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, 2015 AND 2016

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, 2016 in comparison to the three month period ended March 31, 2015.

The financial data as of and for the three month periods ended March 31, 2016 and March 31, 2015 respectively 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 for the three month period ended March 31, 2016 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.).

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 wide-range of applications provides us with a highly diversified end market and customer base. CeramTec has succeeded in manufacturing transparent and durable ceramics on a series-production scale and to transfer the advantages of ceramics to a transparent material.

CeramTec THE CERAMIC EXPERTS

Results of Operations

The following table sets forth amounts from our income statement along with the percentage change for the three month period ended March 31, 2016 compared to the three month period ended March 31, 2015. All figures are unaudited in EURm as reported

	Three Months Ended March 31,		
	2016	**2015**	**Change**
	(in € million)		*(%)*
Revenue	123.0	130.5	-5.8
Cost of sales	72.1	76.1	-5.3
Gross profit	**50.9**	**54.4**	**-6.4**
Selling costs	21.9	21.8	0.5
Research and development costs	6.0	6.2	-3.0
General administrative costs	6.8	4.7	45.1
Other income and expenses (-), net	-0.5	1.8	>-100.0
Operating Income	**15.6**	**23.5**	**-33.6**
Interest income and other finance income	33.1	11.0	>100.0
Interest expenses and other finance costs	18.4	25.2	-26.9
Financial result	**14.7**	**-14.2**	**>100.0**
Profit / Loss (-) before income tax	**30.3**	**9.3**	**>100.0**
Income tax benefit / expense (-)	-11.2	-4.6	>100.0
Net profit / net loss (-) for the period	**19.1**	**4.7**	**>100.0**

Revenue

The following table provides an overview over our revenue for the three months ended March 31, 2016 compared to the respective comparative period 2015 on a business unit level. All figures are unaudited in EURm as reported.

	Three Months Ended March 31,		
	2016	**2015**	**Change**
	(in € million)		*(%)*
Medical Applications(1)	**45.8**	**49.3**	**-7.1**
Industrial Applications(1)	**77.2**	**81.3**	**-5.0**
Thereof Multifunctional Ceramics	11.6	12.1	-4.5
Thereof Electronic Applications	10.8	13.4	-19.2
Thereof SPK Cutting Tools	10.3	10.3	0.2
Thereof Mechanical Systems	9.5	10.1	-6.1
Thereof Mechanical Applications	5.2	5.6	-6.5
Thereof Other	41.6	42.0	-0.9
Consolidation(2)	-11.7	-12.2	-3.7
Total revenue	**123.0**	**130.5**	**-5.8**

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

(2) The revenue 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 Application has been reduced to account for such internal revenue. However, our management believes that revenue including internal sales 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 is lower by -5.8% as reported (-5.4% in constant currency) from €130.5 million in the first quarter of 2015 to €123.0 million in the first quarter of 2016 but in line with our expectations.

Our revenue in Medical Applications is lower by -7.1% as reported (-7.1% in constant currency) from €49.3 million in the first quarter 2015 to €45.8 million in the first quarter of 2016, principally due to temporarily softer orthopaedic market, inventory management at OEM level after new product launches in 2015, new pricing conditions at key customers and lower insert volumes.

Net sales in Industrial Applications are lower by -5.0% as reported (-4.4% in constant currency) from €81.3 million for the first quarter of 2015 to €77.2 million for the first quarter of 2016, due to several industrial BUs not repeating strong Q1'15 performance. Project activity in EO catalyst business of CT North America is lower, resulting in -15.8% lower sales vs. previous year; Electronic Applications and Multifunctional Ceramics reported missing volumes from a key customer; Mechanical Systems and Mechanical Applications are facing lower demand in construction and textile machinery markets. This is partly offset by positive trajectory in our CT-ETEC division, as well as Cutting Tools, Emil Müller and Other Units surpassing Q1'15 performance.

The regional split of the revenue is 25.7% for Germany, 43.5% for Europe (including most of the Medical revenue to OEMs), 15.9 % for North America, 11.1 % for Asia and 3.8% for other regions. The split is mainly unchanged compared to the comparative period in 2015.

Cost of Sales and Gross Profit

The following table shows a break-down of our cost of sales for the three month periods ended March 31, 2015 and 2016. All figures are unaudited in EURm as reported.

	Three Months Ended March 31			
	2016		**2015**	
	(in € million)	*(% of net sales)*	*(in € million)*	*(% of net sales)*
Cost of materials and packing	22.7	18.5	24.4	18.7
Energies	3.9	3.2	4.3	3.3
Other variable costs	1.1	0.9	2.1	1.6
Personnel Expense	28.2	22.9	27.6	21.2
Amortization and depreciation	12.5	10.2	12.5	9.6
Maintenance expenses of factory building and equipment	1.9	1.6	2.3	1.8
Other costs	1.7	1.4	2.8	2.2
Cost Of Sales	**72.1**	**58.6**	**76.1**	**58.3**

Cost of sales decreased by -5.3% from €76.1 million or 58.3% of revenue in the first quarter of 2015 to €72.1 million or 58.6% of revenue in the first quarter of 2016. The decrease was primarily caused by a lower volume of revenue. Excluding amortization and depreciation our gross profit decreased by €-3.4 million from €66.9 million to €63.5 million while our gross margin increased by 0.3%pts from 51.3% to 51.6%.

Selling Costs

Excluding amortization and depreciation our selling costs kept stable at €14.5 million or 11.1% of revenue in the first quarter of 2015 versus 11.8% of revenue in the first quarter of 2016, both periods effected by non-recurring litigation costs.

