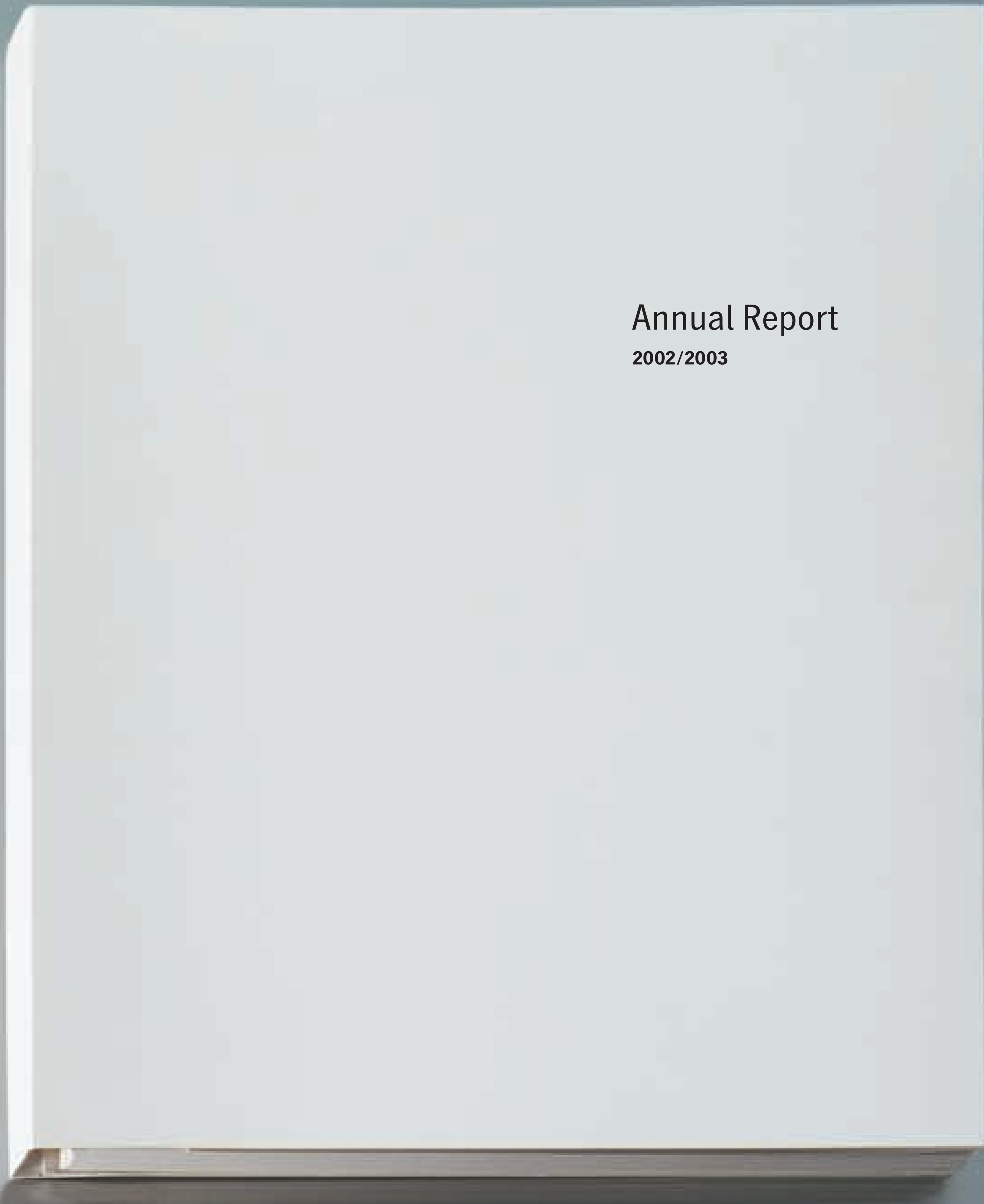


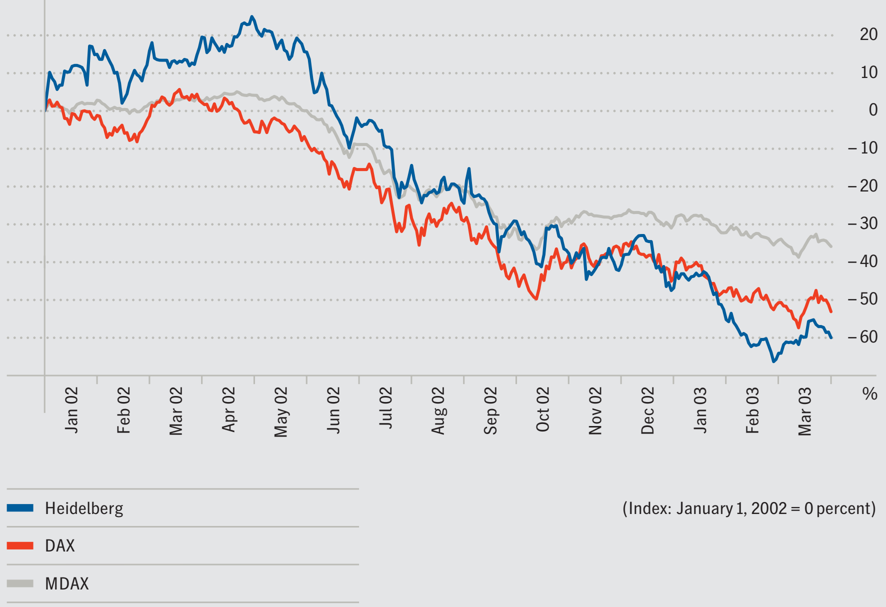
Annual Report

2002/2003

HEIDELBERG

Performance of the Heidelberg Share

Compared with the DAX/MDAX



The cover picture shows a section of the aluminum printing plate used to print this report's cover. The serial number and register system used to precisely align the plate in the printing press are clearly visible.

Why are the plate and cover nearly blank? In this report, we wish to invite you to participate in a little intellectual game: 'A World without Printing'. We will introduce you to the areas of application of various printing and processing technologies. And by the way, concerning technologies: the metallic effect of the cover was achieved by using a combination of silver printing ink, a frequency-modulated grid, and color sequencing. A glossy cellophane appearance further supports this effect.

Heidelberg Group

Figures in € millions	1998/1999	1999/2000	2000/2001	2001/2002	**2002/2003**
Net sales	3,948	4,602	5,303	5,017	**4,130**
Foreign sales share in percent	82.3	84.6	86.7	86.3	**87.4**
EBITDA [1]	602	635	709	558	**293**
EBITDA in percent of sales [1]	15.2	13.8	13.4	11.1	**7.1**
Profit before tax	481	487	531	335	**– 164**
Net profit	256	251	283	201	**– 138**
Return on sales in percent [2]	6.5	5.5	5.3	4.0	**– 3.3**
Cash flow in percent of sales	11.8	9.7	9.9	8.3	**2.4**
Investments in tangible and intangible assets, excluding initial consolidation	207	262	237	252	**243**
Depreciation [1]	143	172	203	202	**191**
ROCE in percent [3]	–	–	22.6	14.8	**4.6**
Profit contribution in percent [3]	–	–	8.6	0.8	**– 8.4**
Total assets	3,925	5,018	5,442	5,735 [4]	**5,131**
Shareholders' equity	2,069	2,259	2,450	2,470	**1,950**
Equity ratio in percent	52.7	45.0	45.0	43.1 [4]	**38.0**
Return on equity in percent [2]	12.4	11.1	11.6	8.1	**– 7.1**
Investment recovery [5]	7.8	7.1	6.8	6.5	**6.5**
Net financial debt [6]	– 97	– 456	– 418	97 [4]	**97**
Dynamic net-debt ratio [7]	– 0.2	– 1.0	– 0.8	0.2 [4]	**1.0**
Liquidity ratio [5]	1.6	1.3	1.4	1.4	**1.4**
Cash flow per share in €	5.42	5.20	6.10	4.85	**1.16**
Earnings per share in €	2.98	2.91	3.30	2.32	**– 1.67**
Dividends in €	1.70	1.70	1.80	1.40	**–**
Dividend yield in percent	3.43	2.74	2.73	2.77	**–**
Average number of employees for the year [8]	19,558	22,743	24,271	24,905	**23,787**

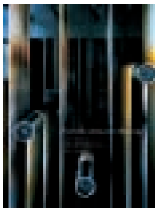
1) Excluding restructuring costs
2) After taxes
3) Compare calculation scheme on page 30
4) Restated as explained in Note 20
5) For explanation please see glossary
6) The sum of liabilities to banks and of provisions for pensions less accounts receivable resulting from customer financing, from marketable securities as well as from cash and cash equivalents
7) Describes how often cash flow is required to pay off net financial debt
8) Hourly wage earners and salaried employees

Customer Centers and Production Sites

Heidelberg – With a Worldwide Presence

The Heidelberg Group is the world's leading solutions provider for the print media industry. From prepress and highly varied printing processes all the way to finishing: customers know they can obtain from Heidelberg everything they need for success. For the Heidelberg Group develops and produces software; electronic prepress products; sheetfed offset, web offset, and digital printing presses; as well as processing systems. The Group has by far the industry's largest service and sales network.

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



Bernhard Schreier
Chairman of the Management Board of Heidelberger Druckmaschinen Aktiengesellschaft

Dear Shareholders, Staff Members and Friends of the Heidelberg Group,

The strategy of the Heidelberg Group had to demonstrate its effectiveness during economically and operationally difficult conditions in financial year 2002/2003. I would therefore like to come right to the point without beating around the bush:

- We experienced an 18 percent sales decline, with an ensuing negative impact on the overall result.
- As soon as this development became evident, we implemented extensive measures to improve our cost structure, which make it possible for us to react more flexibly to future fluctuations in demand. We booked the one-time costs of these measures, which totaled € 210 million, entirely during the financial year. This additionally diminished the result.
- The Management Board and Supervisory Board will therefore propose to the Annual General Meeting, to be held in September, that no dividend be paid for the financial year.

I am aware that a number of you are wondering why the Heidelberg Group, which was still generating record results two years ago, lost so much steam due to the slack economy.

Our business development was especially impacted by the weak economies in our principal markets, with investments in industrial goods in a steep decline in the US and Germany. The US advertising industry suffered a severe crisis – entire market segments in the Graphic Arts Industry temporarily declined sharply. Moreover, the at times considerable weakness of some currencies vis-à-vis the euro, especially the dollar and the yen, also hampered our business.

In line with the extended period of continuous growth in recent years, our Group corporate structures had been tailored to further growth. In mid-2002, when it became increasingly apparent that the economic crisis would extend over a longer period, we quickly introduced our program for reducing expenses and boosting efficiency over the medium-term. We further intensified these measures as of financial year-end. This way, our overall annual savings will total approximately € 280 million. Worldwide, we will have eliminated around 3,200 jobs by March 31, 2004.

Overall economic conditions continue to require a high degree of flexibility, making it possible to always be in a position to adapt day-to-day business operations to existing market conditions. In general, in such times of comparable recessionary conditions in effect throughout the world, market volatility worsens and forecasting reliability decreases. Since we assume that in the foreseeable future fluctuations in demand will be stronger than in the recent past, we remain cautious in our forecasts of business prospects.

I would like to make a few more general comments with regard to the future of the Graphic Arts Industry. For many of our customers, their parameters are in flux. Continually stricter quality requirements with strong pressure on prices go hand-in-hand with ever-shorter production times. The advertising industry is subject to an increasing requirement for tailored solutions. And the combination of different media and technologies is playing an ever-increasing role. Some of these developments – such as growing digitization – began years ago, and the Heidelberg Group has already strategically and operationally adapted to them. Thus, we offer not only printing presses, but also solutions and technologies required in the print and media industries. This ensures that our customers can better adapt to the current volatile market developments.

Nevertheless, because of the extremely steep falloff in business during the financial year, our customers' investments in innovative print technologies were subject to heavy restraint. Even the demand for our new NexPress 2100 digital color printing press was softer than expected. If the economy begins to strengthen, we anticipate that the investment backlog will dissolve, in particular in our principal markets: the US and Germany. This will be of benefit to us.

Yet, it seems that we still have a long road to travel. And it could happen that this road may dip even further. We are nevertheless convinced that we have the right products, highly qualified and motivated employees, and the financial and technological infrastructure to ensure our participation in the economic upswing when it occurs. Our goal has always been, and continues to be, to vigorously increase our operating earnings capacity while at the same time retaining our considerable financial strength.

My colleagues and I on the Management Board highly value your confidence in such difficult times. We wish to express our appreciation for this. In both good times and bad, the Heidelberg Group is shaped by the expertise and dedication of its employees and their employee representatives. Our special thanks go to you all! With this, I would especially also like to address all of those fellow employees whose jobs were lost in order to save the majority of the other jobs in the Group.

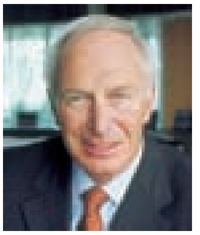
The Management Board, senior management, and the entire staff will continue to apply all their power and their commitment to ensuring that Heidelberg's sustained earnings capacity makes a quick return.

Heidelberg, June 2003

B. Schreier

Chairman of the Management Board
Heidelberger Druckmaschinen Aktiengesellschaft

Dr. Dietmar Kuhnt
Chairman of the Supervisory Board, Chairman of the Management Board of RWE Aktiengesellschaft, Essen



Report of the Supervisory Board

Dear Shareholders,

Unfortunately, contrary to our expectations, the world economic situation did not recover in the second half of 2002. The business environment was accordingly difficult for Heidelberger Druckmaschinen Aktiengesellschaft in financial year 2002/2003. In view of this situation, the Company introduced various measures in order to react to the developments in the business environment in a suitable manner.

During financial year 2002/2003, the Supervisory Board fulfilled the responsibilities incumbent on it under law and the Articles of Incorporation, and closely assisted in the management actions taken by the Management Board. During the reporting period, at four meetings the Supervisory Board informed itself about the course of business. The Management Committee of the Supervisory Board met once. The Human Resources Committee of the Management Board held three meetings. Furthermore, the Human Resources Committee approved in writing a decision on the Corporation's stock option plan, making use of its option regarding the exercise conditions for the Members of the Management Board taking part in the stock option plan. The newly formed Audit Committee met once during the reporting period. There was no need to call a meeting of the Mediation Committee in accordance with Section 27 Paragraph 3 of the Codetermination Law.

