financial expenses	40.6	14.7	>100.0
Financial result	(31.4)	(13.5)	>100.0
Earnings before taxes	**(14.7)**	**77.4**	**>(100.0)**
Taxes on income	(7.5)	(22.4)	(66.5)
Net income / (loss)	**(22.2)**	**55.0**	**>(100.0)**

Net Sales

The following table provides an overview over our sales in 2013 compared to 2012 on a business unit level:

	Year Ended December 31		
	2013	2012	Change
	(in € million)		(%)
Medical Applications[1]	**162.5**	**146.1**	**11.2**
Industrial Applications[1]	**275.5**	**279.1**	**(1.3)**
Thereof Multifunctional Ceramics	44.0	44.6	(1.3)
Thereof Electronic Applications	43.5	40.8	6.6
Thereof Cutting Tools	34.9	34.0	2.6
Thereof Mechanical Systems	36.6	33.6	8.9
Thereof Mechanical Applications	21.9	22.7	(3.5)
Thereof Other Applications	135.2	140.3	(3.6)
Consolidation[2]	(40.6)	(36.9)	10.0
Total net sales	**438.0**	**425.2**	**3.0**

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

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

Our net sales increased by 3.0% from €425.2 million in 2012 to €438.0 million in 2013, principally due to growth in our Medical Applications.

Our net sales in Medical Applications increased by 11.2% from €146.1 million in 2012 to €162.5 million in 2013. The increase was due to our strong market position in the growing THR (total hip replacement) market and increased market share of ceramic ball heads and cup inserts.

This positive development was offset by a reduction in net sales by 1.3% in Industrial Applications from €279.1 million to €275.5 million. The decline in net sales in Industrial Applications was mainly driven by less favorable developments at CeramTec-ETEC GmbH due to lower demand in ballistic products.

The following table shows a break-down of our net sales which we generated in the different geographical areas:

	Year Ended December 31		
	2013	2012	Change
	(in € million)		(%)
Europe (excluding Germany)	196.4	187.5	4.7
Germany	133.8	130.6	2.5
North America	48.3	45.2	6.9
Asia	48.0	46.5	3.2
Other regions	11.5	15.4	(25.3)
Total net sales	**438.0**	**425.2**	**3.0**

In Germany, net sales increased due to a recovery in the automotive sector. Net sales in the rest of Europe increased from €187.5 million to €196.4 million, particularly due to sales to our top Medical Applications customers located in other countries in Europe. Similarly, sales in North America rose from €45.2 million to €48.3 million due to better economic conditions in the United States.

Costs of Products Sold and Gross Profit on Sales

The following table shows a break-down of our costs of products sold for 2012 and 2013:

	Year Ended December 31			
	2013		2012	
	(in € million)	(% of net sales)	(in € million)	(% of net sales)
Costs of materials and packaging	84.7	19.3	82.0	19.3
Energy	16.5	3.8	15.3	3.6
Personnel expenses	99.4	22.7	93.7	22.0
Amortization expenses	20.7	4.7	6.5	1.5
Depreciation expenses	31.0	7.1	23.8	5.6
Maintenance expenses of factory building and equipment	9.3	2.1	8.1	1.9
Other costs	27.8	6.3	17.2	4.0
Costs of products sold	**289.4**	**66.0**	**246.5**	**58.0**

Costs of products sold increased in total from €246.5 million or 58.0% of net sales in 2012 to €289.4 million or 66.0% of net sales in 2013 due to the depreciation and amortization of fair value step-ups raised as part of the purchase price allocation resulting in a decline of our gross profit on sales by 16.8% from €178.7 million in 2012 to €148.6 million in 2013. As a result, our gross profit margin decreased from 42.0% to 34.0%. Amortization and depreciation expenses have risen from €30.2 million to €51.7 million especially due to the release of the PPA adjustments. In addition, our personnel expenses relating to costs of products sold increased from €93.7 million in 2012 to €99.4 million in 2013, particularly due to annual wage increases and higher headcounts. Furthermore costs of materials and packaging increased from €82.0 million to €84.7 million due to higher sales. The cost increases were offset by efficiency gains in production. Finally, maintenance expenses as well as other costs increased because of higher repairs in buildings and facilities and the release of the PPA adjustment of €16.8 million recognized in inventories, respectively.

