

**Heraeus Holding GmbH, Hanau**

**Interim Financial Report for the Period Ending June 30, 2010**

## Heraeus Holding GmbH, Hanau

### Group Management Report for Period Ending June 30, 2010

#### Business Development

In the first half of 2010, the business climate improved noticeably for many business segments. Recovery started in China and in the past few months has spread to almost all regions. Both, the forecasts of market research firms and many early indicators of macroeconomic trends reflect a considerably brighter picture. Still, uncertainty over the sustainability of the current economic situation persists, fed by budget restrictions and expiring economic stimulus packages. However, even now it is evident that improvements to the Heraeus Group's cost structure and innovations in many divisions have laid a solid foundation for further growth.

#### Revenue Development

Product revenue for the first half of 2010 was € 1,886.0 million, coming in well above the level of the previous year (+58%). Precious metals trading revenues of € 8.4 billion also exceeded (by 20%) those of the previous year, which suffered the impact of the financial crisis.

Clear revenue increases were achieved in the following business groups: W. C. Heraeus (+76%), Heraeus Electro-Nite (+43%), Heraeus Quarzglas (+41%), and Heraeus Noblelight (+28%). The Heraeus Medical and Heraeus Dental business groups also showed revenue increases compared to the previous year of 16% and 4%, respectively.

#### Earnings Development

The first half of 2010 reflects a highly satisfactory economic recovery in almost all of the business segments of the Heraeus Group; this contrasts sharply with the first half of 2009, which was heavily impacted by the financial and economic crisis. Earnings for the two reporting periods show equally high differences. During the first half of 2010, operating results (EBIT) at the Group level were € 203.2 million, up from only € 23.8 million for the same period of the previous year.

This highly satisfactory performance can be observed in almost all industries and regions. New, innovative product areas are also emerging as significant drivers for earnings performance.

Business in industries that are particularly sensitive to the economic situation, such as semiconductors, also recovered lost ground during the first two quarters. The lower euro and higher gold prices had a further positive impact on earnings. The photovoltaics business in silver pastes for solar cells needs to be highlighted due to its outstanding increases in growth and revenue.

Overall, all business groups contributed positively to earnings during the first half of 2010; some business groups, such as Heraeus Electro-Nite, posted record results during the second quarter of the current year.

The focus in the business groups is now on systematically tapping global growth potential while maintaining flexible structures in order to hedge against the possibility of a fresh economic crisis and minimize potential drops in revenue.

For the most part, unrealized valuation effects from currency hedging generally had a negative impact on the financial result. A slight reduction in the tax burden for the Group (28%) leaves the Group's earnings after taxes for the first half of the year at € 115.7 million (previous year: € 13.4 million).

## **Financial Position and Cash Flow**

The Group's financial position and cash flow remain very healthy as of the end of the first half of 2010, thanks to continued good availability of liquid funds and short- to medium-term liquidity lines, straightforward refinancing requirements, and the basic long-term orientation of Group financing agreements. Therefore, we believe liquidity is largely secured for the Group and its future development over the medium term.

We took advantage of positive capital market conditions in May to successfully place a bond in the amount of € 250 million through Heraeus Finance GmbH. We guarantee this bond through Heraeus Holding GmbH. The bond matures in seven years. The bond has a coupon of 4% p.a., which, though low for Heraeus, is in line with current low interest rates and a low risk premium and is listed on the Luxembourg Stock Exchange.

The Group's assets increased by € 616.2 million (+21%) to € 3,545.1 million from the end of 2009 to June 30, 2010. The increase is due primarily to a rise in operating net current assets (inventories plus trade receivables less trade payables) of € 347.1 million compared to the end of the year as a result of economic recovery and positive business development in all business groups. In particular, the revival in capital-intensive business segments and the weak euro, as well as rising precious metal prices, all contributed to this significant increase.

However, at 53% of the Group's assets, the current equity-to-assets ratio remains at the very positive level of previous years.

