ANNUAL REPORT 2007/2008 Dimensions

HEIDELBERG

ANNUAL REPORT 2007/2008 The Figures

HEIDELBERG

> FIVE-YEAR OVERVIEW – HEIDELBERG GROUP

Figures € millions

	2003/2004	2004/2005	2005/2006	2006/2007	**2007/2008**
Incoming orders	3,852	3,700	3,605	3,853	**3,649**
Net sales	3,746	3,360	3,586	3,803	**3,670**
Foreign sales share in percent	88.8	85.3	86.9	85.1	**83.8**
Result of operating activities [1]	79	171	277	362	**268**
– in percent of sales	2.1	5.1	7.7	9.5	**7.3**
Income before taxes	– 506	106	229	300	**199**
Net loss/profit	– 695	59	135	263	**142**
– in percent of sales	– 18.6	1.8	3.8	6.9	**3.9**
Research and development costs	317	211	214	237	**222**
Investments	164	162	169	178	**217**
Total assets	4,232	3,660	3,281	3,339	**3,507**
Working capital [2]	1,288	1,091	1,199	1,276	**1,193**
Receivables from sales financing	769	565	496	431	**323**
Shareholders' equity	1,230	1,166	1,138	1,202	**1,193**
– in percent of total equity and liabilities	29.1	31.9	34.7	36.0	**34.0**
Financial debt [3]	718	587	540	509	**515**
Net financial debt [4]	861	731	672	562	**487**
Cash flow	– 121	232	345	398	**290**
– in percent of sales	– 3.2	6.9	9.6	10.5	**7.9**
Free cash flow	114	152	149	229	**215**
– in percent of sales	3.0	4.5	4.2	6.0	**5.9**
ROCE in percent [5]	0.4	7.0	13.6	15.7	**13.5**
Value contribution in percent [5]	– 9.9	– 2.2	4.4	5.8	**3.8**
Return on equity in percent [6]	– 56.5	5.1	11.9	21.9	**11.9**
Earnings per share in €	– 8.16	0.69	1.58	3.23	**1.81**
Dividends in € [7]	–	0.30	0.65	0.95	**0.95**
Share price at financial year-end in €	27.99	24.65	36.40	34.30	**17.01**
Market capitalization at financial year-end	2,405	2,118	3,023	2,735	**1,328**
Dividend yield in percent [8]	–	1.22	1.79	2.77	**5.58**
Number of employees at financial year-end	22,513	18,416	18,436	19,171	**19,596**

1) Before restructuring expenses
2) The sum of inventories and trade receivables less trade payables as well as advance payments
3) Liabilities to banks including borrower's note loans and convertible bond
4) The sum of financial debt and pension provisions less marketable securities as well as cash and cash equivalents
5) Adjusted for positive one-time effects totaling € 60 million net in financial year 2006/2007
6) After taxes
7) For financial year 2007/2008 proposal of the Management Board and the Supervisory Board
8) Based on the financial year-end price in Xetra trading

FINANCIAL CALENDAR 2008/2009

June 10, 2008	Press Conference, Annual Analysts' and Investors' Conference
July 18, 2008	Annual General Meeting
August 5, 2008	Publication of First Quarter Figures 2008/2009
November 6, 2008	Publication of Half-Year Figures 2008/2009
February 3, 2009	Publication of Third Quarter Figures 2008/2009
May 5, 2009	Publication of Preliminary Figures 2008/2009
June 9, 2009	Press Conference, Annual Analysts' and Investors' Conference
July 23, 2009	Annual General Meeting
August 4, 2009	Publication of First Quarter Figures 2009/2010
November 3, 2009	Publication of Half-Year Figures 2009/2010

Subject to change

HEIDELBERG SERVICES

Heidelberg Systemservice
Print Media Academy
Business Consulting
Consumables
Financial Services
Remarketed Equipment

> CONSOLIDATED FINANCIAL STATEMENTS

OF HEIDELBERGER DRUCKMASCHINEN AKTIENGESELLSCHAFT

Contents

> CONSOLIDATED INCOME STATEMENT 2007/2008

Figures in € thousands

	Note	1-Apr-2006 to 31-Mar-2007	**1-Apr-2007 to 31-Mar-2008**
Net sales	8	3,802,752	3,670,314
Change in inventories		58,188	68,819
Other own work capitalized		59,745	78,410
Total operating performance		3,920,685	3,817,543
Other operating income	9	244,432	218,837
Cost of materials	10	1,715,285	1,669,059
Personnel expenses	11	1,163,333	1,179,681
Depreciation and amortization	12	128,816	123,603
Other operating expenses	13	795,915	796,197
Result of operating activities		361,768	267,840
Financial income	15	20,380	19,598
Financial expenses	16	82,516	88,483
Financial result	14	– 62,136	– 68,885
Income before taxes		299,632	198,955
Taxes on income	17	36,703	57,412
Consolidated net profit		262,929	141,543
Minority interests		– 64	– 227
Consolidated net profit – attributable to Heidelberg		262,993	141,770
Undiluted earnings per share according to IAS 33 (in € per share)	34	3.23	1.81
Diluted earnings per share according to IAS 33 (in € per share)	34	3.07	1.77

Consolidated balance sheet of the Heidelberg Group as of March 31, 2008

> ASSETS

Figures in € thousands

	Note	31-Mar-2007	31-Mar-2008
Non-current assets			
Intangible assets	18	261,024	273,152
Tangible assets	19	528,241	580,187
Investment property	19	21,546	1,782
Financial assets	20	46,675	68,049
Receivables from sales financing	21	319,880	194,839
Other receivables and other assets	21	88,052	178,846
Income tax assets		74,098	76,045
Deferred tax assets	22	72,034	77,288
		1,411,550	1,450,188
Current assets			
Inventories	23	900,701	973,714
Receivables from sales financing	21	111,523	128,205
Trade receivables	21	704,538	596,473
Other receivables and other assets	21	122,096	171,153
Income tax assets		9,424	26,836
Marketable securities	24	2,908	2,075
Cash and cash equivalents	24	76,339	141,868
		1,927,529	2,040,324
Assets held for sale	19	–	16,645
Total assets		3,339,079	3,507,157

> EQUITY AND LIABILITIES

Figures in € thousands

	Note	31-Mar-2007	**31-Mar-2008**
Shareholders' equity	25		
Subscribed capital		203,080	198,767
Capital reserves and retained earnings		733,272	852,298
Consolidated net income attributable to Heidelberg		262,993	141,770
		1,199,345	1,192,835
Minority interests		2,326	–
		1,201,671	1,192,835
Non-current liabilities			
Provisions for pensions and similar obligations	26	132,940	115,969
Other provisions	27	374,035	360,374
Financial liabilities	28	421,504	493,512
Other liabilities	30	109,370	114,390
Deferred tax liabilities	22	85,710	144,661
		1,123,559	1,228,906
Current liabilities			
Other provisions[1]	27	328,668	378,386
Financial liabilities	28	121,882	50,636
Trade payables[1]	29	249,753	294,955
Income tax liabilities		8,185	3,546
Other liabilities[1]	30	305,361	357,893
		1,013,849	1,085,416
Total equity and liabilities		3,339,079	3,507,157

[1] Previous year's figures were adjusted (see note 1)

> CONSOLIDATED CASH FLOW STATEMENT 2007/2008[1]

Figures in € thousands

	1-Apr-2006 to 31-Mar-2007	**1-Apr-2007 to 31-Mar-2008**
Consolidated net profit	262,929	141,543
Depreciation and amortization[2]	130,480	123,970
Change in pension provisions	– 10,159	1,143
Change in deferred tax assets/deferred tax liabilities/tax provisions	90,702	36,988
Result from disposals	– 76,323	– 14,010
Cash flow	397,629	289,634
Change in inventories	– 60,186	– 92,187
Change in trade receivables/liabilities[3]	– 45,198	117,500
Change in sales financing	47,059	79,938
Change in other provisions[3]	53,283	30,126
Change in other balance sheet items[3]	– 67,985[4]	– 8,139
Other operating changes	– 73,027	127,238
Inflow of funds from operating activities[5]	324,602	416,872
Intangible assets/tangible assets/investment property		
Investments	– 178,546	– 216,785
Proceeds from disposals	91,141	42,451
Financial assets		
Investments	– 9,660	– 29,691
Proceeds from disposals	51,725	2,395
Pension funding	– 50,000	–
Outflow of funds from investment activity	– 95,340	– 201,630
Free cash flow	229,262	215,242
Treasury stock	– 130,024	– 57,082
Dividend payment	– 53,279	– 74,801
Borrowing of financial liabilities	106,912	109,607
Repayment of financial liabilities	– 151,187	– 124,145
Outflow of funds from financing activity	– 227,578	– 146,421
Net change in cash and cash equivalents	1,684	68,821
Cash and cash equivalents at the beginning of the year	79,679	79,247
Changes in the scope of the consolidation	–	492
Currency adjustments	– 2,116	– 4,617
Net change in cash and cash equivalents	1,684	68,821
Cash and cash equivalents at year-end	79,247	143,943

[1] For further details please refer to note 35
[2] Relates to intangible assets, tangible assets, investment property, and financial assets
[3] Previous year's figures were adjusted (see note 1)
[4] Including tax refund claims of € – 74,098 thousand (corporation tax credit) on account of the amendment in the German Business Tax Act
[5] Including income tax paid and refunded of € 35,660 thousand (previous year: € 22,281 thousand) and € 258 thousand (previous year: € 8,551 thousand) respecitvely. Interest expense and interest income amount to € 29,437 thousand (previous year: € 26,484 thousand) and € 38,727 thousand (previous year: £48,693 thousand) respectively

> STATEMENT OF RECOGNIZED INCOME AND EXPENSE 2007/2008

Figures in € thousands

	1-Apr-2006 to 31-Mar-2007	**1-Apr-2007 to 31-Mar-2008**
Consolidated net profit	262,929	141,543
Pension obligations[1]	44,919	82,155
Currency translation	– 53,260	– 81,530
Financial assets		
Market valuation of financial assets	– 602	– 378
Cash flow hedges		
Fair value of cash flow hedges in equity	29,177	77,988
Cash flow hedges recognized in income	– 11,234	– 49,058
Deferred income taxes	– 24,361	– 42,975
Total income and expense recognized in equity	– 15,361	– 13,798
Total recognized income and expense	247,568	127,745
– of which: Heidelberg Group	247,450	128,023
– of which: minority interests	118	– 278

[1] Changes in actuarial gains and losses and in adjustment amount due to IAS 19.58b)

Notes to the Consolidated Financial Statements for the Financial Year April 1, 2007 to March 31, 2008

> STATEMENT OF CHANGES IN EQUITY[1)]

	Subscribed capital	Capital reserves	Retained earnings					
			Pension obligations[2)]	Currency translation	Fair value of other financial assets	Fair value of cash flow hedges	Other retained earnings	Total retained earnings
April 1, 2006	212,610	8,542	– 73,064	– 147,403	684	– 2,788	1,002,004	779,433
Total income and expenses recognized in equity	–	–	27,551	– 53,442	– 361	10,709	–	– 15,543
Consolidated net profit	–	–	–	–	–	–	81.640	81.640
Total recognized income and expenses	–	–	27,551	– 53,442	– 361	10,709	81,640	66,097
Dividend payment	–	–	–	–	–	–	–	–
Stock options	–	1,156	–	–	–	–	–	–
Treasury stock	– 9,530	15,822	–	–	–	–	– 136,316	– 136,316
Consolidation / other changes	–	–	– 2,538	–	–	–	1,076	– 1,462
March 31, 2007	203,080	25,520	– 48,051	– 200,845	323	7,921	948,404	707,752
April 1, 2007	203,080	25,520	– 48,051	– 200,845	323	7,921	948,404	707,752
Total income and expenses recognized in equity	–	–	44,959	– 81,479	– 222	22,995	–	– 13,747
Consolidated net profit	–	–	–	–	–	–	188,192	188,192
Total recognized income and expenses	–	–	44,959	– 81,479	– 222	22,995	188,192	174,445
Dividend payment	–	–	–	–	–	–	–	–
Stock options	–	172	–	–	–	–	–	–
Treasury stock	– 4,313	4,313	–	–	–	–	– 56,798	– 56,798
Consolidation / other changes	–	–	–	–	–	–	– 3,106	– 3,106
March 31, 2008	198,767	30,005	– 3,092	– 282,324	101	30,916	1,076,692	822,293

1) Please refer to note 25 for additional explanations

2) Actuarial gains and losses and asset ceiling due to IAS 19.58b)

Figures in € thousands

Total capital reserves and retained earnings	Consolidated net income attributable to Heidelberg	Shares of the Heidelberg Group	Minority interests	Total
787,975	134,752	1,135,337	2,375	1,137,712
– 15,543	–	– 15,543	182	– 15,361
81,640	181,353	262,993	– 64	262,929
66,097	181,353	247,450	118	247,568
–	– 53,112	– 53,112	– 167	– 53,279
1,156	–	1,156	–	1,156
– 120,494	–	– 130,024	–	– 130,024
– 1,462	–	– 1,462	–	– 1,462
733,272	262,993	1,199,345	2,326	1,201,671
733,272	262,993	1,199,345	2,326	1,201,671
– 13,747	–	– 13,747	– 51	– 13,798
188,192	– 46,422	141,770	– 227	141,543
174,445	– 46,422	128,023	– 278	127,745
–	– 74,801	– 74,801	–	– 74,801
172	–	172	–	172
– 52,485	–	– 56,798	–	– 56,798
– 3,106	–	– 3,106	– 2,048	– 5,154
852,298	141,770	1,192,835	–	1,192,835

> DEVELOPMENT OF INTANGIBLE ASSETS, TANGIBLE ASSETS AND INVESTMENT PROPERTY

							Cost
	As of the start of the financial year	Change in the scope of consolidation	Additions	Reclassification[1]	Currency adjustments	Disposals	**As of the end of the financial year**
2006/2007							
Intangible assets							
Goodwill	107,732	2,058	–	–	– 69	–	109,721
Development costs	192,854	–	27,285	–	–	–	220,139
Software/other rights	100,859	1,923	8,222	7,230	– 404	10,686	107,144
Advance payments	7,605	–	50	– 7,230	– 36	–	389
	409,050	3,981	35,557	–	– 509	10,686	437,393
Tangible assets							
Land and buildings	698,202	1,766	7,316	– 11,252	– 3,640	88,227	604,165
Technical equipment and machinery	606,877	1,483	31,153	12,756	– 1,295	45,304	605,670
Other equipment, operating and office equipment	775,092	419	81,187	– 375	– 5,677	75,595	775,051
Advance payments and assets under construction	14,916	50	30,682	– 17,732	– 29	477	27,410
	2,095,087	3,718	150,338	– 16,603	– 10,641	209,603	2,012,296
Investment property	71,557	–	101	– 10,097	–	635	60,926
2007/2008							
Intangible assets							
Goodwill	109,721	–	–	–	– 24	–	109,697
Development costs	220,139	–	39,464	–	–	–	259,603
Software/other rights	107,144	43	7,705	317	– 405	7,631	107,173
Advance payments	389	–	38	– 317	– 22	26	62
	437,393	43	47,207	–	– 451	7,657	476,535
Tangible assets							
Land and buildings	604,165	201	26,885	13,261	– 4,100	5,130	635,282
Technical equipment and machinery	605,670	137	37,408	1,851	– 905	24,821	619,340
Other equipment, operating and office equipment	775,051	255	89,450	10,930	– 10,222	102,000	763,464
Advance payments and assets under construction	27,410	–	21,018	– 27,906	– 64	53	20,405
	2,012,296	593	174,761	– 1,864	– 15,291	132,004	2,038,491
Investment property	60,926	–	–	– 53,369	–	907	6,650

1) Including reclassifications of the assets held for sale

2) Including impairment loss of € 758 thousand (previous year: € 3,446 thousand), see note 12

Figures in € thousands

							Cumulative depreciation and amortization	Carrying amounts
As of the start of the financial year	Change in the scope of consolidation	Depreciation and amortization[2)]	Reclassification[1)]	Currency adjustments	Disposals	Reversals of depreciation and amortization	**As of the end of the financial year**	**As of the end of the financial year**
6,492	–	–	–	–	–	–	6,492	103,229
65,678	–	27,913	–	–	–	–	93,591	126,548
78,349	–	8,645	–	– 315	10,393	–	76,286	30,858
–	–	–	–	–	–	–	–	389
150,519	–	36,558	–	– 315	10,393	–	176,369	261,024
452,288	–	16,579	– 6,016	– 1,219	69,165	–	392,467	211,698
501,251	–	21,581	3,056	– 573	35,420	–	489,895	115,775
618,341	–	47,368	– 4,326	– 2,686	57,004	–	601,693	173,358
–	–	–	–	–	–	–	–	27,410
1,571,880	–	85,528	– 7,286	– 4,478	161,589	–	1,484,055	528,241
45,051	–	4,899	– 10,394	–	176	–	39,380	21,546
6,492	–	–	–	–	–	–	6,492	103,205
93,591	–	24,875	–	–	–	–	118,466	141,137
76,286	–	10,131	–	– 362	7,630	–	78,425	28,748
–	–	–	–	–	–	–	–	62
176,369	–	35,006	–	– 362	7,630	–	203,383	273,152
392,467	–	15,585	– 471	– 1,464	3,772	–	402,345	232,937
489,895	–	20,595	–	– 414	24,775	–	485,301	134,039
601,693	–	50,943	–	– 5,569	76,409	–	570,658	192,806
–	–	–	–	–	–	–	–	20,405
1,484,055	–	87,123	– 471	– 7,447	104,956	–	1,458,304	580,187
39,380	–	1,474	– 35,726	–	260	–	4,868	1,782

Consolidated Segment Report 2007/2008[1)]

> SEGMENT INFORMATION BY DIVISION

Figures in € thousands

	Press		Postpress		Financial Services		**Heidelberg Group**	
	1-Apr-2006 to 31-Mar-2007	**1-Apr-2007 to 31-Mar-2008**	1-Apr-2006 to 31-Mar-2007	**1-Apr-2007 to 31-Mar-2008**	1-Apr-2006 to 31-Mar-2007	**1-Apr-2007 to 31-Mar-2008**	1-Apr-2006 to 31-Mar-2007	**1-Apr-2007 to 31-Mar-2008**
External sales	3,321,330	3,213,287	444,426	426,968	36,996	30,059	3,802,752	3,670,314
Depreciation and amortization[2)]	121,941	115,942	6,626	6,708	249	953	128,816	123,603
Non-cash expenses	413,816	373,521	41,307	39,085	23,355	24,908	478,478	437,514
Research and development costs	212,734	194,346	24,267	27,317	–	–	237,001	221,663
Result of operating activities (segment result)	313,585	239,043	7,362	– 7,208	40,821	36,005	361,768	267,840
Investments	169,710	206,093	8,617	10,689	219	3	178,546	216,785
Segment assets	2,336,401	2,601,739	268,962	247,936	437,364	328,952	3,042,727	3,178,627
Segment liabilities	1,071,853	1,148,455	94,227	100,172	99,331	77,834	1,265,411	1,326,461
Number of employees	17,100	17,468	1,988	2,050	83	78	19,171	19,596

> SEGMENT INFORMATION BY REGION

Figures in € thousands

	Europe, Middle East and Africa		Eastern Europe		North America		Latin America		Asia/Pacific		**Heidelberg Group**	
	1-Apr-2006 to 31-Mar-2007	**1-Apr-2007 to 31-Mar-2008**	1-Apr-2006 to 31-Mar-2007	**1-Apr-2007 to 31-Mar-2008**	1-Apr-2006 to 31-Mar-2007	**1-Apr-2007 to 31-Mar-2008**	1-Apr-2006 to 31-Mar-2007	**1-Apr-2007 to 31-Mar-2008**	1-Apr-2006 to 31-Mar-2007	**1-Apr-2007 to 31-Mar-2008**	1-Apr-2006 to 31-Mar-2007	**1-Apr-2007 to 31-Mar-2008**
External sales by customer location	1,692,010	1,624,187	377,157	427,458	621,563	576,400	191,581	197,223	920,441	845,046	3,802,752	3,670,314
Investments	158,562	197,058	3,369	2,282	11,835	9,044	2,408	1,554	2,372	6,847	178,546	216.785
Segment assets	1,940,218	2,208,753	165,116	168,449	335,482	230,070	181,156	192,078	420,755	379,277	3,042,727	3,178,627

1) For further details please see note 36

2) Including impairment losses in income of € 758 thousand (previous year: € 3,446 thousand), see note 12

General notes

1 Basis for the presentation of the consolidated financial statements

The consolidated financial statements of Heidelberger Druckmaschinen Aktiengesellschaft were prepared in accordance with the International Financial Reporting Standards (IFRS) as applicable in the European Union and in accordance with the supplemental provisions of Section § 315a, (1) of the German Commercial Code (HGB). The consolidated financial statements also comply with the IFRS in force as of the balance sheet date.

Certain income statement and balance sheet items have been combined to improve the clarity of presentation. A breakdown of these items is presented in the notes to the consolidated financial statements. Deferred liabilities for outstanding invoices and deferred staff liabilities are reported under trade payables and other liabilities respectively in line with IAS 37 (provisions, contingent liabilities and contingent assets). The figures for the previous year have been restated accordingly (see notes 27 and 30). The income statement has been prepared in line with the nature of expense method.

All amounts are stated in € thousand. For subsidiaries located in countries that are not members of the European Monetary Union, the annual financial statements prepared in local currency are translated into € (see note 5).

These financial statements relate to financial year 2007/2008 (April 1, 2007 to March 31, 2008).

2 Application of changed or new standards

The Heidelberg Group applied all standards and interpretations that were mandatory in the reporting year.

The International Accounting Standards Board (IASB) and the International Financial Reporting Interpretations Committee (IFRIC) have issued the following new standards and amendments to existing standards and interpretations, which were applied for the first time in financial year 2007/2008:

- IFRS 7 'Financial Instruments: Disclosures'
- IAS 1 'Presentation of Financial Statements'
- IFRIC 8 'Scope of IFRS 2'
- IFRIC 9 'Reassessment of Embedded Derivatives'
- IFRIC 10 'Interim Financial Reporting and Impairment'
- IFRIC 11 'IFRS 2 – Group and Treasury Share Transactions'

With the exception of the amendments to the information in the notes based on IFRS 7 and IAS 1, the new standards have no effect on the consolidated financial statements.

The disclosure requirements previously included in IAS 32 and in IAS 30, which were applicable to banks and similar financial institutions, were revised and compiled in IFRS 7. IFRS 7 requires new information in the notes on financial instruments but does not influence the classification or measurement of financial instruments in the Heidelberg Group. At the same time as the publication of IFRS 7, IAS 1 was revised to include additional capital management disclosure requirements.

New accounting provisions

The IASB and the IFRIC approved additional standards and interpretations, whose application during financial year 2007/2008 is not yet compulsory or which have not yet been approved by the European Union (EU). The effects on the Heidelberg Group of the initial application of those standards that apply to Heidelberg's financial figures are currently being examined. Heidelberg is not currently planning to apply these standards at an early date.

IFRS 8: 'Operating Segments'

IFRS 8 was published on November 30, 2006 and replaces IAS 14: 'Segment Reporting'. IFRS 8 uses the management approach, which is also established in SFAS 131, and thereby affords convergence with US GAAP. The management approach is based on segment reporting in accordance with an internal reporting structure. IFRS 8 requires the disclosure of information concerning management control figures used internally for resource allocation and the evaluation of segment performance. These may deviate from the amounts shown in the balance sheet and the income statement. For this reason, segment information must be reconciled with the balance sheet and the income statement. IFRS 8 is compulsory for the first time for financial years beginning on or after January 1, 2009.

Amendments to IAS 1: 'Presentation of Financial Statements'

On September 6, 2007, the IASB published a revised version of IAS 1: 'Presentation of Financial Statements'. The amendments primarily concern the statement of changes in equity, the statement of comprehensive income, the designation of components of the financial statements and required comparative information. The statement of changes in equity now only shows transactions with shareholders. Changes in equity due to transactions not performed with shareholders are now presented separately in a statement of comprehensive income.

Alternatively, this information can also be presented in two separate reporting components, the income statement and the statement of other comprehensive income. Both the corresponding income tax effect and reclassifications must be shown separately for the individual components of other comprehensive income. The changes in the designations of components of the financial statements are not mandatory. In the event of changes in the opening balance sheet of the first comparative period this opening balance sheet must also still be shown. The amendments to IAS 1 are compulsory for the first time for financial years beginning on or after January 1, 2009.

Amendments to IAS 23: 'Borrowing Costs'

On March 29, 2007, the IASB published the revised IAS 23: 'Borrowing Costs'. The revision essentially focuses on eliminating the option of immediately recognizing borrowing costs for certain assets as an expense. Thus, borrowing costs that can be directly related to qualifying assets are capitalized as part of the cost. The amendment is applicable to borrowing costs that relate to qualifying assets whose capitalization starts on or after January 1, 2009.

Amendments to IFRS 2: 'Share-based Payment'

On January 17, 2008, the IASB published amendments to IFRS 2: 'Share-based Payment' regarding vesting conditions and cancellations. On account of the amendments, the definition of vesting conditions now solely comprises service conditions and performance conditions combined with a period of service requirement. Other conditions are not automatically deemed non-vesting conditions. The amendments also state that cancellations by the company or another party, such as the employee, must be recognized at the same time. The amendments to IFRS 2 are compulsory for the first time for financial years beginning on or after January 1, 2009.

Amendments to IFRS 3: 'Business Combinations'

On January 10, 2008, the IASB published a revised version of IFRS 3: 'Business Combinations'. The material changes relate to the determination of the purchase price, the measurement of minority interests and the recognition of gradual business acquisitions. Contingent purchase price components must be taken into account when determining the purchase price as of the date of acquisition, regardless of their probability. In addition, transaction costs relating directly to the business combination are not included in the purchase price and are recognized in income. The inclusion of goodwill relating to minority interests in measurement is optional. In addition, differences between the carrying amount and the fair value of shares held arising in gradual business combinations are now recognized in income and not equity as of the date of acquisition. The amendments to IFRS 3 are compulsory for the first time for financial years beginning on or after July 1, 2009.

Amendments to IAS 27: 'Consolidated and Separate Financial Statements under IFRS'

On January 10, 2008, the IASB published a revised version of IAS 27: 'Consolidated and Separate Financial Statements under IFRS'. Purchases or sales of shares in subsidiaries that do not affect control are recognized in equity. However, if a sale results in a loss of control, the gain or loss on disposal must be recognized in income. When allocating losses due to minority interests, any negative carrying amount of minority interests that may arise can now also be allocated. The amendments to IAS 27 are compulsory for the first time for financial years beginning on or after July 1, 2009.

Amendments to IAS 32: 'Financial Instruments: Presentation' and IAS 1: 'Presentation of Financial Statements'

The amendments published by the IASB on February 14, 2008 relate to regulations on distinguishing between equity and liabilities as well as relevant provisions. In future, certain puttable instruments can be classified as equity and not liabilities if these instruments meet specific conditions. The amendments to IAS 32 and IAS 1 are compulsory for the first time for financial years beginning on or after January 1, 2009.

IFRIC 12: 'Service Concession Arrangements'

IFRIC 12 applies to agreements under which the public sector grants private companies contracts for the supply of public services. IFRIC 12 clarifies the question of how private companies recognize the rights and obligations arising from these agreements. IFRIC 12 is compulsory for the first time for financial years beginning on or after January 1, 2008.

IFRIC 13: 'Customer Loyalty Programs'

IFRIC 13 addresses the accounting of loyalty award credits granted to customers when buying goods or services. In particular, it covers the recognition of obligations to provide free or discounted goods or services. IFRIC 13 is compulsory for the first time for financial years beginning on or after July 1, 2008.

IFRIC 14: 'IAS 19 – The Limit on a Defined Benefit Asset Minimum Funding Requirements and Their Interaction'

IFRIC 14 addresses the conditions under which the economic benefit of a pension plan is available to a company. It also explains the effect on accounting of legal or contractual minimum funding requirements on the measurement of defined benefit assets or liabilities. In particular, it describes the extent to which minimum funding restricts the availability of the economic benefit and whether the minimum obligation triggers the recognition of a liability. IFRIC 14 is compulsory for the first time for financial years beginning on or after January 1, 2008.

3 Scope of the consolidation

The consolidated financial statements of Heidelberger Druckmaschinen Aktiengesellschaft include a total of 71 (previous year: 70) domestic and foreign companies in which Heidelberger Druckmaschinen Aktiengesellschaft has a controlling influence as defined by IAS 27. Of these companies, 64 (previous year: 63) are located outside Germany. Control as defined by IAS 27 exists if the financial and operating policy of a company can be influenced in order to derive benefits from its activities. Inclusion in the consolidated financial statements occurs at the time that control is established. Subsidiaries that are of minor importance are not included. The list of the shareholdings of Heidelberger Druckmaschinen Aktiengesellschaft is published in the electronic Bundesanzeiger (Federal Gazette). The significant subsidiaries included in the consolidated financial statements are listed in the notes in the appendix 'Major shares in affiliated companies'.

The Heidelberg consolidated financial statements as of March 31 also include five companies whose balance sheet date is December 31. If these companies conduct significant transactions between December 31 and March 31, they are included in the consolidated financial statements.

As against the previous year, the scope of the consolidation changed as follows:

- First-time consolidation:
  Heidelberg Grafik Ticaret Servis Limited Sirketi, Istanbul, Turkey, was included in the scope of consolidation for the first time in the fourth quarter of the year under review.

4 Principles of consolidation

In accordance with IFRS 3, all business combinations are recognized using the purchase method in the form of the full revaluation method.

Intra-Group sales, expenses and income, receivables, liabilities and contingent liabilities are eliminated. Intra-Group transactions in goods and services are calculated both on the basis of market prices and on the basis of arm's length transfer prices. Assets from commercial transactions among consolidated companies included in inventories are adjusted to eliminate intercompany profits and losses. In consolidation processes affecting net income, income tax effects are taken into account and deferred taxes are recognized.

5 Currency translation

In the individual financial statements of the consolidated companies, which are prepared in local currencies, monetary items in foreign currencies (cash and cash equivalents, receivables and liabilities) are measured at the reporting date exchange rate and taken directly to income. Non-monetary items denominated in foreign currencies are posted at their historic exchange rates.

The financial statements of the companies included in consolidation that are prepared in foreign currency are translated on the basis of the functional currency concept (IAS 21) in accordance with the modified closing rate method. As our subsidiaries financially, economically and organizationally effect their transactions on an independent basis, the functional currency is the same as each subsidiary's respective local currency. Assets and liabilities are therefore translated at the closing rates and expenses and income at the average exchange rates for the year. The difference resulting from the foreign currency translation is offset against retained earnings in equity.

Currency differences arising as against the previous year's translation in the Heidelberg Group are also offset against retained earnings in equity.

Accounting in line with IAS 29 was not required as the Heidelberg Group does not have any subsidiaries located in countries with hyperinflationary economies.

Currency translation is based on the following exchange rates:

	Average rates of the year		Reporting date rates	
	2006/2007	**2007/2008**	2006/2007	**2007/2008**
	€ 1 =	€ 1 =	€ 1 =	€ 1 =
AUD	1.6766	1.6362	1.6506	1.7171
CAD	1.4652	1.4631	1.5487	1.6080
CHF	1.5890	1.6390	1.6215	1.5735
GBP	0.6781	0.7109	0.6793	0.7908
HKD	10.0418	11.1491	10.4322	12.2929
JPY	150.7933	162.3400	156.7500	157.8600
USD	1.2904	1.4306	1.3352	1.5796

AUD = Australian dollar
CAD = Canadian dollar
CHF = Swiss franc
GBP = Pound sterling
HKD = Hong Kong dollar
JPY = Japanese yen
USD = US dollar

6 General accounting policies

The accounting policies that are applied in the consolidated financial statements are presented below. Further information on the individual items of the consolidated income statement and the consolidated balance sheet as well as corresponding figures are presented in note 8 ff.

General principles

In the view of the IASB, the annual financial statements present a true and fair view as well as a fair presentation (overriding principle) if the qualitative criteria of the presentation of accounts are met and the individual IFRS guidelines are complied with. Consequently, if a true and fair view is to be presented, it is imperative that no deviation from the individual provisions occurs.

Uniform accounting policies

The consolidated financial statements are prepared on the basis of accounting policies that are applied uniformly throughout the Group.

Continuity of accounting policies

The accounting policies were retained with the exception of the change in reporting for deferred liabilities (see note 1).

Revenue recognition

Product sales are recognized when the material risks and rewards of ownership of the sold merchandise and products are transferred to the buyer. Neither a continuing managerial involvement nor effective control over the sold merchandise and products remain. The revenue amount can be reliably determined; the inflow of economic benefit from the sale is sufficiently probable.

Sales from services are recognized when the **services** are rendered provided that the amount of income can be reliably determined and the inflow of economic benefit arising from the transaction is sufficiently probable. Sales from long-term service contracts are generally distributed on a straight-line basis.

Income from **operating and finance leases** is recognized based on the provisions of IAS 17.

Intangible assets

With the exception of goodwill, all intangible assets have a limited useful life and are therefore amortized. In accordance with IFRS 3 in conjunction with IAS 36, goodwill is tested for impairment if there is any indication of loss of value. Purchased intangible assets are capitalized at cost and amortized on a straight-line basis over their expected useful life. Internally generated intangible assets are capitalized to the extent that the criteria of IAS 38 are fulfilled. Manufacturing costs include all directly attributable costs.

Research and development costs

Development costs for newly developed products are capitalized at cost to the extent that expenses are directly attributable and if both the technical feasibility and the marketing of the newly developed products are assured (IAS 38). There must also be a sufficient degree of probability that the development activity will lead to future inflows of funds. Capitalized development costs include all direct costs and overheads that are directly attributable to the development process. These are amortized on the basis of the estimated period during which sales may be expected.

In accordance with IAS 38, research costs cannot be capitalized and are therefore recognized as an expense directly in the income statement.

Tangible assets

Tangible assets are reported at cost less cumulative straight-line depreciation and cumulative impairment.

Tangible assets were not revalued in accordance with the option under IAS 16. In addition to direct costs, the cost also includes appropriate portions of materials and manufacturing overheads.

Interest costs are recognized directly as an expense (IAS 23). Depreciation based exclusively on tax rules is not reported.

Costs of repairs to tangible assets that do not result in an extension or substantial improvement of the respective asset are recognized as an expense.

Investment property

Investment property (IAS 40 'Investment Property') is recognized at cost less cumulative straight-line depreciation and cumulative impairment. The notes to the financial statements provide information on the fair value of investment property, which is calculated in line with internationally acknowledged valuation methods, such as the discounted cash flow method or is derived from the current market price of comparable real estate.

Finance leases

Under finance leases, economic ownership is attributed to lessees in those cases in which they bear virtually all of the risks and opportunities associated with the ownership of the asset (IAS 17). To the extent that economic ownership is attributable to the Heidelberg Group, they are capitalized from the beginning of the term of the lease at the lower of fair value or the present value of the minimum lease payments. Depreciation is recognized using the straight-line method on the basis of the shorter of the useful economic life or the term of the lease.

Depreciation and amortization

As in the previous year, amortization of intangible assets, and depreciation of tangible assets and investment property, is calculated primarily on the basis of the following useful life periods, which are applied uniformly throughout the Group:

	Years
Development costs	3 to 6
Software / other rights	3 to 5
Buildings	25 to 50
Technical equipment and machinery	3 to 15
Motor vehicles	5 to 9
Operating and office equipment	3 to 13
Investment property	10 to 50

Impairment of non-financial assets

The carrying amount of intangible assets (including capitalized development costs) and of tangible assets is reviewed at the end of each financial year. An impairment loss is recognized if the recoverable amount of the asset is lower than its carrying amount. The recoverable amount is the higher of the fair value less costs to sell and the value in use. If the asset is part of an independent cash-generating unit, impairment is determined on the basis of the recoverable amount of this cash-generating unit. If the reasons for impairment cease to apply, the impairment is reversed up to the amortized cost (IAS 36).

The carrying amounts of goodwill are subject to impairment testing if there are any indications of a decline in value. Regardless of whether there are indications of impairment, goodwill is tested for possible impairment annually. An impairment loss is recognized when the recoverable amount is less than the carrying amount of the cash-generating unit to which goodwill has been assigned. Any additional impairment requirements are recognized by way of the pro rata reduction of the carrying amounts of other assets.

Inventories

Inventories are carried at the lower of cost and net realizable value. Valuations are generally determined on the basis of the weighted average cost method.

Costs include production-related full costs determined on the basis of normal capacity utilization.

In particular, the cost of products includes directly attributable direct costs (such as production materials and wages), as well as fixed and variable production overheads (such as materials and production overheads), including an appropriate proportion of depreciation on manufacturing equipment. Particular account is taken of costs that are charged to the specific production cost centers. Borrowing costs are not capitalized as part of cost (IAS 23).

The risks of holding inventories arising from reduced usability are taken into account by appropriate discounts. These discounts are recognized on the basis of the future production program or actual consumption. Individual periods are used for different inventory items, which are monitored and adjusted based on appropriate criteria. Measurement takes into account lower realizable net selling prices on the balance sheet date. If the reasons for a lower valuation no longer apply to inventories that have formerly been discounted and the net selling price has therefore risen, the reversal of the write-down is recognized as a reduction of material costs.

Customer-specific construction contracts

In accordance with IAS 11, customer-specific construction contracts are recognized in line with the percentage-of-completion method, with the amounts realized reported in sales and, after deduction of advance payments by customers, in trade receivables. The percentage of completion is determined based on the expenses incurred (cost-to-cost method). There were no significant customer-specific orders requiring recognition in accordance with IAS 11.

Financial instruments

Basic information

A financial instrument is any contract that gives rise to both a financial asset of one enterprise and a financial liability or equity instrument of another enterprise. Financial instruments are recognized when Heidelberg becomes party to a contract for the financial instrument. If the trade date and settlement date differ for standard purchases or sales, financial instruments are recognized as of the settlement date. First-time measurement of financial assets and liabilities is at fair value. The carrying amount of financial instruments not measured at fair value through profit or loss includes the directly attributable transaction costs. Subsequent measurement of financial instruments is in line with the measurement categories defined in IAS 39 'Financial Instruments: Recognition and Measurement'. There were no reclassifications between the different IAS 39 measurement categories in the year under review. Under IAS 39, financial assets and liabilities can be designated as fair value option financial instruments on first-time recognition. Heidelberg did not exercise this option.

Financial assets and liabilities are reported without being offset. They are only offset when there is a legal right to do so and the enterprise intends to settle them on a net basis. The recognized carrying amount of current and variable interest, non-current financial assets and liabilities is an appropriate estimate of the fair value.

In accordance with IAS 39, an impairment loss is recognized when there are substantial, objective indications of impairment of a financial asset. Financial assets are examined for impairment requirements both individually (specific allowances for impairment losses) and in groups with similar default risk profiles (specific impairment allowances calculated on a portfolio basis). Appropriate risk provisioning was recognized for all discernible risks of default. The theoretically maximum remaining risk of default of financial assets is therefore the same as their recognized carrying amounts.

For loans and receivables the amount of impairment is equal to the difference between the carrying amount and the present value of the expected future cash flows, discounted with the original effective interest rate of the financial asset. Impairment is either recognized directly in income by reducing the carrying amount of the financial asset or by using an allowance account. The way in which the impairment is shown is dependent on the estimated probability of the risk of default. The carrying amount of uncollectable receivables is derecognized. If the amount of the impairment is objectively reduced in subsequent reporting periods due to a matter arising after recognition of the impairment, the impairment recognized is reversed accordingly in income.

Impairment on available-for-sale financial assets measured at fair value is recognized in the income statement as the difference between the cost (less any repayments or amortization) and the current fair value, less any impairment previously recognized in income. Reversals of impairment losses on equity instruments are not recognized in income. If the amount of the impairment on debt instruments is objectively reduced in subsequent reporting periods due to a matter arising after recognition of the impairment, the impairment recognized is reversed accordingly in income.

Impairment on available-for-sale financial assets carried at cost is recognized in income as the difference between the carrying amount and the present value of estimated future cash flows, discounted with the current market return of similar financial assets. These impairment losses are not reversed.

Financial assets are derecognized when the contractual rights to cash flows end or substantially all the risks and rewards of ownership are transferred to another party. Financial liabilities are derecognized when the contractual obligation is settled or legally revoked.

The net gains and losses essentially include changes in the fair value and exchange rate effects recognized in net operating and net financial income and interest income and expense from financial instruments recognized in net financial income. Changes in fair value also include the effects of available-for-sale financial assets recognized in equity.

For information on risk management please refer to note 31 and/or to the Risk and Opportunity Report in the section ‘The Facts’.

Investments and securities

IAS 39 breaks down these financial instruments into the categories of financial instruments at fair value through profit and loss, held to maturity and available for sale.

Investments (including shares in affiliated companies) and securities are classified as available for sale. In line with IAS 39, these financial instruments are carried at fair value. Investments are measured at cost as their fair value cannot be reliably determined. Securities are measured at their stock market prices. If this value cannot be reliably determined securities are measured at cost. Unrealized profits and losses arising from changes in fair value are taken to equity, taking into consideration deferred taxes. At the time of a sale, realized profit or loss is taken directly to the income statement in net financial income.

The appropriate classification of securities is determined at the time of purchase and is reviewed at each balance sheet date.

Loans

Loans are credit that we issue and are classified as loans and receivables under IAS 39. Non-current non-interest-bearing and low-interest-bearing loans are carried at net present value. Measurement in subsequent periods is at amortized cost using the effective interest rate method.

Receivables from sales financing

Receivables from sales financing include receivables from loans that are granted to customers in connection with the financing of machinery sales and receivables under finance leases.

Finance leases include leased installations considered as sales under non-current financing. In line with IAS 17, these receivables are carried at the net investment amount, i.e. discounted future minimum lease payments plus any unguaranteed remaining value.

Receivables from sales financing are assigned to the IAS 39 category loans and receivables and carried at fair value. Measurement in subsequent periods is at amortized cost using the effective interest rate method.

Trade receivables

First-time recognition of trade receivables is at fair value plus directly attributable transaction costs. Measurement in subsequent periods is at amortized cost using the effective interest rate method due to the loans and receivables measurement category.

Receivables and other assets

The receivables and other assets item includes both non-financial assets and financial assets including derivative financial instruments. With the exception of derivative financial instruments, financial assets are assigned to the loans and receivables category under IAS 39, and are therefore measured at amortized cost. Non-financial assets are measured in line with the respective applicable standard.

Cash and cash equivalents and securities

Cash on hand and bank balances are carried at cost. Bank balances and securities included in cash and cash equivalents (see note 35) have a remaining term of up to three months on acquisition.

Financial liabilities

Primary financial instruments include financial liabilities, trade payables and non-derivative other financial liabilities. Trade payables and non-derivative other financial liabilities include accruals for outstanding invoices and deferred staff liabilities.

In accordance with IAS 39, primary liabilities are stated at fair value. Directly attributable transaction costs are included for financial liabilities not carried at fair value through profit or loss. Measurement in subsequent periods is at amortized cost using the effective interest rate method. Liabilities from finance leases are recognized in the amount of the present value of the minimum lease payments. Financial guarantees are recognized at the higher of the amount calculated in line with IAS 37 (provisions) and the original expense amount less any amortization. They are reported under other provisions.

Derivative financial instruments

Derivative financial instruments in the Heidelberg Group comprise hedging instruments used to manage interest rates and exchange rate fluctuations. These instruments serve to reduce income volatility. The Group does not enter into trading positions, i.e. derivatives without an underlying hedged item. We currently use over-the-counter (OTC) instruments. These include:

- forward exchange transactions,
- currency options and
- interest rate swaps.

The scope of hedge accounting by financial derivatives comprises recognized, pending and highly probable hedged items.

In accordance with IAS 39, derivatives meet the recognition criteria for assets and liabilities, as a result of which they must be capitalized (other assets) or expensed (other liabilities) at fair value. First-time recognition is as of the settlement date.

Under IAS 39, the distinction between a fair value hedge and a cash flow hedge is of fundamental importance for hedge accounting.

The aim of a fair value hedge is to offset the changes in fair value of assets and liabilities with opposing changes in the fair value of the designated hedging instrument. Any profit or loss resulting from the change in fair value of the designated hedging instrument is taken directly to the income statement. From the inception of the hedge, changes in the fair value of the hedged item attributable to the hedged risk are also recognized in income.

A cash flow hedge serves to hedge the changes in cash flows that typically arise in connection with floating rate assets or liabilities recognized in the balance sheet, foreign currency onerous contracts, or planned future transactions. The gains and losses of the fair value of derivatives designated as a hedging instrument are recognized in equity until the respective hedged item becomes effective.

Hedging instruments that do not satisfy the documentation requirements of IAS 39 for hedge accounting or whose underlying hedged items no longer exist are classified as held for trading.

Deferred tax assets and deferred tax liabilities

Deferred tax assets and deferred tax liabilities are calculated in accordance with the standard international liability method (IAS 12). Under this method, deferred taxes are recognized for all temporary differences between IFRS carrying amounts and the tax carrying amounts of the individual subsidiaries or controlled companies and on corresponding consolidation processes. In addition, deferred tax assets for future benefits from tax loss carry-forwards are also taken into account. Deferred tax assets for accounting differences and for tax loss carry-forwards are recognized in the amount for which there is likely to be taxable income in future, i.e. for which utilization seems sufficiently secure. Deferred taxes are measured on the basis of the income tax rates of the respective countries. A tax rate of 28.14 percent (previous year: 37.37 percent) is used to calculate domestic deferred taxes. In addition to the corporation tax of 15 percent and the solidarity surcharge of 5.5 percent, the average trade tax rate was also taken into account.

In accordance with the provisions of IAS 12, neither deferred tax assets nor liabilities have been discounted. Deferred tax assets were offset against deferred tax liabilities when required according to the provisions of IAS 12. In line with this, offsetting must be effected if the deferred tax assets and deferred tax liabilities relate to income taxes that are charged by the same tax authority and originate from the same company or in the same group of controlled companies.

Assets and liabilities held for sale

Non-current assets and liabilities are classified as held for sale when disposal is highly likely and the asset is available for immediate sale in its current condition. In addition, the owner must have resolved to sell the asset or group of assets within one year.

Assets held for sale are carried at the lower of the carrying amount and fair value less costs to sell. Assets held for sale are no longer subject to depreciation or amortization.

Provisions for pensions and similar obligations

The provisions for pensions and similar obligations comprise the obligations of the Group to establish provisions under both defined benefit plans as well as defined contribution plans. In the case of defined benefit plans the pension obligations are calculated using the projected unit credit method (IAS 19). Under this method, expert actuarial reports are commissioned each year. Mortality is calculated on the basis of the current Heubeck mortality tables (2005 G) or comparable foreign mortality tables. Plan assets carried at fair value are offset against defined benefit obligations. The service cost is reported under staff costs and the interest portion of the additions to provisions under net financial income. The return on plan assets is offset from staff costs at the level of the individual company up to the amount of expenses for pension claims. Any excess amount is reported in net financial income.

Actuarial gains and losses are entirely offset in equity. Gains and losses recognized in shareholders' equity are shown separately in the statement of recognized income and expense together with the related deferred taxes.

In the case of defined contribution plans (e.g., direct insurance policies), compulsory contributions are offset directly as an expense. No provisions for pension obligations are recognized, as in these cases the Company does not have any obligation beyond that to pay premiums.

Other provisions

Other provisions are recognized when a past event gives rise to a current obligation, the amount of utilization is more likely than not and the amount can be reliably estimated (IAS 37). This means that the probability must exceed 50 percent. They are measured either at the most likely settlement amount or, if probabilities are equal, at the expected settlement amount. Provisions are only recognized for legal or constructive obligations in respect of third parties. Provisions are measured at full production cost, taking into consideration possible cost increases.

Provisions for restructuring measures are recognized to the extent that the criteria of IAS 37 are met.

Non-current provisions with a remaining term of more than one year are carried at the discounted settlement amount on the balance sheet date on the basis of appropriate interest rates if the interest rate effect is significant. The underlying interest rates depend on the term of the obligation.

Advance payments

Advance payments are recognized under liabilities.

Prepaid expenses

Taxable investment subsidies from the public sector and tax-fee investment allowances are reported as prepaid expenses and recognized as income in line with the expected pattern of economic benefits from the asset over its useful life.

Share-based compensation

Stock options covered by IFRS 2 are measured based on their respective fair value at the time the options are granted. Stock appreciation rights (SAR) are measured at the respective fair value of the option at the balance sheet date. The expenses and the corresponding addition to capital reserves as well as the addition to the provision are recognized on a pro rata basis. The determination of the respective fair value is based on a recognized mathematical option price measurement model (Monte Carlo simulation).

Contingent liabilities

Contingent liabilities are potential obligations that relate to past events and whose existence will not be confirmed until one or more uncertain future events occur. These future events, however, lie outside the sphere of influence of the Heidelberg Group. Furthermore, current obligations may represent contingent liabilities if the outflow of resources is not sufficiently probable to recognize a respective provision, or if the amount of the obligation cannot be reliably estimated. The carrying amount of contingent liabilities is equal to the extent of liability on the balance sheet date.

7 Estimates and judgments

When preparing consolidated financial statements, certain assumptions and estimates are made that have an effect on the amount and reporting of assets and liabilities, information on contingent assets and liabilities on the balance sheet date and on income and expense reported in the period under review. The preparer of consolidated financial statements has a degree of discretion here.

The following are the key issues affected by assumptions and estimates:

> assessing the recoverability of goodwill,
> the measurement of intangible assets and of items of tangible assets,
> assessing impairment of trade receivables and receivables from sales financing,
> recognition and measurement of other provisions,
> the recognition and the measurement of provisions for pensions and similar obligations.

In the impairment test for goodwill, the recoverable amount of the cash-generating unit is determined as the higher of its fair value less the cost to sell and its value in use. The fair value here reflects the best estimate of the amount for which an independent third party would acquire the cash-generating units at the balance sheet date. The value in use is the present value of the estimated future cash flows that can be anticipated from the continued use of the cash-generating unit. A change in determining factors may change the fair value or the value in use and could result in the recognition of an impairment loss.

The Group-wide established economic useful lives for intangible assets and for items of tangible assets are subject to management assessments. In addition, the impairment test determines the recoverable amount of the asset or cash-generating unit to which the asset belongs as the higher of fair value less costs to sell and value in use. The fair value here reflects the best estimate of the amount for which an independent third party would acquire the asset at the balance sheet date. The value in use is the present value of the estimated future cash flows that can be anticipated from the continued use of the asset. A change in determining factors may change the fair value or the value in use and could result in the recognition or reversal of an impairment loss.

