CTEC I GmbH

Plochingen

Interim Condensed Consolidated Financial Statements for the period ended 31 March 2022

CeramTec
THE CERAMIC EXPERTS

CTEC I GmbH, Plochingen

Interim condensed consolidated statement of financial position as at 31 March 2022

Assets	Notes	31 March 2022	01 January 2022
		EUR k	EUR k
Goodwill	4.1	2,775,411	0
Other intangible assets	4.1	922,090	0
Property, plant and equipment	4.2	291,442	0
Other financial assets	4.3	15,150	0
Other assets	4.4	8,147	0
Deferred tax assets		827	0
Non-current assets		4,013,067	0
Inventories		110,780	0
Trade receivables	4.5	97,350	0
Income tax receivables		3,590	0
Other financial assets	4.3	2,264	0
Other receivables and assets	4.4	9,666	0
Cash and cash equivalents	4.6	41,403	68
Current assets		265,053	68
Total Assets		4,278,120	68

CTEC I GmbH, Plochingen

Interim condensed consolidated statement of financial position as at 31 March 2022

Equity and Liabilities	Notes	31 March 2022	01 January 2022
		EUR k	EUR k
Issued capital	4.7	25	25
Capital reserves	4.7	1,879,616	50
Accumulated losses	4.7	-44,652	-49,245
Accumulated other comprehensive income	4.7	678	0
Equity		1,835,667	-49,170
Provisions for pension obligations		96,671	0
Other provisions		2,435	0
Financial liabilities to third parties	4.8	1,909,655	0
Other liabilities	4.9	271	0
Deferred tax liabilities		261,351	0
Non-current liabilities		2,270,383	0
Other provisions		19,750	0
Provision for taxes		10,529	0
Financial liabilities to third parties	4.8	21,917	0
Trade payables		91,333	49,238
Other liabilities	4.9	28,541	0
Current liabilities		172,070	49,238
Total liabilities		2,442,453	49,238
Total equity and liabilities		4,278,120	68

CTEC I GmbH, Plochingen

Interim condensed consolidated statement of comprehensive income

from 1 January to 31 March 2022

	Notes	1 January to 31 March 2022
		EUR k
Revenue	3.1	66,962
Cost of sales	3.2	36,771
Gross profit		30,191
Selling costs	3.3	8,536
Research and development costs	3.4	2,128
General administrative costs	3.5	3,026
Other income and expenses (-), net	3.6	-12,333
Operating income		4,168
Interest income and other finance income		9,200
Interest expenses and other finance costs		10,101
Financial result	3.7	-901
Profit before income tax		3,267
Income tax expense		-1,711
Net profit for the period		1,556
Items that will not be reclassified through profit or loss		
Income / expenses (-) from the remeasurement of pension provisions		4,271
Deferred taxes		-1,234
		3,037
Items that may be reclassified subsequently to profit or loss		
Losses on cash flow hedges		-427
Deferred taxes		123
		-304
Changes in the fair value of financial assets available for sale		0
Deferred taxes		0
		0
Exchange differences on translation of foreign operations		982
Other comprehensive income / loss (-), net of income tax		3,715
Total comprehensive income		5,271

CTEC I GmbH, Plochingen

Interim condensed consolidated statement of cash flows from 1 January to 31 March 2022

	1 January to 31 March 2022 EUR k
Net profit for the period	1,556
Income tax expense	1,711
Interest result (without changes in fair value of derivatives)	7,134
Amortisation, depreciation and impairment charges of non-current assets	9,321
Loss on disposal of property, plant and equipment and intangible assets	73
Increase in provisions (excluding deferred taxes)	769
Income tax payment (-)	-3,663
Other non-cash income (-), net	-2,883
Increase (-) in inventories	-4,496
Increase (-) in trade receivables	-14,562
Increase (-) / decrease in other receivables and (financial) assets	-2,021
Increase / decrease (-) in trade payables	11,315
Increase in other (financial) liabilities	5,026
Cash flow from operating activities	9,281
Cash received from disposals of property, plant and equipment	19
Cash paid (-) for investments in property, plant and equipment	-726
Cash paid (-) for investments in intangible assets	-230
Cash paid (-) for the acquisition of entities	-1,557,750
Cash flow from investing activities	-1,558,687
Cash received from contribution to capital reserve	1,608,096
Cash received from issuance of bond	453,006
Repayment (-) of former bond	-411,331
Cash received from syndicated loan	1,442,508
Repayment (-) of former syndicated loan	-1,204,972
Interest paid (-)	-3,320
Repayment (-) of former shareholder loan	-292,985
Cash paid for capitalized leases (right-of-use assets)	-261
Cash flow from financing activities	1,590,741
Change in cash and cash equivalents	41,335
Net foreign exchange difference	0
Cash and cash equivalents at the beginning of the period	68
Cash and cash equivalents at the end of the period	41,403

