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, 2016 AND 2017

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, 2017 in comparison to the three month period ended March 31, 2016.

The financial data as of and for the three month periods ended March 31, 2017 and March 31, 2016 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, 2017 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.

We are among the market leaders in many of the industrial markets that we target. Most of our main HPC competitors have either a different target market or geographical focus. Additionally, due to the large variety of our products, we are the sole supplier of certain specialized products and solutions in certain niche areas.

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 three month period ended March 31, 2017 compared to the three month period ended March 31, 2016. All figures are unaudited in € million as reported.

	Three Months Ended March 31,		
	2017	**2016**	**Change**
	(in € million)		*(%)*
Revenue	132.5	123.0	7.7
Cost of sales	75.9	72.1	5.3
Gross profit	**56.6**	**50.9**	**11.1**
Selling costs	20.8	21.9	-5.3
Research and development costs	5.6	6.0	-7.2
General administrative costs	6.4	6.8	-6.5
Other income and expenses (-), net	-0.4	-0.5	-30.7
Operating Income	**23.5**	**15.6**	**50.3**
Interest income and other finance income	28.6	33.1	-13.5
Interest expenses and other finance costs	16.0	18.4	-13.3
Financial result	**12.6**	**14.7**	**-13.8**
Profit / Loss (-) before income tax	**36.1**	**30.3**	**19.3**
Income tax expense	-11.5	-11.2	2.9
Net profit for the period	**24.6**	**19.1**	**28.9**

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Revenue

The following table provides an overview over our revenue for the three months ended March 31, 2017 compared to the respective comparative period 2016 on a business unit level. All figures are unaudited in € million as reported.

	Three Months Ended March 31,		
	2017	**2016**	**Change**
	(in € million)		*(%)*
Medical Applications(1)	**49.1**	**45.8**	**7.3**
Industrial Applications(1)	**83.4**	**77.2**	**8.0**
thereof Specialty Applications(2)	22.6	21.6	4.9
thereof Industrial Solutions(2)	36.6	33.0	10.8
thereof CT North America	14.6	11,7	24.9
thereof Emil Müller Companies	5.9	6,5	-9.3
thereof other units /consolidation(3)	3.8	4,5	-16.4
Total revenue	**132.5**	**123.0**	**7.7**

(1) The numbers presented for Medical Applications and Industrial Applications are external revenue to third parties
(2) MD&A presentation has been changed compared to the prior year periods due to streamlining Industrial Applications, for further details please see "Recent Developments"
(3) The revenue presented for the individual business units within Industrial Applications include internal revenue to Group companies. The line item "other units / consolidation" includes 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 increased by +7.7% as reported (+7.4% in constant currency) from €123.0 million in the first quarter of 2016 to €132.5 million in the first quarter of 2017 but in line with our expectations.

Our revenue in Medical Applications is higher by 7.3% as reported (7.3% in constant currency) from €45.8 million in the first quarter of 2016 to €49.1 million in the first quarter of 2017, increase in volume growth is partly offset by price reductions at some customers.

Net sales in Industrial Applications increased by 8.0% as reported (7.4% in constant currency) from €77.2 million in the first quarter 2016 to €83.4 million in the first quarter of 2017. Overall strong cycle across major markets: Specialty Applications +4.9% mainly driven by a strong recovery of Textile market in China, Industrial Solutions +10.8% driven by good automotive demand at key customer. Sales at CT North America +24.9% driven by overall strong US market conditions, the decrease at Emil Müller -9.3% is mainly driven by missing volumes at a top customer in automotive.

The regional split of the revenue is 25.2% for Germany, 43.3% for Europe (including most of the Medical revenue to OEMs), 15.6% for North America, 12.4% for Asia and 3.5% for other regions. The split is mainly unchanged compared to the comparative period in 2016.

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, 2016 and 2017. All figures are unaudited in € million as reported.

