

Consolidated Financial
Statements 09



Consolidated Financial Statements

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Consolidated Balance Sheet

of Heraeus Holding GmbH, Hanau, as of December 31, 2009

ASSETS IN € MILLION	NOTES	DEC. 31, 2009	DEC. 31, 2008
Cash and cash equivalents	(1)	380.3	507.2
Securities	(1)	268.3	150.4
Trade receivables	(2)	459.5	378.9
Current tax receivables	(3)	107.8	75.5
Miscellaneous receivables and other assets	(3)	65.8	96.5
Inventories – excluding precious metal	(4)	263.6	311.2
Precious metals	(4)	399.8	370.9
Current assets		1,945.1	1,890.6
Goodwill	(5)	33.4	29.3
Other intangible assets	(5)	83.6	82.2
Property, plant, and equipment	(6)	672.4	654.6
Investments at equity	(7)	102.4	106.7
Other financial assets	(7)	4.1	9.4
Other non-current assets	(3)	35.2	21.9
Deferred tax assets	(21)	52.7	61.7
Non-current assets		983.8	965.8
Assets		2,928.9	2,856.4

SHAREHOLDERS' EQUITY AND LIABILITIES IN € MILLION	NOTES	DEC. 31, 2009	DEC. 31, 2008
Promissory notes	(8)	50.0	–
Trade payables	(9)	177.4	157.5
Liabilities due to banks	(10)	105.7	100.3
Tax liabilities	(11)	34.1	47.5
Other current liabilities	(11)	103.8	138.7
Current provisions	(12)	66.7	67.6
Current liabilities		537.7	511.6
Promissory notes	(8)	249.6	299.5
Liabilities due to banks	(10)	3.6	21.4
Other non-current liabilities	(11)	27.2	40.1
Provisions for pensions and similar obligations	(13)	253.7	244.1
Other non-current provisions	(12)	58.2	56.2
Deferred tax liabilities	(21)	114.6	97.2
Non-current liabilities		706.9	758.5
Capital subscribed		210.0	210.0
Retained earnings		1,506.0	1,420.8
Other comprehensive income		–43.9	–56.4
Minority interests		12.2	11.9
Shareholders' equity	(14)	1,684.3	1,586.3
Total shareholders' equity and liabilities		2,928.9	2,856.4

Consolidated Income Statement

of Heraeus Holding GmbH, Hanau, for the period from January 1 to December 31, 2009

IN € MILLION	NOTES	2009	2008
Revenue	(15)	16,220.1	15,913.5
Cost of materials		-15,211.4	-14,794.4
Personnel expenses	(16)	-553.9	-547.0
Amortization, depreciation, and impairment	(5) (6)	-102.9	-80.0
Other operating income	(17)	99.6	114.9
Other operating expenses	(18)	-278.6	-348.1
Income from investments accounted for using the equity method	(19)	-1.8	15.8
Earnings before interest and taxes (EBIT)		171.1	274.7
Financial result	(20)	-2.9	-22.4
Interest share of provisions for pensions	(13)	-12.5	-11.6
Income before taxes		155.7	240.7
Current taxes	(21)	-18.1	-83.5
Deferred taxes	(21)	-19.4	11.3
Net income		118.2	168.5
Thereof attributable to shareholders of the Group		116.6	166.5
Thereof attributable to minority interests	(22)	1.6	2.0

Consolidated Cash Flow Statement

of Heraeus Holding GmbH, Hanau, for the period from January 1 to December 31, 2009

IN € MILLION	NOTES	2009	2008
Net income		118.2	168.5
Depreciation and impairment/write-ups of non-current assets		77.2	82.9
Changes in inventories		17.9	151.1
Changes in trade receivables		-80.5	121.1
Changes in trade payables		20.3	-2.0
Changes in provisions		3.1	-33.6
Changes in other assets and liabilities		-52.8	-12.4
Result from the disposal of non-current assets		4.3	4.9
Other non-cash expenses/income		23.4	-21.2
Cash flow from operating activities	(23)	131.1	459.3
Cash inflows from the disposal of non-current assets		13.2	6.5
Cash outflows for investments in non-current assets		-104.1	-121.0
Cash outflows for acquisitions		-12.0	-133.5
Changes in other financial assets		-109.4	128.3
Cash flow from investing activities	(24)	-212.3	-119.7
Cash inflows from minority interests		0.8	0.6
Dividends paid, including dividends to minority interests		-37.3	-38.4
Changes in interest-bearing liabilities		-10.2	34.6
Cash flow from financing activities	(25)	-46.7	-3.2
Net change in cash and cash equivalents		-127.9	336.4
Effect of exchange rate differences on cash and cash equivalents		1.0	1.2
Cash and cash equivalents at the beginning of the period		507.2	169.6
Cash and cash equivalents at the end of the period	(26)	380.3	507.2

FREE CASH FLOW

IN € MILLION	NOTES	2009	2008
Cash flow from operating activities		131.1	459.3
Cash inflows from the disposal of non-current assets		13.2	6.5
Cash outflows for investments in non-current assets		-104.1	-121.0
Cash outflows for acquisitions		-12.0	-133.5
Free cash flow	(27)	28.2	211.3

(Additional information to the notes)

Consolidated Statement of Comprehensive Income

of Heraeus Holding GmbH, Hanau, for the period from January 1 to December 31, 2009

IN € MILLION	Total before taxes	Tax expenses/ income	Total after taxes	Total before taxes	Tax expenses/ income	Total after taxes
	2009			2008		
Net income	155.7	-37.5	118.2	240.7	-72.2	168.5
Income and expenses recognized directly in equity:						
Currency translation differences	-4.3	-	-4.3	37.5	-	37.5
Valuation gains/losses from available-for-sale financial assets taken to equity	9.0	-1.3	7.7	0.5	0.2	0.7
Valuation gains/losses from available-for-sale financial assets transferred to the income statement	-0.5	-0.2	-0.7	-3.3	-0.4	-3.7
Valuation gains/losses from hedging transactions taken to equity	12.2	-3.8	8.4	-24.0	7.4	-16.6
Valuation gains/losses from hedging transactions transferred to the income statement	9.5	-2.9	6.6	-17.2	5.3	-11.9
Actuarial gains/losses from performance-dependent provisions for pensions and similar obligations taken to equity	-7.6	2.4	-5.2	5.7	-1.7	4.0
Income and expense recognized directly in equity	18.3	-5.8	12.5	-0.8	10.8	10.0
Total recognized income and expense	174.0	-43.3	130.7	239.9	-61.4	178.5
Thereof attributable to shareholders of the Group			129.1			176.5
Thereof attributable to minority interests			1.6			2.0

Consolidated Statement of Changes in Shareholders' Equity

of Heraeus Holding GmbH, Hanau, as of December 31, 2009

	Other comprehensive income							Shareholders' equity
	Capital subscribed	Retained earnings	Currency translation	Actuarial gains and losses	Financial instruments	Valuation of available-for-sale financial assets	Minority interests	
IN € MILLION								
Shareholders' equity as of Dec. 31, 2007/Jan. 1, 2008	210.0	1,289.1	-98.4	16.4	11.9	3.7	11.2	1,443.9
Net income 2008	-	166.5	-	-	-	-	2.0	168.5
Exchange effects	-	-	37.5	-	-	-	-	37.5
Actuarial gains and losses	-	-	-	4.0	-	-	-	4.0
Financial instruments	-	-	-	-	-28.5	-	-	-28.5
Valuation of available-for-sale financial assets	-	-	-	-	-	-3.0	-	-3.0
Total comprehensive income	-	166.5	37.5	4.0	-28.5	-3.0	2.0	178.5
Distribution	-	-35.7	-	-	-	-	-2.7	-38.4
Other changes	-	0.9	-	-	-	-	1.4	2.3
Shareholders' equity as of Dec. 31, 2008/Jan. 1, 2009	210.0	1,420.8	-60.9	20.4	-16.6	0.7	11.9	1,586.3
Net income 2009	-	116.6	-	-	-	-	1.6	118.2
Exchange effects	-	-	-4.3	-	-	-	-	-4.3
Actuarial gains and losses	-	-	-	-	15.0	-	-	15.0
Financial instruments	-	-	-	-5.2	-	-	-	-5.2
Valuation of available-for-sale financial assets	-	-	-	-	-	7.0	-	7.0
Total comprehensive income	-	116.6	-4.3	-5.2	15.0	7.0	1.6	130.7
Distribution	-	-35.3	-	-	-	-	-2.0	-37.3
First-time consolidation of associated companies at equity	-	4.0	-	-	-	-	-	4.0
Other changes	-	-0.1	-	-	-	-	0.7	0.6
Shareholders' equity as of Dec. 31, 2009	210.0	1,506.0	-65.2	15.2	-1.6	7.7	12.2	1,684.3

Notes to the Consolidated Financial Statements

of Heraeus Holding GmbH, Hanau, for financial year 2009

BASIS OF PRESENTATION

The consolidated financial statements for the Heraeus Group issued by Heraeus Holding GmbH as the parent company have been prepared in accordance with standard accounting and valuation principles. In accordance with Section 315a HGB, the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB), and the International Financial Reporting Interpretations Committee (IFRIC), which are endorsed by the European Union and are valid as of the balance sheet date, as well as the additional commercial law requirements to be applied in accordance with Section 315a (1) HGB, have been applied.

The financial year encompasses the calendar year. The consolidated financial statements were prepared in euros. Unless noted otherwise, all amounts are stated in millions of euros (€ million).

To improve the clarity of presentation and transparency of the annual financial statements, various items in the balance sheet and income statement have been combined and stated separately in the notes to the consolidated financial statements.

The balance sheet is divided by maturity in accordance with IAS 1. The income statement has been prepared using the nature of expense method. In order to improve transparency, the financial result has been included in the income statement. In addition to the net interest income and expenses, the financial result also includes the other expenses and income related to the disposal and measurement of the financial instruments.

On February 26, 2010, the Board of Management released to the Supervisory Board the consolidated financial statements and the group management report issued on December 31, 2009.

Principles of consolidation

The financial statements of companies included in the consolidated financial statements are prepared as at the Group's closing date using uniform accounting and measurement principles in accordance with IFRS.

For companies that were initially consolidated before January 1, 2004, the acquisition was accounted for using the book value method according to Section 301 (1) No. 1 HGB. The acquisition costs of the shares in subsidiaries were offset against the carrying value of the Group's share in equity at the date of the acquisition or first-time consolidation.

For companies that were initially consolidated after the transition to IFRS (January 1, 2004), the acquisition was accounted for using the purchase method according to IFRS 3. This method prescribes a revaluation of the acquired company, where all hidden reserves and hidden charges must be disclosed and all identifiable intangible assets must be recognized separately. Any excess of cost of acquisition over net assets acquired remaining after the purchase price allocation is capitalized as goodwill and tested for impairment once a year to determine if the acquisition has maintained its value. If this is not the case, an impairment loss is recognized. Negative goodwill is recognized in the income statement at the date of the acquisition.

In the consolidation of income and expenses, intercompany sales and other intercompany income were offset against the corresponding expenses. Profits and losses from intercompany sales and services were eliminated. Due to their immateriality, intercompany profits of associated companies have not been eliminated. Intercompany receivables and liabilities have been offset.

Income tax effects are taken into account and deferred taxes are recognized in the consolidation entries.

Currency translation

The financial statements of foreign subsidiaries prepared in foreign currency were translated using the modified closing rate method as defined in IAS 21, following the functional currency concept. As the subsidiaries are financially, economically, and organizationally independent, their functional currency is identical with the respective local currency. In the case of two foreign subsidiaries, the functional currency is the US dollar instead of the national currency.

Income and expense items from statements prepared in foreign currency are translated at average rates for the year. Assets and liabilities are translated at closing rates and equity at historical rates. Any differences arising from the translation of equity are recognized directly in shareholders' equity, as are exchange differences from translating items of the income statement.

Exchange differences arising from debt consolidation were recognized as profit or loss and reported in the income statement as other operating income or expenses.