Please refer to notes, section 5

CTEC I GmbH, Plochingen

Interim condensed consolidated statement of changes in equity for the period ended 31 March 2022

	Issued capital	Capital reserves	Accumulated losses	Accumulated other comprehensive income		Equity
				Cash flow hedge reserve	Difference from currency translation	
	EUR k	EUR k	EUR k	EUR k	EUR k	EUR k
01 January 2022	25	50	-49,245	0	0	-49,170
Net income for the period	0	0	1,556	0	0	1,556
Other comprehensive income / loss (-)	0	0	3,037 1)	-304 2)	982 2)	3,715
Total comprehensive income / loss (-)	*0*	*0*	*4,593*	*-304*	*982*	*5,271*
Contribution by owners	0	1,879,566	0	0	0	1,879,566
31 March 2022	25	1,879,616	-44,653	-304	982	1,835,667

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

CTEC I GmbH

Plochingen

Selected explanatory notes to the Interim Condensed Consolidated Financial Statements for the period ended 31 March 2022

1 General

1.1 Corporate information and purpose of the Company

CTEC I GmbH (hereinafter "CTEC I") and its subsidiaries (hereinafter "CTEC I Group" or "Group") 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 joint replacements in hip endoprosthetics. In the Industrial business, a broad range of highly specialized, application-intensive technical HPC solutions is developed, manufactured and supplied for customers spanning a range of sub-markets including automotive, electronics, industrial machinery and medical equipment.

CTEC I'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 784500. The purpose of CTEC I 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.

CTEC I is the parent company of the Group and the ultimate German parent, which prepares exempting consolidated financial statements. CTEC Global S.à.r.l., Luxembourg, is the direct parent company of CTEC I, and does not prepare consolidated financial statements.

The management of CTEC I approved the interim condensed consolidated financial statements for the period ended 31 March 2022 on 15 June 2022.

1.2 Basis of preparation

On 17 August 2021, the Canada Pension Plan Investment Board ("CPP Investments") announced through its wholly-owned subsidiary CPP Investment Board Europe S.à.r.l., Luxembourg, and BC Partners Fund XI ("BC XI"), that an agreement was concluded to purchase the CeramTec Group from its previous owner BC European Capital X ("BCEC X") and its co-investors. With the conclusion of the transaction, CeramTec TopCo GmbH, Plochingen (in the following "CeramTec TopCo") is controlled by CPP Investments and BC XI.

Based on the Sale and Purchase Agreement (SPA) the former owner BCEC X sold and transferred the shares of CeramTec TopCo to CTEC III GmbH, Plochingen (in the following "CTEC III"). As at 2 March 2022 all requirements for the transfer of ownership were fulfilled. CTEC III is a 100% subsidiary of CTEC II GmbH, Plochingen (in the following "CTEC II"), which is itself a 100% subsidiary of CTEC I GmbH. CTEC I is the ultimate parent, for which consolidated financial statements are prepared.

The acquisition of the shares was financed by equity contributions of the shareholder CTEC Global S.à.r.l., Luxembourg (in the following "CTEC Global") of EUR 1,879,566k (thereof non-cash capital contributions of EUR 271,470k), as well as the issuance of an unsecured bond along with the repayment of the former bond resulting in EUR 41,675k net and senior secured credit facilities along with the repayment of the former senior secured credit facilities resulting in EUR 237,253k net.

The consideration transferred to obtain control amounts to EUR 2,105,370k. The fair value of the assets acquired and the liabilities assumed amounts to EUR -670,041k. Taking into account the consideration transferred the preliminary goodwill resulting from the acquisition of the Advanced Ceramics Business amounts to EUR 2,775,411k (please refer to 1.4).

Based on the described acquisition CTEC I indirectly obtained control of the operating Advanced Ceramics Business resulting in a business combination to be accounted for in accordance with IFRS 3 as from the acquisition date 2 March 2022. Accordingly in the period 1 January 2022 to acquisition date the group consists of the holding companies CTEC I, CTEC II and CTEC III without running an operating business.

The Interim condensed consolidated financial statements for the period ended 31 March 2022 represent the first-time Interim condensed consolidated financial statements of the CTEC I Group. As no recent financial statements are available, on which these Interim condensed consolidated financial statements could be based on, the Interim condensed consolidated financial statements contain additional disclosures, which exceed the requirements of IAS 34 for interim condensed financial statements, to ensure a better understanding of the Interim condensed consolidated financial statements and especially the transaction described above.

