

CeramTec Holding GmbH
Plochingen

Interim Condensed
Consolidated Financial Statements
for the period ended
30 June 2016

Interim condensed consolidated statement of comprehensive income

from 1 January to 30 June 2016

	Notes	1 April to 30 June 2016	1 April to 30 June 2015	1 January to 30 June 2016	1 January to 30 June 2015
		EUR k	EUR k	EUR k	EUR k
Revenue	3.1	130.426	129.625	253.420	260.148
Cost of sales	3.2	78.707	75.441	150.761	151.548
Gross profit		51.719	54.184	102.659	108.600
Selling costs	3.3	23.735	20.993	45.651	42.791
Research and development costs	3.4	6.359	5.793	12.394	12.013
General administrative costs	3.5	5.052	5.462	11.882	10.169
Other income and expenses (-), net	3.6	315	-593	-232	1.230
Operating income		16.888	21.343	32.500	44.857
Interest income and other finance income		15	1.426	434	5.412
Interest expenses and other finance costs		51.076	24.258	36.837	42.427
Financial result	3.7	-51.061	-22.832	-36.403	-37.015
Profit / Loss (-) before income tax		-34.173	-1.489	-3.903	7.842
Income tax benefit / expense (-)		8.018	-1.604	-3.151	-6.231
Net profit / net loss (-) for the period		-26.155	-3.093	-7.054	1.611
Items that will not be reclassified through profit or loss					
Income / Expenses (-) from the remeasurement of pension provisions		-7.320	0	-10.529	0
Deferred taxes		2.098	0	3.017	0
		-5.222	0	-7.512	0
Items that may be reclassified subsequently to profit or loss					
Losses (-) / gains on cash flow hedges		611	-1.692	-931	2.700
Deferred taxes		-175	485	267	-774
		436	-1.207	-664	1.926
Exchange differences on translation of foreign operations		1.437	-1.612	-799	6.939
Other comprehensive income / loss (-), net of income tax		-3.349	-2.819	-8.975	8.865
Total comprehensive income / loss (-)		-29.504	-5.912	-16.029	10.476

Interim condensed consolidated statement of financial position as at 30 June 2016

Assets	Notes	30 June 2016	31 December 2015
		EUR k	EUR k
Goodwill	4.1	556.521	557.567
Other intangible assets	4.1	581.270	603.922
Property, plant and equipment	4.2	285.072	300.199
Other financial assets	4.3	47.494	56.444
Other assets	4.4	932	1.188
Deferred tax assets		944	1.085
Non-current assets		1.472.233	1.520.405
Inventories		77.166	75.137
Trade receivables	4.5	62.854	53.178
Financial receivables from affiliates		226	1.022
Income tax receivables		1.096	1.665
Other financial assets	4.3	8.381	8.515
Other receivables and assets	4.4	5.213	5.207
Cash and cash equivalents	4.6	96.635	86.476
Assets held for sale		4	11
Current assets		251.575	231.211
Total Assets		1.723.808	1.751.616

Interim condensed consolidated statement of financial position as at 30 June 2016

Equity and Liabilities	Notes	30 June 2016	31 December 2015
		EUR k	EUR k
Issued capital		25	25
Capital reserves		378.148	378.148
Retained earnings		-117.737	-103.171
Accumulated other comprehensive income		7.965	9.428
Equity		268.401	284.430
Provisions for pension obligations		96.902	86.071
Other provisions	4.7	7.829	3.653
Financial liabilities to affiliates		148.947	144.574
Financial liabilities to third parties	4.8	931.967	956.856
Deferred tax liabilities		159.125	167.346
Non-current liabilities		1.344.770	1.358.500
Other provisions	4.7	13.814	13.081
Provision for taxes		2.583	2.364
Financial liabilities to third parties	4.8	58.310	55.029
Trade payables		17.314	24.354
Trade payables to affiliates		125	0
Other liabilities	4.9	18.491	13.858
Current liabilities		110.637	108.686
Total liabilities		1.455.407	1.467.186
Total equity and liabilities		1.723.808	1.751.616

