
Audit Certificate

CeramTec TopCo GmbH
Plochingen

Consolidated Financial Statements
for the Period Ending December 31, 2020
and the Group Management Report for Financial Year 2020

INDEPENDENT AUDITOR'S REPORT

(Translation - the German text is authoritative)



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This audit certificate serves only to be used pursuant Article 325 et seq. HGB
(German Commercial Code).



CeramTec TopCo GmbH

Plochingen

Group Management Report

for Financial Year 2020

(Translation – the German text is authoritative)

1 Basic information about the Group

1.1 Preliminary remarks

CeramTec TopCo GmbH (hereinafter referred to as CT TopCo or Company) is headquartered in Plochingen/Germany. The financial year corresponds to the calendar year.

CT TopCo is the direct parent company and holds all shares in CeramTec BondCo GmbH, Plochingen/Germany, (hereinafter referred to as CT BondCo), which, in turn, is the direct parent company of CeramTec AcquiCo GmbH, Plochingen/Germany, (hereinafter referred to as CT AcquiCo), in which it holds all shares. CT AcquiCo acquired all shares in CeramTec Holding GmbH effective as of March 8, 2018.

In addition to the financial statements of CT TopCo, the consolidated financial statements include the financial statements of subsidiaries which are directly and indirectly controlled by CT TopCo. Of the 23 fully consolidated subsidiaries, 9 are headquartered in Germany, and 14 are headquartered abroad. The notes to the consolidated financial statements include details of shareholdings.

The consolidated financial statements of CT TopCo are prepared by applying Sec 315e (1) in conjunction with (3) German Commercial Code (HGB) in conformity with the International Financial Reporting Standards (IFRS/IAS) issued by the International Accounting Standards Board (IASB) and related interpretations (SICs/IFRICs) which must be applied in accordance with Regulation No. 1606/2002 of the European Parliament and of the Council on the application of international accounting standards in the EU, and the supplementary requirements of the German Commercial Code (HGB).

1.2 Business model/targets and strategies

CeramTec is a leading global group in the development, manufacture and supply of products made of technical high performance ceramics ("HPC"), which contain highly specialized materials with superior biological/chemical, mechanical, thermal or electric properties compared to often competing products made from metal or organic polymers (plastics). CeramTec has been engaged in the high performance ceramics industry for over 100 years, with operational expertise and experience in creating innovative system solutions for longstanding regular customers. CeramTec supplies products for all areas of life, including hip joint replacement components, dental implants, various piezo components for sensors (for medical and industrial end applications), actuators in engine valves for fuel injection systems, hybrid and electric vehicles components, SPK tools for high-performance cutting and high-performance ceramic substrata for various electronic components. The versatility of high performance ceramics products and the resulting wide range of applications provides us with a highly diversified end market and customer base.

The operations can be divided into two businesses – Medical Products and Industrial.

- The Medical Products business focuses on developing and manufacturing ceramic components for joint replacements in hip endoprosthetics as well as – since 2020 – entry into the market for ceramic dental implants. In 2020, we generated 41.6% of our revenue from our Medical Products business.
- The Industrial business develops, manufactures and supplies a broad range of highly specialized, application-intensive HPC solutions for customers spanning a range of markets, including automotive, electronics, industrial machinery and medical equipment. In 2020, 58.4% of our revenue was generated by products for industrial applications.

CeramTec generates more than 60% of revenue in Europe (including Germany). However, our customers have a strong export focus as their products, such as automotive parts or medical products, are sold to end-customers worldwide.

CeramTec has a global manufacturing footprint with 20 facilities across Europe, North America and South America as well as Asia. Manufacturing plants in Germany are located at Plochingen (headquarters), Marktredwitz, Lauf, Ebersbach, Wittlich, Lohmar and Wilhermsdorf.

In our opinion, CeramTec's business model is based on the following strengths:

- Ability to deliver compelling customer value through high-tech, tailored solutions for complex applications
- R&D and manufacturing excellence with high degree of customer integration
- Leading market position in a critical and growing segment of the orthopedics market
- Extensive production expertise in highly complex ceramic components in small-batch and large-scale production with the highest of quality requirements
- Global expertise in the relevant regulatory requirements and processes within the medical components market
- Tailored solutions for OEMs in diversified industrial business segments
- Strong financial position and performance and sustained cash flows
- Experienced management team supported by dedicated workforce

Our goal is profitable and sustainable growth taking the following steps:

- Maintain leadership in high performance ceramics through commercial, operational and innovation excellence
- Further expansion of our close cooperation with customers to jointly develop technologically innovative solutions based on the outstanding material properties of ceramics and a clear understanding of customer requirements as well as the regulatory requirements for various products and countries
- Expand globally in markets with strong underlying fundamentals where we are underrepresented such as the United States and China, by focusing on growth initiatives and delivering customer driven innovations
- Maintain a disciplined approach in using such cash while preserving attractive margins
- Pursue a sustainable acquisition strategy in attractive end markets and technologies as well as accessing new geographies

1.3 Research and development

As a manufacturer of high-tech solutions we believe that our continued emphasis on research and development is key to our future profitability. Our Research & Development efforts mainly reflect application-oriented developments and processes cooperatively developed with our customers as well as innovative solutions which promise high market potential. CeramTec cooperates with many well-known research institutions and universities. We have a strong, centralized Research & Development infrastructure with a large number of globally working scientists and engineers.

In the future, the focus on the applications' marketability will be enhanced by cooperating more closely with our customers. The research and development efforts will also be directed towards innovative new products and materials for markets with long-term growth potential, focusing on products which enable CeramTec to clearly differentiate from competitors, based on its in-depth knowhow about materials and processes.

Research and development expenses are recognized as expenses in the period in which they are incurred. In the financial year, expenses for the consolidated group's research and development efforts amounted to EUR 20,628 k (prior year EUR 23,341k) and the ratio of research and development expenses to revenues was 3.7% (prior year: 3.8%). At the balance sheet date, 161 people were employed in research and development (December 31, 2019: 186 people).

2 Economic report

2.1 Macroeconomic development and sector-related general conditions

Macroeconomic development

In its economic forecasts of December 16, 2020, the Institute for the World Economy expects the global economy to contract by 3.8% in 2020, which is by far the largest downturn in the last 70 years. In this context, the historic downturn recorded in the first half of the year due to the Covid-19 pandemic was largely made up for again such that the outcome was only 2% below the pre-crisis level. Nevertheless, sentiment among companies deteriorated once more in November after infection rates had risen significantly in autumn and restrictions on social and economic activities were put in place again in many countries. The scale of the recovery varies significantly according to sector and region. With regard to sectors, there was a rapid recovery in industrial production while, from a regional standpoint, the situation in China, in particular, was more positive than the global average.

In the Eurozone, a decrease of approximately 2.0% in economic output is anticipated in the final quarter of 2020, meaning that the decrease in gross domestic product (GDP) is expected to amount to 7.2% for 2020. Following a slump, the US economy will continue its recovery in the winter half of the year but there will nevertheless still be a GDP decrease of 3.6% for the year 2020. The recovery from the pandemic-induced economic downturn has progressed particularly well in China and has even resulted in slight growth of 1.8% compared to 2019. The economic picture among emerging economies is inconsistent with the recovery progressing to differing degrees and prospects also varying.

Due to the Coronavirus, the German economy recorded a major decrease of 5.2% in GDP in 2020. After the huge downturn in economic activity in March and April, a powerful recovery has since taken place following the de-escalation in the pandemic situation and the associated loosening of restrictions both domestically and around the world. The factor of primary importance for the German economy was that goods exports and – almost mirroring them – industrial production picked up rapidly. There was also a noticeable return in activity within many services sectors following the shutdown with retail surpassing the pre-crisis level as early as May.

Development of the industry sector

Macroeconomic and Other Developments in our Key Geographical Target Markets

Sales of CeramTec are mostly generated in Europe and specifically in Germany. Despite this relative concentration, many customers, especially medical and automotive customers, are export-oriented, globally operating companies. Consequently, we assess our business as globally diversified. Our actual end-markets are likely to be more strongly located in North America and Asia than our direct sales show.

Development of Hip Replacement Markets as Indicator for the Medical Products business

Medical Product revenues and operating profit are influenced by the development of the market for hip replacements in general and the market share for ceramic hip implants in particular and have historically not been particularly sensitive to macroeconomic developments while short-term restrictions on the performance of elective operations, such as those resulting from the Covid pandemic, are expected to result in catch-up effects over the long-term due to the medical necessity of such procedures.

The share of ceramic ball heads in implanted hip replacements is rising continuously. In addition to growth in the total hip replacement market, the share of ceramic prostheses is expected to increase by gradually replacing traditional materials such as metal which can, for example, trigger allergic reactions. Continuously positive development in the market share of ceramics is expected in North America and China in particular.

Demand Cycles in Various End Markets Relevant for our Industrial Business

Sales in our Industrial business are influenced by economic growth in our target markets.

In addition to the overall GDP growth rate influencing the results of operations of our Industrial business, each industrial market is also subject to different influential factors. In particular, the automotive, electronics and engineering industries are cyclical end-markets while the end-markets for medical sensors as well as catalyst supports are subject to different cycles. Demand significantly depends on the business success of our OEM customers as well as their end-customers. For example, overall economic conditions and technical framework conditions can affect new car sales, impacting automotive suppliers and thereby also influencing demand for ceramic components in automobiles and engines.

The CT TopCo Group's key revenue drivers include, among others, the automotive industry, the orthopedic operation market such as hip operations in particular, the electronics industry and various other industrial niche markets, such as the machine component market in the textile industry. Particularly for the automotive end market,

but also various other industrial end markets such as construction, the economic developments in Germany and Europe have a significant effect on our business development.

2.2 Business development

The CT TopCo Group has an extensive portfolio of ceramic materials, and our highly trained and experienced development and manufacturing specialists enable us to provide a wide range of applications and problem solutions for demanding customers operating in the medical technology, automotive, electronics, energy-and-environment and mechanical and plant engineering industries.

Thus, the CT TopCo Group operates in a very heterogeneous market and in the financial year achieved revenues totaling EUR 552,702k. The financial year was dominated by the economic effects of the Corona pandemic. In the second quarter, in particular, significant decreases in sales were recorded due in part to complete failures of supply chains. In the second half of the year, business picked up again but remained below the level of the previous year. In terms of sales, the pandemic has had a substantial negative impact on both the Medical Products and Industrial businesses.

Prior to the outbreak of the Corona pandemic, the management of the CT TopCo Group had anticipated a moderate increase in sales revenue, a significant increase in adjusted EBITDA and a significant increase in EBITDA for 2020 compared to the preceding year. In reality, sales revenue, EBITDA and adjusted EBITDA fell significantly short of planned levels in 2020.

In financial year 2020, order intake amounted to EUR 582,972k (prior year: EUR 598,621k) and as of December 31, 2020, the backlog of orders on hand amounted to EUR 196,360k (prior year: EUR 177,262k). The increase in the order backlog at the end of financial year 2020 is attributable to the continuous recovery of markets in the second half of 2020.

The net operating result was EUR -53,634k (prior year: EUR -224,467k) and adjusted for non-recurring items, depreciation, amortization, write-downs and valuation allowances (adjusted EBITDA) amounted to EUR 213,099k (prior year: EUR 244,321k). The adjusted EBITDA margin was therefore 38,6% (prior year: 39.4%).

CeramTec GmbH, Plochingen/Germany, is the largest company which engages in operating activities, and is part of the CT TopCo Group.

3 Presentation of the consolidated group's position

3.1 Results of operations

In financial year 2020, the CT TopCo Group achieved sales revenue of EUR 552,702k (prior year: EUR 620,376k). This equates to a decrease in sales revenue of -10.9% compared to calendar year 2019.

Medical Products generated revenues of EUR 230,171k (prior year: EUR 258,687k). Following a major slump in sales and order intake in the second quarter, business underwent a continuous recovery in the second half of the year because the number of elective operations accelerated steadily again due to their necessity once lockdown restrictions started to be loosened.

The CeramTec Group achieved sales revenue of EUR 322,531k in its Industrial business (prior year: EUR 361,689k). In particular, end markets such as the automotive industry and electronic components were significantly impacted by the fall in global economic output. Other end markets, such as piezo-based sensors for medical applications or catalyst supports, experienced satisfying development again in financial year 2020.

Europe and Germany are the most important markets in terms of sales, accounting for 62.5% (prior year: 66.4%) of the revenues of the consolidated group. Asia and North America account for 19.1% (prior year: 16.2%) and 16.5% (prior year: 14.8%) of the revenues respectively.

The consolidated group made a gross profit of sales of EUR 217,796k (prior year: EUR 264,137k) in the financial year. The gross margin (gross profit of sales in relation to revenue) amounted to 39.4% (prior year: 42.6%).

The ratio of selling costs to revenue, expressed as a percentage, stands at 15.8% (prior year: 15.4%), the ratio of research and development costs to revenue stands at 3.7% (prior year: 3.8%) and the ratio of general administrative costs to revenue stands at 4.4% (prior year: 4.4%).

Other expenses and income include impairment of goodwill in the amount of EUR 137,065k (prior year: EUR 329,753k).

The net operating result amounted to EUR -53,634k in financial year 2020 (prior year: EUR -224,467k).

The negative net finance result of EUR 92,693k (prior year: EUR 98,314k) results from interest income and similar income of EUR 6,849k (prior year: EUR 2,135k) and interest expense and similar expenses of EUR 99,542k (prior year: EUR 100,449k).

In the financial year, interest income resulted mainly from foreign currency gains amounting to EUR 5,276k (prior year: EUR 190k) and from the discounting of financial liabilities of EUR 1,447k (prior year: EUR 1,380k). Interest expenses were due mainly to expenses for interest on a syndicated loan and the corporate bond of EUR 49,672k (prior year: EUR 52,674k), interest expenses from derivatives amounting to EUR 22,710k (prior year: EUR 1,274k) and interest on the shareholder loan of EUR 19,131k (prior year: EUR 38,768k).

Loss for the period breaks down as follows:

(kEUR)	2020	2019
Loss for the period before income tax	-146,327	-322,781
Current income tax expense	-28,123	-34,434
Deferred tax income	25,276	17,936
Net loss for the period	-149,175	-339,279

In the financial year, EBITDA and adjusted EBITDA (net operating result, plus depreciation, amortization, write-downs/impairments and special items) were determined as follows:

(kEUR)	2020	2019
Net operating result	-53,634	-224,467
Depreciation, amortization, writedown/impairments	244,160	447,168
EBITDA	190,526	222,701
Special items	22,573	21,620
Adjusted EBITDA	213,099	244,321

The special items reflected in adjusted EBITDA mainly include costs for strategic and operational re-alignment (EUR 13,011k; prior year: EUR 15,566k), costs caused by Covid-19 (EUR 4,733k; prior year: EUR 0k) and costs for expiring product lines (EUR 1,393k; prior year: EUR 3,671k).

In the reporting year, adjusted EBITDA in relation to revenues was 38.6% (prior year: 39.4%).

3.2 Net assets and financial position

Asset and capital structure

The Group's balance sheet total declined by EUR 48,057k to EUR 2,547,204k as of December 31, 2020. This corresponds to a decline of 1.9%, mainly reflecting the loss for the financial year on the liabilities side that is compensated for by an increase in financial liabilities primarily caused by the loan taken out in the nominal amount of EUR 175,000k in December 2020. On the assets side, mainly goodwill and intangible assets decreased due to impairments to be recognized as well as ongoing amortization. The decrease in assets is compensated for by the significant increase in cash and cash equivalents, which has also been caused by the loan taken out.

Goodwill results from the acquisition of the CeramTec Group in the prior year. At that time, it was allocated to the cash-generating units (CGUs) Medical Technology (EUR 874,613k), and Industrial Applications (EUR 466,818k). The annual impairment test resulted in a valuation allowance to be recognized on goodwill of the Industrial GCU in the amount of EUR 137,065k (prior year: EUR 329,753k).

The trademarks CeramTec, BIOLOX, SPK and DAI Ceramics were identified during the acquisition process. The carrying amount of the above trademarks was EUR 53,544k as of December 31, 2020 (December 31, 2019: EUR 53,544k). The useful life for the recognized trademarks was classified as indefinite. The annual impairment test in the financial year resulted in a valuation allowance to be recognized here in the amount of EUR 0k (prior year: EUR 5,456k).

Technology has a carrying amount of EUR 283,853k (December 31, 2019: EUR 302,481k) and primarily contains the basic technology underlying the Medical Products business, and the basic technology underlying the Industrial business. These have an average weighted remaining useful life of 15.2 years (December 31, 2019: 16.2 years).

Customer relationships have a carrying amount of EUR 632,084k (December 31, 2019: EUR 677,789k) and primarily contain customer relationships from medical applications. These have an average weighted remaining useful life of 14.1 years (December 31, 2019: 15.1 years).

Long-term and short-term other financial assets include mainly the termination rights of EUR 10,221k (December 31, 2019: EUR 25,139k) associated with the corporate bond issue which are carried on the balance sheet and must be separated.

Trade receivables amounted to EUR 51,880k (December 31, 2019: EUR 52,740k). Please note that, under a factoring agreement concluded in 2017, receivables of EUR 13,599k (December 31, 2019: EUR 14,422k) were sold as of the balance sheet date.

Cash and cash equivalents are composed of bank balances of EUR 244,113k (December 31, 2019: EUR 64,373k) and cash on hand of EUR 5k (December 31, 2019: EUR 7k). For details see explanations on liquidity.

Equity of EUR 180,957k (December 31, 2019: EUR 338,468k) accounts for 7.1% (December 31, 2019: 13.0%) of total capital. With effect as of December 31, 2019, a nominal amount of EUR 247,929k of the existing shareholder loan and interest liabilities of EUR 32,025k were contributed to the capital reserve.

Long-term provisions of EUR 127,111k (December 31, 2019: EUR 118,939k) include mainly provisions for retirement benefits in the amount of EUR 124,350k (December 31, 2019: EUR 113,433k).

