OUR APPROACH: SETTING UP NETWORKS

ANNUAL REPORT 2005/2006

> THE FIGURES

OUR OBJECTIVE:

> 5-YEAR OVERVIEW – HEIDELBERG GROUP

Figures in € millions

	2001/2002	2002/2003	2003/2004	2004/2005	**2005/2006**
Incoming orders	4,667	4,170	3,852	3,700	**3,605**
Net sales	5,117	4,231	3,746	3,360	**3,586**
Foreign sales share in percent	86.5	87.6	88.8	85.3	**86.9**
Result of operating activities [1) 2)]	418	163	79	171	**277**
– in percent of sales	8.2	3.9	2.1	5.1	**7.7**
Profit before taxes [1)]	335	– 164	– 506	106	**229**
Net profit/loss [1)]	201	– 138	– 695	59	**135**
– in percent of sales [1)]	3.9	– 3.3	– 18.6	1.8	**3.8**
Research and development costs	431	391	317	211	**214**
Investments	252	243	164	162	**169**
Total assets [1)]	5,735	5,131	4,232	3,660	**3,281**
Working capital [3)]	1,935	1,612	1,377	1,150	**1,284**
Receivables from customer financing	986	860	769	565	**496**
Shareholders' equity [1)]	2,470	1,950	1,230	1,166	**1,138**
– in percent of total equity and liabilities	43.1	38.0	29.1	31.9	**34.7**
Financial debt [4)]	922	796	718	587	**540**
Net financial debt [5)]	1,020	957	861	731	**672**
Cash flow [1)]	402	51	– 121	232	**345**
– in percent of sales	7.9	1.2	– 3.2	6.9	**9.6**
Free cash flow [1)]	– 323	207	114	152	**149**
– in percent of sales	– 6.3	4.9	3.0	4.5	**4.2**
ROCE in percent [1)]	12.9	2.7	0.4	7.0	**13.6**
Value contribution in percent [1)]	2.1	– 7.8	– 9.9	– 2.2	**4.4**
Return on equity in percent [1) 6)]	8.1	– 7.1	– 56.5	5.1	**11.9**
Earnings per share in € [1)]	2.32	– 1.67	– 8.16	0.69	**1.58**
Dividends in € [8)]	1.40	–	–	0.30	**0.65**
Share price at financial year-end in €	50.06	16.21	27.99	24.65	**36.40**
Market capitalization at financial year-end	4,301	1,393	2,405	2,118	**3,023**
Dividend yield in percent [7)]	2.80	–	–	1.22	**1.79**
Number of employees at financial year-end	25,344	24,181	22,782	18,679	**18,716**

1) Previous years' values adjusted
2) Before restructuring expenses
3) The sum of inventories and trade receivables less trade payables
4) Liabilities to banks including private placement and convertible bond
5) The sum of financial debt and pension provisions less marketable securities as well as cash and cash equivalents
6) After taxes
7) In terms of the financial year-end price
8) For financial year 05/06 proposal

> CONSOLIDATED FINANCIAL STATEMENTS

OF HEIDELBERGER DRUCKMASCHINEN AKTIENGESELLSCHAFT

Contents

Consolidated income statement of the Heidelberg Group 2005/2006

> CONSOLIDATED INCOME STATEMENT[1)]

Figures in € thousands

	Note	1-Apr-2004 to 31-Mar-2005	**1-Apr-2005 to 31-Mar-2006**
Net sales	9	3,360,267	3,585,511
– of which: discontinuing operations		(153,175)	(–)
Change in inventories		46,898	44,221
Other own work capitalized		64,691	51,560
Total operating performance		3,471,856	3,681,292
Other operating income	10	238,508	240,993
Cost of materials	11	1,510,032	1,600,731
Personnel expenses	12	1,134,007	1,096,615
Depreciation and amortization	13	114,220	134,466
Other operating expenses	14	780,626	813,343
Result of operating activities before restructuring expenses		171,479	277,130
Restructuring expenses	15	13,074	–
Result of operating activities after restructuring expenses		158,405	277,130
– of which: discontinuing operations		(– 42,009)	(–)
Result from the equity valuation	16	– 9,466	–
– of which: discontinuing operations		(– 8,236)	(–)
Financial income	17	33,504	41,168
Financial expenses	18	76,741	89,075
Financial result	16	– 52,703	– 47,907
Income before taxes		105,702	229,223
– of which: discontinuing operations		(– 54,650)	(–)
Taxes on income	19	46,779	94,323
– of which: discontinuing operations		(7,626)	(–)
Net profit		58,923	134,900
– of which: discontinuing operations		(– 62,276)	(–)
Minority interests		81	148
Net profit – Heidelberg portion		58,842	134,752
Undiluted/diluted earnings per share according to IAS 33 (in € per share)	35	0.69	1.58
– of which: discontinuing operations		(– 0.73)	(–)

[1)] Previous year's figures were adjusted (see Note 2)

Consolidated balance sheet of the Heidelberg Group as of March 31, 2006

> ASSETS[1]

Figures in € thousands

	Note	31-Mar-2005	**31-Mar-2006**
Non-current assets			
Intangible assets	20	265,474	258,531
Tangible assets	21	511,675	523,207
Investment property	21	27,415	26,506
Financial assets[2]	22	48,875	55,515
Receivables from customer financing	23	392,684	360,860
Other receivables and other assets	23	83,339	51,886
Deferred income taxes	24	128,461	112,540
		1,457,923	1,389,045
Current assets			
Inventories	25	785,666	844,738
Receivables from customer financing	23	171,993	135,071
Trade receivables	23	575,766	666,783
Other receivables and other assets	23	169,107	149,433
Income tax assets		14,031	12,262
Marketable securities	26	353,828	187
Cash and cash equivalents	26	131,376	79,492
		2,201,767	1,887,966
Assets held for sale		–	3,879
		3,659,690	3,280,890

[1] Previous year's figures were adjusted (see Note 2)

[2] Of which: financial assets carried according to the equity method € 3,332 thousand (previous year: € 0 thousand)

> EQUITY AND LIABILITIES[1]

Figures in € thousands

	Note	31-Mar-2005	**31-Mar-2006**
Shareholders' equity	27		
Subscribed capital		219,926	212,610
Capital and revenue reserves		885,545	787,975
Net profit – Heidelberg portion		58,842	134,752
		1,164,313	1,135,337
Minority interests		2,140	2,375
		1,166,453	1,137,712
Non-current liabilities			
Provisions for pensions and similar obligations	28	628,395	211,606
Other provisions	29	271,459	325,071
Financial liabilities	30	377,741	430,006
Other liabilities	31	98,972	96,316
Deferred income taxes	24	66,902	70,671
		1,443,469	1,133,670
Current liabilities			
Other provisions	29	378,573	353,971
Financial liabilities	30	237,689	140,159
Trade payables		211,430	227,814
Income tax liabilities		10,059	4,868
Other liabilities	31	212,017	276,865
		1,049,768	1,003,677
Liabilities held for sale		–	5,831
		3,659,690	3,280,890

[1] Previous year's figures were adjusted (see Note 2)

> CONSOLIDATED CASH FLOW STATEMENT 2005/2006[1]

Figures in € thousands

	1-Apr-2004 to 31-Mar-2005	**1-Apr-2005 to 31-Mar-2006**
Net profit	58,923	134,900
Depreciation and amortization[2]	115,609	138,820
Change in pension provisions	22,871	21,862
Change in deferred taxes/tax provisions	33,787	79,592
Result from the equity valuation	9,466	–
Result from disposals	– 8,955	– 30,267
Cash flow	231,701	344,907
– of which: discontinuing operations	(– 40,866)	(–)
Change in inventories	– 53,691	– 58,207
Change in customer financing	177,688	67,918
Change in trade receivables/trade payables	39,410	– 78,494
Change in other provisions	– 76,562	– 8,766
Change in other balance sheet items	– 57,305	138,254
Other operating changes	29,540	60,705
Net cash from operating activities	261,241	405,612
– of which: discontinuing operations	(– 88,958)	(–)
Intangible assets/tangible assets/investment property		
Investments	– 162,046	– 169,457
Proceeds from disposals	56,399	45,068
Financial assets		
Investments	– 10,071	– 9,290
Proceeds from disposals	6,359	144
Pension funding	–	– 123,554
Outflow of funds from investment activity	– 109,359	– 257,089
– of which: discontinuing operations	(– 12,579)	(–)
Free cash flow	151,882	148,523
– of which: discontinuing operations	(– 101,537)	(–)
Treasury stock	–	– 96,849
Dividend payment	–	– 25,864
Assumption of financial liabilities	741,739	228,343
Repayment of financial liabilities	– 877,214	– 287,854
Cash outflow from financing activity	– 135,475	– 182,224
– of which: discontinuing operations	(104,116)	(–)
Net change in cash and cash equivalents	16,407	– 33,701
Cash and cash equivalents at the beginning of the year	120,092	131,537
Changes in the scope of the consolidation	– 2,877	– 21,065
Currency adjustments	– 2,085	2,908
Net change in cash and cash equivalents	16,407	– 33,701
Cash and cash equivalents at year-end	131,537	79,679

[1] Previous year's figures were adjusted (see Note 2)

[2] Relates to intangible assets, tangible assets, investment property, and financial assets

> STATEMENT OF RECOGNIZED INCOME AND EXPENSE 2005/2006

Figures in € thousands

	1-Apr-2004 to 31-Mar-2005	**1-Apr-2005 to 31-Mar-2006**
Net profit	58,923	134,900
Actuarial losses from pension obligations	– 12,637	– 45,295
Foreign currency translation	– 19,851	1,862
Financial assets		
Market valuation of financial assets	8,004	27,545
Reversals booked to the income statement from the market valuation of financial assets	– 5,204	– 28,200
Cash flow hedges		
Market valuation of cash flow hedges without effect on the income statement	34,158	– 17,561
Reversals booked to the income statement from the market valuation of cash flow hedges	– 23,166	17,675
Total recognized income and expense without effect on the income statement [1]	– 18,696	– 43,974
Total income and expense	40,227	90,926
– of which: Heidelberg Group	40,256	90,598
– of which: minority interests	– 29	328
Adjustments resulting from the application of changed or new standards [2]	– 14,830	–
– of which: Heidelberg Group	– 8,854	–
– of which: minority interests	– 5,976	–

1) Total income and expense without effect on the income statement includes deferred taxes amounting to € 26,095 thousand (previous year: € 389 thousand)

2) See Note 2

Notes to the Consolidated Financial Statements for the Financial Year April 1, 2005 to March 31, 2006

> DEVELOPMENT OF SHAREHOLDERS' EQUITY 1) 2)

Figures in € thousands			Revenue reserves					
	Subscribed capital 3)	Capital reserve	Actuarial gains and losses from pension obligations	Foreign currency translation	Market valuation of other financial assets	Market valuation of cash flow hedges	Other revenue reserves	Total revenue reserves
April 1, 2004	219,926	1,541	–	– 84,155	– 1,461	– 13,894	1,777,327	1,677,817
Adjustment IFRS 2 2)	–	2,545	–	–	–	–	– 4,639	– 4,639
Adjustment IAS 19 2)	–	–	– 15,132	–	–	–	926	– 14,206
Adjustment IAS 32 2)	–	–	–	–	–	–	– 8,448	– 8,448
April 1, 2004, adjusted 2)	219,926	4,086	– 15,132	– 84,155	– 1,461	– 13,894	1,765,166	1,650,524
Total recognized income and expense without effect on the income statement	–	–	– 12,637	– 19,741	2,800	10,992	–	– 18,586
Net profit	–	–	–	–	–	–	– 700,933	– 700,933
Total recognized income and expense	–	–	– 12,637	– 19,741	2,800	10,992	– 700,933	– 719,519
Dividend payment	–	–	–	–	–	–	–	–
Stock options	–	2,861	–	–	–	–	–	–
Consolidations / other changes	–	– 1,541	–	– 47,519	–	–	– 3,347	– 50,866
March 31, 2005	219,926	5,406	– 27,769	– 151,415	1,339	– 2,902	1,060,886	880,139
April 1, 2005	219,926	5,406	– 27,769	– 151,415	1,339	– 2,902	1,060,886	880,139
Total recognized income and expense without effect on the income statement	–	–	– 45,295	1,682	– 655	114	–	– 44,154
Net profit	–	–	–	–	–	–	33,070	33,070
Total recognized income and expense	–	–	– 45,295	1,682	– 655	114	33,070	– 11,084
Dividend payment	–	–	–	–	–	–	–	–
Stock options	–	3,136	–	–	–	–	–	–
Purchase of treasury stock	– 7,316	–	–	–	–	–	– 89,533	– 89,533
Consolidations / other changes	–	–	–	2,330	–	–	– 2,419	– 89
March 31, 2006	212,610	8,542	– 73,064	– 147,403	684	– 2,788	1,002,004	779,433

Total capital and revenue reserves	Net profit/loss Heidelberg portion	Shares of the Heidelberg Group	Minority interests	Total
1,679,358	– 700,933	1,198,351	31,299	1,229,650
– 2,094	–	– 2,094	–	– 2,094
– 14,206	–	– 14,206	–	– 14,206
– 8,448	–	– 8,448	– 29,123	– 37,571
1,654,610	– 700,933	1,173,603	2,176	1,175,779
– 18,586	–	– 18,586	– 110	– 18,696
– 700,933	759,775	58,842	81	58,923
– 719,519	759,775	40,256	– 29	40,227
–	–	–	–	–
2,861	–	2,861	–	2,861
– 52,407	–	– 52,407	– 7	– 52,414
885,545	58,842	1,164,313	2,140	1,166,453
885,545	58,842	1,164,313	2,140	1,166,453
– 44,154	–	– 44,154	180	– 43,974
33,070	101,682	134,752	148	134,900
– 11,084	101,682	90,598	328	90,926
–	– 25,772	– 25,772	– 92	– 25,864
3,136	–	3,136	–	3,136
– 89,533	–	– 96,849	–	– 96,849
– 89	–	– 89	– 1	– 90
787,975	134,752	1,135,337	2,375	1,137,712

[1] Please refer to Note 27 for additional explanations
[2] Previous year's figures were adjusted (see Note 2)
[3] Of Heidelberger Druckmaschinen Aktiengesellschaft

> DEVELOPMENT OF INTANGIBLE AND TANGIBLE ASSETS AND INVESTMENT PROPERTY[1)]

Figures in € thousands

	Acquisition and manufacturing cost						
	Beginning of financial year	Change in the scope of the consolidation	Additions	Transfers[2)]	Currency adjustments	Disposals	**Financial year-end**
2004/2005							
Intangible assets							
Goodwill	249,587	– 6,288	–	–	8	135,661	107,646
Development costs	194,341	– 35,483	32,858	–	143	582	191,277
Software/other rights	121,780	– 11,554	9,493	964	– 662	17,407	102,614
Payments on account	2,006	–	2,070	– 964	– 17	26	3,069
	567,714	– 53,325	44,421	–	– 528	153,676	404,606
Tangible assets							
Land and buildings	866,425	– 73,233	3,489	– 68,546	– 1,848	20,452	705,835
Technical equipment and machinery	717,680	– 139,551	38,357	3,801	– 65	27,462	592,760
Other equipment, factory and office equipment	855,906	– 48,972	79,149	1,177	– 2,832	103,289	781,139
Payments on account and assets under construction	7,410	– 725	7,595	– 6,879	15	17	7,399
	2,447,421	– 262,481	128,590	– 70,447	– 4,730	151,220	2,087,133
Investment property	–	–	12	70,447	–	–	70,459
2005/2006							
Intangible assets							
Goodwill	107,646	–	–	–	86	–	107,732
Development costs	191,277	–	22,482	–	–	20,905	192,854
Software/other rights	102,614	–	10,799	– 1,445	680	11,789	100,859
Payments on account	3,069	–	4,560	– 24	–	–	7,605
	404,606	–	37,841	– 1,469	766	32,694	409,050
Tangible assets							
Land and buildings	705,835	–	2,721	– 1,109	1,844	11,089	698,202
Technical equipment and machinery	592,760	–	36,886	13,276	328	36,373	606,877
Other equipment, factory and office equipment	781,139	–	81,096	– 8,342	5,270	84,071	775,092
Payments on account and assets under construction	7,399	–	14,613	– 7,065	– 31	–	14,916
	2,087,133	–	135,316	– 3,240	7,411	131,533	2,095,087
Investment property	70,459	–	1,712	1,726	–	2,340	71,557

1) Previous year's figures were adjusted (see Note 2)
2) During the financial year, transfers comprise the reclassifications of the assets held for sale
3) Including impairment loss of € 8,710 thousand (previous year: € 0 thousand); see Note 13

							Accumulated depreciation	Book values
Beginning of financial year	Change in the scope of the consolidation	Depreciation [3]	Transfers	Currency adjustments	Disposals	Write-ups	**Financial year-end**	**Financial year-end**
141,724	– 6,555	–	–	7	135,176	–	–	107,646
82,559	– 35,395	10,845	–	55	272	–	57,792	133,485
98,365	– 9,572	9,848	–	– 39	16,497	– 765	81,340	21,274
–	–	–	–	–	–	–	–	3,069
322,648	– 51,522	20,693	–	23	151,945	– 765	139,132	265,474
510,855	– 39,049	19,080	– 41,022	– 777	8,856	– 174	440,057	265,778
596,869	– 101,551	22,960	160	502	18,978	–	499,962	92,798
709,839	– 43,211	49,465	– 160	– 2,965	77,529	–	635,439	145,700
–	–	–	–	–	–	–	–	7,399
1,817,563	– 183,811	91,505	– 41,022	– 3,240	105,363	– 174	1,575,458	511,675
–	–	2,022	41,022	–	–	–	43,044	27,415
–	–	6,492	–	–	–	–	6,492	101,240
57,792	–	28,791	–	–	20,905	–	65,678	127,176
81,340	–	8,499	– 833	602	11,259	–	78,349	22,510
–	–	–	–	–	–	–	–	7,605
139,132	–	43,782	– 833	602	32,164	–	150,519	258,531
440,057	–	16,584	6	348	4,707	–	452,288	245,914
499,962	–	21,763	4,339	61	24,874	–	501,251	105,626
635,439	–	50,017	– 5,440	3,404	65,079	–	618,341	156,751
–	–	–	–	–	–	–	–	14,916
1,575,458	–	88,364	– 1,095	3,813	94,660	–	1,571,880	523,207
43,044	–	2,320	–	–	313	–	45,051	26,506

Consolidated Segment Report 2005/2006

> SEGMENT INFORMATION BY DIVISION[1)]

Figures in € thousands

	Press		Postpress		Financial Services	
	1-Apr-2004 to 31-Mar-2005	**1-Apr-2005 to 31-Mar-2006**	1-Apr-2004 to 31-Mar-2005	**1-Apr-2005 to 31-Mar-2006**	1-Apr-2004 to 31-Mar-2005	**1-Apr-2005 to 31-Mar-2006**
External sales	2,797,207	3,141,745	348,376	397,433	61,509	46,333
Depreciation[2)]	103,239	120,376	4,655	13,374	660	716
Non-cash expenses	291,654	361,938	37,371	35,293	21,460	34,980
Research and development costs	173,270	191,531	23,173	22,401	–	–
Result of operating activities before restructuring expenses	187,152	248,067	– 1,711	– 2,975	26,146	32,038
Restructuring expenses	10,782	–	391	–	–	–
Result of operating activities after restructuring expenses	176,370	248,067	– 2,102	– 2,975	26,146	32,038
Result from the equity valuation	– 1,230	–	–	–	–	–
Carrying amount of the shares in equity companies	–	3,332	–	–	–	–
Investments	142,942	155,939	14,415	13,106	772	412
Segment assets	2,159,273	2,255,041	254,504	251,275	590,549	509,185
Segment debt	1,439,976	1,108,044	104,390	86,522	162,379	137,742
Number of employees	16,653	16,684	1,946	1,946	80	86

> SEGMENT INFORMATION BY REGION[1)]

Figures in € thousands

	Europe, Middle East and Africa		Eastern Europe		North America	
	1-Apr-2004 to 31-Mar-2005	**1-Apr-2005 to 31-Mar-2006**	1-Apr-2004 to 31-Mar-2005	**1-Apr-2005 to 31-Mar-2006**	1-Apr-2004 to 31-Mar-2005	**1-Apr-2005 to 31-Mar-2006**
External sales by customer location	1,363,567	1,488,311	366,268	383,374	517,708	593,158
Investments	129,055	141,537	5,050	2,808	19,278	19,018
Segment assets	1,825,543	1,827,952	201,590	195,538	359,982	389,633

For additional explanations see Note 37

1) Previous year's figures were adjusted (see Note 2)

2) Including impairment loss of € 8,710 thousand (previous year: € 0 thousand); see Note 13

Continuing Operations		Discontinuing Operations		Heidelberg Group	
1-Apr-2004 to 31-Mar-2005	**1-Apr-2005 to 31-Mar-2006**	1-Apr-2004 to 31-Mar-2005	**1-Apr-2005 to 31-Mar-2006**	1-Apr-2004 to 31-Mar-2005	**1-Apr-2005 to 31-Mar-2006**
3,207,092	3,585,511	153,175	–	3,360,267	3,585,511
108,554	134,466	5,666	–	114,220	134,466
350,485	432,211	54,139	–	404,624	432,211
196,443	213,932	14,491	–	210,934	213,932
211,587	277,130	– 40,108	–	171,479	277,130
11,173	–	1,901	–	13,074	–
200,414	277,130	– 42,009	–	158,405	277,130
– 1,230	–	– 8,236	–	– 9,466	–
–	3,332	–	–	–	3,332
158,129	169,457	3,917	–	162,046	169,457
3,004,326	3,015,501	–	–	3,004,326	3,015,501
1,706,745	1,332,308	–	–	1,706,745	1,332,308
18,679	18,716	–	–	18,679	18,716

Latin America		Asia/Pacific		Continuing Operations		Discontinuing Operations		Heidelberg Group	
1-Apr-2004 to 31-Mar-2005	**1-Apr-2005 to 31-Mar-2006**	1-Apr-2004 to 31-Mar-2005	**1-Apr-2005 to 31-Mar-2006**	1-Apr-2004 to 31-Mar-2005	**1-Apr-2005 to 31-Mar-2006**	1-Apr-2004 to 31-Mar-2005	**1-Apr-2005 to 31-Mar-2006**	1-Apr-2004 to 31-Mar-2005	**1-Apr-2005 to 31-Mar-2006**
137,322	185,521	822,227	935,147	3,207,092	3,585,511	153,175	–	3,360,267	3,585,511
1,850	2,285	2,896	3,809	158,129	169,457	3,917	–	162,046	169,457
204,525	190,624	412,686	411,754	3,004,326	3,015,501	–	–	3,004,326	3,015,501

Notes

1 Basis for the presentation of the consolidated financial statements

We have prepared the consolidated financial statements in accordance with the International Financial Reporting Standards (IFRS) as applicable in the European Union and in accordance with the supplemental provisions of Commercial Law in Section 315a, Paragraph 1 of the Commercial Code. The consolidated financial statements also meet the overall provisions of the IFRS that were compulsory up to the financial year-end.

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 Financial Statements. The income statement has been prepared in accordance with the total cost method. The restructuring expenses from discontinuing operations incurred in the previous year are shown separately in the income statement under 'Restructuring expenses'.

All amounts are stated fundamentally in € thousands. For subsidiaries located in countries that are not members of the European Monetary Union, the translation into euros occurs by translating the annual financial statements generated in the respective local currency to € (see Note 6). This statement relates to the 2005/2006 financial year (April 1, 2005 to March 31, 2006).

2 Application of changed or new standards

Within the framework of the 'Improvement Project', the IASB adopted a series of changes in existing standards and some new standards. During the financial year, the Heidelberg Group revised all significant standards and applied new ones in accordance with the transition provisions.

The first-time application of the changed or new IFRS had the following impact largely on the Heidelberg consolidated financial statements as of March 31, 2006:

IAS 1 (2003): Presentation of the Financial Statements

IAS 1 (2003) requires that the balance sheet be structured according to term structure. In the consolidated balance sheet, assets and liabilities are therefore shown as either current or non-current. Assets and liabilities are thereby classified as current if they are held for less than one year or within a normal operating cycle.

Financial assets include shares in affiliated enterprises, long-term securities, and the other participations. Loans are included in other receivables and other assets.

Trade receivables and liabilities are classified as current.

Shareholders' equity now includes minority interests.

In accordance with their nature, provisions for pensions and similar obligations are shown under non-current borrowed funds.

In accordance with IASB provisions, the deferred tax assets and liabilities are included under non-current assets and non-current borrowed funds.

Prepaid expense and deferred income items are no longer shown separately but are included under either other receivables and other assets or under other payables.

IFRS 2: Share-Based Payment

In line with the first-time application of IFRS 2, the balance carry-forwards at April 1, 2004 and April 1, 2005 (in brackets) were restated as follows:

a) Deferred tax assets:
reduction by € 3,502 thousand (reduction by € 3,428 thousand).

b) Share premium:
increase by € 2,545 thousand (increase by € 5,406 thousand).

c) Revenue reserves:
reduction by € 4,639 thousand (reduction by € 6,355 thousand).

d) Other provisions:
reduction by € 1,408 thousand (reduction by € 2,479 thousand).

The changes in the individual income statement items are shown in the table that follows the explanations concerning IAS 32: Financial Instruments, Information and Presentation.

IAS 19 (2004): Employee Benefits

In December 2004, the IASB adopted changes to IAS 19 Employee Benefits. The revised standard introduced an additional possibility – the so-called 'third option' – for recognizing actuarial gains and losses. In the future, actuarial gains and losses may also be offset against shareholders' equity without effect on the income statement. The new standard is to be applied at the latest for financial years beginning after January 1, 2006. The Heidelberg Group followed the recommendations of the IASB and already began applying IAS 19 (2004) on April 1, 2005.

In the past, the Heidelberg Group recognized actuarial gains and losses in accordance with the corridor method; in other words, actuarial gains and losses exceeding a corridor of 10 percent of the higher of obligations or the fair value of the fund assets were distributed over the average remaining service period.

With application of IAS 19 (2004), as revised, for Heidelberg's consolidated financial statements, actuarial gains and losses are offset in full against shareholders' equity without effect on the income statement. Gains and losses together with applicable deferred taxes included in shareholders' equity are shown separately in the Statement of recognized income and expense.

Due to the first-time application of IAS 19 (2004), the balance carry-forwards of April 1, 2004 and April 1, 2005 (in brackets) were restated as follows:

a) Other receivables and other assets:
no change (reduction by € 468 thousand).

b) Deferred tax assets:
increase by € 2,113 thousand (increase by € 8,766 thousand).

c) Revenue reserves:
reduction by € 14,206 thousand (reduction by € 25,565 thousand).

d) Pension provisions:
increase by € 16,319 thousand (increase by € 33,863 thousand).

The changes in the individual income statement items are shown in the table under explanations concerning IAS 32: Financial Instruments: Information and Presentation.

IAS 32: Financial Instruments: Information and Presentation

IAS 32 is to be applied to derivatives on interests in subsidiaries. In accordance with the revised standard, a financial instrument that gives the holder the right to return it to the issuer for cash or another financial asset ('puttable instrument') is a financial liability. A contract that obliges a company to purchase its own equity instruments against cash or other financial assets is thus a financial liability. IAS 32 is to be applied, retroactively, for financial years that begin on or after January 1, 2005. Put options must thereby be accrued as financial liabilities and a corresponding goodwill amount recognized. It is thus no longer possible to carry the item 'minority interests'. Since IAS 32 is to be applied retroactively, the balance carry-forwards of April 1, 2004 and April 1, 2005 were adjusted appropriately, with the income statement for financial year 2004/2005 adjusted as well.

The balance carry-forwards of April 1, 2004 and April 1, 2005 (in brackets) were restated as follows:

a) Goodwill:
increase by € 25,531 thousand (increase by € 25,531 thousand).

b) Revenue reserves:
reduction by € 8,448 thousand (reduction by € 4,317 thousand).

c) Minority interests:
reduction by € 29,123 thousand (reduction by € 33,190 thousand).

d) Other liabilities:
increase by € 63,102 thousand (increase by € 63,038 thousand).

The following table shows the changes in the individual income statement items for financial year 2004/2005:

	2004/2005 Prior to adjustments	Adjustment IFRS 2	Adjustment IAS 19	Adjustment IAS 32	**2004/2005 Adjusted**
Income statement					
Net sales	3,360,267	–	–	–	3,360,267
Other operating income	238,005	–	503	–	238,508
Personnel expenses	1,138,143	1,790	– 5,926	–	1,134,007
Other operating expenses	780,338	–	–	288	780,626
Result of operating activities after restructuring expenses	154,054	– 1,790	6,429	– 288	158,405
Financial result	– 46,523	–	– 4,713	– 1,467	– 52,703
Income before taxes	107,531	– 1,790	1,716	– 1,755	105,702
Taxes on income	46,415	– 74	438	–	46,779
Net profit	61,116	– 1,716	1,278	– 1,755	58,923
Undiluted/diluted earnings per share (in € per share)	0.64	–	–	–	0.69

In the cash flow statement for 2004/2005, the above-mentioned adjustments resulted in a reduction in net cash from operating activities as well as a reduction in cash outflow from financing activity amounting to € 1,817 thousand.

IFRS 5: Non-Current Assets Held for Sale and Discontinued Operations

IFRS 5 requires a separate presentation of non-current assets held for sale. Due to the first-time application of IFRS 5, we reclassified the corresponding assets and liabilities in the balance sheet as of March 31, 2006.

The first-time application of the remaining improvement project standards did not have any impact on Heidelberg's consolidated financial statements.

New accounting provisions

The IASB and IFRIC passed additional standards and interpretations whose application is not yet compulsory for financial year 2005/2006. The effect of the first-time application of the standards that apply to Heidelberg Group's financial statements is currently being examined. Heidelberg is not planning an early application of these standards at the present time.

Changes in IAS 39: Financial Instruments: Recognition and Measurement

The changes in IAS 39 served to expand that guideline's range of application to include financial guarantee contracts. Furthermore, changes were made in the hedging of expected intra-Group transactions as well as in the option of classifying financial instruments either to the item 'financial assets booked directly to the income statement at fair value' or to financial liabilities. Application of the changes in IAS 39 is compulsory for financial years that begin after January 1, 2006.

IFRS 7: Financial Instruments – Disclosures

On August 18, 2005, the IASB published the International Financial Reporting Standard IFRS 7: Financial Instruments – Disclosures. The new standard introduces a centralization of the disclosure requirements for financial instruments. The disclosure requirements previously included in IAS 32 and in IAS 30, which was applicable to banks and similar financial institutions, were revised and brought together within IFRS 7. The relevant provisions of IAS 32 as well as IAS 30 (in its entirety) were revoked. Application of the sector-independent IFRS 7 is compulsory for financial years beginning after January 1, 2007, although this guideline may be applied to earlier periods as well.

IFRIC 4: Determining Whether an Arrangement Contains a Lease

IFRIC 4 includes criteria for identifying leasing elements in contracts, which, however, are not formally classified as leases. In line with the provisions of IAS 17, contractual elements that fulfill the criteria of IFRIC 4 must be carried as lease contracts. Application of IFRIC 4 is compulsory for the first time for financial years that begin on or after January 1, 2006.

IFRIC 7: Applying the Restatement Approach Under IAS 29 Financial Reporting in Hyperinflationary Economies

IFRIC 7 contains explanations of IAS 29 relating to the question of adjusting annual financial statements in cases where a company's functional currency is classified for the first time as high inflationary. Application of IFRIC 7 is compulsory for the first time for financial years that begin on or after March 1, 2006.

IFRIC 8: Scope of IFRS 2

If the identifiable consideration given appears to be less than the fair value of the equity instruments granted or liability incurred, this situation typically indicates that other consideration has been or will be received. IFRS 2 therefore applies. Application of IFRIC 8 is compulsory for the first time for financial years that begin on or after May 1, 2006.

IFRIC 9: Reassessment of Embedded Derivatives

This interpretation focuses on the recognition of embedded derivatives in line with the provisions of IAS 39. According to IFRIC 9 a determination of whether an embedded derivative should be carried separately from the basis contract must as a matter of principle be undertaken at the time the contractual agreement is entered into. A reassessment during the term of the contract is only permissible if the underlying contractual conditions and the associated payment flow differ significantly, with a determination made as to the extent to which a change in the scope of the payments from the embedded derivative and/or from the host contract may have changed with respect to the original payment flows. IFRIC 9 must be applied for financial years beginning on or after June 1, 2006.

3 Realignment of the Heidelberg Group

The Digital Division and the Web Systems Division were divested during the previous financial year. Following the realignment of the Heidelberg Group, we have been focusing on the Press Division and the Postpress Division (print finishing). Furthermore, the Financial Services Division includes the whole range of our customer financing services.

4 Scope of the consolidation

The consolidated financial figures of Heidelberger Druckmaschinen Aktiengesellschaft include a total of 71 (previous year: 79) domestic and foreign companies in which Heidelberger Druckmaschinen Aktiengesellschaft is in a position to exercise a controlling influence as defined by IAS 27. A controlling influence exists as defined by IAS 27 if the financial and corporate policy of a company can be influenced in order to derive benefits from its activity. The inclusion in the Group consolidated financial statements occurs at the time the controlling relationship is established. Subsidiaries that are of minor importance are excluded. The presentation of the shareholdings of the Heidelberg Group has been deposited with the Commercial Register of Companies of the Mannheim District Court (Company Register No. 330004). The significant consolidated subsidiaries included in the consolidated annual financial statements are listed in the Notes to the Financial Statements as an appendix 'Major Shares in Affiliated Companies'.

The Heidelberg consolidated financial figures as of March 31 also include four companies with financial year-end on December 31. The impact on the consolidated financial statements is of minor importance. Significant transactions of these companies occurring between December 31 and March 31 are taken into consideration in the consolidated financial statements.

The companies in Germany and abroad that are included in, or excluded from, the consolidated financial figures are broken down as follows:

	Domestic 31-Mar-2006	Abroad 31-Mar-2006	**Total 31-Mar-2006**	Total 31-Mar-2005
Wholly consolidated companies[1]	8	64	72	80
Non-consolidated companies due to their minor importance	8	25	33	34
Associated companies measured according to the equity method	–	1	1	–
Associated companies not measured according to the equity method due to their minor importance	2	2	4	3
Other participations	–	4	4	5
	18	96	114	122

[1] Including five specialized investment funds in the previous year

Compared with the previous year, the scope of the consolidation changed as follows:

> Initial consolidation:
  Our subsidiary Heidelberger Druckmaschinen WEB-Solutions CEE Ges.m.b.H., Vienna, Austria, was founded and consolidated for the first time during the financial year.

> Deconsolidation:
  The five specialized investment funds were deconsolidated during the financial year due to Contractual Trust Arrangements (CTAs): On March 1, 2006 all the assets of the specialized investment funds were transferred to a trustee, Heidelberg Pension-Trust e.V., Heidelberg. The five specialized investment funds were deconsolidated at that time. Upon their transfer, the assets were transformed into fund assets, which are offset from pension obligations (see Note 28).

> Merger / liquidation:
  As of April 1, 2005 HJP Services & Education Center Co. Ltd., Tokyo, was merged with Heidelberg Japan K.K., Tokyo. Additionally, Heidelberg Digital Finishing GmbH, Mühlhausen, was merged with Heidelberger Druckmaschinen Aktiengesellschaft, Heidelberg. Furthermore, Heidelberg Asia Pacific Pte Ltd., Singapore, as well as Gutenberg Funding LLC, New Hampshire in the US were liquidated.

The change in the scope of the consolidation had the following effects:

	2004/2005	**2005/2006**
Non-current assets	– 51,157	–
Current assets	– 285,322	– 326,429
Total assets	– 336,479	– 326,429
Shareholders' equity	– 7	–
Liabilities	– 336,472	– 326,429
Total equity and liabilities	– 336,479	– 326,429
Net sales	– 322,394	– 110,696
Net result	535,352	55,489

The reduction in total assets during the financial year is primarily attributable to the deconsolidation of the five specialized investment funds. In the previous year, the deconsolidation of the companies in the Web Systems Division and Digital Division had an effect.

An equity valuation was undertaken for the joint venture Heidelberg Middle East FZ Co., Dubai, United Arab Emirates, at financial year-end. The pro rata assets of this company, measured at equity, amounted to € 9,333 thousand (previous year: € 0 thousand) and pro rata debt totaled € 15,399 (previous year: € 0 thousand). Pro rata net sales of € 26,937 (previous year: € 7,819 thousand), and a result from the equity valuation of € 0 thousand (previous year: € – 9,466 thousand) were realized.

Assets and liabilities held for sale

In the Press segment, the sale of a subsidiary is planned and initial steps were initiated in the current financial year. For this reason the following assets and liabilities were classified as being held for sale.

	31-Mar-2006
Assets held for sale	3,879
Liabilities held for sale	5,831
Net assets held for sale	– 1,952

5 Principles of consolidation

In accordance with IFRS 3, all mergers are to be carried according to the purchase method in the form of the complete reappraisal method.

In accordance with IFRS 3 in association with IAS 36 (2004), beginning in the reporting year capitalized goodwill is no longer amortized according to plan. However, the carrying amounts of goodwill are subjected to an impairment test if there is an indication of a decrease in value. Regardless of whether or not there are grounds for an impairment, goodwill is monitored annually for evidence of a decline in value (impairment test). An impairment loss occurs when the recoverable amount is less than the carrying amount of a cash-generating item that is associated with the goodwill. Any additional write-down requirement is taken into account through a pro rata reduction in the carrying amounts of other assets.

Sales, expenses and income, receivables and liabilities, and contingent liabilities among consolidated companies are eliminated. Transactions among consolidated companies in goods and services are calculated both on the basis of market prices and also on the basis of arm’s length transfer prices. Assets from commercial transactions among consolidated companies included in inventories were adjusted to eliminate intercompany profits. Taxes on intercompany profits are taken into account and applied to deferred taxes.

6 Foreign currency translation

In the individual financial statements of the consolidated companies, which are drawn up in local currencies, monetary items in foreign currencies (cash and cash equivalents, receivables, and liabilities) are evaluated at the financial year-end exchange rate and booked directly to the income statement. Non-monetary items denominated in foreign currencies are posted at their historic exchange rates.

The translation of the financial figures of the companies included in the consolidation that are drawn up in foreign currencies is undertaken on the basis of the concept of the functional currency (IAS 21) in accordance with the 'modified financial year-end exchange rate method'. Since our subsidiaries financially, economically, and organizationally effect their transactions on an independent basis, the functional currency is fundamentally identical with each subsidiary's respective local currency. Assets and debts are accordingly translated at the financial year-end rates, and expenses and income at the average exchange rates for the year. The difference resulting from the foreign currency translation is offset from revenue reserves without effect on the income statement.

Foreign currency differences arising vis-à-vis the previous year's translation in the Heidelberg Group are also offset from revenue reserves without effect on the income statement.

Accounting under the terms of IAS 29 was not required, as the Heidelberg Group does not have any significant subsidiaries located in countries with high rates of inflation.

The foreign currency translation is based on the following exchange rates:

	Average rates of the year		Financial year-end rates	
	2004/2005	**2005/2006**	2004/2005	**2005/2006**
	1 € =	1 € =	1 € =	1 € =
AUD	1.7085	1.6171	1.6790	1.6962
CAD	1.6081	1.4445	1.5685	1.4108
CHF	1.5390	1.5532	1.5513	1.5746
GBP	0.6832	0.6818	0.6877	0.6946
HKD	9.8528	9.4068	10.0949	9.3870
JPY	135.6800	137.7617	139.1300	141.9000
USD	1.2642	1.2113	1.2943	1.2096

AUD = Australian Dollar
CAD = Canadian Dollar
CHF = Swiss Franc
GBP = Pound Sterling
HKD = Hong Kong Dollar
JPY = Japanese Yen
USD = US Dollar

The foreign currency changes had the following effect:

	2004/2005[1]	**2005/2006**
Non-current assets	– 16,271	11,530
Current assets	– 14,110	10,639
Total assets	– 30,381	22,169
Shareholders' equity	– 19,851	1,862
Liabilities	– 10,530	20,307
Total equity and liabilities	– 30,381	22,169
Net sales	– 65,082	72,640

[1] Previous year's figures were adjusted (see Note 2)

7 General accounting and valuation policies

The accounting and valuation policies that are applied in the consolidated financial figures are presented below. Further explanations concerning individual items of the consolidated income statement and the consolidated balance sheet as well as corresponding figures are presented in Note 9 and following.

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 and valuation policies

The annual consolidated financial figures are prepared on the basis of accounting and valuation policies that are applied uniformly throughout the Group. The same accounting and valuation policies are applied to determine pro rata shareholders' equity for the companies measured according to the equity method.

Continuity of accounting and valuation policies

Including application of the standards IAS 1 (2003), IFRS 2, IAS 19 (2004), IAS 32, and IFRS 5, the accounting and valuation policies were fundamentally retained. Please refer to Note 2 for an explanation of the adjustments.

Intangible assets

With the exception of goodwill, all intangible assets have a limited useful life and are therefore amortized according to plan. In accordance with IFRS 3 in association with IAS 36 (2004), goodwill is no longer amortized according to plan since the previous year. Rather, it is subject to an impairment test both annually and if there is an indication of a reduction in value. Purchased intangible assets are capitalized at their cost of acquisition and amortized on a straight-line basis over their expected useful life. Intangible assets produced within the Group 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 manufacturing cost to the extent that an unambiguous expense classification is possible 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 revenue flows. Capitalized development costs include all direct costs and overheads that are directly attributable to the development process. Scheduled depreciation is based on the estimated period during which sales may be expected.

In accordance with IAS 38, research costs may not be capitalized and are therefore charged as an expense directly to the income statement.

Tangible assets

Tangible assets are assessed at acquisition or manufacturing costs less scheduled straight-line depreciation and non-scheduled depreciation taken for restructuring measures.

There was no revaluation of tangible assets in accordance with the options provided in IAS 16. In addition to individual costs, production costs also include appropriate portions of direct costs and manufacturing overhead costs.

Interest on borrowed funds is booked as a direct expense (IAS 23). Depreciation based exclusively on tax rules is not applied.

