CeramTec TopCo GmbH

Plochingen

Interim Condensed Consolidated Financial Statements for the period ended 31 March 2018

CeramTec TopCo GmbH, Plochingen

Interim condensed consolidated statement of comprehensive income

from 1 January to 31 March 2018

	Notes	1 January to 31 March 2018
		EUR k
Revenue	3.1	53,716
Cost of sales	3.2	29,144
Gross profit		**24,572**
Selling costs	3.3	7,256
Research and development costs	3.4	1,916
General administrative costs	3.5	3,374
Other income and expenses (-), net	3.6	-10,432
Operating income		**1,594**
Interest income and other finance income		364
Interest expenses and other finance costs		32,077
Financial result	3.7	**-31,713**
Loss before income tax		**-30,119**
Income tax benefit		4,569
Net loss for the period		**-25,550**
Items that will not be reclassified through profit or loss		
Expenses from the remeasurement of defined benefit plans		-156
Deferred taxes		45
		-111
Items that may be reclassified subsequently to profit or loss		
Losses on cash flow hedges		-31
Deferred taxes		0
		-31
Exchange differences on translation of foreign operations		665
Other comprehensive income, net of income tax		**523**
Total comprehensive loss		**-25,027**

Interim condensed consolidated statement of financial position as at 31 March 2018

Assets	Notes	31 March 2018	01 January 2018
		EUR k	EUR k
Goodwill	4.1	1,841,704	0
Other intangible assets	4.1	527,199	0
Property, plant and equipment	4.2	261,987	0
Other financial assets	4.3	22,014	34,020
Other assets	4.4	1,747	23,690
Deferred tax assets		6,080	0
Non-current assets		**2,660,731**	**57,710**
Inventories		87,518	0
Trade receivables	4.5	60,715	0
Income tax receivables		2,755	0
Other financial assets	4.3	2,633	406,000
Other receivables and assets	4.4	8,252	31
Cash and cash equivalents	4.6	32,809	39
Current assets		**194,682**	**406,070**
Total Assets		**2,855,413**	**463,780**

Interim condensed consolidated statement of financial position as at 31 March 2018

Equity and Liabilities	Notes	31 March 2018	01 January 2018
		EUR k	EUR k
Issued capital	4.7	25	25
Capital reserves	4.7	500,417	50
Accumulated losses	4.7	-34,958	-9,297
Accumulated other comprehensive income	4.7	634	0
Equity		**466,118**	**-9,222**
Provisions for pension obligations		99,578	0
Other provisions		5,307	0
Financial liabilities to affiliates	4.8	526,560	0
Financial liabilities to third parties	4.9	1,507,585	419,922
Deferred tax liabilities		143,091	1,933
Non-current liabilities		**2,282,121**	**421,856**
Other provisions		21,490	0
Provision for taxes		15,858	0
Financial liabilities to third parties	4.9	20,030	888
Trade payables		33,163	50,258
Other liabilities	4.10	16,633	0
Current liabilities		**107,174**	**51,146**
Total liabilities		**2,389,295**	**473,002**
Total equity and liabilities		**2,855,413**	**463,780**

CeramTec TopCo GmbH, Plochingen

Interim condensed consolidated statement of cash flows from 1 January to 31 March 2018

	1 January to 31 March 2018 EUR k
Net profit / net loss (-) for the period	-25,550
Income tax expense / benefit (-)	-4,570
Interest result	13,413
Amortisation, depreciation and impairment charges of non-current assets	6,900
Loss on disposal of property, plant and equipment and intangible assets	1
Increase / decrease (-) in provisions (excluding deferred taxes)	-704
Income tax payment (-)	-2,958
Other non-cash income (-) / expenses, net	17,714
Increase (-) in inventories	-426
Increase (-) in trade receivables	-2,163
Increase (-) / decrease in other receivables and (financial) assets	32,860
Increase / decrease (-) in trade payables	-40,363
Increase in other (financial) liabilities	4,745
Cash flow from operating activities	**-1,101**
Cash received from disposals of property, plant and equipment	34
Cash paid (-) for investments in property, plant and equipment	-2,138
Cash paid (-) for investments in intangible assets	-125
Cash paid (-) for the acquisition of entities	-2,467,981
Cash flow from investing activities	**-2,470,210**
Cash received from contribution to capital reserve	500,367
Cash received from issuance of bond	393,468
Cash received from syndicated loan	1,085,819
Interest paid (-)	-1,987
Cash received from drawing of revolver loan	2,616
Cash reveived from shareholder loan	523,798
Cash flow from financing activities	**2,504,081**
Increase in cash and cash equivalents	32,770
Net foreign exchange difference	0
Cash and cash equivalents at the beginning of the period	39
Cash and cash equivalents at the end of the period	**32,809**

CeramTec TopCo GmbH, Plochingen

Interim condensed consolidated statement of changes in equity for the period ended 31 March 2018

	Issued capital	Capital reserves	Accumulated losses	Accumulated other comprehensive income		Equity
				Cash flow hedge reserve	Difference from currency translation	
	EUR k	EUR k	EUR k	EUR k	EUR k	EUR k
01 January 2018	**25**	**50**	**-9,297**	**0**	**0**	**-9,222**
Net loss for the period	0	0	-25,550	0	0	-25,550
Other comprehensive income / loss (-)	0	0	-111	-31	665	523
Total comprehensive income / loss (-)	*0*	*0*	*-25,661*	*-31*	*665*	-25,027
Contribution by owners	0	500,367	0	0	0	500,367
31 March 2018	**25**	**500,417**	**-34,958**	**-31**	**665**	**466,118**

CeramTec TopCo GmbH

Plochingen

Selected explanatory notes to the Interim Condensed Consolidated Financial Statements for the period ended 31 March 2018

1 General information

1.1 Corporate information and purpose of the Company

The purpose of CeramTec TopCo GmbH (hereinafter "CeramTec TopCo") 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 controlling shareholding or to entities that are controlled by the same ultimate controlling shareholder. It establishes branch offices, legal entities and other operations in Germany and abroad, and acquires, invests in and holds these investments and/or manages them as well as enters into and/or issues various financial instruments.