Foreign currency receivables and liabilities in the separate financial statements of local subsidiaries are valued at the closing rate. Any unrealized exchange gains or losses are taken to the income statement.

The exchange rates for major currencies used for currency translation varied as follows in relation to the euro:

		CLOSING RATE		AVERAGE RATE	
	1 EUR =	2009	2008	2009	2008
China	CNY	9.7971	9.5488	9.5100	10.2293
United Kingdom	GBP	0.8893	0.9620	0.8915	0.7987
Hong Kong	HKD	11.1041	10.8311	10.7916	11.4526
Japan	JPY	133.05	126.67	130.23	152.53
Canada	CAD	1.5108	1.7197	1.5848	1.5652
Korea	KRW	1,669.71	1,767.32	1,772.73	1,603.98
Switzerland	CHF	1.4840	1.4884	1.5096	1.5889
Singapore	SGD	2.0121	2.0037	2.0216	2.0763
USA	USD	1.4399	1.4011	1.3944	1.4734

Use of estimates

Estimates and assumptions have to be made in the consolidated financial statements. These affect the recognition and measurement of assets, liabilities, income, expenses, and contingent liabilities. The basic assumptions and parameters for the estimates are

explained in the notes and refer to impairments of non-current assets, financial instruments, the assessed value of deferred tax assets on loss carryforwards, provisions, and goodwill. Actual amounts may differ from estimates.

Application of new standards and interpretations for the first time

The following standard and changes to standards, as well as the following interpretations and changes to interpretations, will be mandatory as of the financial year 2009:

- IFRS 8 “Operating Segments”
- Revised version of IAS 1 “Presentation of the Financial Statements”
- Revised version of IAS 23 “Borrowing Costs”
- Amendment to IAS 32 and IAS 1 “Puttable Financial Instruments and Obligations Arising on Liquidation”
- Amendment to IAS 39 and IFRS 7 “Reclassification of Financial Assets – Effective Date and Transition”
- Amendment to IFRS 1 and IAS 27 “Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate”
- Amendment to IFRS 2 “Share-based Payment”
- Amendment to IFRS 4 “Insurance Contracts” and IFRS 7 “Financial Instruments: Disclosures”
- “Improvements to International Financial Reporting Standards”
- Amendment to IFRIC 9 “Reassessment of Embedded Derivatives” and IAS 39 “Financial Instruments: Recognition and Measurement”
- IFRIC 13 “Customer Loyalty Programmes”
- IFRIC 14 “IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction”

There are no significant effects on the consolidated annual financial statements from the new regulations.

Statutory accounting requirements not yet adopted

The following standard and changes to standards, as well as the following interpretations, will be mandatory as of the financial year 2010:

- Amendment to IAS 27 “Consolidated and Separate Financial Statements”
- Amendment to IAS 32 “Financial Instruments: Presentation – Classification of Rights Issues”
- Amendment to IAS 39 “Financial Instruments: Recognition and Measurement – Eligible Hedged Items”
- Amendment to IFRS 1 “First-time Adoption of International Financial Reporting Standards”
- Revised IFRS 3 “Business Combinations”
- IFRIC 12 “Service Concession Arrangements”
- IFRIC 15 “Agreements for the Construction of Real Estate”
- IFRIC 16 “Hedges of a Net Investment in a Foreign Operation”
- IFRIC 17 “Distributions of Non-cash Assets to Owners”
- IFRIC 18 “Transfers of Assets from Customers”

We currently do not expect significant effects on the consolidated annual financial statements from the new regulations.

Moreover, the following standard and amendments to standards by the International Accounting Standards Board (IASB) and the following interpretations by the International Financial Reporting Interpretations Committee (IFRIC) have been published in English and not yet adopted by the EU:

- IFRS 9 “Financial Instruments”
- Revised version of IAS 24 “Related Party Disclosures”
- Amendment to IFRS 2 “Group Cash-settled Share-based Payment Transactions”
- “Improvements to International Financial Reporting Standards”
- Revised version of IFRS 1 “First-time Adoption of International Financial Reporting Standards”
- IFRIC 19 “Extinguishing Financial Liabilities with Equity Instruments”
- Amendment to IFRIC 14 “IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction”

The effects that IFRS 9, which is expected to be adopted as of 2013, will have on the consolidated financial statements are currently being examined. At the current time we do not expect the other new rules to have any material effects on the consolidated financial statements.

ACCOUNTING POLICIES

Cash and cash equivalents and securities

Cash and cash equivalents and securities consist of cash on hand, bank balances, and time deposits.

The item "Securities" includes primarily short-term financial assets that can be converted into cash at any time. These are available-for-sale financial assets and held-to-maturity investments with a time to maturity within the financial year following the closing date.

Trade receivables

Trade receivables are stated at fair value of the consideration provided. Necessary allowances are recognized for individual risks.

Trade receivables are normally due within one year so that discounting is not applied.

Miscellaneous receivables and other assets

The miscellaneous receivables and other assets are stated at amortized cost. Appropriate allowances are formed for discernible individual risks.

Inventories – excluding precious metal

Raw materials and supplies, merchandise, as well as work-in-progress and finished goods are carried at the lower of cost and net realizable value. Advance payments on inventories are recognized at the prepayment amount. In addition to direct costs (production material and wages), costs of conversion also include the parts of the material and production overheads incurred in production. Costs of similar inventories are calculated using the weighted average method. Appropriate additional allowances are formed for individual risks.

Precious metal

Depending on their use, precious metal inventories are broken down into three categories. The relevant classification is used to calculate the value of the precious metal inventories.

The precious metal on stock consists of the precious metal inventories used in the production process as well as precious metal inventories held permanently in the company for strategic reasons. These precious metal inventories are carried at weighted average historical cost. On each closing date, a determination is made if the carrying amount is above the net realizable value so that an impairment loss would have to be recognized. If the reasons for an impairment no longer exist, the impairment loss is reversed and the inventory item written up to no higher than its original cost.

The precious metal on demand includes any precious metal inventories that are held in the company only temporarily and are used to cover peak demands for precious metal in the production process exceeding the normal holdings. These precious metal inventories are recognized at the lower of average cost and net realizable value.

The precious metal trading stock is the supply of precious metal held by the Group's trading companies. It is normally recognized at the lower of average cost and net realizable value. Coverage obligations fulfilled by forward purchase transactions maturing after the closing date are stated at the amount required to fulfill the obligation as of the closing date. The FIFO method is used to calculate the value of the precious metal inventories held in one Group company.

Goodwill

According to IFRS 3, goodwill recognized as an asset is not amortized on a systematic basis but tested for impairment annually and whenever there is an indication of impairment. The impairment test is based on the underlying cash generating unit. If the recoverable amount of the respective unit falls below the carrying amount, impairment losses in accordance with IAS 36 are recognized. Reversal of impairment losses is not allowed. If goodwill has been completely written off, its disposal will be imputed to the consolidated statement of changes in assets.

Other intangible assets

Intangible assets acquired for consideration are capitalized at their acquisition cost. If they have a finite useful life, they are amortized using the straight-line method over their economic useful life. Amortization is based on useful lives of between three and eight years.

Intangible assets with an indefinite useful life are capitalized at cost and are tested for impairment annually and whenever there is an indication of impairment. If the carrying amount exceeds the recoverable amount, an impairment loss is recognized and the asset is reduced to its recoverable amount. If the reasons for the impairment no longer exist, the impairment loss is reversed.

In connection with the capitalization of internally generated intangible assets, a basic distinction is made between research and development costs. Research costs are recognized as expenses in the income statement as incurred; development costs for future products or technologies are capitalized if the recognition criteria according to IAS 38 are cumulatively met. If the requirements for capitalization are not met, the expenses are recognized in the income statement in the year of their origin.

Property, plant, and equipment

The items of property, plant, and equipment are recognized at cost.

The acquisition costs cover the purchase price including the directly attributable costs that are incurred in order to make the asset ready for operation within its intended usage.

In addition to individual costs (production material and wages), the costs of conversion for internally generated assets also include appropriate parts of the material and production overheads incurred in production. Borrowing costs are generally not capitalized as a part of cost but are recognized in the income statement.

Grants, subsidies, or similar public sector grants-in-aid are deducted from the cost of the item.

The items of property, plant, and equipment are usually depreciated using the straight-line method based on the economic useful life of the asset. Useful lives and depreciation methods for property, plant, and equipment are reviewed periodically to ensure that depreciation methods and periods reflect the expected economic benefit of the assets. Depreciation is primarily based on the following useful lives:

ASSET ITEM	USEFUL LIFE
Buildings	15–50 years
Leasehold improvements	7–25 years
Technical equipment and machinery	10–25 years
Other equipment, furniture, and fixtures	4–30 years

If the recoverable amount of an asset of property, plant, and equipment has fallen below its carrying amount, an impairment loss is recognized and the asset reduced to its recoverable amount in accordance with IAS 36. If the reasons for impairment losses recognized in previous years no longer exist, the impairment loss is reversed.

Significant components are identified. They are recognized and measured according to IAS 16 separately.

Associates and other investments

Investments in associates are valued at the respective share in equity using the equity method. In the case of different balance sheet dates, the interim financial statements for those companies are taken into account. Shares in non-consolidated affiliated companies and investments are recognized at the lower of cost or fair value.

Leases

Assets from lease agreements are reported as property, plant, and equipment, if all the risks and rewards incidental to the ownership of the assets according to IAS 17 are substantially transferred to the companies of the Heraeus Group (finance lease).

Lease agreements are classified using the useful lives for property, plant, and equipment and the prevailing interest rates for borrowing unless specified in the lease agreement.

Leased assets are recognized in the balance sheet at the lower of the fair value of the leased property or the present value of the minimum lease payments. A leasing liability in the same amount is recognized. In the subsequent measurement, capitalized leased assets are depreciated using the straight-line method over the scheduled useful life or the shorter lease term. Economic useful lives are based on those for property, plant, and equipment.

The payment obligation arising from future lease payments is reported in other non-current or other current liabilities, depending on the remaining term.

Financial instruments

Financial instruments include non-derivative financial instruments such as trade receivables and trade payables as well as financial assets and liabilities, while derivative financial instruments are used to hedge foreign currency, price, and interest rate risks.

Financial assets are broken down into the following categories:

- loans and receivables (LaR),
- financial assets at fair value through profit and loss (derivative financial instruments with a positive fair value categorized as “held-for-trading,” FAHfT – held-for-trading financial assets),
- held-to-maturity investments (securities categorized as “held-to-maturity,” HtM), and
- available-for-sale financial assets (securities categorized as “available-for-sale,” AfS).

Financial liabilities are broken down into the following categories:

- financial liabilities at fair value through profit and loss (derivative financial instruments with a negative fair value categorized as “held-for-trading,” FLHfT – held-for-trading financial liabilities), and
- other financial liabilities (financial liabilities measured at amortized cost, FLAC).

The classification depends on the purpose for which the financial assets and financial liabilities were acquired. Management determines the classification of financial assets and financial liabilities at the time of initial recognition and reviews the classification at each closing date.

Purchases and sales of financial assets and financial liabilities with respect to spot deals are recorded as of the settlement date, the initial measurement being based on cost plus transaction costs. The subsequent measurement depends on the classification of the financial assets and financial liabilities.

Impairment losses may be recognized on individual financial instruments in case of objective evidence. If the reasons for an impairment no longer exist, the impairment loss is reversed.

Non-derivative financial instruments

Loans and receivables, held-to-maturity investments, and financial assets as well as financial liabilities without a quoted market price on an active market are measured at amortized cost using the effective interest method.

Available-for-sale financial assets and financial liabilities as well as held-for-trading financial assets and financial liabilities are measured at their fair value based on their quoted market value as of the closing date.

Other investments must be classified as available-for-sale financial assets. Since no active market exists for them, they are measured at amortized cost.

Valuation gains and losses from available-for-sale financial assets are recognized directly in equity after deferred taxes have been taken into account and are cumulatively transferred to the income statement only when these assets are sold or subject to impairment. Changes in the fair value of all other financial instruments are recognized directly in the income statement.