Selling Costs

Selling costs increased by 21.6% from €48.5 million or 11.4% of net sales in 2012 to €59.0 million or 13.5% of net sales in 2013. The increase was primarily due to PPA adjustments of €7.9 million or 16.3% of the total selling costs and an expansion and creation of selling capacities as part of our growth strategy and our increasing focus on international markets, especially in Medical Products and Electronic Applications.

Research and Development costs

Research and development costs increased by 15.4% from €17.5 million or 4.1% of net sales in 2012 to €20.2 million or 4.6% of net sales in 2013. The increase was primarily due to an increased headcount in the development division to realize planned growth projects.

General Administration Costs

General administration costs increased by 47.0% from €14.9 million or 3.5% of net sales in 2012 to €21.9 million or 5.0% of net sales in 2013. The increase was mainly due to higher share-based remuneration expenses of €3.2 million resulting from the Rockwood scheme, which ended on August 31, 2013 as well as pension costs of €1.1 million.

Other Income

Other income remained stable at €0.5 million.

Other Expenses

Other expenses increased from €7.4 million in 2012 to €31.3 million in 2013. The reason for the increase were the transaction related costs in the amount of €17.8 million incurred for the acquisition of the advanced ceramics business as well as other non-recurring costs amounting to €8.0 million in connection with preparatory measures in order to realize the sale of the advanced ceramics business from Rockwood to CeramTec Holding GmbH (mainly additional bonus expenses of €5.5 million, auditing costs of €1.1 million and other expenses of €1.4 million).

Financial Income

Financial income increased from €1.2 million in 2012 to €9.2 million in 2013, mainly attributable to the fair value measurement of the prepayment option concluded under the notes.

Financial Expenses

Financial expenses increased from €14.7 million in 2012 to €40.6 million in 2013, in particular due to the increased indebtedness resulting from the financing of the acquisition of the advanced ceramics business and the fair value measurement of the foreign currency swaps in connection with the foreign currency risks resulting from the USD denominated loans under the Term Loan Facilities.

Taxes on Income

Taxes on income decreased from €22.4 million in 2012 to €7.5 million in 2013. This was primarily caused by the decline in our earnings before taxes and the updated calculated of deferred tax liabilities relating to the fair value adjustments resulting from the acquisition of the advanced ceramics business.

The following table provides an overview over the split in earnings before taxes as they relate to Germany and other countries:

	Year Ended December 31	
	2013	**2012**
	(in € million)	
Germany	(16.9)	69.6
Abroad	2.2	7.8
Total earnings before taxes	**(14.7)**	**77.4**

Our effective tax rate includes the current and also the deferred tax expenses and takes into account all impacts, e.g. through non-deductible operating expenses or an amended tax assessment basis. The following table shows the reconciliation of the expected to the effective tax rate (i.e. tax expense in relation to the earnings before taxes):

	Year Ended December 31,			
	2013		**2012**	
	(in € million)	**(%)**	**(in € million)**	**(%)**
Earnings before income taxes	**(14.7)**	**100.0**	**77.4**	**100.0**
Expected tax expense	4.2	(28.5)	(21.6)	(27.9)
Permanent differences	(3.6)	24.5	(0.2)	(0.3)
Changes in the tax rate	(1.4)	9.5	(0.6)	(0.7)
Effects resulting from interest carry forwards	(5.7)	38.8	(0.0)	(0.0)
Corrections in the prior years	0.0	(0.0)	0.1	0.1
Other adjustments	(1.0)	6.8	(0.1)	(0.1)
Tax expense and effective tax rate	**(7.5)**	**51.1**	**(22.4)**	**(28.9)**

Net income

Taken into account the effects mentioned above, which relate particularly to the acquisition of the advanced ceramics business, our net income declined from €55.0 million in 2012 to €-22.2 million in 2013.

