

CeramTec Holding GmbH
Plochingen

Interim Condensed
Consolidated Financial Statements
for the period ended
31 March 2017

Interim condensed consolidated statement of comprehensive income

from 1 January to 31 March 2017

	Notes	1 January to	1 January to
		31 March 2017	31 March 2016
		EUR k	EUR k
Revenue	3.1	132,506	122,995
Cost of sales	3.2	75,904	72,055
Gross profit		56,602	50,940
Selling costs	3.3	20,765	21,917
Research and development costs	3.4	5,602	6,035
General administrative costs	3.5	6,388	6,830
Other income and expenses (-), net	3.6	-378	-546
Operating income		23,469	15,612
Interest income and other finance income		28,613	33,072
Interest expenses and other finance costs		15,971	18,415
Financial result	3.7	12,642	14,657
Profit before income tax		36,111	30,269
Income tax expense		-11,492	-11,169
Net profit for the period		24,619	19,100
Items that will not be reclassified through profit or loss			
Income / Expenses (-) from the remeasurement of pension provisions		863	-3,209
Deferred taxes		-247	920
		616	-2,289
Items that may be reclassified subsequently to profit or loss			
Losses on cash flow hedges		-104	-1,542
Deferred taxes		30	442
		-74	-1,100
Exchange differences on translation of foreign operations		-1,163	-2,236
Other comprehensive loss, net of income tax		-621	-5,625
Total comprehensive income		23,998	13,475

Interim condensed consolidated statement of financial position as at 31 March 2017

Assets	Notes	31 March 2017	31 December 2016
		EUR k	EUR k
Goodwill		557,521	557,961
Other intangible assets	4.1	546,340	557,421
Property, plant and equipment	4.2	268,473	275,532
Other financial assets	4.3	93,330	72,484
Other assets	4.4	607	711
Deferred tax assets		898	851
Non-current assets		1,467,169	1,464,960
Inventories		83,476	76,904
Trade receivables	4.5	67,689	53,553
Income tax receivables		1,351	1,281
Other financial assets	4.3	12,340	12,390
Other receivables and assets	4.4	5,052	4,268
Cash and cash equivalents	4.6	84,099	124,585
Assets held for sale	4.7	261	0
Current assets		254,268	272,981
Total Assets		1,721,437	1,737,941

Interim condensed consolidated statement of financial position as at 31 March 2017

Equity and Liabilities	Notes	31 March 2017	31 December 2016
		EUR k	EUR k
Issued capital		25	25
Capital reserves		378,148	378,148
Retained earnings		-94,157	-119,392
Accumulated other comprehensive income		9,409	10,646
Equity		293,425	269,427
Provisions for pension obligations		102,151	102,410
Other provisions		10,669	10,636
Financial liabilities to affiliates		99,928	98,021
Financial liabilities to third parties	4.8	910,404	927,004
Deferred tax liabilities		162,103	156,258
Non-current liabilities		1,285,255	1,294,329
Other provisions		19,183	16,425
Provision for taxes		5,512	2,790
Financial liabilities to affiliates		0	56,402
Financial liabilities to third parties	4.8	74,061	62,529
Trade payables		26,617	22,376
Trade payables to affiliates		125	205
Other liabilities	4.9	17,259	13,458
Current liabilities		142,757	174,185
Total liabilities		1,428,012	1,468,514
Total equity and liabilities		1,721,437	1,737,941

