

CeramTec TopCo GmbH
Plochingen

Operating and Financial Review
for the period ended
31 March 2018

1 Preamble

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 itself is a 100% subsidiary of CeramTec TopCo GmbH. CeramTec TopCo is the ultimate parent, for which Consolidated Financial Statements are prepared.

The purpose of this Operational and Financial Review is to show the development of the financial results of the operating advanced ceramics business for the three months period ended March 31, 2018 in comparison to the three months period ended March 31, 2017. The financial data as of and for the three months period ended March 31, 2018 have been derived from the Interim Condensed Pro-Forma Consolidated Financial Statements. The interim condensed pro-forma consolidated financial statements give a true and fair view of the results of operations and financial position of the Group.

The following discussion should be read in conjunction with the information contained in our consolidated financial statements for the three months period ended March 31, 2018 and the pro-forma consolidated financial statements for the three months period ended March 31, 2018 including the notes thereto. In the following, we discuss certain financial quantities on an adjusted basis, before giving effect to depreciation and amortization and certain extraordinary, non-recurring items.

The figures in this review are presented in Euro. The amounts are in millions of Euros (EUR m). All amounts are rounded using standard commercial principles. In some cases, adding single values to the total values may therefore lead to differences. Due to rounding differences, figures in tables and cross-references may differ slightly from the actual figures (units of currency, percentages, etc.).

2 Overview

We are a leading global developer, manufacturer and supplier of high performance ceramics (“HPC”) solutions for various end markets including medical, automotive, industrial, consumer and electronics. Our HPC solutions are made of advanced ceramics, which are highly specialized materials with superior biological, chemical, mechanical, thermal, electric, magnetic or optical properties compared to competing products made from metal or polymers (plastics). We have been engaged in the HPC industry for over 100 years, with operational expertise and experience in creating innovative system solutions for longstanding customers at an industrial scale. We currently offer a wide range of HPC solutions including hip joint prostheses components, actuators in engine valves for fuel injection systems, high speed cutting tools and transparent ceramic components for armor applications. The versatility of HPC products and resulting wide-range of applications provides us with a highly diversified end market and customer base.

On March 12, 2018 Dr. Hadi Saleh was appointed as Chief Executive Officer. The appointment came after Henri Steinmetz, CeramTec’s Chief Executive Officer since 2016, has left the company with the full agreement of the supervisory board.

Our operations can be divided into two businesses, Medical Products and Industrial.

2.1 Medical Products

Our 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. In the three months period ended March 31, 2018, it generated 37.4% of our revenue.

Ceramic materials are replacing traditional materials for hip joint prosthetic components such as metal which can trigger negative patient reactions, for example due to allergic reactions resulting from metal sensitivity. Our HPC medical solutions are biologically inert and have high wear resistance and excellent friction behaviour, making them one of the few materials that are durable and stable enough to withstand the corrosive effects of bodily fluids. More than 15 million of our BIOLOX® ceramic components have been implanted in patients globally to date. We estimate that nearly one in two hip joint implant systems sold worldwide includes at least one ceramic component, and we estimate our BIOLOX® products represented more than 95% of the ceramic components used for these hip joint implant systems. We believe that our BIOLOX® brand has come to symbolize high quality and innovation and is increasingly preferred by surgeons and other medical professionals. We anticipate that our HPC solutions will be used for various other joint replacements, such as knee and shoulder implants in the future.

2.2 Industrial

Our 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, defense, electronics, industrial machinery and medical equipment. In the three months period ended March 31, 2018, 62.6% of our revenue was generated by our Industrial business.

Our dedicated teams of scientists and engineers collaborate closely with customers to develop tailor made solutions and production processes to fulfill distinct functionality and performance requirements. We believe that we are one of the few advanced ceramics manufacturers with a full-range of HPC materials and manufacturing processes.

Our HPC solutions are often used in performance-critical components. For example, our cutting tools have a longer life and faster cutting speeds compared to non-HPC cutting tools, allowing our customers to save costs and reduce downtime. In automotive engineering, HPC products, including our piezo ceramic components, play a vital role in increasing safety, improving cost-effectiveness and enhancing comfort in vehicles. Our ceramic substrates are used for a variety of purposes in the electronics and telecommunications sector, including measurement and control technology and entertainment electronics. We believe that the specialized, mission critical nature of our solutions, our long-standing customer relationships and our highly diversified portfolio of solutions and customer base, reduces the exposure of our Industrial business to any single industry or product.

3 Results of Operations

The following table sets forth amounts from our income statement along with the percentage change for the three months period ended March 31, 2018 compared to the three months period ended March 31, 2017.