Derivative financial instruments

As financial assets and financial liabilities, derivative financial instruments are initially recognized at fair value plus transaction costs, and subsequently measured at fair value.

Commodities futures to which the own use exemption according to IAS 39 does not apply are reported as a trading portfolio separately from the own use portfolio and measured at fair value in accordance with IAS 39.

The treatment of changes in fair value depends on the nature of the hedged item. On the conclusion of a hedging contract, derivative financial instruments are classified either as fair value hedges or as cash flow hedges.

In a fair value hedge, both the hedging instrument and the hedged item are measured at fair value, and changes in these fair values are recognized directly in the income statement.

In a cash flow hedge, the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognized directly in equity, taking into account deferred taxes. The cumulative adjustments in equity are transferred to the income statement only when the corresponding gains or losses from the hedged item are recognized as income or expenses.

When a net investment in foreign companies is hedged, the effective portion of the hedging transaction less deferred taxes is recognized in equity until the company is sold.

If hedging transactions used to hedge operational risks of changes in exchange rates, prices, or interest rates do not meet the hedge accounting requirements of IAS 39, the changes in fair value are recognized directly in the income statement.

Liabilities

Liabilities are recorded at the amount repayable. Non-current liabilities and financial liabilities are discounted at a market interest rate appropriate to their maturities if the amounts are material and the liability is non-interest bearing or bears interest at a rate which is not appropriate to its maturity.

Liabilities arising from finance lease agreements are recognized at the lower of the fair value of the leased assets and the present value of the minimum lease payments at the inception of the lease.

Other provisions

Other provisions are recognized according to IAS 37 wherever a present legal or constructive obligation exists towards third parties as a result of a past event, the settlement of which is expected and the amount of which can be reliably estimated. Provisions are valued at the most likely fulfillment amount, or in the case of equal probabilities, in the amount of the mean value of the possible fulfillment amounts. Provisions are reviewed on a regular basis and estimates adjusted accordingly.

Provisions that do not lead to an outflow of resources in the subsequent year are recognized at the present value of the expenditures expected to be required to settle the obligation if the interest effect is material.

Provisions for pensions and similar obligations

Under the company retirement plan, employees of the consolidated companies are entitled to benefits from defined benefit plans and defined contribution plans. Defined benefit plans are found primarily in German companies, while defined contribution plans tend to predominate outside Germany, and from the Group's perspective are of lesser importance.

In the case of defined contribution plans, the company contributes to publicly or privately administered pension plans on a statutory, contractual, or voluntary basis. Once the contributions have been paid, the company has no further payment obligations.

Provisions for pensions (defined benefit plans) are established based on commitments for old age, disability, and widows' and orphans' pensions. The Group's payments generally depend on the length of employment and the remuneration of the employees and are defined in various pension arrangements.

Domestically, there are three different overall pension commitments:

For employees who joined the company before January 1, 1988, the Pension Regulation dated October 24, 1979, will apply. This is a pension commitment by the employer that is not dependent on salary and is financed by the employer. The pension payment increases by a certain percentage of pensionable earnings for each applicable year of service.

The pension claims of employees who joined the company after January 1, 1988, are regulated in pension Regulation I 2001 dated May 14, 2001, and are composed of an employer-financed payment guarantee based on contributions. The pension contributions paid within this commitment are converted into "pension modules" by means of an actuarial calculation. These modules are then credited to an individual pension account for each beneficiary. The level of the pension contribution depends on the pensionable earnings of each employee.

Pension Regulation II 2001, which was introduced as part of the bargaining agreement dated May 14, 2001, enables participating employees to purchase additional pension benefits through a contribution-based benefit plan by means of voluntary deferred compensation. The pension commitments in accordance with the pension regulations from 2001 are covered by means of investments in securities funds.

In addition, executives and managers are granted individual commitments.

Pension provisions are recognized and measured using the projected unit credit method according to IAS 19. This method not only takes into account the pension benefits and benefit entitlements known as of the closing date but also increases in salaries and pension benefits to be expected in the future. Furthermore, the funds held by the German companies of the Heraeus Group meet the requirements of plan assets (contractual trust arrangement) and are offset against the pension provisions.

By exercising the option provided by IAS 19.93 A, actuarial gains and losses resulting from changes in the assumptions and from deviations of the assumptions from the actual facts are recognized directly in equity – after taking into account deferred taxes – in the period in which they were incurred. Gains and losses recognized in equity are shown separately in the statement of comprehensive income.

Deferred taxes

Deferred taxes are recognized in accordance with IAS 12. They are determined based on timing differences between the stated values of assets and liabilities in the IFRS balance sheet and the tax balance sheet, on realizable loss carryforwards and on consolidation procedures. Deferred taxes are assessed on the basis of the tax rates expected in the individual countries at the time of recognition, which reflect the regulations valid or adopted as of the closing date.

Deferred tax assets and deferred tax liabilities are netted against each other if levied by the same taxation authority.

Revenue and other income

Revenue is net revenue from the sale of own products, goods, and services. Revenue is stated less discounts, rebates, and similar reductions in earnings. Revenue is recognized when the delivery or service has been rendered and risk or ownership has been transferred. To an insignificant degree, revenue also includes income from services.

Interest income is recorded proportionally using the effective interest method. License earnings are either realized immediately or limited and reported proportionally over time in accordance with the commercial content of the underlying agreements. Dividend earnings will be calculated at the time when the right to receive the payment is created.

Scope of consolidation

The consolidated financial statements of Heraeus Holding GmbH include subsidiaries over which Heraeus Holding GmbH has control within the meaning of IAS 27 of the financial and business policies in accordance with the articles of association or an affiliation agreement.

The companies included in the consolidated Group are as follows:

Consolidated subsidiaries

	2009			2008		
	Total	Domestic	Foreign	Total	Domestic	Foreign
As of Jan. 1	114	24	90	108	24	84
Additions	3	–	3	3	–	3
Changes in companies consolidated	1	–	1	4	–	4
Merger	–1	–	–1	–1	–	–1
As of Dec. 31	117	24	93	114	24	90

The financial year for all consolidated subsidiaries is the calendar year. The changes in the scope of consolidation have not materially affected comparability with the previous year's consolidated financial statements. Overall, the changes did not have a significant effect on the asset, financial, or earnings position.

Associates

	2009			2008		
	Total	Domestic	Foreign	Total	Domestic	Foreign
As of Jan. 1	13	1	12	14	1	13
Disposals	-1	-	-1	-1	-	-1
As of Dec. 31	12	1	11	13	1	12

The list of the shareholdings of the Heraeus Group is published in the electronic version of the German Federal Gazette.

Business combinations

The following companies were acquired in the financial year – broken down by business segments:

	Type of acquisition	Date of acquisition	Preliminary financial commitment in € million
W. C. Heraeus			
Thick film business of BASF Catalysts LLC, USA	Asset deal	Jan. 5, 2009	1.8
Electronic packaging materials business of Umicore S.A., Belgium	Asset deal	Apr. 30, 2009	5.0
Thick film paste business of LORD Corporation, USA	Share/asset deal	Dec. 31, 2009	4.4
Heraeus Electro-Nite			
DWM & Associates. Inc., USA	Asset deal	Sep. 1, 2009	0.8
			12.0

The preliminary financial commitment for corporate acquisitions in the amount of €12.0 million includes not only acquisition prices but also incidental costs of acquisition.

The following table shows the preliminary carrying amounts of the assets and liabilities of the acquired companies at the date of acquisition, before and after the purchase price allocation:

CARRYING AMOUNTS IN € MILLION	BEFORE PURCHASE PRICE ALLOCATION	AFTER PURCHASE PRICE ALLOCATION
Current assets	3.8	4.0
Intangible assets	0.3	6.5
Property, plant, and equipment	1.2	1.2
Acquired assets	5.3	11.7
Liabilities	0.2	0.9
Provisions	0.4	0.4
Deferred tax liabilities	–	1.4
Acquired liabilities	0.6	2.7
Acquired net assets	4.7	9.0

In connection with the purchase price allocation, primarily hidden reserves in intangible assets were disclosed. The disclosure of the hidden reserves in intangible assets led to, among other things, additional capitalization of customer bases in the amount of €3.9 million, know-how in the amount of €2.0 million, and trademarks in the amount of €0.3 million.

After the purchase price allocations, preliminary goodwill in the amount of €3.0 million remained.

In 2008, the bonding wire business of Kulicke & Soffa Industries, Inc., USA, was taken over. Within the final purchase price allocation, there were subsequent changes to the fair values of property, plant, and equipment, as well as the subsidiary acquisition costs. The reduction of €1.1 million in the fair values for the property, plant, and equipment, as well as the increase in the incidental acquisition costs of €0.1 million, resulted in an increase in goodwill of €1.2 million.

Starting from the date of acquisition, the revenues for the current financial year of the acquired companies, amounting to €13.6 million, have been included in the revenue of the Heraeus Group; the companies' contributions to earnings were minor.

Associates

The following table shows the most important financial information for the associates contained in the consolidated financial statements:

	Shin-Etsu Quartz Products Co. Ltd., Japan	Other associates	Total associates
IN € MILLION			
Carrying amounts as of Dec. 31, 2009			
Assets	208.1	136.0	344.1
Liabilities	52.0	78.6	130.6
Revenue	105.8	85.4	191.2
Net income	-9.7	9.1	-0.6
Carrying amounts as of Dec. 31, 2009			
Assets	245.9	91.2	337.1
Liabilities	67.0	48.2	115.2
Revenue	149.8	48.9	198.7
Net income	10.6	8.9	19.5

NOTES TO THE CONSOLIDATED BALANCE SHEET

(1) Cash and cash equivalents and securities

Cash and cash equivalents and securities comprise the following items:

IN € MILLION	DEC. 31, 2009	DEC. 31, 2008
Cash on hand, bank balances, checks	380.3	507.2
Available-for-sale securities	265.4	149.2
Held-for-trading securities	2.9	1.2
Securities	268.3	150.4
Cash and cash equivalents and securities	648.6	657.6

Extraordinary write-offs of €0.2 million (previous year: €4.7 million) were made in the year under review on the securities in the “available-for-sale” category.

(2) Trade receivables

Default and other risks are taken into account by creating adequate allowances which are recognized in the carrying amount. In 2009, the allowances came to €13.8 million (previous year: €12.7 million). The fair value corresponds approximately to the carrying amount.

Significant impairments were booked in trade receivables because they could not be collected. These developed as follows:

IN € MILLION	2009	2008
Status of allowances as of Jan. 1	12.7	11.4
Currency translation	-0.1	0.2
Increase	12.6	6.1
Utilization	-3.5	-1.8
Release	-7.9	-3.2
Status of allowances as of Dec. 31	13.8	12.7

The following table shows the ageing structure of the past due and not impaired trade receivables:

IN € MILLION	Trade receivables neither impaired nor past due by the following time periods as of the balance sheet date				
	Less than 30 days	30–90 days	91–180 days	181–360 days	More than 1 year
Closing date Dec. 31, 2009	185.7	23.4	7.6	4.5	2.3
Closing date Dec. 31, 2008	107.8	40.8	8.0	3.1	1.7

With regard to the trade payables that are neither impaired nor past due, there is no information as of the closing date to suggest that the debtors will not meet their payment obligations.

(3) Tax receivables, miscellaneous receivables, and other assets

Tax receivables, miscellaneous receivables, and other assets are broken down as follows:

IN € MILLION	Due within one year	Due in more than one year	Total	Due within one year	Due in more than one year	Total
	DEC. 31, 2009			DEC. 31, 2008		
Tax receivables	107.8	13.7	121.5	75.5	15.3	90.8
Receivables from associates and other interests	4.4	–	4.4	2.4	–	2.4
Positive fair value derivatives	25.7	17.3	43.0	31.2	4.9	36.1
Other assets	35.7	4.2	39.9	62.9	1.7	64.6
Miscellaneous receivables and other assets	65.8	21.5	87.3	96.5	6.6	103.1

Please refer to the section on financial risk management.

