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, 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 nine month period ended September 30, 2016 in comparison to the nine month period ended September 30, 2015.

The financial data as of and for the nine month periods ended September 30, 2016 and September 30, 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 nine month period ended September 30, 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.

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, 2016 compared to the nine month period ended September 30, 2015. All figures are unaudited in EURm as reported

	Nine Months Ended September 30,		
	2016	**2015**	**Change**
	(in € million)		*(%)*
Revenue	376.4	383.4	-1.8
Cost of sales	224.7	227.3	-1.2
Gross profit	**151.7**	**156.1**	**-2.8**
Selling costs	70.4	64.2	9.6
Research and development costs	17.8	17.9	-0.8
General administrative costs	16.3	17.8	-8.2
Other income and expenses (-), net	0.0	1.1	>-100.0
Operating Income	**47.1**	**57.2**	**-17.7**
Interest income and other finance income	5.2	6.7	-22.1
Interest expenses and other finance costs	53.8	61.5	-12.6
Financial result	**-48.6**	**-54.8**	**-11.4**
Profit / Loss (-) before income tax	**-1.4**	**2.4**	**>-100.0**
Income tax expense	6.0	7.8	-23.3
Net loss for the period	**-7.5**	**-5.4**	**37.1**

Revenue

The following table provides an overview over our revenue for the nine months ended September 30, 2016 compared to the respective comparative period 2015 on a business unit level. All figures are unaudited in EURm as reported.

	Nine Months Ended September 30,		
	2016	**2015**	**Change**
	(in € million)		*(%)*
Medical Applications[1]	**141.8**	**141.0**	**0.6**
Industrial Applications[1]	**234.6**	**242.4**	**-3.2**
thereof Multifunctional Ceramics	35.8	35.5	0.8
thereof Electronic Applications	38.0	40.5	-6.3
thereof SPK Cutting Tools	29.5	30.1	-2.1
thereof Mechanical Systems	27.2	28.4	-4.3
thereof Mechanical Applications	16.6	17.2	-3.8
thereof Other	122.5	126.3	-3.0
Consolidation[2]	-34.9	-35.7	-2.2
Total revenue	**376.4**	**383.4**	**-1.8**

(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 declined by -1.8% as reported (-1.3% in constant currency) from €383.4 million in the first nine months of 2015 to €376.4 million in the first nine months of 2016 but in line with our expectations.

Our revenue in Medical Applications is slightly higher by 0.6% as reported (0.6% in constant currency) from €141.0 million in the first nine months 2015 to €141.8 million in the first nine months of 2016, increase in volume growth is more than off-setting adverse changes by new pricing conditions at key customers.

Net sales in Industrial Applications decreased by -3.2% as reported (-2.3% in constant currency) from €242.4 million for the first nine months of 2015 to €234.6 million for the first nine months of 2016, due to several industrial BUs not repeating strong 2015 performance. Project activity in EO catalyst business of CT North America is lower due to reduced demands from Chinese end market customers, resulting in -14.4% lower sales vs. previous year; Electronic Applications not repeating 2015 extra volumes from a key customer; Mechanical Systems and Mechanical Applications are facing lower demand in construction and textile machinery markets. This is partly compensated by positive development in our CT-ETEC division showing good ballistic sales, CeramTec Malaysia with additional volumes in the examination segment and DAI due to full year effect.

The regional split of the revenue is 27.3% for Germany, 43.2% for Europe (including most of the Medical revenue to OEMs), 14.4 % for North America, 12.0 % for Asia and 3.1% 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 nine month periods ended September 30, 2015 and 2016. All figures are unaudited in EURm as reported.

	Nine Months Ended September 30			
	2016		2015	
	(in € million)	*(% of net sales)*	*(in € million)*	*(% of net sales)*
Cost of materials and packing.......................	67.4	17.9	71.6	18.7
Energies...	11.0	2.9	12.0	3.1
Other variable costs	3.0	0.8	5.4	1.4
Personnel expenses.......................................	85.1	22.6	81.3	21.2
Amortization and depreciation......................	37.8	10.0	38.0	9.9
Maintenance expenses from factory building and equipment................................	6.2	1.7	6.0	1.6
Other costs	14.2	3.8	13.0	3.4
Cost of sales	**224.7**	**59.7**	**227.3**	**59.3**

Cost of sales decreased by -1.2% from €227.3 million or 59.3% of revenue in the first nine months of 2015 to €224.7 million or 59.7% of revenue in the first nine months of 2016. The decrease was caused by lower volumes which were offset by additional contribution to pension fund (solvency) of €3.7 million (normalized in the Adjusted EBITDA). Excluding amortization and depreciation and excluding non-recurring items like additional contribution to pension fund (solvency) and severance payment our gross profit decreased on a normalized basis by €-0.8 million from €194.9 million to €194.1 million while the gross margin increased by 0.8%pts from 50.8% to 51.6%.

Selling Costs

Excluding amortization and depreciation and excluding all non-recurring items, both periods mainly effected by non-recurring litigation costs which are adjusted, our selling costs decreased from €38.1 million or 9.9% of revenue in the first nine months of 2015 to €36.9 million or 9.8% of revenue in the first nine months of 2016.

Research and Development Costs

Our R&D costs without non-recurring items decreased to €15.4 million or 4.1% of revenue in the first nine months 2016 compared with €16.5 million or 4.3% of revenue in the first nine months of 2015. We continue to invest in the development of new medical products and to support growth projects such as transparent ceramics.