	Three Months Ended March 31,		
	2018	2017	Change
	<i>(in EUR m)</i>		<i>(%)</i>
Revenue	157.0	132.5	18.5
Cost of sales.....	85.1	75.9	12.1
Gross profit	71.9	56.6	27.0
Selling costs.....	21.1	20.8	1.8
Research and development costs.....	5.9	5.6	5.2
General administrative costs.....	6.9	6.4	7.9
Other income and expenses (-), net	-10.5	-0.4	>100.0
Operating income	27.4	23.5	16.8
Interest income and other finance income	0.4	28.6	<100.0
Interest expenses and other finance costs	42.0	16.0	>100.0
Financial result	-41.6	12.6	N/A
Profit/(Loss) before income tax	-14.2	36.1	N/A
Income tax expense	-0.2	-11.5	>100.0
Net profit/(loss) for the period	-14.4	24.6	N/A

Our management considers the results of operations on the adjusted basis, before giving effect to depreciation and amortization as well as certain extraordinary, non-recurring items, with Management adjusted EBITDA as an important indicator of business performance. Management adjusted EBITDA, its main components and its reconciliation to Operating Income as reported are shown in the following table.

	Three Months Ended March 31,		
	2018	2017	Change
	<i>(in EUR m)</i>		<i>(%)</i>
Revenue	157.0	132.5	18.5
Cost of sales*	72.0	62.0	16.2
Gross profit*	85.0	70.5	20.5
Selling costs*	13.1	12.4	5.8
Research and development costs*	5.4	5.1	6.5
General administrative costs*	4.8	4.6	4.1
Other income and expenses (-), net*	-0.2	0.0	N/A
Management Adjusted EBITDA	61.5	48.5	26.9
- Exceptional Items	13.4	4.5	>100.0
EBITDA	48.1	44.0	9.5
- Amortization, Depreciation and impairment charges on non-current assets	20.7	20.5	1.1
Operating income	27.4	23.5	16.8

* Excluding depreciation, amortization and exceptional items

The following table provides a breakdown of our exceptional items for the three months ended March 31, 2018, compared to the three months ended March 31, 2017.

	Three Months Ended March 31,	
	2018	2017
	<i>(in EUR m)</i>	
Exceptional items	13.4	4.5
Restructuring costs	1.0	1.3
Other non-recurring costs	1.8	1.7
Foreign exchange conversion effects	-0.1	0.4
Acquisition costs	10.7	1.1

Restructuring costs in 2018 mainly comprise severance payments for the reduction of staff at CeramTec GmbH and for management changes at CeramTec Service GmbH. Restructuring costs in 2017 mainly comprise costs related to our productivity initiatives undertaken in our Medical Products and Industrial businesses.

Other non-recurring costs in 2018 mainly comprise of a one-time bonus for tariff employees, while in 2017 they comprise of consulting and litigation expenses, mainly related to a patent lawsuit which was dismissed in 2017 and to a series of legal proceedings in relation to intellectual property rights.

Foreign exchange conversion effects reflect certain impacts related to currency conversions that are accounted for in our Operating income.

Acquisition costs in 2018 comprise costs related to the acquisition of CeramTec by BC Partners and in 2017 represent costs related to the acquisition of the UK electro-ceramics business from Morgan Advanced Materials plc, which was completed in April 2017.

3.1 Revenue

The following table provides a breakdown of our revenue for the three months ended March 31, 2018, compared to the three months ended March 31, 2017 on a cluster level:

	Three Months Ended March 31,		
	2018	2017	Change
	<i>(in EUR m)</i>		<i>(%)</i>
Medical Products⁽¹⁾	58.7	49.1	19.6
Industrial⁽¹⁾⁽²⁾	98.3	83.4	17.8
<i>thereof Specialty Applications</i>	25.9	22.6	14.6
<i>thereof Industrial Solutions</i>	41.0	36.5	12.2
<i>thereof CT North America</i>	13.8	14.6	-5.6
<i>thereof Emil Müller Companies</i>	5.8	5.9	-1.2
<i>thereof other units / consolidation</i>	11.8	3.8	>100.0
Total revenue	157.0	132.5	18.5

The revenue presented for the individual units in Industrial includes internal revenue to Group companies. The line item "other units / consolidation" includes all internal revenue between the clusters listed under "Industrial" to show the amount by which the total revenue figure for Industrial has been reduced to account for such internal revenue.

Total revenue for the three months ended March 31, 2018 was €157.0 million, an increase of €24.5 million or 18.5%, as compared to €132.5 million for the three months ended March 31, 2017.

Revenue in our Medical Products business was €58.7 million for the three months ended March 31, 2018, an increase of €9.6 million or 19.6%, as compared to €49.1 million for the three

months ended March 31, 2017. This increase was mainly due to growth in the number of components sold.