The Chairman of the Supervisory Board also maintained continual contact with the Chairman of the Management Board outside the meetings. He was always immediately and extensively informed concerning important transactions and current developments which were of importance in evaluating the Company's position and development, as well as for corporate management.

At the four meetings held during the past financial year, the Management Board kept the Supervisory Board regularly informed about corporate policy through extensive oral and written reports. The information covered, among other topics, corporate planning measures, including financial, investment, and human resource planning, as well as the business condition of the Group and of individual divisions of the Company, the development of the Group, and significant individual transactions and measures. Of particular importance in the discussions was the Heidelberg Group's program for a sustained reduction in expenses and increase in efficiency, which was discussed in detail with the Management Board. Furthermore, at individual meetings, the Supervisory Board intensively discussed with the Management Board the financial figures and other significant key financial figures as well as plan discrepancies and their causes. The Supervisory Board approved the respectively required resolutions on the basis of the reports and correspondingly required decision-making documentation.

A further principal focus of activity of the Supervisory Board and the Management Committee was corporate governance. The Supervisory Board discussed basic issues of the German Corporate Governance Code in detail at several meetings. The company has already extensively complied with the recommendations and suggestions of the German Corporate Governance Code. The Supervisory Board together with the Management Board developed a concept for the further implementation of the German Corporate Governance Code. In this context, at its meeting held on November 22, 2002 and following in-depth discussions, the Supervisory Board approved Rules of Procedure for the Supervisory Board. Furthermore, it acquired extensive information from the Management Board concerning its Rules of Procedure together with its organizational chart, both of which it approved.

In accordance with the new Rules of Procedure, the Supervisory Board formed an additional committee, the Audit Committee, which comprises four members. The members of the Audit Committee and of the other committees are listed by name in the chapter 'Information Concerning the Supervisory and Management Board of the Company' in this Annual Report. The main tasks of the Audit Committee, in addition to focusing on accounting and risk management issues, include preparing the decisions of the Supervisory Board concerning the annual financial statements, discussing and analyzing the quarterly figures, and formulating the relationship with the auditor – in particular, awarding the auditing contract, controlling the auditor's independence, and determining the focus of the examination and the examination fee.

Moreover, subsequent to these measures, at its meeting held on November 22, 2002, for the first time the Supervisory Board was in a position to issue a Declaration of Compliance according to Section 161 of the Stock Corporation Law. This declaration was disclosed in December 2002. The declaration includes only one limitation with regard to the provision on the remuneration of the Members of the Supervisory Board. A resolution of the Annual General Meeting is required to change this provision, at which time we will be in full compliance with the Corporate Governance Code. This item has been included on the agenda for the Annual General Meeting scheduled for September 12, 2003. If the decision is approved as proposed, this restriction would no longer be applicable in the future. The following pages present additional explanations regarding corporate governance at Heidelberg.

The financial statements and the Management Report of Heidelberger Druckmaschinen Aktiengesellschaft as well as the consolidated financial statements and Group Management Report, all prepared by the Management Board for financial year 2002/2003, 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 on September 11, 2002. The contract for auditing the financial statements was awarded to the auditors selected by the Annual General Meeting by decision of the Supervisory Board on September 11, 2002. We arranged for the auditor to inform the Supervisory Board, or include a comment in the audit report, if an inaccuracy in the Declaration of Compliance issued by Management Board and the Supervisory Board is discovered during the audit with regard to the compliance with corporate governance. The financial statements, the consolidated financial statement, the Management Report of Heidelberger Druckmaschinen Aktiengesellschaft, and the Management Report of the Heidelberg Group were circulated together with the Auditor's Reports on these documents to all the members of the Supervisory Board in time for the meeting to discuss the annual financial statements held on June 25, 2003. 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. The auditors made themselves available to the members of the Supervisory Board to answer questions. The report of the auditor did not include any comment or indications of possible inaccuracies in the Declaration of Compliance of the Corporate Governance Code. The Supervisory Board approved the results of the audit without objections.

The Audit Committee considered in detail the documents relating to the examination prior to the meeting and recommended that the Supervisory Board approve the annual and consolidated financial figures. The Supervisory Board also proposed that PwC Deutsche Revision Aktiengesellschaft Wirtschaftsprüfungsgesellschaft be designated as the annual results auditor to be selected by the Annual General Meeting.

The Supervisory Board examined the annual financial statements prepared by the Management Board, the consolidated financial figures, 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 approves the annual financial statement and consolidated financial statements as of March 31, 2003. The annual financial statements are thereby adopted.

The report by the Management Board, in accordance with Section 312 of the Stock Corporation Act on the relationships with affiliated enterprises, was provided to us for our 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 report regarding relationships with affiliated enterprises.

Effective September 30, 2002, Mr. Ernst Eikermann resigned from the Supervisory Board. We wish to thank him for his valuable contributions and close cooperation. Mr. Eikermann was replaced by Mr. Roland Eisenbarth as a Member of the Supervisory Board by decision of the Heidelberg District Court as of October 1, 2002.

The term of office of the present Supervisory Board expires as of the Annual General Meeting on September 12, 2003. I would like to thank all the Members for their commitment and their solid and constructive assistance to the Company and the Management Board over the past five years!

Heidelberg, June 25, 2003

The Supervisory Board

Dietmar Kuhnt

Dr. Dietmar Kuhnt
Chairman

Management Board

Born in 1954, married, three children. Engineering graduate (Diplomingenieur, 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.

Bernhard Schreier
Chairman

Born in 1946, married, two children. 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.

Dr. Herbert Meyer
Finance

Born in 1947, married, three children. Degree in engineering (Diplomingenieur, Technical University). Since 1974 with Heidelberg, initially as a designer. Since 1986 on the Management Board of Heidelberg.

Wolfgang Pfizenmaier
Digital

Holger Reichardt
Marketing

Born in 1954, married, two children. Degree in economics (Diplomökonom), 16 years at IBM, of which three years abroad. Since 1998 on the Management Board of Heidelberg.

Dr. Klaus Spiegel
Sheetfed

Born in 1952, married, three children. Graduate degree in mechanical engineering (Promovierter Maschinenbauingenieur). Began at Heidelberg in 1983 as a construction engineer. Since 1995 Member of the Management Board of Heidelberg.

Corporate Governance – Report by the Management Board and Supervisory Board

- **Initiative of Business and Government Welcomed**
- **Declaration of Compliance for 2002 Released**

The German Corporate Governance Code was introduced to the public in February 2002. This code is based on statutory requirements, in particular the Stock Corporation Law. It also includes additional recommendations and suggestions. Based on the Code, recognized standards for the efficient and responsible management and control of publicly-quoted companies are expected to enhance transparency and thereby strengthen international confidence in the German financial markets.

The legislature has further reinforced this goal. Under the provisions of Article 161 of the Stock Corporation Law, each year the Management Board and the Supervisory Board of publicly-quoted corporations must report on the degree to which the recommendations of the Code are met. We, Heidelberg's Management Board and Supervisory Board, issued our Declaration of Compliance on December 13, 2002. This declaration contains just one discrepancy from the Code's recommendations – namely, a provision of the Articles of Incorporation concerning remuneration of the members of the Supervisory Board with regard to their activity in committees is not yet in agreement with the Code. A joint proposal to change this provision has been placed on the agenda of the Annual General Meeting scheduled for September 12, 2003.

High Priority for Open Corporate Communications

We welcome the initiative to enhance the guidelines applicable in Germany and internationally for corporate management and control through greater transparency. We have always been fully aware that open and reliable financial and corporate communications are especially important for an internationally active company.

In our view, the Corporate Governance Code is in line with internationally established standards of good corporate management, and is well balanced and practice oriented. We have consequently established the goal of complying with its recommendations as fully as possible.

Measures Implemented to Wholly Meet the Provisions of the Code

Even before its publication, Heidelberg was already in full compliance with most of the recommendations of the Corporate Governance Code. This applies – as a matter of course – to the statutory provisions that are again summarized in the Code. However, it also applies to the additional recommendations of the Code, as well as its numerous suggestions for which no Declaration of Compliance is required.

The Management Board has assigned responsibilities to a task force to examine the recommendations of the Code and monitor their complete observance by Heidelberg. A need to take action occurred in connection with the requirement to more thoroughly document existing corporate practice.

In cooperation with an Ad Hoc Committee of the Supervisory Board, a package of measures was drawn up, which were approved by the Management Board and the Supervisory Board. The principal components of this package are: new rules of procedure for the Management Board and the Supervisory Board were approved; an audit committee was established; the Declaration of Compliance was adopted; and a joint recommendation to change the Articles of Association was drawn up. Details of the decisions of the Supervisory Board in this context can be found in the preceding Report of the Supervisory Board.

With the exception of the need to change the provision regarding the remuneration of the Supervisory Board, all recommendations of the Code included in the version published on November 26, 2002 have now been fulfilled. We document implementation of these recommendations in our Articles of Incorporation, in the rules of procedure of the Management Board and the Supervisory Board, and in this Annual Report. We published our Declaration of Compliance for calendar year 2002 in accordance with Article 161 of the Stock Corporation Law on our Internet site. We will also make future declarations of compliance or required supplements and changes permanently accessible there.

High Priority for the Code in the Future

At the Annual General Meeting to be held on September 12, 2003, we will propose to the shareholders that Section 16 of the Company's Articles of Incorporation be changed in order to satisfy the requirements of the Corporate Governance Code with regard to the provisions governing the remuneration for the Supervisory Board's activity in committees.

Heidelberg, June 25, 2003

For the Supervisory Board:
Dr. Dietmar Kuhnt

Dietmar Kuhnt

For the Management Board:
Bernhard Schreier

B. Schreier

The Heidelberg Share – Currently Clearly Undervalued

- **Global Downturn of Capital Markets**
- **Strengthening Investor Relations Activities**
- **Continued Considerable Attention**

At the beginning of 2002, major economic indicators reflected favorable developments. The capital markets subsequently became stable, with the DAX hovering around 5,200 points. However, the economic climate weakened again during the summer months. Worldwide, stock markets weakened, with a resulting continual downswing. Hardly any share succeeded in avoiding this development. The DAX fell considerably to below the 3,000 mark through the end of the year. This massive downturn resulted largely from political uncertainties. The Iraq conflict had an especially strong negative impact. Institutional investors also had second thoughts about long-term investing in shares.

Key Performance Data of the Heidelberg Share

Figures in €	2001/2002	**2002/2003**
Earnings per share	2.32	**– 1.67**
Price-earnings ratio [1]	21.58	**– 9.71**
Cash flow per share	4.85	**1.16**
Price-cash flow ratio [1]	10.32	**13.97**
Dividend per share	1.40	**–**
Dividend yield in percent [1]	2.77	**–**
Share price – high	66.00	**54.99**
Share price – low	37.50	**13.42**
Share price – financial year-end	50.06	**16.21**
Market capitalization – financial year-end price in millions	4,301	**1,392**
Number of shares	85,908,480	**85,908,480**

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

Heidelberg Share Subject to the General Trend

Through October 2002, the Heidelberg share outperformed the DAX. Subsequently, however, following our announcement that month of our worsened outlook for financial year 2002/2003, due to the difficult business environment, our share lost ground compared to the index of the 30 largest German corporations. Gloomy medium-term prospects for the entire investment goods industry contributed to the failure of the price of a Heidelberg share to recover.

The current share price neither reflects Heidelberg's earnings capacity nor the potential of our sales markets – especially since we are uniquely positioned in the Graphic Arts Industry, and also have significantly improved our cost structure during the financial year. After all, as of March 31, 2003, our cash flow per share amounted to € 1.16, whereas the price was a mere € 16.21!

Proposal: No Dividend Payment

The Management Board and the Supervisory Board will propose to the Ordinary Annual General Meeting of September 12, 2003 that no dividend be paid for the financial year. The dividend had been € 1.40 per share the previous year.

Making Values Clearer: Intensifying Communications with Target Groups

We organized over twenty road shows and more than ten investor conferences during the financial year, in order to emphasize Heidelberg's strengths. We held over 50 one-on-one meetings with institutional investors and supplied countless numbers of private investors with requested information. Our 'Factbook', which our investor relations team produced in cooperation with other departments during the financial year, also provides insights into the Heidelberg Group and the individual divisions.

We do not limit ourselves to words. Plant visits and tours through our demonstration rooms in the Print Media Center clearly show our corporate values. Our customers were also kind enough to give us the opportunity of understanding the processes, workflows, and day-to-day processes at their printing establishments during the financial year.

Overall, the capital market is showing considerably greater interest in Heidelberger Druckmaschinen Aktiengesellschaft. The number of financial institutions that publish investment research studies about Heidelberg increased by 11 to a total of 37. In addition to nearly all internationally represented investment banks, German regional banks, as well as a number of private banks, also began to provide research coverage during the financial year.

Important Investment Research Reports

The most current studies covering Heidelberg

Credit Suisse First Boston	April 2003
JP Morgan	April 2003
Sal. Oppenheim	April 2003
UBS Warburg	April 2003
M.M. Warburg	February 2003

Share Represented in Important Indices

Since January 2003, the Heidelberg share has been a member of the new Prime Standard stock market segment, where the share is now included in the 'Industrial Machinery' industry index. Our share continues to be listed in the MDAX, which has been cut back to 50 corporations. Again in 2002, Heidelberg met the strict requirements for inclusion in the Dow Jones Sustainability Indices (DJSI), STOXX and DJSI World.

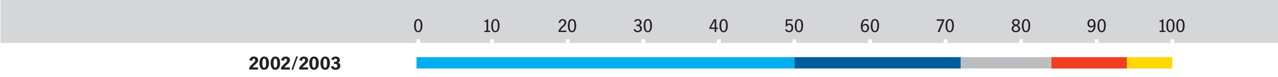
Prizes for Investor Relations Work

The business magazine 'capital' together with the German Association for Financial Analysis and Asset Management (Deutsche Vereinigung für Finanzanalyse und Asset Management – DVFA) surveyed a total of 1,200 analysts concerning their experience with investor relations teams during the financial year. The focus was primarily on quality, topicality and the professionalism of communications. We are proud that our investor relations team performed best among the MDAX corporations!