CeramTec Holding GmbH, Plochingen

**Interim condensed consolidated statement of cash flows
from 1 January to 31 March 2017**

	1 January to 31 March 2017	1 January to 31 March 2016
	EUR k	EUR k
Net profit for the period	24,619	19,100
Income tax expense	11,492	11,169
Interest result	15,892	18,398
Amortisation, depreciation and impairment charges of non-current assets	20,482	20,900
Gain (-) / Loss on disposal of fixed assets	8	6
Increase / decrease (-) in provisions (excluding deferred taxes)	2,967	463
Income tax refund / payment (-)	-3,192	-3,814
Other non-cash income (-) / expenses, net	-29,727	-33,451
Increase (-) / decrease in inventories	-6,572	-4,510
Increase (-) / decrease in trade receivables	-14,136	-11,557
Increase (-) / decrease in other receivables and (financial) assets	-714	1,130
Increase / decrease (-) in trade payables	5,084	-3,174
Increase / decrease (-) in other (financial) liabilities	4,508	4,491
Cash flow from operating activities	30,712	19,151
Cash received from disposals of property, plant and equipment	22	117
Cash paid (-) for investments in property, plant and equipment	-3,719	-4,966
Cash paid (-) for investments in intangible assets	-188	-135
Cash flow from investing activities	-3,885	-4,984
Repayment (-) of syndicated loan	-8,642	-7,529
Interest paid (-)	-22,115	-21,049
Cash received from drawing of revolver loan	16,000	0
Repayment of shareholder loan	-52,829	0
Cash flow from financing activities	-67,587	-28,578
Change in cash and cash equivalents	-40,760	-14,411
Net foreign exchange difference	274	-267
Cash and cash equivalents at the beginning of the period	124,585	86,476
Cash and cash equivalents at the end of the period	84,099	71,798

CeramTec Holding GmbH, Plochingen

**Consolidated statement of changes in equity
for the period ended 31 March 2017**

	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 2015	25	378,148	-103,171	1,629	7,799	284,430
Net income for the period	0	0	19,100	0	0	19,100
Other comprehensive income / loss (-)	0	0	-2,289	-1,100	-2,236	-5,625
<i>Total comprehensive income / loss (-)</i>	<i>0</i>	<i>0</i>	<i>16,811</i>	<i>-1,100</i>	<i>-2,236</i>	<i>13,475</i>
31 March 2016	25	378,148	-86,360	529	5,563	297,905
31 December 2016	25	378,148	-119,392	1,798	8,848	269,427
Net income for the period	0	0	24,619	0	0	24,619
Other comprehensive income / loss (-)	0	0	616	-74	-1,163	-621
<i>Total comprehensive income / loss (-)</i>	<i>0</i>	<i>0</i>	<i>25,235</i>	<i>-74</i>	<i>-1,163</i>	<i>23,998</i>
31 March 2017	25	378,148	-94,157	1,724	7,685	293,425

CeramTec Holding GmbH
Plochingen

**Selected explanatory notes to the
Interim Condensed
Consolidated Financial Statements
for the period ended
31 March 2017**

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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 31 March 2017 on 11 May 2017.

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 2016.

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 2016.

Foreign currency translation

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

		31 March 2017 Period-end exchange rate	1 January to 31 March 2017 Average exchange rate	31 December 2016 Period-end exchange rate	1 January to 31 March 2016 Average exchange rate
USD	USA	1.0691	1.0647	1.0541	1.1100
CNY	China	7.3642	7.3341	7.3202	7.2220
GBP	UK	0.8555	0.8598	0.8562	0.7802
PLN	Poland	4.2265	4.3208	4.4103	4.2932
CZK	Czech Republic	27.0300	27.0213	27.0210	27.0509

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 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
Amendments to IAS 12 “Recognition of Deferred Tax Assets for Unrealised Losses”	1 January 2017

Standards and Interpretations	Effective date
Amendments to IAS 7 “Disclosure Initiative”	1 January 2017
Annual Improvements Project (2012 - 2014) – IFRS 12	1 January 2017

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 31 March 2017, none of these new or amended standards and interpretations were adopted earlier.

Standards and Interpretations	Effective date
Amendments to IFRS 10 and IAS 28 “Sale or Contribution of Assets between an Investor and its Associate or Joint Venture”	undefined
IFRS 15 “Revenue from Contracts with Customers”	1 January 2018
IFRS 9 “Financial Instruments”	1 January 2018
Amendments to IFRS 2 “C&M of Share-based Payment Transactions”	1 January 2018
Amendments to IFRS 4 “Applying IFRS 9 with IFRS 4”	1 January 2018
IFRIC 22 “Foreign Currency Transactions and Advance Consideration”	1 January 2018
Amendments to IAS 40 “Transfers of Investment Property”	1 January 2018
IFRIC 22 “Foreign Currency Transactions and Advance Consideration”	1 January 2018
Annual Improvements Project (2012 - 2014) – IFRS 1 and IAS 28	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 16 is not finalized.