Revenue in our Industrial business was €98.3 million for the three months ended March 31, 2018, an increase of €14.9 million or 17.8%, as compared to €83.4 million for the three months ended March 31, 2017. This increase was mainly due to overall strong demand across major markets such as Automotive and Electronics, strong market conditions in the U.S. and other industrial end markets such as Textile machinery products. The increase is supported by commercial excellence initiatives and the acquisition of the UK electro-ceramics business from Morgan Advanced Materials plc.

The following table provides a breakdown of our revenue for the three months ended March 31, 2018, compared to the three months ended March 31, 2017 by region.

	Three Months Ended March 31		
	2018	2017	Change
	<i>(in EUR m)</i>		<i>(%)</i>
Europe (excluding Germany)	67.3	57.3	17.4
Germany	41.2	33.4	23.5
North America	22.3	20.7	7.5
Asia	21.5	16.5	30.5
Other regions	4.7	4.6	2.3
Total net sales	157.0	132.5	18.5

3.2 Cost of Sales and Gross Profit

The following table provides a breakdown of our cost of sales for the three months ended March 31, 2018, compared to the three months ended March 31, 2017.

	Three Months Ended March 31			
	2018		2017	
	<i>(in EUR m)</i>	<i>(% of net sales)</i>	<i>(in EUR m)</i>	<i>(% of net sales)</i>
Material and packing costs	29.0	18.5	24.7	18.7
Personnel expenses	21.4	13.6	19.2	14.5
Amortization and depreciation	12.1	7.7	12.1	9.2
Other costs of sales	22.6	14.4	19.9	15.0
Cost of sales	85.1	54.2	75.9	57.3

Cost of sales was €85.1 million (54.2% of revenue) for the three months ended March 31, 2018, an increase of €9.2 million or 12.1%, compared to €75.9 million (57.3% of revenue) for the three months ended March 31, 2017. Excluding amortization and depreciation and non-recurring items, our adjusted cost of sales increased by 16.2% from €62.0 million or 46.8% of revenue for the three months ended March 31, 2017 to €72.0 million or 45.9% of revenue for the three months ended March 31, 2018.

Gross profit was €71.9 million for the three months ended March 31, 2018, an increase of €15.3 million or 27.0%, as compared to €56.6 million for the three months ended March 31, 2017. Our Adjusted gross profit margin increased to 54.1% for the three months ended March 31, 2018, from 53.2% for the three months ended March 31, 2017, mainly due to higher volumes.

3.3 Selling Cost

Selling costs were €21.1 million (13.5% of revenue) for the three months ended March 31, 2018, an increase of €0.3 million or 1.8%, as compared to €20.8 million (15.7% of revenue) for the three months ended March 31, 2017. Excluding amortization and depreciation and non-recurring items, our Adjusted selling costs increased to €13.1 million or 8.3% of revenue for the three months ended March 31, 2018 from €12.4 million or 9.3% of revenue for the three months ended March 31, 2017.

3.4 Research and Development Cost

Research and development costs were €5.9 million (3.8% of revenue) for the three months ended March 31, 2018, an increase of €0.3 million or 5.2%, as compared to €5.6 million (4.2% of revenue) for the three months ended March 31, 2017. Excluding amortization and depreciation and non-recurring items, our adjusted research and development costs increased to €5.4 million or 3.4% of revenue for the three months ended March 31, 2018 from €5.1 million or 3.8% of revenue for the three months ended March 31, 2017.

3.5 General Administrative Cost

General administrative costs were €6.9 million (4.4% of revenue) for the three months ended March 31, 2018, an increase of €0.5 million or 7.9%, as compared to €6.4 million (4.8% of revenue) for the three months ended March 31, 2017. Excluding amortization and depreciation and non-recurring items, our Adjusted general administrative costs increased to €4.8 million or 3.0% of revenue for the three months ended March 31, 2018 from €4.6 million or 3.5% of revenue for the three months ended March 31, 2017.

3.6 Other Income and Expenses

Other expenses were €10.5 million for the three months ended March 31, 2018, an increase of €10.1 million compared to other expenses of €0.4 million for the three months ended March 31, 2017. This increase was mainly due to acquisition costs for the acquisition of CeramTec by BC Partners. Excluding non-recurring items, our Adjusted other expenses, net, were €0.2 million for the three months ended March 31, 2018, a decrease of €0.2 million as compared with Adjusted other expenses, net of €0.0 million for the three months ended March 31, 2017, due to certain types of operating income and expenses not being present in the three months ended March 31, 2017.