Credit and default risks arise for trade receivables and receivables from sales financing to the extent that customers do not meet their payment obligations and assets are lost as a result. The necessary impairment is calculated in line with the creditworthiness of customers, any collateral pledged and experience based on past default rates. The customer's actual default may differ from the expected default on account of the underlying factors.

The amount and probability of utilization are estimated in the recognition and measurement of other provisions. They are measured either at the most likely settlement amount or, if probabilities are equal, at the expected settlement amount. The amount of the actual utilization could deviate from estimates.

The calculation of the provisions for pensions and similar obligations is based on the parameters listed in note 26. Increasing or reducing the interest rate used in calculations by one quarter of a percentage point to 6.25 percent or 5.75 percent respectively would result in a € 19,207 thousand reduction in pension claims or a € 20,433 thousand increase respectively. After income taxes, the gains offset in equity would be increased by € 13,802 thousand or reduced by € 14,683 thousand respectively.

The assumptions and estimates are based on the information and data currently available. Actual developments could deviate from the estimates. The carrying amounts of the relevant assets and liabilities are adjusted accordingly if actual amounts deviate from estimated values.

Notes to the Consolidated Income Statement

8 Net sales

In addition to income from sales of products and services, sales include income from commissions, from finance and operating leases totaling € 6,443 thousand (previous year: € 7,720 thousand), as well as interest income from sales financing and finance leases amounting to € 30,059 thousand (previous year: € 36,996 thousand).

Further information on sales can be found in the reports of the divisions and the reports of the regions. The classification of sales by division and region is shown in the segment report.

9 Other operating income

	2006/2007	**2007/2008**
Reversal of other provisions and deferred liabilities	50,701	67,552
Recoveries on loans and other assets previously written down	39,766	40,402
Hedging/exchange rate gains	10,488	22,781
Income from operating facilities	20,108	19,390
Income from disposals of intangible assets, tangible assets and investment property	37,337	13,561
Income from the deconsolidation of companies	37,594	–
Other income	48,438	55,151
	244,432	218,837

Income resulting from deconsolidation in the previous year results from the sale of the shares in Linotype GmbH, Bad Homburg. Income from disposal of tangible assets, intangible assets and investment property in the previous year essentially included income from the sale-and-lease-back transaction for the Heidelberg Research and Development Center.

10 Cost of materials

	2006/2007	**2007/2008**
Expenses for raw materials, consumables and supplies and of goods purchased and held for resale	1,462,150	1,439,502
Cost of purchased services	249,613	228,117
Interest expense of Financial Services	3,522	1,440
	1,715,285	1,669,059

The ratio of the cost of materials to total operating performance of 43.7 percent is unchanged as against the previous year.

11 Staff costs and number of employees

	2006/2007	**2007/2008**
Wages and salaries	978,323	994,426
Retirement benefit expenses[1]	44,862	38,310
Return on plan assets	– 30,703	– 24,425
Other social security contributions and expenses	170,851	171,370
	1,163,333	1,179,681

[1] See note 26

The interest component of the pension claims is shown under net financial income. The return on plan assets is offset against staff costs at the level of the individual company up to the amount of retirement benefit expenses. Any excess amount is shown in net financial income.

The number of **employees**[1] was:

		Average		As of
	2006/2007	**2007/2008**	31-Mar-2007	**31-Mar-2008**
Europe, Middle East and Africa	13,686	14,182	14,016	14,324
Eastern Europe	695	712	697	779
North America	1,358	1,357	1,374	1,341
Latin America	407	405	402	408
Asia/Pacific	2,003	2,061	2,031	2,087
	18,149	18,717	18,520	18,939
Trainees	712	729	651	657
	18,861	19,446	19,171	19,596

[1] Not including interns, graduating students, dormant employees and employees in the exemption phase of partial retirement

12 Depreciation and amortization

Depreciation and amortization including impairment of € 123,603 thousand (previous year: € 128,816 thousand) relates to intangible assets (€ 35,006 thousand; previous year: € 36,558 thousand), tangible assets (€ 87,123 thousand; previous year: € 85,528 thousand) and investment property (€ 1,474 thousand; previous year: € 4,899 thousand). No depreciation or amortization was recognized on assets held for sale (previous year: € 1,831 thousand).

Impairment on intangible assets and tangible assets of € 758 thousand (previous year: € 3,446 thousand) relates to land and buildings – as a result of declined market values – (€ 471 thousand; previous year: € 0 thousand), technical equipment and machinery (€ 277 thousand; previous year: € 69 thousand) and other operating and office equipment (€ 10 thousand; previous year: € 41 thousand). No impairment was recognized on investment property in the financial year (previous year: € 3,336 thousand).

13 Other operating expenses

	2006/2007	**2007/2008**
Special direct sales expenses including freight charges	168,880	163,186
Other deliveries and services not included in the cost of materials	134,627	140,854
Travel expenses	60,978	65,122
Rent and leases (excluding car fleet)	58,470	58,550
Costs of information technology	54,537	55,956
Additions to provisions and deferred liabilities relating to several types of expense	40,459	48,208
Bad debt allowances and impairment on other assets	43,359	38,590
Legal, consulting and audit expenses	26,346	25,373
Costs of car fleet	19,804	21,056
Insurance expense	16,734	17,577
Expenses from operating facilities	12,800	14,914
Other research and development costs	22,310	13,704
Costs of mail and payment transactions	13,614	13,601
Hedging/exchange rate losses	8,276	11,849
Public-sector fees and other taxes	11,006	11,682
License fees	5,251	6,277
Office supplies, newspapers, technical literature	4,315	4,117
Losses on disposals of intangible assets and tangible assets	1,325	1,807
Other overheads	92,824	83,774
	795,915	796,197

14 Financial result

	2006/2007	**2007/2008**
Financial income	20,380	19,598
Financial expenses	82,516	88,483
Financial result	– 62,136	– 68,885

15 Financial income

	2006/2007	**2007/2008**
Interest and similar income	12,792	13,272
Income from financial assets/loans/securities	7,588	6,326
Financial income	20,380	19,598

16 Financial expenses

	2006/2007	**2007/2008**
Interest and similar expenses	68,649	67,977
– of which: net interest expenses for pensions	(22,802)	(16,997)
Expenses for financial assets/loans/securities	13,867	20,506
Financial expenses	82,516	88,483

Net interest expenses for pensions comprise interest expenses for pension rights less the portion of return on plan assets not netted against staff costs (see note 11).

17 Taxes on income

Current and deferred tax expenses and income apply to German and foreign taxes on income and are broken down as follows:

	2006/2007	**2007/2008**
Current taxes		
Germany	– 54,038	5,211
Abroad	64,875	45,838
	10,837	51,049
Deferred taxes		
Germany	9,036	17,400
Abroad	16,830	– 11,037
	25,866	6,363
	36,703	57,412

Taxes on income comprise German corporate tax including the solidarity surcharge, trade tax and comparable taxes of the foreign subsidiaries.

As in the previous year, no significant income was recognized from loss carrybacks in the reporting year.

As a result of the 2008 business tax reform in Germany, the tax expense has been reduced considerably. The nominal tax rate has dropped from 37.37 percent to 28.14 percent. The adjustment of deferred taxes in Germany to the new tax rate resulted in deferred tax income of € 11,678 thousand.

Deferred tax liabilities on temporary differences in connection with shares in subsidiaries were not taken into account as these differences are not likely to be reversed in the foreseeable future.

As in the previous year the application of amended or new standards did not result in any additional tax expenses or tax income.

Total tax loss carryforwards not yet utilized of € 340,578 thousand (previous year: € 330,982 thousand) are attributable to foreign subsidiaries in particular. Total tax loss carryforwards for which no deferred tax assets were recognized amount to € 330,876 thousand (previous year: € 325,986 thousand). Of this figure, € 2,963 thousand can be used until 2011 (previous year: € 929 thousand until 2010), none can be used until 2012 (previous year: € 5,492 thousand until 2011) and € 327,913 thousand can be used until 2014 and later (previous year: € 319,565 thousand until 2013 and later).

Taxes on income are higher due to the utilization of tax loss carryforwards, for which deferred tax assets were recognized in previous years amounting to € 805 thousand (previous year: € 1,115 thousand).

Deferred tax assets are only recognized for tax loss carryforwards if their realization is guaranteed in the near future. Deferred tax assets on current tax losses amounting to € 2,243 thousand (previous year: € 255 thousand) were recognized in the reporting year. As in the previous year, no deferred tax assets were recognized for tax loss carryforwards that were not yet applicable. There were no write-downs of deferred tax assets for loss carryforwards recognized in previous years in the year under review (previous year: € 72 thousand).

Current taxes were reduced in the reporting year by € 10,273 thousand (previous year: € 18,116 thousand) as a result of deferred tax assets for tax loss carryforwards that had not previously been taken into account. The as yet unutilized tax credit for which no deferred tax assets have been recognized on the balance sheet to date amounts to € 3,873 thousand (previous year: € 925 thousand) and expires no later than March 31, 2025.

Income and expense from current income tax relating to other periods amounted to € 2,572 thousand (previous year: € 4,953 thousand) and € 617 thousand (previous year: € 5,642 thousand) respectively.

Current income taxes in Germany resulted in significant income overall in the previous year as the corporation tax credit from previous years was recognized at its present value of € 73,375 thousand on account of the amendment in the German business tax act. In the year under review, tax income resulted from an amended tax assessment received in March 2008, which resulted in an increase in income of corporation tax credit already recognized in the previous year in the amount of € 8,856 thousand.

Taxes on income can be derived from earnings before taxes as follows:

	2006/2007	**2007/2008**
Earnings before taxes	299,632	198,955
Theoretical tax rate in percent[1]	37.37	28.14
Theoretical tax expense	111,972	55,986
Change in theoretical tax income due to:		
– corporate income tax credit from previous years due to a change in the German Corporation Tax Act	– 73,375	– 8,856
– corporate income tax reduction plus solidarity surcharge for dividend	– 7,556	–
– differing tax rate	– 12,487	– 14,985[2]
– tax loss carryforwards[3]	– 17,468	– 5,620
– reduction due to tax-free income	– 25,167	– 7,920
– tax increase due to non-deductible expenses	17,147	16,925
– change in tax provisions/taxes attributable to previous years	50,634	22,650
– other	– 6,997	– 768
Taxes on income	36,703	57,412
Tax rate in percent	12.25	28.86

1) The reduction in the theoretical tax rate results from the 2008 business tax reform in Germany

2) Including € 11,678 thousand of deferred tax income due to the 2008 business tax reform in Germany

3) Amortization of loss carryforwards, utilization of non-recognized loss carryforwards and non-recognition of current losses

Notes to the consolidated balance sheet

18 Intangible assets

Goodwill includes amounts arising from the acquisition of businesses (asset deals) and from capital consolidation. For the purpose of impairment testing assets are allocated to cash-generating units. These correspond to the segments. The carrying amounts of the goodwill associated with the cash-generating units Press and Postpress total € 93,596 thousand (previous year: € 93,620 thousand) and € 9,609 thousand (previous year: € 9,609 thousand) respectively.

According to IAS 36, in line with the impairment test the recoverable amount of the cash-generating units is determined based on the higher of the fair value less the cost to sell and the value in use. The fair value here reflects the best estimate of the amount for which an independent third party would acquire the cash-generating units at the balance sheet date. The value in use is the present value of the estimated future cash flows that can be anticipated from the continued use of the cash-generating unit. Calculation of the value in use on the basis of the discounted cash flow method is based on the planning authorized by the Management Board, which in turn is based on medium-term planning for a period of five years. This planning process is based on past experience as well as expectations of future market development. As a result, as in the previous year, there were no impairment requirements for the Press, Postpress, or Financial Services cash-generating units.

The discount rates used in impairment testing are developed on the basis of market data and amount to 8.0 percent (previous year: 7.6 percent) after taxes for the cash-generating units. Before taxes, the discount rates amount to 11.0 percent (previous year: 11.0 percent). To extrapolate cash flows beyond the detailed planning period, Heidelberg uses steady growth rates of 0 percent to 1 percent to show expected inflation.

Capitalized **development costs** relate for the most part to the development of machinery in the Press Division. Non-capitalized development costs from all divisions – including research expenses – amount to € 182,199 thousand in the reporting year (previous year: € 209,716 thousand).

19 Tangible assets, investment property and assets held for sale

The carrying amounts of assets capitalized in fixed assets from finance leases in which we are the lessee are € 8,295 thousand for other operating and office equipment (previous year: € 11,321 thousand). These assets are essentially vehicles and IT equipment.

The carrying amounts of assets capitalized in fixed assets from operating leases in which we are the lessor are € 23,452 thousand (previous year: € 19,348 thousand). These assets are reported under technical equipment and machinery. These assets are printing presses leased to customers. Cumulative depreciation and amortization amounted to € 17,080 thousand (previous year: € 16,955 thousand). Depreciation and amortization of € 4,987 thousand (previous year: € 6,059 thousand) and impairment of € 277 thousand (previous year: € 69 thousand) were recognized in the financial year. Future lease income of € 9,007 thousand (previous year: € 6,016 thousand) is anticipated from operating leases. Payments with maturities of up to one year, between one and five years, and more than five years amount to € 3,375 thousand (previous year: € 2,507 thousand), € 5,172 thousand (previous year: € 3,357 thousand) and € 460 thousand (previous year: € 152 thousand).

In connection with a long-term borrowing of € 75,105 thousand, there are restrictions on disposal in the form of the obligation to grant usufractory rights on three developed plots of land.

The carrying amounts of tangible assets that are partially unused or no longer used and pledged tangible assets are of subordinate significance.

For tangible assets leased to customers of the Heidelberg Group in finance leases, corresponding receivables have been capitalized in the amount of the discounted future minimum lease payments. Leased items are therefore not reported under fixed assets.

The fair value of investment property (IAS 40: Investment Property) is € 1,810 thousand (previous year: € 35,780 thousand). As in the previous year, only insignificant current income or expenses were incurred in connection with investment property in the reporting year.

In the Press segment, the disposal of one developed and one undeveloped plot of land expected for financial year 2008/2009 was planned and initiated in the reporting year. In line with IFRS 5, assets of € 16,645 thousand were therefore classified as held for sale as of March 31, 2008.

20 Financial assets

Financial assets include shares in affiliated companies totaling € 45,657 thousand (previous year: € 22,371 thousand), other investments of € 14,326 thousand (previous year: € 16,236 thousand) and securities of € 8,066 thousand (previous year: € 8,068 thousand). Other investments largely comprise the shares held in Goss International Corporation, Bolingbrook, Illinois, USA. As this is not a listed corporation, the fair value cannot be reliably determined. The shares are measured at cost. We tested the respective carrying amounts for impairment; no impairment was required.

21 Receivables and other assets

			31-Mar-2007			**31-Mar-2008**
	Current	Non-current	Total	Current	Non-current	Total
Receivables from sales financing	111,523	319,880	431,403	128,205	194,839	323,044
Trade receivables	704,538	–	704,538	596,473	–	596,473
Other receivables and other assets						
Other tax refund claims	21,717	1,430	23,147	19,113	–	19,113
Loans	248	6,008	6,256	549	8,785	9,334
Derivative financial instruments	23,018	6,462	29,480	67,722	39,208	106,930
Deferred interest	1,795	–	1,795	242	–	242
Prepaid expenses	12,389	1,054	13,443	16,063	–	16,063
Other assets	62,929	73,098	136,027	67,464	130,853	198,317
	122,096	88,052	210,148	171,153	178,846	349,999

Non-current other assets include plan assets of € 94,136 thousand (previous year: € 32,639 thousand) (see note 26).

Receivables from sales financing

Receivables from sales financing are shown in the following table:

Contract currency	Carrying amount 31-Mar-2007 € thousand	Remaining term in years	Effective interest rate (percent)	**Carrying amount 31-Mar-2008 € thousand**	Remaining term in years	Effective interest rate (percent)
EUR	191,589	up to 8	up to 12	158,285	up to 8	up to 16
USD	102,659	up to 8	up to 12	60,110	up to 8	up to 12
GBP	28,815	up to 7	up to 14	15,902	up to 6	up to 15
JPY	13,225	up to 8	up to 5	8,235	up to 7	up to 6
Other	95,115	–	–	80,512	–	–
	431,403			323,044		

The effective interest rates correspond to the agreed nominal interest rates. The fair value of receivables from sales financing is essentially the carrying amount recognized. This fair value is based upon expected cash flows which are discounted taking into account the interest rates with matching maturities prevailing on the balance sheet date and the customer-specific credit rating.

A specific allowance for impairment losses of € 39,418 thousand (previous year: € 66,087 thousand) was recognized for receivables from sales financing with a gross carrying amount of € 107,271 thousand (previous year: € 199,981 thousand). The estimated fair values of rights of recourse to delivered products are the carrying amounts. Some additional rights of recourse in respect of third parties exist in the form of guarantees.

To the extent that there were no individual, objective indications of impairment, a specific impairment allowance calculated on a portfolio basis was recognized for receivables from sales financing.

The carrying amounts of these receivables, which are also offset by rights of recourse to the delivered products, were in arrears as follows as of the balance sheet date:

	2006/2007	**2007/2008**
Receivables neither in arrears nor impaired	263,537	233,540
Receivables in arrears but not impaired		
less than 30 days	21,675	11,629
between 30 and 60 days	3,886	3,804
between 60 and 90 days	465	626
between 90 and 180 days	2,532	2,332
more than 180 days	5,414	3,260
Total	33,972	21,651
	297,509	255,191

The total impairment loss in the period for receivables from sales financing was € 19,408 thousand (previous year: € 18,245 thousand). Of this, impairment amounts booked to allowance accounts developed as follows:

	2006/2007	**2007/2008**
As of the start of the financial year	101,597	75,176
Additions	18,245	17,093
Utilization	– 16,005	– 10,935
Reversals	– 29,574	– 26,726
Change in the scope of the consolidation, currency adjustments, other changes	913	– 6,759
As of the end of the financial year	75,176	47,849

Receivables from sales financing include lease receivables from finance leases in which in particular our financing companies act as lessors.

Leases are subject to the following parameters:

				31-Mar-2007				**31-Mar-2008**
	Up to 1 year	Between 1 and 5 years	More than 5 years		Up to 1 year	Between 1 and 5 years	More than 5 years	
Total lease payments	–	–	–	47,036	–	–	–	48,813
Lease payments received	–	–	–	– 13,384	–	–	–	– 29,469
Outstanding lease payments	3,652	26,572	3,428	33,652	6,730	11,671	943	19,344
Interest portion of outstanding lease payments	– 683	– 3,713	– 325	– 4,721	– 859	– 1,510	– 118	– 2,487
Present value of outstanding lease payments (carrying amount)	2,969	22,859	3,103	28,931	5,871	10,161	825	16,857

Trade receivables

A specific allowance for impairment losses of € 38,881 thousand (previous year: € 29,581 thousand) was recognized for trade receivables with a gross carrying amount of € 65,812 thousand (previous year: € 55,222 thousand). To the extent that there were no individual, objective indications of impairment, a specific impairment allowance calculated on a portfolio basis was recognized for trade receivables. The carrying amount of these receivables was in arrears as follows as of the balance sheet date:

	2006/2007	**2007/2008**
Receivables neither in arrears nor impaired	564,310	468,211
Receivables in arrears but not impaired		
less than 30 days	54,731	47,128
between 30 and 60 days	20,308	20,190
between 60 and 90 days	11,674	10,694
between 90 and 180 days	14,826	13,349
more than 180 days	13,048	9,970
Total	114,587	101,331
	678,897	569,542

The trade receivables are offset by rights of recourse to the delivered products.

The total impairment loss in the period for trade receivables was € 17,154 thousand (previous year: € 18,460 thousand). Of this, impairment amounts booked to allowance accounts developed as follows:

	2006/2007	**2007/2008**
As of the start of the financial year	40,369	46,180
Additions	16,828	15,427
Utilization	– 4,072	– 2,374
Reversals	– 7,516	– 12,456
Change in the scope of the consolidation, currency adjustments, other changes	571	8,202
As of the end of the financial year	46,180	54,979

Other receivables and other assets

The carrying amounts of non-current receivables and other financial assets are largely identical to the fair values. Any discrepancies that arise are of minor financial significance.

Specific allowances for impairment losses of € 5,618 thousand (previous year: € 5,444 thousand) and € 4,223 thousand (previous year: € 6,143 thousand) relate to loans (gross carrying amount € 14,952 thousand; previous year: € 11,700 thousand) and other financial assets (gross carrying amount € 37,528 thousand; previous year: € 40,499 thousand) respectively. Specific impairment allowances calculated on a portfolio basis were recognized to the extent that there were no individual indications of impairment.

Of the impairment recognized on loans in the previous year, € 132 thousand (previous year: € 120 thousand) were utilized and € 12 thousand (previous year: € 0 thousand) were reversed. Additions to impairment losses of € 329 thousand were required (previous year: € 158 thousand). Of the impairment recognized on other financial assets in the previous year, € 2,589 thousand (previous year: € 4,575 thousand) were utilized and € 7 thousand (previous year: € 176 thousand) were reversed. Additions to impairment of €676 thousand were required (previous year: € 4,900 thousand).

€ 1,355 thousand (previous year: € 1,506 thousand) of unimpaired loans and other financial assets were in arrears by more than 180 days.

Derivative financial instruments essentially include positive fair values from cash flow hedges of € 104,505 thousand (previous year: € 29,203 thousand) and from fair value hedges of € 1,677 thousand (previous year: € 123 thousand).

22 Deferred tax assets and deferred tax liabilities

Deferred tax assets and deferred tax liabilities break down as follows:

		31-Mar-2007		**31-Mar-2008**
	Asset	Liability	Asset	Liability
Tax loss carryforwards	1,269	–	2,695	–
Assets:				
Intangible assets/tangible assets/ investment property	5,706	63,441	4,919	61,639
Financial assets	–	36	151	–
Inventories, receivables and other assets	40,288	46,081	24,489	61,289
Securities	–	51,247	–	41,171
Liabilities:				
Provisions	117,479	–	60,870	3,576
Liabilities	13,724	31,337	30,646	23,468
Gross amount	178,466	192,142	123,770	191,143
Offsetting	106,432	106,432	46,482	46,482
Carrying amount	72,034	85,710	77,288	144,661

Due to currency translation, deferred tax assets were reduced in equity by € 5,417 thousand (previous year: reduced by € 4,732 thousand) in the reporting year. Furthermore, due to changes in fair value recognized in equity and the recognition of financial assets and cash flow hedges recognized in income, deferred tax assets were reduced by € 5,779 thousand in equity (previous year: reduced by € 6,993 thousand). The reduction in equity of deferred tax assets due to the recognition in equity of the change in actuarial gains and the change in the IAS 19.58 b) adjustment amount in equity totaled € 37,196 thousand (previous year: reduction of € 17,368 thousand). Due to the change in the scope of the consolidation, deferred tax assets increased by € 1,059 thousand (previous year: € 586 thousand) in equity.

Deferred tax assets include current deferred taxes of € 51,467 thousand (previous year: € 62,744 thousand). Deferred tax liabilities include current deferred taxes of € 52,098 thousand (previous year: € 50,113 thousand).

23 Inventories

	31-Mar-2007	**31-Mar-2008**
Raw materials and supplies	130,679	136,812
Work and services in progress	350,720	384,247
Finished goods and goods for resale	406,977	440,364
Advance payments	12,325	12,291
	900,701	973,714

In order to adjust inventories to the net realizable value, impairment of € 15,664 thousand was recorded in the year under review (previous year: € 19,747 thousand). The reason for the write-down to the lower net realizable value is primarily the decreased likelihood of market success for a small portion of our inventories. Used machinery was repossessed as collateral owing to the insolvency of customers. In the year under review, used machinery of € 4,502 thousand (previous year: € 5,546 thousand) was reported under finished goods and goods held for resale. No inventories were pledged as collateral in either the reporting year or the previous year.

24 Securities and cash and cash equivalents

Securities of € 2,075 thousand (previous year: € 2,908 thousand) are classified as available for sale under IAS 39. These are all shares and fixed-income securities.

Cash and cash equivalents consist of cash on hand and bank balances. Restrictions on disposal of cash and cash equivalents due to foreign exchange restrictions amount to € 43,614 thousand (previous year: € 33,866 thousand). Bank balances are exclusively held at banks of unquestionable credit standing for short-term cash management purposes.

25 Shareholders' equity

Capital stock/number of shares outstanding/treasury stock

The shares are bearer shares and grant a pro rata amount of € 2.56 in the fully paid-in capital stock of the Company. On November 8, 2005, the Management Board of Heidelberger Druckmaschinen Aktiengesellschaft resolved the acquisition of treasury stock in the amount of up to 5 percent of the capital stock (up to 4,295,424 shares) in the period from November 9, 2005 to January 19, 2007. In doing so, the Management Board utilized the authorization granted by the Annual General Meeting on July 20, 2005 to acquire treasury stock in the amount of up to 10 percent of the capital stock (up to 8,590,848 shares) by January 19, 2007. The repurchased shares could only be used to reduce the Company's capital stock, for the employee share participation programs, or for other forms of share distribution to the employees of the Company or a subsidiary in accordance with the authorization of the Annual General Meeting of July 20, 2005. This buyback program was concluded on July 26, 2006.

The authorization granted by the Annual General Meeting on July 20, 2005 would have expired on January 19, 2007. To ensure seamless authorization for the Company, the authorization was cancelled in accordance with the resolution by the Annual General Meeting of July 20, 2006, effective from the end of the Annual General Meeting on July 20, 2006, and replaced by a new authorization to acquire treasury stock. According to this new authorization, the Management Board of Heidelberger Druckmaschinen Aktiengesellschaft was authorized to acquire treasury shares for any permissible purpose in an amount of up to the lower of 10 percent of either the current capital stock or the capital stock at the time of the exercise of the authorization until January 19, 2008.

On October 31, 2006, the Management Board of Heidelberger Druckmaschinen Aktiengesellschaft approved a further share buyback program. In doing so the Board utilized the authorization granted by the Annual General Meeting on July 20, 2006. Within the framework of this share buyback program, treasury stock could be purchased in the amount of up to 5 percent of the share capital (up to 4,152,535 shares) in the period November 7, 2006 to no later than January 19, 2008. The repurchased shares could only be utilized to reduce the Company's share capital or for employee share participation programs, as well as other forms of share distribution to the employees of the Company or a subsidiary or to individuals who are or were employed by the Company or affiliated companies. This buyback program was concluded on September 4, 2007.

The authorization granted by the Annual General Meeting on July 20, 2006 would have expired on January 19, 2008. To ensure seamless authorization, the authorization was cancelled in accordance with the resolution by the Annual General Meeting of July 26, 2007 and replaced by a new authorization for the Management Board to acquire treasury stock for any permissible purpose in an amount of up to the lower of 10 percent of either the current capital stock or the capital stock at the time of the exercise of the authorization until January 25, 2009.

In financial year 2006/2007, a total of 3,803,846 shares were acquired (notional share of capital stock: € 9,738 thousand; 4.6 percent of capital stock as of March 31, 2006). Of this amount, a total of 81,188 shares (notional share of capital stock: € 208 thousand; or 0.1 percent of capital stock as of March 31, 2006) were utilized for the employee share participation program. These shares were purchased at cost (€ 3,053 thousand) and resold to the employees at a sales price of € 1,384 thousand. In addition, the Company used a total of 3,322,658 shares (notional share of capital stock: € 8,506 thousand; or 4.0 percent of share capital as of March 31, 2006) in the capital reduction resolved by the Management Board on March 30, 2007. As a result of the redemption, the capital stock was reduced from € 212,609,799.68 (or 83,050,703 shares) by € 8,506,004.48 (or 3,322,658 shares) to € 204,103,795.20 (or 79,728,045 shares). The cost of the acquisition of the 3,322,658 shares was € 116,639 thousand. Additional transaction fees amounted to € 127 thousand. The total cost of the acquisition was therefore € 116,766 thousand.

In financial year 2007/2008, a total of 1,733,113 shares were acquired (notional share of capital stock: € 4,437 thousand; 2.2 percent of capital stock as of March 31, 2007). Of this amount, a total of 48,502 shares (notional share of capital stock: € 124 thousand; or 0.1 percent of capital stock as of March 31, 2007) were utilized for the employee share participation program. These shares were purchased at cost (€ 1,617 thousand) and resold to the employees at a sales price of € 699 thousand. In addition, the Company used a total of 1,684,611 shares (notional share of capital stock: € 4,313 thousand; or 2.1 percent of capital stock as of March 31, 2007) in the capital reduction resolved by the Management Board on March 11, 2008. As a result of the redemption, the capital stock was reduced from € 204,103,795.20 (or 79,728,045 shares) by € 4,312,604.16 (or 1,684,611 shares) to € 199,791,191.04 (or 78,043,434 shares). The cost of the acquisition of the 1,684,611 shares was € 56,106 thousand. Additional transaction fees were € 58 thousand. The total cost of acquisition thereby amounted to € 56,164 thousand.

As of March 31, 2008, the Company still holds 400,000 shares. The amount allocated to share capital is € 1,024 thousand, with a notional share of capital stock of 0.51 percent as of March 31, 2008 (previous year: 0.50 percent). The cost of the acquisition was € 13,246 thousand. Additional transaction fees were € 12 thousand. The total cost of the acquisition was therefore € 13,258 thousand.

Convertible bond

In accordance with the resolution by the Annual General Meeting on July 21, 2004, the Management Board is authorized, with the approval of the Supervisory Board, to issue bonds with warrants and/or convertible bonds with a total nominal amount of up to € 500,000,000.00 and a maximum term of 20 years on one or more occasions until July 20, 2009, and to grant option rights to the bearers of bonds with warrants and conversion rights to the bearers of convertible bonds relating to bearer shares in the Company with a proportionate interest in the capital stock of up to € 21,992,570.88 subject to the terms and conditions of the options or convertible bonds. On February 9, 2005, a convertible bond with a nominal amount of € 280 million was issued by our wholly-owned financing subsidiary Heidelberg International Finance B.V., Boxmeer, the Netherlands, under the guarantee of Heidelberger Druckmaschinen Aktiengesellschaft, Heidelberg. The bond was issued in € 100,000 denominations and matures on February 9, 2012. This issue carries a conversion right to no-par-value shares of Heidelberger Druckmaschinen Aktiengesellschaft which, at the discretion of the respective bearer, can be exercised between March 22, 2005 and January 30, 2012 in accordance with the conditions governing the bonds at a conversion price determined upon issue of € 39.63 (before possible adjustments for dividend payouts and capital measures). The interest coupon is 0.875 percent p. a. and is payable annually – for the first time on February 9, 2006. The annual yield to maturity is 3 percent. From February 9, 2009, in accordance with the conditions governing the bonds, following a corresponding notice period, Heidelberg is entitled to repay the convertible bond in full or in part through payment of the then accrued nominal amount plus interest accrued by the repayment date. On February 9, 2010, the respective bearer of the convertible bond has the right to early repayment of the bond through payment of the then accrued nominal amount plus interest accrued by the repayment date.

At the time of the issue of the convertible bond, a total of approximately 7 million no-par-value shares from contingent capital would correspond to the granted conversion rights.

As of July 27, 2007, in accordance with the conditions governing the bonds, the conversion price was adjusted from € 38.80 to € 38.03. This adjustment occurred due to the dividend distribution of € 0.95 per share.

In accordance with the resolution by the Annual General Meeting on July 20, 2006, the Management Board was authorized, with the approval of the Supervisory Board, to issue bearer warrants and/or convertible bonds in a total nominal amount of up to € 500,000,000.00 with a maximum term of 30 years on one or several occasions until July 19, 2011, and to grant option rights to the bearers of bonds with warrants or conversion rights to bearers of convertible bonds to bearer shares in the Company with a pro rata amount of capital stock of up to € 21,260,979.20 subject to the conditions of the option or convertible bond.

Contingent capital

According to the resolution of the Annual General Meeting of September 29, 1999, the capital stock can be contingently increased by up to € 10,996,288.00 by issuing up to 4,295,425 shares (Contingent Capital). According to the resolution of the Annual General Meeting of July 21, 2004, the capital stock can be contingently increased by up to € 21,992,570.88 by issuing up to 8,590,848 new bearer shares with a pro rata amount of capital stock of € 2.56 each (Contingent Capital II). The contingent capital increase is for the purpose of granting option rights or option obligations to the bearers of warrants under bonds with warrants in accordance with the option conditions; or for the purpose of granting conversion rights or conversion obligations to the bearers of convertible bonds in accordance with the convertible bond conditions, which are issued by the Company or a subsidiary Group company by July 20, 2009, as authorized by the resolution of the Annual General Meeting of July 21, 2004.

In accordance with the resolution by the Annual General meeting of July 20, 2006, the capital stock can be contingently increased by up to € 21,260,979.20 by issuing up to 8,305,070 new bearer shares with a pro rata amount of capital stock of € 2.56 each (Contingent Capital 2006). The contingent capital increase is for the purpose of granting option rights or option obligations to the bearers of warrants under bonds with warrants in accordance with the option conditions; or for the purpose of granting conversion rights or conversion obligations to the bearers of convertible bonds in accordance with the convertible bond conditions, which are issued by the Company or a subsidiary Group company by July 19, 2011, as authorized by the resolution of the Annual General Meeting of July 20, 2006. The new shares are issued at the option or conversion price to be determined according to the enabling resolution as described under 'Convertible bond'.

Authorized capital

By way of resolution of the Annual General Meeting of July 20, 2006, the Management Board is authorized, with the approval of the Supervisory Board, to increase the capital stock of the Company by up to € 63,782,937.60 by issuing new shares on one or several occasions against cash or non-cash contributions by July 1, 2009 (Authorized Capital 2006). When issuing shares against non-cash contributions, the Management Board is authorized, with the approval of the Supervisory Board, to disapply the subscription right of shareholders. The shareholders are granted subscription rights if the capital is increased against cash contributions. However, the Management Board, with the approval of the Supervisory Board, is authorized to disapply the subscription rights of shareholders for residual amounts. The Management Board is also authorized, with the approval of the Supervisory Board, to disapply the subscription rights of shareholders for capital increases against cash contributions if the issue amount is not significantly less than the stock market price. However, this authorization only applies under the condition that the shares issued while disapplying subscription rights in accordance with Article 186 (3), sentence 4 of the German Stock Corporation Act does not exceed 10 percent of capital stock, either at the time of validity or at the time this authorization is exercised. With the approval of the Supervisory Board, the Management Board is authorized to determine the further content of share rights and the conditions of share issuance.

Retained earnings

The retained earnings include the earnings generated but not yet distributed of Heidelberger Druckmaschinen Aktiengesellschaft and its consolidated subsidiaries in previous years, the effects of consolidation, exchange rate effects, IAS 39 fair value changes in equity and the actuarial gains and losses on pension obligations. Retained earnings were reduced accordingly by the acquisition of treasury stock.

Minority interests

Minority interests relate to the minority interests in shareholders’ equity of two foreign subsidiaries.

Appropriation of the net profit of Heidelberger Druckmaschinen Aktiengesellschaft

In accordance with the resolution of the Annual General Meeting of July 26, 2007, the unappropriated surplus for financial year 2006/2007 of € 75,935,587.10 was distributed as follows: distribution of a dividend of € 0.95 per share (total dividend: € 74,801,142.75) and carryforward of the remainder of € 1,134,444.35 to new account.

In accordance with the proposed appropriation of net profit for financial year 2007/2008, the unappropriated surplus of € 83,138,224.98 is to be used as follows: distribution of a dividend of € 0.95 per share (total dividend: € 73,761,262.30), and carryforward of the remainder of € 9,376,962.68 to new account. A dividend of € 0.95 is payable for each share that is eligible for a dividend on the date of the presentation of the annual financial figures of Heidelberger Druckmaschinen Aktiengesellschaft (May 26, 2008) (77,643,434 shares).

26 Provisions for pensions and similar obligations

The Heidelberg Group operates pension schemes – either directly or through premium payments to schemes financed by private institutions – for the majority of employees for the time after their retirement. The amount of benefit payments depends on the conditions in particular countries. The amounts are generally based on the term of employment and the salary of the employees. Liabilities include both those arising from current pensions as well as vested pension rights for pensions payable in the future. The pension payments expected following the start of benefit payments are distributed over the employee's full period of employment. The group of beneficiaries participating in the defined benefit plans financed by funds at Heidelberger Druckmaschinen Aktiengesellschaft and Heidelberger Druckmaschinen Vertrieb Deutschland GmbH has been closed.

The expenses for defined contribution plans amounted to € 80,918 thousand (previous year: € 71,189 thousand) in the reporting year and essentially includes contributions to the statutory pension insurance.

A so-called third option was exercised in line with IAS 19. In line with this, actuarial gains and losses and the restrictions of IAS 19.58b) are offset in equity.

As part of a contractual trust arrangement (CTA) of Heidelberger Druckmaschinen Aktiengesellschaft and Heidelberger Druckmaschinen Vertrieb Deutschland GmbH set up in March 2006, assets were transferred to a trustee, Heidelberg Pension-Trust e.V., Heidelberg. The purpose of the CTA is to finance all pension obligations.

The calculation of the pension provisions is based on the following assumptions:

Figures shown in percent

		2006/2007		**2007/2008**
	Germany	Abroad	**Germany**	**Abroad**
Discount rate	4.75	4.48	6.00	5.34
Expected return on plan assets	6.50	5.40	6.50	5.40
Expected future salary increases	2.75	2.97	3.00	2.98
Expected future pension increases	1.75	2.49	1.75	2.05

To determine the expected return on plan assets, we use amounts generated in the past experience and forecasts concerning the expected development of plan assets. The forecasts are prepared by experienced portfolio managers and investment and real estate sector experts.

The information on pensions is structured as follows:

1) Composition and development of the net carrying amounts.
2) Reconciliation of the defined benefit obligation and the fair value of plan assets to the provisions for pensions.
3) Development of the defined benefit obligation.
4) Development of the fair value of plan assets.
5) Composition of plan assets.
6) Breakdown of retirement benefit expenses.
7) Three-year comparison: total defined benefit obligation and experience adjustments.

1) The net carrying amounts break down as follows:

	31-Mar-2007	**31-Mar-2008**
Provisions for pensions and similar obligations	132,940	115,969
Reported assets	32,639	94,136
Net carrying amounts at the end of the financial year	100,301	21,833

The net carrying amounts developed as follows:

	2006/2007	**2007/2008**
Net carrying amounts at the start of the financial year	206,797	100,301
Expenses for pension obligations	66,968	58,792
Pension payments	– 7,721	– 2,218
Funding of pensions/contributions	– 71,115	– 6,753
Change in actuarial gains (–)/losses (+)	– 45,249	– 83,485
Expected return on plan assets	– 49,733	– 51,432
Change in adjustment amount due to IAS 19.58b)	668	1,571
Change in the scope of the consolidation, currency adjustments, other changes	– 314	5,057
Net carrying amounts at the end of the financial year	100,301	21,833

2) The provisions for pensions and similar obligations are derived from the defined benefit obligation and the fair value of plan assets as follows:

	31-Mar-2007	**31-Mar-2008**
Present value of defined benefit obligation (funded)	946,726	810,564
Less fair value of plan assets	– 875,990	– 817,618
	70,736	– 7,054
Present value of defined benefit obligation (unfunded)	23,450	21,201
Adjustment amount due to IAS 19.58b)	6,115	7,686
Net carrying amount	100,301	21,833
Reported assets included therein	32,639	94,136
Provisions for pensions and similar obligations	132,940	115,969

3) The defined benefit obligation developed as follows:

	2006/2007	**2007/2008**
Defined benefit obligation at the start of the financial year	986,671	970,176
Current service cost	25,136	23,257
Interest expense	41,832	44,004
Pension payments	– 31,720	– 36,650
Change in actuarial gains (–)/losses (+)	– 53,211	– 140,556
Past service cost	–	– 8,469
Change in the scope of the consolidation, currency adjustments, other changes	1,468	– 19,997
Defined benefit obligation at the end of the financial year	970,176	831,765
– of which: funded	946,726	810,564
– of which: unfunded	23,450	21,201

The past service cost is based on the adjustment of the pension age due to the German Pension Age Adjustment Act.

4) The fair value of plan assets developed as follows:

	2006/2007	**2007/2008**
Fair value of plan assets at the start of the financial year	785,321	875,990
Expected return on plan assets	49,733	51,432
Funding of pensions/contributions	71,115	6,753
Pension payments from funds	– 23,999	– 34,432
Change in actuarial gains (–)/losses (+)	– 7,962	– 57,071
Change in the scope of the consolidation, currency adjustments, other changes	1,782	– 25,054
Fair value of plan assets at the end of the financial year	875,990	817,618

The actual return on plan assets is € – 5,639 thousand (previous year: € 41,771 thousand).

5) Plan assets break down as follows:

	31-Mar-2007	**31-Mar-2008**
Fixed-income securities	425,280	461,044
Shares	322,896	258,669
Real estate	28,199	31,233
Qualifying insurance policy	27,799	28,086
Cash and cash equivalents	59,830	26,846
Other	11,986	11,740
	875,990	817,618

6) Retirement benefit expenses break down as follows:

	2006/2007	**2007/2008**
Current service cost[1]	25,136	23,257
Interest expense	41,832	44,004
Past service cost[1]	–	– 8,469
Expenses for pension obligations	66,968	58,792
Expected return on plan assets	– 49,733	– 51,432
Expenses for other pension plans[1]	19,726	23,522
	36,961	30,882

[1] Retirement benefit expenses reported under staff costs before netting against the return on plan assets amount to € 38,310 thousand (previous year: € 44,862 thousand)

The return on plan assets on an individual entity level is included in staff costs up to the amount of the corresponding expense for pension claims; any excess is shown together with interest expenses in net financial income.

It was not possible to reliably estimate expected future contributions to the employee pension funds as of the balance sheet date.

The cumulative actuarial gains and the cumulative adjustment amount in accordance with IAS 19.58b) is € 19,845 thousand as of the balance sheet date (previous year: € 62,712 thousand).

7) Three-year comparison: total defined benefit obligation and experience adjustments

The defined benefit obligations, the fair values of plan assets, the funding status at the end of reporting periods and experience adjustments to liabilities and plan assets are shown in the following tables:

	31-Mar-2006	31-Mar-2007	**31-Mar-2008**
Present value of defined benefit obligation (funded)	841,874	946,726	810,564
Less fair value of plan assets	– 785,321	– 875,990	– 817,618
	56,553	70,736	– 7,054
Present value of defined benefit obligation (unfunded)	144,797	23,450	21,201

	2005/2006	2006/2007	**2007/2008**
Experience adjustments to liabilities	3,926	2,318	– 1,699
Experience adjustments to assets	27,825	– 7,962	– 57,071

27 Other provisions

			31-Mar-2007			**31-Mar-2008**
	Current	Non-current	Total	Current	Non-current	Total
Tax provisions	19,444	250,450	269,894	37,705	257,271	294,976
Other provisions						
Staff obligations [1]	92,700	53,286	145,986	91,365	51,747	143,112
Sales obligations	161,879	30,567	192,446	180,104	11,735	191,839
Other [1]	54,645	39,732	94,377	69,212	39,621	108,833
	309,224	123,585	432,809	340,681	103,103	443,784
	328,668	374,035	702,703	378,386	360,374	738,760

1) Previous year's figures were adjusted (see note 1)

	As of 31-Mar-2007	Changes in the scope of consolidation, currency adjustments, reclassification	Utilization	Release	Addition	**As of 31-Mar-2008**
Tax provisions	269,894	– 5,543	16,982	1,681	49,288	294,976
Other provisions						
Staff obligations [1)]	145,986	– 3,750	77,271	8,483	86,630	143,112
Sales obligations	192,446	– 8,455	73,549	42,901	124,298	191,839
Other [1)]	94,377	– 6,946	23,041	14,388	58,831	108,833
	432,809	– 19,151	173,861	65,772	269,759	443,784
	702,703	– 24,694	190,843	67,453	319,047	738,760

1) Previous year's figures were adjusted (see note 1)

Additions include interest of € 7,102 thousand. € 2,406 thousand of this relates to staff obligations, € 436 thousand to sales obligations and € 4,260 thousand to miscellaneous other provisions.

As in previous years, **tax provisions** primarily recognize the risks of additional assessments.

Staff provisions essentially relate to bonuses (€ 44,191 thousand, previous year: € 49,199 thousand), expenses for early retirement payments and for the partial retirement program (€ 28,474 thousand; previous year: € 21,924 thousand), anniversary expenses (€ 16,506 thousand; previous year: € 17,399 thousand) and provisions for the stock option program and the long-term incentive plan (€ 582 thousand; previous year: € 971 thousand).

Sales provisions mainly relate to warranties, reciprocal liability and buyback obligations (€ 138,234 thousand; previous year: € 143,408 thousand). The provisions for warranty obligations, obligations to provide subsequent performance and product liability serve to cover risks that are either not insured or which go beyond insurable risks. The reciprocal liability and buyback obligations (€ 19,895 thousand; previous year: € 21,060 thousand) mainly relate to finance guarantees entered into for the finance partners of our customers in the context of sales financing. In connection with the finance guarantees for sales financing, there are claims against third parties in connection with the transfer of machinery. Outstanding claims were not capitalized.

Miscellaneous other provisions include provisions for onerous contracts of € 20,136 thousand (previous year: € 9,995 thousand) and research and development obligations of € 5,216 thousand (previous year: € 2,910 thousand). They also include provisions for restructuring measures of € 2,195 thousand (previous year: € 8,723 thousand).

28 Financial liabilities

			31-Mar-2007[1]			**31-Mar-2008**
	Current	Non-current	Total	Current	Non-current	Total
Convertible bond	–	286,533	286,533	–	295,055	295,055
Borrower's note loans[1]	7,279	130,500	137,779	7,243	123,500	130,743
Amounts due to banks	84,460	–	84,460	18,414	70,579	88,993
From finance leases	6,929	4,471	11,400	4,487	4,106	8,593
Other	23,214	–	23,214	20,492	272	20,764
	121,882	421,504	543,386	50,636	493,512	544,148

[1] Including deferred interest

Convertible bond

The fair value of the liability component of the convertible bond, calculated on the basis of the discounted cash flow method using market interest rates, was € 271,868 thousand as of the balance sheet date (previous year: € 267,255 thousand). Please also see note 25 Shareholders' equity for information on the convertible bond.

Borrower's note loans

Three floating-rate borrower's note loans with a nominal amount of € 130,500 thousand (previous year: € 137,500 thousand) are currently outstanding. While one of these loans, with a nominal amount of € 25,500 thousand, has an amortizing repayment structure and matures in 2011, the other two loans with nominal amounts of € 55,000 thousand and € 50,000 thousand respectively provide for bullet maturity repayment in 2009 and 2013. The contractually arranged interest rate adjustment periods are up to six months.

Amounts due to banks

Amounts due to banks (including borrower's note loans) are shown in the table below:

Type	Contract currency	Carrying amount as of 31-Mar-2007 in € thousand	Remaining term in years	Effective interest rate (percent)	**Carrying amount as of 31-Mar-2008 in € thousand**	Remaining term in years	Effective interest rate (percent)
Loans	EUR	203,523	up to 6	up to 5.1	210,432	up to 12	up to 6.6
Current account	EUR	4,191	–	up to 4.6	–	–	–
Other	Others	14,525	up to 1	up to 14.0	9,304	up to 1	up to 14.4
		222,239			219,736		

The stated effective interest rates largely match the agreed nominal interest rates.

The stated carrying amounts correspond to the respective nominal values and include contractually agreed interest adjustment terms for variable interest of up to six months.

In connection with the borrowing of a long-term loan of € 75,105 thousand, the lender was granted the obligation of usufractory rights to three developed properties of Heidelberger Druckmaschinen Aktiengesellschaft. The basis of this is a sale-and-leaseback transaction in line with SIC 27, which provides for a fixed basic term for the lease agreement of ten years and two prolongation options of four years each. The usufractory rights each have a term of 18 years. Heidelberger Druckmaschinen Aktiengesellschaft can commute the usufractory rights after ten years. The fair value calculated on the basis of the discounted cash flow method using market interest rates is € 73,454 thousand.

The **credit lines** not yet fully used in our Group amount to € 1,093,481 thousand (previous year: € 1,084,014 thousand) as of the balance sheet date.

As a key element of the long-term securing of liquidity, in July 2005 Heidelberg arranged a syndicated credit line from an underwriting syndicate under the co-management of Commerzbank Aktiengesellschaft, Dresdner Bank Aktiengesellschaft and Deutsche Bank Aktiengesellschaft. This syndicated line of credit for € 550 million has an initial term until 2010 and bears two prolongation options for one additional year each. In 2007, Heidelberg exercised its second option to prolong the term of the syndicated line of credit until July 29, 2012.

Current amounts due to banks (with a term to maturity up to one year) of € 18,414 thousand (previous year: € 84,460 thousand) include zero utilization under this syndicated credit line as of the reporting date (previous year: € 20,000 thousand).

Liabilities from finance leases

Liabilities from finance leases are as follows:

				31-Mar-2007				**31-Mar-2008**
	Up to 1 year	Between 1 and 5 years	More than 5 years		Up to 1 year	Between 1 and 5 years	More than 5 years	
Total lease payments	–	–	–	25,241	–	–	–	17,578
Lease payments already made	–	–	–	– 13,480	–	–	–	– 8,728
Outstanding lease payments	7,168	4,593	–	11,761	4,668	4,182	–	8,850
Interest portion of outstanding lease payments	– 239	– 122	–	– 361	– 181	– 76	–	– 257
Present value of outstanding lease payments (carrying amount)	6,929	4,471	–	11,400	4,487	4,106	–	8,593

29 Trade payables

The usual retentions of title apply to the trade payables.

30 Other liabilities

			31-Mar-2007			31-Mar-2008
	Current	Non-current	Total	Current	Non-current	Total
Deferred staff liabilities [1]	81,760	–	81,760	84,307	–	84,307
Advance payments on orders	79,653	–	79,653	81,912	–	81,912
From derivative financial instruments	6,505	861	7,366	24,175	2,600	26,775
From other taxes	39,592	–	39,592	54,630	–	54,630
Relating to social security	9,254	–	9,254	6,041	2,704	8,745
Deferred income	34,561	35,587	70,148	49,381	35,116	84,497
Other	54,036	72,922	126,958	57,447	73,970	131,417
	305,361	109,370	414,731	357,893	114,390	472,283

[1] Previous year's figures were adjusted (see note 1)

Derivative financial instruments

Derivative financial instruments include negative fair values of cash flow hedges of € 24,460 thousand (previous year: € 3,690 thousand) and fair value hedges of € 2,315 thousand (previous year: € 3,676 thousand).