All repair costs for tangible assets are charged as an expense and are only capitalized if the incurred costs result in an extension or substantial improvement of the respective asset.

Investment property

Investment property (IAS 40: Real Estate Held as a Financial Investment) is carried at the amortized acquisition or manufacturing cost. The notes to the financial statements provide information on the fair value of investment property, which is recorded in line with such internationally acknowledged valuation methods as the discounted cash flow method or is derived from the current market price of comparable real estate.

Financial lease relationships

Under financial lease relationships, 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, the cost is capitalized from the date on which the lease contract is concluded at the lower of the fair value or the present value of the minimum leasing payments. Depreciation is taken using the straight-line method on the basis of the lower of useful economic life or the duration of the lease.

Scheduled depreciation

As already in the previous year, the scheduled depreciation of intangible assets, tangible assets, and investment property is recorded primarily on the basis of the following useful life periods, which are applied uniformly by 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
Factory and office equipment	3 to 13
Investment property	10 to 50

Non-scheduled depreciation

The maintenance of the book value of all intangible assets (including capitalized development costs) and of all tangible assets is systematically reviewed at the end of each financial year. Non-scheduled depreciation is taken to the extent that the recoverable amount for the asset is lower than the book value. The recoverable amount is the higher of the fair value less cost sales or the value in use. Provided the asset is part of an independent cash-generating unit, amortization is determined on the basis of the recoverable amount of this cash-generating unit. Should the reasons for non-scheduled depreciation be eliminated, a write-up is taken up to the amount of the acquisition or manufacturing cost, reduced by the amount of scheduled depreciation (IAS 36).

The carrying amounts of the goodwill are subject to an impairment test if there is an indication of a decline in value. Regardless of whether there are grounds for an impairment, goodwill is monitored annually for possible impairment by means of an impairment test. An impairment loss occurs when the recoverable amount is less than the carrying amount of an item that generates cash, to which goodwill is associated.

Joint ventures and associated companies

Shares in joint ventures and associated companies are carried according to the equity method. Pro rata consolidation is not applied. The acquisition cost of associated companies consolidated in accordance with the equity method is increased or decreased each year in line with any changes in shareholders' equity relating to the shares held by the Heidelberg Group.

Shares in subsidiaries and securities

For such financial instruments, the provisions of IAS 39 differentiate between whether they are 'held to maturity and measured at their fair value and booked directly to the income statement', or 'available for sale'.

Participations (including shares in affiliated enterprises) and marketable securities are classified as 'available for sale'. In line with IAS 39, these financial instruments are fundamentally carried at fair value. Marketable securities are fundamentally measured at their stock market prices, provided this value can be recorded reliably. The initial valuation occurs as of the settlement date. Unrealized profits and losses arising from changes in fair value are posted to shareholders' equity without effect on the income statement, taking into consideration deferred taxes. At the time of a sale, realized profit or loss is booked directly to the income statement in the financial result. In accordance with IAS 39, corresponding amortization is taken in situations in which substantial objective indications for an impairment of an asset have occurred.

During the financial year, no transfers occurred among the various categories.

The appropriate classification of securities is established at the time of purchase and is monitored at the respective financial year-end. All ordinary purchases and sales of financial investments are carried on the balance sheet as per the settling day.

Loans

Loans are credits we grant, which in accordance with IAS 39 are measured at adjusted acquisition costs and classified as 'held to maturity'. Long-term non-interest bearing and low-interest bearing loans are carried at their net present values. Impairment losses are taken if there is a substantial objective indication of an impairment.

Inventories

Inventories are carried at the lower of acquisition or manufacturing cost and net realizable value. Valuations are fundamentally determined on the basis of the weighted average cost method. The Fifo method is applied for certain inventories.

Manufacturing cost includes production-related full costs determined on the basis of normal capacity utilization.

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

The risks of holding inventories arising from reduced salability are accounted for by appropriate reductions in value. These value write-downs are recorded on the basis of the future production program or actual consumption. In this regard, depending on the respective inventory item, individual periods of consideration are taken as a basis, which are monitored and adjusted based on appropriate judgment criteria. The valuation takes into account lower realizable net selling prices at financial year-end. If the reasons for a lower valuation no longer apply to inventories that have formerly been reduced in value and the net selling price has therefore risen, the resultant appreciation is recorded as a reduction of material costs.

Receivables from customer financing

Receivables from customer financing represent claims under loans that are granted to our customers in connection with the financing of machinery sales, as well as receivables under finance leases.

Finance lease relationships include leased-out installations that may be regarded financially as sales under long-term financing. In accordance with IAS 17, these receivables are shown in the amount of discounted future minimum lease payments.

In the framework of customer financing, the risks of creditworthiness and of default arise due to the potential danger that our customers do not comply with their payment obligations. As a consequence, assets may deteriorate in value. Recognizable risks of non-payment are taken into account by establishing adequate risk provisions.

Other receivables and other assets

Other receivables and other assets are measured at their adjusted acquisition cost. Account has been taken of all recognizable risks of non-payment through corresponding write-downs.

Customer-specific production orders

In accordance with IAS 11, customer-specific production orders are carried on the basis of the percentage-of-completion method, with the amounts realized included in sales and, after deduction of customer payments on account received, in trade receivables. The stage of completion is determined based on the accrued expenses (cost-to-cost method). There were no significant orders at financial year-end that would necessitate recognition in accordance with IAS 11.

Cash and cash equivalents

Cash on hand and bank deposits are carried at their nominal amount and have a term to maturity of up to three months.

Deferred taxes

Deferred taxes are calculated in accordance with the internationally customary balance sheet liability method (IAS 12). Under this method, deferred tax entries are made for all temporary accounting and valuation differences in the balance sheet between IFRS valuations and fiscal valuations of the individual subsidiaries or controlled companies as well as of corresponding consolidation measures. Deferred tax assets for future benefits from tax loss carry-forwards are also taken into account. Deferred tax assets for accounting and valuation differences as well as for tax loss carry-forwards are recognized in the amount that is likely to be the taxable result in the future and with the tax loss carry-forwards actually likely to be used. Deferred taxes are measured on the basis of the income tax rates of the respective countries. A tax rate of 37.42 percent (previous year: 37.61 percent) is used as a basis for the calculation of domestic deferred taxes. In addition to the corporation tax of 25 percent and the solidarity surtax of 5.5 percent, the rate of the average trade tax on income was also taken into account.

In accordance with the provisions of IAS 12, neither deferred tax assets nor liabilities have been discounted. Deferred tax claims were offset against deferred tax liabilities when required according to the provisions of IAS 12. In line with this, an offset is only possible if an actionable right to offset the actual taxes exists and the deferred tax claims 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 (‘Organkreis’).

Assets and liabilities held for sale

Non-current assets and debt are classified as being held for sale if a sale is very likely, if the asset in its current condition is available for immediate sale, and if a decision has been made to sell the asset or division within a period of one year.

Assets held for sale are shown at the lower of the carrying amount or fair value after deduction of the costs of a sale. Such costs are no longer written off.

Provisions for pensions and similar obligations

The obligations of the Group to establish provisions include both benefit-oriented as well as contribution-oriented plans. In the case of benefit-oriented pension plans, the pension obligations are calculated by the so-called projected unit credit method (IAS 19). Under this method, expert actuarial reports are commissioned each year. The probability of death is calculated on the basis of the current Heubeck mortality tables or comparable foreign mortality tables. In the case of contribution-oriented plans (e.g., direct insurance policies), compulsory contributions are offset directly as an expense. No provisions for pension obligations are formed, as in these cases our Company does not have any liability over and above its obligation to make premium payments. Expenses for service periods are carried under personnel expenses and the interest portion of the additions to provisions under the financial result. Income from fund 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 shown in the financial result.

With the application of the revised IAS 19 (2004), the actuarial gains and losses in the consolidated financial statements of Heidelberg are entirely offset against shareholders' equity without effect on the income statement. Gains and losses recorded in shareholders' equity as well as the applicable deferred taxes are shown separately in the 'Statement of Recognized Income and Expense'. Within the framework of the first-time application of the provisions of IAS 19 (2004), the previous year's figures were adjusted accordingly.

Other provisions

Other provisions are formed to the extent that a past event gives rise to a current obligation, that the amount of the charge is more probable than improbable, and that the amount can be reliably estimated (IAS 37). This means that there must be a probability greater than 50 percent that the liability will be realized. Measurement is based on either the settlement amount that is most likely to be incurred or, in the case of a uniform distribution of the probabilities of occurrence, on the expected settlement values. Provisions are only formed for legal or de facto obligations vis-à-vis third parties. No positive profit contributions occurred as defined by IAS 37, and consequently none is shown in the accounts. Provisions are measured based on the full cost principle in relation to production, taking into consideration possible cost increases.

Provisions for restructuring measures were formed to the extent that the criteria of IAS 37 were met.

Long-term provisions with a term to maturity of more than one year are carried at the discounted settlement value on the balance sheet date on the basis of appropriate interest rates, provided that the interest rate effect is significant. The underlying interest rates depend on the term of the obligation.

Liabilities

In accordance with IAS 39, financial liabilities are stated at their fair value. In subsequent periods, measurement is undertaken at an adjusted acquisition cost taking into consideration the effective interest rate method. Liabilities arising from financial leasing relationships are accrued in the amount of the present value of the minimum lease payments.

Advance payments from customers

Advance payments received from customers are recorded under liabilities.

Derivative financial instruments

Derivative financial instruments in the Heidelberg Group comprise hedging transactions that are entered into for the purpose of managing risks associated with fluctuations in interest rates and exchange rates. These instruments serve to reduce income volatility. Trading positions, i.e. derivatives without an underlying transaction, are not entered into. We currently make use of over-the-counter (OTC) instruments. These include:

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

Derivative transactions are generally undertaken only in connection with corresponding underlying transactions. The scope of hedging by financial derivatives extends to booked, open, and highly likely underlying transactions.

In accordance with IAS 39, derivatives fulfill the criteria of assets and debts, as a result of which they must be capitalized (other assets) or accrued (other liabilities) at market value. The initial measurement occurs as of the trading date.

In compliance with IAS 39, the differentiation between a fair value hedge and a cash flow hedge is of basic importance for hedge accounting.

The goal of a fair value hedge is to offset the changes in market value of assets and debts shown on the balance sheet by means of countervailing changes in the market value of the hedging transaction. Any profit or loss resulting from the market value change in the hedging transaction must immediately be recorded in the income statement. With regard to the hedged risk, the underlying transaction is also to be recorded in the income statement from the beginning of the hedging transaction.

A cash flow hedge serves to hedge changes in payment flows that typically arise in connection with floating-rate assets or debt shown in the balance sheet, that arise from pending transactions in foreign currencies or from planned future transactions. The profits and losses from the derivatives are included in shareholders' equity without effect on the income statement up until the time the respective secured underlying transaction goes into effect.

Hedging transactions whose underlying transactions no longer exist are classified as held for trading.

Share-based remuneration

Stock options covered by IFRS 2 are measured based on their respective fair value at the time the options are granted. The measurement of stock appreciation rights (SAR) occurs at the respective fair value of the option at financial year-end, with the expensed establishment of the share premium as well as the provision undertaken on a pro rata basis. The determination of the respective fair value is based on a recognized financial-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 several 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 for the formation of a respective provision, and/or if it is not possible to estimate the amount of the obligation to a sufficiently reliable extent. The valuation of contingent liabilities on the balance sheet date is based on the existing extent of liability.

8 Estimates and discretionary decisions

In presenting the consolidated financial statements, certain assumptions and estimates are made that have an effect on the amount and presentation of capitalized assets and liabilities, on information on contingent receivables as well as liabilities at financial year-end, and on income and expenses for the reporting period. The preparer of consolidated financial statements has a degree of discretion here. This concerns in particular the provisions for pensions and similar liabilities.

The calculation of the provisions for pensions and similar obligations is based on the parameters listed in Note 28. Increasing or reducing the interest rate used in calculations by one-quarter of a percentage point, respectively, to 4.5 percent or 4.0 percent would result in a € 27,878 thousand reduction in pension provisions or, respectively, a € 29,878 thousand increase. The after-tax offset losses in shareholders' equity, without effect on the income statement, would be reduced, respectively, by € 17,446 thousand or increased by € 18,698 thousand.

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

Notes to the Income Statement

9 Net sales

Product sales are recorded if the relevant risks and opportunities that are related to the ownership of the sold merchandise and products become the property of the buyer. Neither a residual right nor a power of disposal over the sold merchandise and products remain. The revenue amount can be reliably determined; the inflow of economic benefit from the sale is probable to an adequate degree.

As already in the previous year, substantial order income from **customer-specific manufacturing** arising from the application of the percentage-of-completion method did not occur.

Sales from **services** are recorded when the services are made available, provided that the amount of the income can be reliably allocated and the inflow of economic benefit arising from the transaction is sufficiently probable. Long-term service contracts are generally subject to linear allocation of sales.

Income from **operating and finance leasing relationships** is recorded based on the provisions of IAS 17.

In addition to income from sales of products and services, net sales continue to comprise income from commissions, from finance lease and operating leasing relationships totaling € 4,284 thousand (previous year: € 7,439 thousand) as well as interest revenue from customer financing and finance lease relationships amounting to € 46,333 thousand (previous year: € 61,509 thousand).

Further explanations concerning net sales are presented in the Reports of the Divisions as well as in the Reports from the Regions. Classification of net sales by division and regions is shown in the section Segment Information.

10 Other operating income

	2004/2005[1]	**2005/2006**
Reversal of other provisions	102,580	71,493
Income from written-off receivables	23,347	37,752
Hedging transactions / foreign-exchange profit	17,647	33,736
Income from the deconsolidation of companies	–	24,540
Income from operating facilities	21,024	23,268
Income from disposals of intangible assets, tangible assets, and investment property	10,258	7,374
Other income	63,652	42,830
	238,508	240,993

1) Previous year’s figures were adjusted (see Note 2)

Income resulting from deconsolidations is in connection with transfer of the specialized investment funds to Heidelberg Pension-Trust e.V., Heidelberg, within the framework of the Contractual Trust Arrangement (CTA) (see also Note 4).

11 Cost of materials

	2004/2005	**2005/2006**
Expenses for raw materials, consumables and supplies, as well as for goods purchased	1,328,830	1,379,200
Costs of purchased services	164,486	212,521
Interest expense of Financial Services	16,716	9,010
	1,510,032	1,600,731

The ratio of the cost of materials to total operating performance of 43.5 percent is unchanged from the previous year.

12 Personnel expenses and number of employees

	2004/2005[1]	**2005/2006**
Wages and salaries	926,041	897,858
Expenses for pension claims[2]	30,815	37,404
Income from fund assets of pension funds	– 3,720	– 6,910
Other social security contributions and benefit payments	180,871	168,263
	1,134,007	1,096,615

1) Previous year's figures were adjusted (see Note 2)
2) See Note 28

The interest portion of the pension claims is shown under financial result. Income from fund 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 shown in the financial result.

The number of **employees** totaled:

		Average		As of
	2004/2005	**2005/2006**	31-Mar-2005	**31-Mar-2006**
Wage earners	7,351	7,094	7,090	7,098
Salaried employees	11,320	10,934	10,911	10,956
Apprentices	780	670	678	662
	19,451	18,698	18,679	18,716

13 Depreciation and amortization

Total depreciation and amortization of € 134,466 thousand (previous year: € 114,220 thousand) is attributable to intangible assets totaling € 43,782 thousand (previous year: € 20,693 thousand), to tangible assets of € 88,364 thousand (previous year: € 91,505 thousand), and to investment property of € 2,320 thousand (previous year: € 2,022 thousand). The impairment loss to intangible assets, tangible assets, and investment property amounting to € 8,710 thousand (previous year: € 0 thousand), is attributable to goodwill of € 6,492 thousand, development costs totaling € 1,536 thousand, software and other rights amounting to € 326 thousand, technical equipment and machinery of € 233 thousand, other installations as well as factory and office equipment in the amount of € 9 thousand, and investment property of € 114 thousand.

14 Other operating expenses

	2004/2005[1]	**2005/2006**
Other deliveries and services not included in the cost of materials	139,289	127,502
Special direct sales expenses including freight charges	92,201	123,304
Provisions for doubtful accounts and other assets	53,334	66,995
Rent and leases (excluding car fleet)	70,885	64,761
Costs of information technology	49,071	57,311
Travel expenses	63,176	56,319
Additions to provisions (relates to several expense accounts)	41,432	46,943
Legal and consulting fees	24,892	25,509
Hedging transactions / exchange rate losses	10,822	19,317
Other research and development costs	10,197	19,175
Insurance expense	20,900	18,527
Costs of car fleet	13,470	14,975
Costs of mail and payment transactions	15,518	13,805
Public-sector fees and other taxes	14,528	11,029
Expenses from operating facilities	10,748	10,976
Commissions	5,701	5,278
Office supplies, newspapers, technical literature	4,511	4,444
License fees	6,019	3,919
Losses from disposals of intangible assets and tangible assets	1,447	1,736
Other overhead costs	132,485	121,518
	780,626	813,343

[1] Previous year's figures were adjusted (see Note 2)

Other operating expenses largely reflect business developments.

15 Restructuring expenses

	2004/2005	2005/2006
Personnel expenses	1,402	–
Other costs	11,672	–
	13,074	–

The previous year's restructuring expenses related to our program for medium-term cost reduction and efficiency enhancement.

16 Financial result

	2004/2005[1)]	2005/2006
Result from the equity valuation	– 9,466	–
– of which: discontinuing operations	(– 8,236)	(–)
Financial income	33,504	41,168
Financial expenses	76,741	89,075
Financial result	– 52,703	– 47,907

1) Previous year's figures were adjusted (see Note 2)

17 Financial income

	2004/2005	2005/2006
Interest from financial investments and specialized investment funds	10,743	11,251
Other interest income	5,442	10,768
Interest and similar income	16,185	22,019
Income from specialized investment funds	12,939	13,338
Income from loans / financial assets	3,487	4,761
Income from profit transfer agreements	893	1,050
Income from financial assets / loans / marketable securities	17,319	19,149
Financial income	33,504	41,168

Financial income comprises income from specialized investment funds totaling € 22,266 thousand (previous year: € 22,536 thousand).

Income from profit transfer agreements is attributable to the print insurance brokerage firm Print-Assekuranz Versicherungsvermittlungsgesellschaft mbH, Heidelberg and Heidelberg Catering Services GmbH, Wiesloch.

18 Financial expenses

	2004/2005[1)]	2005/2006
Bank interest	16,043	11,208
Interest from trade payables	53	6
Other interest expenses	45,045	53,523
– of which: interest portion from additions to pension provisions	(28,989)	(30,686)
Interest and similar expenses	61,141	64,737
Expenses from financial assets, loans, and specialized investment funds	15,485	24,226
Expenses from assumption of losses	115	112
Expenses from financial assets / loans / marketable securities	15,600	24,338
Financial expenses	76,741	89,075

The expenses from financial assets, loans and specialized investment funds comprise expenses from specialized investment funds amounting to € 6,046 thousand (previous year: € 5,039 thousand) as well as, respectively, amortizations of financial assets and loans to non-consolidated affiliated enterprises totaling € 5,901 thousand (previous year: € 1,397 thousand) and € 7,060 thousand (previous year: € 136 thousand). Expenses from the assumption of losses are attributable to Sporthotel Heidelberger Druckmaschinen GmbH, Heidelberg.

19 Taxes on income

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

	2004/2005[1)]	2005/2006
Effective taxes		
Germany	7,412	37,187
Abroad	8,357	8,872
	15,769	46,059
Deferred taxes		
Germany	4,948	33,584
Abroad	26,062	14,680
	31,010	48,264
	46,779	94,323

1) Previous year's figures were adjusted (see Note 2)

The taxes on income comprise the domestic corporation tax, including the solidarity surtax, as well as the trade tax on income, and comparable taxes of the foreign subsidiaries.

As in the previous year, no significant income accrued from the application of loss carry-backs during the financial year.

There were no significant changes in tax expenses as a result of modifications to respective tax rates in the countries in which Heidelberg does business.

There was no impact on deferred taxes as a result of the introduction of new taxes levied in the countries in which Heidelberg does business.

The application of changed or new standards resulted in additional taxes or tax income during the previous year (see Note 2).

All still unused tax loss carry-forwards amounting to € 556,409 thousand (previous year: € 629,230 thousand) are primarily attributable to foreign subsidiaries. Total tax loss carry-forwards, for which no deferred tax claims were formed, amount to € 547,575 thousand (previous year: € 547,875 thousand). Of this total, potential utilization amounts to € 320 thousand through 2007, € 414 thousand through 2008, € 291 thousand through 2009, € 11 thousand through 2010, € 11,535 through 2011, and € 535,004 thousand through 2012 and later.

The taxes on income increased amounting to € 15,035 thousand (previous year: € 5,655 thousand) were higher due to the use of tax loss carry-forwards that were formed in the past on deferred tax assets.

Deferred tax claims are only shown for tax loss carry-forwards if their application is guaranteed in the near future. During the financial year, deferred taxes amounting to € 1,186 thousand were formed on current tax losses (previous year: € 22,696 thousand). As already in the previous year, no deferred tax assets were formed on loss carry-forwards that had not yet been applicable. Amortizations of deferred tax assets, which had been formed in the past for tax loss carry-forwards, were taken during the financial year in the amount of € 14,042 thousand (previous year: € 4,152 thousand).

Effective taxes were reduced during the reporting year by € 8,122 thousand (previous year: € 6,441 thousand) as a result of deferred tax assets that had not previously been taken into account. The still unused tax credits for which no deferred tax claims have been capitalized in the balance sheet, amount to € 6,735 thousand (previous year: € 7,327 thousand); they expire by the latest on March 31, 2025. In line with the provisions of IAS 12, corporate income tax decreases resulting from future dividend payouts amounted to € 100 million in the previous year and were not capitalized. These corporate income tax decreases may be used for the last time in financial year 2019/2020.

Expenses and income not related to the reporting period arising from effective income taxes amount, respectively, to € 2,201 thousand (previous year: € 289 thousand) and € 1,334 thousand (previous year: € 615 thousand).

Taxes on income developed as follows with relation to income before taxes:

	2004/2005[1]	**2005/2006**
Income before taxes	105,702	229,223
Theoretical tax rate in percent[2]	37,61	37,42
Theoretical tax expense	39,755	85,775
Change in theoretical tax income due to:		
– differing tax rate	– 10,466	– 9,756
– Tax loss carry-forwards[3]	27,857	9,015
– tax decrease due to tax-exempt income	– 22,465	– 24,729
– tax increase due to non-deductible expenses	12,669	9,905
– change in tax provisions / taxes attributable to previous years	591	29,138
– other	– 1,162	– 5,025
Taxes on income	46,779	94,323
Tax rate in percent	44.26	41.15

1) Previous year's figures were adjusted (see Note 2)
2) The reduction in the theoretical tax rate results from the adjustment of the trade tax assessment rates
3) Amortizations of loss carry-forwards, the utilization of non-capitalized loss carry-forwards, and the non-recognition of current losses

The theoretical tax rate is based on the domestic income tax rate which is composed of the corporate income tax (25 percent), the solidarity surcharge (5.5 percent), and the average trade tax.

Notes to the Consolidated Balance Sheet

20 Intangible assets

Goodwill includes amounts arising from the acquisition of businesses (asset deals) and from the capital consolidation. Assets carried by cash-generating units are allocated to the segment level in connection with execution of the impairment tests. These correspond to the segments. The carrying amounts of the goodwill associated with the cash-generating Press and also Postpress segments total, respectively, € 91,631 thousand (previous year: € 91,545 thousand) and € 9,609 thousand (previous year: € 16,101 thousand). The first-time application of IAS 32 resulted in an increase in goodwill in the Press Division by € 25,531 thousand. Please refer to the explanations in Note 2.

According to IAS 36 (2004), the recoverable amount of the cash-generating units is determined by the impairment test based on the higher of the fair value less the cost of a sale or the value in use. In this process, the fair value reflects the best estimate of the amount for which an independent outside party would acquire the cash-generating units at the financial year-end. Value in use is the present value of the estimated future cash flows anticipated from the continued use of a cash-generating unit. Calculation of the value in use based on the discounted cash flow method is determined by the planning that is authorized by the Management Board, which, in turn, is based on medium-term planning for a period of five years and extrapolated with an adequate segment specific growth factor. This planning is based on past experience as well as forecasts of future market developments. As a result, it may be stated that, as in the previous year, there was no write-down requirement for the Press and Financial Services cash-generating units. During the financial year, we took an impairment loss to goodwill at the Postpress unit totaling € 6,492 thousand (previous year: € 0 thousand). The fair value is recorded based on the process of determining corporate value. Determination of the fair value and the value in use is based on medium-term, five-year cash flow planning as authorized by the Management Board. This planning process results from past experience as well as forecasts of future market development. The discount rates are established for the cash-generating units on the basis of market data and amount, respectively, to 7.6 percent (previous year: 7.6 percent) after taxes and 11.6 percent (previous year: 11.7 percent) before taxes.

Capitalized **development costs** relate for the most part to the development of assets in the Press Division. Non-capitalized development costs from all Divisions – including research expenses – amount to € 191,450 thousand in the reporting year (previous year: € 178,076 thousand).

21 Tangible assets and investment property

The fair value of investment property (IAS 40: Real Estate Held as a Financial Investment) amounts to € 44,396 thousand (previous year: € 51,150 thousand). As in the previous year, during the reporting year, only current income or expenses of minor importance accrued in connection with investment property. The book values of the assets included in fixed assets originating from finance lease relationships, in which we act as lessee, amount to € 13,372 thousand (previous year: € 13,283 thousand) for other equipment, factory, and office equipment.

The book values of the assets arising from operating leasing relationships, which are capitalized in fixed assets and which we have leased to our customers, total € 8,955 thousand (previous year: € 8,591 thousand).

The book values of tangible assets that are at times unused, are no longer used, or are pledged as collateral, are currently of minor importance within our Group.

In the case of the finance lease relationships under which our customers are considered to be the economic owners, appropriate receivables have been capitalized in the amount of the discounted minimum future lease payments. Leased objects are therefore not included under fixed assets.

22 Financial assets

	31-Mar-2005	**31-Mar-2006**
Shares in affiliated enterprises	11,568	16,967
Shares in associated companies/joint ventures	–	3,332
Other participations	29,966	25,488
Marketable securities	7,341	9,728
	48,875	55,515

Financial assets are classified as 'available for sale'.

Shares in affiliated enterprises are attributable to non-consolidated subsidiaries (see also Note 4). Other participations comprise largely the shares held in Goss International Corporation, Bolingbrook, Illinois, USA, and Dimatix, Inc., Santa Clara, California, USA. Since these corporations are not listed on a stock exchange, it is not possible to supply information on the respective market value. We subjected the respective carrying amounts to an impairment test, as a result of which there was no write-down requirement.

There was no significant change in the market values of the assets available for sale during the reporting year.

The sale of financial assets did not result in any significant profits or losses during the financial year.

23 Receivables and other assets

	31-Mar-2005 Current	31-Mar-2005 Non-current	31-Mar-2005 Total	**31-Mar-2006** Current	**31-Mar-2006** Non-current	**31-Mar-2006** Total
Receivables from customer financing	171,993	392,684	564,677	135,071	360,860	495,931
Trade receivables	575,766	–	575,766	666,783	–	666,783
Other receivables and other assets						
Receivables from affiliated enterprises	27,020	–	27,020	19,167	–	19,167
Other tax refund claims	15,170	1,017	16,187	38,895	–	38,895
Loans	639	4,294	4,933	465	3,858	4,323
Derivative financial instruments	24,982	11,646	36,628	15,872	3,359	19,231
Deferred interest payments	5,497	–	5,497	3,740	–	3,740
Prepaid expenses	22,167	358	22,525	21,495	1,228	22,723
Other assets	73,632	66,024	139,656	49,799	43,441	93,240
	169,107	83,339	252,446	149,433	51,886	201,319

Receivables from customer financing

In December 2005, we transferred most of the financing portfolio of our US ABS program, which we generated during financial year 2001/2002, to a leasing company. All financing risks were transferred as well.

Non-current **receivables from customer financing** comprise receivables totaling € 56,656 thousand (previous year: € 114,852 thousand) that carry a term to maturity of over five years.

Receivables from customer financing are shown in the following table:

Contract currency	Book value 31-Mar-2005 in € thousands	Term to maturity in years	Effective interest rate in percent	Book value **31-Mar-2006** in € thousands	Term to maturity in years	Effective interest rate in percent
EUR	233,151	up to 8	up to 12	201,386	up to 8	up to 12
USD	171,236	up to 9	up to 12	153,519	up to 8	up to 12
GBP	44,750	up to 7	up to 13	33,974	up to 7	up to 13
JPY	25,373	up to 10	up to 5	22,388	up to 10	up to 5
Other	90,167	–	–	84,664	–	–
	564,677			495,931		

Receivables from customer financing include leasing receivables under finance lease agreements for which in particular our financing companies act as lessors. Lease agreements are subject to the following parameters:

				31-Mar-2005				**31-Mar-2006**
	1 year or less	from 1 to 5 years	over 5 years		1 year or less	from 1 to 5 years	over 5 years	
Total lease payments	–	–	–	76,357	–	–	–	75,119
Lease payments received	–	–	–	– 17,402	–	–	–	– 25,498
Outstanding lease payments	4,562	22,455	31,938	58,955	3,574	34,423	11,624	49,621
Interest portion of outstanding lease payments	– 292	– 2,716	– 4,862	– 7,870	– 577	– 3,627	– 1,010	– 5,214
Present value of outstanding lease payments (book value)	4,270	19,739	27,076	51,085	2,997	30,796	10,614	44,407

Other receivables and other assets

Non-current receivables under tax refund claims, loans, derivative financial instruments, and other assets include assets with terms to maturity of over five years in the amount of € 1,676 thousand (previous year: € 0 thousand).

The book values of receivables and other assets are largely identical with market values. Any discrepancies that arise are of minor financial importance.

Heidelberg is exposed to a payment risk from its receivables and the other assets. The theoretically highest remaining payment risk corresponds to the capitalized values of these assets. This risk is recognized through appropriate impairments.

The decline in the positive market values of derivative financial instruments included in cash flow hedges during the financial year – after consideration of deferred tax liabilities – amounted to € 8,750 thousand (previous year: € 759 thousand). This item, less the included decline in capitalized option premiums of € 3,226 thousand (previous year: € 4,754 thousand), is shown without effect on the income statement in shareholders' equity.

The decline in the positive market values of derivative financial instruments included in held for trading as well as fair value hedges amounted to € 2,068 thousand (previous year: € 3,087 thousand), net of effective taxes, and was booked directly to the income statement.

Receivables carried under other assets, which in legal terms only originate subsequent to the closing date of the annual financial statements, are of minor economic importance.

24 Deferred income taxes

Deferred taxes are broken down as follows:

	31-Mar-2005[1]		31-Mar-2006	
	Asset	Liability	Asset	Liability
Tax loss carry-forwards	30,085	–	2,214	–
Assets				
Intangible assets / tangible assets	8,921	67,937	6,673	69,391
Financial assets	132	77	147	473
Inventories, receivables, and other assets	62,380	40,414	56,018	39,173
Marketable securities	–	55,466	–	55,695
Liabilities				
Special items with an equity portion	–	681	–	–
Provisions	121,199	–	144,119	–
Liabilities	14,789	11,372	11,278	13,848
Gross amount	237,506	175,947	220,449	178,580
Balance	109,045	109,045	107,909	107,909
Carrying value	128,461	66,902	112,540	70,671

[1] Previous year's figures were adjusted (see Note 2)

A total of € 2,793 thousand (previous year: € −15,272 thousand) in deferred taxes resulting from the translation of the financial figures of foreign subsidiaries as well as € 1,041 thousand (previous year: € −7,480 thousand) arising from assessment without effect on the income statement as well as changes in financial assets and cash flow hedges booked directly to the income statement, were taken into consideration in shareholders' equity during the financial year. Furthermore, deferred tax assets of € 25,054 thousand (previous year: € 7,091 thousand), which originated within the framework of the recording of actuarial losses without effect on the income statement (IAS 19), were offset from the shareholders' equity without effect on the income statement. No changes in deferred taxes due to deconsolidations occurred during the financial year (previous year: € −24,505 thousand).

25 Inventories

	31-Mar-2005	31-Mar-2006
Raw materials, consumables and supplies	119,474	109,315
Work and services in process	275,136	316,426
Manufactured products and merchandise	387,225	397,733
Prepayments	3,831	21,264
	785,666	844,738

The carrying amount of inventories included in the net selling price amounts to € 52,820 thousand (previous year: € 56,136 thousand). The reason for the downward valuation to the lower net selling price is primarily the decreased likelihood of market success for a small part of our inventories. No inventories were pledged as collateral, either during the reporting year or in the previous year.

26 Marketable securities as well as cash and cash equivalents

As of March 1, 2006 the specialized investment funds were transferred to a trustee, Heidelberg Pension-Trust e.V., Heidelberg, within the framework of the Contractual Trust Arrangement (CTA). The CTA provides for outsourcing the financing of pension obligations. This transfer resulted in securities serving as the fund assets for the pension plan; these assets are offset against pension obligations (see Note 28).

Marketable securities totaling € 187 thousand (previous year: € 353,828 thousand) are classified as 'available for sale' under the provisions of IAS 39. These account for all shares (previous year: € 137,858 thousand). The remaining securities from the previous year were fixed-interest securities.

Cash and cash equivalents comprise cash on hand and bank deposits. There are no restraints of disposal with regard to cash and cash equivalents. Bank balances are held at banks with unquestionable credit standing exclusively for short-term cash management purposes.

27 Shareholders' equity

Share capital / number of issued shares / treasury stock

On November 8, 2005, the Management Board of Heidelberger Druckmaschinen Aktiengesellschaft approved the acquisition of the Company's own shares in an amount of up to 5 percent of the share capital (up to 4,295,424 shares) during the period November 9, 2005 through January 19, 2007. The Management Board made use of the authorization by the Annual General Meeting on July 20, 2005 to acquire the Company's own shares in amount of up to 10 percent of the share capital (up to 8,590,848 shares) through January 19, 2007.

The repurchased shares may only be utilized to reduce the Company's capital, for the employee share participation programs, or for other forms of share distribution to the employees of the Company, or to a subsidiary in accordance with the authorization of the Annual General Meeting of July 20, 2005.

Overall, 2,911,000 shares were repurchased during the financial year, of which 53,223 shares were used in the employee share participation program. The remaining 2,857,777 shares were utilized within the framework of the capital reduction, which was approved by the Management Board on March 31, 2006. Share capital was thereby reduced by € 7,315,909.12 (= 2,857,777 shares) to € 212,609,799.68 (= 83,050,703 shares) through the repurchase of 85,908,480 shares valued at € 219,925,708.80. The cost of the acquisition of the 2,857,777 shares amounted to € 96,849 thousand, including transaction fees of € 125 thousand.

During the period April 1, 2006 to May 8, 2006 (time of presentation of the annual financial statements of Heidelberger Druckmaschinen Aktiengesellschaft), an additional 690,000 shares were bought back.

Convertible bond

On February 9, 2005, a convertible bond in the nominal amount of € 280 million was issued by Heidelberg International Finance B.V., Boxmeer, Netherlands, our wholly-owned financing subsidiary, under the guarantee of Heidelberger Druckmaschinen Aktiengesellschaft, Heidelberg. Each bond has a face value of € 100,000 and matures on February 9, 2012. This issue carries a conversion right to no-par shares of Heidelberger Druckmaschinen Aktiengesellschaft which, at the discretion of the respective bearer, may be exercised from March 22, 2005 to 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 changes in capitalization). 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. Beginning on February 9, 2009, in accordance with the conditions governing the bonds, following a corresponding announced period of notice Heidelberg is entitled to repay the convertible bond in its entirety or in part through payment of the then accrued face value plus interest accrued up to the day of the repayment. On February 9, 2010, the respective bearer of the convertible bond has the right to the accelerated repayment of the bond through payment of the then accrued face value plus interest accrued up to the day of the repayment.

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

As of July 21, 2005, in accordance with the conditions governing the bonds the conversion price was restated from € 39.63 to € 39.37. This adjustment occurred due to the dividend payment of € 0.30 per share.

Contingent capital

According to a decision of the Annual General Meeting of September 29, 1999, the share capital may be increased on a contingent basis by a maximum of € 10,996,288.00 through the issue of up to 4,295,425 shares (Contingent Capital I).

According to a decision of the Annual General Meeting of July 21, 2004, the share capital may be increased on a contingent basis by a maximum of € 21,992,570.88 through the issue of up to 8,590,848 new no-par bearer shares in the pro rata amount of € 2.56 each (Contingent Capital II). The increase in contingent capital is for the purpose of supporting the granting of 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 affiliated company up until July 20, 2009 as authorized in the enabling resolution of the Annual General Meeting of July 21, 2004.

Revenue reserves

The revenue reserves include earned but not yet distributed profits of Heidelberger Druckmaschinen Aktiengesellschaft and its consolidated subsidiaries in previous years, the effects of consolidation, exchange rate effects, the market valuation without effect on the income statement in accordance with IAS 39, and the actuarial profit and loss from pension obligations.

Minority interests

Minority interests comprise the minority interests in shareholders' equity. A detailed breakdown of minority interests is shown in detail in the development of shareholders' equity.

Proposed appropriation of the profit of Heidelberger Druckmaschinen Aktiengesellschaft

In accordance with the resolution of the Annual General Meeting of July 20, 2005, the distributable profit for financial year 2004/2005 amounting to € 26,797,241.89 was distributed as follows: distribution of a dividend of € 0.30 per share (total dividend: € 25,772,544.00) and allocation in other revenue reserves of € 1,000,000.00, with the remainder of € 24,697.89 carried forward.

In accordance with the proposed appropriation of profit for financial year 2005/2006, the distributable profit totaling € 54,365,130.50 is as follows: distribution of a dividend of € 0.65 per share (total dividend: € 53,534,456.95), and carry-forward of the residual amount of € 830,673.55. A dividend of € 0.65 is payable to each share that is eligible for a dividend on the day of the presentation of the annual financial statements of Heidelberger Druckmaschinen Aktiengesellschaft (May 8, 2006) (82,360,703 shares). The Management Board and the Supervisory Board propose to increase the profit carry-forward if the total dividend is further reduced as a result of additional share buybacks up to the Annual General Meeting.

28 Provisions for pensions and similar obligations

We maintain benefit programs for the majority of employees for the period following their retirement – either through the direct program or one financed by payments of premiums to private institutions. The level 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. The 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 beginning of benefit payments are apportioned over the employee's overall period of employment. The group of beneficiaries participating in the benefit-oriented plans financed by funds, which are applied at some of our foreign subsidiaries, has been closed.

The expenses for contribution-oriented plans amounted to € 106,330 thousand during the financial year.

Under the provisions of IAS 19 (2004), we made use of the so-called 'third party option', with the actuarial profit and losses and the limits according to IAS 19.58b) offset to shareholders' equity without effect on the income statement. Due to the initial application of the IAS 19 (2004), we accordingly restated the previous year's comparable figures (see Note 2).

In March 2006, assets totaling € 455,975 thousand of Heidelberger Druckmaschinen Aktiengesellschaft and Heidelberger Druckmaschinen Vertrieb Deutschland GmbH were transferred to a trustee, Heidelberg Pension-Trust e.V., Heidelberg, within the framework of a Contractual Trust Arrangement (CTA). The CTA provides for outsourcing the financing of pension obligations.

Calculation of the pension provisions is based on the following assumptions:

		2004/2005		**2005/2006**
	Germany	**Abroad**	Germany	**Abroad**
Discount rate	4.75	4.57	4.25	4.26
Expected return on fund assets	–	5.56	6.50	5.55
Estimated future salary increases	2.75	2.49	2.75	2.80
Estimated future pension increases	1.75	1.90	1.75	2.04

Presentation of information concerning pensions is structured as follows:

1) Composition and development of the net carrying amounts.
2) Transition of the present value of the pension claims and the fair value of the fund assets to the provisions for pensions.
3) Development of the present value of pension claims.
4) Development of the fair value of the fund assets.
5) Composition of the fund assets.
6) Breakdown of pension plan costs.

1) The net carrying amounts break down as follows:

	31-Mar-2005	**31-Mar-2006**
Provisions for pensions and similar obligations	628,395	211,606
Reported assets of foreign employee pension funds	2,503	4,809
Net carrying amounts at financial year-end	625,892	206,797

The net carrying amounts developed as follows:

	2004/2005	**2005/2006**
Net carrying amounts at the beginning of the financial year	601,779	625,892
Expenses from pension liabilities	59,155	61,071
Pension benefit payments made	– 21,817	– 22,235
Pension funding	– 7,709	– 512,691
Actuarial losses	18,684	72,174
Expected return on fund assets	– 12,552	– 14,801
Change in restatement amount due to IAS 19.58b)	– 1,766	92
Changes in the scope of the consolidation, currency adjustments, other changes	– 9,882	– 2,705
Net carrying amounts at financial year-end	625,892	206,797

2) Provisions for pensions and similar obligations derive from the present value of pension claims and the fair value of the fund assets as follows:

	31-Mar-2005	**31-Mar-2006**
Present value of funded pension claims	253,583	841,874
Less attributable market value of fund assets	– 240,655	– 785,321
Shortfall of fund assets	12,928	56,553
Present value of non-funded pension claims	607,609	144,797
Total present value of pension claims	620,537	201,350
Restatement amount due to IAS 19.58b)	5,355	5,447
Sub-total	625,892	206,797
Therein capitalized reported assets of foreign employee pension funds	2,503	4,809
Provisions for pensions and similar obligations	628,395	211,606

3) The present value of pension claims developed as follows:

	2004/2005	**2005/2006**
Present value of pension claims at the beginning of the financial year	822,790	861,192
Current service cost	21,334	22,494
Interest expense	37,821	38,577
Pension benefit payments	– 32,579	– 30,572
Actuarial losses	23,567	100,022
Changes in the scope of the consolidation, currency adjustments, other changes	– 11,741	– 5,042
Present value of pension claims at financial year-end	861,192	986,671
– of which: funded	253,583	841,874
– of which: not funded	607,609	144,797

The increase in the actuarial losses results largely from the change in the discount rate from 4.75 percent to 4.25 percent for the German-based companies.