Our annual report again received public recognition. In the competition held by the business periodical 'manager magazin' for the best annual report, Heidelberg's report achieved fourth place among all companies, attaining first place in the category of appearance and design. These awards are an incentive for us to do even better in the future. We are very grateful for all your comments on how we can further improve our communications!

Shareholder Structure

as of March 31, 2003



RWE	50 %
Allianz	12 %
Commerzbank	10 %
Münchener Rück	6 %
Free Float	22 %

Changed Shareholder Structure

The shareholder structure of Heidelberg changed as of September 20, 2002. The firm ALMÜCO, in which Allianz AG held a 50 percent share and Münchener Rückversicherungs-Gesellschaft AG and Commerzbank AG each held a 25 percent share, was dissolved. Since then, the companies have held their shares directly or via their own subsidiaries.

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

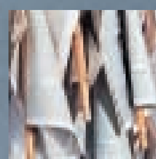
Heidelberger Druckmaschinen Aktiengesellschaft
Investor Relations
Kurfuersten-Anlage 52 – 60
69115 Heidelberg
Germany
E-mail: investorrelations@heidelberg.com
Phone: +49-62 21-92 60 21
Fax: +49-62 21-92 60 61

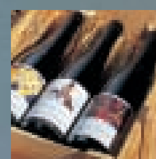
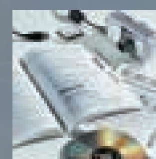
SCENARIO

A World without Printing

Just imagine … In general, such intellectual games are concerned with utopias and visions – so-called ‘important’ things. By contrast, printing is now so present in nearly every aspect of our daily life that we do not usually perceive it consciously at all. Using some examples – which are not always to be taken too seriously – we would like to change this for a moment. We also wish to present for your inspection the extraordinary efficiencies and technologies that are not noticed day-to-day but which underlie the printed products of everyday life.





SCENARIO

A World without Printing

Imagine that you have the freedom to choose …

What would you order if you went to a restaurant to enjoy a meal with friends or business partners and found the menu blank? Will you indulge in wild creations of your own, or would you rather stick to the familiar? Even if you are the type of person who plays it safe, you might still be in for a surprise – in the end when you receive your bill.

How many dishes have you already read about? Delving into cookbooks or looking at restaurant menus is a pleasant occupation for many people. The 'printed meal' frequently is also an ingredient of literature – it is virtually a leitmotif in the work of Heinrich Heine, for example. And no wonder: he summed up his political belief as 'Love, truth, freedom, and crayfish soup'.

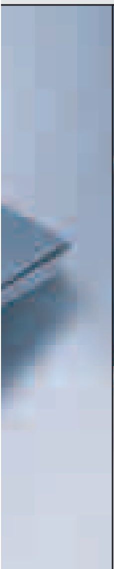
Digital Printing

Digital color printing technology opens up new business opportunities for printing establishments. It is always the method of choice when the need arises for quick and short print runs. It is an unbeatable technology in this area – especially in terms of cost.

TOPIC

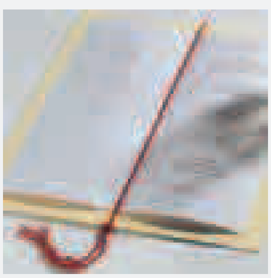
Service

Our customers can also count on us when speed is crucial. For example, we deliver spare parts to almost every part of Europe and to many regions in the US within 24 hours.



The NexPress 2100, which you can see in the photo on the far left, unites the strengths of a printing press with the flexibility of laser printing. Print products can be easily individualized with this model – a capability that is enjoying increasing demand, especially in the advertising industry.

However, the NexPress is also very well suited for preprinted editions of annual reports, training documentation, and corporate presentations. A practical aspect of this area of application is the new Probinder, which punches, collects and adds a spiral binding to these products in a single process. The quality is convincing despite the high speed of production.



Imagine that the head of a posh restaurant is awaiting a delivery of fish for the evening, but the truck has broken down. Nevertheless, the restaurant's clientele will not go without a professionally (re)designed menu. For with digital printing, Heidelberg's customers can create 'printed products to go', as the time required to set up the printing press is minimal and no printing plates need to be imaged.

SCENARIO

A World without Printing

Imagine that there is no access to knowledge ...

When Denis Diderot (1713 – 1784) wrote his Encyclopédie, in which he intended to present the knowledge of his time to the general public, this son of a cutler suffered from repression by the authorities. The first two volumes of his 28-volume work – which is considered to be one of the most important printed publications to appear during the Enlightenment – were banned, and the subsequent volumes were subject to censorship during their production.

The originals of Diderot's work still exist today. The first edition of his Encyclopédie, with a print run of 4,225, was a large one for the period. Even today, encyclopedias – with their useful life of approximately 400 years – are still intended to be used by several generations of readers. Among other things, the spine of each volume is stamped with 23-carat gold, thereby ensuring increased durability. Even today, there is no more effective means of protection against oxidation and environmental influences.

Sheetfed Offset Printing

Sheetfed offset printing is used for especially high-quality printed matter with long print runs. The annual report that you are now holding in your hands was also produced using this process.

TOPIC

Service

How would you like to be able to call upon the knowledge and help of specialists if you need it – at any time and immediately? Basically, that is precisely what our ‘Remote Service’ offers customers. Workflow problems can often be quickly remedied by our service technicians on-line. Service inspections can also be implemented on-line – even while printing presses are in operation.

The photo on the far left shows a Speedmaster SM 102. You can identify it as a so-called eight-color printing press because a printing facility is housed in each of its 'towers'.

Offset printing today is thoroughly shaped by digital processes. Printing plates are increasingly being imaged directly by data from the computer – thus the term 'Computer-to-Plate', in short 'CtP'. Our Topsetter as well, which you can see in the middle photo, uses a laser to image a pre-coated aluminum plate. Control and management of the overall printing process is handled by the CP-2000 Center, shown in the photo on the right.

Using the proven triple-drum sheet reversing device, the Speedmaster SM 102 can print the front and back covers for multi-volume editions in a single step. The '4 by 4 technology' is used to create a realistic hue with ink. The numbers in this technical term refer to the number of inks that are used in printing: cyan, magenta, yellow, and key (black).

SCENARIO

A World without Printing

Imagine that newspapers communicated nothing ...

At least according to the cliché, many wives would probably be rather pleased if one day the morning newspaper were only just a pile of paper. But for how long? At an early hour in the morning, not only alert heads are hidden behind the newspaper ...

On the subject of paper: whereas the first newspapers consisted of hand-made sheets, in a manner of speaking readers nowadays are holding a leading-edge product in their hands – one that is subject to the enormous stresses of high-speed printing. Yet at the same time it is quite light-weight in order to hold down the shipping cost. Nevertheless, in 2002 a total of approximately 2,400,000 metric tons of newsprint was printed in Germany alone – produced mainly from recycled paper.

Newspaper Printing

Web offset printing is ideal for processing extremely long print runs in a very short time – for newspaper printing, for example. The paper is supplied in large rolls.

TOPIC

Service

We make sure that our customers are always up-to-date. For example, we document solutions to problems and make them accessible in several languages – not only in printed form, but on-line as well.

The paper rolls seem to be rather large in the photo. However, compared with the Mainstream 80 newspaper printing press, which is several floors high, they seem small. Time is the scarcest factor in the production process, especially as copy deadlines are increasingly being pushed back. To ensure that everything runs smoothly, the Mainstream uses gapless blanket cylinders – the world's only newspaper printing press with this capability. This considerably increases the potential rotary speed compared with that of conventional cylinders.

A largely computerized finishing installation also ensures rapid production. In the photo on the left, you can see how the newspapers come out of the IDAB WAMAC installation: neatly stacked and bundled.

According to the Oxford English Dictionary, the compound noun 'newspaper', whose meaning is obvious, first appeared in the English language in the year 1670, in the form 'newes paper'. With a production speed of up to 80,000 copies per hour, the Mainstream ensures that readers receive their 'newes paper' at an increasingly rapid pace – in excellent quality and printed in color. Moreover, newspapers can be flexibly designed and tailored to various target groups.

SCENARIO

A World without Printing

Imagine that a wine's 'birth certificate' disappeared …

Blank labels – a heavy blow for many mortals. The matter would be even worse, however, for vintners of the Catholic Church. They take an oath to ensure that the alter wine fulfills particular guidelines. The preferences concerning the origin and taste of the wine are highly varied in the church as well. By the way, there is a rather mundane reason why only white wine is used in all denominations and countries: stains.

The information provided on the main and the neck labels of wine bottles is regulated by law – even to the extent of determining the relative space allocated for various types of information. Nevertheless, there is enough room on the labels to add small artistic touches. The photo on the left shows some artistic labels, which are part of the world's largest and most important series of this type of label.

Label Printing

Depending on the print run, the use, and the material to be printed, labels are produced on highly varied printing presses – usually, however, based on the offset process.

TOPIC

Service

Our customers can place their trust in the quality of our technical service personnel. All of our specialists have completed a demanding training program over a number of years and continuously further improve their knowledge. Yet the quantity is high as well, with over 4,000 Heidelberg service technicians available for our customers worldwide.

The Speedmaster CD74, in the photo on the far left, has been developed for industrial commercial and package printing requiring frequent changes. This model can process everything from thin printed paper and solid cardboard packaging all the way to plastic – the ideal approach for printing establishments that want the capability of covering a larger range of printing with short print runs as well. For finishing, a high-speed cutter such as the Polar cutter, shown in the center photo, is suitable for paper, paperboard, carton, or foils. Even if much of the manufacturing process operates automatically, printing is undertaken with feeling. The photo on the left shows a father with his son examining a printing of artistic labels.

High quality label printing ensures not only an attractive or even artistic appearance. Conscientious products also offer protection from deceptive labels. This is becoming increasingly important for manufacturers of all kinds of brand name merchandise.

SCENARIO

A World without Printing

At best, don’t image the following too exactly. Imagine that you want to go shopping but all the packages are suddenly blank, without any printing …

Very simple packages still were common a hundred years ago. Only as the self-service concept made its appearance, which was only accepted by the population in Germany following World War II, did packaging begin to play a significant role in shops. Since that time, packaging has been serving as the ‘seller’ of the product, alerting the consumer to the advantages of the product and informing them about its distinctive features.

Many of the first brand name packages are sought-after collector’s items today. Some have made design history and significantly influenced consumer behavior. Today, individual practical, playful, or seductive packages are present for almost every product. Some represent the art of packaging in the truest sense of the word – for example, the cardboard package shown in the photo on the left, which was designed by one of Europe’s top designers.

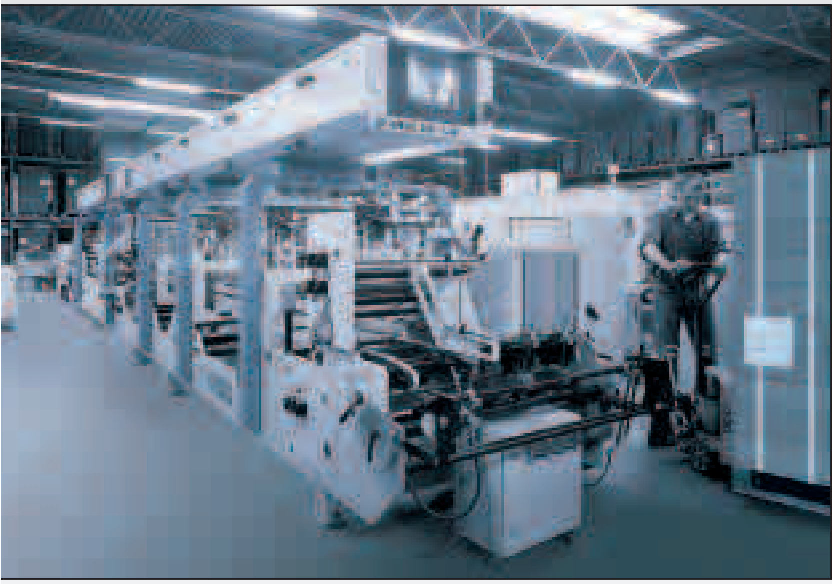
Package Printing

Over the past twenty years, product offerings in supermarkets alone approximately doubled, with an increasing trend. Distinctive packaging is therefore becoming more and more important. Are you aware, for example, that most people spontaneously only recognize their own perfume by sight and not by their sense of smell?

TOPIC

Service

The larger the range of offerings, the more difficult it often is to find just the right product. We analyze our customers' particular situation and goals before we make a sale. We offer our customers carefully coordinated solutions that are precisely tailored to their individual requirements.



The Speedmaster CD 102 in the photo on the far left has seven inkers and one varnishing facility. It stands on a raised base, which means that it is used in package printing. For this permits higher stacks to be driven into the installation and the display – carton sheets are thicker than paper sheets. This enhances productivity.

Optimizing the processes and materials used is of major importance in package printing. Thanks to the digitalization of the workflow, for example, sheets can be automatically printed and punched in a way to minimize material consumption. The DIANA gluing machine, shown in the last photo, also ensures economical production.

Printing establishments can now pull out all the stops when signaling the quality of packages' contents. Coating machines make it possible to compete in the marketplace with high-gloss applications and metallic effects, among others. With the innovative Speedmaster Duo model, cardboard packaging can even be printed using flexo printing in a single step, either before or following offset printing – quite a feat.

SCENARIO

A World without Printing

Could you pass on the information contained in a handbook without referring to the printed version?

In the era of digital photography, there is no need for you to think about adequate brightness in the detail of a photo – the type of film you require, whether a motif looks best in black-and-white or in color, or whether disturbing side-effects might result from using the camera's flash. Everything can be changed once a photo is taken. In other words: simply buy a camera, turn it on, and take pictures to your heart's content?