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 January to 31 March 2017 EUR k	1 January to 31 March 2016 EUR k
Regions		
Europe	57,346	53,514
Germany	33,384	31,549
North America	20,725	19,589
Asia	16,467	13,630
Rest of world	4,584	4,713
Total	132,506	122,995
Product groups		
Industrial applications	83,414	77,237
Medical applications	49,092	45,758
Total	132,506	122,995

3.2 Cost of sales

The cost of sales break down as follows:

	1 January to 31 March 2017 EUR k	1 January to 31 March 2016 EUR k
Material and packaging costs	24,727	22,726
Amortization and depreciation	12,128	12,545
Personnel expenses	30,206	28,151
Other cost of sales	8,843	8,633
Total	75,904	72,055

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

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 January to 31 March 2017 EUR k	1 January to 31 March 2016 EUR k
Foreign currency results	-361	-809
Restructuring costs	0	64
Allowance for bad debts	-29	-1
Income from the reversal of allowances for bad debt	9	17
Gains / Losses on disposal of property, plant and equipment	-8	-6
Sundry other income	79	232
Sundry other expenses	-68	-43
Total	-378	-546

Restructuring costs in 2016 contain income from the reversal of a provision.

3.7 Financial result

The financial result breaks down as follows:

	1 January to 31 March 2017 EUR k	1 January to 31 March 2016 EUR k
Interest income and other finance income		
Gains on derivative valuations	27,681	30,563
Exchange rate gains	855	2,493
Other interest income	77	16
Total interest income and other finance income	28,613	33,072
Interest expenses and other finance costs		
Interest expense from syndicated loan	5,585	6,771
Interest expense from revolving credit line	129	126
Interest expense from bond	6,326	6,326
Expense from effective interest rate method	1,392	1,694
Interest expense from shareholder loans	2,043	2,886
Other interest expenses	496	612
Total interest expenses and other finance costs	15,971	18,415
Total financial result	12,642	14,657

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 11,107k (1 January to 31 March 2016: EUR 11,267k), which arise mainly from customer relationships and technology.

CeramTec Holding Group acquired intangible assets at cost of EUR 188k (1 January to 31 March 2016: EUR 135k).

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 2,874k (1 January to 31 March 2016: EUR 2,400k), from which no subsidies are deducted.

The recognized depreciation expenses amount to EUR 9,375k (1 January to 31 March 2016: EUR 9,633k).

Land and buildings with a book value of EUR 261k are reclassified to assets held for sale. For further details refer to 4.7 Assets held for sale.

There were contractual commitments to acquire property, plant and equipment of EUR 2,685k (31 December 2016: EUR 2,702k) as of the reporting date.

4.3 Other financial assets

The following table breaks down other financial assets as follows:

	31 March 2017 EUR k	31 December 2016 EUR k
<i>Other financial assets (non-current)</i>		
Derivative financial instruments	42,052	47,907
Separated termination rights	51,160	24,459
Insurance claims	118	118
Total	93,330	72,484
<i>Other financial assets (current)</i>		
Derivative financial instruments	12,248	12,212
Other financial assets	92	178
Total	12,340	12,390

4.4 Other assets/other receivables and assets

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

	31 March 2017 EUR k	31 December 2016 EUR k
<i>Other assets (non-current)</i>		
Deferred finance costs for the revolving credit line	196	312
Other assets	411	399
Total	607	711
<i>Other receivables and assets (current)</i>		
VAT receivables	679	992
Receivables from energy tax refunds	1,088	866
Deferred finance costs for the revolving credit line	471	471
Sundry assets	2,814	1,939
Total	5,052	4,268

Sundry current assets primarily contain prepayments.

4.5 Trade receivables

Trade receivables of EUR 67,689k (31 December 2016: EUR 53,553k) are recognized in the interim condensed consolidated statement of financial position after taking into account impairment losses of EUR 551k (31 December 2016: EUR 535k).

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:

	31 March 2017 EUR k	31 December 2016 EUR k
Carrying amount before impairment	68,240	54,088
thereof not yet due on the reporting date	60,854	43,878
thereof past due on the reporting date	7,386	10,210

4.6 Cash and cash equivalents

Cash and cash equivalents contain bank balances of EUR 84,071k (31 December 2016: EUR 124,557k) and cash in hand of EUR 28k (31 December 2016: EUR 28k).

On 4 January 2017, prorated debt service payments of EUR 56,538k were made in favour of the loan granted by CeramTec Holding's controlling shareholder, Faenza Luxembourg S.à.r.l., Luxembourg.