4) The attributable market value of the fund assets developed as follows:

	2004/2005	**2005/2006**
Attributable market value of the fund assets at the beginning of the financial year	228,134	240,655
Expected fund income	12,552	14,801
Pension funding	7,709	512,691
Pension benefit payments from the funds	– 10,762	– 8,337
Actuarial profits	4,883	27,848
Changes in the scope of the consolidation, currency adjustments, other changes	– 1,861	– 2,337
Attributable market value of the fund assets at financial year-end	240,655	785,321

Actual revenue from fund assets amounts to € 42,649 thousand (previous year: € 17,435 thousand).

5) The fund assets break down as follows:

	31-Mar-2005	**31-Mar-2006**
Fixed-income securities	89,029	336,113
Stocks	111,236	302,310
Cash and cash equivalents	20,351	94,648
Qualifying insurance policy	–	26,387
Investment property	17,028	17,483
Other	3,011	8,380
	240,655	785,321

The high level of cash and cash equivalents as of March 31, 2006 results from the funding undertaken for the fund assets at financial year-end.

6) The expense for the pension plan breaks down as follows:

	2004/2005	**2005/2006**
Current service cost[1)]	21,334	22,494
Interest expense	37,821	38,577
Expenses from pension liabilities	59,155	61,071
Expected return on fund assets	– 12,552	– 14,801
Expenses for other pension plans[1)]	9,481	14,910
	56,084	61,180

1) Expenses for the pension plan that are included in personnel expenses before they are balanced with the return on fund assets total € 37,404 thousand (previous year: € 30,815 thousand)

Income from fund assets are included in staff costs up to the amount of the corresponding expense for pension claims; any excess is shown together with interest expenditures in the financial result.

At financial year-end, it was not possible to reliably estimate expected future contributions to the employee pension funds.

Based on past experience, the expected adjustment of the plan's debt amounts to € –13,924 thousand for the business year (present value of pension claims: € 986,671 thousand). The expected adjustment of the plan's assets based on past experience amount to € 27,825 thousand during the financial year (fair value of the fund assets: € 785,321 thousand).

29 Other provisions

	31-Mar-2005[1]			31-Mar-2006		
	Current	Non-current	Total	Current	Non-current	Total
Tax provisions	7,015	165,791	172,806	9,246	195,745	204,991
Other provisions						
Liabilities arising from human resources	108,776	75,554	184,330	121,871	72,135	194,006
Liabilities arising from sales and service activities	117,337	17,148	134,485	129,874	26,735	156,609
Other	145,445	12,966	158,411	92,980	30,456	123,436
	371,558	105,668	477,226	344,725	129,326	474,051
	378,573	271,459	650,032	353,971	325,071	679,042

	1-Apr-2005[1]	Changes in the scope of the consolidation, currency adjustments, transfers	Utilization	Release	Addition[2]	31-Mar-2006
Tax provisions	172,806	857	7,762	675	39,765	204,991
Other provisions						
Liabilities arising from human resources	184,330	– 891	91,008	16,419	117,994	194,006
Liabilities arising from sales and service activities	134,485	3,537	58,446	26,686	103,719	156,609
Other	158,411	2,945	68,038	29,278	59,396	123,436
	477,226	5,591	217,492	72,383	281,109	474,051
	650,032	6,448	225,254	73,058	320,874	679,042

[1] Previous year's figures were adjusted (see Note 2)
[2] Including interest portion

As in the past, **tax provisions** primarily record the risks of additional assessments. Risks associated with the merger of Linotype-Hell Aktiengesellschaft with Heidelberger Druckmaschinen Aktiengesellschaft are included as well.

The provisions from the **human resources area** largely include bonuses of € 31,969 thousand (previous year: € 24,585 thousand), vacation, overtime, and flextime balances totaling € 55,704 thousand (previous year: € 51,989 thousand), expenses for early retirement payments and for the partial retirement program of € 17,547 thousand (previous year: € 14,870 thousand), service anniversary expenses in the amount of € 16,559 thousand (previous year: € 17,560 thousand), and provisions for the stock option program totaling € 5,703 thousand (previous year: € 7,585 thousand).

The provisions from **sales and service activities** largely comprise warranty and guarantee obligations of € 125,350 thousand (previous year: € 105,959 thousand). The provisions for warranty obligations or obligations to undertake subsequent performance, or vis-à-vis product liability, are designed to cover risks that are either not insured or which go beyond insurable risks. The provisions for guarantee obligations are mainly connected with customer financing. Obligations for which appropriate provisions have not been created are carried under contingent liabilities. In connection with the provisions for guarantee obligations, receivables are outstanding from third parties in connection with the transfer of printing presses. Additional rights to recourse against third parties are outstanding partly in the form of guarantees. Outstanding claims are not recognized.

Remaining **other provisions** include provisions for potential losses arising from pending transactions totaling € 3,788 thousand (previous year: € 5,522 thousand), provisions for outstanding supplier invoices totaling € 15,938 thousand (previous year: € 13,007 thousand), as well as provisions for liabilities in connection with research and development activities of € 6,467 (previous year: € 4,193 thousand).

Also included are provisions for restructuring measures amounting to € 20,033 thousand (previous year: € 40,985 thousand).

30 Financial liabilities

	31-Mar-2005			**31-Mar-2006**		
	Current	Non-current	Total	Current	Non-current	Total
Convertible bond	–	269,960	269,960	–	278,296	278,296
Private placement[1]	7,259	94,500	101,759	7,256	137,500	144,756
To banks	208,801	6,846	215,647	109,004	8,034	117,038
From financial lease contracts	6,982	6,435	13,417	7,609	6,176	13,785
To affiliated enterprises	1,537	–	1,537	1,997	–	1,997
Other	13,110	–	13,110	14,293	–	14,293
	237,689	377,741	615,430	140,159	430,006	570,165

[1] Including deferred interest payments

Convertible bond

Please refer to Note 27 Shareholders' equity for information concerning the convertible bond.

Private placements

Three floating-rate private placements with a face value of € 144,500 thousand (previous year: € 101,500 thousand) are currently outstanding. Whereas one of these loans, with a face value of € 39,500 thousand, has an amortizing repayment structure and matures in 2011, the two other loans with respective face values of € 55,000 thousand and € 50,000 thousand provide for bullet maturity repayment, respectively, in 2009 and 2013.

Liabilities to banks

Liabilities to banks (including private placement), all of which carry floating rates, are shown in the following table:

Type	Contract currency	Book value 31-Mar-2005 in € thousands	Term to maturity in years	Effective interest rate in percent	Book value **31-Mar-2006** in € thousands	Term to maturity in years	Effective interest rate in percent
Loan	EUR	152,712	up to 6	up to 3.3	243,991	up to 7	up to 4.0
Loan	USD	139,199	up to 1	up to 3.3	–	–	–
Loan	JPY	5,392	up to 1	up to 0.5	–	–	–
Current account	EUR	–	–	–	4,113	–	up to 4.0
Other	Various	20,103	up to 3	up to 4.8	13,690	up to 4	up to 5.2
		317,406			261,794		

The stated carrying amounts correspond to the respective face values.

The **credit lines** not yet fully used in our Group amount to € 1,497,283 thousand at financial year-end (previous year: € 1,461,473 thousand).

As an integral part of the long-term securing of liquidity, in July 2005 Heidelberg terminated, prior to maturity, the existing € 750 million syndicated credit line ('Revolving Credit Facility') that had been established in 2002. A new syndicated credit line was arranged at more favorable conditions from an underwriting syndicate under the co-management of Commerzbank Aktiengesellschaft, Dresdner Bank Aktiengesellschaft, and Deutsche Bank Aktiengesellschaft. This new € 550 million syndicated credit line has an initial period of validity through 2010 and carries two options to renew an additional year.

Current liabilities to banks (with a term to maturity up to one year) amounting to € 109,004 thousand (previous year: € 208,801 thousand) do not comprise any credits (previous year: € 139,071 thousand) under this long-term committed credit line.

Overall non-current liabilities to banks totaling € 8,034 thousand (previous year: € 6,846 thousand) have a term to maturity of 1 to 5 years.

As in the previous year, overall **non-current liabilities under financial lease relationships** have terms to maturity of 1 to 5 years.

31 Other liabilities

			31-Mar-2005			**31-Mar-2006**
	Current	Non-current	Total	Current	Non-current	Total
Advance payments received on orders	58,973	–	58,973	95,539	–	95,539
To affiliated enterprises	1,525	–	1,525	428	–	428
From derivative financial instruments	11,993	8,715	20,708	11,159	3,120	14,279
From other taxes	32,424	–	32,424	57,529	–	57,529
Relating to social security	24,046	–	24,046	17,171	–	17,171
Deferred income	24,993	23,245	48,238	27,618	24,552	52,170
Other	58,063	67,012	125,075	67,421	68,644	136,065
	212,017	98,972	310,989	276,865	96,316	373,181

Derivative financial instruments

Taking into consideration deferred tax assets, the decline in the negative market values of the derivative financial instruments that are included in the cash flow hedge amounted to € 2,103 thousand during the financial year (previous year: € 9,938 thousand). These instruments, less the included increase in accrued option premiums of € 2,444 thousand (previous year: € 3,360 thousand) are shown in shareholders' equity without effect on the income statement.

The decline in the negative market values of the derivative financial instruments included in held for trading as well as in the fair value hedge totaled € 1,880 thousand during the financial year (previous year: € 201 thousand €). The change was shown booked directly to the income statement.

There were no long-term liabilities from derivative financial instruments with a period of validity longer than five years in the current financial year (previous year: € 4,600 thousand).

Deferred income

Deferred income, to the extent that it involves tax-exempt allowances and taxable subsidies for investments, is booked on a straight-line basis in line with amortization.

Deferred income includes taxable investment subsidies amounting to € 5,597 thousand (previous year: € 5,729 thousand), tax-exempt investment premiums of € 4,268 thousand (previous year: € 4,612 thousand), and other deferred income totaling € 42,305 thousand (previous year: € 37,897 thousand).

Taxable subsidies are predominantly funds under the regional economic promotion program for investing in Brandenburg. The subsidies were mostly for Heidelberger Druckmaschinen Aktiengesellschaft in connection with universal responsibility for the development area totaling € 5,379 thousand (previous year: € 5,511 thousand).

Tax exempt allowances primarily comprise still to be released investment premiums according to Section 4 of the Investment Allowance Act (InvZulG) of 1986 for the Research and Development Center in Heidelberg in the total amount of € 2,090 thousand (previous year: € 2,323 thousand). This item also includes allowances according to the Investment Allowance Act of 1991/1996/1999/2005 amounting to € 2,178 thousand (previous year: € 2,289 thousand), which mainly concern the Brandenburg plant.

Other deferred income largely comprises advance payments for future maintenance and services, and non-recurring payments for inheritable building rights under sale-and-lease-back agreements. These amounts are released to the income statement over the term of the agreement.

Additional information

With regard to liabilities, book values are largely in line with market values. Any discrepancies that may arise are of minor financial importance.

Liabilities are not secured by collateral, with the exception of trade payables for which the usual reservation of proprietary rights exists.

Liabilities that do not legally arise until after the financial year-end are of minor financial importance.

32 Derivative financial instruments

The Corporate Treasury Department, which is organized as part 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.

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 also to derive appropriate action plans and strategies with which to manage these risks on a central basis in accordance 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. During the past financial year, the Heidelberg Group was at all times in a position to promptly meet its financial liabilities; in accordance with our planning, it will maintain this capability in the future as well. This is also reflected in the partially utilized credit lines (see Note 30).

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 risk control activities include an ongoing market evaluation of contractual transactions.

Corresponding contracts with outside banks with top credit ratings are largely concluded with Heidelberger Druckmaschinen Aktiengesellschaft. The credit ratings of these business partners are reviewed on a regular basis.

The positive and negative market values of derivative financial instruments are offset by opposing value developments of the underlying transactions. All derivative financial instruments are carried as assets or liabilities at their corresponding market values.

Currency risks arise in particular as a result of US dollar and Japanese yen exchange rate fluctuations in connection with receivables and liabilities, as well as anticipated payment flows and pending transactions. These risks as well as **risks arising from interest rate movements** are hedged by derivative financial instruments as follows:

	Nominal volumes		Market values	
	31-Mar-2005	**31-Mar-2006**	31-Mar-2005	**31-Mar-2006**
Hedging of foreign currency risk				
Cash flow hedge				
Forward exchange transactions	262,488	604,084	– 2,103	6,003
– of which positive market value	(61,273)	(394,220)	(1,250)	(8,330)
– of which negative market value	(201,215)	(209,864)	(– 3,353)	(– 2,327)
Currency options transactions	956,499	1,315,239	28,041	321
– of which positive market value	(657,229)	(654,085)	(30,394)	(5,915)
– of which negative market value	(299,270)	(661,154)	(– 2,353)	(– 5,594)
	1,218,987	1,919,323	25,938	6,324
Fair value hedge				
Forward exchange transactions	524,929	290,816	– 1,268	– 1,082
– of which positive market value	(238,563)	(85,112)	(4,891)	(370)
– of which negative market value	(286,366)	(205,704)	(– 6,159)	(– 1,452)
Interest-rate hedging				
Cash flow hedge				
Interest-rate swaps	379,102	186,972	– 8,750	1,019
– of which positive market value	(72,105)	(120,925)	(1,014)	(2,049)
– of which negative market value	(306,997)	(66,047)	(– 9,764)	(– 1,030)
Held for trading				
Interest-rate swaps	–	188,575	–	– 1,309
– of which positive market value	(–)	(77,960)	(–)	(1,325)
– of which negative market value	(–)	(110,615)	(–)	(– 2,634)

The above table shows the positive and negative market values separately for the first time.

The nominal volumes result from the sum total of all the purchase and sale amounts of the underlying transactions. The market values correspond to changes in values arising from a notional revaluation taking into consideration market parameters applicable at financial year-end. The determination of market values occurs with the aid of standardized valuation methods (discounted cash flow and option pricing models).

Hedging of foreign currency risk

Cash flow hedge

The forward exchange and currency options transactions that were open at financial year-end secure the currency risks over the subsequent twelve months that are expected from purchase volumes of our subsidiaries. Therefore, the term to maturity of these derivatives at financial year-end was up to one year. Of the underlying transactions, the predominant share of 77 percent (previous year: 74 percent) is denominated in US dollars.

The hedging transactions generated generally favorable market values of € 14,245 thousand at financial year-end (previous year: € 31,644 thousand) as well as negative market values totaling € 7,921 thousand (previous year: € 5,706 thousand), which were recorded without effect on the income statement and booked to the income statement over the subsequent twelve months.

Fair value hedge

This concerns the exchange rate hedging of loan receivables in foreign currencies. The opposite result from the market valuation of hedging transactions and the translation of underlying transactions at spot exchange rates are shown in the profit and loss statement.

Interest-rate hedging

Cash flow hedge

We limit the risk from increasing interest expenses for our refinancing with the aid of interest-rate swaps, under which Heidelberg receives variable-rate interest and pays fixed interest (payer interest rate swap). The terms to maturity of these interest-rate swaps range up to seven years and correspond to our planning horizon; interest-rate swaps in the nominal amount of € 121,047 thousand (previous year: € 191,319 thousand) have a term to maturity of less than five years, with the remaining having a term to maturity of over five years. The valuation of these transactions at financial year-end resulted in positive market values of € 2,049 thousand (previous year: € 1,014 thousand) as well as negative market values totaling € 1,030 thousand (previous year: € 9,764 thousand), which after deduction of deferred interest payments of € 327 thousand (previous year: € 1,157 thousand) were recorded without effect on the income statement in shareholders' equity and will be booked to net interest income during the time span of the transactions. Deferred interest payments included in the market values of interest-rate swaps were booked directly to the income statement.

Held for trading

Due to the transfer of an asset-backed transaction in the US (see Note 23), USD payer interest rate swaps previously classified as cash flow hedges were reclassified as held for trading, with positive market values amounting to € 1,325 thousand (previous year: € 0 thousand), and negative market values totaling € 2,634 thousand (previous year: € 0 thousand) booked to the income statement.

Value at risk

Under the **value at risk method,** the maximum loss potential that could result from a change in market price is calculated based on historic price fluctuations with a confidence interval of 95 percent and a holding period of one day. We make use of professional treasury software to determine the value at risk, which at financial year-end amounts to € 52 thousand (previous year: € 249 thousand) for interest rate derivatives and € 2,064 thousand (previous year: € 7,535 thousand) for foreign currency-based derivative financial instruments. Thus the risk position declined in both categories.

Payment risk

The outstanding derivative financial instruments result in a theoretical **risk of nonpayment (credit risk)** of € 6,922 thousand (previous year: € 19,688 thousand). Since the counterparties are banks with top credit ratings, an actual loss from derivatives is currently not expected.

33 Contingent liabilities

	31-Mar-2005	**31-Mar-2006**
Liability arising from the endorsement of bills of exchange	–	3,339
Guarantees and warranties	362,591	291,018
	362,591	294,357

Contingent liabilities primarily include guarantees provided for the liabilities of third parties in connection with long-term customer financing, which in turn are largely associated with recourse rights for delivered products.

34 Other financial liabilities

Other financial liabilities are broken down as follows:

	31-Mar-2005				**31-Mar-2006**			
	1 year or less	from 1 to 5 years	over 5 years		1 year or less	from 1 to 5 years	over 5 years	
Lease obligations	55,278	149,324	228,473	433,075	53,511	141,397	224,391	419,299
Orders for investments	19,807	–	–	19,807	25,423	–	–	25,423
	75,085	149,324	228,473	452,882	78,934	141,397	224,391	444,722

The figures shown are nominal values.

The minimum lease payments for operating leases primarily comprise:

- the 'Print Media Academy' (Heidelberg) in the total value of € 57,971 thousand (previous year: € 57,752 thousand);
- the 'World Logistic Center' (WLC) at the Wiesloch plant amounting to € 37,491 thousand (previous year: € 39,811 thousand);
- the administrative and manufacturing building in Rochester with a total value of € 107,843 thousand (previous year: € 104,571 thousand) which was sublet during the reporting year due to the sale of our Digital Division;
- the administrative and manufacturing building in Durham valued at € 27,080 thousand (previous year: € 26,594 thousand); and
- motor vehicles in the total value of € 22,902 thousand (previous year: € 21,481 thousand).

The other financial commitments are associated with potential income from rights of use.

Additional information

35 Earnings per share in accordance with IAS 33

	2004/2005	**2005/2006**
Net profit – Heidelberg portion in € thousands	58,842	134,752
– of which: discontinuing operations	(– 62,276)	(–)
Number of shares in thousands (weighted average)	85,888	85,357
Result in € per share	0.69	1.58
– of which: discontinuing operations	(– 0.73)	(–)

The undiluted earnings per share are calculated by dividing the net profit accruing to Heidelberg by the weighted average number of the shares outstanding during the financial year of 85,357 thousand shares (previous year: 85,888 thousand shares). A dilution of the earnings per share can result from so-called potential shares. At financial year-end, no consideration of shares that could potentially have a watering down effect for each share due to the issue of the convertible bond in February 2005 was necessary, since none of the required conditions for the conversion were fulfilled at financial year-end. If the performance criteria are met, the bond could have a watering down effect at conversion time change. Please refer to Note 27 Shareholders' equity regarding the structure of the convertible bond issue.

The options available under the stock option plan of the Heidelberg Group also have no watering down effect on earnings (IAS 33.38). Undiluted earnings per share thus correspond to diluted earnings per share.

Excluding the restructuring expenses, earnings per share for the previous year amounted to € 0.84.

36 Information on the cash flow statement

The cash flow statement shows the changes in cash and cash equivalents of the Heidelberg Group during the financial year as a result of the inflow and outflow of funds. This cash flow statement covers payment flows that are broken down in terms of business, investment, and financing activities (IAS 7).

Taxes on income paid and refunded during the financial year totaled, respectively, € 20,935 thousand (previous year: € 3,111 thousand) and € 3,132 thousand (previous year: € 17,777 thousand). Interest expenses and interest income amount to, respectively, € 29,301 thousand (previous year: € 37,208 thousand) and € 67,060 thousand (previous year: € 67,602 thousand).

The additions from finance leasing relationships in the amount of € 5,412 thousand (previous year: € 10,977 thousand) are not included in the investments in intangible assets, tangible assets, and investment property.

Detailed information on the cash flow statement is provided in the Group Management Report.

Total liquidity breaks down as follows:

	31-Mar-2005	**31-Mar-2006**
Short-term marketable securities (excluding securities held in the specialized investment funds)	161	187
Cash and cash equivalents	131,376	79,492
Total liquidity	131,537	79,679

The discontinuing operations have the following effect on the cash flow statement:

	Digital		Web Systems[1]		**Total**	
	2004/2005	**2005/2006**	2004/2005	**2005/2006**	2004/2005	**2005/2006**
Net cash from operating activities	3,968	–	– 92,926	–	– 88,958	–
Net cash from investment activities	– 8,125	–	– 4,454	–	– 12,579	–
Net cash from financing activities	4,307	–	99,809	–	104,116	–
Net change in cash and cash equivalents	150	–	2,429	–	2,579	–

[1] Web Systems including Web Finishing

37 Information concerning segment reporting

The segment information is based on the **'risk and reward approach'**.

The Press Division integrates 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 within the Postpress Division. We offer customer financing services in the Financial Services Division.

Regionally, we focus on Europe, Middle East and Africa, Eastern Europe, North America, and Latin America and Asia/Pacific.

Additional information concerning the business areas can be found in the Reports of the Divisions and the Reports from the Regions. The establishment of transfer prices for internal Group sales is undertaken using a market-driven approach, based on the principle of 'dealing at arm's length'.

Inter-segmental sales are of minor financial significance and may therefore be ignored.

Previous year's discontinuing operations are broken down as follows:

	Digital	Web Systems[1)]	**Total**
	1-Apr-2004 to 31-Mar-2005	1-Apr-2004 to 31-Mar-2005	1-Apr-2004 to 31-Mar-2005
External sales	21,667	131,508	153,175
Scheduled depreciation	1,069	4,597	5,666
Non-cash expenses	6,755	47,384	54,139
Research and development costs	3,798	10,693	14,491
Result of operating activities before restructuring expenses	– 7,311	– 32,797	– 40,108
Restructuring expenses	1,072	829	1,901
Result of operating activities after restructuring expenses	– 8,383	– 33,626	– 42,009
Result from the equity valuation	– 8,236	–	– 8,236
Investments	535	3,382	3,917

1) Web Systems including Web Finishing

Non-cash expenses comprise the following:

	2004/2005	**2005/2006**
Provisions for doubtful accounts and other assets	53,334	66,995
Allocations to provisions	351,290	365,216
	404,624	432,211

Allocations to provisions exclude expenditures from restructuring measures, as these are shown separately under segment information.

Research and development costs result from development costs incurred in the financial year, however, excluding depreciation on development costs for the financial year.

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 debt** result from gross assets or borrowed funds as follows:

	31-Mar-2005[1]	31-Mar-2006
Gross assets per balance sheet	3,659,690	3,280,890
– financial assets	– 48,875	– 55,515
– marketable securities	– 353,828	– 187
– finance receivables	– 93,982	– 45,676
– deferred tax assets[2]	– 128,461	– 112,854
– tax claims	– 30,218	– 51,157
Segment assets	3,004,326	3,015,501

1) Previous year's figures were adjusted (see Note 2)
2) Including deferred tax assets from assets held for sale totaling € 314 thousand (previous year: € 0 thousand)

Financial receivables comprise financial receivables from affiliated enterprises as well as other financial assets.

	31-Mar-2005[1]	31-Mar-2006
Borrowed funds per balance sheet[2]	2,493,237	2,143,178
– tax provisions	– 172,806	– 204,991
– tax obligations[3]	– 42,483	– 62,453
– financial obligations	– 504,301	– 472,755
– deferred tax liabilities	– 66,902	– 70,671
Segment debt	1,706,745	1,332,308

1) Previous year's figures were adjusted (see Note 2)
2) Non-current and current borrowed funds including liabilities held for sale
3) Including tax obligations from liabilities held for sale totaling € 56 thousand (previous year: € 0 thousand)

Financial obligations comprise the individual items shown in Note 30, excluding financial liabilities attributable to customer financing.

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

The Supervisory Board and the Management Board of Heidelberger Druckmaschinen Aktiengesellschaft issued the Declaration of Compliance in accordance with Article 161 of the Stock Corporation Law and made it permanently accessible to shareholders. Earlier Declarations of Compliance were also made permanently accessible.

39 Information concerning the Supervisory and Management Board of the Company [1)]

Composition

The members of the Supervisory Board and the Management Board are shown in the separate overview on pages 84 – 85 (Supervisory Board) and 87 (Management Board).

Management Board

The system of remuneration for the members of the Management Board is as follows:

Fixed remuneration	Basis	Disbursement mode	Variability	Participation with 100 % target fulfillment
Base payment	Function, responsibility	Monthly	Fixed	50 %

Variable remuneration	Basis	Disbursement mode	Variability	Participation with 100 % target fulfillment
Corporate bonus	Corporate performance (free cash flow, EBIT)	Annual, subsequent year	Variable	35 %
Individual bonus	Individual performance	Annual, subsequent year	Variable	15 %

Members of the Management Board additionally receive **pension rights** (in the form of direct commitments) and **payments in kind.** The pension contracts for the current members of the Management Board provide for a pension linked to the amount of the last basic compensation and survivors' benefit, with the percentage rate dependent on the number of years of service with the Company and the percentage rate of increase staggered per year of service. However, a cap has been set for the maximum percentage rate.

[1)] Explanations concerning the remuneration of the Supervisory Board are simultaneously part of the Corporate Governance Report (please refer to page 96 for more information). To make the information more readable and to avoid repetitions, details concerning the remuneration of the Company's Supervisory Board and Management Board have been brought together in the Notes to the Financial Statements. A basic description of the remuneration systems of the Company's Supervisory Board and Management Board is part of the Group Management Report (please refer to page 30 for more information).

Payments in kind comprise largely the value determined by tax guidelines for the use of a company car. The overall structure of the Management Board's remuneration is determined by the Human Resources Committee of the Supervisory Board of Heidelberger Druckmaschinen Aktiengesellschaft and is monitored periodically.

The remuneration of the Management Board breaks down as follows:

	Base payment	Bonus for reporting year	Waiver of bonus	Overall entitlement	Stock options for reporting year	Stock options total
2004/2005						
Bernhard Schreier	450	533	– 100	883	10,500	73,500
Dr. Herbert Meyer	353	427	– 80	700	10,500	73,500
Dr. Jürgen Rautert[1)]	206	244	–	450	–	–
Dr. Klaus Spiegel[2)]	86	86	–	172	10,500	73,500
	1,095	1,290	– 180	2,205	31,500	220,500
2005/2006						
Bernhard Schreier	450	540	–	990	–	63,000
Dr. Herbert Meyer	370	444	–	814	–	63,000
Dr. Jürgen Rautert	275	330	–	605	–	–
	1,095	1,314	–	2,409	–	126,000

1) Management Board member since July 1, 2004
2) Retired from Board at the close of business on June 30, 2004

There were no additional expenses for bonuses during the financial year for financial year 2004/2005 (previous year: € 387 thousand). Payments in kind during the financial year overall amounted to € 29 thousand (previous year: € 31 thousand), of which € 19 thousand for Bernhard Schreier and € 10 thousand for Dr. Jürgen Rautert. No expenses arose from stock options during the financial year (previous year: € 14 thousand). Please refer to Note 41 Stock Option Plan for information concerning the structure and measurement of the stock options.

The service cost for pension obligations of the current members of the Management Board for the financial year totals € 301 thousand (previous year: € 788 thousand). The present value of the total obligation, or the defined benefit obligation, amounts to € 9,369 thousand at financial year-end (previous year: € 6,681 thousand).

Former members

Former members of the Management Board and their survivors received € 2,216 thousand (previous year: € 2,688 thousand). Of this amount, € 792 thousand (previous year: € 773 thousand) relate to liabilities to former members of the Management Board of Linotype-Hell Aktiengesellschaft and their survivors, which were taken over in financial year 1997/1998 within the framework of universal succession. A provision of € 34,313 thousand (previous year: € 35,013 thousand) was made for pension obligations to former members of the Management Board and their survivors. Of this amount, € 9,635 thousand (previous year: € 10,582 thousand) relate to pension obligations of the former Linotype-Hell Aktiengesellschaft, acquired in financial year 1997/1998 under the provisions of universal succession. Former members of the Management Board held 157,500 stock options at financial year-end (previous year: 189,000 stock options).

Supervisory Board

The remuneration of the Members of the Supervisory Board is regulated by the Articles of Incorporation and is determined by the Annual General Meeting. The Supervisory Board remuneration is made up of two components: an annual fixed remuneration of € 18,000.00 and a variable remuneration dependent on the dividend. The variable remuneration amounts to € 750.00 for each € 0.05 in dividends in excess of a dividend paid out per share of € 0.45. In other words, the Supervisory Board only receives an additional variable remuneration beginning with a dividend of € 0.50. Whereas the fixed remuneration is paid after financial year-end, the variable remuneration is only payable after the conclusion of the Annual General Meeting that decides on approving the actions of the Supervisory Board for the relevant financial year. The Chairman and the Deputy Chairman as well as the Chairmen and the members of the Committees receive remuneration that is increased by a certain multiplier in view of their additional responsibilities. The Chairman of the Supervisory Board accordingly receives double, the Deputy Chairman and Committee Chairmen 1.5 times, and members of the Committees of the Supervisory Board 1.25 times the regular Supervisory Board remuneration. A member of the Supervisory Board who holds more than one position only receives remuneration carried by the position with the highest level of remuneration. Members of the Supervisory Board who only served on that Board for part of the financial year receive a pro rata remuneration. The same applies to the application of a multiplier if a member of the Supervisory Board only held a position eligible for increased remuneration for part of the financial year. Furthermore, the members of the Supervisory Board receive a lump-sum reimbursement of € 500.00 for each meeting day to cover out-of-pocket expenses incurred in connection with the fulfillment of their responsibilities, unless they present documentary evidence for higher expenses.

The remuneration of the Supervisory Board breaks down as follows:

	2004/2005			2005/2006
	Fixed remuneration	Fixed remuneration	Variable remuneration	Total
Dr. Mark Wössner [1)]	25	39	6	45
Rainer Wagner [2)]	27	30	4	34
Josef Pitz [3)]	30	10	2	12
Martin Blessing	25	24	4	28
Prof. Dr. Clemens Börsig	25	26	4	30
Wolfgang Flörchinger	21	20	3	23
Martin Gauß	26	25	4	29
Mirko Geiger [4)]	–	17	3	20
Gunther Heller	21	20	3	23
Dr. Jürgen Heraeus	25	20	3	23
Berthold Huber	24	25	4	29
Johanna Klein	21	20	3	23
Pat Klinis [3)]	27	9	1	10
Robert J. Koehler	21	20	3	23
Uwe Lüders	21	20	3	23
Dr. Gerhard Rupprecht	26	25	4	29
Dr. Klaus Sturany	29	27	5	32
Peter Sudadse [4)]	–	13	2	15
Jan Zilius [5)]	8	–	–	–
Total	402	390	61	451

1) Member of the Supervisory Board since July 30, 2004; Chairman of the Supervisory Board since September 6, 2004
2) Deputy chairman of the Supervisory Board since August 29, 2005
3) Member of the Supervisory Board through July 31, 2005
4) Member of the Supervisory Board since August 1, 2005
5) Member of the Supervisory Board through July 21, 2004

No variable remuneration accrued during the reporting year.

Contingent liabilities

Heidelberger Druckmaschinen Aktiengesellschaft has not entered into any contingent liabilities for either members of the Management Board or for members of the Supervisory Board.

40 Transactions with Group-related companies and individuals

Business dealings are undertaken between Heidelberger Druckmaschinen Aktiengesellschaft and its subsidiaries with numerous companies in the ordinary course of business. This also includes associated companies, which are regarded as related companies of the Heidelberg Group. All business dealings were concluded at terms that are customary in the market and which as a matter of principle do not differ from delivery and service relationships with other companies.

No significant transactions were undertaken by the Heidelberg Group with closely related individuals.

41 Stock option plan[1)]

The Annual General Meeting of September 29, 1999 approved a contingent increase of share capital by 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.

Authorization of the Management Board and 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 by means of their entry in the Commercial Register in tranches of no more than 30 percent of the overall volume in a single financial year. The Supervisory Board has the sole responsibility for granting subscription rights to members of the Management Board.

Waiting period/period of validity

The subscription rights may only be exercised after the end of the waiting period. The waiting period 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. Subscription rights that have not been exercised or cannot be exercised by the end of the period of validity expire without compensation.

1) Explanations concerning the stock option plan are simultaneously part of the Corporate Governance Report (please refer to page 99 for more information).

Exercise period and exercise waiting periods

Subscription rights may be exercised at any time after the end of the waiting period during the respective period of validity. However, the subscription rights may not be exercised during waiting periods that have been established by the Management Board and Supervisory Board in the interests of the Company – 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 conclusion of the respective Regular Annual General Meeting may also be designated as exercise waiting periods.

Investment for own account

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

Condition for exercising subscription rights

The subscription rights may only be exercised if the market price of the Company's shares 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 thereby determined of our share 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.

Exercise price

The exercise price is defined as the average closing price of our shares on the final 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 our shares in the electronic trading system of Deutsche Börse Aktiengesellschaft (which is used to ascertain the target) 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 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 Section 9 (1) of the German Stock Corporation Act (AktG).

Non-transferability/dividend rights of the new shares

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

Tranches for 1999 – 2004

The principal underlying conditions for the various tranches are shown in the following table:

	End of waiting period	End of period of validity	Exercise price in €	Number of stock options[1] 31-Mar-2005	Number of stock options[1] **31-Mar-2006**
Tranche 1999	2-Mar-2003	2-Mar-2006	52.40	506,730	–
Tranche 2000	13-Sep-2003	13-Sep-2006	68.51	299,580	281,370
Tranche 2001	12-Sep-2004	12-Sep-2007	53.52	381,825	356,475
Tranche 2002	11-Sep-2005	11-Sep-2008	42.08	409,355	375,460
Tranche 2003	12-Sep-2006	12-Sep-2009	22.26	1,479,060	1,382,370
Tranche 2004	18-Aug-2007	18-Aug-2010	25.42	547,485	529,485
				3,624,035	2,925,160

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

	2004/2005		**2005/2006**	
	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	3,477,640	38,52	3,624,035	36.31
Stock options				
granted	547,485	25,42	–	–
returned	401,090	40,67	192,145	34.56
exercised	–	–	–	–
expired	–	–	506,730	52.40
during the financial year				
Outstanding options at financial year-end	3,624,035	36,31	2,925,160	33.63
Options to be exercised at financial year-end	–	–	–	–

[1] Including Stock Appreciation Rights (SAR)

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 was required (for example, due to the form of the subscription rights as Stock Appreciation Rights [SARs]).

Accounting and valuation methods

During the financial year, for the first time we applied the provisions of IFRS 2: Share-Based Remuneration for applicable tranches (Tranche 2003 and Tranche 2004, as well as the SARs of Tranches 1999 to 2004). Due to this initial application, the balance carry-forwards for April 1, 2004 and April 1, 2005 were restated as appropriate for deferred income tax assets, share premium, other revenue reserves, and other provisions.

The total expenditure from share-based programs amounted to € 1,254 thousand during the financial year (previous year: € 1,781 thousand). Provisions totaling € 5,703 thousand (previous year: € 7,585 thousand) were formed. The share premium amounts to € 8,542 thousand (previous year: € 5,406 thousand).

Overall liabilities for the tranches for which IFRS 2 was applicable were recorded based on a Monte Carlo simulation that takes into account the relative target of the option plan. The measurement of the significant tranches is based on the following parameters:

	Tranche 2003	Tranche 2004
Valuation date	12-Sep-2003	18-Aug-2004
Exercise price in €	22.26	25.42
Price of the Heidelberg share in € at valuation date	25.44	23.90
Expected dividend yield	2.16 %	2.43 %
Risk-free interest rate	3.61 %	3.52 %
Volatility Heidelberg share	39.11 %	39.13 %
Volatility 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 closing daily rates and prices. The actual term to maturity was used for the period of validity in the option price model. Furthermore, upon reaching the relative target in the simulation, it was assumed in all cases that the options were exercised early, with the exercise profit exceeding the discounted amount over the term to maturity by 75 percent of the original exercise price.

42 Exemption according to Section 264 Paragraph 3 of the Commercial Code

During the financial year, the following subsidiaries have made use of the provisions of Section 264 Paragraph 3 of the Commercial Code with regard to disclosure of the exemption regulation:
Heidelberger Druckmaschinen Vertrieb Deutschland GmbH, Heidelberg;
Linotype GmbH, Bad Homburg;
Heidelberg Postpress Deutschland GmbH, Heidelberg;
Heidelberg-China Holding GmbH, Heidelberg;
Heidelberg Boxmeer Beteiligungs-GmbH, Heidelberg;
Print Finance Vermittlung GmbH, Heidelberg.

43 Audit fee

During the financial year, we incurred the following expenses for the services of our auditor:

	2005/2006
Audit of financial statements	707
Audit-related services or other audit work	60
Tax consultancy services	43
Other services	1
	811

44 Information on events after financial year-end

No significant events occurred after the financial year-end.

Heidelberg, May 9, 2006

Heidelberger Druckmaschinen Aktiengesellschaft

Bernhard Schreier | Dr. Herbert Meyer | Dr. Jürgen Rautert

Auditor's Report

We have audited the consolidated financial statements of Heidelberger Druckmaschinen Aktiengesellschaft, Heidelberg, consisting of the balance sheet, the income statement, the presentation of recorded income and expenses, the cash flow statement, the notes to the financial statements, and the Group Management Report for the business year April 1, 2005 to March 31, 2006. The preparation of the consolidated financial statements according to the IFRS, as is required in the EU, and as well as the applicable supplemental provisions of Commercial Law in Section 315a, Paragraph 1 of the Commercial Code, are the responsibility of the Company's Management Board. Our responsibility is to express an opinion, based on our audit, as to whether the consolidated financial statements are in accordance with the IFRS.

We conducted our audit of the consolidated financial statements in accordance with German auditing regulations and generally accepted standards for the audit of financial statements promulgated by the Institute of German Certified Public Accountants (Institut der Wirtschaftsprüfer – IDW), and in addition in accordance with the International Standards on Auditing (ISA). These provisions require that the examination be planned in such a manner as to recognize with reasonable certainty inaccuracies and violations that affect the presentation of the consolidated financial statements, taking into consideration applicable accounting provisions, as well as the asset, financial position, and results of operations that are presented in the Group Management Report. Determination of audit procedures takes into account knowledge of the business activity as well as the economic and legal environment of the Group and expectations of possible errors. The examination includes assessing the annual financial statements of the consolidated companies, recognition of the scope of the consolidation, the principles of balance sheet generation and of consolidation that were applied, the significant assessments of the Management Board, and acknowledgement of 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 objections.

In our opinion, based on the knowledge acquired during the examination, the consolidated financial statements are in accordance with the International Financial Reporting Standards (IFRS) as applicable in the European Union and in accordance with the supplemental provisions of Commercial Law in Section 315 a, Paragraph 1 of the Commercial Code, and taking these provisions into consideration present a true and fair view of the Group's net assets, financial position, and results of operations. The Group Management Report is in agreement with the consolidated financial statements, provides an accurate view of the Group's overall condition, and accurately reflects the opportunities and risks of future developments.

