MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR THE HISTORICAL FINANCIAL DATA AS OF AND FOR THE NINE MONTH PERIODS ENDED SEPTEMBER 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 nine month period ended September 30, 2015 in comparison to the nine month period ended September 30, 2014.

The historical financial data as of and for the nine month period ended September 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 nine month period ended September 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 nine month period ended September 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 nine month period ended September 30, 2015 compared to the nine month period ended September 30, 2014. All figures are unaudited and as reported.

	Nine Months Ended September 30,		
	2015	**2014**	**Change**
	(in € million)		*(%)*
Revenue	383.4	363.6	5.4
Cost of sales	227.3	222.1	2.3
Gross profit	**156.1**	**141.5**	**10.3**
Selling costs	64.2	60.8	5.6
Research and development costs	17.9	17.4	3.0
General administrative costs	17.8	15.0	19.0
Other income and expenses (-), net	1.1	0.8(*)	36.2
Operating income	**57.2**	**49.1**	**16.5**
Interest income and other finance income	6.7	0.1(*)	>100.0
Interest expenses and other finance costs	61.5	72.1(*)	-14.7
Financial result	**-54.8**	**-72.0**	**-23.9**
Profit / Loss (-) before taxes	**2.4**	**-22.9**	**>100.0**
Income tax benefit / expense (-)	-7.8	-0.4	>-100.0
Net profit / net loss (-)	**-5.4**	**-23.3**	**>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.

Revenue

The following table provides an overview of our revenue for the nine months ended September 30, 2015 compared to the respective comparative period in 2014 on a business unit level. All figures are unaudited and as reported.

	Nine Months Ended September 30,		
	2015	**2014**	**Change**
	(in € million)		*(%)*
Medical Applications[1]	**141.0**	**136.2**	**3.5**
Industrial Applications[1]	**242.4**	**227.4**	**6.6**
Thereof Multifunctional Ceramics	35.5	36.2	-1.9
Thereof Electronic Applications	40.5	35.7	13.5
Thereof SPK Cutting Tools	30.1	29.8	1.2
Thereof Mechanical Systems	28.4	28.6	-0.5
Thereof Mechanical Applications	17.2	18.2	-5.3
Thereof Other	126.3	113.4	11.4
Consolidation[2]	-35.7	-34.4	3.6
Total revenue	**383.4**	**363.6**	**5.4**

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

(2) The revenue figures presented for the individual business units within Industrial Applications include internal revenue to Group companies. The line item "Consolidation" represents all internal revenue between the business units listed under Industrial Applications to show the amount by which the total revenue figure for Industrial Applications has been reduced to account for such internal revenue. However, our management believes that revenue including internal revenue for our business units in Industrial Applications provide a better description of trends in these business units due to substantial internal revenue between our business units in Industrial Applications.

Total revenue increased by 5.4% as reported (+2.8% in constant currency) from €363.6 million in the three quarters of 2014 to €383.4 million in the three quarters of 2015. Our operations can be divided into two business groups - Medical Applications and Industrial Applications.

Our revenue in Medical Applications continued to grow by 3.5% as reported (+3.5% in constant currency) from €136.2 million in the three quarters of 2014 to €141.0 million in the three quarters of 2015, principally due to our strong market position in the growing total hip replacement market and increased penetration of ceramic components.

Revenue in Industrial Applications increased by 6.6% as reported (+2.3% in constant currency) from €227.4 million for the three quarters of 2014 to €242.4 million for the three quarters of 2015. The revenue development was mainly influenced by the Electronic Applications business, which grew by 13.5% as reported mainly due to increased volumes in sensor tapes to a top customer, Emil Mueller with good volumes development to a key customer, acquisition of DAI and supported by positive effect of FX from translation. We continue experiencing overall good conditions in the automotive, construction and machine industries. Notable other effects include: some delay in Roller bearing project in Mechanical systems, softer textile business in China impacting on Mechanical applications revenue, good volumes of ethylene oxide catalyst (EOC) products compensating for the discontinuation of e-cigarette business in CT NA and the decline in business of our CT-ETEC division (lower wear protection and ski-slopes volumes).