The problems that arise during the further processing of digital photos lurk in the small print, so to speak. A resolution of 72 dpi (dots-per-inch, or dots per 2.54 cm) is adequate for a photo to be clearly seen on the computer's screen. On the other hand, a minimum of 300 dpi in a 60 grid is necessary to ensure a high-quality print. The size of a possible printout depends on the number of pixels (derived from '**pix**', the plural form of 'pic', the colloquial term for 'picture', and **el**ement) stored in a digital photo.

Finishing

Cutting, folding and binding in the commercial printing area as well as die-cutting, folding and gluing in the package printing area – the steps taken subsequent to the actual printing contribute to enhancing the appeal of the final product and help our customers achieve the required profit margins. It is no wonder that the Postpress area is playing an increasingly important role.

TOPIC

Service

The printing process, including all the upstream and downstream processing, is becoming increasingly more complex and varied. Our customers require detailed theoretical and practical knowledge if they are to take advantage of the opportunities made available by this development as profitably as possible. This is precisely what we provide in our Print Media Academies. All over the world.

Printing establishments that extend their added value chain to include finishing are able to satisfy the individual requirements of their customers, while nevertheless making offers that are more favorable. How can that be possible? Printing and all the downstream processes can be precisely coordinated. With an integrated workflow, the data for the entire printing job need only be recorded once.

The stitcher-gatherer Stitchmaster ST400, which is shown following the Printmaster 74 and the Folding Machine TD78 in the sequence of photos, is a true showpiece of the finishing area. The ST400 lends commercial printing establishments a higher level of flexibility than ever before. Due to its numerous automated settings, the average set-up time is only half that of conventional machines.

Handbooks are becoming ever thicker. This is not only because instruction manuals are printed in several languages, but also because the equipment being described is equipped with an increasingly greater number of technical details. Nevertheless, fewer and fewer pages of handbooks are actually being read. The user's operation of the equipment is becoming increasingly intuitive. It is usually adequate for most operations to make use of only a small part of the possibilities.

Business Environment and Industry Development – Uncertain Conditions

- **Numerous Corrections of GDP Growth Forecasts in the Year**
- **Continued Decline in Propensity to Invest**
- **Capacity Utilization at a Low Point for Graphic Arts Industry**

Worldwide optimism began to emerge at the beginning of the previous year – reflected by such important early indicators as the difference between short- and long-term interest rates and the overall business climate. All signs pointed towards an upswing in the US – not least due to the strongly expansive monetary and fiscal policy in that country. In fact, perceptible growth was posted in spring, which was even stronger than had been expected. Economic research institutes projected that the US economy would be the engine of world economic growth in 2002 – and confidence was on the rise. Everyone anticipated a jump-starting of the economies in Western Europe as well.

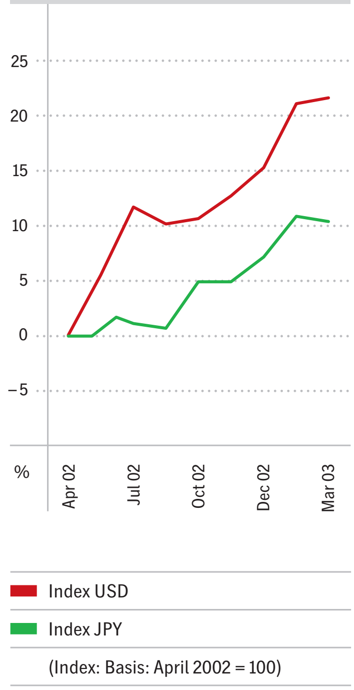
However, this hope soon proved to be deceptive. Already in early summer, the motor began to stall. There was the impression that lacking an additional impetus, the world was resigned to looking spellbound towards the US. Doubts were expressed openly as to whether there was adequate substance for true growth. The rise at the beginning of the year was characterized as a flash in the pan, with forecasts revised downwards. Nevertheless, at that time no one was anticipating that the summer would mark the beginning of a continual downward spiral that would continue into 2003.

Business prospects worsened visibly in autumn, with worldwide share prices plummeting. The danger of war in Iraq and rising oil prices contributed to this decline. The report issued by the Munich-based Economic Research Institute (Institut für Wirtschaftsforschung – ifo) in December, showed the extent to which the world economic climate had clouded during the year. This report stated that ifo's world economic climate had declined to nearly the same low level that had been apparent in autumn of 2001.

The exact opposite of the original forecasts for economic developments had occurred. Although the global economy still grew overall by 2.5 percent in calendar year 2002, this growth was largely related to consumer spending. The numbers alone conceal the actual development of investments. As the graph on page 17 makes clear, these fell tremendously over the entire year.

Currency Appreciation of the €

€ against US $ and Yen



Gross Domestic Product

Compared with previous year in %

	2000	2001	2002
World	4.4	1.8	2.5
USA	3.8	0.3	2.4
EU	3.5	1.5	1.0
Germany	3.1	0.7	0.2
Japan	2.8	0.4	0.3

Disappointing Developments in Principal Markets

Our customers include creators of professionally produced printed products around the globe. We generate 87 percent of our sales beyond the borders of Germany. During the financial year, the substantial devaluation of some currencies weakened the purchasing power of our non-European customers vis-à-vis the euro, with the dollar declining by nearly 20 percent, the yen by 11 percent, and the Brazilian real by a full 45 percent!

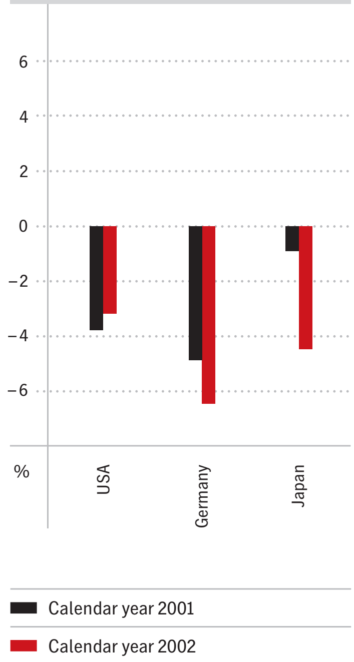
Thanks to our global presence, we are generally able to even out slack economic conditions in one region through strengths of the other regions. Business developments in those countries where we traditionally generate our highest sales figures were generally unfavorable. The **US** is an especially important market for us – continually our largest single market, which has accounted for up to 30 percent of overall sales in recent years. Even though the position of the US held steady during the financial year, its share of overall sales fell to 22 percent! At the beginning of last year, there was considerable hope for a sustained economic upswing following a disastrous 2001. However, as mentioned above, these hopes were entirely dashed. Overall, although GDP increased by 2.4 percent in the US, this growth was entirely related to consumer spending and characterized by declining investments. Beside the low level of plant capacity utilization, uncertain future expectations played a key role – not least the uncertainty of the ramifications of the crisis in Iraq.

Growth came to a virtual standstill in Europe. **Germany**, our second largest single market, which accounts for approximately 13 percent of sales, pulled up the rear for the second time in a row, with GDP increasing by a mere 0.2 percent. Not only the economic data are worse than in our neighboring countries, but confidence also appears to be weaker. This makes an already uncertain situation all the worse. Investments in fixed assets, an important key financial figure, have been falling from quarter to quarter since the end of 2000. However, the economy of **France** also grew by only 1.2 percent – clearly slower than in the previous year – and in the **UK**, GDP growth of 1.8 percent was also much lower than in 2001. During the first half of the year, it still appeared that **Japan** could finally free itself from its recession. However, due to the further worsening situation during the second half of the year and sustained structural weakness, GDP then fell by 0.3 percent.

The economic situation was also weak beyond the largest industrial countries. The situation was precarious in Latin America, with the economy of **Brazil**, our key market, growing by only 1.5 percent during the past year. **Mexico**, which to a significant degree is dependent on US economic developments, posted only 0.9 percent growth.

Fixed Investments in Selected Regions

Compared with previous year in %



On the other hand, Asia and Eastern Europe were able to generate above-average growth in 2002. **China** again stood out significantly in international comparisons, with GDP up by 8.0 percent. **Russia** also posted a gratifying plus of 4.3 percent. However, the emerging markets in Asia and Eastern Europe were unable to compensate for the crisis in Heidelberg's principal markets.

Crisis Also Hampering Overall Economic Environment

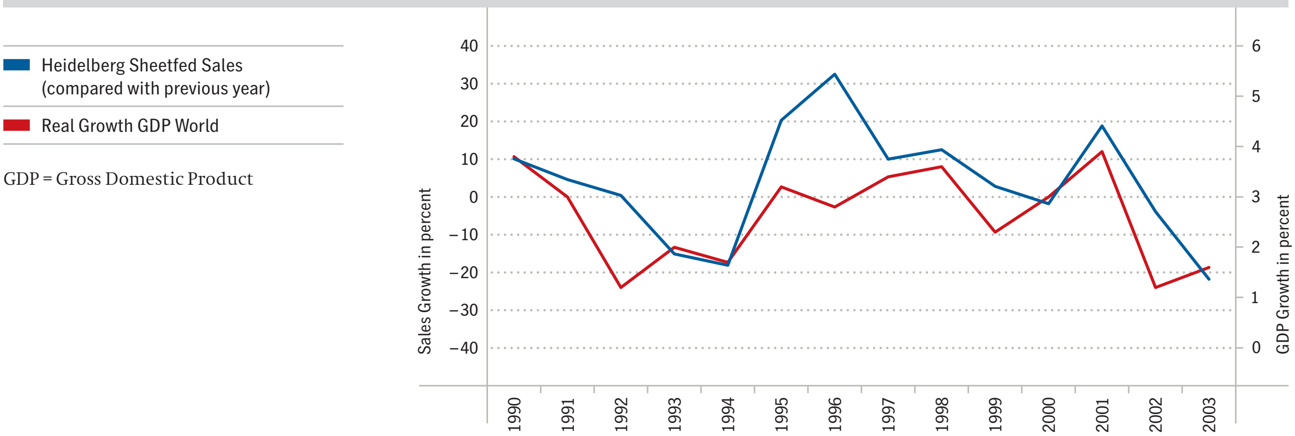
The past year was not a good year for the investment goods industry. According to the Association of the German Engineering Industry (Verband der Deutschen Maschinen- und Anlagenbauer – VDMA), incoming orders for printing presses in Germany declined by 28 percent and sales by 18 percent.

All manufacturers of printing presses for the Graphic Arts Industry suffered from the poor economic environment. Heidelberg's biggest competitors are located in Germany and Japan. They were also affected by the restrained investment activity, which resulted from at times dramatic developments at printing establishments. Like ourselves, our German competitors had to respond with job cutbacks and part-time work, whereas Japanese competitors at least benefited from some foreign currency advantages. The situation was worsened by unexpectedly weak economic developments. The crisis among advertising agencies and in the ad sector in the US and in Germany was also unexpectedly strong. The considerable gap between consumer spending and outlays for investment goods was also unusual. The graph on the following page makes the situation clear. In the past, changes in global GDP and sales increases by Heidelberg's Sheetfed Offset area went hand in hand, with a slight delay. The marked discrepancy this past year resulted from the fact that GDP has – atypically – largely been powered by consumer spending.

Comparisons with our competitors' size and market share are difficult for a number of reasons, including geographically, because the various suppliers define their markets differently. No binding quantitative targets exist in terms of sales, numbers of units, or installed base. Moreover, there is considerable deviation among the respective periods of consideration as well as the assessment of the products that are attributable to particular markets. And in the end, our own particular strategy, which we explain in more detail on pages 32 – 34, also makes a direct comparison with other market participants impossible. Heidelberg has moved from operating as a supplier of printing presses and has developed into a solutions provider and an enterprise active in the communications industry. For example, our development of our own software brand name – Prinect – makes clear the contrast vis-à-vis a pure printing press manufacturer. We are uniquely positioned among our competitors in the market. We are the only firm to offer solutions, including Prepress, workflow, and finishing, both in the Offset and Digital segments and various combinations of these printing processes.

Despite the extremely difficult underlying conditions, thanks to this particular strategy, we have been able to expand our overall leading position in the market during the financial year – and even gain additional market share in some areas. A change in the industry structure is currently not in sight.

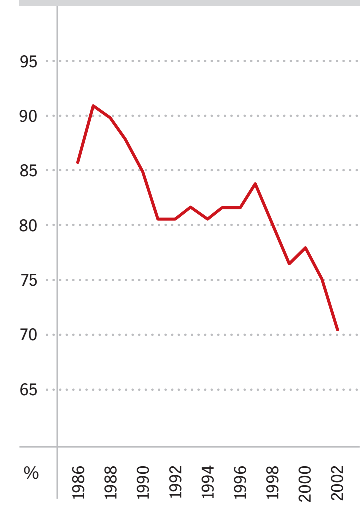
Comparison GDP[1)] versus Sheetfed Sales



[1)] GDP = Gross Domestic Product

Capacity Utilization of the US Printing Industry

Since 1986



Capacity Utilization of Printing Establishments at Low Point – Investments Postponed

Overall capacity utilization in the printing industry is closely linked to the development of GDP in the respective regions. When the order backlog is weak, it is obvious that printing establishments will only invest if a clear economic upswing is evident.

The graphic makes clear the extremely difficult situation faced by our customers in the US printing industry last year. Capacity utilization fell in Germany as well – by a full 81 percent – to its lowest level in 20 years. The wave of printing establishment bankruptcies reached a tragic new high point.

Of course, not all the products and product groups offered by our individual divisions are dependent on economic developments to the same degree. Moreover, distinctive regional aspects such as trade fairs, customs provisions, tax arrangements, or the extended crisis in the advertising sector in some countries also influence business developments. We discuss these various influences in the individual chapters, since some only affect a particular division and/or a single market.