Essen, May 12, 2006

PricewaterhouseCoopers
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

P. Albrecht	M. Theben
Wirtschaftsprüfer	Wirtschaftsprüfer

> FURTHER INFORMATION

ANNUAL REPORT 2005/2006

List of major shares in affiliated companies (Figures in € thousands according to IFRS)

Name	Location		Share in shareholders' equity	Shareholders' equity	Net profit after taxes	Sales	Yearly average number of employees
Europe, Middle East and Africa							
Heidelberger Druckmaschinen Vertrieb Deutschland GmbH [1]	D	Heidelberg	100	60,710	11,702	447,791	969
Heidelberg Graphic Equipment Ltd. [2]	GB	Brentford	100	49,888	5,669	259,714	431
Heidelberg Postpress Deutschland GmbH [1]	D	Heidelberg	100	32,018	– 12,121	171,966	1,001
Heidelberg France SAS	F	Tremblay-en-France	100	29,469	– 380	165,598	272
Heidelberg Schweiz Aktiengesellschaft	CH	Bern	100	15,076	1,474	65,959	172
Heidelberg International Ltd. A/S	DK	Ballerup	100	44,557	– 105	49,230	59
Heidelberg Sverige AB	S	Spanga	100	3,186	– 6	37,573	52
Heidelberg Graphic Systems Southern Africa (Pty) Ltd. [2]	ZA	Johannesburg	100	2,415	– 44	29,765	97
Print Finance Vermittlung GmbH [1]	D	Heidelberg	100	35,754	2,071	29,644	–
Eastern Europe							
Heidelberger Druckmaschinen Osteuropa Vertriebs-GmbH [3]	A	Vienna	100	149,880	– 2,520	127,868	85
Heidelberg Polska Sp z.o.o.	PL	Warsaw	100	7,681	920	59,917	112
Heidelberger CIS OOO	RUS	Moscow	100	– 2,991	– 6,072	55,998	251
Heidelberger Druckmaschinen Austria Vertriebs-GmbH	A	Vienna	100	161,168	– 1,608	51,247	103
North America							
Heidelberg USA, Inc. [2]	USA	Kennesaw	100	98,504	684	411,608	910
Heidelberg Canada Graphic Equipment Ltd.	CDN	Mississauga	100	13,835	791	116,762	254
Heidelberg Print Finance Americas, Inc. [2]	USA	Dover	100	164,060	24,105	15,116	12

Name	Location		Share in shareholders' equity	Shareholders' equity	Net profit after taxes	Sales	Yearly average number of employees
Latin America							
Heidelberg Mexico Services S. de R.L. de C.V.[2]	MEX	Mexico City	100	5,972	– 646	53,611	136
Heidelberg do Brasil Sistemas Graficos e Servicos Ltda.	BR	São Paulo	100	5,743	– 3,197	27,827	257
Asia / Pacific							
Heidelberg China Ltd.	RC	Hong Kong	100	26,520	11,927	233,541	165
Heidelberg Japan K.K.	J	Tokyo	100	24,939	9,441	228,999	414
Heidelberg Hong Kong Ltd.	RC	Hong Kong	100	25,694	6,063	102,829	105
Heidelberg Graphic Equipment Ltd.	AUS	Melbourne	100	17,592	– 688	90,432	203
Heidelberg Malaysia Sdn Bhd	MYS	Petaling Jaya	100	1,944	552	43,069	163
Heidelberg Asia Pte Ltd.	SGP	Singapore	100	6,127	605	30,693	71
Heidelberg Graphic Equipment Ltd.	NZ	Auckland	100	4,335	1,172	22,865	38

[1] Profit and loss transfer agreement with Heidelberger Druckmaschinen Aktiengesellschaft
[2] Pre-consolidated financial statements
[3] Profit and loss transfer agreement with Heidelberger Druckmaschinen Austria Vertriebs-GmbH

The Supervisory Board

Dr. Mark Wössner
Entrepreneur, Munich
Chairman of the Supervisory Board
* DaimlerChrysler 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)

Rainer Wagner***
Chairman of the Central Works Council, Heidelberg-Wiesloch
Deputy Chairman of the Supervisory Board since August 29, 2005

Josef Pitz*** [1]
– through July 31, 2005 –
Chairman of the Central Works Council, Heidelberg-Wiesloch
Deputy Chairman of the Supervisory Board

Martin Blessing
Member of the Management Board of Commerzbank Aktiengesellschaft, Frankfurt am Main
* AMB Generali Holding Aktiengesellschaft;
Commerzbank Inlandsbanken Holding Aktiengesellschaft;
CommerzLeasing und Immobilien Aktiengesellschaft (Chairman);
ThyssenKrupp Services Aktiengesellschaft;
** BRE Bank SA, Poland

Prof. Dr. Clemens Börsig
Graduate degree in business administration, Frankfurt am Main
* Deutsche Bank Aktiengesellschaft (Chairman);
** Foreign & Colonial Eurotrust plc, UK (Non-executive member of the Board of Directors)

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

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

Mirko Geiger***
– since August 1, 2005 –
First Senior Representative of IG Metall, Heidelberg
* IWKA Aktiengesellschaft

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

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

Jörg Hofmann***
– since April 3, 2006 –
Regional head of IG Metall, Baden-Wuerttemberg region, Stuttgart
* Robert Bosch GmbH;
Mahle GmbH;
Berthold Leibinger GmbH

[1] Information as of resignation from the Supervisory Board
* Membership in other Supervisory Boards
** Membership in comparable German and foreign control bodies of business enterprises
*** Employee representative

Berthold Huber*** 1)
– through March 31, 2006 –
Second Chairman of IG Metall, Frankfurt am Main
* Audi Aktiengesellschaft;
RWE Aktiengesellschaft;
Siemens Aktiengesellschaft

Johanna Klein*** 1)
– through March 31, 2006 –
Chairwoman of the Works Council, Brandenburg

Pat Klinis*** 1)
– through July 31, 2005 –
Trade union secretary, Heidelberg

Robert J. Koehler
Chairman of the Management Board of SGL Carbon Aktiengesellschaft, Wiesbaden
* AXA Konzern Aktiengesellschaft;
Benteler Aktiengesellschaft (Chairman);
LANXESS Aktiengesellschaft;
Pfleiderer Aktiengesellschaft;
** New Russia Fund, ING-Barings, United Kingdom

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

Dr. Gerhard Rupprecht
Member of the Management Board of Allianz Aktiengesellschaft, Munich
Chairman of the Management Board of Allianz Deutschland Aktiengesellschaft, Gerlingen
* Fresenius Aktiengesellschaft;
ThyssenKrupp Automotive Aktiengesellschaft;
Allianz Beratungs- und Vertriebs-Aktiengesellschaft (Chairman);
Allianz Lebensversicherungs-Aktiengesellschaft (Chairman);
Allianz Private Krankenversicherungs-Aktiengesellschaft (Chairman);
Allianz Versicherungs-Aktiengesellschaft (Chairman);
** Allianz Life Insurance Co. Ltd., Korea

Beate Schmitt***
– since April 3, 2006 –
Member of the Works Council, Heidelberg-Wiesloch

Dr. Klaus Sturany
Member of the Management Board of RWE Aktiengesellschaft, Essen
* Commerzbank Aktiengesellschaft;
Hannover Rückversicherung Aktiengesellschaft;
RAG Aktiengesellschaft;
RWE Energy Aktiengesellschaft;
RWE Power Aktiengesellschaft;
RWE Systems Aktiengesellschaft (Chairman);
** Österreichische Industrieholding Aktiengesellschaft;
RWE Npower Holdings plc;
RWE Thames Water plc

Peter Sudadse***
– since August 1, 2005 –
Deputy Chairman of the Central Works Council, Heidelberg-Wiesloch

Committees of the Supervisory Board

Management Committee

Dr. Mark Wössner (Chairman)

Rainer Wagner
– since August 29, 2005 –

Josef Pitz
– through July 31, 2005 –

Martin Blessing

Martin Gauß

Mirko Geiger
– since April 26, 2006 –

Berthold Huber
– through March 31, 2006 –

Dr. Gerhard Rupprecht

Mediation Committee under Article 27 Paragraph 3 of the Codetermination Act

Dr. Mark Wössner

Rainer Wagner
– since August 29, 2005 –

Josef Pitz
– through July 31, 2005 –

Martin Blessing

Wolfgang Flörchinger

Committee on Arranging Personnel Matters of the Management Board

Dr. Mark Wössner (Chairman)

Rainer Wagner
– since August 29, 2005 –

Josef Pitz
– through July 31, 2005 –

Dr. Gerhard Rupprecht

Audit Committee

Dr. Klaus Sturany (Chairman)

Prof. Dr. Clemens Börsig

Mirko Geiger
– since August 29, 2005 –

Pat Klinis
– through July 31, 2005 –

Rainer Wagner

The Management Board

Bernhard Schreier
Bruchsal
Chairman
* ABB Aktiengesellschaft;
Gerling-Konzern Allgemeine Versicherungs-Aktiengesellschaft;
SRH Learnlife Aktiengesellschaft;
Heidelberger Druckmaschinen Vertrieb Deutschland GmbH (Chairman);
** 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)

Dr. Herbert Meyer
Königstein/Taunus
* Deutsche Beteiligungs Aktiengesellschaft;
IWKA Aktiengesellschaft;
Sektkellerei Schloss Wachenheim Aktiengesellschaft;
Heidelberger Druckmaschinen Vertrieb Deutschland GmbH;
** Goss International Corporation, USA;
Heidelberg Graphic Equipment Ltd., UK;
Heidelberg Americas, Inc., USA;
Heidelberg USA, Inc., USA;
Heidelberger Druckmaschinen Austria Vertriebs-GmbH, Austria (Advisory Board);
Heidelberger Druckmaschinen Osteuropa Vertriebs-GmbH, Austria (Advisory Board);
Verlag Europa Lehrmittel GmbH (Advisory Board)

Dr. Jürgen Rautert
Heidelberg
** IDAB WAMAC International AB, Sweden;
Heidelberg Postpress Sweden AB, Sweden

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

Heidelberger Druckmaschinen Aktiengesellschaft
Investor Relations
Kurfuersten-Anlage 52 – 60
69115 Heidelberg
Germany
E-mail: investorrelations@heidelberg.com
Phone: +49-62 21-92 60 21
Fax: +49-62 21-92 60 61

Financial Calendar 2006/2007

June 7, 2006	Press Conference, Annual Analysts' and Investors' Conference
July 20, 2006	Annual General Meeting
August 1, 2006	Publication of 1st Quarter Figures 2006/2007
November 7, 2006	Publication of Half-Year Figures 2006/2007
January 31, 2007	Publication of 3rd Quarter Figures 2006/2007
May 9, 2007	Publication of Preliminary Figures 2006/2007
June 13, 2007	Press Conference, Annual Analysts' and Investors' Conference
July 26, 2007	Annual General Meeting
August 2, 2007	Publication of 1st Quarter Figures 2007/2008
November 6, 2007	Publication of Half-Year Figures 2007/2008

Subject to change

> THE FACTS

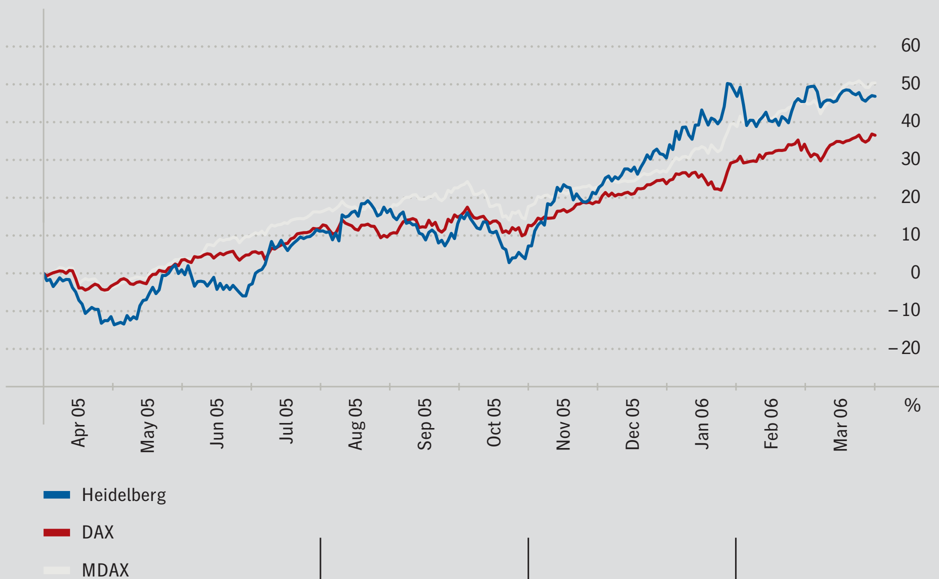
OPTIMIZING THE PRINTING PROCESS

WE WANT OUR PRINT PRODUCTS TO AROUSE ENTHUSIASM IN EVERY RESPECT: IN TERMS OF THEIR COLORS, THEIR SURFACE COATINGS, THEIR ENVIRONMENTAL FRIENDLINESS, AND THEIR FINISH. AND WE WANT OUR CUSTOMERS TO PRODUCE AS PROFITABLY AS POSSIBLE. THAT IS WHY FOR MANY YEARS NOW WE HAVE BEEN FEVERISHLY WORKING ON MAKING THE PRINTING PROCESS AN INTEGRATED AND COMPREHENSIVE PROCESS IN THE BROADEST SENSE, WITH ALL COMPONENTS AND ELEMENTS FUNCTIONING IN PERFECT HARMONY.

Contents

PERFORMANCE OF THE HEIDELBERG SHARE

compared with the DAX/MDAX (Index: April 1, 2005 = 0 percent)



On September 9, the free float of the Heidelberg share increased to 67 percent

On November 8, Heidelberg launched a share buyback program

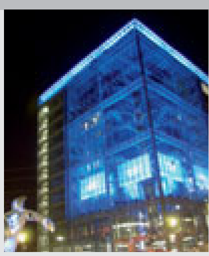
On January 30, the free float rose again to 73 percent

The Heidelberg share developed extremely favorably during the financial year. While the price was € 25.00 on April 1, 2005, it rose to € 36.40 on March 31, 2006. This represents a 48 percent price increase! The growth of our share price nearly matched the 52 percent increase in the MDAX over the same period. The Heidelberg share considerably surpassed the growth posted by the DAX, which was up by 37 percent.

04

April

4/2005



Five Years of the Print Media Academy
The Print Media Academy in Heidelberg celebrates its fifth anniversary. The Print Media Academy was launched on April 14, 2000, the date of the 150th anniversary of Heidelberg's founding, as a center for training, communications, and knowledge. Over 58,000 people visit this building each year.

Agreement on Safeguarding the Future
The Management Board and staff representatives come to an understanding on a pact to secure the future. The provisions of the agreement cover a reduction in staff costs, the enhancement of Heidelberg's competitiveness, and a master agreement on job protection.

05

May

5/2005

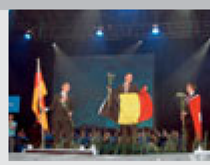
Expectations Surpassed at China Print 2005
The China Print 2005 trade show attracts over 120,000 visitors. Heidelberg introduces innovative products and concepts in its own hall. Numerous presentations for customers contribute to the success of the trade show.

New US Print Media Demonstration Center at Kennesaw, Georgia
With 33,000 sq ft, the new Print Media Demonstration Center in Georgia is Heidelberg's largest customer center. The Speedmaster XL 105 is introduced for the first time in the US at this demonstration center's opening. In the modern, state-of-the-art building, visitors can inform themselves on a broad range of Prepress, Press, and Postpress solutions.

06

June

6/2005



Heidelberg Active at 'WorldSkills'
The 38th 'WorldSkills', the world championship for vocational trainees, is being held this year in Helsinki. Heidelberg supports the 'Printing' competition, which is being held for the first time and in which participants demonstrate their expertise on four Printmaster PM 52-4 presses and two Polar cutters.

Heidelberg Made in China
Heidelberg is the first German equipment supplier to the Print Media Industry to establish an assembly plant in China. This plant is located in the Quingpu Industrial Zone near Shanghai. Initially, simple folders will be manufactured here, to be followed by small-format sheetfed offset printing presses for the Chinese market.

07

July

7/2005

Widespread Agreement Expressed at Annual General Meeting
Some 1,250 shareholders representing approximately 62 percent of Heidelberg's share capital attend the Annual General Meeting of Heidelberger Druckmaschinen Aktiengesellschaft. They agree to all the agenda items with a majority of over 97 percent.

'Silver' for Heidelberg News
Participating in the Best of Corporate Publishing Award for the first time, Heidelberg immediately attains the 'Silver' award for its customer magazine Heidelberg News. Overall, the contest attracted entries from 537 corporate publications in eight main categories.

08

August

8/2005

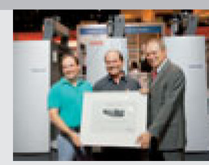
Heidelberg Annual Report Awarded Once Again
manager magazin awards Heidelberg's Annual Report 2004/2005 as the best in the MDAX for the fourth time. This competition is the most comprehensive comparison of annual reports in Germany and one of the biggest worldwide.

'InterTech Award' for Stahlfolder TH/KH
Heidelberg's folder generation Stahlfolder TH/KH receives the highly regarded 'PIA/GATF InterTech Award' for innovations. This unit is characterized by a high degree of automation, short makeready times, as well as flexibility and a high level of efficiency.

09

September

9/2005



Print 05 in Chicago
Heidelberg delivers the 5,000th printing unit of the Speedmaster CD 74, which is being delivered to the US. During Print 05 in Chicago, the Chairman of the Management Board Bernhard Schreier presents a certificate to the owners of the US print shop Phil Vedda & Sons Printing Company. Developments at this trade show confirm the upward trend in the print media industry.

Commerzbank Sells Its Shareholding
Heidelberg's free float increases to 67 percent as a consequence of the market placement, within the framework of an accelerated tender offer, of the ten percent shareholding by Commerzbank Aktiengesellschaft in Heidelberger Druckmaschinen Aktiengesellschaft.

2005/06

10 11 12 01 02 03

October	November	December	January	February	March
10/2005	11/2005	12/2005	1/2006	2/2006	3/2006

Polygraphinter in Moscow Successful
Heidelberg presents its line of solutions to over 10,000 visitors and customers at the Russian trade show Polygraphinter, which is held during October 10 – 16, 2005, in Moscow. Strong interest was shown for the first Speedmaster XL 105 in Russia.

Gallus Group Acquires Participation in BHS
The Gallus Group intends to enhance its expansion of the folding box business with the acquisition of a 30 percent shareholding in BHS Druck- und Veredelungstechnik GmbH. Gallus has been a member of the Heidelberg Group since financial year 2002/2003.

'Heidelberg Remote Services' Awarded
The IT trade publication Computerwoche and the management consulting firm Gartner Germany award the remote maintenance concept 'Heidelberg Remote Services' (HEIRES) as the IT Application of the year 2005. The Internet-based HEIRES service records information on the condition of printing presses.

Management Board Approves Share Buyback
The Heidelberg Management Board announces its approval of the acquisition of the Company's shares in an amount equivalent of up to five percent of share capital. The repurchased shares are to be either retired or issued to employees within the framework of the employee share participation programs.

Heidelberg Plans Larger Printing Presses
Heidelberg announces the expansion of the existing product portfolio into a larger-format category. The new printing press generation is to be introduced at drupa 2008. Heidelberg intends to expand its market leadership in the sheetfed offset segment with this expanded offering.

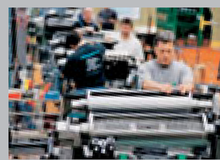
Cooperation Agreement with SSI
Heidelberg signs a cooperation agreement with SSI (Saueressig Security International). The goal of this agreement is to develop an embossing unit for the purpose of such security elements as hidden graphics, which grant protection for end customers against brand piracy.

Heidelberg at Druckforum in Stuttgart
More than 300 visitors attended the inauguration of this year's Druckforum in Stuttgart. This event is hosted by Heidelberg's marketing arm, Heidelberger Druckmaschinen Vertrieb Deutschland GmbH. Presentations on 'Profitable Pressroom Networking' and 'Uninterrupted Color Management' stimulated considerable interest.

Heavy Demand for Heidelberg's Postpress Products
Heidelberg attained two records in the Finishing area: the 1,000th Stahlfolder folding machine was installed at the end of 2005 and the 200th Stitchmaster ST 400 was also recently deployed in production. Both of these units have already received the highly regarded 'PIA/GATF InterTech Award'.

Numerous Innovations Announced at Pre-IPEX Press Conference
Heidelberg presents its product line in the run-up to the IPEX trade show in April 2006, focusing primarily on process integration. Introduction of the Speedmaster SM 52-10-P additionally represents the first small-size ten-ink printing press.

Heidelberg Establishes CTA for Pension Obligations
Heidelberg transfers the funding of pension obligations for employees and retirees into a Contractual Trust Arrangement (CTA). Approximately € 450 million are transferred to a trustee, with pension rights remaining unchanged. This move serves to reduce Heidelberg's total assets in order to improve the comparability of the Company's financial figures.



Delivery of 1,000th Printing Unit of Speedmaster XL 105
The 1,000th Speedmaster XL 105 printing unit was manufactured at the Wiesloch plant just one year following startup of series production. In February, Heidelberg's biggest Sheetfed Offset printing press received the 'Silver' design prize from the Federal Republic of Germany.

Successful Conclusion of 'HPP 2006'
Heidelberg successfully concludes the 'HPP 2006' ('High-Performance Production') project after a period of three years. The goal of this project had been to improve Heidelberg's competitiveness. To this end, the internal manufacturing structures and processes were analyzed and optimized. The resultant knowledge enters into the Heidelberg Production System, where it is to be developed further.

> OUR WAY: INTEGRATED SOLUTIONS WITH PRINECT

ANNUAL REPORT 2005/2006

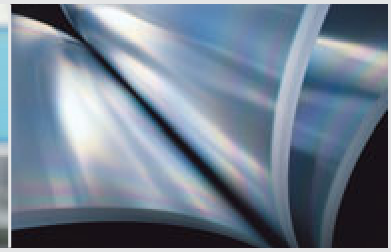
Your reading of this year's Annual Report will be accompanied by our integrated printing process. And for good reason, as the ability to design production processes efficiently is becoming increasingly important for the market success of media service providers.

What steps does a print product go through before customers finally take possession of it? How can optimal linkage with interfaces be achieved throughout the production process? In the image and topical pages that appear among the sections of the Annual Report, you can follow the typical path of a printing job as it is completed efficiently and in a transparent manner at a networked print shop that uses Prinect.

We have restructured the Annual Report and added key topics in line with the requirements of German Accounting Standard 15. Thus, the Management Board provides information concerning the Heidelberg Group, business developments, the divisions, regions and areas, and the future of the Company under each major topic.

Contents





GROUP MANAGEMENT REPORT

> MANAGEMENT BOARD

ANNUAL REPORT 2005/2006

PRINTED MATERIAL HAS A LONG TRADITION – AND A BRIGHT FUTURE AS WELL. FOLLOWING THE CRISIS IN THE ADVERTISING INDUSTRY, WHICH ALSO HIT THE PRINTING INDUSTRY HARD IN RECENT YEARS, BUSINESS IS BOOMING ONCE AGAIN. HOW WILL OUR INDUSTRY DEVELOP IN THE FUTURE? WHAT ARE THE TECHNOLOGICAL TRENDS? WHAT SHOULD SHAREHOLDERS, CUSTOMERS, AND HEIDELBERG'S EMPLOYEES PREPARE FOR IN THE YEARS TO COME? HEIDELBERG'S MANAGEMENT BOARD MEMBERS PROVIDE ANSWERS TO THESE QUESTIONS ON THE FOLLOWING PAGES.

Bernhard Schreier, together with Beate Weber, the Lord Mayer of the City of Heidelberg, open the exhibit 'Passion for Print' at a ceremony attended by 300 guests.

Dr. Herbert Meyer accepts the prize awarded by 'manager magazin' for the Best Annual Report among MDAX firms in 2005.

Dr. Jürgen Rautert at the granting of the Design Prize 2006 of the Federal Republic of Germany to Heidelberg.

The Future of Printing Is the Future of Heidelberg

Some years ago, people were predicting that printed products would disappear due to the Internet. Although this failed to occur, the market has nevertheless changed. What will happen in the future?

BERNHARD SCHREIER: The new media, changed reading habits, and the crisis in the advertising industry have shaped the market in recent years. For one thing, print runs are becoming ever smaller. And on the other hand, the speed at which print shops must service their customers today has accelerated considerably. Although the volume of printed material has again increased strongly, pricing for printed products is currently low.

Not a comfortable situation for your customers ...

By all means! In order to compete successfully and generate adequate profit, many print shops have had to adapt in the shortest possible time in the past – and will continue to need to do so in the future, thereby moving from a traditional workshop to an enterprise whose operations are largely digitized and networked and which is capable of providing additional services. Not an easy road to travel, especially for print shops with fewer than 20 employees. We have developed special solutions for print shops of this size, since they account for 80 percent of our customer base. Incidentally, such special solutions are also increasingly in demand in emerging markets. The market has recognized that our solutions hold strong potential for the future.

Competition among equipment suppliers to the print media industry has heated up, especially in the US marketplace – among other things, due to competitors from the Asian region. Will this cause Heidelberg to lose market share?

Future developments largely depend on exchange rate trends. If exchange rates between the US dollar, the Japanese yen, and the euro continue to strongly favor our Japanese competitors, they will probably continue to compete based on price, primarily in the US. We limit our participation in this type of competition. Nevertheless, we hold the trump card in other markets in the form of our service and sales network, especially in the rapidly growing emerging markets.

Born in 1954, married, three children. Engineering graduate (Diplomingenieur, BA). Began at Heidelberg in 1975 as a student of the vocational college. Beginning in 1978, various management positions, of which five years abroad. Since 1995 member of the Heidelberg Management Board. Chairman of the Management Board since 1999.

BERNHARD SCHREIER

Chairman of the Management Board and Sales

Regions with emerging markets now account for 42 percent of Heidelberg's sales. Do you see additional future growth potential in these regions?
The rapid pace of growth in the emerging markets will further boost demand for printed products, for which market saturation is still quite low compared to the industrialized countries. Furthermore, our Chinese production site, which is currently being expanded, will enable our penetration of additional markets with simpler but nonetheless high-quality printing presses for customers who require this type of equipment.

If the printing volume continues to grow worldwide won't that have a material impact on the environment?
Not if everything is printed using environmentally friendly Heidelberg solutions. We develop our printing presses so as to protect resources – also against the background of expected rising costs for paper and energy.

You intend to penetrate the market for the package printing to a greater extent. Yet your competitors already hold high market shares in some of these markets. Are such plans really worth the effort?
Absolutely. Package printing has the biggest potential for future growth. We are already very solidly positioned in this segment, particularly in the folding box segment. Our new 'Very Large Format' will initially depend on advance services, of course. This is not only true for the printing presses themselves, for we intend to offer complete and networked solutions including Prepress and Postpress. Our customers are aware that they can considerably increase their profits by establishing a network.

Born in 1946, married, two children. Graduate degree in business administration (promovierter Diplom-kaufmann). 18 years with the Bosch Group, of which six years abroad. Since 1994 on the Management Board of Heidelberg.

DR. HERBERT MEYER

Finance, Human Resources

Now that you achieved a turnaround in income last year, the result of operating activities of € 277 million has now met expectations, and the price of a Heidelberg share has increased considerably. What are your goals for the future?
DR. HERBERT MEYER: A continuous increase in corporate value continues to have the highest priority – among others so that our share continues to be an attractive investment. We can only achieve this by persisting with the cost reduction measures that we implemented as part of the restructuring efforts, as well as the streamlining of all structures. This will make it possible to continually increase our profitability. Underlying conditions are ripe for generating strong future growth in sales as well. Looking at past experience with cycles in our industry, we are still at the beginning of a cyclical upswing in the industrialized countries at the moment. The emerging markets are demonstrating considerable vigor in any case.

You further turned up the pressure on costs during the financial year as well. Isn't there a danger that such belt-tightening measures might also have a negative impact on the Company?
Quite the opposite. Our reduction in structural costs has served to increase Heidelberg's competitiveness. Parts of the agreement on securing the future, which we signed during the reporting year, are designed to considerably reduce future staff costs. At the same time, however, we also set up development budgets amounting to an annual average of 200 million euros and additionally committed to further large-scale investments in our German operations.

The pact to secure the future will determine human resources policy through at least 2008. What can your employees expect after that?
It is clear that further business development will play a crucial role here – we can be quite confident of developments in this area. This is true especially because we are more flexible today than ever before. Moreover, we will reduce our break-even point even further.

Where do you see additional savings potential then?
We will continue to optimize our processes. For example, when examining the results of idea management – our employees again made outstanding proposals with considerable savings potential during the financial year – it becomes clear that we still have significant opportunities. Furthermore, our new location in China offers great procurement opportunities. Our location on-the-spot as well as our ability to build up long-term supplier relationships will clearly open the door to an increasing share of deliveries from the Asian region, which will allow us to cut costs while retaining high quality.

You undertook larger financial transactions during the financial year – among others, the transfer of pension rights by means of a Contractual Trust Arrangement. Why did you do this?
We have outsourced the financing of pension commitments to employees and retirees. We thereby reduced the consolidated balance sheet total and improved the comparability of our financial figures vis-à-vis the international capital market.

And what was the purpose of the share buyback program?
Share buybacks also serve as a signal to the capital market that we have a high degree of confidence in Heidelberg's potential. We are also utilizing some of the shares in our employee share participation programs.

Major shareholders sold off their Heidelberg shares in recent years. How do you assess these changes in the shareholder structure in view of Heidelberg's future?
Achieving a high level of free float has always been our goal. Our free float is currently 73 percent, which represents a more than four-fold increase since 2000 when our free float was only 16 percent! As a result, our share is even more interesting to investors looking for a long-term appreciation of value. Thanks to the higher level of free float, in the past two years alone we have attracted many new shareholders who have been rewarded for their investment with corresponding increases in share prices.

Born in 1958, married.

Graduate in Mechanical Engineering.

Joined Heidelberg in 1990.

Since July 1, 2004 member of Heidelberg's Management Board.

DR. JÜRGEN RAUTERT

Engineering and Manufacturing

Offset printing has just celebrated its 100th anniversary. Does a mature technology like that still offer potential?
DR. JÜRGEN RAUTERT: To be sure! The concept 'offset printing' is only vaguely understood to be the basic principle behind the creation of images. An image generated by a printing plate is transferred to paper by means of a blanket – not directly. This principle is indeed quite old. However, thanks to the opportunities provided by electronics, the printing presses used in this process have developed to the same extent as cameras. Just think about the development of the camera, all the way from the 'camera obscura' to the modern digital camera. You can also imagine the improvement in the productivity of offset printing presses over the last 100 years in the same way. We believe today that it will be possible to achieve an increase in productivity in offset printing of at least 50 percent over each of the next two decades.

What trends will determine future market developments? How do you intend to react to them?
Our customers face fierce competition. Of importance to them are shorter turnaround times, additional refinement, and the integration of printing within an entire chain of services that include the handling of databases for the customers of print shops. We ensure that our customers continue to be successful in this competition thanks to printing presses that have ever shorter makeready times, that print faster, and that can be more flexibly configured than in the past. An optimal organization of the production process plays an important role here – and thus our Prinect software package as well.

How do print shops benefit from the establishment of a network in the printing process?
Printers can only generate profit from a printing press when it is in operation. Prinect helps shorten workflows, avoid downtimes, and reduce makeready times. Prinect Color Solutions make it possible to reproduce colors precisely by matching a sample – during an entire production run. Our state-of-the-art Prinect modules such as Inpress Control even free up the printer from the need to run a test sheet as part of the setup process – important progress in the direction of industrial production! This also results in a considerable reduction in makeready costs. And not least, it is environment-friendly, since spoilage is significantly reduced.

Your competitors also sell digital systems that make printing easier. What special features does Heidelberg have to offer?
None of our competitors can offer a complete workflow package like we can – including every stage of the printing process – from Prepress all the way to Postpress. We're also ahead of our competitors in color quality management and control.

Where are you placing the focus of attention in research and development?
The fundamental challenges remain the same: makeready times are being reduced further and the production tempo speeded up. Furthermore, new opportunities are being created to make printed products even more attractive in the competition with other media. A further focus of attention, of course, is our 'Very Large Format', which we intend to introduce at the next drupa in 2008.

On the subject of a production site in China: Aren't you afraid that Heidelberg's expertise may be betrayed to possible competitors here?
Our new manufacturing facility in China is being established as our own local subsidiary, not as a joint venture. In any case, we retain control over the entire production process.

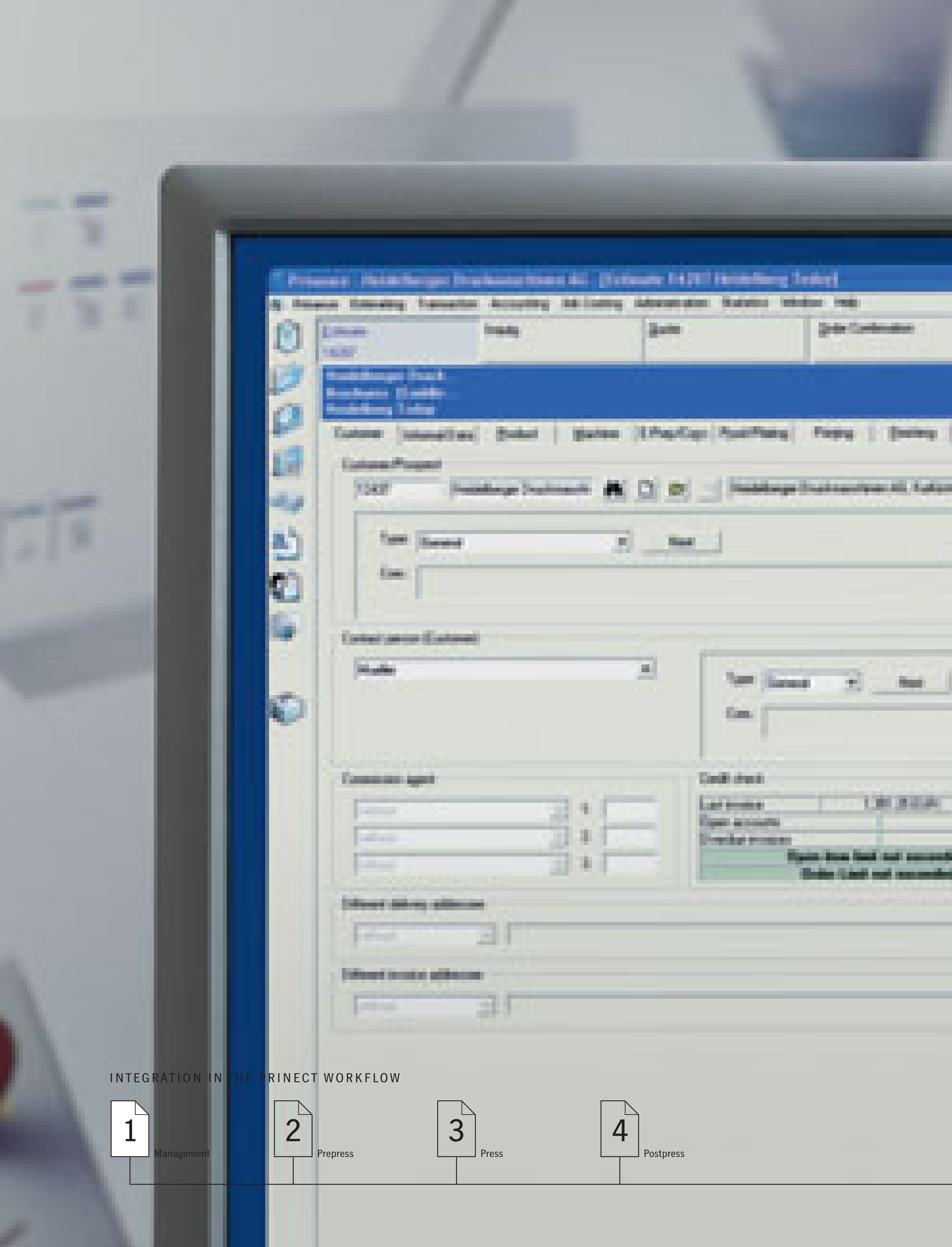
You have considerably increased your R&D costs during the financial year, and you are also planning for high R&D rates in the coming years. Why are you doing this?
We have a clear idea of what we need to do in order to remain the industry's leader in both the medium term and the long term. We are confident that these investments in the future of the Company will pay off for us and for our customers.

Photo credits: Bert Bostelmann/manager magazin (1), Archive Heidelberger Druckmaschinen AG (5)

> PRINECT

HEIDELBERG'S INTEGRATED WORKFLOW

> For good reason, the name 'Prinect' is a combination of the words 'print' and 'connect'. This software package from Heidelberg makes it possible for printers to link all production levels within a comprehensive process. What advantages does this offer for printers? The following pages present a brief overview.



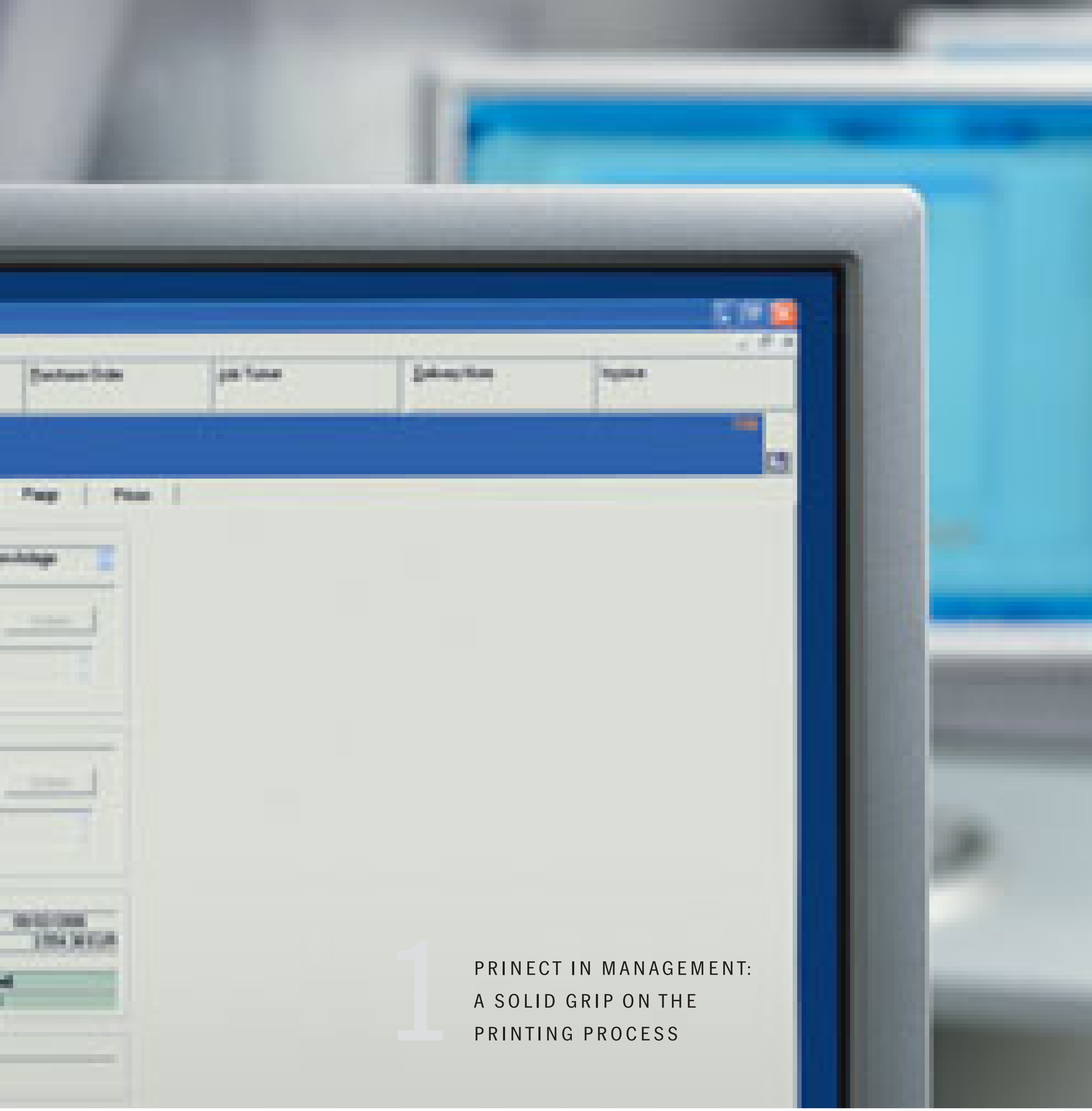
INTEGRATION IN THE PRINECT WORKFLOW

1 Management

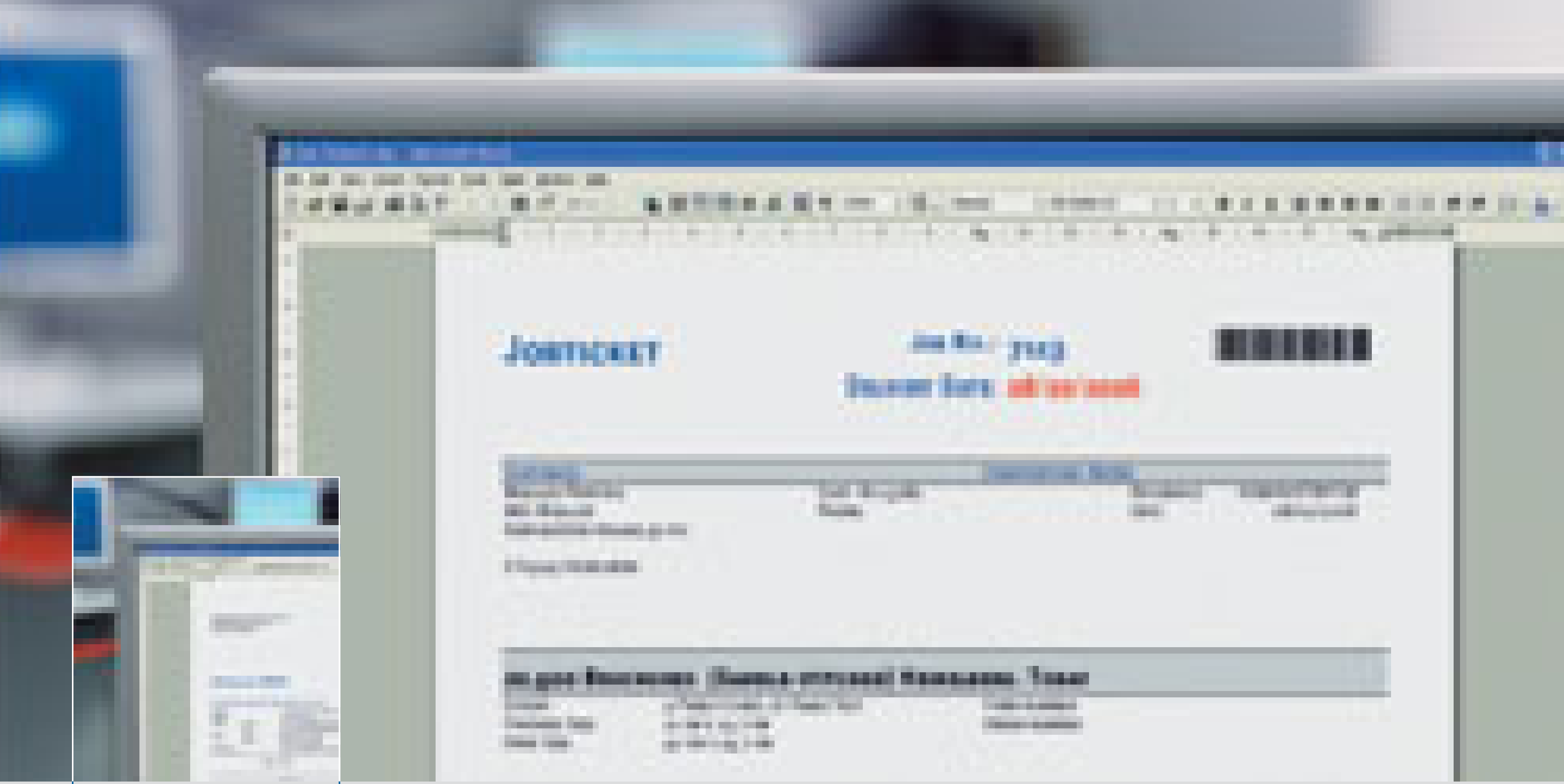
2 Prepress

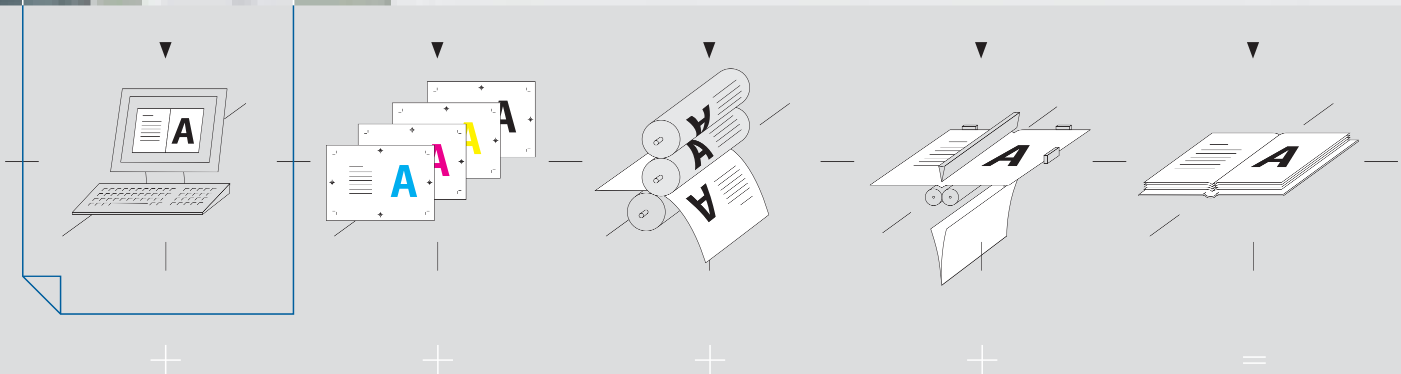
3 Press

4 Postpress



1 PRINECT IN MANAGEMENT: A SOLID GRIP ON THE PRINTING PROCESS

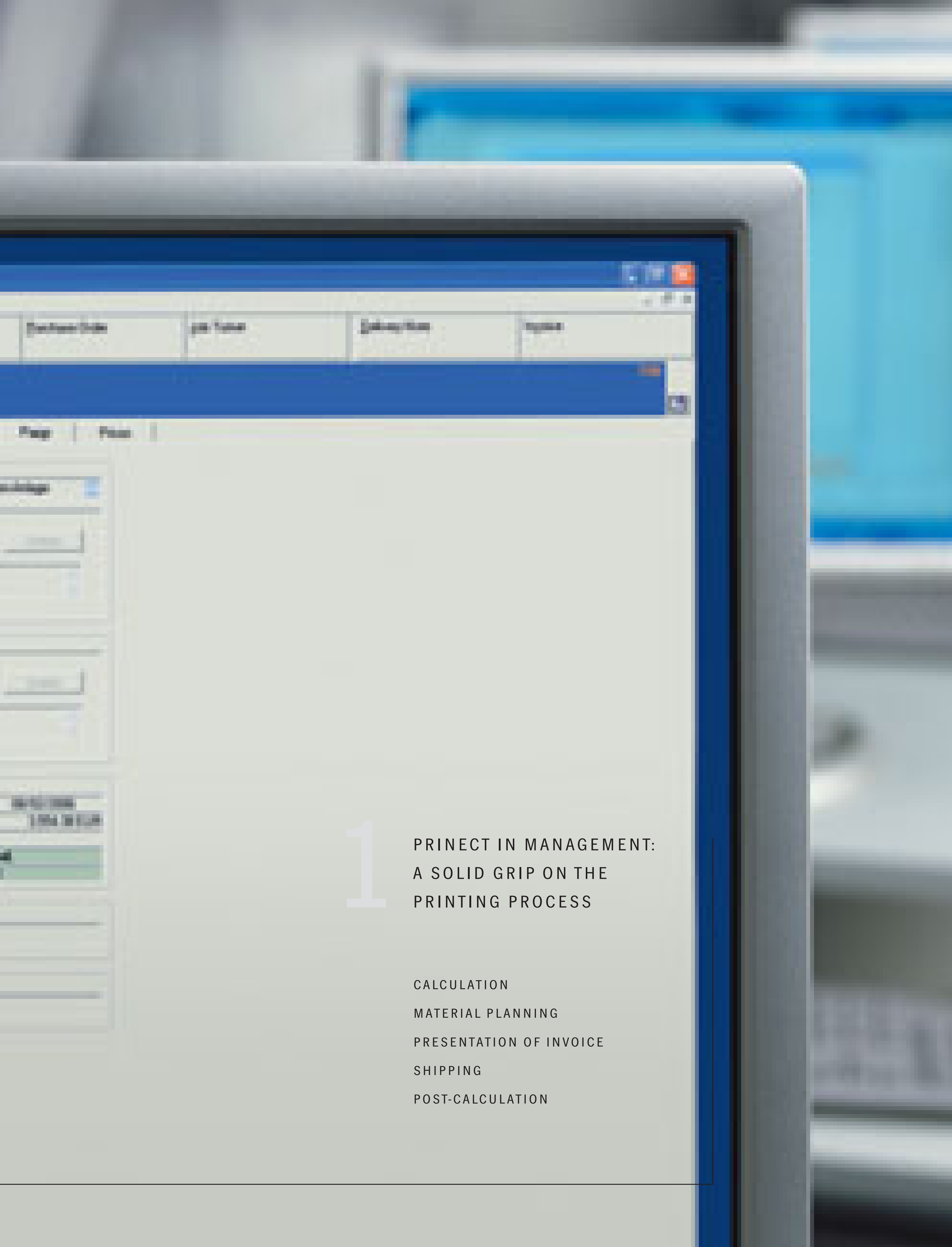




TRANSPARENCY RIGHT FROM THE START

Even before the first sheet of paper is fed through the printing press, Heidelberg's 'Prinect Management Solutions' set the course for a successful printing process. This software links all the stages of the overall production process. The key task is to continuously exchange digital information for the perfect interplay of business and production processes. The result: our customers always maintain a firm grip on all the variables, while at the same time calculations and data transfer take up to 70 percent less time.