The subsidiaries of CeramTec TopCo are leading global developers, manufacturers and suppliers of high performance ceramics ("HPC") solutions. The HPC solutions are made of advanced ceramics, which are highly specialized materials with superior biological/chemical, mechanical, thermal or electric properties compared to competing products made from metal or polymers (plastics). The operations can be divided into two businesses – Medical Products and Industrial. Medical Products business focuses on developing and manufacturing ceramic components for hip joint prostheses, such as ball heads and cup inserts used in total hip replacement ("THR") procedures. Industrial business develops, manufactures and supplies a broad range of highly specialized, performance critical HPC solutions for customers spanning a wide range of industries including automotive, electronics, industrial machinery and medical equipment.

CeramTec TopCo's registered office is located at CeramTec-Platz 1-9 in 73207 Plochingen, Germany, and the entity is registered with the Amtsgericht (local court) Stuttgart, Germany, under the number HRB 764651. CeramTec TopCo is the parent company of the Group and the ultimate parent, which prepares exempting consolidated financial statements.

The management of CeramTec TopCo authorized for issue the interim condensed consolidated financial statements for the period ended 31 March 2018 on 27 June 2018.

1.2 Basis of preparation

Based on the Sale and Purchase Agreement (SPA) signed on 10 October 2017 the former owner Cinven sold and transferred the shares of CeramTec Holding GmbH, Plochingen (in the following "CeramTec Holding") to CeramTec AcquiCo GmbH, Plochingen (in the following "CeramTec AcquiCo") owned by a Consortium led by Funds advised by leading private equity firm BC Partners ("BC Partners"). As at 22 February 2018 all requirements were fulfilled. According to the SPA the transfer of ownership was effective after 10 working days respectively as of 8 March 2018. CeramTec AcquiCo is a 100% subsidiary of CeramTec BondCo GmbH, Plochingen (in the following "CeramTec BondCo"), which is itself a 100% subsidiary of CeramTec TopCo GmbH. CeramTec TopCo is the ultimate parent, for which Consolidated Financial Statements are prepared.

The acquisition of the shares was financed by equity contributions and the granting of a shareholder loan of the shareholder of CTEC Acquisition S.à.r.l., Luxembourg (in the following "CTEC Acquisition") of EUR 997,852k, as well as the issuance of an unsecured bond of EUR 394,329k and senior secured credit facilities of EUR 1,087,681k.

The consideration transferred to obtain control amounts to EUR 2,479,862k. The fair value of the assets acquired and the liabilities assumed amounts to EUR 638,722k. Taking into account the consideration transferred the preliminary goodwill resulting from the acquisition of the Advanced Ceramics Business amounts to EUR 1,841,140k.

Based on the described acquisition CeramTec TopCo indirectly obtained control of the operating Advanced Ceramics Business resulting in a business combination to be accounted for in accordance with IFRS 3 as from the acquisition date 8 March 2018. Accordingly in the period 1 January 2018 to acquisition date the group consists of the holding companies CeramTec TopCo, CeramTec BondCo and CeramTec AcquiCo without running an operating business.

The Condensed Interim Financial Statements at hand represent the first-time Condensed Interim Financial Statements of the CeramTec TopCo Group. As no recent financial statements are available, on which these Condensed Interim Financial Statements could be based on, the Condensed Interim Financial Statements contain additional disclosures, which exceed the requirements of IAS 34 for interim condensed financial statements, to ensure a better understanding of the Condensed Interim Financial Statements and especially the transaction described above.

The effects of the business combination itself on the Condensed Interim Financial Statements are described in detail in section 1.4 of the notes of the Condensed Interim Financial Statements. Furthermore, in respect of the financing, which is independent from the operating business and the subsequent measurement of the purchase price allocation, the notes to these Condensed Interim Financial Statements contain all the disclosures, which would be required under IFRS 7 and IFRS 13 and not only those, which IAS 34 requires for Condensed Interim Financial Statements.

CeramTec TopCo and the subsidiaries CeramTec BondCo and CeramTec AcquiCo were founded in 2017. For the CeramTec TopCo Group there were no requirements according to IFRS or German local Gaap (HGB) to present consolidated financial statements for the fiscal year ending 31 December 2017. Therefore, the date of the opening balance for the consolidated financial statements is 1 January 2018. As a result no comparative information prior to the fiscal year could be presented for the income statement, the statement of other comprehensive income as well as the statement of cash flow.

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.

The interim condensed consolidated financial statements give a true and fair view of the results of operations and financial position of the CeramTec TopCo 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 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 Entities included in the interim condensed consolidated financial statements

In addition to the interim condensed financial statements of the parent company, the interim condensed financial statements of the following subsidiaries in which CeramTec TopCo has a direct or indirect shareholding are included in the interim condensed consolidated financial statements for the fiscal year:

Name of the entity	Share of capital in % 31 March 2018	Share of capital in % 1 January 2018	Principle Activity
CeramTec BondCo GmbH, Plochingen	100.00	100.00	1
CeramTec AcquiCo GmbH, Plochingen	100.00	100.00	1
CeramTec Holding GmbH, Plochingen	100.00	---	1
CeramTec Group GmbH, Plochingen	100.00	---	1
CeramTec FinCo GmbH, Plochingen	100.00	---	1
CeramTec Service GmbH, Plochingen	100.00	---	1
CeramTec GmbH, Plochingen	100.00	---	2
Cerasiv GmbH Innovatives Keramik-Engineering, Plochingen	100.00	---	1
CeramTec-ETEC GmbH, Lohmar	100.00	---	3
Emil Müller GmbH, Wilhermsdorf	100.00	---	3
CeramTec UK Ltd., Southampton/Great Britain	100.00	---	3
CeramTec Czech Republic s.r.o., Sumperk/Czech Republic	100.00	---	3
CeramTec Ibérica Innovative Ceramic Engineering S.L., Vilassar de Mar/Spain	100.00	---	4
CeramTec Innovative Ceramic Engineering, (M) Sdn. Bhd., Seremban/Malaysia	100.00	---	3
CeramTec Korea Ltd., Suwon-Si/Republic of Korea	100.00	---	3
CeramTec Suzhou Ltd., Suzhou/China	100.00	---	3
PST Press Sintertécnica Brasil Ltda., Nova Odessa/Brazil	100.00	---	3
CeramTec India Innovative Ceramic Engineering Pvt. Ltd., Panaji - Goa/India	99.90	---	3

