MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR THE HISTORICAL FINANCIAL DATA AS OF AND FOR THE SIX MONTH PERIODS ENDED JUNE 30, 2013 AND 2014

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. (CeramTec Holding Group).

The purpose of this MD&A is to show the development of the financial results of the operating advanced ceramics business for the six month period ended June 30, 2014 in comparison to the six month period ended June 30, 2013. It must be noted that the financial information shown in this MD&A are shown on a historical basis, rather than on a Pro Forma basis for the comparative period. This means that, among other things, the financial information for the comparative six month period ended June 30, 2013 do not include effects from the increased level of indebtedness as well as from the purchase price accounting. As a result the comparability and the significance of the financial data presented are limited.

The historical financial data as of and for the six month period ended June 30, 2013 has been derived from the unaudited condensed interim combined financial statements of the advanced ceramics business. The reconciliation of these historical data was shown in the MD&A as of December 31, 2013 (see MD&A as of December 2013, Appendix page 19). The financial data as of and for the six month period ended June 30, 2014 has been derived from the unaudited condensed interim consolidated financial statements of the CeramTec Holding Group.

The following discussion should be read in conjunction with the information contained in our unaudited condensed interim consolidated financial statements for the six month period ended June 30, 2014 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.). We have amended the wording compared to prior year but changes have no effect on the composition of the amounts.

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.

Results of Operations

The following table sets forth amounts from our financial information along with the percentage change for the six month period ended June 30, 2014 compared to the six month period ended June 30, 2013:

	Six Months Ended June 30,		
	2014	**2013**	**Change**
	(in € million)		*(%)*
Net sales	246.3	223.1	10.4
Cost of sales	149.3	126.1	18.4
Gross profit	**97.0**	**97.0**	**0.1**
Selling costs	40.0	26.0	53.8
Research and development costs	11.5	9.4	22.2
General administrative costs	9.4	7.6	23.9
Other income	0.3	0.2	44.0
Other expenses	2.5	5.3	-52.6
Operating Income	**33.9**	**48.8**	**-30.5**
Interest income and other finance income	4.0	0.2	>100.0
Interest expenses and other finance costs	44.3	7.1	>100.0
Financial result	**-40.2**	**-6.9**	**>100.0**
Earnings before taxes	**-6.4**	**41.9**	**>-100.0**
Taxes on income	-2.7	-13.9	-82.3
Net income / loss (-)	**-9.1**	**28.0**	**>-100.0**

Net Sales

The following table provides an overview over our net sales for the six months ended June 30, 2014 compared to the respective comparative period 2013 on a business unit level:

	Six Months Ended June 30,		
	2014	**2013**	**Change**
	(in € million)		*(%)*
Medical Applications(1)	**93.7**	**83.7**	**12.0**
Industrial Applications(1)	**152.6**	**139.4**	**9.5**
Thereof Multifunctional Ceramics	24.0	22.8	2.8
Thereof Electronic Applications	23.3	21.1	10.5
Thereof Cutting Tools	20.8	17.6	18.1
Thereof Mechanical Systems	19.6	20.1	-2.6
Thereof Mechanical Applications	12.7	11.1	14.5
Thereof Other Applications	75,8	67.8	11.8
Consolidation(2)	-23.6	-21.1	11.8
Total net sales	**246.3**	**223.1**	**10.2**

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

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

Total net sales increased by 10.2 % from €223.1 million in the first half of 2013 to €246.3 million in the first half of 2014. Our operations can be divided into two business groups - Medical Applications and Industrial Applications.

Our net sales in Medical Applications continued to grow significantly by 12.0 % from €83.7 million in the first half of 2013 to €93.7 million in the first half of 2014, principally due to our strong market position in the growing total hip replacement market and increased market share of ceramic components.

Net sales in Industrial Applications increased by 9.5 % from €139.4 million for the first half 2013 to €152.6 million for the first half 2014. The positive trend started in the fourth quarter 2013 and continued with a nearly double digit increase in the first half 2014 compared to the first half 2013 in most of our industrial business. Our sales in the business unit Cutting Tools increased mainly by sales of new products and new applications for super-hard materials which came along with a recovery in the automotive industry. The business unit Electronic Applications has a good economic climate in addition with the new application oriented, strengthened sales force which leads to a notable sales increase of 10.5 %. The increase in Other Applications is attributed to CT North America which sales increased by 44.3 % mainly driven by ethylene oxide catalyst (EOC) products while CT-ETEC is still in a difficult market situation with lower demand for ballistic applications used for protected vehicles driven by reduced equipment budgets primarily in the U.S.