The drastic rise in the operating net current assets has brought cash outflows from operating activities down to €77.4 million, a figure well below that of the previous year (cash inflows of €60.6 million). Cash outflows from investing activities of €174.1 million and cash outflows for investments in non-current assets (€29.2 million) are due primarily to an increase in securities held as liquidity reserves (€144.3 million).

As a result, the Group's liquidity reserves (cash and cash equivalents and securities), with dividend payments included, rose €71.1 million from the last balance sheet date to a total of €719.7 million.

## **Investments/Acquisitions**

Investments in property, plant, and equipment by the business groups continue to be the subject of intense scrutiny in light of the ongoing uncertainty regarding the economic situation. Investments in property, plant, and equipment came to €23.9 million in the first half of 2010, representing a decline of approximately 36% compared to the same period of the previous year. Investment projects focused on W. C. Heraeus Group. A total of €12.0 million was invested in German locations; outside of Germany, emphasis was laid on investments in the companies in the USA and China.

Once again in 2010, targeted acquisitions will contribute substantially to strengthening Heraeus' competitive position. At the beginning of May 2010, W. C. Heraeus acquired the precious metal-based decoration business of Ferro Corporation, OH/USA. The business purchased includes precious metals products used to decorate glass, ceramics, porcelain, and tile. This acquisition strengthens the position of W. C. Heraeus on the market for precious metals products used for decorative purposes. In return, Ferro Corporation, a provider of technology-based materials, acquired the decorative ceramic colors business line of W. C. Heraeus.

## **Employees**

In the past twelve months, the economic recovery contributed to the growth of the Group's workforce by 242 employees (+2%).

Foreign locations were primarily responsible for the increase, particularly those of the W. C. Heraeus business group and its growing and newly established or acquired business segments in Asia. The global increase in business volume also prompted staff increases at Heraeus Electro-Nite, especially in China.

As of June 30, 2010, the Group had a workforce of 12,540 active employees. The German workforce decreased slightly by 44 employees (-0.9%) to 4,620; this resulted primarily from structural changes initiated in 2009 at Heraeus Quarzglas, which continue to be implemented in 2010. As of the reporting date, 7,920 people were employed abroad. This represents an increase of 287 employees or 3.8%.

## **Risk Report**

The disclosures on business, financial, legal, IT, environmental, and security risk made in the 2009 Annual Report continue to apply in their full scope for the current reporting period.

## **Events after the Reporting Date**

No significant events subject to reporting occurred after the balance sheet date of June 30, 2010.

## **Prognosis Report**

The uptick that has been observable for months in numerous business segments and regions and in the booming photovoltaics market has led to a clear improvement in results. In view of the persistent uncertainty over the future development of the economy, a capital market climate that remains unstable, and divergent trends in key global economies, it is difficult to render a consistent forecast at this time.

All business segments are showing themselves equal to the task of tapping emerging market opportunities while not losing sight of the structural and cost improvements that have been introduced. This will enable the Group in the future to react quickly and flexibly if conditions decline again.

Economies and capital markets have not fully stabilized in the wake of the financial crisis, causing principal currencies to remain volatile. The risks posed by foreign exchange transactions, in particular by an unfavorable course for the US dollar, are mitigated by means of extensive currency hedging.

The precious metal markets generally stayed the course in recent months. Volatile exchange rates have since brought gold to new euro highs. Platinum group metals, which depend heavily on industrial demand, stabilized. Overall, a fragile balance is emerging between industrial and investor demand in exchange-traded precious metals and between the market supply from mine production and recycling.

Further growth depends largely on the stability of financial markets, the financial policies of important industrialized countries, and global economic trends—particularly in the automotive, electronics, semiconductor, steel, and chemical industries. Overall, in view of the all-time record highs of this quarter and the measures implemented to increase our flexibility, we are optimistic about the near future.