In addition to the aforementioned long-term provisions and deferred taxes in the amount of EUR 270,110k (December 31, 2019: EUR 298,417k), long-term liabilities of the consolidated group include mainly liabilities to banks of EUR 1,156,680k (December 31, 2019: EUR 999,334k), liabilities arising from the issuance of a corporate bond of EUR 414,293k (December 31, 2019: EUR 415,740k), derivative financial instruments with a negative market value of EUR 22,489k (December 31, 2019: EUR 15,179k), and financial liabilities to affiliated companies of EUR 273,523k (December 31, 2019: EUR 256,270k).

Equity and long-term liabilities cover 114.3% of the CT TopCo Group's long-term assets (December 31, 2019: 103.3%).

Liabilities to banks nominally amount to EUR 1,069,000k (December 31, 2019: EUR 894,000k) from a tranche in EUR, and EUR 121,326k (December 31, 2019: EUR 133,167k) from two tranches in USD. These loans have variable interest rates and mature on March 8, 2025. Transaction costs associated with the loan that amounted to EUR 33,641k 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 (December 31, 2019: EUR 406,000k). This bond matures on December 15, 2025. The CT TopCo Group has a termination option for this bond, which is recognized as a separate financial asset (see above). Associated transaction costs that originally amounted to EUR 13,570k are spread over the term of the bond using the effective interest method.

The negative market value of derivative financial instruments relates to embedded interest-rate floors which must be separated.

Long-term financial liabilities to affiliated companies consist of a shareholder loan of EUR 273,523k (December 31, 2019: EUR 256,270k). The loan matures on December 31, 2028 and bears interest of 7.3 % p. a.

Short-term financial liabilities to third parties of EUR 23,973k (December 31, 2019: EUR 25,406k) include mainly accrued interest on bonds payable of EUR 7,993k (December 31, 2019: EUR 7,993k), derivative financial instruments with a negative market value of EUR 8,256k (December 31, 2019: EUR 5,743k) and the short-term part of liabilities to banks of EUR 141k (December 31, 2019: EUR 2,672k).

Short-term financial liabilities to affiliated companies consist of the accrued interest on the shareholder loan amounting to EUR 312k (December 31, 2019: EUR 35,634k) and this interest was paid out in January of the subsequent year. In the prior year, short-term loan liabilities amounting to EUR 19,599k were also contained here.

Operating working capital (inventories and trade receivables, less trade payables and provisions recognized for operating activities) amounts to EUR 84,403k as of December 31, 2020 (December 31, 2019: EUR 85,932k).

Capital expenditures

In the reporting year, EUR 36,715k (prior year: EUR 43,633k) in total was spent on property, plant and equipment, and intangible assets. Additions to right-of-use assets pursuant to IFRS 16 are not included in this figure. Investments were carried out in the form of replacement investments (44%) and expansion investments (56%). Investments are made mainly by CeramTec GmbH in machines of the Medical Products (some 33%) and Industrial businesses (some 45%) as well as general investments for necessary optimization and digitalization projects.

Capital expenditures in the Medical Products business are designed to add capacity over the long term and improve productivity, while capital expenditures in the Industrial business are related to replacement investments and selected growth projects. In addition, a great number of different facilities were purchased and put into operation by other subsidiaries in Germany and abroad with investments in increasing capacity primarily taking place in Great Britain.

Liquidity

In the financial year, the consolidated group received cash inflows of EUR 163,433k (prior year: EUR 190,095k) from its operating activities.

The cash outflows resulting from the consolidated group's investing activities amounted to EUR 37,638k (prior year: EUR 41,089k).

With respect to financing activities, the cash inflows amounted to EUR 54,845k (prior year: cash outflows of EUR 105,950k), which mainly consists of additional cash drawn from the syndicated loan in the amount of EUR 168,161k (prior year: repayment of EUR 53,872k) as well as interest paid in the amount of EUR 90,831k (prior year: EUR 54,565k).

Liquid funds amounted to EUR 244,118k as of the balance sheet date (December 31, 2019: EUR 64,380k).

The CT TopCo Group has a credit line under which it could borrow up to EUR 67,000k in revolving tranches as well as a further short-term overdraft credit line amounting to EUR 8,000k. Neither credit had been drawn on as of the balance sheet date.

3.3 General statement on the consolidated group's position

Overall, the management of the parent company believes that the economic position of the consolidated group is stable. No factors are known today which could result in significant deviation from the net asset position, financial position and results of operations reported above.

4 Financial and non-financial performance indicators

4.1 Financial performance indicators

EBITDA and adjusted EBITDA are key measures of the performance of the CT TopCo Group, and are the basis of performance-related pay. Other important parameters include sales revenue and working capital as well as cash flow.

The CT TopCo Group uses an extensive management system for these and other key performance indicators. This includes monthly financial reporting with a relevant scorecard and monthly meetings of the management of CeramTec GmbH with the heads of CeramTec GmbH's divisions and the managing directors of all subsidiaries to discuss the individual divisions' business situation. At least once a year, these meetings take place at international level with the participation of the managing directors of the foreign subsidiaries in order to discuss, in addition to the current business situation and the expected course of the remaining financial year, the strategic alignment and development of the CT TopCo Group.

Earnings and expectations for the next few months are discussed with the management of the parent company of CT TopCo on a regular basis. In addition, an internal control system has been installed, and last but not least reviews are conducted by third parties on a regular basis.

Please see our explanations on the consolidated group's position for details of further financial performance indicators.

4.2 Non-financial performance indicators

The non-financial key performance indicators used within the group are measures that relate to employees, quality, and environmental protection.

Employees

By the end of the financial year, the CT TopCo Group employed a workforce of 3,420 people (December 31, 2019: 3,525).

The staffing structure is as follows:

	December 31, 2020	December 31, 2019
Employees by region		
Europe	629	639
Germany	1,975	2,065
Asia	513	496
North and South America	303	325
	3,420	3,525
Employees by function		
Production	2,717	2,785
Sales	289	300
Research and development	161	186
Administration	253	254
	3,420	3,525

Details vary, but the management and employees of the CT TopCo Group participate in performance-related pay schemes. The performance-related pay schemes generally reward participants for the achievement of company-related objectives (EBITDA or adjusted EBITDA and working capital) as well as personal targets.

In the reporting year 2020, too, the recruitment of skilled employees and executive personnel continued to be in the foreground for the CT TopCo Group.

As of the balance sheet date, 150 apprentices (December 31, 2019: 144) in total were employed by the CT TopCo Group, who are trained in technical and commercial occupations. CeramTec has always set great store by apprenticeships. With a large number of training programs and qualifications as well as through close cooperation with schools and various universities, CeramTec promotes their own young talents. Given demographic change, we regard the qualification of young employees as a core task, which will be a major task over the next few years. In order to add more weight to the qualification of our employees, we will conduct annual appraisal interviews in the future.

Established measures to improve workplace health and do staff development were performed and implemented as scheduled.

Quality and environmental management

CeramTec is subject to the health, safety and environmental legislation in the jurisdictions where our manufacturing sites are located. Most of our production is located within the European Union and specifically in Germany. Accordingly, we are principally subject to the health and safety standards as well as the environmental standards as applicable there. We have also adopted a corporate social responsibility policy aimed at achieving profitable global growth, conserving energy, protecting natural resources while acting in an ethical way with integrity. To this end, CeramTec will continue to focus on customer satisfaction, conserving scarce resources, energy management as well as working conditions for our employees.

CeramTec GmbH's environmental management and energy management systems have been certified in accordance with DIN EN ISO 14001 and ISO 50001, respectively. Expenses related to environmental protection in the CT TopCo Group amounted to EUR 1,846k in the financial year (prior year: EUR 2,562k).

CeramTec's Industrial business has been certified according to DIN EN ISO 9001 and IATF 16949 (automotive sites), and CeramTec's Medical Products business has been certified according to ISO 13485. The manufacturing plants of the Medical Products business have registered with and received approval from the Food and Drug Administration (FDA) and numerous other country-specific authorities. Specific products and components implement further norms and requirements, if necessary. Suppliers of CeramTec must still follow a guideline designed to ensure the quality of supplied items.

The quality and environmental management system is regarded as appropriate, effective and suitable. The certifications are reviewed on a regular basis. The management system is used to determine, implement and review changing framework conditions, including legal developments.

5 Report on subsequent events

With effect as of January 04, 2021, Dentalpoint AG, a company based in Spreitenbach, Switzerland, was acquired. The CeramTec Group is thus investing in the fast-growing future market for ceramic dental implants and is further expanding its offering within the medical products business.

The preliminary purchase price of EUR 50,975k was paid using cash and cash equivalents. Deviations from the preliminary purchase price will arise due to the purchase price mechanisms agreed upon. Due to the proximity of the transaction to the date of approval of the annual financial statements, there are not yet any results of the currently ongoing purchase price determination and allocation in accordance with IFRS 3. For the purchase price allocation, which is generally based on the fair values of the assets acquired and liabilities assumed, the recognition of intangible assets such as technologies, customer relationships and brands as well as goodwill is expected.

6 Report on outlook, opportunities and risks

6.1 Report on outlook

General conditions – situation of the overall economy and the industry sector

According to economic forecasts produced by the Institute for the World Economy on December 16, 2020, the world economy will grow by 6.1% in 2021. With the second wave subsiding and measures imposed to contain the pandemic being lifted, economic activity is likely to also recover in Europe again in the course of the first quarter. Another noticeable decrease had taken place here in the intervening period. As 2021 progresses, it is expected that increasing vaccination coverage will result in sustainable decreases in the risk of infection and that overall conditions will continuously normalize, including within highly contact-intensive economic sectors.

In developed economies, an increase of 4.3% in gross domestic product is forecast. Economic development in the Eurozone will be highly dependent on how the pandemic progresses. It is anticipated that the expected increase in vaccine distribution coupled with warm weather will result in a gross domestic product increase of just under 4.9% in 2021. In Germany, the gross domestic product is expected to grow by 3.1% in 2021. Economic development in the first quarter is being noticeably restricted by the measures taken during the second wave of infection in November and December. Nevertheless, the assessment remains that the pre-crisis gross domestic product level will be surpassed in the final quarter of 2021. The growth of the Chinese economy is also expected to gather speed again and reach a rate of 9.2% in 2021, while growth of 3.7% is anticipated for the United States.

The hip replacement market is expected to develop in line with historical trends and projections as described in Chapter 2.1. Growth potential, in general, is related to the increase of hip replacement surgeries and, in particular, the negative perception of metallic implants, which may, for example, trigger allergic reactions. The acquisition of Dentalpoint AG as well as our organic activities in the area of ceramic dental implants mean that the development of the overall implant market is becoming increasingly important. We also anticipate a continuous recovery and a return to long-term growth trends here.

We anticipate moderate growth in 2021 for the industries described in Chapter 2.1, although we expect end markets to be more volatile. In this regard, the growth of CeramTec will depend on the development of its respective end markets as a whole as well as on the successful development of new products and the replacement of existing products with ceramic solutions.

Forecast development of the CT TopCo Group's business and income

Based on the aforementioned market and industry developments and despite the significant volatility expected in the first half-year, the planning for financial year 2021 envisages moderate revenue growth. We have predicted a significant increase in EBITDA adjusted for special effects as well as a significant increase in EBITDA compared to the financial year ended and positive cash flow from operating activities above the level of the prior year.

The further economic effects of Coronavirus remain difficult to foresee but we anticipate a continuous increase in growth over the course of the year, depending on the success of vaccination programs and the further loosening of lockdown restrictions. Cash flow from operating activities is expected to be above the previous year's level.

With respect to the non-financial performance indicators which relate to employees, quality, and environmental protection, our aim is to maintain the levels reached also in financial year 2021.

6.2 Report on opportunities and risks

The CT TopCo Group has an institutionalized risk management system which includes a relevant financial reporting system. The financial reporting system consists of, among other things, monthly financial reporting, reporting through individuals responsible for operations which forms an integral part of monthly scorecard meetings, an internal control system, and reviews carried out by third parties. Thus, a risk of price changes, non-payment, liquidity risk and exposure to variability in cash flows are taken into account. Risk monitoring also comprises the planning and performance of suitable countermeasures as well as checking their success. Activities designed to ensure compliance with the internal control system are complementary to these systems.

Macroeconomic risk and industry risk

Generally, risks arise from uncertainty over the future of the global economy. Negative developments can hence have a marked impact on business. However, global presence and the broad customer base operating in different customer industries, e.g. medical technology, automotive industry, electrical and electronics industry, energy and environmental technology as well as the mechanical and plant engineering industries, can help us compensate for the weakness of demand experienced in individual markets or regions. Also, our broad portfolio of products and low dependence on individual customers or industries allow us to some extent to cushion the effect of weak demand experienced by certain customer industries or risks of price changes. We assess the risk of bad debts as low due to the consolidated group's customer structure and the far-reaching protection of CeramTec GmbH's receivables through a credit insurance.

Risk of price changes/procurement risk

A risk of price changes arises from both the procurement market as well as the sales market. The latter is due mainly to increasing competition from Asia. In addition, risks are associated with the rising price of raw materials and energy. These risks are mitigated by continuously improving processes and productivity, and by actively managing costs.

Product risk

The product risk is counteracted by using quality management systems in the production units. The quality management systems are based on international standards and ensure that all legal requirements are met. Quality management is completed by carrying out reviews regularly and training employees continuously. Ongoing processes do not pose a threat to the continuation of the Company as a going concern.

Personnel-related risk

One of the biggest personnel-related risks is changing population demographics and the recruitment of enough skilled employees and executive personnel. CeramTec is engaged in numerous activities focused on developing and training young employees as well as on exhibiting at various trade shows and through various kinds of media.

IT risk

IT system failure or substantial data loss could affect the business operations of group companies or the consolidated group. Group companies have data backup policies in place for mitigating risks of data loss, and use modern IT infrastructures. Group-wide security measures ensure that data is protected from unauthorized access and harmful software. Risks associated with all business-critical applications have been analyzed, and emergency management policies are in place. High availability for critical systems is ensured, depending on the systems' risk ratings.

Investment risk

All substantial acquisitions and investments are made after performing a multi-step analysis and approval process. The complex risks arising from an acquisition - e.g. the risk that, after the acquisition, issues become known that would have affected the purchase decision or the price, if they had been known before the conclusion of a contract - are counteracted by thorough examination of the individual acquisition object, the so-called due diligence procedures, and by drafting contracts accordingly.

Financial risk

The CT TopCo Group is exposed to foreign currency risks associated mainly with foreign currency loans (USD) used to receive financing.

In addition, the CT TopCo Group is exposed to variability in cash flows that is attributable to interest payments on variable-rate USD and EUR loans. To hedge its interest rate risks, the consolidated group entered into interest rate cap agreements. The interest rate floors contained in the syndicated loan agreement represent embedded derivatives which must be separated.

Compliance with financial covenants was agreed to in connection with obtaining the syndicated loan. The CT TopCo Group must hence comply with a financial covenant when an amount defined in the loan agreement is drawn down from a revolving credit line under which up to EUR 67,000k can be borrowed. As the amount drawn down at the end of the financial year remained below the threshold specified, the Company was not required to review compliance with this financial covenant. In addition, an analysis must be undertaken by the end of the financial year to determine whether the volume of the collateral used to secure the syndicated loan does not fall below a specified threshold. If so, additional collateral would have to be provided. At the end of the current financial year, the collateral value did not fall below the threshold. We expect that the Company will continue to comply with the financial covenants in the following financial year.

The Company's risk management objective in relation to these financial instruments is to continuously monitor risks, and minimize risks by engaging in operating and financing

activities. Various policies establish rules regarding the use of financial instruments, and ensure that financial transactions which go beyond a specified limit are not conducted without consulting the management. Generally, derivative financial instruments are used only to hedge risk.

For details see explanations in the notes to the consolidated financial statements under '6.1 Management of financial risk' and '4.15 Financial instruments'.

Opportunities

We aim to expand further globally in markets with strong underlying fundamentals where we are underrepresented such as the United States and China. For example, China is becoming one of the most important markets for HPC applications. In particular, China is one of the fastest growing markets for hip replacements. With an existing presence in Suzhou, China, we also intend to continue partnering and strengthening our cooperation with local players in order to accelerate growth and achieve effects of scale. Furthermore, by using our expertise, we want to maximize our focus on key projects and achieve sustainable regional standing.

As part of our growth strategy, we intend to extend our customer base and form partnerships with further global companies which can benefit from our expertise in materials and production processes, our broad range of products and global presence.

In addition, we intend to focus on capturing emerging growth opportunities beyond our core markets as we believe that the versatility and the lasting technical benefits of ceramics leave room for ceramics to expand into new fields of application in various end markets. In our Medical Products business, we intend to maximize the value of existing solutions by exploring additional medical applications such as knee, dental (focusing on implants) shoulder and spine components. In addition, we will use our research and development strength and expertise in regulatory procedures to produce new innovative solutions, such as ceramic foams or dental ceramics for tooth replacements. In our Industrial business, we are continuously monitoring technology trends such as 3D printing, e-mobility, autonomous vehicles and big data in order to consider how best to apply our materials expertise, manufacturing know-how and regulatory experience to develop relevant HPC solutions that can be successfully commercialized.

Overall statement on the consolidated group's risks and opportunities

Risks that go beyond the risks that every entrepreneur must take and that might jeopardize the entire group are currently not seen because the companies of the CT TopCo Group operate in many markets. The risk position did not change substantially. We use insurance to protect against liability risks, the forces of nature, and further risks to the extent possible.

One subsidiary issued a bond and further subsidiaries arranged a framework financing agreement with sufficient lines of credit, which were increased significantly in 2020, at conditions consistent with the market, meaning that no liquidity risks are expected for the future.

Market risks should be considered in relation to substantial opportunities. Generally, our broad and diversified portfolio of products provides opportunities to compensate for weak economic activity in individual industries.

At the time this report is prepared the management is not aware of any claims of third parties which would be expected to significantly impact the net assets, financial position and results of operations of the CT TopCo Group. CeramTec GmbH and the other companies included in the consolidated group currently do not see any risks that go beyond the risks that every entrepreneur must take and that might jeopardize the CT TopCo Group.

