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, 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 six month period ended June 30, 2015 in comparison to the six month period ended June 30, 2014.

The historical financial data as of and for the six month period ended June 30, 2014 have been derived from the unaudited interim condensed consolidated financial statements of the advanced ceramics business. The financial data as of and for the six month period ended June 30, 2015 have been derived from the unaudited interim condensed consolidated financial statements of the CeramTec Holding Group.

The following discussion should be read in conjunction with the information contained in our unaudited interim condensed consolidated financial statements as of and for the six month period ended June 30, 2015 including the notes thereto which have been 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 re-named some of the line items in our financial statements compared to the prior year period, however, such 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 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 provide us with a highly diversified end market and customer base.

Results of Operations

The following table sets forth amounts from our income statement along with the percentage change for the six month period ended June 30, 2015 compared to the six month period ended June 30, 2014. All figures are unaudited.

	Six Months Ended June 30,		
	2015	**2014**	**Change**
	(in € million)		*(%)*
Net sales	260.1	246.3	5.6
Cost of sales	151.5	149.3	1.5
Gross profit	**108.6**	**97.0**	**12.0**
Selling costs	42.8	40.0	7.0
Research and development costs	12.0	11.5	4.3
General administrative costs	10.2	9.4	8.5
Other income and (expenses), net	1.2	-2.3(*)	>100.0
Operating income	**44.9**	**33.9**	**32.4**
Interest income and other finance income	5.4	0.0(*)	>100.0
Interest expenses and other finance costs	42.4	40.3(*)	5.2
Financial result	**-37.0**	**-40.2**	**8.0**
Earnings / (Loss) before taxes	**7.8**	**-6.4**	**>100.0**
Taxes on income	-6.2	-2.7	>100.0
Net profit / loss (-)	**1.6**	**-9.1**	**>100.0**

(*) MD&A presentation has been changed according to the interim condensed consolidated financial statements:
Compared to the interim condensed consolidated financial statements of the prior year period, the presentation of the consolidated statement of comprehensive income was adjusted. The previous items "Other income" and "Other expenses" are offset and reported under the item "Other income and (expenses), net". In addition, the results of changing the fair values of derivatives and foreign currency results are offset and recognized in the financial result.

Net Sales

The following table provides an overview of our net sales for the six months ended June 30, 2015 compared to the respective comparative period in 2014 on a business unit level. All figures are unaudited.

	Six Months Ended June 30,		
	2015	**2014**	**Change**
	(in € million)		*(%)*
Medical Applications[1]	**99.0**	**93.7**	**5.7**
Industrial Applications[1]	**161.1**	**152.6**	**5.6**
Thereof Multifunctional Ceramics	23.8	24.0	-0.8
Thereof Electronic Applications	26.5	23.3	13.3
Thereof SPK Cutting Tools	20.6	20.8	-0.9
Thereof Mechanical Systems	19.6	19.6	0.2
Thereof Mechanical Applications	11.4	12.7	-10.6
Thereof Other	83.5	75.8	10.2
Consolidation[2]	-24.2	-23.6	2.5
Total Net Sales	**260.1**	**246.3**	**5.6**

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

(2) The sales figures presented for the individual business units within Industrial Applications include internal sales to Group companies. The line item "Consolidation" represents all internal sales between the business units listed under Industrial Applications to show the amount by which the total sales figure for Industrial Applications has been reduced to account for such internal sales. However, 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 5.6% as reported (+2.7% in constant currency) from €246.3 million in the first half of 2014 to €260.1 million in the first half 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 5.7% as reported (+5.7% in constant currency) from €93.7 million in the first half of 2014 to €99.0 million in the first half of 2015, principally due to our strong market position in the growing total hip replacement market and increased penetration of ceramic components.

Net sales in Industrial Applications increased by 5.6% as reported (+1.0% in constant currency) from €152.6 million for the first half of 2014 to €161.1 million for the first half of 2015. Our sales in the Electronic Applications division increased by 13.3% as reported mainly due to increased volumes in sensor tapes to a top customer, which was partly offset by lower sales to the Chinese textile machinery industry in our Mechanical Applications division. The increase in Other divisions is attributable mainly to CT North America whose sales increased by 14.6%, mainly due to strong sales of ethylene oxide catalyst (EOC) products, which sales compensate for the discontinuation of e-cigarette sales and the decline in business of our CT-ETEC division, which is still in a challenging market situation with soft demand for ballistic applications used for protected vehicles on account of reduced equipment budgets primarily in the U.S.