(4) Inventories

Inventories comprise the following:

IN € MILLION	DEC. 31, 2009	DEC. 31, 2008
Raw materials, consumables, and supplies	98.2	109.3
Work in progress and finished goods, as well as merchandise	201.8	233.0
Advanced payments	0.7	2.4
Allowances on inventories – excluding precious metals	–37.1	–33.5
Inventories – excluding precious metals	263.6	311.2
Precious metals	407.4	385.7
Advanced payments on precious metals	8.8	4.6
Allowances on precious metals	–16.4	–19.4
Precious metal	399.8	370.9
Inventories	663.4	682.1

Write-downs on inventories excluding precious metals as of the closing date came to €53.5 million (previous year: €52.9 million) and are already included in the carrying amount. No significant write-downs were reversed in the financial year.

The outstanding costs for precious metal recycling of €10.0 million (previous year: €10.5 million) were recognized under allowances for precious metals.

(5) Intangible assets

	Goodwill	Patents, licenses, and similar rights	Internally generated intangible assets	Total
IN € MILLION				
Acquisition cost as of Jan. 1, 2008	22.1	78.0	0.4	100.5
Currency translation	1.5	2.6	–	4.1
Changes in companies consolidated	8.9	50.4	0.1	59.4
Additions	2.0	9.3	0.1	11.4
Disposals	0.3	2.1	–	2.4
Reclassifications	–	2.5	–0.4	2.1
Acquisition cost as of Dec. 31, 2008/Jan. 1, 2009	34.2	140.7	0.2	175.1
Currency translation	–0.3	–1.0	–	–1.3
Changes in companies consolidated	3.0	6.5	–	9.5
Additions	0.1	8.8	–	8.9
Disposals	–	1.2	–	1.2
Reclassifications	1.1	2.2	–	3.3
Acquisition cost as of Dec. 31, 2009	38.1	156.0	0.2	194.3
Accumulated amortization and impairment as of Jan. 1, 2007	3.8	44.6	0.3	48.7
Currency translation	1.1	2.9	–	4.0
Additions to amortization	–	12.0	–	12.0
Additions to impairment losses	–	0.5	–	0.5
Disposals	–	1.4	–	1.4
Reclassifications	–	0.1	–0.3	–0.2
Accumulated amortization and impairment as of Dec. 31, 2008/Jan. 1, 2009	4.9	58.7	–	63.6
Currency translation	–0.2	–0.6	–	–0.8
Changes in companies consolidated	–	0.1	–	0.1
Additions to amortization	–	14.9	0.1	15.0
Additions to impairment losses	–	0.1	–	0.1
Disposals	–	1.1	–	1.1
Reclassifications	–	0.4	–	0.4
Accumulated amortization and impairment as of Dec. 31, 2009	4.7	72.5	0.1	77.3
Net carrying amounts as of Dec. 31, 2009	33.4	83.5	0.1	117.0
Net carrying amounts as of Dec. 31, 2008	29.3	82.0	0.2	111.5

Goodwill

Goodwill increased from €29.3 million in the previous year to €33.4 million in 2009. The change is attributable mainly to the acquisition of the thick film paste business of LORD Corporation, USA, and the correction of the purchase price allocation from the acquisition of the bonding wire business of Kulicke & Soffa Industries, Inc., USA.

The divisions of the operating companies in the Heraeus Group are the cash generating units to which the acquired companies are assigned. In individual cases, a cash generating unit is also formed one level below the divisions, at the level of business units. For Heraeus Electro-Nite, the country companies are used as the cash generating units.

The discounted cash flow method (DCF method) is used to determine the value in use of the respective unit based on the anticipated free cash flows. A total planning period of five years is used. The data for the first three years is obtained from the current mid-term planning. General assumptions concerning additional price and cost developments in the respective unit are used for the subsequent years. The long-term growth rates are dependent on the respective division and are between 0% and 2% (previous year: between 0% and 2%). The weighted average costs of capital (WACC) of the Group or of the respective subgroup plus a risk premium after tax are used as the discount rate. Discount rates between 6% and 9% p.a. (previous year: between 6% and 9% p.a.) are currently being applied.

Goodwill is broken down among the business segments as follows:

IN € MILLION	DEC. 31, 2009	DEC. 31, 2008
W. C. Heraeus	25.8	22.2
Heraeus Electro-Nite	3.7	3.4
Heraeus Noblelight	3.9	3.7
Goodwill	33.4	29.3

Other intangible assets

At €0.1 million (previous year: €0.1 million), the other intangible assets include assets with an indefinite useful life, which are not amortized since it has not so far been possible to foresee an end of use.

Research and development costs in the amount of €63.0 million (previous year: €64.0 million) were recognized as income in the income statement.

(6) Property, plant, and equipment

	Land, land rights, and buildings, including buildings on third-party land	Technical equipment and machinery	Other equipment, furniture, and fixtures	Assets under construction	Total
IN € MILLION					
Acquisition cost as of Jan. 1, 2008	480.7	648.1	399.4	66.4	1,594.6
Currency translation	4.4	3.4	3.5	0.2	11.5
Changes in companies consolidated	4.2	16.3	1.5	–	22.0
Additions	7.0	23.1	22.7	52.4	105.2
Disposals	10.1	21.0	19.6	3.4	54.1
Reclassifications	16.5	26.9	3.9	–49.4	–2.1
Acquisition cost as of Dec. 31, 2008/Jan. 1, 2009	502.7	696.8	411.4	66.2	1,677.1
Currency translation	–1.9	–1.6	0.5	–0.2	–3.2
Changes in companies consolidated	0.1	1.1	0.2	–	1.4
Additions	10.7	27.6	18.7	30.7	87.7
Disposals	1.3	18.8	16.2	1.0	37.3
Reclassifications	9.6	15.7	8.0	–36.6	–3.3
Acquisition cost as of Dec. 31, 2009	519.9	720.8	422.6	59.1	1,722.4
Accumulated depreciation and impairment as of Jan. 1, 2008	205.7	464.7	292.7	27.8	990.9
Currency translation	2.3	1.3	0.4	–	4.0
Changes in companies consolidated	0.9	4.5	0.3	–	5.7
Additions to depreciation	12.5	33.0	21.7	–	67.2
Additions to impairment losses	–	–	–	0.3	0.3
Disposals	5.2	19.8	17.5	2.7	45.2
Reclassifications	–	0.2	–	–	0.2
Additions	–	0.4	0.2	–	0.6
Accumulated depreciation and impairment as of Dec. 31, 2008/Jan. 1, 2009	216.2	483.5	297.4	25.4	1,022.5
Currency translation	–0.7	–0.8	0.3	–0.1	–1.3
Additions to depreciation	13.6	39.1	23.5	–	76.2
Additions to impairment losses	1.7	6.8	2.3	0.8	11.6
Disposals	1.2	15.7	14.6	–	31.5
Reclassifications	–0.5	–0.8	0.9	–	–0.4
Additions	–	17.2	9.9	–	27.1
Accumulated depreciation and impairment as of Dec. 31, 2009	229.1	494.9	299.9	26.1	1,050.0
Net carrying amounts as of Dec. 31, 2009	290.8	225.9	122.7	33.0	672.4
Net carrying amounts as of Dec. 31, 2008	286.5	213.3	114.0	40.8	654.6

In financial year 2009, impairment losses of property, plant, and equipment of €11.6 million (previous year: €0.3 million) were performed. €5.6 million of this was performed for the W. C. Heraeus business segment, €5.4 million for the Heraeus Quarzglas business segment, and €0.6 million for the Heraeus Noblelight business segment.

Due to anticipated positive earnings development in the Fiber Optic Division in the Heraeus Quarzglas business segment over the next few years, reversals of impairment losses performed in previous years totaling €27.1 million were necessary.

The discounted cash flow method (DCF method) is used to determine the value in use of the division based on the anticipated free cash flows. A total planning period of ten years is used. The data for the first three years is obtained from the current mid-term planning. General assumptions concerning additional price and cost developments in the fiber optic market are used for the subsequent years. The weighted average costs of capital (WACC) of the division plus a risk premium after tax are used as the discount rate (8.36%, previous year: 8.77%).

Assets from finance lease agreements were capitalized as property, plant, and equipment. They are broken down as follows:

IN € MILLION	DEC. 31, 2009	DEC. 31, 2008
Buildings	9.3	9.6
Technical equipment and machinery	0.6	0.8
Other equipment, furniture, and fixtures	0.8	0.6
Leased assets	10.7	11.0

The most significant finance lease agreements concern the lease of office and production buildings and warehouses at the locations in Belgium, Poland, and the USA. The agreements have basic terms of five to 16 years. In addition to the customary price adjustment clauses, extension and purchase options are set down in the agreements.

(7) Financial assets

	Investments at equity	Other interests	Other services	Non-current assets	Total
IN € MILLION					
Acquisition cost as of Jan. 1, 2008	81.0	10.4	3.2	–	94.6
Currency translation	19.8	–	–0.1	–	19.7
Changes in companies consolidated	–4.3	–0.2	–	0.1	–4.4
Additions	12.2	0.7	1.6	–	14.5
Disposals	0.4	0.5	1.3	–	2.2
Acquisition cost as of Dec. 31, 2008/Jan. 1, 2009	108.3	10.4	3.4	0.1	122.2
Currency translation	–3.9	–	–	–	–3.9
Changes in companies consolidated	4.0	–	–	–	4.0
Additions	3.2	–	0.1	–	3.3
Disposals	7.9	5.5	1.7	–	15.1
Acquisition cost as of Dec. 31, 2009	103.7	4.9	1.8	0.1	110.5
Accumulated impairment and write-ups as of Jan. 1, 2008	0.5	3.7	–	–	4.2
Currency translation	–	–	0.1	–	0.1
Additions	1.5	0.3	0.6	–	2.4
Disposals	0.4	0.2	–	–	0.6
Accumulated impairment and write-ups as of Dec. 31, 2008/Jan. 1, 2009	1.6	3.8	0.7	–	6.1
Additions	–	1.4	–	–	1.4
Disposals	0.3	2.5	0.7	–	3.5
Accumulated impairment and write-ups as of Dec. 31, 2009	1.3	2.7	–	–	4.0
Net carrying amounts as of Dec. 31, 2009	102.4	2.2	1.8	0.1	106.5
Net carrying amounts as of Dec. 31, 2008	106.7	6.6	2.7	0.1	116.1

(8) Promissory notes

The promissory notes are broken down as follows:

IN € MILLION	Due within one year	Due in more than one year	Total	Due within one year	Due in more than one year	Total
	DEC. 31, 2009			DEC. 31, 2008		
Effective interest rate						
5.31% – fixed interest	–	99.8	99.8	–	99.7	99.7
5.07% – fixed interest	–	99.8	99.8	–	99.8	99.8
5.01% – fixed interest (previous year 5.06%)	–	50.0	50.0	–	50.0	50.0
4.99% – fixed interest (previous year 4.99%)	50.0	–	50.0	–	50.0	50.0
Total promissory notes	50.0	249.6	299.6	–	299.5	299.5

The promissory notes amounting to €299.6 million (previous year: €299.5 million) have initial terms of between five and seven years and pay fixed interest. The two promissory notes, each with a nominal amount of €100.0 million, were recognized at issuing prices of 99.7% and 99.75%, respectively. The discounts are written up over the life of the bonds using the effective interest method.

(9) Trade payables

Trade payables are short-term in nature and break down in detail as follows:

IN € MILLION	DEC. 31, 2009	DEC. 31, 2008
Accounts payable trade	160.6	122.4
Notes payable	3.6	8.3
Advance payments received	13.2	26.8
Accounts payable trade	177.4	157.5

The fair value corresponds approximately to the carrying amount.

(10) Liabilities due to banks

The effective interest rate for amounts owed to banks during the year under review was between 4.18% and 5.15% (previous year: 3.26% and 5.34%).