The effects of the business combination itself on the Interim condensed consolidated financial statements are described in detail in section 0 of the notes to the Interim condensed consolidated financial statements. Furthermore, in respect of the financing, which is independent from the operating business and the subsequent measurement of the purchase price allocation, the notes to these Interim condensed consolidated financial statements contain all the disclosures, which would be required under IFRS 7 and IFRS 13 and not only those, which IAS 34 requires for Interim condensed consolidated financial statements.

CTEC I and the subsidiaries CTEC II and CTEC III were founded in July 2021. For the CTEC I Group there were no requirements according to IFRS or German local GAAP (HGB) to present consolidated financial statements for the fiscal year ending 31 December 2021. Therefore, the date of the opening balance for the consolidated financial statements is 1 January 2022. As CTEC I was founded in July 2021 no comparative information for the period ended 31 March 2021 could be presented for the income statement, the statement of other comprehensive income as well as the statement of cash flows.

The interim condensed consolidated financial statements present fairly the financial position, financial performance and cash flows of the CTEC I Group.

The interim condensed consolidated financial statements are presented in Euro. The amounts are in thousands of Euros (EUR k). All amounts are rounded using standard commercial principles. In some cases, adding single values to the total values may therefore lead to differences.

Assets and liabilities are broken down into current and non-current items. Assets and liabilities are classified as current if they are expected to be realized 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 Going concern

The director has, at the time of approving the interim condensed consolidated financial statements, a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Thus he continues to adopt the going concern basis of accounting in preparing the interim condensed consolidated financial statements.

1.4 Changes to the consolidated group

CTEC III acquired with effectiveness 2 March 2022 100 % of the shares of CeramTec TopCo and its subsidiaries. CTEC III is a 100% subsidiary of CTEC II, which is itself a 100% subsidiary of CTEC I. CTEC I is the ultimate parent, for which consolidated financial statements will be prepared at year-end.

At the end of the interim reporting period as of 31 March 2022, the accounting for this business combination is preliminary, as the purchase price allocation is pending because of the very tight period between acquisition date and reporting date. Rather the following figures show the amounts recognized as of the acquisition date for each major class of assets acquired and liabilities assumed:

	preliminary Fair Value EUR k
Customer relationships	590,871
Patents and other intellectual property / Trade Names and Trademarks	330,081
Other intangible assets	6,741
Intangible Assets	927,693
Land and buildings	84,192
Machinery and equipment	154,644
Furniture and Fix	8,102
Construction in Progress	33,408
Right-of-Use Assets	11,224
Property, plant & equipment	291,571
Deferred taxes and current taxes	4,379
Inventories	106,284
Trade receivables	82,815
Financial assets to third parties	9,432
Other assets	13,321
Cash and Cash equivalents	276,150
Assets	1,711,645
Deferred taxes and current taxes	272,765
Provisions	122,215
Bank loans and other financial liabilities	1,636,911
Shareholder loan	292,985
Trade payables	28,200
Other liabilities	28,610
Liabilities	2,381,686
Total net	-670,041
Total consideration transferred	2,105,370
Goodwill from the acquisition	2,775,411

Total consideration transferred of EUR 2,105,370k includes non-cash capital contributions of EUR 271,470k.

As the purchase price allocation is not finalized yet the allocation of the goodwill to the groups of cash-generating units ("CGU") Medical and the CGU Industrial has not been performed yet.

The fair value of purchased receivables equals the gross amount of contractual receivables as we believe the receivables can be fully recovered.

The goodwill resulting from the acquisition reflects market position, assembled workforce, CeramTec's growth strategy, supporting the launch of new product initiatives in key growth markets as medical implants and investing in the expansion of production facilities.

The acquired entities contributed revenues of EUR 66,962k and a net profit of EUR 12,609k to CTEC I Group for the period from the respective acquisition date to 31 March 2022. If these acquired businesses had been acquired as of 1 January 2022, the impact on consolidated revenues and consolidated net profit for the reporting period ended 31 March 2022 would have been EUR 185,090k and EUR 18,155k, respectively.

The costs associated with the acquisition amounted to EUR 14,468k in total. These are recognized in the consolidated statement of comprehensive income under the item "Other income / expenses (-), net" (see note 3.6).

