CeramTec Holding GmbH

Plochingen

Interim Condensed Consolidated Financial Statements for the period ended 30 June 2017

CeramTec Holding GmbH, Plochingen

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Interim condensed consolidated statement of comprehensive income

from 1 January to 30 June 2017

	Notes	1 April to 30 June 2017	1 April to 30 June 2016	1 January to 30 June 2017	1 January to 30 June 2016
		EUR k	EUR k	EUR k	EUR k
Revenue	3.1	145,671	130,426	278,178	253,420
Cost of sales	3.2	78,900	78,707	154,804	150,761
Gross profit		**66,771**	**51,719**	**123,374**	**102,659**
Selling costs	3.3	19,741	23,735	40,506	45,651
Research and development costs	3.4	4,684	6,359	10,287	12,394
General administrative costs	3.5	5,287	5,052	11,675	11,882
Other income and expenses (-), net	3.6	1,811	315	1,433	-232
Operating income		**38,870**	**16,888**	**62,339**	**32,500**
Interest income and other finance income		11,584	15	40,197	434
Interest expenses and other finance costs		15,854	51,076	31,825	36,837
Financial result	3.7	**-4,270**	**-51,061**	**8,372**	**-36,403**
Profit / Loss (-) before income tax		**34,600**	**-34,173**	**70,711**	**-3,903**
Income tax benefit / expense (-)		-11,264	8,018	-22,756	-3,151
Net profit / net loss (-) for the period		**23,336**	**-26,155**	**47,955**	**-7,054**
Items that will not be reclassified through profit or loss					
Income / Expenses (-) from the remeasurement of pension provisions		2,981	-7,320	3,844	-10,529
Deferred taxes		-591	2,098	-839	3,017
		2,390	**-5,222**	**3,005**	**-7,512**
Items that may be reclassified subsequently to profit or loss					
Losses (-) / gains on cash flow hedges		-1,132	611	-1,235	-931
Deferred taxes		262	-175	292	267
		-870	**436**	**-943**	**-664**
Exchange differences on translation of foreign operations		-4,651	1,437	-5,814	-799
Other comprehensive loss, net of income tax		**-3,131**	**-3,349**	**-3,752**	**-8,975**
Total comprehensive income / loss (-)		**20,205**	**-29,504**	**44,203**	**-16,029**

CeramTec Holding GmbH, Plochingen

Interim condensed consolidated statement of financial position as at 30 June 2017

Assets	Notes	30 June 2017	31 December 2016
		EUR k	EUR k
Goodwill		602,370	557,961
Other intangible assets	4.1	534,825	557,421
Property, plant and equipment	4.2	265,322	275,532
Other financial assets	4.3	85,997	72,484
Other assets	4.4	775	711
Deferred tax assets		1,469	851
Non-current assets		**1,490,758**	**1,464,960**
Inventories		86,945	76,904
Trade receivables	4.5	68,019	53,553
Income tax receivables		1,651	1,281
Other financial assets	4.3	9,898	12,390
Other receivables and assets	4.4	5,540	4,268
Cash and cash equivalents	4.6	26,290	124,585
Current assets		**198,343**	**272,981**
Total Assets		**1,689,101**	**1,737,941**

CeramTec Holding GmbH, Plochingen

Interim condensed consolidated statement of financial position as at 30 June 2017

Equity and Liabilities	Notes	30 June 2017	31 December 2016
		EUR k	EUR k
Issued capital		25	25
Capital reserves		378,148	378,148
Retained earnings		-68,432	-119,392
Accumulated other comprehensive income		3,889	10,646
Equity		**313,630**	**269,427**
Provisions for pension obligations		96,327	102,410
Other provisions		6,167	10,636
Financial liabilities to affiliates	4.7	53,230	98,021
Financial liabilities to third parties	4.8	878,283	927,004
Deferred tax liabilities		163,495	156,258
Non-current liabilities		**1,197,502**	**1,294,329**
Other provisions		16,548	16,425
Provision for taxes		8,395	2,790
Financial liabilities to affiliates	4.7	48,714	56,402
Financial liabilities to third parties	4.8	63,959	62,529
Trade payables		25,564	22,376
Trade payables to affiliates		125	205
Other liabilities	4.9	14,664	13,458
Current liabilities		**177,969**	**174,185**
Total liabilities		**1,375,471**	**1,468,514**
Total equity and liabilities		**1,689,101**	**1,737,941**

