MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR THE HISTORICAL FINANCIAL DATA AS OF AND FOR THE THREE MONTH PERIODS ENDED MARCH 31, 2014 AND 2015

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 three month period ended March 31, 2015 in comparison to the three month period ended March 31, 2014.

The historical financial data as of and for the three period ended March 31, 2014 has been derived from the unaudited condensed interim consolidated financial statements of the advanced ceramics business. The financial data as of and for the three month period ended March 31, 2015 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 three month period ended March 31, 2015 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 high performance ceramics ("HPC"). Our 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. 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 three month period ended March 31, 2015 compared to the three month period ended March 31, 2014. All figures are in EURm as reported

	Three Months Ended March 31,		
	2015	**2014**	**Change**
	(in € million)		*(%)*
Net sales	130.5	121.8	7.2
Cost of sales	76.1	73.3	3.8
Gross profit	**54.4**	**48.5**	**12.2**
Selling costs	21.8	20.1	8.5
Research and development costs	6.2	5.7	9.2
General administrative costs	4.7	4.6	1.9
Other income and (expenses)	1.8	-1.7	>100.0
Operating Income	**23.5**	**16.4**	**43.5**
Interest income and other finance income	11.0	0.2	>100.0
Interest expenses and other finance costs	25.2	21.8	15.6
Financial result	**-14.2**	**-21.6**	**-34.5**
Earnings before taxes	**9.3**	**-5.2**	**>100.0**
Taxes on income	-4.6	-1.1	>100.0
Net income / loss (-)	**4.7**	**-6.3**	**>100.0**

Net Sales

The following table provides an overview over our net sales for the three months ended March 31, 2015 compared to the respective comparative period 2014 on a business unit level. All figures are in EURm as reported.

	Three Months Ended March 31,		
	2015	**2014**	**Change**
	(in € million)		*(%)*
Medical Applications[1]	**49.3**	**46.1**	**6.8**
Industrial Applications[1]	**81.3**	**75.7**	**7.4**
Thereof Multifunctional Ceramics	12,1	12.1	0.3
Thereof Electronic Applications	13.4	11.5	16.4
Thereof SPK Cutting Tools	10.3	10.4	-1.0
Thereof Mechanical Systems	10.1	9.8	3.3
Thereof Mechanical Applications	5.6	6.3	-10.9
Thereof Other	42.0	37.8	11.2
Consolidation[2]	-12.2	-12.1	0.7
Total Net Sales	**130.5**	**121.8**	**7.2**

(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 7.2% as reported (4.3% in constant currency) from €121.8 million in the first quarter of 2014 to €130.5 million in the first quarter of 2015. Our operations can be divided into two business groups - Medical Applications and Industrial Applications.

Our net sales in Medical Applications continued to grow strongly by 6.8% as reported (+6.8% in constant currency) from €46.1 million in the first quarter 2014 to €49.3 million in the first quarter of 2015, 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 7.4% as reported (+2.9% in constant currency) from €75.7 million for the first quarter of 2014 to €81.3 million for the first quarter of 2015. This positive development started in the fourth quarter 2013 and continued with stable increases until today in most of our industrial divisions. Our sales in the Electronic Division increased by 16.4% mainly due to good volumes in sensor tapes to a top customer partly offset by lower sales to the Chinese textile machinery industry in our Mechanical Applications division. The increase in Other Divisions is attributed mainly to CT North America which sales increased by 31.0% mainly driven by continuous good sales with ethylene oxide catalyst (EOC) products while our CT-ETEC division is still in a difficult market situation with low 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 26.1% for Germany, 44.5% for Europe (including most of the Medical sales to OEM), 15.2 % for North America, 9.9 % for Asia and 4.3% for other regions. The split is mainly unchanged compared to the comparative period in 2014.

Cost of Sales and Gross Profit on Sales

The following table shows a break-down of our cost of sales for the three month periods ended March 31, 2014 and 2015:

	Three Months Ended March 31			
	2015		2014	
	(in € million)	*(% of net sales)*	*(in € million)*	*(% of net sales)*
Cost of materials and packing	24.4	18.7	22.2	18.2
Energies	4.3	3.3	4.5	3.7
Other variable costs	2.1	1.6	1.6	1.3
Personnel expenses	27.6	21.2	26.1	21.4
Amortization and depreciation	12.5	9.6	14.5	11.9
Maintenance expenses of factory building and equipment	2.3	1.8	2.4	2.0
Other costs	2.9	2.2	2.0	1.6
Cost Of Sales	**76.1**	**58.3**	**73.3**	**60.2**

Cost of sales increased by 3.8% from €73.3 million or 60.2% of net sales in the first quarter of 2014 to €76.1 million or 58.3% of net sales in the first quarter of 2015. The increase was primarily caused by a higher volume in sales. Excluding amortization and depreciation our gross profit increased by €4.0 million from €63.0 million to €66.9 million while our gross margin decreased by 0.4%pts from 51.7% to 51.3%. The principal driver of this decreasing development was a greater share of Industrial volumes in sales with lower margins.

Selling Costs

Excluding amortization and depreciation our selling costs increased by €1.6 million from €12.9 million or 10.6% of net sales in the first quarter of 2014 to €14.5 million or 11.1% of net sales mainly due to increased sales activity to accelerate growth.