	Three Months Ended March 31			
	2017		2016	
	(in € million)	*(% of net sales)*	*(in € million)*	*(% of net sales)*
Cost of materials and packing	24.7	18.7	22.7	18.5
Energies	4.4	3.3	3.9	3.2
Other variable costs	1.2	0.9	1.1	0.9
Personnel expenses	30.2	22.8	28.2	22.9
Amortization and depreciation	12.1	9.2	12.5	10.2
Maintenance expenses from factory building and equipment	2.4	1.8	1.9	1.6
Other costs	0.9	0.7	1.7	1.4
Cost of sales	**75.9**	**57.3**	**72.1**	**58.6**

Cost of sales increased by 5.3% from €72.1 million or 58.6% of revenue in the first quarter of 2016 to €75.9 million or 57.3% of revenue in the first quarter of 2017. The increase was caused by higher volumes and some maintenance expenses. Excluding amortization and depreciation and excluding non-recurring items like severance payment gross profit increased on a normalized basis by €7.0 million from €63.5 million in the first quarter of 2016 to €70.5 million in the first quarter 2017 while gross margin increased by 1.5%pts from 51.7% in the first quarter of 2016 to 53.2% in the first quarter of 2017.

Selling Costs

Excluding amortization and depreciation and excluding all non-recurring items, both periods mainly affected by non-recurring litigation costs which are adjusted, our selling costs decreased from €12.8 million or 10.4% of revenue in the first quarter of 2016 to €12.4 million or 9.4% of revenue in the first quarter of 2017. This development is primarily linked to commercial excellence measures which are continued to be implemented.

Research and Development Costs

Our R&D costs excluding amortization and depreciation without non-recurring items decreased to €5.1 million or 3.8% of revenue in the first quarter of 2017 compared with €5.5 million or 4.5% of revenue in the first quarter of 2016. We have increased our focus on the most attractive projects in the pipeline and continue to invest in the development of new medical products and to support growth projects such as transparent ceramics.

General Administrative Costs

Our normalized and comparable general administrative costs increased from €4.1 million or 3.3% of revenue in the first quarter of 2016 to €4.5 million or 3.4% of revenue in the first quarter of 2017 and remain broadly unchanged in terms of % of sales.

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Other Income and Expenses

Other income and expenses (net) without non-recurring items and without foreign exchange effects from conversion decreased from €0.2 million income in the first quarter of 2016 to €0.0 million income in the first quarter of 2017 not repeating some smaller operating income positions.

Interest Income and Other Finance Income

This line item decreased from €33.1 million in the first quarter of 2016 by €4.5 million to €28.6 million in the first quarter of 2017 due to a lower net gain resulting from the fair value measurement of derivatives and foreign currency effects.

Interest Expenses and Other Finance Costs

This line item decreased from €18.4 million for the three month period ended March 31, 2016 to €16.0 million for the three month period ended March 31, 2017 due to lower interest expenses. The financial expenses of €16.0 million include €11.9 million in interest expenses, €1.4 million expenses from the effective interest rate method, €2.0 million in non-cash interest expenses and €0.7 million other interest expenses.

Income Tax Expenses

Income tax expenses remain broadly unchanged with expenses of €11.2 million for the three month period ended March 31, 2016 and expenses of €11.5 million in the three month period ended March 31, 2017.

Net Profit / Loss

As a result of the developments described above, our net profit increased from a net profit of €19.1 million for the first quarter of 2016 to a net profit of €24.6 million for the first quarter of 2017.

Financial Condition, Liquidity and Capital Resources

As of March 31, 2017, the gross financial debt, the cash balance as well as the Revolving Credit Facility were as follows (all figures are unaudited in € million as reported):

	Three Months Ended March 31, 2017
	(in € million)
Gross financial debt (without accrued transaction costs)	930.7
thereof bond	*306.7*
thereof term loans	*657.1*
thereof revolving credit facility	*16.0*
thereof mark-to-market measure cross-currency swaps	*-54.3*
thereof accrued interest	*5.2*
Cash	84.1
Net Debt	846.6
Undrawn Revolving Credit Facility	84.0
Net Debt to LTM Adjusted EBITDA(*) ratio	4.7

(*) LTM Adjusted EBITDA April 2016 – March 2017 €178.6 million

Cash Flow Statement

The following table shows the cash flow statement for the three month period ended March 31, 2017. All figures are unaudited in € million as reported.