CeramTec Holding GmbH, Plochingen

Interim condensed consolidated statement of cash flows from 1 January to 30 June 2017

	1 January to 30 June 2017 EUR k	1 January to 30 June 2016 EUR k
Net profit for the period	47,955	-7,054
Income tax expense	22,756	3,151
Interest result	31,687	36,025
Amortisation, depreciation and impairment charges of non-current assets	41,174	41,906
Gain (-) / Loss on disposal of fixed assets	-3,151	-31
Increase / decrease (-) in provisions (excluding deferred taxes)	-7,456	4,159
Income tax refund / payment (-)	-11,280	-7,121
Other non-cash income (-) / expenses, net	-43,111	595
Increase (-) / decrease in inventories	-7,188	-2,029
Increase (-) / decrease in trade receivables	-11,353	-9,676
Increase (-) / decrease in other receivables and (financial) assets	-1,869	689
Increase / decrease (-) in trade payables	1,941	-4,720
Increase / decrease (-) in other (financial) liabilities	1,936	4,742
Cash flow from operating activities	**62,040**	**60,636**
Cash received from disposals of property, plant and equipment	3,402	212
Cash paid (-) for investments in property, plant and equipment	-8,780	-7,568
Cash paid (-) for investments in intangible assets	-378	-236
Cash paid (-) for the acquisition of production sites	-55,485	0
Cash flow from investing activities	**-61,242**	**-7,592**
Repayment (-) of syndicated loan	-18,471	-14,590
Interest paid (-)	-27,653	-27,799
Repayment of shareholder loan	-52,829	0
Cash flow from financing activities	**-98,954**	**-42,389**
Change in cash and cash equivalents	-98,155	10,655
Net foreign exchange difference	-140	-496
Cash and cash equivalents at the beginning of the period	124,585	86,476
Cash and cash equivalents at the end of the period	**26,290**	**96,635**

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Interim consolidated statement of changes in equity for the period ended 30 June 2017

	Issued capital	Capital reserves	Revenue reserves and consolidated net income	Accumulated other comprehensive Cash flow hedge reserve	Difference from currency translation	Equity
	EUR k	EUR k	EUR k	EUR k	EUR k	EUR k
31 December 2015	**25**	**378,148**	**-103,171**	**1,629**	**7,799**	**284,430**
Net loss for the period	0	0	-7,054	0	0	-7,054
Other comprehensive income / loss (-)	0	0	-7,512	-664	-799	-8,975
Total comprehensive income / loss (-)	*0*	*0*	*-14,566*	*-664*	*-799*	-16,029
30 June 2016	**25**	**378,148**	**-117,737**	**965**	**7,000**	**268,401**
31 December 2016	**25**	**378,148**	**-119,392**	**1,798**	**8,848**	**269,427**
Net income for the period	0	0	47,955	0	0	47,955
Other comprehensive income / loss (-)	0	0	3,005	-943	-5,814	-3,752
Total comprehensive income / loss (-)	*0*	*0*	*50,960*	*-943*	*-5,814*	44,203
30 June 2017	**25**	**378,148**	**-68,432**	**855**	**3,034**	**313,630**

CeramTec Holding GmbH

Plochingen

Selected explanatory notes to the Interim Condensed Consolidated Financial Statements for the period ended 30 June 2017

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 global leaders in the development, production and sale of assemblies, components and parts made from high performance ceramic materials. The companies' activities focus on working closely with customers to develop and supply high performance ceramics products, efficiently, at scale, in compliance with all relevant industry standards. High performance ceramics are highly specialized materials that offer superior mechanical, electrical, thermal and biochemical properties compared to alternatives such as metals or organic polymers. Due to their unique material properties, high performance ceramics products are used in mission-critical applications across all areas of human activity and across technology sectors, including orthopedic implants, medical equipment, automotive, aerospace and defence, electronics, industrial machinery and other.

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 2017 on 10 August 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.

1.3 Changes to the consolidated group

With the purchase agreement signed on 21 February 2017 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 effective on 3 April 2017 (transfer of ownership). The purchase price paid in April and June 2017 amounted to EUR 55,485k.