Corporate governance declaration

Insofar as CT TopCo does not have a Supervisory Board and therefore no women's quota could be set for this company. In the CT TopCo Group, CeramTec GmbH has a Supervisory Board that set quotas for this company in 2015, namely for the Supervisory Board (25% share of women), the Executive Board (25% share of women) and the level immediately below the Executive Board (7% share of women). These quotas have not been met. In line with its commitment to equal opportunity and diversity, the Supervisory Board or the Management Board of CeramTec GmbH will set new realistic quota targets up to the second management level below the Executive Board in 2021.

Plochingen, April 14, 2021

CeramTec TopCo GmbH

The Management

Dr. Hadi Saleh

CeramTec TopCo GmbH
Plochingen

Consolidated Financial Statements
for the year ended
31 December 2020

CeramTec TopCo GmbH, Plochingen
Consolidated statement of financial position as at 31 December 2020

Assets	Notes	31 December 2020	31 December 2019
		EUR k	EUR k
Goodwill	4.1	874.613	1.011.678
Other intangible assets	4.1	976.472	1.038.533
Property, plant and equipment	4.2	278.689	289.387
Other financial assets	4.3	10.275	25.243
Other assets	4.4	4.078	1.107
Deferred tax assets		934	1.172
Non-current assets		2.145.061	2.367.120
Inventories	4.5	91.565	97.093
Trade receivables	4.6	51.880	52.740
Trade accounts receivable from affiliates		0	20
Income tax receivables		3.015	2.808
Other financial assets	4.3	3.262	3.074
Other receivables and assets	4.4	8.303	8.026
Cash and cash equivalents	4.7	244.118	64.380
Current assets		402.143	228.141
Total Assets		2.547.204	2.595.261

CeramTec TopCo GmbH, Plochingen
Consolidated statement of financial position as at 31 December 2020

Equity and Liabilities	Notes	31 December 2020	31 December 2019
		EUR k	EUR k
Issued capital	4.8	25	25
Capital reserves	4.8	780.371	780.371
Accumulated losses	4.8	-598.134	-442.793
Accumulated other comprehensive income	4.8	-1.305	865
Equity		180.957	338.468
Provisions for pension obligations	4.9	124.350	113.433
Other provisions	4.10	2.761	5.506
Financial liabilities to affiliates	4.11	273.523	256.270
Financial liabilities to third parties	4.12	1.597.098	1.433.324
Other liabilities	4.13	3.763	0
Deferred tax liabilities		270.110	298.417
Non-current liabilities		2.271.605	2.106.950
Other provisions	4.10	15.797	17.765
Provision for taxes	4.10	3.929	4.425
Financial liabilities to affiliates	4.11	312	55.233
Financial liabilities to third parties	4.12	23.973	25.406
Trade payables		29.034	30.277
Other liabilities	4.13	21.597	16.737
Current liabilities		94.642	149.843
Total liabilities		2.366.247	2.256.793
Total equity and liabilities		2.547.204	2.595.261

CeramTec TopCo GmbH, Plochingen
Consolidated statement of comprehensive income
from 1 January to 31 December 2020

	Notes	1 January to 31 December 2020	1 January to 31 December 2019
		EUR k	EUR k
Revenue	3.1	552.702	620.376
Cost of sales	3.2	334.906	356.239
Gross profit		217.796	264.137
Selling costs	3.3	87.285	95.236
Research and development costs	3.4	20.628	23.341
General administrative costs	3.5	24.542	27.140
Other income and expenses (-), net	3.6	-138.975	-342.887
Operating income		-53.634	-224.467
Interest income and other finance income		6.849	2.135
Interest expenses and other finance costs		99.542	100.449
Financial result	3.7	-92.693	-98.314
Profit / loss (-) before income tax		-146.327	-322.781
Income tax expense	3.8	-2.848	-16.498
Net profit / net loss (-) for the period		-149.175	-339.279
Items that will not be reclassified through profit or loss			
Income / expenses (-) from the remeasurement of pension provisions		-8.638	-10.386
Deferred taxes		2.472	2.969
		-6.166	-7.417
Items that may be reclassified subsequently to profit or loss			
Losses (-) / gains on cash flow hedges		-404	718
Deferred taxes		117	-208
		-287	510
Changes in the fair value of financial assets available for sale		0	-331
Deferred taxes		0	95
		0	-236
Exchange differences on translation of foreign operations		-1.884	-676
Other comprehensive loss, net of income tax		-8.337	-7.819
Total comprehensive income / loss (-)		-157.512	-347.098

CeramTec TopCo GmbH, Plochingen
**Consolidated statement of cash flows
from 1 January to 31 December 2020**

	1 January to 31 December 2020 EUR k	1 January to 31 December 2019 EUR k
Net loss for the period	-149.175	-339.279
Income tax expense	2.847	16.499
Interest result	74.867	96.997
Amortisation, depreciation and impairment charges of non-current assets	244.160	447.168
Loss on disposal of property, plant and equipment and intangible assets	799	1.059
Decrease (-) in provisions (excluding deferred taxes)	-3.491	-817
Income tax payment (-)	-28.832	-35.950
Other non-cash income (-) / expenses, net	11.749	-1.553
Increase (-) / decrease in inventories	5.529	-596
Decrease in trade receivables	860	5.140
Increase (-) / decrease in other receivables and (financial) assets	-3.990	597
Increase / decrease (-) in trade payables	305	-6.820
Increase in other (financial) liabilities	7.805	7.650
Cash flow from operating activities	163.433	190.095
Cash received from disposals of property, plant and equipment	625	355
Cash paid (-) for investments in property, plant and equipment	-34.328	-38.417
Cash paid (-) for investments in intangible assets	-3.935	-3.027
Cash flow from investing activities	-37.638	-41.089
Cash received from (+) / paid for (-) the sale / repurchase of bond	0	5.163
Cash received from syndicated loan	168.161	0
Repayment (-) of syndicated loan	0	-53.872
Interest paid (-)	-90.831	-54.565
Repayment (-) of shareholder loan	-19.599	0
Cash paid for capitalized leases (right-of-use assets)	-2.886	-2.676
Cash flow from financing activities	54.845	-105.950
Increase in cash and cash equivalents	180.640	43.056
Net foreign exchange difference	-902	266
Cash and cash equivalents at the beginning of the period	64.380	21.058
Cash and cash equivalents at the end of the period	244.118	64.380

Please refer to notes, section 5

CeramTec TopCo GmbH, Plochingen

**Consolidated statement of changes in equity
for the period ended 31 December 2020**

	Issued capital	Capital reserves	Accumulated losses	Accumulated other comprehensive income			Equity
	EUR k	EUR k	EUR k	Cash flow hedge reserve EUR k	Financial assets available for sale EUR k	Difference from currency translation EUR k	EUR k
31 December 2018	25	500.417	-96.096	0	236	1.031	405.613
Net loss for the period	0	0	-339.279	0	0	0	-339.279
Other comprehensive income / loss (-)	0	0	-7.417 1)	510 2)	-236 2)	-676 2)	-7.819
<i>Total comprehensive income / loss (-)</i>	<i>0</i>	<i>0</i>	<i>-346.697</i>	<i>510</i>	<i>-236</i>	<i>-676</i>	<i>-347.098</i>
Contribution by owners	0	279.954	0	0	0	0	279.954
31 December 2019	25	780.371	-442.793	510	0	355.03	338.468
31 December 2019	25	780.371	-442.793	510	0	355	338.468
Net loss for the period	0	0	-149.175	0	0	0	-149.175
Other comprehensive loss	0	0	-6.166 1)	-287 2)	0 2)	-1.884 2)	-8.336
<i>Total comprehensive loss</i>	<i>0</i>	<i>0</i>	<i>-155.341</i>	<i>-287</i>	<i>0</i>	<i>-1.884</i>	<i>-157.511</i>
31 December 2020	25	780.371	-598.134	223	0	-1.528	180.957

1) Other comprehensive income that will not be reclassified to profit or loss in the future

2) Other comprehensive income to be reclassified to the income statement in the future under certain conditions

CeramTec TopCo GmbH
Plochingen

**Notes to the Consolidated Financial
Statements for the year ended
December 31, 2020**

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1 General

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 shareholder. It is authorized to establish branch offices, legal entities and other operations in Germany and abroad, and acquire, invest in and hold these investments and/or manage them as well as enter into and/or issue various financial instruments.

CeramTec TopCo and its subsidiaries are a group of 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, mechanical, electric, thermal and/or chemical properties compared to often competing products made from metal or organic polymers (plastics). The operations can be divided into two businesses – Medical Products and Industrial. The Medical Products business focuses on developing and manufacturing ceramic components for hip joint prostheses. The Industrial business develops, manufactures and supplies a broad range of highly specialized, application-intensive technical HPC solutions for customers spanning a 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 is registered at the Stuttgart local court (*Amtsgericht*) under the number HRB 764651. CeramTec TopCo is the parent company of the Group (hereinafter "CeramTec TopCo Group" or "Group") and the ultimate parent, which prepares exempting consolidated financial statements.

The management of CeramTec TopCo approved the consolidated financial statements on April 14, 2021 for submission to the shareholder meeting.

1.2 Basis for the preparation of the consolidated financial statements

As of March 8, 2018, the former owner Cinven closed the acquisition of CeramTec Group by a consortium led by funds advised by leading private equity firm BC Partners ("BC Partners"). The Public Sector Pension Investment Board (PSP Investments) and Ontario Teachers' Pension Plan (Ontario Teachers') are also part of the consortium. CeramTec AcquiCo GmbH (hereinafter "CeramTec AcquiCo") acquired the shares in CeramTec Holding GmbH (hereinafter "CeramTec Holding"). CeramTec AcquiCo is a 100% subsidiary of CeramTec BondCo GmbH (hereinafter "CeramTec BondCo"), which is itself a 100% subsidiary of CeramTec TopCo. CeramTec TopCo is the German ultimate parent company, and prepares consolidated financial statements. CTEC I S.a.r.l., Luxembourg, is the ultimate controlling parent company.

The consolidated financial statements are prepared pursuant to Section 315e (1) and (3) of the German Commercial Code (*Handelsgesetzbuch* – HGB) in accordance with the International Financial Reporting Standards (IFRS/IAS) as adopted by the EU as well as the interpretations of the IFRS Interpretations Committee (IFRS IC) applicable for the financial year and the supplementary requirements of German commercial law. These consolidated financial statements are prepared for the largest and smallest groups of consolidated companies.

The requirements of the standards and interpretations adopted were satisfied in full. Furthermore, all applicable requirements of German commercial law were observed during the preparation. The consolidated financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the CeramTec TopCo Group.

The consolidated financial statements are presented in euro. The amounts are shown in thousands of euros (kEUR) in the consolidated financial statements. All amounts are rounded using standard commercial principles. In individual cases, adding individual values to the total value may therefore lead to differences.

For the purpose of clarity, various items in the consolidated statement of financial position and consolidated statement of comprehensive income were combined and explained accordingly in the notes to the consolidated financial statements. Assets and liabilities are broken down into non-current and current items. Assets and liabilities are classified as current if they are expected to be realized within twelve months from the reporting date. The expense recognized in profit or loss is broken down using 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 financial year:

Name of the entity	Share of capital in %		Business activities
	December 31, 2020	December 31, 2019	
CeramTec BondCo GmbH, Plochingen	100.00	100.00	1
CeramTec AcquiCo GmbH, Plochingen	100.00	100.00	1
CeramTec Holding GmbH, Plochingen	100.00	100.00	1
CeramTec Group GmbH, Plochingen	100.00	100.00	1
CeramTec FinCo GmbH, Plochingen	100.00	100.00	1
CeramTec GmbH, Plochingen	100.00	100.00	2
Cerasiv GmbH Innovatives Keramik-Engineering, Plochingen	100.00	100.00	1
CeramTec-ETEC GmbH, Lohmar	100.00	100.00	3
Emil Müller GmbH, Wilhermsdorf	100.00	100.00	3
CeramTec UK Ltd., Southampton/Great Britain	100.00	100.00	3
CeramTec Czech Republic s.r.o., Sumpperk/Czech Republic	100.00	100.00	3
CeramTec Ibérica Innovative Ceramic Engineering S.L., Vilassar de Mar/Spain	100.00	100.00	4
CeramTec Innovative Ceramic Engineering, (M) Sdn. Bhd., Seremban/Malaysia	100.00	100.00	3
CeramTec Korea Ltd., Suwon-Si/South Korea	100.00	100.00	3
CeramTec Suzhou Ltd., Suzhou/China	100.00	100.00	3
PST Press Sintertécnica Brasil Ltda., Nova Odessa/Brazil	100.00	100.00	3
CeramTec India Innovative Ceramic Engineering Pvt. Ltd., Panaji – Goa/India	99.90	99.90	3
Press and Sinter Technics de Mexico S.A. de C.V., Puebla/Mexico	100.00	100.00	3
CeramTec BidCo LLC, Laurens/USA	100.00	100.00	1
CeramTec Acquisition LLC, Laurens/USA	100.00	100.00	1

Name of the entity	Share of capital in %		Business activities
	December 31, 2020	December 31, 2019	
CeramTec North America LLC, Laurens/USA	100.00	100.00	3
DAI Ceramics LLC, Willoughby/USA	100.00	100.00	3
PST Press + Sintertechnik Sp. z.o.o., Gorzyce/Poland	100.00	100.00	3

- 1 Entities performing the functions of a holding company.
- 2 Manufacturing and distribution companies operating in the Industrial and Medical Products segments.
- 3 Manufacturing and distribution companies operating in the Industrial segment.
- 4 Distribution companies.

CeramTec TopCo has a direct shareholding in CeramTec BondCo, and an indirect shareholding in the other subsidiaries.

CeramTec BondCo, CeramTec AcquiCo, CeramTec Holding, CeramTec Group, CeramTec FinCo GmbH, CeramTec GmbH, Cerasiv GmbH Innovatives Keramik-Engineering, Emil Müller GmbH and CeramTec-ETEC GmbH make use of the exemption from publishing the financial statements and the management report for the financial year 2020 pursuant to Section 264 (3) HGB.

2 Accounting Principles and Policies

2.1 Basis of consolidation

Entities included in the consolidated financial statements are included from 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 taxes are recognized for temporary differences arising from consolidation entries.

If less than 100% of equity in a subsidiary is allocable to CeramTec TopCo, the interests allocated to the other shareholders are generally disclosed separately under equity as non-controlling interests. For reasons of immateriality, this does not apply to the non-controlling interests in CeramTec India Innovative Ceramic Engineering Pvt. Ltd., Panaji - Goa, India.

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 transaction 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 recognized amounts of the acquiree's identifiable net assets. This option can be newly exercised each time a business combination takes

place. Other types of non-controlling interests are measured at fair value or, when applicable, on the basis specified in other standards.

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 circumstances 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 goodwill.

All contingent consideration that must be transferred by the acquirer is recognized at fair value as of the date of acquisition. Any contingent consideration classified as an asset or liability, which is recognized as a financial instrument under IFRS 9 *Financial Instruments*, is measured at fair value. Changes in the fair value are recognized through profit or loss. 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 impairments. Goodwill is tested for impairment at least once a year (in the fourth quarter) as well as when 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.

If goodwill has been allocated to 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 consolidated financial statements are prepared in euros, the functional currency of the CeramTec TopCo 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 rates. The remaining items of the statement of financial position are translated at the respective closing rates. Income and expenses are translated at annual average rates. These are calculated as the mean value from the individual monthly average rates of the past twelve months.

Differences from the currency translation of assets and liabilities compared to the translation of December 31, 2019 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:

		2020		2019	
		<u>Closing rate</u>	<u>Average rate</u>	<u>Closing rate</u>	<u>Average rate</u>
USD	USA	1.2281	1.1412	1.1189	1.1196
CNY	China	8.0134	7.8706	7.8175	7.7338
GBP	Great Britain	0.9031	0.8892	0.8521	0.8773
PLN	Poland	4.5565	4.4429	4.2567	4.2975
CZK	Czech Republic	26.2520	26.4557	25.4630	25.6701

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 applicable at the balance sheet date.

2.2 Accounting policies

Revenue recognition

Revenue is recognized in accordance with the five-step model framework applied to all contracts with customers pursuant to IFRS 15. In accordance with this five-step model, the contract with the customer is first identified (step 1). The performance obligations in the contract are then identified (step 2). The transaction price is then determined (step 3) with explicit requirements stipulated 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 each of 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). As a requirement, revenue can only be recognized once (or as) control of the goods or services is transferred to the customer.

The Group does not offer guarantees to customers that provide greater protection than that stipulated by law. The Group does usually not grant customers extensions of payment terms. However, in specific cases, special agreements can be concluded. In addition, agreements are in place with individual customers (mainly Medical Products customers), which provide for a bonus/malus system. Revenue is only recognized to the extent to which it is highly probable that a significant cancellation of revenue will not be necessary if the related uncertainty has ceased to exist. There is no significant financing component, as the agreed-upon payment terms are mainly between 30 and 60 days. A warranty provision is set up for the Group's obligation to repair or replace defective products under standard warranty conditions.

Upon conclusion of a contract, the CeramTec TopCo Group companies determine whether revenue resulting from the contract should be recognized at a point in time or over time. The CeramTec TopCo Group uses specific criteria to determine whether control is transferred over time. If it is 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. Consequently, revenue from the majority of contracts with customers is 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 formally 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 recognized as expenses in the period in which they are 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 recognized 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 impairments.

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 financial 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 it amounts to 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 is recognized. Trademarks are 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 units. 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 cash-generating unit's fair value less the cost to sell or its value in use. An impairment is carried out if the carrying amount exceeds the recoverable amount. In the event of an impairment being 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 impairments.

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 250 are expensed immediately. Low-value assets with cost of between EUR 250 and EUR 1,000 are recognized in a catch-all item and depreciated collectively over a period of 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 cash-generating unit's fair value less the cost to sell or its value in use. An impairment is carried out if the carrying amount exceeds the recoverable amount. In the event of an impairment being reversed, the amortized cost is written up.

Leases

A lease within the meaning of IFRS 16 exists if a customer is contractually given the right to control an identified asset. For all leases, the lessee must account for the right-of-use asset (RoU asset) as well as a corresponding lease liability. Exceptions to this exist only for short-term leases and leases of low-value assets and for certain intangible assets.