1.5 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 CTEC I has a direct or indirect shareholding are included in the interim condensed consolidated financial statements in the reporting period:

	Share of capital in %		Business activities
Name of the entity	31 March 2022	1 January 2022	
CTEC II GmbH, Plochingen	100.00	100.00	1
CTEC III GmbH, Plochingen	100.00	100.00	1
CeramTec TopCo GmbH, Plochingen	100.00	---	1
CeramTec BondCo GmbH, Plochingen	100.00	---	1
CeramTec AcquiCo GmbH, Plochingen	100.00	---	1
CeramTec Holding GmbH, Plochingen	100.00	---	1
CeramTec Group GmbH, Plochingen	100.00	---	1
CeramTec FinCo GmbH, Plochingen	100.00	---	1

Name of the entity	Share of capital in % 31 March 2022	Share of capital in % 1 January 2022	Business activities
CeramTec GmbH, Plochingen	100.00	---	2
Cerasiv GmbH Innovatives Keramik-Engineering, Plochingen	100.00	---	1
CeramTec-ETEC GmbH, Lohmar	100.00	---	3
Emil Müller GmbH, Wilhermsdorf	100.00	---	3
CeramTec UK Ltd., Southampton/Great Britain	100.00	---	2
CeramTec Czech Republic s.r.o., Sumperk/ Czech Republic	100.00	---	3
CeramTec Ibérica Innovative Ceramic Engineering S.L., Vilassar de Mar/Spain	100.00	---	5
CeramTec Innovative Ceramic Engineering, (M) Sdn. Bhd., Seremban/Malaysia	100.00	---	4
CeramTec Korea Ltd., Suwon-Si/South Korea	100.00	---	5
CeramTec Suzhou Ltd., Suzhou/China	100.00	---	3
PST Press Sintertécnica Brasil Ltda., Nova Odessa/Brazil	100.00	---	3
CeramTec India Innovative Ceramic Engineering Pvt. Ltd., Panaji - Goa/India	99.90	---	3
Press and Sinter Technics de Mexico S.A. de C.V., Puebla/Mexico	100.00	---	3
Dentalpoint AG, Spreitenbach/Switzerland	100.00	---	4
Dentalpoint Germany GmbH, Lörrach	100.00	---	5
CeramTec BidCo LLC, Laurens/USA	100.00	---	1
CeramTec Acquisition LLC, Laurens/USA	100.00	---	1
CeramTec North America LLC, Laurens/USA	100.00	---	3
DAI Ceramics LLC, Willoughby/USA	100.00	---	3
PST Press + Sintertechnik Sp. z.o.o., Gorzyce/Poland	100.00	---	3

1 Entities perform the functions of a holding company.
2 Manufacturing and distribution companies operate in the Industrial and Medical markets.
3 Manufacturing and distribution companies operate in the Industrial markets.
4 Manufacturing and distribution companies operate in the Medical markets.
5 Distribution companies.

CTEC I has a direct shareholding in CTEC II GmbH, and an indirect shareholding in the other subsidiaries.

2 Accounting principles and policies

The accounting policies and the consolidation principles applied in the interim condensed consolidated financial statements for 2022 are in compliance with the International Financial Reporting Standards (IFRS) as adopted by the European Union. The entity has complied with all the IFRSs adopted by the EU and required to be applied.

2.1 Basis of consolidation

Entities included in the consolidated financial statements are included from the date on which CTEC I obtains control over them. They are deconsolidated on the date on which CTEC I ceases to have control.

In accordance with IFRS 10 "Consolidated Financial Statements", uniform accounting policies are used to prepare the separate financial statements of the companies included in the interim condensed 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 "Income Taxes", deferred taxes are recognized for temporary differences arising from consolidation entries.

If less than 100% of equity in a subsidiary is allocable to CTEC I, 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 CTEC II, CTEC III, CeramTec TopCo and 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.

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, CTEC I 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 CTEC I 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.

Changes in the Group’s interests in subsidiaries that do not result in a loss of control are accounted for as equity transactions. The carrying amount of the Group’s interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributed to the owners of the Company.

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 CTEC I, 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 line items included in the interim condensed consolidated financial statements of all group companies are measured using the currency of the primary economic environment in which the entity operates (functional currency). The interim condensed consolidated financial statements are prepared in euros, the functional and reporting currency of CTEC I.

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 interim condensed 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 31 March 2022 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 interim condensed consolidated financial statements.

On the disposal of a foreign operation, all of the exchange differences accumulated in a foreign exchange translation reserve in respect of that operation attributable to the owners of the Company are reclassified to profit or loss.

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

		31 Mar 2022	1 Jan to 31 Mar 2022	1 Jan 2022
		Period-end exchange rate	Average exchange rate	Period-end exchange rate
USD	USA	1.1101	1.1228	1.1334
CNY	China	7.0403	7.1275	7.2230
GBP	Great Britain	0.8460	0.8364	0.8393
PLN	Poland	4.6531	4.6168	4.5960
CZK	Czech Republic	24.3750	24.6378	24.9170

The individual items in the interim condensed consolidated statement of cash flows are translated at average rates, unless exchange rates fluctuate significantly during that period, while cash and cash equivalents are measured at the spot rate applicable at the date of the statement of financial position.