CeramTec UK Ltd., Colyton, UK, acquired assets, net of liabilities, of the UK electro-ceramics business, comprising two manufacturing sites, from Morgan Advanced Materials plc., Stourport-on-Severn, UK. As at 31 March 2017 cash and cash equivalents include an amount of EUR 53,139k restricted cash on an escrow account for paying the purchase price.

4.7 Assets held for sale

The property located in Colyton was reclassified to assets held for sale in March 2017. A sale within the next months is highly probable.

4.8 Financial liabilities to third parties

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

	31 March 2017 EUR k	31 December 2016 EUR k
<i>Financial liabilities (non-current)</i>		
Liabilities to banks	602,804	618,791
Liabilities from the bond	299,545	299,214
Derivative financial instruments	6,568	7,490
Finance lease liabilities	1,383	1,404
Purchase price for technology	104	105
Total	910,404	927,004
<i>Financial liabilities (current)</i>		
Liabilities to banks	63,228	46,016
Liabilities from the bond	3,163	9,489
Derivative financial instruments	3,377	3,540
Discounts and bonuses	2,015	1,855
Finance lease liabilities	19	26
Other current financial liabilities	2,259	1,603
Total	74,061	62,529

4.9 Other liabilities

Other liabilities break down as follows:

	31 March 2017 EUR k	31 December 2016 EUR k
<i>Other liabilities (current)</i>		
Wages and salaries including taxes	9,674	6,261
Real estate transfer tax	4,151	4,151
Other current liabilities	3,434	3,046
Total	17,259	13,458

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.

		31 March 2017	
	Measurement category of IAS 39 ¹	Carrying amount EUR k	Fair value EUR k
<i>Financial assets</i>			
Cash and cash equivalents	LaR	30,960	30,960
Trade receivables	LaR	67,689	67,689
Other financial assets	LaR	53,349	53,349
Separated termination rights – HfT	FVtPL	51,160	51,160
Currency swaps in effective hedges	Hedge	54,300	54,300
Total		257,458	257,458
<i>Financial liabilities</i>			
Bond liabilities	FLAC	302,708	327,556
Liabilities to banks	FLAC	666,032	673,149
Trade payables	FLAC	26,617	26,617
Finance lease liabilities	FLAC	1,402	1,402
Trade payables to affiliates	FLAC	125	125
Other financial liabilities	FLAC	4,378	4,378
Financial liabilities to affiliates	FLAC	99,928	103,128
Separated interest rate floor – HfT	FVtPL	9,295	9,295
Interest rate cap - HfT	FVtPL	650	650
Total		1,111,135	1,146,300

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 2016		
	Measurement category of IAS 39 ¹	Carrying amount EUR k	Fair value EUR k
<i>Financial assets</i>			
Cash and cash equivalents	LaR	124,585	124,585
Trade receivables	LaR	53,553	53,553
Other financial assets	LaR	296	296
Separated termination rights – HfT	FVtPL	24,459	24,459
Currency swaps in effective hedges	Hedge	60,119	60,119
Total		263,012	263,012
<i>Financial liabilities</i>			
Bond liabilities	FLAC	308,702	325,746
Liabilities to banks	FLAC	664,807	672,864
Trade payables	FLAC	22,376	22,376
Finance lease liabilities	FLAC	1,430	1,430
Trade payables owed to affiliates	FLAC	205	205
Other financial liabilities	FLAC	3,564	3,563
Financial liabilities to affiliates	FLAC	154,423	157,377
Separated interest rate floors – HfT	FVtPL	10,275	10,275
Interest rate cap – HfT	FVtPL	755	755
Total		1,166,537	1,194,591

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:

	31 March 2017		
	Level 1 EUR k	Level 2 EUR k	Level 3 EUR k
<i>Financial assets</i>			
Currency swaps in effective hedges	-	54,300	-
Separated termination rights – HfT	-	51,160	-
<i>Financial liabilities</i>			
Separated interest rate floor – HfT	-	9,295	-
Interest rate cap - HfT	-	650	-

	31 December 2016		
	Level 1 EUR k	Level 2 EUR k	Level 3 EUR k
<i>Financial assets</i>			
Currency swaps in effective hedges	-	60,119	-
Separated termination rights – HfT	-	24,459	-
<i>Financial liabilities</i>			
Separated interest rate floors – HfT	-	10,275	-
Interest rate cap - HfT	-	755	-

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:

	31 March 2017		
	Level 1 EUR k	Level 2 EUR k	Level 3 EUR k
<i>Financial liabilities</i>			
Bond liabilities	327,556	-	-
Liabilities to banks	-	673,149	-
Financial liabilities to affiliates	-	103,128	-
Finance lease liabilities	-	1,402	-

	31 December 2016		
	Level 1	Level 2	Level 3
	EUR k	EUR k	EUR k
<i>Financial liabilities</i>			
Bond liabilities	325,746	-	-
Liabilities to banks	-	672,864	-
Financial liabilities to affiliates	-	157,377	-
Finance lease liabilities	-	1,430	-

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 than those reported in note 4.6.

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 31 March 2017, CeramTec Holding Group invested EUR 1,159k (1 January to 31 March 2016: EUR 579k) 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 31 March 2017, CeramTec Holding Group paid EUR 2,003k (1 January to 31 March 2016: EUR 3,145k) 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 are recognized.

6 Other notes

6.1 Contingent liabilities

Like in the comparative period, there were no significant contingent liabilities as of 31 March 2017. 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

Key management personnel

Henri Steinmetz
Chief Executive Officer / HR Director

Dominique Janbon
Chief Financial Officer

Dr. Hadi Saleh
Chief Operating Officer Medical Products

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 99,928k (31 December 2016: EUR 154,423k), 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 1,907k (1 January to 31 March 2016: EUR 2,886k) were accrued in the reporting period ended 31 March 2017. Unpaid interest is added annually to the Company's loan balance as of 29 August. The loan is not secured. On 4 January 2017, prorated debt service payments of EUR 56,538k were made which comprises a non-current liability of EUR 56,402k as of 31 December 2016 plus interest of EUR 136k which accrued in 2017.

CeramTec Service GmbH closed a Service Agreement with Faenza Luxembourg S.à.r.l., Luxembourg on 10 March 2014. Expenses for services of EUR 125k were booked during the reporting period ended 31 March 2017 (1 January to 31 March 2016: EUR 126k). The unpaid amount of EUR 125k (31 December 2016: EUR 205k) is shown as trade payables to affiliates.

In the fiscal year, no incurred transaction costs were charged by CeramTec Holding Group to Faenza Luxembourg S.à.r.l. (previous year: EUR 48k). There were no payments made by Faenza Luxembourg S.à.r.l (previous year: EUR 796k).

6.3 Subsequent events

CeramTec UK Ltd., Colyton, UK, acquired assets, net of liabilities, of the UK electro-ceramics business, comprising two manufacturing sites, from Morgan Advanced Materials plc., Stourport-on-Severn, UK. On 3 April 2017 the transfer of ownership has taken place in exchange for the debit of the escrow account by the seller (please refer to 4.6 Cash and cash equivalents).

With effect of 4 April 2017, CeramTec Holding Group renegotiated new conditions for the USD tranche of the bank loan. The applicable interest rate is reduced for future interest payments, which will lead to lower financial expenses. The financial effect from the changed conditions is estimated with EUR 1,312k for the fiscal year 2017.

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 57k (1 January to 31 March 2016: EUR 61k)
- Higher interest income and other finance income of EUR 2,905k (1 January to 31 March 2016: EUR 2,168k)
- Lower interest expenses and other finance costs of EUR 1,987k (1 January to 31 March 2016: EUR 2,885k)
- Higher tax expenses of EUR 12k (1 January to 31 March 2016: EUR 12k)

The total comprehensive income of CeramTec Group GmbH would therefore have been EUR 4,937k higher (1 January to 31 March 2016: EUR 5,102k 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 31 March 2017 (31 December 2016):

- Higher financial receivables to affiliates of EUR 78,714k (31 December 2016: EUR 19,272k)
- Lower financial liabilities to affiliates of EUR 99,927k (31 December 2016: EUR 154,423k)
- Lower financial liabilities to third parties of EUR 79k (31 December 2016: EUR 22k)

- Lower trade payables of EUR 0k (31 December 2016: EUR 53k)
- Higher income tax payables of EUR 488k (31 December 2016: EUR 476k)

This would have resulted in a EUR 178,232k (31 December 2016: EUR 173,294k) 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, 11 May 2017

CeramTec Holding GmbH

The management

Henri Steinmetz

Dominique Janbon

Dr. Hadi Saleh