3.7 Interest Income and Other Financial Income

Interest income and other finance income was €0.4 million for the three months ended March 31, 2018, a decrease of €28.2 million or 96.3%, as compared to €28.6 million for the three months ended March 31, 2017. This decrease was mainly due to the lack of gains resulting from the fair value measurement of derivatives and not repeating a positive balance of the foreign currency effects compared to the three months ended March 31, 2017.

3.8 Interest Expenses and Other Finance Costs

Interest expenses and other finance costs were €42.0 million for the three months ended March 31, 2018, an increase of €26.0 million or 162.5%, as compared to €16.0 million for the three months ended March 31, 2017. This increase was mainly due to losses on derivative valuations and higher interest expenses. The financial expenses of €42.0 million include €17.1 million of losses on derivative valuations, €16.9 million of interest expenses from syndicated loan, revolving credit line and bond, €3.6 million of interest expenses from a shareholder loan, €1.4 million of expenses from the effective interest rate method, exchange rate losses of €0.4 and €2.6 million of other interest expenses.

3.9 Income Tax Expenses

Income tax expenses were €0.2 million for the three months ended March 31, 2018, a decrease of €11.3 million as compared to €11.5 million for the three months ended March 31, 2017. This decrease was mainly due to lower deferred tax expenses from valuation of derivatives.

3.10 Net Profit / Loss

As a result of the developments described above, net loss for the period was €14.4 million for the three months ended March 31, 2018, a decrease of €39.0 million compared to a net profit of €24.6 million for the three months ended March 31, 2017.

4 Financial Condition, Liquidity and Capital Resources

As of March 31, 2018, the gross financial debt, the cash balance as well as the undrawn Revolving Credit Facility were as follows:

	As of March 31, 2018 <i>(in EUR m)</i>
Gross financial debt (without accrued transaction costs).....	1,529.4
<i>thereof bond</i>	406.0
<i>thereof term loans</i>	1,112.0
<i>thereof revolving credit facility</i>	2.6
<i>thereof accrued interest</i>	8.8
Cash.....	32.8
Net debt.....	1,496.6
Undrawn Revolving Credit Facility.....	72.4

The following table shows unaudited pro forma as adjusted leverage information, consistent with the presentation of this indicators in the CTC BondCo prospectus.

	As of March 31, 2018 <i>(in EUR m)</i>
Net third party senior secured indebtedness.....	1,081.8
Net third party indebtedness.....	1,487.8
Pro-forma Interest expense.....	58.6
Pro-forma Adjusted EBITDA (LTM).....	215.6
Ratio of net third party senior secured indebtedness to Pro-forma Adjusted EBITDA.....	5.0x
Ratio of Net third party indebtedness to Pro-forma Adjusted EBITDA.....	6.9x
Ratio of Pro-forma Adjusted EBITDA to Pro-forma Interest expense.	3.7x

Pro-forma Interest Expense is calculated as if the transaction had been completed on April 1, 2017 and consists of the interest on the Term Loan Facility and the Notes as well as the commitment fees on our undrawn Revolving Credit Facility.

Pro forma adjusted EBITDA (LTM) for the twelve months ended March 31, 2017, includes the reversal of €4.1 million income from the release of a jubilee provision and is therefore €4.1 million lower than the simple addition of Management adjusted EBITDA for the same period.

5 Cash Flow Statement

The following table shows the cash flow statement for the three months period ended March 31, 2018 and 2017.

	Three Months ended March 31, 2018	Three Months ended March 31, 2017
	<i>(in € million)</i>	<i>(in € million)</i>
Net profit / (loss) for the period	-14.4	24.6
Income tax expenses / benefit(-)	0.2	11.5
Interest result.....	24.0	15.9
Amortization, depreciation and impairment charges of non-recurrent assets.....	20.7	20.5
Gain (-) / Loss on disposal of fixed assets	-0.0	0.0
Increase / decrease (-) in provisions (excluding deferred taxes).....	1.4	3.0
Income tax refund / (payment)	-5.1	-3.2
Other non-cash expenses / income (-), net.....	16.4	-29.7
Increase (-) / decrease in inventories	-1.0	-6.6
Increase (-) / decrease in trade receivables	-8.6	-14.1
Increase (-) / decrease in other receivables and (financial) assets	31.0	-0.7
Increase / decrease (-) in trade payables	-41.1	5.1
Increase / decrease (-) in other (financial) liabilities	5.6	4.5
Cash flow from operating activities	29.0	30.7
Cash received from disposals of property, plant and equipment.....	0.0	0.0
Cash paid (-) for investments in property, plant and equipment	-7.4	-3.7
Cash received from grants	0.0	0.0
Cash paid (-) for investments in intangible assets.....	-0.2	-0.2
Cash paid (-) for the acquisition of entities	-2,479.9	0.0
Cash flow from investing activities	-2,487.4	-3.9
Cash received from contribution to capital reserve.....	500.4	-
Cash received from issue of bond.....	393.5	-
Cash received from / repayment (-) of syndicated loan	1,075.8	-8.6
Interest paid (-)	-19.7	-22.1
Cash received from drawing / repayment (-) of revolver loan	2.6	16.0
Cash received from / repayment (-) of shareholder loan	523.8	-52.8
Cash flow from financing activities	2,476.4	-67.6
Change in cash and cash equivalents.....	18.1	-40.8
Net foreign exchange difference	0.0	0.3
Cash and cash equivalents at the beginning of the period	14.8	124.6
Cash and cash equivalents at the end of the period	32.8	84.1