CeramTec Holding GmbH, Plochingen

**Interim condensed consolidated statement of cash flows
from 1 January to 30 June 2016**

	1 January to 30 June 2016	1 January to 30 June 2015
	EUR k	EUR k
Net profit / net loss (-) for the period	-7.054	1.611
Income tax expense / benefit (-)	3.151	6.231
Interest result	36.025	37.449
Amortisation, depreciation and impairment charges of non-current assets	41.906	41.591
Gain (-) / Loss on disposal of fixed assets	-31	54
Increase / decrease (-) in provisions (excluding deferred taxes)	4.159	1.681
Income tax refund / payment (-)	-7.121	-3.781
Other non-cash income (-) / expenses, net	595	-505
Increase (-) / decrease in inventories	-2.029	-3.971
Increase (-) / decrease in trade receivables	-9.676	-17.838
Increase (-) / decrease in other receivables and (financial) assets	689	-967
Increase / decrease (-) in trade payables	-4.720	1.369
Increase / decrease (-) in other (financial) liabilities	4.742	2.050
Cash flow from operating activities	60.636	64.974
Cash received from disposals of property, plant and equipment	212	54
Cash paid (-) for investments in property, plant and equipment	-7.568	-12.570
Cash received from grants	0	0
Cash paid (-) for investments in intangible assets	-236	-176
Cash paid (-) for the acquisition of entities	0	-10.930
Cash flow from investing activities	-7.592	-23.622
Cash received from contribution to capital reserve	0	0
Cash received from issuance of bond	0	0
Repayment (-) of syndicated loan	-14.590	-9.130
Interest paid (-)	-27.799	-27.978
Cash flow from financing activities	-42.389	-37.108
Change in cash and cash equivalents	10.655	4.244
Net foreign exchange difference	-496	361
Cash and cash equivalents at the beginning of the period	86.476	62.246
Cash and cash equivalents at the end of the period	96.635	66.851

CeramTec Holding GmbH, Plochingen

**Interim condensed consolidated statement of changes in equity
for the period ended 30 June 2016**

	Issued capital	Capital reserves	Revenue reserves and consolidated net income	Accumulated other comprehensive income		Equity
	EUR k	EUR k	EUR k	Cash flow hedge reserve EUR k	Difference from currency translation EUR k	EUR k
31 December 2014	25	378.148	-95.696	-258	3.003	285.222
Net income for the period	0	0	1.611	0	0	1.611
Other comprehensive income / loss (-)	0	0	0	1.926	6.939	8.865
<i>Total comprehensive income / loss (-)</i>	<i>0</i>	<i>0</i>	<i>1.611</i>	<i>1.926</i>	<i>6.939</i>	<i>10.476</i>
30 June 2015	25	378.148	-94.085	1.668	9.942	295.698
31 December 2015	25	378.148	-103.171	1.629	7.799	284.430
Net income for the period	0	0	-7.054	0	0	-7.054
Other comprehensive income / loss (-)	0	0	-7.512	-664	-799	-8.975
<i>Total comprehensive income / loss (-)</i>	<i>0</i>	<i>0</i>	<i>-14.566</i>	<i>-664</i>	<i>-799</i>	<i>-16.029</i>
30 June 2016	25	378.148	-117.737	965	7.000	268.401

CeramTec Holding GmbH
Plochingen

**Selected explanatory notes to the
Interim Condensed
Consolidated Financial Statements
for the period ended
30 June 2016**

1	General information.....	3
2	Accounting principles.....	5
3	Notes to the interim condensed consolidated statement of comprehensive income.....	7
4	Notes to the interim condensed consolidated statement of financial position	10
5	Additional notes to the interim condensed consolidated statement of cash flows	18
6	Other notes.....	19
7	Reconciliation to CeramTec Group GmbH	20

1 General information

1.1 Corporate information and purpose of the Company

The purpose of CeramTec Holding GmbH (hereinafter “CeramTec Holding”) is to render management services as well as administrative, financial and business services in return for remuneration to entities in which it has a direct or indirect shareholding or which are controlled by the same shareholder. It sets up branch offices in Germany and abroad, establishes other entities in Germany and abroad despite their legal form, acquires, invests in and holds these investments and/or manages them as well as enters into and/or issues all kinds of financial instruments.

The subsidiaries of CeramTec Holding are leading global producers of high-performance ceramics and specialized in the development, production and sale of assemblies, components and products made from ceramic materials. The companies are primarily active in the following markets: automotive, electronic applications, energy and environmental applications, equipment and mechanical engineering and medical technology. Their activities focus on developing solutions for increasingly demanding application areas using many different and in part highly-specialized ceramic materials with unique mechanical, electrical, thermal and biochemical properties and property combinations.

CeramTec Holding’s registered office is located at CeramTec-Platz 1-9 in 73207 Plochingen, Germany. CeramTec Holding is the parent company of the Group (“CeramTec Holding Group”) and at the same time the ultimate parent, which prepares exempting consolidated financial statements.