Name of the entity	Share of capital in % 31 March 2018	1 January 2018	Principle Activity
Press and Sinter Technics de Mexico S.A. de C.V., Puebla/Mexico	100.00	---	3
CeramTec BidCo LLC, Laurens/USA	100.00	---	1
CeramTec Acquisition Corporation, Laurens/USA	100.00	---	1
CeramTec North America Corporation, Laurens/USA	100.00	---	3
DAI Ceramics, Inc., Willoughby/USA	100.00	---	3
PST Press + Sintertechnik Sp. z.o.o., Gorzyce/Poland	100.00	---	3

1 Entities perform the functions of a holding company.
2 Manufacturing and selling entities in the Medical and Industrial business.
3 Manufacturing and selling entities in the Industrial business.
4 Selling entities.

1.4 Changes to the consolidated group

CeramTec AcquiCo acquired with effectiveness 8 March 2018 100 % of the shares of CeramTec Holding and its subsidiaries. CeramTec AcquiCo is a 100% subsidiary of CeramTec BondCo, which is itself a 100% subsidiary of CeramTec TopCo. CeramTec TopCo is the ultimate parent, for which Consolidated Financial Statements will be prepared at year-end.

At the end of the interim reporting period as of 31 March 2018, the accounting for this business combination is preliminary, as the purchase price allocation is pending because of the very tight period between acquisition date and reporting date. Rather the following figures show the amounts recognized as of the acquisition date for each major class of assets acquired and liabilities assumed:

	Preliminary Fair Value EUR k
Trademarks	51,894
Technology	179,464
Customer Relationships	297,506
Other intangible assets	1,824
Intangible Assets	**530,688**
Land and buildings	21,202
Technical equipment and machinery	144,318
Other equipment, operating and office equipment	84,846
Construction in progress	12,841
Property, plant and equipment	**263,207**
Other assets	667
Deferred taxes	242
Inventories	87,092
Trade accounts receivable	58,552
Financial assets to third parties	2,118
Other accounts receivable and assets	9,390
Cash and cash equivalents	11,881
Total Assets	**963,837**
Provisions	141,803
Financial liabilities to third parties	5,601
Deferred taxes	143,793
Current liabilities	33,918
Total liabilities	**325,115**
Total identifiable net assets at fair value	**638,722**
Total consideration transferred	2,479,862
Goodwill arising on acquisition	**1,841,140**

The acquisition took place to accelerate CeramTec's growth targets, esp. outside the core European markets, supporting the launch of new product initiatives and investing in the expansion of production facilities to support further growth in the hip implants market.

The acquisition related costs amount to EUR 10,430k. The line item of the income statement is "Other income and expenses net (-)", in which the acquisition related costs were recognized.

The acquired entities contributed revenues of EUR 53,716k and a net income of EUR 10,155k to CeramTec TopCo Group for the period from the respective acquisition date to 31 March 2018. If these acquired businesses had been acquired as of 1 January 2018, the impact on consolidated revenues and consolidated net loss for the reporting period ended 31 March 2018 would have been EUR 157,007k and EUR 18,263k, respectively.

2 Accounting principles and policies

The accounting policies and the consolidation principles applied in the interim condensed consolidated financial statements are in line with the International Financial Accounting Standards (IFRS/IAS) as follows.

2.1 Basis of consolidation

Entities included in the interim condensed consolidated financial statements are included as of the date on which CeramTec TopCo obtains control over them. They are deconsolidated on the date on which CeramTec TopCo ceases to have control.

In accordance with IFRS 10, uniform accounting policies are used to prepare the separate financial statements of the companies included in the consolidated financial statements.

All significant intercompany receivables and liabilities, revenue, income and expenses and any intercompany profits and losses are eliminated. Pursuant to IAS 12, deferred tax liabilities are recognized for temporary differences arising from consolidation entries.

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value. This is determined as the total of the acquisition-date fair values of the transferred assets, the liabilities assumed from the former owners of the acquired entity and the equity instruments issued by the acquirer in exchange for control of the acquiree. Acquisition-related costs are recognized in profit or loss as incurred.

Goodwill is measured as the excess of the aggregate of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the equity share in the acquiree previously held by the acquirer (if available) over the net of the acquisition-date fair value of the identifiable assets acquired and liabilities assumed. If the fair value of the acquired net assets is higher than the consideration transferred, CeramTec TopCo reassesses and examines whether it has correctly identified all acquired assets and all assumed liabilities. In the event of a negative difference, even after reassessment, the resulting gain is recognized directly in profit or loss.

For acquisitions of equity investments with shares in capital below 100 %, IFRS 3 allows for the goodwill attributable to non-controlling interests to also be recognized. Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at fair value or, when applicable, on the basis specified in another IFRS.

If a company which is part of the CeramTec TopCo Group acquires an entity, it measures the financial assets and liabilities for appropriate classification and designation in accordance with the contractual terms, economic conditions and pertinent conditions as of the acquisition date. This also includes separating embedded derivatives in host contracts of the acquiree.

If the business combination is achieved in stages, previously held equity interests are remeasured at their acquisition-date fair value. Any gain or loss is recognized through profit or loss and is taken into account when determining the goodwill.

All contingent consideration that must be transferred by the acquirer is recognized at fair value as of the date of acquisition. A contingent consideration classified as an asset or liability, which is recognized as a financial instrument is measured at fair value. Changes in the fair value are recognized either through profit or loss or under other comprehensive income depending on the classification. Should the contingent consideration not fall under IFRS 9, it is accounted for under IAS 37 Provisions, Contingent Liabilities and Contingent Assets, as appropriate. If the contingent consideration is classified as equity, it is not remeasured and its subsequent settlement is accounted for within equity.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment at least once a year (in the fourth quarter) and more frequently if there are indications of impairment. For the purpose of impairment testing, goodwill acquired in a business combination must, from the acquisition date, be allocated to each of the cash-generating units of CeramTec TopCo, which is expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquirer are assigned to those units or groups.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. If the internal management reporting structure is reorganized, any goodwill allocated to a cash-generating unit is reallocated based on the new reporting structure. Any goodwill reallocated under these circumstances is measured based on the relative values of the newly established operation and the portion of the cash-generating unit.

