Annual Report

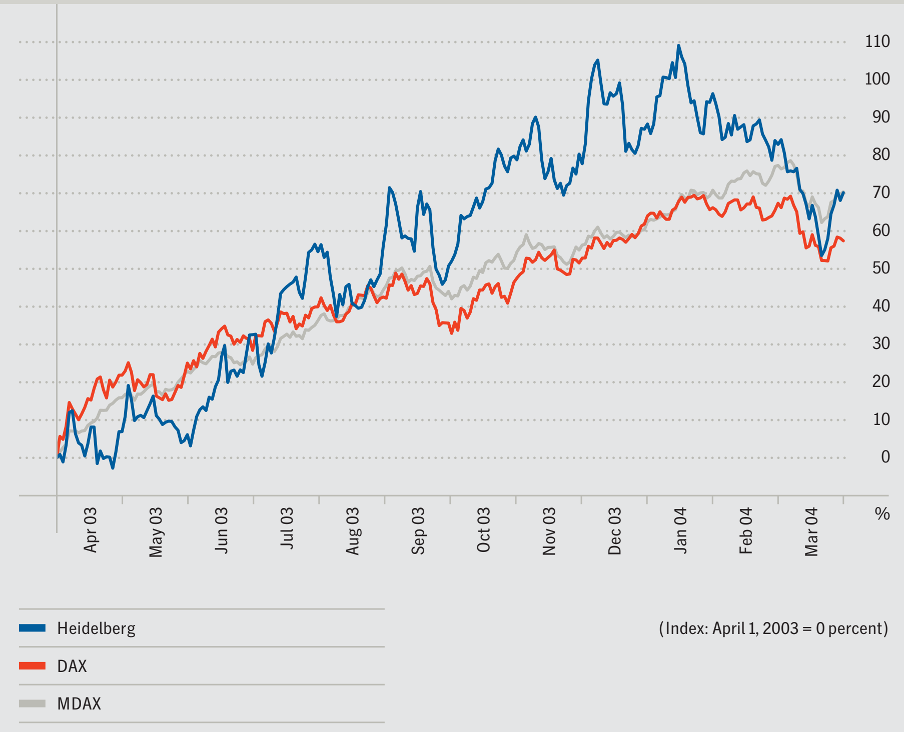
2003/2004

“HEIDELBERG SETS ITS COURSE

HEIDELBERG

Performance of the Heidelberg Share

Compared with the DAX/MDAX



ON REALIGNMENT"

...This was one of the headlines of the dpa news agency on November 27, 2003. The occasion: That morning Heidelberg had announced that the Company would change direction and restructure its divisions. Not only news agencies and most newspapers reacted favorably to the announcement, but the stock market did so as well.

The response to Heidelberg's offerings was also favorable at the May 2004 drupa – *the* trade fair for the print media industry. You can view our ad campaign for this event at the beginning of this Annual Report; Heidelberg's trade fair stand is shown at the beginning of the financial section. The section 'The Changing Face of drupa' additionally presents an overview of the historic development of one of the world's largest product shows.

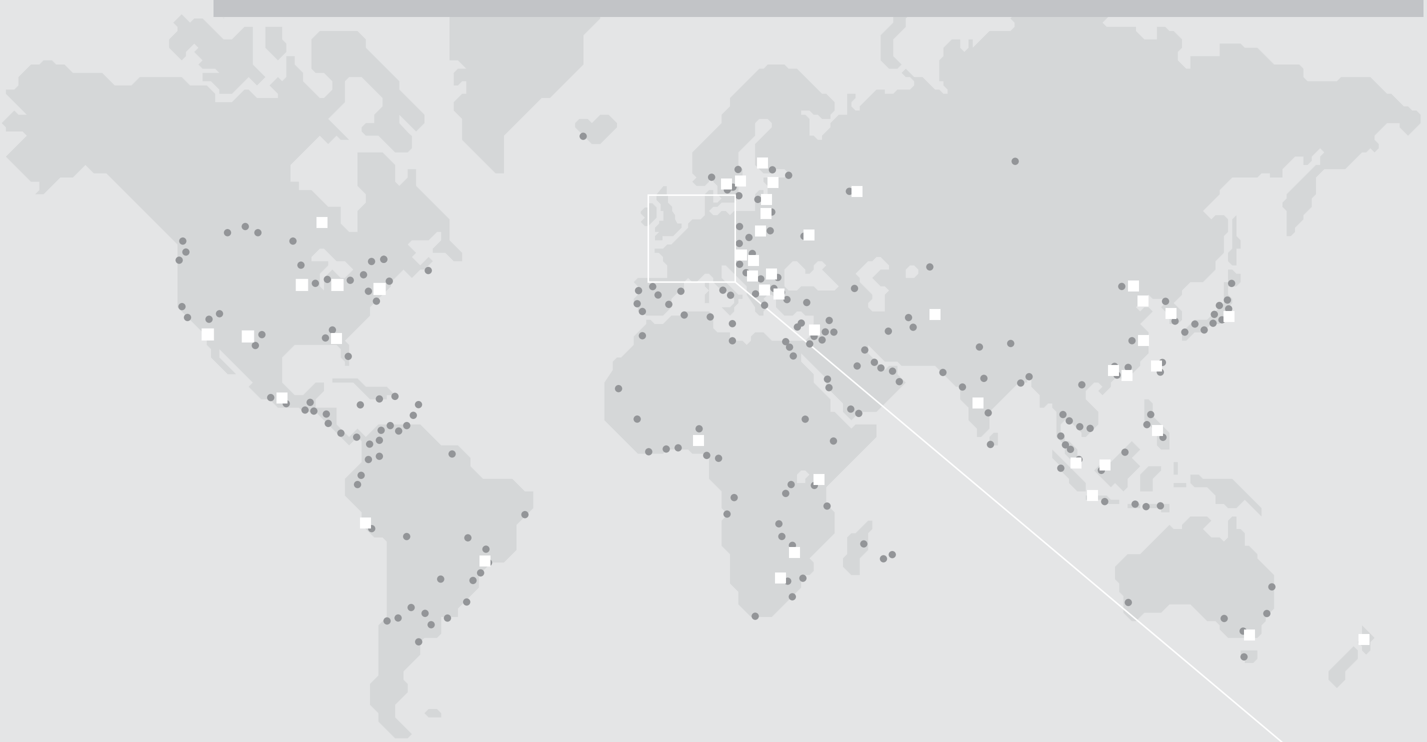
Heidelberg Group

Figures in € millions

	1999/2000	2000/2001	2001/2002	2002/2003	**2003/2004**
Net sales	4,602	5,303	5,017	4,130	**3,661**
Foreign sales share in percent	84.6	86.7	86.3	87.4	**88.6**
EBITDA [1]	635	709	558	293	**193**
EBITDA in percent of sales	13.8	13.4	11.1	7.1	**5.3**
Profit before taxes	487	531	335	– 164	**– 506**
Net profit / loss	251	283	201	– 138	**– 695**
Return on sales in percent [2]	5.5	5.3	4.0	– 3.3	**– 19.0**
Cash flow in percent of sales	9.7	9.9	8.3	2.4	**– 2.5**
Investments in tangible and intangible assets, excluding initial consolidation	262	237	252	243	**164**
Depreciation [1]	172	203	202	191	**174**
ROCE in percent [3]	–	22.6	14.8	4.6	**2.0**
Profit contribution in percent [3]	–	8.6	0.8	– 8.4	**– 11.0**
Total assets	5,018	5,442	5,735 [4]	5,131	**4,232**
Shareholders' equity	2,259	2,450	2,470	1,950	**1,230**
Equity ratio in percent	45.0	45.0	43.1 [4]	38.0	**29.1**
Return on equity in percent [2]	11.1	11.6	8.1	– 7.1	**– 56.5**
Investment recovery [5]	7.1	6.8	6.5	6.5	**4.5**
Net financial debt [6]	– 456	– 418	97 [4]	97	**92**
Dynamic net-debt ratio [7]	– 1.0	– 0.8	0.2 [4]	1.0	**– 1.0**
Liquidity ratio [5]	1.3	1.4	1.4	1.4	**1.3**
Cash flow per share in €	5.20	6.10	4.85	1.16	**– 1.08**
Earnings per share in €	2.91	3.30	2.32	– 1.67	**– 8.16**
Dividends in €	1.70	1.80	1.40	–	**–**
Dividend yield in percent [8]	2.74	2.73	2.77	–	**–**
Average number of employees for the year [9]	22,743	24,271	24,905	23,787	**22,641**

1) Excluding restructuring expenses
2) After taxes
3) Compare calculation scheme on page 27
4) Restated as explained in Note 20
5) For explanation please see glossary
6) The sum of liabilities to banks and of provisions for pensions less accounts receivable resulting from customer financing, from marketable securities as well as from cash and cash equivalents
7) Describes how often cash flow is required to pay off net financial debt
8) In terms of the financial year-end price
9) Hourly wage earners and salaried employees

Customer Centers and Production Sites



Heidelberg – With a Worldwide Presence

The Heidelberg Group is known in the market worldwide for its finely tuned, personalized solutions for the print media industry. Products and services range from prepress and the printing process all the way to the finishing process, including the requisite software as well as comprehensive service. In future, the Group will develop and manufacture software, electronic prepress products, sheetfed offset printing presses (where it is the world market leader), and finishing systems. During the reporting period, the portfolio additionally included web offset and digital printing presses. The Heidelberg Group operates by far the industry's largest and most extensive service and sales network.

- **Subsidiaries and production sites worldwide**
- **Selected representative offices**

‘The Future of Heidelberg’

Questions about the Reorientation – Comprehensive Information from the Heidelberg Management Board

Heidelberg has adapted its strategy and organization to the changed market dynamics of the print media industry. The Group is selling the Digital Division to Eastman Kodak Co., and Goss International intends to acquire the Web Systems Division. Such far-reaching changes always give rise to numerous questions among a company’s stakeholders such as investors, employees, and customers. The Management Board has been responding to these questions, among others at numerous road shows, at internal ‘fireside chats’ with employees, and of course within the framework of drupa presentations as well. The following pages reproduce excerpts from these conversations.

Several newspapers carried the headlines ‘Heidelberg under Pressure’ after you announced the Group’s reorientation. With justification?

SCHREIER: This statement sums up in a nutshell our situation over this past year. Over the previous two years the print media industry suffered its worst crisis ever in the industrialized countries. The capacity utilization of printing establishments dropped to an historic low, earnings were far from favorable, and insolvencies reached sad record levels. Of course, this period was similarly difficult for suppliers as well. That was the occasion for us to begin thinking about reorganizing as well as fundamentally streamlining our portfolio.

But you had always emphasized your varied offerings – and especially the opportunities of digital printing. Why are you nevertheless divesting the Digital and Web Systems Divisions?

DR. MEYER: The background is as follows: Both divisions gobbled up substantial funds in recent years – of course, among other things due to the global slack economy. Our extensive restructuring measures have laid the groundwork for setting these divisions on the road to success. Nevertheless, neither of them reached the break-even point in the last financial year. Quite the contrary, their performance was again worse than we had anticipated. We therefore decided to part with these two divisions by mutual agreement with the Supervisory Board.

THE INTERESTS OF OUR CUSTOMERS WERE A VERY IMPORTANT CONSIDERATION DURING THE CONTRACT NEGOTIATIONS.

Yet digital printing is regarded as the growth market in the printing sector. Wouldn't it have been better to retain this division even though it is now generating losses? The economic situation seems to be improving again …

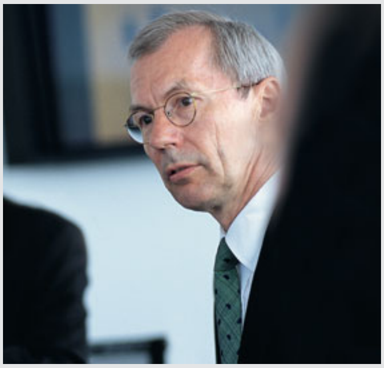
SCHREIER: Digital printing no doubt has a promising future. It is unbeatable in the one-on-one marketing segment, for example. But demand does not yet have a sufficient volume in our industry. We cannot realize a sales volume here that would be rewarding for us. And by the way, we haven't simply closed the door to this growth market. We are continuing to develop workflow solutions for the integration of digital printing presses into the printing process. And our global sales and service organization will continue to work closely with Kodak, our former partner in the NexPress joint venture. The only thing that is certain, however, is that digital printing is not developing in the way experts had originally predicted.

DR. SPIEGEL: Yes, the offset area practically only uses digital data today – this has resulted in enormous cost reductions in offset printing, especially for short print runs.

Then in what direction is the market developing in your view?

DR. SPIEGEL: One clearly recognizable trend is that the number of print jobs is increasing and the size of print runs is on the decline. There will therefore be increasing numbers of medium-sized and smaller orders, for which offset printing offers clear advantages.

BECAUSE OF OUR REORIENTATION, IT HAS BEEN APPROPRIATE TO SHIFT TO A FUNCTIONAL AND LEAN ORGANIZATIONAL STRUCTURE.



And Heidelberg will concentrate on offset printing?

DR. SPIEGEL: Yes, the focus of our operations is on the Sheetfed Offset business area, of course. We will further expand and improve our comprehensive product offerings. We will thereby optimally service commercial printing establishments as well as package and label printers.

What about the solution provider approach – does that still apply?

SCHREIER: Solutions are continuous, closely coordinated systems that include all production levels of printing as well as related software. And this is precisely what we offer our customers. This approach in particular benefits us vis-à-vis our competitors, as it grants our customers crucial value added based on increased productivity and efficiency.

DR. SPIEGEL: By the way, our modular construction method makes it possible for us to precisely tailor our solutions to the requirements of our customers and realize these solutions on a cost-effective basis. This makes them ever more interesting for small printing establishments as well.

DR. MEYER: And as in the past, our customers also obtain important solution components from us – for example, introductory and specialized further training programs, which our Print Media Academies make available to our customers worldwide. Another example is our offer of providing financing for printing establishments, which is of considerable support for our customers.

Doesn't divesting these divisions represent going 'back into the future' or taking 'a step backwards'?

SCHREIER: No, for after all, we are not only focusing on the Sheetfed Offset area, as we still did seven years ago. We offer closely coordinated systems that guarantee optimized processes. We have meanwhile fully integrated the Prepress and Finishing areas. Our new generation of printing presses, which we introduced at drupa, also shows that these areas are not only 'appendages' for us.

In the past, we did not yet have our own software brand, such as we do today with Prinect. We are continually further expanding our workflow expertise. And as has already been stated, we are also continuing to work on the smooth integration of digital printing systems within the overall workflow of printing establishments.

Another question concerning the divestiture of the divisions: What is actually the purchase price?

DR. MEYER: We will receive up to USD 150 million from Kodak through the end of December 2005; additional payments may be made over the five following years. Precisely how much money will be paid depends on sales. This arrangement is an incentive for our sales department, of course, which is still supporting NexPress. And it also shows that we continue to believe in the opportunities for our customers offered by digital printing.

In return for the sale of the Web Systems Division we will receive a minority interest in Goss as well as a seat on that company's Board of Directors. We will continue to implement Web Division sales in important regions. Although a purchase price was negotiated in this area as well, of course, the two parties agree not to disclose the terms.

Your customers have invested considerable sums in web printing. The working time of the installations usually extends over 15 years. Should they be worrying about disadvantages that could result from the sale of the Web Systems Division?

DR. MEYER: We don't see any disadvantages resulting from this. The interests of our customers were a very important consideration during the contract negotiations. In fact, the negotiations took more time not least for this reason. Goss holds a leading position in the area of web offset newspaper printing presses and maintains a worldwide presence. Our participation can and will ensure that our customers can obtain products and service in the accustomed quality.

Following the restructuring measures of the last two years, can additional plant closures be expected? Or is consideration being given to moving some plants?

SCHREIER: The Mühlhausen and Neuss plants will be closed down this year according to plan. If markets grow in the medium term in other regions rapidly enough for local demand to become strong enough, local manufacturing could become advantageous. That could be conceivable in Asia, for example.

The number of the Group's employees fell by 3,600 over the past two years. In addition, a total of some 3,500 employees will be switching to Kodak and Goss. Has Heidelberg thereby reached its target figure for the total number of employees?

SCHREIER: Not yet. Because of our reorientation, it has been appropriate to shift to a functional and lean organizational structure. This optimally supports our new strategy and will result in the loss of a further 1,000 jobs.

Despite job cutbacks, cost-saving measures, and programs to boost efficiency in recent years, Heidelberg generated the worst loss in its corporate history during the reporting year. How did that come about?

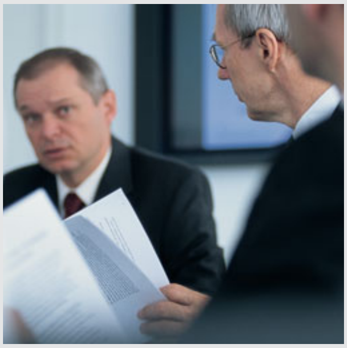
WE HAVE TAKEN A CLOSE LOOK AT EVERYTHING IN RECENT YEARS
AND CHECKED OUT POSSIBILITIES OF BOOSTING EFFICIENCY.

DR. MEYER: It was caused primarily by the high one-time expenses necessary in connection with the reorientation – in particular, due to the elimination of the loss-generating Digital and Web Systems operations. During the reporting year, we already fully booked the expenses arising from this, which largely comprised book losses, and incorporated them in the Annual Financial Statements. This, together with the restructuring measures, enormously encumbered our result in the amount of approximately € 569 million.

And why did these expenses have such a strong impact?

DR. MEYER: Because due to cyclical causes our Sheetfed Division was also unable to generate a profit contribution in the accustomed amount. During the first quarter, economic activity was still so weak that our incoming orders nearly wholly dried up. The situation improved decisively during the year, with sales during the second half of the year up by 40 percent over the first quarter. Nevertheless, we were unable to make up for the dreadful startup.

Incidentally, the loss would have been even greater without our programs for boosting efficiency. They took hold earlier than expected, as a result of which our operating result during the financial year was € 20 million higher than had originally been forecasted. Our free cash flow, which amounted to over € 100 million, even substantially surpassed our forecast!



Couldn’t lowering costs ‘at any price’ cause one to miss out on development opportunities?

DR. MEYER: We have taken a close look at everything in recent years and checked out possibilities of boosting efficiency. Overall, we thereby generated considerable cost-cutting potential. The original structural costs of approximately € 2 billion were reduced by about 20 percent. But we definitely did not cut costs at any price! This is applicable not least to the research and development area, which is reflected by our continuing high R&D rate.

DR. SPIEGEL: I think that a glance at the over 50 product innovations that we were able to launch at drupa proves that resources are being applied purposefully.

WE WILL EXPERIENCE THE FAVORABLE EFFECTS OF OUR PORTFOLIO STREAMLINING ALREADY DURING THE CURRENT FINANCIAL YEAR.

Where do you see Heidelberg's chances for above-average growth?

SCHREIER: Our service and sales operations give us globally a much better position than our competitors. We will therefore also benefit to a greater extent than they will from the high growth rates in the emerging markets. And integrated solutions are clearly gaining in importance not only in the large industrial nations.

DR. SPIEGEL: A key market for us is the rapidly growing package printing area. Packaging is becoming increasingly sophisticated, and this area is only partially dependent on economic conditions. For example, with the Speedmaster XL 105 we introduced at drupa a completely new category of printing presses for highly industrialized offset printing. Its larger format is ideally suited for package and label printing. We also offer outstanding finishing solutions in this segment.

And what will happen if digital printing expands at the expense of the offset area in the future?

DR. SPIEGEL: High-quality printing is and will remain the traditional domain of offset printing, if only due to cost factors. However, we have always also stated that our customers can penetrate additional new market segments with digital printing – for example in one-on-one marketing.

Without exception, your biggest competitors are offering both sheetfed offset as well as web offset printing press products. Will this result in disadvantages for Heidelberg?

SCHREIER: No, we do not fear any difficulties. On the one hand, web offset printing is becoming less significant vis-à-vis the sheetfed offset printing – in recent years, the web offset printing press market plunged by one-half. And on the other hand, sheetfed offset and web offset printing press products generally have an entirely different customer base in the newspaper area. Particularly in Eastern Europe, though, it is important to be in a position to offer both sheetfed as well as commercial web offset printing press products. We will therefore continue doing so there in the future.

Do you believe that 'everything will be OK once again' after drupa?

SCHREIER: As a matter of fact, developments at drupa lived up to our expectations and confirmed our confidence that things are getting better again. Nevertheless, indications that the difficult crisis of the print media industry has been overcome were already previously noticeable. We were only not able to state with certainty whether this development would be sustained.

DR. MEYER: As one says so nicely, Heidelberg has now become much leaner. And we will experience the favorable effects of our portfolio streamlining already during the current financial year. We are anticipating our strategy and the improved economic conditions to provide an additional boost to our business in the coming years.

SCHREIER: However, the fact that the outlook for Heidelberg is so much better than in the previous year is also due not least to our employees and those representing their interests. My colleagues on the Management Board and I are very grateful to them for their extraordinary dedication and highly constructive cooperation, also in critical issues. We are also highly pleased with the confidence that investors and customers extended to us in times that were anything but easy. We sincerely also thank them all for this!

On the subject of investors: RWE AG was the majority shareholder of Heidelberg for over 60 years. Will the sale by RWE of its shares in Heidelberg have an impact on strategy?

SCHREIER: We always felt comfortable with our parent company RWE and always worked together confidently and closely. The sale will not change our strategy in any way. RWE made a gift to us by placing the shares with international institutional investors on May 5th and 6th in an accelerated tender offer. Our new, internationally expanded group of shareholders is well-suited to our setup. Furthermore, our target was always to achieve a greater volume of free float.

DR. MEYER: This move will, of course, result in opportunities for the share due to the increase in free float in the first stage to 57 percent. By the latest in 2007, due to the offered exchangeable bond this percentage will rise to 72 percent. This considerable increase in free float alone will reinforce demand for our shares.

Management Board

Dr. Klaus Spiegel
Products & Marketing

Graduate degree in mechanical engineering (Promovierter Maschinenbauingenieur). Joined Heidelberger Druckmaschinen Aktiengesellschaft as a design engineer in 1983. Since 1995 Member of the Management Board of Heidelberg.

Bernhard Schreier
Chairman

Engineering graduate (Diplom-ingenieur, vocational college). 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.

Dr. Herbert Meyer
Finance

Graduate degree in business administration (Promovierter Diplomkaufmann). 18 years with the Bosch Group, of which six years abroad. Since 1994 on the Management Board of Heidelberg.

Wolfgang Pfizenmaier, Member of the Management Board of Heidelberg through November 30, 2003, field of responsibility: Digital.

Holger Reichardt, Member of the Management Board of Heidelberg through November 30, 2003, field of responsibility: Marketing.

The Heidelberg Share – Outperforming the DAX

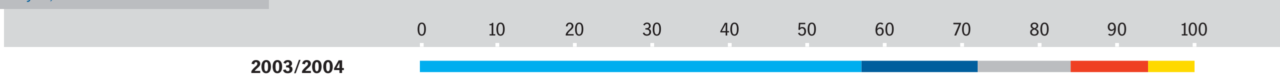
- **Strong Upward Trend for Heidelberg's Share**
- **Capital Markets Hopeful for the First Time**
- **New Shareholder Structure with Considerably Higher Free Float**

The Xetra closing price of € 27.99 on March 31, 2004 represented a 70 percent increase in the price of a Heidelberg share during the financial year! By means of comparison, the DAX rose by 57 percent during this same period. Especially in view of the continuing weak business developments in the industry, we regard the increase in Heidelberg's share price as a remarkable development.

Feedback from the capital market makes it clear that analysts and investors appreciate our measures to boost efficiency, our innovative power, and our strong technological position in the market – approaches that we also demonstrated again at drupa 2004, where analysts and investors welcomed and favorably appraised Heidelberg's reorientation.

Shareholder Structure

since May 11, 2004



Free Float	57 %
RWE [1]	15 %
Allianz	12 %
Commerzbank	10 %
Munich Re	6 %

[1] Shares to service an exchangeable bond issued by RWE

We were pleased that RWE Aktiengesellschaft decided to place its 50.02 percent shareholding in Heidelberg with international institutional investors in an accelerated tender offer. Our goal has always been to increase free float, especially in view of the greater liquidity and with it the attractiveness of the Heidelberg share. The successful placement of the RWE shareholding on May 5 and 6, 2004, resulted in an increase in our share's free float from 22 percent to 57 percent. The free float will further increase to 72 percent over the next three years as soon as the exchangeable bond is exercised.

Larger Xetra Trading Volumes Demonstrate Interest among Investors

Not only the price increase makes it clear that our share is of interest for many investors, but also the fact that the trading volume increased continuously following the rise in free float in May 2002. Whereas on average 55,000 shares were traded per day in 2002, this figure rose to an average of 90,000 shares per

Key Performance Data of the Heidelberg Share

Figures in €	2002/2003	**2003/2004**
Earnings per share	– 1.67	**– 8.16**
Price-earnings ratio [1]	– 9.71	**– 3.43**
Cash flow per share	1.16	**– 1.08**
Price-cash flow ratio [1]	13.97	**– 25.92**
Dividend per share	–	**–**
Dividend yield in percent [1]	–	**–**
Share price – high	54.99	**34.60**
Share price – low	13.42	**16.00**
Share price – financial year-end	16.21	**27.99**
Market capitalization – financial year-end price in millions	1,392	**2,405**
Number of shares	85,908,480	**85,908,480**

[1] In terms of the financial year-end price. Source of prices: Bloomberg

day in the early months of 2004. The Heidelberg share is thereby among the most actively traded shares in the MDAX – despite the fact that its tradable volume is rather low.

Further Strengthening Investor Relations

We held even more presentations during the financial year in order to increase or to strengthen interest in the Heidelberg share:

- At some 40 road shows in Germany and abroad, we answered questions posed by institutional investors or presented the Company to new and interested investors.
- We also explained Heidelberg's potential at over ten international conferences. Furthermore, we held a large number of individual discussions within the framework of these presentations, including a number of first-time contacts.
- Plant visits and tours to our demonstration rooms in the Print Media Center continued to be very popular and were requested over 30 times. Such visits and tours clarify for non-specialized individuals the important issues in the everyday operation of printing establishments and help understand the increasingly complex and integrated phases of production.
- Moreover, sales force briefings are becoming more and more import for us in Germany and the UK. We increasingly often introduce Heidelberg on a personalized and comprehensive basis to banking personnel who work as customer advisors and contacts for the fund managers of international investment houses.

Published Investment Research Studies on Heidelberg Predominantly Favorable

Currently more than 30 banks publish investment research studies covering Heidelberg. Meanwhile, nearly all the international investment banks and regional banks as well as a number of private banks have begun to provide coverage for Heidelberg.

Most of the studies were favorable. Among the most current studies, as of May 19, 2004, only four recommended selling, with 13 recommending holding and 14 buying our share.

Annual Report Awarded; Fact Book Updated

Our annual report again received an award this year. In the competition held by manager magazine for the best annual report, for the third time we won first place among MDAX companies. We were fifth among all companies. This prize fills us with considerable delight and motivates us for further achievements. We would also be very grateful for your suggestions in the future!

We are particularly pleased that the assessment of our Annual Report in the area of 'Visual Presentation' underscores our expertise in the production of exceptional and high-quality print media. Heidelberg has consistently held first place in this category for the past six years.

We updated the electronic version of our Fact Book in November 2003 for you. We invite you to view the latest information at the Internet address http://www.heidelberg.com/hd/Factbook.

Annual General Meeting Advanced to Earlier Date

For the first time, in 2004 the Annual General Meeting will already be held on July 21, 2004 rather than in September. The Management Board and the Supervisory Board will propose to this meeting that no dividend be distributed for financial year 2003/2004 due to the fact that Heidelberg booked a net loss.

The investor relations team will be happy to receive your suggestions or questions!

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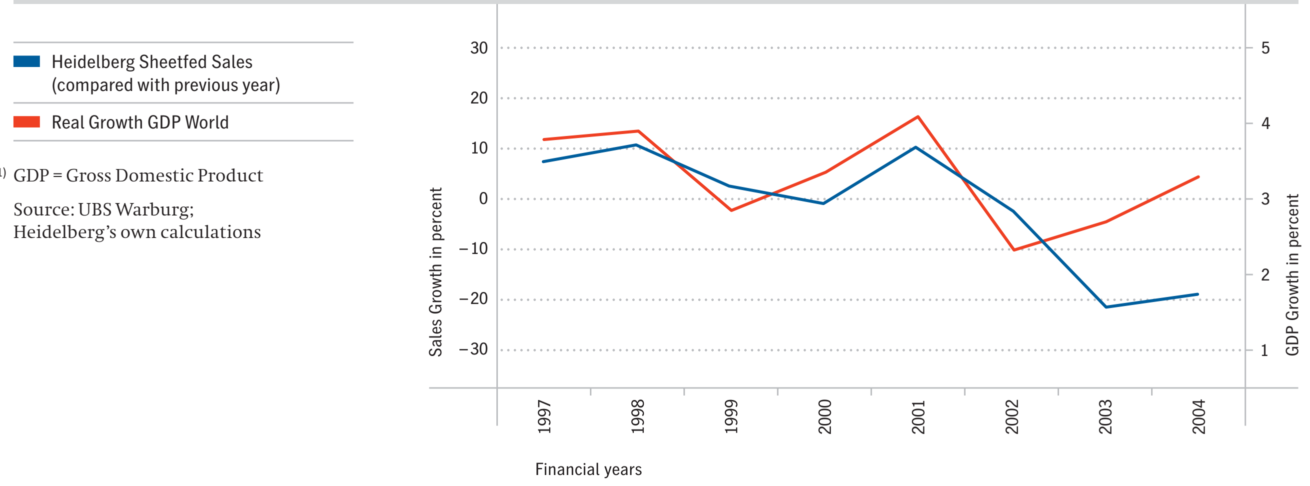
Business Environment and Industry Development – Gradual Turnaround

- **Upswing Following a very Weak Startup**
- **Low Point of Print Media Industry's Capacity Utilization Overcome**
- **Print Media Industry Still Suffering from Restrained Investment Activity**

We offer the best and most extensive service and sales network in our industry, and offer our solutions for the print media industry worldwide. We can therefore generally compensate for economic downturns in one region by means of favorable developments in other regions – except when business developments are disappointing worldwide.

Economic growth in the various regions of the world has the most significant impact on our business development. Our customers' capacity utilization is closely linked to their country's advertising industry – which, in turn, is heavily influenced, following a time lag, by the development of the gross domestic product (GDP).