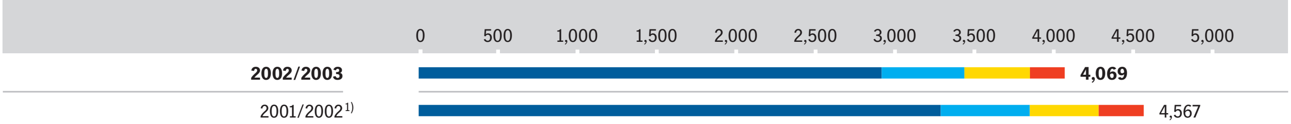
Business Development – Reflection of a Slack Economy

- **Commercial Printing Rolls and Digital Black and White Printing Particularly Affected**
- **Only Partial Compensation for Weakness in Principal Markets**
- **Several Large Orders in Newspaper Printing**

The unfavorable economic environment described in the previous chapter decisively affected business developments during the financial year. Our Digital Division and Web Systems Division, which are particularly aligned to our principal market, the US, suffered from our US customers' restrained investment activity. We discuss the business developments of the individual areas in more detail in the chapters 'Reports of the Business Units' and 'Reports from the Regions'.

Incoming Orders

Figures in € millions



Digital	219	– 23 %
Sheetfed	2,916	– 11 %
Web Systems	521	– 7 %
Postpress	413	– 5 %
Heidelberg Group	**4,069**	**– 11 %**

[1] Restated in accordance with the new management organization. Please refer to page 35

Incoming Orders: Hefty Decline Due to US Conditions

Following our realization of € 260 million in orders during the first quarter from this financial year's IPEX trade fair, during the second quarter, instead of a broadly expected market upswing, developments became increasingly negative. We fell short of the previous year's figures by a double-digit figure. The continuing strained business conditions during the third quarter again pushed incoming orders to below the previous year's level. During the fourth quarter, the already difficult situation intensified further due to the worsening uncertainty concerning the threatened war in Iraq. During the financial year incoming orders declined by 11 percent from the previous year, reaching € 4,069 million overall. The figure would have been € 4,219 million, adjusted for changes in the scope of the consolidation and exchange rate effects resulting from the stronger euro.

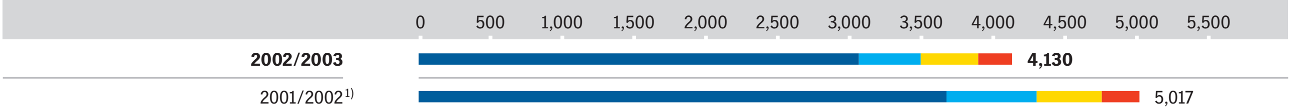
The dramatic extent to which the development in North and South America influenced this decline can be seen in an annual comparison excluding incoming orders from that region. Despite the difficult situation in several other markets, adjusted incoming orders for the financial year reached the previous year's level. This makes clear the extent to which we were able to compensate for declines in Western Europe, especially in Germany, in other markets and regions. The Asian and East European emerging markets in particular developed very favorably.

Despite adverse underlying conditions, our trade fair activity was also successful. We were able to highlight our position as a solutions provider in the Graphic Arts Industry at IPEX, the largest printing industry trade fair during the financial year, which was held in Birmingham in April. In October, we generated incoming orders of approximately € 130 million at Graph Expo in Chicago. The response at CeBIT 2003 in Hanover was also positive.

We recorded declines in all divisions, particularly, of course, in the areas that are strongly aligned to the North American market. This applies to Digital Black and White printing and primarily to the Web Systems Division. Due to the extended crisis in the US advertising industry, demand plummeted for our commercial web offset printing presses, which fell 60 percent below its normal level! However, in newspaper printing, which is also part of the Web Systems Division, we surpassed the previous year's figures thanks to several large orders, with seven orders received for the Mainstream 80 through the financial year-end. Since its market introduction, a total of 21 orders have been received for this model.

Net Sales

Figures in € millions



Digital	235	– 10 %
Sheetfed	3,064	– 17 %
Web Systems	431	– 31 %
Postpress	400	– 12 %
Heidelberg Group	**4,130**	**– 18 %**

1) Restated in accordance with the new management organization. Please refer to page 35

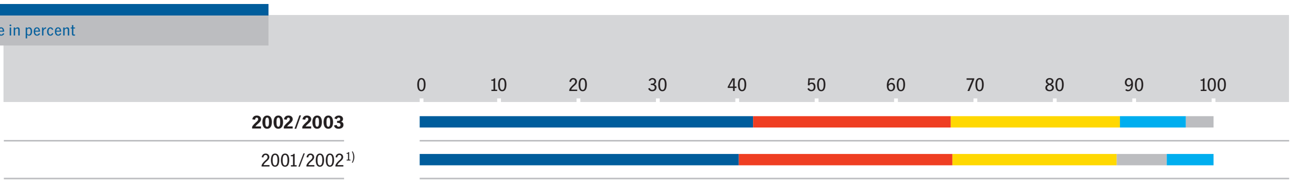
Sales: Growth in Emerging Markets

For financial year 2001/2002 as a whole, we had achieved the second highest sales volume in corporate history – despite a difficult second half-year. Originally, we had assumed that for the reporting year as a whole, the economic situation would provide a stimulus beginning in the middle of the financial year. However, just the opposite occurred. Instead of growth, in every quarter we booked double-digit percentage sales declines compared to the previous year's figures – even during our traditionally strong second half-year. Overall, sales only reached € 4,130 million during the financial year – approximately 18 percent less than the previous year. Adjusted for changes in the scope of the consolidation and for exchange rate effects resulting from the stronger euro, sales amounted to € 4,313 million.

This development characterized primarily the Digital Division and the Web Systems Division. Since the Sheetfed Division also generates a substantial share of sales in the US, that division was also negatively affected by the local market weakness.

Net Sales by Region

Share in percent



Europe, Middle East and Africa	**42.0**	40.2
Eastern Europe	**8.3**	5.9
North America	**24.9**	26.9
Latin America	**3.5**	6.3
Asia/Pacific	**21.3**	20.7
Heidelberg Group	**100.0**	**100.0**

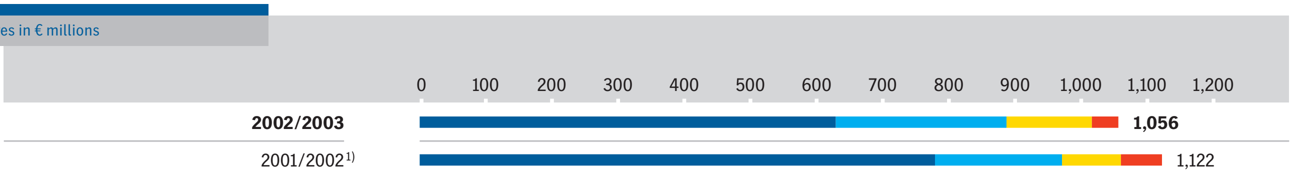
[1] Restated in accordance with the new management organization. Please refer to page 35

The above chart showing the sales breakdown by region clearly illustrates that the shares of the individual markets shifted due to overall economic conditions. Whereas the share of North and Latin America in consolidated sales is declining, the Eastern European and Asia/Pacific regions were able to increase their share of sales.

As in the past, the emerging markets in our regions enjoy high growth potential. Their degree of printed product saturation is still relatively low, and economic growth is in general stronger than in the industrial nations with their more mature economies. We will especially benefit from this, since we are represented to a greater extent than our competitors in these regions – we have the best and most extensive sales and service network in the Graphic Arts Industry. We assume that the share of our Latin America region in overall sales will soon further increase. During the financial year, business developments in that region were hampered by an economic crisis and related uncertain political conditions. The weakening of the Brazilian real and resulting financing problems of our customers also contributed to this development. By contrast, the Asia/Pacific region was able to assert itself despite partly unfavorable underlying conditions in the global economy. The sales decline in this region is primarily a reflection of the prior year's extraordinary boom in China, which resulted in an exceptionally high figure in that year.

Order Backlog

Figures in € millions



Digital	**40**	– 36 %
Sheetfed	**629**	– 19 %
Web Systems	**258**	+ 34 %
Postpress	**129**	+ 45 %
Heidelberg Group	**1,056**	**– 6 %**

[1] Restated in accordance with the new management organization. Please refer to page 35

Order Backlog: Level Nearly Equaled

The overall order backlog of the Heidelberg Group fell slightly to € 1,056 million. The order backlog in the Web Systems Division increased thanks to the satisfactory incoming orders in the newspaper printing segment. At financial year-end, the order backlog extended to 2.6 months.

Asset, Financial and Income Positions – Improvement in Cost Structure

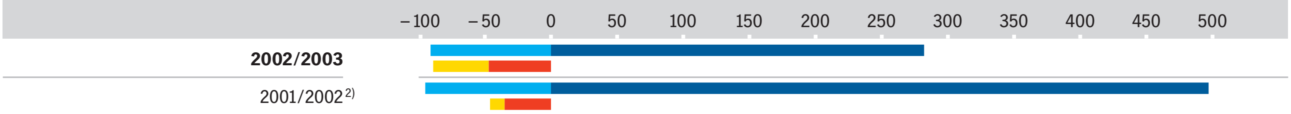
- **Comprehensive Efficiency Boosting Program**
- **Vigorous Asset Management**
- **Free Cash Flow Improved Considerably**

Operating Result Exceeds € 100 Million

During the financial year, the Heidelberg Group recorded a **result of operating activities excluding restructuring costs** of € 102 million, compared with € 356 million the previous year. This marked decline had several causes:

Result of Operating Activities[1)]

Figures in € millions



	2002/2003	2001/2002[2)]
Digital	**– 47**	– 35
Sheetfed	**282**	497
Web Systems	**– 91**	– 95
Postpress	**– 42**	– 11
Heidelberg Group	**102**	**356**

[1)] Excluding restructuring costs
[2)] Restated in accordance with the new management organization. Please refer to page 35

- The cyclical sales downturn during the financial year was a particular burden. Because sales – adjusted for changes in the scope of the consolidation and exchange rate effects – fell by approximately € 700 million, there were no profit contributions, which are needed to cover fixed costs. All divisions were effected by this development, especially our high-yield Sheetfed Division.
- Our Web Systems Division and Digital Division, whose products are strongly dependent on the US market, were also largely affected due to that country's slack economy.
- Some sales and service companies generated marked losses due to the difficult economic conditions in their region. These included the US, Germany, and Brazil.
- Advance services in the Web Systems Division and the Digital Division additionally burdened the result. As in the past, we continued to expand the new newspaper printing and Digital Color printing business units.

Because we continued our **short-term cost-reduction measures** and capacity adjustments, we were able to limit the impact of the sales downturn on the result. In order to achieve this, we made use of catch-up-in-advance systems and part-time work, reduced remaining vacation time and overtime, and permitted temporary employment relationships to expire. We additionally reduced the volume of personnel and travel expenses, consulting fees as well as outside services and other overheads during the financial year. The changes among the following income statement items are in part based on these measures:

- The ratio of the cost of materials fell from 41 percent to 39 percent.
- Personnel expenses declined by 9 percent from the previous year – the pay raise based on the collective bargaining agreement was more than compensated for by the reduction in the number of employees, the decline in overtime, as well as lower bonuses and special payments.
- Other operating expenses fell by 15 percent – largely a reflection of our efforts to reduce travel, consulting and other overheads.

Despite the extraordinarily difficult underlying conditions, we were able to generate an operating result with a return on sales of over 2 percent! The previous year it was still at 7 percent.

Restructuring

Figures in € millions

	One-time costs 2002/2003	Cost reduction target per year
Digital	79	45
Sheetfed	81	175
Web Systems	32	35
Postpress	18	25
Heidelberg Group	**210**	**280**

Restructuring: Annual Savings of € 280 Million

In addition to the short-term measures to improve the result, we came to some far-reaching conclusions in connection with the recessionary world economic situation. In September 2002, we announced a **program for medium-term cost reduction and efficiency enhancement** in order to adapt our cost structure to the lower sales level. We began to implement this program immediately. We further expanded these measures in March 2003. In view of the low propensity to invest by the Graphic Arts Industry, we again anticipate a declining sales trend for the current year.

In order to forcefully increase profitability, we placed particular importance on measures to reduce structural costs. In the future, more reliance will be placed on taking advantage of synergies through merging plants, restructuring product groups, optimizing processes, and streamlining the administration. We are additionally cutting back operating assets by means of consistent asset management, thereby increasing the Group's financial flexibility.

As a result of the restructuring measures, by March 31, 2004, we will reduce the number of employees by a total 3,200. As previously announced in September 2002, we reduced the number of employees by 2,200. At numerous plants, concrete measures were developed together with the works councils and partly implemented.

Overall, during the financial year we took these measures totaling € 210 million into consideration in the result, carrying them in current costs and provisions for restructuring measures. We expect our restructuring measures to result in annual savings of € 280 million.

In detail, we are planning the following measures: In the Digital Division, in order to make better use of synergies in the digital printing area, we intend to concentrate the production of all digital printing presses at our US plant in Rochester, New York. In the Sheetfed Division, in particular, we want to more thoroughly integrate the Prepress area, locating the final assembly operation for Computer-to-Plate products in Wiesloch. We are furthermore optimizing the product manufacturing and administrative processes. In the Web Systems Division, we are streamlining manufacturing facilities worldwide. In the Postpress Division, in particular, the merger of the Mühlhausen and Ludwigsburg plants within a plant in the Stuttgart metropolitan region will have a favorable effect. The shutdown of the US web finishing plants at Dayton, Ohio, and the shifting of operations to the web plant in Durham, North Carolina, were already concluded during the financial year.

In connection with the expansion of a package of measures, in March 2003, we additionally intend to optimize structures in the sales and service companies and accelerate processes. We will further adjust our capacities in manufacturing and administration. Moreover, we will determine whether additional plants in our global production association could be closed.

The core elements of our strategy will not be affected by this program for cost reductions and efficiency boosts. Heidelberg is still positioned as the sole solutions provider in the industry, with a fundamentally unchanged range of products. We will further expand our position in digital printing. Nevertheless, these measures serve to considerably improve the Group's cost structure and guarantee that the Heidelberg Group returns to above-average results, even with strongly fluctuating demand.

Financial Result: Net Interest Income

The financial result of the Heidelberg Group was € – 55 million for the financial year, compared with € –21 million the previous year. The background of this deterioration is as follows: As a result of the at-equity measurement, the result of our NexPress joint venture is carried proportionately in the financial result. The losses that resulted from the development, marketing and additional startup efforts for the NexPress 2100 Digital Color printing press were greater than in the previous year. The interest revenues from customer financing continued to exceed € 100 million. Since some expense items were lower, the Heidelberg Group's net interest income of € 21 million was a positive number. The above-mentioned influences resulted in a net loss of € –138 million.