Cash flows from operating activities slightly decreased from €30.7 million for the three months ended March 31, 2017 to €29.0 million for the three months ended March 31, 2018. The increase in our EBITDA, was offset by other operating outflows mainly contributable to the acquisition of CeramTec by BC Partners.

Cash flows used in investing activities increased from €3.9 million for the three months ended March 31, 2017 to €7.6 million for the three months ended March 31, 2018. The higher investment spending in the first quarter 2018 was mainly driven by phasing of growth projects reflecting the positive market conditions. Investing activities furthermore include cash paid for the acquisition of €2,480 million comprising of €1,603 million purchase price to the seller and €877 million repayment of debt.

Cash flows used in financing activities increased from an outflow of €67.6 million for the three months ended March 31, 2017 to an income of €2,476.4 million for the three months ended March 31, 2018, mainly due to new financing structure comprising inflows from loans, bond and contribution to capital reserve.

6 Capital Expenditures

The following table provides an overview of our capital expenditures for the three months ended March 31, 2018 and 2017:

	Three Months ended March 31, 2018	Three Months ended March 31, 2017
Additions to intangible assets.....	0.1	0.2
Additions to property, plant and equipment	4.8	2.9
Capital expenditures (gross)	4.9	3.1
Government grants.....	0.0	0.0
Capital expenditures (net).....	4.9	3.1
Additions from business acquisitions.....	0.0	0.0

In general, our capital investment is split evenly between maintenance and growth projects. Cash outflow for the three months ended March 31, 2018 for intangible assets amounts to €0.2 million and for tangible assets amounts to €7.4 million.

7 Employees

As of March 31, 2018, the CeramTec Group employed a workforce of 3,548 people, an increase of 11.9 % compared to the previous year. The increase includes 257 former employees of the UK electro-ceramics business acquired from Morgan Advanced Materials plc.

Headcount	March 31, 2018	March 31, 2017
Employees by region		
Europe (w/o Germany).....	656	389
Germany.....	2.058	1.996
North and South America.....	327	304
Asia.....	507	481
	3.548	3.170
Employees by function		
Manufacturing.....	2.784	2.475
Sales.....	326	297
Research and development.....	185	170
Administration.....	253	228
	3.548	3.170

8 Recent Developments

There has been no recent developments.

Plochingen, 27 June 2018

CeramTec TopCo GmbH

The management

Dr. Hadi Saleh

CeramTec TopCo GmbH
Plochingen

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

Interim condensed PRO-FORMA consolidated statement of comprehensive income

from 1 January to 31 March 2018

	Notes	1 January to 31 March 2018	1 January to 31 March 2017
		EUR k	EUR k
Revenue	3.1	157,007	132,506
Cost of sales	3.2	85,123	75,904
Gross profit		71,884	56,602
Selling costs	3.3	21,137	20,765
Research and development costs	3.4	5,894	5,602
General administrative costs	3.5	6,892	6,388
Other income and expenses (-), net	3.6	-10,544	-378
Operating income		27,417	23,469
Interest income and other finance income		366	28,613
Interest expenses and other finance costs		41,991	15,971
Financial result	3.7	-41,625	12,642
Profit / loss (-) before income tax		-14,208	36,111
Income tax expense		-197	-11,492
Net profit / net loss (-) for the period		-14,405	24,619
Items that will not be reclassified through profit or loss			
Income / expenses (-) from the remeasurement of defined benefit plans		-156	863
Deferred taxes		45	-247
		-111	616
Items that may be reclassified subsequently to profit or loss			
Losses on cash flow hedges		-1,062	-104
Deferred taxes		296	30
		-766	-74
Exchange differences on translation of foreign operations		321	-1,163
Other comprehensive loss, net of income tax		-556	-621
Total comprehensive income / loss (-)		-14,961	23,998