The management of CeramTec Holding approved the interim condensed consolidated financial statements as at 30 June 2016 on 8 August 2016.

1.2 Basis of preparation

The interim condensed consolidated financial statements are prepared in accordance with IAS 34 Interim Financial Reporting. These interim condensed consolidated financial statements do not include all of the information and disclosures required in the annual financial statements, and should be read in conjunction with the CeramTec Holding GmbH's annual consolidated financial statements as of 31 December 2015.

The interim condensed consolidated financial statements give a true and fair view of the net assets, financial position and results of operations of the CeramTec Holding Group.

The interim condensed consolidated financial statements are presented in Euro. The amounts are in thousands of Euros (EUR k). All amounts are rounded using standard commercial principles. In some cases, adding single values to the total values may therefore lead to differences.

For the purpose of clarity, various items in the statement of financial position and statement of comprehensive income were combined and explained accordingly in the selected explanatory notes to the financial statements. Assets and liabilities are broken down into current and non-current items. Assets and liabilities are classified as current if they are expected to be realized or settled within twelve months from the reporting date. The expense recognized in profit or loss is presented according to the cost of sales method. In the statement of cash flows, cash flow from operating activities is determined using the indirect method, while cash flow from investing and financing activities is determined using the direct method.

2 Accounting principles

The accounting policies and the consolidation principles applied in the interim condensed consolidated financial statements correspond to those applied in the most recent annual consolidated financial statements with the exception of the recently adopted accounting standards, if any. A detailed description of the accounting policies is shown in the notes to the consolidated financial statements as of 31 December 2015.

Foreign currency translation

The exchange rates of significant currencies used for the currency translation to the Euro are as follows:

		30 June 2016	1 April to 30 June 2016	1 January to 30 June 2016	31 December 2015	1 April to 30 June 2015	1 January to 30 June 2015
		Period-end exchange rate	Average exchange rate	Average exchange rate	Period-end exchange rate	Average exchange rate	Average exchange rate
USD	USA	1.1102	1.1293	1.1155	1.0887	1.1047	1.1158
CNY	China	7.3755	7.3783	7.2937	7.0608	6.8538	6.9411
GBP	UK	0.8265	0.7869	0.7785	0.7340	0.7211	0.7323
PLN	Poland	4.4362	4.3714	4.3686	4.2639	4.0859	4.1397
CZK	Czech Republic	27.1310	27.0396	27.0394	27.0230	27.3810	27.5041

Adoption of amended and new standards and interpretations: Changes in accounting policies due to first-time adoption of revised and new IFRS and IFRIC

The following amended IFRSs and IFRICs were adopted for the first time in the fiscal year:

Standards and Interpretations	Effective date
Amendments to IAS 19 “Employee Benefits”	1 February 2015
Annual Improvements Project (2010 – 2012) – December 2013	1 February 2015
Amendments to IFRS 11 “Accounting for Acquisitions of Interest in Joint Operations”	1 January 2016
Amendments to IAS 16 and IAS 38 “Clarification of Acceptable Methods of Depreciation and Amortisation”	1 January 2016
Amendments to IAS 16 and IAS 41 “Agriculture: Bearer Plants”	1 January 2016
Amendments to IAS 27 “Equity Method in Separate Financial Statements”	1 January 2016
Annual Improvements Project (2012 - 2014) – September 2014	1 January 2016
Amendments to IAS 1 “Presentation of Financial Statements”	1 January 2016

These amendments did not have any effect on the interim condensed consolidated financial statements.

Not yet compulsory and newly issued IFRSs and IFRIC

Adoption of the following IFRSs and IFRICs was not yet compulsory in the reporting period and/or they had not yet been endorsed by the European Commission for adoption in the European Union. In the period ended 30 June 2016, none of these new or amended standards and interpretations were adopted earlier.

Standards and Interpretations	Effective date
IFRS 14 “Accounting for Regulatory Deferral Accounts”	1 January 2016
Amendments to IFRS 10, IFRS 12 and IAS 28 “Investment Entities: Applying the Consolidation Exception”	1 January 2016
Amendments to IFRS 10 and IAS 28 “Sale or Contribution of Assets between an Investor and its Associate or Joint Venture”	undefined
Amendments to IAS 12 “Income Taxes”	1 January 2017
Amendments to IAS 7 “Statements of Cash Flows”	1 January 2017
IFRS 15 “Revenue from Contracts with Customers”	1 January 2018
IFRS 9 “Financial Instruments”	1 January 2018
IFRS 16 “Leases”	1 January 2019

No material effects are expected on the interim condensed consolidated financial statements due to these amendments. However, our assessment regarding IFRS 15 “Revenue from Contracts with Customers” and IFRS 9 “Financial Instruments” is not finalized. The assessment regarding IFRS 16 is not yet started.