The combined and complementary piezo-ceramic businesses of UK electro-ceramics business and CeramTec create a new international leader in piezo and electrical ceramics with an even stronger and more resilient business for the future. With a new expertise in sensor applications CeramTec develops from a product and component supplier to a solution provider.

The fair values of the acquired assets, net of liabilities were as follows:

	Fair Value EUR k
Buildings	769
Machinery and equipment	2,486
Property, plant & equipment	**3,255**
Inventories	2,853
Trade receivables	3,113
Other assets	6
Assets	**9,227**
Other provisions and liabilities	558
Trade payables	1,926
Liabilities	**2,484**
Total assets	6,743
Total consideration transferred	55,485
Goodwill from the acquisition	**48,742**

The costs associated with the acquisition amount to EUR 1,304k. These are recognized in the consolidated statement of comprehensive income under the item “Other income and expenses (-), net”.

Included in the revenue and net profit for the period are EUR 6,983k and EUR 1,489k, net of acquisition costs. Had this acquisition been effected at 1 January 2017, the revenue of the Group would have been increased by EUR 12,493k, and the profit for the year would have been increased by EUR 2,667k.

The acquisition is recognized on a preliminary basis as of the reporting date as the purchase price allocation and therefore the identification and measurement of the acquired assets and liabilities has not yet been concluded.

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:

		30 June 2017 Period-end exchange rate	1 April to 30 June 2017 Average exchange rate	1 January to 30 June 2017 Average exchange rate	31 December 2016 Period-end exchange rate	1 April to 30 June 2016 Average exchange rate	1 January to 30 June 2016 Average exchange rate
USD	USA	1.1412	1.1003	1.0825	1.0541	1.1293	1.1155
CNY	China	7.7385	7.5494	7.4417	7.3202	7.3783	7.2937
GBP	UK	0.8793	0.8603	0.8601	0.8562	0.7869	0.7785
PLN	Poland	4.2259	4.2162	4.2685	4.4103	4.3714	4.3686
CZK	Czech Republic	26.1970	26.5528	26.7871	27.0210	27.0396	27.0394

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**
Annual Improvements Project (2012 - 2014) for 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 30 June 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 14: “Accounting for Regulatory Deferral Accounts”	1 January 2016
Amendments to IAS 7: “Disclosure Initiative”	1 January 2017
Amendments to IAS 12: “Recognition of Deferred Tax Assets for Unrealised Losses”	1 January 2017
IFRS 9: “Financial Instruments”	1 January 2018
IFRS 15: “Revenue from Contracts with Customers”	1 January 2018
Amendments to IFRS 2: “Classification and Measurement 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
Annual Improvements Project (2012 - 2014) for IFRS 1, IFRS 12 and IAS 28	1 January 2018
IFRS 16:“ Leases”	1 January 2019
IFRIC 23: “Recognition of Deferred Tax Assets for Unrealised Losses”	1 January 2019
IFRS 17: “Insurance Contracts”	1 January 2021

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 according to invoice address and businesses as follows:

	1 April to 30 June 2017 EUR k	1 April to 30 June 2016 EUR k	1 January to 30 June 2017 EUR k	1 January to 30 June 2016 EUR k
Regions				
Europe	66,155	58,257	123,501	111,771
Germany	34,296	35,929	67,680	67,479
North America	22,274	16,949	42,999	36,538
Asia	18,886	16,040	35,353	29,670
Rest of world	4,060	3,251	8,645	7,962
Total	**145,671**	**130,426**	**278,178**	**253,420**
Business				
Industrial	91,065	79,982	174,480	157,219
Medical Products	54,606	50,444	103,698	96,201
Total	**145,671**	**130,426**	**278,178**	**253,420**

3.2 Cost of sales

The cost of sales break down as follows:

	1 April to 30 June 2017 EUR k	1 April to 30 June 2016 EUR k	1 January to 30 June 2017 EUR k	1 January to 30 June 2016 EUR k
Material and packaging costs	26,220	23,113	50,947	45,839
Amortization and depreciation	12,358	12,650	24,486	25,194
Personnel expenses	29,262	31,006	59,468	59,157
Other cost of sales	11,060	11,938	19,903	20,571
Total	**78,900**	**78,707**	**154,804**	**150,761**