EBITDA and Adjusted EBITDA

As our income statement analyzed above was mainly negatively impacted by the accounting effects of the business combination, the following table shows the development of our operating business expressed by the EBITDA, which is adjusted by all of the non-operating effects incurred in 2013 as well as 2012, which was adjusted due to the alignment of the presentation format, which is discussed in further detail on page 5):

	Year Ended December 31,	
	2013	**2012**
	(in € million)	
Net income (Net loss)	(22.2)	55.0
Taxes on income	7.5	22.4
Financial result	31.4	13.5
Amortization	34.8	13.3
Depreciation	34.1	26.4
EBITDA	**85.6**	**130.6**
Rockwood management fee (1)	3.3	3.5
Restructuring costs (2)	0.6	1.9
Adjustment for rebate to a customer (3)	0.5	(0.8)
Share-based remuneration (4)	4.0	0.7
Non-recurring items (5)	31.4	1.8
Release of inventory fair value step-up (6)	16.8	0.0
Estimated standalone costs (7)	(3.8)	(3.8)
Estimated standalone costs booked (8)	1.8	0.0
Adjusted EBITDA	**140.1**	**134.1**
Adjusted EBITDA Margin (%)	*32.0*	*31.5*

Our Adjusted EBITDA increased by 4.5% from €134.1 million to €140.1 million. The increase in our Adjusted EBITDA was mainly driven by a positive gross margin effect in our Medical Applications.

(1) The Rockwood management fee relates to payments made to Rockwood for providing certain group functions and services to the Group, mainly insurance coverage, treasury and tax support until the acquisition by CeramTec Holding. Since September 1, 2013 no additional management fees were paid to Rockwood. Instead, it is expected to incur standalone costs in connection with building up group functions and services provided to us by Rockwood, most notably insurance coverage, audit fees, headcount costs, treasury, tax and accounting support, investor relation. See footnote (7) below.

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

(3) The adjustment for a rebate paid to a customer refers to price calculation adjustments in 2011, 2012 and the first quarter of 2013 and a subsequent refund to this customer in the first quarter of 2013.

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

(5) Non-recurring items mainly include acquisition related costs to acquire the advanced ceramics business incurred by the acquirer as well as transaction related costs incurred by CeramTec GmbH (€25,9 million). Furthermore the non-recurring items include increased one-off costs due to pension plan amendments and funding obligations to pension schemes (Pension Adjustment / Solvability €6.6 million). In addition this line item comprises a valuation allowance on a trade receivable sundry non-recurring items especially gains and losses on asset disposals.

(6) Release of inventory fair value step-up relates to the fair value measurement of inventories acquired within the business combination, which were expensed with the same amount in the costs of products sold from September until December 2013 due to the consumption of the respective inventory items. In total this is a non-cash transaction.

(7) Estimated standalone costs are management's estimates for total recurring costs to be incurred in connection with the acquisition of Rockwoods advanced ceramics business for group functions and services previously provided to us by Rockwood, mainly insurance coverage, audit fees, headcount costs, treasury, tax and accounting support, investor relation which are not included in the EBITDA as these costs have not yet been incurred.

(8) Includes the standalone costs recognized as an expense in 2013, which have initially decreased the unadjusted EBITDA. As the estimated standalone costs are adjusted in total, a correction for the already recognized standalone costs is necessary.

Liquidity and Capital Resources

Prior to the acquisition of the advanced ceramics business

Our principal source of liquidity prior to the acquisition has been cash generated from operations as well as internal financing arrangements within Rockwood. Our liquidity needs arise primarily from the need to fund our working capital and capital expenditure requirements. Prior to the acquisition, we utilized Rockwood's central cash management program, and accordingly, any excess cash generated was transferred to Rockwood. These transfers included cash payments to Rockwood to cover costs allocated to us by Rockwood.

Following the acquisition of the advanced ceramics business

Following the acquisition, we expect that our primary cash needs will be related to debt service requirements, working capital requirements, capital expenditures, tax payments and restructuring costs, which we expect to be funded by cash flows from operations.

Following the acquisition, we expect that our primary source of liquidity will continue to be cash flows from operations. In addition, there will be funds available under our new Revolving Credit Facility that we may utilize to meet our future cash needs up to an amount of €100 million.