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

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.

Upon conclusion of a contract, the CTEC I Group companies determine whether revenue resulting from the contract should be recognized at a point in time or over time. The CTEC I Group uses IFRS 15 criteria to determine whether control is transferred over time. If it is not, revenue is recognized at the point in time, when control is passed to the customer.

The CTEC I Group generates its revenue through the sale of goods and merchandise. Revenue 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).

Revenue is measured based on the consideration to which the Group expects to be entitled in a contract with a customer and excludes amounts collected on behalf of third parties. The Group recognizes revenue when it transfers control of a product to a customer.

In addition, agreements are in place with individual customers (mainly Medical Products customers), which provide for a bonus/malus system based on revenue and/or quantity targets. Revenue is recognized from which discounts or estimated discount amounts related to sales transactions have been deducted. There is no significant financing component that has been explicitly contractually agreed-upon or implied by agreed payment terms. Payment terms are mainly between 30 and 60 days.

The Group does not offer guarantees to customers that provide greater protection than that stipulated by law. Guarantees that we are legally obliged to provide do not constitute a separate performance obligation. The Group does usually not grant customers extensions of payment terms. However, in specific cases, special agreements can be concluded. A warranty provision is set up for the Group's obligation to repair or replace defective products under standard warranty conditions.

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 definite 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 definite 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 at least annually for impairment, or more frequently when there is an indication that the assets may be impaired. 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.

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 of property, plant and equipment and intangible assets excluding goodwill

At each year-end closing, the Group reviews the carrying amounts of its property, plant and equipment and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with an indefinite useful life, and intangible assets not yet available for use, are tested for impairment at least annually and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease and to the extent that the impairment loss is greater than the related revaluation surplus, the excess impairment loss is recognized in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss to the extent that it eliminates the impairment loss which has been recognized for the asset in prior years.

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, taking into account the lease payments made, any lease incentives, initial direct costs and estimated costs for restoration obligations. 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).

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 to 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 no 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 showing 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, cancelled 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 CTEC I 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 CTEC I 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 CTEC I 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, taking into account actuarial assumptions. 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.

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 probable with reasonable assurance 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, except when an outflow of economic benefits is probable and a liability could be measured reliably. 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 GmbH (as the parent company), CeramTec AcquiCo GmbH, CeramTec Holding GmbH, CeramTec Group GmbH, 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 GmbH as the parent company and CeramTec GmbH, Cerasiv GmbH Innovatives Keramik-Engineering, CeramTec-ETEC GmbH and Emil Müller GmbH.

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

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

IFRS amended for the first time in the reporting period

Standards and interpretations	Date of first-time adoption
Amendments to IFRS 3: “Reference to the Conceptual Framework“	1 January 2022
Amendments to IAS 37: “Onerous Contracts – Cost of Fulfilling a Contract“	1 January 2022
Amendments to IAS 16: “Property, Plant and Equipment – Proceeds before Intended Use“	1 January 2022
Annual Improvements to IFRS Standards (2018 – 2020) for IFRS 1, IFRS 9, IFRS 16 and IAS 41	1 January 2022

The aforementioned changes have no effect on the interim condensed consolidated financial statements of CTEC I Group.

Revised and newly issued IFRSs and IFRICs not yet compulsory

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

Standards and interpretations	Date of first-time adoption
IFRS 17: “Insurance Contracts“	1 January 2023
Amendments to IAS 1: “Classification of Liabilities as Current or Non-Current“	1 January 2023
Amendments to IAS 1: “Disclosure of Accounting Policies“	1 January 2023
Amendments to IAS 8: “Definition of Accounting Estimates“	1 January 2023
Amendments to IAS 12: “Deferred Tax related to Assets and Liabilities arising from a Single Transaction“	1 January 2023
Amendments to IFRS 10 and IAS 28: “Sale or Contribution of Assets between an Investor and its Associate or Joint Venture“	deferred indefinitely

The aforementioned changes will not have a significant effect on the interim condensed consolidated financial statements of CTEC I Group.

2.3 Estimation uncertainties and exercise of judgment

Key sources of estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting period end that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next reporting period are as follows:

Business combination

Business combinations are accounted for using the acquisition method. The acquired assets and liabilities are measured at their acquisition-date fair value. Determining the fair value of the acquired identifiable intangible assets and property, plant and equipment as well as the fair value of liabilities assumed requires certain judgement and estimates. 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 Group.

As disclosed in the Note 0 the Group has not finalised its business acquisition accounting and the presented amounts of goodwill, intangible assets, property, plant and equipment and other significant balances are provisional, therefore, the final amounts may differ from those reported.