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 April to 30 June 2017 EUR k	1 April to 30 June 2016 EUR k	1 January to 30 June 2017 EUR k	1 January to 30 June 2016 EUR k
Foreign currency results	7	436	-355	-373
Allowance for bad debts	-80	-10	-108	-11
Income from the reversal of allowances for bad debt	0	0	9	17
Gains / Losses (-) on disposal of property, plant and equipm.	-5	37	-13	31
Gains on disposal of assets held for sale	3,164	0	3,164	0
Acquisition costs	-1,291	0	-1,304	0
Sundry other income	68	0	147	196
Sundry other expenses	-52	-148	-107	-92
Total	**1,811**	**315**	**1,433**	**-232**

The property of CeramTec UK Ltd. located in Colyton was recognized as asset held for sale with a book value of EUR 258k as at 31 March 2017. It was sold in June 2017 resulting in a gain on disposal of EUR 3,164k.

The acquisition costs occurred within the purchase process of assets, net of liabilities, of the UK electro-ceramics business, comprising two manufacturing sites, from Morgan Advanced Materials plc., Stourport-on-Severn, UK (please refer to1.3).

3.7 Financial result

The financial result breaks down as follows:

	1 April to 30 June 2017 EUR k	1 April to 30 June 2016 EUR k	1 January to 30 June 2017 EUR k	1 January to 30 June 2016 EUR k
Interest income and other finance income				
Gains on derivative valuations	9,435	0	37,116	0
Exchange rate gains	2,110	0	2,965	402
Other interest income	39	15	116	32
Total interest income and other finance income	**11,584**	**15**	**40,197**	**434**
Interest expenses and other finance costs				
Interest expense from syndicated loan	5,274	6,377	10,859	13,149
Interest expense from revolving credit line	199	126	328	253
Interest expense from bond	6,326	6,326	12,651	12,651
Interest expense from effective interest method	1,531	1,322	2,924	3,016
Interest expense from shareholder loans	2,017	2,886	4,060	5,773
Losses on derivative valuations	0	31,338	0	775
Exchange rate losses	0	2,091	0	0
Other interest expenses	507	610	1,003	1,220
Total interest expenses and other finance costs	**15,854**	**51,076**	**31,825**	**36,837**
Total financial result	**-4,270**	**-51,061**	**8,372**	**-36,403**

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 22,198k (1 April to 30 June 2017: EUR 11,090k; 1 January to 30 June 2016: EUR 22,517k; 1 April to 30 June 2016: EUR 11,250k), which arise mainly from customer relationships and technology.

CeramTec Holding Group acquired intangible assets at cost of EUR 378k (1 April to 30 June 2017: EUR 191k; 1 January to 30 June 2016: EUR 236k; 1 April to 30 June 2016: EUR 101k).

4.2 Property, plant and equipment

During the reporting period, CeramTec Holding Group acquired assets at cost of EUR 8,048k (1 April to 30 June 2017: EUR 5,174k; 1 January to 30 June 2016: EUR 5,237k; 1 April to 30 June 2016: EUR 2,837k), from which no subsidies are deducted.

The recognized depreciation expenses amount to EUR 18,976k (1 April to 30 June 2017: EUR 9,601k; 1 January to 30 June 2016: EUR 19,389k; 1 April to 30 June 2016: EUR 9,756k).

There were contractual commitments to acquire property, plant and equipment of EUR 7,185k (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:

	30 June 2017 EUR k	31 December 2016 EUR k
Other financial assets (non-current)		
Derivative financial instruments	25,856	47,907
Separated termination rights	60,022	24,459
Insurance claims	119	118
Total	**85,997**	**72,484**
Other financial assets (current)		
Derivative financial instruments	9,158	12,212
Other financial assets	740	178
Total	**9,898**	**12,390**

4.4 Other assets/other receivables and assets

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

	30 June 2017 EUR k	31 December 2016 EUR k
Other non-current assets		
Accrued finance costs for the revolving credit line	79	312
Other assets	696	399
Total	**775**	**711**
Other current assets		
VAT receivables	446	992
Receivables from energy tax refunds	1,209	866
Deferred finance costs for the revolving credit line	471	471
Sundry assets	3,414	1,939
Total	**5,540**	**4,268**

Sundry current assets primarily contain prepayments.