Foreign currency translation

The interim condensed consolidated financial statements are prepared in euros, the functional currency of the CeramTec TopCo Group. The interim condensed financial statements prepared by entities that use a different functional currency are translated into euros in accordance with IAS 21. The equity of the foreign entities included in the interim condensed consolidated financial statements is translated at the historical rate. The remaining items of the statement of financial position are translated at the respective closing rates. Income and expenses are translated at average annual rates. These are calculated as the mean value from the individual average monthly rates of the past twelve months.

Differences from the currency translation of assets and liabilities compared to the translation of the prior year as well as exchange differences between the income statement and the statement of financial position are recognized under other comprehensive income and retained in equity under accumulated other comprehensive income. These amounts recognized under other comprehensive income are reclassified to the income statement upon the partial or complete disposal of a subsidiary included in the consolidated financial statements.

Foreign currency transactions in the local financial statements are translated at the spot rate at the date of the transaction.

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

		31 Mar 2018	1 Jan to 31 Mar 2018	1 Jan 2018
		Period-end exchange rate	Average exchange rate	Period-begin exchange rate
USD	USA	1.2321	1.2298	1.1993
CNY	China	7.7468	7.8178	7.8044
GBP	Great Britain	0.8749	0.8837	0.8872
PLN	Poland	4.2106	4.1646	4.1770
CZK	Czech Republic	25.4250	25.3638	25.5350

The individual items in the interim condensed consolidated statement of cash flows are translated at average rates, while cash and cash equivalents are measured at the spot rate at the balance sheet date.

2.2 Accounting policies

Revenue recognition

Revenue is recognized in accordance with the five-step model framework in accordance with IFRS 15: The contract with a customer is identified (step 1). The performance obligations in the contract are identified (step 2). The transaction price is determined (step 3), given that detailed guidance is provided on how to account for variable consideration, financing components, payments made to a customer, and exchanges of goods or services. After determining the transaction price, the transaction price is allocated to the performance obligations in the contract (step 4) by reference to their relative standalone selling prices. Finally, revenue is recognized when (or as) the entity satisfies a performance obligation (step 5). Revenue is recognized as control of the goods or services has transferred to the customer.

An entity will determine upon conclusion of a contract whether revenue should be recognized at a point in time or over time. The entity determines whether control is transferred (i.e., the performance obligation is satisfied) over time if certain criteria are met. If not, revenue is recognized when control is passed to the customer.

The CeramTec TopCo Group generates revenue mainly through the sale of goods and merchandise. Revenue from the majority of contracts with customers is, in consequence, recognized when control is transferred to a customer (when the customer has legal title to the asset, has the significant risks and rewards related to the ownership of the asset, or has accepted the asset).

Interest income, royalties, dividend income

Interest income is recognized pro rata temporis using the effective interest method. Income from royalties is recognized in accordance with the terms of the underlying contracts on an accrual and pro rata basis. Dividend income is recognized when the right to receive payment is established.

Research and development costs

Research costs are expensed as incurred. If the requirements for capitalization are not satisfied, development costs are recognized in profit or loss in the period in which they are incurred.

Intangible assets

Intangible assets are recognized if a future economic benefit is probable and can be measured reliably.

Individually acquired intangible assets are stated at cost. The cost of intangible assets acquired in a business combination is their acquisition-date fair value. Internally generated intangible assets are stated at the cost that arises during the development phase if all of the following criteria are met:

- Technical feasibility of completing the intangible asset
- Intention to complete development of the intangible asset and use or sell it
- Ability to use or sell the intangible asset
- Existence of a market or demonstration of the usefulness of the intangible asset if it is to be used internally
- Availability of technical and financial resources to complete the development
- Ability to measure reliably the expenditure attributable to the intangible asset during its development

Following initial recognition, intangible assets are carried at cost less accumulated amortization and any accumulated impairment losses.

Intangible assets with finite useful lives are amortized on a straight-line basis over their useful life. Intangible assets acquired during the year are amortized pro rata temporis. The useful life and amortization method are reviewed at least annually at the end of each fiscal year. Changes are treated as changes in accounting estimates. Amortization is recognized in the cost of sales, research and development, general administrative and selling costs. The useful life for technology amounts to 10 to 18 years and for customer relationships 5 to 18 years. Intangible assets with finite useful lives are tested for impairment if there is an indication that the asset may be impaired.

Intangible assets with an indefinite useful life are tested annually for impairment. If the carrying amount of the asset is no longer recoverable, an impairment loss is recognized. Trademarks are in principle assigned an indefinite useful life based on expectations of future use.

Impairment is assessed by comparing the carrying amount of the intangible assets with its recoverable amount at the level of the cash-generating unit. Intangible assets are grouped at the lowest level for which the cash flows can be separately identified. The recoverable amount of a cash-generating unit is defined as the higher of the fair value less the cost to sell or the value in use of a cash-generating unit. An impairment loss is charged if the carrying amount exceeds the recoverable amount. In the event that the impairment loss is reversed, the amortized cost is written up.

Property, plant and equipment

Property, plant and equipment are recognized at cost if a future economic benefit is probable and can be measured reliably. The cost of internally generated property, plant and equipment comprises direct material and labor costs as well as the directly attributable material and labor overheads. If the requirements of a qualifying asset are met, the cost also includes borrowing costs incurred during production pursuant to IAS 23. A qualifying asset is an asset that takes a substantial period of time to get ready for its intended use or sale.

Following initial recognition, property, plant and equipment are carried at cost less accumulated depreciation and any accumulated impairment losses.