Income Statement of the Heidelberg Group

Figures in € millions

	2001/2002	Share in percent	**2002/2003**	**Share in percent**
Net sales	5,017	98	**4,130**	**101**
Total operating performance	5,117	100	**4,106**	**100**
Cost of materials	2,037	40	**1,623**	**40**
Personnel expenses	1,598	31	**1,456**	**35**
Depreciation	202	4	**191**	**5**
Other operating income and expenses	– 924	– 18	**– 734**	**– 18**
Result of operating activities [1]	356	7	**102**	**2**
Restructuring costs	–	–	**210**	**5**
Financial result	– 21	–	**– 56**	**– 1**
Income before taxes	335	7	**– 164**	**– 4**
Income tax expense	134	3	**– 26**	**– 1**
Net profit/loss	201	4	**– 138**	**– 3**

[1] Excluding restructuring costs

Financial Position: Consistent Asset Management

The total assets of the Heidelberg Group decreased by 11 percent to € 5,131 million during the financial year. This reduction was partially based on exchange rate effects that were associated with the relatively strong euro vis-à-vis the previous year. In addition, we adapted our balance sheet structures to the lower business volume by means of numerous measures.

For example, we reduced fixed assets by 12 percent to € 1,157 million during the financial year. If payments and installations in construction measures are excluded, investments in tangible assets were a third lower than depreciation and amortization. Nevertheless, they reached a high level. Furthermore, we undertook a volume of approximately € 109 million in sale and leaseback transactions. With the goal of committing fewer funds to business assets, we sold off newly-built administrative and factory buildings in the US at our Rochester and Kennesaw operations in order to then lease them back from the buyer.

Our efforts to purposefully reduce operating assets are also reflected in the current assets, where in particular inventories also decreased due to foreign currency developments, falling by € 159 million. Trade receivables were down by € 174 million.

Balance Sheet Structure of the Heidelberg Group

Figures in percent

	31-Mar-02	31-Mar-03
Fixed assets	23	**23**
Current assets	77	**77**
Total assets	100	**100**
Shereholders' equity	43	**38**
Provisions	25	**28**
Liabilities	32	**34**
Total assets	100	**100**

Accounts receivable from customer financing declined by € 860 million during the financial year – the result of both exchange rate effects as well as our increasing efforts to externalize customer financing. As in the past, we were also successful in further reducing the volume of outstanding guarantees. Our solution strategy continues to underscore the help for customers with their financing, especially in difficult times. Our focus of attention here is on markets that do not have developed facilities for the financing of medium-sized firms.

Among liabilities, shareholders' equity declined. This was largely due to exchange rate effects and the net loss. In line with this development, the equity ratio fell from 43 percent to 38 percent. The Heidelberg Group thereby continues to have an above-average capital base compared with other companies.

Overall provisions, which totaled € 1,455 million, remained unchanged from the previous year. Excluding the provisions for restructuring measures, other provisions fell in connection with business developments. During the financial year, we were able to considerably reduce liabilities to banks, which fell from € 922 million to € 796 million. The net financial debt of the Heidelberg Group totaling € 97 million therefore remained at the previous year's level. Despite the net loss, the high pressure on earnings, and dividend disbursements, we were successful in lowering our bank loans and overdrafts, thereby further improving the already above-average financial strength of the Heidelberg Group.

Financial Condition: Free Cash Flow Considerably Improved

The **cash flow** fell – caused by the losses during the current financial year – to € 100 million. During the previous year, the Heidelberg Group had generated cash flow of € 417 million.

Net cash from operating activities improved considerably from the previous year, increasing from € 3 million to € 411 million. This development was largely caused by the reduction in trade receivables and inventories.

The **outflow of funds from investment activity** fell considerably. Besides low investments in intangible assets and tangible assets, this resulted in part from asset disposals in connection with the sale and leaseback transactions. Kindly refer to the chapter 'Investments' on page 40 for more information on this subject.

Overall, this resulted in a considerable improvement in **free cash flow**, which rose from € –324 million the previous year to € 207 million. This development demonstrates that we were able to cover Heidelberg's investment needs and finance the dividend payment for financial year 2001/2002, which was paid out during the reporting year, with cash flow from business operations.

The positive free cash flow, which we generated thanks to our streamlined asset management, additionally made it possible for us to reduce the volume of borrowed funds from the previous year with only a somewhat lower dividend payment. We reduced our bank loans and overdrafts from € 922 million to € 796 million. Thus, there was a total outflow of € 233 million from **financing activity**, compared with an inflow of funds of € 298 million the previous year.

Cash Flow Statement of the Heidelberg Group

Figures in € millions	2001/2002	**2002/2003**
Net cash from operating activities	3	**410**
(of which cash flow)	(417)	**(100)**
Net cash used in investing activities	– 327	**– 203**
Free cash flow	– 324	**207**
Net cash generated (+) / used (–) in financing activities	298	**– 233**
Net change in cash and cash equivalents	– 26	**– 26**

A detailed cash flow statement is presented on page 83.

Value Added Quota Continues High

Heidelberg again realized a high value added quota during the financial year, totaling 39 percent of sales. The table shows that, as in the past, the largest part of the value added is accounted for by our employees. Nevertheless, the extremely high share of 91 percent is attributable to the net loss. Due to the loss situation, the share of the public sector declined from 7 percent to 3 percent.

Value Added

Figures in € millions	2001/2002	**2002/2003**		2001/2002	Share in percent	**2002/2003**	**Share in percent**
Formation			**Distribution**				
Corporate performance[1]	5,486	**4,437**	Employees	1,598	78	**1,456**[2]	**91**
			Public sector	135	7	**54**	**3**
Less raw materials and consumables used	2,037	**1,623**	Lenders	107	5	**93**	**6**
Less depreciation	202	**191**[2]	Shareholders and other partners	120	6	**–**	**–**
Less other operating expenses	1,207	**1,028**	Company	80	4	**– 8**[2]	**–**
= Value added	2,040	**1,595**[2]	**= Value added**	2,040	100	**1,595**[2]	**100**

[1] Corporate performance = total operating performance + other operating income + income from investments + other interest and similar income + result from specialized investment funds

[2] Excluding restructuring costs

Value Contribution

Figures in percent

	01/02	02/03
ROCE	14.8	**4.6**
Capital costs	14.0	**13.0**
Value contribution	0.8	**– 8.4**

Value Contribution: Value-Oriented Corporate Management

Our primary goal is to vigorously and continually increase the corporate value of the Heidelberg Group. We therefore focus on value contribution as a central steering and quantitative measure for corporate success in the Group. We also internally evaluate our business units based on their value contribution. For this purpose, we have established a comprehensive value management system with concrete objectives as part of the annual planning process.

The value contribution is especially well-suited as a control figure, as it combines an efficient use of the operating assets with yield expectations and capital market expectations. This is made visible in the tables on the following page. **Operating assets** include only those assets that are required for business operations. Heidelberg vigorously optimizes this figure through asset management.

ROCE (return on capital employed) reflects the relationship of the result of operating activities from our business operations to capital that on average is employed in operating assets. For the calculation, the result of operating activities is on the one hand adjusted for such extraordinary items as measures to improve the cost structure. On the other hand, it is increased by result components that are attributable to the core business, but are contained in the financial result.

The **expected return on capital** expresses the interest expectation of our providers of capital. Our calculation takes into account an appropriate market premium, the capital structure of the Heidelberg Group, and the risk of investing capital in Heidelberg stock. Due to the situation on the capital markets and Heidelberg's changed capital structure, we have currently reduced the expected return on capital to 13 percent.

The **value contribution** is defined as the amount by which ROCE exceeds the costs of capital. It is our goal to annually achieve a positive and increasing value contribution.

Operational Assets

Figures in € millions	2001/2002	2002/2003
Intangible + tangible assets [1)2)]	1,004	**968**
+ Loans + participations	238	**198**
+ Goodwill amortization (cumulated) [3)]	58	**82**
= Operating fixed assets [2)]	1,300	**1,248**
Inventories	1,233	**1,073**
+ Receivables + prepaid expenses	2,232	**1,959**
– Provisions [2)4)]	– 916	**– 739**
– Non-interest bearing liabilities and deferred liabilities	– 704	**– 722**
= Net working capital [2)]	1,845	**1,571**
= Operational assets [2)]	3,145	**2,819**
Average operational assets	2,901	**2,982**

Value Contribution

Figures in € millions	2001/2002	2002/2003
Result of operating activities [2)]	356	**102**
+ Income from investments	– 42	**– 84**
+ Interest from customer financing	100	**101**
+ Goodwill amortization [3)]	14	**19**
= ROCE [5)] **absolute**	428	**138**
• ROCE in % of average operational assets [6)]	14.8	**4.6**
Capital costs absolute	406	**388**
• Capital cost in %	14.0	**13.0**
Value contribution absolute	22	**– 250**
• Value contribution in %	0.8	**– 8.4**

1) Without assets under construction
2) Excluding restructuring costs
3) From capital consolidation
4) Without pension accruals
5) ROCE = Return on Capital Employed
6) Average values March 31, 2001 and 2002, as well as March 31, 2002 and 2003

ROCE Remains Positive; Value Contribution Negative During Financial Year

Despite the already mentioned extremely difficult economic environment, the Heidelberg Group was able to generate a positive ROCE on average operating assets – adjusted for restructuring costs – of 4.6 percent, compared with 15 percent the previous year.

The Heidelberg Group's value contribution fell short of our forecast during the financial year, amounting to a negative – 8.4 percent for the first time. The cause for this was the low result of operating activities. On page 23 we explain the background of this development in more detail. By contrast, we were successful in reducing the size of operating assets through financial year-end. We describe the concrete measures taken on page 26.

Our goal is to quickly return to our former earnings capacity, thereby again achieving a high level of value contribution.

Strategy – Designing the Future

- **Strong Basis: Three Strategic Pillars**
- **Auspicious Positioning in Digital Color Printing**
- **Improved Market Position through Integration and Cooperation**

We are pursuing a clear goal with our strategy: We intend to design the future of the print media so that our customers have clear advantages. Because we know that our customers' success also means our success.

In recent years, the requirements faced by companies in the print media have changed considerably. This results from the increasing process of digitization, which also affected the structure of the Graphic Arts Industry. Competitive pressures have increased drastically, and the depressed economic situation is worsening the impact of this development. Not only medium-sized printing establishments and copy shops are affected, but internationally active media companies as well. In order to survive in the market, these firms must fill orders at an increasingly rapid pace and on a cost-effective basis – at the same time ensuring top quality.

We recognized these developments at an early stage and adapted our corporate strategy accordingly. We support our customers in organizing their companies on a market-driven basis throughout the entire added value chain. We provide them with everything they need for success.

Three Strategic Pillars for Sustained Growth

We will attain sustained growth for the Heidelberg Group based on our strategy, supported by three pillars, which we introduced during the past financial year. With this strategy, we are well-equipped to meet the challenges of the coming years.

- **Offset Solutions** – The first pillar of our strategy consists of our solutions in Sheet and Web Offset printing, as well as Prepress. We intend to further expand our global market leadership in this area. In the digital era as well, Offset Solutions will continue to have the highest priority for our customers, thus providing a significant value contribution to the Heidelberg Group.
- **Digital Solutions** – Solutions for Color, as well as Black and White Digital Printing, form the second pillar. In particular, we intend to attain a top position in the global competition in Digital Color Printing over the next few years. Digital Printing gives our customers the potential for more differentiation, thereby enabling them to produce high-quality products – such as individualized printed products – at low cost.

- **Postpress Solutions** – The third pillar includes the entire area of Binding and Finishing – a processing step that has a crucial impact for our customers in terms of market attractiveness and profitability. We will be striving for a leading position in this market as well over the next few years. We favor a growth strategy based among other things on acquisitions and cooperative agreements.

We do not regard these three pillars in isolation. Rather, we try to reasonably link them together. The purposeful combination of the individual elements at a single source results in a greater added value than the total sum of the individual parts. This, in turn, enhances the efficiency and competitiveness of our customers, since they can precisely tailor their offers to the needs of their own customers in the advertising, marketing and publishing industries.

Successful Expansion of Market Position in Digital Color Printing

After our success in securing a large market share in Digital Black and White printing, following market introduction of the Digimaster 9110 and the addition of the 9150 model, we further strengthened our position in Digital Color printing during the reporting year. As soon as the economic situation turns around, we will share in the high growth rates in this market based on the NexPress 2100, which is produced by our joint venture with Kodak. For there is a great need for individualized printed products, especially in advertising. We enjoy clear advantages over our competitors. For one thing, we already brought our NexPress 2100 to market in September 2001, so we have a head start. And on the other hand, we benefit from our tight sales and service network within the Graphic Arts Industry.

Cooperation with Gallus Intensified

We intend to provide our customers with offers that are as comprehensive and technologically advanced as possible. To do this, we also favor cooperative agreements with other companies. For quite some time, we have been working together with Gallus Holding AG – a Swiss firm that is the world market leader in the production and development of narrow-width web printing presses, which are mainly used to make labels. We intensified our successful working relationship during the financial year and assumed economic control over the Gallus Group. We have thus now fully consolidated this firm. Moreover, as has already been announced, we expanded our product portfolio in the Postpress area through systematic acquisitions during the financial year – among others in package printing – and thereby further pursued our growth strategy.

Our Response to Market Needs: Comprehensive Solutions for the Customer

Our customers need to satisfy the requirements for greater flexibility, shorter production times, enhanced differentiation and more automation. We are therefore developing solutions to help our customers work noticeably more economically.

Future-oriented **state-of-the-art technologies**, which we are continuously further developing, are the foundation for these solutions. Our offerings range over customers' entire added value chain, since we are represented in all production steps with own products, thereby ideally making use of synergic effects. We integrate components in technology, software, as well as services and offer **universal, adapted, and integrated production processes** based on the individual needs of customers that guarantee optimal value added.