4.5 Trade receivables

Trade receivables of EUR 68,019k (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 616k (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:

	30 June 2017 EUR k	31 December 2016 EUR k
Carrying amount before impairment	**68,635**	**54,088**
thereof not yet due on the reporting date	59,593	43,878
thereof past due on the reporting date	9,042	10,210

An amount of EUR 5,807k of the total receivables volume of EUR 74,442k was sold to PB Factoring GmbH according to the factoring agreement signed end of June 2017.

4.6 Cash and cash equivalents

Cash and cash equivalents contain bank balances of EUR 26,260k (31 December 2016: EUR 124,557k) and cash in hand of EUR 30k (31 December 2016: EUR 28k).

4.7 Financial liabilities to affiliates

Financial liabilities to affiliates comprise a loan payable to Faenza Luxembourg S.à.r.l, Luxembourg, of EUR of 101,944k (31 December 2016: EUR 154,423k k), and the following table breaks down the non-current and current portions of the loan by their maturity:

	30 June 2017 EUR k	31 December 2016 EUR k
Non-current financial liabilities		
Loan payable	53,230	98,021
Accrued interest	0	0
	53,230	**98,021**
Current financial liabilities		
Loan payable	44,790	52,830
Accrued interest	3,924	3,572
	48,714	**56,402**
Total	**101,944**	**154,423**

The loan increases every year as of 29 August by the amount of incurred expenses for interest which is unpaid.

4.8 Financial liabilities to third parties

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

	30 June 2017 EUR k	31 December 2016 EUR k
Non-current financial liabilities		
Liabilities to banks	571,109	618,791
Liabilities from the bond	299,883	299,214
Derivative financial instruments	5,887	7,490
Finance lease liabilities	1,304	1,404
Purchase price for technology	100	105
Total	**878,283**	**927,004**
Current financial liabilities		
Liabilities to banks	46,059	46,016
Liabilities from the bond	9,489	9,489
Derivative financial instruments	3,481	3,540
Discounts and bonuses	2,738	1,855
Finance lease liabilities	14	26
Other current financial liabilities	2,178	1,603
Total	**63,959**	**62,529**

4.9 Other liabilities

Other liabilities break down as follows:

	30 June 2017 EUR k	31 December 2016 EUR k
Other current liabilities		
Wages and salaries including taxes	9,773	6,261
Real estate transfer tax	2,087	4,151
Other current liabilities	2,804	3,046
Total	**14,664**	**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.

	Measurement category of IAS 39[1]	30 June 2017 Carrying amount EUR k	Fair value EUR k
Financial assets			
Cash and cash equivalents	LaR	26,290	26,290
Trade receivables	LaR	68,019	68,019
Other financial assets	LaR	859	859
Separated termination rights – HfT	FVtPL	60,022	60,022
Currency swaps in effective hedges	Hedge	35,014	35,014
Total		**190,204**	**190,204**
Financial liabilities			
Bond liabilities	FLAC	309,372	321,759
Liabilities to banks	FLAC	617,168	623,143
Trade payables	FLAC	25,564	25,564
Finance lease liabilities	FLAC	1,317	1,317
Trade payables owed to affiliates	FLAC	125	125
Other financial liabilities	FLAC	5,016	5,021
Liabilities to affiliates	FLAC	101,945	104,247
Separated interest rate floors – HfT	FVtPL	8,722	8,722
Interest rate cap – HfT	FVtPL	545	545
Currency swaps in effective hedges	Hedge	102	102
Total		**1,069,876**	**1,090,545**

	Measurement category of IAS 39[1]	31 December 2016 Carrying amount EUR k	Fair value EUR k
Financial assets			
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**
Financial liabilities			
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:

	30 June 2017		
	Level 1 EUR k	Level 2 EUR k	Level 3 EUR k
Financial assets			
Currency swaps in effective hedges	0	35,014	0
Separated termination rights – HfT	0	60,022	0
Financial liabilities			
Separated interest rate floors – HfT	0	8,722	0
Interest rate caps – HfT	0	545	0
Currency swaps in effective hedges	0	102	0

	31 December 2016		
	Level 1 EUR k	Level 2 EUR k	Level 3 EUR k
Financial assets			
Currency swaps in effective hedges	0	60,119	0
Separated termination rights – HfT	0	24,459	0
Financial liabilities			
Separated interest rate floors – HfT	0	10,275	0
Interest rate cap - HfT	0	755	0

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 2017		
	Level 1 EUR k	Level 2 EUR k	Level 3 EUR k
Financial liabilities			
Bond liabilities	321,759	0	0
Liabilities to banks	0	623,143	0
Financial liabilities to affiliates	0	104,247	0
Finance lease liabilities	0	1,317	0

	31 December 2016		
	Level 1	Level 2	Level 3
	EUR k	EUR k	EUR k
Financial liabilities			
Bond liabilities	325,746	0	0
Liabilities to banks	0	672,864	0
Financial liabilities to affiliates	0	157,377	0
Finance lease liabilities	0	1,430	0

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.