Property, plant and equipment are generally depreciated using the straight-line method. Property, plant and equipment acquired during the year are depreciated pro rata temporis. The useful lives of property, plant and equipment amount to 10 to 40 years for buildings and building components, 3 to 25 years for plant and machinery and 3 to 12 years for other equipment, furniture and fixtures. Low-value assets with an acquisition cost not exceeding EUR 150 are expensed immediately. Low-value assets with a cost of between EUR 150 and EUR 1,000 are recognized in a catch-all item and depreciated collectively over five years using the straight-line method.

Property, plant and equipment are tested for impairment if there is an indication that the asset may be impaired. Impairment is assessed by comparing the carrying amount of the item of property, plant and equipment with its recoverable amount at the level of the cash-generating unit. Property, plant and equipment are grouped at the lowest level for which the cash flows can be separately identified. The recoverable amount of a cash-generating unit is defined as the higher of the fair value less the cost to sell or the value in use of a cash-generating unit. An impairment loss is charged if the carrying amount exceeds the recoverable amount. In the event that the impairment loss is reversed, the amortized cost is written up.

Leases

The determination of whether an arrangement contains a lease is based on the substance of the arrangement at inception date and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and whether the arrangement conveys a right to use the asset. A reassessment after the inception of the lease is only performed under the conditions set forth in IFRIC 4.

A lease is classified as a finance lease if substantially all risks and rewards incidental to ownership are transferred to the lessee. Each leased asset is recognized under property, plant and equipment at its fair value or, if lower, at the present value of the minimum lease payments. The corresponding liability is disclosed as a finance lease obligation under financial liabilities to third parties. The leased asset is depreciated in subsequent periods over the contractual term or, if shorter, the useful life. Payment to the lessor is divided into interest and repayment components, with the interest component recognized as a constant rate of interest of the remaining lease liability through profit or loss over the term of the lease.

All other leases are classified as operating leases. Rental payments under such lease arrangements are recognized as an expense on a straight-line basis.

Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

All recognised financial assets are subsequently measured in their entirety at either amortised cost or fair value, depending on the classification of the financial assets.

Debt instruments that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.
- Debt instruments that meet the following conditions are subsequently measured at FVTOCI

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

By default, all other financial assets are subsequently measured at FVTPL.

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period.

For financial instruments other than purchased or originated credit-impaired financial assets, the effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) excluding expected credit losses, through the expected life of the debt instrument, or, where appropriate, a shorter period, to the gross carrying amount of the debt instrument on initial recognition. For purchased or originated credit-impaired financial assets, a credit-adjusted effective interest rate is calculated by discounting the estimated future cash flows, including expected credit losses, to the amortised cost of the debt instrument on initial recognition.

The amortised cost of a financial asset is the amount at which the financial asset is measured at initial recognition minus the principal repayments, plus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, adjusted for any loss allowance. On the other hand, the gross carrying amount of a financial asset is the amortised cost of a financial asset before adjusting for any loss allowance.

Interest income is recognised using the effective interest method for debt instruments measured subsequently at amortised cost and at FVTOCI. For financial instruments other than purchased or originated credit-impaired financial assets, interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired. For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset. If, in subsequent reporting periods, the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset.

For purchased or originated credit-impaired financial assets, the Group recognises interest income by applying the credit-adjusted effective interest rate to the amortised cost of the financial asset from initial recognition. The calculation does not revert to the gross basis even if the credit risk of the financial asset subsequently improves so that the financial asset is no longer credit-impaired.

Interest income is recognised in profit or loss and is included in the "Interest income and other finance income" line item.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in profit or loss to the extent they are not part of a designated hedging relationship.

Derecognition of financial assets is done by the Group only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss. In addition, on derecognition of an investment in a debt instrument classified as at FVTOCI, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss. In contrast, on derecognition of an investment in equity instrument which the Group has elected on initial recognition to measure at FVTOCI, the cumulative gain or loss previously accumulated in the investments revaluation reserve is not reclassified to profit or loss, but is transferred to retained earnings.

Financial liabilities

All financial liabilities are subsequently measured at amortised cost using the effective interest method or at FVTPL.

Financial liabilities are classified as **Financial liabilities at FVTPL** when the financial liability is 1) contingent consideration of an acquirer in a business combination to which IFRS 3 applies, 2) held for trading, or 3) it is designated as at FVTPL.

A financial liability is classified as held for trading if:

- it has been acquired principally for the purpose of repurchasing it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative, except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument.

A financial liability other than a financial liability held for trading or contingent consideration of an acquirer in a business combination may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IFRS 9 permits the entire combined contract to be designated as at FVTPL.

Financial liabilities at FVTPL are stated at fair value with any gains or losses arising on changes in fair value recognised in profit or loss to the extent that they are not part of a designated hedging relationship.

However, for financial liabilities that are designated as at FVTPL, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is recognised in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. The remaining amount of change in the fair value of liability is recognised in profit or loss. Changes in fair value attributable to a financial liability's credit risk that are recognised in other comprehensive income are not subsequently reclassified to profit or loss; instead, they are transferred to retained earnings upon derecognition of the financial liability.

Financial liabilities that are not 1) contingent consideration of an acquirer in a business combination, 2) held-for-trading, or 3) designated as at FVTPL, are **Financial liabilities subsequently measured at amortised cost** using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the amortised cost of a financial liability.

Derecognition of financial liabilities is done by the Group when, and only when, the Group’s obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss.

Derivative financial instruments are initially recognised at fair value at the date the derivative contracts are entered into and are subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

Derivatives embedded in non-derivative host contracts that are not financial assets within the scope of IFRS 9 (e.g. financial liabilities) are treated as separate derivatives when they meet the definition of a derivative, their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at FVTPL.

Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position if there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

Inventories

Inventories are measured at the lower of cost or net realizable value.

Costs of purchase comprise the purchase price as well as all other ancillary costs directly attributable to the acquisition. Costs of purchase are determined using the moving weighted average cost method.

In addition to direct material and labor costs, costs of conversion comprise a share of production-related material and labor overheads, including depreciation insofar as it is a consequence of the production process, as well as production-related administrative costs. Production costs do not contain any borrowing costs incurred during production as inventories held at the CeramTec TopCo Group are not qualifying assets pursuant to IAS 23.