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

Assets	Notes	31 March 2018	31 December 2017
		EUR k	EUR k
Goodwill		1,841,704	561,573
Other intangible assets	4.1	527,199	538,304
Property, plant and equipment	4.2	261,987	266,815
Other financial assets	4.3	22,014	20,017
Other assets	4.4	1,747	678
Deferred tax assets		6,080	249
Non-current assets		2,660,731	1,387,636
Inventories		87,518	86,529
Trade receivables	4.5	60,715	52,096
Income tax receivables		2,755	3,304
Other financial assets	4.3	2,633	23,208
Other receivables and assets	4.4	8,252	5,084
Cash and cash equivalents	4.6	32,809	14,753
Current assets		194,682	184,974
Total Assets		2,855,413	1,572,610

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

Equity and Liabilities	Notes	31 March 2018	31 December 2017
		EUR k	TEUR
Issued capital	4.7	25	25
Capital reserves	4.7	500,417	378,148
Accumulated losses	4.7	-34,958	-92,365
Accumulated other comprehensive income	4.7	634	1,079
Equity		466,118	286,887
Provisions for pension obligations		99,578	98,447
Other provisions		5,307	5,142
Financial liabilities to affiliates	4.8	526,560	55,355
Financial liabilities to third parties	4.9	1,507,585	661,705
Deferred tax liabilities		143,091	150,721
Non-current liabilities		2,282,121	971,370
Other provisions		21,490	20,442
Provision for taxes		15,858	12,578
Financial liabilities to third parties	4.9	20,030	245,422
Trade payables		33,163	26,676
Trade payables to affiliates		0	135
Other liabilities	4.10	16,633	9,100
Current liabilities		107,174	314,353
Total liabilities		2,389,295	1,285,723
Total equity and liabilities		2,855,413	1,572,610

CeramTec TopCo GmbH, Plochingen

**Interim condensed consolidated PRO-FORMA statement of cash flows
from 1 January to 31 March 2018**

	1 January to 31 March 2018	1 January to 31 March 2017
	EUR k	EUR k
Net profit / net loss (-) for the period	-14,405	24,619
Income tax expense / benefit (-)	197	11,492
Interest result	24,001	15,892
Amortisation, depreciation and impairment charges of non-current assets	20,709	20,482
Loss on disposal of property, plant and equipment and intangible assets	-10	8
Increase / decrease (-) in provisions (excluding deferred taxes)	1,424	2,967
Income tax payment (-)	-5,131	-3,192
Other non-cash income (-) / expenses, net	16,356	-29,727
Increase (-) in inventories	-988	-6,572
Increase (-) in trade receivables	-8,619	-14,136
Increase (-) / decrease in other receivables and (financial) assets	31,029	-714
Increase / decrease (-) in trade payables	-41,122	5,084
Increase in other (financial) liabilities	5,579	4,508
Cash flow from operating activities	29,020	30,712
Cash received from disposals of property, plant and equipment	45	22
Cash paid (-) for investments in property, plant and equipment	-7,422	-3,719
Cash paid (-) for investments in intangible assets	-167	-188
Cash paid (-) for the acquisition of entities	-2,479,862	0
Cash flow from investing activities	-2,487,406	-3,885
Cash received from contribution to capital reserve	500,367	0
Cash received from issuance of bond	393,508	0
Cash received from syndicated loan	1,075,822	-8,642
Interest paid (-)	-19,671	-22,115
Cash received from drawing of revolver loan	2,616	16,000
Cash received from shareholder loan	523,798	-52,829
Cash flow from financing activities	2,476,440	-67,587
Increase in cash and cash equivalents	18,054	-40,760
Net foreign exchange difference	2	274
Cash and cash equivalents at the beginning of the period	14,753	124,585
Cash and cash equivalents at the end of the period	32,809	84,099

**CeramTec TopCo GmbH
Plochingen**

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

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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 PRO-FORMA consolidated financial statements for the period ended 31 March 2018 on 27 June 2018.

1.2 Basis of preparation

For the period 1 January 2018 to 28 February 2018 and the prior fiscal year the operating entities were presented in the consolidated group of the former ultimate parent CeramTec Holding GmbH. With the acquisition as at 1 March 2018 the operating entities are presented in the consolidated group of the ultimate parent CeramTec TopCo. The interim condensed PRO-FORMA consolidated financial statements are an aggregation of these two analysis periods.

The interim condensed PRO-FORMA consolidated financial statements are prepared in accordance with IFRS/IAS. These interim condensed PRO-FORMA consolidated financial statements do not include all of the information and disclosures required in the legal interim condensed consolidated financial statements according to IAS 34 Interim Financial Reporting.

The interim condensed PRO-FORMA consolidated financial statements give a true and fair view of the results of operations and financial position of the Group.