(11) Tax liabilities and other liabilities

The tax liabilities and other liabilities are composed of the following items:

IN € MILLION	Due within one year	Due in more than one year	Total	Due within one year	Due in more than one year	Total
	DEC. 31, 2009			DEC. 31, 2008		
Tax liabilities	34.1	–	34.1	47.5	–	47.5
Liabilities due to associates and other interests	0.7	–	0.7	0.1	–	0.1
Liabilities for personnel costs	24.2	4.7	28.9	26.2	5.3	31.5
Liabilities from finance lease agreements	3.1	6.6	9.7	3.3	7.0	10.3
Negative fair value derivatives	21.1	3.4	24.5	40.9	15.9	56.8
Miscellaneous liabilities	54.7	12.5	67.2	68.2	11.9	80.1
Other liabilities	103.8	27.2	131.0	138.7	40.1	178.8

Liabilities for personnel costs include social security payments of €3.8 million (previous year: €3.9 million).

The reconciliation between the total of future minimum lease payments and their present value is as follows:

IN € MILLION	Future minimum lease payments	Discount	Liabilities from finance lease agreements	Future minimum lease payments	Discount	Liabilities from finance lease agreements
	DEC. 31, 2009			DEC. 31, 2008		
Due within one year	3.5	0.4	3.1	4.1	0.8	3.3
Due in one to five years	3.9	1.2	2.7	4.0	1.1	2.9
Due in more than five years	4.4	0.5	3.9	4.6	0.5	4.1
Total	11.8	2.1	9.7	12.7	2.4	10.3

(12) Provisions

Provisions developed as follows during the current financial year:

IN € MILLION	JAN. 1, 2009	Currency translation	Addition	Interest expenses	Utilization	Reversal	Reclassification	DEC. 31, 2009
Current provisions								
for personnel costs	34.4	-0.1	30.7	-	27.6	4.5	-	32.9
for litigation, including legal cost	10.7	0.1	1.4	-	3.2	2.2	-0.5	6.3
for anticipated losses from uncompleted purchase contracts	3.2	-	0.4	-	3.0	1.0	2.2	1.8
for others	19.3	-0.3	21.9	-	13.0	2.2	-	25.7
Current provisions	67.6	-0.3	54.4	-	46.8	9.9	1.7	66.7
Other non-current provisions								
for personnel costs	26.3	-	2.5	1.2	2.7	1.4	-	25.9
for anticipated losses from uncompleted purchase contracts	2.2	-	0.1	-	-	-	-2.2	0.1
for others	27.7	-	3.2	1.0	0.1	0.1	0.5	32.2
Other non-current provisions	56.2	-	5.8	2.2	2.8	1.5	-1.7	58.2

The current provisions for personnel costs of €32.9 million (previous year: €34.4 million) include bonus payments, performance-dependent compensation, and other workforce claims.

The non-current provisions for personnel costs of €25.9 million (previous year: €26.3 million) refer primarily to partial retirement and anniversary payments. Plan assets for the securing of the partial retirement credit in the amount of €9.3 million (previous year: €9.1 million) offset the provisions for partial retirement.

(13) Provisions for pensions and similar obligations

The pension provisions for the defined benefit obligations are determined according to IAS 19 using the projected unit credit method. Future obligations are measured based on the pro rata acquired benefit entitlements as of the reporting date. Trend assumptions for the relevant factors that have an impact on the benefit level are considered in measurement.

The pension commitments for the domestic companies are generally based on the biometric accounting principles of the new mortality tables "Richtafeln 2005 G" published by Prof. Dr. Klaus Heubeck. In addition, the measurement was based on the following actuarial assumptions:

	2009	2008
Discount rate	5.25%	5.40%
Salary trend	3.5% annually	3.5% annually
Pension adjustment	1.5% annually	1.5% annually
Anticipated plan asset earnings	5.0% annually	5.0% annually

The discount rate was calculated on the basis of the specifications set forth in IAS 19.78 to 19.82. Distortions arising from the determination of market interest rates were adjusted due to the current market situation.

The anticipated return on plan assets is an average value that is determined by weighting each anticipated asset against its corresponding current value. In the case of the foreign companies, this determination was based on actuarial assumptions that are typical for those countries and that may deviate slightly from the percentages given above.

Provisions for pensions and similar obligations cover the pension commitments of the domestic and foreign companies and the commitments of a subsidiary in the USA for health care benefits of retirees. A discount rate of 5.25% (previous year: 6.50%) was used as a basis for this provision. The future increase in costs for health care was taken into account with an annual rate of 10.0% (previous year: 10.0%) for the coming financial year and rates of increase dropping gradually to 5.5% for subsequent financial years.

The provisions for pensions and similar obligations developed as follows in the current financial year:

IN € MILLION	2009	2008
Defined benefit obligations of domestic companies as of Jan. 1	260.1	260.3
Current service costs	4.9	5.3
Actuarial losses/gains	5.7	-12.0
Interest expenses	13.8	12.8
Cash receipts from employees	3.7	4.2
Cash payments for pensions	-13.8	-10.5
Other changes	0.4	-
Defined benefit obligations of domestic companies as of Dec. 31	274.8	260.1
Fair value of plan assets as of Dec. 31	-50.7	-43.5
Provisions for pensions and similar obligations for domestic companies as of Dec. 31	224.1	216.6

IN € MILLION	2009	2008
Provisions for pensions and similar obligations for domestic companies as of Dec. 31	224.1	216.6
Provisions for pensions and similar obligations for foreign companies as of Dec. 31	29.6	27.5
Provisions for pensions and similar obligations as of Dec. 31	253.7	244.1

The defined benefit obligations for the domestic companies of €274.8 million (previous year: €260.1 million) reported as of the closing date are partly financed by funds. The present value of the defined benefit obligations for the domestic companies, broken down by type of coverage and by financing status for the past five years, comprises the following:

IN € MILLION	2009	2008	2007	2006	2005
Present value of the defined benefit obligations financed by funds	60.0	53.5	46.5	52.9	42.8
Present value of the defined benefit obligations not financed by funds	214.8	206.6	213.8	225.0	218.0
Present value of the defined benefit obligations as of Dec. 31	274.8	260.1	260.3	277.9	260.8
Fair value of plan assets as of Dec. 31	-50.7	-43.5	-38.8	-41.3	-39.1
Financing status of domestic companies as of Dec. 31	224.1	216.6	221.5	236.6	221.7

The fair value of the plan assets of the domestic companies changed as follows in the year under review:

IN € MILLION	2009	2008
Fair value of plan assets of domestic companies as of Jan. 1	43.5	38.8
Income from plan assets	2.3	2.0
Actuarial losses	-0.4	-2.9
Amounts paid in – employer	5.4	5.8
Amounts paid out for pensions	-0.1	-0.2
Fair value of plan assets of domestic companies as of Dec. 31	50.7	43.5

The plan assets for the domestic companies are invested in the following financial assets:

IN € MILLION	2009	2008
Bonds	37.7	35.4
Stocks	6.7	1.3
Money market instruments and bank balances	6.3	6.8
Fair value of plan assets as of Dec. 31	50.7	43.5

The other provisions for pensions and similar obligations for foreign companies are also partly financed by funds. A detailed listing has been omitted due to immateriality.

The expenses with regard to pensions and similar obligations recognized in the income statement break down as follows:

IN € MILLION	2009	2008
Current service costs	4.9	5.3
Interest expenses on the obligations	13.8	12.8
Expected income from plan assets	-2.3	-2.0
Pension expenses of domestic companies	16.4	16.1
Current service costs	1.6	1.7
Other pension expenses	0.4	1.3
Interest expenses on the obligations	2.1	2.1
Expected income from plan assets	-1.1	-1.3
Pension expenses of foreign companies	3.0	3.8
Total pension expenses	19.4	19.9

Of the total expenses for pensions and similar obligations, €6.9 million (previous year: €8.3 million) are recognized in personnel expenses. The remaining interest expenses of €15.9 million (previous year: €14.9 million), as well as the income from the plan assets of €3.4 million (previous year: €3.3 million), are shown separately in the item "interest on pension provisions." Employer contributions of €22.3 million (previous year: €21.8 million) were paid to the statutory pension insurance in Germany.

The conversion of the pension plan at a foreign subsidiary to a defined contribution plan resulted in the realization of earnings of €1.4 million.

In addition to the defined benefit pension systems, obligations from defined contribution plans also exist. They are recognized in personnel expenses and relate primarily to foreign companies.

(14) Shareholders' equity

The retained earnings include those profits made by Heraeus Holding GmbH and the subsidiaries included in the consolidated financial statements that have not been distributed. In addition, the item includes the results of the at equity valuation of associated companies, as well as the consolidation measures that affect net income.

The other comprehensive income primarily includes the difference from currency translation, valuation gains and losses from available-for-sale financial assets, as well as valuation gains and losses from cash flow hedges, deferred taxes on items directly taken to or transferred from equity, and actuarial gains and losses from pension provisions. The gains and losses recorded in the cash flow hedge reserve are transferred to profit and loss when the corresponding gains and losses from the hedged item are recognized in the income statement.

The shares of minority interests in the equity of consolidated companies are recognized under minority interests.

The first-time valuation of two associates in accordance with the equity method resulted in an increase in equity €4.0 million not recognized in the results.

For the 2009 financial year, a dividend of €28,560,000 was suggested by the Board of Management of Heraeus Holding GmbH.

Capital management information

The aims of capital management are based on the corporate guidelines for financial management of the Heraeus Group.

They include hedging and management of cash flow at all times, guaranteeing constant access to money, credit, and capital markets and a solid equity position.

Measures to achieve these objectives are the optimization of the capital structure, changes to distributions, and the reduction of debt over recent years.

In addition to a high equity ratio, Heraeus uses the financing possibilities of the money and capital markets, such as a commercial paper program or bond issue, which are supported by contractually agreed long-term credit facilities with banks with first-class ratings from various sectors.

Financial market risk is controlled using the following established parameters:

- interest coverage factor,
- operating debt coverage, and
- equity ratio.

Because of the international nature of the transactions, statutory and regulatory requirements that vary from region to region must be observed. The status of and changes to these requirements are monitored locally and centrally, and changes are taken into account in the course of capital management.

IN € MILLION	2009	2008	CHANGE (%)
Shareholders' equity	1,684.3	1,586.3	6.2
as% of total capital	80.5 %	79.0 %	–
Short-term financial debt	155.7	100.3	–
Long-term financial debt	253.2	320.9	–
Financial debt	408.9	421.2	–2.9
as% of total capital	19.5 %	21.0 %	–
Total capital (equity plus financial debt)	2,093.2	2,007.5	4.3

For the purposes of evaluation of the financial profile, both credit ratings make a contribution. These are generated on an annual basis by the ratings agencies Moody's Investor Service and Standard & Poor's. A credit rating evaluates and classifies the creditworthiness of the issuer and its ability to meet payment obligations due in connection with certain financial securities in full and on time. A rating is generated based on criteria such as capital structure, profitability, cash flow generation, diversification, and competitive positioning.

The following table shows the current assessment of credit quality by both agencies:

	Moody's Investor Service	Standard & Poor's
Long-term financial debt	Baa1	BBB+
Short-term financial debt	–	A-2

Heraeus published a credit rating from Moody's for the first time in financial year 2007. The rating "Baa1" from Moody's is at the top of category B and is therefore just a step below category A. The rating outlook from Moody's is an estimate with regard to the probable medium-term development of the issuer's credit rating. The categories are "positive," "stable," and "negative." Moody's evaluated Heraeus' outlook as "stable." No evaluation was requested from Moody's for short-term credit quality.

Following an upgrade, Standard & Poor's gives the long-term credit quality of Heraeus a "BBB+" rating based on expected future financial strength and continued improvement in business development. This classification corresponds to the highest credit quality in category B. Standard & Poor's rating outlook also refers to the evaluation of the probable medium-term development of the issuer; the outlook was rated as "stable."

Standard & Poor's rates Heraeus' short-term credit quality as "A-2." This is the third-highest rating within the Standard & Poor's system of short-term corporate credit ratings.