The initial amount of the right-of-use asset corresponds to the amount of the lease liability. In subsequent reporting periods, the right-of-use asset is (apart from certain exceptions) measured

at cost less accumulated depreciation and impairments, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are paid over the lease term. In addition to the contractual basic lease term, all facts and circumstances, which provide reasonable assurance of the economic incentive of exercising a termination or extension option, are taken into account in determining the lease term. The present values of the lease liabilities are generally discounted using an incremental borrowing rate. Subsequently, the carrying amount of the lease liability is adjusted for interest using the discount rate and reduced in the amount of the lease payments made. Modifications to the lease payments result in a remeasurement of the lease liability. Cash flows are broken down into payments of principal and payments of interest, which are part of the cash flow from financing activities and the cash flow from operating activities respectively.

Financial assets

Financial assets are recognized when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets are initially measured at fair value. Transaction costs that are directly attributable to the acquisition of financial assets (other than financial assets at fair value through profit or loss) are added to the fair value of the financial assets on initial recognition. Transaction costs directly attributable to the acquisition of financial assets that are measured at fair value through profit or loss are recognized immediately in profit or loss.

Financial assets are recognized and derecognized on a trade date basis if delivery of the assets within the time frame established by regulation or convention in the marketplace is required.

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

Classification of financial assets

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

- the financial asset is held within a business model whose objective is to collect contractual cash flows; and
- the contractual terms of the financial asset give rise solely to payments of principal and interest on the principal amount outstanding.

Debt instruments that meet the following conditions are measured at fair value through other comprehensive income (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 to solely payments of principal and interest on the nominal amount outstanding.

All other financial assets that do not fulfill the aforementioned conditions are generally measured at fair value through profit or loss (FVTPL).

The Group neither recognizes debt instruments that are measured at FVTOCI nor equity instruments designated to be classified as FVTOCI.

Amortized cost and effective interest method

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

For financial assets for which no objective evidence of impairment was present upon their origination or purchase, the effective interest rate is the rate that discounts estimated future cash receipts (including all fees 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 on initial recognition. For financial assets for which objective evidence of impairment was present upon their origination or purchase, a credit-adjusted effective interest rate is calculated by discounting the estimated future cash flows, including expected credit losses.

The amortized 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 amortization using the effective interest method of any difference between that initial amount and the maturity amount, adjusted for any loss allowance. The gross carrying amount of a financial asset is the amortized cost of a financial asset before adjusting for any loss allowance.

Interest income is recognized using the effective interest method for debt instruments measured at amortized cost or at FVTOCI. For financial assets for which objective evidence of impairment was present upon their origination or purchase, interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets for which objective evidence of impairment subsequently arose. For these latter financial assets, interest income is recognized by applying the effective interest rate to the net carrying amount of the financial asset at the beginning of the reporting period that follows the occurrence of objective evidence of impairment. If, in subsequent reporting periods, the credit risk of such a financial instrument improves so that there is no longer objective evidence of impairment, interest income is recognized again by applying the effective interest rate to the gross carrying amount of the financial asset at the beginning of the following reporting period.

For purchased or originated credit-impaired financial assets, the Group recognizes interest income by applying the credit-adjusted effective interest rate to the amortized cost of the financial asset from initial recognition. The interest rate 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 recognized in the consolidated statement of comprehensive income and is included in the "Interest income and other finance income" line item.

Financial assets at FVTPL

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognized in profit or loss to the extent they are not part of a designated hedging relationship. The net gain or loss recognized in profit or loss incorporates any dividend or interest earned on financial assets and is included in the "Interest income and other finance income" or "Interest expenses and other finance costs" line items respectively.

Impairment of financial assets

The Group generally recognizes a loss allowance for expected losses on financial investments in debt instruments that are measured at amortized cost or at FVTOCI, finance lease receivables, trade receivables and contract assets. The amount of expected losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

The Group recognizes a loss allowance for all trade receivables in the amount of the expected losses based on debtor-specific factors and information about their current economic situations. When estimating this, reference is also made to actual credit loss experiences of debtors. Irrespective of the above approach, the Group considers a default to have occurred when a financial asset is more than 60 days/90 days past due unless the Group has reasonable and supportable information to demonstrate that a financial asset is still unimpaired.

For all other financial instruments, the Group recognizes a loss allowance in the amount of the expected losses over their lifetimes if the credit risk of the financial instrument has increased significantly since initial recognition. If, however, the credit risk of the financial instrument has not increased significantly since initial recognition, the Group measures the loss allowance for that financial instrument at an amount equal to the expected 12-month loss.

The Group directly writes off a financial asset and hence reduces the gross carrying amount when there is information indicating that the debtor is in significant financial difficulty and there is no realistic prospect of recovery, e.g. when the debtor has been placed under liquidation or has entered into bankruptcy proceedings. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures. Any recoveries made are recognized in profit or loss.

In addition to using external sources of information, the measurement of expected credit losses is based on the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information as described above.

Derecognition of financial assets

Derecognition of financial assets is carried out 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 a third 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 recognizes 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 recognize the financial asset and also recognizes a collateralized borrowing for the consideration received.

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

Financial liabilities

Financial liabilities are recognized when a group entity becomes a party to the contractual provisions of the instrument. Financial liabilities are measured at amortized cost using the effective interest method, or at fair value through profit or loss.

Financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the issue of financial liabilities (other than financial liabilities at fair value through profit or loss) are 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 liabilities that are measured at fair value through profit or loss are recognized immediately in profit or loss.

Financial liabilities at FVTPL

Financial liabilities are classified as financial liabilities at FVTPL when the financial liability is contingent consideration of an acquirer in a business combination, is held for trading, or is voluntarily 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.

Designated financial liabilities at FVTPL are measured at fair value. Any gains or losses arising on changes in the fair value are recognized in profit or loss unless the financial liabilities are designated as hedging instruments as part of a 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 recognized 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 the liability is recognized in profit or loss. Changes in fair value attributable to a financial liability's credit risk that are recognized 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 measured at amortized cost

Financial liabilities that are not a contingent consideration of an acquirer in a business combination, held for trading, or voluntarily designated as at FVTPL, are financial liabilities subsequently measured at amortized cost using the effective interest method.

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that 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 a shorter period, to the net carrying amount of a financial liability on initial recognition.

Derecognition of financial liabilities

Derecognition of financial liabilities is carried out by the Group when, and only when, the Group's obligations are discharged, canceled or they expire. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognized in profit or loss.

Derivative financial instruments

Derivative financial instruments are initially recognized 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 recognized in profit or loss immediately.

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 entire contract concerned is not measured at FVTPL.

Offsetting financial instruments

Financial assets and liabilities are offset and the net amount is reported in the statement of financial position if there is a legally enforceable 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.

Measurement at fair value

On the reporting date, the CeramTec TopCo Group measures derivative financial instruments at fair value. The fair value is also stated in the notes to the financial statements for all other financial instruments.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This applies regardless of whether the price is directly observable or has been determined by applying a valuation method. Measurement at fair value is based on the assumption that the transaction, in order to sell or transfer the asset or liability, is performed in one of the following places:

- On the principal market for the asset or the liability or,
- if there is no principal market, on the most advantageous market for the asset or the liability.

The principal market or the most advantageous market must be accessible for the CeramTec TopCo Group as of the reporting date.

When calculating the fair value of an asset or a liability, the Group takes into account certain characteristics of the asset or the liability (such as condition and location of the asset or limitations of sale and use) if market participants would also take these characteristics into account when determining the price for the acquisition of the respective asset or transferring the liability as of the reporting date.

Fair value measurement of a non-financial asset takes into account the ability of a market participant to generate economic benefits through the best use of the asset or by selling it to another market participant that would find the best use for the asset.

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, production costs also comprise a share of production-related indirect 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 write-up can at most be up to the original cost amount.

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 statement of cash flows correspond to the amounts recognized in the 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 2018G Guideline 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 and 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. **Information on estimation uncertainties can be found in note 2.3.**

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 consolidated statement of financial position. A contingent liability is disclosed in the notes to the financial statements, 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 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 recognized if the temporary difference arises from goodwill or the initial recognition (other than in a business combination) of other assets and liabilities in transactions that effect neither the taxable profit nor the accounting profit. Deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized.

Deferred tax assets also include tax refund claims that result from the expected utilization of existing unused losses or interest carryforwards in subsequent years and the recognition of which, being based on future taxable profits, is ensured with reasonable assurance.

Deferred tax assets and deferred tax liabilities are measured at the tax rates that are expected to apply in the period 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 taxes are recognized in profit or loss, except when they relate to items that are recognized in other comprehensive income or directly in equity, in which event the current and deferred taxes are also recognized in other comprehensive income or directly in equity, respectively.

Deferred tax assets and deferred tax liabilities are offset if the Group has a legally enforceable right to set off current tax assets against current 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 BondCo (as the parent company), CeramTec AcquiCo, CeramTec Holding, CeramTec Group, CeramTec FinCo GmbH, CeramTec GmbH, Cerasiv GmbH Innovatives Keramik-Engineering, CeramTec-ETEC GmbH and Emil Müller GmbH.

Furthermore, a consolidated tax group for VAT purposes is in place between CeramTec AcquiCo as the parent company and CeramTec GmbH, Cerasiv GmbH Innovatives Keramik-Engineering, CeramTec-ETEC GmbH and Emil Müller GmbH.

2.3 Estimation uncertainties and exercise of judgment

The preparation of the consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of income, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the reporting date. These estimates and assumptions are made to obtain an appropriate overview of the assets, liabilities, financial position and financial performance of the CeramTec TopCo Group. The underlying assumptions are revised regularly. However, the actual results may vary from those anticipated.

In the process of applying the accounting and valuation methods of the CeramTec TopCo Group, management performed the following measurements, which have a significant impact on the consolidated financial statements.

Business combinations

Business combinations are accounted for using the acquisition method. The acquired assets and liabilities are measured at their acquisition-date fair value.

Using the acquisition method requires certain estimates and judgments, particularly with regard to determining the fair value of the acquired intangible assets and property, plant and equipment as well as the fair value of liabilities assumed. In addition, the expected useful lives of acquired intangible assets and property, plant and equipment need to be determined.

This measurement is largely based on estimated future cash flows. Deviations between the actual cash flows and those determined when calculating the fair value can have a significant effect on the future net profit/loss for the period of the CeramTec TopCo Group.

Goodwill of EUR 874,613k (December 31, 2019: EUR 1,011,678k) and other intangible assets of EUR 976,472k (December 31, 2019: EUR 1,038,533k) were recognized as of the reporting date.

Impairment of non-financial assets

Assumptions were made to calculate the recoverable amount to determine whether impairment losses had to be recognized on intangible assets and property, plant and equipment. In this regard, future cash flows were derived from the budget planning and medium-term forecast for each of the cash-generating units. Management assumes that the assumptions and estimates, on which the discounted cash flows are based, are accurate. Nevertheless, changes in the economic environment and growth assumptions can affect impairment testing resulting in the need to recognize impairment losses or to reverse impairment losses in the future.

Impairment losses recognized on non-financial assets for the financial year can be found in notes 4.1 Goodwill and intangible assets and 4.2 Property, plant and equipment.

Valuation allowances on receivables

Allowances for receivables are recognized based on assumptions about default risk and expected loss given default. The CeramTec TopCo Group exercises judgment to make the assumptions and select inputs used in determining the allowances by reference to past default experience, prevailing market conditions, and forward-looking estimates as of the end of the reporting period.

Accordingly, receivables are reduced by appropriate specific allowances for amounts estimated to be irrecoverable (for example receivables from customers on whose assets insolvency proceedings have been initiated are written off in full to the extent that any collateral provided is not recoverable). The allowances are allocated to level 3 in the fair value hierarchy under IFRS 9. As of the reporting date, an impairment loss of EUR 495k was identified as necessary (December 31, 2019: EUR 760k).

Provisions for pension obligations

Defined benefit plans are measured using actuarial valuations. These contain assumptions of discount rates, future salary trends, mortality rates and future pension increases. Provisions for pension obligations of EUR 124,350k were recorded as of the end of the reporting period (December 31, 2019: EUR 113,433k).

Provisions

Provisions for the expected expenses from warranty obligations in accordance with national sales contract law are recognized as of the date on which the relevant products are sold according to the management's best estimate regarding the expenses required to settle the Group's obligation.

A provision is set up for the obligation to eliminate environmental damage if it is likely to occur and the costs can be estimated reliably. With ongoing examination and over the course of performing renovation measures, the provisions are adjusted in line with the knowledge gained. The amount of the individual provisions is influenced by factors such as the extent of the contamination, the renovation measures called for and additional demands from authorities, companies or private persons.

In the aggregate, provisions (other provisions and provisions for taxes) of EUR 22,487k were recorded as of the end of the reporting period (December 31, 2019: EUR 27,696k).

Deferred tax assets

The calculation of deferred tax assets requires assumptions to be made relating to the future taxable income and historical use of deferred tax assets. These assumptions take into account the anticipated development and effect on earnings from the reversal of taxable temporary differences. As future business developments cannot be foreseen with certainty and are not entirely within the CeramTec TopCo Group's sphere of influence, the measurement of deferred tax assets involves a level of uncertainty.

As of the reporting date, deferred tax assets of EUR 934k were recognized (December 31, 2019: EUR 1,172k).

2.4 Adoption of amended and new standards and interpretations: Changes in accounting and valuation policies due to first-time adoption of revised and newly issued IFRSs and IFRICs

The following IFRSs and IFRICs were revised:

Standards and interpretations	Date of first-time adoption
IFRS 3: "Business Combinations"	January 1, 2020
IAS 1 / IAS 8: "Definition of Material (Amendments to IAS 1 and IAS 8)"	January 1, 2020
IFRS 9 / IAS 39 / IFRS 7: "Interest Rate Benchmark Reform – Phase 1"	January 1, 2020
Revised Conceptual Framework IFRS	January 1, 2020
IFRS 16: "Covid-19 related Rent Concessions"	June 1, 2020

The aforementioned changes do not have an effect on the consolidated financial statements of the CeramTec TopCo Group.

Revised and newly issued IFRSs and IFRICs not yet mandatorily to be adopted

The following revised IFRSs and IFRICs were not yet to be adopted mandatorily in the financial year or have not yet been adopted by the Commission of the European Communities under the endorsement procedure for the European Union. In the financial year, none of these new or amended standards and interpretations has been early adopted.

Standards and interpretations	Date of first-time adoption
IFRS 9 / IAS 39 / IFRS 7 / IFRS 4 / IFRS 16: "Interest Rate Benchmark Reform – Phase 2"	January 1, 2021
IFRS 4: "Extension of the Temporary Exemption from Applying IFRS 9 (Amendments to IFRS 4)"	January 1, 2021
IFRS 3: "Reference to the Conceptual Framework (Amendments to IFRS 3)"	January 1, 2022
IAS 37: "Onerous Contracts – Cost of Fulfilling a Contract (Amendments to IAS 37)"	January 1, 2022
IAS 16: "Property, Plant and Equipment – Proceeds before Intended Use (Amendments to IAS 16)"	January 1, 2022
Annual Improvements to IFRS Standards (2018 – 2020) for IFRS 1, IFRS 9, IFRS 16 and IAS 41	January 1, 2022
IFRS 17: "Insurance Contracts"	January 1, 2023
IAS 1: "Classification of Liabilities as Current or Non-Current (Amendments to IAS 1)"	January 1, 2023

The aforementioned changes will not have a significant effect on the consolidated financial statements of the CeramTec TopCo Group.

3 Notes to the Consolidated Statement of Comprehensive Income

3.1 Revenue

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

	2020 kEUR	2019 kEUR
Regions		
Europe (w/o Germany)	233,661	270,261
Germany	111,748	141,908
Asia	105,435	100,416
North America	91,194	91,766
Other regions	10,664	16,025
Total	552,702	620,376
Businesses		
Industrial	322,531	361,689
Medical Products	230,171	258,687
Total	552,702	620,376

Orders on hand amount to EUR 196,360k as of the reporting date (December 31, 2019: EUR 177,262k), and will probably be realized within the next twelve months. Thereof, EUR 129,042k (December 31, 2019: EUR 117,676k) is attributable to the Industrial business and EUR 67,318k (December 31, 2019: EUR 59,586k) is attributable to the Medical Products business.

3.2 Cost of sales

The cost of sales breaks down as follows:

	2020 kEUR	2019 kEUR
Personnel expenses	124,398	130,864
Material and packaging costs	101,459	116,295
Amortization and depreciation	55,817	55,885
Other costs of sales	53,232	53,195
Total	334,906	356,239

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

3.3 Selling costs

Selling costs primarily contain amortization and depreciation as well as personnel expenses.

3.4 Research and development costs

Research and development costs mainly contain personnel expenses.

3.5 General administrative costs

General administrative costs primarily contain personnel expenses.

3.6 Other income / expenses (-), net

Other income / expenses (-) breaks down as follows:

	2020 kEUR	2019 kEUR
Impairment of goodwill	-137,065	-329,753
Foreign currency results	-863	-667
Losses on disposal of property, plant and equipment	-799	-1,059
Income from reversal of allowances for bad debts	385	74
Addition to allowance for bad debts	-195	-591
Impairment of property, plant and equipment	-186	-4,806
Impairment of other intangible assets	0	-5,456
Impairment of financial assets	0	-2
Transaction costs	0	-146
Sundry other income	562	484
Sundry other expenses	-814	-965
Total	-138,975	-342,887

The annual impairment test resulted in the need to recognize impairment losses of EUR 137,065k (prior year: EUR 329,753k) with regard to goodwill of the Industrial cash-generating unit (CGU). Please refer to note 4.1.

Impairment of property, plant and equipment of EUR 186k (prior year: EUR 4,806k) results mainly from the permanent shutdown of machinery. The losses on disposal of property, plant and equipment in the amount of EUR 799k (prior year: EUR 1,059k) result mainly from the scrapping of machinery.

Sundry other expenses include mainly costs related to a discontinued product line.