The electronic job ticket guides the production process reliably and rapidly.



1 PRINECT IN MANAGEMENT: A SOLID GRIP ON THE PRINTING PROCESS

CALCULATION

MATERIAL PLANNING

PRESENTATION OF INVOICE

SHIPPING

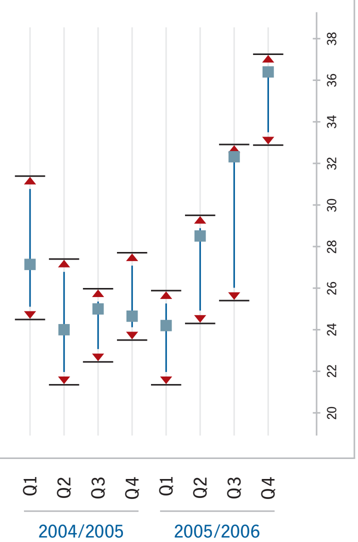
POST-CALCULATION

The Heidelberg Share – Stable Upward Trend

> **Free Float Increases to 73 Percent**
> **Dividend per Share at € 0.65**
> **Successful Investor Relations Work**

QUARTERLY LOW, HIGH, AND CLOSING PRICES

Figures in €



Developments on the stock markets proved to be extremely favorable during the financial year. Following initial losses, the DAX continually climbed upward, finishing off the calendar year with an overall plus of 27 percent. The MDAX rose to an even greater extent, rising by 36 percent during the same period! These indices continued to grow further during the first quarter of calendar year 2006.

The Heidelberg share posted extremely favorable growth during the financial year, largely following the increase in the stock market indexes. The appreciation in value was favored by the Company's healthy development as well as the favorable export figures of the German investment goods industry. The launch of our share buyback program in November provided an additional impetus for the share. The upward trend continued during the last quarter of the financial year, with the Heidelberg share closing at € 36.40 on March 31, 2006 – up by 48 percent in twelve months. Our share's performance considerably surpassed that of the DAX, which grew by 37 percent over the same period. However, the MDAX developed even better, posting 52 percent growth.

Free Float Increased to 73 Percent, Higher Volume of Trading

During the financial year, the free float of the Heidelberg share rose in two steps from 57 percent to 73 percent. In September, Commerzbank Aktiengesellschaft successfully placed its 10-percent participation on the capital market in an accelerated tender offer. And in January, Münchener Rückversicherungs-Gesellschaft Aktiengesellschaft reduced its participation from 6.1 percent to less than 5 percent, thereby falling below the threshold at which shares are not considered part of the free float. The free float of Heidelberg will rise to 88 percent by the latest in 2007 due to an exchangeable bond in Heidelberg shares, which is currently still being held by RWE Aktiengesellschaft.

The changes resulted in an increase in the daily volume of Heidelberg's shares traded from a mere 34,000 shares some four years ago to approximately 274,000 the previous year and to an average of 334,000 during the reporting year. Supported by numerous investor relations activities, there has also been a further increase in international diversification since September 2005.

KEY PERFORMANCE DATA OF THE HEIDELBERG SHARE

Figures in €

	04/05	05/06
Earnings per share[1]	0.69	1.58
Price-earnings ratio[1][2]	35.72	23.04
Cash flow per share[1]	2.70	4.04
Dividend per share[3]	0.30	0.65
Dividend yield in percent[1]	1.22	1.79
Distribution quota in percent	43.80	40.06
Share price – high	30.60	37.25
Share price – low	22.20	21.59
Share price – beginning of financial year	26.78	25.00
Share price – financial year-end	24.65	36.40
Market capitalization – financial year-end – in € millions	2,118	3,023
Index weighting of the MDAX in percent	1.95	2.48
Number of shares in thousands	85,908	83,051

1) Previous year's figures adjusted
2) In terms of the financial year-end price in Xetra trading; source of prices: Bloomberg
3) 05/06 recommendation

Investment fund companies from the UK, the US, and Canada hold over 61 percent of the identified free float, with German investors accounting for 30 percent.

Heidelberg Shares Repurchased

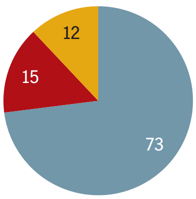
We launched the buyback of Heidelberg shares on November 9, 2005. The program is to continue up to January 19, 2007. Buying back up to 5 percent of the share capital is improving our capital structure, with the shares either being retired or issued to employees within the framework of the employee share participation programs. Through the end of the financial year, we bought back 2,911,000 shares at an average price of € 33.76, with a total of 2,857,777 shares retired as of March 31, 2006. More information concerning the current status of the program can be found at our Internet site at any time.

Share Largely Favorably Assessed

Nearly 30 banks have been reporting regularly and extensively on the Heidelberg Group and its share for a number of years. Most analysts once again assessed our share favorably during the financial year. The latest studies in particular have increasingly recommended buying or holding Heidelberg shares.

SHAREHOLDER STRUCTURE[1)]

Share in percent

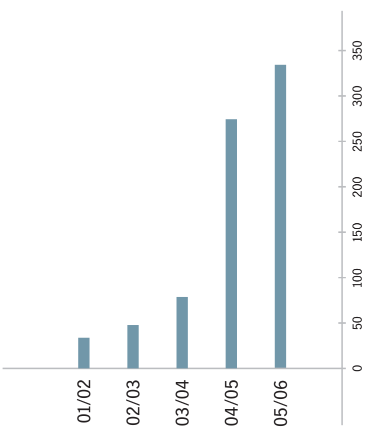


Free float[2)]
RWE
Allianz

1) The shareholding was reported to us prior to March 31, 2006 and therefore refers to the number of shares before the share withdrawal
2) Of which 5.1 percent attributable to FMR Corporation (as of January 2006)

AVERAGE DAILY SALES VOLUME OF THE HEIDELBERG SHARE

Figures in thousands of shares



Management Board and Supervisory Board Recommend Higher Dividend

We were successful in considerably boosting the net profit this year. To ensure that our shareholders participate in this favorable development, the Management Board and the Supervisory Board will propose to the Annual General Meeting the payment of a dividend per share of € 0.65 for financial year 2005/2006. This corresponds to a distribution quota of 40.1 percent.

Investor Relations Work Awarded

We have held numerous presentations during the financial year in order to strengthen or awaken international interest in the Heidelberg share – for example, our analyst's conferences upon disclosure of our quarterly figures – and made ourselves available to answer questions from investors and analysts. Many institutional investors informed themselves at one of our over 40 road shows. We presented our Company at over ten international conferences, which were usually organized by banks. We also highlighted Heidelberg's attractiveness and potential at numerous individual meetings – in some cases, with contacts that were made for the first time. We organized visits for interested investors and analysts at the Print 05 and IPEX 06 trade shows, thereby providing them with greater insight into the print media industry. As in the past, plant visits and tours of our 'Print Media Center' enjoyed considerable popularity.

Our investor relations Internet pages are among the investor-friendliest in Germany. In a comparison of the best German on-line offerings for investors, Heidelberg was awarded fifth place in the Investor Relations Global Rankings of the management consulting firm MZ Consult.

In the competition for the best Annual Report held by the German business magazine 'manager magazin', for the fourth time we held first place among MDAX firms. Heidelberg held tenth place in the overall ranking of all assessed annual reports.

Our investor relations team looks forward to your questions and suggestions.

Heidelberger Druckmaschinen Aktiengesellschaft
Investor Relations
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69115 Heidelberg
Germany
E-mail: investorrelations@heidelberg.com
Phone: +49-62 21-92 60 21
Fax: +49-62 21-92 60 61

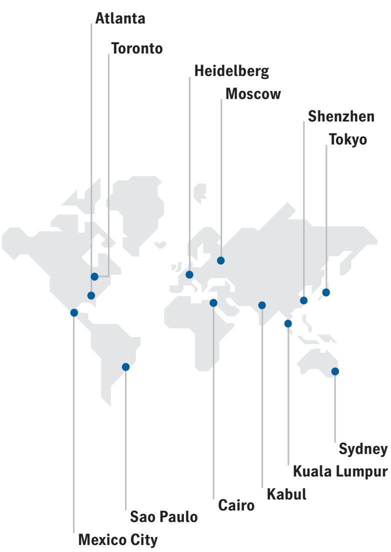
> THE GROUP AND UNDERLYING CONDITIONS

With production sites and sales units throughout the world, Heidelberg is the world's leading equipment supplier to the print media industry. Heidelberg's service and sales network is more extensive than the competition especially in the emerging markets. All our operations are managed by the Group's head office in Heidelberg.

Our presence in various economic zones generally makes it possible to offset cyclical weaknesses in one region with more favorable developments in other regions, for sales of sheetfed offset printing presses largely correlates with economic growth. During the financial year, economic and thereby overall industry development was also very favorable, with especially high growth rates realized in the emerging markets.

Heidelberg – the Group

> **World Market Leader in Sheetfed Offset**
> **Sole Supplier of Integrated Solutions**
> **Technologically Ahead of Competitors**



Locations of the Print Media Academy network

With a global market share of over 40 percent in Sheetfed Offset printing, we are the internationally leading equipment supplier to the print media industry. Although most of the production and head office functions are located in Germany, Heidelberg is a thoroughly international group. We generate nearly 87 percent of our sales internationally – of which approximately 60 percent is outside the European Union. Our extensive service and sales network encompasses the entire globe and is unique in our industry. We have a staff of over 7,500 sales and marketing specialists worldwide, nearly 3,800 of them service technicians. Our Print Media Academy network with meanwhile twelve international locations also offers customers exceptional services – the scope of our general and specialized training opportunities for printers is unique.

Business Conditions for Our Customers

Most of our 240,000 customers employ fewer than 20 employees. As can be seen in the chart on the right, print shops of this order of magnitude also account for most printing establishments overall.

Although the severe crisis in the industry has been overcome and the conditions for our customers have improved, competition continues to be intense in the industrialized countries. The prices for printed products continue to be under pressure.

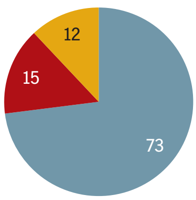
In the emerging markets, demand for printed materials has risen rapidly, with many new print shops being established every year. The financing of capital goods is often one of our customers' main difficulties. Many countries do not provide adequate financing for medium-sized firms.

Our Offer: Networked Solutions and High-Quality Service

We improve our customers' competitiveness by offering the appropriate solution for everyone, regardless of a print shop's size or location in the world. We are determined to cover all the requirements of our customers from a single source.

SIZE OF PRINT SHOPS WORLDWIDE

Share in percent



- < 20 employees
- 20 – 49 employees
- > 50 employees

Our solutions for Prepress, Sheetfed Offset, Flexo Printing and Finishing are based on future-oriented state-of-the-art technologies. We combine individual components from Heidelberg – including technology, software, and services – into a finely tuned system, with the individual components interlinked by means of Prinect, our own software solution. Prinect makes it possible for our customers to fully benefit from their streamlining and optimization potential and thereby generate a higher profit margin. Due to these continuous, finely tuned processes, customers are able to realize substantial cost advantages over their competitors, while at the same time considerably enhancing their flexibility. Systematic research and development make it possible for us to maintain our leading technological position. More information on this topic is presented on pages 69 to 71 of this Annual Report.

Also part of our solutions are the training programs offered by the Print Media Academies, providing our customers with supplies, and the sale of used printing presses. We additionally support our customers with personalized financing concepts, mediating between them and our cooperating partners as well as supporting our customers with our expertise. If no other sources are available to a customer, following determination of a favorable credit rating, we assume the financing ourselves. We have access to a global network of Print Finance companies in various currency zones.

Comprehensive service is immensely important, especially for print shops, because printing press downtimes are quite costly. Our Remote Service – a global, Internet-based service concept that replaces numerous on-site service visits by technicians – is worthy of note here. Our customers thereby receive greater printing press availability at lower cost. In a competition held by the IT trade publication Computerwoche together with the management consulting firm Gartner, during the financial year our Remote Service was named the IT Application of 2005.

We are aware of the havoc that a missing spare part can cause in print shops. Our 'World Logistics Center' in Wiesloch as well as our 'Americas Logistics Center' in Indianapolis, Indiana, deliver spare parts, generally overnight, throughout the world. During the financial year, these two warehouses together delivered a total of 380,000 consignments. This system of direct supply for customers actually entails cost advantages for Heidelberg, since spare part warehousing at local Heidelberg branch locations thereby becomes unnecessary.

Employees: Total of 18,716 People Working for Heidelberg Worldwide

Following several years of hefty declines, for the first time in quite some time, the number of employees remained stable during the financial year – totaling 18,716 employees as of March 31, 2006. Additional information on the subject of employees can be found on pages 66 to 68 of this Annual Report.

Three Divisions: Press, Postpress, Financial Services

The Press Division, which is our core business area, includes all the components, sales activities, products, and solutions offered by Prepress, Sheetfed Offset, Packaging, and Flexo Printing. Our sales activities in Web Offset Printing are integrated here as well. The entire Finishing area is part of the Postpress Division. Our customer financing operations are organized within the Financial Services Division.

Competition: Same Competitive Pressure Despite Varied Structures

We are the only manufacturer in our industry to offer comprehensive solutions. Furthermore, none of our competitors is able to integrate via software all the components of the printing process, ranging from management all the way to Production, Prepress, and Finishing.

In the Sheetfed Offset area, in addition to our two principal competitors, who are also located in Germany, there are a number of Japanese and increasingly also Chinese rivals. Many years of experience and a strong market position are of great benefit in this area of the precision engineering. For on the one hand, the development of a printing press entails considerable expense and necessitates enormous expertise on the part of personnel in development and production – our competitors also have years of tradition in this area. And on the other hand, suppliers require a functioning service and sales network in order to be in a position to serve this specialized market.

There is similar competitive pressure in the Finishing area. However, the market is structured differently there, as it is dominated by numerous small as well as three larger suppliers – including Heidelberg – who each hold a market share of over 10 percent.

Production Sites: Highly Varied Extent of Vertical Integration

We currently operate manufacturing facilities at 14 locations. Our Sheetfed Offset printing presses are manufactured in the production network at specialized German plants. Precision castings come from Amstetten; lathe-formed and profile-formed parts originate from the Brandenburg plant; and model parts, electronic components, and experimental parts are supplied by the Wiesloch plant – the world's largest printing press production site, where we also assemble all Sheetfed Offset printing presses. Our plant in China holds a special position. Beginning in financial year 2007, we will manufacture simple sheetfed offset printing presses for the Chinese market here. KHC Folders that are tailored precisely to the requirements of the Chinese market will initially be assembled here. The Swiss-based Gallus Group delivers label printing presses. The individual plants operate relatively autonomously in the Postpress area – among others in Germany, the US, and Slovakia.

The vertical integration in the respective individual plants is the result of Make-or-Buy Analyses. The Sheetfed Offset area currently covers nearly 60 percent of its parts requirements from external suppliers. Due to the type of products the share of non-Group suppliers is higher in the Prepress and Postpress areas. We have largely developed our Prinect software, which represents an important stand-alone feature, in-house. We ensure that delivered parts satisfy our demanding requirements by means of extensive supplier development programs.

KEY ECOLOGY DATA

	04/05	05/06
Production sites and R&D facilities with a certified environmental management system	8	9
CO_2 emissions in thousand tons[1]	196	199
Salvage quota in percent[2]	92	90

1) Parameters in accordance with Kyoto Protocol
2) Share of processed waste to total waste

Environmental Protection: Integrated Systematically

Maintaining the purity of water, soil, and the air, and handling raw materials and energy carefully – these have long been Heidelberg's top priority. The connection between comprehensive environmental protection, sustained profitability, and the development of environmentally friendly products is clear. If our printing presses require fewer resources, cause less waste, and release lower emissions while simultaneously increasing earnings, this protects the environment and contributes to the customer's success.

Every aspect of resource protection has been systematically integrated as part of both manufacturing and product development. We have already introduced environmental management according to ISO 14001 in over half of our production sites and R&D facilities, and preparations are under way in the other half. Knowledge transfer and environmental protection consulting also play a crucial role for us. Printers can acquire all the information about environmentally sound and cost-effective operations at first-hand from us.

Our Speedmaster Star concept demonstrates clearly that an economic and environmentally friendly printing process complement each other very well. This service was granted an Emissions Checked certificate by the Professional Association Printing and Paper Converting (Berufsgenossenschaft Druck und Papierverarbeitung e.V.). Due to the exceptionally low level of emissions, German buyers are eligible for government subsidies.

Each year, we also include all significant information concerning environmental protection at Heidelberg in our Sustainability Report. Additional information is available on the Internet at www.heidelberg.com.

Integrated and Functional: Lean Organization Shows Its Benefits

In connection with Heidelberg's reorientation, two years ago we introduced a new organizational structure for the Group, replacing the divisional structure and independent areas of operations with a tightly organized functional structure aligned to our core business. We further refined and integrated this structure during the financial year. The Group's overall interest now has even greater priority over the goals of individual organizational units. We again further improved our procedures and provide for more of a focus on product lines.

ORGANIZATIONAL STRUCTURE

Management Board

Dr. Herbert Meyer
Finance and Human Resources

- Accounting/Taxes
- Controlling
- Corporate Treasury
- Financial Services
- Investor Relations
- General Procurement
- Information Technology
- Human Resources
- Corporate Governance Office
- Corporate Insurances

Bernhard Schreier
Chairman of the Management Board and Sales

- Service and Sales
- Marketing
- Product Management
- Corporate Communications
- Corporate Development
- Internal Audit

Dr. Jürgen Rautert
Engineering and Manufacturing

- Manufacturing
- Research and Development
- Intellectual Property
- Production Material Procurement
- Quality Management
- Environment and Safety
- Postpress

The corporate organizational structure clearly shows that Heidelberg's three Management Board members have both strategic and operating responsibilities. They are thus deeply involved in the Company and can directly and quickly become involved in business operations.

We have described and disclosed all the guidelines of our organization in our organizational handbook, to which each employee has up-to-date access at all times via our Intranet. We thereby fulfill both the requirement of the Corporate Governance Code as well as the ISO 9001 quality standard, for which the Heidelberg company has been certified.

Thanks to our lean organization, our core business is clearly structured and decision-making processes have been accelerated. We are therefore ensured of meeting our customers' needs. Our purposeful implementation of this organizational structure is having a favorable impact on our business operations. Our organization is continuously adapting to changes occurring in the environment in order to ensure uninterrupted improvement.

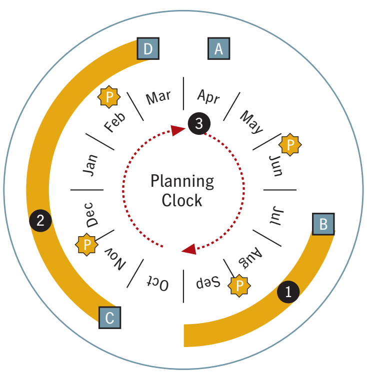
Legal Foundation – From the Articles of Incorporation

The history of Heidelberger Druckmaschinen Aktiengesellschaft goes back to 1850, when Andreas Hamm established his company in Frankenthal, Germany. The Company's domicile is now in Heidelberg, where its current legal form was established on May 30, 1899 under the name Schnellpressenfabrik A. Hamm Aktiengesellschaft. Through the end of the reporting year, Heidelberg was registered in the Commercial Register of the Heidelberg District Court under Company Register No. 4. Since March 2006, the Company has been registered at the Commercial Register of the Mannheim District Court under Company Register No. 330004. At financial year-end, Heidelberg's issued share capital amounted to € 212,609,800, apportioned among 83,050,703 shares. The Company was not holding any of its own shares as of the reporting date. Please refer to the Section 'The Heidelberg Share' beginning on page 16 for further information on this subject as well as details concerning the shareholder structure, and to the book 'The Figures' of this Annual Report beginning on page 82 for information concerning the Company's Supervisory Board and Management Board. No significant changes in the corporate legal structure are anticipated at the present time.

Management and Control – A Coordinated System

> **Planning and Forecasts Cover all Relevant Issues**
> **Risk and Opportunity Survey in all Organizational Units**
> **Management by Setting Objectives**

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

As a stock corporation, we believe that our highest goal is to sustainably increase corporate value for our shareholders. We feel that an appropriate degree of corporate governance is correct and important. That is why the Group's management and control system has been assigned a very high priority. During the deep crisis in the print media industry in recent years, the speed at which we were able to successfully complete our corporate reorientation and comprehensive restructuring measures had a decisive impact. As a result, we achieved an income turnaround in the previous year.

Timing for Systematic Planning and Management

We present on the left our planning clock, which illustrates how the processes of our systems for strategic and operational planning as well as management and control dovetail – both within the framework of our medium-term planning for five years as well as throughout a single year.

Work on strategy development and monitoring extends throughout the year and is closely linked to operating activities. The Management Board lays out the major goals in advance in the strategy meeting (A), as a result of which the Board together with members of senior management derive divisional strategies (B) from product areas, regions, and functional units.

The operational planning process (C) begins in November. The targets for the individual plans of the corporate units are fixed then, with detailed plans developed that lay out concrete action to be taken. The overall annual budget is later approved by the Management Board and Supervisory Board (D) and thereby forms the benchmark for the following year. Key factors for success as well as strategic goals and projects that have been established and prioritized flow directly into the Balanced Score Cards (BSCs) of the units and remain in force for one year. In this manner, our strategy is also reflected in the incentive systems.

We monitor the goals established by the planning process with the aid of the monthly reporting system. This system also forms the basis for our quarterly rolling forecasts (P). Within the framework of these forecasts, we assess the degree to which agreed-upon targets have been reached, thereby making it possible to undertake countermeasures in a timely manner.

Finance	Customers
> Sustainable increase in corporate value > Enhance the attractiveness of the Heidelberg share > Position Heidelberg to ensure adaptability to economic cycles	> Become the preferred partner for the print media industry > Enhance the attractiveness of print media through value added > Offer solutions to increase efficiency
> Optimize the customer-oriented organization > Ensure an integrated and functional organization > Create value added for our customers based on technological expertise	> Attract and retain creative, dynamic, and loyal employees > Support customer orientation among all of Heidelberg's employees > Optimize processes for continual raising of employee qualifications
Processes	**Employees/Training**

Balanced Score Card of the Heidelberg Group (excerpt)

Management Principle: Management by Objectives

We manage the entire Heidelberg Group based on the principle of Management by Objectives. This can be described as a process for establishing targets. In this manner, we ensure that our overall strategy is purposefully undertaken in all areas. This also includes the efficient application of resources and adherence to risk guidelines. Our Balanced Score Cards support all the Group's units – and, in the end, each employee – in their striving to meet all the resultant targets. We show the Group's current BSC on the left.

Core Financial Management Figures: ROCE, EVA and Free Cash Flow

Since our main focus is on a sustained increase in corporate value, the Return on Capital Employed (ROCE) and Economic Value Added (EVA) – key performance data that provide information about whether we have achieved an increase in value – play a key role in our management system.

The profitability of capital employed is determined by relating earnings before interest and taxes (EBIT) to the average operating assets in a financial year. We calculate the cost of capital based on the weighted average cost of capital – please refer to page 102 for additional information.

An additional measure is Free Cash Flow, the balance of net cash from operating activities and planned investments. This figure shows whether a company can afford to pay for necessary investments out of operating cash flow as well as whether funds exist for debt service or a dividend payment.

Core Figures Determine Targets for the Individual Divisions

We calculate ROCE, the value contribution, and free cash flow not only for the Group as a whole, but for the individual divisions as well. We also establish targets for other important management control figures – for example, the operating result and the calculated product result. We know precisely how much we are earning with a product in a particular region and we therefore always have an overview of the effect market developments could have. This also provides us with important information for optimizing our product portfolio.

However, we do not limit our analysis and assessment to 'hard' parameters alone, for non-financial 'soft' factors for success play an important role as well. For example, we acquire data on customer satisfaction – not least, by systematically appraising the service protocols that our sales and marketing specialists write up following each customer visit.

Incentive Systems at Every Level

We have established various incentive systems to make the vigorous pursuit of agreed-upon targets as attractive as possible. These include, among others, profit sharing by our employees, the employee share participation program, the stock option plan for members of senior management, and variable systems of remuneration that we have been increasingly emphasizing. The BSCs generally serve as the basis for determining whether goals have been reached. The system of remuneration for the members of the Management Board, which we describe in more detail in the following section, is also based on incentives.

Internal Corporate Communications Expanded

Since a solid flow of information is the basis for effective work by our employees, in recent years we considerably improved and expanded our internal corporate communications. This includes not only ongoing information sessions at all levels, but our Intranet offering as well. Employees are also kept informed by means of the corporate newspaper Heidelberg Post, which appears six times a year. Cross-divisional management units function as interfaces between the individual areas and functional units. Some have been established for the sole purpose of exchanging information, while others also make cross-sector decisions by majority vote.

Efficient System for Identifying Risks and Opportunities

How do we deal with risk? We follow the principle of risk optimization, according to which risks must be in proportion to profit expectations. We form an adequate provision to cover recognizable risk. Our policy on risk provisioning is generally conservative. We have also established a risk and opportunity management system, which is rooted in a well-established database. Last year, we adapted our methodology for identifying individual risk, overall risk, and opportunities so as to ensure that they are in line with our new organizational structure. We also optimized our reporting system. The Group's largest individual risks are now monitored and presented in even greater detail than in the past.

We retain proven processes and procedures. Our risk and opportunity management is uniformly applicable throughout the Group and is an integral component of the five-year planning process as well as the annual controlling and reporting processes. To ensure that our requirements are satisfied, we have published an organizational directive and published obligatory procedures in a corporate guideline. This approach makes it possible for us to systematically and purposefully take countermeasures against risks – including those that result from our strategy – and to consistently benefit from opportunities.

All the operating units and corporate divisions are solidly embedded in this risk and opportunity management process, under which information concerning risk and opportunity is collected at the local level and then summarized. The decision-making responsibility for an appropriate assessment and the proper handling of risks lies with each unit's top management. As a core responsibility of the members of senior management, all of them must maintain their focus on risk. Each quarter, risks are summarized at the Group level and reported to the Management Board. The Board thus regularly examines whether assessments need to be revised and determines the measures that need to be taken. Instant reporting is required, of course, should more serious risks unexpectedly arise.

After risks are identified, the key parameters – the probability of occurrence, the amount of loss upon occurrence, and the expected course a risk could take – are quantified for a particular planning period. The average annual result of operating activities serves as the basis for ranking risk categories. A uniform reporting threshold has been defined for each category. Since the divisions operate under a profit center orientation, risk management is closely linked with the process of operational controlling.

Our risk management system corresponds to Germany's legal requirements of the Corporation Control and Transparency Law. The effectiveness of our risk management process is regularly examined by our internal auditors – who additionally perform systems monitoring as part of the annual audit.

Details of how we confront interest rate, foreign currency, and liquidity risk can be found on page 47. We describe the Group's current risk environment beginning on page 81.

System of Remuneration for the Management Board and the Supervisory Board

> **Fixed and Variable Remuneration Components**
> **Variable Components Linked to Success Indicators**

The Law on the Disclosure of Management Board Remuneration requires that the basic characteristics of the systems of remuneration for the members of the Company's Supervisory Board and Management Board be included in the Management Report. Although these requirements are compulsory for financial years beginning after December 31, 2005, we already fulfill some of these provisions. Please refer to page 68 in the book 'The Figures' for details on remuneration.

The **members of our Management Board** receive a fixed monthly base remuneration. Variable salary components are also provided. On the one hand, an annual corporate bonus is paid depending 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 bonus paid according to success attained in reaching predetermined goals. If these goals are reached 100 percent, 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 members of the Management Board additionally receive pension rights (direct commitments) and payments in kind, mainly company cars.

The remuneration of the **Supervisory Board** is regulated in the Articles of Incorporation and approved by the Annual General Meeting. It consists of two components: an annual fixed remuneration of € 18,000 and a variable component that depends on the amount of the dividend. Remuneration of members of the Supervisory Board is € 750 for each € 0.05 in dividends per share paid in excess of € 0.45.

The Chairman of the Supervisory Board receives double the normal Supervisory Board remuneration, with the Deputy Chairman and the Committee Chairman receiving one-and-a-half times and the members of the Supervisory Board Committees one-and-a-quarter 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 of remuneration. Members of the Supervisory Board who only served on the Board for part of the financial year receive pro rata remuneration. A lump sum reimbursement for expenses is paid amounting to € 500 for each meeting day.

Underlying Conditions – Favorable Growth

> **Continuing Rapid Growth of the Global Economy**
> **Difficult Exchange Rate Structures in the US Market**
> **Increasing Production Volumes of Printed Products**

As a rule of thumb, one can say that in the Sheetfed Offset area, overall market growth develops in line with the average growth of the global economy. Growth rates in the industrialized countries fall slightly short of that of the gross domestic product (GDP), whereas in the emerging markets growth was somewhat more rapid. However, this relationship only holds true when growth is carried equally by private consumer spending and investments.

GROSS DOMESTIC PRODUCT[1)]

Change from the previous year in percent

	2003	2004	2005
World	4.1	5.3	4.8
USA	2.7	4.2	3.5
EU	1.3	2.5	1.8
Germany	– 0.2	1.6	0.9
Eastern Europe	4.7	6.5	5.3
Russia	7.3	7.2	6.4
Asia[2)]	8.4	8.8	8.6
China	10.0	10.1	9.9
India	7.2	8.1	8.3
Japan	1.8	2.3	2.7
Latin America	2.2	5.6	4.3
Brazil	0.5	4.9	2.3

1) Source: IMF, April 2006, previous year's figures adjusted
2) Excluding Japan

Global Economy: US, China, and the Emerging Markets Serving as Engines for Growth

Following successful performance in 2004, the global economy once again also grew at an above-average pace of 4.8 percent in 2005, with the ongoing high price of oil dampening the economic motor to a lesser extent than had originally been expected. The table on the left presents an overview of the development of GDP in our key individual markets.

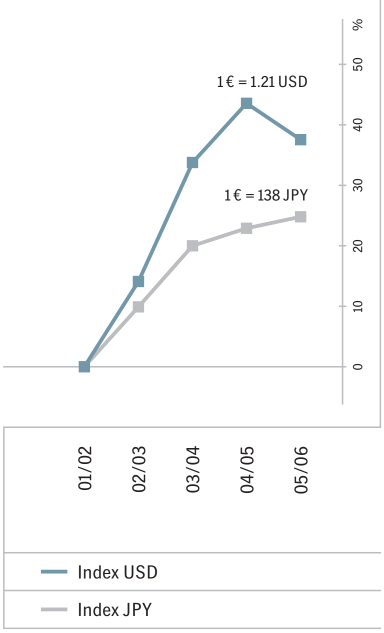
Overall economic output in the **US** – one of the world's most important growth centers – was primarily powered by private consumer spending. Although the Federal Reserve raised the prime rate during the year to 4.75 percent, this has not yet had a braking effect on the economy.

As in the past, the **European region** developed only modestly. Nevertheless, growth accelerated here as well during the second half of the year. The principal engine for growth was international demand, although investments were also up. By contrast, private consumer spending developed slowly – not least because high energy prices curbed consumer's propensity to spend.

Germany was still lagging behind general economic developments, although here as well the pace of growth picked up in the second half of the year. As in the past, the German economic situation largely depends on impetus from abroad, with exports again the sole engine for growth. As far as domestic demand is concerned, the volume of investments in machinery and equipment represents light at the end of the tunnel. By contrast, private consumer spending remained disappointing, with declining wage and transfer income due to the still poor labor market situation serving as a contributing factor. Private consumer spending acted as a brake on development in the **UK** as well, with the economy therefore growing at a slower pace than in the past.

APPRECIATION OF THE €

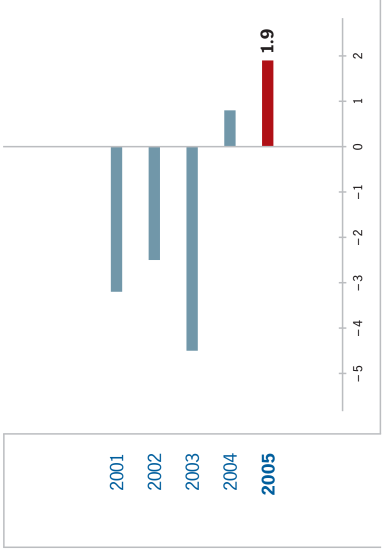
Average exchange rates during the financial year



(Index basis: 2001/2002)

SALES VOLUME OF PRINTED PRODUCTS (GERMANY)

Change from previous year in percent



Nominal figures; source:
German Printing and Media Industries Federation

The economy developed favorably in almost all countries of Eastern Europe. In **Russia**, however, developments during the year were characterized by declining foreign investments and a sluggish pace of privatization. This counteracted growth resulting from higher raw material prices.

In **China**, the pace of growth of recent years continued unabated. Whereas real exports continued to grow with undiminished vigor, the increase in imports slowed, with government measures to dampen investments having a noticeable impact here. In **Japan**, the comprehensive structural streamlining measures of recent years are bearing fruit, with the country freeing itself from stagnation and the GDP growing at a more rapid pace than had been expected.

The economy continued to grow at a rapid pace in the emerging markets of **Latin America**.

Difficult Situation for European Equipment Suppliers to the US Print Media Industry

Especially in the US market, the exchange rate relationships between the euro, US dollar, and the Japanese yen again resulted in extremely fierce competition during the financial year. The euro again declined slightly in value vis-à-vis the dollar following its latest record-breaking run of several years. Nevertheless, the euro-dollar exchange rate is currently still 38 percent above its level in financial year 2001/2002. The graph on the left shows that during the same period, the Japanese yen was only up by 25 percent – not least because Japan intervened in the financial market.

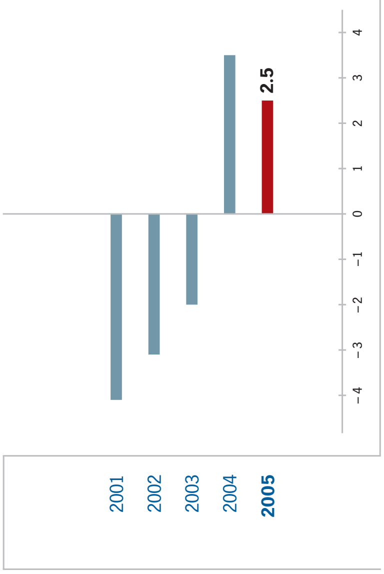
This constellation is the most unfavorable possible for German equipment suppliers, especially for those delivering to the US print media industry, because our Japanese competitors are able to offer their products at considerably more favorable prices.

Print Shops and Equipment Suppliers to the Print Media Industry Benefit from Economic Vigor

Generally favorable economic conditions strengthened the printing industry, which further recovered from the past recession in the industrialized countries. Trend indicators reflected renewed strength during the financial year. The production of printed products and investments in machinery and equipment for print shops in the emerging markets grew at a disproportionately rapid pace of 5 to 10 percent!

SALES VOLUME OF PRINTED PRODUCTS (US)

Change from previous year in percent



Nominal figures; source: NAPL (National Association for Printing Leadership)

We are particularly pleased that our core German market experienced an upswing as well. The business climate of the German printing industry leaped to its highest level since October 2000. The upward trend in capacity utilization also continued. A glance at the graph on page 32 shows the reason for this: the production volume for printed products is up considerably. Printing volume and capacity utilization increased in the US as well – however, with the index value for capacity utilization rising only towards the end of the financial year to just below 80 percent. So far, this has not yet been reflected in a higher volume of new investments. Overall, our industry's upswing in the US was only modest and fell short of GDP growth.

In our view, the financial year was quite successful overall for equipment suppliers to the print media industry – especially in view of the fact that drupa had been held the previous year. Generally, incoming orders decline in the year following drupa, the largest trade show for the print media industry – and this event in 2004 had been very successful for our branch of industry. Trade fairs held during the financial year also gave rise to satisfaction. Please refer to the sections 'Divisions' and 'Regions' for more background information concerning this issue as well as on the development of individual products.