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General Administrative Costs

Our normalized and comparable general administrative costs decreased from €12.8 million or 3.3% of revenue in the first nine months of 2015 to €12.1 million or 3.2% of revenue in the first nine months of 2016 and remain broadly unchanged in terms of % of sales.

Other Income and Expenses

Other income and expenses (net) decreased from €1.1 million income in the first nine months of 2015 to €0.0 million expenses in the first nine months of 2016. The change of €-1.1 million results mainly from foreign exchange (€-2.1 million, mainly US-dollar) as a net gain on foreign exchange by €1.8 million in 2015 changed to a net loss on foreign exchange of €-0.3 in 2016 compensated by a reduction of €0.6 million acquisition costs and €0.7 million lower restructuring cost. Both matters have been normalized in the calculation of Adjusted EBITDA.

Interest Income and Other Finance Income

This line item decreased from €6.7 million in the first nine months of 2015 by €1.5 million to €5.2 million in the first nine months of 2016 due to a lower net gain resulting from the fair value measurement of derivatives.

Interest Expenses and Other Finance Costs

This line item decreased from €61.5 million for the nine month period ended September 30, 2015 to €53.8 million for the nine month period ended September 30, 2016 mainly due to the reduction of losses on foreign exchange differences. The financial expense of €53.8 million includes €38.5 million interest expenses, €4.3 million expenses from the effective interest rate method, €8.8 million non-cash interest expenses, and €2.2 million other interest expenses.

Income tax expenses

Income tax expenses decreased from expenses of €7.8 million for the nine month period ended September 30, 2015 to expenses of €6.0 million in the nine month period ended September 30, 2016 mainly due to a decrease in the current taxation in line with the lower operating profit.

Net Profit / Loss

As a result of the developments described above, our net profit decreased from a net loss of €-5.4 million for the nine month period ended September 30, 2015 to a net loss of €-7.5 million for the nine month period ended September 30, 2016.

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Financial Condition, Liquidity and Capital Resources

As of September 30, 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):

	Nine Months Ended September 30, 2016
	(in € million)
Gross financial debt (without accrued transaction costs)	928.4
thereof bond	*306.7*
thereof term loans	*660.7*
thereof mark-to-market measure cross-currency swaps	*-44.3*
thereof accrued interest	*5.3*
Cash	108.3
Net debt	820.1
Undrawn Revolving Credit Facility	100.0
Net Debt to LTM Adjusted EBITDA(*) ratio	4.9

(*) LTM Adjusted EBITDA October 2015 – September 2016 EUR 166.5 million

Cash Flow Statement

The following table shows the cash flow statement for the nine month period ended September 30, 2016. All figures are unaudited in EURm as reported.

	Nine Months ended September 30, 2016
	(in € million)
Net loss for the period	-7.5
Income tax expenses	6.0
Interest result	53.7
Amortization, depreciation and impairment charges of non-recurrent assets	62.8
Gain (-) / Loss on disposal of fixed assets	-0.0
Increase / decrease (-) in provisions (excluding deferred taxes)	8.1
Income tax refund / payment (-)	-10.9
Other non-cash expenses / income (-), net	-5.2
Increase (-) / decrease in inventories	0.7
Increase (-) / decrease in trade receivables	-8.7
Increase (-) / decrease in other receivables and (financial) assets	1.5
Increase / decrease (-) in trade payables	-2.6
Increase / decrease (-) in other (financial) liabilities	3.7
Cash flow from operating activities	**101.7**
Cash received from disposals of property, plant and equipment	0.3
Cash paid (-) for investments in property, plant and equipment	-10.7
Cash received from grants	0.1
Cash paid (-) for investments in intangible assets	-0.3
Cash paid (-) for the acquisition of entities	0.0
Cash flow from investing activities	**-10.7**
Repayment (-) of syndicated loan	-21.7
Interest paid (-)	-47.1
Cash flow from financing activities	**-68.8**
Change in cash and cash equivalents	**22.3**
Net foreign exchange difference	-0.5
Cash and cash equivalents at the beginning of the period	86.5
Cash and cash equivalents at the end of the period	**108.3**

There was a positive change in cash and cash equivalents of €22.3 million in the nine month period ended September 30, 2016. This was primarily the result of a positive Q3 development with €11.6 million cash generation showing good results supported by delayed and tight controlled investing activities.

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.

	Nine Months Ended September 30,	
	2016	2015
	(in € million)	
Net profit / loss (-)	-7.5	-5.4
Income tax expenses	6.0	7.8
Financial result	48.6	54.8
Depreciation and amortization	62.8	62.9
EBITDA	**110.0**	**120.2**
Restructuring costs [(a)]	2.5	1.2
Other non-recurring [(b)]	11.9	7.2
Foreign exchange conversion effects	0.3	-1.8
Additional contribution to pension fund (solvency) [(c)]	5.3	-
Acquisition cost (DAI)	-	0.9
Adjusted EBITDA	**130.0**	**127.7**

(a) Restructuring costs 2015 refer to severance payments for the reduction of staff at CeramTec-ETEC GmbH and CeramTec UK. 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.

(c) Additional contribution to pension fund (solvency): the pension plan at "Pensionskasse Dynamit Nobel VVaG" was closed at the end of 2014 but with a continuing contractual obligation to cover potential underfunding. On July 20, 2016 the authorities (Bafin) approved the solvency plan dated June 24, 2016 in favor of the Dynamit Nobel VVaG. The provision was based on the planned payments until 2021.

Recent Developments

Currently there are no developments to report.