NOTES TO THE CONSOLIDATED INCOME STATEMENT

(15) Revenue

Revenue attributable to the individual business segments is as follows:

IN € MILLION	2009	2008
Precious metals	1,666.8	1,881.3
Sensors	294.5	377.3
Dental products	288.8	290.4
Biomaterials and medical products	59.9	56.2
Quartz glass	199.0	213.0
Specialty light sources	71.6	92.5
Others	5.6	8.8
Product revenue	2,586.2	2,919.5
Precious metal trading revenue	13,633.9	12,994.0
Revenue	16,220.1	15,913.5

The revenue broken down by region totals:

IN € MILLION	2009	2008
Germany	400.1	531.6
Europe excluding Germany	460.6	658.9
The Americas	427.9	510.5
Asia	1,223.5	1,147.8
Others	74.1	70.7
Product revenue	2,586.2	2,919.5
Precious metal trading revenue	13,633.9	12,994.0
Revenue	16,220.1	15,913.5

Precious metal trading revenue is generated primarily with customers at key international precious metal trading centers. Because of these business processes, a breakdown of precious metal trading revenue by region is neither purposive nor indicative.

(16) Personnel expenses

The following expense types are included in personnel expenses:

IN € MILLION	2009	2008
Wages and salaries	468.0	465.1
Expenses for social security and other benefits	71.1	70.4
Pension expenses	14.8	11.5
Personnel expenses	553.9	547.0

The average number of employees breaks down as follows:

	2009	2008
Precious metals	4,795	4,631
Sensors	3,121	3,445
Dental products	1,479	1,467
Biomaterials and medical products	174	170
Quartz glass	1,490	1,635
Specialty lighting sources	717	715
Others	564	526
Total	12,340	12,589

Remuneration paid to management for 2009 came to €1.7 million (previous year: €2.7 million), thereof performance-dependent €1.0 million (previous year: €1.8 million). Compensation paid to members of the Supervisory Board for 2009 came to €0.5 million (previous year: €0.5 million). The total remuneration of the shareholder committee totaled €0.1 million (previous year: €0.1 million). In the financial year 2009, former members of management or their surviving dependents received €1.4 million (previous year: €1.3 million). At the balance sheet date, provisions totaling €11.7 million (previous year: €14.2 million) had been formed for current pensions and vested entitlements to pensions payable to these persons.

(17) Other operating income

Other operating income comprises the following:

IN € MILLION	2009	2008
Exchange gains	32.7	42.9
Additions	27.1	0.6
Income from the reversal of provisions	9.2	24.0
Income from the reversal of allowances	2.4	1.3
Miscellaneous operating income	28.2	46.1
Other operating income	99.6	114.9

Of the other operating income, €40.2 million (previous year: €30.0 million) is attributed to earlier financial years.

The exchange gains include the effects from the measurement of monetary items as of the closing or transaction date. The corresponding exchange losses are shown in other operating expenses.

(18) Other operating expenses

Other operating expenses comprise the following:

IN € MILLION	2009	2008
External services	46.1	61.3
Advertising and representation expenses	44.4	53.3
Repair and maintenance	36.2	50.9
Exchange losses	36.1	46.4
Freight out	24.1	28.2
Expenses from operating leases	21.2	15.6
Legal and advisory fees	13.2	13.4
Office supplies and communications	13.1	15.5
Commissions	10.1	13.2
Insurances	8.9	8.7
Miscellaneous operating expenses	25.2	41.6
Other operating expenses	278.6	348.1

Exchange losses include the effects from the measurement of monetary items as of the closing or transaction date. The corresponding exchange gains are shown in other operating income.

(19) Income from investments accounted for using the equity method

The result from the investments at equity breaks down as follows:

IN € MILLION	2009	2008
Pro rata share of net income from investments at equity	-2.1	15.3
Investment income from other associated companies	0.3	0.3
Other investment income	-	0.2
Income from investments accounted for using the equity method	-1.8	15.8

(20) Financial result

The financial result includes the following income and expenses:

IN € MILLION	2009	2008
Other interest and similar income	13.9	32.8
Interest and similar expenses	-26.7	-41.7
Gains from other securities and loans	0.5	0.3
Interest result	-12.3	-8.6
Gains/losses from the disposal of securities	1.2	-2.6
Unrealized gains/losses from the valuation of derivative financial instruments	12.0	-5.3
Write-downs and write-ups of financial assets and securities	1.2	-5.0
Losses from the disposal of shares in and loans to affiliates	-3.5	-
Write-downs on shares in affiliates and other investments	-1.4	-1.8
Miscellaneous financial gains and losses	-0.1	0.9
Other financial result	9.4	-13.8
Financial result	-2.9	-22.4

(21) Income taxes

Income taxes break down as follows:

IN € MILLION	2009	2008
Current taxes, domestic	16.6	29.8
Current taxes, foreign	1.5	53.7
Current taxes	18.1	83.5
of which from prior periods	2.8	4.2
Deferred taxes	19.4	-11.3
Income taxes	37.5	72.2

Deferred taxes are based on the local tax rates of the respective company in Germany and abroad, the tax rates being applicable in the individual countries according to the current legal status.

For the calculation of deferred and current taxes in Germany, the corporate income tax rate totals 15.8% (previous year: 15.8%) including the solidarity surcharge, and, depending on the local levy, municipal trade tax is between 11.2% and 16.3% (trade tax for the previous year: 11.2% to 15.7%). For the consolidated German companies, tax rates of between 27.0% and 32.1% are applicable (previous year: 27.0% to 31.5%).

Outside Germany, tax rates range from 5.0% to 42.0% (previous year: 5.0% to 40.7%).

At €37.5 million, the total tax expenses for the 2009 financial year were €34.7 million less than the previous year.

Expected tax expenses are reconciled to current tax expenses as follows:

IN € MILLION	2009	2008
Income before taxes	155.7	240.7
Expected income tax expenses (tax rate: 30.2%; previous year: 30.2%)	47.0	72.7
Differences:		
Difference between local tax rate and Group tax rate	-13.3	-4.2
Change in tax rate	-0.6	1.0
Allowances	1.9	-0.3
Tax-exempt income	-5.5	-7.0
Non-deductible operating expenses	4.2	5.7
Income taxes for previous years	3.3	3.6
Other	0.5	0.7
Recognized income tax expenses	37.5	72.2
Effective tax rate (%)	24.1	30.0

The following deferred tax assets and liabilities are attributed to recognition and measurement differences in the individual balance sheet items and tax loss carryforwards.

IN € MILLION	DEFERRED TAX ASSETS		DEFERRED TAX LIABILITIES	
	Dec. 31, 2009	Dec. 31, 2008	Dec. 31, 2009	Dec. 31, 2008
Other current assets	4.9	4.2	34.7	47.5
Inventories	10.9	12.6	32.8	17.6
Intangible assets	1.8	2.4	7.1	8.8
Property, plant, and equipment	1.2	1.1	66.3	59.2
Financial assets	10.1	6.7	4.7	3.4
Liabilities	33.6	57.8	4.3	4.4
Other provisions	11.5	16.3	5.4	4.9
Pension provisions	11.4	10.3	1.1	1.3
Tax loss carryforwards	9.1	0.2	-	-
Subtotal	94.5	111.6	156.4	147.1
Netting	-41.8	-49.9	-41.8	-49.9
Recognized deferred taxes	52.7	61.7	114.6	97.2

The tax loss carryforwards as of December 31, 2009 totaled €204.0 million (previous year: €61.0 million). Of that amount, €65.3 million (previous year: €1.1 million) are included in deferred tax assets. In the case of tax loss carryforwards of €132.5 million, the use of the loss carryforwards is limited in time to the next 20 years; €12.6 million of which is limited to the next three years. In the case of tax loss carryforwards totaling €71.5 million, no expiry is legally provided for.

In the case of tax loss carryforwards of €138.7 million (previous year: €59.9 million), no future use is expected. Therefore, deferred tax assets of €12.3 million (previous year: €7.9 million) are not recognized. No deferred tax liabilities were created for temporary differences in interests in affiliated companies because no reversal of these differences can be foreseen. As a result of the positive earnings outlook, a deferred tax claim to loss carryforwards totaling €7.7 million (of which €2.4 million was not applied in the previous year) was created for consolidated companies which have incurred losses during the year under review or the year before.

Consistent with IAS 12, deferred tax assets and liabilities are offset if they relate to the same taxation authority and if a legally enforceable right to offset exists.

(22) Minority interests

The shares of profits or losses attributable to other shareholders are reported in minority interests. In 2009, these profits amounted to €2.8 million (previous year: €2.3 million) and the losses were €1.2 million (previous year: €0.3 million).

NOTES TO THE CASH FLOW STATEMENT

The consolidated cash flow statement shows the cash flows classified according to cash flows from operating activities, investing activities, and financing activities.

(23) Cash flow from operating activities

Originating from the net income for the year, the cash flow from operating activities is derived indirectly and is consequently adjusted for non-cash income and expenses.

The cash flow from operating activities includes interest income and dividends received in the amount of €17.0 million (previous year: €33.9 million) and interest expenses of €26.5 million (previous year: €39.7 million). Income tax payments in the financial year amounted to €12.2 million (previous year: €93.6 million).

The “Amortization, depreciation, and impairment” item includes reversals of impairment losses of €27.1 million (for further details, see item (6) in the notes to the consolidated balance sheet).

Other non-cash expenses and income essentially include changes in deferred taxes of €19.4 million (previous year: €11.3 million) as well as changes on the basis of associated companies that are valued in accordance with the equity method totaling €4.4 million (previous year: €12.1 million).

(24) Cash flow from investing activities

For acquisitions a total of €12.0 million (previous year: €133.5 million) was utilized, financed by the Group’s cash and cash equivalents.

(25) Cash flow from financing activities

The cash flow from financing activities was significantly impacted by the distribution of €35.3 million (previous year: €35.7 million) to the shareholders of Heraeus Holding GmbH and €2.0 million (previous year: €2.7 million) to other minority interests.

The “Changes in interest-bearing liabilities” item contains cash outflows for the repayment of loans (€60.8 million; previous year: €195.6 million) and cash inflows from the assumption of new loans (€50.6 million; previous year: €230.2 million).

(26) Cash and cash equivalents

Cash and cash equivalents at the end of the period exclusively include cash on hand, bank balances, and other cash in the amount of €380.3 million (previous year: €507.2 million).

(27) Free cash flow

Free cash flow includes all cash flows from operating activities as well as investing activities performed in connection with operating business. Not included in free cash flow are pure financial investments and similar monetary deposits of more than three months, which are also to be reported as cash flows from investing activities under IFRS.

FINANCIAL RISK MANAGEMENT AND HEDGE ACCOUNTING

In connection with its operating activities and in financing, the Heraeus Group is particularly exposed to interest rate, currency, price, and liquidity risks. Both the Group’s risk management system and its financial management system are responsible for measuring, controlling, and monitoring these risks.

Corporate Treasury is responsible for limiting the risks explained in greater detail below by entering into hedging transactions, if appropriate. The use of these hedging transactions is subject to clear, Group-wide guidelines, the content of which is constantly monitored and adapted as needed.

Interest rate risk

An interest rate risk is present when interest rate changes have a negative impact on the assets and earnings position of the Heraeus Group. The priority is primarily on avoidance of interest rate risks; however, advantage is also taken of the income potentials of interest rate changes. The long-term financing of the Group rests primarily on the issue of promissory notes. Interest derivatives derived from the underlying transactions are used to support interest rate management. When using derivatives, customary instruments are used. These include interest rate swaps and, to a lesser degree, forward rate agreements, as well as interest options for the stipulation of upper and lower interest limits (caps, floors, collars).

Interest rate swaps come under the framework of hedge accounting.

As a result of the fact that Heraeus concludes interest-bearing instruments in euros, there is no significant risk from the interest rate development of other currencies.

Currency risk

Due to its international orientation, the Heraeus Group is exposed to a currency risk resulting from the exchange rate fluctuations of various foreign currencies. In this case as well, the avoidance of risks has priority over the taking advantage of opportunities resulting from exchange rate fluctuation. The goal is hedging based on an observation period of up to twelve months. Each hedge refers to existing or clearly expected underlying transactions.