The regional split of the sales is 28.4 % for Germany, 44.2 % for Europe, 13.2 % for North America, 11.3 % for Asia and 2.9 % for other regions. The split is mainly unchanged compared to the comparative period in 2013.

Cost of Sales and Gross Profit on Sales

The following table shows a break-down of our cost of sales for the six month periods ended June 30, 2013 and 2014:

	Six Months Ended June 30			
	2014		2013	
	(in € million)	*(% of net sales)*	*(in € million)*	*(% of net sales)*
Cost of materials and packing	43.4	17.6	44.4	19.9
Energies	8.5	3.4	8.6	3.9
Other variable costs	4.6	1.9	2.3	1.0
Personnel expenses	51.2	20.8	49.0	22.0
Depreciation and amortization expenses	29.2	11.9	15.7	7.0
Maintenance expenses of factory building and equipment	4.3	1.7	5.0	2.2
Other costs	8.1	3.3	1.1	0.5
Cost of sales	**149.3**	**60.6**	**126.1**	**56.5**

Cost of sales increased by 18.4 % from €126.1 million or 56.5 % of net sales in the first half of 2013 to €149.3 million or 60.6 % of net sales in the first half of 2014. The increase was primarily caused by a higher volume in sales and by estimated €12.2 million PPA-effects on Depreciation & Amortization in 2014. Excluding Depreciation and Amortization our gross profit increased by €13.6 million from €112.7 million to €126.2 million and our gross margin improved by 0.8 % from 50.5 % to 51.2 %. The principal driver of this positive development was a greater share of Medical in sales and some higher margin industrial sales in the first half of 2014.

Selling Costs

Excluding Depreciation and Amortization our selling costs increased by €2.3 million from €23.2 million in the first half of 2013 to €25.5 million thus growing broadly in line with our sales. The principal driver of the reported increase from €26.0 million to €40.0 million relates to PPA-effects on Depreciation and Amortization.

Research and Development Costs

Our research and development costs increased from €9.4 million or 4.2 % of net sales in the first half of 2013 to €11.5 million or 4.7 % of net sales in the first half of 2014 mainly driven by higher efforts to develop new medical products and to support our other growth projects.

General Administrative Costs

Our general administrative costs increased from €7.6 million or 3.4 % of net sales in the first half of 2013 to €9.4 million or 3.8 % of net sales in the first half of 2014.

It must be noted that the G&A costs for the first half 2013 are shown on a historical basis, rather than on a Pro Forma basis. Would the comparative period be shown on a Pro Forma basis, the G&A costs for the first half 2013 would have been €1.0 million higher, mainly stand-alone costs leading to normalized and comparable G&A costs of €8.6 million for the six month period ended June 30, 2013. On this basis the increase would be €0.8 million.

Other Income

Other income remained stable by €0.2 million in the first half of 2013 and €0.3 million in the first half of 2014.

Other Expenses

Other expenses decreased from €5.3 million in the six month period ended June 30, 2013 to €2.5 million in the six month period ended June 30, 2014. It must be noted that the other expenses for the first half 2013 are shown on a historical basis, rather than on a Pro Forma basis.

This means that on a Pro Forma basis the other expense for the first half 2013 would have been reduced by €5.0 million (mainly management fees payable to Rockwood) leading to other expenses of €0.3 million. As a result other expenses would have been increased by €2.2 million if the comparative period would have been presented on a Pro Forma basis. This increase is especially due to €1.9 million relating to restructuring costs for CeramTec UK, CT-ETEC GmbH and Durawear, which we have normalized in our Adjusted EBITDA as the restructuring expenses are of non-operating nature and one-time expenses and due to €0.4 impairment charges for CeramTec UK. Thus on a normalized basis other expenses amount to €0.3 million, which would be in line with other expenses for the first half 2013 on a Pro Forma basis.

Interest Income and Other Finance Income

Financial income increased from €0.2 million in the first half of 2013 by €3.8 million to €4.0 million in the first half of 2014 because of the valuation of our term loans denominated in foreign currencies as well as the fair value measurement of derivatives in connection with these term loans.

Interest Expenses and Other Finance Costs

Financial expenses increased from €7.1 million for the six month period ended June 30, 2013 to €44.3 million for the six month period ended June 30, 2014 due to the new finance structure after the acquisition and due to the fair value measurement of derivatives in connection with our term loans. The Financial Expense of €44.3 million includes €27.7 million cash interest, €12.8 million non-cash interest and €3.7 million change in value of derivatives.

CeramTec THE CERAMIC EXPERTS

Taxes on Income

Taxes on income decreased from €13.9 million for the six month period ended June 30, 2013 to €2.7 million in the six month period ended June 30, 2014 mainly due to increased Depreciation and Amortization and interest expense.