3 Notes to the interim condensed consolidated statement of comprehensive income

3.1 Revenue

Revenue results primarily from the sale of goods. Revenue breaks down into regions and product groups as follows:

	1 April to 30 June 2016 EUR k	1 April to 30 June 2015 EUR k	1 January to 30 June 2016 EUR k	1 January to 30 June 2015 EUR k
Regions				
Europe	58,257	56,559	111,771	114,706
Germany	35,929	32,688	67,479	66,759
North America	16,949	20,481	36,538	40,274
Asia	16,040	17,479	29,670	30,435
Rest of world	3,251	2,418	7,962	7,974
Total	130,426	129,625	253,420	260,148
Product groups				
Industrial applications	79,982	79,866	157,219	161,131
Medical applications	50,444	49,759	96,201	99,017
Total	130,426	129,625	253,420	260,148

3.2 Cost of sales

The cost of sales break down as follows:

	1 April to 30 June 2016 EUR k	1 April to 30 June 2015 EUR k	1 January to 30 June 2016 EUR k	1 January to 30 June 2015 EUR k
Material and packaging costs	23,113	23,511	45,839	47,928
Amortization and depreciation	12,650	12,623	25,194	25,138
Personnel expenses	31,006	27,037	59,157	54,666
Other cost of sales	11,938	12,270	20,571	23,816
Total	78,707	75,441	150,761	151,548

Other cost of sales primarily contain energy costs, maintenance expenses and freight costs.

3.3 Selling costs

Selling costs primarily contain amortization and depreciation as well as personnel expenses.

3.4 Research and development costs

Research and development costs mainly contain personnel expenses.

3.5 General administrative costs

General administrative costs primarily contain personnel expenses.

3.6 Other income and expenses (-), net

Other income and expenses (-), net break down as follows:

	1 April to 30 June 2016 EUR k	1 April to 30 June 2015 EUR k	1 January to 30 June 2016 EUR k	1 January to 30 June 2015 EUR k
Foreign currency results	436	-272	-373	1,807
Restructuring costs	-53	0	-55	-189
Write-downs and impairment	0	-19	0	-19
Allowance for bad debts	-10	0	-11	-10
Income from reversal of bad debt allowance	0	12	17	12
Gains/Losses on disposal of property, plant and equipment	37	-8	31	-54
Sundry other income	0	173	262	264
Sundry other expenses	-95	-479	-103	-581
Total	315	-593	-232	1,230

3.7 Financial result

The financial result breaks down as follows:

	1 April to 30 June 2016 EUR k	1 April to 30 June 2015 EUR k	1 January to 30 June 2016 EUR k	1 January to 30 June 2015 EUR k
Interest income and other finance income				
Net gain on derivative financial instruments	0	0	0	5,376
Net exchange rate gains	0	1,405	402	0
Other interest income	15	21	32	36
Total interest income and other finance income	15	1,426	434	5,412
Interest expenses and other finance costs				
Interest expense from syndicated loan	6,377	7,243	13,149	14,688
Interest expense from bond	6,326	6,326	12,651	12,651
Expense from effective interest rate method	1,322	1,758	3,016	3,622
Interest expense from shareholder loans	2,886	2,674	5,773	5,318
Net loss on derivative financial instruments	31,338	5,632	775	0
Net exchange rate losses	2,091	0	0	4,938
Other interest expenses	736	672	1,473	1,336
Less: amounts included in the cost of qualifying assets	0	-47	0	-126
Total interest expenses and other finance costs	51,076	24,258	36,837	42,427
Total financial result	-51,061	-22,832	-36,403	-37,015

The net exchange rate gains or losses result from loans that are not granted in the functional currency of the group companies concerned.

4 Notes to the interim condensed consolidated statement of financial position

4.1 Other intangible assets

During the reporting period, CeramTec Holding Group recognized amortization expenses in the amount of EUR 22,517k (1 April to 30 June 2016: EUR 11,250k; 1 January to 30 June 2015: EUR 22,087k; 1 April to 30 June 2015: EUR 11,048k), which arise mainly from customer relationships and technology.