## **Interim Consolidated Financial Statements**

The consolidated financial statements of Heraeus Holding GmbH for the half year from January 1 to June 30, 2010, were prepared in accordance with the International Financial Reporting Standards (IFRSs), as were the consolidated financial statements of 2009. They are subject to the same uniform accounting and measurement principles as the consolidated financial statements of 2009. The disclosures in the notes to the consolidated financial statements therefore apply to this report accordingly. These interim financial statements were not audited.

Hanau, August 13, 2010

Heraeus Holding GmbH

Dr. Frank Heinrich  
Chairman

Jan Rinnert  
Vice Chairman

## Consolidated Balance Sheet

of Heraeus Holding GmbH, Hanau, as of June 30, 2010

in € million	Jun. 30, 2010	Dec. 31, 2009
<b>Assets</b>		
Cash and cash equivalents	303.7	380.3
Securities	416.0	268.3
Trade receivables	664.9	459.5
Current tax receivables	152.8	107.8
Miscellaneous receivables and other assets	85.7	65.8
Inventories – excluding precious metal	322.3	263.6
Precious metals	569.0	399.8
<b>Current assets</b>	<b>2,514.4</b>	<b>1,945.1</b>
Goodwill	43.7	33.4
Other intangible assets	93.9	83.6
Property, plant, and equipment	688.8	672.4
Investments at equity	129.0	102.4
Other financial assets	4.2	4.1
Other non-current assets/Deferred tax assets	71.1	87.9
<b>Non-current assets</b>	<b>1,030.7</b>	<b>983.8</b>
<b>Assets</b>	<b>3,545.1</b>	<b>2,928.9</b>
<b>Shareholders' equity and liabilities</b>		
Promissory notes	-	50.0
Trade payables	263.6	177.4
Liabilities due to banks	111.7	105.7
Tax liabilities	100.6	34.1
Other current liabilities	132.2	103.8
Current provisions	73.0	66.7
<b>Current liabilities</b>	<b>681.1</b>	<b>537.7</b>
Bonds	247.8	-
Promissory notes	249.6	249.6
Liabilities due to banks	2.2	3.6
Other non-current liabilities	52.2	27.2
Provisions for pensions and similar obligations	264.3	253.7
Other non-current provisions/Deferred tax liabilities	171.8	172.8
<b>Non-current liabilities</b>	<b>987.9</b>	<b>706.9</b>
Capital subscribed	210.0	210.0
Capital reserve	127.8	127.8
Retained earnings	1,479.9	1,393.4
Other comprehensive income	45.1	-59.1
Minority interests	13.3	12.2
<b>Shareholders' equity</b>	<b>1,876.1</b>	<b>1,684.3</b>
<b>Total shareholders' equity and liabilities</b>	<b>3,545.1</b>	<b>2,928.9</b>

## Consolidated Income Statement

of Heraeus Holding GmbH, Hanau, for the period from January 1 to June 30, 2010

in € million	Jan1-Jun 30, 2010	Jan1-Jun 30, 2009
Revenue	10,232.3	8,161.7
Cost of materials	-9,562.3	-7,687.9
Personnel expenses	-308.0	-283.6
Amortization, depreciation, and impairment	-46.7	-42.5
Other operating income	71.0	40.2
Other operating expenses	-193.0	-158.0
Income from investments accounted for using the equity method	9.9	-6.1
<b>Earnings before interest and taxes (EBIT)</b>	<b>203.2</b>	<b>23.8</b>
Financial result	-36.4	1.8
Interest share of provisions for pensions	-6.2	-6.2
<b>Income before taxes</b>	<b>160.6</b>	<b>19.4</b>
Current taxes/Deferred taxes	-44.9	-6.0
<b>Net income</b>	<b>115.7</b>	<b>13.4</b>
Thereof attributable to shareholders of the Group	113.8	13.0
Thereof attributable to minority interests	1.9	0.4