Deferred income

Deferred income includes taxable investment subsidies of € 5,518 thousand (previous year: € 4,946 thousand), tax-free investment allowances of € 2,119 thousand (previous year: € 1,980 thousand) and other deferred income of € 76,860 thousand (previous year: € 63,222 thousand).

Taxable subsidies comprise funds under the regional economic promotion program for investing in Brandenburg. The subsidies were for Heidelberger Druckmaschinen Aktiengesellschaft in connection with the joint task for the development area totaling € 5,518 thousand (previous year: € 4,946 thousand).

Tax-free allowances include allowances in line with the German Investment Allowance Act of 1991/1996/1999/2005/2007 of € 2,119 thousand (previous year: € 1,980 thousand) mainly for the Brandenburg location.

Other deferred income essentially includes advance payments for future maintenance and services and non-recurring payments for heritable building rights under sale-and-lease-back agreements. These amounts are reversed in the income statement over the term of the agreement.

Miscellaneous other liabilities

Recognized liabilities are essentially the undiscounted contractual cash flows.

31 Information on financial instruments

Carrying amounts of financial instruments

The carrying amounts of financial instruments are assigned to the measurement categories of IAS 39 – as shown on the following pages:

> RECONCILIATION > TOTAL ASSETS

Balance sheet items	IAS 39 measurement category[1]	Carrying amounts			Carrying amounts		
				31-Mar-2007			**31-Mar-2008**
		Current	Non-current	Total	Current	Non-current	Total
Financial assets							
Shares in affiliated companies	AFS	–	22,371	22,371	–	45,657	45,657
Other investments	AFS	–	16,236	16,236	–	14,326	14,326
Securities	AFS	–	8,068	8,068	–	8,066	8,066
		–	46,675	46,675	–	68,049	68,049
Receivables from sales financing							
Receivables from sales financing	L&R	108,554	293,918	402,472	122,336	183,851	306,187
Receivables from finance leases	n.a.	2,969	25,962	28,931	5,869	10,988	16,857
		111,523	319,880	431,403	128,205	194,839	323,044
Trade receivables	L&R	704,538	–	704,538	596,473	–	596,473
Other receivables and other assets							
Derivative financial instruments	n.a.[2]	23,018	6,462	29,480	67,722	39,208	106,930
Other financial assets	L&R	49,693	39,252	88,945	50,386	39,147	89,533
		72,711	45,714	118,425	118,108	78,355	196,463
Miscellaneous other assets		49,385	42,338	91,723	53,045	100,491	153,536
		122,096	88,052	210,148	171,153	178,846	349,999
Securities	AFS	2,908	–	2,908	2,075	–	2,075
Cash and cash equivalents	L&R	76,339	–	76,339	141,868	–	141,868

[1] As cash and cash equivalents are not shown in this table as they cannot be assigned to any IAS 39 measurement category:
AFS: available-for-sale financial assets
L&R: loans and receivables
n.a.: no IAS 39 measurement category

[2] Derivative financial instruments include short-term hedging instruments amounting to € 749 thousand (previous year: € 154 thousand) assigned to the IAS 39 measurement category: Financial instruments held for trading

> RECONCILIATION > EQUITY AND LIABILITIES

Balance sheet items	IAS 39 measurement category[1]	Carrying amounts			Carrying amounts		
				31-Mar-2007			**31-Mar-2008**
		Current	Non-current	Total	Current	Non-current	Total
Financial liabilities							
Convertible bond	FLAC	–	286,533	286,533	–	295,055	295,055
Borrower's note loans	FLAC	7,279	130,500	137,779	7,243	123,500	130,743
Due to banks	FLAC	84,460	–	84,460	18,414	70,579	88,993
Finance lease liabilities	n.a.	6,929	4,471	11,400	4,487	4,106	8,593
Other financial liabilities	FLAC	23,214	–	23,214	20,492	272	20,764
		121,882	421,504	543,386	50,636	493,512	544,148
Trade payables	FLAC	249,753	–	249,753	294,955	–	294,955
Other liabilities							
Liabilities from derivative financial instruments	n.a.	6,505	861	7,366	24,175	2,600	26,775
Other financial liabilities	FLAC	112,781	60,134	172,915	134,946	63,513	198,459
		119,286	60,995	180,281	159,121	66,113	225,234
Miscellaneous other liabilities		186,075	48,375	234,450	198,772	48,277	247,049
		305,361	109,370	414,731	357,893	114,390	472,283

[1] Notes on abbreviations for IAS 39 measurement categories:
FLAC: financial liabilities at amortized cost
n.a.: no IAS 39 measurement category

Liquidity risk of financial liabilities

The following table shows the contractually agreed, undiscounted cash flows of financial liabilities. The yield curves of the respective currencies valid as per the balance sheet date were used to determine the variable interest payments from financial instruments. Where necessary, foreign currencies were translated at spot rates. Financial liabilities repayable on demand are always assigned to the earliest time band.

	31-Mar-2007	**31-Mar-2008**
Up to 1 year	111,788	58,230
Between 1 and 5 years	434,117	461,454
More than 5 years	52,745	111,165
	598,650	630,849

Net gains and losses

The net gains and losses are assigned to the IAS 39 measurement categories as follows:

	2006/2007	**2007/2008**
Available for sale financial assets	3,035	4,204
Loans and receivables	13,874	16,531
Financial liabilities at amortized cost	– 27,446	– 30,143

Changes in the value of available for sale financial assets of € – 378 thousand (previous year: € – 602 thousand) were recognized in equity.

Net gains and losses include € 9,547 thousand (previous year: € 9,691 thousand) of interest income and € 34,191 thousand (previous year: € 29,791 thousand) of interest expenses for financial assets and financial liabilities not measured at fair value through profit or loss.

In addition, there were net gains on financial instruments held for trading of € 178 thousand (previous year: € 455 thousand). These financial instruments relate to hedges that do not satisfy the documentation requirements of IAS 39 for hedge accounting or whose underlying hedged items no longer exist.

Derivative financial instruments

The Corporate Treasury department of Heidelberger Druckmaschinen Aktiengesellschaft is responsible for all hedging and financing activities of Heidelberger Druckmaschinen Aktiengesellschaft and our subsidiaries. It is also responsible for the cash pooling operations of our Group as a whole. Within the Corporate Treasury department, we ensure that there is both a functional and a physical separation of the trading, processing and risk control activities, and this is regularly reviewed by our internal audit department.

The prerequisite for an adequate risk management system is a well-founded database. The Corporate Treasury department of Heidelberger Druckmaschinen Aktiengesellschaft operates a Group-wide financial reporting system – the Treasury Information System. This system is used to identify interest rate, currency and liquidity risks within the Group and to derive appropriate action plans and strategies with which to manage these risks on a central basis in line with guidelines issued by the Management Board. Heidelberg operates a monthly, annualized consolidated liquidity planning system on a rollover basis, which makes it possible to manage current and future liquidity needs. In the past financial year, the Heidelberg Group was able to promptly meet its financial liabilities at all times; in accordance with our planning, it will maintain this capability in the future as well. This is also reflected in the credit lines not fully utilized (see note 28).

Derivative financial instruments are used to manage interest rates and exchange rate fluctuations. Corresponding contracts with third-party banks with top credit ratings are mainly concluded through Heidelberger Druckmaschinen Aktiengesellschaft. The credit ratings of these business partners are reviewed regularly. The risk control activities include an ongoing market evaluation of contracted transactions.

Currency risks arise in particular as a result of US dollar and Japanese yen exchange rate fluctuations in connection with receivables and liabilities and anticipated cash flows and onerous contracts. The balance sheet items are nearly fully hedged. **Interest rate risks** essentially occur with regard to variable-rate interest refinancing transactions. Fixed-income financial instruments carried at amortized cost are not exposed to any on-balance-sheet interest rate risks. In hedge accounting, the derivative financial instruments designated as a hedge of these currency risks and of interest rate risks are shown as follows:

	Nominal volumes		Fair values	
	31-Mar-2007	**31-Mar-2008**	31-Mar-2007	**31-Mar-2008**
Currency hedging				
Cash flow hedge				
Forward exchange transactions	513,078	687,736	6,062	24,910
– of which: positive fair value	(325,375)	(571,498)	(8,983)	(29,339)
– of which: negative fair value	(187,703)	(116,238)	(– 2,921)	(– 4,429)
Currency options	822,148	1,703,000	16,143	52,389
– of which: positive fair value	(450,424)	(1,044,000)	(16,572)	(72,419)
– of which: negative fair value	(371,724)	(659,000)	(– 429)	(– 20,030)
	1,335,226	2,390,736	22,205	77,299
Fair value hedge				
Forward exchange transactions	366,774	526,973	– 3,553	– 638
– of which: positive fair value	(42,748)	(90,692)	(123)	(1,677)
– of which: negative fair value	(324,026)	(436,281)	(– 3,676)	(– 2,315)
Interest-rate hedging				
Cash flow hedge				
Interest rate swaps	160,440	142,445	3,308	2,746
– of which: positive fair value	(125,553)	(140,555)	(3,648)	(2,747)
– of which: negative fair value	(34,887)	(1,890)	(– 340)	(– 1)

The nominal volumes result from the total of all the purchase and sale amounts of the underlying hedged items. The fair values correspond to changes in value arising from a notional revaluation taking into consideration market parameters applicable at the balance sheet date. The fair values are calculated using standardized valuation methods (discounted cash flow method and option pricing models).

The positive and negative fair values of the derivative financial instruments designated as hedging instruments are offset by opposing value developments in the hedged items. All derivative financial instruments are carried as assets or liabilities at their corresponding fair values.

The following table shows the contractually agreed, undiscounted incoming and outgoing payments for derivative financial instruments. The yield curves of the respective currencies were used to determine the variable interest payments from financial instruments. Where necessary, foreign currencies were translated at spot rates.

	Up to 1 year	Between 1 and 5 years	More than 5 years	Total undiscounted cash flows
31-Mar-2007				
Derivative financial liabilities				
Outgoing payments	– 502,492	– 15,928	–	– 518,420
associated incoming payments	496,232	15,509	–	511,741
Derivative financial assets				
Outgoing payments	– 627,309	– 49,030	– 1,718	– 678,057
associated incoming payments	649,774	54,470	2,124	706,368
31-Mar-2008				
Derivative financial liabilities				
Outgoing payments	– 701,083	– 6,850	–	– 707,933
associated incoming payments	675,943	6,939	–	682,882
Derivative financial assets				
Outgoing payments	– 932,539	– 431,571	–	– 1,364,110
associated incoming payments	1,004,190	460,159	–	1,464,349

Currency hedging

Cash flow hedge

The forward exchange and currency option transactions outstanding as of the balance sheet date hedge highly likely currency risks expected from purchase volumes of our subsidiaries over the next 48 months. Therefore, the remaining term of these derivatives at the balance sheet date was up to four years. Of the hedges, 52 percent (previous year: 41 percent) of the hedging volume relates to the US dollar and 32 percent (previous year: 39 percent) to the Japanese yen as of the balance sheet date.

On the balance sheet date, hedges resulted in total positive fair values of € 101,758 thousand (previous year: € 25,555 thousand) and negative fair values of € 24,459 thousand (previous year: € 3,350 thousand). The change in value of the designated portion of the hedge was recognized in income and will be taken to income over the subsequent 48 months.

Fair value hedge

This is the exchange rate hedge for loan receivables in foreign currencies. The opposing net loss on the fair value of hedges of € –37,511 thousand (previous year: € –2,471 thousand) and the translation of hedged items at spot rates of € 42,248 thousand (previous year: € 5,500 thousand) are reported in the income statement.

Interest rate hedging

Cash flow hedge

The Heidelberg Group limits the risk from increasing interest expenses for refinancing by using interest-rate swaps, under which Heidelberg receives variable-rate interest and pays fixed interest (payer interest rate swap). The remaining terms of these interest rate swaps are up to five years and are in line with our planning horizon. As of the balance sheet date, the measurement of all transactions resulted in positive fair values of € 2,747 thousand (previous year: € 3,648 thousand) and negative fair values of € 1 thousand (previous year: € 340 thousand), which were recognized in equity and will be released to net interest income over the term of the transactions. The income from deferred interest included in the fair values of the interest rate swaps of € 52 thousand (previous year: expense of € 42 thousand) was recognized in the income statement.

Value-at-risk

Under the **value-at-risk method**, the maximum loss potential that could result from a change in market prices is calculated based on historic price fluctuations with a confidence interval of 95 percent and a holding period of one day. We use professional treasury software to calculate the value-at-risk. The value-at-risk for interest rate derivatives as of the balance sheet date was € 248 thousand (previous year: € 162 thousand). The value-at-risk for currency-related derivative financial instruments was € 14,186 thousand (previous year: € 4,205 thousand).

Risk of default

There is a theoretical **risk of default (credit risk)** for the existing derivative financial instruments in the amount of the positive fair values. As the counterparties are banks with top credit ratings, an actual default on derivatives is not currently expected.

32 Contingent liabilities

Contingent liabilities from guarantees, amounting to € 179,962 thousand as of March 31, 2008 (previous year: € 218,686 thousand), comprise in particular reciprocal liability and buyback obligations for third-party liabilities in connection with long-term sales financing, which in turn largely correspond to rights of recourse on the delivered products.

33 Other financial liabilities

Other financial liabilities break down as follows:

				31-Mar-2007				**31-Mar-2008**
	Up to 1 year	Between 1 and 5 years	More than 5 years		Up to 1 year	Between 1 and 5 years	More than 5 years	
Lease obligations	58,454	133,120	229,491	421,065	65,506	158,209	206,324	430,039
Investments	71,593	2,937	–	74,530	45,720	3,833	–	49,553
	130,047	136,057	229,491	495,595	111,226	162,042	206,324	479,592

The figures shown are nominal values.

The minimum lease payments for operating leases primarily comprise:

> The Research and Development Center (Heidelberg) in the amount of € 46,573 thousand (previous year: € 49,778 thousand);
> the Print Media Academy (Heidelberg) in the amount of € 50,558 thousand (previous year: € 54,452 thousand);
> the World Logistics Center (WLC) (Wiesloch-Walldorf plant) in the amount of € 31,849 thousand (previous year: € 34,785 thousand);
> the 'X-House' administrative building (Heidelberg) in the amount of € 18,336 thousand (previous year: € 0 thousand);
> the administrative and production building in Rochester, New York, USA, in the amount of € 76,380 thousand (previous year: € 94,029 thousand);
> the administrative and production building in Durham, USA, in the amount of € 18,849 thousand (previous year: € 23,283 thousand); and
> motor vehicles in the total value of € 27,963 thousand (previous year: € 30,620 thousand).

Investments are largely financial obligations in connection with orders of tangible assets.

Future payments for other financial obligations are partially offset by future incoming payments for license agreements.

Additional information

34 Earnings per share in accordance with IAS 33

	2006/2007[1]	**2007/2008**
Consolidated net income for the year attributable to Heidelberg (€ thousand)	262,993	141,770
Plus: earnings increase due to dilutive effect of convertible bond (€ thousand)	8,934	9,872
Earnings taking into account dilutive effects (€ thousand)	271,927	151,642
Number of shares in thousands (weighted average)	81,393	78,126
Effect of the dilutive convertible bond	7,216	7,363
Weighted average of outstanding shares – fully diluted	88,609	85,489
Undiluted earnings per share (€)	3.23	1.81
Diluted earnings per share (€)	3.07	1.77

[1] Adjusted for comparability

The undiluted earnings per share are calculated by dividing the consolidated net income for the year attributable to Heidelberg by the weighted average number of the shares outstanding in the reporting year of 78,126 thousand (previous year: 81,393 thousand shares). Earnings per share can be diluted by so-called potential shares. As of the balance sheet date, the dilutive potential shares had to be included in the calculation of diluted earnings per share on account of the issuance of the convertible bond. Please see note 25 Shareholders' equity for information on the structure of the convertible bond.

35 Information on the cash flow statement

The cash flow statement shows the changes in the cash and cash equivalents of the Heidelberg Group during the financial year as a result of the inflows and outflows of cash. Cash flows are broken down into operating, investing and financing activities (IAS 7). The changes in balance sheet items shown in the cash flow statement cannot be derived directly from the balance sheet as the effects of currency translation and changes in the scope of consolidation do not affect cash and have therefore been eliminated.

The additions from finance leases of € 5,183 thousand (previous year: € 7,450 thousand) are not included in the investments in intangible assets, tangible assets and investment property. € 47,184 thousand (previous year: € 35,557 thousand) of investments in intangible assets and tangible assets relate to intangible assets, € 169,601 thousand (previous year: € 142,888 thousand) to tangible assets. There were no investments in investment property in the financial year (previous year: investments of € 101 thousand). € 31 thousand (previous year: € 6,133 thousand) of income from the disposal of intangible assets, tangible assets and investment property relate to intangible assets, € 27,082 thousand (previous year: € 76,872 thousand) to tangible assets and € 15,338 thousand (previous year: € 8,136 thousand) to investment property.

The proceeds from the disposals of financial assets in the previous year comprised, among other things, the purchase price for the disposal of Linotype GmbH, Bad Homburg. The cash and cash equivalents sold of € 2 thousand were offset from the sales price.

The payments from operating leases in which Heidelberg is the lessee are shown in the cash flow statement under operating activities. The repayment portion of lease installments for finance leases in which Heidelberg is the lessee are reported under financing activities. The interest portion of lease installments is shown under operating activities.

Payments received from operating and finance leases in which Heidelberg is the lessor are reported under changes in cash from operating activities.

Detailed information on the cash flow statement can be found in the Group Management Report.

Cash and cash equivalents break down as follows:

	31-Mar-2007	**31-Mar-2008**
Current securities	2,908	2,075
Cash and cash equivalents	76,339	141,868
Total cash and cash equivalents	79,247	143,943

36 Information on segment reporting

Segment reporting is based on the **risk and reward approach**.

The Press Division comprises not only all the components, products and solutions provided by prepress, sheetfed offset, packaging and flexo printing but our sales activities in web offset printing as well. All finishing operations are integrated into the Postpress Division. Our sales financing services form the Financial Services Division.

Regionally, we distinguish between 'Europe, Middle East and Africa', 'Eastern Europe', 'North America', 'Latin America' and 'Asia/Pacific'.

Further information on the business areas can be found in the reports of the divisions and the reports of the regions. Transfer prices for internal Group sales are determined using a market-driven approach, based on the principle of dealing at arm's length.

Inter-segment sales are of minor financial significance and can therefore be disregarded. **Non-cash expenses** comprise the following:

	2006/2007	**2007/2008**
Bad debt allowances and impairment on other assets	43,359	38,590
Additions to provisions/deferred liabilities	435,119	398,924
	478,478	437,514

€ 17,094 thousand of bad debt allowances and impairment on other assets relates to the Press Division (previous year: € 22,132 thousand), € 19,408 thousand to the Financial Services Division (previous year: € 18,948 thousand) and € 2,088 thousand to the Postpress Division (previous year: € 2,279 thousand).

Research and development costs result from research and development costs incurred in the reporting year. This does not include write-downs on development costs.

Investments comprise investments in intangible assets, tangible assets and investment property.

The **number of employees** was recorded as of the respective balance sheet date.

Segment assets and **segment liabilities** are derived from gross assets and liabilities as follows:

	31-Mar-2007	31-Mar-2008
Gross assets as on balance sheet	3,339,079	3,507,157
– Financial assets	– 46,675	– 68,049
– Securities	– 2,908	– 2,075
– Financial receivables	– 68,066	– 59,124
– Deferred tax assets	– 72,034	– 77,288
– Tax refund claims	– 106,669	– 121,994
Segment assets	3,042,727	3,178,627

Financial receivables comprise financial receivables from affiliated companies and other financial assets.

	31-Mar-2007	31-Mar-2008
Gross liabilities as on balance sheet	2,137,408	2,314,322
– Tax provisions	– 269,894	– 294,976
– Tax liabilities	– 47,777	– 58,176
– Financial liabilities	– 468,616	– 490,048
– Deferred tax liabilities	– 85,710	– 144,661
Segment liabilities	1,265,411	1,326,461

Financial liabilities comprise the individual items shown in note 28, except financial liabilities relating to sales financing.

37 Capital management

In the context of implementing the holistic management approach, it is the task of capital management to make an effective contribution to the attainment of the Heidelberg Group's goals. In this context, Heidelberg's financial goals are geared towards ensuring liquidity and creditworthiness and increasing the enterprise value of the Heidelberg Group on an ongoing, long-term basis, which benefits both our shareholders and our employees. In addition to the return on capital employed (ROCE), we use a management control figure based on capital costs to achieve long-term value growth. This figure is the 'value contribution' (see also the information in the Group management report, page 58). The value contribution enables the measurement of the performance of the Heidelberg Group.

The basis for determining the value contribution is the following capital structure:

	2006/2007	**2007/2008**
Shareholders' equity	1,201,671	1,192,835
– Net deferred taxes	– 13,676	– 67,373
Adjusted shareholders' equity	1,215,347	1,260,208
Annual average	1,155,595	1,237,778
Pension provisions	132,940	115,969
+ Tax provisions	269,894	294,976
+ Net tax receivables/liabilities	– 58,892	– 63,818
+ Non-operating financial liabilities	468,616	490,048
Liabilities	812,558	837,175
Annual average	853,601	824,867
Adjusted total capital	2,027,905	2,097,383
Annual average	2,009,196	2,062,644

The capital management strategy has not changed as against the previous year.

In the year under review, the equity of the Heidelberg Group declined from € 1,201,671 thousand to € 1,192,835 thousand. Based on total assets, the equity ratio therefore dropped from 36.0 percent to 34.0 percent. In addition, net financial liabilities (= total financial liabilities, such as the convertible bond, borrower's note loans, bank loans and pension provisions less securities and cash and cash equivalents) were reduced from € 562,465 thousand in the previous year to € 486,817 thousand. One of the stated aims of the Heidelberg program 'Heidelberg Excellence' is to lower the volume of working capital and thereby limit capital tie-up. In the medium term, working capital as a percentage of sales is to be reduced down to 30 percent.

Standard external capital requirements, particularly those for the syndicated credit line, were met by the Heidelberg Group. Heidelberg is not subject to any capital requirements arising from its Articles of Association.

38 Declaration of Compliance in accordance with Article 161 of the German Stock Corporation Act

The Management Board and the Supervisory Board of Heidelberger Druckmaschinen Aktiengesellschaft issued the declaration of compliance in accordance with Article 161 of the German Stock Corporation Act and made it permanently accessible to the shareholders. Earlier declarations of compliance were also made permanently accessible.

39 Management Board and Supervisory Board

The basic characteristics of the remuneration system and amounts of remuneration for the members of Management Board and the Supervisory Board are presented in the remuneration report, which is part of the Management Report (see pages 43 to 51).

The members of the Supervisory Board and the Management Board are listed in the overview presented on pages pages 98 to 99 (Supervisory Board) and 101 (Management Board).

Total cash remuneration of the Management Board for the year under review including non-cash remuneration amounted to € 1,962 thousand (previous year: € 2,441 thousand); € 825 thousand of this related to remuneration for bonuses (previous year: € 1,282 thousand; this includes the residual financing for 2006/2007 bonuses of € 158 thousand, which was paid out in the year under review). Subject to a target of 100 percent, the fair value as of the date the long-term incentive (LTI 2007) was granted amounted to a total of € 408 thousand (previous year LTI 2006: € 447 thousand). Total remuneration in the period under review thus amounted to € 2,370 thousand (previous year: € 2,888 thousand). As in the previous year, stock options awarded from the stock option program in previous years and LTI performance share units were not paid out in the year under review.

In the reporting year, the expenses for retirement benefits under IFRS (service cost and interest cost) for members of the Management Board amounted to € 594 thousand (previous year: € 557 thousand); this includes the service cost of € 323 thousand (previous year: € 252 thousand).

In the reporting year, a total of 13,500 performance shares units (previous year: 13,500) were awarded to members of the Management Board under the long-term incentive plan. As of the balance sheet date, the Management Board members received a total of 69,000 stock options (previous year: 86,250 stock options) under the stock option plan.

Former members of the Management Board and their surviving dependents received € 2,862 thousand (previous year: € 2,614 thousand). € 814 thousand of this (previous year: € 797 thousand) relate to liabilities to former members of the Management Board of Linotype-Hell Aktiengesellschaft and their surviving dependents, which were assumed in financial year 1997/1998 within the framework of universal succession. The pension obligations (defined benefit obligations) to former members of the Management Board and their surviving dependents amount to € 34,090 thousand (previous year: € 39,429 thousand). € 8,779 thousand of this (previous year: € 9,681 thousand) relate to the pension obligations of the former Linotype-Hell Aktiengesellschaft, acquired in financial 1997/1998 under the provisions of universal succession. Former members of the Management Board held 147,000 stock options (previous year: 189,000 stock options) as of the balance sheet date.

No loans or advances were made to members of the Company's Management Board or the Supervisory Board. The Heidelberg Group has not undertaken any contingent liabilities for either the members of the Management Board or the Supervisory Board.

Fixed remuneration of € 382 thousand (previous year: € 380 thousand) and variable remuneration of € 144 thousand (previous year: € 144 thousand) were paid to the members of the Supervisory Board for financial year 2007/2008.

40 Related party transactions

Business relations exist with numerous companies between Heidelberger Druckmaschinen Aktiengesellschaft and its subsidiaries in the course of ordinary business. This also includes associated companies, which are regarded as related companies of the Heidelberg Group.

In financial year 2007/2008, transactions were carried out with related parties that resulted in liabilities of € 8,323 thousand (previous year: € 10,244 thousand), receivables of € 31,493 thousand (previous year: € 39,627 thousand), expenses of € 12,232 thousand (previous year: € 14,373 thousand) and income of € 56,269 thousand (previous year: € 39,128 thousand), which essentially includes sales. All transactions were concluded at standard market terms and did not differ from trade relationships with other companies.

The Heidelberg Group did not conduct any significant transactions with related parties.

41 Stock option plan[1)]

The Annual General Meeting of September 29, 1999 approved a contingent increase of capital stock of up to € 10,996,288.00 through the issue of up to 4,295,425 shares (Contingent Capital I). The sole purpose of the contingent capital increase is to grant subscription rights to members of the Company's Management Board, to members of the Management Board of subsidiaries in Germany and abroad and to other senior executives within the Heidelberg Group.

1) The comments on the stock option plan are also part of the Corporate Governance Report (see page 13 ff)

Authorization of the Management Board and the Supervisory Board

The Management Board has been authorized to grant subscription rights to eligible persons within a period of five years from the time the contingent capital goes into effect. The subscription rights are to be issued to those entitled by way of entry in the commercial register in tranches of not more than 30 percent of the total volume per financial year. The Supervisory Board has the sole responsibility for granting subscription rights to members of the Management Board.

Vesting period/term

The subscription rights can only be exercised after the end of the vesting period. The vesting period commences when the subscription rights are issued and ends three years after the issue date. The term of the subscription rights commences when the subscription rights are issued and ends six years after the date of issue. Subscription rights that have not been exercised or cannot be exercised by the end of the term expire without compensation.

Exercise period and exercise blocking periods

Subscription rights can be exercised at any time after the end of the blocking period during the respective term. However, the subscription rights cannot be exercised during blocking periods that have been established by the Management Board and Supervisory Board – for example, periods of at least ten trading days before dates on which reports on the Company's business development are published. The entire period or parts of the period between the end of a financial year and the end of the respective ordinary Annual General Meeting may also be designated as blocking periods.

Investment on own account

When granting subscription rights, the precondition may be imposed that the eligible persons must acquire shares of Heidelberger Druckmaschinen Aktiengesellschaft on their own account and that they retain the shares for the appropriate vesting period.

Condition for exercising subscription rights

Subscription rights can only be exercised if the market price of the Company's shares (as calculated on the basis of the total shareholder return method) between the issue and the exercising of the subscription rights outperforms the value of the Dow Jones EURO STOXX Index (hereinafter referred to as the 'Index') as calculated on the basis of the total shareholder return method. The target shall be deemed to have been reached if the performance calculated thus exceeds that of the Index. If subscription rights are not exercised despite the target having been reached they cannot be exercised again until the target has once more been reached.

Exercise price

The exercise price is defined as the average closing price of the Company's shares on the last ten consecutive trading days in Frankfurt am Main before the relevant subscription period for the respective subscription rights (the exercise price). If the closing price of the shares in the electronic trading system of Deutsche Börse Aktiengesellschaft (which is used to determine the target price) is more than 175 percent of the exercise price determined in accordance with the above section (the threshold amount) on the last day of trading before the subscription rights are exercised (the relevant market price), the exercise price shall be increased by the amount by which the relevant market price exceeds the threshold amount. This does not affect the provisions of Article 9 (1) of the German Stock Corporation Act (AktG).

Non-transferability/dividend rights of new shares

The subscription rights are not legally transferable. The new shares are entitled to a share in the profit from the beginning of the financial year in which the issue occurs.

Tranches for 2001 to 2004

The main key conditions for the various tranches are shown in the following table:

	End of vesting period	End of term	Exercise price in €	Number of stock options[1] 31-Mar-2007	Number of stock options[1] **31-Mar-2008**
Tranche 2001	12-Sep-2004	12-Sep-2007	53.52	356,475	–
Tranche 2002	11-Sep-2005	11-Sep-2008	42.08	375,460	375,460
Tranche 2003	12-Sep-2006	12-Sep-2009	22.26	1,374,870	1,374,870
Tranche 2004	18-Aug-2007	18-Aug-2010	25.42	525,735	525,735
				2,632,540	2,276,065

The development of entitlements to stock options that have been granted is shown in the following table:

	2006/2007		**2007/2008**	
	Number of stock options[1]	Weighted average exercise price in €	**Number of stock options**[1]	**Weighted average exercise price in €**
Outstanding options at the beginning of the financial year	2,925,160	33.63	2,632,540	29.95
During the financial year				
Granted	–	–	–	–
Returned	11,250	23.31	–	–
Exercised	–	–	–	–
Forfeited	281,370	68.51	356,475	53.52
Outstanding options as of the end of the financial year	2,632,540	29.95	2,276,065	26.26
Exercisable options as of the end of the financial year	–	–	–	–

[1] Including stock appreciation rights (SARs)

Servicing the subscription rights

It is currently intended to deliver the old shares that are acquired on the stock market upon exercise of the subscription rights to the authorized individuals. These individuals are to thereby receive the plan profit in the form of shares. However, this only applies if no cash settlement is required – for example, due to the form of the subscription rights as stock appreciation rights (SARs).

Accounting policies

In the previous year, the provisions of IFRS 2: Share-Based Payment was applied to applicable tranches for the first time (Tranche 2003 and Tranche 2004, as well as the SARs of Tranches 2001 to 2004).

The total income from the stock option program amounted to € 905 thousand in the reporting year (previous year: € 3,874 thousand). Provisions and the capital reserves amounted to € 35 thousand (previous year: € 940 thousand) and € 9,431 thousand (previous year: € 9,431 thousand) respectively as of the balance sheet date.

The amount of liabilities for the tranches to which IFRS 2 applies was calculated using a Monte Carlo simulation taking into account the relative target of the option plan. The significant tranches were measured on the basis of the following parameters:

	Tranche 2003	Tranche 2004
Measurement date	12-Sep-2003	18-Aug-2004
Exercise price in €	22.26	25.42
Price of Heidelberg shares in €	25.44	23.90
Expected dividend yield	2.16 %	2.43 %
Risk-free interest rate	3.61 %	3.52 %
Volatility of Heidelberg shares	39.11 %	39.13 %
Volatility of EURO STOXX	24.73 %	23.98 %
Correlation between Heidelberg share price and EURO STOXX	0.26	0.26
Fair value in €	5.76	4.87

Volatilities and correlations were determined on the basis of historic end-of-day prices. The actual remaining term was used for the expected term in the option pricing model. Furthermore, upon reaching the relative target in the simulation it was assumed that the options were exercised early in all cases in which the gain on exercise exceeds the discounted amount of 75 percent of the original exercise price over the option's remaining term.

42 Long-term incentive plan (LTI)[1)]

There are currently two tranches for the long-term incentive plan (LTI), LTI 2006 and LTI 2007. The LTI plan is as follows:

Participants

The Company offers participation in the LTI plan to selected members of the Heidelberg Group's senior management. In addition to the members of the Management Board, these include all members of the executive group. Eligibility is based on total remuneration, broken down into four groups.

1) The comments on the Long-term incentive plan (LTI) are also part of the Corporate Governance Report (see page 13 ff)

Performance share units (PSUs)/investment on own account

The plan grants performance share units (PSUs) to employees. This is dependent, however, on employees investing on their own account. A requirement for participation is that employees hold shares in Heidelberger Druckmaschinen Aktiengesellschaft on their own account. The actual number of PSUs granted depends on certain performance criteria. Final PSUs are provided either in the form of cash payments or delivery of shares in the Company.

The PSUs are not legally transferable, cannot be pledged as collateral and cannot be inherited.

The number of PSUs and the investment required on one's own account breaks down by group as follows:

	Number	Investment on own account
Group I	4,500 PSUs	1,500 shares
Group II	1,800 PSUs	600 shares
Group III	900 PSUs	300 shares
Group IV	450 PSUs	150 shares

Term of performance share units

The PSUs have a term of three years. They were granted on April 1, 2006 for LTI 2006 and April 1, 2007 for LTI 2007. They end on March 31, 2009 and March 31, 2010 respectively.

Performance criteria

Performance criteria comprise the average arithmetical free cash flow rate (free cash flow divided by sales) achieved by the Company during the term of the performance share units on the one hand and, on the other, the arithmetical average EBIT percentage rate (EBIT divided by sales) achieved by the Company during the term in line with the following table:

Average EBIT percentage rate	< 7.0 %	7.0 %	8.0 %	9.0 %	10.0 %	11.0 %	>= 12.0 %
Pro rata number of PSUs (in percent of the number of PSUs awarded)	–	10.0 %	20.0 %	35.0 %	50.0 %	60.0 %	70.0 %
Average free cash flow rate	< 3.0 %	3.0 %	4.5 %	6.0 %	7.0 %	>= 8.0 %	–
Pro rata number of PSUs (in percent of the number of PSUs awarded)	–	10.0 %	25.0 %	50.0 %	60.0 %	70.0 %	–

The two targets are weighted equally. The free cash flow rate, EBIT (earnings before interest and taxes) and sales correspond to the terms used in IFRS accounting. They are determined based on the consolidated financial statements prepared and audited in accordance with IFRS for the financial years falling within the respective assessment period. The extent to which the target is achieved is determined by linear interpolation between the values shown in the tables.

Disbursement

During the term of the respective tranche of the LTI, the Company is authorized, at its own discretion, to determine whether an authorized party should receive one share for each performance share unit instead of cash. This decision may be made for all PSUs, for a specific number or for a determinable number. By way of resolution by the Management Board, both the LTI 2006 and the LTI 2007 will be settled in cash.

Cap

The plan provides for a cap on profit opportunities. The profit per PSU is limited to double the calculated average share price for a period of three months following the date at which the unit is issued.

Tranches 2006/2007

The development of LTI entitlements is shown in the following table:

	2006/2007 Number of PSUs	**2007/2008** Number of PSUs
Outstanding PSUs as of the start of the financial year	–	110,250
During the financial year		
Granted	111,150	102,600
Returned	900	450
Exercised	–	–
Forfeited	–	–
Outstanding PSUs as of the end of the financial year	110,250	212,400
Exercisable PSUs as of the end of the financial year	–	–

Accounting policies

Tranche 2006 and Tranche 2007 of the LTI were measured on the basis of IFRS 2. The total expense of the LTI plan was € 248 thousand in the reporting year (previous year: € 299 thousand). Owing to the decision to settle the LTI in cash, the provision for this is now € 547 thousand (previous year: € 31 thousand; capital reserves: € 268 thousand).

The amount of liabilities were calculated on the basis of a Monte Carlo simulation. LTI 2006 and LTI 2007 were measured on the basis of the following parameters:

	LTI 2006	LTI 2006	LTI 2006	LTI 2007
Measurement date	22-Dec-2006	30-Mar-2007	31-Mar-2008	31-Mar-2008
Initial value in €	36.88	36.88	36.88	36.06
Price of Heidelberg shares in €	34.93	34.30	17.01	17.01
Expected dividend yield	3.06 %	3.15 %	5.94 %	6.11 %
Interest rate	3.78 %	3.94 %	3.56 %	3.52 %
Volatility of Heidelberg shares	24.94 %	26.13 %	46.94 %	38.91 %
Fair value in €	33.14	32.56	16.21	14.93

To ensure a long-term procedure based on objective criteria, the historic volatility is used for volatility. The calculation is based on closing prices for Heidelberger Druckmaschinen Aktiengesellschaft shares. The remaining term of PSUs is used as the time window for calculating volatility. This arises from the term of the program plus the reference period.

43 Exemption in line with Article 264 (3) of the German Commercial Code

The following subsidiaries exercised the provisions of Article 264 (3) of the German Commercial Code with regard to disclosure of the exemption regulation in the period under review:
Heidelberger Druckmaschinen Vertrieb Deutschland GmbH, Heidelberg;
Heidelberg Postpress Deutschland GmbH, Heidelberg;
Heidelberg China-Holding GmbH, Heidelberg;
Heidelberg Boxmeer Beteiligungs-GmbH, Heidelberg;
Print Finance Vermittlung GmbH, Heidelberg.

44 Auditors' fee

In the reporting year, the following expenses were incurred for services by the auditors:

Fee for	2006/2007	**2007/2008**
audits of financial statements	806	773
other assurance or valuation services	75	100
tax advisory services	6	4
other services	1	2
	888	879

45 Events after the balance sheet date

New responsibilities on the Management Board; fourth Member of the Board: Stephan Plenz

The Supervisory Board of Heidelberg appointed Mr. Stephan Plenz as a member of the Management Board as of July 1, 2008. Simultaneously, assignments and responsibilities have been redistributed on the Management Board, which now has four members. We present the new Management Board on page 38 of the section 'The Facts'.

Heidelberg acquires coating manufacturer 'Hi-Tech Coatings'

Heidelberg takes over the British-Dutch coating manufacturer 'Hi-Tech Coatings'. Approval of the transfer of ownership by the anti-trust authorities is pending. The agreement will become effective as soon as the transfer is approved. Heidelberg is already now successfully selling the products of this newly acquired company, which was established in 1993, in England, China, and parts of Eastern Europe. It develops and produces at plants in Aylesbury, UK, and Zwaag, the Netherlands. In 2007, this corporate group generated sales of approximately € 25 million.

Heidelberg, May 26, 2008

Heidelberger Druckmaschinen Aktiengesellschaft
The Management Board

Bernhard Schreier	Dirk Kaliebe	Dr. Jürgen Rautert

Responsibility statement

To the best of our knowledge, and in accordance with the applicable reporting principles, the consolidated financial statements give a true and fair view of the net assets, financial position and results of operations of the Group, and the Management Report of the Group includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal opportunities and risks associated with the expected development of the Group.

Heidelberg, May 26, 2008

Heidelberger Druckmaschinen Aktiengesellschaft
The Management Board

Bernhard Schreier Dirk Kaliebe Dr. Jürgen Rautert

Auditor's Report

We have audited the consolidated financial statements prepared by Heidelberger Druckmaschinen Aktiengesellschaft, Heidelberg, comprising the balance sheet, the income statement, the statement of recognized income and expense, the cash flow statement and the notes to the consolidated financial statements, together with the Group Management Report for the financial year from April 1, 2007 to March 31, 2008. The preparation of the consolidated financial statements and the Group Management Report in accordance with IFRS as adopted by the EU and the additional requirements of German commercial law pursuant to Article 315 a (1) HGB (Handelsgesetzbuch – German Commercial Code) are the responsibility of the Board of Management of the Company. Our responsibility is to express an opinion on the consolidated financial statements and the Group Management Report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with Article 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany) (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 consolidated financial statements, the determination of the entities to be included in consolidation, the accounting policies and consolidation principles used and significant estimates made by the Company's Management Board, as well as evaluating the overall presentation of the consolidated financial statements and the 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 IFRS as adopted by the EU and the additional requirements of German commercial law pursuant to Article 315 a (1) HGB 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, May 27, 2008

PricewaterhouseCoopers
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Peter Albrecht	Martin Theben
Wirtschaftsprüfer	Wirtschaftsprüfer
(German Public Auditor)	(German Public Auditor)


HEIDELBERG
Speedmaster

> FURTHER INFORMATION

ANNUAL REPORT 2007/2008

List of major shares in affiliated companies

Figures in € thousands according to IFRS

Name	Location		Share in share-holders' equity in %	Share-holders' equity	Net profit after taxes	Net sales	Yearly average number of employees
Europe, Middle East and Africa							
Heidelberger Druckmaschinen Vertrieb Deutschland GmbH[1) 2)]	D	Heidelberg	100	53,616	42,383	556,589	921
Heidelberg Graphic Equipment Ltd.[3)]	GB	Brentford	100	62,193	1,419	224,748	441
Heidelberg Postpress Deutschland GmbH[1) 2)]	D	Heidelberg	100	25,617	– 18,316	187,048	1,006
Heidelberg France S.A.S.	F	Tremblay-en-France	100	27,945	– 3,675	169,567	277
Heidelberg Schweiz Aktiengesellschaft	CH	Bern	100	18,752	1,301	74,327	168
Heidelberg Sverige AB	S	Spanga	100	3,861	– 131	40,742	55
Heidelberg International Ltd. A/S	DK	Ballerup	100	46,963	16,047	33,621	65
Heidelberg Graphic Systems Southern Africa (Pty) Ltd.[3)]	ZA	Johannesburg	100	1,769	7	24,242	105
Print Finance Vermittlung GmbH[1) 2)]	D	Heidelberg	100	34,849	650	22,276	–
Eastern Europe							
Heidelberger Druckmaschinen Osteuropa Vertriebs-GmbH[4)]	A	Vienna	100	149,646	16,924	131,334	34
Heidelberg Polska Sp z.o.o.	PL	Warsaw	100	11,574	570	70,282	135
Heidelberger CIS OOO	RUS	Moscow	100	– 8,797	– 3,371	65,196	237
Heidelberger Druckmaschinen Austria Vertriebs-GmbH	A	Vienna	100	161,517	14,219	60,355	118
North America							
Heidelberg USA, Inc.[3)]	USA	Kennesaw	100	100,272	15,019	405,594	913
Heidelberg Canada Graphic Equipment Ltd.	CDN	Mississauga	100	19,173	2,391	118,717	267
Heidelberg Print Finance Americas, Inc.[3)]	USA	Portsmouth	100	113,728	6,742	7,681	10

Figures in € thousands according to IFRS

Name	Location		Share in shareholders' equity in %	Shareholders' equity	Net profit after taxes	Net sales	Yearly average number of employees
Latin America							
Heidelberg Mexico Services S. de R.L. de C.V.[3]	MEX	Mexico City	100	322	– 229	47,463	144
Heidelberg do Brasil Sistemas Graficos e Servicos Ltda.	BR	São Paulo	100	12,207	– 1,191	43,713	261
Asia / Pacific							
Heidelberg China Ltd.	RC	Hong Kong	100	11,531	5,196	216,468	168
Heidelberg Japan K.K.	J	Tokyo	100	17,633	– 1,252	200,270	411
Heidelberg Hong Kong Ltd.	RC	Hong Kong	100	14,675	6,269	77,205	103
Heidelberg Graphic Equipment Ltd.	AUS	Melbourne	100	19,125	1,450	73,558	215
Heidelberg Malaysia Sdn Bhd	MYS	Petaling Jaya	100	1,992	– 362	32,286	160
Heidelberg Asia Pte Ltd.	SGP	Singapore	100	6,818	678	28,038	132
Heidelberg Graphic Equipment Ltd.	NZ	Auckland	100	3,567	573	23,846	40
Heidelberg Korea Ltd.	ROK	Seoul	100	4,738	1,599	20,170	99

1) Result prior to profit and loss transfer to Heidelberger Druckmaschinen Aktiengesellschaft
2) According to German Commercial Code (HGB)
3) Pre-consolidated financial statements
4) Result prior to profit and loss transfer to Heidelberger Druckmaschinen Austria Vertriebs-GmbH

The Supervisory Board

Dr. Mark Wössner
Member in various Supervisory Boards, Munich
Chairman of the Supervisory Board
* Daimler Aktiengesellschaft;
Douglas Holding Aktiengesellschaft;
eCircle Aktiengesellschaft (Chairman);
Loewe Aktiengesellschaft;
** Citigroup Global Markets Deutschland AG & Co. KGaA (Chairman in Germany and Chairman of the Advisory Council);
Reuters Founders Share Company Ltd., UK (Member of the Board of Trustees)

Rainer Wagner***
Chairman of the Central Works Council, Heidelberg/Wiesloch-Walldorf
Deputy Chairman of the Supervisory Board

Martin Blessing
Chairman of the Management Board of Commerzbank Aktiengesellschaft, Frankfurt am Main
* AMB Generali Holding Aktiengesellschaft;
Commerzbank Auslandsbanken Holding Aktiengesellschaft;
Commerzbank Inlandsbanken Holding GmbH;
Commerz Real Aktiengesellschaft;
Evonik Aktiengesellschaft;
ThyssenKrupp Services Aktiengesellschaft;
** BRE Bank SA, Poland

Wolfgang Flörchinger***
Member of the Works Council, Heidelberg/Wiesloch-Walldorf

Martin Gauß***
Chairman of the Speakers Committee for the Executive Staff, Heidelberg

Mirko Geiger***
First Senior Representative of IG Metall, Heidelberg
* KUKA Aktiengesellschaft

Gunther Heller***
Chairman of the Works Council, Amstetten

Dr. Jürgen Heraeus
Entrepreneur, Hanau
* GEA Group Aktiengesellschaft (Chairman);
Heraeus Holding GmbH (Chairman);
Lafarge Roofing GmbH;
Messer Group GmbH (Chairman);
** Argor-Heraeus S.A., Switzerland (Chairman of the Administration Board)

Jörg Hofmann***
Regional head of IG Metall, Baden-Wuerttemberg region, Stuttgart
* Daimler Aktiengesellschaft;
Robert Bosch GmbH

* Membership in other Supervisory Boards
** Membership in comparable German and foreign control bodies of business enterprises
*** Employee representative

Dr. Siegfried Jaschinski
– since April 3, 2007 –
Chairman of the Management Board of Landesbank Baden-Wuerttemberg, Stuttgart

* Bundesanstalt für Finanzdienstleistungsaufsicht (Member of the Administration Board);
HSBC Trinkaus & Burkhardt Aktiengesellschaft;
KfW Kreditanstalt für Wiederaufbau (Member of the Administration Board);
LRP Landesbank Rheinland-Pfalz (Member of the Administration Board);
LBBW Immobilien GmbH (Chairman);

** DekaBank Deutsche Girozentrale (Administration Board);
Deutscher Sparkassenverlag GmbH (Member of the Supervisory Board)

Robert J. Koehler
Chairman of the Management Board of SGL Carbon Aktiengesellschaft, Wiesbaden

* Benteler Aktiengesellschaft (Chairman);
Demag Cranes Aktiengesellschaft;
Klöckner & Co. Aktiengesellschaft;
LANXESS Aktiengesellschaft;
Pfleiderer Aktiengesellschaft

Uwe Lüders
Chairman of the Management Board of L. Possehl & Co. mbH, Lübeck

Dr. Gerhard Rupprecht
Member of the Management Board of Allianz SE, Munich
Chairman of the Management Board of Allianz Deutschland Aktiengesellschaft, Munich

* Fresenius SE;
Allianz Beratungs- und Vertriebs-Aktiengesellschaft (Chairman);
Allianz Lebensversicherungs-Aktiengesellschaft (Chairman);
Allianz Private Krankenversicherungs-Aktiengesellschaft (Chairman);
Allianz Versicherungs-Aktiengesellschaft (Chairman);

** Allianz Elementar Lebensversicherungs-Aktiengesellschaft, Austria (Chairman);
Allianz Elementar Versicherungs-Aktiengesellschaft, Austria (Chairman);
Allianz Investment Bank Aktiengesellschaft, Austria;
Allianz Suisse Lebensversicherungs-Aktiengesellschaft, Switzerland;
Allianz Suisse Versicherungs-Aktiengesellschaft, Switzerland

Beate Schmitt***
Member of the Works Council, Heidelberg/Wiesloch-Walldorf

Dr. Klaus Sturany
Member in various Supervisory Boards, Dortmund

* Bayer Aktiengesellschaft;
Hannover Rückversicherung Aktiengesellschaft;

** Österreichische Industrieholding Aktiengesellschaft, Austria

Peter Sudadse***
Deputy Chairman of the Central Works Council, Heidelberg/Wiesloch-Walldorf

Committees of the Supervisory Board

Management Committee

Dr. Mark Wössner (Chairman)

Rainer Wagner

Martin Blessing

Martin Gauß

Mirko Geiger

Dr. Gerhard Rupprecht

Mediation Committee under Article 27 Paragraph 3 of the Codetermination Act

Dr. Mark Wössner

Rainer Wagner

Martin Blessing

Wolfgang Flörchinger

Committee on Arranging Personnel Matters of the Management Board

Dr. Mark Wössner (Chairman)

Rainer Wagner

Dr. Gerhard Rupprecht

Audit Committee

Dr. Klaus Sturany (Chairman)

Dr. Jürgen Heraeus
– since April 26, 2007 –

Mirko Geiger

Rainer Wagner

Nomination Committee
– since November 28, 2007 –
Dr. Mark Wössner (Chairman)
Dr. Klaus Sturany

The Management Board

Bernhard Schreier
Bruchsal
Chairman

* ABB Aktiengesellschaft;
Bilfinger Berger Aktiengesellschaft
Heidelberger Druckmaschinen
Vertrieb Deutschland GmbH (Chairman);
Universitätsklinikum Heidelberg;

** Heidelberg Graphic Equipment Ltd., UK
(Chairman of the Board of Directors);
Heidelberg Japan K.K., Japan;
Heidelberg Americas, Inc., USA
(Chairman of the Board of Directors);
Heidelberg USA, Inc., USA
(Chairman of the Board of Directors);
Heidelberger Druckmaschinen Austria
Vertriebs-GmbH, Austria (Advisory Board);
Heidelberger Druckmaschinen Osteuropa
Vertriebs-GmbH, Austria (Advisory Board)

Dirk Kaliebe
Sandhausen

* Heidelberger Druckmaschinen
Vertrieb Deutschland GmbH;

** Heidelberg Graphic Equipment Ltd., UK;
Heidelberg Americas, Inc., USA;
Heidelberg USA, Inc., USA;
Heidelberg Postpress Sweden AB, Sweden
(Chairman of the Board of Directors);
IDAB WAMAC International AB, Sweden
(Chairman of the Board of Directors)

Dr. Jürgen Rautert
Heidelberg

* Membership in Supervisory Boards
** Membership in comparable German and foreign control bodies of business enterprises

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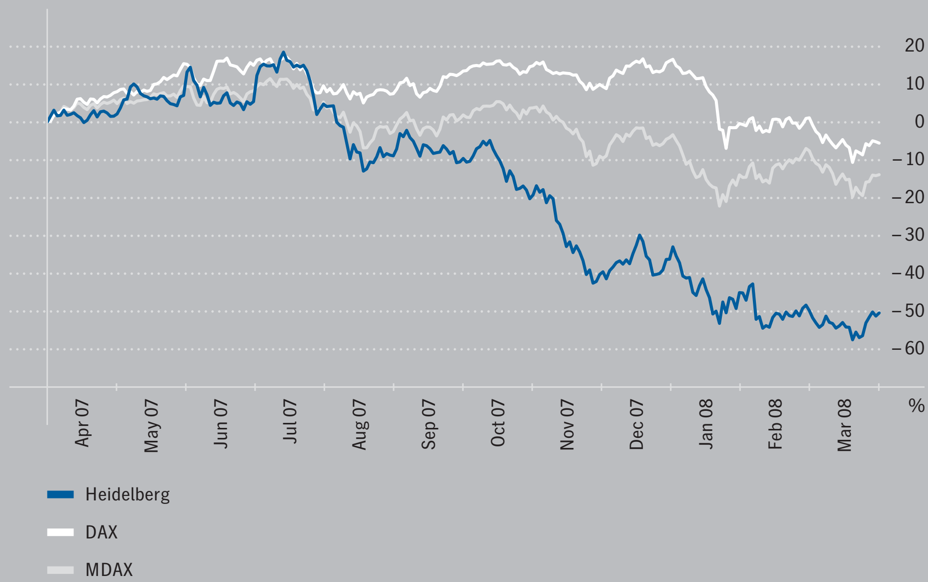
ANNUAL REPORT 2007/2008 The Facts

PERFORMANCE OF THE HEIDELBERG SHARE

compared with the DAX/MDAX (Index: April 1, 2007 = 0 percent)



> DIMENSIONS

On the photo pages of this report, which carries the appropriate title ‘Dimensions’, we present Heidelberg’s various format sizes and give examples of what they can do for you: from small sizes all the way to the new highlight of our product portfolio, the Speedmaster XL 162. This machine, which weighs over 200 metric tons and is up to 30 m long, is the core of our large-format print offerings. It ensures maximum productivity in publishing and commercial printing and meets precisely the requirements of industrial packaging printers.