3.7 Financial result

The financial result breaks down as follows:

	2020 kEUR	2019 kEUR
Foreign currency gains from financial liabilities	5,276	190
Income from discounting of financial liabilities	1,447	1,380
Other finance and interest income	126	565
	<hr/>	<hr/>
Interest income and other finance income	6,849	2,135
Interest expense from syndicated loan	28,357	31,612
Interest expense from derivatives	22,710	1,274
Interest expense from bond	21,315	21,062
Interest expense from shareholder loan	19,131	38,768
Expense from unwinding the discount on financial liabilities	5,242	4,287
Interest expense from provision and use of revolving credit line	1,271	693
Other interest expenses	2,172	3,175
Interest capitalized	-656	-422
	<hr/>	<hr/>
Interest expenses and other finance costs	99,542	100,449
	<hr/>	<hr/>
Financial result	-92,693	-98,314

Other interest expenses include an amount of EUR 1,058k (prior year: EUR 1,897k), which is due to unwinding the discount on provisions.

3.8 Income tax

There is a consolidated tax group for income tax purposes between CeramTec BondCo and its German subsidiaries. CeramTec TopCo is not included in the German consolidated tax group for income tax purposes.

This means that German corporate income tax and trade tax is only levied at the level of the parent company, CeramTec BondCo.

CeramTec TopCo also has indirect shareholdings in foreign corporations.

The current income taxes of the CeramTec TopCo Group therefore include, in addition to German corporate income tax and trade tax, the tax expense of the foreign corporations, which was calculated based on taxable income according to local tax law and the tax rate applicable in each case.

The loss before income tax of EUR -146,327k (prior year: EUR -322,781k) is allocable to Germany and abroad as follows:

	2020 kEUR	2019 kEUR
Germany	-170,883	-343,446
Abroad	24,556	20,665
Total	-146,327	-322,781

The tax expense of EUR -2,848k (prior year: EUR -16,498k) breaks down as follows:

	2020 kEUR	2019 kEUR
Current income tax expense	-28,123	-34,434
Deferred tax income	25,275	17,936
Tax expense (-) / tax income (+)	-2,848	-16,498

Overall, the CeramTec TopCo Group's tax rate, based on the profit before income tax and mainly driven by the German entities, is 28.9% (prior year: 28.7%), which will be used for the following reconciliation. The effective tax rate, i.e., tax expense in relation to profit before income tax, factors in both the current and the deferred tax expense and takes into account all influential factors, such as non-deductible operating expenses or a change in the assessment base.

	2020		2019	
	kEUR	%	kEUR	%
Profit (+) / loss (-) before income tax	-146,327		-322,781	
Expected tax income	42,284	28.9%	92,597	28.7%
Permanent differences	-3,246	-2.2%	-3,228	-1.0%
Non-tax deductible impairment of goodwill	-39,607	-27.1%	-94,597	-29.3%
Tax rate differences	1,830	1.3%	1,499	0.5%
Non-recognition of deferred tax assets on interest carryforwards	-5,947	-4.1%	-8,370	-2.6%
Tax expense (-) / tax income (+) for previous years	1,796	1.2%	-2,149	-0.7%
Effects of changed income tax rates	-441	-0.3%	-2,440	-0.8%
Other adjustments	483	0.3%	190	0.1%
Tax expense (-) / tax income (+) and effective tax rate	-2,848	-1.9%	-16,498	-5.1%

The effects of permanent differences result mainly from trade tax add-backs in the amount of EUR 2,229k as well as other non-deductible operating expenses of EUR 1,017k.

Deferred taxes

Deferred income taxes were calculated using the expected tax rate of the relevant company. The deferred taxes are offset where there is an enforceable legal right to offset current taxes and the taxes are levied by the same tax authority.

In the consolidated statement of financial position, deferred taxes are disclosed as follows:

	December 31, 2020	December 31, 2019
	kEUR	kEUR
Deferred tax assets	934	1,172
Deferred tax liabilities	270,110	298,417
Net amount of deferred tax liabilities	269,176	297,245

The deferred tax assets and liabilities stem from the following:

	December 31, 2020		December 31, 2019	
	Assets kEUR	Liabilities kEUR	Assets kEUR	Liabilities kEUR
Tax loss carryforwards	71	0	48	0
Property, plant and equipment	733	22,432	820	25,080
Goodwill and other intangible assets	1,509	281,391	1,941	300,319
Inventories, receivables and other assets	16,366	4,245	14,832	8,695
Non-current provisions	27,559	6,525	25,664	6,394
Current provisions and other liabilities	3,870	4,691	5,587	5,649
Total deferred taxes	50,108	319,284	48,892	346,137
Offsetting	-49,174	-49,174	-47,720	-47,720
Deferred taxes	934	270,110	1,172	298,417

The following table shows the development of the net amount of deferred tax liabilities:

	2020 kEUR	2019 kEUR
Net amount of deferred tax liabilities as of January 1	297,245	317,837
Deferred tax income shown in the income statement	-25,275	-17,936
Changes in deferred taxes recognized in other comprehensive income	-2,589	-2,856
Other changes (e.g. changes arising from foreign currency translation)	-205	200
Net amount of deferred tax liabilities as of December 31	269,176	297,245

Other comprehensive income contains deferred tax income on the remeasurement of defined benefit plans of EUR 2,472k (prior year: EUR 2,969k) and deferred tax income on gain/loss arising from cash-flow hedges in the amount of EUR 117k (prior year: deferred tax expense in the amount of EUR 208k).

Unused losses and interest carryforwards

Unused losses and interest carryforwards break down as follows:

	December 31, 2020 kEUR	December 31, 2019 kEUR
Interest carryforwards	81,568	83,551
<i>on which no deferred tax assets are recognized</i>	<i>81,568</i>	<i>83,551</i>
Foreign unused losses	513	551
<i>on which no deferred tax assets are recognized</i>	<i>320</i>	<i>357</i>
Total unused losses	678	941
<i>on which no deferred tax assets are recognized</i>	<i>320</i>	<i>747</i>

Deferred tax assets were recognized on unused tax losses in the amount of EUR 358k (December 31, 2019: EUR 194k).

Foreign unused losses, for which deferred tax assets have been capitalized, result from unused losses made by the group company in Spain of EUR 193k (December 31, 2019: EUR 194k). The tax loss carryforwards in Spain do not expire.

Temporary differences in connection with shares in subsidiaries in the amount of EUR 2,412k (prior year: EUR 1,974k) are not subject to deferred tax liabilities, because the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

3.9 Government grants

In the context of the coronavirus pandemic, the following government grants (mainly social security contributions) were received in 2020 and recognized with a cost-reducing effect in the following functional areas:

	2020 kEUR
Cost of sales	847
Selling costs	113
Research and development costs	56
General administrative costs	57
	1,073

3.10 Additional information on the type of expenses

Cost of materials

In the financial year, cost of materials amounted to EUR 119,438k (prior year: EUR 135,013k). Cost of materials is mainly contained in cost of sales.

Personnel expenses

Personnel expenses break down as follows:

	2020 kEUR	2019 kEUR
Wages and salaries	152,397	162,660
Social security contributions	29,272	31,764
Pension expenses	7,106	6,581
Total	188,775	201,005

Personnel expenses are contained in cost of sales, selling, research and development, as well as general administrative costs.

Employees

On average, the Group employed 3,410 people in the financial year (prior year: 3,589). These break down as follows:

	2020 Headcount (average)	2019 Headcount (average)
Salaried employees	1,307	1,360
Wage earners	2,103	2,229
Total	3,410	3,589

Amortization and depreciation

Amortization, depreciation and impairment break down as follows:

	2020 kEUR	2019 kEUR
Amortization of intangible assets	65,669	65,235
Depreciation of property, plant and equipment	41,239	41,915
Impairment of goodwill and intangible assets	137,065	335,209
Impairment of property, plant and equipment	186	4,807
Total	244,159	447,166

4 Notes to the Consolidated Statement of Financial Position

4.1 Goodwill and intangible assets

Goodwill and intangible assets break down as follows:

	Other intangible assets					Total kEUR
	Goodwill kEUR	Trade- marks kEUR	Technolog y kEUR	Customer relation- ships kEUR	Other kEUR	
Cost						
January 1, 2019	1,341,431	59,000	335,777	761,800	37,167	2,535,175
Additions	0	0	0	0	3,027	3,027
Disposals	0	0	0	0	-33,524	-33,524
Reclassifications	0	0	0	0	56	56
Exchange differences	0	0	498	0	18	516
December 31, 2019	1,341,431	59,000	336,275	761,800	6,744	2,505,250
Additions	0	0	0	0	3,935	3,935
Disposals	0	0	0	0	-44	-44
Exchange differences	0	0	-501	0	-26	-527
December 31, 2020	1,341,431	59,000	335,774	761,800	10,609	2,508,614
Amortization/ impairment						
January 1, 2019	0	0	15,566	38,187	34,317	88,070
Additions to amortization	0	0	18,189	45,823	1,223	65,235
Additions to impairment	329,753	5,456	0	0	0	335,209
Disposals	0	0	0	0	-33,524	-33,524
Exchange differences	0	0	39	1	9	49
December 31, 2019	329,753	5,456	33,794	84,011	2,025	455,039
Additions to amortization	0	0	18,189	45,824	1,656	65,669
Additions to impairment	137,065	0	0	0	0	137,065
Disposals	0	0	0	0	-44	-44
Exchange differences	0	0	-61	-120	-19	-200
December 31, 2020	466,818	5,456	51,921	129,715	3,618	657,529
Net carrying amounts						
December 31, 2020	874,613	53,544	283,852	632,085	6,991	1,851,086
December 31, 2019	1,011,678	53,544	302,481	677,789	4,719	2,050,211

Goodwill results from the acquisition of CeramTec Holding and its subsidiaries in 2018 (see note 1.2). Goodwill was allocated to the groups of cash-generating units (CGUs) Medical Products (EUR 874,613k), and Industrial (EUR 466,818k).

The CGU Medical Products includes the business activities designed to develop, manufacture and supply technical high-performance ceramics products used for medical technology, and the CGU Industrial includes the business activities designed to develop, manufacture and supply technical high-performance ceramics products used in the electronics and automotive industries, and for mechanical engineering.

For the cash-generating units, the impairment test was performed as of November 30, 2020. The recoverable amount was calculated based on the asset's value in use. Value in use is calculated by discounting the future cash flow surpluses. The measurement is therefore allocable to level 3 pursuant to IFRS 13. The projected future cash inflows are based on the approved financial budgets, which are undertaken by the CeramTec TopCo Group and, as a rule, have a three-year planning horizon. For this purpose, assumptions are made in particular about future selling prices, quantities and costs.

The financial budgets are prepared on the basis of historical experience, and reflect the management's expectations for the following years.

Different benchmark companies were considered for the peer group of the CGU Medical Products and the CGU Industrial.

The growth rate of the perpetuity was assumed to be 1.00% (prior year: 1.00%). The weighted average cost of capital for the CGU Medical Products is 9.31% (prior year: 9.21%) before tax and 6.92% (prior year: 6.89%) after tax. The weighted average cost of capital for the CGU Industrial is 13.19% (prior year: 13.69%) before tax and 9.63% (prior year: 10.38%) after tax. Equity costs were calculated using a base interest rate of -0.10% (prior year: 0.17%) each and a market risk premium of 7.75% (prior year: 7.50%) each.

Due mainly to the decline in revenue and earnings expectations caused by the coronavirus pandemic, the impairment test performed during the year as of June 30, 2020 for the CGU Industrial resulted in the need to recognize impairment losses totaling EUR 137,065k, as the carrying amount exceeded the assets' value in use. Goodwill of the CGU Industrial has since been completely written down and accordingly has a carrying amount of EUR 0k as of December 31, 2020. The planning for the year 2021 is based on revenue of EUR 328,400k and an average moderate annual increase in revenues and EBITDA in the detail planning period.

According to our assessment, reasonably possible changes in significant basic assumptions (weighted average cost of capital, EBITDA margin) underlying the determination of value in use would not result in an excess of the carrying amount of the CGU Medical Products and the CGU Industrial over its value in use.

As of March 8, 2018, the CeramTec, BIOLOX, SPK and DAI Ceramics trademarks were identified within the scope of the purchase price allocation. The carrying amount of the above trademarks was EUR 53,544k as of December 31, 2020 (December 31, 2019: EUR 53,544k). As the recognized trademarks do not represent a product-specific trademark and do not have identifiable useful lives, the useful life for the recognized trademarks was classified as indefinite. Upon acquisition, the trademarks were allocated to the cash-generating units Medical Products (EUR 33,200k) and Industrial (EUR 25,800k). The impairment test with regard to the trademarks of the CGU Industrial did not result in any need to recognize impairment losses (prior year: EUR 5,456k).

Technology has a carrying amount of EUR 283,852k (December 31, 2019: EUR 302,481k) and primarily contains the basic technology underlying high-performance ceramics. This has an average weighted remaining useful life of 15.2 years (December 31, 2019: 16.2 years).

Customer relationships have a carrying amount of EUR 632,085k (December 31, 2019: EUR 677,789k) and primarily contain customer relationships from the Medical Products business. These have an average weighted remaining useful life of 14.1 years (December 31, 2019: 15.1 years).

Scheduled amortization of other intangible assets is recognized under cost of sales, selling expenses, research and development costs and general administrative costs, while impairment losses are recognized under other income and expenses (-), net.

4.2 Property, plant and equipment

Property, plant and equipment break down as follows:

	Land and buildings	Technical plant and machinery	Other equipment	Right-of- use assets	Assets under construction	Total
	kEUR	kEUR	kEUR	kEUR	kEUR	kEUR
Cost						
January 1, 2019	107,830	190,794	8,674	0	15,418	322,716
Additions	1,145	17,837	2,778	1,762	18,847	42,368
Additions from initial recognition	0	0	0	4,852	0	4,852
Disposals	-313	-3,542	-692	0	-41	-4,588
Reclassifications	886	10,345	426	0	-11,714	-56
Exchange differences	367	1,148	73	27	52	1,668
December 31, 2019	109,915	216,582	11,259	6,641	22,562	366,960
Additions	972	10,011	2,790	2,761	19,007	35,541
Disposals	-588	-2,417	-596	-2,111	-3	-5,716
Reclassifications	800	10,882	469	-106	-12,151	-106
Exchange differences	-1,215	-3,271	-291	-136	-185	-5,098
December 31, 2020	109,884	231,788	13,630	7,049	29,230	391,581
Depreciation/impairment						
January 1, 2019	5,774	25,576	2,372	0	0	33,722
Additions to depreciation	7,425	28,721	3,233	2,536	0	41,915
Additions to impairment	0	4,756	51	0	0	4,807
Disposals	-90	-2,445	-659	0	0	-3,194
Exchange differences	22	268	28	5	0	324
December 31, 2019	13,131	56,876	5,025	2,542	0	77,573
Additions to depreciation	7,456	27,932	3,267	2,584	0	41,239
Additions to impairment	0	99	0	0	87	186
Disposals	-8	-1,638	-570	-2,074	0	-4,290
Reclassifications	79	0	1	-187	0	-106
Exchange differences	-228	-1,299	-152	-31	0	-1,709
December 31, 2020	20,430	81,970	7,570	2,834	87	112,891
Net carrying amounts						
December 31, 2020	89,453	149,817	6,060	4,215	29,143	278,689
December 31, 2019	96,784	159,707	6,234	4,099	22,562	289,387

Scheduled depreciation of property, plant and equipment is recognized under cost of sales, selling costs, research and development costs and general administrative costs, while impairment losses are reported as other income and expenses.

In the financial year, borrowing costs of EUR 656k (prior year: EUR 422k) were capitalized in property, plant and equipment applying an unchanged interest rate of 5.80%.

There were contractual commitments to acquire property, plant and equipment in the amount of EUR 12,286k as of the reporting date (December 31, 2019: EUR 21,161k).

Property, plant and equipment under IAS 17 (finance leases) contain rented buildings capitalized in previous years with a net carrying amount of EUR 1,123k (December 31, 2019: EUR 1,208k), and furniture and fixtures with a net carrying amount of EUR 2k (December 31, 2019: EUR 3k).

4.3 Other financial assets

The breakdown of other financial assets is shown in the following table:

	December 31, 2020 kEUR	December 31, 2019 kEUR
Other non-current financial assets		
Separated termination rights	10,221	25,139
Insurance claims	40	45
Minority shareholding without controlling interest	4	0
Sundry financial assets	10	59
Total	10,275	25,243
Other current financial assets		
Receivables arising from amounts retained by the factor as a security	1,850	1,792
Derivative financial instruments	314	717
Sundry financial assets	1,098	565
Total	3,262	3,074

The CeramTec TopCo Group has a termination option for the issued bond. This termination option represents an embedded derivative, which is accounted for separately from the underlying transaction. Further explanations can be found in note 4.15.

Due to the default risk being classified as low, no impairment was recognized in relation to other financial assets in the reporting period.

4.4 Other assets

The breakdown of other assets is shown in the following table:

	December 31, 2020 kEUR	December 31, 2019 kEUR
Other non-current assets		
Deferred finance costs for the revolving credit line	478	697
Sundry assets	3,600	410
Total	4,078	1,107
Other current assets		
Prepaid insurance	2,017	2,454
Receivables from energy tax refunds	1,809	989
VAT receivables	2,024	2,383
Deferred finance costs for the revolving credit line	219	219
Sundry assets	2,234	1,981
Total	8,303	8,026

Other assets mainly include advance payments.

4.5 Inventories

Inventories break down as follows:

	December 31, 2020 kEUR	December 31, 2019 kEUR
Raw materials	35,331	38,267
Work in progress	28,018	29,233
Finished goods	25,237	25,209
Merchandise	1,656	2,971
Other inventories	1,323	1,413
Total	91,565	97,093

Other inventories include packaging materials and spare parts for machinery.

At the reporting date, the write-down of inventories amounts to EUR 15,994k (December 31, 2019: EUR 14,636k). The expense resulting from the increase of EUR 1,358k in the write-down is reported in cost of sales.

4.6 Trade receivables

As of the reporting date, trade receivables were recognized to the amount of EUR 51,880k (December 31, 2019: EUR 52,740k) after taking into account valuation allowances of EUR 495k (December 31, 2019: EUR 760k).

As part of the factoring agreement concluded in 2017, receivables of EUR 13,599k were sold as of the reporting date (December 31, 2019: EUR 14,422k). Under the terms of the agreement, EUR 1,850k was retained by the factor as of the reporting date as a security (December 31, 2019: EUR 1,792k), and is recognized in other current financial assets (see note 4.3).