CeramTec Holding Group acquired intangible assets at cost of EUR 236k (1 April to 30 June 2016: EUR 101k; 1 January to 30 June 2015: EUR 176k; 1 April to 30 June 2015: EUR 131k).

There were no disposals during the interim reporting period.

4.2 Property, plant and equipment

During the reporting period, CeramTec Holding Group acquired assets at cost of EUR 5,237k (1 April to 30 June 2016: EUR 2,837k; 1 January to 30 June 2015: EUR 10,698k; 1 April to 30 June 2015: EUR 6,226k), from which no subsidies (1 January to 30 June 2015: EUR 434k; 1 April to 30 June 2015: EUR 233k) are deducted.

The recognized depreciation expenses amount to EUR 19,389k (1 April to 30 June 2016: EUR 9,756k; 1 January to 30 June 2015: EUR 19,504k; 1 April to 30 June 2015: EUR 9,823k).

During the reporting period no borrowing costs are capitalized in property, plant and equipment (1 January to 30 June 2015: EUR 126k; 1 April to 30 June 2015: EUR 46k). Capitalized interest is based on an interest rate of 5.80% (1 January to 30 June 2015: 3.95%).

There were contractual commitments to acquire property, plant and equipment of EUR 2,509k (31 December 2015: EUR 1,615k) as of the reporting date.

4.3 Other financial assets

The following table breaks down other financial assets as follows:

	30 June 2016 EUR k	31 December 2015 EUR k
<i>Other financial assets (non-current)</i>		
Derivative financial instruments	38,560	47,348
Separated termination rights	8,784	8,946
Insurance claims	150	150
Total	47,494	56,444
<i>Other financial assets (current)</i>		
Derivative financial instruments	8,285	8,474
Other financial assets	96	41
Total	8,381	8,515

4.4 Other assets/other receivables and assets

The following table breaks down other assets / other receivables and assets as follows:

	30 June 2016 EUR k	31 December 2015 EUR k
<i>Other assets (non-current)</i>		
Deferred finance costs for the revolving credit line	549	784
Other assets	383	404
Total	932	1,188
<i>Other receivables and assets (current)</i>		
Receivables from energy tax refunds	984	825
Deferred finance costs for the revolving credit line	471	471
VAT receivables	169	1,494
Investment grants	139	212
Sundry assets	3,450	2,205
Total	5,213	5,207

Sundry current assets primarily contain prepayments.

4.5 Trade receivables

Trade receivables of EUR 62,854k (31 December 2015: EUR 53,178k) are recognized in the interim condensed consolidated statement of financial position after taking into account impairment losses of EUR 616k (31 December 2015: EUR 644k).

The amount of trade receivables increased due to higher sales volumes during the reporting period compared with the end of the previous year, which is a result of seasonal effects.

The value of trade receivables before impairment breaks down as follows:

	30 June 2016 EUR k	31 December 2015 EUR k
Carrying amount before impairment	63,470	53,822
thereof not yet due on the reporting date	55,650	44,380
thereof past due on the reporting date	7,820	9,442

4.6 Cash and cash equivalents

Cash and cash equivalents contain bank balances of EUR 96,606k (31 December 2015: EUR 86,450k) and cash in hand of EUR 29k (31 December 2015: EUR 26k).

4.7 Other Provisions

In the reporting period the other provisions long-term increased by EUR 4,176k mainly because of a funding obligation resulting from the closed pension plan at "Pensionskasse Dynamit Nobel VVaG". The solvency plan was approved by the authorities (BaFin). The current portion of this obligation is amounting to EUR 1,227k.

4.8 Financial liabilities to third parties

The financial liabilities to third parties are broken down as follows:

	30 June 2016 EUR k	31 December 2015 EUR k
<i>Financial liabilities (non-current)</i>		
Liabilities to banks	621,273	647,027
Liabilities from the bond	298,573	297,961
Derivative financial instruments	10,489	10,122
Finance lease liabilities	1,423	1,528
Purchase price for technology	209	218
Total	931,967	956,856
<i>Financial liabilities (current)</i>		
Liabilities to banks	40,353	37,202
Liabilities from the bond	9,489	9,489
Derivative financial instruments	4,479	4,437
Discounts and bonuses	1,832	1,861
Finance lease liabilities	380	504
Other current financial liabilities	1,777	1,536
Total	58,310	55,029

4.9 Other liabilities

Other liabilities break down as follows:

	30 June 2016 EUR k	31 December 2015 EUR k
<i>Other liabilities (current)</i>		
Wages and salaries including taxes	9,361	6,433
Real estate transfer tax	4,143	4,136
Other current liabilities	4,987	3,289
Total	18,491	13,858

4.10 Financial instruments

The following table shows the carrying amounts and fair values of the financial assets and financial liabilities reported in the interim condensed consolidated financial statements, sorted by class and measurement category in accordance with IAS 39.