We initially set the course for a universal **production workflow** five years ago with our 'print production format', which we further developed into the standardized 'job definition format' within the framework of international cooperative agreements. Not only production processes, but also business operations, can be automated based on this approach. Our customers only need to digitally record the production information for a printing job once.

To also optimize the **business workflow**, we increasingly link the business and planning steps with the overall printing process. For example, upon completion of a printing job, printers can automatically produce shipping documents and invoices or calculate the profitability of the operation of a printing press. Computer-integrated manufacturing has thus become reality in the Graphic Arts Industry as well.

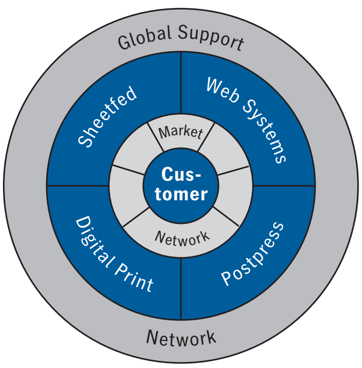
Beginning in the previous year we have been marketing our workflow management solutions under our own trademark **Prinect**. This product covers the entire spectrum of digital workflows, ranging from order processing and production control all the way to preparing documents for printing.

The **Print Media Academy** is also a major component of our customer services. The extent of the offerings is unique in the world. We offer expertise and practical training in all areas of the printing industry. We show our customers ways to set apart their products and services. This increases the advantages of our products for our customers and in return strengthens their bond with us. We have meanwhile created an international network of Print Media Academies in Atlanta, Heidelberg, Cairo, Kuala Lumpur, Moscow, São Paulo, Shenzhen and Tokyo.

Organization – Total Customer Orientation

- **Spotlight on the Customer**
- **Efficient Decision-Making Processes**

We introduced our new organizational structure for the first time in our previous Annual Report. For your reference, we have reproduced it in simplified form in the graph on the left. This organizational structure went into effect for the entire Group on April 1, 2002.



Optimal Support for Strategic Alignment

All our customers are provided with extensive advice by a permanently assigned personal advisor and provided with everything they require. These personal advisors are part of our Global Market Network, which is organized in seven regional market centers worldwide, and is responsible for the sales, service and marketing of all of our solutions and products. It maintains close contact with our four Solution Centers of the Sheetfed, Digital, Web Systems and Postpress divisions, which develop these solutions and products. Decisions that have ramifications on a product's quality or life-cycle are made in the Solution Centers – a quick response to changing market needs is thus assured. We organize such cross-sector functions as human resources management, law, taxes, finance, accounting, and IT support on a centralized basis – and thereby in a uniform and efficient manner.

Changed Presentation of the Divisions and Regions: Figures Restated

The new organization entails some changes in the presentation of the divisions and regions. The former Finishing Division was renamed Postpress and additionally assumed responsibility for the Web Finishing area, which was previously part of Web Systems. The Prepress business has now been shifted from Digital to the Sheetfed Division.

The former separate regions 'NAFTA' and 'Central and South America' have become the 'North America' and the 'Latin America' regions, with our Mexican sales subsidiary shifted from the NAFTA region to the Latin America region. The new 'Europe, Middle East and Africa' region comprises the former 'Central Europe' and 'Middle East and Africa' regions.

To make a meaningful annual comparison possible, we have appropriately restated the previous year's data in the individual segments.

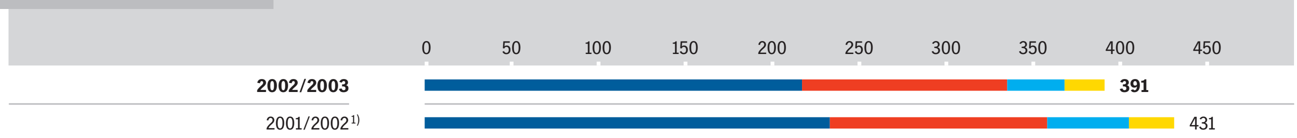
Research and Development – Future-Oriented Solutions

- **R&D Expenditures Total € 391 Million**
- **Products Improved**
- **Preparations for drupa 2004 Full Steam Ahead**

The R&D rate – the ratio of R&D expenses to sales – rose during the financial year from 8.6 percent the previous year to 9.5 percent. However, since the sales of the Heidelberg Group declined, our absolute R&D expenditures of € 391 million fell short of the previous year's figure of € 431 million. We increased our effectiveness in the research and development area as well – among other things, utilizing synergies more intensively and improving cooperation. Including the patent activity of our 50-percent-owned joint venture NexPress, we were able to newly register a total of 382 patents during the financial year – Heidelberg thereby has a total portfolio today of more than 10,000 patent applications and patents.

Research and Development Expenses

Figures in € millions



Digital	118	– 6 %
Sheetfed	217	– 7 %
Web Systems	33	– 30 %
Postpress	23	– 12 %
Heidelberg Group	**391**	**– 9 %**

[1] Restated in accordance with the new management organization. Please refer to page 35

Focus on Growth and Markets of the Future

During the financial year – and continuing today – we undertook vigorous preparations for the next drupa in all R&D areas. For competitive reasons, we cannot report yet on the details of these projects. We concentrated on product development during the financial year – on projects for which great need is visible in the market. Basic research and experimental research accounted for less than 10 percent of our resources.

The further development of our comprehensive workflow management systems **Prinect**, in which over 200 software engineers are involved, has high priority at Heidelberg. What are the advantages of networking the Prepress, Press, Postpress and Print Management areas? This product makes uninterrupted digital workflow possible, which represents an enormous competitive advantage for our customers. Integrating all processes of importance for the production process on a comprehensive basis makes production more secure, reproducible and cost-effective – a key value added. We are vigorously further developing Prinect. We are augmenting the functionality of all workflow components with the aid of a common communications standard – the Job Definition Format. We are currently developing applications that go beyond pure data processing in the creation of print products.

The focus of attention of our development activity continues to be on the **Offset** area. This area will continue to make a decisive contribution to the income of the Heidelberg Group in the future, since most of our customers focus on the offset printing press.

In our **Sheetfed** Division, which includes the Sheetfed Offset and Prepress areas, the highest priority is on the further development of our product lines. Additionally, we are devoting considerable effort to increasing productivity in the direct product environment. We are achieving this by networking data among the Prepress, Press and Postpress steps. In doing so, we increase access to systems and service capabilities through the further expansion of our Remote Service. With our activities, we were able to further boost our leadership over the competition during the financial year.

In Web Offset printing – our Web Systems Division, which also includes our Commcercial Web and Newspaper Printing business – we are focusing on securing our leading technological position. Priority here is being placed on

- further increasing the productivity of our printing presses;
- integrating our systems within digital networks; and
- systematically further developing our general and specialized further training offerings for customers.

In the Digital Division, we were best able to secure our leading position in innovations by further developing the workflow. Moreover, in particular, the following factors are important for us – as well as for our development partners:

- Reducing the cost of accessories, service and toners; and
- developing solutions that represent a particularly meaningful benefit to our customers in the commercial area, and which supplement conventional applications.

We primarily develop solutions that we can apply for Digital Black and White as well as Digital Color printing.

We orient ourselves on market trends in the **Postpress** area. Higher-quality products and shorter turnaround times force printing establishments to extend their added value chain into areas previously occupied by specialists. We therefore round out our product portfolio to make it possible for our customers to differentiate themselves from their competitors by means of key additional advantages, while simultaneously also reducing their manufacturing costs. We increase profitability by modularizing our products, thereby reducing the active number of individual parts.

We also further advanced opportunities for **print technology combinations** during the financial year. Mastery over various printing processes makes it possible to combine our technologies into so-called hybrid printing presses. As a result, for example, offset printing can be associated with flexo printing.

We discuss the **results** generated in the individual divisions during the financial year and the divisions market potential in the respective Reports of the Business Units on pages 45 – 56 under 'Product Innovations and Highlights'.

Cooperative Agreements Reduce Development Costs

Strategic partnerships become increasingly important in times of ever-shorter cycles of innovations with simultaneously increasing development activity. This applies primarily in the Prepress and Digital areas. Wherever appropriate, we cooperate with other companies, form strategic partnerships, and work together with numerous banks, universities and organizations worldwide. Some 300 such arrangements are in effect in our Sheetfed Division alone!

Our NexPress joint venture with Kodak was again of particular significance during the financial year. We further intensified our cooperation with Gallus, the world market leader in label printing presses. We provide details in the chapter 'Strategy'. We are working on increasingly merging the technologies of Gallus and Heidelberg – for example, in the area of printing processes of today and the future, as well as in measuring and control engineering.

Optimized Processes in Cooperative Agreements

Worldwide, we engage in research and development at a total of 14 locations. In order to set our priority on future-oriented activity and clearly focus our attention on growth for the entire Group, we launched a systematic **process of innovation**, which applies to all the Solution Centers. Our technology scouts ensure that new technologies, products and solutions are pointed in the right direction so that they create value. A central unit, our **Innovation Council**, controls the distribution of funds for innovative projects based on analyses of market potential, competitive strengths and weaknesses, and the cost-benefit ratio. We established **technology platforms** to ensure that efforts in the development areas focus on the most important key technologies.

We promote a global exchange of ideas and cooperation by means of **interdisciplinary networks**, which also involve our external development partners. This makes it possible for us to take advantage of a networked resource pool and make better use of synergies.

Even though research and development activity is centrally supported and managed, within the framework of the new organizational structure, we have transferred all decisions involving product life-cycles directly to the individual **Solution Centers**. In this way, we can promptly react to changing market needs. A **matrix organization** in the Solution Centers has proven to be especially helpful. One level is oriented to product lines and product centers, while the other focuses on functional responsibilities – including, for example, software development, design, machine dynamics, documentation, as well as control and peripherals systems.

R&D Employees: Higher Qualifications

The success or failure of the quality of research and development depends on the qualification of our employees. The share of highly qualified developers with a university or specialized college degree is continuously rising. Engineering, software and electrical engineering, and support functions (such as metrology, simulation, and chemistry) are more or less equally represented. During the financial year, we ensured that our R&D employees gained further qualifications, with the principal focus on project management training in order to additionally increase the effectiveness of our research and development.

Around the globe, 11 percent of all our employees were active in the R&D area at the end of the financial year – down from 2,666 to 2,512 employees due to the improvement in our structures.

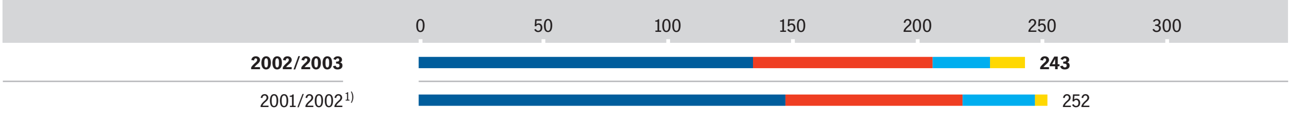
Investments – Precision Control

- **Investment Volume Adapted to Capacity Utilization**
- **Continued Pursuit of Strategic Goals**
- **Laying the Groundwork for Sustained Growth**

Our procedure for the planning process and the management of investments again proved itself during the financial year. When indicators pointed to worsened capacity utilization, we were able to respond immediately and reduce our investment level, while nevertheless continuing to promote new product launches and to improve our competitiveness. In this manner, we ensured that Heidelberg's strategic goals continued to be vigorously pursued.

Investments

Figures in € millions



Digital	**72**	+ 1 %
Sheetfed	**134**	– 9 %
Web Systems	**23**	– 21 %
Postpress	**14**	+ 180 %
Heidelberg Group	**243**	**– 4 %**

1) Restated in accordance with the new management organization. Please refer to page 35

Foundation for Global Investment Planning: Detailed Information

We plan and control the Heidelberg Group's overall investment activity through our central investment management. In addition to the controlling area, technical areas are also heavily involved in the financial management process. Detailed information concerning all investments, which we collect using a global planning system, serves as the basis for all decisions. In this manner, we ensure that funds are used efficiently and in line with our strategic goals. We are in a position to modify current projects at any time in accordance with the current corporate policy and situation.

Strict Criteria for Investment Decisions

In order to secure the maximum in funds for investing in our areas of core expertise, and before any investment decision is made, we fundamentally examine the alternatives and look for opportunities to reduce the investment volume – yet not at any cost. We immediately implement necessary measures for accident prevention and environmental protection. Replacement and streamlining investments – which accounted for approximately two-thirds of the overall investment volume during the financial year – must generally fulfill the strictest profitability criteria. Fundamentally, a make-or-buy-analysis is implemented before any investment is undertaken.

Low Capital Commitment with Leasing

With the aid of leasing, we were able to achieve a low degree of capital commitment. We make use of this form of financing especially for real estate and motor vehicles, and increasingly in our IT operations as well. In connection with structural adjustments to the site in Rochester, following a construction time of approximately two years, we sold off our Digital Headquarters for € 95 million within the framework of a sale and leaseback transaction. The expansion of the Durham plant, where we concentrated our Web and Postpress activities, was also based on this approach.

In the IT area, with its short useful life compared with production machines, we arrange some 50 percent of our requirements via leasing contracts – with an upwards trend.

Sales Strengthened and IT Infrastructure Improved

We invested a total of € 243 million in intangible assets and tangible assets during the financial year. This corresponds to 6 percent of consolidated sales. The highest priority was placed on measures for new products, on improving series-produced goods, and on investments with substantial streamlining potential. As in the past, information technologies played a significant role in this area, accounting for approximately 25 percent of the overall investment volume. We invested over 20 percent of the budget in training and providing sales support in this area. During the financial year, acquisitions also played a role, by means of which we considerably improved our position in the high-growth Postpress market. Overall, we capitalized a total of € 45 million in development costs during the financial year.

A breakdown of the investments of the various divisions, as well as additional information concerning investments is provided in the chapter ‘Reports of the Business Units’ on pages 45 – 56.

Progress with Key Strategic Individual Projects

At our Amstetten large-component manufacturing facility, we started with new installations for cylinder manufacturing with considerably enhanced productivity. The investment volume for complex machine tools and machining centers totaled approximately € 3 million during the financial year. Overall investment will reach a magnitude of around € 21 million. Processing times can be reduced by up to one-third thanks to this investment. We will also become more flexible in view of new and better adapted products. Using the new printing presses, we will be in a position to implement our knowledge in high-performance cutting and dry-processing.