3 Notes to the interim condensed consolidated statement of comprehensive income

3.1 Revenue

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

	1 January to 31 March 2022 EUR k
Regions	
Europe (w/o Germany)	27,868
Germany	13,361
Asia	15,290
North America	10,046
Rest of world	397
Total	66,962
Markets	
Industrial markets	34,604
Medical markets	32,358
Total	66,962

Orders on hand amount to EUR 348,558k as of the balance sheet date, of which EUR 206,925k and EUR 141,633k are attributable to the Industrial markets and Medical markets respectively.

3.2 Cost of sales

The cost of sales breaks down as follows:

	1 January to 31 March 2022 EUR k
Material and packaging cost	13,259
Personnel expenses	12,577
Amortization and depreciat.	4,874
Energy costs	3,371
Other cost of sales	2,690
Total	36,771

Other costs of sales primarily contain 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 (-), net, breaks down as follows:

	1 January to 31 March 2022 EUR k
Transaction costs	-14,468
Foreign currency results	2,457
Additions to allowance for bad debts	-330
Losses (-) on disposal of property, plant and equipment	-73
Income from the reversal of allowances for bad debt	34
Sundry other income	134
Sundry other expenses	-87
Total	-12,333

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

3.7 Financial result

The financial result breaks down as follows:

	1 January to 31 March 2022 EUR k
Gains arising from changes in valuation of derivatives *	9,056
Other interest and financial income	144
Total interest income and other finance income	9,200
Interest expense from bond	3,933
Interest expense from syndicated loan	2,474
Exchange rate losses	2,370
Expense from unwinding the discount on financial liabilities	598
Interest expense from provision and use of revolving credit line	105
Other interest expenses	650
Interest capitalized	-29
Total interest expenses and other finance costs	10,101
Total financial result	-901

* Gains or losses arising from changes in the fair value of financial liabilities designated as at fair value through profit or loss

Exchange rate gains and losses result from loans not designated in the functional currency of the group companies.

The other interest expenses include expenses from unwinding the discount on provisions with an amount of EUR 129k.

4 Notes to the interim condensed consolidated statement of financial position

4.1 Goodwill and intangible assets

Goodwill results from the acquisition of CeramTec TopCo and its subsidiaries. The allocation of the goodwill to the CGU Medical and Industrial has not yet taken place as of the balance sheet date, since the acquisition accounting is not yet finalized (please refer to 1.4).

The annual goodwill impairment test will be performed in the year-end closing.

During the reporting period, CTEC I Group recognized amortization expenses for intangible assets in the amount of EUR 5,729k, which arise mainly from customer relationships and technology.

CTEC I Group purchased intangible assets at cost of EUR 230k.

4.2 Property, plant and equipment

During the reporting period, additions to property, plant and equipment amount to EUR 3,050k, from which no subsidies are deducted. Excluding the right-of-use assets CTEC I Group acquired assets at cost of EUR 2,567k.

The recognized depreciation expenses amount to EUR 3,592k.

There were contractual commitments to acquire property, plant and equipment of EUR 31,632k (1 January 2022: EUR 0k) as of the reporting date.

4.3 Other financial assets

The following table breaks down other financial assets as follows:

	31 March 2022 EUR k	1 January 2022 EUR k
Other financial assets (non-current)		
Derivative financial instruments	13,057	0
Separated termination rights	1,976	0
Insurance claims	35	0
Minority shareholding without controlling interest	4	0
Sundry financial assets	78	0
Total	15,150	0
Other financial assets (current)		
Receivables arising from amounts retained by a factor as a security	1,808	0
Derivative financial instruments	258	0
Sundry financial assets	198	0
Total	2,264	0

The CTEC I 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 4.10.

Because of a low risk of default, in the reporting period no loss allowance for other financial assets was recognized.

4.4 Other receivables and assets

The following table breaks down other assets as follows:

	31 March 2022 EUR k	1 January 2022 EUR k
Other non-current assets		
Deferred finance costs for the revolving credit line	4,526	0
Sundry assets	3,621	0
Total	8,147	0
Other current assets		
Prepaid insurance	2,378	0
VAT receivables	1,984	0
Receivables from energy tax refunds	1,547	0
Sundry assets	3,757	0
Total	9,666	0

Sundry assets mainly include advance payments.

4.5 Trade receivables

At the end of the reporting period, trade receivables amounted to EUR 97,350k (1 January 2022: EUR 0k) after taking into account valuation allowance of EUR 1,037k (1 January 2022: EUR 0k).

A factoring agreement was concluded whereby receivables of EUR 11,705k were sold as of the balance sheet date (1 January 2022: EUR 0k). Under the terms of the agreement, EUR 1,808k (1 January 2022: EUR 0k) was retained by the factor as of the balance sheet date as a security, and recognized in other short-term financial assets (see note 4.3).