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

An amount of EUR 5,807k was factored in circumstances qualifying for derecognition of the trade receivables. The receipt of the proceeds from the factor is treated accordingly as operating cash flow.

The cash flow from investing activities includes the purchase price payment of EUR 55,485k for assets, net of liabilities, of the UK electro-ceramics business, comprising two manufacturing sites, from Morgan Advanced Materials plc., Stourport-on-Severn, UK. No cash and cash equivalents were taken over.

During the period 1 January to 30 June 2017, CeramTec Holding Group invested EUR 1,317k (1 January to 30 June 2016: 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 2017, CeramTec Holding Group paid EUR 2,003k (1 January to 30 June 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 30 June 2017. The group companies are involved as parties in a number of lawsuits. These proceedings are linked to 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 101,944k (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. On 4 January 2017, prorated debt service payments of EUR 56,538k were made and comprises a current liability of EUR 56,402k as of 31 December 2016 (see note 4.7) plus interest of EUR 136k which accrued in 2017 until payment day. Interest expenses of EUR 4,060k (1 April to 30 June 2017: EUR 2,017k; 1 January to 30 June 2016: EUR 5,773k, 1 April to 30 June 2016: EUR 2,886k) were accrued in the reporting period ended 30 June 2017. Unpaid interest is added annually to the Company's loan balance as of 29 August. 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 265k were booked during the reporting period ended 30 June 2017 (1 April to 30 June 2017: EUR 140k; 1 January to 30 June 2016: EUR 244k; 1 April to

30 June 2016: EUR 118k). 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

In July 2017, prorated debt service payments of EUR 48,914k were made to Faenza Luxembourg S.à.r.l., Luxembourg, on a shareholder loan which had been granted, and comprises a current liability of EUR 48,714k as of 30 June 2017 (see note 4.7) plus interest of EUR 200k which accrued in July 2017.

In July 2017 the revolving credit line was drawn with an amount of EUR 35,000k.

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 121k (1 April to 30 June 2017: EUR 63k; 1 January to 30 June 2016: EUR 111k, 1 April to 30 June 2016: EUR 50k)
- Higher interest income and other finance income of EUR 4,771k (1 April to 30 June 2017: EUR 1,886k; 1 January to 30 June 2016: EUR 4,409k, 1 April to 30 June 2016: EUR 2,241k)
- Lower interest expenses and other finance costs of EUR 3,670k (1 April to 30 June 2017: EUR 1,683k; 1 January to 30 June 2016: EUR 5,771k, 1 April to 30 June 2016: EUR 2,886k)
- Higher tax expenses of EUR 25k (1 April to 30 June 2017: EUR 13k; 1 January to 30 June 2016: EUR 22k, 1 April to 30 June 2016: EUR 10k)

The total comprehensive income of CeramTec Group GmbH would therefore have been EUR 8,536k higher (1 April to 30 June 2017: EUR 3,599k higher; 1 January to 30 June 2016: EUR 10,269k higher, 1 April to 30 June 2016: EUR 5,167k 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 2017 (31 December 2016):

- Higher financial receivables to affiliates of EUR 80,304k (31 December 2016: EUR 19,272k)

- Lower financial liabilities to affiliates of EUR 101,945k (31 December 2016: EUR 154,423k)
- Lower financial liabilities to third parties of EUR 83k (31 December 2016: EUR 22k)
- Lower trade payables of EUR 0k (31 December 2016: EUR 53k)
- Higher income tax payables of EUR 501k (31 December 2016: EUR 476k)

This would have resulted in a EUR 181,831k (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, 10 August 2017

CeramTec Holding GmbH

The management

Henri Steinmetz | Dominique Janbon | Dr. Hadi Saleh