		30 June 2016	
	Measurement category of IAS 39 ¹	Carrying amount EUR k	Fair value EUR k
<i>Financial assets</i>			
Cash and cash equivalents	LaR	96,635	96,635
Trade receivables	LaR	62,854	62,854
Financial receivables from affiliates	LaR	226	226
Other financial assets	LaR	247	247
Separated termination rights – HfT	FVtPL	8,784	8,784
Currency swaps in effective hedges	Hedge	46,844	46,844
Total		215,590	215,590
<i>Financial liabilities</i>			
Liabilities to banks	FLAC	661,626	670,849
Bond liabilities	FLAC	308,062	325,102
Financial liabilities to affiliates	FLAC	148,947	153,637
Trade payables	FLAC	17,313	17,313
Finance lease liabilities	FLAC	1,803	1,803
Trade payables to affiliates	FLAC	125	125
Other financial liabilities	FLAC	3,818	3,817
Separated interest rate floor – HfT	FVtPL	14,008	14,008
Interest rate cap - HfT	FVtPL	960	960
Total		1,156,662	1,187,614

¹ HfT: held for trading; LaR: loans and receivables; FVtPL: measured at fair value through profit or loss; FLAC: financial liabilities measured at amortized cost; Hedge: hedge accounting

		31 December 2015	
	Measurement category of IAS 39 ¹	Carrying amount EUR k	Fair value EUR k
<i>Financial assets</i>			
Cash and cash equivalents	LaR	86,476	86,476
Trade receivables	LaR	53,178	53,178
Financial receivables from affiliates	LaR	1,022	1,022
Other financial assets	LaR	191	191
Separated termination rights – HfT	FVtPL	8,946	8,946
Currency swaps in effective hedges	Hedge	55,822	55,822
Total		205,635	205,635
<i>Financial liabilities</i>			
Liabilities to banks	FLAC	684,229	695,440
Bond liabilities	FLAC	307,449	327,556
Financial liabilities to affiliates	FLAC	144,574	150,056
Trade payables	FLAC	24,354	24,354
Finance lease liabilities	FLAC	2,032	2,032
Other financial liabilities	FLAC	3,615	3,613
Separated interest rate floors – HfT	FVtPL	13,419	13,419
Interest rate cap – HfT	FVtPL	1,141	1,141
Total		1,180,813	1,217,611

¹ HfT: held for trading; LaR: loans and receivables; FVtPL: measured at fair value through profit or loss; FLAC: financial liabilities measured at amortized cost; hedge: hedge accounting

If the fair value is not available in the form of a market price, it is calculated based on different valuation parameters. Depending on the availability of observable parameters and the significance of these parameters when calculating the fair value, the fair value is allocated to level 1, 2 or 3 of the fair value hierarchy. The allocation is based on the following factors:

- **Level 1:** Quoted (unadjusted) market prices in active markets for identical assets or liabilities for the Company on the measurement date
- **Level 2:** Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly
- **Level 3:** Non-observable measurement parameters for the asset or liability

The following table shows the fair value hierarchy for derivative financial instruments that are recognized at fair value in the consolidated financial statements:

	30 June 2016		
	Level 1 EUR k	Level 2 EUR k	Level 3 EUR k
	<u> </u>	<u> </u>	<u> </u>
<i>Financial assets</i>			
Currency swaps in effective hedges	-	46,844	-
Separated termination rights – HfT	-	8,784	-
<i>Financial liabilities</i>			
Separated interest rate floor – HfT	-	14,008	-
Interest rate cap - HfT	-	960	-

	31 December 2015		
	Level 1 EUR k	Level 2 EUR k	Level 3 EUR k
	<u> </u>	<u> </u>	<u> </u>
<i>Financial assets</i>			
Currency swaps in effective hedges	-	55,822	-
Separated termination rights – HfT	-	8,946	-
<i>Financial liabilities</i>			
Separated interest rate floors – HfT	-	13,419	-
Interest rate cap - HfT	-	1,141	-