The interim condensed PRO-FORMA 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 consolidated financial statements

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

Name of the entity	Share of capital in %	Principle Activity
	31 March 2018	
CeramTec BondCo GmbH, Plochingen	100.00	1
CeramTec AcquiCo GmbH, Plochingen	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
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

Name of the entity	Share of capital in %	Principle Activity
	31 March 2018	
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.

2 Accounting principles and policies

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

For details please refer to the legal interim condensed consolidated financial statements for the period ended 31 March 2018.

Foreign currency translation

The consolidated financial statements are prepared in euros, the functional currency of the Group. The 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 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 are as follows:

	31 Mar 2018 Period-end exchange rate	1 Jan to 31 Mar 2018 Average exchange rate	31 Dec 2017 Period-end exchange rate	1 Jan to 31 Mar 2017 Average exchange rate
USD USA	1.2321	1.2294	1.1993	1.0647
CNY China	7.7468	7.8149	7.8044	7.3341
GBP Great Britain	0.8749	0.8834	0.8872	0.8598
PLN Poland	4.2106	4.1793	4.1770	4.3208
CZK Czech Republic	25.4250	25.4003	25.5350	27.0213

The individual items in the 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.

3 Notes to the interim condensed PRO-FORMA 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	1 January to 31 March 2017 EUR k
Regions		
Europe (w/o Germany)	67,303	57,346
Germany	41,236	33,384
North America	22,288	20,725
Asia	21,489	16,467
Rest of world	4,691	4,584
Total	157,007	132,506
Businesses		
Industrial	98,302	83,414
Medical products	58,705	49,092
Total	157,007	132,506

3.2 Cost of sales

The cost of sales break down as follows:

	1 January to 31 March 2018 EUR k	1 January to 31 March 2017 EUR k
Personnel expenses	32,542	30,206
Material and packaging costs	29,013	24,727
Amortization and depreciation	12,108	12,128
Other cost of sales	11,460	8,843
Total	85,123	75,904

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	1 January to 31 March 2017 EUR k
Acquisition costs	-10,430	-13
Foreign currency results	88	-361
Gains / losses (-) on disposal of property, plant and equipment	11	-8
Additions to allowance for bad debts	0	-20
Sundry other income	45	79
Sundry other expenses	-258	-55
Total	-10,544	-378

The acquisition costs in the reporting period occurred within the purchase process of the shares of CeramTec Holding.

3.7 Financial result

The financial result breaks down as follows:

	1 January to 31 March 2018 EUR k	1 January to 31 March 2017 EUR k
Exchange rate gains	0	855
Interest income from effective interest method	360	0
Gains on derivative valuations	0	27,681
Other interest income	6	77
Total interest income and other finance income	366	28,613
Losses on derivative valuations	17,181	0
Interest expense from bond	10,469	6,326
Interest expense from shareholder loans	3,577	2,043
Interest expense from syndicated loan	6,239	5,585
Interest expense from effective interest method	1,389	1,392
Interest expense from revolving credit line	176	129
Exchange rate losses	412	0
Other interest expenses	2,562	496
Less: Borrowing costs capitalized as part of qualifying assets	-14	0
Total interest expenses and other finance costs	41,991	15,971
Total financial result	-41,625	12,642

4 Notes to the interim condensed PRO-FORMA consolidated statement of financial position

4.1 Other intangible assets

During the reporting period, The Group recognized amortization expenses in the amount of EUR 11,445k (1 January 2017 to 31 March 2017 EUR 11,107k) which arise mainly from customer relationships and technology.

The Group purchased intangible assets at cost of EUR 167k (1 January 2017 to 31 March 2017 EUR 188k).

4.2 Property, plant and equipment

During the reporting period, the Group purchased assets at cost of EUR 4,773k (1 January 2017 to 31 March 2017 EUR 2,874k).

The recognized depreciation expenses amount to EUR 9,264k (1 January 2017 to 31 March 2017 EUR 9,375k).

There were contractual commitments to acquire property, plant and equipment of EUR 12,481k as of the reporting date (31 December 2017: EUR 12,739k).

4.3 Other financial assets

The following table breaks down other financial assets as follows:

	31 March 2018 EUR k	31 December 2017 EUR k
Other financial assets (non-current)		
Separated termination rights	21,959	19,963
Insurance claims	55	54
Total	22,014	20,017
Other financial assets (current)		
Derivative financial instruments	0	21,233
Receivables arising from amounts retained by a factor as a security	2,393	1,768
Other financial assets	240	207
Total	2,633	23,208

CeramTec has a termination option for the issued bond. This termination option represents an embedded derivative, which is accounted for separately from the underlying transaction.