We have expanded and improved our overall offerings. Our innovations for sheetfed offset print shops of every size, which we are introducing at the major trade show drupa 2008, is quite something to see – like our overall offerings for each stage of the printing process. We present an overview on page 121.

In this annual report, you will read much about why the competition has intensified in the printing press market and what is currently curbing print shops’ propensity to invest. And you will find out how we are reacting. Among other things, we intend to rapidly expand the share of sales accounted for by our service and consumables business – an area of operations that is largely unaffected by business cycles. For good reason, we are including a booklet in the rear cover flap, which is designed to make more accessible what is special about Heidelberg’s services.

Incidentally, for the first time the financial section of Heidelberg’s annual report is removable. We hope that this, as well as the new horizontal format, will make your reading more pleasant.

GROUP MANAGEMENT REPORT

MANAGEMENT AND SUPERVISORY BOARD

SHARE, GROUP AND MANAGEMENT

BUSINESS DEVELOPMENT

POTENTIALS, RISKS AND OPPORTUNITIES

THE FUTURE: PROSPECTS

> DIMENSIONS

THE HEIDELBERG FORMAT CATEGORIES

> **Bernhard Schreier**

CHAIRMAN

Born in 1954, married, three children. Engineering graduate (Diplomingenieur, BA). Following completion of his BA degree in Engineering, active at Heidelberg in various management positions, including five years spent abroad. Member of the Management Board since 1995. Chairman of the Management Board since 1999.

> **Dirk Kaliebe**

FINANCE

Born in 1966, single. Degree in Business Administration (Diplom-Kaufmann) in 1992, passed exam as Tax Consultant (Steuerberater) in 1997 and exam as Certified Public Accountant (Wirtschaftsprüfer) in 1999. After initially working for the auditing firm BDO, since 1998 active at Heidelberg in Accounting and Taxes as well as Investor Relations. Member of the Management Board since October 1, 2006.

> **Dr. Jürgen Rautert**

ENGINEERING AND MANUFACTURING,
since July 1, 2008 SALES

Born in 1958, married. Graduate degree in Mechanical Engineering, since 1990 active in product development at Heidelberg. Beginning in 2004, Head of Research and Development and Operations. Since July 1, 2004 Member of the Management Board.

LETTER FROM THE MANAGEMENT BOARD

Dear Shareholders,

In retrospect we look back on the past financial year with mixed feelings. Despite difficult underlying conditions, we achieved a result that is favorable compared with the average for our industry. Nevertheless, we remained far behind our – and your – expectations. Many investors got out of cyclical and primarily export-oriented shares. In addition, we had incorrectly assessed the development of our business during the fourth quarter and had to revise our forecast. All this resulted in our share losing approximately half of its value by the end of the financial year. We were harshly criticized by you and by our analysts because of this. We have understood this criticism and accept it. We have learned from this experience and will improve our communications.

Let us briefly review how we reacted to the deep crisis in the print media industry four years ago. We divested the Digital and Web Systems business segments and focused on sheetfed offset printing solutions. We pursued three strategic approaches to generate growth and counter the cyclical nature of our business:

> We invested in the less cyclical packaging printing business as a counterbalance to the cyclically sensitive ad printing segment.

> We systematically expanded our engagement in the growing emerging markets.

> And we strengthened our service business, thereby engendering financial stability in the sales units' cyclical printing press business.

At the important drupa 2008 tradeshow, we will be introducing a highly efficient comprehensive solution for large format printing, which plays the central role in package printing. We have meanwhile succeeded in increasing the share of the emerging markets in sales to 35 percent. Our services are increasingly in demand worldwide.

However, the growing weakness of the US dollar and Japanese yen confront us with new challenges. The strong euro represents a burden to us, while simultaneously providing our Japanese competitors with enormous cost advantages. It is clear that we need to respond strategically. We have accelerated our plan to internationalize purchasing and production. We are increasing the share of procurement from other currency zones and are expanding our production capacities in China to meet the demand for standard printing presses at competitive prices. Our other strategic thrust of investment continues as before: We intend to increasingly expand, especially in the non-cyclical consumables business. With this goal in mind, we intend to acquire further businesses – for example, we took over a manufacturer of high-tech coatings just recently in May.

The worsening market conditions for us accelerated, beginning in the second half of the past financial year. Our business development was hampered above all by fears of a recession in the US. Nevertheless, we were able to maintain our position as the world market leader in all regions. With regard to our competitors in Germany, we were successful in defending and expanding our market shares. Although our earnings capacity remained high, our sales declined by more than three percent from the previous year. We have come to an agreement with the Supervisory Board to propose to the Annual General Meeting that a dividend for the financial year be distributed to you at the previous year's level. We hold to our principle of ensuring that our investors receive an appropriate share of corporate earnings.

Dear shareholders, we know that the important question for you is: Where do we go from here? No improvement in the market is on the horizon for the current financial year. The danger of a recession in the US, with its possible consequences for the global economy, is still with us; exchange rate structures continue to favor our Japanese competitors; and raw material prices remain high. An additional factor is the considerable decline in advertising expenditures at the present time. This is also occurring for print ads, which always happens during economic downturns. It is clear that our result for the current financial year will be considerably burdened by various factors, including non-recurring expenditures for the drupa trade show as well as startups of series production.

When this report appears, our industry's major trade fair, drupa 2008, will be in high gear, where we will set new standards for our various customer segments, including standards of service and environmental protection. We view the course of drupa as a touchstone for the success of our strategy even against the background of difficult economic conditions. We will have a more dependable database after the trade show in order to appraise the mood in the print media industry as well as the development of the industry in the current and following year. In our first quarterly report, we will include a forecast in concrete terms.

Even prior to the Annual General Meeting, we will be making measures known in detail that will secure our leading market position and financial strength on a long-term basis. The Supervisory Board agreed to an expansion of the Management Board and a restructuring of responsibilities. In order to be in a position to vigorously implement our business expansion, Stephan Plenz, who has been active at Heidelberg in management positions for 14 years, was appointed to the Management Board on July 1, 2008. He has been in charge of the Wiesloch-Walldorf plant since April 2006 and is responsible for worldwide production.

We owe our committed employees considerable thanks for ensuring Heidelberg's ability to maintain our top position in the market. Our employees are heavily committed to their Company, Heidelberg, in development, in production, and in administration, as well as directly with customers. We will remain a reliable partner for our customers and do our best to strengthen their market positions. The planned measures will put us in a better position to contend with economic downswings – and thereby transform our share into an attractive investment vehicle once again. We would be pleased to have your confidence and trust!

Bernhard Schreier
Chairman of the Management Board

Dirk Kaliebe

Dr. Jürgen Rautert

Report of the Supervisory Board

Dr. Mark Wössner
Chairman of the
Supervisory Board

Dear Shareholders,

As the owners of the Corporation, you are no doubt just as dissatisfied with the development of the price of Heidelberg's share during the financial year as Heidelberg's Management Board is and as we are on the Supervisory Board. In July 2007, our share price reached a record level of nearly € 41. Our share was especially affected by the subsequent general bear market, at financial year-end posting just around € 17. Many factors contributed to this, ranging from rising raw material prices, and recessionary fears in the US all the way to the weak dollar and not least the weak yen, which has been providing our Japanese competitors with clear advantages over the past years. Due to these factors, we fell short of our original sales and earnings forecasts.

Our share price speaks for itself. Heidelberg's management understands and accepts this – both the Management Board and the Supervisory Board. And we intend to improve the situation in the future. We are aware that we need to increasingly focus on the issues that help us compensate for negative external influences. In this context, the Management Board will announce a package of measures to the Annual General Meeting.

Heidelberg is very well prepared for drupa, the industry's major trade fair. Here, the Company will again demonstrate to customers from throughout the world our leading role in the industry, among other things with new products such as of the Speedmaster XL 105 with perfecting unit, the very large format XL 145 and XL 162, as well as with an integrated print shop based on Prinect Workflow products.

If not for Heidelberg's excellent product and service portfolio, our Company's position would certainly be less favorable in light of a rather demanding market environment. Underlying economic factors are currently making the printing press business difficult in some regions – a situation that is expected to continue into the future. The order backlog cushion from drupa will help us, but cannot guarantee a successful overall business year. The drupa trade show has proved to be a good indicator of the overall climate in the industry. We will have to work out further streamlining measures to be in a position to absorb the negative impact of economic downswings and worsening exchange rate structures.

To ensure that all planned measures are implemented as quickly as possible on an ongoing basis, we have come to an agreement with Mr. Schreier and his fellow board members to expand the Management Board and to restructure areas of responsibility. We have therefore selected 43-year-old Stephan Plenz, whose work we are already familiar with and who we have held in high esteem for quite some time, as a fourth member of the Management Board as of July 1, 2008. He will be responsible for the area of technology, for the expansion of production in China, and for purchasing in non-European regions.

We supported the work of the Management Board during the financial year – in the meetings of the Supervisory Board and its committees as well as at meetings with shareholder and staff representatives. All issues that present challenges to Heidelberg now, and will continue to do so in the future, were intensively discussed and addressed by means of measures and corresponding planning considerations. At individual workshops, shareholder and staff representatives discussed the Company's market and competitive situation and focused attention on Heidelberg's strategic thrust to secure the future.

We fulfilled all the responsibilities incumbent on us under legal provisions and the Articles of Incorporation, extensively advising and monitoring the Management Board in the management of the Company and its transactions. The continuing close cooperation between the Management Board and the Supervisory Board was not limited to the four ordinary meetings of the Supervisory Board, at which the Management Board informed us in detail about business developments. We were also informed promptly and in the necessary detail concerning business developments and the financial position of the Company. During the financial year, I also cultivated the customarily close contact with the Management Board, especially with the Chairman, in order to always be informed early on about significant decisions and developments. We were always promptly involved in all significant decisions. We made decisions concerning projects that entailed urgent action in writing as well. Furthermore, the Human Resources Committee met twice and approved one resolution by circulation. The Management Committee also held two meetings – one regular meeting and one extraordinary meeting. The Audit Committee met four times. Following the resignation of Professor Börsig from the Supervisory Board and consequently from the Audit Committee as of March 31, 2007, Dr. Heraeus was appointed to the Audit Committee as of April 26, 2007. The newly formed Nomination Committee met one time. There was no need to convene the Mediation Committee in accordance with Article 27 (3) of the Codetermination Act. No member of the Supervisory Board took part in fewer than half of the meetings of the Supervisory Board during the financial year.

Focus of Discussion in the Supervisory Board

Our discussions concerned strategic additions to Heidelberg's core business as well as opportunities for a further boost in efficiency. Our principal goal is to reduce the cyclical nature of the Group's business. We support the Management Board's strategy of accelerating the expansion of the service as well as the consumables business. Acquisitions will be considered should opportunities arise. Moreover, with our new large format printing presses, we are also accelerating our penetration of the new segment of packaging printing. Heidelberg is in a position to offer even more attractive packaging printing products at drupa. We expect the Packaging area will generate substantial momentum.

We also turned our attention in detail to the development of the Heidelberg share price. The Management Board will devote all its efforts to regaining the capital market's reduced confidence in Heidelberg. The development of earnings, sales and Heidelberg's financial position also played a regular part in discussions during the financial year. Furthermore, the Supervisory Board plenum intensively discussed the development of business in emerging markets with the Management Board as well as Heidelberg's position compared to its competitors.

Finally, we turned to the Company's two previous share buyback programs, at the meeting of the Supervisory Board on March 31, 2008 approving the retirement of an additional 1,684,611 shares. We also devoted our attention to the planning process for the coming years at this meeting. The planning process included all significant aspects of products and markets, including the development of underlying economic and financial data for various potential scenarios as well as the trend of sales financing and cost reduction measures, which the Management Board will purposefully implement.

Corporate Governance

We regularly focused our attention on the corporate governance of the Company during the reporting period. The principal issue was adapting our Rules of Procedure while simultaneously taking the new requirements of the Corporate Governance Code into consideration. Thus, the Supervisory Board now has a nomination committee that immediately became active, since the representatives of the Company's shareholders will be newly selected for the Supervisory Board at the 2008 Annual General Meeting. At the same time, the employees elected their representatives to the new Supervisory Board in accordance with the provisions of the Codetermination Act and relevant election provisions. The Corporate Governance Report, on pages 13 to 16, provides information concerning the Company's corporate governance.

Work in the Committees

Our committees provide crucial support for the work of the Supervisory Board by means of examining and preparing issues and decisions in advance that will be dealt with at meetings of the Supervisory Board. In certain cases, the committees may also be assigned decision-making authority by the Supervisory Board.

The chairmen of the committees reported on their work in detail and in a knowledgeable manner at meetings of the Supervisory Board. The current composition of the various committees is shown on page 100 in the section 'The Figures'.

At its meetings held during the reporting period, the Management Committee dealt in particular with strategic options for the Company's further growth as well as with the reaction by the capital market to changes in the shareholder structure. The Audit Committee discussed the respective quarterly results and, together with the auditor, intensively focused on the non-consolidated and consolidated financial statements as well as the accounting and valuation principles that are applied. Discussions additionally concentrated on risk management, compliance, participation controlling, and sales financing. The Human Resources Committee discussed remuneration-related and other issues affecting the members of the Management Board and passed the necessary resolutions.

Audit of the Non-Consolidated and Consolidated Financial Statements

The Annual General Meeting held on July 26, 2007 selected PwC Deutsche Revision Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Frankfurt am Main, as the external auditor. This firm examined and approved without qualification the overall annual financial statements for financial year 2007/2008 as well as the Management Report of Heidelberger Druckmaschinen Aktiengesellschaft and the consolidated financial statements and Group Management Report of the Heidelberg Group, which were drawn up by the Management Board. We awarded the contract for auditing the financial statements at the Supervisory Board meeting held on July 26, 2007. The overall annual financial statements, the consolidated financial statements, the Management Report for the Company and the Management Report for the Heidelberg Group were immediately submitted to the Supervisory Board after they were prepared. The reports of the auditors were circulated to all the members of the Supervisory Board in time for the meeting to discuss the annual financial statements on June 5, 2008. The auditors, chartered under German law, who signed the audit reports, took part in advising the Supervisory Board. During the meeting, they reported on the results of their examination and made themselves available to the members of the Supervisory Board to answer questions in greater detail. The Auditor's Report does not include any comments or indications of possible inaccuracies in the Declaration of Compliance with respect to the Corporate Governance Code.

At the meeting of the Supervisory Board on June 5, 2008, the Audit Committee recommended approval of the non-consolidated and consolidated financial statements. We examined and accepted the overall annual financial statements prepared by the Management Board as well as the consolidated financial statements, the Management Report of Heidelberger Druckmaschinen Aktiengesellschaft, and the Group Management Report. Thereby, we agreed with the audit results of both annual statements, and approved the non-consolidated and consolidated financial statements as of March 31, 2008.

The Supervisory Board agreed to the proposal of the Management Board on the appropriation of distributable profit, including the payment of a dividend of € 0.95 per share for the reporting year.

Composition of Management Board and Supervisory Board

As was mentioned at the beginning of this report, the Management Board is being enlarged by the addition of Stephan Plenz as of July 1, 2008. On the Supervisory Board, Prof. Dr. Clemens Börsig resigned his mandate as of March 31, 2007. By decision of the Mannheim District Court of April 3, 2007, Dr. Siegfried Jaschinski was appointed as his successor and then on July 26, 2007 was appointed to our management body by the Annual General Meeting for the remaining term of the Supervisory Board.

The term of the Supervisory Board expires at this year's Annual General Meeting. I wish to thank all my colleagues for their outstanding cooperation based on trust. Naturally, our special thanks go to those colleagues who will no longer belong to the new Supervisory Board. As a result of the loss of these members, we are also losing capable advisors of our Company. At the same time, I am pleased with the new composition of our management body, with the prospect of new ideas and viewpoints, and interesting discussions. The Supervisory Board will continue to maintain close watch over the corporate interests and long-term development of the Company in the future as well and work for its benefit with all its energy.

The Supervisory Board wishes to thank the members of the Company's Management Board and all the employees for their commitment and successful work!

Munich, June 5, 2008

For the Supervisory Board

Dr. Mark Wössner

Chairman of the Supervisory Board

Corporate Governance

> **New Version of the Code Published on July 20, 2007**
> **Formation of Nomination Committee**
> **Greater Attention to Compliance**

Heidelberg has worked continuously on improving its corporate governance ever since the German Corporate Governance Code was adopted in 2002. Our primary focus is to implement the recommendations and suggestions of the Code as quickly as possible and to the greatest possible extent. During the financial year, Heidelberg again succeeded in complying with all the recommendations of the Code.

The Code is held in high esteem by the public and is practiced on a day-to-day basis by nearly all listed corporations. As in the past, we view critically some requirements regarding the structure of corporate governance reporting, since we believe that they hamper clear classification and appropriate weighting in some cases. Nevertheless, thanks to the Code as well as its requirements regarding corporate governance reporting, the management and control of German corporations has become considerably more transparent in recent years. The quality and the depth of the information available on the Internet sites of listed corporations alone is proof of this. We report on the remuneration of the Company's Supervisory and Management Boards together in the section 'Remuneration Report' on pages 43 to 51.

Declaration of Compliance According to Section 161 of the Stock Corporation Act

The Management Board and the Supervisory Board issued the Declaration of Compliance on November 28, 2007. Even though the new version of the Code was published on July 20, 2007, just a few days before Heidelberg's Annual General Meeting was held, only a few measures were necessary to adapt the Company's Rules of Procedure to the Code. Furthermore, the Nomination Committee was constituted. Heidelberg can therefore again state that the Company is in full compliance for the past and can pledge full compliance vis-à-vis future applicable situations and events. This also applies to the Code's numerous recommendations. Heidelberg wholly fulfills the recommendations in Items 2.2.4, 2.3.3, 3.7, 3.10, 5.1.2, 5.2, 5.3.2, 5.3.4, and 5.3.5.

The recommendations in Items 3.6 and 6.8 are only fulfilled to a large extent. Not every meeting of the Supervisory Board requires individual preparation by shareholder and staff representatives. Also, in view of the large number of the Company's publications, it is not feasible to translate all of them into English. As far as the existing Management Board contracts are concerned, we are largely in compliance, albeit not in all details, with the new suggestions included in Item 4.2.3. For a number of reasons, we still do not plan to make the entire Annual General Meeting accessible via the Internet as is stipulated in Item 2.3.4. Nevertheless, the opening of the Annual General Meeting by the Chairman of the Supervisory Board as well as the speech of the Chairman of the Management Board will continue to be transmitted via the Internet in the future.

Formation of the Nomination Committee

In accordance with the new code provision contained in Item 5.3.3, the Supervisory Board established a two-person Nomination Committee. The responsibility of this committee is to identify potential succession candidates for shareholder representatives on the Supervisory Board in order to make it possible for the Supervisory Board to make appropriate proposals to the Annual General Meeting. The current composition of the Nomination Committee is shown in the section 'The Figures' on page 100.

Compliance: Long a Focus of Attention at Heidelberg

In accordance with Item 3.4 of the Code, reporting by the Management Board also expressly includes compliance, which is now defined in Item 4.1.3. The Management Board is responsible for the adherence to statutory provisions and internal guidelines – a responsibility formerly always held by Heidelberg's Management Board. On the Supervisory Board, the Audit Committee in particular deals with the Company's compliance, as is provided for in Item 5.3.2 of the Code.

Heidelberg has a competent internal control system. We appointed and defined the responsibilities of a Compliance Representative as early as in 2005. To meet the new requirements of the Code, we therefore only needed to adapt the reporting made to the Audit Committee.

Communications with Stakeholders

During the financial year, to an extent we were heavily criticized for our communications with the capital market in the financial press and on the part of analysts. We are striving to improve our communications as well as working relationships with financial journalists and analysts. We regularly publish quarterly reports and communicate closely with the trade and financial press to ensure that all stakeholders thereby can always keep themselves informed about the latest developments at Heidelberg. We provide information about significant dates in the Financial Calendar, which is part of the annual report, as well as in the quarterly reports and on the Internet at www.heidelberg.com. On its Investor Relations pages, our Internet site provides all available and up-to-date information, including not only key performance data, disclosures, actions subject to reporting, and corporate governance, but also the so-called annual document and the declarations of compliance of prior years. Comprehensive transparency includes the ongoing control of whether significant transactions are concluded between a member of the Heidelberg Group and a member of the Company's Management Board, a member of the Supervisory Board, or a related party. Such was not the case during the reporting period.

Management Board and Supervisory Board in Close Cooperation

The Management Board informs the Supervisory Board regularly, extensively, and immediately on all developments and events that are of significance for the business development and condition of the Heidelberg Group. The Management Board and the Supervisory Board worked closely together in a relationship based on trust during the reporting year. Additional details on the collaboration between the Management Board and the Supervisory Board are included in the Report of the Supervisory Board.

Information about Shareholdings and Communications Regarding Share Transactions

The Members of the Management Board and the Supervisory Board do not hold shares or financial instruments based on shares in the Company, either individually or collectively, exceeding one percent of the outstanding shares issued by the Company. There is therefore no reportable shareholding in accordance with the terms of Item 6.6 of the Code.

Securities transactions subject to reporting by the members of the Company's Supervisory Board and Management Board under Section 15 a of the German Securities Trading Act were properly disclosed and published on Heidelberg's Internet site.

Information Concerning the Stock Option Plan and Long-Term Incentive Plan

A summary of the prerequisites, terms, and development of Heidelberg's stock option plan to date is presented in note 41 in the notes to the consolidated financial statements. Furthermore, note 42 supplies information concerning the basic characteristics and terms of the long-term incentive plan (LTI), in which in addition to the members of the Management Board, members of the Company's senior management may also participate, provided that they make the necessary investment for their own account. The second tranche of the LTI – with largely the same terms – was made available during the reporting period.

Foresighted Risk Management

Risk management that is both structured and focuses on practical requirements help the Company recognize and assess risks at an early stage. This approach also allows Heidelberg to quickly launch countermeasures. We report on the risk management system as well as current corporate risks in the Management Report on pages 41 to 42 and pages 102 to 107.

Audit of the Financial Statements by PricewaterhouseCoopers

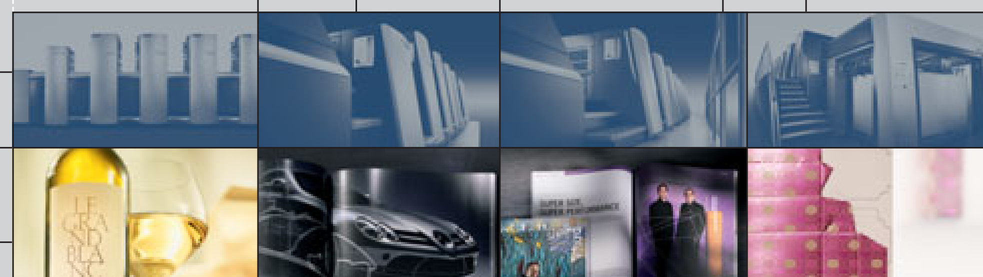
There are no relationships between the auditor, the auditor's management organs, and the chief auditors with either Heidelberger Druckmaschinen Aktiengesellschaft or the Company's management organs that could raise doubts concerning the auditor's independence. The Supervisory Board obtained a statement from the auditor to this effect before submitting a recommendation concerning the selection of the auditor. In accordance with Item 7.2.3 of the Corporate Governance Code, the Supervisory Board also arranged with the auditor for reports to be made immediately of all determinations and occurrences that arise from the execution of the audit and that are of fundamental importance with regard to the responsibilities of the Supervisory Board. The auditor is furthermore expected to inform the Supervisory Board or to include a notification in the audit report if discrepancies are identified from the declaration of compliance that was issued by the Management Board and the Supervisory Board. However, this did not occur.

Heidelberg, May 26, 2008

For the Supervisory Board:
Dr. Mark Wössner

For the Management Board:
Bernhard Schreier

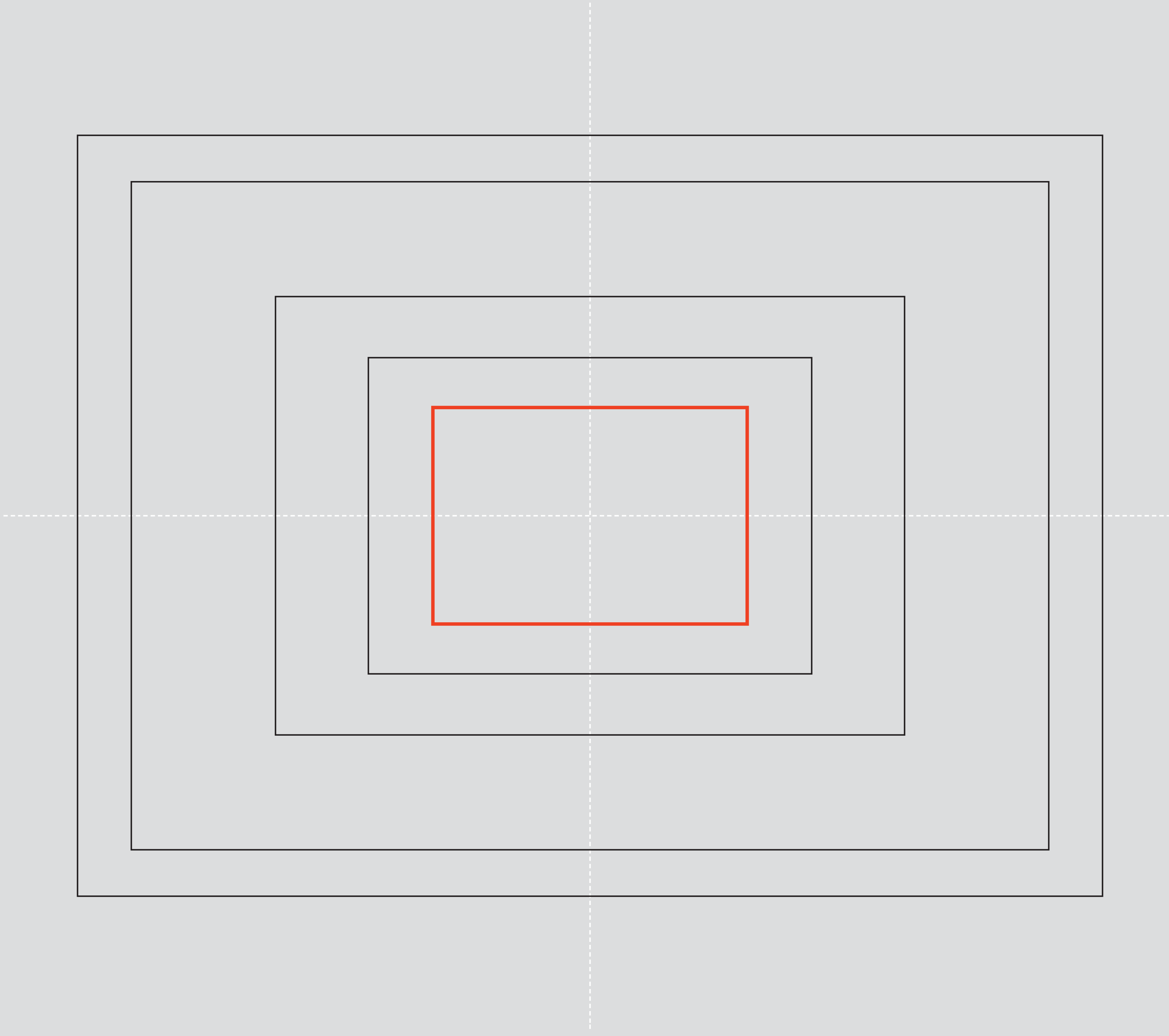
DIMENSIONS



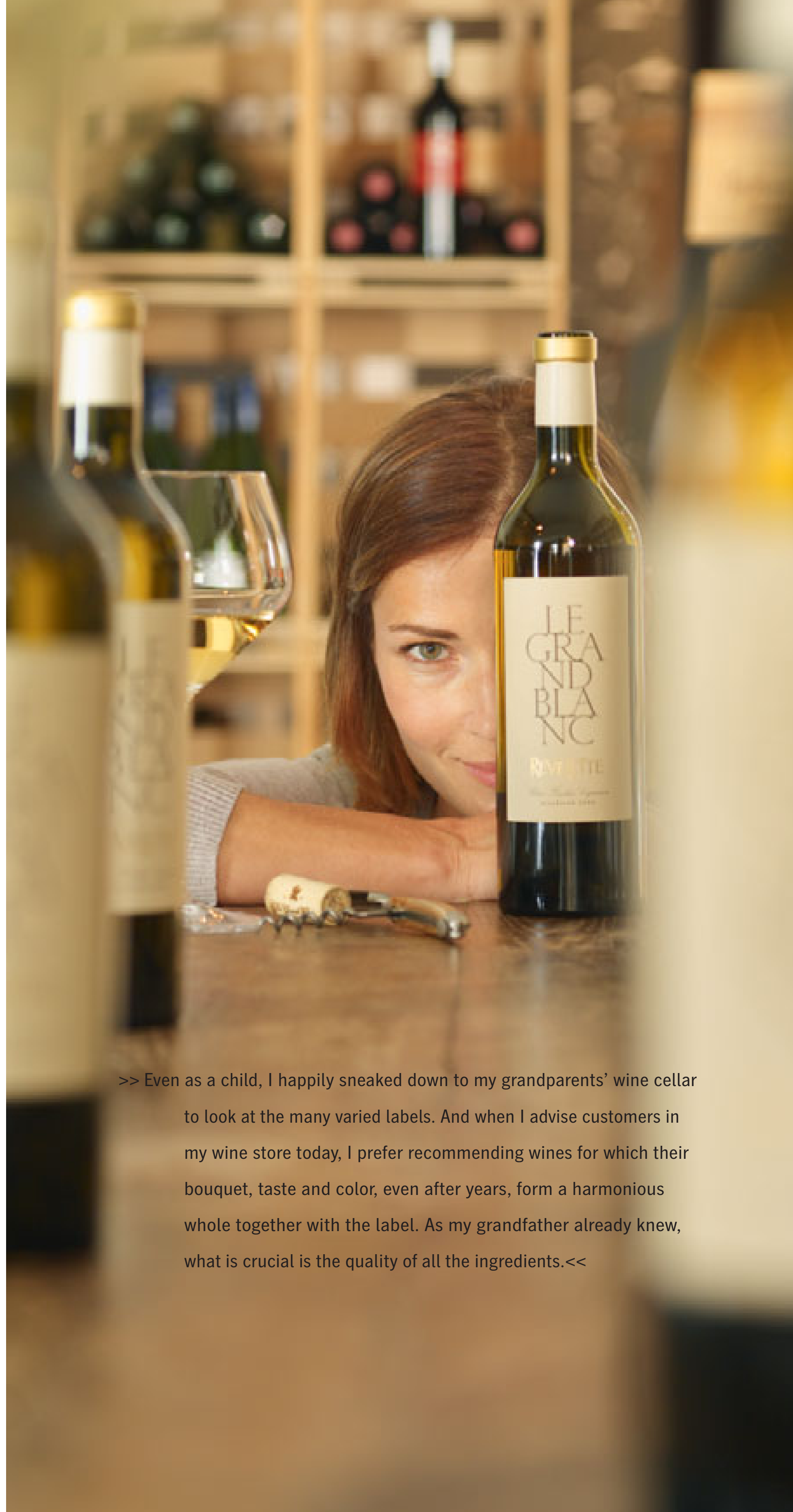
Whether you fish out an attractive postcard from your mailbox on a typical day, or take down a book of photos from the shelf, or open a package of perfume: There is a good chance that they were printed on a HEIDELBERG. Worldwide, we offer sheetfed offset print shops of all sizes the entire range of products, services and software. This makes it possible for them to produce printed matter in a way that conserves resources, is cost-effective and of top quality – regardless of the size of the print run.

UTMOST PRECISION DOWN TO THE SMALLEST DETAIL

The 35 CM × 50 CM format category




LE GRAND BLANC
REVELETTE
Peter Fischer, Vigneron
MILLÉSIME 2006



>> Even as a child, I happily sneaked down to my grandparents' wine cellar to look at the many varied labels. And when I advise customers in my wine store today, I prefer recommending wines for which their bouquet, taste and color, even after years, form a harmonious whole together with the label. As my grandfather already knew, what is crucial is the quality of all the ingredients.<<

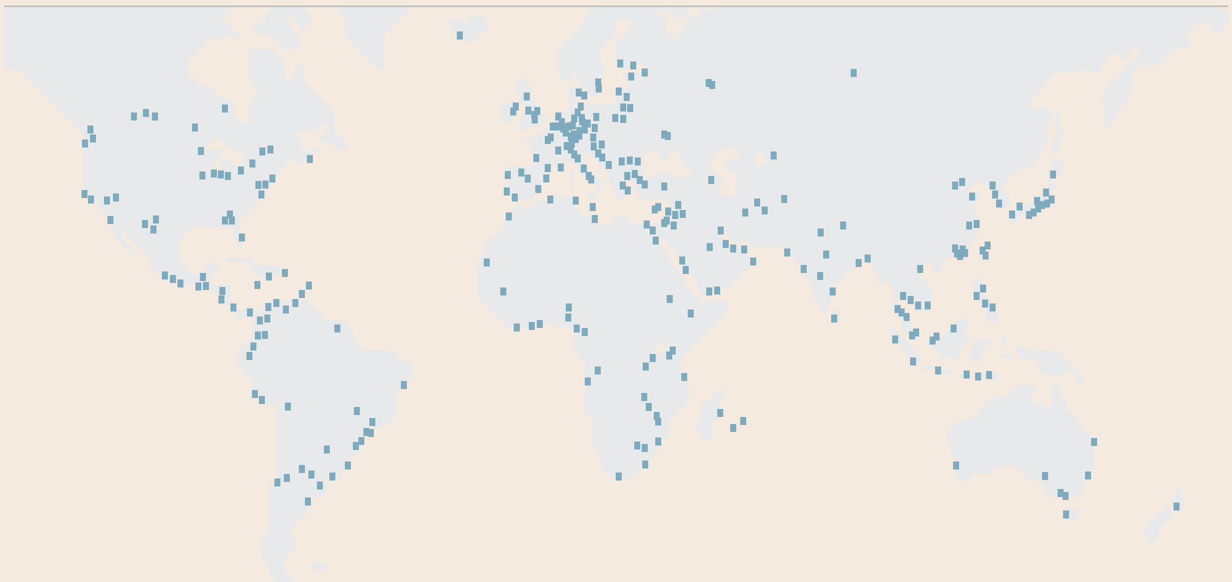

LE
GRA
ND
BLA
NC
REVELETTE
Peter Fischer, Vigneron

> OVERVIEW: SHARE, GROUP AND MANAGEMENT

Heidelberg – Internationally Positioned

The Heidelberg trademark stands for reliability and production security at print shops worldwide, as well as for perfection in precision engineering. Although most of our production facilities are located in Germany, Heidelberg is a thoroughly international group, generating nearly 84 percent of sales abroad.

In addition to products in all format categories, we offer our customers the ability to digitally network all their printing components, and thereby to realize considerable production and cost advantages. A further cause for our longstanding relationships with customers is the expertise of our sales and service companies worldwide in service and consulting. Our innovative products as well as the services we offer, which are unique in our industry, help us maintain our market position in a competitive environment characterized by great challenges.



Heidelberg Share –
Disappointing Development of Share Price

> **High for the Year at € 40.66; Low for the Year at € 14.57**
> **Proposal: Dividend of € 0.95 as in the Previous Year**
> **High Level of Free Float; Increase in Average Daily Trading Volume**

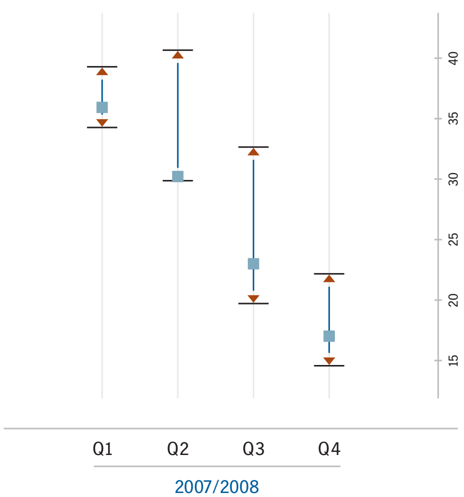
Whereas despite global share price adjustments, the DAX, at 8,067 points, closed out calendar year 2007 only slightly below its all-time high in July 2007, the MDAX midcap index was burdened to a greater extent by increasing raw material prices and the increasing recessionary fears as a result of the credit crisis in the US. For the first time in seven calendar years, the performance of this index developed worse than that of the most important German stock market index. At the beginning of 2008, many analysts still believed that the crisis had largely been overcome. However, stock markets worldwide repeatedly suffered enormous price downturns because of investor insecurity. This was the result of recurring reports of losses in the billions by financial institutions and banks – as well as because no end was in sight to the crisis and to its consequences for the economic trends of the global economy. The MDAX thus lost approximately 11 percent of its value from January to March 2008, with the nearly 19 percent decline in the DAX even higher.

Development of the Heidelberg Share Compared to the DAX and MDAX: Considerably Weaker

Although the Heidelberg share followed the broadly negative stock market trend during the financial year, it failed to benefit from temporary upward trends. Beginning with the subprime crisis and the increasing recessionary fears in the US, the share price fell, in early November coming under considerable pressure following a further worsening of exchange rates for us, in particular that of the US dollar. The general withdrawal from midcap shares, which are regarded as being subject to cyclical influences, caused the share price to decline further. Following publication of our third quarter report in February 2008, in which we addressed the worsening underlying conditions and determined to adapt our forecast to external market expectations, the share price fell once again. On March 17, coinciding with a downturn in the DAX and MDAX, our share reached its low point and closed at € 14.57. The price recovered only slightly through the end of the financial year, closing at € 17.01 on March 31, 2008. The course of the two indexes compared with the price of a Heidelberg share is presented on the inside cover flap.

QUARTERLY LOW, HIGH, AND CLOSING PRICES

Figures in €



KEY PERFORMANCE DATA OF THE HEIDELBERG SHARE

Figures in €

	06/07	07/08
Earnings per share[1]	1.77	1.81
Price-earnings ratio[1] [2]	19.38	9.40
Cash flow per share[3]	3.99	3.71
Dividend per share[4]	0.95	0.95
Dividend yield in percent[2] [5]	2.77	5.58
Payout ratio in percent	40.60	52.49
Share price – high	41.58	40.66
Share price – low	30.67	14.57
Share price – beginning of financial year	35.92	34.86
Share price – financial year-end	34.30	17.01
Market capitalization – financial year-end – in € millions	2,735	1,328
Index weighting of the MDAX in percent	1.89	1.24
Number of shares in thousands[6]	81,393	78,126

1) In financial year 2006/2007 adjusted for positive one-time effects as well as for the non-recurring income from the corporation tax credit
2) In terms of the financial year-end price in Xetra trading; source of prices: Bloomberg
3) Previous year's figure adjusted for a capitalized corporation tax credit
4) In financial year 2007/2008, proposal by the Management Board and Supervisory Board
5) Based on the average share price, the dividend yield amounts to 3.4 percent in the reporting year
6) Weighted number of outstanding shares

Key Investor Relations Goal: Regaining the Confidence of the Capital Market

We have learned from the events of the financial year. To a greater extent, in our communications we emphasize our Group's strengths and the long-term and sustained nature of a commitment to our share. We are working hard to recover the confidence of the capital market. We will only release our specific forecast in the first quarterly report, when more reliable data on the further development of underlying conditions will be available. We believe it is important to emphasize the distinctive features of the printing press market as well as the competitiveness of our offerings. During the financial year, we thus implemented a Technology Day and organized plant tours and visits at print shops for some 30 analysts and investors. We attended a total of 26 international road shows and 13 capital market conferences during the financial year. At drupa, we are organizing an analysts' and investors' conference in order to introduce our innovations to the capital market and offer a forum for questions. We use the conferences, which are carried out at drupa by various banks, to present Heidelberg to current and potential investors.

Focusing on the private investor has also been given high priority at Heidelberg. We were therefore very pleased that this group highly esteems our investor relations work, as was underscored by a survey by the magazine 'Börse online' at the beginning of 2008, in which we held fourth place among all MDAX companies.

Dividend Policy Oriented to Shareholder Interests; Improvement in Capital Structure

Heidelberg's market capitalization was valued at approximately € 1.3 billion at financial year-end, compared with € 2.7 billion as of March 31, 2007. This in no way reflects either the competitiveness of our products or the Group's healthy capital structure! For good reason, we are again in a position to propose to the Annual General Meeting on July 18, 2008 the distribution of a dividend of € 0.95 per share. If the Annual General Meeting agrees to this proposal, the dividend yield in terms of the financial year-end closing price will be 5.6 percent. In terms of the average share price for the financial year of approximately € 28, the dividend yield amounts to 3.4 percent.

Also in the interest of our shareholders, we undertook two share buyback programs in recent years. We have thereby already now compensated for the potential dilutive effect of the convertible bond and improved our capital structure. The second program was completed as of September 4, 2007. More information on this topic can be found in the last part of this chapter.

Annual General Meeting Approves Decisions by a Large Majority

The Annual General Meeting was held in the Mannheim Congress Center Rosengarten on July 26, 2007. Some 1,500 shareholders were present, accounting for approximately 63 percent of Heidelberg's capital stock. The appropriation of distributable profit and the associated payment of a € 0.95 dividend as well as all other decision-making proposals were approved by a large majority.

Increase in the Trading Volume of the Heidelberg Share

The illustration on the right illustrates the degree to which the average daily trading volume of the Heidelberg share has increased in recent years. Of the 50 companies included in the MDAX, Heidelberg held 14th place in 'Share Trading Volume' in the index ranking of Deutsche Börse. In the category 'Market Capitalization on the Basis of Free Float', due to its low share price, the Heidelberg share fell from 24th place the previous year to 32nd place.

Exchangeable Bond Expires

As of June 22, 2007, the exchangeable bond for Heidelberg shares, which had been issued in May 2004 by RWE Aktiengesellschaft, expired. Just before that date, RWE Aktiengesellschaft had provided the information that as of June 15, its voting share in Heidelberg had fallen below the reporting threshold of 10 percent to 9.62 percent.

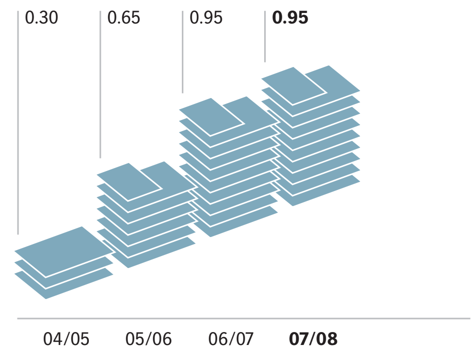
Information in Accordance with Article 315 (4) of the Commercial Code

In accordance with Article 315 (4) Nos. 1 – 9 of the Commercial Code, in the Group Management Report we address all points that may be of significance in the case of a public takeover bid for Heidelberg. In some cases, we refer to issues or other text passages of the Management Report in order to avoid a duplication of information.

The **subscribed capital (capital stock)** of Heidelberger Druckmaschinen Aktiengesellschaft amounts to € 199,791,191.04 and is apportioned among 78,043,434 no-par bearer shares. The shares are not subject to restricted transfer rights. The Company holds 400,000 of its own shares. In accordance with Section 71 of the Stock Corporation Law, the Company is not entitled to any rights arising from the holding of these shares. The Company's Management Board is not aware of any other limitations on the voting rights or the transfer of shares. In accordance with Article 21 (1) of the Securities Trading Act, Allianz SE, which is domiciled in Munich, Germany, informed us on September 20, 2002 that as of that date, it held an **indirect participation** of 12.03 percent in the capital of the Company. The indirect participation held by RWE Aktiengesellschaft, domiciled in Essen, Germany, was decreased to 9.62 percent on June 15, 2007.

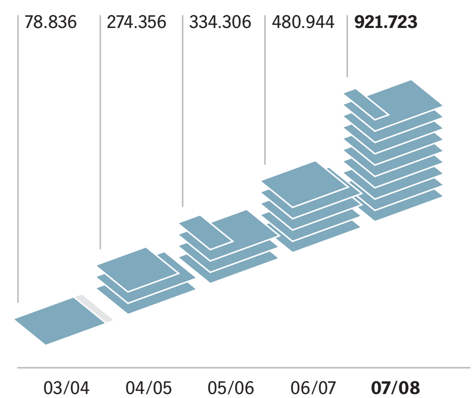
DIVIDEND

Figures in € per no-par share



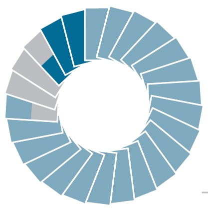
AVERAGE DAILY SALES VOLUME OF THE HEIDELBERG SHARE

Figures in thousands of shares



SHAREHOLDER STRUCTURE

Figures in percent



31-Mar-2008

■	Free float	78
■	Allianz SE	12
■	RWE AG	10

No shareholder holds **special rights** that would grant a power of audit. Furthermore, no separate control over voting rights or audit privileges of employees participating in the capital are held that have not been directly exercised.

As of the reporting date March 31, 2008, **free float** amounted to approximately 78 percent. Heidelberg's shareholder structure is international, with approximately 30 percent of the identified free float held by German investors and approximately 24 percent by investors from the US as of the balance sheet date. Investment companies in the UK and in France each hold 9 percent of identified free float. Most of the other shareholders are domiciled in Canada, the Scandinavian countries, and the Benelux countries.

The **appointment and the recall of the members of the Company's Management Board** occur in connection with Articles 84 ff. of the Stock Corporation Act in association with Articles 30 ff. of the Codetermination Act. Changes in the Articles of Incorporation are undertaken in accordance with the regulations of Articles 179 ff., No. 133 of the Stock Corporation Act in association with Section 19 Paragraph 3 of Heidelberg's Articles of Incorporation. According to Section 19 (3) of the Articles of Incorporation, unless statutory provisions stipulate otherwise, decisions are deemed to be approved by a simple majority of submitted votes. If legal provisions require a majority of shareholdings in addition to a majority of votes, then decisions are deemed to be approved by a simple majority of shareholdings that are represented. According to Section 15 of the Articles of Incorporation, the Supervisory Board is authorized to revise or add to the current version of the Articles of Incorporation.

On July 26, 2007, Heidelberg's Annual General Meeting authorized the Management Board to acquire up to 10 percent of the capital stock until January 25, 2009 either via the stock market or by means of a public offer to buy directed to all shareholders. The acquired shares may be sold over the stock market to third parties or by means of a public offering to all shareholders. With the consent of the Supervisory Board, the Management Board is additionally authorized:

- to offer and transfer shares to third parties under the condition that investments are thereby acquired in companies or divisions of Companies, or that mergers are thereby implemented;
- to offer and transfer shares to members of the Company's Management Board as well as to members of senior management within the framework of the Company's stock option program under exclusion of the subscription right of shareholders; this program was approved by the Ordinary Annual General Meeting of the Company on September 29, 1999 under Agenda Item 8; and
- to withdraw shares without the need for additional approvals by the Annual General Meeting.

This authorization may be exercised either in full or in part.

Following expiration of the second **share buyback program** and the retirement of 1,684,611 shares, as of March 31, 2008 Heidelberg still holds a total of 400,000 of its own shares that account for 0.51 percent of shares issued. It is customary among publicly quoted German companies for the Annual General Meeting to authorize the acquisition of a company's own shares.