	Three Months ended March 31, 2017
	(in € million)
Net profit for the period	24.6
Income tax expenses	11.5
Interest result	15.9
Amortization, depreciation and impairment charges of non-recurrent assets	20.5
Gain (-) / Loss on disposal of fixed assets	0.0
Increase / decrease (-) in provisions (excluding deferred taxes)	3.0
Income tax refund / payment (-)	-3.2
Other non-cash expenses / income (-), net	-29.7
Increase (-) / decrease in inventories	-6.6
Increase (-) / decrease in trade receivables	-14.1
Increase (-) / decrease in other receivables and (financial) assets	-0.7
Increase / decrease (-) in trade payables	5.1
Increase / decrease (-) in other (financial) liabilities	4.5
Cash flow from operating activities	**30.7**
Cash received from disposals of property, plant and equipment	0.0
Cash paid (-) for investments in property, plant and equipment	-3.7
Cash received from grants	0.0
Cash paid (-) for investments in intangible assets	-0.2
Cash paid (-) for the acquisition of entities	0.0
Cash flow from investing activities	**-3.9**
Repayment (-) of syndicated loan	-8.6
Interest paid (-)	-22.1
Cash received (+) from drawing revolving credit facility	16.0
Repayment (-) of shareholder loan	-52.8
Cash flow from financing activities	**-67.6**
Change in cash and cash equivalents	**-40.8**
Net foreign exchange difference	0.3
Cash and cash equivalents at the beginning of the period	124.6
Cash and cash equivalents at the end of the period	**84.1**

There was a negative change in cash and cash equivalents of €40.8 million in the three month period ended March 31, 2017. This was primarily linked to the distribution of €56.5 million which has been made out of the group as a repayment of the shareholder loan on January 4th, 2017, partly compensated by drawing €16.0 million from the revolving credit facility.

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EBITDA and Adjusted EBITDA

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

	Three Months Ended March 31,	
	2017	2016
	(in € million)	
Net profit / loss (-)	24.6	19.1
Income tax expenses	11.5	11.2
Financial result	-12.6	-14.7
Depreciation and amortization	20.5	20.9
EBITDA	**44.0**	**36.5**
Restructuring costs [a]	1.3	1.1
Other non-recurring [b]	2.9	2.9
Foreign exchange conversion effects	0.4	0.8
Adjusted EBITDA	**48.5**	**41.3**

(a) Restructuring costs 2017 refer to severance payments for the reduction of staff at CeramTec 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

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. The transaction closed on April 3rd, 2017.

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 at €1.3 million for the fiscal year 2017.

Streamlining of Industrial Applications went live on January 1, 2017 – The focus is to simplify organization and shift focus from technology to market leadership

- Simplification of European entities
  - Regrouping the commercial organization of the 8 Industrial BUs into 2 units focused on end markets
  - Regrouping of production and order fulfillment functions into an integrated "Operations Europe" organization under one management

- Main benefits

- Simplification of management and reporting structure
- Commercial excellence: increased focus on sales development through standardization, critical mass, product management, international affiliates focusing on business development
- Operational excellence: improved Request-to-Order-to-Delivery through standardization and best practices, improved asset utilization, realization of cross-BU synergies and productivity gains
- Innovation excellence: Improved R&D effectiveness through critical mass (economies of scope) and focus on acceleration of commercially visible innovations driven by customer pull.

Industrial Applications

Multifunctional ceramics Mechanical systems Electronic applications Chemical applications	Industrial solutions
Cutting tools Mechanical applications CT-ETEC CT-Czech Rep. (ext. sales)	Specialty applications
CT NA Other (International affiliates)	International
CT Emil Mueller	