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

	31 March 2022 EUR k	1 January 2022 EUR k
thereof not yet due on the reporting date	82,149	0
past due up to 30 days	14,139	0
past due up to 60 days	840	0
past due up to 90 days	541	0
past due more than 90 days	718	0
Total	98,387	0

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 include, on the one hand, loss allowances for receivables due from customers who have entered into bankruptcy proceedings or who are facing severe financial difficulties (level 3) and, on the other hand, expected loss allowances based on the historical default experience (level 2).

Based on the CTEC I 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. 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.

4.6 Cash and cash equivalents

Cash and cash equivalents contain bank balances of EUR 41,397k (1 January 2022: EUR 68k) and cash in hand of EUR 6k (1 January 2022: EUR 0k).

4.7 Equity

The following table breaks down the equity as follows:

	31 March 2022 EUR k	1 January 2022 EUR k
Issued capital	25	25
Capital reserves	1,879,616	50
Accumulated losses	-44,653	-49,245
Accumulated other comprehensive income	678	0
Total	1,835,667	-49,170

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

4.8 Financial liabilities to third parties

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

	31 March 2022 EUR k	1 January 2022 EUR k
Non-current financial liabilities		
Liabilities to banks	1,444,818	0
Liabilities from the bond	455,474	0
Lease liabilities	9,363	0
Derivative financial instruments	0	0
Other non-current financial liabilities	0	0
Total	1,909,655	0
Current financial liabilities		
Discounts and bonuses	7,858	0
Liabilities from the bond	3,933	0
Derivative financial instruments	1,923	0
Liabilities to banks	3,540	0
Lease liabilities	2,082	0
Other current financial liabilities	2,581	0
Total	21,917	0

Liabilities to banks nominally amount to EUR 1,480,000k (1 January 2022: EUR 0k) from a term loan in EUR. The loan has variable interest rate and mature on 16 March 2029. Transaction costs associated with the loan of EUR 35,635k 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 465,000k (1 January 2022: EUR 0k). This bond matures on 15 February 2030. The CTEC I Group has a termination option for this bond, which is recognized as a separate financial asset (see note 4.3). Associated transaction costs of EUR 12,364k 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 4.10.

4.9 Other liabilities

Other liabilities break down as follows:

	31 March 2022 EUR k	1 January 2022 EUR k
Other non-current liabilities		
Contractual liabilities under contracts with customers	272	0
Total	272	0
Other current liabilities		
Wages and salaries including taxes	12,452	0
Contractual liabilities under contracts with customers	6,237	0
Real estate transfer tax	3,704	0
Other current liabilities	6,148	0
Total	28,541	0

The contractual liabilities under contracts with customers reported as non-current will be recognized in income from 1 April 2023 to 31 March 2024, while those reported as current will be recognized in income from 1 April 2022 to 31 March 2023.

Other current liabilities are mainly attributable to liabilities to employees and liabilities from social security contributions.

4.10 Financial instruments

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

		31 March 2022	
	Measurement category of IFRS 9[1]	Carrying amount EUR k	Fair value EUR k
Financial assets			
Trade receivables	AC	97,350	97,350
Separated termination rights	FVtPL	1,976	1,976
Cash and cash equivalents	AC	41,403	41,403
Fx forward hedges	FVtPL	258	258
Interest rate cap	FVtPL	13,057	13,057
Other financial assets	AC	2,124	2,124
Total		156,168	156,168
Financial liabilities			
Liabilities to banks	AC	1,448,358	1,480,675
Bond liabilities	AC	459,407	427,544
Trade payables	AC	91,332	91,332
Lease liabilities	N/A	11,444	N/A
Interest rate cap	FVtPL	1,258	1,258
Fx forward hedges	FVtPL	665	665
Other financial liabilities	AC	10,439	10,439
Total		2,022,903	2,011,913

[1] AC: measured at amortized cost using the effective interest method; 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 interim condensed consolidated financial statements:

	31 March 2022		
	Level 1 EUR k	Level 2 EUR k	Level 3 EUR k
Financial assets			
Separated termination rights	0	1,976	0
Interest rate caps	0	13,057	0
Forward exchange transactions	0	258	0
Financial liabilities			
Interest rate caps	0	1,258	0
Forward exchange transactions	0	665	0

The following table shows the fair value hierarchy for the financial instruments that are not recognized at fair value in the interim condensed consolidated financial statements; 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.