With the consent of the Supervisory Board, up to July 1, 2009 the Management Board may increase the capital stock of the Company at one time or in stages through the issue of up to 24,915,210 new shares against cash or contributions in kind, by up to a maximum amount of € 63,782,937.60. Details concerning 'Authorized Capital 2006' are contained in Section 3 (6) of the Articles of Incorporation. The existence of authorized capital makes it possible for Heidelberg to act swiftly and flexibly, and if appropriate, to acquire equity participations in other companies. The scope of the authorized capital is designed to ensure that larger acquisitions can be financed as well – against either cash or shares. The Company's capital stock has been increased on a contingent basis three times up to the present:

> On September 29, 1999, the Annual General Meeting authorized the Management Board to grant subscription rights to the Company's shares ('stock options') to members of the Company's Management Board, to members of the management units of the Company's affiliated enterprises, and to members of senior management of the Company and of affiliated enterprises. For this purpose, capital stock was increased by up to € 10,996,288.00 on a contingent basis; details on 'Contingent Capital' are included in Section 3 (3) of the Articles of Incorporation. The Company has the option of making a cash settlement in place of issuing shares to those entitled to participate. A total of 2,276,065 subscription rights were issued by the Management Board on the basis of this authorization as of March 31, 2008, of which 69,000 options have been designated for the Management Board.

> A resolution by the Annual General Meeting of July 21, 2004 authorized the Management Board, in agreement with the Supervisory Board, to issue, up to July 20, 2009, bearer options and/or convertible bonds in a total face value of up to € 500,000,000.00, with a term to maturity of a maximum of 20 years, thereby granting options and/or the conversion rights to new shares up to a maximum amount of € 21,992,570.88. The capital stock was therefore increased on a contingent basis to € 21,992,570.88; for details, please refer to the 'Contingent Capital II' segment of Section 3 (4) of the Articles of Incorporation. The Heidelberg Group has made partial use of this authorization, on February 9, 2005 issuing a convertible bond in the face amount of € 280,000,000.00 via the Group's wholly-owned subsidiary, Heidelberg International Finance B.V., Boxmeer, the Netherlands, under a guarantee issued by Heidelberg. Details of this transaction can be found in notes 25 and 28 of the section 'The Figures'.

> As of July 20, 2006, the Annual General Meeting authorized the Management Board to issue, in agreement with the Supervisory Board, through July 19, 2011, either at one time or in stages, bearer warrants and/or convertible bonds in a total face value of up to € 500,000,000.00 with a term to maturity of a maximum of 30 years, thereby granting option and/or conversion rights to new shares in a pro rata amount of the capital stock in a total amount of up to € 21,260,979.20. The capital stock was accordingly increased to € 21,260,979.20 on a contingent basis; details are included in the 'Contingent Capital 2006' segment of Section 3 (5) of the Articles of Incorporation. The authorization to issue options and/or convertible bonds expands the opportunities for Heidelberger Druckmaschinen Aktiengesellschaft to finance its operations; moreover, it also makes it possible for the Management Board, with the agreement of the Supervisory Board, to quickly arrange flexible financing, which is in the interests of the Company in particular when favorable capital market terms are available. The authorization to issue options and/or convertible bonds corresponds to customary corporate practice of publicly quoted companies in Germany.

'Change-of-control' provisions: Contractual agreements with management for a situation should control over the Company change are common both in Germany and abroad. The Chairman of the Management Board, Bernhard Schreier, was granted a special right of employment termination with appropriate compensation, which we describe in detail in the Remuneration Report on page 46. No comparable or other change-of-control provision has been made for the other members of the Company's Management Board or for Heidelberg's employees.

The syndicated credit line of Heidelberger Druckmaschinen Aktiengesellschaft includes a standard 'Change of Control' clause that grants the contracting parties additional rights to information as well as cancellation in the case of a change in the control or majority structure of the Company. Equally standard provisions granting the contracting parties the right to cancellation as well as to early repayment are provided for by the convertible bond that was issued by Heidelberg International Finance B.V., as well as by one of the three borrower's note loans.

Finally, a technology agreement with a manufacturer and supplier of software products includes a 'Change of Control' provision, which grants each party a 90-day right of cancellation should at least 50 percent of the shares or of the voting rights of the other party be acquired by a third party.

THE INVESTOR RELATIONS TEAM LOOKS FORWARD TO RECEIVING YOUR QUESTIONS AND SUGGESTIONS

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The Heidelberg Group – Evolved Strengths

> **Tailored Solutions for Offset Print Shops Worldwide**
> **The Industry's Strongest Service and Sales Network**
> **Proprietary Network Software and Innovative Service Concepts**

Heidelberg is the leading equipment supplier to the print media industry. Of course, part of our leading position vis-à-vis competitors is attributable to the fact that Heidelberg has been manufacturing printing presses for over 150 years. Nevertheless, we have not been satisfied with simply maintaining this status. We have increasingly expanded our strategic factors for success over the past ten years. We maintain a global market share of over 40 percent in sheetfed offset printing – a position that we intend to defend and expand further.

Extensive information about our product offerings is available on **our Internet site.** Some highlights: We developed a new format category for drupa 2004. And now, for drupa 2008, we are introducing a new generation of printing presses in an even larger format. Our Speedmaster SM 52 with Anicolor inking unit sets entirely new standards for spoilage reduction, among other things. We have revolutionized prepress operations with our Suprasetter platesetter.

Comprehensive Supplier: Complete Sheetfed Offset Print Portfolio; Innovative Products

We intend to deliver from a single source to our customers worldwide – from medium-sized print shops in industrialized countries and upcoming print shops in emerging markets, all the way to industrial packaging printers – everything needed for successful production. In recent years, we vigorously developed innovative solutions to all the processing steps of printing. In the Postpress business, we have built up an entirely new product portfolio in recent years. Furthermore, we established a plant in China in order to supply local print shops with printing presses and folders that precisely meet the requirements of that country's customers. In addition to highly automated and highly productive components, we also offer entry models for customers outside of China. In the finishing area, when appropriate, we offer OEM products sourced from other manufacturers, which we modify. We also market used printing presses, which then often represent the cornerstone for long-term customer relationships with upcoming print shops.

Sole Supplier of Wholly Networked and Integrated Solutions

By digitally networking the processes of our print shop customers, from prepress and the printing process itself and ranging all the way to finishing, we make it possible for them to produce more flexibly, at lower cost, more productively, and with less spoilage. Our strategy is therefore to offer comprehensive solutions. We describe in detail our strategy on pages 35 to 37. We began with the digital networking of individual components back in 1993. At drupa 2000, we introduced the 'Prinect' brand name. Today, we are the only supplier entirely integrating all components of the printing process as part of a proprietary software solution – which also maps the entire management workflow. We call this 'Integrated Production', which gives our customers a significant competitive advantage.

Creating the Industry's Most Comprehensive Service Offerings

We have substantially expanded our worldwide service offerings in recent years. Our services include all the processes in the added value chain, ranging from prepress and the printing process itself all the way to finishing. Our services encompass the entire product life cycle: Heidelberg advises, installs, finances, insures, undertakes maintenance and repairs – and in the end, arranges for the sale of used printing presses to third parties.

Our innovative **Remote Services** noticeably reduce service costs for our customers as well as for Heidelberg. These Internet-based services, which have received numerous awards, give customers immediate access to expert knowledge at all times. They also make it possible for our service technicians to remedy problems on a remote basis by means of the 'Remote Diagnosis' and 'Remote Inspection' functions through data links – ideally even during the production process.

We have been gradually introducing our **Systemservice** service concept in all markets since drupa 2004. This product makes it possible for us to precisely tailor the services we offer to each individual customer and to the particular phase in the life cycle of the customer's production systems. This ensures greater investment and production security. We also offer our customers comprehensive **Financial Services,** with the primary focus on acting as an intermediate with external financing partners. We have also established a network of Heidelberg-owned Print Finance companies in various currency zones. Downtime for a printing press can become an ordeal for a print shop. For this reason, we have expanded our global **Service Parts Network** in recent years so that customers worldwide usually receive a direct shipment in just a matter of hours. Because replacement parts are no longer warehoused at the various branches, in recent years we have been able to considerably improve the reliability and quality of our service while simultaneously reducing costs.

Our customers know that they can rely on everything they receive from us. We expanded our product range of consumables, which we offer under the **Saphira** brand name. All these products are exceptionally finely tuned to our systems and thereby ensure the highest quality print output. They also adhere to industrial quality standards for environmental friendliness. Our worldwide sophisticated logistics systems ensure not only the timely delivery of service parts, but also the on-time delivery of consumables. Furthermore, we further expanded our **Online Shops** for consumables, which were very favorably received during the financial year.

HEIDELBERG LOGISTICS CENTER

	Opening year	Daily shipments
Wiesloch-Walldorf [1]	1999	1,200
Indianapolis	2004	550
Tokyo	2006	280
Hong Kong [2]	2007	80

1) Plus a total of some 350 additional shipments in support of production
2) Currently in a startup phase

Heidelberg's Own Service and Sales Team – Worldwide Presence

Our solutions provider strategy is promoted by our highly qualified service and sales team. We are now generating approximately 85 percent of our sales through our own sales units, compared with a much lower share ten years ago. Our extensive service and sales network spans the globe and employs approximately 8,000 sales and service employees worldwide. Our strong presence in the emerging markets, whose economies are growing at an above-average pace, is paying off, with the share of these markets in our sales increasing from 17 to 35 percent over the past ten years. Moreover, our continually broader regional diversification is serving to reduce our dependency on individual markets.

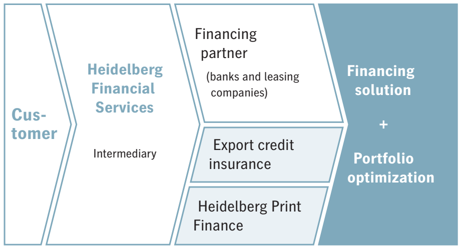
Sales Financing: Strategic Cornerstone for Success

Our customers' ability to finance our solutions at competitive terms worldwide is the foundation of our success. In order to improve our financial service offerings and reduce the commitment of funds, we have shifted the focus of our attention in recent years. We have established close relationships with global, regional, and local financial service providers worldwide and aided them in appreciating the distinctive features of providing financing for print shop machinery and equipment. We also work together with Euler Hermes Kreditversicherungs Aktiengesellschaft to cover export financing risks. In general, we only assume direct financing after a thorough examination of the risk and if financing is not feasible from external financing partners. Over the past five years, with this strategy we have succeeded in reducing the overall risk from sales financing as well as our commitment of funds in the developed markets by two-thirds and also disconnecting it from the sales trend.

Specialized Further Training at the Highest Level Worldwide

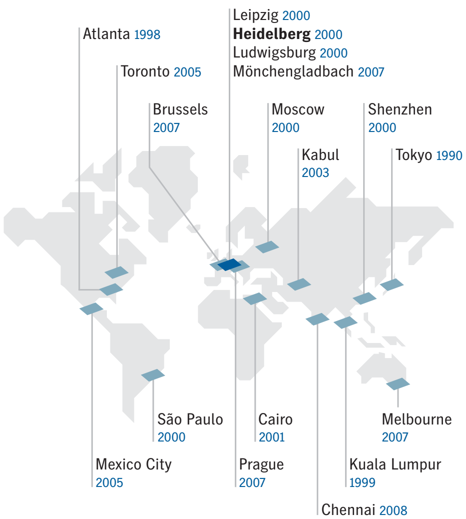
Print shops in all markets are requesting ever more complex solutions. To ensure that they are able to take full advantage of our offerings and implement especially successful business models, we offer them specialized further training through our Print Media Academy network that is unique in our industry. As can be seen in the illustration on the following page, we have considerably expanded our network over the past four years in particular. Of course, we also make use of the PMAs to continually keep our own sales personnel informed about the latest developments, thereby ensuring that customers throughout the world always have access to the kind of exemplary service they expect from Heidelberg.

HEIDELBERG FINANCIAL SERVICES

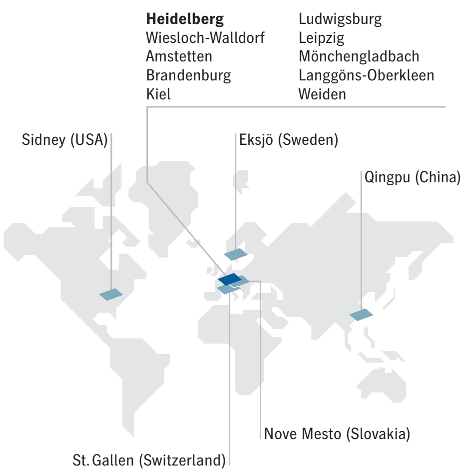


PRINT MEDIA ACADEMIES LOCATIONS

Year of inauguration



R&D AND MANUFACTURING FACILITIES



Plants: Sheetfed Offset Manufacturing Network Optimized; Environmental Protection Measures Implemented

The Heidelberg Group is currently developing and producing at 15 sites. We manufacture **sheetfed offset printing presses** in a production network at specialized German plants. A full ten years ago, we organized production according to families of parts. Precision-made large castings come from Amstetten; turned and profiled parts originate from our Brandenburg site; and model parts, electronic components, and experimental parts are produced at our Wiesloch-Walldorf plant, where we assemble all our sheetfed offset printing presses with the exception of models designed for the Chinese market. We continually invested in our manufacturing equipment, even during the crisis years, thereby fully utilizing streamlining potential and achieving a high degree of flexibility. Furthermore, our investment activity emphasized laying the groundwork for the manufacture of new products and an improvement of the production process as such. Two years ago, we integrated the results of various large projects as part of our comprehensive Heidelberg Production System (HPS). More information concerning current projects and HPS can be found on page 98 ff.

At our new **Qingpu plant** near Shanghai, we assemble printing presses specially designed for the requirements of the Chinese market: KHC-type folders and simple, standardized, small- and medium-format sheetfed offset printing presses which we deliver directly to our Chinese customers. The Swiss-based Gallus Group supplies **flexo-printing presses,** which are used to print labels, for example. In November 2006, Gallus acquired 100 percent of the firm now known as Gallus Stanz- und Druckmaschinen GmbH (formerly known as BHS Druck- und Veredelungstechnik GmbH), which operates a facility at Weiden.

We develop and produce machine systems used in the finishing of printed matter – for example, stitcher-gatherers, adhesive binders, and thread-sealing machines, folders, mailing systems, die-cutters, and folder gluers at the German plants in Ludwigsburg, Mönchengladbach, and Leipzig, as well as at sites in Sweden, China, Slovakia, and the US.

We have purposefully reduced the consumption of resources and energy at our plants over the past ten years. For example, renovation of the Amstetten foundry resulted in a drop in water consumption over the past two years from 395 liters per metric ton of liquid iron to 81 liters. At our Ludwigsburg site, we invested approximately € 500,000 in new heaters, which resulted in a cutback in energy consumption and thereby in CO_2 emissions by approximately 18 percent.

Successful Value Added Partnerships with Suppliers

A modern printing press contains up to 100,000 parts and high-performance software for controlling up to 500 individual driving axles and as many as 300 pneumatic parts. Not only has the number of the required parts increased drastically over the past ten years, but Heidelberg's production volume is up as well. Based on total cost of ownership analyses, we have significantly boosted the share of the third-party supplies in our plants. In the areas of prepress and printing – in other words, in the Press Division – in recent years we increased outside supplies from approximately 50 to over 60 percent. This figure is significantly higher in the finishing area – in other words, in the Postpress Division. In view of this situation, it is apparent that the significance of procurement has increased considerably for Heidelberg. We rely on diverse strategies vis-à-vis suppliers and value-added chain management, which are optimally and closely coordinated. For example, we have established a network of high-performance and innovative 'systems suppliers' over the past ten years. Approximately 80 percent of our purchasing volume is accounted for by 10 percent of our suppliers.

This supplier base is a key factor for Heidelberg's success. For one thing, this base makes synchronous production possible in the first place. That is, even in the case of short-term fluctuations in the order situation, suppliers deliver exactly what is needed. In addition, innovative power is a highly valued parameter in the selection of our systems suppliers – which becomes manifest both with new developments as well as in the improvement of processes. In order to make full use of all capabilities, we integrate suppliers in projects at as early a stage as possible and jointly develop opportunities to optimize processes and products.

Global procurement has been playing an increasingly important role for us for some years, in order to at least partly compensate for foreign currency effects and to take advantage of differences in wage levels. Nevertheless, we do not make any concessions to the quality of delivered parts. Moreover, our suppliers worldwide must adhere to our standards of environmental protection and operate in a socially responsible manner.

Utilizing Our Employees' Process Know-How

Although our biggest printing presses are approximately 30 meters long and weigh over 200 metric tons, nevertheless they operate with greater precision than a high-quality Swiss timepiece. The tolerance for the crucial parts and components of our high-tech offset printing presses is one thousandth of a millimeter. Our specialists are thereby operating at the limits of what is technically doable and measurable. Such accomplishments are only possible with

HEIDELBERG – ENVIRONMENTALLY FRIENDLY PRODUCTS AND COMPREHENSIVE ADVICE FOR CUSTOMERS

1990 – At the tenth drupa, Heidelberg introduces a list of recommended environmentally friendly cleaning solutions for printing presses

1995 – First-time demonstration of alcohol-reduced printing at drupa

2003 – Opening of the Environmental Information Center at Heidelberg

2006 – Introduction of the zoneless Anicolor inking unit, which can reduce spoilage by up to 90 percent

2007 – Together with the Darmstadt University of Technology, Heidelberg develops an Intranet-based environmental portal

KEY ECOLOGY DATA[1)]

	2006	2007
Production sites and R&D facilities with a certified environmental management system	9	10
CO_2 emissions in thousand tons[2)]	203	141
Salvage quota in percent[3)]	94	94

1) Figures for the calendar year
2) The figures are now more precise due to new legal disclosure obligations by electricity suppliers (individual figures in place of an average mix); the previous year's figure was still based on the old method of calculation
3) Share of processed waste to total waste

highly trained employees. We report extensively on page 94 ff on the development of our employees. Our latest brand name survey again impressively demonstrated the extent to which the 'Heidelberg' brand name stands for the highest level of quality throughout the world.

Sustainability: Focus on Environmental Protection, the Economy, and Social Responsibility for Many Years

Especially this past year, the general public became increasingly interested in environmentally friendly products and resource-conserving production, with greater demand for printed products produced in an environmentally friendly manner. Heidelberg has been giving serious attention to these issues for nearly twenty years. Our Research and Development Center, with its own environmental and chemistry lab, opened its doors in Heidelberg in 1990, and the waste disposal center started operations in Amstetten. Environmental protection has been a declared goal of Heidelberg since 1992. Our Environmental Protection Report, which was awarded a number of prizes, appeared for the first time in the following year. In 2000, information concerning employee development, social dedication, and our local plants was added to the issues covered in this annual publication, which was subsequently renamed Sustainability Report. This report may be ordered or downloaded at www.heidelberg.com.

For many years, all aspects of protecting resources have been systematically integrated as part of the flow charts for our production and product development. We now make use of environmental management according to ISO 14001 at ten of our fifteen production and R&D sites, with preparations under way at the other sites as well.

Printers can learn everything they need to know about environmentally friendly and low-cost operations from Heidelberg first-hand – among others, from our service and sales specialists; at seminars; and through our brochures entitled 'Printing and The Environment'. We reorganized our Environmental Information Center at Heidelberg the previous year.

Corporate Strategy –
Innovative Strength Secures Market Position

> **Solution Provider and Comprehensive Supplier: Value Added for Customers and for Heidelberg**
> **Growth Primarily in Services, in Packaging Printing and in Emerging Markets**
> **Reducing Dependence on Cyclical Fluctuations and Foreign Currency Influences**

Our top priority is to sustainably increase Heidelberg's corporate value. Our core expertise lies in the sheetfed offset printing process, including prepress and finishing processes as well. Our goal is to be the preferred partner worldwide for sheetfed offset print shops of various sizes and strategic alignments, providing them with everything they need from a single source in order to be sustainably successful in the market.

Maximum in Production and Investment Security for Our Customers

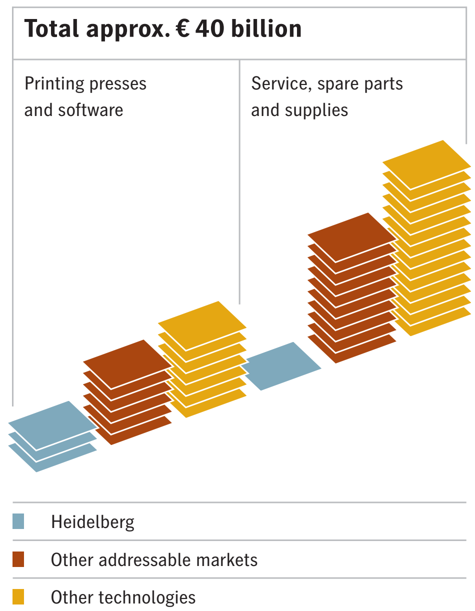
We offer our customers the highest level of both production and investment security, thereby supporting them in their business success – specifically:

> with the industry's most dense service and sales network and highly qualified employees;
> through the digital networking of every step of the printing process, which makes it possible for our customers to significantly optimize their potential in production and management; and
> with our comprehensive consulting and service offerings for customers throughout the world, including financing and specialized training services.

Taking Advantage of the Potential in Various Markets; Reducing the Influence of Exchange Rate Movements

The print media industry in the **industrialized countries** is characterized by considerable vigor. The needs of final customers are on the rise, print runs are falling, delivery times are being shortened, and greater individualization of products and enhanced services are in demand. We also take the future requirements of our customers into account in our developments and our overall offerings. Our solutions ensure maximum performances in terms of print quality, speed, and reliability. Since these solutions additionally considerably reduce the production cost of print shops, they provide an incentive to invest in slack order times as well.

MARKET POTENTIAL



Source: Heidelberg

We intend to further increase our business volume in the **emerging markets.** We offer high-quality standard printing presses with a low level of automation especially for the many emerging smaller commercial printing establishments in these markets, thereby laying the cornerstone for long-term customer relationships. We intend to expand our business in **China** in particular. We are the first and, so far, the only European printing press manufacturer to establish its own local manufacturing facility. We assemble small- and medium-format sheetfed offset printing presses and folders that are especially tailored to the particular needs of print shops in the Chinese market. We are vigorously expanding the share of local procurement. Expanding both production and purchasing in the non-eurozone serves to reduce the influence of **exchange rate developments** on our profit situation.

Reducing Dependence on Cyclical Fluctuations and Improving the Cost Structures

Business developments in the print media industry, in particular the advertising market, are dependent on the global economic situation. We are consequently strengthening the business units that serve to reduce our dependency on cyclical fluctuations. These include Heidelberg Services, the consumables business, and packaging printing in particular. In addition, we are continuing to improve the cost structure of the Group on an ongoing basis.

Services are becoming increasingly important for the business success of print shops around the globe. Our innovative services, such as individually tailored service contracts as well as Internet-based remote services, help our customers to considerably reduce the costs of their printing presses over their entire life cycle and prevent equipment failure. We offer the quickest parts service in the industry as well as management advice, support in financing questions, comprehensive and unique worldwide specialized and further training offerings for the print industry, and used printing presses of tested quality. Moreover, we market a broad range of **consumables** under the 'Saphira' brand name. Saphira products are finely tuned for our systems, guarantee maximum output, and usually surpass industrial environmental protection standards. Because the sales of consumables are largely non-cyclical, we intend to rapidly increase this area of business, including via acquisitions.

To a large degree, the **packaging printing market** is also growing independently of overall business developments. For large format printing, which is an important segment of this market, we have developed integrated, wholly networked digital production solutions that offer optimized processes ranging from prepress and printing all the way to the delivery of the printed output. Our highly productive Speedmaster XL 145 and XL 162 sheetfed offset printing presses with their large formats cover nearly three-quarters of the large format market.

Enhancing Market Opportunities for Our Customers in Every Respect

Based on our market knowledge, we provide comprehensive advice and support for our customers – internationally as well – and develop **business models** with them, which they can successfully and profitably implement.

More and more companies attach importance to ensuring that the printed products they order are **produced in an environmentally friendly manner.** Our customers have outstanding selling points here. For example, our zoneless Anicolor inking unit reduces spoilage by up to 90 percent – moreover, according to the EU guideline 'Energy-using Products', its CO_2 equivalent is only a quarter of a conventional inking unit. Because of its reduced emissions, our 'Speedmaster Star' concept, which reduces the energy consumption of an individual machine by more than half, is even subsidized by the German government. We intend to further enhance energy efficiency of newly developed products. In addition, all our German plants have been granted environmental certification, with processes used for the manufacture of our printing presses at a maximum level of energy efficiency and environmental soundness.

We find innovative **applications** for our consumables, with which our customers can realize special effects and are thereby able to further differentiate themselves from the overall market.

We expanded the **range of applications for sheetfed offset printing.** Today, our highly productive solutions make it possible for our customers to offer long print runs on a cost-effective basis and with clearly superior quality, which for economic reasons were formerly the realm of web offset printing. And with short print runs, which previously were usually handled by the digital printing process, from the point of view of cost alone, with our variable solutions, the sheetfed offset printing process is also appropriate for print runs beginning at 200 copies.

Value Management, Corporate Management and Control – Designing Processes Purposefully

> **Changes in Management Board Responsibilities**
> **Focus on Improvement of Company Value**
> **Improvement of Management by Means of a Management System**

ORGANIZATIONAL STRUCTURE

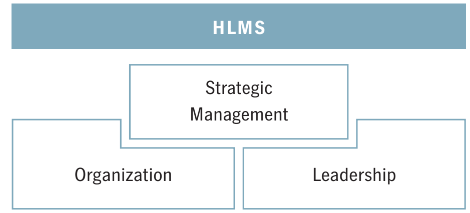
- **Bernhard Schreier** – Chairman
  - Corporate Development
  - Human Resources
  - Communications
  - Compliance
- **Dirk Kaliebe** – Finance
  - Controlling
  - Finance
  - IT
  - Investor Relations
  - Sales Financing
- **Dr. Jürgen Rautert** – Sales
  - Sales
  - Consumables
  - Product Management
  - Marketing
  - Service
- **Stephan Plenz** – Technology
  - Research & Development
  - Purchasing
  - Production
  - Postpress

Since we restructured and reorganized the Group on a functional basis a few years back, we have continuously further refined the corporate organizational structure and its operating structure, orienting it to added-value processes. At the same time, we developed a comprehensive management approach that takes the interests of all the Company's stakeholders into account. On the left, we show the new breakdown of the areas of responsibility, which comes into effect on July 1, 2008. Bernhard Schreier will focus on Heidelberg's strategic development as well as acquisitions, communications, and compliance. He will continue in his function as Human Resources Director. Responsibility for sales, which had previously been assigned to Mr. Schreier, will be shifted to Dr. Jürgen Rautert in the future, who will additionally continue to be responsible for customers and market-related activities, product management and marketing, and will also be in charge of expanding the service and consumables business. Stephan Plenz has been newly assigned by the Supervisory Board as the Management Board Member responsible for Technology; he assumes responsibility for research and development as well as production and purchasing; in this latter capacity, he will accelerate both the expansion of the production capacity in China and international purchasing. No structural changes have been made in the area of Finance; the measures that have been planned to increase efficiency and reduce working capital are in the area of responsibility of the CFO, Dirk Kaliebe.

Goals: Increase Corporate Value and Further Strengthen the Strategic Factors for Success

Our shareholders as well as our customers and employees benefit in the long term from any sustainable increase in the Company's value. A significant goal for us, therefore, is to further expand our strategic competitive advantages and factors for success, which we described in the previous section, thereby further strengthening the 'Heidelberg' brand name, our most important intangible asset.

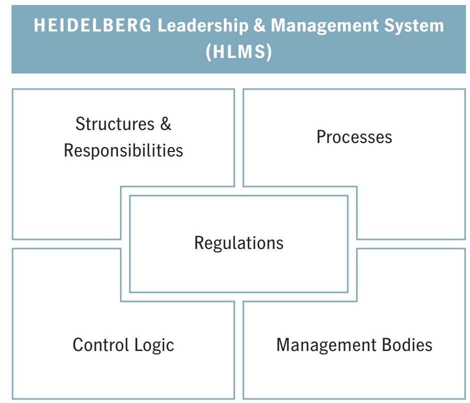
Our financial goals are an integral part of the Group's strategic planning and are thus included as target figures for corporate management, specifically: return on capital employed (ROCE), value contribution, and **free cash flow.** To identify the return on capital employed, we analyze the relationship of **earnings before interest** and taxes (EBIT) to average operating assets. We calculate the cost of capital based on the weighted cost of capital; details on this are presented on page 125.



Heidelberg Leadership & Management System (HLMS): Mandatory Performance Targets and Procedures at Every Level

To ensure that all of Heidelberg's units work together to achieve the key corporate goals, in principle the entire Group – from the top all the way down to every unit of production, administration, and sales – is managed on the basis of target agreements, a principle that we also apply to relationships with our suppliers.

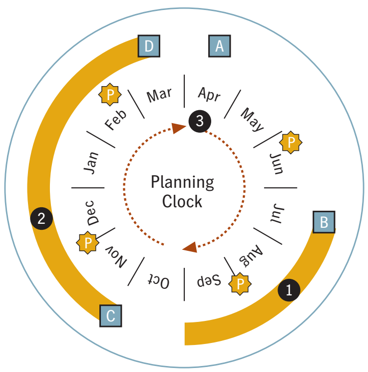
To measure and improve the quality of management, we launched the Heidelberg Leadership & Management System worldwide during the previous year. As the illustration on the right shows, HLMS applies to all levels. It establishes the framework within which Heidelberg's organization, strategy, and management quality are continually examined and further developed. It determines in advance the procedure for breaking down the Company's main goals into concrete targets for the coming years. All the processes and relationships within the Company are represented in a transparent manner in an organizational manual and made accessible to all employees at all times on Heidelberg's Intranet. These guidelines cover structures and responsibilities, control logic, processes and management bodies, as well as all regulations and guidelines ranging all the way from the Company's general values and principles – for example, our quality standards – to binding guidelines such as the content of the annual job performance review. This reliable framework unambiguously assigns responsibilities, thereby ensuring effectiveness and makes it possible to precisely monitor the fulfillment of target agreements.



Analysis of the Development of Major Factors

The HLMS also undertakes measures to counter the hazard present in functional organizational structures, that individual areas might concentrate excessively on only reaching their own goals. The system requires periodic meetings of cross-divisional management bodies, thereby promoting an intensive Company-wide dialog. A so-called Extended Management Board comprises the core of the body, which is composed of the responsible individuals from key areas.

PLANNING CLOCK



- P Rolling forecast
- 1 Strategy development
- 2 Operational planning
- 3 Monthly reporting
- A Strategy meeting
- B Divisional strategies
- C Start operational planning
- D Approval

Heidelberg's controlling operation continuously generates up-to-date quantitative and monetary-based information from internal sources. As the illustration on the left shows, ongoing comparisons of targets vs. actual performance of all developments of significance for the business development are generated. The controlling unit also prepares data sourced from the corporate environment, records best practice and benchmark data, and draws up business plans for investments in new markets, products and areas of business. The management of risks and opportunities, which we describe in more detail at the end of this section, is a solidly integrated component of strategic planning and strategic controlling.

Early warning indicators also play an important role throughout the corporation. Since our goal is to remain the print media industry's preferred partner, we analyze developments that provide feedback concerning customer loyalty and our employees' motivation. Among other things, we appraise service protocols, record processing times, and analyze employee turnover. We also implement brand name studies every four years and customer satisfaction studies every two years. The results of these studies are included, among other things, in projects and determine our focus of investment. The latest brand name study, which we contracted with the independent institution ICON in 2006, again confirmed that quality is an extremely important criterion in the perception of the 'Heidelberg' brand name by our target group. For good reason, we therefore pursue a zero error strategy in our production process. An important indicator of the requirement for optimization in production and assembly is the reprint time. This addresses the issue of whether a print product needs to be further processed, and if so, the time required and location until the equipment performs optimally and can be delivered to the customer.

Operating Goals Determined by Overall Strategy; Solidly Established Incentive Systems

How is the Group's strategic agenda transformed into concrete operating objectives? And how do we boost the motivation of individuals so they will vigorously pursue these goals? Together with members of senior management from the product areas, regions, and functional units, the Management Board elaborates concrete divisional strategies based on the strategic agenda. The targets in the individual plans of the corporate units – and, ultimately, for all the lower organizational units – are fixed in Balanced Score Cards (BSCs) and fleshed out with specific steps. This ensures that the planning process is comprehensive and covers all the significant factors for long-term success: financing, customers, employees, and processes. The overall operating result as well as the calculated result for a particular product are both important for the financing area. We also assign special importance to everything that affects cash flow because we want to finance our investments, dividend payments, and acquisitions out of the operating inflow of funds.

The BSCs represent a solid basis for comparing targets with actual performance as well as monitoring strategies. They are simultaneously an excellent foundation for calculating performance-based variable remuneration components. As can be seen in the Remuneration Report on the following pages, incentive systems play an important role, particularly in management.

Close Links among Value Management, Risk Management and Opportunity Management

To be in a position to increase the value of the Company on a long-term basis as comprehensively as possible, risks must be recognized and realistically assessed early on, so that we immediately effect countermeasures. Opportunities should also be recognized and systematically exploited as early as possible. We ensure this by making both our risk management as well as our opportunity management systems integrated components of our value-oriented control system, each with a different focus. How does this work? On the one hand, concrete risks and opportunities are recorded, quantified, collected, and reported further directly and on-the-spot. On the other hand, however, we believe it is of equal importance in all management bodies and meetings at all management levels to frankly and proactively deal with risks and opportunities, even when they are only ‘perceived’ ones.

On the one hand, our guidelines and organizational directives therefore stipulate a strictly formal process, with whose help we systematically record both individual risks and the overall risk of the Group and record, assess, and quantify opportunities. In addition, all cross-sector units are expected to regularly shed light on risks and opportunities – even removed from the formal process – from all points of view. This enhances Heidelberg’s reaction time for these management bodies to undertake extensive decisions in favor of appropriate measures that are feasible in all areas.

Our risk- and opportunity management are integral components of the annual controlling and reporting processes as well as our five-year planning process.

All operating units and divisions are integral components of this process. Information on risk is collected locally. Both the risk-significant areas of observation as well as the methods of risk surveys are spelled out in the guidelines. Risks that have been recognized are quantified and later summarized in accordance with the key parameters 'probability of occurrence', 'extent of loss upon occurrence', and 'expected risk development during the planning period'.

Responsibility for making an appropriate assessment and properly dealing with risk is assigned to each unit's top management. The potential effect on the result of operating activities of the individual units serves as the basis for ranking within risk categories. Reporting thresholds are predetermined uniformly. Since the divisions operate under a profit center orientation, risk management is closely linked to the operational controlling process.

All risks ascertained in this manner are reported to the Group. Risk controlling summarizes them at the Group level once each quarter, groups them down into the 'Top 30 Risks', which are further categorized into six risk groups and then reported to the Management Board and Supervisory Board's Audit Committee. Reporting must be undertaken immediately, of course, should more serious risks arise unexpectedly.

To ensure that our requirements for uniformly dealing with risks and opportunities are adhered to, we publish an organizational directive and underscore the procedures in a corporate guideline. This guideline is updated regularly and is accessible to all employees. The effectiveness of our risk management process is regularly monitored by our internal auditors. Our risk management system satisfies the legal requirements of the Corporate Sector Supervision and Transparency Act (KonTraG).

Remuneration Report[1] – Management Board and Supervisory Board

The total structure and amount of the remuneration of the Management Board are determined by the Human Resources Committee of the Supervisory Board of Heidelberger Druckmaschinen Aktiengesellschaft and monitored periodically. The remunerations of the Management Board comprise:

> fixed annual salary;
> variable annual remuneration;
> share-based remuneration as a variable remuneration component with a long-term incentive effect;
> remuneration in kind; and
> a Company pension.

Fixed and Variable Remuneration; Remuneration in Kind

The members of the Management Board received an annual **fixed remuneration** paid in equal monthly installments. Provision is also made for **variable salary components.** On the one hand, an annual corporate bonus is paid that is dependent on the Group's success during the financial year, with free cash flow and the result of operating activities serving as yardsticks. On the other hand, each member of the Management Board is eligible to receive a personal, performance-based bonus that is determined by the Chairman of the Supervisory Board in consultation with the Human Resources Committee, taking into consideration the particular duties and areas of responsibility. With full disbursement, the personal bonus amounts to 15 percent of the overall salary, the corporate bonus to 35 percent, and the fixed base pay to 50 percent of total salary. The amount of the bonuses and thereby their share of salary is adjusted if performance exceeds or falls short of a target. The corporate bonus (normally 70 percent of the overall bonus) is limited to a maximum of 130 percent (= 91 percent). No provision is made for over-fulfillment in the case of the individual bonus (normally 30 percent of the total bonus).

Remuneration in kind consists largely of the use of a Company car in accordance with tax guidelines.

[1] The Remuneration Report is also part of the Corporate Governance Report

Structure of Variable Remuneration Components with Long-Term Incentive Effects

In addition, the members of the Management Board receive **variable remuneration components with long-term incentive effects** within the framework of the stock option plan and the long-term incentive plans (LTI).

Stock option plan: The prerequisite for granting subscription rights is that eligible individuals buy shares of the Company on their own account and retain them for the length of an appropriate vesting period. Subscription rights may only be exercised if, between the date of issue and the date the subscription right is exercised, the market price of the Company's shares outperforms the value of the Dow Jones Euro STOXX Index (hereinafter referred to as the 'Index') – both share price and Index calculated on the basis of the total shareholder return method. The target is deemed as having been reached if the performance of our share determined in this manner exceeds the Index. If subscription rights are not exercised despite the target having been reached, they may not be exercised again until the target has been reached again. The exercise price is defined as the average closing price of our shares on the final ten consecutive stock market trading days in Frankfurt am Main prior to the relevant subscription period for the respective subscription rights (the 'Exercise Price'). The period of vesting commences when the subscription rights are issued, and ends three years after the issue date. The period of validity of the subscription rights commences when the subscription rights are issued, and ends six years after the date of issue. Overall, a total of six tranches were issued during the period 1999 to 2004. The 1999, 2000, and 2001 tranches have meanwhile expired without the stock options having been exercised. As in the previous year, during the financial year no disbursement was made from allotted stock options granted in previous years.

Long-term incentive plan (LTI): This plan provides for granting so-called Performance Share Units (PSUs) to the members of the Management Board if they undertake an investment for their own account in the shares of Heidelberger Druckmaschinen Aktiengesellschaft. The number of PSUs granted is contingent on the meeting of targets. Claims arising from the final number of PSUs are satisfied either by means of a payment or by the delivery of Heidelberg shares. With an investment for own account of 1,500 shares, each member of the Management Board may receive 4,500 PSUs. The PSUs under the LTI 2006 and LTI 2007, respectively, were designated on April 1, 2006 and April 1, 2007, respectively, and expire at the close of business on March 31, 2009 and March 31, 2010, respectively. The targets realized by the Company during the term of validity are defined on the one hand as the arithmetic average of the free cash flow rate (free cash flow divided by net sales), and on the other hand by the arithmetic average of the EBIT percentage rate (EBIT divided by net sales). For example, based on an equal weighting of the two targets, a member of the Management Board who undertakes an investment for own account of 1,500 shares, with an average EBIT percentage rate of 10 percent and an average free cash flow rate of 6 percent over a period of three years would result in an allocation of 100 percent of the conditionally committed PSUs, or 4,500 PSUs. Within the framework of the presentation of the remuneration, the fair value is shown here at the time the PSUs are granted.

Remuneration of the Individual Members of the Management Board

BERNHARD SCHREIER

Figures in € thousands

	2006/2007	2007/2008
Performance-neutral components		
Base salary	488	500
Remuneration in kind	13	8
Performance-based remuneration		
Bonus for the financial year [1]	557	375
Cash remuneration	1,058	883
Components with long-term incentive effects		
Fair value at the time the LTI 2007 (previous year: LTI 2006) was granted with 100 percent target attainment [2]	149	136
Remunerations	1,207	1,019
Number of PSUs granted during the financial year under the LTI	4,500	4,500
Number of PSUs under the stock option program	52,500	42,000
Pension plan		
Expected pension per annum at retirement age [3]	371	371
Defined benefit obligation	3,773	3,137
Pension plan according to IFRS [4]	270	304

[1] The figure for financial year 2006/2007 includes disbursed residual financing for bonuses in financial year 2006/2007 totaling € 69 thousand

[2] In case of a 100 percent factor for success for the LTI 2006, the fair value as of March 31, 2008 amounts to € 73 thousand for the LTI 2006 and € 67 thousand for the LTI 2007

[3] In accordance with the situation for pension-capable remuneration as of March 31

[4] Service cost and interest cost

Bernhard Schreier's term of office as a regular member of the Management Board runs for five years.

Pension plan: The pension commitment provides for a pension related to the amount of the last basic remuneration as well as survivors' benefits, thereby deviating from the pension commitments for most employees, whose benefits are based on a table related to income groups, which is adjusted regularly in accordance with the development of the cost of living. The percentage rate thereby depends on the number years of service in the Company, with the percentage rates of increase graduated per year of service. Based on the pension contract and as a result of the years of service with the Company, the maximum pension percentage rate of 75 percent has already been reached. The pension will be paid beginning at age 65, or at the onset of employment disability. The payment will be adjusted in the same percentage relationship as the basic pay of salary group B9 for civil servants in Germany. No guaranteed adjustment by at least 3 percent every two years, as is the case with employee remuneration, is foreseen. A pension will also be paid if, before reaching retirement age, the contract is cancelled or is not extended by the Company without giving cause that would have entitled the Company to terminate employment without notice. In this case, claims acquired by other activity up to age 65 are fully offset. A potential claim under a contractual compensation for restraint of competition is also taken into account. A claim for committed benefits under the Company's pension provisions remains in force even in the case of an early cancellation of employment. Otherwise, the statutory full vesting periods are deemed to have been fulfilled. The payment of the old-age pension is fully secured by a reinsurance policy, with the resultant claim against Mr. Schreier pledged as collateral.

Payments upon termination of the Management Board mandate: During the period following the declaration of intent by RWE Aktiengesellschaft to sell its majority holding in Heidelberg, if a company other than RWE Aktiengesellschaft acquires a majority holding in the Company Mr. Schreier has been granted a special cancellation right that must be exercised within a period of six months following the occurrence of such a change in ownership. In this case, Mr. Schreier would receive a severance payment amounting to remuneration for two years (basic salary plus bonuses). If Mr. Schreier exercises his special cancellation right, he will receive a pension beginning at the time of the early resignation, with the pension calculated as if the contractual relationship had continued through the end of his mandate.

DIRK KALIEBE

Figures in € thousands	(1-Oct – 31-Mar) 2006/2007	2007/2008
Performance-neutral components		
Base salary	138	275
Remuneration in kind	4	18
Performance-based remuneration		
Bonus for the financial year [1]	157	206
Cash remuneration	299	499
Components with long-term incentive effects		
Fair value at the time the LTI 2007 (previous year: LTI 2006) was granted with 100 percent target attainment [2]	149	136
Remunerations	448	635
Number of PSUs granted during the financial year under the LTI	4,500	4,500
Number of PSUs under the stock option program	33,750	27,000
Pension plan		
Accrued pension capital at financial year-end	76	167
Pension contribution for the reporting year [3]	41	85
Defined benefit obligation	172	255
Pension plan according to IFRS [4]	42	98

1) The figure for financial year 2006/2007 includes disbursed residual financing for bonuses in financial year 2006/2007 totaling € 19 thousand

2) In case of a 100 percent factor for success for the LTI 2006, the fair value as of March 31, 2008 amounts to € 73 thousand for the LTI 2006 and € 67 thousand for the LTI 2007

3) In accordance with the situation for pension-capable remuneration as of March 31, excluding the yet-to-be-determined profit-related share

4) Service cost and interest cost

Dirk Kaliebe has been a member of the Management Board since October 1, 2006. His term of office as a regular member of the Management Board runs for three years.

Pension plan: The pension contract for Mr. Kaliebe provides for a defined contribution pension commitment that is largely in line with the defined contribution pension provisions for executive staff (BVR). Each year, on July 1 the Company deposits into an investment fund 30 percent (in BVR: 3 percent) of his basic salary, applicable retroactively for the prior financial year. Depending on corporate earnings, this amount can be higher. The precise level of the pension, in turn, depends on the financial success of the investment fund. The pension may be paid as an early pension payment beginning at age 60. In any case, in other words in case of termination of employment with the Company, the pension will be paid at the age of 65, or respectively 60, principally in the form of a one-time payment of pension capital.

Provision is also made for a disability and survivors' benefit (60 percent of the disability payment) contingent on the amount of the last basic remuneration. In this case, the percentage rate depends on the length of service with the Company – thereby differing from the BVR – with a maximum pension percentage rate of 60 percent due to attributable time. Should the service contract expire prior to the beginning of benefit payments, the claim to the established pension capital at this point in time remains valid. The other pension benefits (disability and survivors' benefits) earned in accordance with Section 2 of the Law to Improve Company Pension Plans (BetrAVG) remain valid on a pro rata basis. Otherwise, the statutory full vesting periods are considered to have been met.

DR. JÜRGEN RAUTERT

Figures in € thousands

	2006/2007	**2007/2008**
Performance-neutral components		
Base salary	313	325
Remuneration in kind	10	11
Performance-based remuneration		
Bonus for the financial year [1]	357	244
Cash remuneration	680	580
Components with long-term incentive effects		
Fair value at the time the LTI 2007 (previous year: LTI 2006) was granted with 100 percent target attainment [2]	149	136
Remunerations	829	716
Number of PSUs granted during the financial year under the LTI	4,500	4,500
Number of PSUs under the stock option program	–	–
Pension plan		
Expected pension per annum at retirement age [3]	190	190
Defined benefit obligation	1,769	1,493
Pension plan according to IFRS [4]	151	192

Dr. Rautert's term of office as a regular member of the Management Board runs for five years.

1) The figure for financial year 2006/2007 includes disbursed residual financing for bonuses in financial year 2006/2007 totaling € 44 thousand
2) In case of a 100 percent factor for success for the LTI 2006, the fair value as of March 31, 2008 amounts to € 73 thousand for the LTI 2006 and € 67 thousand for the LTI 2007
3) In accordance with the situation for pension-capable remuneration as of March 31
4) Service cost and interest cost

Pension plan: Pension commitments provide for a pension that is contingent on the amount of the last basic remuneration and survivors' benefits, thereby deviating from the pension commitments for most employees, whose benefits result from a table based on income groups, which is adjusted regularly in accordance with the development of the cost of living. The percentage rate thereby depends on the number of years of service in the Company, with the percentage rates of increase graduated per year of service. The relevant pension percentage rate of 60 percent will be attained in 2011. The pension will be paid beginning at age 60, or at the onset of employment disability. The payment will be adjusted in the same percentage relationship as the basic pay of salary group B9 for civil servants in Germany. No guaranteed adjustment by at least 3 percent every two years, as is the case with employee remuneration, is foreseen. A pension will also be paid if before reaching retirement age but after age 55, the contract is cancelled or is not extended by the Company without giving cause that would have entitled the Company to terminate employment without notice. In this case, claims acquired by Dr. Rautert by other activity up to age 60 are offset by half. A claim for committed benefits under the Company's pension provisions remains in force even in the case of an early cancellation of employment. Otherwise, the statutory full vesting periods are deemed to have been fulfilled. The payment of the old-age pension is fully secured by a reinsurance policy, with the resultant claim against Dr. Rautert pledged as collateral.

Former member of the Management Board Dr. Herbert Meyer

Dr. Meyer was a member of the Management Board up to September 30, 2006. He has been receiving an old-age pension since October 1, 2006. For the period April 1 – September 30, 2006 he received a base payment amounting to € 185 thousand as well as remuneration in kind totaling € 8 thousand and bonuses of € 211 thousand (including disbursed residual financing for bonuses in 2006/2007 amounting to € 26 thousand in the financial year). Remunerations for the period April 1 – September 30, 2006 totaled € 404 thousand. Old-age benefits expenses in accordance with IFRS (service cost and interest expense) amounted to € 94 thousand.