4.4 Other assets/other receivables and assets

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

	31 March 2018 EUR k	31 December 2017 EUR k
	<u> </u>	<u> </u>
Other non-current assets		
Accrued finance costs for the revolving credit line	1,080	0
Other assets	667	678
Total	<u>1,747</u>	<u>678</u>
Other current assets		
VAT receivables	2,263	1,412
Receivables from energy tax refunds	1,854	1,541
Deferred finance costs for the revolving credit line	219	312
Sundry assets	3,916	1,819
Total	<u>8,252</u>	<u>5,084</u>

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 (31 December 2017: EUR 52,096k) after taking into account impairment losses of EUR 461k (31 December 2017: EUR 472k).

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

	31 March 2018 EUR k	31 December 2017 EUR k
	<u> </u>	<u> </u>
Carrying amount (before impairment)	61,176	52,568
thereof not yet due on the reporting date	49,620	41,757
thereof past due on the reporting date	11,556	10,811

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 (31 December 2017: EUR 14,739k) and cash in hand of EUR 18k (31 December 2017: EUR 14k).

4.7 Equity

The following table breaks down the equity as follows:

	31 March 2018 EUR k	31 December 2017 EUR k
Issued Capital	25	25
Capital Reserves	500,417	378,148
Revenue Reserves and Retained Earnings	-34,958	-92,365
Accumulated Other Comprehensive Income	634	1,079
Total	466,118	286,887

The acquisition of the shares of CeramTec Holding by CeramTec AcquiCo 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 (31 December 2017: EUR 55,355k against Faenza Luxembourg S.à.r.l).

	31 March 2018 EUR k	31 December 2017 EUR k
Non-current financial liabilities		
Loan payable	523,798	53,845
Accrued interest	2,762	1,510
	526,560	55,355

The actual 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	31 December 2017 EUR k
Non-current financial liabilities		
Liabilities to banks	1,077,414	355,697
Liabilities from the bond	419,263	300,583
Derivative financial instruments	9,637	4,120
Finance lease liabilities	1,271	1,305
Total	1,507,585	661,705
Current financial liabilities		
Liabilities from the bond	6,217	9,489
Liabilities to banks	5,215	228,077
Derivative financial instruments	5,105	3,142
Discounts and bonuses	1,671	2,861
Finance lease liabilities	8	8
Other current financial liabilities	1,814	1,845
Total	20,030	245,422

With transferring ownership, existing financing was repaid and a new financing had become effective.

Liabilities to banks nominally amount to EUR 970,000k (31 December 2017: EUR 291,300k) from a tranche in EUR and EUR 142,034k (31 December 2017: EUR 296,689k) from a tranche in USD. The actual loans have variable interest rates and mature on 8 March 2025. Transaction costs associated with the loan of EUR 25,768k (31 December 2017: EUR 19,733k) are spread over the term of the loan using the effective interest method.

The bond has a fixed interest rate and a nominal volume of EUR 406,000k (31 December 2017: EUR 306,700k against prior bond holders). This bond matures on 15 December 2025. The CeramTec TopCo Group has a termination option for this bond, which is recognized as a separate financial asset (note 4.3). Associated transaction costs of EUR 12,532k (31 December 2017: EUR 13,120) are spread over the term of the bond using the effective interest method.

4.10 Other liabilities

Other liabilities break down as follows:

	31 March 2018 EUR k	31 December 2017 EUR k
Other current liabilities		
Wages and salaries including taxes	9,712	6,433
Real estate transfer tax	4,364	793
Contract liabilities from contracts with customers	35	27
Other current liabilities	2,522	1,847
Total	16,633	9,100

5 Additional notes to the interim condensed PRO-FORMA consolidated statement of cash flows

In the interim condensed PRO-FORMA 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 PRO-FORMA 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 to CeramTec AcquiCo.

During the period 1 January to 31 March 2018, the Group paid cash EUR 3,429k to purchase property, plant and equipment previously purchased on account. At the same time, additions to property, plant and equipment in the fiscal year amounted to EUR 780k that will affect cash during the following accounting period.

6 Reconciliation to CeramTec BondCo GmbH

If the interim condensed PRO-FORMA consolidated statement of comprehensive income of CeramTec BondCo had been prepared instead of the interim condensed PRO-FORMA 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 PRO-FORMA consolidated statement of financial position of CeramTec BondCo had been prepared instead of the interim condensed PRO-FORMA 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:

- lower cash and cash equivalents of EUR 22k (31 December 2017: EUR 22k)
- lower capital reserves of EUR 25k (31 December 2017: EUR 25k)
- lower trade payables of EUR 1k (31 December 2017: EUR 0k)

This would have resulted in a lower group equity of EUR 21k (31 December 2017: 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 PRO-FORMA consolidated statement of cash flows if the interim condensed PRO-FORMA consolidated statement of cash flows of CeramTec BondCo had been prepared instead of the interim condensed PRO-FORMA 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