The value and maturity structure of trade receivables before impairment losses breaks down as follows:

	December 31, 2020 kEUR	December 31, 2019 kEUR
Carrying amount before impairment losses	52,375	53,500
thereof not yet due on the reporting date	40,066	41,248
thereof past due on the reporting date	12,309	12,252
past due up to 30 days	8,140	10,001
past due up to 60 days	3,286	896
past due up to 90 days	343	181
past due more than 90 days	540	1,174

The age structure of the impairment losses as of the reporting date breaks down as follows:

	December 31, 2020 EUR	December 31, 2019 EUR
not yet due	2	0
past due up to 30 days	144	22
past due up to 60 days	0	55
past due up to 90 days	19	47
past due more than 90 days	330	636
Total	495	760

The age structure of receivables past due which are not impaired breaks down as follows:

	December 31, 2020 kEUR	December 31, 2019 kEUR
past due up to 30 days	7,991	9,969
past due up to 60 days	3,286	817
past due up to 90 days	324	112
past due more than 90 days	199	247
Total	11,800	11,145

Loss allowances are based on information about a customer developed internally or obtained from external sources, and an estimate of the likelihood of default. The loss allowances mainly include specific loss allowances for receivables due from customers who have entered into bankruptcy proceedings or who are facing severe financial difficulties.

Default risks in the majority of trade receivables (usually between 75% and 80%) of CeramTec GmbH, Plochingen/Germany, the largest company that engages in operating activities, are covered by using credit insurance. After taking credit insurance into account, the maximum default risk on trade receivables of CeramTec TopCo Group comes to around 51% of the carrying amount as of the balance sheet date (December 31, 2019: 48%).

Based on the CeramTec TopCo Group's historical credit loss experience and customer structure, the Group is expected to sustain a small loss in the event of default, taking into account future-oriented macroeconomic information and existing insurance that protects the Group against loss on receivables. The resulting impairment loss on trade receivables is of minor importance.

There was no indication as of the reporting date that the debtors of receivables that were not impaired and not past due would not meet their payment obligations. On average, the Group has recognized loss allowances of around 40% in relation to all receivables past due more than 60 days.

The following table shows the development of loss allowances on trade receivables during the past reporting period. Additional general risks of non-payment are considered remote.

Loss allowances	2020 kEUR	2019 kEUR
As of January 1	760	530
Addition	195	591
Utilization	-40	-226
Reversal	-385	-75
Foreign currency translation	-35	-61
As of December 31	495	760

4.7 Cash and cash equivalents

The "Cash and cash equivalents" line item contains bank balances of EUR 244,113k (December 31, 2019: EUR 64,373k) and cash in hand of EUR 5k (December 31, 2019: EUR 7k).

4.8 Equity

Subscribed capital

The fully paid in capital stock of the parent company CeramTec TopCo amounts to EUR 25k (December 31, 2019: EUR 25k).

Capital reserve

Effective as of December 31, 2019, a nominal amount of EUR 247,929k of the existing shareholder loan and the interest payable in the amount of EUR 32,025k were contributed to the capital reserve.

The capital reserve is freely available and not subject to any earmarking.

Retained earnings and net profit/loss for the period

The "Retained earnings and net profit/loss for the period" line item contains the current profits/losses incurred by the CeramTec TopCo Group and those incurred in previous years. This also includes the change in the revaluation reserve for pension obligations (after tax) in the amount of EUR -6,166k (December 31, 2019: EUR -7,417k).

Accumulated other comprehensive income

Accumulated other comprehensive income relates to foreign currency translation adjustments and differences from the market valuation of financial assets and liabilities including deferred tax effects.

4.9 Provisions for pension obligations

Within the CeramTec TopCo Group, there are defined benefit and defined contribution plans in place granting eligible employees benefits in the event of retirement, occupational disability or death – in the latter case to employees' surviving dependents. These benefits are based, as a rule, on the length of service and level of remuneration or contributions of the eligible employees taking into account conditions in terms of tax, labor and welfare law in the respective country.

In Germany, there are various direct commitments that depend on the remuneration and length of service and are subject to a cap. These commitments do not contain any rights to inflation-related pension adjustments. These defined benefit plans were closed for employees that joined after January 1, 2002. There is also a defined benefit plan in place with direct commitments for a fixed pension amount which depends on the employee's length of service. This plan was also closed for employees that joined after January 1, 2002. For the management of the German CeramTec TopCo group companies, there are direct commitments in place comprising benefits that depend on the remuneration and length of service and are subject to a cap as well as benefits that are calculated based on the performance of the Company. The eligible employees are also entitled to deferred compensation which is subsidized by the relevant group company depending on the achievement of personal targets by employees.

Furthermore, since the end of 2014, the Company has committed itself to directly providing benefits as compensation to employees who have been enrolled into Hoechster Pensionskasse, which was subject to the realignment of pension funds that might be to their disadvantage. The obligation is measured annually by an actuarial expert.

The pension plan in the UK is a funded defined benefit plan. The plan is administered by an external sponsoring institution managed by employer and employee representatives. The representatives are legally obligated to represent the interests of the entitled employees and are responsible for the investment decisions and managing the assets. The pension plan is closed. The plan grants the entitled employees annual pension payments, the amount of which depends on the length of service and the last salary earned. Pension payments are also made in the event of death. The obligation is measured annually by an actuarial expert.

The provisions for pension obligations break down as follows:

	December 31, 2020 kEUR	December 31, 2019 kEUR
Germany	120,622	109,504
UK	3,489	3,698
Other	239	231
Total	124,350	113,433

The following table shows the extent of the obligation and the amount of plan assets as well as the provisions and other assets disclosed in the consolidated statement of financial position as of December 31, 2020.

	German plans kEUR	2020 Foreign plans kEUR	Total kEUR
<u>Change in benefit obligations</u>			
Benefit obligations at the beginning of the financial year	109,504	12,702	122,206
Service cost	4,146	20	4,166
Interest expense	974	241	1,215
Remeasurements	8,363	983	9,346
<i>from the change in demographic assumptions</i>	0	46	46
<i>from the change in financial assumptions</i>	9,748	937	10,685
<i>Experience adjustments</i>	-1,385	0	-1,385
Foreign currency translation	0	-702	-702
Benefits paid	-2,365	-443	-2,808
Benefit obligations at the end of the year	120,622	12,801	133,423
<u>Change in plan assets</u>			
Market value of plan assets at the beginning of the financial year	0	8,773	8,773
Interest income from plan assets	0	165	165
Expense for managing the plans	0	-89	-89
Employer contributions	0	448	448
Remeasurements	0	701	701
<i>from the change in financial assumptions</i>	0	701	701
Foreign currency translation	0	-492	-492
Benefits paid	0	-433	-433
Market value of plan assets at the end of the year	0	9,073	9,073
Net obligation amount / provisions for benefits	120,622	3,728	124,350

The change in financial assumptions primarily results from the declined interest rate.

The following table shows the extent of the obligation and the amount of plan assets as well as the provisions disclosed in the consolidated statement of financial position for the comparable period as of December 31, 2019.

	German plans kEUR	Foreign plans kEUR	Total kEUR
<u>Change in benefit obligations</u>			
Benefit obligations at the beginning of the financial year	96,430	10,826	107,256
Service cost	3,497	23	3,520
Interest expense	1,809	301	2,110
Remeasurements	10,121	1,229	11,350
<i>from the change in demographic assumptions</i>	0	-108	-108
<i>from the change in financial assumptions</i>	9,734	1,337	11,071
<i>Experience adjustments</i>	387	0	387
Foreign currency translation	0	666	666
Benefits paid	-2,353	-343	-2,696
Benefit obligations at the end of the year	109,504	12,702	122,206
<u>Change in plan assets</u>			
Market value of plan assets at the beginning of the financial year	0	7,056	7,056
Interest income from plan assets	0	203	203
Expense for managing the plans	0	-93	-93
Employer contributions	0	527	527
Remeasurements	0	964	964
<i>from the change in financial assumptions</i>	0	964	964
Foreign currency translation	0	457	457
Benefits paid	0	-341	-341
Market value of plan assets at the end of the year	0	8,773	8,773
Net obligation amount / provisions for benefits	109,504	3,929	113,433

The calculation of the pension obligations was based on the following assumptions as of December 31, 2020:

	Germany	Abroad
Interest rate (in %)	0.50	1.40
Wage and salary trends (in %)	2.50	N/A
Pension trend (in %)	1.50	2.60 - 3.00
Life expectancy	2018 G Guideline Tables	Mortality Tables

The calculation of the pension obligations was based on the following assumptions as of December 31, 2019:

	<u>Germany</u>	<u>Abroad</u>
Interest rate (in %)	0.90	2.00
Wage and salary trends (in %)	3.00	N/A
Pension trend (in %)	1.50	3.00 - 3.20
Life expectancy	2018 G Guideline Tables	Mortality Tables

The average term of the benefit obligations amounts to 22.7 years in Germany (prior year: 22.2 years) and 16.0 years abroad (prior year: 16.0 years).

The employer contributions and benefit payments expected to be paid into the plans during the next financial year amount to EUR 450k (prior year: EUR 476k) and EUR 2,994k (prior year: EUR 2,694k) respectively.

The risk from changes in actuarial assumptions underlying the measurement of the defined pension plans is borne by the relevant group company. The sensitivity analyses presented in the table below were performed based on reasonably possible changes in the respective assumptions as of the reporting date. The change in key actuarial assumptions would have the following effects (in kEUR) on the present value of pension obligations:

	<u>Change</u>	<u>Effect December 31, 2020</u>
Discount rate	- 0.50 percentage points	15,895
	+ 0.50 percentage points	-13,540
Wage and salary trends	- 0.50 percentage points	-492
	+ 0.50 percentage points	514
Pension trend	- 0.50 percentage points	-14,368
	+ 0.50 percentage points	15,965
Life expectancy	+ 1 year	6,004

The change in key actuarial assumptions would have had the following impact (in kEUR) on the present value of pension obligations for the prior year:

	Change	Effect December 31, 2019
Discount rate	- 0.50 percentage points	14,082
	+ 0.50 percentage points	-12,032
Wage and salary trends	- 0.50 percentage points	-433
	+ 0.50 percentage points	452
Pension trend	- 0.50 percentage points	-13,581
	+ 0.50 percentage points	15,059
Life expectancy	+ 1 year	5,448

There are no plan assets for German plans. The plan assets of the foreign plans break down into the following assets:

	December 31, 2020 kEUR	December 31, 2019 kEUR
Securities/shares	4,456	4,260
Equity funds and other funds	2,468	2,086
Fixed-interest securities	1,405	1,584
Real estate	744	843
	9,073	8,773

The fair values of the securities and shares were determined based on prices quoted on active markets, while the fair values of real estate are not based on prices quoted on active markets. The real estate contained in plan assets relates to non-owner-occupied property in the UK. The investment horizon for plan assets takes into account the expected payout profile.

From January 1, 2002 to December 31, 2014, all new hires at CeramTec GmbH, CeramTec Service and Emil Müller GmbH were members of the pension fund Dynamit Nobel VVaG. Furthermore, some active and former employees of CeramTec GmbH and Emil Müller GmbH are members of the pension fund Pensionskasse der Mitarbeiter der Hoechst-Gruppe VVaG. These pension funds are multi-employer plans which are generally defined benefit plans. The two pension funds are subject to regulatory supervision. In the event that the funds are unable to

settle their obligations, the employer is legally liable for the vested benefits (secondary liability). This obligation remains in place even if the CeramTec TopCo Group were to terminate its participation in the plans. However, terminating its participation would generally not directly result in having to make supplementary payments. In the consolidated financial statements, these pension plans are classified as defined contribution plans in accordance with IAS 19.34. As several employers are responsible for these pension funds, contributions made by the CeramTec TopCo Group can under certain circumstances be used to finance another entity's employee benefits.

Dynamit Nobel VVaG is funded for commitments made before December 1, 2007 with income-based contributions by the entitled employees as well as variable employer contributions. The employers' contribution must, together with the member contributions and return on plan assets from the pension fund, sufficiently fund the agreed benefit payments according to actuarial principles. Once pension payments have begun, the pension fund assumes the statutory pension adjustments provided it has the sufficient means to do so. In the last few years, the pension adjustments could not be assumed by the pension fund and had to be funded by the employers. For commitments given as from December 1, 2007, the employees and employer made a fixed, income-based contribution. There is no obligation on the part of the employer to adjust current pension benefits. Surpluses are used to increase the pension benefits. Although the existing obligations are at present fully covered by assets in accordance with German accounting standards for pension funds, the additional capital requirements have not been satisfied. There is a plan approved by regulatory authorities in place to remedy the contravention of requirements. Negative budget variances, for example due to the pension fund earning an insufficient return on assets, may result in the CeramTec TopCo Group having to make additional payments. The proportion of members whose membership is based on an existing or former work contract with CeramTec GmbH, CeramTec Service or Emil Müller GmbH in the total number of pension fund members amounts to around 26% for active employees, around 11% for non-contributory employees and around 4% for pensioners.

The pension fund Pensionskasse der Mitarbeiter der Hoechst-Gruppe VVaG is funded with income-based contributions by entitled employees as well as variable employer contributions. The employers' contribution must, together with the employees' member contributions and pension fund surpluses, sufficiently fund the agreed benefit payments according to actuarial principles. Once pension payments have begun, the pension fund assumes the statutory pension adjustments provided it has the sufficient means to do so. The proportion of members whose membership is based on an existing or former work contract with the CeramTec TopCo Group in the total number of members for active employees, non-contributory employees and pensioners ranges between around 0.1% and 0.15% in each case.

As of December 1, 2014, company pension schemes underwent some realignment, and all employees whose membership was based on an existing contract with the pension fund Dynamit Nobel VVaG were enrolled into Hoechster Pensionskasse VVaG. Since January 1, 2015, contributions have not been paid anymore to the pension fund Dynamit Nobel VVaG, and the employees have become extraordinary members. All new hires become members of Hoechster Pensionskasse VVaG. The employees and employer make a fixed, income-based contribution to Hoechster Pensionskasse VVaG. There is no obligation on the part of the employer to adjust current pension benefits. Surpluses are used to increase the pension benefits. CeramTec GmbH has committed itself to directly providing benefits as compensation for the realignment which involved enrolling the employees into another pension fund, which may be to their disadvantage.

The contributions made to the pension funds amounted to EUR 2,413k in the financial year (prior year: EUR 2,558k). The expenses are recorded in cost of sales, selling expenses, research and development costs as well as general administrative costs. Planned contributions of EUR 2,426k are expected to be made in 2021 (prior year: EUR 2,451k).

The expenses for additional defined contribution plans related to the employer's share of contributions to the German state pension insurance scheme, and amounted to EUR 11,827k (prior year: EUR 11,754k).

4.10 Provisions

The development of provisions in the financial year was as follows:

	Balance as of Decem- ber 31, 2019 kEUR	Addition kEUR	Utilization kEUR	Reversal kEUR	Reclassifi- cation kEUR	Exchange difference kEUR	Balance as of Decem- ber 31, 2020 kEUR
Provisions for employee bonuses	12,098	9,272	10,177	1,707	101	-294	9,293
Provisions for warranties	3,170	2,120	950	895	0	0	3,445
Provisions for environmental risks	272	85	18	6	0	-18	315
Provisions for long-service awards	923	212	390	0	0	0	745
Provision for solvency requirements	2,834	60	1,884	3	0	-1	1,006
Provisions for litigation risks	1,077	190	346	370	0	-8	543
Provisions for taxes	4,424	4,000	4,425	0	0	-70	3,929
Sundry provisions	2,898	1,339	622	189	-101	-114	3,211
	27,696	17,278	18,812	3,170	0	-505	22,487

Provisions for environmental risks relate to the elimination of residual pollution, renovation measures and water conservation practices. Estimations and, where possible, external expert opinions are used to measure the amount of the provisions.

A provision was recognized for the solvency plan for the pension fund Dynamit Nobel VVaG which has been approved by the German Federal Financial Supervisory Authority (Bafin).

The provision for taxes includes anticipated income tax payments for past assessment periods.

Sundry provisions primarily comprise provisions for severance pay, legal and consulting fees as well as provisions for other contingent liabilities.

The maturities of the provisions were as follows:

	December 31, 2020 kEUR	December 31, 2019 kEUR
Current provisions	19,726	22,190
Non-current provisions	2,761	5,506
Total	22,487	27,696

The non-current provisions mainly relate to long-service awards and solvency obligations as well as environmental risks.

The cash outflow of current provisions takes place within one year.

4.11 Financial liabilities to affiliates

Financial liabilities to affiliates comprise a loan payable to CTEC Acquisition S.à.r.l., Luxembourg, in the amount of EUR 273,835k (December 31, 2019: EUR 311,503k) with a term until December 31, 2028.

	December 31, 2020 kEUR	December 31, 2019 kEUR
Non-current financial liabilities		
Loan payable	273,523	256,270
	273,523	256,270
Current financial liabilities		
Loan payable	0	19,599
Accrued interest	312	35,634
	312	55,233
Total	273,835	311,503

Effective as of December 31, 2019, a nominal amount of EUR 247,929k of the existing shareholder loan and the interest payable in the amount of EUR 32,025k were contributed to the capital reserve.

The amount reported as current of EUR 312k (prior year: EUR 55,233k) was paid to the shareholder in January of the subsequent year in each case.

4.12 Financial liabilities to third parties

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

	December 31, 2020 kEUR	December 31, 2019 kEUR
Non-current financial liabilities		
Liabilities to banks	1,156,680	999,334
Liabilities from the bond	414,293	415,740
Derivative financial instruments	22,489	15,179
Lease liabilities	3,636	3,071
Total	1,597,098	1,433,324
Current financial liabilities		
Derivative financial instruments	8,256	5,743
Liabilities from the bond	7,993	7,993
Discounts and bonuses	3,065	4,139
Lease liabilities	1,759	2,355
Liabilities to banks	141	2,672
Sundry current financial liabilities	2,759	2,504
Total	23,973	25,406

Within liabilities to banks, the funds raised under the EUR tranche were increased by a nominal amount of EUR 175,000k effective as of December 15, 2020, resulting in a total volume of EUR 1,069,000k from the EUR tranche. Furthermore, there are two USD tranches with a nominal volume of EUR 121,326k. The tranches have variable interest rates and mature on March 8, 2025. Transaction costs of EUR 33,641k associated with the loan are spread over the term of the loan using the effective interest method.