Comparison GDP[1)] versus Sheetfed Sales



1) GDP = Gross Domestic Product

Source: UBS Warburg; Heidelberg's own calculations

Customers with a low capacity utilization do not generally make significant investments. If the capacity utilization remains high or increases over a period of time, our customers then invest in new printing presses and innovative technologies. As a result, the development of our Sheetfed sales was generally virtually identical with the pace of economic growth – but after a delay of three to six months. This is graphically depicted on page 15. The chart also shows that in particular during the past year there was a marked discrepancy in the two curves 'Sheetfed sales' and 'GDP growth'. This was a result of growth that to an unusual extent was generated by the consumer goods sector. By contrast, outlays for capital goods were in a steep decline in many countries. Investments again played a greater role in generating growth during the financial year, nevertheless failing to reach their 'normal' levels.

Gross Domestic Product

Compared with previous year in %

	2001	2002	2003
World	2.1	2.6	3.4
USA	0.5	2.2	3.1
EU	1.7	1.0	0.7
Germany	1.0	0.2	– 0.1
Asia [1]	6.1	6.7	7.4
China	9.3	9.8	11.5
Japan	0.4	– 0.4	2.7
Latin America	0.5	– 0.5	1.4
Brazil	1.3	1.9	– 0.2
Eastern Europe	3.9	3.6	5.6
Russia	5.1	4.7	7.3

[1] Without Japan

Source: UBS Warburg, March 2004

World Economy Growing Again; Principal Markets Highly Varied

Did the global economy return to a sustained upswing in 2003? The current situation is characterized by an improvement in the prospects for growth since mid-year. The significant factor in the turnaround have been the long-standing economic policies in the US and Asia that favor a massive expansionary course – an approach that has continued in response to the burdens effecting the world economy over the past three years. The economic climate improved worldwide when the war in Iraq was over and it was clear that the SARS epidemic crisis failed to have the global consequences that were feared. This helped give a push to an economic upswing. Despite its dreadful beginning, the global economy grew by 3.4 percent overall in 2003!

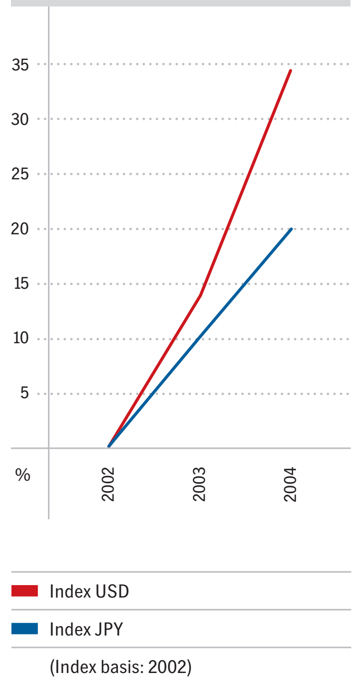
The table on the left presents an overview of the extent to which individual regions and countries were able to participate in this growth.

The **US** was the engine for world economic growth, with business activity accelerating perceptibly during the year. Although, as in the previous year, the growth of the US economy was largely powered by consumer spending, initial signs of improvement in the propensity to invest were also evident. Only future economic developments will show whether the expansionary economic policy in the US was a flash in the pan or resulted in a sustained upswing.

Europe is lagging behind global development. The economic upswing during the second half of the year could not make up for the weak first half of the year, with some countries temporarily sliding into recession.

Currency Appreciation of the €

Average exchange rate during FY



Once again, our second largest market, **Germany**, fell far behind the original forecasts, with GDP stagnating despite the considerable increase in exports. Leading independent economic research institutes criticized in particular the uncertainty and the lack of incentives to invest that are being engendered by economic and financial policies in this country. The important indicator – investment in equipment – fell again. Following its 6.5 percent decline the previous year, it plunged by a further 2.9 percent!

By contrast, Japan favorably surprised the experts. Despite its structural problems, that country's GDP grew by 2.7 percent, compared with the recessionary trend the previous year.

Beyond a doubt, the greatest potential for growth is located outside the group of large industrial countries. Growth in Asia was somewhat lower than had been anticipated prior to the appearance of the SARS epidemic; the effected countries recovered surprisingly quickly from the crisis. The difficult economic and political crises in Latin America appeared to bottom out towards the end of the year. Eastern Europe benefited not least from the vigorous economic growth in the new EU countries.

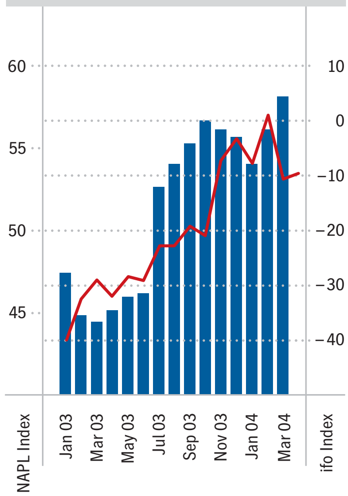
Exchange rates were again an important issue worldwide during the financial year. Interventions by the Japanese and Chinese central banks demonstrate that the Asian countries are endeavoring to extensively protect themselves from a strengthening of their currencies. The accompanying chart clearly reflects the record-breaking development of the euro vis-à-vis the US dollar and the Japanese yen. The situation only relaxed again somewhat during the final months of the financial year.

A Favorable – and Sustained? – Trend in the Print Media Industry

In the industrialized countries, the print media industry experienced a considerable crisis over the last two years. This was caused by the global slack economy. The situation was worsened further by the continuing crisis in the advertising sector. The capacity utilization of printing establishments plunged to an historic low. This industry faced fierce competition and pressure on prices, and their income fell. This resulted in a trend towards consolidations, with the number of corporate insolvencies in many industrialized countries attaining a sad high point. By contrast, a number of new printing establishments were established in the rapidly growing emerging markets.

This crisis also obviously affected print media industry suppliers. Worldwide, the volume of business of important market segments for printing machinery and equipment was 20 to 40 percent below the figures from the period before the crisis began. Manufacturers accordingly heated up the competition, which was also reflected in pricing.

Business Climate Index (US-/West German Printing Industry)



USA

West Germany

(Source: NAPL; ifo Institute for Economic Research)

Conditions in the print media industry improved somewhat in the industrialized countries, with slightly better underlying cyclical conditions evident in the second half of the financial year. Nevertheless, it remains to be seen how lasting these trends are:

- Beginning in the autumn of 2003, the overall capacity utilization of the printing industry rose again, particularly in the US. Despite a stagnating economy, the trend was generally upward again in Germany as well.
- As you can see in the chart on the left, the business climate again began to improve in the US and Germany beginning in the middle of the financial year. This development reflects growing optimism in the industry. The sales volume, however, continued to stagnate in 2003.
- The upswing only occurred following a time lag that is typical for machinery and equipment suppliers. According to the Association of the German Engineering Industry (VDMA), incoming orders of printing presses only declined on a price-adjusted basis by 3 percent overall in Germany, with price-adjusted sales down by 15 percent. These figures compare with declines, respectively, by 28 percent and 18 percent the previous year.

Heidelberg's principal competitors are positioned in Germany and Japan. Like ourselves, our German competitors also faced the need to react to a difficult order situation by means of job cutbacks and part-time work. Our Japanese competitors, on the other hand, benefited from an exchange rate advantage.

Nevertheless, our strong position as the world market leader in the Sheetfed Offset area also remained unchanged during the financial year. Contributing to this was not least our strategy of offering integrated solutions. These solutions provide our customers with crucial value added and Heidelberg with competitive advantages vis-à-vis competitors.

We address the underlying conditions for individual products and product groups separately in the individual sections of this Annual Report. We also provide more information concerning distinctive features of the various countries and regions that have shaped and influenced our business development.

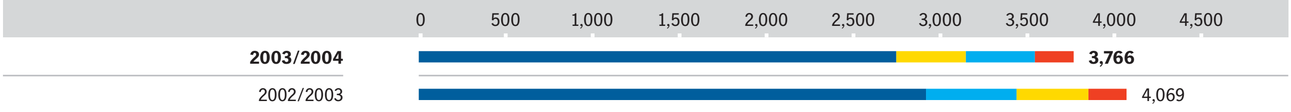
Business Development – Upswing Following Weak Start

- **Extremely Weak First Quarter**
- **Increase in Incoming Orders Beginning in the Second Quarter**
- **Share of Sales to Emerging Markets Grows Further**

In the previous section, we described the reasons why the print media industry's propensity to invest was low in our principal markets, particularly during the first half of the year. This restrained level of consumer spending had a decisive impact on our overall business development. We provide detailed information on the business development of the individual areas in the section Reports of the Divisions as well as in the Reports from the Regions.

Incoming Orders

Figures in € millions



Digital	**223**	+ 2 %
Sheetfed	**2,746**	– 6 %
Web Systems	**397**	– 24 %
Postpress	**400**	– 3 %
Heidelberg Group	**3,766**	**– 7 %**

(adjusted: – 2 %)

Incoming Orders: Substantial Growth Beginning in the Second Quarter

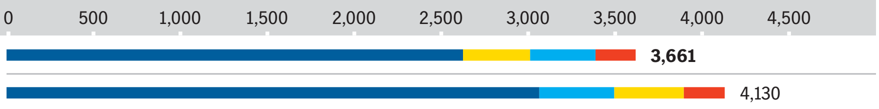
As expected, the first quarter was very weak due to the difficult business environment in our key markets. The economic upswing that was evident beginning in the second quarter was reflected in a greater volume of orders. This development was supported by our success at the IGAS specialized trade fair in Japan and the Graph Expo trade show in Chicago. We generated a considerably higher volume of incoming orders than during the second quarter of the previous year.

Thanks to incoming orders of nearly € 1 billion, we were able to maintain this high level during the third quarter. Adjusted for exchange rate effects and changes in the scope of the consolidation, we thereby approximated the previous year's figure. The upward trend also continued into the fourth quarter, when we again booked incoming orders of € 1 billion – despite the fact that drupa was imminent in May 2004. There was no evidence of the restrained level of consumer spending that we had anticipated in the run-up to the world's largest trade fair for the print media industry. The number of orders acquired by the Web Systems Division was especially pleasing – customer confidence is continuing undiminished despite the announced divestiture of this business area.

Net Sales

Figures in € millions

2003/2004	**3,661**
2002/2003	4,130



Digital	231	– 2 %
Sheetfed	2,625	– 14 %
Web Systems	376	– 13 %
Postpress	429	+ 7 %
Heidelberg Group	**3,661**	**– 11 %**
		(adjusted: – 6 %)

Overall, orders totalling over € 3,766 million were obtained during the financial year – approximately 7 percent below the previous year's figure. On an adjusted basis, incoming orders amounted to € 3,987 million – only around 2 percent below the previous year's figure. The course of business during the year points to a considerable improvement in conditions in the industry. Nevertheless, it is not yet certain that this development will continue on a sustained basis.

Sales: Second Half-Year's Figure Substantially Improved over the Same Period the Previous Year

Our forecast that the sales volume might decline again during the financial year was confirmed. Our overall sales of € 3,661 million for the financial year were 11 percent below the previous year's figure. However, on an adjusted basis the decline amounted to only approximately 6 percent.

Similarly to the development of incoming orders, a marked improvement was also noticeable in the trend of sales over the course of the year. We only generated sales of € 1,509 million through September 30, 2003; by contrast, during the second half of the year sales increased over the first half of the year by more than 40 percent!

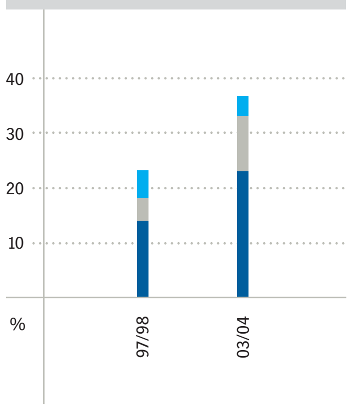
Why was the Sheetfed Division, whose sales fell by 14 percent – on an adjusted basis, by 9 percent – most heavily affected? The cause was that, as expected, incoming orders in the first half of the year were influenced by cyclical weakness. Sales of the Digital Division remained below the previous year's level. Sales of the Web Systems Division were boosted by a higher volume of incoming orders during the previous year.

In the section 'Business Environment and Industry Development' we describe the difficult situation faced by our customers in the US and Germany, in particular at the beginning of the financial year. The shares in Heidelberg's overall sales accounted for by these, our two biggest markets, declined again. On the other hand, the shares accounted for by regions with emerging markets rose significantly again during the financial year.

The potential offered by the emerging markets of Asia, Eastern Europe and Latin America becomes especially apparent when the focus is on long-term developments – see for example the chart to the left. The share of sales of the

Net Sales Portion Emerging Markets

Figures in percent



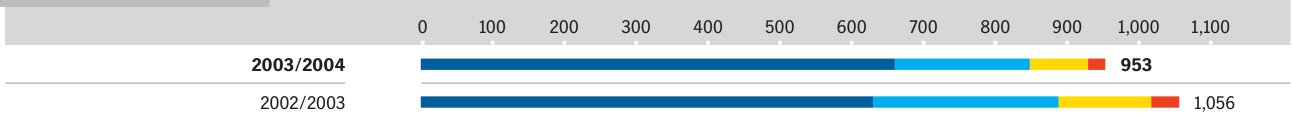
	97/98	03/04
Latin America	5 %	4 %
Eastern Europe	4 %	10 %
Asia/Pacific	14 %	23 %
Emerging Markets total	**23 %**	**37 %**

regions with such markets will increase further in the future as well. The extent to which demand for printed products is saturated is still quite minimal in these markets. Furthermore, these economies generally tend to grow at a faster pace than the larger industrial countries.

Heidelberg, which has the industry's most efficient and extensive sales and service network – a crucial and beneficial competitive advantage – is very well positioned in the world's growth regions. We are continually further expanding our sales and service network. For example, during the financial year we opened new sales branches in Kiev and Budapest as well as a training center in Afghanistan.

Order Backlog

Figures in € millions



Digital	**24**	– 38 %
Sheetfed	**660**	+ 5 %
Web Systems	**188**	– 27 %
Postpress	**81**	– 37 %
Heidelberg Group	**953**	**–10 %**

Order Backlog: Sheetfed Division Surpasses Previous Year's Figure

The order backlog of the Heidelberg Group totalled € 953 million at the end of the financial year – 10 percent below the previous year's level. Approximately half of this decline was attributable to exchange rate effects. As of the end of the third quarter the order backlog was still approximately € 1.2 billion, only declining through the end of the financial year due to the higher volume of sales.

Although the order backlog in the newspaper segment declined substantially, the Sheetfed Division, which is extremely important for Heidelberg, posted a favorable 5 percent growth over the previous year's level – and rising by a full 11 percent on an adjusted basis! At financial year-end, the Sheetfed Division's order backlog extended over 3.0 months, compared with 2.5 months the previous year.

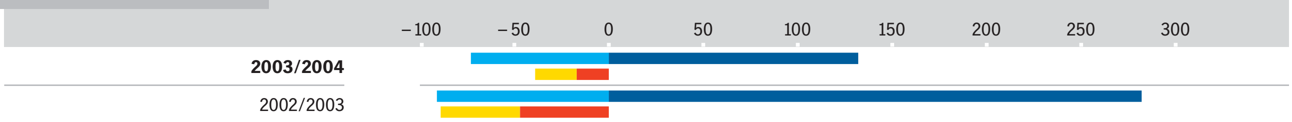
Asset, Financial and Income Positions – Greater Flexibility

- **Moderately Positive Operating Result Net of Extraordinary Expenditures Despite Further Decline in Sales**
- **One-Time Costs Due to Reorientation Hamper Net Profit**
- **Considerable Financial Strength Maintained**

Business developments were reflected, of course, in the result of operating activities net of restructuring expenses and extraordinary expenditures arising from discontinuing operations[1]. The first half-year, and especially the first quarter, were characterized by extremely weak sales. However, enormous improvement and strengthening demand occurred in the third and fourth quarters. Overall, despite the further 11 percent decline in sales, we realized a slightly positive result of operating activities. This shows that our programs for boosting efficiency and reducing expenses have begun to take hold.

Result of Operating Activities before Extraordinary Expenditures

Figures in € millions



		2003/2004	2002/2003
Digital		**– 17**	– 47
Sheetfed		**132**	282
Web Systems		**– 73**	– 91
Postpress		**– 22**	– 42
Heidelberg Group		**20**	**102**

Cutting Costs – Solid Improvement in the Return on Sales during the Year

The result of operating activities before extraordinary expenditures of € 20 million was considerably below the previous year's figure of € 102 million. What was the principal cause of this decline? The sales of the Sheetfed Division fell from the previous year by 25 percent in the first half of the year. Due to the low capacity utilization, this division's result was in the red, thereby failing to make up for the losses of the other divisions during the first half-year.

The Sheetfed Division nevertheless generated a strong result during the second half of the year – to the extent of realizing a return on sales of more than 10 percent during the fourth quarter! As expected, thanks to our **program for medium-term cost reduction and efficiency enhancement**, during the early part of the year we succeeded in limiting the impact of the disastrous sales trend on the result of operating activities net of extraordinary expenditures.

[1] In the following: result of operating activities before extraordinary expenditures

Restructuring

Figures in € millions

	Restructuring expenses 2002/2003	Savings in reporting year
Digital	79	35
Sheetfed	81	160
Web Systems	32	20
Postpress	18	25
Heidelberg Group	**210**	**240**

Moreover, we were successful in improving the results of the other divisions compared vis-à-vis the previous year, although Digital and Web Systems fell far short of projections.

We posted one-time expenses of € 210 million for this program in the previous year. Restructuring costs totalled € 93 million during the reporting year. The table on the left shows the savings we thereby attained in the various divisions during the financial year. We will continue to benefit from the achievements of this program in the years to come.

The extent to which we have reduced our fixed costs – and thereby enhanced our flexibility – can be seen from major cost items, such as other operating expenses and personnel expenses. Adjusted for exchange rate effects, we were able to reduce both of these items to a disproportionately large extent compared with the adjusted decline in sales.

The **financial result** amounted to € –191 million, compared with € –56 million the previous year. This was primarily attributable to a special writedown at the NexPress joint venture. The one-time impairment of the specialized investment funds that was booked directly to the income statement caused the financial result to be additionally encumbered by € 20 million. Although our **net interest income** continued to be positive during the financial year, it nevertheless declined by € 21 million to € 5 million. We continued to outsource customer financing, which is resulting in lower overall interest revenues.

Including the costs for the reorientation resulted in pre-tax income of € –506 million. Despite this considerable loss, tax expenses totalled € 189 million. This was largely caused by deferred taxes and arose primarily in connection with the necessary value adjustments for Digital and Web Systems. The net loss amounted to € 695 million.

Reorientation: Future Earnings Capacity Boosted Considerably

During the course of the financial year, it appeared that comprehensive measures to reduce costs and boost efficiency would be inadequate to place the Digital Division and Web Systems Division on the road to success as well. Therefore, together with the Supervisory Board, we decided to realign the Heidelberg Group at the end of November 2003. The reorientation comprises the transfer of the Digital Division and the Web Systems Division (together with the processing installations for the Web Printing area in the US).

We already deferred € 525 million for the implementation of the reorientation during the third quarter and additionally accrued € 17 million in restructuring expenses.

Income Statement of the Heidelberg Group

Figures in € millions	2002/2003	2003/2004
Net sales	4,130	**3,661**
Result of operating activities [1]	102	**20**
Restructuring expenses and extraordinary expenditures from discontinuing operations	210	**335**
Financial result	– 56	**– 191**
of which extraordinary expenditures	–	**– 118**
Income before taxes	– 164	**– 506**
Income tax expense	– 26	**189**
of which extraordinary expenditures	–	**– 116**
Net loss	– 138	**– 695**

[1] Before restructuring expenses and extraordinary expenditures from discontinuing operations

Overall, the consolidated financial figures include € 569 million in restructuring costs and extraordinary expenditures arising from discontinuing operations. Of this amount, € 335 million is accounted for by the operating result, including € 93 million attributable to overall restructuring expenses for the financial year, with € 242 million in extraordinary expenditures for discontinuing operations. Additional factors include the writedown of the NexPress joint venture in the financial result totalling € 118 million as well as amortization of deferred taxes of € 116 million. Additional details concerning the recognition of these items is provided in the Notes to the Financial Statements beginning on page 102.

The reorientation has already solidly increased the Group's earnings capacity since the beginning of the current financial year!

Value Adjustments in Connection with Reorientation

Figures in € millions	03/04
Fixed assets	**– 151**
– of which intangible assets	– 33
– of which financial assets	– 118
Current assets (inventories)	**– 28**
Deferred taxes [1]	**– 116**
	– 295

[1] Balance from € – 135 million write-downs of deferred tax assets and € – 19 million write-downs of deferred tax liabilities

Financial Position: Reduction in Total Assets

For the most part, we already adjusted the values of asset and liability items in the consolidated annual financial statements in connection with the reorientation; all of these items had still been included in the provisions at the end of the third quarter. Overall, the value of the carrying amount of amortization amounted to nearly € 295 million. Of this, € 151 million was attributable to fixed assets, € 28 million to inventories, and € 116 million to deferred taxes.

Total assets were reduced by nearly 18 percent to € 4,232 million as of the financial year-end – a result not only of these writedowns, but also due to our active asset management. We further optimized our operating assets as well.

We reduced investments in tangible and intangible assets. That was the cause – in addition to, among other things, the writedown of our NexPress joint venture – for the 23 percent decline in fixed assets to € 897 million.

We were also able to reduce current assets, with inventories declining by over € 140 million! Trade receivables fell by 12 percent to € 713 million – primarily a result of the lower level of business operations.

Accounts receivable arising from customer financing dropped by 10 percent to approximately € 769 million. We continued to outsource customer financing in order to keep the Heidelberg Group's committed funds at their lowest possible level.

Among liabilities, shareholders' equity declined considerably from the previous year, dropping by approximately 37 percent to € 1,230 million – the result of the net loss of € 695 million. As a result, the equity ratio at the end of the financial year fell significantly from 38 percent to 29 percent. Following the final completion of the reorientation, the equity ratio will again be slightly more than 30 percent. The capital base of the Heidelberg Group thereby lies in the upper average compared with other corporations.

Provisions rose slightly, with a € 293 million share attributable to outlays for the restructuring and reorientation.

We cut back liabilities to banks (including note loans) by almost 10 percent to € 718 million. We thus succeeded in reducing our financial year-end net financial debt by 5 percent to € 92 million in this difficult year, thereby trimming bank debt by 22 percent over the last two financial years!

Financial Condition: Impact of the Reorientation

Heidelberg's consolidated **cash flow** was negative, amounting to € –92 million, compared with € 100 million the previous year. Excluding discontinuing operations, the cash flow amounts to € 205 million; this is a clear indication of the extent to which we are strengthening our cash flow by streamlining the portfolio!

The impact of our consistent asset management becomes clear in light of the **net cash from operating activities** excluding cash flow, with cash inflow increasing from € 311 million the previous year to its current level of € 381 million.

We undertook a substantial cutback in investments. As a result, the **net cash used in investing activities** fell from € 203 million to € 174 million. This decline is made even clearer if asset disposals from sale and leaseback transactions, which had a favorable impact the previous year, are taken into account.

All the above-mentioned measures affected the **free cash flow**, which despite the high level of one-time charges, was a quite favorable € 114 million – far better than our forecasted figure. This is especially remarkable in our view because the print media industry experienced a crisis over the last two years and we undertook an extensive restructuring of the Group. We succeeded in retaining our strong financing capacity in such difficult times.

Cash Flow Statement of the Heidelberg Group

Figures in € millions	2002/2003	**2003/2004**
Net cash from operating activities	410	**288**
(of which cash flow)	(100)	**(– 94)**
Net cash used in investing activities	– 203	**– 174**
Free cash flow	207	**114**
Net cash used in financing activities	– 233	**– 72**
Net change in cash and cash equivalents	– 26	**42**

A detailed cash flow statement is presented on page 75.

Value-Oriented Corporate Management – ROCE and Value Contribution

- **Negative Value Contribution during the Financial Year**
- **Operating Assets Reduced**

Value Contribution

Figures in percent

	02/03	03/04
ROCE	4.6	**2.0**
Capital costs	13.0	**13.0**
Value contribution	– 8.4	**– 11.0**

Our highest priority goal is to effectively and continuously increase the corporate value of the Heidelberg Group. As in the previous year, we realized a negative value contribution during the financial year. We therefore intend to decisively improve our earnings capacity – among other things based on Heidelberg's reorientation – in order to be in a position to again generate a favorable value contribution in the future.

Yield Expectations of the Capital Market Taken into Account

We view value contribution as the central management control figure as well as the basis for measuring the corporate success of the Heidelberg Group. We therefore also internally evaluate our individual business units by means of their value contribution; this evaluation is based on a comprehensive value management system with concrete objectives in connection with our planning system.

Why is the value contribution particularly suitable as a management control figure? It shows the relationship between the result of operating activities less capital costs vis-à-vis utilized means – in other words, the operating assets. Yield expectations and capital market expectations are thereby taken into consideration.

In the following presentation, we describe how we calculate ROCE (return on capital employed) and the value contribution. An overview of the individual calculations can be found in the following two tables. **Operating assets** consist of the sum of operating fixed assets and the net working capital – in other words, only the assets required in business operations. We have adjusted effects that result from our endeavors to reorient Heidelberg.

In order to calculate **ROCE**, earnings components that are among the core business but are shown in the financial result, among other components, are added to the result of operating activities before restructuring expenses and extraordinary expenditures from discontinuing operations. Additionally, special occurrences such as restructuring expenses and extraordinary expenditures from discontinuing operations are adjusted. The resulting operating result is placed in relation to the average operating assets.

The **expected return on capital** takes the interest expectation of the capital market into account. In order to calculate this we make use of an appropriate market premium, the Heidelberg Group's capital structure, and a risk factor. As in the previous year, the expected return on capital amounted to 13 percent.

The residual amount after deducting the costs of capital from ROCE is the **value contribution**.

Operational Assets[1)]

Figures in € millions	2002/2003	**2003/2004**
Intangible + tangible assets[2)]	968	**891**
+ Loans + participations[1)]	198	**157**
+ Goodwill amortization (cumulated)[3)]	82	**100**
= Operating fixed assets	1,248	**1,148**
Inventories[1)]	1,073	**963**
+ Receivables[4)] + prepaid expenses	1,959	**1,708**
– Provisions[5)]	– 739	**– 651**
– Non-interest bearing liabilities and deferred liabilities	– 722	**– 676**
= Net working capital[2)]	1,571	**1,344**
= Operational assets[2)]	2,819	**2,492**
Average operational assets	2,982	**2,655**

Value Contribution[1)]

Figures in € millions	2002/2003	**2003/2004**
Result of operating activities[1)]	102	**20**
+ Income from participations[1)]	– 84	**– 70**
+ Interest from customer financing	101	**85**
+ Goodwill amortization[3)]	19	**19**
= ROCE absolute	138	**54**
• ROCE in % of average operational assets	4.6	**2.0**
Capital costs absolute	388	**345**
• Capital costs in %	13.0	**13.0**
Value contribution absolute	– 250	**– 291**
• Value contribution in %	– 8.4	**– 11.0**

1) Before restructuring expenses and extraordinary expenditures from discontinuing operations

2) Without assets under construction, before restructuring expenses and extraordinary expenditures from discontinuing operations

3) From capital consolidation

4) Without finance receivables

5) Without pension accruals, before restructuring expenses and extraordinary expenditures from discontinuing operations

ROCE Positive Despite Substantial Decline in Sales

Despite the disappointing business development and the failure of profit contributions to materialize due to the sales decline, we achieved a positive ROCE during the financial year. However, excluding restructuring expenses and extraordinary expenditures the ROCE only amounted to 2.0 percent. In the last financial year we were unable to generate a favorable value contribution for the first time; the situation worsened further during the reporting year, with the value contribution falling from – 8.4 percent to – 11.0 percent.

The causes of the lower ROCE and the depressed value contribution are

- the further decline in the result of operating activities before restructuring expenses and extraordinary expenditures arising from discontinuing operations, and
- the lower interest revenues from customer financing – we provided details on the causes of this in the previous section.

Counteracting the Declining Value Contribution

We are pursuing our target of increasing Heidelberg's value contribution not only through Heidelberg's reorientation and our comprehensive measures to increase effectiveness and reduce costs. We are holding operating assets as low as possible through active asset management. You will note in the table 'Operating Assets' that we succeeded in considerably reducing tied capital, even over and above exchange rate effects. Overall, we thereby reduced our costs of capital during the reporting year by a full € 43 million!

Reorientation of Strategy and Organization

- **Focus on Core Business**
- **Proven Solution-Provider Approach Emphasized**
- **Growth Particularly in the Emerging Markets**

We adapted our strategy in the print media area to the changed conditions during the financial year. In the future, we will focus on our core Sheetfed Offset printing business, where we are the world market leader with our products, as well as on package and label printing. Moreover, we have organized the Group along functional rather than divisional lines, thereby making it considerably leaner than in the past.

We intend to consistently further expand our strategic competitive advantages:

- We are known in the market as a provider of solutions that are precisely tailored to the requirements of the print media industry. We are vigorously further pursuing our solution-based approach.
- We already have the industry's best and most extensive service and sales network worldwide. We are strengthening our presence in regions with emerging markets, which promise rapid growth in the print media sector.

Personalized Solutions for our Customers

Worldwide, our customers must meet the demand for greater flexibility, shorter production times, enhanced sophistication, and increased automation. We are therefore developing solutions that make it possible for our customers to work on a considerably more profitable basis.

Future-oriented state-of-the-art technologies are the foundation of these solutions for Prepress, Printing and Finishing. We integrate the individual technological, software and service components, thereby offering universal, finely tuned and integrated production processes. This approach takes the individual requirements of the customers into account, thus ensuring optimal value added.

Our initial approach to addressing the issue of general production workflow was our Print Production Format, which was already introduced six years ago. This was further developed into the standardized Job Definition Format within the framework of international cooperative agreements. This format makes it possible for us to automate not only production processes, but all business processes as well. We are also increasingly linking business and planning steps with the printing process, thereby optimizing the entire business workflow. We market our workflow management solutions under our own trademark, Prinect, which covers the entire range of the digital workflow offerings.

Available for Customers On-the-Spot – Throughout the World

Our service and sales organization is positioned worldwide. We therefore benefit from the rapid growth in the emerging markets to a greater extent than our competitors. Our local presence is frequently an influence in customers' purchase decisions. Our service technicians are highly trained and available on short notice to deal with problems. We provide overnight delivery of spare parts in almost all the countries of the world. Moreover, our innovative remote online service is often able to deal with problems as they arise.