Research and Development Costs

Our R&D costs remain broadly unchanged at EUR 6.0 million or 4.9% of revenue in the first quarter 2016 compared with EUR 6.2 million or 4.8% of revenue in the first quarter of 2015. We continue to invest in the development of new medical products and to support growth projects such as transparent ceramics

General Administrative Costs

Our general administrative costs increased from €4.7 million or 3.6% of revenue in the first quarter of 2015 to €6.8 million or 5.6% of revenue in the first quarter of 2016. While the underlying general administrative costs developed in line with our revenues, non-recurring consulting and restructuring costs caused an increase compared to last year.

Other Income and Expenses

Other income and expenses, net decreased from €1.8 million income in the first quarter of 2015 to €0.5 million expenses in the first quarter of 2016. The change of €-2.4 million results mainly from foreign exchange (€-2.9 million mainly US-dollar) as a net gain on foreign exchange by €2.1 million in 2015 changed to a net loss on foreign exchange of €-0,8 in 2016 and from a reduction of €0.3 million relating to restructuring costs for CeramTec UK and CeramTec-ETEC GmbH. Both matters have been normalized in the calculation of Adjusted EBITDA.

Interest Income and Other Finance Income

This line item increased from €11.0 million in the first quarter of 2015 by €22.1 million to €33.1 million in the first quarter of 2016 due to a net gain resulting from the fair value measurement of derivatives.

Interest Expenses and Other Finance Costs

This line item decreased from €25.2 million for the three month period ended March 31, 2015 to €18.4 million for the three month period ended March 31, 2016 mainly due to the reduction of losses on foreign exchange differences. The financial expense of €18.4 million includes €13.1 million interest expenses, €1.7 million expenses from the effective interest rate method, €2.9 million non-cash interest expenses and €0.7 million other interest expenses.

Income tax expenses

Income tax expenses increased from expenses of €4.6 million for the three month period ended March 31, 2015 to expenses of €11.2 million in the three month period ended March 31, 2016 mainly due to an increase in deferred tax income from temporary differences.

Net Profit / Loss

As a result of the above described developments in combination with the higher financial result our net profit increased from a €4.7 million for the first quarter of 2015 to a net profit of €19.1 million for the first quarter of 2016.

Financial Condition, Liquidity and Capital Resources

As of March 31, 2016, the gross financial debt, the cash balance as well as the undrawn Revolving Credit Facility were as follows (all figures are unaudited in EURm as reported):

	Three Months Ended March 31, 2016
	(in € million)
Gross financial debt (without accrued transaction costs)	941.4
thereof bond	*306.7*
thereof term loans	*669.4*
thereof mark-to-market measure cross-currency swaps	*-40.2*
thereof accrued interest	*5.5*
Cash	71.8
Net debt	869.6
Undrawn Revolving Credit Facility	100.0
Net Debt to LTM Adjusted EBITDA(*) ratio	5.4

(*) LTM Adjusted EBITDA April 2015 – March 2016 EUR 162.1 million

Cash Flow Statement

The following table shows the cash flow statement for the three month period ended March31, 2016. All figures are unaudited in EURm as reported:

	Three Months ended March 31, 2016
	(in € million)
Net profit / net loss (-) for the period	19.1
Income tax expenses	11.2
Interest result	18.4
Amortization, depreciation and impairment charges of non-recurrent assets	20.9
Gain (-) / Loss on disposal of fixed assets	0.0
Increase / decrease (-) in provisions (excluding deferred taxes)	0.5
Income tax refund / payment (-)	-3.8
Other non-cash expenses / income (-), net	-33.5
Increase (-) / decrease in inventories	-4.5
Increase (-) / decrease in trade receivables	-11.6
Increase (-) / decrease in other receivables and (financial) assets	1.1
Increase / decrease (-) in trade payables	-3.2
Increase / decrease (-) in other (financial) liabilities	4.5
Cash flow from operating activities	**19.2**
Cash received from disposals of property, plant and equipment	0.1
Cash paid (-) for investments in property, plant and equipment	-5.0
Cash received from grants	0.0
Cash paid (-) for investments in intangible assets	-0.1
Cash paid (-) for the acquisition of entities	0.0
Cash flow from investing activities	**-5.0**
Repayment (-) of syndicated loan	-7.5
Interest paid (-)	-21.0
Cash flow from financing activities	**-28.6**
Change in cash and cash equivalents	**-14.4**
Net foreign exchange difference	-0.3
Cash and cash equivalents at the beginning of the period	86.5
Cash and cash equivalents at the end of the period	**71.8**

There was a negative change in cash and cash equivalents of €-14.4 million in the three month period ended March 31, 2016. 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 due to a seasonal increase of accounts receivables following a low invoicing in December and seasonal lower accounts payables catching up payments.

EBITDA and Adjusted EBITDA

The following table reconciles net income to EBITDA and Adjusted EBITDA for the periods presented. All figures are unaudited in EURm as reported.

	Three Months Ended March 31,	
	2016	**2015**
	(in € million)	
Net profit / loss (-)	19.1	4.7
Income tax expenses	11.2	4.6
Financial result	-14.7	14.2
Depreciation and amortization	20.9	20.7
EBITDA	**36.5**	**44.2**
Restructuring costs [(a)]	1.1	0.2
Other Non-Recurring [(b)]	2.9	1.1
Foreign Exchange Conversion Effects	0.8	-2.1
Adjusted EBITDA	**41.3**	**43.4**

(a) Restructuring costs 2015 refers to severance payments for the reduction of staff at CeramTec-ETEC GmbH. Restructuring costs in 2016 mainly comprise severance payments for the reduction of staff at CeramTec GmbH and for management changes at CeramTec Service GmbH.

(b) Includes non-recurring consulting and litigation expenses

Recent Developments

Currently there are no developments to report.