The regional split of the revenue is 26.3% for Germany, 42.1% for Europe (including most of the Medical Applications revenue to OEM), 16.4 % for North America, 12.1 % for Asia and 3.1% 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 revenue for the nine month periods ended September 30, 2014 and 2015. All figures are unaudited and as reported.

	Nine Months Ended September 30			
	2015		2014	
	(in € million)	*(% of revenue)*	*(in € million)*	*(% of revenue)*
Cost of materials and packing	71.6	18.7	67.1	18.5
Energies	12.0	3.1	12.5	3.4
Other variable costs	5.4	1.4	6.7	1.8
Personnel Expense	81.3	21.2	75.0	20.6
Amortization and depreciation	38.0	10.0	42.9	11.8
Maintenance expenses of factory building and equipment	6.0	1.6	6.1	1.7
Other costs	13.0	3.4	11.8	3.2
Cost of Sales	**227.3**	**59.3**	**222.1**	**61.1**

Cost of sales increased by 2.3% from €222.1 million or 61.1% of revenue in the three quarters of 2014 to €227.3 million or 59.3% of revenue in the three quarters of 2015. The increase was primarily caused by a higher volume of revenue. Excluding amortization and depreciation, our gross profit increased by €9.7 million from €184.5 million to €194.1 million while our gross margin decreased by 0.1%pts from 50.7% to 50.6%.

Selling Costs

Excluding amortization and depreciation, our selling costs increased by €2.9 million from €39.1 million or 10.8% of revenue in the three quarters of 2014 to €42.0 million or 11.0% of revenue mainly due to increased revenue activity due to accelerate growth.

Research and Development Costs

Our research and development costs increased from €17.4 million or 4.8% of revenue in the three quarters of 2014 to €17.9 million or 4.7% of revenue in the three quarters 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 €15.0 million or 4.1% of revenue in the three quarters of 2014 to €17.8 million or 4.6% of revenue in the three quarters of 2015, thus growing broadly in line with our revenue and affected by non-recurring consulting costs.

Other Income and Expenses, net

Other income and expenses, net increased from €0.8 million income in the three quarters of 2014 to €1.1 million income in the three quarters of 2015. The change of €0.3 million resulted mainly from higher foreign exchange gains of €0.8 million (mainly conversion from US Dollar bank accounts and deposit), lower non-operating costs mainly for restructuring of €0.8 million offset by lower income of €1.6 million including the release of provision for pension adjustment which we have normalized in our Adjusted EBITDA.

Interest Income and Other Finance Income

This line item increased from €0.1 million in the three quarters of 2014 by €6.6 million to €6.7 million in the three quarters of 2015 due to a net gain on the fair value measurement of derivatives.

Interest Expenses and Other Finance Costs

This line item decreased from €72.1 million for the three quarters period ended September 30, 2014 to €61.5 million for the three quarters period ended September 30, 2015 mainly due to the reduction of losses on derivative valuations and to lower expenses from effective interest rate method. The financial expense of €61.5 million includes €40.9 million in interest expenses, €5.4 million expenses from the effective interest rate method, €8.1 million in non-cash interest expenses and €7.1 million exchange rate losses and other interest expenses

Income tax expenses

Income tax expenses increased from €0.4 million for the nine month period ended September 30, 2014 to €7.8 million in the nine month period ended September 30, 2015 mainly due to an increase in income and a decrease in deferred tax income from temporary differences.

Net Profit / Loss

As a result of the above described developments, especially due to stronger operating results and higher gross profit, our net loss decreased from a net loss of €-23.3 million for the three quarters of 2014 to a net loss of €-5.4 million for the three quarters of 2015.

Financial Condition, Liquidity and Capital Resources

As of September 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 September 30, 2015
	(in € million)
Gross financial debt (without accrued transaction costs)........................ …..	954.2
thereof bond .... …..	*306.7*
thereof term loans... …..	*689.5*
thereof mark-to-market measure cross-currency swaps .... …..	*-47.9*
thereof accrued interest.. …..	*5.9*
Cash...	73.6
Net debt..	880.6
Undrawn Revolving Credit Facility...	100.0
Net Debt to LTM Adjusted EBITDA(*) ratio	5.5

(*) LTM Adjusted EBITDA October 2014 – September 2015 was EUR 160.6 million.