The following table shows cash flows from operating, investing and financing activities for the periods 2012 and 2013:

	2013	2012
	(in € million)	
Net income (Net loss)	(22.2)	55.0
Taxes on income	7.5	22.4
Interest result	37.9	14.1
Earnings before interest and taxes	23.2	91.5
Income taxes paid (-) / income taxes received	(1.3)	(0.8)
Interest expenses paid (-) / interest income received	(13.1)	(10.9)
Depreciation and amortization on non-current assets	68.9	39.7
Losses from disposal of non-current assets	0.3	0.1
Increase/decrease (-) in provisions	(2.5)	(0.2)
Other non-cash items	12.8	0.7
Change in trade working capital	3.8	(4.8)
Cash flows from operating activities	**92.1**	**115.3**
Cash inflow from disposal of property, plant and equipment	0.2	1.0
Cash outflow for capital investments in property, plant and equipment	(54.0)	(29.3)
Cash outflow for capital investments in other intangibles assets	(2.5)	(1.2)
Cash inflow from grants for investments in property, plant and equipment and other intangibles assets	1.0	(0.0)
Acquisition of businesses (1)	(1,543.5)	(0.0)
Cash flows from investing activities	**(1,598.8)**	**(29.5)**
Proceeds from / repayment (-) of loans to affiliated companies	(15.3)	0.8
Cash inflow / outflow (-) from current accounts with affiliated companies	167.1	(62.7)
Proceeds from / repayment (-) of borrowings	(7.9)	(4.5)
Cash outflow from profit transfer / dividends to the shareholders	(0.0)	(59.7)
Cash inflow from capital contribution from shareholders	378.8	48.2
Cash outflow from the repurchase of instruments within the scope of the share-based payment program	(1.8)	(0.7)
Cash outflow from the repurchase of instruments within the scope of the share-based payment program, in excess of capital contribution	(2.3)	(2.9)
Cash inflow from issue of bonds	299.8	(0.0)
Proceeds from borrowings	625.6	(0.0)
Cash inflow from shareholder loan	120.0	(0.0)
Cash flows from financing activities	**1,564.0**	**(81.5)**
Change in cash and cash equivalents	**57.3**	**4.3**
Effects of exchange rate changes on cash and cash equivalents	0.2	(0.0)
Cash and cash equivalents at the beginning of the period	9.5	5.2
Cash and cash equivalents at the end of the period	**67.0**	**9.5**

(1) Represents the gross cash outflow for obtaining control over the advanced ceramics business whereas €183,9 million were taken over from subsidiaries.

Cash flows from operating activities

Cash flows from operating activities decreased from €115.3 million in 2012 to €92.1 million in 2013. The main reasons for the decrease were the transaction related costs, which incurred in connection with the acquisition of the advanced ceramics business and which were immediately expensed and cash effective in 2013 as well as higher interest payments of €2.2 million and higher tax payments of €0.5 million. Compensating to that we had cash-savings due to a good trade working capital management.

Cash flows from investing activities

Cash flows from investing activities increased from €-29.5 million in 2012 to €-1,598.8 million in 2013. Cash outflows were principally driven by the cash effective consideration transferred for the acquisition of the advanced ceramics business which amount to €1,543.5 in 2013. Furthermore capital expenditures in property, plant and equipment increased from €29.3 million in 2012 to €54.0 million in 2013.

Cash flows from financing activities

Cash flows from financing activities increased from €-81.5 million in 2012 to €1,564.0 million in 2013 again due to the acquisition of the advanced ceramics business, which was financed from proceeds of borrowings, the issue of bonds and a shareholder loan as well as equity contributions by the shareholder.

Capital Expenditures

The following table provides an overview of our capital expenditures in 2013 compared to 2012 without considering the additions resulting from the business combination:

	Year Ended December 31,	
	2013	2012
	(in € million)	
Capital investments in intangible assets	2.4	1.2
Capital investments in property, plant and equipment	39,3	29.3
Capacity Enlargement Marktredwitz (net)	14.8	
Total	**56,5**	**30.5**
As a percentage of total net sales (%)	12,9	7.2

Our capital expenditures are primarily connected to the maintenance of our manufacturing facilities as well as to our corporate facilities. At our manufacturing sites we invest in machinery and manufacturing equipment on an ongoing basis. We are able to operate with required maintenance capital expenditures of approximately €16 million annually, as estimated by our management, while the rest of our capital investments include costs incurred for expansion, construction and acquisitions of equipment and properties and for environmental matters relating to safety or health and other costs.