Our Print Media Academy also represents an exceptional service that we provide for our customers. The scope of this institution's general and specialized training opportunities for printers is unique in the world. We have meanwhile established an international network of Print Media Academies that extends to Atlanta, Cairo, Heidelberg, Kuala Lumpur, Moscow, São Paulo, Shenzhen and Tokyo.

Organization's Principal Focus on the Customer

We have adapted our organization to the changed underlying conditions and are thereby able to optimally pursue our strategic goals. The principal focus of our approach continues to be on the customer – all of Heidelberg's operations are aligned to market requirements. Our service and sales organizations in the regions are closely coordinated with all of the Group's support functions.

The new organization is functional and very lean. In contrast to the former divisional structure, the Management Board is now directly responsible for business operations – without other organizational levels in between.

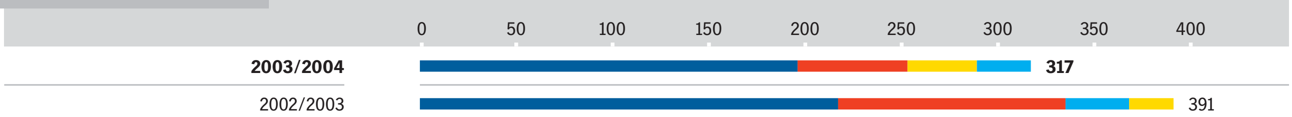
Research and Development – With a View to drupa

- **Important Product Innovations in all Divisions**
- **R&D Rate of 8.7 Percent**

Our research and development activities during the financial year were significantly influenced by drupa, which was held in May 2004. More than 90 percent of overall R&D expenses totalling € 317 million were directly linked to product innovations and advanced development. We introduced over 50 new products and product range extensions at this, the world's largest trade fair for the print media industry. We also registered a total of 260 new patents during the financial year – a figure that does not include activities in our NexPress joint venture.

Research and Development Expenses

Figures in € millions



Digital	**57**	– 52 %
Sheetfed	**196**	– 10 %
Web Systems	**28**	– 17 %
Postpress	**36**	+ 59 %
Heidelberg Group	**317**	**– 19 %**

We were able to further enhance the rate of innovation of our research and development with simultaneously falling R&D expenditures, among other things because we purposefully modularized our model series, increasingly focused on the process of pre-development, and made repeated use of solutions across model construction series. Moreover, the introduction throughout the Group of the same CAD standards helped to utilize resources purposefully and on a multi-site basis.

Market-Driven Product Development

The requirements that print media companies need to meet have changed considerably in recent years. To ensure success in the market, these companies must be in a position to fill orders at an increasingly rapid pace and on a cost-effective basis – and this with the best possible quality. Competitive pressures have increased dramatically; the depressed economic situation has further intensified this development. Our operations again take this development into consideration in all the divisions. Our product innovations improve our customers' competitiveness since they ensure greater flexibility and shorter production times and also open the door to opportunities for greater product differentiation and greater automation. We have also taken into consideration our customers' complaints about a lack of availability of specialists, with our products now even easier to operate.

The further development of **Prinect**, our comprehensive workflow management system, was again of crucial importance during the financial year. Why? The networking of all printing stages with print management gives our customers a crucial competitive advantage, as it makes possible an uninterrupted digital workflow. Thanks to our integration of all the processes that are of importance for the production process, we make manufacturing more reliable and cost-effective. Our new PrintReady workflow software represents a universal connecting link between Prepress and Printing all the way to Finishing. For example, set-up times are being shortened for sheetfed offset printing presses; this, in turn, considerably reduces the work load. Data generated by our newest prepress workflow 'Prinect-Printready' can be outputted to various computer-to-plate systems; they are simultaneously transferred to the printer control unit for automatic color zone adjustment.

As in past years, our development activity focused primarily on our **Sheetfed** Division. Our new developments made it possible for us to further pull ahead of the competition during the financial year. We primarily worked on:

- increasing the productivity, among others, of the direct product environment;
- reducing the amount of unusable copy;
- further streamlining the application of printing presses and components; and
- developing even more flexible solutions.

Environmental protection plays an important role in our developments. We are proud to have received the certificate 'Optimized UV Printing' with the integrated certificate 'Emission Checked' in September of the financial year for the CD 74 UV. Heidelberg was thereby the first manufacturer of printing presses to fulfill the demanding requirements of the so-called UV Protocol. Our customers can use this certification for advertising purposes and additionally attain easier access to subsidies.

A large number of our new developments that we introduced at drupa were awarded major design prizes. This makes clear the extent to which we pay attention to application-friendly product design – not only in the Sheetfed Division.

In the **Digital** Division, we continued to work with our development partners on opening up new ranges of application in commercial printing and reducing the cost of accessories, service, and toners.

In Web Offset Printing – which comprises our **Web Systems** Division and includes not only commercial web printing, but newspaper printing as well – we have focused on further increasing the productivity of our printing presses as well as integrating our systems with digital networks to an even greater extent.

We have considerably further increased the value added of our solutions for our customers in the **Postpress** area as well:

- Automation and workflow integration made it possible for us to reduce set-up times and boost productivity.
- In cooperation with the Sheetfed Division, we worked on improving our Remote Service.
- We were able to reduce the qualification requirements as well as the number of operators required.

We introduced new products in the product areas of folding equipment, stitcher-gatherers, die cutters, and folding box adhesive machinery at drupa in May 2004. We standardized our product portfolio in the web offset finishing area.

We also promoted further opportunities for **print technology combinations** during the financial year. Mastering various printing processes makes it possible to combine our technologies in so-called hybrid printing presses. Offset and flexo printing can be combined – for example, in our Speedmaster CD 102 Duo. This product offers crucial quality and productivity advantages in the high-quality package printing area. We are able to offer nearly all the traditional printing processes in the Gallus label printing presses. It is even possible to use the rotating screen printing process. The range of applications thus extends all the way to plastic effects, which would otherwise only be possible with the embossing process.

We describe the **results** that we achieved in the individual divisions during the financial year and their market potential in the respective Reports of the Divisions on pages 40 – 49. We also address product innovations in the special section covering drupa.

Considerable Achievements by Employees

We are well aware that our development of so many outstanding solutions during the financial year and bringing them to market on time at drupa is the result of our employees' above-average performance in the R&D area. Furthermore, additional demands were placed on our employees due to plant relocations and extensive changes. At financial year-end, a total of 2,379 employees were globally active in research and development. This represents 10 percent of the entire staff.

The quality of this research and development activity depends entirely on our employees' qualifications. The share of our developers who have college or specialized university degrees rose further, amounting to nearly 40 percent at year-end.

We continued offering our Project Manager Development Program during the financial year. This program provides potential employees with the necessary qualifications for taking responsibility for large and strategically important product development projects.

Improved Resource Utilization

Innovation cycles are becoming ever shorter. We must consequently make research and development activity increasingly efficient and more market-driven. How can we achieve this? It can be accomplished through ongoing market intelligence, systematic financial management, ensuring ever closer cooperation at all levels, and focusing our resources.

The process of innovation we have implemented is an important instrument for our work. Our detailed market intelligence, which also includes cooperation with concept customers, is a point of departure for new projects. A centralized unit, our Innovation Council, manages the allocation of financial resources for innovative projects based on analyses of market potential, competitive strengths and weaknesses, and cost-benefit ratios. We established technology platforms to ensure that efforts are concentrated on the most important technologies in the development areas.

As was indicated in the introductory comments above, during the financial year we merged research development facilities and invested in information technologies. We also improved cooperation among our R&D employees by means of training programs in project management. We promote the global exchange of ideas and cooperation through interdisciplinary networks that also integrate our development partners from cooperative agreements and partnerships.

Whenever appropriate, we cooperate with other companies, form strategic partnerships, and work together with numerous institutes, universities, and organizations worldwide. Important partners during the financial year included, among others, Kodak within the framework of our NexPress joint venture, as well as Spectra, Sappi, and BASF.

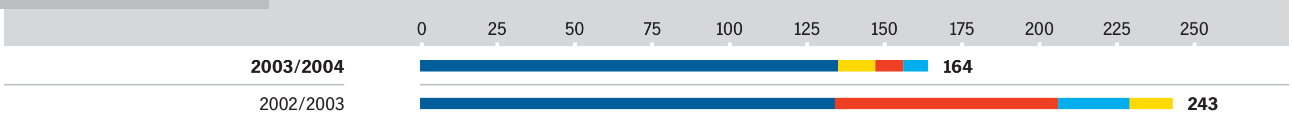
Investments – Future-Oriented Stance

- **Promoting Product Startups**
- **Sales Strengthened in Emerging Markets**
- **New Assembly Technologies Introduced**

As in the past, during the financial year as well, we continued to adapt the Group's investment volume to the ongoing difficult economic conditions. The investment volume, which totalled € 164 million and was 32 percent below the previous year's level, accounted for a 4.5 percent share of overall sales. We slightly shifted our focus of attention vis-à-vis the previous year, investing to a greater extent in the launch of new products in the run-up to drupa. We also strengthened our sales in growth regions. The highest priority during the financial year was again on consolidating resources within the framework of our restructuring program.

Investments

Figures in € millions



Digital	9	– 87 %
Sheetfed	135	+ 1 %
Web Systems	8	– 66 %
Postpress	12	– 16 %
Heidelberg Group	**164**	**– 32 %**

Precise Management of Expenditures

The process by which we manage our investment activity has proven itself in recent years. We were in a position to adjust our actions to corporate policy and the business situation at any time. Detailed information concerning all planned investments in the Group comes together at a centralized unit. This data pool is the basis for all decision-making. A team of commercial and technical experts appraises each project. Initially, a decision is made at the strategic level as to whether the particular project is to be included in the planning process at all. It is then once again investigated in detail before it is realized.

We fundamentally undertake make-or-buy analyses before a decision is made to invest in capital goods for manufacturing. Moreover, we reduce the capital commitment to the greatest possible extent through leasing. We make use of this form of financing primarily for real estate within the framework of so-called sale and leaseback models, for the car fleet, and in information technology. The overall leasing volume was at about the previous year's level, when it had grown by over 50 percent.

Resources Consolidated and Installations Renewed

In the Digital Division and the Web Systems Division, investments were wholly concerned with the consolidation of our resources during the financial year. We improved our capacity utilization by merging Postpress plants while simultaneously introducing new assembly technologies. We continued our approach in the Sheetfed Division and invested in more efficient manufacturing facilities. Based on this approach, we are also able to utilize our expertise in high performance cutting and dry processing, making it possible for us to manufacture at an even more rapid pace and cleanlier. The structural streamlining is already bearing fruit, with the capacity utilization optimized and the investment requirements at a low level.

Details on the individual projects can be found in the Reports of the Divisions on pages 40 – 49.

Sales and Customer Services Strengthened

The sales and service companies prepared systematically for drupa during the reporting year. Among other things, we equipped them with demonstration printing presses, which is necessary to support our new offset products in the markets. We also streamlined and reoriented the services and sales offices, primarily in North America. This also improved our competitive position in the run-up to the world's largest print media trade fair. Overall, our outlays to promote sales totalled approximately € 13 million.

Information Technologies Improved

Hard- and software components comprised approximately 25 percent of the additions to fixed assets during the financial year. As in the past, we attach high strategic priority to information technologies. Since the innovation cycles in the IT area are quite short, we continue to increasingly rely on leasing to finance investments in hardware and peripherals.

We standardized our application software worldwide, therefore optimizing the communication structures. We effectively improved our IT infrastructure, primarily in our growth markets of Asia, and invested especially strongly in the emerging Chinese market.

Procurement – Securing Supplies and Optimizing Logistics

- **Supplier Base Reduced**
- **Inventories Trimmed Further**

Due to the declining business volume, the Group's procurement volume also fell, declining from € 1.6 billion in the previous year to € 1.5 billion. This corresponds to a reduction of approximately 5 percent.

Vertical Integration Reduced

We repeatedly closely examine the individual production areas to determine whether the Company's own products are the most economically favorable alternative, or if procurement should be made from a third-party supplier. Based on make-or-buy analyses, our vertical integration has been further reduced in recent years, especially in the Sheetfed Division. Quality assurance and the availability of parts from third-party suppliers are gaining in importance against the background of increasing external procurement. This is becoming all the more valid due to the significant impact of the difficult economic environment on the supply market in recent years. Many companies were forced into insolvency and a shortage of resources was even noticeable in some areas.

Supply Management Proves Itself in Difficult Times

Despite unfavorable conditions in the supply market, Heidelberg's supplies were not in doubt at any time during the financial year.

We also attribute Heidelberg's relatively strong position to our clear overall supply management strategy. We have been consistently assessing and developing our suppliers all the way back to the late 1990s based on a system that we are continually further developing and in which we continually include new global benchmarks. This approach makes it possible for us to select the best suppliers for Heidelberg. Since we increasingly terminated areas in the Group that are not part of our core expertise in recent years, the role of service providers has become more and more significant. We therefore also developed a methodology of supplier appraisal for this area in order to objectify their level of performance.

We work together closely with our preferred material and service suppliers and arrange long-term contracts and agreements with them. We further reduced our supplier base during the financial year. This strategy supports our comprehensive quality assurance concept, which focuses primarily on prevention. We already include our suppliers to a large extent in the development phase and in laying the groundwork for series production, and jointly establish quality goals with them.

Optimizing Inventory and Reducing Costs and Prices

Thanks to need-based procurement logistics, we were again successful in cutting costs during the financial year. We extended our consignment stock concept to include additional materials. Furthermore, by promoting just-in-time deliveries we further optimized inventories and thereby increased the Heidelberg Group's liquidity.

We were able to reduce our procurement prices in some areas by penetrating new procurement markets in Eastern Europe. Our worldwide product group management, which underscores our market position, again represented a clear strategic advantage during the financial year. We took advantage of the favorable market conditions to purchase capital goods.

We were able to further reduce our processing costs through our close cooperation with suppliers in production and R&D. We also shortened processing times through electronic communications.

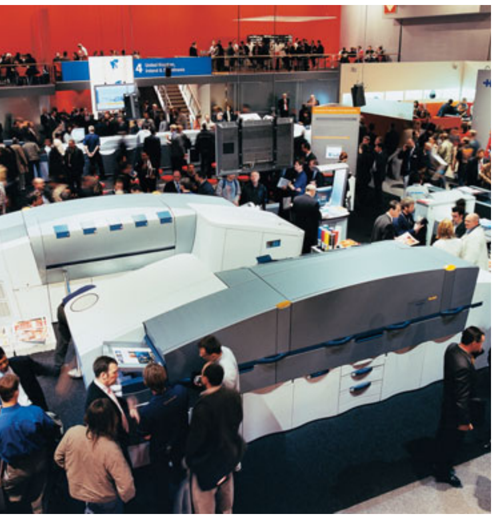
Spare Parts Reach Customers Even More Quickly

None of our competitors can offer customers an overnight spare parts service that functions nearly throughout the world. We are very well aware that our customers benefit enormously from this service. We are therefore continually expanding it and introducing concepts serving to hold down the price of this service as much as possible. We again further purposefully pursued the optimization of our supply strategy during the financial year. Our success in this area can be seen in the 15 percent increase in the share of direct shipping from our World Logistics Center to 85 percent in Europe.

The volume of shipments increased by an additional 9 percent. We shipped a total of some 240,000 packages. The volume of shipped goods thereby grew by 22 percent over the past three years, whereas our costs fell by 15 percent!

Digital – Results Fall Short of Expectations

- **Market and Sales Trend Falls Far Short of Expectations**
- **Large Losses Despite Intensive Restructuring**



During the financial year, we extensively restructured the Digital Division, which included digital black-and-white and digital color printing. We transferred our entire color printing production facility from Kiel to Rochester. This transfer alone cut our costs by a double-digit million euro amount. We were also successful in considerably cutting costs in all areas of the black-and-white segment.

Nevertheless, the results of this division fell far short of our expectations. Digital printing did not develop as quickly as many experts had originally assumed.

We continue to believe in the opportunities offered by digital printing for our customers – and also in the success of the products that we developed with our partner Kodak. But today, we assume that the market for high-volume digital printing presses will take off considerably later than had previously been expected. We therefore sold this division to the Eastman Kodak Co. as of May 1, 2004. We will still work closely with Kodak via our global sales and service organization. We will also continue to offer and further develop our software products for the integration of digital printing presses into the workflow of printing establishments in the future.

Financial Year 2003/2004 in Figures

The economy of the US – the principal market for digital print solutions – turned around in the course of the financial year. Nevertheless, the underlying conditions were not sufficiently stable to generate a marked upswing in the digital color area. New technologies are more likely to be quickly accepted in financially secure times.

Incoming orders of € 223 million were slightly higher than the previous year's volume. **Sales** of € 231 million only approximated the previous year's figure. At the end of the financial year, the **order backlog** amounted to € 24 million, compared with € 40 million the previous year.

The number of **employees** fell by a substantial amount. At financial year-end, the workforce had decreased to 1,498, nearly 34 percent less than at the end of the previous year. This was caused not only by the restructuring of this division and an adjustment in the number of employees to the lower business volume. In addition, we transferred the Mühlhausen plant to the Postpress Division.

Digital

Figures in € millions

	02/03	03/04[2]
Incoming orders	219	**223**
Net sales	235	**231**
Result of operating activities[1]	– 47	**– 17**
Research and development expenses	118	**57**
Investments	72	**9**
Number of employees	2,279	**1,498**

1) Before restructuring expenses and extraordinary expenditures from discontinuing operations
2) Mühlhausen plant included in previous financial year; was integrated into the Postpress Division during the reporting year

We invested in installations and tools, among other things, in order to initiate the production of the digital color printing presses in Rochester. **Investments** totalled € 9 million, declining considerably from the same period the previous year. The previous year's figure of € 72 million included large amounts for the construction of the manufacturing and development facilities in Rochester, which were sold under a sale and leaseback transaction following their completion. **R&D expenses** were also lower, falling from € 118 million to € 57 million.

We did not attain our target of posting a nearly break-even **result of operating activities** during the financial year. Nevertheless, due to the restructuring measures the loss of € 17 million was considerably improved over the previous year's loss of € 47 million. Including the result from the NexPress joint venture (excluding special depreciation), the loss amounted to € 87 million, compared with € 130 million the previous year. Our 50 percent share in the NexPress joint venture is shown in the financial result.

Product Innovations and Awards

According to BERTL (Digital Test Lab), one of the leading independent testing institutes for the printing industry, four of our digital black-and-white and color printing solutions were the best products for digital printing in 2003. Because of their outstanding performance and productivity, they received the award 'Best of the Best 2003'. The NexPress 2100 received the BERTL CRD Award for the best color digital printing solution. The Digimaster 9150i received the award for the best black-and-white system for volume printing, thereby following in the footsteps of the Digimaster 9110, which had received this award in the previous year. The Digimaster 9110m printing system for digital MICR printing as well as the Hole Puncher 9110 were recognized as high-quality systems featuring high-class innovations and outstanding design – BERTL characterized both as being 'revolutionary'.

We launched a further developed updated version of the NexPress, which among other things has improved control functions. We were successful in considerably increasing the image quality of the printed output during the reporting year. As our service statistics prove, the overall product quality and reliability of our digital color printing presses increased considerably.

Sheetfed – Perceptible Growth

- **Worldwide Increasing Need for Finely Tuned Solutions**
- **Restructuring Measures Take Hold – Considerable Cost Reductions**
- **Numerous Product Innovations**

Our business with sheetfed offset printing presses represents the principal share of the Sheetfed Division. We are the world market leader with our products in this area. We transferred Prepress operations to this division in the previous year. Our approach of offering not only the printing press itself but also finely tuned and integrated solutions, is increasingly in demand worldwide.

We successfully consolidated our position in the market during the financial year. We developed trailblazing product innovations and we succeeded in lowering our cost of manufacturing. To achieve this, among other things, we changed our structures in components production and launched process-optimized manufacturing that ensures improved productivity and flexibility. We also further integrated the Prepress operations, shifting the assembly of the newly developed plate imager from Kiel to Wiesloch.

Financial Year 2003/2004 in Figures

We were able to maintain our market shares not least due to our offerings of specific solutions under the difficult underlying conditions that characterized the financial year. We acquired economic control of the Gallus Group in the previous year. The business development of this Swiss company is included in the following comments.

Incoming orders totalling € 2,746 million were 6 percent below the previous year's figure. The extremely weak first quarter could not be completely compensated for during the otherwise favorable course of the year. Adjusted for foreign currency changes, however, we reached the previous year's level. Demand for our half-sized package printing press CD 74 was gratifyingly strong, increasing by more than 25 percent over the previous year. Incoming orders for our Speedmaster eight- and ten-color printing presses also developed strongly.

Due to the very low volume of incoming orders at the beginning of the year, **sales** were 14 percent lower than in the previous year, totalling € 2,625 million; this was 9 percent lower after adjusting for foreign currency changes.

Sheetfed

Figures in € millions

	02/03	03/04
Incoming orders	2,916	**2,746**
Net sales	3,064	**2,625**
Result of operating activities [1]	282	**132**
Research and development expenses	217	**196**
Investments	134	**135**
Number of employees	17,615	**16,871**

[1] Before restructuring expenses

Prepress and Sheetfed offset printing press products were affected by this decline to about the same extent. The sales of our Prinect workflow product portfolio remained stable. Customers are increasingly requesting integrated solutions, consequently buying complete packages from us including computer-to-plate equipment and workflow solutions.

The **order backlog** improved to € 660 million, up by 5 percent compared with the previous year; growth of 11 percent was posted after adjusting for foreign currency changes! The order backlog thereby lengthened to 3.0 months at the financial year-end, compared with 2.5 months the previous year.

The number of our **employees** fell considerably. This division had a total of 16,871 employees at financial year-end – 4 percent less than the previous year. We shifted to part-time work at some of our manufacturing plants as part of our job protection program, and increasingly arranged for partial retirement contracts.

As was noted in the introductory remarks, we improved our competitive strength through **investments**. Total investments of € 135 million were at about the level of the previous year. Investments in construction startups of new products represented a share of approximately 40 percent. Streamlining and replacement investments each accounted for a share of approximately 30 percent. The further replacement of the preprocessing stage for cylinder production in Amstetten was the largest individual project, where we invested € 10 million during the financial year. The overall investment volume for this first stage will amount to approximately € 21 million and will be completed during financial year 2004/2005. We increasingly utilize machinery with the potential for greater flexibility in making changes in manufactured components at a low manufacturing cost.

Consistent asset management made it possible for us to reduce this division's operating assets.

The **R&D expenses** of € 196 million fell slightly short of the previous year's figure. The still higher R&D rate shows that we worked on numerous product innovations at full speed before the drupa.

The **result of operating activities** declined from € 282 million in the previous year to € 132 million. This was due to the marked sales decline in the first half of the year and the resultant lack of profit contributions. However, our extensive cost reduction measures made it possible for us to limit the impact of this development on the operating result. Even in this extremely difficult year we thereby again achieved a 5 percent return on sales.

Product Innovations at drupa and Graph Expo

We successfully introduced over 30 product innovations in the Sheetfed area alone at drupa. The most important innovation was our Speedmaster XL 105. This model represents a wholly new category of printing presses for highly industrialized offset printing, which will establish new standards for the printing industry. It is the ideal production printing press for high-volume label and package printing. This is assured not only because of this model's higher degree of automation as well as its expanded printing format of 74 × 105 cm. It is additionally conceptually designed to operate continually at a production speed of 18,000 sheets per hour. Its innovative system for fully automatic sheet transportation and revolutionary varnishing innovations make it possible to increase productivity by 30 percent and more. Additional innovative solutions such as *Autoplate Advanced* for quick and register-precise plate changes further increase the profitability of printing establishments.

The innovations provided by the Speedmaster SM 102 were also very well received by the market. We significantly boosted the productivity of these printing presses and additionally considerably expanded the possibilities for in-line coating by means of the **P**erfecting **C**oating **S**olution modular varnishing system.

With its crucial new developments in feeders and cantilevers as well as in the varnishing equipment area, the new Speedmaster CD 102 also precisely satisfied our customers' expectations. This class of equipment can now be applied even more productively. The ability to save the value settings for order-related formats and printing stocks reduces printing press setup times, thus enabling customers to take full advantage of the machine's speed potential. Optimized sheet transport makes it possible to create lined-up stacks even with thin paper. The printing speed can therefore be accelerated even with paper that is difficult to print on.

We already introduced the new Printmaster PM 52 at the Graph Expo in September 2003. This model closes the gap in our portfolio between our highly successful Printmaster GTO 52 and the Speedmaster SM 52. It has the following features: simple and direct operation, outstanding print quality, and a high degree of production dependability. Its broad range of accessories makes it possible for us to offer customers personalized solutions.

Web Systems – Consolidation

- **Disappointing Result Despite Restructuring Measures**
- **Division Will be Divested**
- **Overall Market in Further Decline Worldwide**

The core products of the Web Systems Division are commercial web printing presses for long print runs at high quality, primarily utilized in the printing of magazines and other advertising media, as well as newspaper printing presses. Already prior to the economic crisis in the advertising and printed ad industry, our customers faced strong competition in both areas. Due to this heavy and sustained crisis, the capacity utilization of industrial printing establishments fell enormously in recent years. As a consequence, waves of consolidations occurred and the plants' propensity to invest plunged.

The market for commercial web printing presses again suffered a strong downturn worldwide in the previous year – to a significant degree in our principal market, the US, as well. Contrary to all forecasts, no upswing occurred during the financial year. Quite the opposite: The situation remained disastrous! It was therefore consistent that as a supplier we not only adjusted our capacities, but also contributed to a cross-company adjustment in the marketplace. Our decision to sell the Web Systems Division to Goss has resulted in the creation of a global supplier of web offset printing presses with improved capacity utilization and optimized market penetration – a company in which we will hold a minority interest. Our customers will benefit from the agreements made with Goss. We will continue selling products in this area in key regions.

Financial Year 2003/2004 in Figures

Incoming orders fell by more than 20 percent to € 397 million from the previous year. This renewed downturn was influenced only in part by the fact that potential customers had rather a wait-and-see attitude when they learned about the sales negotiations with Goss. With a volume of € 376 million, **sales** as well were unable to match the – thoroughly disappointing – previous year's level, although we delivered several large orders, especially in the newspaper printing area. At financial year-end, the **order backlog** of € 188 million was approximately 30 percent below the previous year's figure. This was mainly the result of the lower volume of orders in the newspaper printing segment.

Web Systems

Figures in € millions

	02/03	03/04
Incoming orders	521	**397**
Net sales	431	**376**
Result of operating activities [1]	– 91	**– 73**
Research and development expenses	33	**28**
Investments	23	**8**
Number of employees	2,329	**2,123**

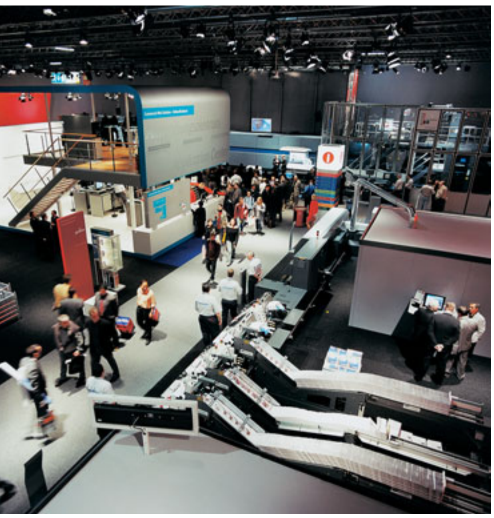
[1] Before restructuring expenses and extraordinary expenditures from discontinuing operations

We considerably reduced **investments** in this Division. We cut back our **R&D** expenditures by approximately 17 percent to € 28 million. At financial year-end, due to our restructuring measures the number of **employees** had fallen to 2,123, or by nearly 9 percent.

Our comprehensive cost-reduction measures only made it possible for us to absorb the impact of the disappointing business development insufficiently, as is reflected in the **result of operating activities**. Although we streamlined manufacturing facilities worldwide and adjusted our capacities, the loss totalled € 73 million, compared with a deficit of € 91 million the previous year.

Postpress – A Worldwide Growth Market

- **Plants Consolidated**
- **Markets Stabilize**
- **Previous Year's Acquisitions Thoroughly Integrated**



Complex and relatively labor-intensive processes, such as print finishing, entail the potential for our customers to increase their profitability. The finishing process is increasingly determining the prices, differentiation potential, and efficiency of our customers. The finishing market therefore offers high growth potential, which we intend to utilize for Heidelberg.

We further improved our position during the financial year. We merged the German legal units into a single unit. We consolidated plants, thereby improving capacity utilization while simultaneously taking advantage of new assembly technologies. In addition, by investing in uniform information technologies we ensured increased synergies among the remaining plants. We were thereby able to promote product innovations and the expansion of key strategic product families at a rapid pace.

During the financial year, we thoroughly integrated the companies that we had acquired the previous year. We have been selling folding box gluing machines as well as flat bed die-cutting printing presses since January 1, 2004 with great success via Heidelberg sales channels.

Financial Year 2003/2004 in Figures

The finishing market – excluding the mailing segment, which includes among other things envelop-insertion, stamping and sorting equipment – has a worldwide volume of approximately € 2.5 billion. Following an approximately 20 percent plunge in this market in the previous year, stability returned in the course of the financial year. In particular the largest single market up to now for finishing, the US, benefited from the gradual economic upswing.

Incoming orders started out very weak during the first quarter. The situation changed in some segments during the second quarter – we were able to generate good trade fair results at the IGAS and Graph Expo. In the die-cutting and folding box gluing segment, the changes in the sales channel showed initial successes, with incoming orders increasing following completion of the introductory phase in the regions. We are also pleased with the development of incoming orders for stitcher-gatherers. Incoming orders of the division for the year as a whole totalling € 400 million nevertheless fell slightly short of our expectations.

Postpress

Figures in € millions

	02/03	03/04 [2]
Incoming orders	413	**400**
Net sales	400	**429**
Result of operating activities [1]	– 42	**– 22**
Research and development expenses	23	**36**
Investments	14	**12**
Number of employees	1,958	**2,290**

1) Before restructuring expenses
2) Mühlhausen plant included in reporting year; was integrated in the Digital Division in previous year

Sales reached a volume of € 429 million – a level that exceeded incoming orders.

The **order backlog** of € 81 million was down 37 percent compared with the previous year, partly because order volumes in the Web Finishing area were rather weak in the first half-year.

Since we had acquired the operations of Jagenberg the previous year and the Mühlhausen plant with its approximately 250 employees was merged with the Postpress Division, at the beginning of the financial year, calculated on a comparable basis, there was a total of 2,476 **employees**. During the reporting period we especially reduced the number of employees in Germany to a total of 2,290 employees. This occurred in connection with our plant consolidations and our programs to boost efficiency.