The regional split of the sales is 25.7% for Germany, 44.1% for Europe (including most of the Medical Applications sales to OEM), 15.5 % for North America, 11.7 % for Asia and 3.0% for other regions. The split is mainly unchanged compared to the comparative period in 2014.

Cost of Sales and Gross Profit

The following table shows a break-down of our cost of sales for the six month periods ended June 30, 2014 and 2015. All figures are unaudited.

	Six Months Ended June 30			
	2015		2014	
	(in € million)	*(% of net sales)*	*(in € million)*	*(% of net sales)*
Cost of materials and packing......................	47.9	18.4	44.0	17.8
Energies..	8.1	3.1	8.5	3.4
Other variable costs	4.0	1.5	4.4	1.8
Personnel expenses......................................	54.7	21.0	51.2	20.8
Amortization and depreciation.....................	25.1	9.7	29.2	11.9
Maintenance expenses of factory building and equipment..	4.2	1.6	4.3	1.7
Other costs	7.5	2.9	7.8	3.2
Cost of Sales..	**151.5**	**58.3**	**149.3**	**60.6**

Cost of sales increased by 1.5% from €149.3 million or 60.6% of net sales in the first half of 2014 to €151.5 million or 58.3% of net sales in the first half of 2015. The increase was primarily caused by a higher volume of sales. Excluding amortization and depreciation, our gross profit increased by €7.5 million from €126.3 million to €133.7 million while our gross margin increased by 0.1%pts from 51.3% to 51.4%.

Selling Costs

Excluding amortization and depreciation, our selling costs increased by €2.6 million from €25.5 million or 10.4% of net sales in the first half of 2014 to €28.1 million or 10.8% of net sales mainly due to increased sales activity due to accelerate growth.

Research and Development Costs

Our research and development costs increased from €11.5 million or 4.7% of net sales in the first half of 2014 to €12.0 million or 4.6% of net sales in the first half of 2015 mainly due to increased efforts to develop new medical products and to support our other growth projects.

General Administrative Costs

Our general administrative costs increased from €9.4 million or 3.8% of net sales in the first half of 2014 to €10.2 million or 3.9% of net sales in the first half of 2015, thus growing broadly in line with our sales.

Other Income and Expenses, net

Other income and expenses, net increased from €-2.3 million expenses in the first half of 2014 to €1.2 million income in the first half of 2015. The change of €3.5 million resulted mainly from foreign exchange gains of €1.8 million (mainly conversion from US Dollar bank accounts and deposit) and from a €1.7 million reduction in restructuring costs from the previous year for CeramTec UK, CT-ETEC GmbH and Durawear, which we have normalized in our Adjusted EBITDA.

Interest Income and Other Finance Income

This line item increased from €0.0 million in the first half of 2014 by €5.4 million to €5.4 million in the first half of 2015 due to a net gain on the fair value measurement of derivatives.

Interest Expenses and Other Finance Costs

This line item increased from €40.3 million for the six month period ended June 30, 2014 to €42.4 million for the six month period ended June 30, 2015 mainly due to higher exchange rate losses. The financial expense of €42.4 million includes €27.3 million in interest expenses, €3.6 million expenses from the effective interest rate method, €5.3 million in non-cash interest expenses and €6.1 exchange rate losses and other interest expenses.

Taxes on Income

Taxes on income increased from €2.7 million for the six month period ended June 30, 2014 to €6.2 million in the six month period ended June 30, 2015 mainly due to an increase in income.

Net Profit / Loss

As a result of the above described developments, especially due to stronger operating results and higher gross profit, our net profit increased from a net loss of €-9.1 million for the first half of 2014 to a net profit of €1.6 million for the first half of 2015.