	31 March 2022		
	Level 1 EUR k	Level 2 EUR k	Level 3 EUR k
Financial liabilities			
Bond liabilities	0	427,544	0
Liabilities to banks	0	1,480,675	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, on the basis of which the fair value is calculated. Accordingly, these are allocated to level 2 of the fair value hierarchy.

The fair values of the separated derivatives are measured using the Black-Scholes/Hull-White valuation model, which considers both the observable yield curves and the fluctuation 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 CTEC I Group assesses whether a transfer between the levels of the fair value hierarchy took place as of the end of each reporting period (based on the lowest level that is significant to fair value measurement as a whole). There were no transfers between level 1 and 2 during the reporting period.

5 Notes to the interim condensed consolidated statement of cash flows

In the interim condensed consolidated statement of cash flows, cash flow from operating activities is determined using the indirect method, while cash flow from investing and financing activities is determined using the direct method. The cash and cash equivalents presented in the statement of cash flows correspond to the item of the interim condensed consolidated statement of financial position and comprise cash in hand, bank balances and cash investments with an original term of up to three months.

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

The cash flow from investing activities includes the purchase price payment for transferring the shares of CeramTec TopCo. Within in the total consideration transferred of EUR 2,105,370k (please refer to 1.4) Cash and cash equivalents with an amount of EUR 276,150k were taken over. Furthermore the purchase price was partly met by non-cash capital contributions of EUR 271,470k resulting in a cash-out for the shares of EUR 1,557,750k.

Additions to property, plant and equipment in the reporting period amounted to EUR 1,842k that will affect cash during the following accounting period.

6 Other notes

6.1 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 accrues for such obligations if a liability is probable to arise and the amount of the potential claim can be sufficiently estimated. Where claims and obligations arising are not considered probable nor remote, such contingent liabilities are disclosed separately in the interim condensed consolidated financial statements.

6.2 Financial covenants

Compliance with financial covenants was agreed to in connection with obtaining the syndicated loan. Accordingly, the CTEC I Group must comply with a covenant provided that the revolving credit line of EUR 245,000k is utilized to an extent as specified in the loan agreement. As at the balance sheet date the revolving credit is not utilized.

6.3 Related party disclosures

Key management personnel

Key management personnel are people who are directly or indirectly responsible for the planning, directing and controlling the activities of the CTEC I Group.

In the reporting period, the key management personnel of CTEC I Group were:

Dr. Hadi Saleh
Chief Executive Officer

Horst Garbrecht
President Industrial

Eric Oellerer
Chief Financial Officer

Dr. Hadi Saleh is the sole general manager of CTEC I GmbH.

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.

6.4 Significant changes in the current reporting period

Because of war in Ukraine, a comprehensive risk assessment was performed immediately for the CeramTec Group for all potentials aspects and consequences and a permanent crisis management team was established to monitor potential impacts on a continuous basis. It was proactively decided to stop direct and indirect business relationships maintained by all CeramTec companies with Russia and Belarus. This is not expected to materially and directly impact our assets, liabilities, financial position and financial performance. It is currently impossible to assess the indirect effects of the possible economic impact of the conflict on the world economy and on CeramTec. CeramTec complies with all current sanctions against Russia and Belarus, and all official requirements, and continues to be committed to implementing the sanctions and official requirements.

6.5 Subsequent events

Events of special importance did not occur after the end of the reporting period.

7 Reconciliation to CTEC II GmbH

If the interim condensed consolidated statement of comprehensive income of CTEC II had been prepared instead of the interim condensed consolidated statement of comprehensive income of CTEC I, which is presented in these financial statements, this would have resulted in the following changes for the reporting period:

- lower general administrative expenses of EUR 1k
- lower sundry other expenses of EUR 92k

The total comprehensive income of CTEC II would therefore have been EUR 93k higher compared to the total comprehensive income recognized in these financial statements.

If the interim condensed consolidated statement of financial position of CTEC II had been prepared instead of the interim condensed consolidated statement of financial position of CTEC I, which is presented in these financial statements, this would have resulted in the following changes as of 31 March 2022:

- higher other financial assets long-term of EUR 25k
- lower liquid funds of EUR 3,712k
- higher issued capital of EUR 25k
- lower capital reserves of EUR 3,714k
- lower trade payables of EUR 93k

This would have resulted in a EUR 3,594k lower level of group equity (1 January 2022: in a EUR 2k higher level) for CTEC II compared to the group equity recognized in these financial statements.

If the interim condensed consolidated statement of cash flows of CTEC II had been prepared instead of the interim condensed consolidated statement of cash flows of CTEC I, which is presented in these financial statements, this would have resulted mainly in a EUR 3,689k lower cash received from contribution to capital reserve within the cash flow from financing activities.

Plochingen, 15 June 2022

CTEC I GmbH

The management

Dr. Hadi Saleh