We primarily invested in installations as well as in testing and demonstration printing presses during the financial year. Overall **investments** totalled approximately € 12 million, including € 7 million at the Mühlhausen plant.

R&D expenses, which totalled € 36 million, considerably exceeded the previous year's figure of € 23 million. This was mainly due to the fact that the Mühlhausen plant with its volume of € 11 million, which was previously part of the Digital Division, was shifted to the Postpress Division during the financial year.

Due to the restructuring measures, we succeeded in improving the **operating result** from € – 42 million in the previous year to € – 22 million. This occurred despite the fact that for the first time, the result for the financial year also included the loss of the Mühlhausen plant totalling € 5 million. We are nevertheless not satisfied with the result overall.

Product Innovations in Connection with drupa and Awards

We were pleased that not one, but even two of our Postpress solutions received awards during the financial year. The high-performance inserter Magnapak and the stitcher-gatherer Stitchmaster ST 400 received the GATF Award on the strength of their outstanding technological innovations and the resulting progress within the print media industry. The Magnapak is the only newspaper inserter in the market that is capable of gathering and then inserting supplements. The system is currently the most productive in the market and ensures maximum flexibility. The stitcher-gatherer Stitchmaster ST 400 has been designed for industrial brochure production; with a total of over 100 installed units worldwide, it is the leading saddle stitcher in this segment. Its capacity of up to 14,000 stitches per hour makes it possible for customers to produce top-quality output even with long print runs.

We introduced the Stitchmaster ST 350, the successor to the ST 300, at drupa, underscoring our existing strong market position in the stitcher-gatherer segment. This new model is capable of even more precisely recognizing defective intermediate products, which are then automatically rejected. It also offers improved opportunities for personalization and selective binding, enabling our customers to offer higher quality final products at a lower price.

We developed an entirely new buckle plate folder and combined folding machine as well as a folding machine beam. They are characterized by radically reduced set-up times and improved productivity, and should establish new standards in the market.

Our Dymatrix 106 punching machine, a further development resulting from the Jagenberg acquisition, as well as the Diana X are also new products. Series production for the latter, a completely new folding box adhesive machine, will begin at the end of the current year.

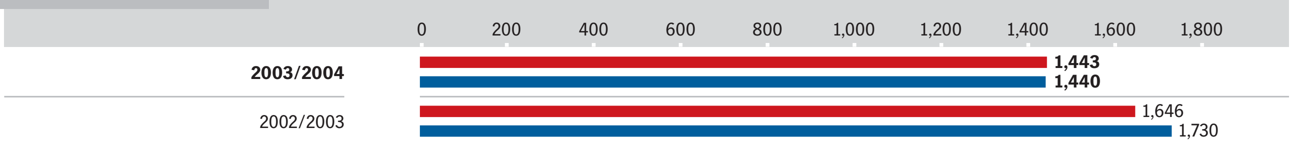
Europe, Middle East and Africa – Situation Remains Difficult

- **Development of Individual Markets Highly Varied**
- **Especially Strong Demand for Prinect and Solutions**

Western Europe clearly experienced a period of weakness during the financial year. Germany, our biggest market of the region, was not alone in its struggle with a recession. Our business was also weak in France due to the economic situation. On the other hand, incoming orders and sales in the UK were in decline mainly because the previous year had been influenced by the highly successful IPEX specialized trade fair. Printing establishments in Europe primarily favored replacement investments, with the principal goal of further increasing productivity and therefore cutting costs. Our business development in Africa stagnated at the previous year's gratifying level. The economies of the Middle East recovered rapidly following the war in Iraq. As a consequence, demand for our products increased considerably. Interest was especially strong in the latest state-of-the-art printing systems.

Incoming Orders and Net Sales

Figures in € millions



Incoming orders	**1,443**	– 12 %
Net sales	**1,440**	– 17 %

Although the second half of the year was essentially more favorable than the first half, incoming orders and sales fell nonetheless far short of the previous year's figures for the year as a whole. However, individual markets developed favorably. In Spain, we succeeded in far surpassing our projected growth in sales.

We spotlighted Prinect at numerous trade fairs and events. The high degree of our customers' acceptance of our software brand again became more than apparent.

We adjusted the number of our employees in the region, where most of our development and production is located, to the overall low business volume. Compared with 17,449 employees the previous year, there were only a total of 16,329 as of March 31, 2004.

Eastern Europe – Solid Progress

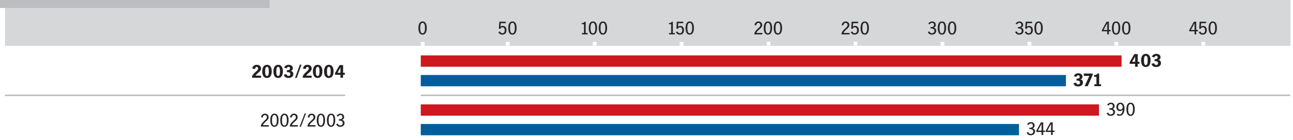
- **Postpress Products Especially Successful**
- **Additional Increase in Sales and Incoming Orders**

Most of the markets in this region developed favorably. The exceptions were primarily those countries whose economies are closely associated with Western Europe. Conditions were better than in recent years in several countries, such as in Hungary or the Czech Republic. The membership in the EU by eight countries of the region as of May 2004 will further promote favorable development.

Overall, incoming orders exceeded the very high level of the previous year. Orders were especially favorable in the Postpress Division: Our customers ordered clearly more machines than expected.

Incoming Orders and Net Sales

Figures in € millions



Incoming orders	403	+3 %
Net sales	371	+8 %

We expanded our extensive sales and service network, which ensures us a crucial advantage over our competitors in the region. We opened new branch offices in Budapest and Kiev so that we can even better serve our customers in these rapidly growing markets. We opened a training center in Kabul, Afghanistan. We are the first company in the print media industry to offer products and solutions locally with its own organization in Afghanistan.

We successfully launched or expanded the consumables business in some countries in order to round out our product portfolio and increase contacts with customers.

We were able to demonstrate our integrated solutions and underscore our leading position at several trade fairs of the region as well as at various customer presentations. The number of employees in the region rose from 497 to 750 – a result of the initial consolidation of our sales and service company Heidelberg Russia.

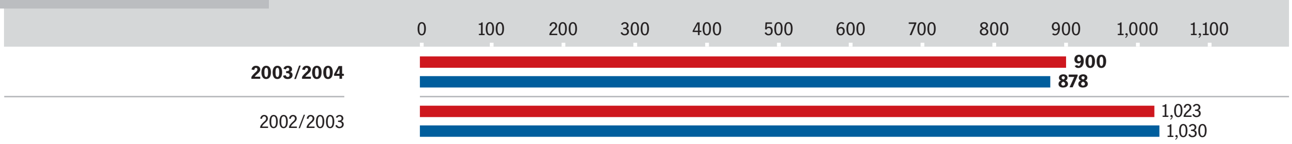
North America – Economy Bottoms Out

- **Improvement in the Business Climate of Printing Establishments**
- **Graph Expo a Solid Success**

Conditions in the US and Canada stabilized during the financial year. Beginning in August 2003, more and more of our customers reported that their business prospects had improved or at least stabilized. This was also reflected in the considerably improved volume of incoming orders and sales during the second half of the year. We also view the favorable course of the Graph Expo trade show in September as a sign that the weak economy in the region has bottomed out. This trade show considerably surpassed our forecasted volume, with incoming orders of over € 111 million. Despite this, the financial year again saw a large number of insolvencies among printing establishments.

Incoming Orders and Net Sales

Figures in € millions



Incoming orders	**900**	– 12 %
Net sales	**878**	– 15 %

(adjusted for foreign currency changes: – 2 %)

Due to the dramatic downturns in the last two years, during which the capacity utilization of our customers reached ever lower levels, competition in the region increased noticeably. Competition also heated up due to the fact that Japanese suppliers were able to benefit from their foreign currency advantage, primarily in the Sheetfed segment. As a consequence, our sales, which totalled € 878 million, were 15 percent below the previous year's level; the decline amounted to 2 percent adjusted for foreign currency changes.

The development within the area of so-called half-sized printing presses, which represents a growth market, was gratifying. Our Speedmaster 74 is the most successful commercial printing press in the half-sized format.

We completed according to plan several measures for a sustained cost reduction and boost in efficiency during the financial year. As part of the process of adjusting to the lower volume of business, we closed smaller branches and reduced the number of our employees by 423 to a total of 3,271.

Latin America – Return to Greater Stability

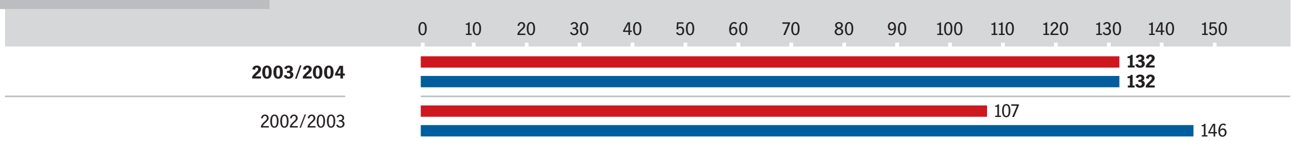
- **Key Markets in an Upward Trend**
- **Continuing Weakened Financing Opportunities for Customers**

Following the political and economic crises that some countries in the region experienced in the past, conditions relaxed somewhat during the financial year. Overall, the economy grew again, albeit at a slow pace and proceeding from a low level.

In recent years, high inflation rates and considerably weakened currencies hindered our customers' financing capability. Moreover, the capacity utilization of printing establishments was too low to stimulate the propensity to invest. The strong devaluation of the peso put a brake on our business in Mexico. Economic conditions remained stable in Brazil, as a result of which incoming orders in this country rose again by approximately 80 percent over the previous year!

Incoming Orders and Net Sales

Figures in € millions



	Incoming orders	**132**	+ 24 %
	Net sales	**132**	– 10 %

(adjusted for foreign currency changes: – 2 %)

Sales in the region declined slightly adjusted for foreign currency changes compared with the previous year. As in the past, we are the market leader in the region and were successful in further expanding our market shares. Solutions with a high productivity and a high degree of automation are generating strong interest. Our remote service often represents a crucial competitive advantage not only in secluded areas.

We successfully reduced our fixed costs through various measures during the financial year. In Brazil, for example, we outplaced our logistics operations and moved the head office to an adequate but lower cost building. We also reduced the number of our employees by 19 percent to 393 – which is also a reflection of the deconsolidation of one company in Mexico. On the other hand, we further improved and expanded our service and sales offerings. The program offered by our Print Media Academy in São Paulo was again very well received during the financial year and proved to be a success.

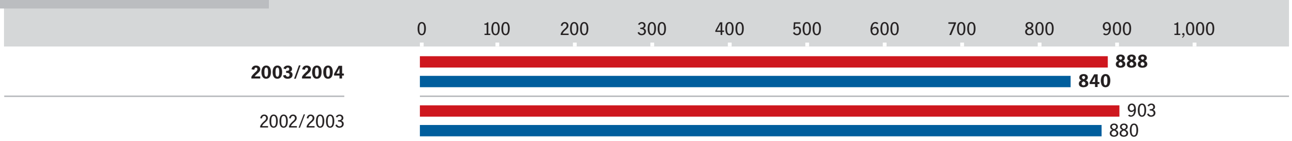
Asia/Pacific – Rapid Recovery

- **First Quarter Hampered by SARS Epidemic**
- **Sales Adjusted for Foreign Currency Changes Increase 5 Percent over Previous Year's Figure**

The SARS epidemic, together with the depressed world economic situation, initially hindered the growth in the region at the beginning of the financial year, particularly in China. However, the affected countries recovered surprisingly quickly from the crisis. We were able to defend our high market shares in the region despite the relatively weak yen, which benefited our Japanese competitors. The strong euro resulted in clear exchange rate effects. Sales adjusted for foreign currency changes increased by 5 percent; and incoming orders adjusted for foreign currency changes were approximately 9 percent higher than in the previous year.

Incoming Orders and Net Sales

Figures in € millions



Incoming orders	**888**	– 2 %
Net sales	**840**	– 5 %

(adjusted for foreign currency changes: + 5 %)

We only sold less than the previous year in local currency terms in Indonesia, Singapore and Thailand. On the other hand, our sales grew in the other countries. At IGAS, which was held in Tokyo in September, we broke our previous record with incoming orders of € 143 million. Some 120,000 visitors obtained information at our booth, with approximately one tenth of them coming from outside Japan.

The Asia/Pacific region developed into our principal market for our model series Speedmaster SM 102 and CD 102 during the financial year. Expansion and specialization are the future-oriented strategies that our customers are pursuing more and more. Integration and comprehensive solutions with open interfaces will therefore play an increasingly more important role in the future.

Our sales organization in the region is already very strongly positioned. Among other things, we invested in an improved IT infrastructure during the financial year in order to further strengthen this area. The number of employees in the region fell slightly during the financial year to its current level of 2,039 employees.

Corporate Risks – Down Substantially

- **Lower Overall Risk Arising from Reorientation**
- **Measures Taken against Currency Risks**

Corporate activities fundamentally entail risks. One of the most important responsibilities of corporate management is to keep these risks as low as possible or to ensure that risks of an undertaking are in a reasonable relationship to profit expectations. The financial year was characterized by risk reduction for us. We continued with our program for medium-term cost reduction and efficiency enhancement and reoriented the Company. It was not least our experience in risk management that led to these measures.

Proven Overall Risk-Determination Methodology

Our risk management is uniformly applied throughout the Group. To ensure that our standards are maintained, we published an organizational instruction manual and documented the procedure in a corporate guideline. Our strategic planning is an important component of risk management. Our risk management, in turn, is an integral part of the Group-wide five-year planning process. This approach makes it possible for us to systematically and purposefully undertake countermeasures against risks – including risks that arise from our strategy.

All operating units and divisions are solidly embedded within the risk management process, which is organized as a so-called bottom-up process; information on risks is collected locally and later summarized. The highest management level of each unit holds responsibility for an appropriate assessment of, and coping with, the risks. Risks are systematically recorded and allocated to risk groups – for example, market risks or operating risks. Several key parameters are quantified for the assessment – among others, the probability of occurrance, the amount of the loss if it occurs, and the expected course of events over the next five years. All those participating can refer to extensive instruction manuals, guidelines, and documentation in fulfilling these responsibilities.

The average profit generated each year serves as the basis for the ranking of risk categories. Thresholds for reporting to the Group's Risk Management are uniformly defined. Since the divisions assess the damage potential vis-à-vis the operating result for which they are responsible, we can closely link risk recording with operational controlling. A determination is made on a quarterly basis as to whether risk assessments have changed and what measures might have to be taken.

The effectiveness of our risk management process is regularly examined by our internal auditors. External auditors additionally undertake a systems examination within the framework of the annual audit. We coordinated in detail the introduction of our risk management system with external auditors. This system meets the legal requirements of the Corporation Control and Transparency Law and was favorably assessed by the auditors.

Responding to Risks

Our **overall risk** is considerably lower due to Heidelberg's reorientation. The penetration of new areas of business entailed greater risk than activity in our traditional sheetfed offset business. This was the case for newspaper printing and in particular for digital printing, since we had developed a completely new technology for new markets in this area. Our decision to severely limit or shut down our operations in these areas considerably reduced this risk.

The Heidelberg Group continues to face a significant risk that a sustained upswing of the economic situation will occur only following a considerable delay. Our customers' capacity utilization is closely related to economic trends, and consequently also to their propensity to invest. Market and competitive risks would worsen if an upswing is delayed. The greatest risk here would result from increased price competition in the market. From a global point of view, however, the risks associated with an economic upswing can be expected to decline, although there continue to be political uncertainties due to the danger of terrorist attacks. Furthermore, from the world economic perspective, the risks arising from the leading economic role of the US have lessened somewhat.

Since we improved our cost structures, we were able to reduce the impact of cyclical fluctuations on our earnings position; we considerably reduced our fixed costs. We provide information in several sections of the annual report on the topic of how we minimize risks faced by the respective areas of responsibility through preventive measures and guidelines.

As in the past, 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.

What **individual risks** are significant for Heidelberg currently? How likely is it that such risks may occur? And what countermeasures are we undertaking?

The forecasts for economic developments are favorable. Compared with the previous two years, **overall economic risks** therefore carry less weight. In our principal markets of Europe and North America, as in the past disappointing economic developments could further weaken overall investment activity in the print media industry. Since the Heidelberg Group is active in a balanced manner in all regions of the world, we can generally make up for business downturns in one region with favorable developments in other regions. A continuing slack global economy, however, would also affect the Heidelberg Group.

There is currently no indication that the development of the capital markets and the interest rate level, a change in underlying legal and tax conditions, or other legal provisions could have a direct and negative impact on the economic situation.

Industry risks have also decreased due to the improved economic prospects. However, if investments in the printing industry continue to decline over the next few years, this could result in excess capacities among printing press manufacturers. There are no currently recognizable risks that could arise from a change in the industry's structure or the legal, statutory, or tax bases.

In contrast to the previously mentioned risks, **operating risks** have increased. Our greatest risk in this area is the loss of major suppliers. The temporary loss of suppliers could result in a shift in manufacturing. For example, some component parts that we require in manufacturing are sourced from just a few manufacturers worldwide. A shortage of resources has been observed in the supply market in some areas, and the situation could worsen if the economic environment deteriorates. We have therefore successfully expanded our extensive programs for managing this risk in the procurement area, as we report on pages 38 – 39. A sudden and substantial upswing in the economy would also represent a certain risk for Heidelberg, because many suppliers have reduced their capacities and are therefore not in a position to react immediately to a surge in demand. We minimize this risk through contractual agreements and the prompt determination of our requirements.

Employee turnover and problems in finding highly qualified employees could represent a risk to the overall operating process, particularly within the next few years. We undertake systematic countermeasures in this area as well; see pages 60 – 63 for more details. In view of our strict investment management, we do not see any significant risks for other operational areas of responsibility such as investments. The same applies to the R&D area, in which based on our process of innovation, we ensure that the focus of attention is correctly placed and a response is forthcoming in a timely fashion.

Currency risks continue to play an important role for us. A further rise in the euro exchange rate – in particular vis-à-vis the US dollar and the yen – represents a certain risk because we have a high value added share in the European region. Since our most important competitors are also headquartered in Germany, however, currency risks do not entail any negative change in competitive conditions for us vis-à-vis these suppliers. By contrast, a clear weakness in the yen could influence our sales of Sheetfed Offset solutions, as Japanese producers could then manufacture at a relatively lower cost. This effect can currently be observed in some markets. We alleviate this risk by means of appropriate foreign currency hedging. We monitor risks that result from interest rate and exchange rate changes through a centralized Currency Management Unit and manage them with the aid of derivative financial instruments. Detailed information on this topic can be found in the Notes to the Financial Statements on page 97 and 121 – 124.

Risks arising from customer financing are becoming increasingly significant. In many countries, lending conditions continue to represent a barrier to investment by our customers. Customer financing remains an important sales-boosting instrument for us. Lending-related risks are monitored and managed by our centralized Credit Risk Management worldwide. Our rating system to assess a customers' credit standing is uniformly defined and takes into account not only financial and business risks, but other traditional overall risk factors such as documentation, contract and country risks. We formed appropriate risk provisions for the purpose of covering the residual risk. Detailed information is provided in the Notes to the Financial Statements on page 110.

We minimized **liquidity risks** throughout the Group at an early stage – on the one hand through centrally managed cash concentration as well as via Group-wide payment and settlement management. In addition, we ensure liquidity and thereby overall flexibility based on tightly organized receivables management at the operating unit level. Furthermore, our monthly rolling annual consolidated liquidity planning makes it possible for us to recognize potential trend discrepancies at an early stage.

Due to the agreement covering significant contractual provisions with Goss International and the coming into force of the contract with Eastman Kodak as of May 1, 2004, **legal risks** increased compared with the previous year. We undertake measures to counter the risks that could arise in the patent or licensing area by systematically protecting our interests.

A substantial volume of investments as well as effective IT management made it possible for us to reduce our **IT risks**. For example, we are prepared for a potential breakdown of our IT systems due to a catastrophe at our biggest computer center. Copies of data are stored daily, so that a loss of one day's data is the worst that could occur. We take the economic threat arising from computer viruses and worms very seriously; we substantially strengthened our security measures during the financial year. We therefore do not see any significant risks arising in the IT area.

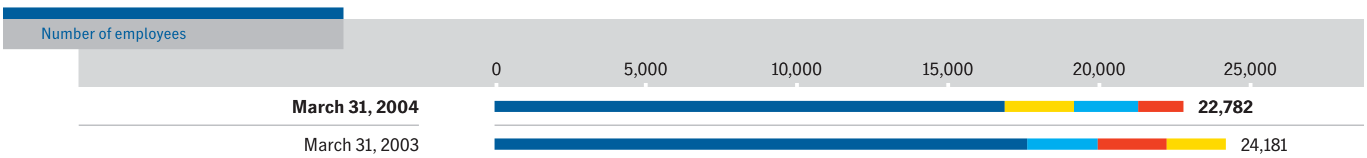
We have included all additional significant risks that we can perceive currently under **other risks**. Based on effective environmental management, we already undertake countermeasures against environmental risks at an early stage – in the areas of both product design and manufacturing. In our Sustainability Report, we provide extensive information every year concerning our operations and standards. Natural catastrophes represent a degree of risk at various plants throughout the world. There is an increased earthquake risk in Japan, for example, which we reduced to the greatest possible extent by means of insurance policies. Fundamental changes in the international insurance market have changed the basic conditions for hedging the risks of terrorism. Like all internationally active industrial concerns, Heidelberg is affected by this. The Group-wide, uniform hedging of the risks of terrorism has become more difficult, with insurance coverage no longer available at all or substantially reduced in certain regions.

Employees – Numbers Reduced Worldwide

- **Number of Employees Falls to 22,782**
- **Growth Region Strengthened**
- **Potential for Flexibility Fully Utilized**

The development of the number of employees reflects most clearly the extent to which we took a closer look at processes over the past two years and consolidated plants. Whereas on March 31, 2002 we had a total of 25,344 employees worldwide, on March 31, 2004 this figure had fallen to 22,782. Excluding the companies that we consolidated for the first time during this period, the number dropped to 21,723 – a 14 percent decline.

Employees



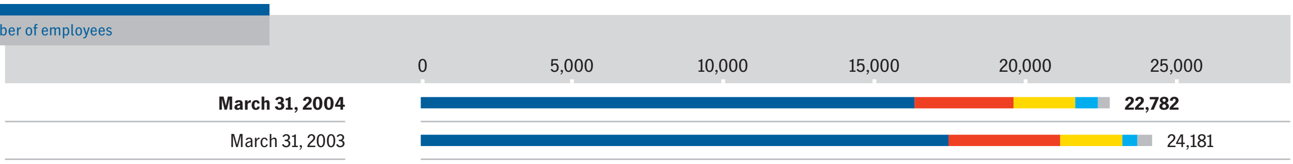
Digital	**1,498**	– 34 %
Sheetfed	**16,871**	– 4 %
Web Systems	**2,123**	– 9 %
Postpress	**2,290**	+ 17 %
Heidelberg Group	**22,782**	**– 6 %**

Job Protection Instruments Utilized

In implementing the job cutbacks, we made full use of instruments for socially responsible human resource adjustments. In Germany, we additionally reduced the working time, and thus remuneration as well, by up to 10 percent over a period of 13 months. Employees who left the Company by mutual agreement received compensation payments. We implemented a special model for partial retirement, known as the Turbo Partial Retirement Plan, which offered special incentives for the short-term termination of employment; approximately 200 older employees took advantage of this offer during the financial year. We extended the child-care break with a reemployment guarantee. We also lengthened periods of non-employment – so-called 'sabbaticals' – to a maximum of 24 months. Although our part-time employment bonus created incentives for a mutually agreed shortening of working hours, the part-time employment quota only changed modestly and amounted to 4.3 percent at the end of the financial year.

Employees by Region

Number of employees



Europe, Middle East and Africa	**16,329**	– 6 %
Eastern Europe	**750**	+ 51 %
North America	**3,271**	– 11 %
Latin America	**393**	– 19 %
Asia/Pacific	**2,039**	– 1 %
Heidelberg Group	**22,782**	**– 6 %**

Capacities Adjusted in the Regions

The chart clearly shows that the share of the employees in the Eastern Europe region increased visibly compared with the other regions, also due to initial consolidations. We have adapted our capacities to the respective situation in the various countries, thereby creating and fully utilizing additional potential flexibility, especially in Germany. As in the past, thanks to various working hour structures – such as the negative or positive catch-up-in-advance system as well as flextime – we are able to respond to short-term fluctuations in demand and adjust our personnel capacities in manufacturing by up to 30 percent.

Culture of Work, Management, and Performance Further Developed

Open and credible communications are especially important in times of revolutionary change; in fact, they are indispensable for effective global cooperation. Moreover, we view communications as a means to support executive level management decisions – particularly in times of resource shortages. We therefore expanded and improved internal corporate communications during the financial year. We considerably increased the frequency at which senior management was personally provided with updated information by the Management Board.

We signed a comprehensive Company-wide agreement with the works council covering telecommuniting. This agreement represents an additional tool for more flexible working conditions; together with the instrument of part-time work, it represents a new component for better harmonizing professional and family needs. This is an important advantage in the competition for highly qualified and motivated employees.

For a number of years we have favored tools and instruments in the human resources area that motivate employees and thereby strengthen corporate success. Examples of this are our Group-wide Balanced Score Card System, our Employee Profit Sharing Plan, and the Employee Share Participation Program, in which approximately 90 percent of our employees again took part in 2003.

In June 2003, the parties to the wage agreement in Baden-Wuerttemberg signed a master wage agreement contract (ERA). This contract offers new opportunities for us to adjust working conditions and remuneration to changed conditions.

We have meanwhile switched to new variable reimbursement systems at two plants. This new reimbursement form, which is already ERA-compatible, applies if employees reach agreed-upon targets. These agreed-upon targets are not limited to a particular organizational unit. This promotes employee awareness that they are working towards a common goal. Developmental requirements are additionally identified by means of personal evaluations.

More Effective Training Opportunities Are Popular

Numerous employees took part in specialized training courses during the financial year. Here as well we make full use of all cost-cutting opportunities, purposefully focusing on new technologies and maximum effectiveness in this area.

We further linked the various special further training offerings and learning forms. On-the-job learning is becoming more and more important. We make increased use of electronically supported learning opportunities, with the spectrum ranging from IT applications and management issues all the way to language instruction. E-learning has meanwhile become commonly applied and enjoys a high degree of acceptance among employees.

Number of Trainees Slightly Increased

We view seriously not only the provision of specialized further training, but also initial professional training, thereby fulfilling our social responsibility. The number of apprentices and trainees at Heidelberger Druckmaschinen Aktiengesellschaft increased slightly to 587, representing a training quota of 5 percent. However, as in the previous year we were only able to take over trainees who finished their vocational training under the terms of a temporary employment relationship. Since Heidelberg owns a very large number of patents, we decided to introduce a new training program for specialized patent attorney employees.

Substantial Cost Reductions through Committed Employees

Of the 13,900 employees eligible for participation in the employee suggestion program, 10 percent took part. They submitted some 3,000 suggestions. The share of those participating was conspicuously high in Brandenburg, with 19 percent taking part and on average each employee submitting 1.1 proposals!

Newly submitted proposals generated cost reductions of approximately € 1.2 million for us during the financial year. For example, we were able to optimize the paper gripping strip of the CD 102 and thereby generate annual savings of € 190,000; this improvement resulted from a proposal that was submitted jointly by two employees. Each employee received a bonus of € 47,500 for this idea. Overall, we disbursed a total of approximately € 500,000 in premiums to our employees.

Expression of Thanks by the Management Board to the Employees and Those Representing Their Interests

The financial year posed enormous challenges for our employees. Cost reductions, plant consolidations, job cutbacks, and extensive activity in the run-up to drupa – employees had to cope with all of these issues on top of their normal day-to-day business, at times with a reduced number of working hours. We were only largely able to reach our targets thanks to the noteworthy commitment of our employees. The Management Board therefore wishes to extend its sincere thanks to all the employees: for their commitment, their flexibility, and their service!

Particular thanks also go to the employee representatives. Their constructive cooperation made it possible to move in the right direction!

Outlook – Initial Glimmer of Hope

- **Economic Situation Slowly Recovering Worldwide**
- **Print Media Industry Shows Initial Signs of an Upswing**
- **Improved Results Due to Heidelberg's Reorientation**

Gross Domestic Product

Compared with previous year in %

	2002	2003	2004
World	2.6	3.4	4.4
USA	2.2	3.1	4.6
EU	1.0	0.7	2.1
Germany	0.2	– 0.1	1.6
Asia [1]	6.7	7.4	7.1
China	9.8	11.5	9.6
Japan	– 0.4	2.7	3.1
Latin America	– 0.5	1.4	4.6
Brazil	1.9	– 0.2	3.8
Eastern Europe	3.6	5.6	6.1
Russia	4.7	7.3	7.5

[1] Without Japan

Source: UBS Warburg, March 2004

Global prospects for growth improved considerably since mid-2003. The reliability of forecasting also further increased since that time. The assessments of economic research institutes and banks concerning the future development of the world economy no longer differ as much as was still the case at the beginning of the past financial year. There is even considerable agreement with regard to individual regions.

However, opinions concerning the development of the print media industry continue to diverge considerably. Nevertheless, we, like the National Association for Printing Leadership (NAPL) for the US, see signs of an upswing.

Anticipated Global Economic Growth of Approximately 4.4 Percent

Economic research institutes believe that the global economic upswing will continue this year. Overall growth of 4 to 5 percent is being projected.

The economic upswing will continue in the US. The pace of expansion of private consumption can be expected to slow down, as the spending behavior of consumers has shown that they have already anticipated their income tax reimbursements to some extent. A growth in gross domestic product of 4.6 percent is expected for the year as a whole – a development that is largely being powered by consumer spending. Asia will continue to grow at an above-average pace again this year; excluding Japan, an increase of 7.1 percent is anticipated in that region. China, a highly vigorous market where UBS Warburg is projecting 9.6 percent growth, will make a particularly strong contribution to this development. Japan should experience a further upswing and a stabilization of its pace of growth.