INTEGRATION IN THE PRINECT WORKFLOW

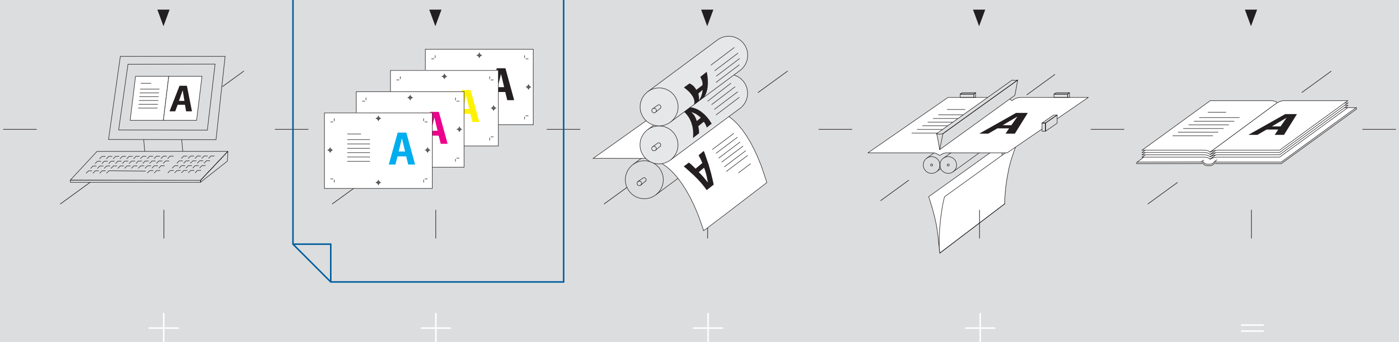
1 Management

2 Prepress

3 Press

4 Postpress

2 PRINECT IN PREPRESS: MORE EFFICIENT ORDER FULFILLMENT



PREPARATION FOR PRINTING – SIMPLY AND QUICKLY

'Prinect Production Solutions' guide the printing job and all the data through every stage of the printing process. Plate exposure proceeds quickly and simply since the platesetter is also integrated. At the touch of a button, the unexposed printing plate is first fed into the Suprasetter, then transported to the imaging process via the internal drum using the Heidelberg laser system, and is then ready for additional processing. The advantage to our customers? The fully automated workflow reduces the need for manual intervention and ensures shorter turnaround times as well as enhanced production security.

Prepress digital data: on the way to the printing press.

2 PRINECT IN PREPRESS: MORE EFFICIENT ORDER FULFILLMENT

FLEXIBILITY

SPEED

SECURITY

> BUSINESS DEVELOPMENT OF THE GROUP

Overall Picture

Thanks to the considerable reduction in the Heidelberg Group's structural costs and the divestiture of the loss-generating Digital and Web Systems divisions, we achieved a turnaround in profitability last year. For the first time in three years, we succeeded in again generating a positive value contribution for Heidelberg during the financial year. This is gratifying to us – as is the fact that we either attained or even surpassed all our forecasts.

It is worthy of note that incoming orders, which totaled € 3,605 million, exceeded the comparable previous year's volume, which had reflected business generated at drupa, the industry's largest trade show. Our sales have grown at a considerably more rapid pace than had been expected. We realized a growth in sales in each quarter over the same quarter the previous year. Our overall sales of € 3,586 million exceeded the comparable previous year's figure by just under 12 percent.

We generated a result of operating activities of € 277 million, thereby achieving an operating return on sales of 7.7 percent. This occurred despite ongoing high raw material prices, the high cost of startup of series production, and a relatively high cost of currency hedging. We were even successful in more than doubling net profit over the previous year to € 135 million!

Supplementary Report

No significant events occurred following the financial year-end. Please refer to our quarterly reports for information on current business developments.

Business Development – Increases in Incoming Orders and Sales

> **Incoming Orders Exceed the Previous Year's Level including drupa**
> **Marked Increase in Sales**
> **Greater Share of Sales in Emerging Markets**

Proof that confidence and propensity to invest rose in our industry during the financial year can be seen not only in the outcome of the major trade shows – China Print and Print 05 in the US – but in our favorable business development as well. This is a clear sign that the crisis has finally been overcome!

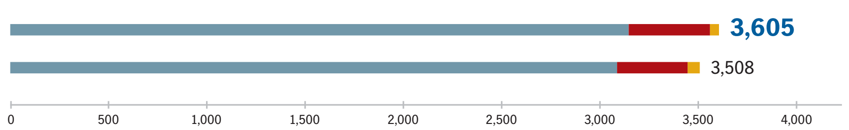
The print media industry had already shown in the prior financial year that it would find a way out of the crisis in small steps. However, as it was not fully clear that this development could be sustained, we only issued a conservative forecast in the form of a statement that on a comparable basis, sales for financial year 2005/2006 would exceed the previous year's level.

INCOMING ORDERS BY DIVISION[1]

Figures in € millions

2005/2006

2004/2005



	2005/2006	2004/2005
Press	**3,146**	3,087
Postpress	**413**	359
Financial Services	**46**	62
Continuing Operations	**3,605**	**3,508**
Discontinuing Operations	**0**	192
Heidelberg Group	**3,605**	**3,700**

[1] Continuing operations

Incoming Orders: Volume of Orders Averages € 900 Million Each Quarter

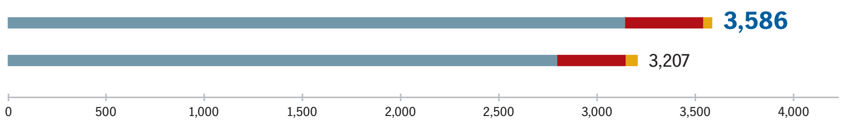
Overall, our volume of incoming orders of € 3,605 million surpassed the comparable previous year's figure – which is highly unusual for a 'post-drupa year'! In the previous year, our incoming orders were up primarily thanks to the drupa trade show. By contrast, during the financial year our customers' propensity to invest was high even without this trade fair. We can therefore look back on four strong quarters, during all of which we generated a high volume of incoming orders – an average of more than € 900 million. We were most successful during the third quarter, during which we generated orders exceeding € 965 million.

SALES BY DIVISION[1)]

Figures in € millions

2005/2006

2004/2005

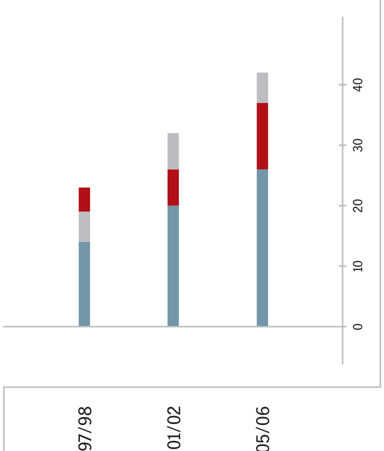


	2005/2006	2004/2005
Press	**3,142**	2,797
Postpress	**398**	348
Financial Services	**46**	62
Continuing Operations	**3,586**	**3,207**
Discontinuing Operations	**0**	153
Heidelberg Group	**3,586**	**3,360**

1) Continuing operations

EMERGING MARKETS' SHARE OF NET SALES[1)]

Share in percent



	97/98	01/02	05/06
Latin America	5 %	6 %	5 %
Eastern Europe	4 %	6 %	11 %
Asia/Pacific	14 %	20 %	26 %
Emerging markets	**23 %**	**32 %**	**42 %**

1) Heidelberg Group

We were particularly gratified with incoming orders for our Speedmaster XL 105. The order volume of € 250 million underscores how favorably the new printing press has been received by customers. Our new product generations in the Postpress Division were also highly successful, with incoming orders up 15 percent.

Our business development varied from region to region. We were successful in further considerably increasing the order volume over the previous year in the 'Asia/Pacific' region. We were also able to surpass the high previous year's figure in the 'Europe, Middle East and Africa' region. By contrast, our volume in 'North America' fell slightly. Although industry data improved here as well, our customers' capacity utilization rose towards the end of the financial year. This was reflected in a higher volume of orders in the fourth quarter. We expect continuing improvement during the current financial year.

Sales: Substantially Higher Than Forecast

The extent of the favorable development of sales surpassed our expectations. We began the financial year with a high order backlog. Since incoming orders were then greater than had been expected, we were able to boost our sales volume from quarter to quarter. In each quarter, sales exceeded the value of the same quarter the previous year. With an overall figure of € 3,586 million, we surpassed the comparable previous year's figure by 12 percent. Adjusted for the effects of the more favorable exchange rates, the increase amounts to nearly 10 percent.

The Press Division also generated strong growth, largely due to our Speedmaster XL 105. We were also successful in increasing the volume of business in the Prepress segment. In the Postpress Division, in particular the sales volume of our folding machines developed very favorably. Because we were successful in making arrangements to have a large portion of customer financing taken over by a financial partner, the interest revenues of the Financial Services Division declined together with the financing volume according to plan.

Large regional differences are also reflected in the sales figures. Although developments fell short of our expectations in the Eastern Europe region during the financial year, the trend of recent years nevertheless continued. The pace of growth of the emerging markets again stimulated not only the global economy, but the print media industry in the emerging markets also developed exceedingly well – especially in China, which grew to become our third largest market during the financial year. The causes of this development are clear:

> The economies of the emerging markets are growing at an above-average pace.
> The degree of saturation for printed products is significantly lower than in the industrialized countries.

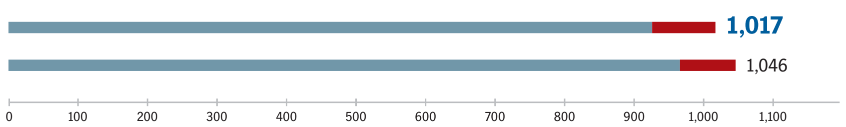
As can be seen in the graph on page 40, the emerging markets' share of sales rose further during the financial year to its current level of 42 percent. By comparison, during financial year 1997/1998 the share of these markets was still at only 23 percent! Heidelberg recognized early on the major importance and the enormous potential of these markets, consequently organizing an extensive global Service, Sales, and Financing network. This gives us significant advantages over our competitors, especially in emerging markets. We intend to generate additional growth potential through more favorable products that are specially developed for these markets.

ORDER BACKLOG BY DIVISION

Figures in € millions

March 31, 2006

March 31, 2005



Press	**926**	966
Postpress	**91**	80
Financial Services	**–**	–
Heidelberg Group	**1,017**	**1,046**

Order Backlog: High Capacity Utilization Assured

We had originally been working under the assumption that the relatively high order backlog at the beginning of the financial year would fall off slightly in the course of the year. Due to the favorable development of incoming orders, just the opposite occurred. The order backlog rose visibly from quarter to quarter, only declining again during the fourth quarter due to the high sales volume. As of March 31, 2006 the order backlog of € 1,017 million fell only slightly short of the very high previous year's figure. This is now securing us high capacity utilization for the first half of the current financial year. At financial year-end, the length of the order backlog was 3.5 months.

Results of Operations – Profitability Improved

> **Operating Return on Sales Rises to 7.7 Percent**
> **Staff Costs Down**
> **Net Profit More Than Doubled**

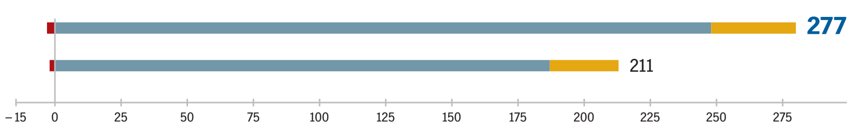
Following the thoroughgoing restructuring measures that were undertaken, we achieved an earnings turnaround in the Heidelberg Group during the previous year. We were able to further increase the result during the financial year – favored by the upswing of the print media industry and initial savings realized in the human resources area as a result of the pact to secure the future.

RESULT OF OPERATING ACTIVITIES[1)]

Figures in € millions

2005/2006

2004/2005



	2005/2006	2004/2005
Press	**248**	187
Postpress[2)]	**– 3**	– 2
Financial Services	**32**	26
Continuing Operations	**277**	**211**
Discontinuing Operations	**0**	– 40
Heidelberg Group	**277**	**171**

1) Before restructuring expenses; continuing operations, previous year's figures adjusted
2) Includes amortization of the goodwill of a subsidiary totaling € 6.5 million during the financial year)

Income Statement: Earnings Capacity Climbed from Quarter to Quarter

The consolidated result of operating activities reached € 277 million. We earned an operating return on sales of 7.7 percent during the financial year, compared with 5.1 percent the previous year, thereby reaching our target for this figure! We already exceeded the break-even point in the first quarter, subsequently increasing the result from quarter to quarter in line with the expanding sales volume. We generated a result of operating activities of € 135 million during the fourth quarter alone! Most of the growth was generated by the Press Division, although the Financial Services Division also surpassed the previous year's level – in part due to special effects. By contrast, our Postpress Division was still somewhat in the red – however, only because of amortization of goodwill. Operationally, Postpress exceeded the break-even point during the financial year.

In addition to the higher level of sales, reduced structural and staff costs made decisive contributions to our 62 percent increase in the consolidated result of operating activities – which occurred despite ongoing high raw material prices, higher costs for the startup of series production, considerable advance outlays for the development of our new products, and the relatively high cost of currency hedging.

INCOME STATEMENT[1)]

Figures in € millions

	04/05	05/06
Net sales	3,360	3,586
Result of operating activities	171	277
– in percent of sales	5.1	7.7
Restructuring expenses	13	0
Financial result	– 52	– 48
Income before taxes	106	229
– in percent of sales	3.2	6.4
Taxes on income	47	94
Net profit	59	135
– in percent of sales	1.8	3.8

1) Heidelberg Group, previous year's figures adjusted

Income Statement: Net Profit More Than Doubled

The development of various expense categories shows the success achieved by our measures for reducing structural costs. With a 6 percent increase in the total operating performance, staff costs decreased in the financial year. This was primarily attributable to the streamlining of the loss-generating operations and the consequent reduction in the average number of employees. In the continued divisions, staff costs increased merely by a moderate 1.9 percent – owing to our pact to secure the future as well as the streamlining of our structures. Other operating expenses grew at only a below-average rate, although currency hedging costs were up. Among other things, expenses for the drupa trade show arose during the previous year. Despite the additional expenses accrued due to higher steel and energy prices, the cost of materials also only grew in line with total operating performance. As in the previous year, our ratio of the cost of materials to total operating performance amounted to 43.5 percent. Depreciation and amortization was substantially in excess of the previous year's figures – largely due to the first-time amortization of R&D expenses that were capitalized the previous year for the Speedmaster XL 105.

The financial result improved from € – 52 million to € – 48 million. The previous year's figure had included a loss generated by the NexPress joint venture. Net interest of € – 43 million was slightly improved over the previous year's figure of € – 45 million. Taxes on income rose to € 94 million.

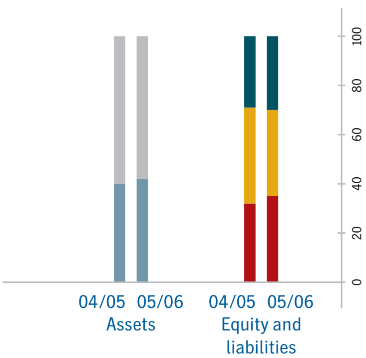
We thereby more than doubled our net profit to € 135 million from the previous year! The net return on sales increased from 1.8 percent the previous year to 3.8 percent, with earnings per share up from € 0.69 to € 1.58 now.

Net Assets – Equity Ratio Improved

> **Financing of Pension Rights Outsourced via CTA**
> **Receivables from Customer Financing Declined**
> **Equity Ratio Increased Despite Share Buyback**

BALANCE SHEET STRUCTURE[1)]

Share of total assets in percent



Non-current assets	40	**42**
Current assets	60	**58**
Shareholders' equity	32	**35**
Non-current liabilities	39	**35**
Current liabilities	29	**30**

1) Previous year's figures adjusted

The optimization of tied up assets is one component of our concept for an appreciation in value. On the one hand, we ensure that business assets are used efficiently, while on the other hand we sell off assets not required in business operations.

During the financial year we revised our balance sheet generation to bring it into agreement with IAS 1. As a result, we now structure our balance sheet based on non-current and current items. We have also restated our previous year's figures slightly – please refer to the book 'The Figures', beginning on page 15, for more information.

A glance at the balance sheet structure as of March 31, 2006 in the graph on the left shows that as a typical manufacturing enterprise, Heidelberg has a relatively high proportion of non-current assets – the refinancing of which, however, is more than covered by shareholders' equity and non-current liabilities. The Heidelberg Group's ratio of long-term financing to fixed assets of 1.6 continues to be high. Despite a marked decline in total assets during the financial year, this balance sheet structure has remained largely unchanged.

Assets: Total Assets Decline

The total assets of the Heidelberg Group fell by 10 percent to € 3,281 million during the reporting year. In part, the development of individual balance sheet items was just the opposite. To ensure greater transparency, we arrange changes according to the overall positions in the balance sheet rather than the term to maturity.

Intangible and tangible assets increased to a minor degree, with growth largely corresponding to the increase in investments. In line with the higher volume of production, we boosted our investments by 7 percent to € 169 million. In this manner, we were able to ensure the launching of new products and improve our competitiveness. Replacement and new capacity investments were again highly significant in production and production-related areas during the financial year, accounting for some 65 percent of the overall volume of invest-

ASSETS[1]

Figures in € millions

	04/05	05/06
Intangible and tangible assets[2]	805	808
Inventories	786	845
Receivables and other assets	828	868
Receivables from customer financing	565	496
Marketable securities/ cash and cash equivalents	485	80
Other items	191	184
Total assets	3,660	3,281

[1] Previous year's figures adjusted
[2] Includes investment property

ments. We invested approximately 15 percent of the total in IT machinery and equipment. In order to limit the commitment of capital to the greatest possible extent, we make use of leasing as a form of financing whenever it makes sense economically. This applied mainly to the car fleet and in the IT area during the reporting year. Plans call for the sale of investment property, which had a value of € 27 million at financial year-end.

Inventories rose by nearly € 60 million, including exchange rate effects of over € 20 million. This development was attributable to the launch of our new products as well as the high level of incoming orders. Growth was posted especially by unfinished products.

The increase in **receivables and other assets** reflect in particular the expanded business activity of the reporting year. Trade receivables rose at an especially rapid pace in the course of the fourth quarter, which is characterized by an especially high volume of sales.

By contrast, **receivables from customer financing** declined further, at the reporting date amounting to € 496 million – nearly € 70 million below the previous year's figure despite opposing exchange rate effects.

The perceptible decline in **marketable securities and cash and cash equivalents,** which was attributable to the implementation of the Contractual Trust Arrangement (CTA) in the fourth quarter, had by far the greatest impact on total assets. This outsourcing of pension rights funding entailed the transfer of fund assets totaling € 482 million to a trustee. The principal share of these fund assets comprised the specialized investment funds with a value of € 386 million as well as a cash payment amounting to € 96 million. What was the purpose of this transaction? We wanted on the one hand to improve the comparability of our financial figures in the international capital market, and on the other hand to noticeably reduce total assets.

EQUITY AND LIABILITIES[1]

Figures in € millions

	04/05	05/06
Shareholders' equity	1,166	1,138
Provisions	1,278	891
Liabilities	1,148	1,176
– of which: financial liabilities	615	570
Other items	68	76
Total equity and liabilities	3,660	3,281

[1] Previous year's figures adjusted

Equity and Liabilities: Capital Structure Optimized via Share Buyback

Despite the greater net profit, at financial year-end our **shareholders' equity** of € 1,138 million was slightly below the previous year's figure. We introduced a share buyback program in November in order to optimize our capital structure. Overall, we will buy back up to 5 percent of the share capital. The shares are to be either retired or used in employee share participation programs. We bought back 2,857,777 of our own shares at financial year-end, thereby reducing our shareholders' equity by approximately € 97 million.

Furthermore, we restated the presentation of the pension provisions. Through the application of the Third Option under the provisions of IAS 19, actuarial profits and losses are offset entirely in shareholders' equity without effect on the income statement and actual pension obligations are shown. Due to the decline in total assets, the equity ratio at financial year-end rose from 32 percent the previous year to 35 percent.

Largely due to the above-mentioned CTA, the **provisions** were considerably reduced during the financial year. The CTA resulted in a decrease of pension provisions to € 212 million.

The Group's **liabilities** increased slightly during the financial year. The reason for this development was the increase in trade payables as well as in payments related to the expansion of business activity. **Financial liabilities** fell to € 570 million during the reporting year despite the fact that in addition to operating activities, we also needed to cover the increased funding needs for the share buyback and the cash payment within the framework of the CTA. Our **net financial debt** – total financial debt[1)] plus pension provisions less marketable securities as well as cash and cash equivalents – consequently fell from € 731 million the previous year to € 672 million.

1) Financial debt: include the convertible bond, private placements, and liabilities to banks

Financial Position – Enhancing the Group's Financial Strength

> **Free Cash Flow at Approximately Previous Year's Level**
> **Burden Resulting from Outplacement of the Financing of Pension Rights**
> **Benefiting from Favorable Financial Terms**

The principal goals of our financial management are: enhancing the Group's financial strength, securing liquidity, and optimally managing the risks entailed by financial instruments.

We assign major importance to internal financing. Within the framework of our concept for the appreciation of value, we focus on measures for committing funds and thereby consistently reducing the external financing requirement.

Central Financial Management

The financing and liquidity of the Heidelberg Group is managed by the centralized Corporate Treasury unit. We are currently introducing a new in-house banking system designed to support us in global liquidity management. Under this system, Corporate Treasury is obtaining direct access to accounts held by the members of the Group. This will serve to further increase the Group's financial strength.

We minimize liquidity and financing risks throughout the Group at an early stage. Corporate Treasury identifies the Group's risks entailed by interest rates, foreign currencies, and liquidity and introduces appropriate measures and strategies in order to control these risks on a centralized basis – and in accordance with the guidelines issued by the Management Board. The separation of the functions of trading, processing, and risk controlling in this area is ensured as well as their physical separation – this is regularly monitored by our internal auditors. In addition, we operate a rolling monthly consolidated liquidity planning system, with whose help we are able to pinpoint early on potential trend discrepancies and liquidity risks that could arise.

We deal with risks from changes in interest rates and exchange rates by monitoring them through centralized foreign currency and interest management, controlling and limiting their effect with the aid of derivative financial instruments. Detailed information on this subject can be found in the book 'The Figures' on pages 32 and 59 to 62.

Cash Flow Statement:
Free Cash Flow at Approximately the Previous Year's Level

Our strong internal financing power was again underscored during the reporting year. Primarily because net profit more than doubled, our **cash flow** rose considerably to € 345 million, thereby totaling approximately 10 percent of sales.

CASH FLOW STATEMENT OF THE HEIDELBERG GROUP

Figures in € millions

	04/05[1]	05/06
Cash flow	232	345
Receivables from customer financing	178	68
Trade receivables	77	– 92
Other assets	– 17	55
Other provisions	– 77	– 9
Trade payables	– 38	14
Other liabilities	– 41	56
Other	– 53	– 31
Other operating changes	29	61
Outflow of funds from investment activity[2]	– 109	– 257
Free cash flow	152	149

[1] Previous year's figures adjusted
[2] Comprises pension funding during the reporting year amounting to € 124 million

In the area of **other operating changes** we surpassed the previous year's level with a cash flow of € 61 million, even though we had generated considerably higher cash flows in the previous year through the outplacement of customer financing. This increase is the result of opposing changes among individual items. Net cash used from trade receivables rose, which was primarily due to the expanded business activity. Other provisions were burdened in the previous year due to their use for restructuring measures. Repayments of loans and the sale of the ABS program had an impact on the other items.

Outflow of funds from investment activity amounted to € 257 million during the financial year. This high figure results primarily from the implementation of the CTA, which is reflected here in the charge of € 124 million. Furthermore, cash flows due to asset disposals noticeably declined during the financial year. Moreover, we moderately increased investments in line with the higher volume of business. More information on this subject can be found on pages 44 to 45.

Overall, despite the charge for the CTA, we generated a **free cash flow** – and thereby internal financing – totaling € 149 million. This fell only slightly short of the previous year's figure – on an adjusted basis we even considerably surpassed them! We used the funds primarily to fund the share buyback program and the dividend payment.

During the reporting year, we were able to reduce borrowed funds to the current level of € 570 million by reducing unneeded cash and cash equivalents. Beside the convertible bond, these borrowed funds now still comprise three private placements and – to a lesser extent – short-term bank credits. Additional information on this subject can be found on page 56 in the book 'The Figures'.

Improved Financing Structure

Our capital structure improved during the financial year. Our capital base was excellent, with an equity ratio of 34.7 percent at financial year-end.

In the area of borrowed funds, we took advantage of the low interest rate level to renew a long-term credit line even prior to its expiration in 2007 – at considerably improved conditions. The new contract covering a € 550 million syndicated line of credit runs to financial year 2010/2011 and comprises two one-year prolongation options.

In view of the favorable market environment, we also arranged for an additional private placement during the fourth quarter. We have access to large reserves of liquidity since we hardly made use of our firmly committed bank credit lines in the past. We are thereby able to continue offering our corporate units credit facilities that will also be adequate in the long term. We therefore do not foresee potential liquidity bottlenecks.

Significant off-balance sheet financing instruments exist for an administrative and production building of the divested Digital Division, for the Print Media Academy in Heidelberg, and for the World Logistic Center. Operating lease contracts, whose volumes we describe on page 63 in the Notes to the Financial Statements, were signed in previous years for these properties.

The success of our financial management is measurable. Thus, despite the outplacement of the financing of the pension provisions, the ratio of current assets to current liabilities – the so-called working-capital ratio – of 1.9 was only slightly lower than the previous year and continues at a high level compared with other firms in our industry.

Detailed information on our credit conditions, the currencies in which our financial liabilities are denominated, our price and interest rate hedging transactions, and the features of our financial management can be found in the book 'The Figures' on pages 56 to 57 and 59 to 62.

Value Management – Increasing Corporate Value

> **Value Contribution Again Favorable after Three Years**
> **Cost of Capital Reduced**

Our major goal is to sustainably increase the Heidelberg Group's corporate value in order to thereby satisfy the expectations of our providers of capital. Value contribution and ROCE are therefore our control system's central financial yardsticks. Please turn to page 27 for more information on this subject.

ROCE AND VALUE CONTRIBUTION[1)]

Figures in € millions

	04/05	05/06
Average operating assets	2,170	1,911
EBIT[2)]	152	260
ROCE in percent of operating assets	7.0	13.6
Cost of capital	199	176
in percent of operating assets	9.2	9.2
Value contribution	– 47	84
in percent of operating assets	– 2.2	4.4

1) Previous year's figures adjusted
2) Includes the result of operating activities before restructuring and income from investments

ROCE Improved – Value Contribution Again Favorable

We were successful in raising ROCE to 13.6 percent during the financial year – compared with only 7.0 percent the previous year! This development was the result of a marked improvement in the result of the reporting year, which we describe in detail in the section 'Results of operations'. In consequence of our divestiture of the loss-generating operations Web Systems and Digital and due to our continuing asset management, we were additionally successful in further reducing average tied assets. This also served to bring down the cost of capital, which fell by € 23 million from the previous year and amounted to only 9.2 percent of the operating assets. Despite the changes in capitalization implemented during the reporting year, the weighted average cost of capital thereby remained at the previous year's level.

As result, we were thus able to earn a value contribution of € 84 million, or 4.4 percent – a positive number once again for the first time for the past three years! Information on the model calculation as well as how the cost of capital is calculated can be found on page 102.

Key Importance of Off-Balance Sheet Intangible Assets

Non-capitalized intangible assets also entail considerable potential for our strategic competitive position – and thereby, the future trend of Heidelberg Group's value. These are therefore important yardsticks for the management of the Company.

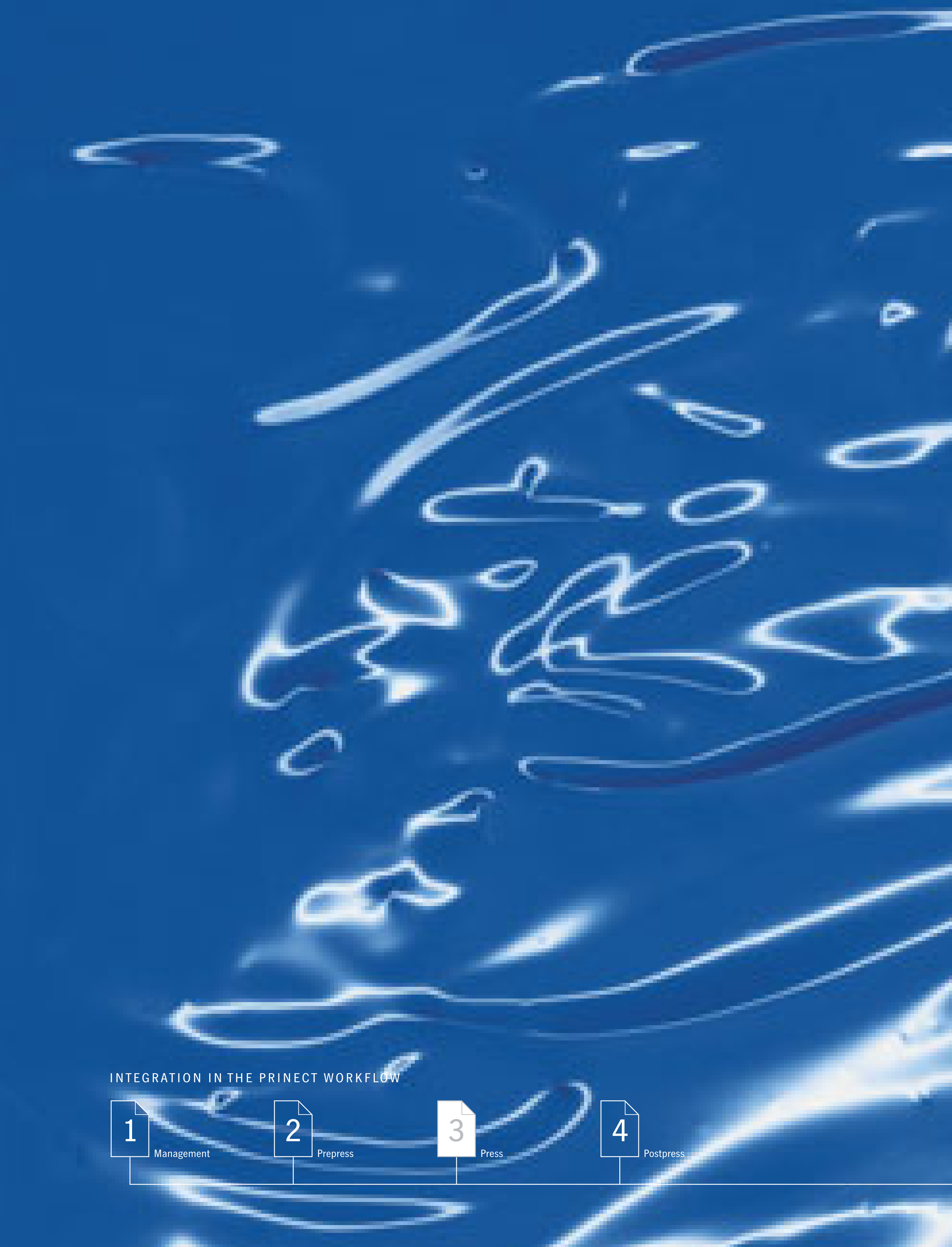
Heidelberg's reputation with customers is a key factor for success. 'Heidelberg' is a strong, internationally established and respected **brand name.** The high quality of products that carry this name is esteemed worldwide. To ensure that this continues to apply in the future, our first priority in all our product developments as well as product range expansion focuses on usefulness to the customer. Since the beginning of the reporting year, we have been working with our concept customers even more closely and at increasingly earlier stages of development.

Our employees are crucial factors for our **innovative power,** which has a material influence on our future competitiveness. For example, we registered 153 new patents during the financial year. More information on this subject can be found on page 71.

The expertise and experience of **employees** are of considerable value, especially in precision engineering. In order to maintain the staff's high level of knowledge, specialized further training enjoys high priority at the Heidelberg Group. Moreover, we offer vocational training opportunities in a wide variety of areas ourselves. The training quota at Heidelberger Druckmaschinen Aktiengesellschaft is over 6 percent of all staff.

The **process expertise** of the organization is a further important factor in our corporate success. This is most evident in our good relationships with suppliers. We have achieved excellent delivery reliability because of our organization of systems suppliers, our close cooperation with our suppliers, and because of their inclusion in the planning process at an early stage.

Our highly productive and lean manufacturing processes form an outstanding basis for further success in the global competition. Additional key factors are a logistics system, which is finely tuned to the requirements of manufacturing, and our World Logistics Center. Following completion of our project High Performance Production 2006, we converted the knowledge and achievements that were gained into a comprehensive manufacturing system. We have adapted important areas of manufacturing and processes to the changed market dynamic – namely, with the requirement that the greatest possible degree of reliability, flexibility, and quality be realized at the lowest possible cost.



INTEGRATION IN THE PRINECT WORKFLOW

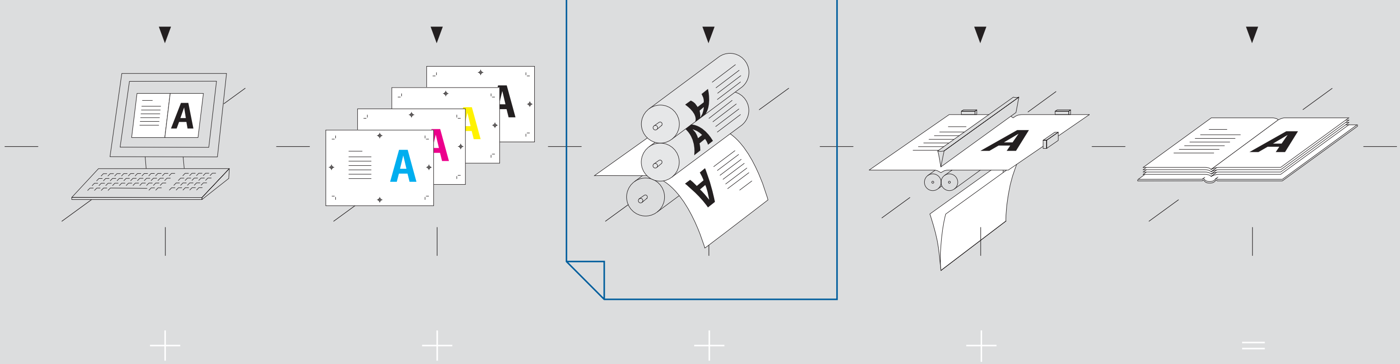
1 Management

2 Prepress

3 Press

4 Postpress

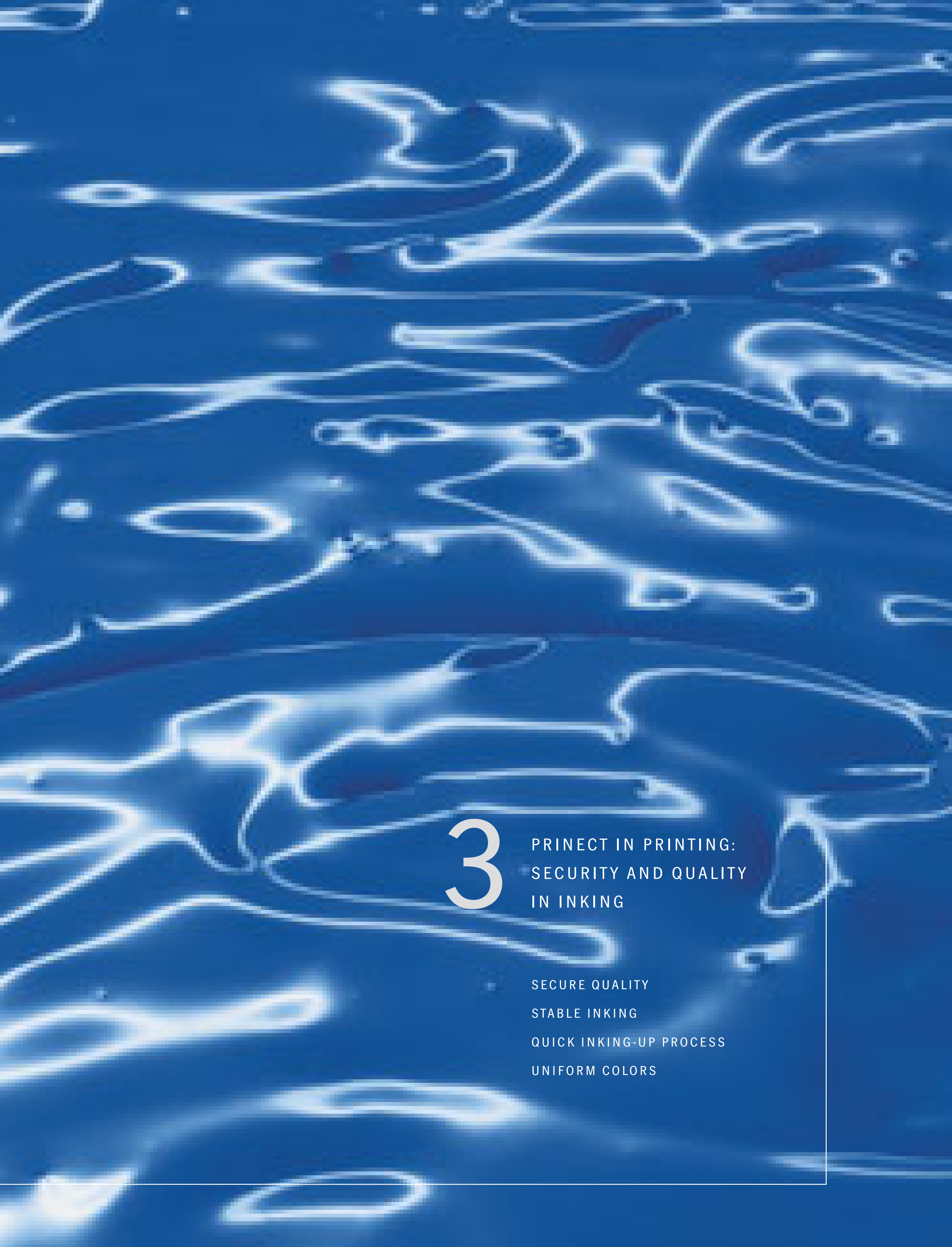
3 PRINECT IN PRINTING: SECURITY AND QUALITY IN INKING



COLOR MANAGEMENT, FROM PREPRESS ALL THE WAY TO THE PRINTING PROCESS

Color management is a challenge for all printers. Does the intensive blue in the customer-approved proof match exactly the printed color in the final print? Is color luminosity still adequately intensive after 10,000 prints? With its intelligent feedback control system, our ‘Prinect Color Solutions’ correct even the smallest discrepancy. The ongoing reconciliation of Prepress with the printing press – in this example, a Speedmaster XL 105 – reliably ensures the highest quality and accelerates the printing process. Our customers can thus reduce their makeready times and spoilage by up to 25 percent, always producing the best possible results.

From plate cylinder to paper – and then onward directly to Finishing.



3 PRINECT IN PRINTING: SECURITY AND QUALITY IN INKING

SECURE QUALITY

STABLE INKING

QUICK INKING-UP PROCESS

UNIFORM COLORS

> DEVELOPMENTS IN THE BUSINESS AREAS

Heidelberg is the technological leader of the industry. At the IPEX trade show, which was held in the UK in April 2006, the Company was again successful in underscoring this position with its over 20 innovations following the launch of a product offensive already at drupa 2004. Heidelberg plans to introduce its new Very Large Format at the next drupa.

Research and development consequently enjoys high priority in the Group. R&D expenses will grow further over the next few years, thereby making it possible to quickly launch innovative products in line with market conditions.

Continuous innovations also require the ongoing training of the sales team. Our global network of Print Media Academies (PMAs) is a great advantage here. During the current financial year, a PMA will also be established in India. The number of our sales and marketing specialists remained stable during the financial year – as was also the case for our employees overall. Among the regions, there was a shift in favor of our principal growth market 'Asia/Pacific'.

The high quality standards of Heidelberg can only be fulfilled through high levels of employee qualifications. For this reason, we intensified specialized further training programs during the reporting year, with systematic training for members of senior management playing an important role.

Divisions – Press, Postpress, and Financial Services

> **Strong Increases in Incoming Orders and Sales**
> **Increasing Success of Solution Provider Approach**
> **Expansion of Market Share in Package Printing**

We rounded out our range of products in the areas of Workflow Software, Prepress, Printing Presses and Finishing in recent years, at the same time closely coordinating these developments among the divisions. Our sales organization has completed an extensive process of renewal and training in order to clearly emphasize the advantages of our solutions in dialogs with our customers. We augment our offerings by comprehensively and promptly servicing our customers and supplying them with spare parts and supplies.

Increasing Importance of Establishing a Network: Prinect Gains Ground

Consistently designing our products on a modular basis makes it possible for us to target small, medium-sized, and large enterprises. It pays off for print shops to buy our solutions in the workflow area as well. Introducing automated procedures by means of our Prinect software is affordable in startup situations and the expense is generally amortized within a period of one year. This type of basic workflow can be subsequently expanded, ranging all the way to an entirely networked and automated workflow environment based on the three pillars: ‘Management Solutions’, ‘Production Solutions’, and ‘Color Solutions’. Our solutions are forward-compatible since we consistently use the standard JDF data format, while at the same time remaining open to interfaces required by the market.

Packaging Solutions: Increase in Market Share

Package printing is independent of advertising industry cycles, offering stable growth of 5 to 7 percent per annum. Up to now, Heidelberg has had a considerably smaller market share in this segment than in commercial printing. We intend to expand our share in the next few years. How do we intend to achieve this?

> Our new Speedmaster CD 74 and Speedmaster XL 105 printing presses have a number of qualities that are especially suitable for package printing.

> Our range of products is being augmented by finishing machines for the production of folding boxes.
> At the next drupa, we intend to introduce new equipment and solutions for the entire added value chain of package printing. Among other things, we will invest in large format presses up to 162 centimeters in the future.
> We expanded our position in label printing during the reporting year through the acquisition of a participation in the firm BHS Druck- und Veredelungstechnik GmbH.