The following table shows the fair value hierarchy for the financial instruments that are not recognized at fair value in the consolidated financial statements. It does not include the fair values for financial instruments such as short-term trade receivables and other financial assets as well as trade payables and other financial liabilities, because their carrying amounts are a reasonable approximation of fair values:

	30 June 2016		
	Level 1 EUR k	Level 2 EUR k	Level 3 EUR k
	<u> </u>	<u> </u>	<u> </u>
<i>Financial liabilities</i>			
Bond liabilities	325,102	0	-
Liabilities to banks	0	670,849	-
Financial liabilities to affiliates	0	153,637	-
Finance lease liabilities	0	1,803	-

	31 December 2015		
	Level 1	Level 2	Level 3
	EUR k	EUR k	EUR k
<i>Financial liabilities</i>			
Bond liabilities	327,556	-	-
Liabilities to banks	-	695,440	-
Financial liabilities to affiliates	-	150,056	-
Finance lease liabilities	-	2,032	-

The fair value of the publicly listed bond corresponds to the nominal value multiplied by the market value at the reporting date. Accordingly, the fair value measurement is allocated to level 1 of the fair value hierarchy.

Liabilities to banks are subject to interest based on the interest rates observable on the market, such as EURIBOR or LIBOR, on the basis of which the fair value is calculated. Accordingly, these are allocated to level 2 of the fair value hierarchy.

The fair values of the separated derivatives are measured using the Black-Scholes/Hull-White valuation model, which considers both the observable yield curves and the fluctuation (volatility) of the currencies concerned. All key input parameters were directly or indirectly derived from observable market data. The fair value measurement is therefore allocated to level 2 of the fair value hierarchy.

Currency swaps are measured on the basis of a discounted cash flow method, which takes into account the observable mid closing rates, yield curves and currency spreads between currencies. All currency swaps had a positive market value as of the end of the reporting period. All key input parameters were directly or indirectly derived from observable market data. The fair value measurement of the currency swaps is therefore allocated to level 2 of the fair value hierarchy.

The fair value of the interest rate cap is measured using the Black-Scholes/Hull-White valuation model, which considers both the observable yield curves and the fluctuation (volatility) of the currencies concerned. All key input parameters were directly or indirectly derived from observable market data. The fair value measurement is therefore allocated to level 2 of the fair value hierarchy.

The fair value of all other financial instruments is calculated using a discounted cash flow method as well as by taking into account measurement parameters that are observable for the assets and liabilities, either directly or indirectly at the market. Accordingly, these financial instruments were allocated to level 2 of the fair value hierarchy.

For assets and liabilities that are recognized at fair value in the interim condensed consolidated financial statements on a recurring basis, the CeramTec Holding Group assesses whether a transfer between the levels of the fair value hierarchy took place as of the end of each reporting period (based

on the lowest level that is significant to fair value measurement as a whole). There were no transfers between level 1 and 2 in the past reporting period.

5 Additional notes to the interim condensed consolidated statement of cash flows

In the interim condensed consolidated statement of cash flows, cash flow from operating activities is determined using the indirect method, while cash flow from investing and financing activities is determined using the direct method. The cash and cash equivalents presented in the statement of cash flows correspond to the item of the interim condensed consolidated statement of financial position and comprise cash in hand, bank balances and cash investments with an original term of up to three months. There are no restrictions on disposal.

Other non-cash income and expenses primarily contain changes in the fair value of financial instruments and foreign exchange gains or losses.

During the period 1 January to 30 June 2016, CeramTec Holding Group invested EUR 814k in property, plant and equipment from which cash outflows have not resulted, and which are hence not included in cash flows from investing activities.

During the period 1 January to 30 June 2016, CeramTec Holding Group paid EUR 3,145k (1 January to 30 June 2015: EUR 1,873k) for property, plant and equipment, which was not included in the statement of cash flows in previous reporting periods as it was a non-cash transaction.

During the reporting period no government grants were obtained (1 January to 30 June 2015: EUR 434k), which have not yet been received in cash, and which are hence not included in the cash flow from investing activities.

6 Other notes

6.1 Contingent liabilities

Like in the comparative period, there were no significant contingent liabilities as of 30 June 2016. The group companies are involved as parties in a number of lawsuits. These proceedings are linked to ordinary business activities and mainly relate to commercial, product liability and environmental litigations. The group companies accrue for such obligations if a liability is likely to arise and the amount of the potential claim can be sufficiently estimated. These obligations are disclosed in the notes to the financial statements if there are reasonable grounds to assume that a significant expense was incurred.