In 2019, voluntary repayments were made in relation to the syndicated loan of EUR 44,000k on the EUR tranche and EUR 9,872k on two USD tranches.

The bond has a fixed interest rate and a nominal volume of EUR 406,000k (December 31, 2019: nominal volume of EUR 406,000k). It is due to mature on December 15, 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 13,570k are spread over the term of the bond using the effective interest method. Further information on the loans, the bond and derivatives can be found in note 4.15.

Lease liabilities are composed of right-of-use assets capitalized in accordance with IFRS 16 (see note 4.14) in the amount of EUR 4,309k and finance leases recognized in previous years in accordance with IFRS 17 in the amount of EUR 1,086k.

4.13 Other liabilities

Other liabilities break down as follows:

	December 31, 2020 kEUR	December 31, 2019 kEUR
Other non-current liabilities		
Contractual liabilities under contracts with customers	3,763	0
Total	3,763	0
Other current liabilities		
Wages and salaries including taxes	10,696	12,208
Contractual liabilities under contracts with customers	3,935	907
Real estate transfer tax	1,023	1,023
Sundry current liabilities	5,943	2,599
Total	21,597	16,737

The contractual liabilities from contracts with customers reported as non-current will be recognized in income in 2022, while those reported as current will be recognized in income in 2021. All contractual liabilities under contracts with customers of the prior year were recognized as revenue in the current financial year.

Sundry current liabilities are mainly attributable to liabilities to employees, liabilities from social security contributions, liabilities to pension funds as well as deferred income.

4.14 Accounting for leases (IFRS 16)

In accordance with IFRS 16 the lessee is required to recognize a right-of-use asset (or "RoU asset") and a corresponding lease liability for all leases. At the commencement date, the amount of the RoU asset corresponds to the amount of the lease liability. In the subsequent periods, the RoU asset is (apart from some exceptions) measured at its cost less any accumulated depreciation and impairment losses and adjusted for any remeasurement of the lease liability. The CeramTec TopCo Group primarily leases various office and warehouse buildings as well as vehicles.

The right-of-use assets can be related to the asset category of property, plant and equipment as follows:

	Land and buildings	Technical plant and machinery	Other equipment	Total
	kEUR	kEUR	kEUR	kEUR
Cost				
January 1, 2019	0	0	0	0
Initial adoption of IFRS 16 as of January 1, 2019	2,434	172	2,246	4,852
Additions	138	29	1,595	1,762
Exchange differences	25	1	1	27
December 31, 2019	2,597	202	3,842	6,641
Additions	1,100	220	1,441	2,761
Disposals	-202	-362	-1,546	-2,111
Reclassifications	-106	0	0	-106
Exchange differences	-105	-3	-28	-136
December 31, 2020	3,284	57	3,708	7,049
Depreciation/impairment				
January 1, 2019	0	0	0	0
Additions to depreciation	686	185	1,665	2,536
Exchange differences	4	0	1	5
December 31, 2019	690	185	1,666	2,542
Additions to depreciation	733	213	1,638	2,584
Disposals	-177	-362	-1,534	-2,074
Reclassifications	-187	0	0	-187
Exchange differences	13	-5	-39	-31
December 31, 2020	1,072	31	1,731	2,834
Net carrying amounts				
December 31, 2020	2,212	26	1,977	4,215
December 31, 2019	1,907	17	2,175	4,099

At the commencement date, the lease liability is measured at the present value of the lease payments that are paid over the lease term. Subsequently, the carrying amount of the lease liability is adjusted for interest using the discount rate and reduced in the amount of the lease payments made. Modifications to the lease payments result in a remeasurement of the lease liability.

The following table shows the undiscounted cash flows for the lease liabilities existing as of the reporting date pursuant to IFRS 16:

	December 31, 2020						
	Carrying amount kEUR	2021 kEUR	2022 kEUR	2023 kEUR	2024 kEUR	2025 kEUR	>2025 kEUR
Lease liabilities (IFRS 16)	4,309	1,824	1,155	634	419	153	419

The effect of IFRS 16 on the consolidated statement of comprehensive income is as follows:

	2020 kEUR	2019 kEUR
Depreciation of right-of-use-assets	2,584	2,536
Interest expense associated with unwinding of discount on lease liabilities	227	243
Total	2,811	2,779

In the financial year, expenses related to short-term leases, leases of low-value assets as well as software leases are included in the consolidated statement of comprehensive income at EUR 981k (prior year: EUR 900k).

The total cash outflows for leases, which are not recognized - as in the past - in accordance with IAS 17, amount to EUR 3,867k in the financial year (prior year: EUR 3,576k).

4.15 Financial instruments

The following table shows the carrying amounts and fair values of the financial assets and financial liabilities reported in the consolidated financial statements, sorted by class and measurement category in accordance with IFRS 9.

	Measurement category of IFRS 9 ¹	December 31, 2020	
		Carrying amount kEUR	Fair value kEUR
Financial assets			
Trade receivables	AC	51,880	51,880
Separated termination rights	FVtPL	10,221	10,221
Cash and cash equivalents	AC	244,118	244,118
Forward exchange transactions	FVtPL	314	314
Other financial assets	AC	3,001	3,001
Total		309,534	309,534
Financial liabilities			
Liabilities to banks	AC	1,156,821	1,190,326
Bond liabilities	AC	422,286	421,702
Liabilities to affiliates	AC	273,835	275,595
Trade payables	AC	29,034	29,034
Separated interest rate floors	FVtPL	26,079	26,079
Lease liabilities	AC	5,395	5,395
Interest rate cap	FVtPL	4,665	4,665
Other financial liabilities	AC	5,825	5,825
Total		1,923,940	1,958,621

¹ AC: measured at amortized cost using the effective interest method; FVtPL: measured at fair value through profit or loss

		December 31, 2019	
	Measurement category of IFRS 9 ¹	Carrying amount kEUR	Fair value kEUR
Financial assets			
Trade receivables	AC	52,740	52,740
Separated termination rights	FVtPL	25,139	25,139
Cash and cash equivalents	AC	64,380	64,380
Forward exchange transactions	FVtPL	717	717
Other financial assets	AC	2,461	2,461
Total		145,437	145,437
Financial liabilities			
Liabilities to banks	AC	1,002,006	1,027,167
Liabilities to affiliates	AC	311,503	314,158
Bond liabilities	AC	423,733	448,597
Trade payables	AC	30,277	30,277
Separated interest rate floors	FVtPL	15,272	15,272
Interest rate cap	FVtPL	5,650	5,650
Lease liabilities	AC	5,425	5,425
Other financial liabilities	AC	6,644	6,644
Total		1,800,510	1,853,190

¹ AC: measured at amortized 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:** Level 1 inputs are quoted (unadjusted) prices in markets for identical assets or liabilities that the entity can access at the measurement date
- **Level 2:** Level 2 inputs are inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly
- **Level 3:** Level 3 inputs are unobservable 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:

	December 31, 2020		
	Level 1 kEUR	Level 2 kEUR	Level 3 kEUR
Financial assets			
Separated termination rights	0	10,221	0
Forward exchange transactions	0	314	0
Financial liabilities			
Separated interest rate floors	0	26,079	0
Interest rate cap	0	4,665	0

	December 31, 2019		
	Level 1 kEUR	Level 2 kEUR	Level 3 kEUR
Financial assets			
Separated termination rights	0	25,139	0
Forward exchange transactions	0	717	0
Financial liabilities			
Separated interest rate floors	0	15,272	0
Interest rate cap	0	5,650	0

The following table shows the fair value hierarchy for the financial instruments that are not recognized at fair value in the consolidated financial statements; however, their fair value is provided in the notes to the financial statements. The Group does not disclose the fair values of financial instruments when their carrying amounts are a reasonable approximation of the fair values, such as current trade receivables and payables.

	December 31, 2020		
	Level 1 kEUR	Level 2 kEUR	Level 3 kEUR
Financial liabilities			
Bond liabilities	0	421,702	0
Liabilities to banks	0	1,190,326	0
Liabilities to affiliates	0	0	275,595
Lease liabilities	0	5,395	0

	December 31, 2019		
	Level 1 kEUR	Level 2 kEUR	Level 3 kEUR
	<hr/>	<hr/>	<hr/>
Financial liabilities			
Bond liabilities	0	448,597	0
Liabilities to banks	0	1,027,167	0
Liabilities to affiliates	0	0	314,158
Lease liabilities	0	5,425	0

The fair value of the bond corresponds to the nominal value multiplied by the market value as of the reporting date, plus the separated termination right. Accordingly, the fair value measurement is allocated to level 2 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 was also 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 intensity (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 intensity (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 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.

Net gains and losses as well as total interest income and expenses

The following table presents the net gains and losses from financial assets and liabilities in accordance with IFRS 9:

	December 31, 2020			Total
	Change in fair value	Currency translation	Impairment loss	
	kEUR	kEUR	kEUR	
Financial assets				
Trade receivables	0	293	189	482
Cash and cash equivalents	0	-1,156	0	-1,156
Separated termination rights - FVtPL	-14,917	0	0	-14,917
	<u>-14,917</u>	<u>-863</u>	<u>189</u>	<u>-15,591</u>
Financial liabilities				
Interest rate floors - FVtPL	-7,793	0	0	-7,793
	<u>-7,793</u>	<u>0</u>	<u>0</u>	<u>-7,793</u>
Total	<u>-22,710</u>	<u>-863</u>	<u>189</u>	<u>-23,384</u>

	December 31, 2019			Total
	Change in fair value	Currency translation	Impairment loss	
	kEUR	kEUR	kEUR	
Financial assets				
Trade receivables	0	-504	-516	-1,020
Cash and cash equivalents	0	-163	0	-163
Separated termination rights - FVtPL	4,151	0	0	4,151
	<u>4,151</u>	<u>-667</u>	<u>-516</u>	<u>2,967</u>
Financial liabilities				
Interest rate floors - FVtPL	-5,425	0	0	-5,425
	<u>-5,425</u>	<u>0</u>	<u>0</u>	<u>-5,425</u>
Total	<u>-1,274</u>	<u>-667</u>	<u>-516</u>	<u>-2,458</u>

Net gains from the changes in the fair value of embedded derivatives are primarily due to changes in market interest rates.

The following table shows the total interest income and expenses from financial assets and liabilities that are measured at amortized cost using the effective interest method.

	2020 kEUR	2019 kEUR
Total interest expense	74,905	96,277
Total interest income	1,573	1,582

No finance fees, which are not part of the effective interest method, were expensed in profit or loss in the reporting period and in the prior year.

Derivative financial instruments

The following table shows the fair value and nominal value of derivative financial instruments as of December 31, 2020:

	December 31, 2020	
	Nominal value kEUR	Fair value kEUR
<i>Derivatives with a positive fair value</i>		
Separated termination rights	406,000	10,221
Forward exchange transactions	21,253	314
<i>Derivatives with a negative fair value</i>		
Separated interest rate floors	1,069,000	-26,079
Interest rate cap	970,712	-4,665
Total	2,466,965	-20,210

	December 31, 2019	
	Nominal value kEUR	Fair value kEUR
<i>Derivatives with a positive fair value</i>		
Separated termination rights	406,000	25,139
Forward exchange transactions	20,075	717
<i>Derivatives with a negative fair value</i>		
Separated interest rate floors	894,000	-15,272
Interest rate cap	980,248	-5,650
Total	2,300,323	4,934

Embedded derivatives

As described in note 4.12, the CeramTec TopCo Group took out a syndicated loan with one EUR and two USD tranches with a syndicate of banks in March 2018. These loans include embedded interest rate floors, which oblige the CeramTec TopCo Group to pay a minimum interest rate that exceeds the variable interest rate. Furthermore, the bond issued in December 2017 contains various agreements that entitle the CeramTec TopCo Group to prematurely repay the bond. Both the interest rate floors and termination rights were separated from the host contract in accordance with the provisions of IFRS 9 and subsequently recognized as stand-alone derivatives at fair value through profit or loss.

5 Notes to the Consolidated Statement of Cash Flows

In the 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 statement of financial position and comprise cash in hand, bank balances and cash investments with an original term of up to three months. The bank balances are not subject to drawing restrictions.

Effective as of December 15, 2020, the funds raised under the EUR tranche were increased by a nominal amount of EUR 175,000k.

In 2019, voluntary repayments were made in relation to the syndicated loan of EUR 44,000k on the EUR tranche and EUR 9,872k on two USD tranches.

Other non-cash income and expenses primarily contain changes in the fair value of financial instruments and accrued interest.

During the financial year, the Group made cash payments for investments in property, plant and equipment in the amount of EUR 6,712k which have already been added to property, plant and equipment in the previous period. At the same time, additions to property, plant and equipment in the financial year amounted to EUR 5,164k that will affect cash only during the following accounting period.

Non-cash investing activities relate exclusively to the addition of right-of-use assets.

In the financial year, liabilities arising from financing activities developed as follows:

	Liabilities to banks	Liabilities from the bond	Liabilities from shareholder loans	Derivative financial instruments	Lease liabilities	Total
	kEUR	kEUR	kEUR	kEUR	kEUR	kEUR
Balance as of December 31, 2019	1,002,006	423,733	311,503	20,922	5,426	1,763,590
Change in cash flow from financing activities						
Cash receipts	168,161	0	0	0	0	168,161
Cash payments	0	0	-19,599	0	-2,886	-22,485
Interest payments	-29,911	-21,315	-37,200	-2,405	0	-90,831
	138,250	-21,315	-56,799	-2,405	-2,886	54,845
Interest expenses	34,870	19,868	19,131	209	227	74,305
Currency translation effect	-7,181	0	0	-59	-133	-7,373
Fair value changes	0	0	0	12,078	2,761	14,839
Effects from the increase in the syndicated loan not affecting profit or loss	-11,124	0	0	0	0	-11,124
	16,565	19,868	19,131	12,228	2,855	-70,647
Balance as of December 31, 2020	1,156,821	422,286	273,835	30,745	5,395	1,889,082

In the prior year, liabilities arising from financing activities developed as follows:

	Liabilities to banks	Liabilities from the bond	Liabilities from shareholder loans	Derivative financial instruments	Lease liabilities	Total
	kEUR	kEUR	kEUR	kEUR	kEUR	kEUR
Balance as of December 31, 2018	1,048,961	419,884	552,688	17,760	1,256	2,040,550
Change in cash flow from financing activities						
Cash receipts	0	5,163	0	0	0	5,163
Cash payments	-53,872	0	0	0	-2,676	-56,548
Interest payments	-30,833	-21,315	0	-2,417	0	-54,565
	-84,705	-16,152	0	-2,417	-2,676	-105,950
Interest expenses	36,592	19,682	38,769	0	243	95,285
Currency translation effect	1,158	0	0	-76	-10	1,072
Fair value changes	0	0	0	5,680	1,765	7,445
Additions from initial recognition according to IFRS 16	0	0	0	0	4,848	4,848
Conversion into equity	0	0	-279,954	0	0	-279,954
Other changes	0	319	0	-25	0	294
	37,750	20,001	-241,185	5,579	6,846	-171,009
Balance as of December 31, 2019	1,002,006	423,733	311,503	20,922	5,426	1,763,590

The interest expenses relating to liabilities from the bond in the current financial year include income of EUR 1,447k (prior year EUR 1,380k) associated with discounting of financial liabilities that arose because the effective interest method was applied.

6 Other Notes

6.1 Management of financial risks

The CeramTec TopCo Group is exposed to credit risks and various market risks. Credit risks are mainly due to receivables from customers. Market risks are primarily attributable to the risk of changes in variable interest rates and exchange rate risks. Furthermore, the CeramTec TopCo Group is exposed to liquidity risks, which mainly result from the EUR and USD loans taken out in EUR as well as the bond also issued in EUR.

The CeramTec TopCo Group operates on the basis of an appropriate framework to manage financial risks, which is an integral part of ongoing business operations and ongoing financing activities. Taking these risk management objectives into consideration, risks are identified, assessed and managed on an ongoing basis. In some cases, the CeramTec TopCo Group enters into derivative financial instruments to hedge certain financial risks. By contrast, it is not permitted to enter into derivative financial instruments for speculative purposes.

Market risks

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate due to changes in market prices. Market risk particularly comprises risks arising from exchange rate and interest rate fluctuations and other price risks, such as share price risks and commodity price risks.

Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. In connection with the loans in USD, the CeramTec TopCo Group is exposed in particular to foreign currency risks arising from changes in the USD/EUR exchange rate.

The following sensitivity analysis in terms of the foreign currency risk was prepared based on the assumption that the portion of financial instruments in foreign currency will remain constant. The table shows the effects on net profit/loss for the period and group equity taking into account a hypothetical change of +/- 10% to the closing rate and forward rate as of the reporting date for the CeramTec TopCo group companies' main foreign currency items.

December 31, 2020						
Change in the spot rate						Total
	USD	GBP	CZK	PLN	CNY	
%						
Effect on net profit/loss before tax in kEUR						
+10%	7,046	79	26	-130	-674	6,347
-10%	-8,612	-97	-32	159	824	-7,757

December 31, 2019						
Change in the spot rate						Total
	USD	GBP	CZK	PLN	CNY	
%						
Effect on net profit/loss before tax in kEUR						
+10%	9,878	-54	59	-96	-677	9,110
-10%	-12,073	66	-72	117	828	-11,134

Forward exchange transactions have been concluded until the end of 2021 to cover the monthly demand for local national currency of two subsidiaries:

	December 31, 2020	
	Total kEUR	Residual term of up to 1 year kEUR
Nominal value	21,253	21,253
Fair value	314	314
Average rate		
GBP / EUR	0.9064	
USD / GBP	1.3613	
CZK / EUR	26.3018	

	December 31, 2019	
	Total kEUR	Residual term of up to 1 year kEUR
Nominal value	20,075	20,075
Fair value	717	717
Average rate		
GBP / EUR	0.8583	
USD / GBP	1.3185	
CZK / EUR	25.7398	

Interest rate risk

Interest rate risk is the risk that the fair value of fixed-interest rate financial instruments or the future cash flows of variable-interest rate financial instruments will fluctuate because of changes in market interest rates.