Basic Characteristics of the Supervisory Board's Remuneration

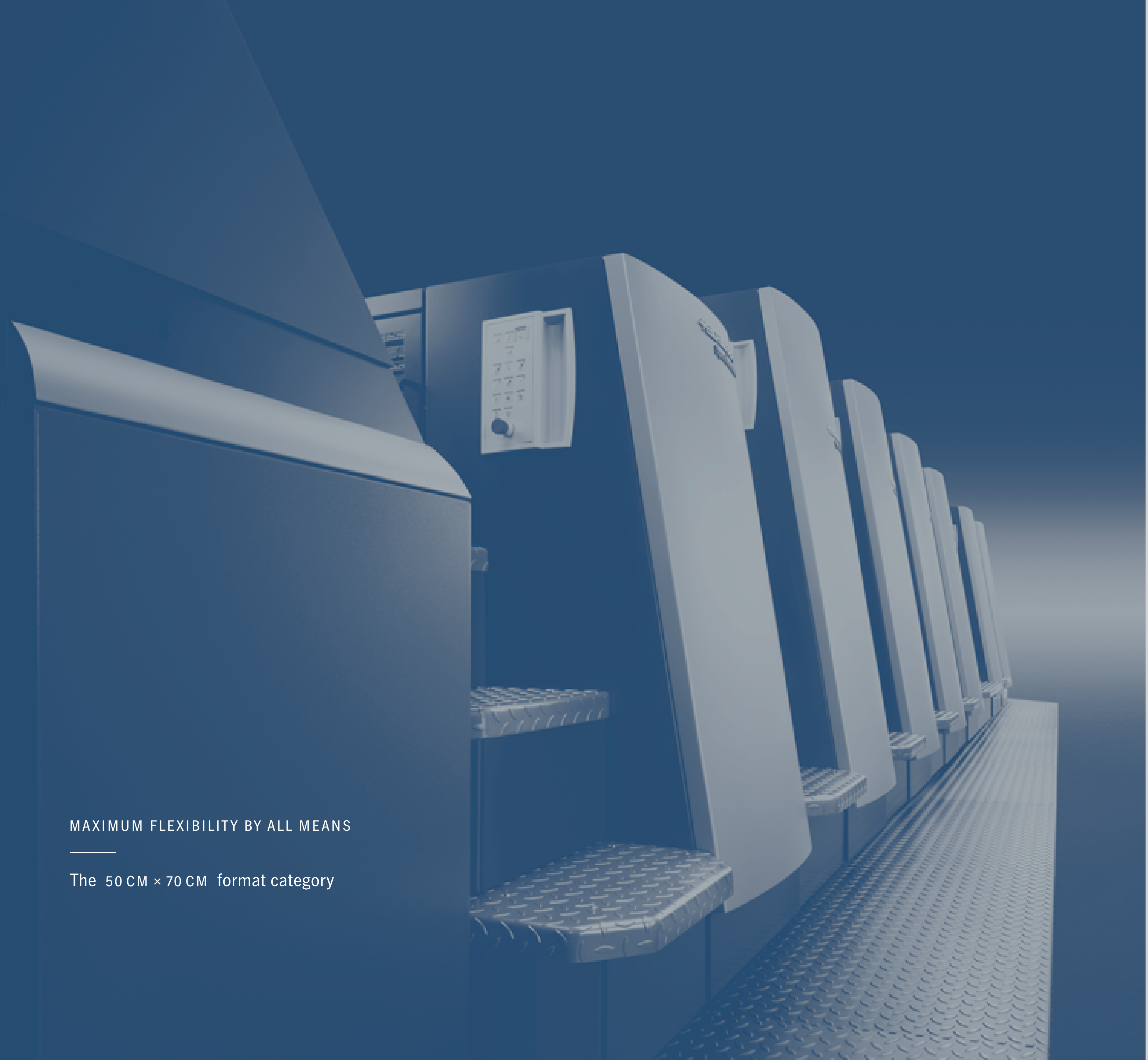
The remuneration of the Supervisory Board is regulated in the Articles of Incorporation and approved by the Annual General Meeting. It comprises two components: an annual fixed remuneration of € 18,000 and a variable component that depends on the dividend. The variable remuneration amounts to € 750 for each € 0.05 in dividends per share paid in excess of € 0.45. In other words, the members of the Supervisory Board only receive an additional variable remuneration if the dividend exceeds € 0.50. Whereas fixed remuneration is paid after the financial year-end, the variable remuneration is only payable following the conclusion of the Annual General Meeting that approves the actions of the Supervisory Board for the relevant financial year. The Chairperson, his Deputy, as well as Committee Chairpersons and members of the Supervisory Board, receive remuneration increased by specific multipliers in view of their additional responsibilities. The Chairman of the Supervisory Board therefore receives double the normal Supervisory Board remuneration, with the Deputy Chairman and the Committee Chairmen receiving 1.5 times and the members of the Supervisory Board Committees 1.25 times normal Supervisory Board remuneration. A member of the Supervisory Board who holds more than one position only receives remuneration for the position with the greatest amount. Members of the Supervisory Board who only serve on the Board for part of the financial year receive pro rata remuneration. The same applies respecting the application of the multipliers if a member of the Supervisory Board is only active for a portion of the financial year that entitles increased remuneration. As reimbursement for expenses the members of the Supervisory Board also receive a lump-sum of € 500 for each meeting day for higher outlays during the exercise of their responsibilities unless proof is supplied for higher outlays.

The remuneration of the Supervisory Board is as follows:

Figures in €

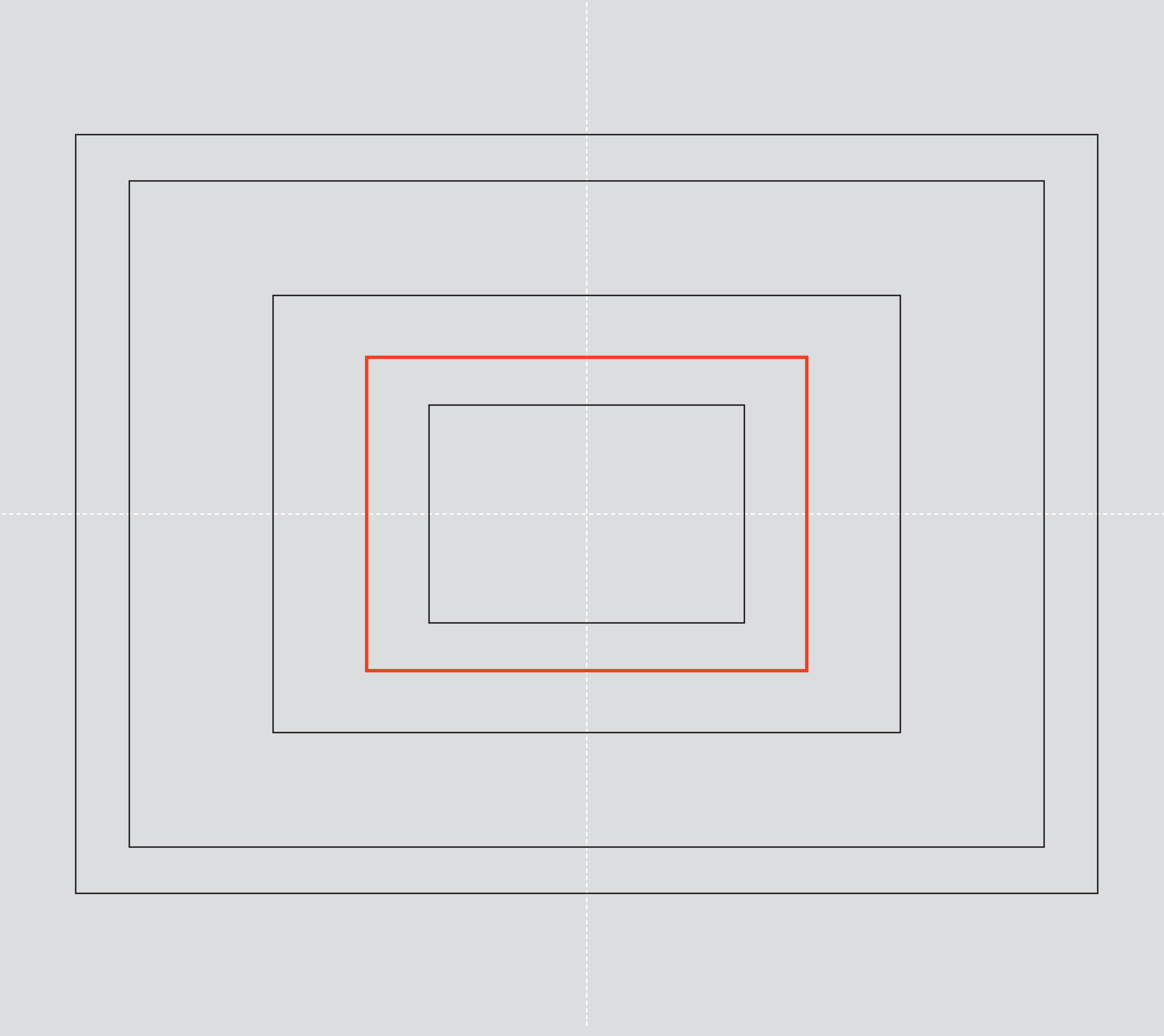
	2006/2007			2007/2008		
	Fixed remuneration	Variable remuneration	Total	Fixed remuneration	Variable remuneration	Total
Dr. Mark Wössner [1]	38,468	15,000	53,468	38,000	15,000	53,000
Rainer Wagner [2]	31,000	11,250	42,250	30,500	11,250	41,750
Martin Blessing	24,500	9,375	33,875	23,500	9,375	32,875
Prof. Dr. Clemens Börsig [3]	24,500	9,375	33,875	–	–	–
Wolfgang Flörchinger	20,000	7,500	27,500	19,500	7,500	27,000
Martin Gauß	25,000	9,375	34,375	24,500	9,375	33,875
Mirko Geiger	26,500	9,375	35,875	25,500	9,375	34,875
Gunther Heller	20,000	7,500	27,500	20,000	7,500	27,500
Dr. Jürgen Heraeus	19,500	7,500	27,000	25,000	9,375	34,375
Jörg Hofmann [4]	20,000	7,500	27,500	20,000	7,500	27,500
Dr. Siegfried Jaschinski [5]	–	–	–	20,000	7,500	27,500
Robert J. Koehler	20,000	7,500	27,500	20,000	7,500	27,500
Uwe Lüders	20,000	7,500	27,500	20,000	7,500	27,500
Dr. Gerhard Rupprecht	23,500	9,375	32,875	24,500	9,375	33,875
Beate Schmitt [4]	20,000	7,500	27,500	20,000	7,500	27,500
Dr. Klaus Sturany	27,000	11,250	38,250	31,182	11,250	42,432
Peter Sudadse	20,000	7,500	27,500	20,000	7,500	27,500
Total	379,968	144,375	524,343	382,182	144,375	526,557

1) Chairman of the Supervisory Board
2) Deputy Chairman of the Supervisory Board
3) On the Supervisory Board until March 31, 2007
4) On the Supervisory Board since April 3, 2006
5) On the Supervisory Board since April 3, 2007



MAXIMUM FLEXIBILITY BY ALL MEANS

The 50 CM × 70 CM format category



>> It’s really strange. I can best relax when I’m busy with things that result from people’s hard work, experience, knowledge and energy. I like it when people are only satisfied with the very best. Everything to do with high-tech therefore fascinates and inspires me – from new technologies and innovative approaches all the way to perfection in bookbinding and in the art of printing.<<

> OVERALL VIEW OF BUSINESS DEVELOPMENTS

COMPARISON OF TARGETS VS. ACTUAL PERFORMANCE – HEIDELBERG GROUP

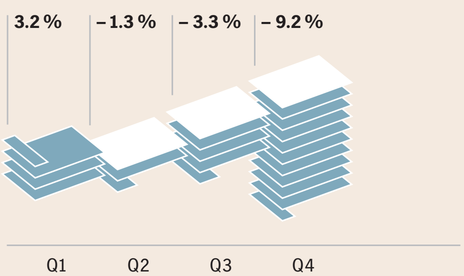
Key figures	2006/2007	Forecast	Actual 2007/2008
Sales	€ 3,803 million	moderate growth	€ 3,670 million
Result of operating activities	€ 302 million[1]	increased by 10 to 15 percent	€ 268 million
Net profit (in percent of sales)	3.8 percent[1]	about 5 percent	3.9 percent
Free cash flow (in percent of sales)	6.0 percent	4 percent	5.9 percent

[1] Adjusted for positive one-time effects

Beginning in the second half-year the **underlying conditions** worsened for us in the US to an unexpected extent. Bleak economic conditions cast a shadow over our second-largest market. In particular, the fear of a recession during the final months of the financial year, which seemed ever more likely, served to increasingly paralyze our customers' propensity to invest. The exchange rate structures of the euro to the Japanese yen and US dollar, which shifted more and more to the disadvantage of European exporters, further worsened the already difficult situation. Due to the exchange rates, European suppliers had increasing difficulties vis-à-vis their Japanese competitors. This hampered our business, not only in the US, but in Japan and in several smaller Asian markets as well.

SALES TREND

Compared with the same quarter the previous year



Our **sales,** especially during the fourth quarter, which is traditionally our strongest sales quarter, diverged considerably from the originally budgeted and planned development, as the graphic on the left illustrates. As this trend became evident, in our third quarterly report we revised the forecast that we had disclosed in the previous year's annual report, adapting it to external market expectations in view of the increasingly worse economic conditions for our business. Only at financial year-end did it become evident that we would actually fall short of our projected growth in sales – despite numerous countermeasures that had been initiated – by 3.5 percent. The situation in the US and exchange rate structures had worsened too much towards the end of the financial year. The highly favorable developments in other markets – for example, the record sales that we realized in Germany during the financial year, gratifying growth rates in Eastern Europe, and the upswing in business China – were unable to compensate for the negative factors in the other countries.

With a **result of operating activities** of € 268 million, we achieved an operating return on sales of 7.3 percent. Although this reflects a decrease in our earnings capacity compared with the previous year, it is considerably in excess of the earnings power of our German competitors. We fell considerably short of our original forecast – the result especially of the lower sales volume, higher staff costs, and higher charges due to the exchange rate situation. **Net profit** declined slightly to € 142 million from the adjusted previous year's figure of € 144 million or 3.9 percent of sales. Undiluted **earnings per share** of € 1.81 improved slightly over the adjusted previous year's figure due to the smaller volume of shares outstanding.

Even after our second share buyback program, in absolute terms our **capital base** of approximately € 1.2 billion is at about the previous year's level.

As far as working capital is concerned, we have achieved initial successes with our 'Heidelberg Excellence' Program. In the medium term, we intend to reduce working capital as a percentage of sales down to 30 percent. The ratio of working capital to sales was cut back from 33.6 percent to 32.5 percent during the financial year.

Heidelberg's internal financing strength was again auspiciously strong during the financial year. We were successful in considerably surpassing our target of generating **free cash flow** accounting for 4 percent of sales, realizing an actual figure of 5.9 percent of sales! We were able to implement our share buyback program and pay the dividend to our shareholders out of our earned financial resources. Furthermore, we were successful in avoiding an increase in financial liabilities.

Similarly to the lower result of operating activities, **ROCE** also fell, amounting to 13.5 percent compared with the adjusted figure for the previous year of 15.7 percent. Nevertheless, with capital costs at 9.7 percent, we were again successful in generating a favorable **value contribution** of 3.8 percent, or € 71 million.

ROCE and Value Contribution – Important Performance Indicators

> **Value Contribution Again Favorable, at 3.8 Percent**
> **Operating Assets Virtually Unchanged**

ROCE AND VALUE CONTRIBUTION

Figures in € millions

	2006/2007	2007/2008
Operating assets (balance sheet date)	1,879	1,894
Operating assets (average)	1,879	1,887
EBIT [1]	295 [2]	254
– ROCE in percent of operating assets	15.7	13.5
Cost of capital	185	183
– in percent of operating assets	9.9	9.7
Value contribution	110	71
– in percent of operating assets	5.8	3.8

[1] Includes the result of operating activities and income from investments
[2] Adjusted for positive one-time effects totaling € 60 million

We intend to generate a favorable value contribution and sustainably increase the corporate value of the Heidelberg Group. For this reason, we are striving to earn an ROCE that exceeds the cost of capital.

Since we fell short of our originally projected growth in sales, the result for the financial year was below the previous year's adjusted figure. Although our investment volume was above average during the financial year, which was largely a reflection of construction of the new building, Hall 11, the figure for operating assets remained virtually unchanged from the previous year because we undertook successful counteraction with our measures for the reduction of committed funds. The ROCE of 13.5 percent was nevertheless down from the previous year.

Due to the slightly lower average cost of capital, our cost of capital fell slightly by € 2 million to € 183 million. As a result, we again realized a favorable value contribution, amounting to € 71 million, compared with € 110 million the previous year.

Explanations concerning our mathematical model as well as a calculation of the cost of capital are shown on page 125. We did not change the mathematical model during the financial year.

FIVE-YEAR OVERVIEW – ROCE AND VALUE CONTRIBUTION

Figures in percent of operating assets

	2003/2004	2004/2005	2005/2006	2006/2007 [1]	2007/2008
ROCE	0.4	7.0	13.6	15.7	13.5
Cost of capital	10.3	9.2	9.2	9.9	9.7
Value contribution	– 9.9	– 2.2	4.4	5.8	3.8

[1] Adjusted for positive one-time effects

Underlying Conditions – Overall Economy and Our Industry

> **Global Economy Grew by 3.7 Percent; Significant Economic Slowdown at Year-End**
> **Increased Demand for Print Products in Emerging Markets**
> **Problematic Exchange Rate Situation for European Suppliers**

What are the general parameters influencing the business development of the equipment suppliers to the print industry? The most important ones are the current and expected expenditures for print ads and the population's general consumer behavior – which, in turn, are heavily dependent on economic growth. The gross domestic product in our principal markets therefore plays a crucial role for us. Strong economic growth – or the expectation of favorable economic developments – also generally results in a high propensity to invest by our customers. Additionally, business development in general is also favorably influenced by trade shows.

Political and legal uncertainties, pessimistic future assessments for the print industry, customs restrictions, and inadequate or very costly financing for medium-sized firms could hamper sales in individual markets.

Since we generate nearly 84 percent of our sales abroad – and nearly 55 percent outside the European Union – both economic growth in our key markets as well as the development of exchange rate structures are crucial factors in the development of our business. The latter is all the more important, as we have located a large part of our production in Germany and, up to now, most of our suppliers have come from the European region.

Global Economy Grows Further – Despite Slowdown in the US

All eyes were directed towards the US economy in 2007. Beginning at mid-year, it suffered increasingly from the weakness of the real estate market. The major banking crisis that resulted was to spread to many financial markets by the end of the year. Nevertheless, although the US economy began to stumble, the favorable forecasts in the European region and in Asia came close to realization. Unlike in the past, the US seemed to no longer act as the principal engine for growth for the global economy. The rapidly growing markets in the emerging markets offered good export opportunities. Moreover, they are characterized by

GROSS DOMESTIC PRODUCT[1)]

Change from previous year in percent

	2005	2006	2007
World	3.5	4.0	3.7
US	3.1	2.9	2.2
EU	2.0	3.2	2.9
Germany	1.0	3.1	2.6
UK	1.8	2.9	3.1
Eastern Europe	5.5	6.1	5.2
Russia	6.4	7.4	8.1
Asia[2)]	7.2	7.8	8.0
China	10.4	11.1	11.4
India	9.2	9.7	8.5
Japan	1.9	2.4	2.1
Latin America	4.7	5.5	5.4
Brazil	3.2	3.7	5.3

1) Source: Global Insight, April 2008
2) Excluding Japan

notably stable, independent economic conditions. Despite the ongoing high prices for energy, which hampered primarily the consumer behavior of private households, in 2007 the **global economy** grew overall by 3.7 percent – close to the previous year's pace.

The real estate and financial crisis in the **US** caused a downturn primarily in private consumer spending, and thereby in domestic demand as well. The only light at the end of the tunnel for the US economy was the weak dollar, which ensured high levels of exports and, in the end, a 2.2 percent growth in GDP in calendar year 2007. Nonetheless, this had the same negligible impact on the increasing fear of an impending recession as did the reduction in the key interest rate and the announced economic policy programs.

Despite the strong euro, exports, investments, and consumer spending increased robustly and sustainably in the **European region.** Favorable developments in the labor market favored domestic demand in **Germany,** and corporate investments were up as well. Buoyed by the service sector and strong exports, GDP increased by a strong 3.1 percent in the **UK** as well, despite the financial market turbulence at 2007 year-end.

The development of **Japan's** economy was disappointing, although that country's exports benefited from the very weak yen. Consumer spending and investments fell far short of forecasts, so that GDP ultimately only grew by 2.1 percent.

On the other hand, the **emerging markets,** particularly in Asia, continued to post a rapid pace of development. By international comparisons, **China** and **India** continued to stand out with their growth in GDP of 11.4 percent and 8.5 percent, respectively. **Latin America's** economy increased by a robust 5.4 percent, benefiting from strong domestic demand as well as high raw material prices on the world market. Our principal market in this region, **Brazil,** posted strong growth as well. In **Russia,** the high price of oil favored economic development, and investments were also up.

Highly Varied Development of the Print Industry in Our Biggest Markets

Demand for print products continued to grow in the emerging markets, in some countries at a disproportionately more rapid pace than overall economic growth. High-quality printed products have become increasingly important. In the industrialized countries, print shops focused above all on streamlining investments. As in the past, they were only able to pass on their higher costs for energy and paper as well as higher staff costs to their final customers to a limited extent. More information concerning the situation in our various customer segments can be found on pages 88 to 90.

The mood could have hardly been more different in the print industry in our two biggest markets – Germany and the US – than it was during the financial year although the two economies grew at similar rates: The German print industry continued the previous year's trend, with the business situation and the employment rate further improving even though production in 2007 increased by a mere 2.6 percent over the previous year (Source: bvdm). The capacity utilization of print shops rose towards the end of the year, amounting to over 85 percent on average for the year. By contrast, the US print industry was noticeably affected by the broadly rather weak economy. As the graph on the right shows, capacity utilization in the US reached only 75 percent at financial year-end.

The Report from the Regions on pages 79 to 83 focuses in detail on developments of the print shop market in the various countries and reports on trade shows and customs limitations.

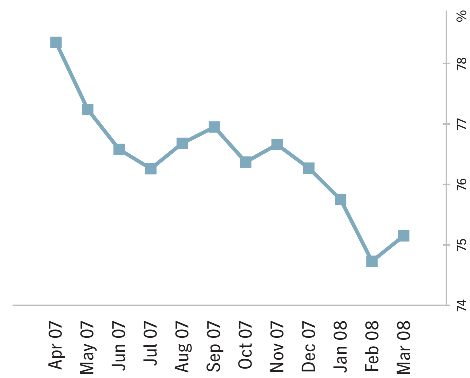
Competitive Structure of Our Industry: Exchange Rate Developments Strongly Favor Non-European Competitors

Over the past five years, exchange rate structures have shifted considerably to the advantage of suppliers who have situated their value added outside the Euro Region. As can be seen in the graph on the right, contrary to our forecast, circumstances worsened further to our disadvantage due to the additional marked decline in value of the US dollar during the financial year.

We are the world market leader in the area of sheetfed offset printing technology. In addition to our two principal competitors, König & Bauer and MAN Roland, who are also domiciled in Germany, there are also several Japanese competitors in this area, such as Komori, Ryobi and Mitsubishi, who have benefited enormously from the devaluation of the yen and the dollar in recent years. Furthermore, Japanese competitors are taking advantage of the exchange rate structures to penetrate in various European and Southeast Asian markets to a greater extent than in the past. The competition thereby further intensified. We made mention in the previous year's Risk Report of the threat of such a development and its impact on our scope to set prices.

CAPACITY UTILIZATION US PRINT INDUSTRY

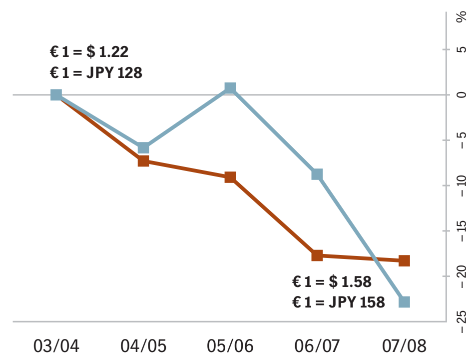
Figures in percent



Source: Federal Reserve

INCREASE IN VALUE OF THE EURO

Closing exchange rates at year-end



Index USD

Index JPY

Source of exchange rates: Bloomberg

In the finishing area, the market is influenced by many small as well as three larger suppliers; each of the latter three, which includes Heidelberg, has a market share of over 10 percent. Our main competitors in the finishing area – Bobst as well as Müller Martini – manufacture internationally and therefore are less dependent on foreign currency developments. A new competitor from Japan, Horizon, focused increasingly on European markets and the US in its marketing and sales activities during the financial year. As is the case in the sheetfed offset area, the US is by far the most difficult market for us at this time.

As we mention on pages 35 to 37, with our solutions provider strategy we stand out from our competitors. Moreover, we further strengthened our strategic key factors for success again during the financial year – for example, even further enhancing the competitiveness of our product portfolio and expanding our service offerings. Our customers appreciate the fact that using our solutions, they can react profitably to the latest developments as well as to the increase in the cost of paper and staff costs and ever tighter deadlines. Demand for integrated solutions is increasing in the emerging markets as well. With our strategy, we were therefore successful in maintaining our market shares in all regions and countries despite the difficult underlying conditions.

Business Development –
Targets Not Met in a Difficult Environment

> **Sales down 3.5 Percent**
> **Financial Year without a Larger Trade Show**
> **Further Increase in Share of Sales in Emerging Markets**

Our business development was considerably hampered by the bleak business prospects in the second half of the financial year. Since no larger trade shows were held, there was no favorable impetus that could have compensated for these negative factors. We were therefore unable to reach the sales targets that we had set a year ago, although we did generate record sales in Germany, our biggest market. The favorable response to our 'Open House' events shows us that a high level of investment volume is again possible in individual markets during the financial year prior to the drupa trade show. Moreover, our business development was burdened by the fact that the exchange rates developed more unfavorably for us than we had anticipated.

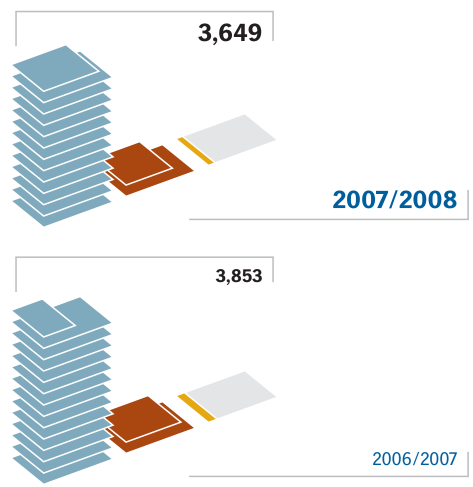
Incoming Orders: Volume of Orders Decline in the Absence of a Trade Show

In the previous year, the IPEX trade show, which was held in the UK in April 2006, ensured an exceptional start in the financial year. By contrast, the reporting year was characterized by rather uniform business developments without clear peaks in orders. The volume of orders was notably weak during the fourth quarter – a result of economic uncertainties, and restrained investment activity in the run-up to drupa as well as the negative influence of the exchange rate structures. Compared with the successful previous year, **incoming orders** of the Heidelberg Group of € 3,649 million were down by 5 percent, with 2 percent of the decline attributable to the negative foreign currency influences during the financial year. We generated an average quarterly volume of orders of approximately € 910 million. The fourth quarter, in which we generated only € 825 million, deviated considerably from this average.

Whereas incoming orders in the Press Division declined by a total of 5 percent, we were again successful with the Speedmaster XL 105, for which orders climbed to approximately € 430 million. This division was also pleased with the demand for our Prinect workflow

INCOMING ORDERS BY DIVISION

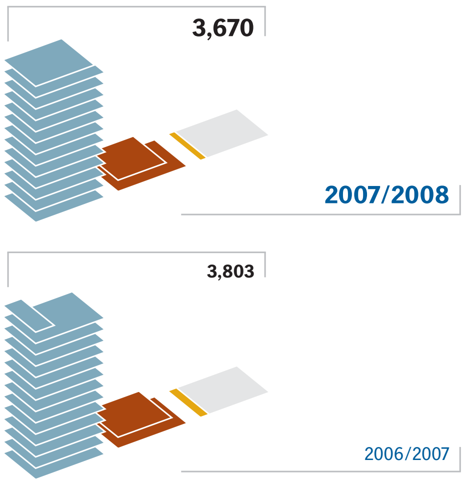
Figures in € millions



■	Press	**3,200**	– 5 %
■	Postpress	**419**	– 7 %
■	Financial Services	**30**	– 19 %
	Heidelberg Group	**3,649**	**– 5 %**
	(adjusted for foreign currency changes	3,754	– 3 %)

SALES BY DIVISION

Figures in € millions



■	Press	3,213	– 3 %
■	Postpress	427	– 4 %
■	Financial Services	30	– 19 %
	Heidelberg Group	**3,670**	**– 3 %**
	(adjusted for foreign currency changes	3,772	– 1 %)

software. Incoming orders of the Postpress Division fell by 7 percent. In the report of the individual divisions on pages 75 to 78, we discuss the background of this development in detail. In that section, we also explain why we are deliberately reducing the volume of direct financing, as a result of which the figures for orders and sales of the Financial Services Division declined according to plan.

Developments in our two biggest markets, Germany and the US, could hardly have been more different than during the financial year. Whereas we were able to further increase the previous year's high volume in Germany, recessionary fears and the additional impact of the credit crisis reduced our customers' propensity to invest in the US. The enormous foreign currency advantages enjoyed by our Japanese competitors were the final blow. Consequently, in the US incoming orders fell considerably – the second half of the financial year was the weakest. Business was unsatisfactory for us in the UK and Japan as well. By contrast, our order volume was supported by the upswing of the Chinese market, where the investment volume increased back to a normal level as expected following clarification of the customs issue of previous years. The volume of orders also grew in other important emerging markets. Whereas we generated overall incoming orders of € 1,292 million in the emerging markets during the previous year, the figure rose to € 1,318 million during the reporting year. As a result, the share of these countries in the total order volume grew further, to its current level of 36 percent. This compares with a share of only 17 percent ten years ago!

Sales: Considerable Weakness in Traditionally Strong Fourth Quarter

We were not successful in achieving our budgeted modest growth in sales during the financial year. **Sales** of € 3,670 million were 3.5 percent below the previous year's figure. Even after adjusting for foreign currency changes, sales fell short of the previous year's level. Although we were able to increase sales from quarter to quarter, the pace was nevertheless rather restrained. Already in the second quarter, sales had nearly attained the favorable previous year's figures. Heidelberg's traditionally strongest quarter, the fourth – the quarter immediately preceding the drupa trade show – posted sales of € 1,102 million, 9 percent below the previous year's figure.

Sales of the Press Division were also 3 percent below the previous year's figure – fortunately, however, with a substantially increased share accounted for by our large format Speedmaster XL 105. The course of the financial year at the Gallus Group was also favorable, with the sales of flexo printing presses up considerably. The Postpress Division was especially hard hit by the restrained mood of our key US market. The decline in this market is principally responsible for the sales decline of the division overall.

Meanwhile, our focus on emerging markets early on is now paying off. We were able to considerably increase sales primarily in the Eastern Europe region. On the other hand, despite the growth of the Chinese market, the Asia/Pacific region fell short of the previous year's figures and of our forecast – the result of the extremely problematic foreign currency situation for European suppliers in Japan and a noticeable sales decline in Australia.

Order Backlog: 14 Percent below Previous Year in the Run-Up to the drupa Trade Show

Our order backlog rose considerably during the first quarter of the financial year. Little change occurred at first in the further course of the year. However, the order backlog fell off so considerably at financial year-end that it reached the lowest level of the past four years. Mainly due to the Press Division, the order backlog declined from € 1,018 million to € 874 million compared with the reporting date of the previous year. The length of the order backlog also decreased, amounting to 2.9 months as of March 31, 2008.

FIVE-YEAR OVERVIEW – BUSINESS DEVELOPMENT

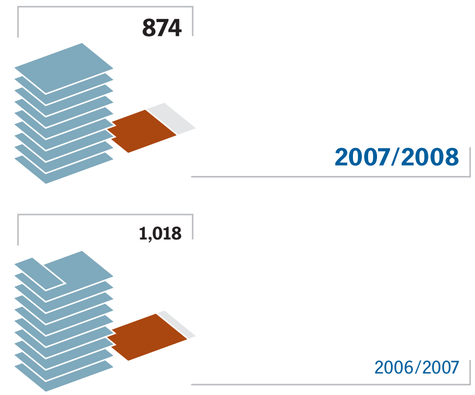
Figures in € millions

	2003/2004 [1]	2004/2005 [1]	2005/2006	2006/2007	**2007/2008**
Incoming orders	3,247	3,508	3,605	3,853	3,649
Sales	3,114	3,207	3,586	3,803	3,670
Order backlog	749	1,046	1,017	1,018	874
Length of the order backlog [2]	2.9	3.9	3.4	3.2	2.9

[1] Continuing operations
[2] Order backlog divided by average monthly sales

ORDER BACKLOG BY DIVISION

Figures in € millions



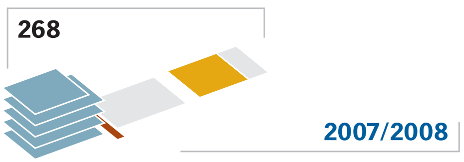
■	Press	**801**	– 14 %
■	Postpress	**73**	– 17 %
	Heidelberg Group	**874**	**– 14 %**

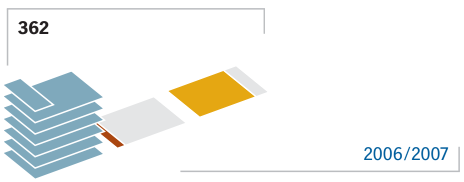
Results of Operations – Operating Result below Previous Year's Level

> **Sales Decline Causes Lower Operating Result**
> **Operating Return on Sales at 7.3 Percent Compared with Previous Year's Adjusted Figure of 7.9 Percent**
> **Net Profit of € 142 Million Reaches Adjusted Previous Year's Level**

RESULT OF OPERATING ACTIVITIES[1]

Figures in € millions





		2007/2008	2006/2007
■	Press	239	314
■	Postpress	– 7	7
■	Financial Services	36	41
	Heidelberg Group	**268**	**362**

[1] Previous year includes positive one-time effects of € 60 million

In our annual report 2006/2007 – among other things, under the assumption that sales would increase modestly – we had projected an increase in the adjusted result of operating activities during the financial year from € 302 million to between € 330 million and € 345 million. The previous year's figure had benefited from special effects totaling € 60 million due to the sale of Linotype GmbH and the sale-and-leaseback transaction for the Research and Development Center in Heidelberg. Because our business was declining during the second half of the year due to the changed economic environment, we did not attain this goal.

Income Statement: Result of Operating Activities Clearly below Adjusted Previous Year's Level

The Heidelberg Group generated a **result of operating activities** of € 268 million during the financial year. We thereby attained an operating return on sales of 7.3 percent, compared with 7.9 percent the previous year after adjusting for positive one-time effects. The return on sales thus declined only slightly during the financial year.

Favorable effects resulted on the one hand from our continued work on reducing our structural costs through a boost in efficiency, and on the other hand from a lower burden on the result than in the previous year due to research and development expenses. We were thus able to partially compensate for the factors hampering the result during the financial year: The declining profit contributions due to lower sales, higher staff costs, continuing high energy and raw material prices, and the considerably greater burden resulting from the unfavorable exchange rate structures.

During the financial year, beginning in the second quarter we succeeded in improving the result over each previous quarter, with the fourth quarter posting the highest result of € 91 million. Nevertheless, for the year as a whole the Press Division fell 6 percent short of the comparable previous year's result. In the Postpress Division, we fell even more behind the favorable previous year's figure. This division's result was negative. Its basic conditions were extremely unfavorable due to its dependency on the US market. Despite the planned decline in the financing volume in the Financial Services Division, we again posted an excellent result. This was attributable primarily to the generally stable risk environment in our principal financing markets as well as additional portfolio optimization measures.

INCOME STATEMENT

Figures in € millions

	2006/2007	2006/2007 adjusted [1]	2007/2008
Net sales	3,803	3,803	3,670
Result of operating activities	362	302	268
– in percent of sales	9.5	7.9	7.3
Financial result	– 62	– 62	– 69
Income before taxes	300	240	199
Taxes on income	37	96	57
– tax rate in percent	12.3	40.0	28.6
Net profit	263	144	142
– in percent of sales	6.9	3.8	3.9

[1] Adjusted for positive one-time effects and tax income from the corporation tax credit

Income Statement: Net Profit Matches Previous Year's Adjusted Figure

Despite very high energy and raw material prices, we were successful in bringing down the **cost of materials** below the previous year's level. The ratio of the cost of materials to total operating performance remained stable at 43.7 percent. How did we achieve this? Drawing up contracts on a long-term basis and comprehensive value analyses contributed to our ability to reduce costs for some product groups. Since most of our suppliers have been positioned in the European region up to now, exchange rate changes hardly have any impact in the procurement area. The ratio of the cost of materials to total operating performance thus even fell slightly after adjusting for foreign currency changes.

Staff costs rose by 1.4 percent over the previous year. The main causes for this are the collective bargaining agreement as well as new hirings undertaken in order to cope with the demanding production program. We were able to compensate in part for a further increase in staff costs through our agreements on safeguarding the future. We fully utilized our agreements on working time prolongation by 7 percent without an increase in wages.

Depreciation and amortization declined slightly during the financial year. Thanks to our consistent cost management, we succeeded in reducing the **other result of operating activities** – in other words, the balance of other operating income and expenses – after adjusting for special items, to a greater extent than the decline in the total operating performance.

The **financial result** fell by € 7 million to € – 69 million. Whereas the net interest, which this figure included, improved slightly from € – 56 to € – 55 million, income from investments deteriorated.

We generated additional tax income of € 73 million the previous year – the result of a change in the Corporation Tax Act. After adjusting for special effects, the tax rate was 40 percent. During the financial year, primarily due to the favorable effects of the business tax reform the **tax rate** fell to nearly 29 percent!

The **net profit** of € 142 million, or nearly 3.9 percent of sales, reached the level of the adjusted previous year's figure of € 144 million. By contrast, **earnings per share** improved slightly over the previous year's figure to € 1.81 due to the lower number of shares.

FIVE-YEAR OVERVIEW OF THE RESULTS OF OPERATIONS

Figures in € millions

	2003/2004	2004/2005	2005/2006	2006/2007 [2]	**2007/2008**
Result of operating activities	79 [1]	171 [1]	277	302	268
– in percent of sales	2.1	5.1	7.7	7.9	7.3
Net loss/profit	– 695	59	135	144	142
– in percent of sales	– 18.6	1.8	3.8	3.8	3.9
Earnings per share in €	– 8.16	0.69	1.58	1.77	1.81

[1] Before restructuring expenses

[2] Adjusted for positive one-time effects and by the tax income from the corporation tax credit

Net Assets – Decline in Commitment of Funds

> **Investments up Due to Construction of Hall 11**
> **Completion of Second Share Buyback Program**
> **Key Performance Figure 'Working Capital as a Percentage of Sales' Reduced**

Our main corporate goal is to generate a favorable value contribution for the Heidelberg Group. Furthermore, the commitment of capital and thereby the cost of capital are also to be continually optimized. We attain this goal on the one hand by selling assets not required in business operations by means of active asset management, and on the other hand, by further reducing working capital.

Assets: Investments in Packaging Printing Division

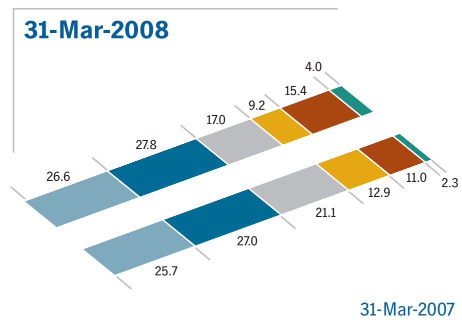
As of March 31, 2008 the total assets of the Heidelberg Group amounted to € 3,507 million, compared with € 3,339 million of the previous financial year-end. This represents growth of € 168 million over the past twelve months.

As can be seen in the table on the right, approximately half of this increase results from **fixed assets** in connection with a 22 percent increase in **investments** over the previous year to € 217 million. We used these means primarily to make full use of streamlining potential and to establish manufacturing facilities for new products. The construction of Assembly Hall 11 at our Wiesloch-Walldorf site, which we officially opened in September 2007, was a major project. This is a necessary precondition for generating sales and income with our large printing presses in the future. The new generation of printing presses in the larger format category, the Speedmaster XL 145 and the Speedmaster XL 162, will be assembled and presented to interested customers in Hall 11. The total investment volume of the project amounts to € 45 million, with most of this amount expended during the financial year. Investments focused additionally on replacements as well as new capacity and the Heidelberg Production System. When leasing contributes to limiting the capital commitment we make use of such transactions as a form of financing. This applies especially to real estate, the car fleet, and in the IT area.

The start-up of production of the new products resulted in an increase in **inventories** despite the falloff in sales. But **trade receivables** as of March 31, 2008 were considerably below the previous year's level. During the financial year, we were also able to reduce our

ASSETS

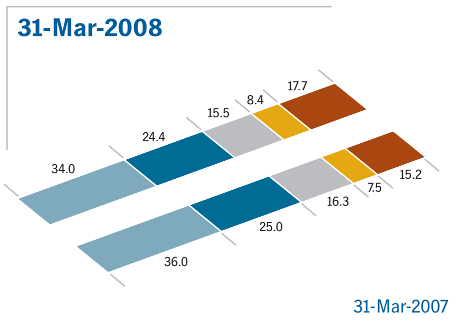
Share in total assets in percent



	31-Mar-2008	31-Mar-2007
Fixed assets	**932**	857
Inventories	**974**	901
Trade receivables	**596**	705
Receivables from sales financing	**323**	431
Other assets	**540**	369
Cash and cash equivalents	**142**	76
	3,507	3,339

EQUITY AND LIABILITIES

Share of total assets in percent



	31-Mar-2008	31-Mar-2007
Shareholders' equity	**1,193**	1,202
Provisions	**855**	836
Financial liabilities	**544**	543
Trade payables	**295**	250
Other liabilities	**620**	508
	3,507	**3,339**

receivables from sales financing, which were down by an additional € 108 million to € 323 million at financial year-end. We continue to act mainly as an intermediary between our customers and our financing partners. Contributing to the reduction was our success in selling portions of our financing portfolio in the US as well as the early repayment of some credits. Since the discount rate increased above all in Germany, pension obligations fell. With fund assets remaining virtually unchanged, the surplus coverage by the employee pension funds thereby rose. This contributed to an increase in other assets over the previous year.

Equity and Liabilities: Stable Capital Structure

The **shareholders' equity** of the Heidelberg Group decreased slightly from € 1,202 million the previous year to € 1,193 million. Relative to total assets, the equity ratio thereby fell from 36.0 percent to 34.0 percent. Contributing to the decline were on the one hand the dividend payment of € 75 million following the Annual General Meeting 2007, and on the other hand, the negative influence of the development of foreign exchange rates. Furthermore, share holders' equity declined due to our second share buyback program, which we launched in November 2006 and concluded in September 2007. With this program, we bought back 5 percent of the capital stock – together with the first share buyback program, which was completed in June 2006, a total of 10 percent of capital stock was bought back. We have thereby now already compensated for the potential dilutive effect of the convertible bond. We had already withdrawn most of these repurchased shares at the end of the previous year and most of the remainder at the end of the reporting period. As of the financial year-end, we were holding a total of 400,000 own shares, which are designated for employee share participation programs. Factors counteracting a reduction in shareholders' equity comprised the net profit as well as the actuarial profits from pension obligations, which are included in shareholders' equity without effect on the income statement.

The **provisions** remained virtually unchanged from the previous year. **Trade payables** are higher than as of March 31, 2007. We succeeded in preventing an increase in **financial liabilities,** which as of March 31, 2008 amounted to € 544 million. Due to robust free cash flow, we were able to finance the dividend payment and share buyback transactions out of the operating inflow of funds. We thereby also succeeded in reducing our net financial debt. As of March 31, 2008 this figure amounted to € 487 million. This expands the financial scope to take action that we have available for undertaking acquisitions in the non-cyclical service and consumables business.

We decreased our **contingent liabilities** under guarantees and warranties by € 39 million to € 180 million during the financial year. Our **other financial commitments,** comprising leasing and rental liabilities as well as investment commitments, totaled € 480 million at financial year-end – thereby also down from the previous year by € 16 million.

Working Capital: Initial Successes of the 'Heidelberg Excellence' Program

One of the declared goals of our 'Heidelberg Excellence' program is to reduce the volume of working capital and thereby limit the commitment of funds. A more detailed description of the program can be found on page 98 ff. With the help of this program, in the medium term we intend to reduce the key ratio 'working capital as a percentage of sales' by up to 30 percent. As the table on the right shows, we took the first step in the right direction during the financial year, with this figure declining from 33.6 percent to 32.5 percent. The decrease was mainly attributable to a drop in trade receivables and an increase in trade payables.

WORKING CAPITAL

Figures in € millions

	31-Mar-2007	31-Mar-2008
Inventories	901	974
+ Trade receivables	705	596
./. Trade payables	250	295
./. Advance payments received	80	82
	1,276	1,193
As a percentage of sales	33.6 %	32.5 %

FIVE-YEAR OVERVIEW OF NET ASSETS[1)]

Figures in € millions

	2003/2004	2004/2005	2005/2006	2006/2007	2007/2008
Total assets	4,232	3,660	3,281	3,339	3,507
Shareholders' equity	1,230	1,166	1,138	1,202	1,193
– in percent of sales	29.1	31.9	34.7	36.0	34.0
Working capital	1,288	1,091	1,199	1,276	1,193
– in percent of sales	34.4	32.5	33.4	33.6	32.5
Net financial debt[2)]	861	731	672	562	487

1) Figures are consolidated for the Heidelberg Group; up to financial year 2004/2005, including the Digital and Web Systems areas

2) Total financial debt (convertible bond, borrower's note loans, and bank credits) and pension provisions less securities and cash and cash equivalents

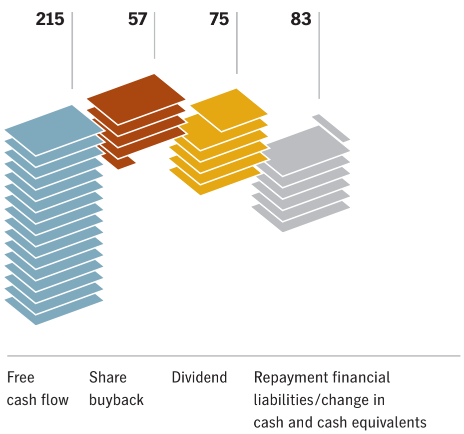
Financial Position – High Level of Free Cash Flow Once Again

- > **Robust Operating Cash Flow**
- > **Funds Available from Reduction of Working Capital**
- > **Capital Resources at Favorable Level**

The top priority of our financing policy is to ensure the solvency of the Heidelberg Group at all times, to maintain its financial independence, and to strengthen the Group's financial strength.

UTILIZATION OF FREE CASH FLOW

Figures in € millions



Cash Flow Statement: Target for Free Cash Flow Surpassed

Free cash flow is an important indicator of a company's financial strength. Heidelberg's internal financing strength was again strong during the financial year. With **free cash flow** of 5.9 percent of sales, we were successful in considerably surpassing our target of 4 percent! Despite last year's one-time effects, free cash flow was only € 14 million below the previous year's figure. As the illustration on the left shows, we were able to implement our share buyback program and pay the dividend to our shareholders out of earned financial resources. We also had access to additional financial resources, as a result of which our financial liabilities did not rise during the financial year.

Cash flow reached a solid level of € 290 million, which was nevertheless below the previous year's figure. In contrast to the previous year, we succeeded in generating an inflow of funds from receivables and trade payables. We thereby attained an overall low level of committed funds in working capital. Nevertheless, the outflows of funds caused by inventories were higher in the run-up to the drupa trade show and due to the production startup of the new offerings. Due to our increasing outsourcing of financing arrangements, we were also successful in considerably reducing the commitment of funds in receivables from sales financing during the financial year. Overall, we thereby generated an inflow of € 127 million in the area of **other operating changes.**

Cash used in investing activities rose considerably, by € 106 million over the previous year to € 202 million. During the financial year, this was primarily attributable to a substantial compensating effect from the inflow of funds from asset disposals the previous year – the result of the sale of Linotype GmbH as well as the sale-and-leaseback transaction for the Research and Development Center in Heidelberg – as well as investments in our new Assembly Hall 11.

Central Financial Management: Liquidity Secured, Risks Minimized

The centralized Corporate Treasury unit controls the Group's financing and secures its liquidity. Since May 2006, all consolidated subsidiaries have been directly linked with the inhouse bank of Heidelberger Druckmaschinen Aktiengesellschaft through an internal account. Furthermore, cross-border payments are executed via our 'Payment Factory'. Our internal and external payments are consequently cost-effective. Furthermore, we can optimize the Group's global **liquidity management** and reduce externally borrowed funds.

We systematically minimize **liquidity risks** throughout the Group. We pinpoint early on potential funding needs of companies and the resulting potential liquidity risks with the help of our monthly rolling liquidity planning system. Corporate Treasury identifies risks arising from the change of interest or exchange rates, on the basis of which it introduces appropriate measures and strategies in order to minimize the risks. Some of these measures also include derivative financial instruments – specifically, forward exchange transactions, currency options, and interest-rate swaps. Details concerning these measures and the impact of hedging of foreign currency and interest-rate transactions can be found beginning on page 69 in the section 'The Figures'.

The **functional separation** of trading, processing and risk controlling in the corporate treasury area is ensured, as is their physical separation. This area is regularly monitored by our internal auditors, so that potential problem areas can be recognized and remedied early on.

The **quick ratio** for the Heidelberg Group remained at its previous year's level of 1.9 this financial year. This key figure reflects the extent to which current borrowed funds are covered by current assets.

Financing Structure: Ample Capital Resources

Even following the second share buyback program, in absolute terms our capital base is approximately at the previous year's level. The graph on page 74 shows on the one hand that we were able to continually reduce our financial liabilities over the past four years, and on the other hand, that our **financing structure** is largely long-term. As a consequence, the major crisis in the financial markets and the associated shortage of credit did not impact our financial situation. At year-end, our financial liabilities were primarily composed of the convertible bond, which will mature in 2012, and three borrower's note loans. Most of the reported liabilities to banks are also committed to us on a long-term basis. In connection with a long-term borrowing of € 75 million, we have committed ourselves to grant usufractory rights on three developed plots of land to the lender.

CASH FLOW STATEMENT OF THE HEIDELBERG GROUP

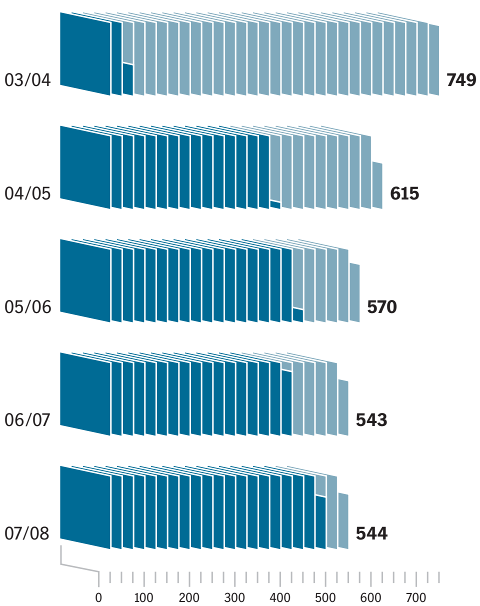
Figures in € millions

	2006/2007	2007/2008
Cash flow [1]	325	290
Working capital	– 112	32
Receivables from sales financing	47	80
Other [1]	65	15
Other operating changes	0	127
Outflow of funds from investment activity	– 96	– 202
– of which: pension funding / Hall 11	– 65	– 25
– of which: inflow of funds from fixed asset disposals	143	44
Free cash flow	229	215
– of which: buyback of own shares	– 130	– 57
– of which: dividends	– 53	– 75

[1] Previous year's figures adjusted for a capitalized corporation tax credit of € 73 million

DEVELOPMENT FINANCIAL LIABILITIES

Figures in € millions



■ Long-term

■ Short-term

The Group's liquidity as well as firmly committed **bank credit lines** ensure us a sufficiently large scope to secure a solid financial framework on a long-term basis. No liquidity bottlenecks are therefore anticipated. We had concluded a contract for a € 550 million syndicated line of credit in financial year 2005/2006. This facility has a period of validity to financial year 2010/2011 with two options to renew for an additional year. We have exercised these options. We therefore have access to a line of credit of € 550 million, which we have hardly used up to now, that runs up to financial year 2012/2013. Since we have earned considerable free cash flow for a number of years, we enjoy a highly favorable credit standing among banks. We consequently do not feel that an external rating is currently necessary for the Group in order to maintain our credit standing – especially against the background of the fact that our financial liabilities have reached a favorable level and that we have received long-term financing commitments.