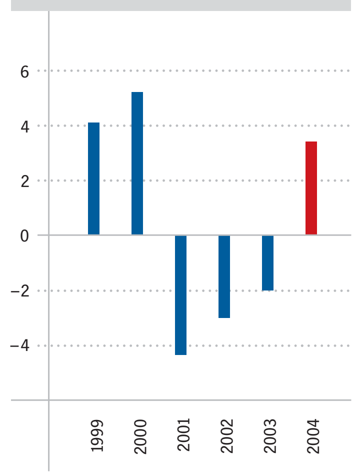
This year, the economic upswing will also spread to Europe – a region that has fallen behind up to now. Nevertheless, only slightly improved growth is anticipated. We are projecting a 2.1 percent overall rate of increase. Germany will grow by a mere 1.6 percent, which thereby places that country at the lower end of global growth rates; the economic environment, the governmental budget deficit, and the high level of unemployment are not exactly helping out to stimulate the domestic economy. The strong euro is being looked at with an increasingly critical eye. Even though German exports were successful in the past, the continuously weak US dollar could serve as an impediment to an overall economic upswing. By contrast, Eastern Europe, almost unimpressed by the economic problems of other European countries, will continue growing; the expansion of the EU to this region is expected to provide an additional impetus here.

The large Latin American economies are moving beyond a period of slack economic development and will grow at a considerably more rapid pace than in the reporting year. Argentina is recovering from the effects of the financial crisis in 2001, and the economic situation is stabilizing in Brazil.

The global pace of growth will cool off somewhat in calendar year 2005. Capital market interest rates will rise worldwide, and the stimulus from economic policies in the large industrialized countries will gradually weaken. Nevertheless, the momentum should be strong enough to support the upswing.

Sales Volume of Print Products (USA)

Change in percent



Calendar years

(Source: NAPL [estimate])

Initial Favorable Signs despite Continuing Restrained Conditions for the Printing Industry

Conditions for the world's printing industry are highly varied. Especially in countries with very restrained growth, underlying cyclical conditions could result in further consolidations of printing establishments and thus only modest growth by manufacturers. The following factors could have a negative impact on business:

- Many companies continue to restrict their advertising budgets;
- printing establishments still need to recover their financial strength following the worst crisis experienced by the print media industry in recent years;
- fear of additional terrorist attacks continues.

Nevertheless, other trends are clearly recognizable as well. Among other things, the business climate for the printing industry in important industrialized countries such as the US and Germany has been on the upswing since the beginning of the past financial year. The business expectations of German printing establishments have also improved since the beginning of 2003. Moreover, increases in the sales volume of printed products are being projected, with Andrew Paparozzi, the Vice President of the NAPL, announcing that 3.6 percent growth will be generated in the US in 2004.

The capacity utilization of printing establishments in the industrialized countries is gradually increasing. Thanks to the considerable vigor of the emerging markets, new printing establishments are being established that ensure future growth.

Overall, conditions are steadily improving in the print media industry. A favorable impetus is also expected during the current financial year thanks to the following factors:

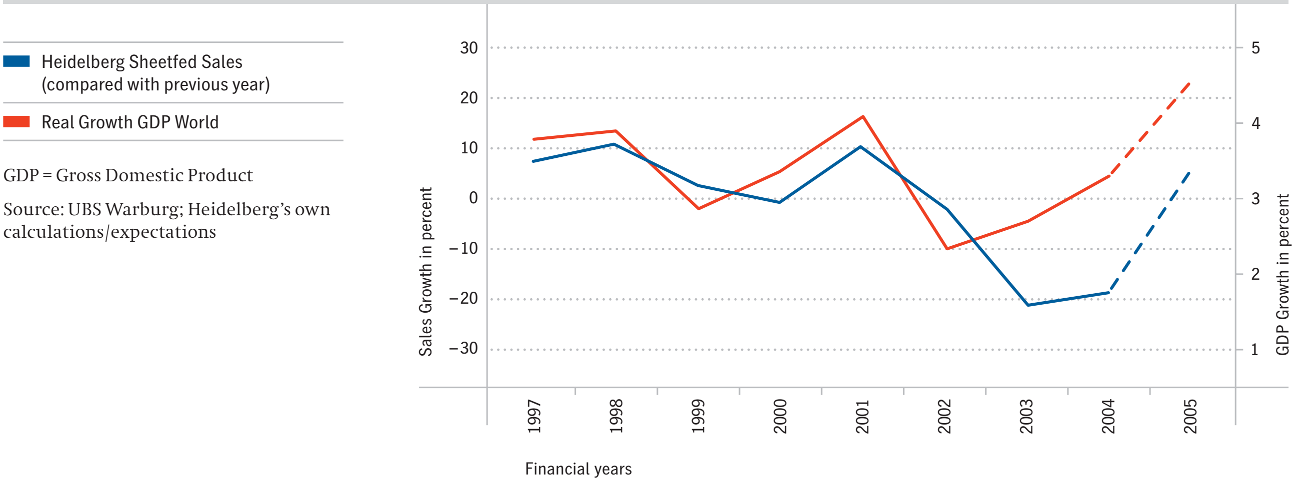
- Overall corporate earnings are again on the rise;
- the presidential election in the US as well as the Olympic Games will increase the need for printed products; and
- the overall growing confidence in the stability of economic growth could generate a new impetus for investments.

Heidelberg's Sales Projections Cautiously Optimistic

The improved underlying conditions already played a perceptible role in our business development during the reporting year. Incoming orders had been on the rise since the second quarter of the reporting year. We achieved a favorable level up to financial year-end despite the fact that drupa was imminent, as a result of which we had expected a restrained level of spending due to the impending trade fair. We are cautiously optimistic about the future in view of the development of sales this year.

The rather positive economic prospects should boost our sales. Sheetfed sales generally develop almost in line with the change in gross domestic product, albeit with a delay of up to six months. However, this only occurs when growth is generated both by consumer spending and investments. As can be seen in the chart below, this was not the case in 2003 and 2004. With a corresponding propensity to invest in the current financial year, we are projecting an increasingly parallel development of sales and the overall economy again.

Comparison GDP[1] versus Sheetfed Sales



[1] GDP = Gross Domestic Product

Source: UBS Warburg; Heidelberg's own calculations/expectations

Since we are very well positioned in regions that are experiencing rapid growth, we will benefit from the vigor of the emerging markets to a greater extent than our competitors. The share of sales generated in these regions will continue to rise at an above-average pace. There is little chance of new competitors penetrating the markets of these rapidly growing regions, as capital requirements in precision engineering are enormous. Furthermore, decades of experience are indispensable. Formidable barriers thus exist to the penetration of these markets.

Our strategy is to engender a clear differentiation vis-à-vis competitors' products and services. We provide customers with individually tailored, integrated solutions, including the necessary workflow software. The special service that we provide is also a crucial competitive advantage. With its larger format that focuses especially on the rapidly growing package printing segment, our Speedmaster XL 105 will help us penetrate new markets. We also offer innovative and attractive solutions in the Postpress area. We will purposefully further expand and promote the development, production, and sales of package printing during the current financial year.

We will continue to offer financial arrangements to printing establishments in the proven manner. This supports our sales, especially in countries with foreign exchange restrictions or where financing is commonly provided through leasing or lease purchase arrangements.

Overall, during the current year we are striving to increase sales, on a comparable basis, by at least 5 percent over the previous year. In doing so, we assume that the average exchange rates will be as follows: 1.20 US dollar to the euro and 125 yen to the euro. During the financial year the average exchange rates for the euro were 1.18 US dollar and 132 yen.

Substantial Improvement in Earnings Expected

We considerably and effectively reduced Heidelberg's fixed costs, which will clearly benefit us during the current financial year. We are able to react very flexibly to fluctuations in incoming orders and have thus created strong potential for improvements in the operating result. The break-even point is now considerably lower than in the past. Nevertheless, the current financial year will be hampered by the expenses for drupa and the cost of the numerous market introductions of our product innovations.

We are projecting an improvement in earnings over the previous year. This will result largely from the consistent divestiture of the loss-generating areas Digital and Web Systems, as well as a reduction in the Heidelberg Group's structural costs. Excluding the Digital and Web Systems areas, our target is to achieve an operating return on sales of between 4 and 5 percent for the current year.

Overall, we are projecting net profit in at least the mid-double-digit million euro range. At the Annual General Meeting in July 2004, we will propose that no dividend be distributed for the reporting year. In the future, we will continue to orient the size of any dividend paid to the needs of the capital market, while simultaneously taking Heidelberg's equity base into account.

Substantial Financial Strength despite the Crisis

Although the print media industry went through its worst crisis ever in recent years, we were able to generate a positive free cash flow both during the reporting year and in the previous year. We succeeded in reducing outside borrowing and bank debt. We will continue to improve Heidelberg's financial strength in the future as well.

We secure Heidelberg's liquidity by means of a centrally managed cash concentration system, Group-wide payment and settlement management, and tightly organized receivables management at the operating unit level.

Continued High Research and Development Rate

Research and development expenditures will continue at a relatively high level in financial year 2004/2005, with the budget calling for an R&D rate of approximately 6 percent. We will further enhance the efficiency of our research and development activities through the improved management of product life cycles.

We will direct our efforts at ensuring that our solutions are even more precisely adapted to the individual requirements of customers. Our modular construction system gives us considerable advantages in this area. Improving the workflow will play an important role. We will ensure additional optimization here, especially in the Prepress area. Our solutions will make it possible for our customers to realize improved productivity and a higher return.

The Focus of Investments: Improved Manufacturing Facilities

In our manufacturing and assembly area, our investment activity is oriented on the expected development of demand. In the areas of administration, sales, and service, we concentrate on issues of optimization.

For the current financial year, we are budgeting investments at about the same level as during the reporting year. We will focus on the following two areas:

- We will promote technological developments designed to reduce the cost of manufacturing and increase productivity. Among others, we will complete the replacement of the preprocessing stage for cylinder production during the current financial year.
- Product and series production startups, primarily concerning products that have been introduced at drupa.

Future Production: Even More Efficient

The market environment has changed. Production programs have shorter cycles and are more exposed to fluctuation. To ensure that we are in a position to react even better to such developments in the future, we launched a major project for our Sheetfed plants during the financial year under the name 'High Performance Production'. The goal of this project is to:

- further increase productivity;
- reduce inventories, turnaround times, and floor space requirements; and
- ensure that at the same time we are in a position to respond more flexibly to product mix modifications (in terms of both volume and variations).

Manageable processing stages are organized efficiently and reliably in this area within the framework of self-controlling units.

In the manufacturing area, we will continue to work very closely with the producers of our manufacturing facilities. We have had very favorable experience here in working with prototypes. We will also further boost our leading technological position on this basis in the future.

Procurement Intensifies Successful Working Relationships with Suppliers

Procurement management will continue to ensure the supplier base's high level of capability and quality during the current financial year, and will react to expected market and price changes in time. We will determine whether an outsourcing of functions in all areas is appropriate based on 'make or buy' analyses.

We bundle the supply of service parts on a global basis. In Indianapolis, Indiana, USA, we began constructing a free trade zone warehouse, which will be fully integrated with the World Logistics Center following its completion. This facility will open its doors for business during the current financial year.

The reorientation will result in a considerably lower volume of procurement compared with the previous year.

Cutback of 1,000 Jobs Due to the New Organization

The restructuring will result in the elimination of an additional 1,000 jobs. Furthermore, the employees of Digital and Web Systems will be transferred to Kodak and, respectively, Goss as soon as the divestiture contracts go into effect. Assuming that sales and earnings develop as expected, we are currently not planning any additional job cutbacks.

No Other Major Changes Planned

The new organization has gone into effect on April 1, 2004. We do not intend to make fundamental changes to it in the foreseeable future, and there are no plans at present to modify either the Company's structures or its legal organization. As was announced in the previous year, we will close down the Neuss and Mühlhausen plants by the middle of the current financial year. On the other hand, we intend to strengthen the Mönchengladbach and Ludwigsburg plants.

Reporting Activity with Continuing High Degree of Transparency

In the future as well, Heidelberg will continue to report in a transparent manner, in detail, and extensively concerning the Group's business development and its divisions. From the first quarter of the current financial year, we will be reporting on our newly defined divisions: Press, Postpress, and Financial Services. Until their final deconsolidation, the Web Systems and Digital divisions are being carried as 'discontinuing operations'.

Consolidated Financial Statements

of Heidelberger Druckmaschinen Aktiengesellschaft

for the financial year **April 1, 2003** to **March 31, 2004**

Consolidated income statement of the Heidelberg Group 2003/2004

Income statement

Figures in € thousands

	Note	1-Apr-2002 to 31-Mar-2003	**1-Apr-2003 to 31-Mar-2004**
Net sales	7	4,129,893	3,660,720
– of which: discontinuing operations		(627,602)	(631,872)
Change in inventories		– 98,172	– 76,194
Other own work capitalized		73,818	80,803
Total operating performance		4,105,539	3,665,329
Other operating income	8	294,273	283,942
Cost of materials	9	1,623,345	1,541,414
Personnel expenses	10	1,455,867	1,293,646
Depreciation and amortization		191,039	173,648
Other operating expenses	11	1,027,976	920,984
Result of operating activities after restructuring expenses and extraordinary expenditures arising from discontinuing operations		101,585	19,579
Restructuring expenses	12	210,431	93,053
Extraordinary expenditures arising from discontinuing operations	13	–	241,971
Result of operating activities after restructuring expenses and extraordinary expenditures arising from discontinuing operations		– 108,846	– 315,445
Result from financial assets and marketable securities	14	– 75,966	– 195,639
– of which: result from the equity valuation		(– 81,081)	(– 186,454)
– of which: discontinuing operations		(– 82,555)	(– 187,773)
Net interest income	15	20,571	4,699
Financial result		– 55,395	– 190,940
Income before taxes		– 164,241	– 506,385
– of which: discontinuing operations		(– 303,838)	(– 541,696)
Taxes on income	16	– 26,347	188,515
– of which: discontinuing operations		(– 46,688)	(136,263)
Net loss		– 137,894	– 694,900
– of which: discontinuing operations		(– 257,150)	(– 677,959)
Minority interests		5,877	6,033
Net loss – Heidelberg portion		– 143,771	– 700,933
Undiluted / diluted earnings per share share according to IAS 33 (in € per share)[1]	34	– 1.67	– 8.16
– of which: discontinuing operations		(– 2.99)	(– 7.89)

[1] The earnings per share before restructuring expenses and extraordinary expenditures arising from discontinuing operations amount to € – 1.49 (previous year: € – 0.16)

Consolidated balance sheet of the Heidelberg Group as of March 31, 2004

Assets

Figures in € thousands

	Note	31-Mar-2003	31-Mar-2004
Fixed assets			
Intangible assets	17	265,842	219,535
Tangible assets	18	687,042	629,858
Financial assets[1]	19	204,521	47,517
		1,157,405	896,910
Current assets			
Inventories	20	1,073,411	930,783
Accounts receivable from customer financing	21	860,389	769,182
Other receivables and other assets	21	1,068,601	954,990
Marketable securities	22	316,270	347,619
Cash and cash equivalents	22	82,596	91,824
		3,401,267	3,094,398
Deferred taxes	23	542,763	214,389
Prepaid expenses	24	30,030	26,755
		5,131,465	4,232,452
– **of which: discontinuing operations**			
Digital		(387,481)	(107,022)
Web Systems		(430,981)	(297,598)
Web Finishing		(65,559)	(50,482)

[1] Of which: financial assets carried according to the equity method € 7,090 thousand (previous year: € 159,054 thousand)

Equity and liabilities

Figures in € thousands

	Note	31-Mar-2003	31-Mar-2004
Shareholders' equity and minority interests	25		
Subscribed capital		219,926	219,926
Capital reserve		947,804	1,541
Revenue reserves		897,900	1,677,817
Net loss – Heidelberg portion		– 143,771	– 700,933
		1,921,859	1,198,351
Minority interests		28,374	31,299
		1,950,233	1,229,650
Provisions	26		
Provisions for pensions and similar obligations	27	559,471	582,774
Tax provisions	28	199,471	170,474
Other provisions	29	695,776	773,518
		1,454,718	1,526,766
Liabilities[1]	30	1,474,062	1,347,769
Deferred taxes	23	207,334	80,265
Deferred income	31	45,118	48,002
		5,131,465	4,232,452
– **of which: discontinuing operations**[2]			
Digital		(118,536)	(121,274)
Web Systems		(231,499)	(292,137)
Web Finishing		(13,399)	(18,705)

[1] Of which: long-term interest-bearing financial obligations € 61,271 thousand (previous year: € 33,089 thousand)

[2] Excluding shareholders' equity / minority interests / internal refinancing

Consolidated cash flow statement 2003/2004[1)]

Figures in € thousands

	2002/2003	2003/2004
Net loss	– 137,894	– 694,900
Depreciation and amortization/write-ups to fixed assets/reversal of negative goodwill	216,232	333,915
Change in pension provisions	21,488	22,936
Change in deferred taxes	– 62,308	180,934
Result from the equity valuation[2)]	81,081	68,386
Result from the disposal of fixed assets	– 19,080	– 5,011
Cash flow	99,519	– 93,740
– of which: discontinuing operations	(– 120,724)	(– 299,193)
Change in other provisions[3)]	24,157	73,017
Change in customer financing	27,334	77,302
Change in other net current assets[4)]	248,377	239,506
Change in other balance sheet items	11,317	– 8,694
Net cash from operating activities	410,704	287,391
– of which: discontinuing operations	(– 71,010)	(– 123,089)
Intangible assets/tangible assets		
Investments	– 242,989	– 164,378
Proceeds from disposals	145,595	46,268
Acquisitions, shares in subsidiaries, loans		
Investments/outflow of funds from changes in the scope of the consolidation	– 109,014	– 58,794
Proceeds from disposals	3,066	3,295
Outflow of funds from investment activity	– 203,342	– 173,609
– of which: discontinuing operations	(– 66,542)	(– 66,253)
Free cash flow	207,362	113,782
– of which: discontinuing operations	(– 137,552)	(– 189,342)
Dividend payment	– 122,175	– 1,538
Raising of financial debt	406,861	365,242
Repayment of financial liabilities	– 518,067	– 435,474
Cash inflow or outflow from financing activity	– 233,381	– 71,770
– of which: discontinuing operations	(136,818)	(191,198)
Net change in cash and cash equivalents	– 26,019	42,012
Cash and cash equivalents at the beginning of the year	89,832	82,771
Changes in the scope of the consolidation	11,185	– 1,915
Currency adjustments	7,773	– 2,776
Net change in cash and cash equivalents	– 26,019	42,012
Cash and cash equivalents at year-end	82,771	120,092

1) See explanations in Note 35

2) Excluding an impairment loss of € 118,068 thousand in connection with discontinuing operations

3) In financial year 2003/2004: including allocations to provisions for discontinuing operations totalling € 181,110 thousand

4) In financial year 2003/2004: including impairments resulting from discontinuing operations totalling € 27,884 thousand

Development of shareholders' equity and minority interests[1)]

Figures in € thousands

	Subscribed capital[2)]	Capital reserve[2)]	Revenue reserves: Other revenue reserves	Revenue reserves: Foreign currency translation	Revenue reserves: Market evaluation of hedging trans-actions	Revenue reserves: Market evaluation of other financial assets	Total retained earnings
April 1, 2002	219,926	947,804	897,151	225,264	– 8,891	– 11,256	1,102,268
Dividend payment	–	–	–	–	–	–	–
Net profit or loss	–	–	79,209	–	–	–	79,209
Foreign currency changes	–	–	–	– 180,383	–	–	– 180,383
Market evaluation of financial assets / cash flow hedges	–	–	–	–	31,156	– 59,199	– 28,043
Reversals booked to the income statement	–	–	–	–	– 31,497	9,006	– 22,491
Consolidations / other changes	–	–	– 52,660	–	–	–	– 52,660
March 31, 2003	219,926	947,804	923,700	44,881	– 9,232	– 61,449	897,900
April 1, 2003	219,926	947,804	923,700	44,881	– 9,232	– 61,449	897,900
Dividend payment[3)]	–	–	–	–	–	–	–
Net profit or loss	–	– 946,263	802,492	–	–	–	802,492
Foreign currency changes	–	–	–	– 78,155	–	–	– 78,155
Market evaluation of financial assets / cash flow hedges	–	–	–	–	29,847	38,725	68,572
Reversals booked to the income statement	–	–	–	–	– 34,509	21,263	– 13,246
Consolidations / other changes	–	–	51,135[4)]	– 50,881[4)]	–	–	254
March 31, 2004	219,926	1,541	1,777,327	– 84,155	– 13,894	– 1,461	1,677,817

Net profit or loss – Heidelberg portion	Shares of the Heidelberg Group	Minority interests	Total
199,474	2,469,472	513	2,469,985
– 120,265	– 120,265	– 1,910	– 122,175
– 222,980	– 143,771	5,877	– 137,894
–	– 180,383	– 1,056	– 181,439
–	– 28,043	–	– 28,043
–	– 22,491	–	– 22,491
–	– 52,660	24,950	– 27,710
– 143,771	1,921,859	28,374	1,950,233
– 143,771	1,921,859	28,374	1,950,233
–	–	– 1,538	– 1,538
– 557,162	– 700,933	6,033	– 694,900
–	– 78,155	– 1,570	– 79,725
–	68,572	–	68,572
–	– 13,246	–	– 13,246
–	254	–	254
– 700,933	1,198,351	31,299	1,229,650

[1] Please refer to Note 25 for additional explanations
[2] Of Heidelberger Druckmaschinen Aktiengesellschaft
[3] Dividend payment of Gallus Holding AG, St. Gallen, Switzerland
[4] Adjusted amount of € 50,881 thousand from previous years

Notes to the Consolidated Financial Statements for the Financial Year April 1, 2003 to March 31, 2004

Development of fixed assets

Figures in € thousands

	Acquisition and manufacturing cost						
	1-Apr-2003	Change in the scope of the con-solidation	Additions	Transfers	Currency adjustments	Disposals	**31-Mar-2004**
Intangible assets							
Goodwill	223,878	– 7,342	–	–	– 1,528	1,164	213,844
Negative goodwill from capital consolidation	–	– 493	–	–	–	– 493	–
Development costs	149,822	–	48,476	–	– 3,957	–	194,341
Software and other rights	132,902	115	5,949	–	– 2,544	14,642	121,780
Payments on account	159	–	1,814	–	33	–	2,006
	506,761	– 7,720	56,239	–	– 7,996	15,313	531,971
Tangible assets							
Land and buildings	894,809	– 650	1,883	2,968	– 9,933	22,652	866,425
Technical equipment and machinery	729,995	3,194	34,843	12,517	– 10,418	52,451	717,680
Other equipment, factory and office equipment	882,463	– 744	60,935	4,489	– 11,040	80,197	855,906
Payments on account and assets under construction	16,924	744	10,478	– 19,974	– 532	230	7,410
	2,524,191	2,544	108,139	–	– 31,923	155,530	2,447,421
Financial assets							
Shares in affiliated enterprises	18,937	4,819	6,525	–	124	1,587	28,818
Loans to affiliated enterprises	10,243	– 2,163	26	–	131	1,187	7,050
Shares in associated companies / joint ventures	286,992	–	52,626 [4]	–	– 27,908	–	311,710
Other participations	13,879	–	–	–	–	–	13,879
Long-term investments	7,425	–	1,750	–	18	–	9,193
Other loans	4,759	1	749	–	– 50	1,970	3,489
	342,235	2,657	61,676	–	– 27,685	4,744	374,139
Total fixed assets	3,373,187	– 2,519	226,054	–	– 67,604	175,587	3,353,531

[1] Including impairment loss totaling € 43,838 thousand (previous year: € 7,988 thousand)
[2] Including impairment loss totaling € 1,855 thousand (previous year: € 18,321 thousand)
[3] Impairment loss (previous year: € 82,902 thousand)
[4] Including income from equity valuation totaling € 1,319 thousand

							Accumulated depreciation		Book values
1-Apr-2003	Change in the scope of the consolidation	Deprecia-tion	Reversals	Currency adjustments	Disposals	Write-ups	**31-Mar-2004**	31-Mar-2003	**31-Mar-2004**
112,231	– 8,118	29,619	–	– 1,056	1,164	–	131,512	111,647	82,332
–	–	–	– 493	–	– 493	–	–	–	–
39,992	–	44,211	–	– 1,644	–	–	82,559	109,830	111,782
88,696	– 104	23,423	–	– 1,225	12,425	–	98,365	44,206	23,415
–	–	–	–	–	–	–	–	159	2,006
240,919	– 8,222	97,253 1)	– 493	– 3,925	13,096	–	312,436	265,842	219,535
506,536	– 649	24,357	–	– 3,599	12,645	– 3,145	510,855	388,273	355,570
616,213	224	32,845	–	– 6,672	45,741	–	596,869	113,782	120,811
714,400	– 1,258	64,886	–	– 8,718	59,471	–	709,839	168,063	146,067
–	–	–	–	–	–	–	–	16,924	7,410
1,837,149	– 1,683	122,088 2)	–	– 18,989	117,857	– 3,145	1,817,563	687,042	629,858
3,706	10,730	–	–	155	54	–	14,537	15,231	14,281
4,319	1,502	–	–	181	314	–	5,688	5,924	1,362
127,938	–	187,773	–	– 11,091	–	–	304,620	159,054	7,090
230	–	–	–	–	–	–	230	13,649	13,649
1,142	–	–	–	1	–	– 59	1,084	6,283	8,109
379	–	203	–	1	120	–	463	4,380	3,026
137,714	12,232	187,976 3)	–	– 10,753	488	– 59	326,622	204,521	47,517
2,215,782	2,327	407,317	– 493	– 33,667	131,441	– 3,204	2,456,621	1,157,405	896,910

Consolidated Segment Report 2003/2004

Segment information by division

Figures in € thousands

	Digital				Sheetfed		
	2002/2003		2003/2004		2002/2003	2003/2004	
		of which: discontinuing operations		of which: discontinuing operations			
External sales	235,463	222,308	230,861	230,861	3,063,939	2,624,670	430,723
Scheduled depreciation	20,582	18,055	17,712	16,368	137,873	127,942	20,247
Non-cash expenses	39,758	21,150	23,733	20,662	311,367	311,988	122,928
Research and development costs	118,362	104,281	57,215	57,215	216,847	195,972	33,200
Result of operating activities before restructuring expenses and extraordinary expenditures arising from discontinuing operations	– 47,838	– 36,715	– 17,052	– 16,777	282,338	132,493	– 90,859
Restructuring expenses	78,794	29,717	11,095	11,095	80,793	47,541	32,280
– of which: impairment loss	(20,000)	(1,899)	(203)	(203)	(606)	(–)	(–)
Extraordinary expenditures from discontinuing operations	–	–	124,337	124,337	–	–	–
– of which: impairment loss	(–)	(–)	(19,823)	(19,823)	(–)	(–)	(–)
Result of operating activities after restructuring expenses and extraordinary expenditures arising from discontinuing operations	– 126,632	– 66,432	– 152,484	– 152,209	201,545	84,952	– 123,139
Result from the equity valuation	– 82,555	– 82,555	– 187,773	– 187,773	1,474	1,319	–
– of which: impairment loss in connection with discontinuing operations	(–)	(–)	(– 118,068)	(– 118,068)	(–)	(–)	(–)
Carrying amount of the shares in equity companies	153,652	153,652	–	–	5,402	7,090	–
Investments	71,484	60,473	9,045	9,045	134,453	135,444	22,712
Segment assets	263,859	177,904	133,412	93,344	2,205,584	2,048,085	370,345
Segment debts	237,256	94,330	176,370	117,399	1,116,398	1,195,278	348,096
Number of employees	2,279	2,037	1,498	1,475	17,615	16,871	2,329

Segment information by region

Figures in € thousands

	Europe, Middle East and Africa		Eastern Europe		North America	
	2002/2003	**2003/2004**	2002/2003	**2003/2004**	2002/2003	**2003/2004**
External net sales by customer location	1,730,191	1,439,707	343,544	371,436	1,030,198	877,532
Investments	147,172	141,148	2,633	4,771	86,583	13,267
Segment assets	1,861,629	1,720,980	119,115	125,257	708,452	498,879

For additional explanations see Note 36

Web Systems 2002/2003 of which: discontinuing operations	Web Systems 2003/2004	Web Systems 2003/2004 of which: discontinuing operations	Postpress 2002/2003	Postpress 2002/2003 of which: discontinuing operations	Postpress 2003/2004	Postpress 2003/2004 of which: discontinuing operations	**Heidelberg Group** 2002/2003	**Heidelberg Group** 2002/2003 of which: discontinuing operations	**Heidelberg Group** **2003/2004**	**Heidelberg Group** **2003/2004** of which: discontinuing operations
350,429	375,874	330,390	399,768	54,865	429,315	70,621	4,129,893	627,602	3,660,720	631,872
20,247	17,916	17,509	12,337	2,762	10,078	1,661	191,039	41,064	173,648	35,538
78,680	64,707	47,277	47,311	10,325	35,441	6,462	521,364	110,155	435,869	74,401
33,200	27,580	27,580	22,660	10,474	36,017	4,211	391,069	147,955	316,784	89,006
– 81,090	– 73,279	– 74,359	– 42,056	– 30,690	– 22,583	– 3,089	101,585	– 148,495	19,579	– 94,225
32,280	2,847	2,847	18,564	6,343	31,570	–	210,431	68,340	93,053	13,942
(–)	(–)	(–)	(5,703)	(2,043)	(12,513)	(–)	(26,309)	(3,942)	(12,716)	(203)
–	117,634	117,634	–	–	–	–	–	–	241,971	241,971
(–)	(13,154)	(13,154)	(–)	(–)	(–)	(–)	(–)	(–)	(32,977)	(32,977)
– 113,370	– 193,760	– 194,840	– 60,620	– 37,033	– 54,153	– 3,089	– 108,846	– 216,835	– 315,445	– 350,138
–	–	–	–	–	–	–	– 81,081	– 82,555	– 186,454	– 187,773
(–)	(–)	(–)	(–)	(–)	(–)	(–)	(–)	(–)	(– 118,068)	(– 118,068)
–	–	–	–	–	–	–	159,054	153,652	7,090	–
22,096	7,781	7,358	14,340	8,239	12,108	105	242,989	90,808	164,378	16,508
303,483	292,484	244,958	282,414	65,559	275,330	49,496	3,122,202	546,946	2,749,311	387,798
219,538	369,756	281,951	186,149	13,399	218,848	17,474	1,887,899	327,267	1,960,252	416,824
2,176	2,123	1,975	1,958	308	2,290	268	24,181	4,521	22,782	3,718

Latin America 2002/2003	Latin America **2003/2004**	Asia/Pacific 2002/2003	Asia/Pacific **2003/2004**	**Heidelberg Group** 2002/2003	**Heidelberg Group** **2003/2004**
146,388	132,493	879,572	839,552	4,129,893	3,660,720
790	2,629	5,811	2,563	242,989	164,378
60,820	44,691	372,186	359,504	3,122,202	2,749,311

Notes

1 Basis for the presentation of the consolidated financial statements

We have prepared the consolidated annual financial statements in accordance with the International Financial Reporting Standards (IFRS, previously IAS) of the International Accounting Standards Board (IASB), London, valid as of the balance sheet date. Applicable interpretations have also been taken into consideration. The aims of this presentation on the basis of internationally recognized accounting standards are to improve international comparability and increase the transparency of our Company for the outside observer.