Our capital expenditures have significantly increased in 2013 due to the expansion of our manufacturing plant for ceramic components for hip joint implants in Marktredwitz. We currently plan that approximately €20 million of capital expenditures will be incurred in 2014 with approximately €10 million planned for further expenditures until 2017, all net of government subsidies. Or expanded Marktredwitz facility, together with our Plochingen facility will provide us with two full scale production sites, thereby allowing us to further provide security of supply for our customers, ensuring capacity to address future demand and enhancing our manufacturing scale advantage over our competitors.

Material Commitments and Contingencies

Net debt

	Twelve Months Ended 31 December, 2013
	(in EUR million)
Gross financial debt (without accrued transaction costs)	956,9
Thereof bond	*306,7*
Thereof term loans	*636,1*
Thereof mark-to-market value of cross-currency swap	*14,1*
Cash	67,0
Net debt	889,9
Undrawn revolver credit facility	100,0

In the first quarter of 2014 we used a further EUR 37 million of cash to settle remaining purchase price adjustments and transaction costs.

Contractual Obligations resulting from the financing

The following table summarizes our contractual obligations resulting from the senior credit facilities as well as the notes as of December 31, 2013 including repayments and interest payments:

	Payments due by period								
Contractual Obligations	**Total**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021 and beyond**
	(in € million)								
Senior Credit Facilities[(1)]	848.4	30.7	31.0	34.3	39.3	43.4	44.9	624.9	0.0
Notes[(2)]	509.6	25.8	25.3	25.3	25.3	25.3	25.3	25.3	332.0
Total	**1,358.0**	**56.5**	**56.3**	**59.6**	**64.6**	**68.7**	**70.2**	**650.2**	**332.0**

(1) Payments presented in the table are calculated using the forward interest rates and forward USD/EUR rates as of December 31, 2013. Assumes the minimum payments contractually obliged to, any USD denominated loans under the Term Loan Facility will have 0.25% of initial principal amount amortizing each quarter while the EUR denominated loans under the Term Loan Facility will have no interim amortization.

(2) Assumes no optional repayments.

Pension Commitments

We provide our employees with various defined benefit and defined contribution pension plans in relation to retirement, invalidity and death benefits. The promised benefits differ from country to country depending on the legal, tax and economic conditions. Furthermore, the existing plans are subject to the respective local requirements, the financing and the plan assets of pension plans.

The following tables show the pension obligations and market value of the plan assets of the defined benefit plans at the beginning and at the end of the financial year 2013:

	Year ended December 31, 2013		
	German plans	Foreign plans	Total
	(in € million)		
Contractual obligation at the beginning of the year	**55.2**	**9.4**	**64.6**
Service costs	1.1	0.0	1.1
Interest expenses	1.8	0.4	2.2
Actuarial (gains)/losses (Remeasurements)	(3.5)	0.3	(3.2)
Currency Translation	0.0	(0.2)	(0.2)
Benefit payment	(2.2)	(0.2)	(2.4)
Amendment of plans	0.0	1.6	1.6
Other variances	3.2	0.0	3.2
Contractual obligation at the end of the year	**55.6**	**11.3**	**66.9**
Market value of the plan assets at the beginning of the financial year	**0.0**	**4.4**	**4.4**
Expected income from plan assets	0.0	0.3	0.3
Employers' contributions	0.0	0.2	0.2
Actuarial (gains)/losses (Remeasurements)	0.0	0.1	0.1
Currency translation	0.0	(0.1)	(0.1)
Benefit payments	0.0	(0.2)	(0.2)
Market value of the plan assets at the end of the year	**0.0**	**4.7**	**4.7**
Net liability/provisions for pension benefits	**55.6**	**6.6**	**62.2**

The expected contributions to the defined benefit plans by the employer until 31 December 2014 will amount to €0.3 million. For the financial year 2014 benefit payments in the amount of €3.3 million are expected.