We apply key **off-balance sheet financing instruments** for the following units: the Research and Development Center; an administration building and the Print Media Academy at Heidelberg; and two administrative and production buildings as well as the World Logistics Center at Wiesloch-Walldorf. Details on the amounts of these operating lease relationships are presented on page 73 in the section 'The Figures'.

Further information on our **credit terms,** foreign currency liabilities, our currency and interest rate hedging transactions, and the features of our financial management are included in the section 'The Figures'.

FIVE-YEAR OVERVIEW – FINANCIAL POSITION[1)]

Figures in € millions

	2003/2004	2004/2005	2005/2006	2006/2007	**2007/2008**
Cash flow	– 121	232	345	325[2)]	290
Free cash flow	114	152	149	229	215
– in percent of sales	3.0	4.5	4.2	6.0	5.9

1) Figures for the Heidelberg Group; through financial year 2004/2005 including the Digital and Web Systems divisions

2) Adjusted for a capitalized corporation tax credit of € 73 million

Divisions – Press, Postpress, and Financial Services

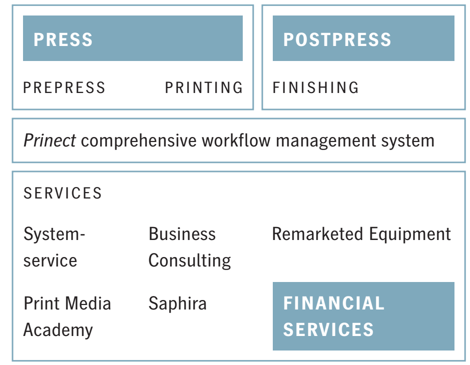
> **Press Division's Return on Sales Nearly at Previous Year's Adjusted Level**
> **Postpress Division Fails to Meet Expectations; Considerable Preparatory Work for Packaging Printing**
> **Successful Strategy in Financial Services Division**

With our three divisions, we pursue a common strategic goal: expanding our position as the world market leader in sheetfed offset printing. In pursuit of this goal we focus on comprehensive offerings, which

> on the one hand, include all stages of the printing process, from prepress all the way to finishing, which can be entirely interlinked via our Prinect software; and
> on the other hand, include a comprehensive service partnership with our customers covering the entire product life cycle, from financing all the way to resale as well as provision with spare parts and supplies.

The products and services of our three divisions can be combined to form solutions that are tailored precisely to customers' requirements. Regardless of their size and location in the world, every print shop can therefore take full advantage of greater production and investment security as well as optimization potential.

The Press Division includes all prepress, sheetfed and flexo printing products, as well as our sales activities in web offset printing. The entire finishing area is included in the Postpress Division. Comprehensive service, offerings of consumables, our Prinect workflow software, as well as the remarketed equipment business are included in both the Press and Postpress divisions. We have consolidated our sales financing services in the Financial Services Division.



Press: Incoming Orders, Sales, and Result Fall Short of Previous Year's Figures

The business figures of the Heidelberg Group are determined primarily by our Press Division. Therefore, the statements made beginning on page 63 concerning business developments are largely the same as the statements concerning this division. During the financial year, both the volume of **incoming orders** of € 3,200 million as well as the volume of **sales** amounting to € 3,213 million were below the previous year's level. The favorable development of incoming orders and sales in Germany demonstrates that in individual markets, high volumes of

PRESS

Figures in € millions

	2006/2007	2007/2008
Incoming orders	3,367	3,200
Net sales	3,321	3,213
Order backlog	930	801
Research and development costs	213	195
Investments	170	206
Number of employees	17,100	17,468
Result of operating activities[1]	314	239

[1] Previous year includes positive one-time effects of € 60 million

HIGHLIGHTS

THE NEW SPEEDMASTER XL 162

New dimensions for big challenges

The new machine in the 7b format stands for highest productivity in packaging, publishing and commercial printing.

investment were again possible during the financial year prior to the drupa trade show. Nevertheless, we experienced clear reluctance to invest primarily during the fourth quarter in other markets. Moreover, primarily in the US and Japan especially unfavorable exchange rate structures had an impact on our business.

The share of sales accounted for by our Speedmaster XL 105 grew considerably. Our Speedmaster SM 52 with the Anicolor inking unit was a further focus of interest in the sheetfed offset area. In the prepress area, our innovative Suprasetter platesetter provided incentives to invest. As in the previous year, the Gallus Group, which serves a segment of label printing with flexo printing presses, was successful in generating a growth in sales. However, this division's **order backlog** of € 801 million was considerably below the previous year's figure.

In **research and development,** we worked under full steam with a view to the drupa trade show. We were successful in sticking to our time frame in the development of the products we are introducing at this trade show. We describe the results of our work on pages 91 to 93 in this report.

Our **investments** increased considerably to € 206 million. Expenditures for the new building for Hall 11, which is to be largely used for the assembly and presentation of our solutions for packaging printing, totaled approximately € 25 million during the financial year. Detailed information on this milestone in Heidelberg's corporate history as well as this division's additional investments is presented on page 98 ff.

Overall, the number of **employees** in the division rose to 17,468 – in view of the many new products, we had to cope with a demanding production program, and we additionally strengthened our sales activities.

The previous year, strongly favored by the sale of Linotype GmbH as well as the sale and leaseback transaction for the research and development center in Heidelberg, we realized a **result of operating activities** of € 314 million. We were unable to attain the adjusted previous year's figure during the financial year. We nevertheless generated a result of operating activities of € 239 million despite the negative exchange rate effects, the higher personnel expense, and lower sales. We were able to largely compensate for these burdens because we further reduced our structural costs through boosts in efficiency and because research and development costs were lower compared with the previous year. We were thus successful in generating a return on sales of 7.4 percent in this division, compared with 7.6 percent the previous year.

Postpress: Preparatory Work for Packaging Printing Burdens Result

We were unable to sustain the previous year's successes of the Postpress Division, when incoming orders and **sales** grew by approximately 10 percent. During the financial year, **incoming orders** reached € 419 million and sales € 427 million – down, respectively by 7 percent and 4 percent. The **order backlog** as of the March 31, 2008 reporting date of € 73 million also fell short of the previous year's level. The US is this division's most important market. Our Postpress Division was therefore also affected by the exchange rate structures and in particular, the low propensity to invest of the US print shops. We owe it to our innovative products that we were nevertheless able to realize a comparatively high volume of business. In recent years, we had replaced the entire product portfolio of gatherers, stitchers, and folders with new generations of equipment and launched a new generation of highly-automated perfect binders in the market.

We intend to maintain our focus of enhancing customer benefits through innovative products. We therefore invested in the **research and development** activities of this division, with the highest priority placed on the new business units: folding carton production and perfect binding areas. As result, we are presenting improved products for drupa – in particular for the packaging area, which is our strategic focus. The new Diana X 115 with an open frame design offers numerous innovations. In particular high-quality and complex folding cartons can be processed very economically with this model, in both short and long print runs of up to 200,000 cartons per hour. We will also exhibit important innovations for commercial printers and bookbinders, which will fill them with enthusiasm: our new combi folder KH 82 with a fully automated cross-fold unit, as well as new delivery systems and additional options for the Eurobind 4000 adhesive binder. **Investments** by this division were slightly above the previous year's volume.

In order to make the advantages of our products more obvious to our customers, we have increased the number of our sales and marketing specialists. We filled new positions primarily at the beginning of the financial year. The number of employees in the division rose by 62 people to a total of 2,050 **employees.**

Although the restructuring measures of previous years have lastingly improved this division's cost structure, the **result of operating activities** for the financial year was negative, amounting to € –7 million. The start-up and the investments in the packaging area resulted in a negative

POSTPRESS

Figures in € millions

	2006/2007	2007/2008
Incoming orders	449	419
Net sales	445	427
Order backlog	88	73
Research and development costs	24	27
Investments	9	11
Number of employees	1,988	2,050
Result of operating activities	7	– 7

HIGHLIGHTS

EUROBIND 1300 PUR LINE

Professional perfect binding for high-quality products

With the Eurobind 1300 perfect binder, complex print products can be manufactured flexibly and economically.

profit contribution. We were unable to compensate for this through profit contributions from the Commercial Printing area because demand for our products in this area failed to grow as expected.

FINANCIAL SERVICES

Figures in € millions

	2006/2007	2007/2008
Net sales (interest revenue)	37	30
Cost of materials (interest expense)	4	1
Gross profit (net interest)	33	29
Result of operating activities	41	36
Receivables from customer financing	431	323
Provision for risks	97	71
Acquired counter-liabilities	190	161
Number of employees	83	78

Financial Services: Key Part of Our Services

Our strategic approach in the division remains unchanged. The focus of our services in the Financial Services Division is on supporting customers throughout the world with financing expertise. More information is provided on page 31. The collapse of the subprime credit market reinforced the trend during the financial year for especially local and regional banks in the industrialized countries to become highly interested in financing transactions with highly valued collateral. As a result, direct financing arrangements by our Print Finance companies were considerably below the average of recent years. Since our finance companies have focused especially on emerging markets, the share of commitments in these markets in our direct financing portfolio increased to approximately 60 percent.

During the financial year, we again succeeded in considerably reducing **receivables from sales financing** and **acquired counter-liabilities.** Receivables from sales financing amounted to € 323 million on March 31, 2008, with acquired counter-liabilities at € 161 million. Our success in selling partial portfolios in the US and the prepayment of some loans contributed to this gratifying development. Because the average inventory of interest-bearing receivables decreased, **interest revenue** and **net interest** declined, respectively, to € 30 million and € 29 million. The number of **employees** fell from 83 to 78.

As in the previous year, our **result of operating activities** benefited from a generally stable risk environment in our principal financing markets as well as from the further optimization of our portfolio. As a result, we succeeded in generating a strong result of € 36 million.

Regions – Global Presence

> **Solid Risk Diversification through Commitments in All Regions**
> **Heavy Worldwide Demand for the Speedmaster XL 105**
> **Focus on the Share of Service and Consumables**

We expanded our product and service offerings in recent years, and in doing so took regionally varied customer demands into account. Thanks to the strength of our product portfolio, we were able to maintain our market position in our five regions and expand it in some other markets. Considerable interest has been aroused in our innovative solutions around the globe because print shops are able to use them to noticeably increase their competitiveness.

The principal reason that we continue to be the leading supplier to the print media industry in all markets is because of the service expertise of our sales and service companies. And this continues to be so despite the fact that primarily our Japanese competitors are benefiting from considerable foreign currency advantages in the US and in the Asia/Pacific region.

Europe, Middle East and Africa: Below the Previous Year's High Level; Boom in Germany

In the individual markets of the region, the structure and focus of the print shop business differ considerably from each other because of historically different development along with the evolved local industry. For example, print shops in Italy have a strong letterpress tradition; in Germany, the prevailing form is traditional commercial printing with short print runs; and in France, many very high-quality packages are printed. The less time-sensitive the production of printed matter – for example, luxury goods packaging – the more it is economical for print shops to maintain branches in countries with lower wage levels. We have reacted to this development, and are further systematically building up a nationwide team that is especially well-qualified for providing support and advisory services to internationally active customers.

EUROPE, MIDDLE EAST AND AFRICA

Figures in € millions

	06/07	07/08	
Incoming orders	1,726	1,611	– 6.7 %
Net sales	1,692	1,624	– 4.0 %
Employees [1]	14,016	14,324	+ 2.2 %

[1] Excluding trainees

As already in the previous year, our business boomed in **Germany,** especially in our new technologies. The traditional Open house presentations in the autumn, which are primarily of interest for smaller print shops, were remarkably well received by customers when one considers that this was a year preceding drupa. These presentations made a strong contribution to our realizing a record year in Germany, with the outstanding previous year's figures again growing by 5 percent to € 595 million.

Incoming orders and sales declined in the **'Nordic/Baltic'** management unit. In the previous year's annual report, we had indicated that we were looking for opportunities to expand our consumables business. We took the first step in this direction with the acquisition of the sales and service activities of Stielund & Taekker in Denmark and Sweden during the financial year. We intend to thereby position ourselves in the Scandinavian and Baltic countries as the biggest consumables seller to the print media industry.

Exceptionally strong competition in **France** was the principal cause for the decline in our incoming orders in that country, although sales nearly matched the previous year's level. We further expanded our market share in the **UK.** We did well with our long perfecting presses in this industrial-oriented print shop market. Nevertheless, we fell considerably short of the previous year's strong business figures, which had been influenced by the extremely successful IPEX trade show in April 2006. Sales in **Africa** remained stable. In the markets of the **Middle East,** political conflicts in particular prevented a more favorable development of business.

Overall, incoming orders and sales in the region were, respectively, 7 percent and 4 percent below the previous year's figure.

EASTERN EUROPE

Figures in € millions

	06/07	07/08	
Incoming orders	414	449	+ 8.5 %
Net sales	377	428	+ 13.5 %
Employees [1]	697	779	+ 11.8 %

[1] Includes 77 employees in a sales and service company in Turkey, which was included in the scope of the consolidation as of March 31, 2008

Eastern Europe: Strong Boost in Sales; Gratifying Demand for Innovative Solutions

Favorable economic data, the Polygraph Inter trade show in Moscow, and our past restructuring measures: all these factors contributed to our realizing very gratifying growth rates in the Eastern Europe region, with incoming orders surpassing the previous year's figures by 9 percent and sales by 14 percent. Our growth was especially notable in the biggest market of the region, **Russia,** where the previous year's incoming orders were surpassed by 60 percent! In other markets as well – for example, the Ukraine – we were successful in booking double-digit growth.

We also offer the advantages of our solutions in countries that still account for a minor share in Heidelberg's sales but are promising for the future. In many markets of the region, developments are extremely dynamic, if at times entailing a degree of risk. The level of the printed output's quality and the degree of automation of the printing process is increasing visibly. This resulted in strong interest in the region in Prinect, to outstanding sales figures for the Speedmaster XL 105, and to a noticeably evolved market for printing presses with many printing units and in-line surface coating. As in the past, we are highly successful in the region with our sales of web printing presses from the firm Goss.

North America: Marked Declines in Incoming Orders and Sales

Following our double-digit sales increases in this region in the past, growth came to a sudden halt during the financial year due to economic trends and the difficult exchange rate structures. Primarily during the second half of the year, incoming orders in the US dropped off considerably. Turbulence in the real estate market and the clear financial crisis noticeably curbed the growth of the US economy and thereby reduced print shops' propensity to invest. Due to the worsened market conditions in the print industry – and increasingly due to the decline in value of the US dollar against the euro – incoming orders and sales of the region fell, respectively, by 13 percent and 7 percent from the previous year's figures to € 538 million and € 576 million, respectively.

Despite the declining business figures, we maintained our market leadership in the **US.** We were successful in highlighting for our customers how Heidelberg achieves a measurable contribution to improving their processes – with solutions at all levels of the printing process as well as consumables and service. It was gratifying to experience the success story of the Speedmaster XL 105, and that for a good reason: this product is the most productive printing press in the 70 × 100 format and has thereby set new standards for the industry.

In the neighboring country, **Canada,** the most important trading partner of the US, the export industry suffered from the strength of the Canadian dollar. This also caused problems for Canadian print shops. Incoming orders and sales in Canada declined, respectively, by 12 percent and 3 percent. We further expanded our consumables business and now hold a 35 percent market share in Canada in this area.

NORTH AMERICA

Figures in € millions

	06/07	07/08	
Incoming orders	620	538	– 13.2 %
Net sales	622	576	– 7.4 %
Employees [1]	1,374	1,341	– 2.4 %
Adjusted for foreign currency changes:			
Incoming orders	620	582	– 6.1 %
Net sales	622	624	+ 0.3 %

[1] Excluding trainees

LATIN AMERICA

Figures in € millions

	06/07	07/08	
Incoming orders	213	202	– 5.2 %
Net sales	192	197	+ 2.6 %
Employees	402	408	+ 1.5 %

ASIA/PACIFIC

Figures in € millions

	06/07	07/08	
Incoming orders	880	849	– 3.5 %
Net sales	920	845	– 8.2 %
Employees	2,031	2,087	+ 2.8 %
Adjusted for foreign currency changes:			
Incoming orders	880	897	+ 1.9 %
Net sales	920	897	– 2.5 %

Latin America: Brazil Again Very Favorable, Mexico Falls below Previous Year's Level

In **Brazil,** our principal market in this region, demand for our new products was excellent in the previous year. This trend further intensified during the financial year. Sales increased by 12 percent over the previous year's figure, thereby growing faster than the gross national product of the country for the fourth time in a row. During the financial year, the Brazilian sales and service company received the 'Fernando Pini' award as the best supplier to the country's Print Media industry in the categories prepress, sheetfed offset, web offset and finishing. This represents clear evidence of our outstanding market position as the sole provider of complete solutions.

Our projections for **Mexico** were not fully met in both sales and incoming orders. Print shops held back with investments during the first half-year due to uncertain tax regulations. Incoming orders did not grow strongly enough during the second half of the year to reach the previous year's figures for the year as a whole.

Our business in the other South American markets was slightly below the good previous year's level. Overall, incoming orders in this region totaling € 202 million were slightly below the previous year's figures, whereas sales were up by 3 percent.

Asia/Pacific: Higher Demand in China; Strong Exchange Rate Effects Cast a Shadow over the Overall Picture

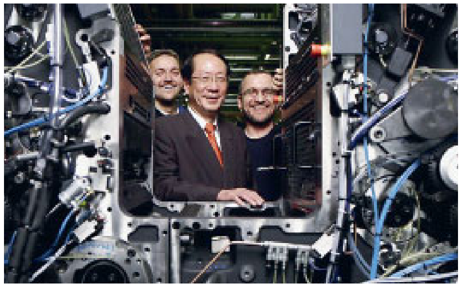
Overall business in this region was so-so for us. The economies continued to post strong growth – in particular China and India – which further boosted the need for printed materials. Demand for our products in China gained momentum following clarification of the customs issue. We successfully introduced the Speedmaster SM 52 with Anicolor inking unit in the market and presented it at Printscape Open House in Malaysia as well as the IGAS trade show in Japan. We posted strong incoming orders at both of these events. Nevertheless, the exchange rate situation thwarted our plans in this region as well. Our Japanese competitors, such as Komori, Mitsubishi and Ryobi, took considerable advantage of the foreign currency situation.

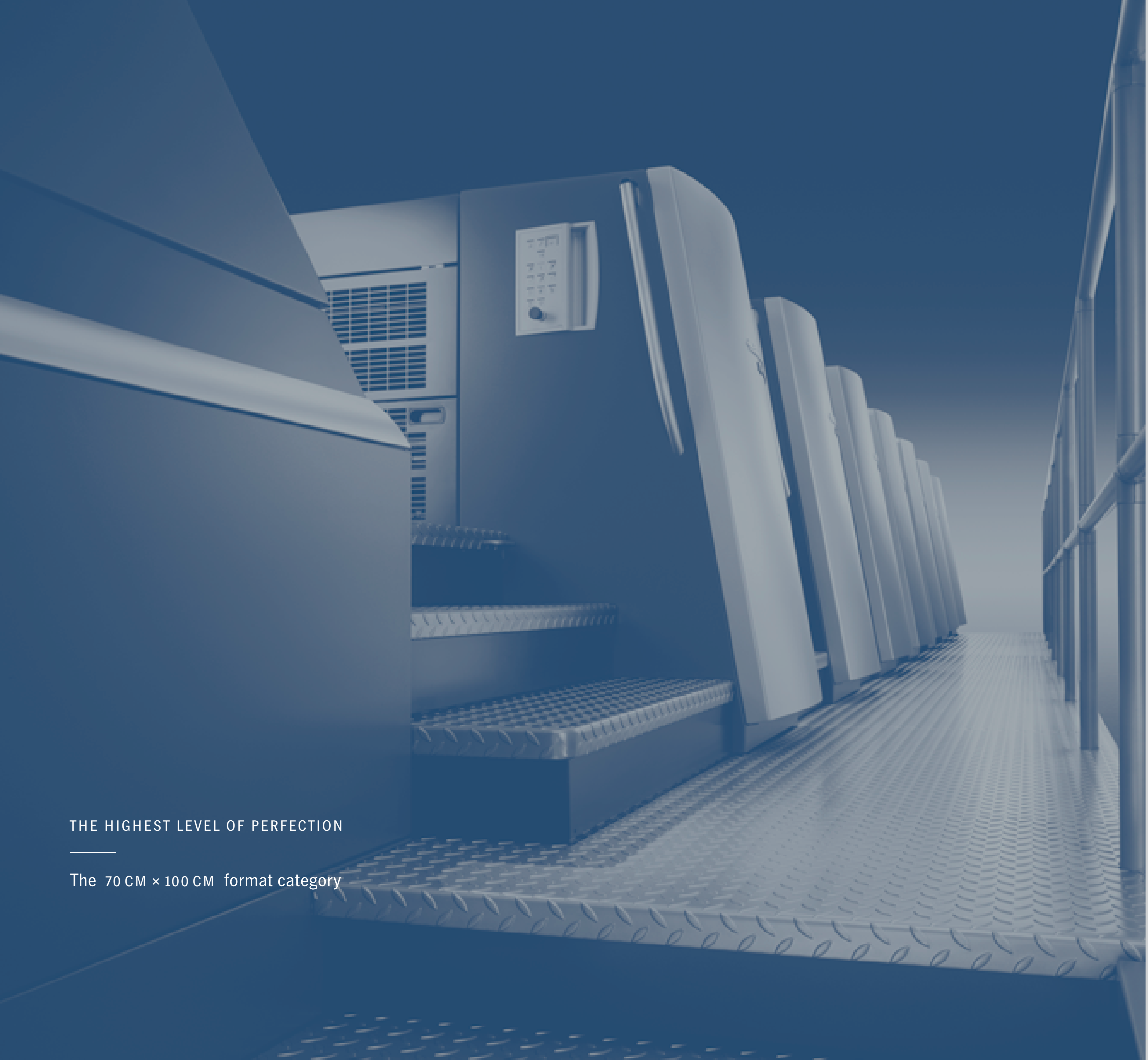
Incoming orders in the region declined by 4 percent overall – after adjusting for foreign currency changes, slightly above the previous year's figure. On the other hand, sales fell by 8 percent to € 845 million, as the considerable growth in China was unable to compensate for the declining sales volume in some small markets as well as in Australia and Japan.

Heidelberg's entire product range is in high demand in this region. We were particularly successful during the financial year with specialized printing presses. For example, we were successful in selling the Speedmaster CD 102 Duo in Vietnam, the Philippines, India, and Japan. This equipment makes it possible to use individually, or in combination, conventional inks, water-based coatings, ultraviolet inks or coatings, metalures, and pigments for pearly luster effects. The Speedmaster XL 105 was in high demand in Japan and we have successfully introduced technologically superior ultraviolet models. On the other hand, the market for long perfecting presses stagnated – we anticipate new impetus from the Speedmaster XL 105 with perfecting device!

We are strongly committed in this region. For example, we opened a new office in Chengdu, China. Our newly established Hong Kong Logistics Center, which we officially opened in April 2008, began operations back in November 2007. This facility, together with the Japan Logistics Center, now guarantees an even further improved supply of spare parts for our customers in this region.

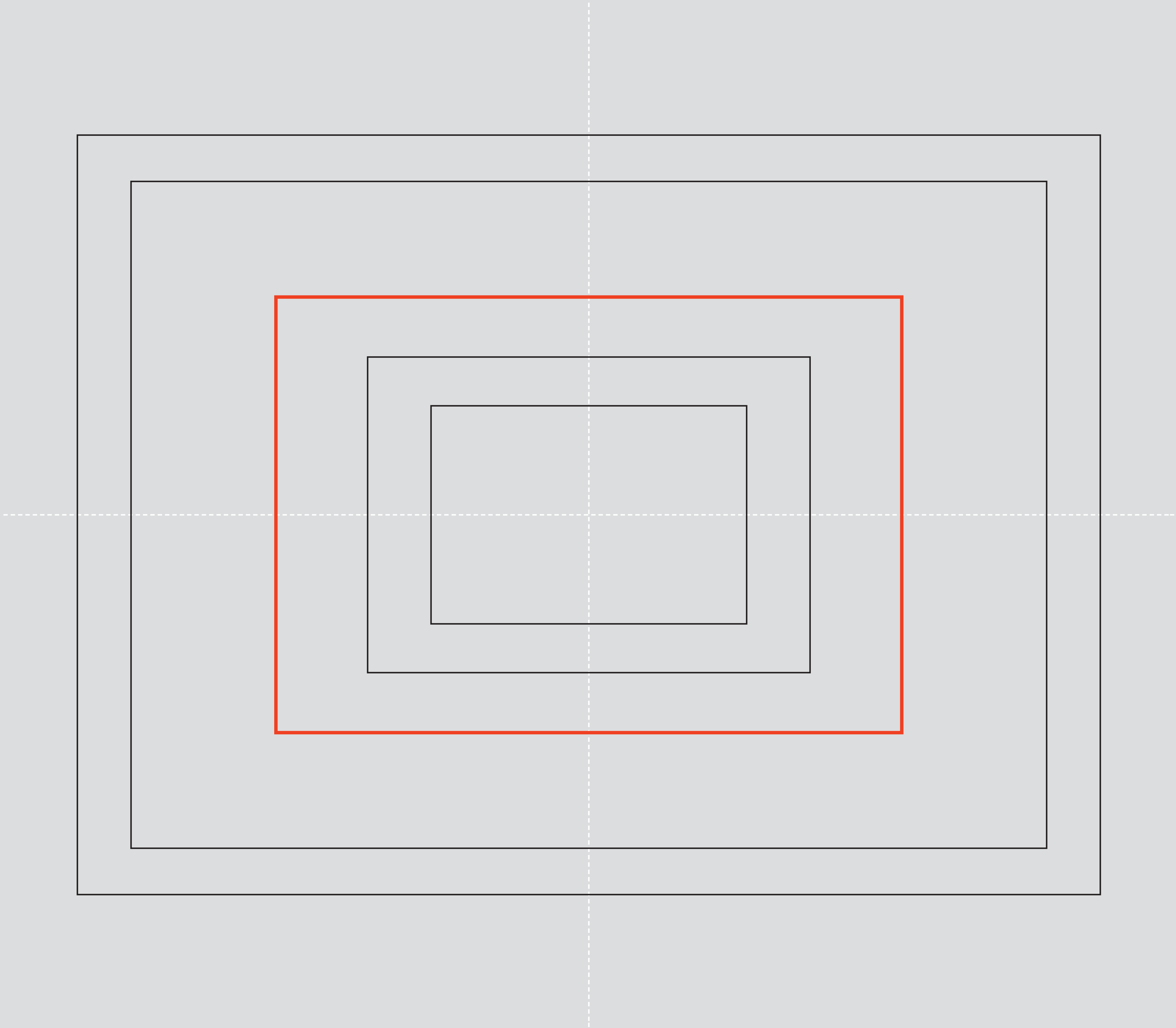
Kohei Yamamoto, the head of Heidelberg Japan, celebrated the 80th anniversary of the Japanese sales and service company at the same time the IGAS trade show was held.





THE HIGHEST LEVEL OF PERFECTION

The 70 CM × 100 CM format category




Heidelberg News
Heidelberg Nachrichten
Heidelberg News
Heidelberg News
Ausgabe 263
Issue 263
Numéro 263

>> As a printer, I find that Heidelberg's customer magazine has deserved the prizes it has been awarded. It's informative, practice-oriented, helpful – and is a good read to boot! One can really forget the time ... As a professional, I always admire the wonderful printing and finishing quality as well. All the more, once I happened to glance at the imprint and saw how large the circulation is: a full 130,000 copies of each issue. I find this to be the best possible advertising for Heidelberg.<<

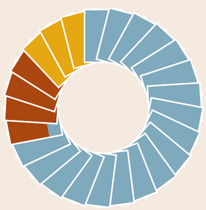

Heidelberg News · Innovations
SPEEDMASTER XL 145 AND XL 162, PART II
SUPER SIZE,
SUPER PERFORMANCE
Innovations
HEIDELBERG

> OUR CUSTOMERS' SITUATION: CRUCIAL FOR THE PRODUCT PORTFOLIO

What challenges do our customers face? The response to this question can determine, among other things, whether our strategy, which we describe in detail on pages 35 to 37, is workable; whether we set appropriate priorities in our research and development work; and whether customers get significant advantages from our integrated solutions and comprehensive offerings in services and consumables.

SIZE OF PRINT SHOPS WORLDWIDE

Share in percent



Up to 20 employees	73
From 21 to 50 employees	15
More than 50 employees	12

Market Conditions and Distinctive Features of Various Customer Segments

The market for printed products is subject to **vigorous competition.** Print shops must satisfy the precise needs of their customers if they want to enhance their loyalty. They must ensure consistently high quality for their print products and guarantee absolute on-time delivery while reacting flexibly to customers' requests – and simultaneously producing at low cost. In the industrial countries as well as the emerging markets, personnel can be a critical production factor for print shops. Highly qualified employees are (still) rare in some markets. Skilled workers are in short supply in the industrialized countries, and staff costs are a significant part of the cost structure of print shops.

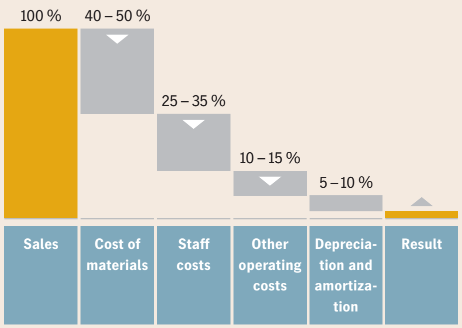
Stated simply, our target group, **sheetfed offset print shops** worldwide, can be subdivided into three groups. Around the globe, the print industry is characterized primarily by smaller companies. Nearly three-quarters of all print shops worldwide have fewer than 20 employees.

Print shops in this order of magnitude, **medium-sized commercial print shops,** also form the largest part of our customer base. Financing is difficult for these firms in many markets – particularly in emerging markets. Overall, the regional differences characterizing smaller print shops are considerable. The final customers in industrialized countries are increasingly placing standard orders for such things as flyers and booklets to nationwide print shops. It is therefore essential for small commercial print shops, who traditionally acquire customers in their local region, to be able to offer a wide range of products and stand out in the market with attractive special effects and niche products. Because they undertake numerous short print runs – and have comparatively high staff costs – set-up times for printing presses is a crucial issue for them. Smaller commercial printing establishments in the emerging markets, where demand for printed products is still growing, request reliable, standard printing presses with which they can offer top quality in order to grow with the market. Automation and personalized constellations for printing units hardly play a role for them.

Larger print shops, or **industrial commercial printers,** also acquire customers nationwide and sometimes have branches in several countries. They also turn out a wide range of printed products, although in general with larger print runs, and can usually provide 'just the right printing press for every application'. Important questions for these firms are: How efficiently and appropriately are the individual printing presses being used for each print run? How much profit is generated by each print run? The better the data and production workflow are organized, the more likely the answers to these questions will be favorable. That is, the more suitably orders are distributed among various printing presses, the shorter the set-up times for the respective printing presses, the higher their productivity, and the fewer the bottlenecks at the prepress, printing, or finishing stage of production.

There are also enormous differences with regard to the size and strategic alignment of pure **packaging print shops.** What they all have in common is cost of materials that hold an even higher share of the overall production cost. It is therefore even more important for them than for the other print shops to limit spoilage to the greatest possible extent. Packaging printers face tough international competition. Mass packaging customers are large international companies with considerable market power. Therefore, each improvement in quality, each optimization of processes, and each reduction in cost pays off for them.

AVERAGE COST STRUCTURE – PRINT INDUSTRY[1)]



1) Information concerning the cost structure according to the Bundesverband Druck und Medien, 2006; Heidelberg's own database

Challenges Faced by Customers Determine our Overall Offerings and R&D Priorities

We develop applications for our customers that enable them to rise above their competitors and thereby improve their sales. The necessity for all our customers to reduce the cost of materials, staff costs and other operating costs in order to improve their profit margins is a considerable challenge. Our customer's cost structure is therefore an important focus for our developments.

One priority of our development activity is thus to reduce spoilage to the greatest possible extent, which also includes quickly getting a printing press to a stage at which it can 'show its true colors' from the first to the last sheet of a print run. A second priority is to considerably reduce set-up times and simplify the operation of the printing presses. By controlling the printing presses with Prinect, we have succeeded in considerably reducing both our customers' material and staff costs. In addition, we differentiate our offerings so as to cover precisely the special requirements of each target group, thereby providing our customers with the highest possible production and investment security. This includes the development of printing presses and software, the entire range of consumables, and customized services.

Organization and Principles of the Development of Products and Services

We work closely together with our customers. Their feedback is incorporated into our projects from the very beginning in order to avoid undesirable developments. More information on this topic is presented in the Risk and Opportunity Report. We shortened the time required to market introduction by structuring our research and development into format categories within a matrix organization. Functions that apply to all lines are included, such as control, design, and product safety. We develop scalable and modular products in all formats. Whenever possible, we immediately transfer innovations developed for one format category to other categories as well. We are currently extending the principle of reapplying identical solutions to all components that are used. In developing the new format category, we were able to fall back on existing solutions for approximately a third of components. We are currently expanding this principle to apply to all components that are used. This process of standardization has wide-ranging positive advantages because it simplifies procedures from purchasing all the way to service.

Research and Development – Creating Value Added for Customers

> **Technological Leadership Asserted**
> **Launch of One-Button Service in Three Format Categories**
> **Prinect's Key Stand-Alone Feature: New Applications**

We secure our leading position as the industry's leader in quality and technology by continually investing in research and development. As the overview in the illustration on the right shows, investments in the development of our complex mechatronic systems, in software development, and in the series maintenance of our product portfolio during the financial year were below the prior year's figures. On the previous pages, we describe how we apply these measures as expediently as possible and what priorities we set for development activity.

KEY FIGURES – RESEARCH AND DEVELOPMENT

	06/07	07/08
Research and development costs (in € millions)	237	222
R&D employees	1,577	1,582

New Products Exhibited (Not Only) at drupa 2008: Just the Right Product for Each Target Group

At drupa 2008, we will be introducing new products that we developed in line with our medium- and long-term development roadmap. For example, during the financial year, we completely replaced the control platform of all sheetfed offset printing presses with Sheetfed Control, which is in every respect technologically state-of-the-art. The total costs of Heidelberg's own development of Sheetfed Control were considerably less than the cost of acquisition of a comparable solution. This underscores the considerable expertise of our staff in the development and production areas. Sheetfed Control makes it possible to use the most modern analytical tools. It offers a highly automatic one-button function, which we are simultaneously launching in the market for the Speedmaster models XL 75, XL 105, XL 145, and XL 162. We presented the one-button maintenance eCall, a new component of our remote services, for the first time in the autumn of the financial year at the Graph Expo trade show in Chicago, where it became one of the 'must-see' products at the show. Thanks to this Internet-based service platform, we can largely prevent printing press downtimes and failures. At the same time, service and maintenance becomes considerably less expensive for both the customer and for us.

We are only able to present a rough outline of the innovations that have been developed and presented within the framework of this report. A complete presentation of all products, with examples of applications and the competitive advantages they offer, is available on the Internet at www.heidelberg.com.

Trends show that the average print run will further decrease, especially at **smaller commercial printers,** whereas the number of orders will rise. Our customers must therefore be able to cut costs and offer new opportunities in order to differentiate themselves from the competition, thereby enjoying long-term success and generating adequate earnings. We therefore now offer greater variability, beginning back at the prepress stage. We developed additional throughput and upgrade options for our worldwide successful Suprasetter family, and platesetters can now be applied even more flexibly. Moreover, we increased the maximum plate throughput to 40 plates per hour.

With its enhanced productivity, the Speedmaster XL 105 with perfecting device is extremely attractive for **industrial commercial printers.** Moreover, we further developed our high-performance, medium format class Speedmaster CD 74 model into the Speedmaster XL 75 model, which can print up to 18,000 sheets per hour and has an automatic plate changer to reduce set-up times and further increase productivity. In addition, all XL model printers now support automatic job changes through one-button service, thereby operating without fuss, at low cost, and completely reliably. This is feasible because Prinect makes it possible to utilize the data from the prepress stage and because we integrate measuring instruments within the workflow, which can immediately recognize minimal color deviations as well as changes in color density and thereby make fully automatic corrections.

This sophisticated system, with which print shops can realize absolute color fidelity on a cost-effective basis, is also enormously important for **packaging print shops,** because they must ensure that all the batches produced for their customers look absolutely identical. Therefore, our newly developed printing press generation with the Speedmaster XL 145 and XL 162 models also offers integrated color management in an even larger format. Only Heidelberg is in a position to offer this. Our new, biggest format, utilized for large format printing in conjunction with the Suprasetter, impresses users with its high level of productivity. Of course, by using larger sheets, packaging printers are already able to reduce their cost of materials. Since all components are digitally networked with Prinect, they can also utilize every potential for optimization through the use of CAD software.

Highly Qualified Employees: 158 New Patents Registered

For good reason, our stand-alone feature Prinect has high priority in research and development. Nearly 400 R&D employees were active in the software area during the financial year. A total of 1,582 employees are active in research and development, as in the past accounting for approximately 8 percent of the overall staff. Their work priorities are spread evenly over mechanical and electrical engineering, the software area, and supporting activities.

Over half of the R&D employees have a university degree. To ensure that our employees always remain up to date, we offer them diverse specialized training opportunities. We invite professors to present lecture series, with a preference for universities with which we work together within the framework of research and development partnerships. We organize in-house training programs on special topics, such as the application of CAD systems. Specialized and advanced training programs are offered externally.

As clear evidence of our employees' performance, we registered a total of 153 new patents in the prior year and 158 during the reporting year. Overall, as of March 31, 2008 Heidelberg held over 5,400 registered and granted patents throughout the world.

R&D Partnerships with Institutions and Suppliers

The number of our patents reflects only part of the knowledge and experience to which Heidelberg has access. We work together very closely on a long-term basis with our systems partners, including these suppliers in the development processes at an early stage. Based on economic viability analyses, in some cases we acquire expertise from outside suppliers, make investments in attractive companies, or we conclude other R&D partnerships. For competitive reasons, we protect our partners and generally do not disclose information concerning joint projects. Partnerships with universities and institutes augment our internal basic research, in which we invest approximately 5 percent of our R&D expenses.

Beginning in the reporting year, we have set increasingly greater priority on basic research in electronic printing. We are working intensively in this area, not only with the Darmstadt University of Technology and the Institute for Printing Technology, but with the Heidelberg University and partners in industry as well. Functional layers could play an important role, especially in packaging printing – for example, packages could independently signal the expiration date of a packaged commodity or whether the cold chain was interrupted.

Employees – Highly Qualified and Motivated

> **High Degree of Flexibility Certain Based on the Second Agreement to Safeguard the Future**
> **New Master Collective Bargaining Agreement (ERA) Introduced**
> **Focus on Future Requirements**

EMPLOYEES BY DIVISION

Number of employees

	31-Mar-2007	31-Mar-2008
Press	17,100	17,468
Postpress	1,988	2,050
Financial Services	83	78
Heidelberg Group	19,171	19,596

EMPLOYEES BY REGION

Number of employees

	31-Mar-2007	31-Mar-2008
Europe, Middle East and Africa	14,016	14,324
Eastern Europe	697	779
North America	1,374	1,341
Latin America	402	408
Asia/Pacific	2,031	2,087
Apprentices	651	657
Heidelberg Group	19,171	19,596
of which: in Germany	13,065	13,353

Our committed, highly qualified, and highly motivated employees are the most important prerequisites for the successful implementation of our strategy and our providing customers with the quality they expect from Heidelberg. Since we systematically address the issue of employee development worldwide, we believe we rest on a solid foundation for the future. We have taken strategic measures to deal with both the expected shortage of specialists in Germany as well as the drawbacks that could arise from an average older age of employees. We have limited the danger of an excessive increase in staff costs by means of the Second Agreement to Safeguard the Future.

Rise in the Number of Employees Primarily in Production, Sales and Services

During the financial year, we supplemented the Agreement on Safeguarding the Future, which we had signed with the Works Council in 2005, with a successor agreement, **Safeguarding the Future II.** During the financial year, we also made full use of the potential to extend working hours by 7 percent without an increase in wages, as provided for in the agreement. The flexibility ensured by our time offset account also contributed to greater capacity utilization. In addition, we launched the new Master Collective Bargaining Agreement (ERA) at our German plants on January 1, 2008, thereby replacing obsolete wage and salary structures with a uniform and modern system of compensation. We expanded our employees' pension plan by means of an extended pension plan based on a building-block system. Because we included our sales and service company in Turkey in the scope of the consolidation at the end of the financial year, the number of employees of the Eastern Europe region increased by 77. We also hired production employees in order to cope with our demanding production program for new printing presses. We dealt with capacity utilization peaks in production and production-related areas primarily through temporary hirings from agencies as well as on a direct basis.

Improved Management Quality Worldwide, High Standards for Dealing with Employees

On page 39, we describe the characteristics of the Heidelberg Leadership & Management Systems (HLMS), with which we intend to improve the quality of the management throughout the Group. Together with various guiding principles and regulations that apply to how employees are dealt with worldwide, it contributes to adhering to high levels of security as well as environmental and social standards. For good reason, among other things the number of accidents was reduced over the previous year at our main production plant at Wiesloch-Walldorf. Furthermore, our anti-discrimination guidelines and the Heidelberg Code of Conduct are applicable throughout the Group. We describe on page 33 how we monitor the observance of these standards among our suppliers as well. We provide for binding and systematic employee development at all consolidated plants worldwide. This includes the establishment of goals at an annual job performance review, at which the specialized training requirement for the employee is ascertained in order to attain these goals to the best of the employee's ability.

Attractive Employer for Various Age Groups; High Standards Worldwide

During the financial year, the business journal 'manager magazin' conducted a survey among 2,501 representatively selected German management board members, general managers, and executive staff on the image of major Germany companies. Of the 152 companies in ten sectors of the economy, Heidelberg placed 24th and is thereby one of the three most highly-regarded companies in the industrial goods sector. We have developed a program that hones the Heidelberg employer brand name for our human resource marketing efforts and personnel development activities in order to have an advantage in the competition for capable junior executive employees. We intend to position ourselves to a greater extent among our target groups as an employer who:

> provides interesting prospects for promotion at a corporation that maintains a worldwide presence;

> supports teamwork, a collaborative working environment, and the compatibility of family and profession with flexible working conditions; excluding partially retired employees, the share of our employees working part-time in Germany rose to 3.9 percent during the financial year, with the portion of employees telecommuting on an alternating basis up to 0.5 percent; and

> ensures overall favorable employee morale; the low staff fluctuation rate of 2.3 percent at Heidelberger Druckmaschinen Aktiengesellschaft is a good indicator that our employees are satisfied with Heidelberg as an employer and identify with the Company's goals.

We spotlight the **main points of our actions for employees** in the section 'Financial Year in Review', which is presented on pages 122 to 123. Details on the development of employees at individual sites and projects are presented in the Sustainability Report, which can be ordered or downloaded on the Internet.

As we describe on page 101, we are engaged in various educational projects. In addition to Heidelberg's good image, this also contributes to the undiminished high demand for trainee positions with long-term prospects with our instructors. A total of 3,100 applications were received in Germany for the beginning of the training period in September 2007, from whom we selected 133 apprentices and vocational college students. As in recent years, the training quota at Heidelberger Druckmaschinen Aktiengesellschaft at the beginning of the training period was thereby 6 percent. We are pleased that the dropout rate at Heidelberg is less than 1 percent, compared with an average of more than 25 percent in Germany as a whole.

Maintaining Quality Standards through Specialized Training; Training Junior Executive Employees

The attribute 'quality' is a symbolic advertisement for our products and services. Our task is to guarantee that it is ensured for all our solutions. For example, our bringing Chinese specialists to Wiesloch-Walldorf for several months of intensive training in assembly during the buildup phase of our Qingpu plant is now paying off for us. They are now training our Chinese employees in optimizing assembly procedures and observing all guidelines and quality requirements.

Our service and sales team has access to a comprehensive training program via our Intranet at all times. Our employees also make intensive use of our expert forum in order to exchange ideas with a technical orientation. Right in time for drupa, we have trained our team worldwide to advise and support customers in new solutions according to need and on an individual basis.

Three global and five regional management development programs with a total of over 200 participants are designed to raise individuals with potential to the level of management expertise on a world class level. Our Graduate Development Program for training junior executive employees has received numerous awards.

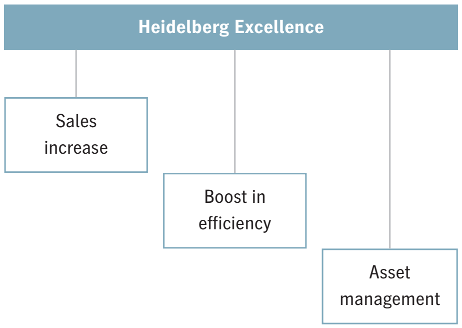
We increased expenses for specialized training by a total of 16 percent during the financial year. We place high priority on in-house training programs, offer varied eLearning modules for each area, and organize various lecture series, but this expense nevertheless only reflects some of the measures we undertook.

Idea Management: Highest Premium Disbursed So Far

The further development of our suggestion program into idea management two years ago has borne fruit. Among other things, we shortened the time required between the presentation of a proposal and the implementation of potential improvements. During the financial year, a total of 5,772 suggestions for improvements were submitted. The savings realized of € 3.5 million considerably surpassed the previous year's figures of € 2.9 million and € 2.7 million. We furthermore disbursed the highest individual premium so far during the financial year. A suggestion from an employee at the Wiesloch-Walldorf assembly unit made it possible for us to considerably streamline the process of precisely adjusting printing presses.

Projects and Investments – Strengthening Market Leadership

> **Focus: 'Heidelberg Excellence' Program**
> **Major Investments in the Run-Up to the drupa Trade Show**
> **Most Important Goal: Improving the Cost Structure**



Our investments and projects during the financial year can be roughly organized into four priorities. We placed by far the biggest priority on further promoting the 'Heidelberg Excellence' program, which comprises various individual projects. The second priority was on preparation for the drupa trade show in such diverse areas as development, marketing, and personnel development. We additionally strengthened the Heidelberg brand and pursued social projects. In the section 'Net Assets' on page 69, we describe our general investment policy and the scope of the investments during the financial year.

'Heidelberg Excellence': Boosting Sales and Efficiency; Asset Management

We launched the Heidelberg Excellence program last year. As the illustration on the left shows, this program is based on three pillars. We intend to generate additional sales by offering new products and expanding our business in services, spare parts, and supplies. We will continue and intensify our measures for boosting efficiency and reducing expenses. Through asset management, for one, we will further reduce tied assets, and for another, reduce working capital – as a percentage of sales – in the medium term down to as low as 30 percent.

In Hall 11, large format printing presses are assembled and packaging printing solutions are presented.

We therefore established the prerequisites during the financial year for promptly satisfying demand for our solutions. After 14 months of construction, **Hall 11** was completed at the Wiesloch-Walldorf site. Its size is 35,000 sq m, which corresponds to the approximate size of five soccer fields. With the total investment volume at approximately € 45 million, this is the most important investment in a manufacturing facility at the site in ten years. This hall, with its state-of-the-art logistics, will house the assembly of the new generation of large format

Speedmaster XL 145 and XL 162 printing presses. Fitting in well with the hall is the new Visitor's Center for packaging printers, which is proving to be quite a popular attraction. Already during the Center's first few months of operation, numerous customers informed themselves in detail about our packaging solutions.

In order to reduce our cost of manufacturing, we focus primarily on increasing efficiency and streamlining the production and assembly processes, to which our **Heidelberg Production System (HPS)** makes a decisive contribution. With this integrated approach, we are continually on the lookout for optimization potential at all levels and in all orders of magnitude – ranging from the ergonomic design of jobs, and reductions in inventories with the aid of optimized parts flows all the way to the reorganization of assembly based on an optimized production alignment. This approach includes the use, among other things, of benchmarks of especially successful companies, and we maintain intensive dialogs with other engineering companies that also make use of a comprehensive manufacturing system. Our investments during the financial year in the Group-wide implementation of HPS amounted to approximately € 4 million. This compares with savings during the same period of some € 11 million. We intend to reduce our costs by approximately 5 percent annually with the help of this system.

We will considerably improve the effectiveness of our Amstetten foundry over the next few years through modernization and optimization measures, and realize cost advantages as a result of the modernization.

We will enjoy the full benefit of the **cost reduction potential** beyond production alone. In the area of procurement, we are increasingly seeking out suppliers outside the euro zone, among other things in order to better secure the Group from the impact of future foreign currency rate fluctuations. For example, we are increasing the local share of our purchases for our Chinese assembly plant, and are investigating which of these suppliers would also be appropriate for the Wiesloch-Walldorf plant. In research and development, during the financial year we undertook a number of analyses with the goal of further improving the quality of our work, shortening the length of time required to bring a product to market, and reducing general costs. We used engineering and electronics companies as well as the automotive industry for benchmarks, as a result of which we determined that we can learn primarily from automotive manufacturers concerning the standardization of the components we use. We have already undertaken some improvement measures and are implementing a number of projects in the current financial year.

FSC = FOREST STEWARDSHIP COUNCIL

Heidelberg is the first printing press manufacturer to receive the FSC certificate, which is awarded in recognition of support for responsible forestry. Most of our demonstration printing jobs are undertaken on FSC-certified paper.

Marketing: Biggest Exhibitor at drupa with Approximately 8,000 sq m of Exhibition Space

At the time this annual report is being published, drupa, the world's largest trade show for printing and paper, will be in high gear. Every four years, this event provides us with the opportunity of highlighting what is special about our solutions. Some 400,000 visitors, 50 percent of which are from abroad and stay on average three days, can compare our offerings with those of our competitors. With space of approximately 8,000 sq m in Halls 1 and 2, we are the biggest individual exhibitor at this trade show. We demonstrate to visitors the advantages of our innovations – their concrete economic benefits – on a practice-oriented and informative basis. To help visitors orient themselves, we are designing the space so that each customer segment can immediately find the solutions appropriate for that segment. Packaging printing will be in the limelight, with approximately 40 percent of Heidelberg's overall exhibition space dedicated to this area. Also new is our clear emphasis on the significance of our services as well as the environmentally friendly nature of our manufacturing processes. To be consistent, we obtained FSC certification for our presence in the exhibition hall; and incidentally, this annual report has been printed on FSC paper.