These consolidated financial statements comply with the provisions of Section 292 a of the German Commercial Code (HGB). Accounting and valuation principles applied in connection with the drawing up of the consolidated financial statements according to the IFRS are compatible with the requirements of the Seventh EU Guideline according to Section 292 a of the German Commercial Code. We achieved compatibility of the consolidated accounts with the Seventh EU Guideline on the basis of the interpretation of the Guideline by the Contact Committee for Accounting Guidelines of the European Commission (Guideline 83/349 EEC).

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 incurred during the financial year and the extraordinary expenditures from discontinuing operations are shown separately in the income statement.

All amounts are stated fundamentally in € thousands. For subsidiaries located in countries that are not members of the European Monetary Union, the translation to euros occurs by translating the annual financial statements generated in the respective local currency to € (see Note 5).

2 Significant differences between the German Commercial Code and the IFRS

The following significant differences result for Heidelberg in comparison to accounting and valuation principles according to commercial law:

- Differing valuation of inventories (IAS 2),
- Formation of deferred taxes on the basis of the balance sheet liability method (IAS 12),
- Differing definition of the manufacturing costs of tangible assets (IAS 16),
- Release of special items with an equity portion,
- Change in the assignment of economic ownership of finance lease contracts (IAS 17),
- Valuation of the provisions for pensions and similar liabilities in accordance with the projected unit credit method taking into account future salary developments and the corridor procedure (IAS 19),

- Translation of foreign currency receivables and liabilities at the financial year-end exchange rate (IAS 21),
- Treatment of goodwill arising from the capital consolidation (IAS 22),
- Consolidation of the specialized investment funds (IAS 27 in connection with SIC 12),
- Waiver of the creation of provisions for expenses and other provisions if the probability that they will be called upon is less than 50 percent (IAS 37); long-term provisions are calculated at the net present value,
- Capitalization of development costs (IAS 38),
- Recognition and measurement of financial instruments (IAS 39).

3 Scope of the consolidation

The consolidated financial figures of Heidelberger Druckmaschinen Aktiengesellschaft include a total of 82 (previous year: 90) domestic and foreign companies in which Heidelberger Druckmaschinen Aktiengesellschaft is in a position to exercise a controlling influence. 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. Shares in subsidiaries that are of minor importance are excluded. These companies account for less than 1 percent of consolidated sales and consolidated total assets. The presentation of the shareholdings of the Heidelberg Group has been deposited with the Commercial Register of Companies of the Heidelberg District Court (Company Register No. 4). The significant consolidated subsidiaries included in the consolidated annual financial statements are listed in an Appendix to the Notes to the Financial Statements.

Our joint ventures in NexPress Solutions LLC, Rochester, New York, USA, and in Heidelberg Middle East and Freezone Company, Dubai, United Arab Emirates, in each of which we hold 50 percent shareholdings, are measured in line with the equity method in accordance with IAS 31.

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-2004	Abroad 31-Mar-2004	**Total 31-Mar-2004**	Total 31-Mar-2003
Number of wholly consolidated companies	16	67	83	91
Number of non-consolidated companies due to their minor significance	7	30	37	34
Number of companies measured according to the equity method	–	2	2	2
	23	99	122	127

Non-consolidated companies include Heidelberg Transfergesellschaft mbH, Heidelberg, an outplacement-assistance company with a total of 574 employees at financial year-end. They were being supported in their search for subsequent employment by means of outplacement and professional qualification assistance. In addition, at financial year-end a total of 97 employees who had already found subsequent employment, were no longer actively employed. The last of the current projects of Heidelberg Transfergesellschaft mbH will be completed upon termination of employment of the last employees at the end of November 2005.

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

- Initial consolidation of Heidelberg Postpress Packaging GmbH, Heidelberg: Heidelberg Postpress Packaging GmbH, Heidelberg, which took over the print finishing business acquired from the Jagenberg Group, was fully consolidated for the first time as of April 1, 2003.
- Initial consolidation of Heidelberger CIS OOO, Russia: CIS OOO, Moscow, Russia, was also consolidated as of April 1, 2003.
- Deconsolidation:
  Due to their minor significance for the Heidelberg Group, the following companies were deconsolidated during the reporting year:
  - As of April 1, 2003:

  Heidelberg Lebanon S.A.R.L., Beirut, Lebanon;
  Heidelberg Nigeria Ltd., Lagos, Nigeria;
  Heidelberg Used Equipment Ltd., Slough, UK.

– As of January 1, 2004:
Servicios de Manufactura Mexicanos S. de R.L. de C.V., Tijuana, Mexico; Industria Mexicana de Fotocopiadoras S.A. de C.V., Tijuana, Mexico.

The shareholdings in these affiliated enterprises are measured at the historic cost of purchase. The expense amount booked to the income statement as a result of the deconsolidations totaled € –1,512 thousand (previous year: € 14,282 thousand).

- Merger/liquidation:
Within the framework of a restructuring of the Nordic distribution companies, as of April 1, 2003 Heidelberg Danmark A/S, Ballerup, Denmark, and Heidelberg Korea Ltd. ApS, Ballerup, Denmark, were merged in Heidelberg International Ltd. A/S, Ballerup, Denmark. In the course of this restructuring, as of April 1, 2003 Heidelberg Sverige AB, Stockholm, Sweden, was also merged with Heidelberg Nordic AB, Spanga, Sweden.

As of April 1, 2003 Heidelberg Postpress Packaging GmbH, Heidelberg, was merged with Heidelberg Postpress Germany GmbH, Heidelberg.

As of December 31, 2003 Heidelberg HHU Inc., Wilmington, Virginia, USA, was liquidated.

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

	2002/2003	**2003/2004**
Fixed assets	31,808	–4,846
Current assets	44,283	6,300
Total assets	76,091	1,454
Shareholders' equity	25,846	–
Liabilities	50,245	1,454
Equity and liabilities	76,091	1,454
Sales	77,567	42,099
Net result	15,822	–2,899

The companies measured according to the equity method are carried as follows:

	2002/2003	**2003/2004**
Fixed assets	156,106	124,185
Current assets	45,371	37,121
– of which: long-term assets	(10,540)	(10,603)
Total assets	201,477	161,306
Shareholders' equity	159,054	125,158
Liabilities	42,423	36,148
– of which: long-term debt	(4,540)	(2,361)
Equity and liabilities	201,477	161,306
Sales	147,210	121,303
Income	3,003	1,720
Expenses	231,294	191,409
Net loss	– 81,081	– 68,386

The assets included in fixed assets largely comprise the capitalized development costs of NexPress Solutions LLC, Rochester. During the reporting year, we depreciated the carrying amount of the participation valued according to the equity method on a non-scheduled basis in the amount of € 118,068 thousand within the framework of extraordinary expenditures for discontinuing operations. The total carrying amount of shares in associated companies and joint ventures amounts to € 7,090 thousand (previous year: € 159,054 thousand). Please also refer to the development of fixed assets in this regard.

Discontinuing operations:

In connection with the reorientation of the Heidelberg Group, we decided to transfer the 'Digital' and 'Web Systems' divisions (including 'Web Finishing'). Our reorientation will be as follows:

Digital Division:

As of March 7, 2004 a contract was signed with Eastman Kodak Co. covering the sale of the Digital Division. Following fulfillment of the contractual conditions, the contract went into effect on May 1, 2004. The agreement covers the production, service, and sales of our digital black-and-white and color printing presses. The agreement covers not only the global sales and service of digital printing presses, but also the shares in Heidelberg Digital LLC, Rochester, New York, USA (100 percent); in the joint venture NexPress Solutions LLC, Rochester, New York, USA (50 percent); and in NexPress GmbH in Kiel (100 percent). We will not engage in any competitive operations in the respective digital printing area over a two-year period after the contract comes into force. However, we will continue to promote digital workflow.

A performance-based purchase price arrangement was agreed within the framework of the contractual details. Eastman Kodak Co. will make regular purchase price payments to us over a period of two years if certain sales goals are achieved. If all sales goals are met over the following two calendar years through December 31, 2005, Eastman Kodak Co. will make a cash payment of a maximum of USD 150 million. Over a five-year period after the contract comes into force, additional payments are due to us after additional contractual sales targets are reached. Initially, Eastman Kodak Co. will not make any cash payment when the contract comes into force.

Web Systems Division and Web Finishing Division:
In March 2004, we reached an agreement with Delaware-based Goss International Corporation in the US concerning the significant contractual provisions for the intended transfer of the web offset printing press division. The transaction covers Heidelberg's business segments Commercial Web, Newspaper Printing Presses, and Processing Installations for Web Printing Presses in the US. Not only in our Eastern Europe and Latin America sales regions, but in Germany and Switzerland as well, we will continue to focus on sales and service for the expanded range of Goss products for Goss International Corporation.

Continuing operations:
Following the reorientation we will concentrate on the Press Division (Sheetfed Offset Printing including Prepress) and Postpress Division (Print Finishing) including related workflow components as well as training and service. As an additional area of operations, the Financial Services Division is responsible for our entire range of services included in the Customer Financing segment.

The integration of digital printing in the workflow of printing establishments based on Prinect continues to be a component part of our range of services; this area will be further expanded.

4 Principles of consolidation

The capital consolidation is undertaken by offsetting the book values of the shares in affiliated enterprises against the attributable shareholders' equity measured at the fair value of the subsidiaries at the time of their acquisition, with the assets and liabilities of the subsidiaries shown at their fair values. In accordance with IAS 22, positive differences arising among assets are capitalized and included under intangible assets as goodwill and then depreciated over an expected useful economic life of 10 years. Negative goodwill is reported separately under fixed assets and released in accordance with IAS 22.

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 are adjusted to eliminate intercompany profits. Taxes on intercompany profits are taken into account and applied to deferred taxes.

Determination of differences within the framework of the initial equity valuation is undertaken in the same manner as with the first-time inclusion of subsidiaries within the framework of their full consolidation.

5 Foreign currency translation

In the individual financial statements of the consolidated companies, which are drawn up in local currencies, monetary items (cash and cash equivalents, receivables, and liabilities) are measured in foreign currencies 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 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	
	2002/2003	**2003/2004**	2002/2003	**2003/2004**
	1 € =	1 € =	1 € =	1 € =
USD	1.0047	1.1780	1.0895	1.2187
GBP	0.6462	0.6925	0.6896	0.6681
AUD	1.7759	1.6935	1.8076	1.6179
HKD	7.8363	9.1673	8.4975	9.5012
CAD	1.5497	1.5916	1.6037	1.5922
JPY	121.3283	132.4325	129.1800	128.9900

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

The foreign currency changes had the following effect:

	2002/2003	**2003/2004**
Fixed assets	– 97,998	– 33,937
Current assets	– 235,221	– 94,730
Total assets	– 333,219	– 128,667
Shareholders’ equity	– 181,439	– 79,725
Liabilities	– 151,780	– 48,942
Equity and liabilities	– 333,219	– 128,667
Sales	– 260,669	– 258,516

6 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 7 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 IAS 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

The accounting and valuation policies were fundamentally retained.

Intangible assets

Intangible assets acquired against payment, including goodwill, are capitalized at cost of acquisition and depreciated on a straight-line basis over their expected useful life. Necessary non-scheduled depreciation was taken for restructuring measures as well as discontinuing operations. Intangible assets produced within the Group are capitalized to the extent that the criteria of IAS 38 are fulfilled. Manufacturing costs largely include all directly attributable costs. Negative goodwill arising on capital consolidation is released in accordance with IAS 22.

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. The cost of manufacture encompasses those costs both directly and indirectly 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. The cost of manufacture encompasses all costs that are directly or indirectly attributable to the manufacturing process.

There was no revaluation of tangible assets in accordance with the provisions of IAS 16.

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.

No substantial investment is carried in real estate (IAS 40: Investment Property).

Financial leases

Under financial lease contracts, 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

The scheduled depreciation of fixed assets 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 and other rights	3 to 5
Goodwill	10
Buildings	25 to 50
Technical equipment and machinery	3 to 15
Motor vehicles	5 to 9
Factory and office equipment	3 to 13

Non-scheduled depreciation

The maintenance of the book value of all intangible assets (including capitalized development costs and goodwill) 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 always the higher of the net market value or the net present value of the estimated future revenue flows from the asset. Provided the asset is part of an independent cash-generating unit, amortization is recorded 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).

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 for trading purposes', 'held to maturity', or 'available for sale'.

Participations (including shares in affiliated enterprises), long-term investments, and marketable securities are classified as 'available for sale'. In line with IAS 39, these financial instruments are fundamentally carried at fair value. Long-term investments and 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. 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 leases 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.

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. We have, however, only taken into account deferred tax assets for accounting and valuation differences as well as for tax loss carry-forwards where there is sufficient certainty that they will be realized. Deferred taxes are measured on the basis of the income tax rates of the respective countries. A tax rate of 39.28 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.

Provisions for pensions and similar obligations

The provisions for pensions and similar obligations comprise the obligations of the Group to establish provisions under both service-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 calculations are based on an assumed trend of 3.0 percent (previous year: 3.0 percent) for salary increases, 2.0 percent (previous year: 2.0 percent) for growth in pensions, and a discounted interest rate of 5.5 percent (previous year: 5.5 percent). 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. Actuarial gains and losses that exceed a band of 10 percent of the higher of the extent of the obligation or the fair value of the plan assets are distributed over the average remaining service period. Expenses for service periods are carried under personnel expenses and the interest portion of the additions to provisions under the financial result.

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. The valuation is based on the amount that is most likely to be incurred. 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 are 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, liabilities are stated at their adjusted acquisition costs. Liabilities arising from financial leasing contracts 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.

Deferred income

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

Derivative financial instruments

Derivative financial instruments 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, which 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.

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.

Notes to the Income Statement

7 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 again did not occur in business year 2003/2004.

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.

Explanations concerning net sales are presented in the Reports of the Divisions as well as in the Reports from the Regions.

8 Other operating income

	2002/2003	**2003/2004**
Reversal of other provisions	67,599	77,920
Income from job research projects	57,754	45,076
Income from written-off receivables	15,697	30,291
Foreign exchange profits	28,975	26,013
Income from operating facilities	12,321	15,888
Income from disposals of intangible assets and tangible assets	11,105	12,259
Income resulting from deconsolidations of companies	14,282	–
Reversal of negative goodwill	1,463	493
Other income	85,077	76,002
	294,273	283,942

The decline in other operating income results largely from the reduction in income from job research projects and other income. Other income comprises a large number of individual items. Foreign exchange profits are offset from foreign exchange losses, which are included in other operating expenses.

9 Cost of materials

	2002/2003	**2003/2004**
Expenses for raw materials, consumables and supplies, and for goods purchased	1,483,076	1,399,092
Costs of purchased services	140,269	142,322
	1,623,345	1,541,414

The ratio of the cost of materials to total operating performance increased from 39.5 percent to 42.1 percent.

10 Personnel expenses and number of employees

	2002/2003	**2003/2004**
Wages and salaries	1,198,001	1,053,229
Social security contributions and other pension costs	257,866	240,417
– of which: for pensions	(27,318)	(28,263)
	1,455,867	1,293,646

The expenses for the pension plan include the expenses for pension claims without the corresponding interest portion, which is shown under the item interest and similar expenses.

The number of **employees** totaled:

		Average		As of
	2002/2003	**2003/2004**	31-Mar-2003	**31-Mar-2004**
Wage earners	10,438	9,846	10,193	9,503
Salaried employees	13,349	12,795	13,207	12,515
Apprentices	862	849	781	764
	24,649	23,490	24,181	22,782

11 Other operating expenses

	2002/2003	**2003/2004**
Other deliveries and services not included in the cost of materials	144,062	137,509
Special direct sales expenses including freight charges	104,574	95,632
Provisions for doubtful accounts and other assets	113,106	92,580
Rent and leases (excluding car fleet)	84,184	88,332
Travel expenses	91,374	77,590
Additions to provisions (relates to several expense accounts)	86,221	68,531
Information technology expenses	51,871	45,343
Legal and consulting fees	32,148	30,169
Insurance expenses	20,706	22,528
Public-sector fees and other taxes	21,844	20,206
Costs of mail and payment transactions	26,002	19,899
Other research and development costs	24,463	17,582
Car fleet costs	12,209	13,557
Expenses from operating facilities	14,167	13,439
License fees	16,409	10,859
Commissions	10,664	6,915
Losses from disposals of intangible assets and tangible assets	6,380	5,881
Office supplies, newspapers, technical literature	7,992	5,785
Exchange rate losses	17,883	5,180
Other overhead costs	141,717	143,467
	1,027,976	920,984

Other operating expenses largely reflect business developments as well as the implementation of the cost and efficiency-boosting project. We were successful in reducing other production and sales-related expenses by a total of € 15,495 thousand. Developments were similar during the past financial year for the provisions for doubtful accounts and other assets as well as for allocations to provisions. Expenses for insurance, rent, leases, and for the car fleet rose slightly over the previous year.

12 Restructuring expenses

	2002/2003	2003/2004
Non-scheduled depreciation of intangible and tangible assets	26,309	12,716
Cost of materials	3,699	3,926
Personnel expenses	154,733	33,966
Other costs	25,690	42,445
	210,431	93,053

As in the previous year, the restructuring expenses apply to the program for the medium-term reduction of costs and increase in efficiency.

13 Extraordinary expenditures from discontinuing operations

	2002/2003	2003/2004
Non-scheduled depreciation of intangible assets	–	32,977
Cost of materials	–	27,884
Personnel expenses	–	18,989
Other costs	–	162,121
Extraordinary expenditures from discontinuing operations	–	241,971
Impairment loss in connection with discontinuing operations (equity method)	–	118,068
Extraordinary expenditures before taxes in connection with discontinuing operations	–	360,039
Impairment loss from deferred taxes	–	115,742
Extraordinary expenditures after taxes in connection with discontinuing operations	–	475,781

Beside expenses due to discontinuing operations arising from operating activity, extraordinary expenditures from discontinuing operations were also recognized. Extraordinary expenditures after taxes in connection with discontinuing operations are attributable not only to operating expenses, but also to the impairment loss to the joint venture NexPress Solutions LLC, Rochester, New York, USA, (see Note 14), as well as income tax expenses from the impairment loss from deferred taxes (see Note 16). Please refer to Note 3 for additional information concerning discontinuing operations.

14 Result from financial assets and marketable securities

	2002/2003	**2003/2004**
Result from the equity valuation	– 81,081	– 186,454
– of which: impairment loss in connection with discontinuing operations	(–)	(– 118,068)
Expenses from financial assets	4,013	3,648
– of which: affiliated enterprises	(3,650)	(3,454)
Income from loans or securities included under financial assets	509	1,246
Income from profit transfer agreements	908	532
Expenses from assumption of losses	93	76
Income from financial assets	– 83,770	– 188,400
Income from the specialized investment funds	7,754	– 7,239
Income from marketable securities	50	–
Result from marketable securities	7,804	– 7,239
	– 75,966	– 195,639

The result from financial assets and marketable securities includes results from discontinued operations amounting to € – 187,773 thousand (previous year: € – 82,555 thousand). The impairment loss in connection with discontinuing operations is attributable to NexPress Solutions LLC, Rochester, New York, USA.

The result from specialized investment funds during the reporting period includes the ongoing impairments to securities totaling € 20,000 thousand that were booked directly to the income statement during the financial year (previous year: € 0 thousand), which in the past had been included in the shareholders' equity without effect on the income statement.

Expenses from financial assets include amortization of financial assets amounting to € 203 thousand (previous year: € 347 thousand).

As in the previous year, income from profit transfer agreements relates to Print-Assekuranz Versicherungsvermittlungsgesellschaft mbH, Heidelberg. The expenses from the assumption of losses relate to Sporthotel Heidelberger Druckmaschinen GmbH, Heidelberg.

15 Net interest income

The net interest income is apportioned as follows:

	2002/2003	2003/2004
Interest from customer financing	101,152	85,274
Interest from financial investments	1,759	1,424
Other interest income	10,356	4,962
– of which: affiliated enterprises	(156)	(447)
Other interest and similar income	113,267	91,660
Bank interest	52,171	42,060
Interest for trade payables	30	94
Other interest expenses	40,495	44,807
– of which: interest portion from additions to pension provisions	(27,110)	(28,965)
– of which: to affiliated enterprises	(35)	(57)
Interest and similar expenses	92,696	86,961
Net interest income	20,571	4,699

16 Taxes on income

The effective and deferred tax expenses and income, which apply to German and foreign taxes on income, are broken down as follows:

	2002/2003	2003/2004
Effective taxes		
Germany	31,790	– 4,222
Abroad	4,171	11,803
	35,961	7,581
Deferred taxes		
Germany	– 12,348	41,614
Abroad	– 49,960	139,320
of which: extraordinary expenditures in connection with discontinuing operations[1)]		
Digital	(–)	(18,159)
Web Systems	(–)	(97,583)
	– 62,308	180,934
	– 26,347	188,515

[1)] Totaling € 115,742 thousand (previous year: € 0 thousand)

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.

Furthermore, the retention of the balance sheet generation and valuation methods did not result in additional tax expenses or tax income.

There were no tax expenses during the reporting year in connection with extraordinary expenses.

Taxes on income from discontinuing operations total € 136,263 thousand (previous year: tax income of € 46,688 thousand). Of this amount, € 108,657 thousand (previous year: tax income of € 31,137 thousand) is attributable to the Web Systems Division (including Web Finishing), and € 27,606 thousand (previous year: tax income of € 15,551 thousand) to the Digital Division. Extraordinary expenditures in connection with discontinuing operations result from write-downs on deferred tax assets for the still unused tax loss carry-forwards and the reversal of deferred tax liabilities on temporary differences.

All still unused tax loss carry-forwards amounting to € 1,026,990 thousand (previous year: € 728,642 thousand) are largely attributable to foreign subsidiaries. Total tax loss carry-forwards, for which no deferred tax claims were formed, amount to € 966,419 thousand (previous year: € 323,243 thousand). Of this total, potential utilization amounts to € 32,259 for 2005, € 790 thousand through 2006, € 4,820 thousand through 2007, € 3,660 thousand through 2008, € 358 thousand through 2009, and € 924,532 thousand through 2010 and later.

Taxes on income were increased due to the disposal of € 116,048 thousand (previous year: reduced by € 47,489 thousand) in deferred tax assets from tax loss carry-forwards.

As in the previous year, during the financial year no deferred tax assets were formed relating to not yet applicable tax loss carry-forwards. Deferred tax income is only shown for tax loss carry-forwards if their realization is assured in the near future. The maintenance of value of the capitalized tax claims is reflected in the Heidelberg Group's scope for action to make use of the tax loss carry-forwards under the provisions of IAS 12. During the reporting year, write-downs of deferred tax assets for loss carry-forwards created in previous years amounting to € 139,798 thousand (previous year: € 1,344 thousand) were formed.

Effective taxes were reduced during the reporting year by € 1,036 thousand (previous year: € 1,498 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 € 13,251 thousand (previous year: € 11,856 thousand); they expire by the latest on March 31, 2024.

Expenses and income not related to the reporting period arising from effective income taxes amount, respectively, to € 22,910 thousand (previous year: € 3,165 thousand) and € 14,881 thousand (previous year: € 990 thousand).

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

	2002/2003	**2003/2004**
Income before taxes	– 164,241	– 506,385
Theoretical tax rate in percent[1)]	39.28	39.28
Theoretical tax income	– 64,514	– 198,908
Change in theoretical tax income due to:		
– differing tax rate	– 1,176	– 3,207
– losses	75,261	97,905
– tax decrease due to tax-exempt income	– 9,748	– 9,127
– tax increase due to non-deductible expenses	12,306	12,705
– extraordinary expenditures from discontinuing operations/restructuring expenses	–	284,803
– change in tax provisions/taxes attributable to previous years	– 28,086	– 3,971
– other	– 10,390	8,315
Taxes on income	– 26,347	188,515
Tax rate in percent	16.04	– 37.23

1) Calculated on the basis of domestic income tax rates

Notes to the Balance Sheet

17 Intangible assets

Goodwill comprises amounts arising from the acquisition of businesses (asset deals) and from the capital consolidation. The main individual amounts arising from the capital consolidation relate to:

- Heidelberg International Ltd. A/S Group, Copenhagen, Denmark,
- Gallus Group, St. Gallen, Switzerland, and
- IDAB WAMAC Group, Eksjö, Sweden.

The scheduled amortization of goodwill is included in the item 'depreciation and amortization' in the income statement.

Capitalized **development costs** relate for the most part to the development of assets in the Sheetfed Division. Non-capitalized development costs from all Divisions – including research expenses – amount to € 268,308 thousand in the reporting year (previous year: € 346,145 thousand).

Due to restructuring measures as well as discontinuing operations, non-scheduled depreciation totaling, respectively, € 10,861 thousand (previous year: € 7,988 thousand) and € 32,977 thousand (previous year: € 0 thousand) was incurred in intangible assets. Non-scheduled depreciation is attributable to goodwill (€ 7,337 thousand) development costs (€ 27,880 thousand), as well as software and licenses (€ 8,621 thousand).

18 Tangible assets

The book values of the assets included in fixed assets originating from finance lease contracts, in which we act as lessee, amount to € 4,559 thousand (previous year: € 6,753 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, are of minor financial significance.

The restructuring measures resulted in non-scheduled depreciation of € 1,855 thousand (previous year: € 18,321 thousand). This is attributable to technical equipment and machinery (€ 203 thousand) as well as factory and office equipment (€ 1,652 thousand).

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

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

19 Financial assets

Non-scheduled depreciation is largely attributable to the share of results arising from the application of the equity method. The extraordinary expenditures from discontinuing operations in connection with the valuation of NexPress Solutions LLC, Rochester, New York, USA, according to the equity method amounted to € 118,068 thousand. A detailed presentation has been included in the Development of Fixed Assets.

Of the shares in affiliated enterprises, of other shares in subsidiaries, and of long-term investments, an amount of € 36,039 thousand (previous year: € 35,163 thousand) is classified as 'available for sale'.

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.

20 Inventories

	31-Mar-2003	**31-Mar-2004**
Raw materials, consumables and supplies	222,523	172,428
Work and services in process	303,054	339,640
Manufactured products and merchandise	540,975	412,709
Prepayments	6,859	6,006
	1,073,411	930,783

The book value of the inventories carried at the net selling price is € 84,531 thousand (previous year: € 131,408 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.

21 Receivables and other assets

	31-Mar-2003	of which term to maturity 1 year or less	from 1 to 5 years	over 5 years	**31-Mar-2004**	of which term to maturity 1 year or less	from 1 to 5 years	over 5 years
Receivables from customer financing	860,389	184,957	410,160	265,272	769,182	164,598	356,951	247,633
Trade receivables	813,358	810,581	2,777	–	713,226	703,490	9,736	–
Receivables against affiliated enterprises	35,496	34,810	686	–	54,258	53,886	372	–
Receivables against associated companies / joint ventures	24,689	24,689	–	–	22,071	22,071	–	–
Other assets	195,058	150,767	27,010	17,281	165,435	138,486	20,565	6,384
– of which: tax reimbursement claims	(56,871)	(56,865)	(6)	(–)	(51,608)	(51,584)	(24)	(–)
– of which: loans granted	(588)	(283)	(279)	(26)	(775)	(485)	(259)	(31)
– of which: derivative financial instruments	(44,574)	(34,237)	(10,337)	(–)	(31,302)	(27,226)	(4,076)	(–)
– of which: deferred interest payments	(9,148)	(6,066)	(3,082)	(–)	(6,812)	(6,812)	(–)	(–)
	1,068,601	1,020,847	30,473	17,281	954,990	917,933	30,673	6,384

The asset-backed transaction program begun in financial year 2001/2002 continued to be in effect during the financial year as well. This company assumes the irrevocable power of control over these receivables, which is the reason why Heidelberg derecognized these receivables. Since neither control nor a decisive influence can be exerted and this company undertakes such transactions on behalf of a number of other firms, the company is excluded from the scope of consolidation. The transferred receivables volume totaled € 181,727 thousand at financial year-end (previous year: € 324,338 thousand).

Receivables arising from customer financing are shown in the following table:

Contract currency	Book value 31-Mar-2003	Term to maturity in years	Effective interest rate in percent	Book value **31-Mar-2004**	Term to maturity in years	Effective interest rate in percent
USD	331,151	up to 10	up to 12	283,517	up to 10	up to 12
EUR	342,252	up to 8	up to 12	289,914	up to 8	up to 12
JPY	36,523	up to 10	up to 4	31,221	up to 10	up to 5
GBP	53,179	up to 7	up to 12	49,981	up to 7	up to 14
Other	97,284	–	–	114,549	–	–
	860,389			769,182		

Receivables arising 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-2003	of which 1 year or less	of which from 1 to 5 years	of which over 5 years	**31-Mar-2004**	of which 1 year or less	of which from 1 to 5 years	of which over 5 years
Total lease payments	167,327	–	–	–	127,972	–	–	–
Lease payments received	– 18,708	–	–	–	– 21,162	–	–	–
Interest portion of the outstanding lease payments	– 32,370	–	–	–	– 21,112	–	–	–
Present value of outstanding lease payments (book value)	116,249	5,255	51,584	59,410	85,698	9,208	34,314	42,176

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

The change in the positive market values of the derivative financial instruments during the financial year – including deferred tax liabilities – totaling € – 7,099 thousand (previous year: € 18,571 thousand), is shown in shareholders' equity without effect on the income statement (cash flow hedge).

The change in the positive market values of the derivative financial instruments for the purpose of securing balance sheet items (fair value hedges), which amounted to € – 959 thousand (previous year: € 1,761 thousand) net of effective taxes, was booked directly to the income statement.

During the financial year, write-downs on receivables and other assets totaled € 92,580 thousand (previous year: € 113,106 thousand) and were included under 'other operating expenses'.

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.

22 Marketable securities as well as cash and cash equivalents

The entire portfolio of marketable securities of € 347,619 thousand (previous year: € 316,270 thousand) is classified as 'available for sale' in accordance with IAS 39. The fixed-interest securities included under this item total € 203,413 thousand (previous year: € 201,918 thousand). Of the total amount, fixed interest securities amounting to € 23,107 thousand (previous year: € 22,545 thousand) have a term to maturity of up to one year. The remaining marketable securities comprise equities.

During the financial year, we recorded sustained impairments to securities amounting to € 20,000 thousand (previous year: € 0 thousand), which were booked directly to the income statement. In the past, such impairments had been recognized without effect on the income statement and recorded in shareholders' equity.