6.2 Related Party disclosures

Transactions with related parties

Entities and natural persons are deemed to be related parties when they exercise control over the reporting company or over its subsidiaries or when they have a significant influence on the reporting company's financial and business policy.

A loan of EUR 148,947k (31 December 2015: EUR 144,574k), including interest, with a fixed interest rate of 8.255% has been obtained from CeramTec Holding's controlling shareholder, Faenza Luxembourg S.à.r.l., Luxembourg. Interest expenses of EUR 5,773k (1 January to 30 June 2015: EUR 5,318k) were accrued in the reporting period ended 30 June 2016. These are due annually and will not be paid to the shareholder; instead, the loan will be increased by cumulated interest of one year with effect from 29 August of each year. The loan is not secured.

CeramTec Service GmbH closed a Service Agreement with Faenza Luxembourg S.à.r.l., Luxembourg on 10 March 2014. Expenses for services of EUR 244k were booked during the reporting period ended 30 June 2016 (1 January to 30 June 2015: EUR 168k). The unpaid amount of EUR 125k (31 December 2015: EUR 0k) is shown as Trade payables to affiliates.

In the fiscal year, CeramTec Holding Group charged Faenza Luxembourg S.à.r.l. for incurred transaction costs an amount of EUR 48k (previous year: EUR 1,022k). In addition Faenza Luxembourg S.à.r.l. paid to CeramTec Holding Group EUR 844k reducing the receivables from affiliates as of 30 June 2016 to EUR 226k (31 December 2015: EUR 1,022k).

6.3 Subsequent events

There were no significant events after the reporting date.

7 Reconciliation to CeramTec Group GmbH

If the interim condensed consolidated statement of comprehensive income of CeramTec Group GmbH had been prepared instead of the interim condensed consolidated statement of comprehensive income of CeramTec Holding, which is presented in these financial statements, this would have resulted in the following changes for the reporting period:

- Lower general administrative expenses of EUR 111k (1 April to 30 June 2016: EUR 50k; 1 January to 30 June 2015: EUR 116k; 1 April to 30 June 2015: EUR 58k)
- Higher interest income and other finance income of EUR 4,409k (1 April to 30 June 2016: EUR 2,241k; 1 January to 30 June 2015: EUR 1,457k; 1 April to 30 June 2015: EUR 747k)
- Lower interest expenses and other finance costs of EUR 5,771k (1 April to 30 June 2016: EUR 2,886k; 1 January to 30 June 2015: EUR 5,318k; 1 April to 30 June 2015: EUR 2,674k)
- Higher tax expenses of EUR 22k (1 April to 30 June 2016: EUR 10k; 1 January to 30 June 2015: EUR 24k; 1 April to 30 June 2015: EUR 12k)

The total comprehensive income of CeramTec Group GmbH would therefore have been EUR 10,269k higher (1 April to 30 June 2016: EUR 5,167k higher; 1 January to 30 June 2015: EUR 6,867k higher; 1 April to 30 June 2015: EUR 3,467k higher) compared to the total comprehensive income recognized in these financial statements.

If the interim condensed consolidated statement of financial position of CeramTec Group GmbH had been prepared instead of the interim condensed consolidated statement of financial position of CeramTec Holding, which is presented in these financial statements, this would have resulted in the following changes as of 30 June 2016 (31 December 2015):

- Higher financial receivables to affiliates of EUR 151,211k (31 December 2015: EUR 144,764k)
- Lower cash and cash equivalents of EUR 31k (31 December 2015: EUR 25k)
- Lower other provisions of EUR 0k (31 December 2015: EUR 226k)
- Lower financial liabilities to affiliates of EUR 148,947k (31 December 2015: EUR 144,574k)
- Lower financial liabilities to third parties of EUR 82k (31 December 2015: EUR 81k)
- Lower trade payables of EUR 0k (31 December 2015: EUR 298k)
- Higher income tax payables of EUR 463k (31 December 2015: EUR 441k)

This would have resulted in a EUR 299,746k (31 December 2015: EUR 289,477k) higher group equity for the CeramTec Group GmbH compared to the group equity recognized in these financial statements.

There would have been no significant impact on the interim condensed consolidated statement of cash flows if the interim condensed consolidated statement of cash flows of CeramTec Group GmbH had

been prepared instead of the interim condensed consolidated statement of cash flows of CeramTec Holding presented in these financial statements.

Plochingen, 8 August 2016

CeramTec Holding GmbH

The management

Henri Steinmetz

Dominique Janbon

Dr. Hadi Saleh