Inventories are written down to reflect risks from reduced salability. The net realizable value is the selling price during the ordinary course of business less the estimated costs of completion and selling costs. Previously recognized write-downs are reversed if the reasons for the write-downs cease to apply. In this case, the reversal is limited to the amount of the original write-down.

Cash and cash equivalents

Cash and cash equivalents generally comprise cash in hand and bank deposits as well as cash and short-term deposits with an original term of up to three months. The cash and cash equivalents reported in the interim condensed statement of cash flows correspond to the amounts recognized in the interim condensed statement of financial position.

Provisions for pension obligations

Defined benefit obligations are measured using the projected unit credit method. These take into account the benefits vested in the current period and previous periods in exchange for the work performed by employees. When calculating the amount of total obligations, adjustment to salaries and pensions expected in the future as well as the probability of employee turnover and employee age and gender are also factored into calculations. Pension obligations in Germany are determined on the basis of the 2005G standard tables of Prof. Dr. Klaus Heubeck. Pension obligations outside of Germany are determined taking into account country-specific parameters.

The obligations are discounted using discount rates derived from high-quality, fixed-interest corporate bonds with the same currency and term. If no high-quality, fixed-interest corporate bonds are available, yields on government bonds are used instead. Net interest on the net liability is determined by multiplying the net liability with the discount rate.

Remeasurements comprise actuarial gains and losses, the return on plan assets and changes in the effect of the asset ceiling while excluding net interest on the net liability. These are recognized in other comprehensive income. Remeasurements are not reclassified to the income statement in later periods.

Past service cost results from the change in the present value of the defined benefit obligation arising from a plan amendment or curtailment and is recognized as an expense.

The fair value of the plan assets is deducted from the present value of the pension obligations. Plan assets are assets that are held by a long-term employee benefit fund. This fund must be legally separate from the reporting entity and exist solely to pay or fund employee benefits.

Provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate can be made of the amount of the provision.

The amount of the provision recognized is the best estimate of the expenditure required to settle the present obligation as of the reporting date. The best estimate must take account of inherent risks and uncertainties. If a provision is measured on the basis of the estimated cash flow required to settle the obligation, these cash flows are discounted in cases where the effect of the time value of money is significant.

If it can be assumed that portions of or the entire economic benefits required to settle the provision are reimbursable by an external third party, this claim is recognized as an asset if the reimbursement is virtually certain and the amount can be reliably determined. The amount recognized for the reimbursement should not exceed the amount of the provision.

Contingent liabilities and contingent assets

Contingent liabilities are not recognized in the interim condensed consolidated statement of financial position. A contingent liability is disclosed, unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are also not recognized in the statement of financial position. They are described in the notes to the interim condensed financial statements provided an inflow of economic benefits is probable.

Taxes

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities based on the tax rates that have been enacted or substantively enacted as of the reporting date.

Deferred tax assets and liabilities are recorded for all deductible and taxable temporary differences between the carrying amounts in the tax accounts and the IFRS consolidated statement of financial position. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that effects neither the taxable profit nor the accounting profit. In addition, deferred tax liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill.

Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differenes can be utilised. Deferred tax assets also include tax refund claims that result from the expected utilization of existing unused tax losses or interest carryforwards in subsequent years if it is probable that there will be future taxable profit against which the deferred tax assets can be utilised.

Deferred tax assets and deferred tax liabilities are measured at the tax rates that are expected to apply when the temporary differences are likely to reverse, based on tax rates and tax laws that have been enacted or substantively enacted as of the reporting date of the relevant company.

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which event the current and deferred tax are also recognised in other comprehensive income or directly in equity, respectively.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred tax assets relate to the same taxable entity and the same taxation authority.

There is a consolidated tax group for income tax purposes between CeramTec Holding (as the tax parent company), CeramTec Group GmbH, CeramTec FinCo GmbH, CeramTec Service GmbH, CeramTec GmbH, Cerasiv GmbH Innovatives Keramik-Engineering, CeramTec-ETEC GmbH and Emil Müller GmbH. Furthermore there is a consolidated tax group for income tax purposes between CeramTec BondCo (as the parent) and CeramTec AcquiCo. There is also a consolidated tax group for VAT purposes between CeramTec Service GmbH as the parent company and CeramTec GmbH, Cerasiv GmbH Innovatives Keramik-Engineering, CeramTec-ETEC GmbH and Emil Müller GmbH.

Revised and newly issued IFRSs and IFRICs not yet compulsory

Adoption of the following revised and newly issued IFRSs and IFRICs was not yet compulsory in the fiscal year and/or they had not yet been endorsed by the European Commission for adoption in the European Union. In the fiscal year, these new or amended standards and interpretations were not adopted earlier.

Standards and interpretations	**Date of first-time adoption**
IFRS 16: “Accounting for Leases“	1 January 2019
IFRIC 23 “Uncertainty over Income Tax Treatments“	1 January 2019
Amendments to IAS 28: “Long-term Interests in Associates and Joint Ventures“	1 January 2019
Amendments to IFRS 9: “Prepayment Features with Negative Compensation“	1 January 2019
Annual Improvements Project (2015 – 2017) for IFRS 3, IFRS 11, IAS 12 and IAS 23	1 January 2019
Amendment to IAS 19: “Plan Amendment, Curtailment or Settlement“	1 January 2019
Amendments to References to the Conceptual Framework in IFRS-Standards	1 January 2020
IFRS 17: “Insurance Contracts “	1 January 2021

The aforementioned changes will have no effect on the consolidated financial statements of CeramTec Group, except for IFRS 16.

IFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. IFRS 16 will supersede the current lease guidance including IAS 17 Leases and the related interpretations when it becomes effective.

IFRS 16 distinguishes leases and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases (off balance sheet) and finance leases (on balance sheet) are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees (i.e. all an balance sheet) except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the Impact of lease modifications, amongst others. Furthermore, the classification of cash flows will also be affected as operating lease payments under IAS 17 are presented as operating cash flows; whereas under the IFRS 16 model, the lease payments will be split into a principal and an interest portion which will be presented as financing and operating cash flows respectively.