Derivative financial instruments derived from the underlying transactions are used to support currency management. In addition to spot deals, primarily foreign exchange forward contracts, currency swaps, and – to a lesser degree – currency options, as well as non-deliverable forwards (NDF), are used.

Foreign exchange forward contracts primarily serve to hedge clearly expected operating cash flows from delivery transactions. Currency swaps are primarily concluded in connection with intercompany loans in foreign currency.

Other price risks

Typical hedging instruments are used to hedge price risks to which the Heraeus Group is exposed primarily due to its precious metal trading. These instruments include precious metal leases, cash and carry transactions, forwards, and futures.

Price risks within the meaning of IFRS 7 are exclusively incurred through risks from financial instruments, which have an influence on payment flows or market valuations.

As a result of the fact that the majority of the transactions that Heraeus performs within precious metal trading do not fall under the scope of IAS 39, because of physical delivery or crediting to pool accounts, "own use exemption", the transactions are not a component of the risk reporting required by IFRS 7.

The resulting price risks from equities are secured by means of derivatives (futures).

Default risk

The default risk arising from financial assets consists of the risk of default by a contracting party and is therefore limited maximally to the positive fair values in relation to the particular contracting parties (see table under "Further disclosures on financial instruments – balance sheet information"). In the case of derivative financial instruments, the risk relates to their replacement costs (market values), which can be found in the table showing the values of derivative financial instruments.

The creation of specific or flat-rate-specific allowances for debt defaults takes into account risk arising from non-derivative financial instruments. Financial transactions are only entered into with partners of unquestioned standing. Investments in interest-bearing securities are only made in those having investment-grade standing.

There are no significant concentrations in the Heraeus Group with regard to possible default risks.

Liquidity risk

Adequate liquidity is guaranteed due to the Heraeus Group's good credit standing, which has been confirmed by two independent rating agencies (see (14) Shareholders' equity – Capital management information). This means that access to the short-term commercial paper market, as well as the long-term capital market, is ensured at any time. In addition, credit lines with various banks ensure an adequate supply of liquid funds.

The majority of trade payables, liabilities due to derivative financial instruments, as well as the other financial liabilities have a duration of less than one year.

Value-at-risk

In 1995, the management decided to measure significant market price risks resulting from financial instruments in accordance with the value-at-risk method (VaR) and to have a report on these risks created on a monthly basis within the treasury report. Value-at-risk figures are calculated on the basis of a historical simulation. The 100 business days preceding the closing date are used as the basis of calculation.

The calculation of value-at-risk takes into account exchange rate risks resulting from financial instruments within the meaning of IFRS 7 only if financial instruments were concluded in a different currency from the functional currency of the reporting unit in question. Currency risks that result from the conversion of the individual financial statements of the subsidiaries into the Group reporting currency, known as "translation risks," are not taken into consideration for this purpose.

Portfolios	Value-at-risk	Value-at-risk
IN € MILLION	AS OF DEC. 31, 2009	AS OF DEC. 31, 2008
Currency and interest rate risk	11.5	14.2
Securities risk	3.9	1.4

The value-at-risk represents the loss that will not be exceeded with a holding period of ten days with a 99% probability.

Cash flow hedges – foreign currency revenues

Until 2008, Heraeus applied hedge accounting as part of the securing of currency risks from highly probable future revenues mainly in USD, JPY, and GBP. In 2009, there was a change in the accounting regulations applied – hedge accounting is no longer used for this type of securing of currency risks. The changes in value were therefore recorded directly in the income statement. Forward exchange transactions with maturities in the month in which the cash inflow from the revenues is expected are used as hedging transactions with maturities in the month. The fair values of the forward exchange transactions can be seen in the table relating to the values of derivative financial instruments. The following table shows the periods of time in which the corresponding foreign currency payments are expected to be received and which were represented by means of cash flow hedge accounting.

Maturity 2009

CURRENCY UNITS	QUARTER 1	QUARTER 2	QUARTER 3	QUARTER 4	TOTAL
USD million	120.1	77.5	76.5	57.1	331.2
JPY million	500.4	470.3	422.7	581.1	1,974.5
GBP million	1.3	1.3	1.3	1.8	5.7

The effectiveness of the hedging relationships was measured as of December 31, 2008 in accordance with the cumulative dollar offset method on the basis of forward prices. The effective portion of the changes in value of the forward exchange transactions resulting from the spot price was taken to equity and transferred to profit and loss only when the corresponding gains and losses from the hedged item were recognized in the income statement in 2009. As a result of the fact that the payment targets were short term, the reclassification in the income statement and the recording of cash flow was generally performed in the same quarter. Until the time when payment was received, further value adjustments to the derivative were recorded directly in the income statement, where they balanced out the effect on income from the valuation of the receivable as on the closing date as far as possible.

Fair value hedges – loans denominated in foreign currencies

Heraeus uses hedge accounting as part of the securing of currency risks from intercompany loans in USD, JPY, SGD, GBP, ZAR, AUD, SEK, and CHF. Forward exchange transactions with maturities in the repayment month are used as hedging transactions. The fair values of the forward exchange transactions can be seen in the table relating to the values of derivative financial instruments. The effectiveness of the hedging relationships is measured in accordance with the cumulative dollar offset method. The income resulting from the currency translation of intercompany loans in foreign currencies totaled €8.7 million (previous year: €7.8 million) and was recorded in the financial result. The change in value of forward exchange transactions totaled €18.5 million in income (previous year: €11.2 million in expenses), which was also recognized in the financial result.

Net investment hedge – translation risk

In the course of a corporate acquisition in 2008, translation risk was hedged by means of forward exchange transactions.

The effectiveness of the hedging relationships is measured in accordance with the cumulative dollar offset method on the basis of forward prices. The effective portion of the changes in value of the forward exchange transactions in the amount of €0.1 million (previous year: €2.4 million) is shown directly in equity taking into account deferred taxes and is only transferred to profit and loss during deconsolidation when the foreign company is sold.

Values of derivative financial instruments

As of the closing date, the fair values of the derivative financial instruments are as follows:

IN € MILLION	TRANSACTION VOLUME		POSITIVE FAIR VALUE		NEGATIVE FAIR VALUE	
	2009	2008	2009	2008	2009	2008
Foreign exchange forward contracts	718.4	1,028.0	28.5	20.6	11.7	32.3
– without a hedging relationship	310.9	324.3	6.6	8.6	5.6	7.1
– in connection with fair value hedges	407.5	416.6	20.6	9.8	4.8	11.7
– in connection with cash flow hedges	–	266.6	1.3	2.2	1.3	11.1
– in connection with net investment hedges	–	20.5	–	–	–	2.4
Foreign exchange options	68.8	–	1.3	–	–	–
Other derivative financial instruments	155.4	125.3	13.2	15.5	12.8	24.5
– without a hedging relationship	155.4	102.8	13.2	15.5	12.8	14.7
– in connection with cash flow hedges	–	22.5	–	–	–	9.8
Total derivative financial instruments	942.6	1,153.3	43.0	36.1	24.5	56.8

Depending on the market value on the closing date, derivative financial instruments are classified as miscellaneous receivables and other assets (if the fair value is positive) or as other liabilities (if the fair value is negative). The discounted cash flow method is used in determining the fair values of foreign exchange forward contracts.

Further disclosures on financial instruments

The carrying amount of the financial instruments by valuation category and the fair value of the individual classes of financial instruments are provided in the following table.

Cash margins totaling €4.0 million (previous year: €20.2 million) have been paid to margin accounts pledged as security. The pledge will end in each case at the maturity of the transaction underlying the pledge.

	Carrying amount	Valuation category* and valuation base in accordance with IAS 39					
		FAHFT	AfS	LaR	HtM	FLAC	FLHFT
		Fair value	Fair value	Amortized acquisition costs	Amortized acquisition costs	Amortized acquisition costs	Fair value
IN € MILLION	DEC. 31, 2009						
FINANCIAL ASSETS							
Cash and cash equivalents	380.3	–	–	380.3	–	–	–
Securities	268.3	2.9	265.4	–	–	–	–
Trade receivables	459.5	–	–	459.5	–	–	–
Miscellaneous receivables and other assets							
Derivatives with positive fair values – without a hedging relationship	21.1	21.1	–	–	–	–	–
Derivatives with positive fair values – with a hedging relationship	21.9	21.9	–	–	–	–	–
Other financial assets – current	31.6	–	–	31.6	–	–	–
Financial assets – non-current							
Investments	1.7	–	1.7	–	–	–	–
Loans	1.8	–	–	1.8	–	–	–
FINANCIAL LIABILITIES							
Trade payables	164.2	–	–	–	–	164.2	–
Liabilities due to banks	109.3	–	–	–	–	109.3	–
Promissory notes	299.6	–	–	–	–	299.6	–
Other financial liabilities:							
Derivatives with negative fair values – without a hedging relationship	18.4	–	–	–	–	–	18.4
Derivatives with negative fair values – with a hedging relationship	6.1	–	–	–	–	–	6.1
Liabilities due to finance lease contracts	9.7	–	–	–	–	–	–
Other financial liabilities – interest-bearing	–	–	–	–	–	–	–
Other financial liabilities – non-interest-bearing	15.5	–	–	–	–	15.5	–
		45.9	267.1	873.2	–	588.6	24.5

* Valuation category in accordance with IAS 39:

FAHFT – Financial Assets Held-for-Trading

AfS – Available-for-Sale Financial Assets

LaR – Loans and Receivables

HtM – Held-to-Maturity Investments

FLAC – Financial Liabilities Measured at Amortized Cost

FLHFT – Financial Liabilities Held-for-Trading

Valuation base in accordance with IAS 17	Fair value	Carrying amount	Valuation category* and valuation base in accordance with IAS 39						Valuation base in accordance with IAS 17	Fair value
			FAHfT	AfS	LaR	HtM	FLAC	FLHfT		
			Fair value	Fair value	Amortized acquisition costs	Amortized acquisition costs	Amortized acquisition costs	Fair value		
DEC. 31, 2009	DEC. 31, 2008							DEC. 31, 2008		
–	380.3	507.2	–	–	507.2	–	–	–	–	507.2
–	268.3	150.4	1.2	149.2	–	–	–	–	–	150.4
–	459.5	378.9	–	–	378.9	–	–	–	–	378.9
–	21.1	24.1	24.1	–	–	–	–	–	–	24.1
–	21.9	12.0	12.0	–	–	–	–	–	–	12.0
–	31.6	55.4	–	–	55.4	–	–	–	–	55.4
–	1.7	2.6	–	2.6	–	–	–	–	–	2.6
–	1.8	2.7	–	–	2.7	–	–	–	–	2.7
–	164.2	130.7	–	–	–	–	130.7	–	–	130.7
–	109.4	121.7	–	–	–	–	121.7	–	–	119.5
–	331.5	299.5	–	–	–	–	299.5	–	–	329.1
–	18.4	21.8	–	–	–	–	–	21.8	–	21.8
–	6.1	35.0	–	–	–	–	–	35.0	–	35.0
9.7	9.7	10.3	–	–	–	–	–	–	10.3	10.3
–	–	15.2	–	–	–	–	15.2	–	–	15.2
–	15.5	48.7	–	–	–	–	48.7	–	–	48.7
9.7			37.3	151.8	944.2	–	615.8	56.8	10.3	

Determination of fair value

Cash and cash equivalents, other securities, other financial assets, other financial liabilities, as well as trade receivables and payables have predominantly short durations. The carrying amounts correspond approximately to the fair values.

Securities in the available-for-sale category are traded mainly on the stock exchange. The fair value is determined mostly on the basis of stock exchange prices and valuation methods of which the valuation parameters are based on market information observed.