PRESS

Figures in € millions

	04/05	05/06
Incoming orders	3,087	3,146
Net sales	2,797	3,142
Order backlog	966	926
Research and development costs	173	192
Investments	143	156
Number of employees	16,653	16,684
Result of operating activities [1]	187	248

[1] Before restructuring expenses, previous year's figures adjusted

Press Division: Result up 32 Percent

One of the most important events during the reporting year for the Press Division was China Print. The high levels of incoming orders generated at this trade show again underscored Heidelberg's already strong position in the Asian region. This is all the more remarkable because it occurred against the background of our Japanese competitors benefiting from an exchange rate advantage. Nevertheless, we were extremely satisfied with business developments in Japan as well. In the US, on the other hand, the foreign currency situation resulted in tougher competition. Our open house presentations in Germany – at which we provided information and advice to customers primarily on Prinect's color programs – were very favorable. The fact that we were able to generate such a high volume of orders in this economically very difficult market can be seen as confirmation of the high quality of Heidelberg's offerings.

Overall **incoming orders** of € 3,146 million surpassed our expectations. We managed to exceed the previous year's level, even though drupa had taken place that year! Demand for our 70 × 100 format continues to be strong, primarily in Asia. Especially successful were our new Speedmaster XL 105 and Speedmaster CD 74 perfecting printing presses. The target groups for these two products are commercial printing plants with a wide range of print stock as well as label and packaging print shops.

We were not only successful in Sheetfed Offset printing. In the Prepress segment, our innovative Suprasetter platesetter is doing well in the market. We were successful in increasing incoming orders in the flexo printing press area as well.

We generated € 3,142 million in **sales** – up by 12 percent – although we will only deliver some of the ordered printing presses in the current financial year. Our Speedmaster XL 105 played a significant role in the sales increase. From the regional point of view, we were especially highly successful in China.

The **order backlog** as of the March 31, 2006 reporting date of € 926 million was only slightly below the high previous year's level. A high level of capacity utilization is thereby secured for the first few months of the current financial year.

Our outlays for **research and development** in the Press Division amounted to approximately € 192 million. Funds were allocated primarily to the expansion of our product platforms – among others, to our important very large format project for packaging and commercial printing.

Investments of the division of € 156 million accounted for 5 percent of sales, thereby surpassing the previous year's level of € 143 million. In addition to the startup of products, investments focused on streamlining projects to increase flexibility and reduce manufacturing costs. Especially worthy of mention is our project 'High Performance Production 2006', which we completed in March and which concentrated on optimizing internal manufacturing structures and processes, and thereby improved Heidelberg's competitiveness. The results are being further developed.

The pact to secure the future already paid off during the reporting year. Since the capacity of our Wiesloch plant was fully utilized in important areas, we benefited from the greater flexibility. The number of our **employees** of 16,684 as of the reporting date March 31, 2006 was only slightly higher than the previous year.

A substantial increase in staff costs could also be prevented thanks to the pact to secure the future. The success of the restructuring measures in recent years is also reflected not least in this division's **result of operating activities** of € 248 million – up by 32 percent over the previous year. This occurred despite high prices for raw materials, advance services for the development of our new products, and the relatively high cost of currency hedging.

Postpress: Increases of Incoming Orders and Sales

Our Postpress Division underwent a complete reorganization in recent years. We not only extensively restructured this division and merged locations, but also almost wholly replaced the product portfolio with new generations of printing presses. Moreover, the Eurobind System 4000 represents an entirely new adhesive binder system that we developed all the way to market readiness during the reporting year.

During the financial year under review, **incoming orders** rose by 15 percent, **sales** by 14 percent, and the **order backlog** also by 14 percent. The new products introduced at drupa 2004 served as engines for growth. Our folders, which were more in demand by customers than in the past during the reporting year,

POSTPRESS

Figures in € millions

	04/05	05/06
Incoming orders	359	413
Net sales	348	398
Order backlog	80	91
Research and development costs	23	22
Investments	14	13
Number of employees	1,946	1,946
Result of operating activities[1]	– 2	– 3

[1] Before restructuring expenses; includes € 6.5 million of goodwill amortization during the reporting year

developed especially favorably, with their sales rising by 29 percent! Also, because in the Finishing area we manufacture in part in the US, we posted success and gained market share in this market, which currently poses serious difficulties for us due to foreign currency developments. However, we are not yet satisfied with the packaging area, where we intensified product and marketing measures in order to realize greater success and generate above average growth rates.

In the research and development area, we worked under full steam during the reporting year in preparation for IPEX in April 2006. Although our **R&D expenses** fell slightly short of the previous year's level, all the Postpress products presented at the trade show were less than two years old. **Investment** outlays were also slightly below the previous year's figure and were primarily for modernizing the Ludwigsburg plant.

We succeeded in coping with the in part enormous growth in demand without increasing human resources. As of the reporting date, the number of **employees** of 1,946 was at exactly the previous year's level.

Postpress achieved a break-even result operationally during the reporting year – it appears that our restructuring measures are already paying off. Nevertheless, goodwill amortization totaling € 6.5 million in the fourth quarter brought about a **result of operating activities** of € – 3 million.

Financial Services: Cooperative Agreements Expanded

We consistently and successfully continued to pursue our customer financing strategy during the reporting year. As in the past, our principal focus is on mediating between finance companies and our largely medium-sized customers – whom we provide with advisory support based on our financing expertise. We further intensified our cooperative agreements with German and international partners. For example, in December 2005 we succeeded in transferring to a leasing company most of the remaining financing portfolio under our US ABS program – including the entire financing risk. We had set up this ABS program in financial year 2001/2002. Our cooperation with Euler Hermes Kreditversicherungs AG to cover export financing risk also developed favorably.

We generally only take on direct funding after a favorable credit rating and when financing cannot be arranged through one of our financing partners.

FINANCIAL SERVICES

Figures in € millions

	04/05	05/06
Net sales (interest revenue)	62	46
Cost of materials (interest expense)	17	9
Gross profit (net interest)	45	37
Result of operating activities	26	32
Receivables from customer financing	565	496
Provision for risks	142	133
Aquired counter-liabilities	309	271
Number of employees	80	86

This division's figures again clearly reflect the continuation of our financing strategy. Despite opposing exchange rate developments, our **receivables from customer financing** fell further to € 496 million. This occurred even though again during the reporting year approximately 30 percent of our sales volume was attributable to the mediation of credit and to the Company's own financial arrangements. **Interest revenue** and **net interest** declined as a result of a falloff in the average inventory of interest-bearing receivables. We were nevertheless able to boost the **result of operating activities** to € 32 million – the result not only of some special effects, but primarily to the improvement of the quality of our portfolio and resultant decline in losses from customer financing.

With 86 **employees,** the number of employees in this division rose slightly over the previous year's level.

Considerable Sales Potential for New Press and Postpress Products

Our new products will serve as engines for growth over the next few years (please refer to the back cover of this Annual Report for an overview). The most important factor here is our Speedmaster XL 105. During the reporting year, we worked on expanding this model's numerous variations. Models included in our Postpress product offensive also went into series production during the reporting year. We anticipate especially high growth rates from folders, the Eurobind 4000, and our package printing products.

We introduced over 20 product innovations at IPEX in April 2006. Prinect's process integration was the centerpiece of all the presentations. With our 'Integration System', 'Prinect Pressroom Manager', and our in-line color measuring instrument 'Prinect Inpress Control' we again introduced unique international innovations. With our new 'Anicolor' zoneless inking unit the shortest of runs can be produced with considerably less expenditure of time or cost of materials, thus providing for much improved margins. Our customers will be able to move ahead of their competition in the future by offering double-coat and cold-foil finishing. The 'ColdFoil' module for the Speedmaster CD 74 and CD 102 model series makes it possible to add high-quality metallic surface coating based on foils, providing persuasive brilliance on highly varied print stocks. Our customers can achieve more differentiation in the Postpress area with our new Saddlestitcher ST 450, which is also thoroughly appropriate for creative and extraordinary applications.

Regions – Generally Favorable Development

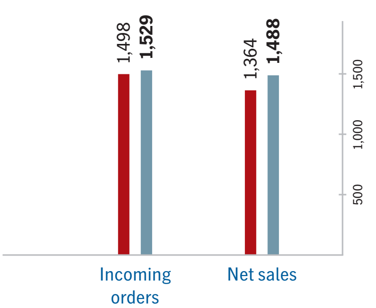
> **Solid Growth in Asia/Pacific and Latin America Regions**
> **Successful Launch of the Speedmaster XL 105**
> **Business Processes Further Optimized**

In nearly all countries, during the reporting year we were successful in expanding our volume of business to a greater extent than expected. The print media industry continued its upswing – print shops have a need to catch up with their investments. We recorded significantly above-average growth, particularly in the emerging markets – for example, in China. This was attributable on the one hand to Heidelberg's broad range of attractive product offerings. On the other hand, our local sales capabilities have a broad geographic coverage, a considerable distribution density, and are operated by a highly motivated team.

We further optimized and standardized business processes in the area of sales and service during the reporting year – for example, by establishing 'Shared Service Centers' and standardized software applications.

INCOMING ORDERS AND NET SALES[1]

Figures in € millions



2005/2006		
2004/2005		
Incoming orders	1,529	+2%
Net sales	1,488	+9%

[1] Continuing operations

Europe, Middle East and Africa: Sustained Upward Trend

The financial year was highly successful in this region – our largest. Although incoming orders had grown at an extremely rapid pace in the previous year due to drupa 2004, during the reporting year we were even successful in increasing orders by an additional 2 percent!

Our sales grew by 9 percent. We are particularly pleased with the successful market introduction of the Speedmaster XL 105, which was very well received, especially in Germany. Strong medium-format sales of the Speedmaster CD 74 as well as the Suprasetter's clear improvement also contributed to the solid growth.

In **Germany,** where incoming orders were auspiciously high, we were able to strengthen our market position. Our A3 Inforum at the beginning of the reporting year and the open house events in the autumn attracted considerable interest. The increasing demand for printing presses shows that the investment backlog of recent years is slowly dissolving. We expect increasing numbers of print shops to decide in favor of new investments in order to maintain their competitiveness. We reduced our local sales costs by merging our eight branches into five sales regions without reducing direct contact with customers. This year, we will further advance the optimization of marketing structures.

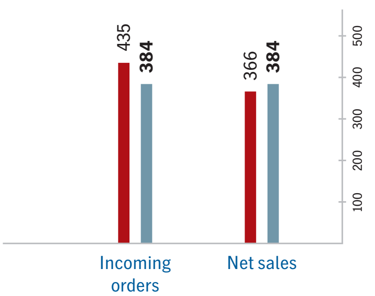
In the **UK** as well, numerous customer events contributed to the high level of incoming orders. The IPEX trade show in April 2006 marked this year's first highpoint.

The comprehensive restructuring measures undertaken in recent years are paying off in **France.** Under new management, we won over our customers through quality and intensive support. Incoming orders are on the rise.

Spain and **Scandinavia,** which generated excellent business figures, also performed outstandingly well. We achieved significant growth in Southern Europe, especially in Finishing. Replacement capital investments in highly automated modern printing presses were generally on the rise. Projects involving complex printing presses for special applications were sold in **Africa** as well. We were successful in expanding our business volume in the markets of the **Middle East.**

INCOMING ORDERS AND NET SALES[1)]

Figures in € millions



2005/2006		
2004/2005		
Incoming orders	384	–12 %
Net sales	384	+5 %

1) Continuing operations

Eastern Europe: Restrained Development of Business

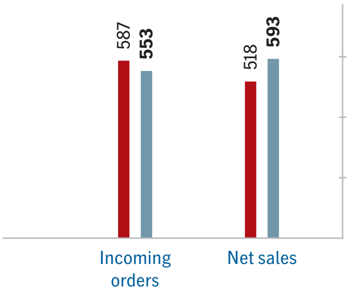
An economic upswing was evident in almost all countries in our Eastern Europe region during the reporting year. This development was especially noticeable in Poland and the Czech Republic – for the print media industry as well. Conditions in Russia, however, where declining foreign investments and sluggish privatization efforts hampered an economic upswing, were difficult. We had to defend our market position in the entire region under difficult conditions, with our competitors vehemently striving to expand their position.

We sustain a local presence with customers to better maintain our market position. We took advantage of the Polygraphinter trade show in Moscow to exhibit the comprehensive range of Heidelberg products. We presented the Speedmaster XL 105 at our open house presentation in Vienna to visitors from Austria and neighboring countries with considerable success.

Attributable primarily to the impact of conditions in Russia, incoming orders in the region declined by 12 percent. Additionally, as a result of severe competition, a trend towards consolidation has led to restraint among print shops in their investments in new printing presses – they tended to rely more on used printing presses, which of course had an impact on business with new printing presses. Our sales, which were supported by a high order backlog at the beginning of the reporting year, rose by 5 percent.

INCOMING ORDERS AND NET SALES[1)]

Figures in € millions

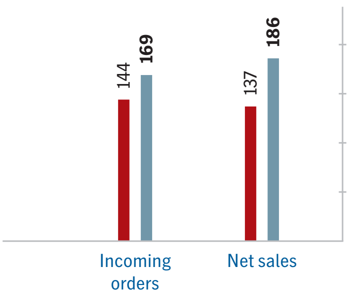


2005/2006		
2004/2005		
Incoming orders	553	– 6 %
Net sales	593	+ 14 %

[1)] Continuing operations

INCOMING ORDERS AND NET SALES[1)]

Figures in € millions



2005/2006		
2004/2005		
Incoming orders	169	+ 17 %
Net sales	186	+ 36 %

[1)] Continuing operations

North America: Wait-and-See Stance

The ongoing strong economic situation in North America caused a gradual acceleration in printing volume during the financial year. The weakness of the Japanese yen vis-à-vis the euro created a marked price advantage for our Japanese competitors in the dollar region. The share of this region in the sales of the Heidelberg Group decreased again – in financial year 2000/2001, the US had been by far our most important single market. This development was attributable to the sale of two former divisions – ‘Web Systems’ and ‘Digital’ – which had their principal sales market in the US, as well as to the vigor in the emerging markets.

The Print 05 trade show in Chicago reflected a slight upward trend of the US print media industry. Also highly popular was our Prinect Experience Tour, which permitted visitors to acquaint themselves with the entire workflow management package based on the example of a production process. Our Customer Center at Kennesaw, near Atlanta, which we opened in May 2005, has already established itself as a popular forum for know-how and solutions.

Although key figures for our industry improved in the US as well, our customers’ capacity utilization only rose towards the end of the reporting year, reaching 79 percent in March. Since printers continue to have a wait-and-see attitude, a greater volume of new investment has yet to occur. However, the current situation offers a good point of departure for investments in the current financial year. Our incoming orders in the region declined by 6 percent. By contrast, demand for Heidelberg solutions in the Canadian market remained stable. We were successful in generating a substantial, 14 percent growth in sales in this region.

We continued to implement our package of cost-reduction and efficiency-boosting measures during the reporting year – with initial successes, as our profitability in the region has improved considerably.

Latin America: Substantial Increases

The upward trend in the Latin America region continued during the reporting year. In particular the strengthening of local currencies had a favorable impact on overall market conditions. Our customers were once again in a position to undertake investments – which was also due to the superior financing opportunities offered by the Financial Services staff. As in the past, our customer financing was an important argument in making purchasing decisions.

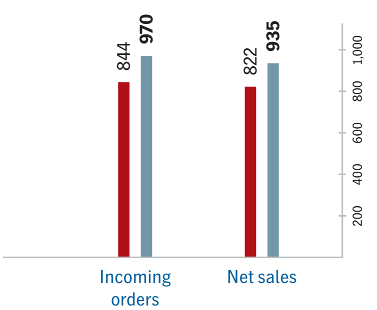
The Imprexpo trade show in **Mexico** represented an exceptional startup for us in the reporting year, with orders transacted at the trade show laying a cornerstone for a successful year. Many of our customers reported favorable business developments, which were reflected in a higher volume of incoming orders for Heidelberg.

The continuing stable economic growth in **Brazil** had a stimulating impact on the print media industry of the entire region. The presentation of the Speedmaster XL 105 at an open house presentation in Brazil was favorably received.

Overall incoming orders in the region rose by 17 percent, with sales up by even 36 percent over the previous year!

INCOMING ORDERS AND NET SALES[1)]

Figures in € millions



2005/2006		
2004/2005		
Incoming orders	970	+ 15 %
Net sales	935	+ 14 %

1) Continuing operations

Asia/Pacific: Continuing Strong Impetus

The upward trend in the Asian region continues. In line with economic growth, the business volumes of our customers are continuously rising. Although China is still our principal engine for growth, we were successful in defending our high market share and generating high growth rates in Japan and Australia as well. In a difficult competitive environment, we were successful in asserting our position as market leader for Sheetfed Offset printing presses throughout the Asian region.

Overall incoming orders rose by 15 percent over the previous year, with sales up by 14 percent. To a large degree, this success was the result of the trade shows China Print, Pacprint in Australia, and JGAS in Japan.

The region also continued to be our key market for the A1 format during the reporting year. The Speedmaster XL 105, which we successfully introduced in Australia, China, Japan, and Singapore, was well received by our customers. We foresee solid sales and a favorable outlook for the new folder generation Stahlfolder KH/TH. Feedback from customers has been highly positive.

We are establishing a production site in Shanghai in order to benefit even more from the enormous Chinese growth in the future.

A strong market is developing in India, which is quite promising for us due to the rising demand for printed products. During the current financial year we will establish a Print Media Academy in Chennai in order to satisfy the increasing requirements of our customers.

Employees – Obtaining Needed Qualifications

> **Pact to Secure the Future Reduces Staff Costs**
> **Focusing on Employee Development: Future Requirements**

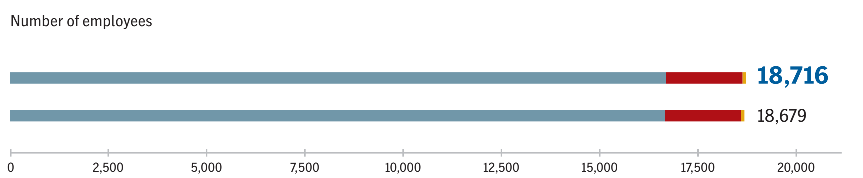
As of the reporting date March 31, 2006 the Heidelberg Group had 18,716 employees worldwide. Following several years of hefty declines, for the first time in several years this figure was stable compared with the previous year. As can be seen in the graph below, by far the most employees work in the Press Division; 68 percent of our employees are working in Germany.

As previously announced, we reduced staff costs further. The Management Board and staff representatives signed an agreement to this effect covering our German units. The provisions went into effect on May 1, 2005 and run through March 31, 2008 and in some cases up to 2010. Our pact to secure the future will have a decisive impact on human resources policies in the coming years. The annual savings through financial year 2007/2008 accumulate to approximately € 100 million. We already benefited noticeably from the pact during the reporting year.

EMPLOYEES

March 31, 2006

March 31, 2005



	March 31, 2006	March 31, 2005
Press	**16,684**	16,653
Postpress	**1,946**	1,946
Financial Services	**86**	80
Heidelberg Group	**18,716**	**18,679**

Pact to Secure the Future Strengthens Competitiveness

A glance at the most important points of the pact makes clear that it does not only focus on reducing staff costs and job protection, but also on the comprehensive enhancement of competitiveness:

> Working time was increased by approximately 5 percent without compensation, and opportunities to enhance flexibility were expanded. In general, overtime bonuses are no longer paid. In return, an annual pension component was agreed upon that runs up to 2010.

> A commitment was made to budget investments in research and development as well as production through financial year 2007/2008 in an amount equal to the average R&D outlays over the past three years. Moreover, agreement was reached to maintain a training quota of approximately 6 percent and to intensify specialized further training.

> Company bonus payments were reduced and the method of calculation revised.
> Depending on business developments, as a matter of principle there will be no business-related terminations during the life of the agreement.
> The new uniform collective wage agreement for workers and employees (known by the abbreviation 'ERA' from the German term 'Entgeltrahmen-Tarifvertrag') will go into effect on January 1, 2007. Some future increases under the collective bargaining agreement will be taken into account.

Introduction of ERA: Complete Implementation Beginning on January 1, 2007

We will wholly implement the master collective bargaining agreement – in short, ERA based on the German term 'Entgeltrahmen-Tarifvertrag' – beginning on January 1, 2007. For the first time, both blue-collar and white-collar employees will then be treated equally under the collective bargaining agreement. ERA thus provides us with a modern compensation system that reflects the requirements of today's workplace, offering greater transparency and more justice in all job groups. The work of each employee is systematically recorded and measured according to an extensive catalog of criteria. The right information and communications measures are important for us. Additionally, all the members of senior management are being extensively trained to be in a position to discuss in detail all the aspects of ERA with their subordinates.

Approval of Company Pension System Based on Defined Contributions

We made the decision to switch from a defined benefit Company pension plan to a defined contribution system. This change has meanwhile been partially implemented, thereby permitting us to more clearly foresee future developments and make it possible to better take into consideration Heidelberg's cost trends in our planning.

High Level of Qualifications – High Level of Product Quality

Our determination to always provide exclusively the highest quality in every aspect of our solutions is only possible due to the high qualification of our employees. Our global network of Print Media Academies benefits us in particular in the area of specialized further training of our sales and marketing specialists.

Acquiring and retaining highly qualified and motivated employees and members of management is a key focus of our human resources policy. This policy is furthered, for example, by our highly regarded international Heidelberg Graduate Development Program. We cultivate our good reputation as an employer, among other things, by promoting university marketing. The alternative work forms we offer also help us in competition with other employers. Ensuring the compatibility of the family and one's profession is an important factor here.

Need for Specialized Further Training: Recording and Supplying Systematically

It is crucial for our effectiveness that we maintain our employees' high level of motivation and qualifications – a task that we secure by means of a systematic and networked process. How do we undertake this? We use all possible internal sources of information in order to record the extent to which our employees need specialized further training to ensure that they are in a position to deal with future requirements as well as possible. Crucial in this are the results of employee talks, which are based on corporate goals.

Increasing the Effectiveness of Specialized Further Training by Diverse Methods

In our specialized further training programs we not only favor external programs, but also make use of a wide variety of methods in order to ensure that our employees gain qualifications in an effective manner. In doing so, with our extensive e-learning offerings and project work we support the trend to independent learning. These procedures are showing a direct and considerable benefit – and compared with external training programs, they are very low in cost.

The development of our members of senior management is especially important for us. We successfully continued the programs for members of senior management during the reporting year. Additionally, we introduced the 'Heidelberg Leadership & Management' system worldwide. This program establishes uniform requirements for the management of both business processes and employees.

Corporate Suggestion Programs: Successful Idea Management

During the reporting year, we expanded our corporate suggestion program into modern idea management. The result: a total of 4,456 ideas were submitted – over 20 percent more than in the previous year. We were able to increase the benefit accrued from new suggestions by 47 percent. The corporate suggestion program resulted in overall savings of € 2.7 million during the reporting year, of which € 1.2 million came from new suggestions.

Research and Development – Focus on Benefit to the Customer

> **Development of New Format Category**
> **Prinect: Integration of All Products in the Form of a Stand-Alone Feature**
> **Key Goal: Additionally Reducing Makeready Time**

Our strategy and therefore also our research and development activities center on two questions: What are the challenges existing for our customers, and how can we help them meet these challenges?

We emphasized this factor back at the beginning of this Annual Report. Our customers must cut their costs and offer new opportunities to differentiate them from their competitors. This will make it possible for them to realize long-term success and generate adequate profits – not least because the prices for printed products fell in the course of the crisis of recent years. Moreover, the average print run will decrease further and the number of orders will rise.

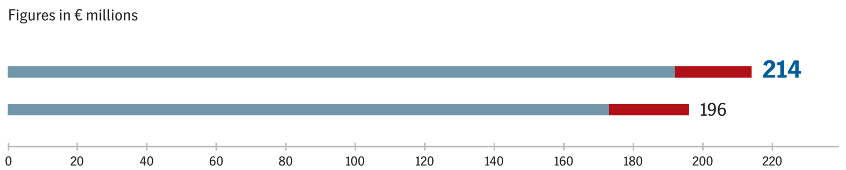
The cost structure of our customers, which we show on page 79, is therefore a strategic point of departure for our R&D work. Each reduction in makeready time and in spoilage that we achieve with our work is worth hard cash for our customers.

Additionally boosting productivity is also an important goal for us. The greater speed of our solutions for long print runs expands the economic deployment of Sheetfed Offset printing presses in a job order environment that in the past could only be served by Web Offset printing.

R&D Rate Continues High

We invested € 214 million in research and development during the reporting year, compared with expenditures of € 196 million for continuing operations in the previous year. Most outlays were for the startup of series production of products introduced for the first time at drupa in May 2004. Please refer to pages 57 to 61 for more detailed information. Despite the increase in sales, R&D rate – the ratio of R&D costs to sales – of 6.0 percent therefore also remained at about the previous year's level. We will continue to maintain a high R&D rate over the next few years – among other things due to our penetration of the new format segment. We will thereby assert our leading position ahead of the competition.

RESEARCH AND DEVELOPMENT COSTS



	2005/2006	2004/2005[1]
Press	**192**	173
Postpress	**22**	23
Continuing operations	**214**	**196**
Discontinuing operations	**0**	15
Heidelberg Group	**214**	**211**

[1] Continuing operations

Unless our areas of core expertise are involved, economic viability analyses have sometimes resulted in our acquiring expertise from outside suppliers or our participation in attractive companies or partnerships. During the reporting year, together with partners we implemented projects for sensory technology and optics, pneumatic parts systems and peripheral equipment, technical basic development in printing, as well as engineering projects. This approach has proven itself. Partnerships with universities and institutions augment our internal basic research, for which we continue to invest approximately 5 percent of our R&D expenses.

Rapid Market Introduction with Solutions Based on Need

In order to accurately satisfy the needs of the market, we work together closely with concept customers. This helps prevent costly undesirable developments (see also pages 83 to 84 on this subject). The issue of 'time' is also becoming increasingly important for us. We can best amortize our R&D expenses if we succeed in reducing to the greatest possible extent the time span required from the beginning of the development up to market launch. We already laid the groundwork for the optimization of processes in our research and development in recent years – for example, our new CAD system will be launched at all levels by the end of 2007. Although the system entails considerable additional expenditure at the beginning – not least because employees must be trained and familiarized with the system – the effort later more than pays for itself. Data is already displayed during the development phase and can be used throughout, all the way to series production. Development cycles can be shortened, which results in a shortening of time from the beginning of the development to market introduction. While in the past five years were necessary, today only four years are required.

Package Printing: New Format Category at the Next drupa

At the beginning of the reporting year, we began developing a generation of printing presses for a larger format category that had not yet been served by Heidelberg. We intend to introduce this new generation of printing presses in the format categories 6 (102 × 142 centimeters) and 7b (120 × 162 centimeters) at drupa 2008. By doing so, we will be offering our customers solutions that go beyond our existing portfolio and penetrate the market for package printing with greater force.

Reducing Makeready Times Thanks to the Perfect Interplay of Prinect with New Automation Components

Over the next few years, new products and product functions will make it possible for us to retool more quickly for different orders and considerably shorten the production start-up time. Optimal networking of all our components with our Prinect software is making a significant contribution to this development. The integration of all a print shop's management, production processes, and products creates substantial economic benefit for our customers. Over the next few years as well, the focus of attention of our R&D will therefore be on the areas of software and management. Approximately 400 employees have been assigned to this area.

We were thus able to present software innovations as well as numerous Prepress, Press, and Postpress innovations at IPEX. Please refer to page 61 for more information on this subject.

Adapting the Organization

Our research and development is structured in a matrix-based organization according to product lines. Umbrella functions that are significant for all lines are supported by the line teams, including among others: printing press control, printing press and printing technology, as well as design and product safety. With the startup of development activity for our new largest format, at the beginning of the reporting year we also adapted the organization and expanded it through the addition of a new line.

Highly Qualified Employees: Patents Registered for 153 New Inventions

At financial year-end, a total of 1,524 employees, or 8 percent of the overall staff, were employed in research and development. Work focused to a relatively equal extent on mechanical and electrical engineering, the software area, and supporting activities.

The quality of our work heavily depends on the qualification of our R&D employees, of whom 53 percent have a university or specialized college degree. Our registration of 153 new inventions during the financial year is clear evidence of the performance of our employees. As of March 31, 2006 Heidelberg had a total of over 5,000 patents that had been registered and granted throughout the world.

QUALIFICATIONS OF R&D EMPLOYEES

Share in percent

	05/06
University degree	25
Specialized college degree	28
Technical or master craftsman diploma	14
Skilled workers	29
Commercial training	4
Total	100

INTEGRATION IN THE PRINECT WORKFLOW

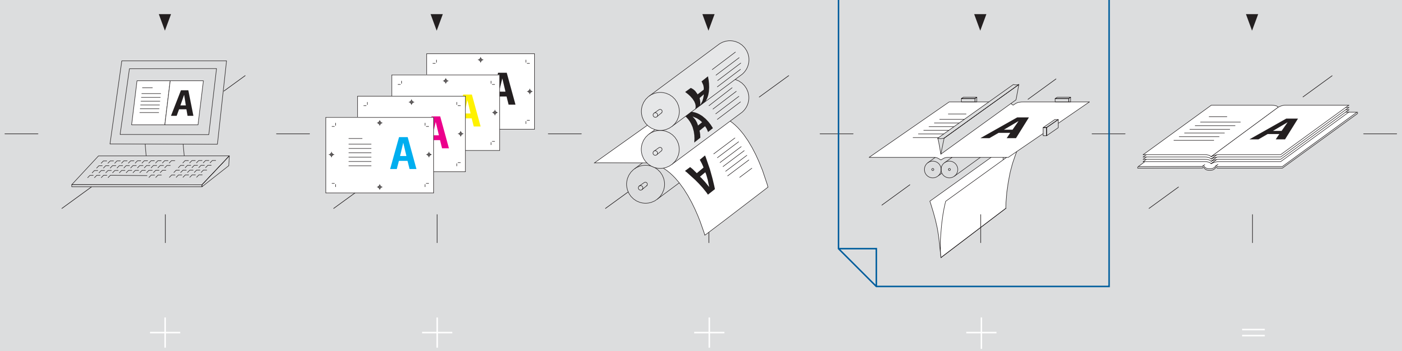
1 Management

2 Prepress

3 Press

4 Postpress

4 PRINECT IN FINISHING: OPTIMALLY PREPARED MACHINERY AND EQUIPMENT



SECURE ALL THE WAY TO FINAL COMPLETION

Folding, die-cutting, stitching, adhesive binding, and packing … Finishing, with its numerous and highly varied production stages, has an enormous impact on the effectiveness of the overall process. Using Prinect, our customers can also utilize data generated at the Prepress stage to integrate their die-cutters, folders, and saddle stitchers. As a result, printed sheets can be moved at a very rapid pace – for example, through the ‘Stahlfolder’, which is shown above. Its knife unit makes precise folds, and after stitching, the completed prints are soon prepared for final shipment.

The basis for ensuring that the last stage runs smoothly as well: Prinect’s data flow, which is always current.

4 PRINECT IN FINISHING: OPTIMALLY PREPARED MACHINERY AND EQUIPMENT

CONTINUOUS DATA FORMATS

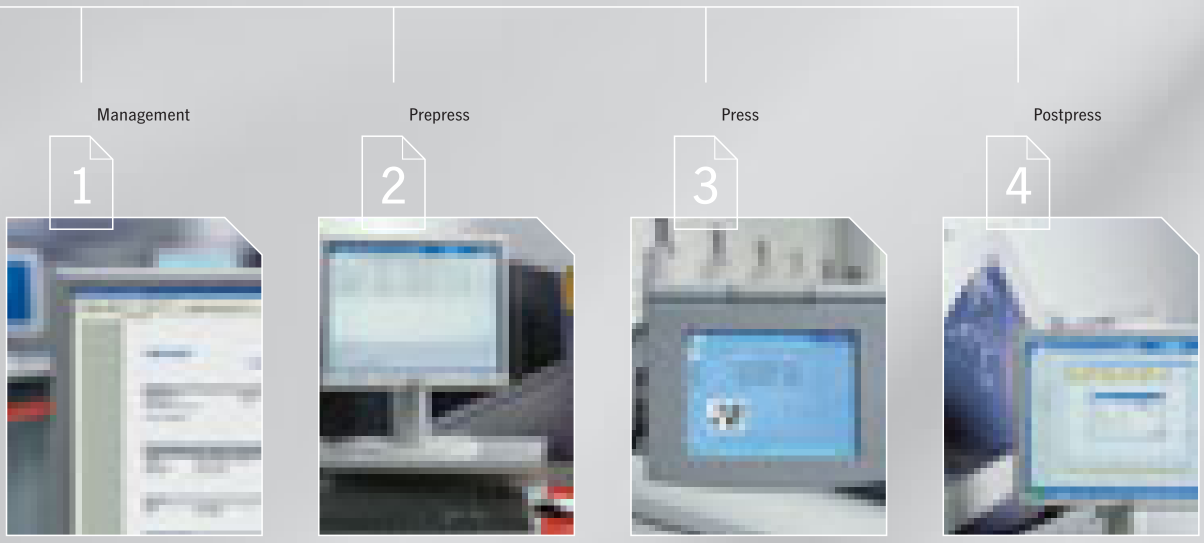
UNAMBIGUOUS COMMUNICATION

QUICKEST POSSIBLE REACTION TIME

ACCELERATION OF ALL PROCESSES

> PRINECT – THE NETWORKED PRINT SHOP:

TRANSFORMING INDIVIDUAL STAGES INTO A COMPREHENSIVE SYSTEM



> The key to the business success of print shops is to operate effective printing presses and run a software system that intelligently links every stage of the printing process and all components. Heidelberg recognized this early on, and as a result developed 'Prinect'. As a comprehensive software system, 'Prinect' integrates Prepress, Printing, and Finishing, as well as the management of preliminary costing and post-calculations.

The perfect interplay of all components opens the door to greater transparency, superior quality, and an optimal flow of orders. Print jobs are completed securely and quickly – and thereby profitably.

Prinect thus makes an important contribution to increasing the productivity of the print shop and generating a higher profit margin.

> THE FUTURE: POTENTIALS, OPPORTUNITIES, AND RISKS

Overall Picture

Current developments of the printing industry indicate that the print media industry in the industrialized countries will continue to recover and the printing volume will grow further over the next few years. Past experience from the industry's cycles point in the same direction: following several crisis years, our industry is currently only at the beginning of the third year of the upward trend.

We believe that the higher demand for printed products and the improved capacity utilization of print shops will result in a greater propensity to invest in production goods by the print media industry in 2006.

As in the past, however, the emerging markets will contribute the largest share to growth in our industry. This entails considerable potential for Heidelberg, as we are represented in these countries with the most extensive sales network in our industry. We accept the corresponding country risks for this development – our overall risks have fallen from the previous year.

Our strategic approach of offering solutions, of penetrating package printing to a greater extent, of taking advantage of our presence in the emerging markets, and of expanding our business with service and equipment will bear fruit in the future.

Due to the increase in sales, to the pact to secure the future, and to other cost reduction measures, the operating return on sales should reach approximately 10 percent during the current financial year.

Strategy – Exploiting Additional Potential for Growth

> **Further Increasing Customer Benefits through Integrated Solutions**
> **Taking Advantage of Strong Presence in Emerging Markets**
> **Further Growth through Customer-Driven Applications**

We intend to further strengthen Heidelberg's position as an internationally leading supplier to the print media industry and to gain additional market shares. We will achieve this

- by ensuring that due to our solutions, Heidelberg's customers are ahead of their competition in terms of flexibility, speed, and effectiveness;
- by expanding our product portfolio in the package printing segment;
- by taking full advantage of the potential for growth in the emerging markets – including the servicing of these markets with special products;
- by further enhancing our competitiveness through the optimization of our production process; and
- by further standardizing and optimizing our sales processes.

Expanding the Product Portfolio and Promoting Networking

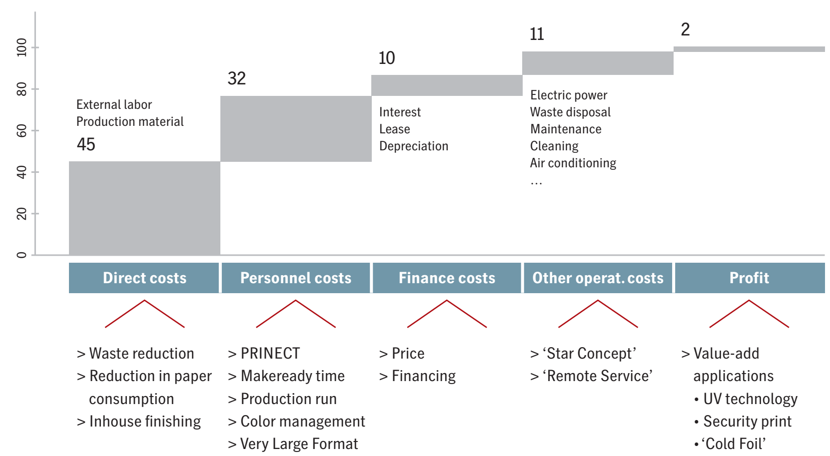
Our range of products will focus on two issues over the next few years: we will expand our solutions for package printing, and we will help our customers reduce their costs and increase their efficiency to an even greater extent.

In the package printing market segment, we see growth potential in particular in the printing and finishing of folding boxes. We will therefore develop a new generation of printing presses in the format category up to 162 centimeters by the time drupa 2008 is held. We can optimally serve this market segment with these large-format Sheetfed Offset printing presses as well as with our die-cutters and folding carton gluers that we already offer in our product portfolio. Moreover, we cooperate with Saueressig Security International GmbH, Vreden – together, we intend to develop cost-effective processes that make it possible for package print shops to provide security features and surface coating in one manufacturing process. Package print shops will thereby be in a position to offer their final customers effective protection against brand name piracy – a problem that has been worsening considerably in recent years.

With our solutions, we help our customers optimize all the significant expense components of their income statement on a sustained basis. As can be seen in the graph below, material and staff costs account for some 75 percent of the costs of print shops. On the other hand, depreciation of printing presses only accounts for approximately a 5 percent share. We will therefore vigorously further promote the integration of all components in the added value chain via Prinect, thereby considerably reducing makeready times for printing presses. We will additionally further cut back on spoilage by means of technical innovations – printing ink and the disposal of the resulting special waste are costly processes; furthermore, the price of paper has been increasing noticeably.

AVERAGE COST STRUCTURE FOR THE PRINTING INDUSTRY

Figures in percent



Source of the cost structure: BVDM, 2005; data for the year 2003

Using the Competitive Advantage of the Service and Sales Network

The quality and reliability of our service is often a central issue in our customers' purchasing decision – after all, machine downtime is quite costly for print shops. For good reason, therefore, we intend to further develop our Remote Service, an Internet-based service tool, so that it can recognize and rectify technical problems at an early stage.

Our extensive service and sales network gives us particular advantages over our competitors, especially in the emerging markets. We were usually the first to establish local marketing structures that ensure direct customer contacts. For this reason, we also hold a superior position for taking advantage of additional potential.

Worldwide, over the next few years we intend to intensify our business with consumables and spare parts as well as our service, thereby generating a greater volume of sales.

Improved Competitiveness through Production Optimization

The competitiveness of European suppliers increasingly depends on the optimization of their production processes. For quite some time, therefore, at our manufacturing facilities we have been favoring modern technology with a high degree of setup flexibility and the greatest possible efficiency. We also decisively reduced manufacturing costs at our German plants through our comprehensive measures to reduce structural costs.

Moreover, we are able to take advantage of the opportunities offered by the emerging markets in manufacturing as well. During the reporting year, we were our industry's first European supplier to set up a plant in China, where beginning this financial year we will manufacture, among others, sheetfed offset printing presses specially for the Chinese market. Initially, we will only assemble folders there. Both products ensure an outstanding approach to permanent customer relationships with ambitious print shops. Since as far back as 2003, we have been manufacturing individual parts and modules for Postpress products in Slovakia.

Financial Strategy: Enhancing Heidelberg's Corporate Value

Our financial strategy aims primarily at increasing the corporate value of the Heidelberg Group. At the same time, we intend to enhance our financial strength and ensure the Heidelberg Group's operating ability to take action. In addition, we will make the Heidelberg share even more attractive by further increasing our financial capability in the future as well. Moreover, in recent years we began improving our adaptability to economic cycles – among others, by reducing structural costs and financial liabilities as well as optimizing our capital structure through the share buyback program.

Risk Report – Decreased Risk Due to Improved Underlying Conditions

> **Lower Strategic Risks**
> **Greater Freedom from Cyclical Fluctuations**
> **Consistent Surveillance of Current Developments**

DEVELOPMENT OF RISK GROUPS

Status: 31-Mar-2006
Change from previous year

Economic situation and markets	↘
Industry and competition	↘
Products	↘
Finance	→
Performance	→
Overall risk	↘

↘	Risk reduced
→	Risk unchanged

We describe our system for ascertaining, assessing, and minimizing strategic risks in the section 'Management and Control' on pages 28 to 29. In the section 'Financial Position' on page 47 we report on our risk management with a view to financial instruments.

Overall Risk Declines Further

The overall risk faced by the Heidelberg Group has declined in recent years. Our strategic risks are manageable. We benefit from comparatively reliable forecasts in our core business Sheetfed Offset printing. We monitor our strategy annually. We significantly reduced the Group's break-even point. We are more independent from fluctuations in customer orders and more flexible in manufacturing than in the past – the result of our extensive implementation of our package of measures for the sustained reduction in structural costs. Additionally, the pact to secure the future, whose provisions have been in effect since May 2005, also inhibits future increases in staff costs.

The development of our business is decisively determined by the development of the global economy – whose outlook for the coming years is favorable. Moreover, our widespread regional diversification diminishes our overall risk since we are less dependent on the economic trends of individual markets. We have further expanded our presence in the emerging markets, which are accounting for a continually increasing share of sales.

Only for a small number of our individual risks will the expected negative effects – assessed according to their probability of occurrence – exceed an amount of € 10 million for the subsequent five years. In the graph on the left we have categorized our risks in five risk groups and shown their development compared with the previous year. The risk groups 'performance' and 'finance' remained unchanged; on the other hand, risk declined for the other categories.

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 economic activity that we have completed as well as for operations that we are planning or have already started up.

Economic Situation and Market Risks: China Entails Country Risk

Economic situation and market risks comprise all the risks that to our knowledge could arise due to general cyclical, political, or social influences. We also include risks arising from changes in interest or exchange rates here.