Contingencies

Group Companies are parties to a limited number of litigations. These processes are linked with the normal business activities and mainly relate to litigations referring to issues under commercial law, product liability law and environmental law. In this context, the Group Companies recognize provisions if such an obligation is probable and if the amount can be reliably estimated. The Group is disclosing such obligations if there is a reasonable possibility that a material expense arose.

No litigations are currently outstanding that could have a material impact on the Group's net asset position, financial position and results of operations.

We anticipate that there are no further cases that would materially affect the Group's net assets, financial position and results of operations. Should further cases arise, we will adjust the amount of the provisions taking into account the new information.

Critical Accounting Policies and Significant Accounting Estimates

Please refer to our consolidated financial statements as of December 31, 2013 for a detailed description of the accounting policies and accounting estimates applied.

Appendix

Reconciliation of Q3/2013, Q2/2013, Q1/2013 and 2012

The following tables show the adjustments necessary to align the presentation and disclosure of specific expenses for periods already published. The columns below comprise the following:

- Column (a) shows for the respective periods the figures as already published.
- Column (b) includes the adjustments necessary due to the correction of a sign error as well as due to a new estimation of the total standalone costs. The first estimate of EUR 1,8m annually was changed to EUR 3,8m due to higher consulting and board compensation, headcount, IT and investor relation issues.
- Column (c) includes the separate presentation of the R&D expenses, which we consider to be a substantial position.
- Column (d) shows the reclassification of the depreciation and amortization to the respective functions based on CeramTec Holding GmbH's accounting policy.
- Column (e) includes the reclassification of the FX gains and losses, which are of financing nature, from other income or expenses to financial income and expenses As a result, we further adjusted the reconciliation of our EBITDA to our Adjusted EBITDA.

Reconciliation of net income and EBITDA and Adjusted EBITDA for Q3/2013 (YTD):

(in € million)	(a) published January 01 – September 30, 2013	(b) Correction standalone adjustment	(c) Showing R&D separately	(d) Reclassi-fication depreciation/ amortization	(e) Reclassi-fication of FX losses/gains	(a) – (e) adjusted January 01 – September 30, 2013
Net sales	331.2					331.2
Costs of products sold	201.2			4.1		205.3
Thereof amortization & depreciation	*26.1*			*4.1*		*30.2*
Gross profit on sales	**130.0**	**0.0**	**0.0**	**(4.1)**	**0.0**	**125.9**
Selling costs	44.8			(4.7)		40.1
Thereof amortization & depreciation	*10.3*			*(4.7)*		*5.6*
General administration costs	15.6			1.6		17.2
Thereof amortization & depreciation	*0.0*			*1.6*		*1.6*
R&D costs	0.0		16.0	(1.0)		15.0
Thereof amortization & depreciation	*0.0*		*2.2*	*(1.0)*		*1.2*
Other income	0.3					0.3
Other expenses	48.4		(16.0)		(0.5)	31.9
Thereof R&D	*13.8*		*(13.8)*			*0.0*
Thereof amortization & depreciation	*2.2*		*(2.2)*			*0.0*
Profit from operations	**21.5**	**0.0**	**0.0**	**0.0**	**0.5**	**22.0**
Financial income	1.9					1.9
Financial expenses	18.8				0.5	19.3
Financial result	**(16.9)**	**0.0**	**0.0**	**0.0**	**(0.5)**	**(17.3)**
Earnings before taxes	**4.7**	**0.0**	**0.0**	**0.0**	**0.0**	**4.7**
Taxes on income	(7.8)					(7.8)
Net income	**(3.1)**	**0.0**	**0.0**	**0.0**	**0.0**	**(3.1)**
Reconciliation to EBITDA and Adjusted EBITDA						
Net income	(3.1)					(3.1)
Taxes on income	7.8					7.8
Financial result	16.9				0.5	17.3
Depreciation / amortization	38.6					38.6
EBITDA	**60.2**	**0.0**	**0.0**	**0.0**	**0.5**	**60.6**
Rockwood management fee	3.3					3.3
Restructuring costs	0.6					0.6
Exchange losses/gains	0.5				(0.5)	0.0
Adjustment for rebate to a customer	0.5					0.5
Share-based remuneration	4.0					4.0
Non-recurring items	33.9					33.9
Release of inventory fair value step up	4.2					4.2
Standalone costs	2.9	(5.8)				(2.9)
Adjusted EBITDA	**110.1**	**(5.8)**	**0.0**	**0.0**	**0.0**	**104.4**