The fair values of the derivative financial instruments are determined on the basis of the stock exchange price if they are traded on an active market. The fair values of those derivative financial instruments not traded on an active market are calculated using appropriate valuation methods based on market information observed on the balance sheet date. The fair value of interest rate swaps is calculated on the basis of the cash value of the anticipated future payment flows. The fair value of forward exchange transactions is calculated by means of the zero coupon method on the balance sheet date. The market prices actually attainable on the balance sheet date may differ from the values calculated using this method. Generally accepted option price models are used for the valuation of options.

Loans, liabilities to banks, and promissory notes are valued at amortized cost. In a fair value hedge, a hedge adjustment is performed with regard to the secured risk.

The investments as part of the other financial investments were valued at acquisition cost because the fair value cannot be reliably forecast due to the lack of a market and to the uncertainty of payment flows. There is currently no intention to sell the investments.

Notes to the income statement

The net result by valuation category can be seen in the following table:

IN € MILLION	2009	2008
Loans and receivables (LaR)	4.9	23.4
Available-for-sale financial assets (AFS)	1.0	-9.6
Financial assets and liabilities at fair value through profit or loss (FAHfT and FLHfT)	3.0	1.5
Financial liabilities measured at amortized cost (FLAC)	-26.6	-40.8
Net result	-17.7	-25.5

The net result from financial assets and liabilities at fair value through profit and loss corresponds to the result of the subsequent measurement with an effect on net income. All other valuation categories take into consideration the result due to interest, currency, allowances, and gains on disposals.

During the financial year, both discounts and amounts recognized in equity were amortized in the amount of €-1.3 million (previous year: €-0.9 million).

Fees totaling €1.0 million (previous year: €0.7 million) were paid for the administration and management of the special funds. These are not included in net result.

The fair value of the financial instruments included in the Heraeus balance sheet is determined as follows:

IN € MILLION	Assets		Liabilities	
	DEC. 31, 2009		DEC. 31, 2008	
Official quoted prices and fair values (level 1)	194.0	-0.1	149.5	-
Securities	194.0	-0.1	149.5	-
Model values on the basis of parameters observed on the market (level 2)	117.2	-24.5	36.1	-56.8
Securities	74.2	-	-	-
Other receivables and assets	43.0	-	36.1	-
Derivatives with positive fair values – without a hedging relationship (HfT)	21.1	-	24.1	-
Derivatives with positive fair values – with a hedging relationship	21.9	-	12.0	-
Other financial liabilities	-	-24.5	-	-56.8
Negative fair value of derivatives – without a hedging relationship (HfT)	-	-18.4	-	-21.8
Negative fair value of derivatives – with a hedging relationship	-	-6.1	-	-35.0
Theoretical model values (level 3)	0.2	-	0.9	-
Securities	0.2	-	0.9	-

Analysis of maturities

The following table shows the contractually agreed (undiscounted) interest payments and repayments on the original financial liabilities of the Heraeus Group as of December 31, 2009, as well as the derivative financial assets and liabilities:

	Carrying amount 2010		Cash flows 2011		Cash flows 2012–2014		Cash flows from 2015	
	Interest	Repayment	Interest	Repayment	Interest	Repayment	Interest	Repayment
IN € MILLION								
Non-derivative financial liabilities:								
Promissory notes	13.2	50.0	12.7	–	28.0	150.0	5.3	100.0
Liabilities due to banks	2.6	108.0	0.1	0.2	–	0.2	–	–
Trade payables	0.1	164.2	–	–	–	–	–	–
Liabilities due to finance lease contracts	1.2	4.6	0.9	2.0	2.5	3.6	1.9	15.0
Other financial liabilities	–	17.9	0.1	–	–	0.1	–	1.1
Derivative financial liabilities and assets:								
Derivatives with negative fair value – without a hedging relationship (HfT) (incoming)	–	130.4	–	1.3	–	41.7	–	–
Derivatives with negative fair value – without a hedging relationship (HfT) (outgoing)	–	–140.2	–	–7.4	–	–44.5	–	–
Derivatives with negative fair value – with a hedging relationship (incoming)	–	53.7	–	13.5	–	50.7	–	–
Derivatives with negative fair value – with a hedging relationship (outgoing)	–	–55.7	–	–14.4	–	–54.1	–	–
Derivatives with positive fair value – without a hedging relationship (HfT) (incoming)	–	279.0	–	6.3	–	–	–	–
Derivatives with positive fair value – without a hedging relationship (HfT) (outgoing)	–	–264.3	–	–	–	–	–	–
Derivatives with positive fair value – with a hedging relationship (incoming)	–	64.6	–	25.6	–	200.0	–	–
Derivatives with positive fair value – with a hedging relationship (outgoing)	–	–60.4	–	–23.7	–	–182.5	–	–

The following table shows the contractually agreed (undiscounted) interest payments and repayments on the financial liabilities as of December 31, 2008, as well as the derivative financial assets and liabilities:

	Carrying amount 2009		Cash flows 2010		Cash flows 2011–2013		Cash flows from 2014	
	Interest	Repayment	Interest	Repayment	Interest	Repayment	Interest	Repayment
IN € MILLION								
Non-derivative financial liabilities:								
Promissory notes	15.0	–	13.2	50.0	35.4	149.8	10.5	99.7
Liabilities due to banks	3.2	100.3	0.2	17.8	0.1	3.5	–	0.1
Trade payables	0.2	130.7	–	–	–	–	–	–
Liabilities due to finance lease contracts	1.7	5.7	0.2	0.5	0.6	3.5	0.1	0.6
Other financial liabilities	–	29.7	–	34.0	–	0.2	–	0.1
Derivative financial liabilities and assets:								
Derivatives with negative fair value – without a hedging relationship (HfT) (incoming)	–	11.0	–	6.1	–	5.4	–	–
Derivatives with negative fair value – without a hedging relationship (HfT) (outgoing)	–	–	–	–	–	–	–	–
Derivatives with negative fair value – with a hedging relationship (incoming)	–	22.8	–	2.4	–	9.5	–	–
Derivatives with negative fair value – with a hedging relationship (outgoing)	–	–	–	–	–	–	–	–
Derivatives with positive fair value – without a hedging relationship (HfT) (incoming)	–	16.3	–	4.5	–	4.2	–	–
Derivatives with positive fair value – without a hedging relationship (HfT) (outgoing)	–	–	–	–	–	–	–	–
Derivatives with positive fair value – with a hedging relationship (incoming)	–	8.0	–	1.4	–	3.1	–	–
Derivatives with positive fair value – with a hedging relationship (outgoing)	–	–	–	–	–	–	–	–

Variable cash flows were recognized at the valid reference interest rate on the respective balance sheet date. Amounts in foreign currencies were converted at the spot price valid on the respective balance sheet date.

OTHER DISCLOSURES

Contingent liabilities

No provisions are formed for the following contingent liabilities recognized at nominal value because the occurrence of risk is estimated as remote:

IN € MILLION	DEC. 31, 2009	DEC. 31, 2008
Notes endorsed and discounted	1.4	0.9
Guarantees/other contingent liabilities	–	0.1
Total	1.4	1.0

Other financial commitments

Other financial commitments comprise the following as of the balance sheet date:

IN € MILLION	DEC. 31, 2009				DEC. 31, 2008			
	Due in 2010	Due from 2011 to 2014	Due from 2015	Total	Due in 2009	Due from 2010 to 2013	Due from 2014	Total
Future payments from operating lease relationships	12.7	23.2	9.7	45.6	14.3	23.6	6.3	44.2
Commitments for investments in property, plant, and equipment and in inventories	15.0	0.2	–	15.2	19.0	3.6	–	22.6
Other financial commitments	27.7	23.4	9.7	60.8	33.3	27.2	6.3	66.8

Commitments from rental, tenancy, and operating lease agreements result from operating leases for land, buildings, plants, machinery, office, and other equipment.

Precious metal supplies are hedged in part using medium-term to long-term purchase agreements. The volumes to be purchased can be resold at any time and without incurring any price risk.

Related party transactions

Persons or enterprises that control the Heraeus Group, or are controlled by it, are regarded as related enterprises or persons for the purposes of IAS 24 unless they are included as other related companies in the consolidated financial statements as well as the shareholders of Heraeus Holding GmbH.

Some of the members of the Supervisory Board of Heraeus Holding GmbH are members of the supervisory boards or boards of management of other companies with which the Heraeus Group maintains relations as part of its ordinary business activities. All dealings with these companies are carried out under the same conditions as are applicable to third parties.

All business dealings with unrelated companies and associates are transacted under conditions customary to the market.

The following table shows significant trading relationships between Group parties and related companies:

IN € MILLION	RECEIVABLES DUE FROM		LIABILITIES DUE TO		REVENUE FROM	
	2009	2008	2009	2008	2009	2008
Associates	5.6	3.6	0.7	0.1	13.6	24.4
Other related companies	0.2	0.6	0.2	0.2	0.5	0.6
Total	5.8	4.2	0.9	0.3	14.1	25.0

Auditor's expenses

The expenses for the audit as well as the tax consultation by KPMG AG Wirtschaftsprüfungsgesellschaft and its associates totaled €1.0 million and €0.1 million, respectively as of the balance sheet date.

Exemption in accordance with Section 264 (3) HGB and Section 264b HGB

The following domestic subsidiaries made use of the exemption rules from Section 264 (3) and Section 264b HGB during the year under review:

- Heraeus Beteiligungsverwaltungsgesellschaft mbH, Hanau
- Heraeus Electro-Nite GmbH & Co. KG, Hanau
- Heraeus infosystems GmbH, Hanau
- Heraeus Kulzer GmbH, Hanau
- Heraeus Kulzer International GmbH, Hanau
- Heraeus Kulzer Liegenschaften GmbH & Co. KG, Hanau
- Heraeus Liegenschafts- und Facility Management GmbH & Co. KG, Hanau
- Heraeus Liegenschafts- und Facility III Management GmbH & Co. KG, Hanau
- Heraeus Medical GmbH, Wehrheim
- Heraeus Noblelight GmbH, Hanau
- Heraeus Noblelight Liegenschaften GmbH & Co. KG, Hanau
- Heraeus Quarzglas GmbH & Co. KG, Hanau
- Heraeus Quarzglas International GmbH, Hanau
- Heraeus Sensor Technology GmbH, Hanau
- Scientific Glass GmbH, Usingen
- W. C. Heraeus GmbH, Hanau
- W. C. Heraeus International GmbH, Hanau

Hanau, February 26, 2010

Heraeus Holding GmbH

Dr. Frank Heinrich
Chairman

Jan Rinnert

AUDITOR'S REPORT

We have audited the consolidated financial statements prepared by the Heraeus Holding GmbH, Hanau, comprising the balance sheet, the income statement, statement of comprehensive income, cash flow statement, statement of changes in shareholders' equity, and the notes to the consolidated financial statements, together with the group management report for the business year from January 1 to December 31, 2009. The preparation of the consolidated financial statements and the group management report in accordance with IFRSs, as adopted by the EU, and with the additional requirements of German commercial law pursuant to § 315a Abs. 1 HGB [Handelsgesetzbuch "German Commercial Code"] are the responsibility of the parent company's management. Our responsibility is to express an opinion on the consolidated financial statements and on the group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with § 317 HGB [Handelsgesetzbuch "German Commercial Code"] and the German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position, and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of entities to be included in consolidation, the accounting and consolidation principles used, and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements and group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements comply with IFRSs, as adopted by the EU, the additional requirements of German commercial law pursuant to § 315a Abs. 1 HGB [Handelsgesetzbuch “German Commercial Code”], and give a true and fair view of the net assets, financial position, and results of Operations of the Group in accordance with these requirements. The group management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group’s position and suitably presents the opportunities and risks of future development.

Frankfurt am Main, March 5, 2010

KPMG AG
Wirtschaftsprüfungsgesellschaft

Vogler
Wirtschaftsprüfer
(German Public Auditor)

Pürsün
Wirtschaftsprüfer
(German Public Auditor)



Heraeus Holding GmbH
Corporate Communications
Heraeusstrasse 12-14
63450 Hanau, Germany
Phone +49(0)6181.35-5100
Fax +49(0)6181.35-4242
pr@heraeus.com
www.heraeus.com