## Consolidated Cash Flow Statement

of Heraeus Holding GmbH, Hanau, for the period from January 1 to June 30, 2010

in € million	Jan1-Jun 30, 2010	Jan1-Jun 30, 2009
<b>Net Income</b>	<b>115.7</b>	<b>13.4</b>
Depreciation and impairment/write-ups of non-current assets	46.6	43.3
Changes in inventories	-170.3	37.8
Changes in trade receivables	-152.7	-18.1
Changes in trade payables	73.8	2.5
Changes in provisions	8.9	9.7
Changes in other assets and liabilities	-16.1	-30.5
Result from the disposal of non-current assets	1.4	2.8
Other non-cash expenses/income	15.3	-0.3
<b>Cash flow from operating activities</b>	<b>-77.4</b>	<b>60.6</b>
Cash inflows from the disposal of non-current assets	4.0	3.0
Cash inflows from the disposal of businesses	6.0	-
Cash outflows for investments in non-current assets	-29.2	-38.4
Cash outflows for acquisitions	-10.6	-7.4
Changes in other financial assets	-144.3	-97.9
<b>Cash flow from investing activities</b>	<b>-174.1</b>	<b>-140.7</b>
Dividends paid, including dividends to minority interests	-31.4	-37.4
Changes in interest-bearing liabilities	187.0	-3.0
<b>Cash flow from financing activities</b>	<b>155.6</b>	<b>-40.4</b>
<b>Net change in cash and cash equivalents</b>	<b>-95.9</b>	<b>-120.5</b>
Effect of exchange rate differences on cash and cash equivalents	19.3	1.9
Cash and cash equivalents at the beginning of the period	380.3	507.2
<b>Cash and cash equivalents at the end of the period</b>	<b>303.7</b>	<b>388.6</b>

in € million	Jan1-Jun 30, 2010	Jan1-Jun 30, 2009
<b>Cash flow from operating activities</b>	<b>-77.4</b>	<b>60.6</b>
Cash inflows from the disposal of non-current assets	4.0	3.0
Cash inflows from the disposal of businesses	6.0	-
Cash outflows for investments in non-current assets	-29.2	-38.4
Cash outflows for acquisitions	-10.6	-7.4
<b>Free cash flow</b>	<b>-107.2</b>	<b>17.8</b>

## Consolidated Statement of Comprehensive Income

of Heraeus Holding GmbH, Hanau, for the period from January 1 to June 30, 2010

in € million	January 1- June 30, 2010			January 1- June 30, 2009		
	Total before taxes	Tax expenses/income	Total after taxes	Total before taxes	Tax expenses/income	Total after taxes
Net income	160.6	-44.9	<b>115.7</b>	19.4	-6.0	<b>13.4</b>
income and expenses recognized directly in equity:						
Currency translation differences	109.7	-	109.7	-1.4	-	-1.4
Valuation gains/losses from available-for-sale financial assets taken to equity	3.3	-0.9	2.4	1.4	0.4	1.8
Valuation gains/losses from available-for-sale financial assets transferred to the income statement	-3.6	-	-3.6	-0.5	-0.2	-0.7
Valuation gains/losses from hedging transactions taken to equity	-6.9	2.5	-4.4	2.5	-0.8	1.7
Valuation gains/losses from hedging transactions transferred to the income statement	0.1		0.1	12.6	-3.8	8.8
Actuarial gains/losses from performance-dependent provisions for pensions and similar obligations taken to equity	-0.1	0.7	0.6	0.3	-	0.3
<b>Income and expenses recognized directly in equity</b>	<b>102.5</b>	<b>2.3</b>	<b>104.8</b>	<b>14.9</b>	<b>-4.4</b>	<b>10.5</b>
<b>Total recognized income and expenses</b>	<b>263.1</b>	<b>-42.6</b>	<b>220.5</b>	<b>34.3</b>	<b>-10.4</b>	<b>23.9</b>
Thereof attributable to shareholders of the Group			218.6			23.5
Thereof attributable to minority interests			1.9			0.4