Cash Flow Statement

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

	Nine Months Ended September 30, 2015 (in € million)
Net profit / net loss (-) for the period	-5.4
Income tax expenses	7.8
Interest result	56.3
Amortization, depreciation and impairment charges of non-current assets	62.9
Gain (-) / Loss on disposal of fixed assets	0.0
Increase / decrease (-) in provisions (excluding deferred taxes)	4.1
Income tax refund / payment (-)	-7.3
Other non-cash expenses / income (-)	-2.2
Increase (-) / decrease in inventories	-5.1
Increase (-) / decrease in trade receivables	-12.7
Increase (-) / decrease in other receivables and (financial) assets	1.6
Increase / decrease (-) in trade payables	-0.5
Increase / decrease (-) in other (financial) liabilities	4.4
Cash flow from operating activities	**104.0**
Cash received from disposals of property, plant and equipment	0.2
Cash paid (-) for investments in property, plant and equipment	-19.8
Cash received from grants	0.0
Cash paid (-) for investments in intangible assets	-0.4
Cash paid (-) for the acquisition of entities	-10.9
Cash flow from investing activities	**-30.9**
Repayment (-) of syndicated loan	-13.9
Interest paid (-)	-47.9
Cash flow from financing activities	**-61.8**
Change in cash and cash equivalents	**11.2**
Net foreign exchange difference	0.2
Cash and cash equivalents at the beginning of the period	62.2
Cash and cash equivalents at the end of the period	**73.6**

There was a positive change in cash and cash equivalents of €11.2 million over the nine month period of 2015. This was primarily the result of a positive Q2 and Q3 development with €14 million respectively €7 million cash generation. Cash flow from operating activities was negatively impacted by an increase in trade receivables (€12.7 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 (€0.5 million).

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EBITDA and Adjusted EBITDA

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

	Nine Months Ended September 30,	
	2015	2014
	(in € million)	
Net profit / loss (-)	-5.4	-23.3
Income tax expenses	7.8	0.4
Financial result	54.8	72.0
Depreciation and amortization	62.9	67.7
Impairment charges	0.0	0.4
EBITDA	**120.2**	**117.3**
Restructuring costs [(a)]	1.2	3.5
Non-Recurring [(b)]	6.5	1.8
Acquisition cost (DAI)	0.6	_
Foreign Exchange Conversion Effects	-1.8	-1.0
Release of provision for pension adjustment	_	-1.8
Adjusted EBITDA [(*)]	**126.7**	**119.7**

(*) We adjusted the reconciliation of our EBITDA to our adjusted EBITDA for better comparability: FX gains and losses resulting from the revaluation of balance sheet items are presented in the adjustment reconciliation now. In addition, the litigation expenses for one case have been added in the reconciliation too. Due to the described changes we adjusted the presentation format of our already published discussions of our results of operations for the sake of comparability and consistency – see appendix on page 9 - 12

(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, for the closure of production at CT UK and for management change at CeramTec GmbH.

(b) Includes non-recurring consulting and litigation expenses

Recent Developments

On July 1, 2015, Dr. Hadi Saleh was appointed to the Executive Board as Chief Operating Officer of the Medical Applications Segment.

On September 29, 2015 Sigurd Adler stepped down as member of the CeramTec Executive Board and as COO of the CeramTec segment "Industry" with immediate effect. Dr. Ulf-D. Zimmermann, CEO, has assumed the responsibility for the segment "Industry".