Unrealized profits from changes in market values, taking into consideration deferred taxes, were included in shareholders' equity to the amount of € 38,161 thousand (previous year: loss of € 50,099 thousand) without effect on the income statement.

During the financial year, a realized loss amounting to € 446 thousand (previous year: € 5,585 thousand) resulted from the sale of securities, which is included in the income statement in the financial result under the item 'Income from specialized investment funds'.

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.

23 Deferred taxes

The deferred taxes are broken down as follows:

	31-Mar-2003		31-Mar-2004	
	Asset	Liability	Asset	Liability
Loss carry-forwards	154,405	–	23,085	–
Fixed assets	20,455	78,138	16,752	74,303
Current assets	151,501	113,345	123,581	91,939
Special items with an equity portion	–	5,458	–	3,480
Provisions	176,229	–	145,953	–
Liabilities	40,173	10,393	8,599	14,124
Gross amount	542,763	207,334	317,970	183,846

Based on the provisions of IAS 12, during the financial year we offset deferred tax assets and liabilities amounting to € 103,581 thousand at the level of the individual companies.

A total of € –22,966 thousand in deferred taxes resulting from the translation of the financial figures of foreign subsidiaries (previous year: € – 53,718 thousand), as well as € 2,595 thousand (previous year: € –2,502 thousand) arising from assessment without effect on the income statement, was offset with the shareholders' equity during the financial year.

As in the previous year, reductions in corporation tax resulting from future dividend payouts amount to approximately € 100 million; this amount was not capitalized. These corporation tax decreases may be applied at the latest in financial year 2019/2020. According to the Law on the Reduction in Tax Concessions (Steuervergünstigungsabbaugesetz), which provides for a three-year moratorium, corporation tax decreases due to dividend payments may not be applied until financial year 2005/2006.

24 Prepaid expenses

Prepaid expenses are attributable largely to deferred financing costs, insurance premiums, rents and leases, as well as taxes.

Short-term prepaid expenses as of financial year-end amount to € 25,336 thousand (previous year: € 27,151 thousand).

25 Shareholders' equity and minority interests

Share capital and the number of issued shares

The share capital of Heidelberger Druckmaschinen Aktiengesellschaft continues to amount to € 219,925,708.80 and is divided into 85,908,480 shares.

Treasury stock

As of financial year-end, Heidelberger Druckmaschinen Aktiengesellschaft does not hold any of its own shares in the form of treasury stock.

Contingent and authorized 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).

Majority shareholder

RWE Aktiengesellschaft, Essen, holds an indirect 50.016 percent voting share in Heidelberger Druckmaschinen Aktiengesellschaft as of the financial year-end.

On May 7, 2004, RWE Gesellschaft für Finanzbeteiligungen mbH, whose sole shareholder is RWE Aktiengesellschaft, Essen, sold shares of Heidelberger Druckmaschinen Aktiengesellschaft, Heidelberg, directly in an accelerated tender offer and issued an exchangeable bond that can be exchanged for shares of Heidelberger Druckmaschinen Aktiengesellschaft, Heidelberg. The shareholding of 50.016 percent was placed with institutional investors. A portion of this amount has been allocated to service the exchangeable bond.

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, and
- market valuation without effect on the income statement in accordance with IAS 39.

The change in revenue reserves arising from market valuation according to IAS 39 is attributable to the recording, without effect on the income statement, of unrealized profits of primary financial instruments totaling € 59,988 thousand (previous year: loss of € 50,193 thousand), as well as unrealized losses from derivative financial instruments (cash flow hedges) totaling € 4,662 thousand (previous year: € 341 thousand).

Minority interests

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

Distribution of net income of Heidelberger Druckmaschinen Aktiengesellschaft

According to a resolution by the Annual General Meeting held on September 12, 2003, the distributable profit for financial year 2002/2003 is to be utilized as follows: payment to other revenue reserves of € 30,000,000.00, with the remainder of € 335,199.40 carried forward.

According to the annual financial statements for financial year 2003/2004, the distributable profit amounts to € 0.00.

26 Provisions

The provisions are explained in detail in Notes 27 – 29.

	1-Apr-2003	Change in the scope of consolidation, currency adjustments, transfers	Utilization	Release	Addition	**31-Mar-2004**
Provisions for pensions and similar obligations	559,471	367	23,088	6,155	52,179	582,774
Tax provisions	199,471	– 2,082	25,230	12,101	10,416	170,474
Other provisions						
Liabilities arising from sales and service activities	197,570	– 9,066	81,583	34,652	104,446	176,715
Liabilities arising from human resources	202,911	8	106,634	13,334	104,468	187,419
Liabilities arising from research and development	15,141	– 1,001	7,473	725	3,388	9,330
Liabilities arising from restructuring measures	156,174	– 15,811	82,110	13,996	67,462	111,719
Liabilities arising from extraordinary expenditures for discontinuing operations	–	–	–	–	181,110	181,110
Discontinuing operations in connection with assets	–	–	280,171	–	280,171	–
Other	123,980	3,680	73,614	15,213	68,392	107,225
	695,776	– 22,190	631,585	77,920	809,437	773,518
	1,454,718	– 23,905	679,903	96,176	872,032	1,526,766

	Note	31-Mar-2003			**31-Mar-2004**		
		Maturity			Maturity		
		1 year or less	from 1 to 5 years	over 5 years	1 year or less	from 1 to 5 years	over 5 years
Provisions for pensions and similar obligations	27	33,002	75,953	450,516	23,395	84,086	475,293
Tax provisions	28	25,199	174,272	–	11,173	159,301	–
Other provisions							
Liabilities arising from sales and service activities	29	171,311	15,379	10,880	147,965	19,145	9,605
Liabilities arising from human resources	29	133,007	50,099	19,805	114,532	53,004	19,883
Liabilities arising from research and development	29	15,141	–	–	9,330	–	–
Liabilities arising from restructuring measures	29	156,174	–	–	82,110	29,609	–
Liabilities arising from extraordinary expenditures for discontinuing operations	29	–	–	–	181,110	–	–
Other	29	115,853	7,160	967	101,325	5,659	241
		591,486	72,638	31,652	636,372	107,417	29,729
		649,687	322,863	482,168	670,940	350,804	505,022

27 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; new employees participate in a comparable pension scheme solely on the basis of a premium-oriented plan. Because of their nature as benefits, the liabilities of one of our foreign subsidiaries for the health costs of their employees following their retirement are also included in the provisions for pensions and similar obligations. The trend of the costs of medical care was 13 percent during the financial year (previous year: 12 percent).

The provisions for pensions and similar obligations developed as follows:

	2002/2003	**2003/2004**
Status at the beginning of the financial year	536,814	559,471
Change in the scope of the consolidation, translation differences, reclassifications	1,169	367
Utilization	23,044	23,088
Reversal	1,575	6,155
Addition	46,107	52,179
Status at financial year-end	559,471	582,774

The provisions for pensions and similar obligations are broken down as follows:

	31-Mar-2003	**31-Mar-2004**
Present value of funded claims	163,325	181,204
Less attributable market value of fund assets	– 123,347	– 164,659
Shortfall of fund coverage	39,978	16,545
Present value of non-funded pension claims	553,996	577,305
Total present value of pension claims	593,974	593,850
Adjustment amount due to (not offset) actuarial profits or losses	– 39,469	– 13,762
Sub-total	554,505	580,088
Therein capitalized reported assets of foreign employee pension funds	4,966	2,686
Provisions for pensions and similar obligations	559,471	582,774

Assets apportioned in funds developed as follows:

	31-Mar-2003	**31-Mar-2004**
Attributable market value of the assets of the funds at the beginning of the financial year	142,653	123,347
Expected fund income	10,563	7,791
Contributions to the funds	2,927	4,732
Pension benefit payments from the funds	– 22,450	– 4,674
Actuarial profits or losses	– 25,833	13,702
Changes in the scope of the consolidation, translation adjustments, other changes	15,487	19,761
Attributable market value of the fund assets at financial year-end	123,347	164,659

Due to the limitation imposed by IAS 19.58 b), an amount of € 2,316 thousand (previous year: € 456 thousand) is not recorded as an asset.

The expense for the pension plan is broken down as follows:

	2002/2003	**2003/2004**
Expenses for pension claims added during the financial year [1]	17,422	17,059
Interest expense for existing claims	27,110	28,965
Net addition to pension provisions	44,532	46,024
Expenses for other pension plans [1]	9,896	11,204
	54,428	57,228

1) The expense for the pension plan included in personnel expenses totals € 28,263 thousand (previous year: € 27,318 thousand).

The expenses for the pension claims added during the financial year include actuarial losses totaling € 1,589 thousand (previous year: € 67 thousand in actuarial profits). As in the previous year, no past service cost exists that requires subsequent settlement.

We include the interest expense for already existing pension benefits under interest and similar expenses.

28 Tax provisions

As in previous years, **tax provisions** largely cover the risk of additional assessments. This item also includes risks arising from the merger of Linotype-Hell Aktiengesellschaft with Heidelberger Druckmaschinen Aktiengesellschaft.

29 Other provisions

The **provisions from sales and service activities** largely comprise warranty and guarantee obligations of € 162,605 thousand (previous year: € 181,313 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.

The provisions from the **human resources area** largely include bonuses of € 30,564 thousand (previous year: € 43,440 thousand), vacation, overtime and flextime balances totaling € 49,984 thousand (previous year: € 51,127 thousand), service anniversary expenses in the amount of € 17,310 thousand (previous year: € 16,408 thousand), and provisions for the stock option program totaling € 10,074 thousand (previous year: € 8,354 thousand).

Liabilities in connection with **research and development** activities comprise patent and litigation risks (€ 9,330 thousand; previous year: € 15,141 thousand).

The **provisions for restructuring measures** amounting to € 111,719 thousand (previous year: € 156,174 thousand) are in connection with the program of medium-term cost reduction measures.

The provisions for **liabilities arising from extraordinary expenditures for discontinuing operations** totaling € 181,110 thousand (previous year: € 0 thousand) result from expenses in connection with the termination of operations of the Digital Division, the Web Systems Division, and the Web Finishing Division.

The provisions for **discontinuing operations in connection with assets** totaling € 280,171 thousand (previous year: € 0 thousand) comprise provisions formed at the end of the financial quarter on December 31, 2003, which due to existing impairments were offset with the corresponding assets at financial year-end and capitalized, thereby showing a balance of € 0 thousand at financial year-end.

Other provisions include provisions for potential losses arising from pending transactions totaling € 8,912 thousand (previous year: € 19,292 thousand), as well as provisions for outstanding supplier invoices totaling € 24,196 thousand (previous year: € 37,132 thousand).

In connection with the provisions for guarantee obligations, claims against third parties exist with regard to the assignment of printing presses. There is no additional **right of recourse** against third parties. The resulting receivables are not capitalized.

30 Liabilities

	31-Mar-2003	of which term to maturity 1 year or less	from 1 to 5 years	over 5 years	**31-Mar-2004**	of which term to maturity 1 year or less	from 1 to 5 years	over 5 years
Private placement	–	–	–	–	50,279	3,779	28,000	18,500
To banks	796,477	786,494	9,919	64	667,273	655,727	11,524	22
Advance payments received on orders	97,408	97,408	–	–	88,982	88,982	–	–
Trade payables	274,952	270,633	4,311	8	266,983	264,623	2,360	–
Arising from the acceptance of drawn bills and the issue of own bills	5,546	5,546	–	–	8,426	8,426	–	–
To affiliated enterprises	8,382	6,699	1,683	–	10,075	10,075	–	–
To associated companies/ joint ventures	945	945	–	–	1,835	1,835	–	–
Other liabilities	290,352	224,527	38,221	27,604	253,916	221,541	11,347	21,028
– of which: derivative financial instruments	(49,864)	(7,100)	(15,160)	(27,604)	(37,976)	(10,410)	(6,538)	(21,028)
– of which: taxes	(54,999)	(54,999)	(–)	(–)	(42,930)	(42,930)	(–)	(–)
– of which: relating to social security	(33,264)	(33,264)	(–)	(–)	(27,302)	(27,302)	(–)	(–)
	1,474,062	1,392,252	54,134	27,676	1,347,769	1,254,988	53,231	39,550

Private placement

The private placement totals € 50 million and has an amortizing repayment structure. The final payment is due in 2011.

Liabilities to banks

Liabilities to banks (including the note loan) are shown in the following table:

Type	Contract currency	Book value 31-Mar-2003	Term to maturity in years	Effective interest rate in percent	Book value **31-Mar-2004**	Term to maturity in years	Effective interest rate in percent
Loan	EUR	232,367	up to 7	up to 6.0	341,733	up to 7	up to 6.0
Loan	USD	506,784	up to 1	up to 2.0	304,632	up to 1	up to 1.3
Loan	JPY	29,807	up to 1	up to 0.4	38,773	up to 1	up to 0.5
Current account	USD	5,846	–	–	10,199	–	–
	Other	21,673	up to 4	up to 5.7	22,215	up to 3	up to 6.0
		796,477			717,552		

The **credit lines** not yet fully used in our Group amount to € 1,057,426 thousand at financial year-end (previous year: € 1,019,607 thousand).

In February 2002, Heidelberg was granted a € 750 million five-year revolving credit facility. Short-term liabilities to financial institutions (with a term to maturity of up to one year) totaling € 655,727 thousand (previous year: € 786,494 thousand) include credit totaling € 405,500 thousand (previous year: € 428,575 thousand) under this long-term committed credit line.

Derivative financial instruments

The change in the negative market values of derivative financial instruments during the current reporting year amounting to € 9,169 thousand (previous year: € –13,621 thousand) is shown in shareholders' equity without effect on the income statement (cash flow hedge), taking into consideration capitalized deferred taxes. The increase in the negative market values amounting to € 1,935 thousand (previous year: € –708 thousand) to hedge balance sheet items was booked directly to the income statement (fair value hedge), taking into consideration effective taxes.

Additional information

Liabilities arising from financial leases in which we act as the lessee totaled € 5,259 thousand (previous year: € 7,334 thousand).

With regard to liabilities, the book values are largely in line with the 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.

31 Deferred income

	31-Mar-2003	31-Mar-2004
Investment subsidies:		
Taxable subsidies	4,436	4,500
Tax-exempt allowances	4,264	4,126
Other	36,418	39,376
	45,118	48,002

The share of the deferred income outstanding in the following financial year amounts to € 22,090 thousand at financial year-end (previous year: € 26,513 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 € 4,281 thousand (previous year: € 4,223 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 € 2,555 thousand (previous year: € 2,787 thousand). This item also includes allowances according to the Investment Allowance Act of 1991/1996/1999 amounting to € 1,560 thousand (previous year: € 1,463 thousand), which mainly concern the Brandenburg plant.

Other deferred income comprises the non-recurring payments for ground leases under sale-and-lease-back agreements. This amount is released to the income statement over the term of the agreement.

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.

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 concluded exclusively 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-2003	**31-Mar-2004**	31-Mar-2003	**31-Mar-2004**
Hedging of anticipated payment flows and pending transactions (cash flow hedges)				
Forward exchange transactions	446,506	387,555	10,231	1,786
Currency options transactions	643,338	574,085	27,630	26,272
	1,089,844	961,640	37,861	28,058
Interest rate hedging (cash flow hedges)				
Interest rate swaps	744,589	556,776	– 42,636	– 29,072
Hedging of balance sheet items (fair value hedges)				
Forward exchange transactions	189,145	300,801	– 515	– 5,661

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).

Under the **value at risk method**, the maximum loss potential that could result from a change of market prices 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 € 11,305 thousand for the overall position of all derivative financing transactions (interest rate and foreign currency) (previous year: € 11,747 thousand) – thus at about previous year's level.

The existing derivative financial instruments result in a theoretical **risk of nonpayment (credit risk)** of € 4,056 thousand (previous year: € 5,364 thousand). Since the counterparties are banks with top credit ratings, an actual loss from derivatives is currently not expected.

Cash flow hedges

The foreign exchange and currency options transactions that were open at financial year-end secure the currency risks over the next 24 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 two years. Of the underlying transactions, 47 percent (previous year: 57 percent) are denominated in US dollars and 8 percent (previous year: 17 percent) in Japanese yen.

Hedging of anticipated payment flows and pending transactions

Valuation profits, which totaled € 28,058 thousand (previous year: € 37,861 thousand), resulted from hedging transactions at financial year-end and were recorded without effect on the income statement. They are to be booked to the income statement over the subsequent 24 months.

Interest-rate hedging

With the aid of interest-rate swaps, from which we receive variable-rate interest for various currencies and pay fixed interest, we restrict the risk from increasing interest expenses in our respective refinancing currency. The terms to maturity of these interest-rate swaps correspond to our planning horizon; interest-rate swaps in the nominal amount of € 284,370 thousand (previous year: € 292,083 thousand) have a term to maturity of less than 5 years, with the remaining having a term to maturity of over 5 years. The valuation of these transactions at financial year-end resulted in negative market values of € 26,826 thousand (previous year: € 40,036 thousand), which 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. Moreover, the market values of the interest-rate swaps still include accrued interest expense for the reporting period in the amount of € 2,246 thousand (previous year: € 2,600 thousand), as a result of which the overall negative market value totals € 29,072 thousand (previous year: € 42,636 thousand).

Fair value hedges

Hedging of balance sheet items

This item concerns the exchange rate hedging of foreign currency-denominated loans receivable. The opposing results of the market valuation of the hedging transactions and the conversion of the underlying transactions at cash prices are collectively shown in the income statement.

33 Contingent liabilities and other financial liabilities

	31-Mar-2003	**31-Mar-2004**
Liability arising from the endorsement of bills of exchange	179	243
Guarantees and warranties	296,535	321,132
	296,714	321,375

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

Other financial liabilities are broken down as follows:

	31-Mar-2003	1 year or less	from 1 to 5 years	Maturity over 5 years	**31-Mar-2004**	1 year or less	from 1 to 5 years	Maturity over 5 years
Operating lease relationships								
Minimum lease payments	409,243	55,874	94,260	259,109	417,935	48,295	117,054	252,586
Other								
Orders for investments	26,930	26,930	–	–	23,656	23,656	–	–
Future lease obligations	77,360	17,824	50,119	9,417	65,483	18,083	42,918	4,482
Additional obligations	14,776	14,746	30	–	6,711	6,682	29	–
	119,066	59,500	50,149	9,417	95,850	48,421	42,947	4,482
	528,309	115,374	144,409	268,526	513,785	96,716	160,001	257,068

The figures shown are nominal values.

Operating leases comprise, among other things, minimum lease payments for:

- the Print Media Academy (Heidelberg) in the total value of € 60,941 thousand (previous year: € 64,131 thousand);
- the administrative and manufacturing building in Rochester in the total value of € 115,086 thousand (previous year: € 120,829 thousand);
- the World Logistic Center (WLC) (Wiesloch plant) in the total value of € 41,236 thousand (previous year: € 42,660 thousand); and
- motor vehicles in the total value of € 23,198 thousand (previous year: € 29,933 thousand).

Additional information

34 Earnings per share in accordance with IAS 33

	2002/2003	2003/2004
Net loss – Heidelberg portion in € thousands	– 143,771	– 700,933
– of which: discontinuing operations	(– 257,150)	(– 677,959)
Number of shares in thousands (weighted average)	85,898	85,900
Result in € per share	– 1.67	– 8.16
– of which: discontinuing operations	(– 2.99)	(– 7.89)

Undiluted earnings per share are calculated by dividing the net loss accruing to Heidelberg by the weighted average number of the shares outstanding during the financial year. A dilution of the earnings per share can result from so-called potential shares. The choices available under the stock option plan of the Heidelberg Group do not have the effect of diluting profits (IAS 33.38). Undiluted earnings per share thus correspond to diluted earnings per share. Excluding restructuring expenses and extraordinary expenditures arising from discontinuing operations, earnings per share amount to € –1.49 (previous year: € – 0.16).

35 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, respectively, during the financial year totaled € 42,674 thousand (previous year: € 87,308 thousand) and € 33,338 thousand (previous year: € 75,976 thousand). With the exception of the interest portion of the addition to provisions, interest expenses and income in financial year 2003/2004, as well as the previous year, largely correspond to interest expenditures and revenues.

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

Total liquidity is broken down as follows:

	31-Mar-2003	31-Mar-2004
Marketable securities (excluding securities held in the specialized investment funds)	175	266
Cash and cash equivalents and short-term financial claims	82,596	119,826
Total liquidity	82,771	120,092

Cash and cash equivalents include short-term financial claims that arose during the financial year amounting to € 28,002 thousand (previous year: € 0 thousand), which have a maturity of less than 3 months.

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

	Digital		Web[1]		Total	
	2002/2003	**2003/2004**	2002/2003	**2003/2004**	2002/2003	**2003/2004**
Net cash from operating activities	– 49,442	– 38,424	– 21,568	– 84,665	– 71,010	– 123,089
Net cash from investment activities	– 42,244	– 58,790	– 24,298	– 7,463	– 66,542	– 66,253
Net cash from financing activities	91,677	97,189	45,141	94,009	136,818	191,198
Net change in cash and cash equivalents	– 9	– 25	– 725	1,881	– 734	1,856

[1] Web Systems including Web Finishing

36 Information concerning segment reporting

The segment information is based on the **'risk and reward approach'**. Intersegmental sales are of minor financial significance and can therefore be ignored.

Please refer to Note 3 for information concerning the restructuring of the divisions.

We provide detailed information concerning the divisions 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'.

Non-cash expenses comprise the following:

	2002/2003	**2003/2004**
Provisions for doubtful accounts and other assets	113,106	92,580
Allocations to provisions	408,258	343,289
	521,364	435,869

Allocations to provisions exclude liabilities arising from restructuring as well as liabilities under discontinuing operations, as these are shown separately under segment information.

Research and development costs result from capitalized development costs, however, excluding depreciation for the financial year.

Investments comprise investments in intangible assets and tangible assets.

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

Segment assets and **segment debt** result from gross assets or gross debts as follows:

	31-Mar-2003	31-Mar-2004
Gross assets per balance sheet	5,131,465	4,232,452
– financial assets	– 204,521	– 47,517
– marketable securities	– 316,270	– 347,619
– finance receivables	– 888,838	– 822,008
– deferred tax assets	– 542,763	– 214,389
– tax claims	– 56,871	– 51,608
Segment assets	3,122,202	2,749,311

	31-Mar-2003	31-Mar-2004
Gross debts per balance sheet [1]	3,181,232	3,002,802
– tax provisions	– 199,471	– 170,474
– tax obligations	– 54,999	– 42,930
– financial obligations	– 831,529	– 748,881
– deferred tax liabilities	– 207,334	– 80,265
Segment debt	1,887,899	1,960,252

[1] Consolidated balance sheet total less shareholders' equity/minority shareholders

Besides accounts receivable arising from customer financing, financial claims also comprise financial claims against affiliated enterprises and other financial assets.

Financial obligations comprise liabilities arising from the private placement, liabilities to banks, liabilities under financial leases, and other financial liabilities.

37 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.

38 Information concerning the Supervisory and Management Board of the Company

Composition

The members of the Supervisory Board and the Management Board are shown in the separate overview on pages 144 – 146 (Supervisory Board) and page 147 (Management Board).

Management Board

The total remuneration of the Management Board for financial year 2003/2004 comprises basic fixed remunerations of € 1,672 thousand (previous year: € 1,843 thousand), performance-related remunerations totaling € 1,565 thousand (of which relating to financial year 2002/2003: € 549 thousand; previous year: € 990 thousand), and allocations to provisions for stock options amounting to € 114 thousand (previous year: € 126 thousand).

Mr. Wolfgang Pfizenmaier and Mr. Holger Reichardt resigned their positions on the Management Board as of November 30, 2003.

Former Members

Former members of the Management Board and their survivors received € 5,546 thousand (previous year: € 2,024 thousand). Of this amount, € 773 thousand (previous year: € 772 thousand) related to liabilities to former members of the Management Board of Linotype-Hell Aktiengesellschaft and their survivors, which were taken over in financial year 1997/98 within the framework of universal succession. A provision of € 27,331 thousand (previous year: € 25,181 thousand) was made for pension obligations to former members of the Management Board and their survivors. Of this amount, € 10,055 thousand (previous year: € 10,082 thousand) relate to pension obligations of the former Linotype-Hell Aktiengesellschaft, acquired in financial year 1997/98 under the provisions of universal succession.

Supervisory Board

The fixed remuneration of the Supervisory Board during financial year 2003/2004 totaled € 404 thousand (previous year: € 36 thousand). There was no variable remuneration.

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.

39 Transactions with Group-related companies and individuals

RWE Aktiengesellschaft, Essen, holds a majority interest in our Company as of financial year-end.

Significant relationships with **Group-related enterprises** are as follows:

Delivering company	Nature of transactions	2002/2003	**2003/2004**
RWE Group:			
RWE Mechatronics GmbH, Mechernich	Deliveries, inventories	44,888	41,660
RWE Solutions AG, Frankfurt/Main	Services	10,756	9,768
RWE Systems AG, Dortmund	Services	371	2,094
RWE AG, Essen	Services	232	228
RWE Umwelt Nord GmbH & Co. KG, Preetz	Services	–	118
Allianz Group:			
Allianz Versicherungs-AG, Munich	Services	3,751	3,740
Euler Hermes Kreditversicherungs-AG, Hamburg	Services	176	1,052

The establishment of transfer prices for internal Group sales is undertaken on a market-oriented basis under the principle of 'dealing at arm's length'.

No significant transactions were undertaken with **closely related individuals**.

40 Stock option plan

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. 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.

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 (calculated by the total shareholder return method) between the issue and the exercising of the subscription rights (as defined in more detail below) outperforms the value of the Dow Jones EURO STOXX Index (hereinafter referred to as the 'Index') as calculated by 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 profits from the beginning of the financial year in which the issue occurs.

Tranches for 1999 – 2003

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 €
Tranche 1999	2-Mar-2003	2-Mar-2006	52.40
Tranche 2000	13-Sep-2003	13-Sep-2006	68.51
Tranche 2001	12-Sep-2004	12-Sep-2007	53.52
Tranche 2002	11-Sep-2005	11-Sep-2008	42.08
Tranche 2003	12-Sep-2006	12-Sep-2009	22.26

As of financial year-end, there was a total of 3,477,640 options for all tranches (previous year: 1,986,410 options).

Servicing the subscription rights

We have reserved the right to establish the manner in which we service the exercised subscription rights prior to the end of the waiting period for the respective tranche:

(a) granting one share per exercised option,
(b) payout of the stock option plan profit in the form of shares, or
(c) cash settlement.

If alternative (a) is selected, the subscription rights may only be exercised against payment of the exercise price. Under alternatives (a) and (b), either old or new shares may be issued to a participant.

Accounting and valuation methods

IAS 19 does not stipulate any special accounting or valuation principles. The provisions of IFRS 2 have not yet been applied at financial year-end. We therefore continued to apply the existing valuation method.

Nevertheless, on the basis of a recognized option pricing model, we have determined the value of the options for the tranches for the period 1999 – 2003, taking into consideration both the intrinsic and market values of the options as of the time of issue and establishing an appropriate provision in the amount of € 10,074 thousand (previous year: € 8,354 thousand).

41 Information on events after financial year-end

The contract covering the sale of the Digital Division was signed with Eastman Kodak Co. on March 7, 2004. The contract went into effect on May 1, 2004 following fulfillment of the contractual provisions.

On May 7, 2004, RWE Gesellschaft für Finanzbeteiligungen mbH, whose sole shareholder is RWE Aktiengesellschaft, Essen, sold shares of Heidelberger Druckmaschinen Aktiengesellschaft, Heidelberg, directly in an accelerated tender offer and issued an exchangeable bond that can be exchanged for shares of Heidelberger Druckmaschinen Aktiengesellschaft, Heidelberg. The shareholding of 50.016 percent was placed with institutional investors. A portion of this amount has been allocated to service the exchangeable bond.

Heidelberg, May 13, 2004

Heidelberger Druckmaschinen Aktiengesellschaft

Bernhard Schreier   Dr. Herbert Meyer   Dr. Klaus Spiegel

Auditor's Report

We have audited the Consolidated Financial Statements of Heidelberger Druckmaschinen Aktiengesellschaft, Heidelberg, consisting of the income statement, the balance sheet, and the statements of changes in equity and cash flows, as well as the notes to the financial statements, for the business year from April 1, 2003 to March 31, 2004. The preparation and the content of the Consolidated Financial Statements according to the International Accounting Standards of the IASB (IFRS) 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 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). Those standards require that we plan and perform the audit to obtain reasonable assurance that the Consolidated Financial Statements are free of material misstatements. Knowledge of business activities and of the economic and legal position of the Group, as well as expectations of potential discrepancies, are taken into account when determining the audit procedures. The evidence supporting the amounts and disclosures in the Consolidated Financial Statements is examined on a test basis within the framework of the audit. The audit includes assessing the accounting principles used and significant estimates made by the Management Board, as well as evaluating the overall presentation of the Consolidated Financial Statements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the Consolidated Financial Statements give a true and fair view of the net assets, financial position, results of operations, and cash flows of the Group for the business year in accordance with IFRS.

Our audit, which according to German auditing regulations also extends to the Group Management Report prepared by the Management Board for the business year from April 1, 2003 to March 31, 2004, has not led to any objections. In our opinion, on the whole, the Group Management Report and the remaining information contained in the Consolidated Financial Statements provide a fair understanding of the Group's position and adequately present the risks related to its future development. Furthermore, we confirm that the Consolidated Annual Financial Statements and the Group Management Report for the business year from April 1, 2003 to March 31, 2004 meet the prerequisites for exempting the Company from presenting Consolidated Annual Financial Statements and a Group Management Report under German law.