## Consolidated Statement of Changes in Shareholders' Equity

Heraeus Holding GmbH, Hanau, June 30, 2010

	Capital sub-scribed	Capital reserve	Retained earnings		Other comprehensive income			Shareholders' equity not incl. minority interests	Minority interests	Shareholders' equity
			Actuarial gains and losses	Other retained earnings	Currency translation	Financial instruments	Valuation of available-for-sale financial assets			
in € million										
<b>Shareholders' equity as of Dec. 31, 2009/Jan. 1, 2010</b>	<b>210.0</b>	<b>127.8</b>	<b>15.2</b>	<b>1,378.2</b>	<b>-65.2</b>	<b>-1.6</b>	<b>7.7</b>	<b>1,672.1</b>	<b>12.2</b>	<b>1,684.3</b>
Net Income										
Jan 1. – Jun 30, 2010	-	-	-	113.8	-	-	-	113.8	1.9	115.7
Exchange effects	-	-	-	-	109.7	-	-	109.7	-	109.7
Financial instruments	-	-	-	-	-	-4.4	-	-4.4	-	-4.4
Actuarial gains and losses										
	-	-	0.6	-	-	-	-	0.6	-	0.6
Valuation of available-for-sale financial assets	-	-	-	-	-	-	-1.1	-1.1	-	-1.1
<b>Total comprehensive income</b>	<b>-</b>	<b>-</b>	<b>0.6</b>	<b>113.8</b>	<b>109.7</b>	<b>-4.4</b>	<b>-1.1</b>	<b>218.6</b>	<b>1.9</b>	<b>220.5</b>
Distribution	-	-	-	-28.6	-	-	-	-28.6	-2.8	-31.4
Other changes	-	-	-	0.7	-	-	-	0.7	2.0	2.7
<b>Shareholders' equity as of June 30, 2010</b>	<b>210.0</b>	<b>127.8</b>	<b>15.8</b>	<b>1,464.1</b>	<b>44.5</b>	<b>-6.0</b>	<b>6.6</b>	<b>1,862.8</b>	<b>13.3</b>	<b>1,876.1</b>
<b>Shareholders' equity Dec. 31, 2008/Jan. 01, 2009</b>	<b>210.0</b>	<b>127.8</b>	<b>20.4</b>	<b>1,293.0</b>	<b>-60.9</b>	<b>-16.6</b>	<b>0.7</b>	<b>1,574.4</b>	<b>11.9</b>	<b>1,586.3</b>
Net Income										
Jan 1 – Jun 30, 2009	-	-	-	13.0	-	-	-	13.0	0.4	13.4
Exchange effects	-	-	-	-	-1.4	-	-	-1.4	-	-1.4
Financial instruments	-	-	-	-	-	10.5	-	10.5	-	10.5
Actuarial gains and losses										
	-	-	0.3	-	-	-	-	0.3	-	0.3
Valuation of available-for-sale financial assets	-	-	-	-	-	-	1.1	1.1	-	1.1
<b>Total comprehensive income</b>	<b>-</b>	<b>-</b>	<b>0.3</b>	<b>13.0</b>	<b>-1.4</b>	<b>10.5</b>	<b>1.1</b>	<b>23.5</b>	<b>0.4</b>	<b>23.9</b>
Distribution	-	-	-	-35.3	-	-	-	-35.3	-2.1	-37.4
Other changes	-	-	-	-	-	-	-	-	0.7	0.7
<b>Shareholders' equity as of June 30, 2009</b>	<b>210.0</b>	<b>127.8</b>	<b>20.7</b>	<b>1,270.7</b>	<b>-62.3</b>	<b>-6.1</b>	<b>1.8</b>	<b>1,562.6</b>	<b>10.9</b>	<b>1,573.5</b>