Although we were able to further limit the impact of cyclical fluctuations on the Heidelberg Group's earnings, the development of the global economy continues to be of immense significance for our business development. Our growth in sales generally develops hand-in-hand with the overall development of the economy. Economic forecasts give a favorable picture of the global economy for the coming years, although the price of crude oil may have a restraining effect. There is currently no cause for alarm that the world economic situation could be negatively influenced directly by developments on the capital markets, by the interest rate level, or by changes in underlying legal and tax conditions or other legal provisions. However, a failure of the economic upswing to continue as expected in the current growth regions would burden our business development. The current likelihood of this occurring, however, is rather low.

We minimize country risks, especially risks that arise from economic or political instability, by closely monitoring current developments on-the-spot. This makes it possible for us to take countermeasures at an early stage if required. The rapidly growing Chinese market, where we are very well positioned, holds numerous opportunities for us. However, this market also entails a number of risks. For example, the other side of the coin of rapid economic growth is the danger of overheating the economy, to which political and social uncertainties can also be added. In particular, changes in customs regulations or intensified import provisions – such as increased market regulation or the reintroduction of an import tax for high-tech equipment as well – could negatively influence our business development. We see a risk here especially in the current financial year. We intend to alleviate this risk in the medium term by expanding our manufacturing facility in China with a large share of locally sourced procurement.

Industry and Competitive Risks: Counteracting Price Risk

Industry and competitive risks decreased slightly from the previous year. Nevertheless, as in the past there is a danger that exchange rate structures could sharply move to the disadvantage of European suppliers and thereby further intensify the competitive environment. If the exchange rate structure between the dollar, yen and euro provide even more advantages for our Japanese competitors in the future, the risk could arise that the overall price level of print shops' machinery and equipment could weaken.

Our global sales training offensive counteracts the price and exchange rate risk. The sustained cost advantages entailed by our integrated solutions due to their technical superiority will be brought to the attention of our customers even more intensively. Our considerable innovative power ensures that we will be in a position to defend our leading technological position against our competitors.

Minimizing Product Risks through Systematic Research and Development

The risks entailed in research and development, in product launches, and in the market acceptance of our products also declined over the previous year. This was also attributable, of course, to the fact that the products introduced at drupa 2004 have by now been successfully brought to series production and are being very well received by the market.

Delays with product launches and advanced product developments nevertheless continue to present a risk for us. For example, the planned expansion of our product portfolio through a larger format at drupa 2008 could be delayed due to unforeseen difficulties – we cannot exclude this risk, especially during the current early development phase. As with all complex development projects, a delay in the market introduction of additional planned product innovations and expansions also cannot be excluded.

In order to avoid undesirable developments, the benefit to the customer is the principal focus for all R&D projects. We work together closely with concept customers at each phase of product development. A panel of experts from R&D, Product Management, Controlling, Manufacturing, and Service determines the direction 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 long-term development goals that are necessary if we are to meet future customer needs. We strive to secure the results of our development activity largely with our own proprietary rights. We minimize risks in the patent area through systematic surveillance of our competitors' proprietary rights.

No Increase in Financial Risks

Not least due to the improved economic conditions of our customers, financial risks have not worsened vis-à-vis the previous year. Tax risks, which are included in this risk category, remained virtually unchanged.

The risk of losses from customer financing has declined moderately compared with previous years. We regularly monitor our commitments, simultaneously taking into consideration not only changes in the economic environment and the borrower's financial performance, but the maintenance of the value of collateral as well. Our policy on the provision for risks is generally conservative. An appropriate provision for risks is formed at an early stage to cover recognizable risks. Since our customer financing portfolio is largely carried in currencies other than euros, the future development of the portfolio will continue to be strongly influenced by exchange rate fluctuations. An indirect currency risk exists for credits denominated in currencies other than the home currencies of our customers. This results from possible devaluations of the home currency of our customers vis-à-vis the currency in which the credit is granted. Such credits are included as a negative factor in our rating system. We systematically monitor foreign currency and default risks.

We also systematically protect our interests in the area of patents and licenses. We reduce legal risks arising from individual contracts by relying on standardized master contracts wherever possible.

Economic Performance Risks Manageable

We systematically minimize risks from corporate functional areas. We therefore do not currently envision any substantial risks in these areas.

Since risk management is an integral component of our supply management, in the area of **procurement** we protect ourselves and counteract many risks at the outset – by monitoring based on the performance data of suppliers, by the consistent and systematic surveillance of all significant markets, and by operating a material planning system based on a rolling 12-month forecast. We also include our suppliers in this system – the more complex the parts delivered by them, the greater their integration.

We thus counteract the risk of a supplier's default or the delayed delivery of components due to heavy demand. We are also currently broadening our supplier base in view of the favorable assessment of future business developments.

A further shortage of raw materials, and thus increase in their prices, especially for metal and crude oil, could burden our production costs. Nevertheless, our current planning provides for a very realistic scenario of the development of raw material prices.

All planned **investments** are consolidated in our worldwide uniform planning system, which forms the basis of our focused financial management. We continuously pursue and monitor planned investments – primarily in view of whether they decisively serve Heidelberg's strategic goals. We undertake a make-or-buy analysis prior to every decision for capital goods investments. Moreover, all these decisions are examined by a team consisting of engineers and financial specialists.

The recognized quality of our products and a high degree of uninterrupted deliveries are important prerequisites for our business success. We will also continue to make every possible effort to organize **production** capacity, volume, and staff in such a way that we can satisfy demand for our products. We therefore do not see any significant risks of manufacturing.

An excessive degree of high labor turnover could result in risks in the human resources area. We alleviate this by ensuring that Heidelberg remains an attractive employer and maintains a modern human resources policy. More information on this subject can be found on pages 66 to 68.

Due to effective IT management and the latest in technology, we do not envisage any significant risks in the **IT area**. We are prepared for a potential breakdown of our systems by means of appropriate security measures. Through comprehensive preventive measures, we have considerably reduced the danger of virus attacks.

We already undertake countermeasures against **environmental risks** in advance through an efficient environmental management system – both in product design as well as in the manufacturing process.

Future Prospects – Taking Advantage of the Upswing in the Industry

- > **Global Economy and Our Sector Continue Growth**
- > **Approximately 5 Percent Sales Increase Anticipated**
- > **Operating Return on Sales: 10 Percent Target**

Our forecast last year was a conservative one because of uncertainty as to whether the upward trend of the industry would prove to be sustained. Today, we can view the future with greater planning reliability and are therefore able to make forecasts that are more accurate. Our own calculations are based on external sources, our own proven internal planning and control system (see page 26), and recognized estimation procedures.

GROSS DOMESTIC PRODUCT[1)]

Change from previous year in percent

	2004	2005	**2006**
World	5.3	4.8	4.9
US	4.2	3.5	3.4
EU	2.5	1.8	2.4
Germany	1.6	0.9	1.3
Eastern Europe	6.5	5.3	5.2
Russia	7.2	6.4	6.0
Asia[2)]	8.8	8.6	8.2
China	10.1	9.9	9.5
India	8.1	8.3	7.3
Japan	2.3	2.7	2.8
Latin America	5.6	4.3	4.3
Brazil	4.9	2.3	3.5

1) Source: IMF, April 2006, previous year's figures restated
2) Excluding Japan

Future Business Developments

We expect further high growth rates for the global economy in calendar year 2006. The IMF expects 4.9 percent growth. Nevertheless, the high and unstable price of oil constitutes a risk to global economic growth.

The table on the left shows the projected rates of growth of gross domestic product in Heidelberg's key sales markets and regions. In the **US**, one of the global economy's engines for growth in recent years, high energy prices and the increasing tightening of monetary policy are not expected to put a meaningful brake on the economy. The situation is different in Europe, where very low interest rates will back up the economy, with consumer demand nevertheless remaining at a low level overall.

In **Germany**, however, consumer spending is likely to pick up somewhat. People will prefer to make consumer durable purchases in advance of the planned value added tax increase in 2007. The World Soccer Championship is also providing a favorable impetus.

Eastern Europe is expected to continue posting vigorous growth. Despite economic policy shortcomings, high demand for raw materials in particular will serve to maintain a high economic growth level in **Russia**.

Following ten years of stagnation, the already implemented, comprehensive structural streamlining measures in **Japan** are causing an improvement in consumer confidence and a turnaround in the domestic economy.

China and **India** should post rapid growth over the coming years as well. The other East Asian emerging markets will also continue to expand vigorously.

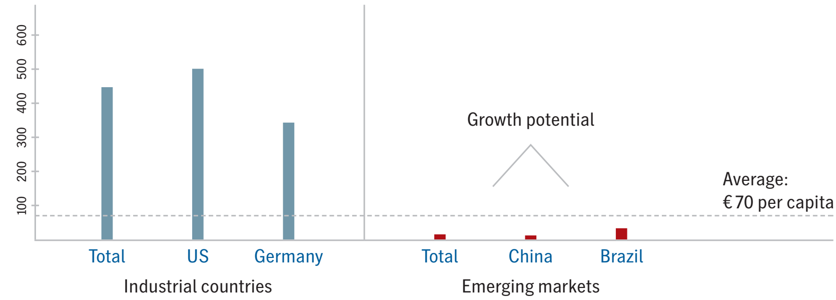
After overcoming its economic crisis, **Latin America** is continuing its growth trend. The economies there are expected to largely overcome their foreign currency problems of recent years and show solid development. Nevertheless, possible political changes following elections in Mexico and Brazil entail risk.

Favorable Future Development of Our Industry

Sales of printed products in the industrialized countries rose again during the reporting year. We anticipate the print media industry to further recover and the printing volume to grow at least over the next three years. The empirically established data from cycles of our industry also support this perspective, as following three crisis years our sector is only showing an upward trend in the third year. Thus, capacity utilization of print shops will further improve, reaching peak levels for the past two years in both the US and Germany during the reporting year. We believe that the greater demand for printed products and improved capacity utilization will be reflected in the print media industry by a higher propensity to invest in producer goods in 2006.

PER CAPITA PRINTING VOLUMES BY COUNTRY (2004)

Figures in € millions



Sources: Industrial statistics, PIRA, Jaakkoo Pöyry, GAMIS

However, as in recent years the greatest contribution to growth in our industry will come from the emerging markets. On the one hand, they are undergoing a disproportionately rapid pace of growth. And on the other hand, as the graph above makes abundantly clear, the degree of saturation of printed products is relatively low in these regions. Furthermore, approximately two-thirds of the world's population live in these countries.

AVERAGE EXCHANGE RATES FOR THE YEAR

Financial year

	04/05 €1 =	05/06 €1 =	06/07[1] €1 =
USD	1.26	1.21	1.25
JPY	135.68	137.76	135.00

1) Estimate

Exchange Rate Developments a Continuing Issue – Heidelberg is Largely Hedged

Over the next few years, exchange rate relationships will continue to have an impact on competition among European equipment suppliers to the print media industry. As we describe on page 32 in the section Underlying Conditions, loss of value of the dollar vis-à-vis the euro and the rather weak Japanese yen have led to greater rivalry with Japanese competitors, which is manifesting primarily in price competition, particularly in the US.

A renewed decline in the value of the dollar vis-à-vis the euro cannot be excluded since the US still has high deficits in the balance of trade and in the government budget. We postulated a rate of 1.25 US dollars and 135 Japanese yen to the euro in our planning this year. We have largely hedged our planned monetary and merchandise flows for the current financial year.

Procurement Market: Raw Materials Remain Costly

Rising raw material prices had a visible influence on the energy and procurement market during the reporting year. Products based on steel and crude oil became considerably costlier. Structural changes contributed to this development as well, such as the merger of various steel producers. We do not believe that conditions will ease off in the foreseeable future.

A high share of our parts purchased from outside suppliers comes from Germany and the European region. We reduce our costs here primarily by closely linking our processes with those of our systems suppliers. To the extent that the quality of the delivered products and excellent supply logistics are assured, we also purchase parts in other regions.

We will boost considerably the share of parts and components from the Asian region in the next few years, making use of our presence in China to organize local suppliers who are also able to meet our high quality standards for production in Europe. Initially, only our plant in China is purchasing from local suppliers.

Projected Growth in Sales: Based on Stable Core Business Areas

Since Heidelberg is very well represented in the emerging markets, we will particularly benefit from the growth of the print media industry there. We expect the share of sales of the **emerging markets** – in other words, our Eastern Europe, Latin America, and Asia/Pacific regions – to increase to 50 percent in the medium term!

In terms of products, we will increase in particular **package printing**. Our new developments are serving to boost our market share in this growing market. Moreover, we intend to systematically further promote this segment this year by means of appropriate product and marketing measures. Our **new products** are also showing considerable sales potential (see pages 57 and 61).

We will generate additional sales via our services as well as spare parts and supplies – in other words, with the high level and quick accessibility of Service, Spare Parts, and Supplies that we offer our customers under our so-called **3S Concept**. In the medium term, the share of this product group in sales is to be raised from its current level of 19 percent to up to 25 percent.

We are budgeting an overall growth in sales for the current financial year of approximately 5 percent against the reporting year. In the Press Division, we will generate the sales increase primarily in the large-format segment, including our Speedmaster XL 105. We anticipate an above-average increase in the Postpress Division, with our new product generations well received by customers. Since the volume of the customer financing that we provide directly will fall further, the interest income of the Financial Services Division will once again decline.

TARGETS OF THE HEIDELBERG GROUP

Segment	Target
Result of operating activities	approximately 10 percent of sales
Value contribution	over 6 percent
Free cash flow	over 4 percent of sales, in excess of € 150 million

Further Growth in Earnings

We intend to further boost the result of operating activities. We generated an operating return on sales of 7.7 percent during the reporting year; this figure should amount to approximately 10 percent in the current financial year.

What factors will influence the result? The sales increase, our ongoing and unswerving cost reduction measures, the savings due to the agreement to secure the future, and more favorable conditions for currency hedging, will all have a favorable impact. Furthermore, the expected interest revenues from our securities, which we outsourced in order to finance the pension provisions, will reduce the expenses for the pension plan and thereby improve the operating result.

Earnings are being hampered by advance services in the R&D area. In order to expand our excellent market position, we will further improve the technical competitiveness of our printing systems. Strengthening the development activity requires a rise in the R&D rate, which – not only due to the startup of the new, even larger print format – will increase during the current financial year to between 6 and 7 percent. Staff costs will also grow as a result of the collective bargaining agreement. Although the situation in the commodity markets will remain strained, we do not expect any additional burden from this segment.

Although the greatest part of the improved result will be generated by the Press Division, the Postpress and Financial Services divisions will also contribute favorably to the consolidated result.

On a comparable basis, our financial result will remain at the same level as in the reporting year.

INCREASING CORPORATE VALUE

Figures in percent

	04/05	05/06	Medium-term
ROCE	7.0	13.6	> 16.0
Cost of capital	9.2	9.2	appr. 10.0
Value contribution	– 2.2	4.4	> 6.0

Striving for a Substantial Additional Appreciation in Value

We have ambitious goals, especially vis-à-vis an increase in corporate value, for which we intend to again generate a return on capital employed (ROCE) of over 16 percent. Our weighted average cost of capital will amount to approximately 10 percent over the next few years. We will therefore achieve the planned growth in sales and improved result with approximately unchanged business assets. This makes it possible for us to vigorously increase ROCE. We intend to generate an economic value added of over 6 percent – probably during the current financial year, but otherwise beginning in financial year 2007/2008.

We want to, and we will, meet the capital market's dividend requirements. We intend to retain an average dividend rate of 40 to 50 percent of consolidated net profit for our shareholders.

Financing: Free Cash Flow at Over € 150 Million

We are projecting free cash flow at over 4 percent of sales or in excess of € 150 million during the current financial year – excluding the special effects that occurred during the reporting year through the Contractual Trust Arrangement. We intend to achieve this by means of a high net profit, modest investments, and a limit on operating assets. We will use this free cash flow for the dividend payment and for the additional boosting of the Heidelberg Group's financial strength.

Our funding is secure on a long-term basis. For more information concerning the financial management of the Heidelberg Group, kindly turn to pages 47 to 49.

Investments in Manufacturing Facilities

We are projecting annual operating investments – in other words, additions to fixed assets excluding capitalized research and development costs and exhibited printing presses – at approximately 4 percent of sales. Our investments will be somewhat greater during the current financial year since we will be undertaking additional work on laying the foundations for the manufacture of our new, very large format printing presses in Wiesloch.

Opportunities: Even Better Underlying Conditions

Beside risks that are in part taken into account in our forecast, there are also opportunities that we did not take into consideration because their probability of occurrence is very difficult to assess and the impact of their occurrence is difficult to quantify. These opportunities include:

> The economic situation and our industry may show a more positive development than expected. It would be especially favorable for Heidelberg if the propensity to invest increased very rapidly and vigorously in the US. We address this market systematically by creating incentives to invest based on the market introduction of new products.

> The chance that the exchange rates of the dollar and euro in relationship to the Japanese yen develop in our favor. Should the competitive advantage that our Japanese competitors currently have due to the exchange rate situation decline, we would benefit considerably, primarily in the US market.

> Contrary to our forecast, the situation in the commodity markets could improve and result in reduced expenses for procurements. We would also benefit in terms of procurement if we were able to develop suppliers from the Asian region, and particularly from China, more quickly and extensively than has been assumed, and if these also supplied our German plants. With our new production site in China, our starting point for this is quite good.

Important Note

This Annual Report contains forward-looking statements based on assumptions and estimations by the Management Board of Heidelberger Druckmaschinen Aktiengesellschaft. Even though the Management Board is of the opinion that these assumptions and estimations are realistic, the actual future development and results may deviate substantially from these forward-looking statements due to various factors, such as changes in the macro-economic situation, in the exchange rates, in the interest rates and in the print media industry. Heidelberger Druckmaschinen Aktiengesellschaft gives no warranty and does not assume liability for any damages in case the future development and the projected results do not correspond with the forward-looking statements contained in this Annual Report. Heidelberg does not intend, and does not assume any obligation, to update the forward-looking statements contained in this Annual Report to reflect events or developments that have occurred after this Annual Report was published.

Dr. Mark Wössner
Chairman of the
Supervisory Board

Report of the Supervisory Board

Dear Shareholders,

Heidelberg can look back on a successful financial year 2005/2006. The general economic upswing continued, and the print media industry is also more robust than had been anticipated two years ago. Customers' noteworthy willingness to spend at the drupa 2004 trade show in May of the past financial year did not turn out to be a mere flash in the pan. Quite the contrary: Heidelberg was successful in boosting incoming orders, sales and earnings during the reporting year – and will again be able to pay a considerably improved dividend to its shareholders.

Key decisions made by corporate management in the recent past have proven to be correct. This applies both to the streamlining of our product portfolio as well as to the comprehensive and at times painful measures undertaken to adapt our cost structure. Above all, we must continue to be innovative, develop new products, assert the Company's strong market position, take the needs of the customers seriously, and always remain ahead of the competition – by at least a nose.

During the past financial year we supported the Management Board in its successful work – including its addressing such critical issues as the development of raw material prices, the still unsatisfactory development of the Postpress Division, and the opportunities and risks entailed by the development of the Chinese market – which is becoming increasingly important for Heidelberg. Overall, we concluded that Heidelberg is on the right track and has the potential to continue growing in the future.

During the reporting year, we fulfilled all the responsibilities that are incumbent upon us under legal provisions and the Articles of Incorporation, and closely coordinated and advised the Management Board regarding the Company's management. Within the framework of the close cooperation between the Management Board and the Supervisory Board, the Management Board kept us informed about the development of the Company at four ordinary meetings of the Supervisory Board. The Human Resources Committee met three times, the Management Committee held one meeting, and the Audit Committee came together four times. There was no need to convene the Mediation Committee in accordance with Article 27 Paragraph 3 of the Codetermination Law.

The Management Board informed us extensively and regularly about corporate policy. While in continuous contact with the Chairman of the Management Board and other members of the Management Board, we intensively discussed all events and decisions of importance to the Company. We passed all the necessary resolutions in the meetings on the basis of prepared decision-making documentation. The Management Board informed us promptly and directly concerning especially important changes and progress – in between meetings as well. If appropriate, decisions were made by circulation at those times.

Focus of the Supervisory Board's Discussions

One of the important topics of discussion by the Supervisory Board was the strategic alignment of the Heidelberg Group in its core business Sheetfed Offset as well as its expansion into the very large format segment. In this context, we also discussed the further progress of the Postpress area – in particular its significance for the package printing market segment, in which Heidelberg will expand its market position in the future. We followed developments in the Asian market throughout the reporting year. This region's significance for Heidelberg is continually increasing, both in terms of sales as well as the competition. We were also repeatedly informed about the progress made in the establishment of the new production site in Shanghai.

We undertook preparatory discussions in the Management Committee as well as the Audit Committee and subsequently in the Supervisory Board as a whole concerning the Company's Contractual Trust Arrangement (CTA) and the share buyback program. Immediately prior to the redemption of the shares, which occurred March 31, 2006, we held a meeting of the Supervisory Board on March 29, 2006 and passed the resolutions that were necessary for this undertaking.

As in the past, discussions concerning the development of sales, earnings, and the financial condition of the Heidelberg Group were of importance. At the beginning of the reporting year, together with the Management Board we again analyzed the planning process for the coming years from all significant points of view. Besides strategic aspects, this also included the cost reduction measures, which consistently continued to be implemented. This resulted in a sustained improvement in the Heidelberg Group's financial condition.

Corporate Governance

Our attention focused on the corporate governance of the Company on numerous occasions during the reporting period. At the beginning of the reporting year, following discussions with the Management Board, we came to an agreement in the Management Committee and in the Supervisory Board on how the suggestions for improvement should be implemented, which we had approved in the past financial year within the framework of our effectiveness check. Where necessary, we adapted our Rules of Procedure to the new requirements of the Corporate Governance Code during the reporting year. Furthermore, together with the Management Board we decided that recommendations for changes to certain provisions of the Articles of Incorporation, which appear advisable to us and which would contribute to the modernization and greater transparency of the Company's Articles of Association, will be made to the 2006 Annual General Meeting. For additional details concerning the corporate governance of the Company, please refer to the 'Corporate Governance Report' on pages 96 to 100 of this Annual Report.

Work in the Committees

The respective chairmen of the committees reported extensively concerning the work of the committees at meetings of the Supervisory Board. To the extent deemed necessary, they submitted suggestions for approval to the plenum of the Supervisory Board. The current composition of the individual committees is shown on page 84 in the book 'The Figures'.

At its meeting during the reporting period, the Management Committee dealt in particular with the strategic corporate orientation as well as with new concepts for Company pensions and the conclusions of the efficiency check of the Supervisory Board. The Audit Committee, together with the auditor, dealt intensively with the non-consolidated and consolidated financial statements as well as with the accounting and valuation principles that are applied. The quarterly results were also discussed. Discussions additionally focused on the share buyback program, the Contractual Trust Arrangement, risk management, the development of the Digital and Web Offset divisions, which were divested in the previous year, participation controlling, customer financing, and hedge accounting. The Human Resources Committee discussed issues concerning 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 20, 2005 selected PwC Deutsche Revision Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Frankfurt am Main, as the external auditor. This firm examined and approved without qualification the Annual Financial Statements for financial year 2005/2006, 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 20, 2005. The Financial Statements, the Consolidated Financial Statements, the Management Report of Heidelberger Druckmaschinen Aktiengesellschaft, and the Management Report of the Heidelberg Group were circulated together with the Auditor's Reports to all the members of the Supervisory Board in time for the meeting to discuss the Annual Financial Statements on June 2, 2006. The auditors chartered under German law who signed the Auditor's Report took part in the discussions of the Supervisory Board concerning the documents to be examined. They reported on the significant results of their examination and made themselves available to the members of the Supervisory Board to answer questions. The report of the auditor does not include any comments or indications of possible inaccuracies in the Declaration of Compliance with the Corporate Governance Code.

At the meeting of the Supervisory Board on June 2, 2006, the Audit Committee recommended approval of the non-consolidated and consolidated financial statements. We examined and accepted the 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. We therefore agreed to the audit results of both annual statements and approved the non-consolidated and consolidated financial statements as of March 31, 2006. The Annual Financial Statements are thereby adopted.

Composition of the Management Board and Supervisory Board

No changes in the composition of the Management Board occurred in financial year 2005/2006.

As of July 31, 2005 the long-standing Chairman of the Central Works Council, Mr. Josef Pitz, after 48 years of service at Heidelberg, as well as Mr. Pat Klinis, resigned their Supervisory Board mandates. By decision of the Heidelberg District Court of July 19, 2005 Mr. Mirko Geiger and Mr. Peter Sudadse were appointed as successors as of August 1, 2005.

As of March 31, 2006 Mr. Berthold Huber and Mrs. Johanna Klein resigned their Supervisory Board mandates. Mr. Jörg Hofmann and Ms. Beate Schmitt were appointed as successors on April 3, 2006 by decision of the Mannheim District Court, which is now the district court that is responsible for Heidelberger Druckmaschinen Aktiengesellschaft.

We wish to thank the Management Board, all the employees, and the staff representatives for their considerable commitment as well as their constructive and successful work during the reporting year!

Munich, June 2, 2006

For the Supervisory Board

Dr. Mark Wössner
Chairman of the Supervisory Board

Corporate Governance – Report of the Management Board and the Supervisory Board

> **New Version of the Code Published on July 20, 2005**
> **Heidelberg Meets All the Code's Recommendations**

Heidelberg was in agreement with the goals of the German Corporate Governance Code from the very beginning, consequently striving to implement its recommendations and suggestions to the greatest possible extent. During the current year, the Company succeeded in satisfying all recommendations of the Code for the first time. The Code has meanwhile become widely accepted by publicly quoted companies in Germany, despite the fact that some of its provisions are at times criticized. We also still see a need for clarification or enhancement with regard to the new structure of corporate governance reporting.

Expansion of Reporting Impairs Clarity

In its version of June 2, 2005, in several places the Code recommends (Paragraphs 3.10, 5.4.7, 6.6 and 7.1.3) that corporate governance reporting be extended to include additional areas – among others, the remuneration of the Members of the Supervisory Board. By contrast, Paragraph 4.2.4 of the latest version of the Code continues to require that information on the remuneration of the members of the Management Board be included in the Notes to the Financial Statements of the consolidated financial statements. But contrary to this, as a result of the Law on the Disclosure of the Compensation of Members of the Board of Management, the legally required individual publication of Management Board remuneration may now also alternatively be included in the Management Report as part of the Remuneration Report. As a result, according to legal provision but in disagreement with the Code, the individualized information need no longer be included in the Notes to the Financial Statements.

On the one hand, corporate governance reporting has become more complex and more demanding. Yet on the other hand, there is a danger that clarity will suffer from the flood of information, with a loss in structural cohesion – a danger that the Code may be becoming a conglomeration of some important and some less important reporting sections, with extensive statistical data material. In order to meet these provisions and to continue our clearly structured reporting in the future in this Corporate Governance Report the Management Board and the Supervisory Board refer to other parts of the Annual Report, thereby quite consciously factoring these parts into our corporate governance reporting.

Declaration of Compliance According to Section 161 of the Stock Corporation Act – Heidelberg Meets All the Recommendations and Numerous Suggestions of the Code

The Management Board and the Supervisory Board issued the declaration of compliance on November 25, 2005. Already in the previous year, through decisions by the Management Board and Supervisory Board as well as due to changes in the Rules of Procedure of the two Boards, Heidelberg met all the preconditions for full compliance. The new version of the Code of June 2, 2005, which was published on the day of Heidelberg's Annual General Meeting on July 20, 2005, therefore only resulted in a minor need for clarification. In order to enhance transparency, these have also been included in the changes in the Articles of Incorporation proposed at the 2006 Annual General Meeting. As a consequence, Heidelberg is in a position for the first time to state that the Company now fulfills the recommendations of the Code without reservation. This also applies to the Code's numerous suggestions. Heidelberg entirely fulfills the suggestions mentioned in Paragraphs 2.3.3, 3.10, 4.2.3, 5.1.2, 5.2, 5.3.2, 5.3.3, and 5.3.4.

The suggestions in Paragraphs 3.6 and 6.8 are only fulfilled to a large extent. Not every meeting of the Supervisory Board requires individual preparation by shareholders and staff representatives. Also, in view of their large number, not every publication of the Company can be translated into English. As one of the intended changes in the Articles of Association makes clear, in the future Heidelberg will also completely fulfill Paragraph 3.7 of the Code, which recommends discussing a takeover bid at an Extraordinary General Meeting in specified cases. By contrast, there are no plans to make the entire Annual General Meeting accessible via the Internet as is stipulated in Paragraph 2.3.4. However, 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.

Transparency for Our Shareholders

Our quarterly reports as well as our communications in the trade and financial press make it possible for our shareholders to always keep up to date concerning Heidelberg. We provide information about significant deadlines in the Financial Calendar, which is published in the Annual Report, as well as in the quarterly reports, and on the Internet at www.heidelberg.com. On our Internet site, in the section 'Investor Relations' – which we further improved during the reporting year – we provide all available up-to-date information, including key performance data, disclosures, actions subject to reporting, and the Company's corporate governance. After all, comprehensive transparency includes ongoing control of whether significant transactions were concluded between a company of the Heidelberg Group and a member of the Company's Management Board, a member of the Supervisory Board, or a related party. This 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 concerning all developments and events that are of significance for the business development and condition of the Heidelberg Group. The Management Board and Supervisory Board worked together closely in a relationship based on trust during the reporting year. The potential for improvement that was identified within the framework of an efficiency check at the end of the past financial year was implemented promptly. Additional details concerning the cooperation between the Management Board and the Supervisory Board are included in the 'Report of the Supervisory Board' on pages 92 to 95.

Remuneration of the Management Board and the Supervisory Board

In the Notes to the Financial Statements, Note 39, Information Concerning the Supervisory Board and the Management Board of the Company, we list the individual remuneration amounts of the members of the Management Board and the Supervisory Board as well as an explanation of the respective remuneration structures. We also give a summary of the structure of the remuneration systems for the Management Board and the Supervisory Board on page 30 of the Management Report.

The members of the Company's Management Board do not have any outside employment besides the mandates that are shown in the above-mentioned Information Concerning the Supervisory Board and the Management Board of the Company. They also do not maintain any significant holdings in other companies. During the reporting year, no loans or other credits were granted to the members of the Company's Management Board or Supervisory Board.

Information Concerning Shareholdings and Communications on 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, which exceed 1 percent of the outstanding shares issued by the Company. Securities transactions subject to reporting by the members of the Company's Supervisory Board and Management Board in accordance with Section 15 a of the German Securities Trade Act were properly disclosed and published at Heidelberg's Internet site.

The following disclosures were to be published during the reporting year:

Party subject to reporting	Issuer	Reason for the disclosure obligation	Position and area of responsibility of the party with management responsibility	Financial instrument employed in the transaction	Transaction subject to disclosure
Dr. Stefanie Heraeus-Jussen	Heidelberger Druckmaschinen Aktiengesellschaft	Reporting by a party related to another party with management responsibility in accordance with Section 15 a of the Securities Trade Act	Member of the Supervisory Board	Share, ISIN DE0007314007	Purchase of 800 no-par shares of Heidelberger Druckmaschinen Aktiengesellschaft at € 25.115 per share on June 7, 2005 in Frankfurt am Main; transaction volume: € 20,092.00
Alexandra Heraeus	Heidelberger Druckmaschinen Aktiengesellschaft	Reporting by a party related to another party with management responsibility in accordance with Section 15 a of the Securities Trade Act	Member of the Supervisory Board	Share, ISIN DE0007314007	Purchase of 1,600 no-par shares of Heidelberger Druckmaschinen Aktiengesellschaft at € 25.115 per share on June 7, 2005 in Frankfurt am Main; transaction volume: € 40,184.00
Birgit Heraeus	Heidelberger Druckmaschinen Aktiengesellschaft	Reporting by a party related to another party with management responsibility in accordance with Section 15 a of the Securities Trade Act	Member of the Supervisory Board	Share, ISIN DE0007314007	Purchase of 1,600 no-par shares of Heidelberger Druckmaschinen Aktiengesellschaft at € 25.115 per share on June 7, 2005 in Frankfurt am Main; transaction volume: € 40,184.00
2-gather GmbH	Heidelberger Druckmaschinen Aktiengesellschaft	Reporting by a party related to another party with management responsibility in accordance with Section 15 a of the Securities Trade Act	Member of the Supervisory Board	Share, ISIN DE0007314007	Purchase of 6,000 no-par shares of Heidelberger Druckmaschinen Aktiengesellschaft at € 25.20 per share on June 7, 2005 in Frankfurt am Main; transaction volume: € 151,200.00

Information About the Stock Option Plan

A summary of the prerequisites, terms, and development so far of Heidelberg's stock option plan is presented in Note 41 of the Notes to the Financial Statements.

Foresighted Risk Management

Risk management that is structured and that focuses on practical requirements not only helps the Company to recognize and assess risks at an early stage. It also makes it possible for Heidelberg to quickly introduce countermeasures. Within the framework of the planning process for the financial year, all areas of the Company draw up a detailed assessment of their business, including risks that have already been recognized as well as countermeasures that have been implemented. The probability of occurrence and possible damage form the parameters for the risk assessment report, which is updated quarterly – and, in case of need, on a short-term basis. We report on the current corporate risks in the Management Report on pages 81 to 85.

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 Article 7.2.3 of the Code, the Supervisory Board also arranged with the auditor for immediate reports to be made 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 was not the case.

Heidelberg, May 9, 2006

For the Supervisory Board:
Dr. Mark Wössner

For the Management Board:
Bernhard Schreier

Glossary

>>>

Asset management
Serves to improve both free cash flow and value contribution. Operating assets and liabilities are optimized in order to reduce and distribute tied capital more efficiently.

Balanced Score Card System
Concept of corporate management, according to which monetary goals, the customer's point of view, the perspective of internal business processes, and the learning and development perspective are taken into account.

Convertible bond
The bearer of a convertible bond may exchange it for shares at a predetermined relationship prior to maturity. If the conversion right has not been exercised, the bond is repaid at maturity.

Flexo printing
Flexo printing is especially used for the printing of packaging and multicolor labels. This relief printing process makes use of ink with very low viscosity. Printing is effected by means of soft, elastic, and raised printing elements.

Free float
Shares that are not held by major shareholders – in other words, shares that are acquired and traded by the investing public. Blocks of shares accounting for less than 5 percent of the total as well as blocks of shares held by institutional investors are regarded as free float.

Make or buy analyses
These analyses are undertaken by Heidelberg prior to each investment decision. As a matter of principle, parts are only manufactured in-house if they are qualitatively superior and lower in cost than if they had been acquired from external suppliers.

Prinect
This workflow software from Heidelberg comprises: Management Solutions, Production Solutions, and Color Solutions. Prinect is thereby the most comprehensive offering available in the print media industry. The color management service assures customers the greatest possible production security for the color measuring devices Axis Control, Image Control, and Inpress Control, as well as measurement fields that are closely coordinated with color management and its seamless integration within the workflow.

Private placements
Usually medium to long-term loans against delivery of a promissory note. Such notes are typically issued by companies with a corresponding credit standing such as large capital investment and insurance companies, banks, and public-sector entities. Private placements represent a form of long-term outside financing in addition to bank credits and bonds.

Postpress / finishing
All manufacturing steps after the printing process, up to and including the finished product – for example, cutting, folding, stitching, binding, and packaging.

Prepress
Before the actual printing process begins: the preparation of text, of graphic elements, and of images, ranging from the basic design concept all the way to the production of the printing plate.

Remote service
This Heidelberg service comprises the analysis, diagnosis, and service inspection of printing presses via a data link. Heidelberg specialists can implement this service with printing presses that are linked to the remote service.

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. The printing elements accept the ink and repel the water. The sheetfed offset process prints individual sheets.

Spoilage
This term refers to 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 due to defective ink feeds or color registers, because of contaminations, and during the finishing process.

Technology roadmap
Technology roadmaps are a tool used to visualize measures that are necessary for the development of all forms of technological expertise in connection with future products.

Value contribution/ROCE

The value contribution and ROCE are central components of our value management systems. ROCE is determined by dividing EBIT by average operating assets.

EBIT represents the profit contribution that an enterprise generates from its operating activities. It is derived from the result of operating activities before restructuring expenses of the Group. Since we view our participations as part of our core business, income from investments is a component of EBIT. In the reporting year income from investments totaled € –17 million (previous year: € –19 million).

After deducting the cost of capital, the value contribution of the period then remains. The value contribution reflects the expected return to the providers of capital on their invested capital. This expectation is met if the value contribution is positive.

Business assets are calculated as an average for the year. This figure includes all assets that are used in generating the operating result. The asset items of the balance sheet are reduced by the amount of non-interest bearing liabilities – in other words, directly attributable liabilities, which are largely non-interest bearing, as well as the refunding for our Financial Services Division.

Calculated as the weighted average cost of capital, the **cost of capital** is included in the calculation of the value contribution. The weighting depends on the relationship of the underlying capital components to each other. The cost of shareholders' equity is initially recorded on an after-tax basis. Used in the calculation are an interest rate without risk of 4.25 percent, a market risk premium of 4.75 percent, and a beta factor of 1.0. The after-tax borrowing costs rate amounts to 2.93 percent. A 35 percent lump-sum tax rate is applied for the transition into the pre-tax approach applied by us. We have restated these parameters in line with the changed capital market conditions during the reporting year and present the previous year on a comparable basis.

NET OPERATING ASSETS

Figures in € millions

	04/05	05/06
Gross assets according to balance sheet	3,660	3,281
– Marketable securities/cash and cash equivalents	– 485	– 80
– Financial receivables/loans	– 39	– 33
– Tax refund claims	– 30	– 51
– Deferred tax assets	– 128	– 113
Operating assets (gross)	2,977	3,004
Gross debt according to balance sheet [1]	2,493	2,143
– Provisions for pensions, taxes, and restructuring	– 842	– 419
– Tax liabilities	– 42	– 62
– Non-operating financial liabilities [2]	– 506	– 466
– Deferred tax liabilities	– 67	– 71
Operating non-interest bearing liabilities	1,036	1,125
Operating assets (net)	1,941	1,880
on average	2,170	1,911

[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

	04/05	05/06
Shareholders' equity (at carrying amount)	1,166	1,138
– Balance of deferred taxes	– 62	– 42
+ Restructuring	41	0
Adjusted shareholders' equity	1,146	1,096
on average	1,339	1,121
Pension provisions	628	214
+ Tax provisions	173	205
– Balance of tax liabilities	12	11
+ Financial liabilities (non-operating)	506	466
Liabilities	1,319	897
on average	1,345	1,108
Adjusted total capital	2,465	1,992
on average	2,684	2,229

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* Cover

Selected Products at a Glance

Prepress

Platesetters for violet plates

- Prosetter 52
- Prosetter 74
- Prosetter F74
- Prosetter 102
- Prosetter F102

Platesetters for thermal plates

- Suprasetter S74
- Suprasetter H74
- Suprasetter A105
- Suprasetter E105
- Suprasetter S105
- Suprasetter H105

Press

Sheetfed offset presses for 35 × 50 cm format (14 × 20 inches)

- Printmaster QM 46
- Printmaster GTO 52
- Printmaster PM 52
- Speedmaster SM 52

Sheetfed offset presses for 50 × 70 cm format (20 × 28 inches)

- Printmaster PM 74
- Speedmaster SM 74
- Speedmaster CD 74

Sheetfed offset presses for 70 × 100 cm format (28 × 40 inches)

- Speedmaster SM 102
- Speedmaster CD 102
- Speedmaster XL 105

The products sold by Heidelberg in the area ‘flexo printing’ are produced by the Gallus Group

Postpress

Folding

- Easyfold
- Stahlfolder Ti 36/Ti 40
- Stahlfolder Ti 52 Proline
- Stahlfolder TA 52
- Stahlfolder TH
- Stahlfolder KH

Saddlestitching

- Stitchmaster ST 100
- Stitchmaster ST 350
- Stitchmaster ST 450

Adhesive binding

- Eurobind 500
- Eurobind 1200
- Eurobind 2000
- Eurobind 4000
- Eurotrim

Die-cutting

- Dymatrix 105
- Dymatrix 106
- Dymatrix 113
- Dymatrix 142

Folding carton gluing

- Diana 45
- Diana Pro 74/94/114
- Diana 115/125
- Diana X 115/135
- Diana 145/165
- ECO 80/105

The products sold by Heidelberg in the areas ‘cutting’ and ‘label systems’ are produced by POLAR-Mohr

Workflow	Services	Print Media Academy
The integrated workflow system	The Heidelberg system-service portfolio along the value chain	The Heidelberg knowledge platform
Prinect Management Solutions	Production securing	Training
Prinect Production Solutions	Service parts and logistics	Seminars
Prinect Color Solutions	Project planning	Workshops
	On-site training	
	Performance optimization	
	Business optimization	
	Consumables	
	Financial services	
	Intelligent support tools	

Production of the Annual Report

Heidelberger Druckmaschinen
Aktiengesellschaft
Kurfuersten-Anlage 52 – 60
69115 Heidelberg
Germany
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Please visit
www.heidelberg.com
for the online version
of our Annual Report

Design concept	Hilger & Boie GmbH, Büro für Gestaltung, Wiesbaden
Editorship/text	Heidelberger Druckmaschinen AG, Investor Relations Sabine Eigenbrod, Mannheim Judith Wensky, Mannheim
Photo credits	Christof Herdt, Frankfurt Bernhard Eisnecker, Lossen Fotografie, Heidelberg Archive Heidelberger Druckmaschinen AG
DTP	NewMedia-AD GmbH & Co. KG, Messel near Darmstadt
Fonts	Heidelberg-Antiqua and -Gothic characters by Linotype Library
Lithography	Koch Lichtsatz und Scan GmbH, Wiesbaden
Printing	Color-Druck, Leimen ethabind cover, Thalhofer, Schönaich
Printed media	Invercote Creato matt, by Iggesund ikono silk 150/170 g/m², M-real ZANDERS GmbH, Bergisch Gladbach
Concept, consulting and production	H.-J. Dietz, Kelkheim

Heidelberger Druckmaschinen AG
Kurfuersten-Anlage 52 – 60
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