Reconciliation of net income and EBITDA and Adjusted EBITDA for Q2/2013 (YTD):

(in € million)	(a) published January 01 – June 30, 2013	(b) Correction standalone adjustment	(c) Showing R&D separately	(d) Reclassi-fication depreciation/ amortization	(e) Reclassi-fication of FX losses/gains	(a) – (e) adjusted January 01 – June 30, 2013
Net sales	223.1					223.1
Costs of products sold	123.4			2.7		126.1
Thereof amortization & depreciation	*13.0*			*2.7*		*15.7*
Gross profit on sales	**99.7**	**0.0**	**0.0**	**(2.7)**	**0.0**	**97.0**
Selling costs	29.1			(3.1)		26.0
Thereof amortization & depreciation	*5.9*			*(3.1)*		*2.8*
General administration costs	6.6			1.0		7.6
Thereof amortization & depreciation	*0.0*			*1.0*		*1.0*
R&D costs	0.0		10.1	(0.7)		9.4
Thereof amortization & depreciation	*0.0*		*1.4*	*(0.7)*		*0.7*
Other income	0.2					0.2
Other expenses	16.0		(10.1)		(0.6)	5.3
Thereof R&D	*8.7*		*(8.7)*			*0.0*
Thereof amortization & depreciation	*1.4*		*(1.4)*			*0.0*
Profit from operations	**48.2**	**0.0**	**0.0**	**0.0**	**0.6**	**48.8**
Financial income	0.2					0.2
Financial expenses	6.5				0.6	7.1
Financial result	**(6.3)**	**0.0**	**0.0**	**0.0**	**(0.6)**	**(6.9)**
Earnings before taxes	**41.9**	**0.0**	**0.0**	**0.0**	**0.0**	**41.9**
Taxes on income	(13.9)					(13.9)
Net income	**28.0**	**0.0**	**0.0**	**0.0**	**0.0**	**28.0**
Reconciliation to EBITDA and Adjusted EBITDA						
Net income	28.0					28.0
Taxes on income	13.9					13.9
Financial result	6.3				0.6	6.9
Depreciation / amortization	20.2					20.3
EBITDA	**68.4**	**0.0**	**0.0**	**0.0**	**0.6**	**69.0**
Rockwood management fee	3.7					3.7
Restructuring costs	0.1					0.1
Exchange losses/gains	0.6				(0.6)	0.0
Adjustment for rebate to a customer	0.5					0.5
Share-based remuneration	0.4					0.4
Non-recurring items	1.3					1.3
Standalone costs	0.9	(2.8)				(1.9)
Adjusted EBITDA	**75.9**	**(2.8)**	**0.0**	**0.0**	**0.0**	**73.1**

Reconciliation of net income and EBITDA and Adjusted EBITDA for Q1/2013 (YTD):