Brand Name Study: New Image Campaign and New Corporate Design in Time for drupa

Our latest brand name study shows that nearly 100 percent of our target group worldwide recognizes the Heidelberg brand name and logo, and that Heidelberg is perceived as the leader by far in quality and technology among equipment suppliers to the print media industry. We see potential for improvement in the perception of Heidelberg's service-related qualities. Comprehensive services are becoming increasingly important for our customers. Our new image campaign therefore takes the values associated with Heidelberg's central brand name – quality, performance, and innovation – as its theme and uses the emotionalizing color red in addition to silver. As a result of the study, we launched our new corporate design just in time for drupa. Because the Heidelberg brand name is seen by our target group as an important criterion for a purchase decision, we placed considerable visual emphasis on the Heidelberg logo. We simultaneously reduced the emphasis of Prinect, Systemservice, Saphira and other individual product names, placing them below the Heidelberg umbrella brand name.

Social Projects, Environmental Projects and Sponsoring

The wide variety of social projects we are engaged in range from local and short-term projects all the way to long-term commitments and sponsoring. One of our priorities is on educational facilities. For example, we have equipped universities with comprehensive printing installations and also work with numerous institutions internationally. We are helping the print media industry meet the challenges of the future to the best of its ability by expanding and aiding in the transfer of knowledge.

For quite some time now, we have been systematically cooperating with schools and developing special programs to raise the professional capabilities and proficiency levels of students, thereby ensuring our continued access to capable job applicants in the future. Especially in view of demographic developments and the concern about a shortage of skilled workers in Germany, we have been supporting the KiTec project since the previous year. The pedagogic approach for this project originated at 'Wissensfabrik – Unternehmen für Deutschland e.V.' The goal of this collection of 60 leading German companies is to make Germany more future-oriented as a base for business operations – among others, by playfully using appropriate materials, encouraging children's enthusiasm about the natural sciences and technology already at the elementary school level.

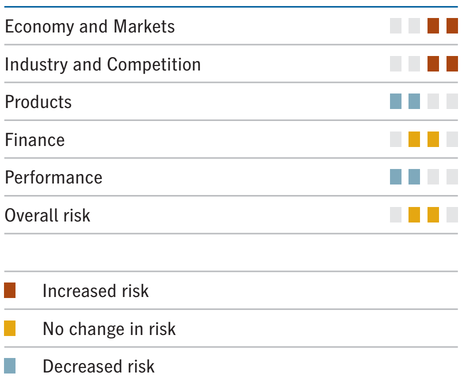
We intend to ensure that ecological aspects are taken even more extensively into account in the process of manufacturing new printing presses. Therefore, in 2007, together with the Darmstadt University of Technology, we developed an Intranet-based environmental portal that was conceived as a tool for developers. It systematically prepares all the appropriate environmental requirements and additionally offers the ability to accumulate individual experiences, thereby providing developers with the ability to call up 'best practice' examples in the medium term.

Risk and Opportunity Report – Keeping an Eye on All Aspects

> **Countering Price and Rate Risks Based on Innovations with Measurable Customer Benefits**
> **Economic Uncertainty and Financial Market Crisis Entail Risks**
> **Long-Term Hedging of Exchange Rate Risks**

DEVELOPMENT OF RISK GROUPS

Change from previous year, existing opportunities are not offset against expected risks



We describe our risk management system in the section 'Value Management, Corporate Management and Control' on pages 41 to 42, describing how we recognize and cope with risks and determine appropriate countermeasures. We also describe how we record and assess opportunities. We report on our risk management in connection with financial instruments in the section 'Financial Position' on page 73, where we also supply details on how we handle interest rate, foreign currency, and liquidity risks.

General Statement on Overall Risk and Opportunities: Change in Priorities

There is no recognizable risk that could threaten the existence of the Heidelberg Group – either currently or for the foreseeable future. This applies to both the results of the business activities that we have completed as well as for operations that we are planning or have already initiated.

How do we determine this overall risk? Since we believe that it would not be appropriate to simply add up the biggest risks, we focus on individual risks that belong together substantively. We do not offset potential opportunities from risks. We summarize our individual risks in five groups. The illustration on the left shows the development of these risk groups compared with the previous year.

On this basis, the Heidelberg Group's overall risk situation has remained at the previous year's level. Several of the risks that we had described in the previous year's report have occurred and are therefore being fully taken into account in our planning process. However, other risks have worsened. For example, the exchange rate situation has developed to the disadvantage of European suppliers to a much greater degree than had been feared by Heidelberg and in general. As we had projected, this has had a considerable impact on competitive conditions in the sheetfed offset area. In the finishing area for packaging solutions, our principal competitor, Bobst, could thereby pursue even more aggressively its strategy of defending its market shares. The risk of an economic downswing in the US, which we had mentioned the previous year, has also taken place.

Overall risk priorities have therefore shifted. We currently view a potential worsening of overall economic conditions as our greatest risk. The risk group Economy and Markets has therefore worsened over the previous year, although in our planning we had already assumed that business developments would be very restrained. It is unclear how long the financial crisis will continue and how strong its impact will be on overall economy and business conditions in our industry. The cumulative risks of the risk group Industry and Competition also deteriorated from the previous year. There continues to be a danger on the one hand that our Japanese competitors could gain additional market shares due to the exchange rate situation, and on the other hand, that market prices could deteriorate further due to the tough competition for market share.

At least once a year, we examine the need to make adjustments to our overall strategy as well as to the strategy of the individual divisions. Our strategic risks are manageable. In the Postpress Division, risks are greater, among others because we have a less dominant market position in this segment. Barriers to market entry are lower here as well. We minimize risks arising from sales financing by means of a well-balanced risk management system. We limit the financing arrangements that are taken on by Heidelberg to the greatest possible extent. Moreover, we only assume financing arrangements following a comprehensive examination that includes the customer's business model and credit standing.

Our principal opportunities are better than expected economic developments and a possible change in exchange rate structures in our favor.

Risks Arising from the Economy and the Market: Country Risks in Some Emerging Markets

The development of the economy continues to have an immense impact on the development of our business. We discuss this connection in more detail on page 59. Depending on the source, economic forecasts for the coming years differ considerably. Whereas the emerging markets are expected to continue their rapid growth, the future developments in the industrialized countries are shaped by considerable uncertainty. Our business development would be severely burdened should actual economic developments fall considerably behind the already restrained expectations. We are consequently vigorously pursuing our goal of limiting the impact of weak economic periods on the earnings of the Heidelberg Group. We reduced our structural costs and continue to focus on a high degree of regional diversification. We are also focusing on our relatively non-cyclical business units.

We combined the individual items included in **other risks** with other risk groups during the financial year due to their minor overall value.

Risks Arising from the Economy and the Market: Risks that could result due to general economic, political, or social influences.

Industry and Competitive Risks: Risks arising from changes in the competitive structure, in the behavior of competitors, in competitive advantages, or in strategic advantages of other suppliers.

Product Risks: Risks in connection with research and development and the market launch of new products.

Financial Risks: Risks arising from sales financing, from exchange rate developments as well as from tax and legal issues.

Risks Arising from Performance: Risks arising from the areas of human resources and procurement as well as producer's risks, environmental risks, IT risks, and risks from investments

We minimize country risks, especially risks arising from economic or political instability, by closely monitoring ongoing local developments. In our last annual report, we explained that there continued to be risks in China for us due to changes in customs regulations – and that the uncertainty could result in restrained investments by customers. The willingness of our Chinese customers to buy considerably increased again only in mid-financial year. In the medium term, we counter the risk that our local business development could be hampered by a renewed worsening of the customs situation with the establishment of our own manufacturing facility in China.

Political and social uncertainties exist in some emerging markets. Government interventions could burden our business development in various markets.

Overall risks in the very important group Risks Arising from the Economy and the Market increased over the previous year because of the considerable economic uncertainties. Of course, the world economic situation might prove to be much stronger than has been widely projected. In addition, various markets could loosen their import and customs regulations and with changes in tax regulations, provide increased incentives to invest.

Industry and Competition Risks: Further Countering the Price Risk

Industry and Competition Risks have deteriorated from the previous year. The general price level for print shop equipment could weaken further due to aggressive behavior on the part of our competitors. Moreover, there is a danger that Japanese competitors could expand their market shares, as for many years they have been able to take considerable advantage of the exchange rate structures. In addition, they might use these competitive advantages to acquire market shares in format categories in which they were hardly active in the past.

We alleviate this risk:

- by acquainting potential customers throughout the world with the calculable advantages of our integrated solutions;
- by maintaining our leading technological position over competitors; and
- by reducing our dependency on exchange rate movements.

Should an economic downswing occur in the industrialized countries, additional consolidations could be the result in some markets – among others because the print industry is suffering from high levels of material, personnel, and energy costs. Our products and services help customers operate profitably and implement profitable business models even under difficult underlying conditions.

The market structure for equipment suppliers to the print media industry, at least in the sheetfed offset area, is relatively well established. For example, although Chinese suppliers increasingly strove to force an entry into the European market during the financial year, they had little success. Barriers to market entry in the sheetfed offset printing sector are generally very high. Suppliers must have access to a functioning sales network. Moreover, the quality demanded by customers can only be achieved through decades of experience in precision engineering and very considerable prior R&D work.

In the postpress area, especially in the packaging segment, our principal competitors' aggressive market defense strategy resulted in a shortfall in the expected sales of individual products. Although this strategy could be fostered by competition, there is a risk that the price situation could worsen.

Should the competitive structure change in one of the areas – for example, because competitors disappear or merge – in addition to risks, we could also enjoy opportunities due to a potential expansion of our market position. A change in exchange rates in favor of suppliers from the European region would have a favorable impact on our business development.

Product Risks Down Considerably from the Previous Year

We will take part in drupa with a new product portfolio, and we will introduce significant new developments for our customers. Nevertheless, there continue to be risks in this area. Since the new products are about to be launched in the market, it remains to be seen how well they are accepted by our customers and how successful they are in the market.

In order to avoid undesirable developments, by necessity all R&D projects spotlight customer benefits. We work closely together with concept customers at every phase of product development. A panel of experts from R&D, Product Management, Controlling, Manufacturing, and Services determines the direction of work beforehand for advanced product development. Among other things, participants make decisions based on market analyses, economic viability considerations, and our Technology Roadmap – the latter outlining our required long-term development goals if we are to meet future customer needs. We strive to secure the results of our development activity largely with our own proprietary rights.

Our new generation of printing presses, the Speedmaster XL 145 and the XL 162, which we are introducing at drupa and which address a new customer segment, might be more quickly accepted by the market than we expect.

Overall Financial Environment Risks Unchanged

Financial environment risks remained at the previous year's level. There are no longer any tax risks arising from the tax reform, which we had included in this risk group the previous year.

We are subject to credit risks resulting from the sales financing business. On the one hand, payment losses may arise under financing contracts with customers, while on the other hand, claims may also arise against Heidelberg under recourse liabilities for financing contracts with finance companies for our customers. Risks from sales financing are declining. Whereas we assess the further progress of this activity more critically, the scope of the financing arrangements that we assumed directly has decreased considerably. The business-related focusing on the print media industry entails a significant concentration of risk. A considerable share of the portfolio comprises receivables from customers from emerging markets, with this portfolio accounting for the largest share.

We regularly monitor our sales financing commitments on the basis of an internal rating process. These include, similarly to the current Basel II standard, components relating to both the liable party and the transaction itself.

We form an appropriate provision to cover recognizable risks under our policy on risk provision, which is generally conservative. We systematically monitor monetary and payment risks on the basis of guidelines that set out the fundamental strategy, the directives concerning the structural organization and workflow management, as well as the regulations setting out responsibilities.

We reduce legal risks arising from individual contracts by relying on standardized master contracts wherever possible. We systematically protect our interests in the area of patents and licenses.

We are striving to reduce our foreign currency exposure and thereby also our dependency on exchange rate structures. More emphatically than in the past, we have hedged in the medium term – for up to 36 months – against the risk that the exchange rates of our principal foreign currencies, whose volumes will be declining in the future, will continue to fall. Nevertheless, although risks exist in this area, we would also have opportunities should the exchange rate situation improve.

Risks Arising from the Performance below Previous Year's Level

During the previous year, the risk that we exceed the planned costs of production arose primarily from risks in the human resources area. The high collective bargaining agreement prevented us from limiting the increase in staff costs to the extent that we had originally planned. We reduce other human resource risks by making Heidelberg even more attractive as an employer and engaging in modern human resources work. More on this topic can be found on pages 94 to 96.

There is currently a risk that the start-up costs for the **production** of our new products could be higher than originally planned. The highly regarded quality of our products and the high degree of supply reliability are key prerequisites for our business success.

We minimize **environmental risks** through an efficient environmental management system – both in product design as well as in the manufacturing process.

Since risk management is an integral component of our supply management, we protect ourselves against many risks of **procurement** at the outset. A shortage and thereby an increase in the price of raw materials, especially of metals and crude oil, as well as increasing energy prices could burden our production costs. We respond to the risk of a supplier's failure to deliver and a delay in the delivery of components or the risk of receiving substandard components by means of a supplier monitoring system based on key data parameters, consistent and systematic observation of all significant markets, and through the utilization of a material planning system with a rolling twelve-month forecast. We also integrate our suppliers within this process.

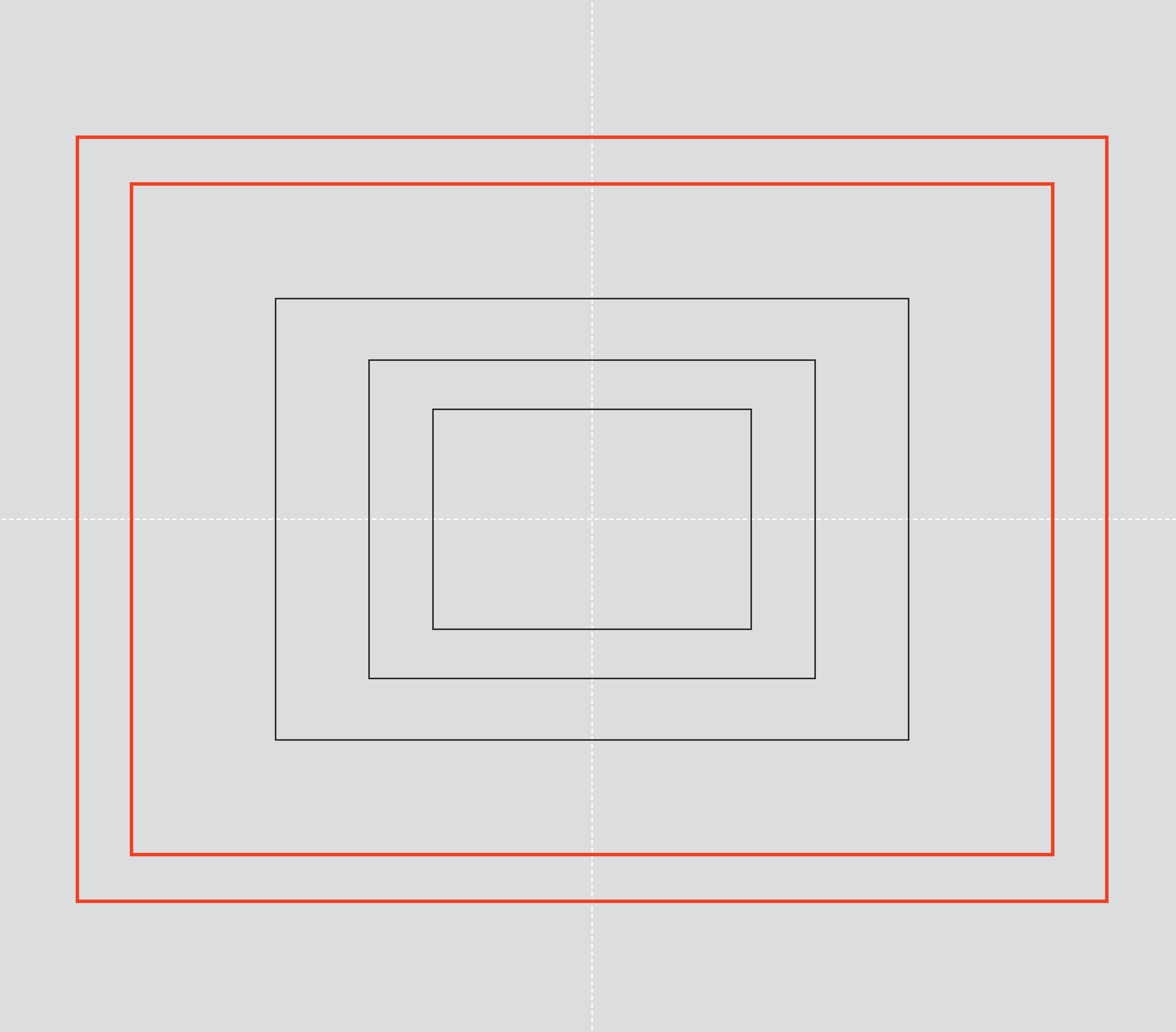
We reduce the risk of making bad investments by including all planned **investments** as part of our worldwide uniform planning system. This system forms the basis for our focused financial management. We continuously pursue and monitor planned investments – primarily to ensure that they purposefully advance Heidelberg's strategic goals. Before each capital goods investment, we implement a make-or-buy analysis, which a team of engineers and financial specialists monitor.

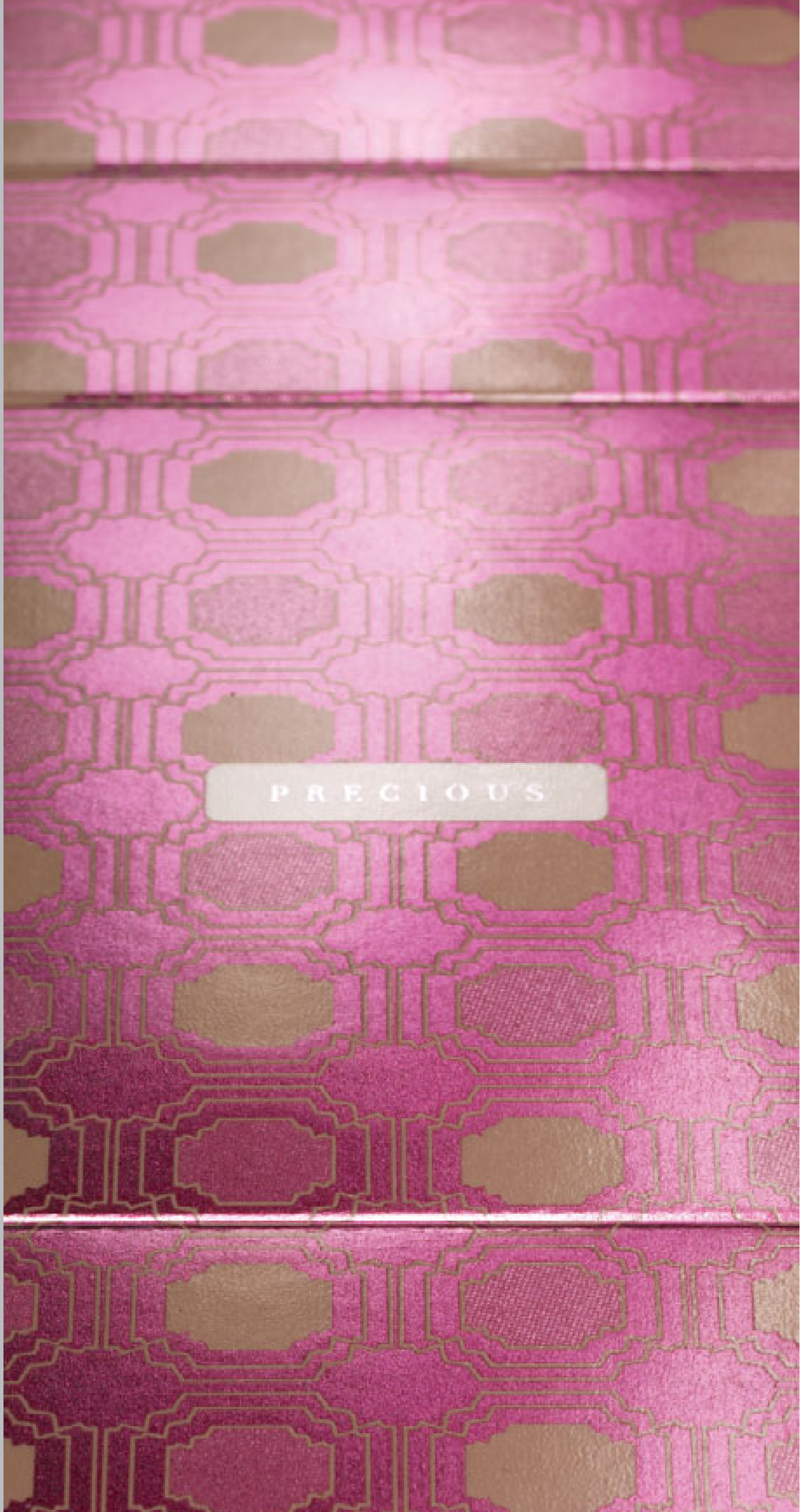
Thanks to our effective global IT management and our investment in the latest technology, we do not envisage any serious risks in the **IT area.** We are prepared for a potential breakdown of our systems by means of suitable security measures. Through comprehensive preventive measures, we have considerably reduced the danger of virus attacks.

Overall, the risks arising from the performance declined from the previous year – among others because we systematically minimize risks arising from corporate functional areas. We have the opportunity of realizing clear cost reductions in the production area by improving processes. Furthermore, the prices for raw materials and energy could decline again, as a result of which the price level in our procurement markets could fall as well.

NEW DIMENSIONS FOR MAXIMUM CHALLENGES

The 106 CM × 145 CM and 121 CM × 162 CM format categories




PRECIOUS

>> Am I superficial? Appearance means quite a lot to me – I'm always pleased to see beauty, regardless of its form. It influences my purchasing decision. And of course, the gifts I select as well – preferably in a lavishly printed, high-quality package. Yesterday, the eyes of a girlfriend who's actually only interested in intrinsic values became moist because of my little gift. How beautiful! <<


Edelmann Group

> OVERALL VIEW – PROSPECTS

Our business development weakened considerably in the second half of the financial year. We therefore had to correct our original forecast. Our customers' propensity to invest declined considerably due to the financial crisis in the US and the increasing skepticism regarding the economy. Our sales trend continues to heavily depend on the advertising market, and thereby on economic developments. However, we are working on a reduction in this dependency through the expansion of our service and consumables business as well as the packaging printing area. Our customers noticeably held back on their investments in advance of the important drupa trade show. Our order backlog therefore fell to a relatively low level as of the reporting date March 31, 2008. We consequently anticipate a sales decline for the first quarter of the current financial year against the comparable period of the previous year. Moreover, we also anticipate that the result of operating activities and net profit will be negative during the first quarter.

The development of the global economy and the exchange rates will be a crucial factor for the course of the financial year as a whole. At drupa, we will introduce solutions that considerably increase the productivity and quality of the customer processes. This serves to secure our strong market position. In early August, we will publish a **sales forecast** for financial year 2008/2009 together with the first quarter's figures. By then we will be in a better position to foresee what impulses for our business have originated from drupa. Already today, however, we expect the **result of operating activities** for the year as a whole to fall far short of the result of the reporting year. In addition to the non-recurring expenditures resulting from Heidelberg's presence at the trade show, as well as from the startups of series production of new products, the strong euro represents a burden as well.

The Management Board will implement all measures that are required to improve the Group's cost structure and reduce the influence of the exchange rates on business.

Future Prospects – Challenges Posed by Underlying Conditions

> **Global Economy: Modest Economic Slowdown as a Result of the Financial Markets Crisis**
> **Focus on Services, Consumables and Packaging Printing**
> **Exchange Rate Structures Hampering European Suppliers**

We more precisely describe the relationship between the propensity to invest of our customers worldwide to the current and expected economic growth on page 59. We address the factors that could act as a brake or stimulus on our business development in individual markets.

Global Economy: Forecasts Uncertain

Broadly, economic research institutes believe that the global economy will be struggling with the consequences of the financial markets crisis at least through mid-year, if not up to 2009. Moreover, a recession in the US is becoming ever more likely. Such a development should hardly have the impact on the overall economic situation that it would have had a few years ago. In general, however, the possible consequences for the European and world economic situation are uncertain. The extent to which the – due to the exchange rate structures – very tough global competition will affect the European economies is also unclear. Although the upswing, with its export impetus, seems to have remained largely intact, nearly all experts are in agreement that the global economy has passed its peak. Current forecasts for the growth of the global economy fluctuate between 4.1 percent (Source: IMF) and only 3.0 percent (Source: Global Insight).

Near-term Economic Situation and Development of Our Industry in Individual Markets

There are several reasons why leading economic research institutes expect growth of the **US** economy to only amount to 1.0 percent to 1.5 percent for 2008. The crisis of the financial markets, which resulted from the weakness of the US real estate market, intensified and sharply braked economic growth. It is questionable whether various favorable political signals – for example, the government's new tax model or the expansionary fiscal policy – can stimulate

GROSS DOMESTIC PRODUCT[1]

Change from previous year in percent

	2006	2007	2008
World	4.0	3.7	3.0
US	2.9	2.2	1.4
EU	3.2	2.9	1.9
Germany	3.1	2.6	1.6
UK	2.9	3.1	1.8
Eastern Europe	6.1	5.2	4.9
Russia	7.4	8.1	7.0
Asia[2]	7.8	8.0	7.2
China	11.1	11.4	9.9
India	9.7	8.5	8.0
Japan	2.4	2.1	1.5
Latin America	5.5	5.4	4.9
Brazil	3.7	5.3	5.1

1) Source: Global Insight, April 2008
2) Excluding Japan

industry's propensity to invest. In particular, the fear of a longer-lasting business downturn is proving to be an obstacle for the propensity to invest by the US **print industry.** An additional factor is the low level to which capacity utilization has fallen. Whether the bleak mood will brighten up depends on many parameters. This is not foreseeable at present either for the current or for the next financial year.

Europe's economies will continue to grow at a modest but solid pace. Stimulus is expected from domestic demand, which is being supported by the favorable trend of the labor market. The extent to which economic growth in Europe's key markets will be negatively influenced by the finance and real estate crisis in the US is still unclear. Initial repercussions, which are still limited to the banking sector, can be seen in the UK and Spain. In **Germany,** the gratifying labor market development over the last year should strengthen the recently somewhat weak consumer spending. Although the economy has slowed, the overall order situation among German companies is robust. There are risks of increased inflation and the possibility that consumer spending could be curbed by higher energy prices and cost of living. An upswing in the retailing sector should provide a favorable impetus for the **print industry** in Europe. The further growth in energy and paper prices is burdening print shops. In Germany, the trade associations in our industry expect the business outlook and the production activity to stagnate compared with 2007. Investment forecasts so far reflect restrained optimism.

The economies of **Latin America** and **Eastern Europe** will continue to benefit from the high raw material prices during the current financial year. As in recent years, the **print industry** of both regions will probably continue to enjoy vigorous growth, with print shops increasingly investing in very modern, innovative products.

As during the reporting year, robust growth in GDP is foreseen primarily for the emerging markets of **Asia.** China and India are again on top by international comparisons. Modest and stable development is anticipated for Japan. During the current financial year, everything points in the direction of the **print industry** in Asia again continuing to grow in view of the emerging markets in that region. Demand for solutions with modern prepress equipment should increase further at a vigorous pace. In China, demand for print products is expected to receive an additional boost from the 2008 Olympic Games in Beijing and the World Expo 2010 in Shanghai.

Competitive Conditions Still Depend on Exchange Rates

The development of the exchange rate structures in recent years secured considerable advantages for our Japanese competitors. Overall, competitive pressures within the industry strengthened to such an extent that European suppliers have seen their scope to take action on prices considerably limited. It is widely assumed that the dollar and yen will remain weak into 2008. However, the precise course of developments cannot be foreseen at present.

Planning Premises: Difficulty Assessing Short-Term Trend of Sales

As we indicated, in the run-up to drupa it is very difficult to appraise the sales trend for the current and next financial year, in particular for European equipment suppliers to the print media industry. At the time this report is being prepared, the level of incoming orders that we will book at drupa is as uncertain as is the further development of the economy and with it the further course of the financial year. We consider the current developments in our branch of industry in the industrialized countries and particularly in the US to be difficult. Whereas in the US a decline in the sales of equipment seems to be unavoidable, the emerging markets, in particular in Asia, show potential for growth. Overall, demand will be higher especially for our new products – for example, the Speedmaster XL 105 with perfecting device as well as the new generation of printing presses in the large format category. We are not in a position to make a reliable **sales forecast** for financial year 2008/2009 at the present time.

With regard to procurement markets, we expect prices to remain stable at a high level. The cost of materials could rise due to a rise in prices in the raw material and energy sectors. Nevertheless, due to our acceleration of global procurement, we expect to be in a position to alleviate this potentially increased burden through savings in other areas.

In our planning, we assumed the dollar/euro exchange rate would be USD 1.47 per euro on average for the year, and that the yen exchange rate would on average be JPY 157 per euro. In order to ensure a degree of reliability in the planning process, we hedged a large part of our foreign exchange volume in these two currencies for the current financial year in the short term and the decreasing volume in the long term. However, we are strategically positioned so that in the case of an improvement in the exchange rates, in some circumstances we would benefit from the new exchange rate levels.

AVERAGE ANNUAL EXCHANGE RATES

Financial year	06/07 € 1 =	07/08 € 1 =	08/09[1] € 1 =
USD	1.29	1.43	1.47
JPY	150.79	162.34	157.00
GBP	0.68	0.71	0.75
HKD	10.04	11.15	11.38
CHF	1.59	1.64	1.63

[1] Projected exchange rate

USD = US dollar
JPY = Japanese yen
GBP = Pound sterling
HKD = Hong Kong dollar
CHF = Swiss franc

Result of the Current Financial Year Heavily Burdened by Several Factors

There are some factors that will considerably burden the result during the current financial year, including non-recurring expenditures for our presence at the **drupa** trade show as well as the **startup of series production** of new products. The more unfavorable **exchange rate situation** will also make itself felt. Due to the 2.4 percent wage increase under the collective bargaining agreement, which was approved in 2007, **staff costs** will rise again. Continuation of our cost reduction measures and increases in efficiency will have a favorable impact on earnings. Overall, we are projecting a considerable shortfall of the current financial year's **result of operating activities** compared with the result of the past financial year.

Following drupa and still prior to the Annual General Meeting, we will make measures known that are designed to secure our leading market position and financial strength on a long-term basis. These measures are intended to improve the cost structure and reduce the influence of exchange rates in the medium term through the globalization of purchasing and production. In addition, we will expand the service and consumables business in order to further reduce our dependency on economic cycles.

We will provide more concrete information on this topic in our first quarterly report concerning the range for the result of operating activities this year. The Press Division will earn the by far biggest profit contribution. Our new printing press generation in the biggest format category will not yet make a profit contribution since it will still be in its startup phase. The operating result of the Financial Services Division will continue to decline according to plan. We are deliberately further reducing the share of the financial arrangements that we assume ourselves. Moreover, in contrast to the previous years, for the current financial year we cannot expect comparable income from the provision for risks.

The **financial result** is expected to be similar to that of the reporting year. The tax rate will also total between 29 percent and 31 percent. We assume that **net profit** will deteriorate due to burdens on the operating result. We will again generate strong **cash flow.** We can thus undertake investments in order to attain strategic goals or generate additional external growth. Burdens to working capital due to the startup of production of the new product lines will be offset by the reduction in the commitment of funds as well as our ongoing asset management.

In view of future capacity requirements, we will need to make personnel and structural adjustments.

Medium- and Longer-Term Development of the Propensity to Invest by the Print Industry

In the next few years, streamlining requirements in the **industrialized countries,** which will intensify due to high prices for paper and energy as well as high staff costs, will result in replacement capital investments by print shops. This is particularly likely if the industry's capacity utilization remains stable at a high level, or if in the US it returns to a higher level.

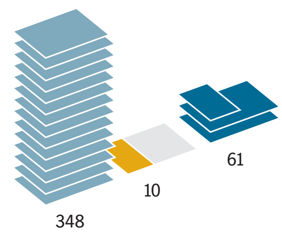
The considerable economic momentum in the **emerging markets** will also continue to favorably impact the business development of our customers in these countries on both a medium- and long-term basis. The volume printed per annum will continue to increase at an above-average pace here, among others because market saturation with printed products is still very low in these rapidly growing economies. This can be clearly seen in the graph on the right. With growth rates of over 8 percent, the Chinese and Indian print industries in particular will noticeably boost their share of global production. Print shops in these markets will have to expand their capacities, as a consequence of which many new print shops will need to be built over the next few years, especially in the Asian region. A shortage of labor – especially highly qualified employees – is already a reality in some countries. The trend towards demand for high-quality solutions in emerging markets will increase further. Packaging printing has enormous growth potential in the emerging markets. Due to increasing urbanization in the future, the assumption is that demand for high-quality packaging will show strong growth. This trend is being reinforced by changed consumer behavior and by enhanced awareness of hygiene by consumers. Moreover, the significance of packaging as a high-quality advertising medium will increase considerably in the emerging markets as well.

Sheetfed Offset Printing Remains the Most Important Printing Process; Environmental Protection Increasingly Important

We assume that sheetfed offset printing will continue to be the prevalent **printing process** in the future, especially since this technology is now also being applied for very small and very large print runs, which were previously reserved for digital printing and web offset printing due to cost factors. With Heidelberg's innovative products, even for print runs of a minimum of 200 sheets, sheetfed offset printing is less expensive than digital printing! And as in the past, the quality of the final products of sheetfed offset printing is much higher than either of the other two processes.

PER CAPITA PRINTING VOLUMES (STATUS 2006)

Figures in €



- Average industrialized nations
- Average emerging countries
- Average world

Sources: Industry statistics, PIRA; Jaakkoo Pöyry, Primir (GAMIS), FAO; Global Insight

Environmental protection aspects of production at print shops will play a more important role in the future – not only in the industrialized countries, where demand is higher for products manufactured in an ecologically responsible manner and where more restrictive statutory provisions will possibly come into effect, but in the emerging markets as well. Especially printed solutions that reduce spoilage are becoming ever more attractive for economic reasons, because the price of paper has increased considerably and will probably continue to rise. Furthermore, the energy consumption of printing presses is also gaining in importance.

Spoilage is becoming an ever more crucial cost factor in production, especially for the **packaging printing area.** The trend to packaging continues unabated. This market segment will therefore continue to grow at an above-average pace and a largely non-cyclical basis worldwide. Overall annual market growth of up to 5 percent is possible. It is currently not apparent what the share of flexible foil packaging will be in this growth.

Heidelberg's Longer-Term Prospects: Focus on Service and Consumables; Strengthening Market Position

We are projecting that the **print industry** will generate only slight annual growth over the next few years. One thing is clear: We have the right **overall offerings** to help print shops successfully meet the challenges of the future – regardless of size, strategic alignment, or geographic location. Our **sales** in the next two years will primarily be carried by our new products and solutions. In subsequent years we will generate additional sales primarily through our expansion of the service and the consumables business. The competitive advantages that customers enjoy who have selected our product and service solutions are measurable and quantifiable. For good reason, against the background of extremely difficult competitive conditions during the financial year, we maintained, and in individual markets even strengthened, our leading **market position.**

Our goal is to further strengthen our competitive position. In the section 'Potential, Risks and Opportunities' we describe in detail how we will make use of our **research and development** and **investments and projects** in the future to ensure that we meet all the prerequisites to accomplish this.

As we describe in the section ‘Financial Position’ on pages 72 to 74, the Heidelberg Group’s **liquidity** is secured on a long-term basis. Our line of credit is far from fully used. Up to now, our shareholders have benefited from payout ratios of 40 to 50 percent, and we intend to retain this dividend policy.

We want to increase our independence from further **exchange rate developments.** We are consequently further expanding our international procurement and producing more printing presses in China for local customers. We protect ourselves conservatively against remaining currency risks.

In order to reduce **cyclical dependence** on the printing press business, we strengthened our position in the rapidly growing packaging printing sector and broadened our regional diversification. Moreover, we are accelerating the non-cyclical service segment, which includes spare parts and supplies. We also see the potential of strengthening our business by means of **acquisitions, participations,** or **cooperative agreements.** If attractive opportunities arise, we will further round out our product offerings through such measures.

Our **organization** is sufficiently flexible to adapt quickly to changed underlying conditions.

Supplementary Report

New Responsibilities on the Management Board; Fourth Member of the Board: Stephan Plenz

As the Company made known in a press release on May 5, 2008, the Supervisory Board of Heidelberg appointed Mr. Stephan Plenz as a member of the Management Board as of July 1, 2008. Simultaneously, assignments and responsibilities have been redistributed on the Management Board, which now has four members. This reorganization by the Company reflects the business expansion programs. Heidelberg intends to expand the service and consumables business; further internationalize production and purchasing; systematically implement the efficiency-boosting programs; and enhance the attractiveness of the Heidelberg share for the capital market. We present the new Management Board responsibilities on page 38 of this report.

Heidelberg Acquires Coating Manufacturer 'Hi-Tech Coatings'

The purchase contract providing for the acquisition of the British-Dutch high-performance coating manufacturer 'Hi-Tech Coatings' was signed on April 29, 2008. Pending approval by the anti-trust authorities, the transfer of ownership is planned for the end of May. Heidelberg is thus expanding its consumables offerings with the purchase of this producer of water-based and ultraviolet coatings used in the production of print products and packaging, thereby penetrating a growing market segment. We view this acquisition as part of our strategy to expand our service and consumables business and thereby diminish the cyclical sensitivity of our business.

Heidelberg is already successfully selling the products of this newly acquired company, which was established in 1993, in England, China, and parts of Eastern Europe. It develops and produces at plants in Aylesbury, UK, and Zwaag, the Netherlands. In 2007, this corporate group generated sales of approximately € 25 million.

Important Note

Products of the Heidelberg Group

PRESS

PREPRESS

Platesetter

Prosetter
Violet printing plates

Suprasetter
Thermal printing plates

PRINT

Sheetfed Offset

Speedmaster
106 × 145 format
121 × 162 format

Printmaster
Speedmaster
50 × 70 format

Speedmaster
70 × 100 format

Printmaster
Speedmaster
35 × 50 format

Flexo Printing

Label print
Packaging print

Web Offset

Products from Goss

POSTPRESS

Folding

Stahlfolder, Baumfolder

Die-Cutting

Dymatrix, Varimatrix

Stitching

Stitchmaster

Folding Cartons

Diana, Easygluer

Adhesive Binding / Thread Sealing

Eurobind, Thread-Sealer

Mailroom Solutions

by IDAB WAMAC

Cutting

Products from POLAR/Mohr

Prinect

Print shop workflow
Integrates and optimizes the areas of management, prepress, production and postpress in print shops

HEIDELBERG SERVICE

Heidelberg Systemservice

Partner Program
Service Contracts
Remote Services
Heidelberg Service Parts

Print Media Academy

Trainings and Seminars
Further education
Communication

Business Consulting

Consulting
Business optimization
Print shop management

Consumables

Saphira
Printing inks
Printing plates
Blankets
Chemicals

Financial Services

Sales financing

Remarketed Equipment

The Financial Year in Review

Q1 2007

APRIL

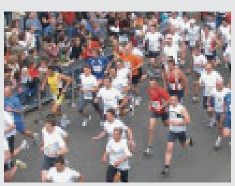
Change in Membership of the Supervisory Board
As of April 3, 2007, Dr. Siegfried Jaschinski, Chairman of the Management Board of Landesbank Baden-Württemberg, was elected to Heidelberg's Supervisory Board, succeeding Prof. Dr. Börsig, who resigned his mandate as of March 31, 2007.

'Print China' Trade Show
The 'Print China' trade show was held during April 10 – 14 in Dongguan. Heidelberg launches the Speedmaster XL 105 and the CD 102 in China and presents visitors with the Prinect Experience Tour.

MAY

'A3 Inforum' Heavily Frequented
At Heidelberg's third 'A3 Inforum', more than 600 visitors obtain information concerning the complete A3 product portfolio as well as innovative application and processing technologies.

First Company-Sponsored Charity Run
The first Company-sponsored charity run is held at Wiesloch-Walldorf in the framework of Heidelberg's new health program. Numerous employees participate in the run, which was held under the slogan 'Miles for More'.



JUNE

RWE Remains a Major Shareholder
RWE repays an exchangeable bond dating from 2004, partly in cash. RWE, which holds a 9.62 percent shareholding, thereby remains financially engaged with Heidelberg for a longer period than had been originally assumed.

Agreement to Safeguard the Future
The Management Board and the staff representatives prolong the Agreement to Safeguard the Future, which is applicable for our German operations, to 2012. This agreement includes, among others, extensive measures for maintaining and enhancing competitiveness.

Q2 2007

JULY

New PMA training center
Heidelberg's new Educ@te Center of the Print Media Academy in Eppelheim (near the city of Heidelberg) has more than 20 state-of-the-art printing presses available for training purposes.

2007 Annual General Meeting
Nearly 1,500 shareholders, who account for approximately 63 percent of the share capital, are represented at the July 26 Annual General Meeting. They agree to all the agenda items.

AUGUST

Vacation Program for Employees' Children
Heidelberg organizes a vacation program for employees' children for the second time. The diversified, all-day care, provided in cooperation with the 'Circus Peperoni', was very well received.

'Heidelberg Japan' Celebrates Its 80th Birthday
80 years ago, the first Heidelberg printing press, was imported to Japan. The Japanese sales and service company celebrates the service anniversary together with some 1,000 customers and representatives.

SEPTEMBER

Success for the Annual Report
For the third time in a row and for the sixth time overall, manager magazin gives Heidelberg's annual report the award as the best among MDAX companies. CFO Dirk Kaliebe accepts the prize.

Inauguration of Hall 11
Within the framework of the 50th anniversary ceremonies of the Wiesloch-Walldorf plant, the new assembly hall 11 is officially opened. The new large format printing presses will be assembled and packaging solutions presented in this hall.

Q3 2007

10 07

OCTOBER

Market Launch of Anicolor in Latin America
Heidelberg presents the Speedmaster SM 52 Anicolor, among others in live demonstrations at São Paulo's Print Media Academy. Customer interest runs high.

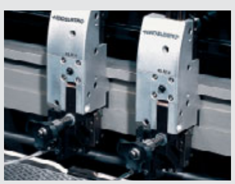
Heidelberg China: Qingpu Plant Expanded
The second, 11,000 square meter assembly hall in Qingpu, China is officially opened. The Printmaster PM 74 medium format printing presses are manufactured here for the Chinese market.

11 07

NOVEMBER

Opening of a Further Adhesive Binding Center
Customers can obtain information concerning the entire range of Heidelberg's adhesive binding products at a further adhesive binding center located in the Leipzig Print Media Academy.

'Good Design Award 2007'
A full three Heidelberg products – the Stitchmaster ST 450, the Stitching Head 45-N 14, and the Suprasetter A 52/A 74 – receive the prominent Japanese 'Good Design Award 2007'.



12 07

DECEMBER

Crush of Visitors at the Fall Open Houses
Over 7,000 customers visit the autumn open houses at five of Heidelberg's German sales units. The total volume of contracts is a reflection of a high propensity to invest in Germany.

Focus on Environmental Commitment
Heidelberg announces that the Group is to strengthen its commitment to environmental protection through product innovations and advanced product development.

Q4 2008

1 08

JANUARY

Saphira: High-Quality Consumables
Heidelberg markets a superior quality consumables under the brand name 'Saphira'. Global consumables business is expanded.

Image Profile in 'manager magazine'
In a survey of image profiles by 'manager magazine' of all publicly-quoted enterprises in Germany, Heidelberg attains third place in the criterion 'Ethical Behavior'.

2 08

FEBRUARY

Suprasetter Family with Superior Productivity
Heidelberg announces that the technology of the successful Suprasetter family has been further developed. All models have been equipped with new and additional functions to provide even greater flexibility and productivity.

Good Air Quality through 'CleanStar'
Heidelberg introduces the new CleanStar for process air extraction, which ensures a reduction in dust and ammonia to a level that is considerably below occupational exposure limits.

3 08

MARCH

New Large Format Printing Presses Presented
Management Board Members Schreier and Dr. Rautert present the new large format printing presses, which are being introduced at drupa 2008, to some 70 journalists. The Speedmaster XL 162 demonstrates printing operations for the general public for the first time.

Production of the 100,000th Printing Unit in the 102 Format
Heidelberg celebrates the production of the 100,000th Speedmaster 102 printing unit, which was an order placed by a Swedish customer.

Glossary

>>>

Anicolor
Heidelberg presented its Anicolor inking unit technology for the first time at the 2006 IPEX trade show. With Anicolor, hardly any start-up sheets are required – usually only 10 to 20. This means up to 90 percent less start-up waste. The fact that no ink zone settings are required reduces makeready times by up to 40 percent, and increases press capacity by 25 percent.

Asset management
Serves to improve both free cash flow and value contribution. Operating assets and liabilities are optimized in order to reduce tied capital and distribute it more efficiently.

Commercial printing
Printed products that do not appear regularly. These products include a diversity of font types and sizes as well as printing stocks – for example, brochures or catalogs.

Flexo printing
A relief printing process using inks with very low viscosity. Printing is effected by means of soft, elastic, and raised printing elements. Flexo printing is used especially in the printing of packaging and multicolor labels.

Makeready time
The time required to prepare a machine for a specific work process. During makeready times, machines – printing presses or postpress machines – cannot be used for production purposes, and investments do not yield a return. Makeready times therefore are an important factor in cost accounting and calculation.

Postpress / finishing
All the manufacturing steps after the printing process in order to prepare a product – for example: cutting, folding, stitching, binding, and packaging.

Prepress
All the steps required to prepare the printing plate for the actual printing process, including the provision of text, graphic elements, images, and design.

Prinect
With its Prinect workflow software, Heidelberg provides the most complete software offering in the print media industry. Prinect comprises Management Solutions, Production Solutions, and Color Solutions. Customers thereby attain the greatest possible production security in color management with color measuring devices as well as closely coordinated measurement fields and seamless integration within the workflow.

Remote Services technology
Internet-based service platform which, among other things, makes it possible to analyze and inspect printing presses via a data link – without the need for customers to interrupt their production.

Sheetfed offset printing
Offset printing is based on the principle that oil and water repel each other. The printing and non-printing areas are at nearly the same level. As the name indicates, the sheetfed offset process prints individual sheets as opposed to web offset printing, which prints paper rolls.

Spoilage
Damaged, defective, or not yet rejected printed matter that arises in the printing process. Spoilage results from the makeready process as well as during the production run – for example, due to defective ink feeds and color registers or contamination – as well as during the finishing process.

Star System
With the Heidelberg Star System print shops can employ environmentally friendly printing processes, because Star peripherals cover the entire system solution – from dryers and powder sprayers to the dampening solution supply, as well as from cleaning waste air to recycling cleaning agents.

Technology Roadmap
A tool used to visualize measures necessary in the development of all forms of technological expertise in connection with future products.

Value contribution / ROCE

Value contribution and **ROCE** are the central management control components used in value management at Heidelberg. ROCE is calculated by dividing EBIT by the average operating assets.

The average **operating assets,** which comprise all assets used in the generation of the EBIT, are part of our calculation. They are calculated by subtracting non-interest-bearing liabilities – which include both non-interest-bearing fundamental capital components as well as pro rata financial liabilities used in the refinancing of the Financial Services Division – from operating fixed assets and gross current assets.

In our calculations, **EBIT** comprises the result of operating activities and income from participations. Income from participations amounted to € –14 million during the financial year.

We include the **cost of capital** in the calculation of the value contribution via a weighted average cost of capital. The weighting is based on the share of the respective capital components. We base our calculation of the cost of shareholders' equity after taxes on a risk-free interest rate of 4.25 percent, a market risk premium of 4.75 percent, and a so-called beta factor of 1.06. The after-tax borrowing cost rate is 3.15 percent. We apply a flat tax rate for the transition to pre-tax consideration. In the reporting year we lowered this tax rate from 35 to 30 percent. The calculation itself remained unchanged during the financial year.

EBIT less the cost of capital equals the **value contribution,** which reflects the expected return to the providers of capital on their invested capital.

NET OPERATING ASSETS

Figures in € millions

	2006/2007	2007/2008
Gross assets according to balance sheet	3,339	3,507
– Marketable securities/cash and cash equivalents	79	144
– Financial receivables/loans	69	59
– Tax refund claims	107	122
– Deferred tax assets	72	77
Operating assets (gross)	3,012	3,105
Gross debt according to balance sheet [1]	2,137	2,314
– Provisions for pensions and taxes	403	410
– Tax liabilities	47	58
– Non-operating financial liabilities [2]	469	490
– Deferred tax liabilities	85	145
Operating non-interest bearing liabilities	1,133	1,211
Operating assets (net)	1,879	1,894
Annual average	1,879	1,887

[1] Current and non-current liabilities from the consolidated balance sheet
[2] Financial liabilities not attributable to the Financial Services Division. The refinancing costs of this division are included in the result of operating activities

CAPITAL COMPONENTS

Figures in € millions

	2006/2007	2007/2008
Shareholders' equity	1,202	1,193
– Net deferred taxes	– 13	– 67
Adjusted shareholders' equity	1,215	1,260
Annual average	1,156	1,238
Pension provisions	133	116
+ Tax provisions	270	295
+ Net tax receivables/liabilities	– 59	– 64
+ Non-operating financial liabilities	469	490
Liabilities	813	837
Annual average	854	825
Adjusted total capital	2,028	2,097
Annual average	2,009	2,063

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* Cover

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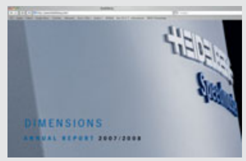

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Heidelberg Services

Heidelberg Services – In this report, we frequently emphasize that we intend to considerably expand the share of sales accounted for by this division, whose business is largely independent of the business cycle. What do we offer in this division? And why do many owners of print shops of all sizes

1. Heidelberg systemservice
2. Print Media Academy
3. Business Consulting
4. Consumables
5. Financial Services
6. Remarketed equipment

decide in favor of Heidelberg based solely on our service offerings? To give a general answer: Because at Heidelberg, customers have access to everything they need to achieve even more success. We provide the most comprehensive service in the industry. Please refer to the overview inside this leaflet on the right.

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