Research and Development Costs

Our research and development costs increased from €5.7 million or 4.7% of net sales in the first quarter of 2014 to €6.2 million or 4.8% of net sales in the first quarter of 2015 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 €4.6 million or 3.8% of net sales in the first quarter of 2014 to €4.7 million or 3.6% of net sales in the first quarter of 2015 thus growing broadly in line with our sales.

Other Income and Expenses

Other income and expenses increased from €-1.7 million expenses in the first quarter of 2014 to €1.8 million income in the first quarter of 2015. The change of €3.5 million results mainly from gains on foreign exchange by €2.2 million (mainly US Dollar) and from a reduction of €1.4 million relating to restructuring costs for CeramTec UK, CT-ETEC GmbH and Durawear, which we have normalized in our Adjusted EBITDA.

Interest Income and Other Finance Income

Financial income increased from €0.2 million in the first quarter of 2014 by €10.9 million to €11.0 million in the first quarter of 2015 because of the fair value measurement of derivatives.

Interest Expenses and Other Finance Costs

Financial expenses increased from €21.8 million for the three month period ended March 31, 2014 to €25.2 million for the three month period ended March 31, 2015 mainly due to higher exchange rate losses. The Financial Expense of €25.2 million includes €13.8 million cash interest, €1.9 million deferred financing costs, €2.6 million non-cash interest and €6.9 exchange rate losses and other interest expenses.

Taxes on Income

Taxes on income increased from €1.1 million for the three month period ended March 31, 2014 to €4.6 million in the three month period ended March 31, 2015 mainly due to higher results.

Net Income / Loss

As a result of the above described developments, especially due to higher financial result and due to higher gross profit our net income increased from a net loss of €-6.3 million for the first quarter of 2014 to a net income of €4.7 million for the first quarter of 2015.

Financial Condition, Liquidity and Capital Resources

As of March 31, 2015, the gross financial debt, the cash balance as well as the undrawn Revolving Credit Facility show the following numbers:

	Three Months Ended March 31, 2015
	(in € million)
Gross financial debt (without accrued transaction costs)	965.5
thereof bond	*306.7*
thereof term loans	*716.3*
thereof mark-to-market measure cross-currency swaps	*-63.4*
thereof accrued interest	*5.9*
Cash	52.7
Net debt	912.8
Undrawn Revolving Credit Facility	100.0
Net Debt to LTM Adjusted EBITDA(*) ratio	5.8

(*) LTM Adjusted EBITDA April 2014 –March 2015 EUR 158.0 million

Cash Flow Statement

The following table shows the Cash Flow for the three month period ended March 31, 2015:

	Three Months ended March 31, 2015
	(in € million)
Net gain for the period	4.7
Tax income	4.6
Interest result	18.8
Write-downs / write-ups (-) on non-current assets	20.7
Gain (-) / Loss on disposal of fixed assets	0.0
Increase / decrease (-) in provisions (excluding deferred taxes)	3.5
Income tax refund / payment (-)	-3.9
Other non-cash expenses / income (-)	-3.0
Increase (-) / decrease in inventories	-3.2
Increase (-) / decrease in trade receivables	-21.2
Increase (-) / decrease in other receivables and (financial) assets	0.6
Increase / decrease (-) in trade payables	-2.4
Increase / decrease (-) in other (financial) liabilities	2.0
Cash flow from operating activities	**21.4**
Cash received from disposals of property, plant and equipment	0.0
Cash paid (-) for investments in property, plant and equipment	-6.3
Cash received from grants	0.0
Cash paid (-) for investments in intangible assets	-0.0
Cash paid (-) for the acquisition of entities	0.0
Cash flow from investing activities	**-6.4**
Cash received from syndicated loan / repayment of syndicated loan	-4.8
Interest paid (-)	-20.4
Cash flow from financing activities	**-25.1**
Change in cash and cash equivalents	**-10.2**
Currency effects	0.6
Cash and cash equivalents at the beginning of the period	62.2
Cash and cash equivalents at the end of the period	**52.7**

There was a negative change in cash and cash equivalents over the three month period of €-10.2 million. This was primarily the result of increasing operating working capital and cash outflow relating to financing activities. Cash flow from operating activities was negatively impacted by an increase in trade receivables (€21.2 million) and a decrease in trade payables (€2.4 million) driven by a higher number of payment runs. The scale of these working capital changes was greater than usual as trade receivables were unusually low at December 31, 2014 and March shows some changes of Industrial and Medical customer mix with longer payment terms and the move of invoicing towards end of month.

EBITDA and Adjusted EBITDA

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

	Three Months Ended March 31,	
	2015	**2014**
	(in € million)	
Net income / loss (-)	4.7	-6.3
Taxes on income	4.6	1.1
Financial result	14.2	21.6
Depreciation and Amortization	20.7	22.7
EBITDA	**44.2**	**39.0**
Restructuring costs [a]	0.2	1.6
Other one-off costs [b]	0.2	
Adjusted EBITDA	**44.6**	**40.6**

(a) Restructuring costs 2014 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 at CeramTec-ETEC GmbH). Restructuring costs 2015 refers to further severance payments for the reduction of staff at CT-ETEC GmbH.

(b) Includes non-recurring consulting expenses

Recent Developments

Currently there are no developments to report.