(in € million)	(a) published January 01 – March 31, 2013	(b) Correction standalone adjustment	(c) Showing R&D separately	(d) Reclassi-fication depreciation/ amortization	(e) Reclassi-fication of FX losses/gains	(a) – (e) Adjusted January 01 – March 31, 2013
Net sales	107.1					107.1
Costs of products sold	59.6			1.4		61.0
Thereof amortization & depreciation	*6.3*			*1.4*		*7.7*
Gross profit on sales	**47.5**	**0.0**	**0.0**	**(1.4)**	**0.0**	**46.1**
Selling costs	14.5			(1.5)		13.0
Thereof amortization & depreciation	*2.9*			*(1.5)*		*1.4*
General administration costs	3.3			0.5		3.8
Thereof amortization & depreciation	*0.0*			*0.5*		*0.5*
R&D costs	0.0		5.1	(0.3)		4.8
Thereof amortization & depreciation	*0.0*		*0.6*	*(0.3)*		*0.3*
Other income	0.1					0.1
Other expenses	7.4		(5.1)		(0.2)	2.0
Thereof R&D	*4.5*		*(4.5)*			*0.0*
Thereof amortization & depreciation	*0.7*		*(0.7)*			*0.0*
Profit from operations	**22.4**	**0.0**	**0.0**	**0.0**	**0.2**	**22.6**
Financial income	0.1					0.1
Financial expenses	3.2				0.2	3.5
Financial result	**(3.1)**	**0.0**	**0.0**	**0.0**	**(0.2)**	**(3.4)**
Earnings before taxes	**19.3**	**0.0**	**0.0**	**0.0**	**0.0**	**19.3**
Taxes on income	(6.2)					(6.2)
Net income	**13.1**	**0.0**	**0.0**	**0.0**	**0.0**	**13.1**
Reconciliation to EBITDA and Adjusted EBITDA						
Net income	13.1					13.1
Taxes on income	6.2					6.2
Financial result	3.1				0.2	3.4
Depreciation / amortization	9.9					9.9
EBITDA	**32.3**	**0.0**	**0.0**	**0.0**	**0.2**	**32.5**
Rockwood management fee	1.8					1.8
Restructuring costs	0.1					0.1
Exchange losses/gains	0.2				(0.2)	0.0
Adjustment for rebate to a customer	0.5					0.5
Share-based remuneration	0.2					0.2
Standalone costs	(0.5)	(0.5)				(1.0)
Adjusted EBITDA	**34.8**	**(0.5)**	**0.0**	**0.0**	**0.0**	**34.3**

Reconciliation of net income and EBITDA and Adjusted EBITDA for 2012:

(in € million)	(a) published January 01 – December 31, 2012	(b) Correction standalone adjustment	(c) Showing R&D separately	(d) Reclassi-fication depreciation/ amortization	(e) Reclassi-fication of FX losses/gains	(a) – (e) adjusted January 01 – December 31, 2012
Net sales	425.2					425.2
Costs of products sold	241.5			5.0		246.5
Thereof amortization & depreciation	*25.2*			*5.0*		*30.2*
Gross profit on sales	**183.7**	**0.0**	**0.0**	**(5.0)**	**0.0**	**178.7**
Selling costs	54.7			(6.2)		48.5
Thereof amortization & depreciation	*11.9*			*(6.2)*		*5.7*
General administration costs	12.9			2.0		14.9
Thereof amortization & depreciation	*0.0*			*2.0*		*2.0*
R&D costs	18.3			(0.8)		17.5
Thereof amortization & depreciation	*2.6*			*(0.8)*		*1.8*
Other income	1.1				(0.6)	0.5
Other expenses	7.4					7.4
Thereof R&D	*0.0*					*0.0*
Thereof amortization & depreciation	*0.0*					*0.0*
Profit from operations	**91.5**	**0.0**	**0.0**	**0.0**	**(0.6)**	**90.9**
Financial income	0.6				0.6	1.2
Financial expenses	14.7					14.7
Financial result	**(14.1)**	**0.0**	**0.0**	**0.0**	**0.6**	**(13.5)**
Earnings before taxes	**77.4**	**0.0**	**0.0**	**0.0**	**0.0**	**77.4**
Taxes on income	(22.4)					(22.4)
Net income	**55.0**	**0.0**	**0.0**	**0.0**	**0.0**	**55.0**
Reconciliation to EBITDA and Adjusted EBITDA						
Net income	55.0					55.0
Taxes on income	22.4					22.4
Financial result	14.1				(0.6)	13.5
Depreciation / amortization	39.7					39.7
EBITDA	**131.2**	**0.0**	**0.0**	**0.0**	**(0.6)**	**130.6**
Rockwood management fee	3.5					3.5
Restructuring costs	1.9					1.9
Adjustment for rebate to a customer	(0.8)					(0.8)
Share-based remuneration	0.7					0.7
Exchange losses/gains	(0.6)				0.6	0.0
Non-recurring items	1.8					1.8
Standalone costs	(1.8)	(2.0)				(3.8)
Adjusted EBITDA	**136.1**	**(2.0)**	**0.0**	**0.0**	**0.0**	**134.1**