The variable-interest rate loans in USD and EUR expose the CeramTec TopCo Group in particular to a cash flow risk from the change in the EURIBOR and LIBOR interest rates. By comparison, changes in variable interest rates relating to the fixed-interest rate bond may lead to a change in fair value. However, this risk does not impact the net profit/loss for the period or group equity, as the bond is carried at amortized cost and changes in fair value are not recognized.

CeramTec TopCo group companies entered into agreements governing interest rate caps until May 31, 2022 and until May 31, 2024 respectively, in the form of two successive EUR interest rate caps in the amount of EUR 873,000k each, linked to 3-month EURIBOR, and two successive USD interest rate caps of USD 120,000k and USD 149,000k respectively, linked to 3-month LIBOR. The interest rate caps limit the maximum variable interest rates to 0.75% or 0.25% (EURIBOR) and to 2.75% or 1.25% (LIBOR).

The following table shows the effects on the financial result assuming a hypothetical change of +/- 100 basis points to the variable USD and EUR interest rates.

	December 31, 2020			
	Increase/ decrease in basis points	Effect on loan interest rates	Effect on derivatives	Total effect on interest expense
		kEUR	kEUR	kEUR
EURO	+100	10,838	-32,280	-21,441
	-100	-10,838	49,985	39,147
US dollar	+100	1,230	-1,806	-575
	-100	-1,230	0	-1,230

December 31, 2019

	Increase/ decrease in basis points	Effect on loan interest rates kEUR	Effect on derivatives kEUR	Total effect on interest expense kEUR
EURO	+100	9,039	-20,390	-11,351
	-100	-9,039	44,635	35,595
US dollar	+100	1,346	-616	730
	-100	-1,346	40	-1,307

If the interest rate increases, the increase in the loan interest rate will be more than compensated for mainly as a result of the lower valuation of the negative derivative from the interest rate floor.

Collateral

CeramTec AcquiCo, CeramTec BidCo LLC (hereinafter "US BidCo") and CeramTec GmbH are borrowers of the syndicated loan. In connection with the syndicated loan, certain assets of CeramTec BondCo, CeramTec AcquiCo, CeramTec Holding, CeramTec Group, CeramTec GmbH, US BidCo, CeramTec Acquisition LLC and CeramTec North America LLC (hereinafter "CeramTec NA") were provided as collateral. In the USA, (i) the shares in US BidCo, CeramTec Acquisition LLC and in CeramTec NA, (ii) all additional assets of US BidCo, CeramTec Acquisition LLC and CeramTec NA (including receivables, intellectual property and bank accounts) and (iii) CeramTec GmbH's intellectual property registered in the USA, were provided as collateral. In Germany, (i) the shares in CeramTec AcquiCo, CeramTec Holding, CeramTec Group and CeramTec GmbH, (ii) receivables of CeramTec BondCo (intercompany receivables only), CeramTec AcquiCo (intercompany receivables and receivables relating to acquisition agreements only), CeramTec Holding (insurance, intercompany and hedging receivables), CeramTec Group (insurance, intercompany and hedging receivables) and CeramTec GmbH (insurance, intercompany, hedging and trade receivables, (iii) bank accounts of CeramTec BondCo, CeramTec AcquiCo, CeramTec Holding, CeramTec Group and CeramTec GmbH and (iv) the intellectual property of CeramTec GmbH, were provided as collateral for the syndicated loan, or encumbered.

The financial assets falling under the above collateral in accordance with IFRS 9 (see note 4.15) are stated on the balance sheet as of December 31, 2020 to an amount of EUR 264,377k (December 31, 2019: EUR 93,627k).

Risk from compliance with financial covenants

Compliance with financial covenants was agreed to in connection with obtaining the syndicated loan. Accordingly, the CeramTec TopCo Group must comply with a covenant provided that the revolving credit line of EUR 67,000k is utilized to an extent as specified in the loan agreement. As the amount drawn down at the end of the fiscal year remained below the threshold specified, the Company was not required to review compliance with this financial covenant. In addition, an

	Carrying amount kEUR	December 31, 2019					
		2020 kEUR	2021 kEUR	2022 kEUR	2023 kEUR	2024 kEUR	>2024 kEUR
Trade payables	30,277	30,277	0	0	0	0	0
Liabilities to banks	1,002,007	29,073	28,423	28,406	28,329	28,352	1,034,760
Bond liabilities	423,734	21,315	21,315	21,315	21,315	21,315	434,420
Liabilities to affiliates	311,503	56,799	0	0	0	0	484,989
Lease liabilities	5,425	1,883	1,197	648	516	397	1,301
Other financial liabilities	6,644	6,644	0	0	0	0	0
Derivatives with a negative fair value							
Interest rate cap	5,650	2,460	2,460	1,230	0	0	0

Default risk

Credit risk is the risk that a counterparty will not meet its obligations under financial instruments, leading to a financial loss on the part of the creditor. At the CeramTec TopCo Group, the credit risk is primarily associated with trade receivables, cash and cash equivalents and other receivables.

Trade receivables exist in respect of numerous customers in various sectors and regions. Default risks related to customer receivables are locally monitored, assessed and limited by using credit insurance. After taking credit insurance into account, the maximum default risk on trade receivables amounts to 51% of the carrying amount.

Cash and cash equivalents mainly comprise bank balances and cash in hand. In connection with the investment of cash and cash equivalents, the CeramTec TopCo group companies are exposed to losses from credit risks if counterparties do not meet their obligations. The resulting risk position is managed by diversifying the counterparties. For example, cash is only invested at banks with excellent credit ratings. There is no cash past due or impaired as of the reporting date. The maximum default risk for cash and cash equivalents corresponds to the carrying amount.

The CeramTec TopCo Group considers this default risk to be immaterial as of the reporting date.

The termination option separated from the bond and recognized as other financial asset is not exposed to any credit risk as of the reporting date, because the positive market value is based solely on a potential premature repayment of the bond and an associated more favorable opportunity to refinance for the CeramTec TopCo Group, without giving rise to any actual cash receivable from the banks.

Trade receivables

A loss allowance of EUR 495k was recognized for lifetime expected credit losses on trade receivables (in accordance with the simplified approach set out in IFRS 9). The net receivables portfolio amounts to EUR 51,880k after deducting the loss allowance from the gross receivables portfolio of EUR 52,375k. The gross receivables portfolio of receivables that are more than 30 days past due amounts to EUR 4,170k. The net receivables portfolio amounts to EUR 3,675k (level 3) after deducting the loss allowance of EUR 495k.

The loss allowance the Group is required to recognize is not determined based on external credit ratings. The expected credit losses are estimated by reference to factors that are specific to a debtor and information about the debtor's financial position. In addition, past default experience of the debtor is also taken into account in the assessment. It is allocated to level 3 of IFRS 9.

Non-payment risks are not expected to be associated with all other financial assets, including separated termination rights or the amount retained by a factor as a security for any bad debts that may arise.

Capital management

The objective of capital management in the consolidated group is securing liquidity to make investments that increase the value of the organization. Therefore, the focus is on optimizing cash flows from operating activities. Equity recognized on the balance sheet amounts to EUR 180,957k (December 31, 2019: EUR 338,468k). Liabilities of EUR 2,366,247k (December 31, 2019: EUR 2,256,793k) were recognized as of the reporting date. The equity ratio stands at 7.1% (prior year: 13.0%).

6.2 Contingent liabilities

The entities within the consolidated group are involved as parties in a number of lawsuits. These proceedings are linked to ordinary business activities and mainly relate to commercial, product liability and environmental processes. The group companies form provisions for such obligations if it is probable that a liability has been incurred and the amount of the potential claim can be sufficiently estimated. Where the possibility of an outflow in settlement is not unlikely, such obligations are disclosed in the notes to the financial statements.

6.3 Related party disclosures

Key management personnel

Key management personnel are those persons having direct or indirect authority and responsibility for the planning, management and monitoring of the activities of the CeramTec TopCo Group.

In the financial year, the key management personnel of CeramTec TopCo Group consisted of the following persons:

Dr. Hadi Saleh
Chief Executive Officer

Richard Boulter
President Industrial

Eric Oellerer
Chief Financial Officer

Dr. Hadi Saleh is the sole general manager of CeramTec TopCo GmbH.

The members of management in key positions received total remuneration (fixed and variable amounts) in the form of short-term employee benefits amounting to EUR 2,331k in the financial year (prior year: EUR 2,409k). The payments for post-employment benefits amount to EUR 588k (prior year: EUR 373k). This amount comprises the service cost for pension obligations and contributions to defined contribution plans. As has been the case in the prior year, former general managers were not granted any benefits in the financial year in the event of premature termination of management activities. Additionally, as of December 31, 2020 there are pension obligations to general managers in the amount of EUR 1,639k (prior year: EUR 1,405k) and to former general managers and their surviving dependents in the amount of EUR 4,427k (prior year: EUR 4,076k).

As part of a participation program, selected employees of the CeramTec TopCo Group were offered the option to directly acquire shares in CeramTec Management Beteiligungs GmbH & Co. KG and CeramTec Co-Investment GmbH & Co. KG. As of the reporting date, selected employees hold overall less than 10% of the shares in CeramTec TopCo GmbH indirectly. These shares were acquired at the shares' fair value at the grant date. The management participation program is intended to serve as an incentive instrument, motivating the management in view of growth and long-term business success of the CeramTec Group. For this purpose, the agreements define exit events (disposal, stock market flotation) upon the occurrence of which the entitled management will participate in any growth in value of the CeramTec Group in the same relation as the investors. In this case, depending on the respective exit event, the management has the right or the duty to sell their own shares. Given the case that the employment contract of an employee who holds shares in the Company is terminated before the occurrence of an exit event, this employee is obliged to offer his or her shares in CeramTec Management Beteiligungs GmbH & Co. KG for purchase to the Lead B.C. Investor or a third party determined by the Lead B.C. Investor. The amount of the purchase price for the management's interest varies between the fair market value of the shares and the contribution made, depending on the reason and time of withdrawal.

In accordance with IFRS 2, the granting of shares from the Participation and Shareholders' Agreements is treated as settled by equity instruments. As, under the purchase, the managers pay the fair value of the shares, the fair value of the allocated shares, when settled by equity

instruments, is zero. For this reason, provided that the assessment in respect of the occurrence of a payment obligation does not change, an expense does not, at any time, need to be disclosed (neither in the case of an exit nor upon withdrawal of a manager).

Information about the remuneration of the management of CT TopCo according to Section 314 (1) No. 6 HGB is not provided.

CeramTec GmbH has a supervisory board in accordance with the articles of incorporation. The total remuneration of the supervisory board in the financial year 2020 amounted to EUR 148k (prior year: EUR 162k).

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 273,835k (December 31, 2019: EUR 311,503k), including interest, with a fixed interest rate of 7.3 % p.a. has been obtained from CeramTec TopCo's controlling shareholder, CTEC Acquisition S.à.r.l., Luxembourg. Interest expenses of EUR 19,131k were incurred in the financial year 2020. Unpaid interest is generally added annually to the Company's loan balance on December 31.

Potential transactions with portfolio companies of BC Partners are settled at market conditions.

6.4 Auditor's fees

The total auditor's fees for the CeramTec TopCo Group, recognized in profit or loss in the consolidated statement of comprehensive income, break down as follows:

	December 31, 2020 kEUR	December 31, 2019 kEUR
Auditing services	416	425
Other services	10	12
	426	437

6.5 Events after the reporting period

With effect as of January 04, 2021, Dentalpoint AG, a company based in Spreitenbach, Switzerland, was acquired. With this acquisition, the CeramTec Group invests in the sharply growing future market for ceramic dental implants and continues to expand the offering in the Medical Products segment. The preliminary purchase price of EUR 50,975k was paid using cash and cash equivalents. Deviations from the preliminary purchase price will arise due to the purchase price mechanisms agreed upon. Due to the proximity of the transaction to the date of approval of the annual financial statements, there are not yet any results of the currently ongoing purchase price determination and allocation in accordance with IFRS 3. For the purchase price allocation, which is generally based on the fair values of the assets acquired and liabilities assumed, the recognition of intangible assets such as technologies, customer relationships and brands as well as goodwill is expected.

7 Reconciliation to CeramTec BondCo GmbH

If the consolidated statement of comprehensive income of CeramTec BondCo had been prepared instead of the consolidated statement of comprehensive income of CeramTec TopCo, which is presented in these financial statements, this would have resulted in the following adjustments for the financial year:

- Lower general administrative expenses of EUR 173k (prior year: EUR 16k)
- Lower interest expenses of EUR 260k (prior year: EUR 7k)
- Lower tax expense of EUR 127k (prior year: EUR 0k)

The total comprehensive income of CeramTec BondCo would therefore have been EUR 560k higher compared to the total comprehensive income recognized in these financial statements (prior year: EUR 23k).

If the consolidated statement of financial position of CeramTec BondCo had been prepared instead of the consolidated statement of financial position of CeramTec TopCo, which is presented in these financial statements, this would have resulted in the following adjustments as of December 31, 2020:

- Higher receivables from affiliates of EUR 684k (December 31, 2019: EUR 261k)
- Lower deferred tax assets of EUR 24k (December 31, 2019: EUR 0k)
- Lower liquid funds of EUR 10k (December 31, 2019: EUR 10k)
- Lower capital reserve of EUR 25k (December 31, 2019: EUR 25k)
- Lower trade payables of EUR 35k (December 31, 2019: EUR 0k)
- Lower tax liabilities of EUR 150k (December 31, 2019: EUR 0k)
- Lower financial liabilities to third parties of EUR 91k (December 31, 2019: EUR 114k).
- This would have resulted in a EUR 926k higher level of group equity for CeramTec BondCo compared to the group equity recognized in these financial statements (December 31, 2019: EUR 365k).

The impact on the consolidated statement of cash flows would have been EUR -10k if the consolidated statement of cash flows of CeramTec BondCo had been prepared instead of the consolidated statement of cash flows presented in these financial statements.

Plochingen, April 14, 2021

CeramTec TopCo GmbH

The Management

Dr. Hadi Saleh

The following auditor's report (Bestätigungsvermerk) has been issued in accordance with § 322 German Commercial Code (Handelsgesetzbuch) in German language on the German version of the consolidated financial statements of CeramTec TopCo GmbH, Plochingen, as of and for the financial year from January 1 to December 31, 2020.

INDEPENDENT AUDITOR'S REPORT

To CeramTec TopCo GmbH, Plochingen

Audit Opinions

We have audited the consolidated financial statements of CeramTec TopCo GmbH, Plochingen, and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at December 31, 2020, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the financial year from January 1 to December 31, 2020, and notes to the consolidated financial statements, including a summary of significant accounting policies. In addition, we have audited the group management report of CeramTec TopCo GmbH for the financial year from January 1 to December 31, 2020.

In our opinion, on the basis of the knowledge obtained in the audit,

- the accompanying consolidated financial statements comply, in all material respects, with the IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to § [Article] 315e Abs. [paragraph] 1 HGB [Handelsgesetzbuch: German Commercial Code] and, in compliance with these requirements, give a true and fair view of the assets, liabilities, and financial position of the Group as at December 31, 2020, and of its financial performance for the financial year from January 1 to December 31, 2020, and
- the accompanying group management report as a whole provides an appropriate view of the Group's position. In all material respects, this group management report is consistent with the consolidated financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development.

Pursuant to § 322 Abs. 3 Satz [sentence] 1 HGB, we declare that our audit has not led to any reservations relating to the legal compliance of the consolidated financial statements and of the group management report.

Basis for the Audit Opinions

We conducted our audit of the consolidated financial statements and of the group management report in accordance with § 317 HGB in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Our responsibilities under those requirements and principles are further described in the "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and of the Group Management Report" section of our auditor's report. We are independent of the group entities in accordance with the requirements of German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions on the consolidated financial statements and on the group management report.

Responsibilities of the Executive Directors for the Consolidated Financial Statements and the Group Management Report

The executive directors are responsible for the preparation of the consolidated financial statements that comply, in all material respects, with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to § 315e Abs. 1 HGB and that the consolidated financial statements, in compliance with these requirements, give a true and fair view of the assets, liabilities, financial position, and financial performance of the Group. In addition, the executive directors are responsible for such internal control as they have determined necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the executive directors are responsible for assessing the Group's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting unless there is an intention to liquidate the Group or to cease operations, or there is no realistic alternative but to do so.

Furthermore, the executive directors are responsible for the preparation of the group management report that, as a whole, provides an appropriate view of the Group's position and is, in all material respects, consistent with the consolidated financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, the executive directors are responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a group management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the group management report.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and of the Group Management Report

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the group management report as a whole provides an appropriate view of the Group's position and, in all material respects, is consistent with the consolidated financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor's report that includes our audit opinions on the consolidated financial statements and on the group management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with § 317 HGB and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements and this group management report.

We exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements and of the group management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our audit opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.
- Obtain an understanding of internal control relevant to the audit of the consolidated financial statements and of arrangements and measures (systems) relevant to the audit of the group management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an audit opinion on the effectiveness of these systems.
- Evaluate the appropriateness of accounting policies used by the executive directors and the reasonableness of estimates made by the executive directors and related disclosures.

- Conclude on the appropriateness of the executive directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the consolidated financial statements and in the group management report or, if such disclosures are inadequate, to modify our respective audit opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to be able to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying transactions and events in a manner that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Group in compliance with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to § 315e Abs. 1 HGB.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express audit opinions on the consolidated financial statements and on the group management report. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinions.
- Evaluate the consistency of the group management report with the consolidated financial statements, its conformity with German law, and the view of the Group's position it provides.
- Perform audit procedures on the prospective information presented by the executive directors in the group management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by the executive directors as a basis for the prospective information and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate audit opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Stuttgart, April 14, 2021

PricewaterhouseCoopers GmbH
Wirtschaftsprüfungsgesellschaft

(sgd. Marcus Nickel)
Wirtschaftsprüfer
(German Public Auditor)

(sgd. ppa. Jürgen Steidel)
Wirtschaftsprüfer
(German Public Auditor)



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