Net Income / Loss

As a result of the above described developments, especially due to higher financial expenses from the increased level of indebtedness and due to the purchase price accounting our net income declined from €28.0 million for the first half of 2013 to a net loss of €9.1 million for the first half of 2014.

Financial Condition, Liquidity and Capital Resources

As of June 30, 2014, the gross financial debt, the cash balance as well as the undrawn Revolving Credit Facility show the following numbers:

	Six Months Ended June 30, 2014
	(in € million)
Gross financial debt (without accrued transaction costs)	950.7
thereof bond	*306.7*
thereof term loans	*632.9*
thereof mark-to-market measure cross-currency swaps	*11.2*
Cash	34.9
Net debt	915.8
Undrawn Revolving Credit Facility	100.0
Net Debt to LTM Adjusted EBITDA(*) ratio	6.2

(*) LTM Adjusted EBITDA July 2013 –June 2014 EUR 148.8 million

Cash Flow Statement

The following table shows the Cash Flow for the six months period ended June 30, 2014:

	Six Months ended June 30, 2014
	(in € million)
Net loss for the period	-9.1
Taxes on income	2.7
Financial result	40.2
Write-downs / write-ups (-) on non-current assets	46.0
Loss / Gain (-) on disposal of fixed assets	0,1
Increase / decrease (-) in provisions (excluding deferred taxes)	6.1
Income tax payment	-1.3
Other non-cash expenses/income (-)	-2.8
Increase (-) / decrease in inventories	1.2
Increase (-) / decrease in trade receivables	-18.5
Increase (-) / decrease in other receivables and (financial) assets	0.9
Increase / decrease (-) in trade payables	-11.8
Increase / decrease in other liabilities	4.1
Cash flow from operating activities	**57.9**
Cash received from disposals of property, plant and equipment	0,8
Cash paid (-) for investments in property, plant and equipment	-27.6
Cash paid (-) for investments in intangible assets	-0.5
Cash paid (-) for the acquisition of entities	-3.5
Cash flow from investing activities	**-30.8**
Repayment for syndicated loan	-4.0
Interest paid (-)	-28.0
Cash paid for profit transfer to previous shareholder	-26.9
Cash flow from financing activities	**-59.0**
Change in cash and cash equivalents	**-31.9**
Currency effects	-0,2
Cash and cash equivalents at the beginning of the period	67.0
Cash and cash equivalents at the end of the period	**34.9**

There was a negative change in cash and cash equivalents over the six months period of €31.9 million. This was primarily the result of significant anticipated cash outflow relating to financing activities including in particular Cash paid for profit transfer to previous shareholder of €26.9 million and Repayment of the syndicated loan of €4.0 million. Excluding these items, change in Cash and cash equivalents would have been negative €1.0 million.

Cash flow from operating activities was negatively impacted by an increase in trade receivables (€18.5 million) and a decrease in trade payables (€11.8 million). The scale of these working capital changes were greater than usual as trade receivables were unusually low at December 31 2013 due to the timing of certain invoices in particular within Medical and Electronic (causing the increase in trade receivables over the following months), and trade payables were unusually low at June 30, 2014 due to lower than normal raw materials purchases. We anticipate no significant changes in working capital with negative impact over the course of the second half and overall working capital should be modest source of cash as the trade payables balance reverts to more normalized level.

EBITDA and Adjusted EBITDA

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

	Six Months Ended June 30,	
	2014	**2013**
	(in € million)	
Net income / loss (-)	-9.1	28.0
Taxes on income	2.7	13.9
Financial result	40.2	6.9
Depreciation and Amortization	46.0	20.3
EBITDA	**79.9**	**69.0**
Rockwood management fee[a]	0.0	3.7
Restructuring costs[b]	1.9	0.1
Adjustment for rebate to a customer[c]	0.0	0.5
Share-based remuneration[d]	0.0	0.4
Other non-recurring items	0.0	1.3
Estimated standalone costs[e]	0.0	-1.9
Adjusted EBITDA	**81.8**	**73.1**

(a) The Rockwood management fee relates to payments made to Rockwood for providing certain group functions and services to the Group, mainly insurance coverage, treasury and tax support until the acquisition by CeramTec Holding. Since 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, treasury and tax support.

(b) Restructuring costs refers to closing costs and severance payments for the reduction of staff in three subsidiaries (Closure of CeramTec UK Ltd. production facility and Durawear Corp. as well as the reduction of staff in CeramTec-ETEC GmbH).

(c) The adjustment for a rebate paid to a customer refers to price calculation adjustments in 2011, 2012 and the first quarter of 2013 and a subsequent €1.1 million refund to this customer in the first quarter of 2013.

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

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

Recent Developments

Currently there are no developments to report.