In contrast to lessee accounting, IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Furthermore, extensive disclosures are required by IFRS 16.

The final assessment of the impact of IFRS 16 is not yet finalized. However, we refer for detailed information to the rental and lease obligations mentioned in note 6.2.

3 Notes to the interim condensed consolidated statement of comprehensive income

3.1 Revenue

Revenue results primarily from the sale of goods and merchandise. Revenue breaks down into regions according to invoice address and businesses as follows:

	1 January to 31 March 2018 EUR k
Regions	
Europe (w/o Germany)	23,230
Germany	14,335
North America	7,611
Asia	7,153
Rest of world	1,387
Total	**53,716**
Businesses	
Industrial	34,011
Medical products	19,705
Total	**53,716**

3.2 Cost of sales

The cost of sales break down as follows:

	1 January to 31 March 2018 EUR k
Personnel expenses	10,691
Material and packaging costs	10,354
Amortization and depreciation	4,029
Other cost of sales	4,070
Total	**29,144**

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 primarily 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 2018 EUR k
Acquisition costs	-10,430
Foreign currency results	5
Losses (-) on disposal of property, plant and equipment	-1
Sundry other income	13
Sundry other expenses	-19
Total	**-10,432**

The acquisition costs occurred within the purchase process of the shares of CeramTec Holding (please refer to 1.4).

3.7 Financial result

The financial result breaks down as follows:

	1 January to 31 March 2018 EUR k
Interest income from effective interest method	360
Other interest income	4
Total interest income and other finance income	**364**
Losses on derivative valuations	17,181
Interest expense from bond	5,689
Interest expense from shareholder loans	2,762
Interest expense from syndicated loan	2,661
Interest expense from effective interest method	449
Interest expense from revolving credit line	61
Exchange rate losses	1,104
Other interest expenses	2,175
Less: Borrowing costs capitalized as part of qualifying assets	-5
Total interest expenses and other finance costs	**32,077**
Total financial result	**-31,713**

4 Notes to the interim condensed consolidated statement of financial position

4.1 Goodwill and other intangible assets

During the reporting period, CeramTec TopCo Group recognized amortization expenses in the amount of EUR 3,812k which arise mainly from customer relationships and technology.

CeramTec TopCo Group purchased intangible assets at cost of EUR 125k.

4.2 Property, plant and equipment

During the reporting period, CeramTec TopCo Group purchased assets at cost of EUR 1,981k from which no subsidies are deducted.

The recognized depreciation expenses amount to EUR 3,088k.

There were contractual commitments to acquire property, plant and equipment of EUR 12,481k as of the reporting date (1 January 2018: EUR 0k).

4.3 Other financial assets

The following table breaks down other financial assets as follows:

	31 March 2018 EUR k	1 January 2018 EUR k
Other financial assets (non-current)		
Separated termination rights	21,959	34,020
Insurance claims	55	0
Total	**22,014**	**34,020**
Other financial assets (current)		
Receivables arising from amounts retained by a factor as a security	2,393	0
Other financial assets	240	406,000
Total	**2,633**	**406,000**

The bond issued contains an agreement that entitle the CeramTec BondCo GmbH to prematurely repay the bond. The termination right was separated from the host contract and recognized as stand-alone derivative measured at fair value through profit and loss.

The opening balance as at 1 January 2018 comprises receivables to the Escrow Agent of EUR 406,000k for transferring the payments of the bond holders when all requirements for the transfer are fulfilled.

4.4 Other assets / other receivables and assets

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

	31 March 2018	1 January 2018
	EUR k	EUR k
Other non-current assets		
Accrued finance costs for the revolving credit line	1,080	0
Other accrued finance costs	0	23,690
Other assets	667	0
Total	**1,747**	**23,690**
Other current assets		
VAT receivables	2,263	31
Receivables from energy tax refunds	1,854	0
Deferred finance costs for the revolving credit line	219	0
Sundry assets	3,916	0
Total	**8,252**	**31**

Sundry current assets primarily contain prepayments, e.g. for insurances and for trade fairs.

4.5 Trade receivables

At the end for the reporting period, trade receivables amounted to EUR 60,715k (1 January 2018: EUR 0k) after taking into account impairment losses of EUR 461k.

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

	31 March 2018 EUR k	1 January 2018 EUR k
Carrying amount (before impairment)	**61,176**	**0**
thereof not yet due on the reporting date	49,620	0
thereof past due on the reporting date	11,556	0
past due up to 30 days	9,117	0
past due up to 60 days	1,304	0
past due up to 90 days	173	0
past due more than 90 days	962	0

The carrying amount of receivable of EUR 18,662k was sold to PB Factoring GmbH according to the factoring agreement signed end of June 2017. Under the terms of the agreement EUR 2,393k were retained by the factor as of reporting date as a security, and recognized in other current assets.

4.6 Cash and cash equivalents

Cash and cash equivalents contain bank balances of EUR 32,791k (1 January 2018: EUR 39k) and cash in hand of EUR 18k (1 January 2018: EUR 0k).

4.7 Equity

The following table breaks down the equity as follows:

	31 March 2018 EUR k	1 January 2018 EUR k
Issued Capital	25	25
Capital Reserves	500,417	50
Accumulated losses	-34,958	-9,297
Accumulated Other Comprehensive Income	634	0
Total	**466,118**	**-9,222**

The acquisition of the shares of CeramTec Holding (please refer to 1.2) was partly financed by equity contributions of the shareholder CTEC Acquisition provided as capital reserves.

4.8 Financial liabilities to affiliates

Financial liabilities to affiliates was comprised of a loan payable to CTEC Acquisition of EUR 526,560k (1 January 2018: EUR 0k).

	31 March 2018 EUR k	1 January 2018 EUR k
Non-current financial liabilities		
Loan payable	523,798	0
Accrued interest	2,762	0
	526,560	**0**

The loan increases every year on 6 March by the amount of incurred expenses for interest which is unpaid.