Financial Condition, Liquidity and Capital Resources

As of June 30, 2015, the gross financial debt, the cash balance as well as the undrawn Revolving Credit Facility were as follows (all figures are unaudited):

	As of June 30, 2015
	(in € million)
Gross financial debt (without accrued transaction costs)	965.2
thereof bond	*306.7*
thereof term loans	*695.4*
thereof mark-to-market measure cross-currency swaps	*-49.0*
thereof accrued interest	*12.1*
Cash	66.9
Net debt	898.4
Undrawn Revolving Credit Facility	100.0
Net Debt to LTM Adjusted EBITDA(*) ratio	5.6

(*) LTM Adjusted EBITDA July 2014 – June 2015 was EUR 161.0 million.

Cash Flow Statement

The following table shows the cash flow for the six month period ended June 30, 2015. All figures are unaudited.

	Six Months Ended June 30, 2015 (in € million)
Net profit / net loss (-) for the period	1.6
Taxes on income	6.2
Interest result	37.4
Write-downs / write-ups (-) on non-current assets	41.6
Gain (-) / Loss on disposal of fixed assets	0.1
Increase / decrease (-) in provisions (excluding deferred taxes)	1.7
Income tax refund / payment (-)	-3.8
Other non-cash expenses / income (-)	-0.5
Increase (-) / decrease in inventories	-4.0
Increase (-) / decrease in trade receivables	-17.8
Increase (-) / decrease in other receivables and (financial) assets	-1.0
Increase / decrease (-) in trade payables	1.4
Increase / decrease (-) in other (financial) liabilities	2.1
Cash flow from operating activities	**65.0**
Cash received from disposals of property, plant and equipment	0.1
Cash paid (-) for investments in property, plant and equipment	-12.6
Cash received from grants	0.0
Cash paid (-) for investments in intangible assets	-0.2
Cash paid (-) for the acquisition of entities	-10.9
Cash flow from investing activities	**-23.6**
Cash received from syndicated loan / repayment of syndicated loan	-9.1
Interest paid (-)	-28.0
Cash flow from financing activities	**-37.1**
Change in cash and cash equivalents	**4.2**
Net foreign exchange difference	0.4
Cash and cash equivalents at the beginning of the period	62.2
Cash and cash equivalents at the end of the period	**66.9**

There was a positive change in cash and cash equivalents of €4.2 million over the six month period of 2015. This was primarily the result of a positive Q2 development with €14 million cash generation (cash inflow without the acquisition of DAI Ceramics Inc. and repricing of our EUR-Term loan would have been €27 million). Cash flow from operating activities was negatively impacted by an increase in trade receivables (€17.8 million), the scale of this change was greater than usual as trade receivables were unusually low at December 31, 2014. Cash flow from investing activities included the acquisition of DAI Ceramics Inc. business (€10.9 million) and cash flow from financing included transaction cost for the repricing of the EUR-Term Loan (€0.5million).

EBITDA and Adjusted EBITDA

The following table reconciles net profit to EBITDA and Adjusted EBITDA for the periods presented. All figures are unaudited.

	Six Months Ended June 30,	
	2015	2014
	(in € million)	
Net profit / loss (-)	1.6	-9.1
Taxes on income	6.2	2.7
Financial result	37.0	40.2
Depreciation and amortization	41.6	46.0
EBITDA	**86.4**	**79.9**
Restructuring costs [(a)]	0.2	1.9
Other one-off costs [(b)]	1.6	_
Acquisition cost (DAI)	0,5	_
Adjusted EBITDA	**88.7**	**81.8**

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

(b) Includes non-recurring consulting and headhunter expenses

Recent Developments

On May 29, 2015 CeramTec acquired DAI Ceramics Inc. of Willoughby, Ohio. The American company, founded in 1986, specializes in the production of ceramic cores for precision casting applications. This acquisition and the now wider range of applications will enable us to better satisfy the demands of our customers in the precision foundry industry who use a large variety of alloys. DAI Ceramics Inc. currently has 73 employees and is certified according to ISO 9001. With a production area of over 3,300 square meters, DAI Ceramics achieved $8.3 million in revenues and $2.3 million Adjusted EBITDA in 2014. The $12 million used for the acquisition was paid from balance sheet cash.