Essen, May 14, 2004

PwC Deutsche Revision
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

P. Albrecht	M. Theben
Wirtschaftsprüfer	Wirtschaftsprüfer

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

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	100.00 %	38,968	– 24,360	381,081	1,138
Heidelberg Graphic Equipment Ltd. [2]	GB	Brentford	100.00 %	118,599	5,233	255,468	498
Heidelberg Web Systems S.A.	F	Montataire	99.98 %	3,210	– 29,156	176,187	937
Heidelberg France S.A.	F	Tremblay-en-France	100.00 %	– 35,487	– 37,032	141,918	387
Heidelberg Contiweb B.V. [2]	NL	Boxmeer	100.00 %	82,697	6,684	90,702	200
Heidelberg Postpress Deutschland GmbH [1]	D	Heidelberg	100.00 %	27,143	– 27,812	81,396	466
Heidelberg Schweiz AG	CH	Bern	100.00 %	17,880	– 1,708	79,795	208
Brehmer Buchbindereimaschinen GmbH [3]	D	Leipzig	100.00 %	18,021	– 952	45,565	293
Print Finance Vermittlung GmbH [1]	D	Heidelberg	100.00 %	35,705	3,772	37,111	–
Heidelberg International Ltd. A/S	DK	Ballerup	100.00 %	42,698	– 1,388	29,793	68
Heidelberg Nordic AB	S	Spanga	100.00 %	1,256	– 2,445	29,571	64
Eastern Europe							
Heidelberger Druckmaschinen Osteuropa Vertriebs-GmbH [4]	A	Vienna	100.00 %	136,971	5,052	186,003	257
Heidelberger Druckmaschinen Austria Vertriebs-GmbH	A	Vienna	100.00 %	163,219	3,593	48,263	117
Heidelberger CIS OOO	RUS	Moscow	100.00 %	6,892	108	47,432	261
Heidelberg Polska Sp z.o.o.	PL	Warsaw	100.00 %	5,197	– 200	31,802	120
North America							
Heidelberg USA, Inc. [2]	USA	Kennesaw	100.00 %	111,190	– 30,811	446,338	1,192
Heidelberg Web Systems, Inc.	USA	Dover	100.00 %	– 87,947	– 64,007	245,956	1,062
Heidelberg Digital L.L.C.	USA	Rochester	100.00 %	– 102,911	– 77,755	167,823	601
Heidelberg Canada Graphic Equipment Ltd.	CDN	Mississauga	100.00 %	13,436	– 4,169	107,994	303
Heidelberg Print Finance Americas, Inc. [2]	USA	Dover	100.00 %	150,998	17,933	–	18

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	100.00 %	– 2,963	– 4,895	30,961	144
Heidelberg do Brasil Sistemas Graficos e Servicos Ltda.	BR	São Paulo	100.00 %	– 4,515	61	18,305	255
Asia / Pacific							
Heidelberg Japan K.K.	J	Tokyo	100.00 %	17,072	– 3,380	255,688	472
Heidelberg China Ltd.	RC	Hong Kong	100.00 %	35,874	7,555	189,937	157
Heidelberg Hong Kong Ltd.	RC	Hong Kong	100.00 %	15,187	1,949	64,991	124
Heidelberg Graphic Equipment Ltd.	AUS	Melbourne	100.00 %	18,684	– 6,221	86,944	216
Heidelberg Malaysia Sdn Bhd	MYS	Petaling Jaya	100.00 %	1,986	– 186	33,196	175
Heidelberg Asia Pte Ltd.	SGP	Singapore	100.00 %	6,458	673	26,792	138

1) Profit and loss transfer agreement with Heidelberger Druckmaschinen Aktiengesellschaft
2) Pre-consolidated financial statements
3) Profit and loss transfer agreement with Heidelberg Postpress Deutschland GmbH
4) Profit and loss transfer agreement with Heidelberger Druckmaschinen Austria Vertriebs-GmbH

Dr. Klaus Sturany
Chief Financial Officer of
RWE Aktiengesellschaft, Essen

Report of the Supervisory Board

Dear Shareholders,

Financial year 2003/2004 primarily was a year of strategic reorientation for the Heidelberg Group. Simultaneously, measures designed to adjust the cost structure continued to be undertaken.

The Supervisory Board fulfilled the responsibilities incumbent upon it under legal provisions and the Articles of Incorporation and closely monitored the management actions taken by the Management Board. The Supervisory Board received regular, comprehensive, and timely written and verbal reports from the Management Board concerning the development of business, the strategic reorientation of the Group and its companies, and all other important transactions.

In addition to its constituent meeting, the newly elected Supervisory Board held four regular meetings during financial year 2003/2004. The Human Resources Committee also met four times; the Management Committee met once. The Audit Committee held three meetings. No need to convene the Mediation Committee arose in accordance with Article 27 Paragraph 3 of the Codetermination Law.

All the members of the Supervisory Board took part at least in three-fourths of the meetings. The Supervisory Board made the necessary decisions based on written and oral information available to it at the meetings. The Supervisory Board was also informed about projects and processes that were of considerable importance or urgency to the Company between the meetings. The Supervisory Board was extensively informed about the current state of business. The Chairman of the Supervisory Board also maintained constant contact with the Chairman of the Management Board between Board meetings. As a result, events could always immediately be discussed that were of considerable importance for evaluating the Company's situation as well as the management of the Group.

An important topic of discussion was the Heidelberg Group's new strategic alignment, which encompasses the divestiture of the Digital Division and the Web Offset Printing Division as well as a greater focus on the core business of Sheetfed Offset. This concept was extensively discussed at several Board meetings and unanimously supported.

The development of sales, earnings and the financial condition of the Heidelberg Group as well as the already introduced cost reduction measures were a further focus of discussion. The consistent implementation of these measures has already resulted in an initial improvement in the financial condition of the Heidelberg Group.

Moreover, the Supervisory Board directed its attention to questions of corporate governance on numerous occasions during the reporting period. The progress achieved in the rules of procedure of the Supervisory Board is one result of these discussions.

The respective chairmen of the committees reported extensively concerning the work of the committees at meetings of the Supervisory Board and, to the extent deemed necessary, submitted suggestions for approval to the plenum of the Supervisory Board.

At its meeting during the reporting period, the Management Committee in particular prepared for the Supervisory Board discussions concerning the Annual Financial Statements for 2002/2003 as well as the Group's strategic reorientation. The Audit Committee intensively directed its attention to the non-consolidated and consolidated Annual Financial Statements. The auditor took part in the respective discussions. The quarterly results and key issues related to balance sheet generation were also discussed within the framework of the Group's reorientation. Finally, additional areas of discussion were risk management, the cost of the restructuring, controlling activity among participations, and customer financing. This committee drew up its own rules of procedure in order to ensure the smooth and transparent work of the Audit Committee. The Human Resources Committee passed the necessary resolutions with reference to the employment contracts of the members of the Management Board.

The Financial Statements and the Management Report of Heidelberger Druckmaschinen Aktiengesellschaft as well as the Consolidated Financial Statements and the Group Management Report, all prepared by the Management Board for financial year 2003/2004, were audited and approved without qualification by the Essen Branch of PwC Deutsche Revision Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Frankfurt am Main, which was appointed as the auditor by decision of the Annual General Meeting held on September 12, 2003. The contract for auditing the Financial Statements was awarded to the auditors by the Supervisory Board at the meeting on September 12, 2003. 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 held on June 4, 2004. 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 and 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 comment or indications of possible inaccuracies in the Declaration of Compliance with the Corporate Governance Code.

The Audit Committee considered in detail the documents relating to the examination prior to the meeting and recommended approval by the Supervisory Board of the Annual and Consolidated Financial Figures.

The Supervisory Board examined the Annual Financial Statements prepared by the Management Board, the Consolidated Financial Statements, the Management Report of Heidelberger Druckmaschinen Aktiengesellschaft, and the Group Management Report. Following the conclusion of its own examination, no objections were raised by the Supervisory Board. The Supervisory Board therefore agreed to the audit results of both Annual Statements and approved the Annual Financial Statements and Consolidated Financial Statements as of March 31, 2004. The Annual Financial Statements are thereby adopted.

Finally, the report by the Management Board in accordance with Section 312 of the Stock Corporation Act on the relationships with affiliated enterprises was presented to the Supervisory Board for examination. Pursuant to Section 313 Paragraph 3 of the German Stock Corporation Act, the auditor provided the following auditor's certificate: "Based on our professional examination and evaluation, we confirm that (1) the factual statements contained in the report are correct, and (2) that the payments made by the Company in connection with the transactions listed in the report are not unreasonably high." The Supervisory Board has taken note of, and approved the results of, the auditor's examination. Following the conclusion of its own examination, the Supervisory Board has no objections to the statement by the Management Board at the end of this Annual Report regarding relationships with affiliated enterprises.

The Annual General Meeting held on September 12, 2003 marked the end of the term of office of the Supervisory Board that was elected at the Ordinary Annual General Meeting in 1998. As a result, the representatives of the shareholders Dr. Dietmar Kuhnt, Dr. Michael Endres, Mr. Dietrich-Kurt Frowein, and Mr. Uwe Heddendorp resigned from the Supervisory Board. In their place, Mr. Martin Blessing, Mr. Robert J. Koehler, Mr. Uwe Lüders, and Mr. Jan Zilius were elected to the Supervisory Board by the Annual General Meeting in 2003. The staff representatives Mr. Hans-Jürgen Bauer, Mr. Roland Eisenbarth, and Mr. Helmut Weber also resigned from the Supervisory Board. In their place, Mrs. Johanna Klein, Mr. Wolfgang Flörchinger, and Mr. Gunther Heller were elected to the Supervisory Board for the first time. All other shareholder and staff representatives were reelected to the Supervisory Board. The constituent meeting held on September 12, 2003 elected Dr. Klaus Sturany as Chairman and Mr. Josef Pitz as Deputy Chairman. In the name of the entire Supervisory Board, I would like to thank the former members for their solid and constructive cooperation, and I wish all the best for the new Supervisory Board in fulfilling its responsibilities.

Essen, June 8, 2004

For the Supervisory Board

Sturany

Dr. Klaus Sturany
Chairman of the Supervisory Board

Corporate Governance – Report of the Management Board and Supervisory Board

- **Annual General Meeting Agrees to a Change in the Articles of Association**
- **Declaration of Compliance with only one Reservation**

In our view, the German Corporate Governance Code describes the internationally established standards of good corporate management in a balanced and practice-oriented manner. It is therefore important to us to be in agreement with it to the greatest possible extent. Heidelberg already fulfilled most of the recommendations of the Code even before their initial publication. This also applies to the numerous suggestions of the Code for which no Declaration of Compliance needs to be issued.

Code's Recommendations Examined and Implemented

Adjustments were made to Heidelberg's corporate governance practices to the extent necessary. Thus, the Ordinary Annual General Meeting held in September 2003 approved a change in the Articles of Incorporation concerning the remuneration of the Supervisory Board with reference to Article 5.4.5 of the Code.

During the financial year, public discussion focused on the changes to the German Corporate Governance Code that were introduced in July 2003. For the most part, these changes were also already incorporated in the corporate practice of Heidelberger Druckmaschinen Aktiengesellschaft. Therefore, only some minor changes and updatings of the rules of procedure were necessary; the Supervisory Board approved these changes at its meeting held on September 12, 2003. The Chairman of the Supervisory Board informed the Ordinary Annual General Meeting held in 2003 for the first time concerning the essential features of the reimbursement system of the Management Board in accordance with Article 4.2.3 of the Code.

Within the framework of ongoing control of our corporate governance practice, we regularly monitor whether significant transactions were concluded between a company in the Heidelberg Group and a member of the Company's Management Board or of the Supervisory Board or individuals closely associated with the Group. This did not occur during the reporting period. We disclosed on Heidelberg's Internet pages the notifiable securities transactions that were undertaken during the reporting year in accordance with Article 15a of the Securities Trading Law (Wertpapierhandelsgesetz), thereby further enhancing transparency.

Before submitting the suggestion concerning the selection of an auditor, the Supervisory Board obtained a statement from the auditor concerning the extent to which relationships may exist between the auditor, the auditor's management organs, and chief auditors, and either Heidelberger Druckmaschinen Aktiengesellschaft or the Company's management organs. No doubts were raised concerning the independence 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 vis-à-vis the responsibilities of the Supervisory Board, and furthermore for reports to be made to the Supervisory Board or a note to be included in the audit report concerning facts that may arise that would result in an inaccuracy in the statement issued by the Management Board and Supervisory Board in connection with the Code. No such inaccuracies were determined.

In the proposals that were presented to the Ordinary Annual General Meeting for 2003 regarding the selection of members of the Supervisory Board, we made certain that the respective persons were sufficiently independent and had the knowledge, capabilities and professional experience that are necessary to orderly fulfill the tasks at hand. The requirements arising from the international activity of the Heidelberg Group were especially taken into account here.

Declaration of Compliance Issued

We published the Declaration of Compliance in accordance with Article 161 of the Stock Corporation Law on November 26, 2003 on Heidelberg's Internet site under the section Investor Relations. There is only one recommendation of the Code with which we do not comply: We do not show the individual remuneration of the members of the Management Board and Supervisory Board. However, we do make known the total remuneration of the Management Board and Supervisory Board, respectively, and draw a distinction between fixed and variable remuneration components. Furthermore, we meanwhile fulfill the recommendations that the Chairman and committee members be separately reimbursed, and that there be a 90 day waiting period prior to publication of the consolidated financial statement.

Heidelberg, May 13, 2004

For the Supervisory Board:
Dr. Klaus Sturany

For the Management Board:
Bernhard Schreier

The Supervisory Board

Dr. Dietmar Kuhnt [1)]
– through September 12, 2003 –
Former Chairman of the Management Board of RWE Aktiengesellschaft, Essen
Chairman of the Supervisory Board

* Allianz Versicherungs-Aktiengesellschaft; Dresdner Bank Aktiengesellschaft; Hapag-Lloyd Aktiengesellschaft; HOCHTIEF Aktiengesellschaft (Chairman); mg technologies ag; RWE Aktiengesellschaft; TUI Aktiengesellschaft

Dr. Klaus Sturany
Member of the Management Board of RWE Aktiengesellschaft, Essen
Chairman of the Supervisory Board
– since September 12, 2003 –

* Commerzbank Aktiengesellschaft; Hannover Rückversicherungs-Aktiengesellschaft; RAG Aktiengesellschaft; RWE Energy Aktiengesellschaft; RWE Power Aktiengesellschaft; RWE Umwelt Aktiengesellschaft;

** RWE Innogy Holdings plc; RWE Trading GmbH; RWE Thames Water Plc

Josef Pitz [***]
Chairman of the Central Works Council, Heidelberg-Wiesloch
Deputy Chairman of the Supervisory Board

* RWE Aktiengesellschaft

Hans-Jürgen Bauer [1)***]
– through September 12, 2003 –
Deputy Chairman of the Works Council, Kiel

Martin Blessing
– since September 12, 2003 –
Member of the Management Board of Commerzbank Aktiengesellschaft, Frankfurt am Main

* AMB Generali Holding Aktiengesellschaft; comdirect bank Aktiengesellschaft (Chairman); Commerzbank Inlandsbanken Holding Aktiengesellschaft (Chairman); EUROHYPO Aktiengesellschaft; ThyssenKrupp Services Aktiengesellschaft;

** CFM Commerz Finanz Management GmbH i.L. (Chairman); COMMERZ PARTNER Beratungsgesellschaft für Vorsorge- und Finanzprodukte GmbH (Chairman)

Prof. Dr. Clemens Börsig
Member of the Management Board of Deutsche Bank Aktiengesellschaft, Frankfurt am Main

** Foreign & Colonial Eurotrust plc., UK (Non-executive Member of the Board of Directors)

Roland Eisenbarth [1)***]
– through September 12, 2003 –
Deputy Chairman of the Works Council, Amstetten

Dr. Michael Endres [1)]
– through September 12, 2003 –
Former Member of the Management Board of Deutsche Bank Aktiengesellschaft, Frankfurt am Main

* ARCOR Verwaltungs-Aktiengesellschaft; Bankgesellschaft Berlin Aktiengesellschaft; Deutz Aktiengesellschaft (Chairman); Weberbank Privatbankiers KGaA;

** Gemeinnützige Hertie-Stiftung (Chairman of the Management Board); KarstadtQuelle Bank GmbH; Landesbank Berlin – Girozentrale –; Schott Glas (Member of the Company Council)

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

Wolfgang Flörchinger***
– since September 12, 2003 –
Member of the Works Council,
Wiesloch

Dietrich-Kurt Frowein[1)]
– through September 12, 2003 –
Former Member of the Management Board of Commerzbank Aktiengesellschaft, Frankfurt am Main
* Schunk GmbH

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

Uwe Heddendorp[1)]
– through September 12, 2003 –
Managing Director of the Loyalty Partner GmbH, Munich
* telegate Aktiengesellschaft

Gunther Heller***
– since September 12, 2003 –
Chairman of the Works Council, Amstetten

Dr. Jürgen Heraeus
Graduate degree in Business Administration (Diplom-Kaufmann), Hanau
* EPCOS Aktiengesellschaft;
Heraeus Holding GmbH (Chairman);
IKB Deutsche Industriebank Aktiengesellschaft;
Messer Griesheim GmbH (Chairman);
mg technologies ag (Chairman);
** Argor-Heraeus S.A., Schweiz (Chairman of the Administration Board)

Berthold Huber***
Second Chairman of IG Metall, Frankfurt am Main
* Audi Aktiengesellschaft;
Robert Bosch GmbH;
RWE Aktiengesellschaft

Johanna Klein***
– since September 12, 2003 –
Chairwoman of the Works Council, Brandenburg

Pat Klinis***
Senior Representative of IG Metall, Heidelberg

Robert J. Koehler
– since September 12, 2003 –
Chairman of the Management Board of SGL Carbon Aktiengesellschaft, Wiesbaden
* AXA Lebensversicherung Aktiengesellschaft;
Benteler Aktiengesellschaft (Chairman);
Pfleiderer Aktiengesellschaft;
Wacker-Chemie GmbH

Uwe Lüders
– since September 12, 2003 –
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 Lebensversicherungs-Aktiengesellschaft, Stuttgart
* Advance Holding Aktiengesellschaft;
ThyssenKrupp Automotive Aktiengesellschaft;
Quelle Aktiengesellschaft;
** Allianz Elementar Lebensversicherungs-Aktiengesellschaft, Austria (Chairman);
Allianz Elementar Versicherungs-Aktiengesellschaft, Austria;
Allianz Life Insurance Company of North America, USA;
Allianz Life Insurance Co. Ltd., Korea

Rainer Wagner***
Deputy Chairman of the Central Works Council, Heidelberg-Wiesloch

Helmut Weber[1)]*****
– through September 12, 2003 –
Member of the Works Council, Heidelberg-Wiesloch

Jan Zilius
– since September 12, 2003 –
Member of the Management Board of RWE Aktiengesellschaft, Essen
* RWE Energy Aktiengesellschaft;
RWE Systems Aktiengesellschaft (Chairman);
RWE Umwelt Aktiengesellschaft (Chairman)

Committees of the Supervisory Board

Management Committee

Dr. Dietmar Kuhnt (Chairman)
– through September 12, 2003 –

Dr. Klaus Sturany (Chairman)
– since September 12, 2003 –

Josef Pitz

Martin Blessing
– since September 12, 2003 –

Dietrich-Kurt Frowein
– through September 12, 2003 –

Martin Gauß
– since September 12, 2003 –

Berthold Huber
– since September 12, 2003 –

Pat Klinis
– through September 12, 2003 –

Dr. Gerhard Rupprecht

Rainer Wagner
– through September 12, 2003 –

Mediation Committee under Article 27 Paragraph 3 of the Codetermination Act

Dr. Dietmar Kuhnt
– through September 12, 2003 –

Dr. Klaus Sturany
– since September 12, 2003 –

Josef Pitz

Martin Blessing
– since September 12, 2003 –

Wolfgang Flörchinger
– since September 12, 2003 –

Dietrich-Kurt Frowein
– through September 12, 2003 –

Martin Gauß
– through September 12, 2003 –

Committee on Arranging Personnel Matters of the Management Board

Dr. Dietmar Kuhnt (Chairman)
– through September 12, 2003 –

Dr. Klaus Sturany (Chairman)
– since September 12, 2003 –

Josef Pitz

Dr. Gerhard Rupprecht

Audit Committee

Dr. Klaus Sturany (Chairman)
– through September 12, 2003 –

Dr. Jürgen Heraeus (Chairman)
– since September 12, 2003 –

Prof. Dr. Clemens Börsig
– since September 12, 2003 –

Berthold Huber
– through September 12, 2003 –

Pat Klinis
– since September 12, 2003 –

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
* Heidelberger Druckmaschinen Vertrieb Deutschland GmbH;
** 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)

Wolfgang Pfizenmaier[1)]
Neckargemünd
– through November 30, 2003 –
Heidelberg Digital L.L.C., USA
Chief Executive Officer (CEO)
** Heidelberg Digital L.L.C., USA;
NexPress Solutions L.L.C., USA (Chairman of the Board of Directors);
Spectra Inc., USA

Dr. Klaus Spiegel
Walldorf
** Volksbank Wiesloch eG

Holger Reichardt[1)]
Heidelberg
– through November 30, 2003 –
* Heidelberger Druckmaschinen Vertrieb Deutschland GmbH (Chairman);
** Heidelberg Americas, Inc., USA;
Heidelberg Graphic Equipment Ltd., UK (Chairman of the Board of Directors);
Heidelberg Japan K.K., Japan;
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);
NexPress Solutions L.L.C., USA

1) Information as of resignation from the Management Board
* Membership in Supervisory Boards
** Membership in comparable German and foreign control bodies of business enterprises

Glossary

Balanced Score Card System
Concept of corporate management, according to which in addition to monetary goals, other perspectives are also taken into account: the customer's point of view, the perspective of internal business processes, and the learning and development perspective.

Commercial printing
Printed products of higher quality, whether single- or multicolor, single- or multi-page (except special printed products such as package or newspaper printing).

Consignment warehouse concept
Inventories of third-party suppliers that are made available at consignment warehouses for Heidelberg continue to be owned by the supplier until they are needed by Heidelberg, at which time they become part of Heidelberg's inventories. The suppliers only issue an invoice at that time.

Equity to fixed assets ratio
A ratio calculated by dividing shareholders' equity by the value of tangible assets excluding land and buildings.

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.

Job Definition Format (JDF)
A new data format for the exchange of information, which is utilized in the Graphic Arts Industry. JDF makes possible the universal, producer-independent integration of all order-related and computer-supported processes. It is also Internet-compatible.

Liquidity ratio
Ratio of short- and medium-term assets to short- and medium-term borrowed funds including an anticipated dividend payment.

Offset printing / planographic 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 non-image areas act in reverse.

Postpress / finishing
All manufacturing steps after the printing process, up to and including the finished product – for example, cutting, folding, stitching, binding, and packing.

Prepress
Steps in the preparation of text, graphic elements, and images, ranging from the basic design concept all the way to production of the printing plate.

Prinect
Prinect is Heidelberg's comprehensive workflow management system. This system records and optimizes print-specific work processes, ranging from the preliminary stage and production all the way to finishing. Prinect simultaneously integrates all phases of operational order processing.

Remote service
This Heidelberg service comprises the analysis, diagnosis, and service inspection of printing presses via a data link. Heidelberg specialists can implement remote service with printing presses that are linked to the remote service. To ensure prompt reaction times, it is also made available by Heidelberg's local service organization.

Sale-and-lease-back transactions
Transactions under which assets owned by a company are sold to a financial institution and then leased back.

Sheetfed
Method for printing individual sheets (in contrast to printing from reels).

Web / web press
Printing of paper rolls using a web printing press. This technology is especially utilized for long print runs.

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* Cover

Production of the Annual Report

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Aktiengesellschaft
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investorrelations@heidelberg.com

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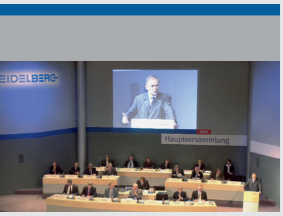


The Financial Year in Review Heidelberger Druckmaschinen Aktiengesellschaft

Financial Calendar 2004/2005

Subject to change

June 8, 2004	Press Conference, Annual Analysts' and Investors' Conference
July 21, 2004	Annual General Meeting
August 9, 2004	Publication of 1st Quarter Figures 2004/2005
November 8, 2004	Publication of Half-Year Figures 2004/2005
February 1, 2005	Publication of 3rd Quarter Figures 2004/2005
June 7, 2005	Press Conference, Annual Analysts' and Investors' Conference
July 20, 2005	Annual General Meeting

01 02 03 04 05 06

03/04

April
4/2003

Five Stars for Heidelberg
BERTL, a leading independent rating institute for the printing industry, gives its highest rating 'Five Star – Exceptional' for the Digimaster 9150i. The high rating for this printing system results, among other things, from its print quality, product design and construction, and printing productivity compared with systems with a higher rated output, paper supply, and finishing options.

Large Publishing House Order
Heidelberg's subsidiary IDAB WAMAC, a leading supplier of shipping room systems for newspaper production, receives a large order totaling over ten million euros from the French publishing group Delaroche.

May
5/2003

'Prizewinning' Suggestion Program
As an expression of appreciation for their dedication as well as to serve as an additional incentive, numerous prizes are raffled off among all employees participating in the Company's suggestion program during the previous year. The principal prize, a Ford Fiesta, is won by an employee in Wiesloch.

Successful Postpress Event
In Dusseldorf, over 800 visitors from the industry come to Heidelberg's presentation 'The Finish Line is Crucial!'. The solution shown meets the needs and requirements of the graphic industry, with nearly the entire exhibit portfolio sold out over the three-day period.

June
6/2003

Series Production of the Prinect Printready
Following extensive field tests, series production begins for Heidelberg's new preprint workflow system Prinect Printready. In order to make the overall process more productive and cost-efficient, Heidelberg intends to integrate all the processes on the basis of open workflow systems, beginning at the preliminary stage, including the printing processing, and extending all the way to finishing. In line with Prinect's basic principle, the new solution is based entirely on a modular design. Customers can choose precisely the components they need for addition to the overall system. The system is thus also of interest to smaller printing establishments.

July
7/2003

Summer University at the Print Media Academy
The 'Summer University' is held for the second time, teaching practice-oriented principles for crucially important management and technological trends to print and media industry executives. Students come from 16 countries, including Nigeria, Saudi Arabia, China, Lebanon and Ecuador.

Opening of the Kiev Branch
The new offices of the Kiev branch are opened with a total of 54 employees. The Ukraine has approximately 4,000 printshops. Heidelberg has already established contacts with more than three quarters of them and does business with some 850 firms.

August
8/2003

IGAS 2003: Focus on End Users
At the IGAS specialized trade fair in Tokyo, Heidelberg presents various systems approaches. The principal focus is on business models of successful customers in various market segments.

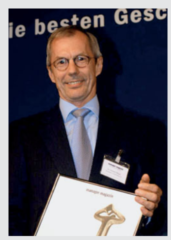
GAFT InterTech Award
Two Heidelberg postpress solutions are honored with the GATF InterTech Award: the stitcher-gatherer Stitchmaster ST 400 and the Magnapak newspaper inserter. Heidelberg has received a total 20 InterTech awards since this program was established in 1978.

New Image Campaign
Launch of the new international image campaign which, based on the slogan 'Passion for Print', focuses attention on the significance of the print media.

September
9/2003

Broad Agreement at the Annual General Meeting
The vast majority of the approximately 1,150 shareholders representing 84 percent of share capital approve the proposals of the Supervisory Board and the Management Board. The new Supervisory Board is elected.

Annual Report Awarded Again
For the third time, Heidelberg's annual report is the MDAX winner of the business magazine 'manager magazin' following its annual assessment. Heidelberg's annual report attains fifth place overall.



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2003

October

10/2003

Graph Expo in Chicago

The favorable course of business at the Graph Expo trade show in Chicago is seen as evidence of a market turnaround. With its Printmaster PM 52, Heidelberg introduces a new printing press in A3 format that is characterized by easy and direct operation, outstanding print quality, and high production safety. The new packet delivery system Speedbander is also launched at the trade fair. It delivers counted and banded packets; such functions as counting, compacting, and banding folded sheets are entirely computerized.

Polygraph Inter at Moscow

Heidelberg exhibits at Polygraph Inter in Moscow in a space of 1,750 m^2 (18,837 sq ft) and attracts around 30,000 visitors. Some 30 metric tons of paper are used to present printing processes. Beside solutions and products, Heidelberg also introduces a financing program specifically designed for the development of the printing industry in Russia and the other CIS countries.

November

11/2003

IHK Innovation Prize Received

The Stuttgart Chamber of Commerce and Industry (IHK) awards a prize to the Ludwigsburg plant, thereby acknowledging the innovative approach taken by a qualification project under which employees are trained on an individual basis within a short period of time and on a cost-effective basis.

Heidelberg's Reorientation Approved

The Management Board and Supervisory Board of Heidelberg have reoriented Heidelberg in a new direction for the future, approving a functional and leaner organization, and readjusting the Group's strategy.

December

12/2003

Delivery of Hundredth Stitchmaster

The hundredth stitcher-gatherer Stitchmaster ST 400 is delivered to Buchdruckerei Lustenau in Austria. With a total of 70 employees, the operation of this printing establishment is based on state-of-the-art equipment including five Heidelberg printing presses with a total of 21 printing units as well as numerous finishing machines.

Award Extended to Chief Information Officer (CIO)

Michael Neff, CIO of Heidelberg, is recognized by the specialized journal 'Computerwoche', in particular for the quality of the IT projects implemented under his management as well as the future-oriented nature of his decisions.

January

1/2004

Training Center in Kabul

Heidelberg opens a training center for printers and prepress end users in Kabul, Afghanistan. A mechanical workshop as well as an area for training, making use of various printing and processing printing presses and prepress equipment, has been established in a space of approximately 300 m^2 (3,229 sq ft). Following 23 years of war, only a rudimentary print media industry now exists in Afghanistan; several printing establishments in the country have yet to start up production again. Heidelberg is the first manufacturer of the printing industry that offers products and solutions through its own local organization.

February

2/2004

Intensive Seminar in Dubai

Together with cooperating partners – among others two leading universities in the printing sector – Heidelberg hosts a seminar in Dubai within the framework of its international management programs. The target group is senior management in the print media industry. Whereas the Summer University focuses on general management issues, the Winter University is more oriented towards day-to-day operations and technology.

Speedmaster Prints for Hollywood

LAGraphico, a printing establishment in California that prints promotional material in particular for such firms as Walt Disney, Universal Studios, Fox, Vivendi, Virgin Records, and Paramount, installs a new Speedmaster CD 74. LAGraphico is known in the film industry for its precision work, high quality, and its quick filling of orders.

March

3/2004

Preparations Under Way for drupa

Already in the second week of March, Heidelberg begins preparing for drupa, the world's largest specialized trade show for printing and paper, which runs during May 6–19, 2004 in Dusseldorf. The first step is to install the required infrastructure, laying pipes for cooling water, installing water taps, and setting up the compressed air supply. Following these preparations, over 100 highly qualified technicians are installing and integrating 50 machines/printing presses with a length of up to 33 m (108 ft).

Important Milestones in Group's Corporate Reorientation Achieved

Following intensive contract negotiations, an announcement is made that Kodak will acquire Heidelberg's digital printing division, and that Goss International intends to do the same with the web offset printing press division. The contract with Kodak is signed subject to approval by the anti-trust authorities.

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Heidelberger Druckmaschinen Aktiengesellschaft Annual Report 2003/2004

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