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Appendix

Reconciliation of Q1/2014, Q2/2014, Q3/2014, Q4/2014, Q1/2015 and Q2/2015

The following tables show the adjustments necessary to align the presentation of EBITDA adjustments 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 adjustment of the operating FX gains and losses which are of operating nature
- Column (c) includes the cost of litigation for one particular issue

Reconciliation of net income and EBITDA and Adjusted EBITDA for Q1/2014

In € million	(a)	(b)	(c)	(a) – (c)
	published	FX gain/loss	Litigation costs	adjusted
Net profit / net loss (-)	-6.3			-6.3
Taxes on income	1.1			1.1
Financial result	21.6			21.6
Depreciation and amortization	22.7			22.7
EBITDA	**39.0**			**39.0**
Restructuring costs	1.6			1.6
Foreign exchange conversion		0.1		0.1
Other non-recurring items			0.4	0.4
Adjusted EBITDA	**40.6**	**0.1**	**0.4**	**41.1**

Reconciliation of net income and EBITDA and Adjusted EBITDA for Q2/2014 (YTD)

In € million	(a) published	(b) FX gain/loss	(c) Litigation costs	(a) – (c) adjusted
Net profit / net loss (-)	-9.1			-9.1
Taxes on income	2.7			2.7
Financial result	40.2			40.2
Depreciation and amortization	46.0			46.0
EBITDA	**79.9**			**79.9**
Restructuring costs	1.9			1.9
Foreign exchange conversion		0.0		0.0
Other non-recurring items			0.6	0.6
Adjusted EBITDA	**81.8**	**0.0**	**0.6**	**82.4**

Reconciliation of net income and EBITDA and Adjusted EBITDA for Q3/2014 (YTD)

In € million	(a) published	(b) FX gain/loss	(c) Litigation costs	(a) – (c) adjusted
Net profit / net loss (-)	-23.3			-23.3
Taxes on income	0.4			0.4
Financial result	72.0			72.0
Depreciation and amortization	68.1			68.1
EBITDA	**117.3**			**117.3**
Restructuring costs	3.5			3.5
Foreign exchange conversion		-1.0		-1.0
Other non-recurring items	0.2		1.6	1.8
Release of provision for pension adjustments	-1.8			-1.8
Adjusted EBITDA	**119.2**	**-1.0**	**1.6**	**119.7**

Reconciliation of net income and EBITDA and Adjusted EBITDA for Q4/2014 (YTD)

In € million	(a) published	(b) FX gain/loss	(c) Litigation costs	(a) – (c) adjusted
Net profit / net loss (-)	-31.4			-31.4
Taxes on income	-1.0			-1.0
Financial result	93.9			93.9
Depreciation and amortization	89.2			89.2
EBITDA	**150.8**			**150.8**
Restructuring costs	4.6			4.6
Foreign exchange conversion		-1.8		-1.8
Other non-recurring items	-1.3		1.3	0.0
Adjusted EBITDA	**154.1**	**-1.8**	**1.3**	**153.5**

Reconciliation of net income and EBITDA and Adjusted EBITDA for Q1/2015 (YTD)

In € million	(a) published	(b) FX gain/loss	(c) Litigation costs	(a) – (c) adjusted
Net profit / net loss (-)	4.7			4.7
Taxes on income	4.6			4.6
Financial result	14.2			14.2
Depreciation and amortization	20.7			20.7
EBITDA	**44.2**			**44.2**
Restructuring costs	0.2			0.2
Foreign exchange conversion		-2.1		-2.1
Other non-recurring items	0.2		0.8	0:9
Adjusted EBITDA	**44.6**	**-2.1**	**0.8**	**43.3**

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Reconciliation of net income and EBITDA and Adjusted EBITDA for Q2/2015 (YTD)

In € million	(a) published	(b) FX gain/loss	(c) Litigation costs	(a) – (c) adjusted
Net profit / net loss (-)	1.6			1.6
Taxes on income	6.2			6.2
Financial result	37.0			37.0
Depreciation and amortization	41.6			41.6
EBITDA	**86.4**			**86.4**
Restructuring costs	0.2			0.2
Foreign exchange conversion		-1.8		-1.8
Other non-recurring items	1.6		1.7	3.2
Acquisition cost (DAI)	0.5			0.5
Adjusted EBITDA	**88.7**	**-1.8**	**1.7**	**88.5**