4.9 Financial liabilities to third parties

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

	31 March 2018 EUR k	1 January 2018 EUR k
Non-current financial liabilities		
Liabilities to banks	1,077,414	0
Liabilities from the bond	419,263	419,922
Derivative financial instruments	9,637	0
Finance lease liabilities	1,271	0
Total	**1,507,585**	**419,922**
Current financial liabilities		
Liabilities from the bond	6,217	888
Liabilities to banks	5,215	0
Derivative financial instruments	5,105	0
Discounts and bonuses	1,671	0
Finance lease liabilities	8	0
Other current financial liabilities	1,814	0
Total	**20,030**	**888**

4.10 Other liabilities

Other liabilities break down as follows:

	31 March 2018 EUR k	1 January 2018 EUR k
Other current liabilities		
Wages and salaries including taxes	9,712	0
Real estate transfer tax	4,364	0
Contract liabilities from contracts with customers	35	0
Other current liabilities	2,522	0
Total	**16,633**	**0**

4.11 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 IFRS 9.

		31 March 2018	
	Measurement category of IFRS 9[1]	Carrying amount EUR k	Fair value EUR k
Financial assets			
Cash and cash equivalents	AC	32,809	32,809
Trade receivables	AC	60,715	60,715
Other financial assets	AC	2,688	2,688
Separated termination rights	FVtPL	21,959	21,959
Total		**118,171**	**118,171**
Financial liabilities			
Bond liabilities	AC	425,480	402,874
Liabilities to banks	AC	1,082,629	1,114,767
Trade payables	AC	33,163	33,163
Finance lease liabilities	AC	1,280	1,280
Other financial liabilities	AC	3,485	3,485
Liabilities to affiliates	AC	526,560	653,292
Separated interest rate floors	FVtPL	11,481	11,481
Interest rate cap	FVtPL	3,260	3,260
Total		**2,087,338**	**2,223,602**

[1] AC: measured by amortised cost using the effective interest method; FVtOCI: measured at fair value through other comprehensive income; FVtPL: measured at fair value through profit or loss

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 2018	
	Level 1 EUR k	Level 2 EUR k	Level 3 EUR k
Financial assets			
Separated termination rights	0	21,959	0
Financial liabilities			
Separated interest rate floors	0	11,481	0
Interest rate caps	0	3,260	0

The following table shows the fair value hierarchy for the financial instruments that are not recognized at fair value in the interim condensed 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 as their carrying amounts are a reasonable approximation of fair values:

		31 March 2018	
	Level 1 EUR k	Level 2 EUR k	Level 3 EUR k
Financial liabilities			
Bond liabilities	402,874	0	0
Liabilities to banks	0	1,114,767	0
Financial liabilities to affiliates	0	653,292	0
Finance lease liabilities	0	1,280	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 in 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 in 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 in 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 in 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 TopCo 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 during the 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 18,662k of trade receivable was sold to PB Factoring GmbH according to the factoring agreement signed end of June 2017. The receipt of the proceeds from the factor was treated as an operating cash flow.

The cash flow from investing activities includes the purchase price payment of EUR 2,479,862k for transferring the shares of CeramTec Holding (please refer to 1.4). Cash and cash equivalents of EUR 11,881k were taken over resulting in a net cash out of EUR 2,467,981.

During the period 1 January to 31 March 2018, CeramTec TopCo Group paid cash of EUR 157k to purchase property, plant and equipment previously purchased on account.

6 Other notes

6.1 Contingent liabilities

There were no material contingent liabilities as of 31 March 2018. The entities within the consolidated group 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 accrues for such obligations if a liability is probable to arise and the amount of the potential claim can be sufficiently estimated. Where claims and obligations arising are not considered probable nor remote, such contingent liabilities are disclosed separately in the consolidated financial statements.

6.2 Rental and lease obligations

Operating lease commitments mainly relate to land and buildings, as well as technical equipment and machinery.

	31 March 2018 EUR k	31 March 2017 EUR k
up to 1 year	2,098	0
1 to 5 years	952	0
Total	**3,050**	**0**

In the reporting period, expenses from rental and lease agreements amounted to EUR 292k.

6.3 Related Party disclosures

Key management personnel

Dr. Hadi Saleh
Chief Executive Officer

Dominique Janbon
Chief Financial Officer

With effect as of 20 June 2018 Frank Rohwedder, Thomas Christian Weinmann and Julien Zornig are no longer managing directors of CeramTec TopCo. With effect as of 20 June 2018 Dr. Hadi Saleh is the sole managing director of CeramTec TopCo.

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 526,560k (1 January 2018: EUR 0k), including interest, with a fixed interest rate of 7.30% has been obtained from CeramTec TopCo's controlling shareholder, CTEC Acquisition. The loan is not secured.

Interest expenses of EUR 2,762k were accrued in the reporting period ended 31 March 2018. Unpaid interest is added annually to the Company's loan balance as of 6 March.

6.4 Subsequent events

There were no significant events after the reporting date.

7 Reconciliation to CeramTec BondCo GmbH

If the interim condensed consolidated statement of comprehensive income of CeramTec BondCo had been prepared instead of the interim condensed consolidated statement of comprehensive income of CeramTec TopCo, 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 0k
- higher other expenses of EUR 1k

The total comprehensive income of CeramTec BondCo would therefore have been EUR 1k higher compared to the total comprehensive income recognized in these financial statements.

If the interim condensed consolidated statement of financial position of CeramTec BondCo had been prepared instead of the interim condensed consolidated statement of financial position of CeramTec TopCo, which is presented in these financial statements, this would have resulted in the following changes as of 31 March 2018 (1 January 2018):

- lower cash and cash equivalents of EUR 22k (1 January 2018: EUR 22k)
- lower capital reserves of EUR 25k (1 January 2018: EUR 25k)
- lower trade payables of EUR 1k (1 January 2018: EUR 0k)

This would have resulted in a lower group equity of EUR 21k (1 January 2018: EUR 22k) for the CeramTec BondCo 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 BondCo had been prepared instead of the interim condensed consolidated statement of cash flows of CeramTec TopCo presented in these financial statements.

Plochingen, 27 June 2018

CeramTec TopCo GmbH

The management

Dr. Hadi Saleh