As we mentioned above, we expanded the Durham plant, merging the capacities of our Dayton, Dover and Durham plants through investments totaling some € 10 million. During the financial year, among other things, we expanded the painting facilities in Durham into a central painting facility for the Web Systems and Postpress divisions at a total cost of approximately € 0.6 million, closing down the other capacities. This has resulted in a considerable improvement in our cost structure.

Additional projects are described in the chapter 'Reports of the Business Units' on pages 45 – 56.

Procurement – Optimizing Purchasing and Logistics

- **Cost Reductions Despite Difficult Overall Environment**
- **Progress in Quality Assurance**
- **Inventories Further Reduced**

During the financial year, the overall procurement volume of the Heidelberg Group amounted to € 1.6 billion, compared with € 2.3 billion the previous year. The Group's 18 percent sales decline was the principal cause of this approximately 30 percent falloff. Nevertheless, the relatively greater reduction in procurement volume vis-à-vis sales also results from lower material and procurement costs.

Previous Year's Organizational Changes Pay Off

In last year's annual report we reported on organizational changes in the procurement area and their cost-saving potential. We were already in a position to harvest the fruits of these innovations during the financial year. We again actively took full advantage of cost reduction opportunities – for example, our corporate procurement acquired and optimized additional purchase volumes such as marketing services.

We also generated cost reductions through both conventional measures, as well as those extending to individual operations – among others by means of price negotiations, value analyses, supplier reductions, master agreements, global master contracts, and our globally active product group management. For example, we transferred our global data communications network to a single global service provider. In this manner, we were able to reduce our expenditures in this area by approximately € 8 million – and furthermore considerably improve the network's performance quality.

Acceleration of Retrieval and Auditing

We launched Web-EDI during the financial year, which now gives us the ability of also providing smaller suppliers with electronic transmissions for deliveries on a call-purchase basis, for delivery notices, and for invoices. We thereby avoid time-wasting manual inputs, prevent data errors, and in general accelerate procurement operations.

Further Reduction in Vertical Integration

We are increasingly concentrating on our areas of core expertise. We were also successful in further reducing our costs during the financial year by means of consistent outsourcing based on make-or-buy analyses. Just one example: In Dover, we considerably reduced our fixed and administrative expenses by outsourcing 40,000 production hours required in the manufacture of simple mechanical components.

Suppliers Facing a Generally Difficult Environment

The financial year was not an easy one for many of our suppliers. The lower delivery volumes resulting from unfavorable business developments and stricter lending guidelines (Basel II) in part resulted in a substantial further upward pressure on costs. We secured Heidelberg's material supplies by carefully monitoring the supply market in order to identify and closely monitor at an early stage those suppliers with a high level of risk. We additionally came to an agreement on requirements in a timely fashion.

Securing the Quality of Product Supplies

Our comprehensive quality assurance concept primarily favors prevention. We concluded even more quality management agreements during the financial year than in the past. Addionally, we more intensively integrated our suppliers into the development phase and preparations for series production. This enabled us to substantially lower the costs of errors in connection with supplied parts and significantly improve quality.

Further Optimizing Inventory and Logistics

We extended our consignment stock concept to additional production materials, as well as to consumables and supplies during the financial year. Also through more comprehensive just-in-time deliveries, we succeeded in further optimizing inventories, thereby considerably increasing the liquidity of the Heidelberg Group.

Our World Logistics Center (WLC) offers clear advantages, with some 70 percent of spare part orders now delivered directly to customers – in other words, without the need for interim storage in the respective regions. Over the past two years, the volume of the delivered products rose by 15 percent, while our costs fell by 20 percent! Our customers benefit enormously from our overnight spare parts service, which we offer in almost all parts of the world – a service that none of our competitors is able to provide.

Digital – Taking Advantage of Opportunities

- **New Digimaster Brought to Market**
- **NexPress 2100 Launched in Key Markets**
- **Reducing the Manufacturing Cost of the NexPress 2100**

What do digital printing methods offer our customers? They open up opportunities for acquiring new market segments. For with digital printing, printing establishments can successfully satisfy the trend towards ever-shorter turnaround times and personalized short print runs on a cost-effective basis. Applications range from targeted marketing activities and the printing of personalized books, all the way to innovative linkups with the electronic consumer media and printing presses.

Our customers have access to all the important digital printing and workflow applications from us. In the Digital Color printing market, since the previous financial year, we have maintained a presence based on our joint venture with Kodak with the NexPress 2100. With this model, both short print runs and personalized long print runs can be produced quickly, on a cost-effective basis, and at top quality. We secured a large market share in high-volume Digital Black and White printing with our Digimaster product family within a short period of time. This printing press is particularly characterized by two qualities: On the one hand, by its modular construction method, which can be configured and upgraded according to the particular requirements, and on the other hand by the best print quality in its class.

Financial Year 2002/2003 in Figures

The US is the principal market for our digital products. The unfavorable business developments there are dampening demand for digital printing presses. In the area of Black and White printing presses with a high level of productivity demand weakened considerably, as expected, during the financial year. Although the market for Digital Color printing grew, it fell short of its potential and far behind the original expectations. In the first year following market introduction of our NexPress 2100, we succeeded in consolidating our position in this market of the future. After the US and Germany, we also introduced this model to other European markets. Next year, we will supply such additional key markets as Asia. Preparations for this are currently underway – for example, in the form of a customer forum in Japan.

Digital

Figures in € millions

	01/02[1]	02/03
Incoming orders	284	**219**
Net sales	262	**235**
Result of operating activities[2]	– 35	**– 47**
Research and development expenses	125	**118**
Investments	71	**72**
Number of employees	1,958	**2,279**

1) Restated in accordance with the new management organization. Please refer to page 35
2) Excluding restructuring costs

Incoming orders of € 219 million were approximately a quarter below the previous year's figure – the result of opposing trends. Incoming orders in the Black and White area declined considerably in the US. On the other hand, we realized marked growth in Digital Color printing.

Nearly one-fourth of **total sales**, which totaled € 235 million and were down by 10 percent overall, was generated from the business with the NexPress 2100. We have sold this model more than 200 times in over a dozen countries, of which two-thirds have already been installed. Sales in the Black and White area declined from the previous year.

At year-end, the order backlog amounted to € 40 million, compared with € 62 million the previous year.

The **result of operating activities**, which totaled € – 47 million, was substantially hampered in the Black and White area by the development of business. The additional startup costs, including R&D expenses for the NexPress 2100, are included under the equity consolidation in the financial result. We meanwhile considerably improved the Digital Division's cost structure during the financial year.

Although we reduced personnel in the Black and White area, we increased our staff in the Digital Color Printing – expanding, in particular, sales and service. Overall, the number of the **employees** in this division rose by 16 percent over the previous year to 2,279.

The **investment** volume of € 72 million was at the previous year's level. The expansion of the Digital Headquarters was completed on schedule, with the building sold to an investor under the provisions of a sale and leaseback transaction.

R&D expenses decreased by 6 percent from the previous year to € 118 million. We considerably enhanced the effectiveness of the R&D area, purposefully making use of synergies between Digital Black and White and Digital Color printing. Additional information on this topic can be found in the chapter 'Research and Development' on pages 36 – 39.

Product Innovations and Highlights

In the autumn of 2002, our biggest customer, VLM (Virtual Literature Management) in Birmingham, UK, established new standards for monthly printed volumes for Digital Color printing presses, attaining an unheard of volume of over a million printings in one month on a single printing press. Other customers are also continually increasing monthly print volumes.

Another favorable factor is the considerable number of NexPress users attaining longer useful lives with non-reparable parts than had originally been expected, thereby further reducing the price per printed page.

We are pleased that the NexPress 2100 was awarded the prestigious GATF Award in the financial year for outstanding innovative performance.

At financial year-end, we were present at CeBIT 2003 in Hanover with our 'Digital Inspirations', clearly showing visitors through numerous print job demonstrations the great variations available from the variable data printing in particular. Despite overall low customer frequency, even more guests visited our stand than in the previous year. This trade fair was a complete success for us.

To remain capable of further expanding our position vis-à-vis our competitors, we focus on four factors in our development activity: increasing the productivity of our solutions, offering new and improved applications through special accessories, increasing user-friendliness, and simultaneously reducing operating expenses and acquisition cost. We continued to make considerable progress in all four areas during the financial year.

We successfully launched the new software NexTreme for variable data printing. This product offers considerable potential for increasing the monthly printing volume of print service providers.

We brought to market the Digimaster 9150i, a new generation of high-speed printing presses. This model is characterized by superior throughput performance and productivity in Black and White printing.

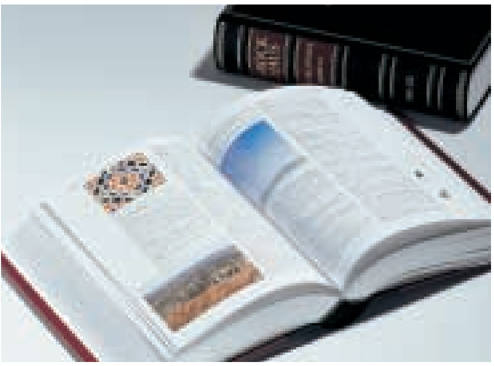
Also new is the Digimaster 9110M – an MICR-capable version of the Digimaster 9110 – MICR uses a specialized toner with magnetizable particles. Computer centers and end-users for transaction printing can thereby print checks and other documents that are magnetically encoded for security purposes.

We developed a special version of the Digimaster 9110 for the Japanese market. This model can reliably process the paper customarily used in Japan, and is furthermore equipped with an intuitively comprehensible user interface and printer drivers in Japanese for the Macintosh and Windows operating systems.

The Prepress and Finishing accessories offered by the Digital Division also support our customers' success. We again launched important innovations during the financial year. One example is our ImageSmart DocumentMastering, an application based on the standard PDF format. This product considerably improves Prepress document productivity.

Sheetfed –
Maintaining Market Position

- **Order Backlog Short of Previous Year's Level**
- **Adjusting Capacities**
- **Operating Result Remains High**



We have moved Prepress operations to the Sheetfed Division as part of the new organizational structure. This permits us to further integrate Prepress activity within the area of Sheetfed Offset printing, thereby offering our customers even better solutions with an even more efficient workflow.

Our approach of providing customers with comprehensive solutions that go far beyond supplying printing presses alone is a crucial factor in Heidelberg's considerable success. We therefore vigorously apply this policy in all format categories and product families. The market continually reaffirms the value of this policy, with customers increasingly acquiring complete systems from us. They appreciate the strategic business advantage of coordinated and integrated computing systems that go far beyond simple value added with single product acquisitions.

Financial Year 2002/2003 in Figures

During the financial year, recessionary economic developments resulted in a considerably reduced propensity to invest by many of our customers in Europe and the US. Furthermore, the strong euro weakened our position relative to the Japanese competition. Nevertheless, we again successfully asserted our market position as the world market leader in the Sheetfed Offset area during the financial year – on the one hand, through the quality and service that makes clear our expertise as a solutions provider, and on the other hand, due to our cultivation of close customer relationships and personalized offers. We generated above-average growth rates in the emerging markets of the Asia/Pacific and Eastern Europe regions, where Heidelberg is very well positioned. In the future as well, we see particular growth opportunities in the highly competitive Asian economic region and in Eastern Europe.

Incoming orders decreased by 11 percent from the previous year to € 2,916 million – caused in particular by our customers' low capacity utilization as well as restrained business expectations in key regions. We registered outstanding incoming orders for our Speedmaster ten-ink printing press. Once again, we were highly successful with visitors at specialized trade fairs. This was true at IPEX 2002 in Birmingham, UK; at Graph Expo in Chicago in the US;

Sheetfed

Figures in € millions

	01/02[1]	02/03
Incoming orders	3,288	**2,916**
Net sales	3,674	**3,064**
Result of operating activities[2]	497	**282**
Research and development expenses	233	**217**
Investments	147	**134**
Number of employees	18,798	**17,615**

1) Restated in accordance with the new management organization. Please refer to page 35
2) Excluding restructuring costs

and at our 'Inforum Special Effects' held in September in Wiesloch. Incoming orders during and following these events were considerable in view of the overall situation.

Total sales totaling € 3,064 million were 17 percent below the previous year's figure. Nevertheless, we succeeded in generating a growth in sales in emerging markets. In the area of Sheetfed Offset printing presses, the sales of the Speedmaster CD 74 were particularly strong, recording an outstanding increase in sales since this product's launch in financial year 2000/2001. The Printmaster PM 74 was also highly successful, with sales remaining stable from the previous year. Prepress products, which were affected in a similarly strong fashion as Sheetfed Offset printing presses, posted a 21 percent sales decline. Computer-to-Plate equipment nearly reached the previous year's sales level, whereas we discontinued Computer-to-Film equipment and scanners due to slack demand.

The **order backlog** was € 629 million at financial year-end – 19 percent below the previous year's figure.

We undertook vigorous countermeasures to offset the effects of the sales decline. We adapted capacities and also introduced cost-reduction measures. In Kiel, the planning process has begun regarding the moving of Computer-to-Plate production to Wiesloch. We also introduced cost-cutting projects in the areas of material costs as well as in research and development. In Wiesloch, Heidelberg's largest manufacturing facility, we adapted production to falling demand by making use of rolling non-production days and part-time work. We were thereby able to maintain the **result of operating activities** at the high level of € 282 million, or 9 percent of sales.

The number of **employees** decreased significantly during the financial year. In the previous year, as of March 31, 2002, we had a total of 18,798 employees in the Sheetfed Division, compared with 17,615 as of March 31, 2003. We took advantage of normal employee turnover, did not replace employees lost through attrition, and let limited labor contracts expire. We additionally developed a package of measures with the works councils that among other things includes a provision for an operations-related notice of termination.

We cut back **investments** by 9 percent to € 134 million, mainly due to the difficult order backlog situation and the strained earnings position. The funds were used mainly for continuing already initiated streamlining projects and ensuring that new products are launched on schedule. Among other things, in Amstetten, we began installing new cylinder manufacturing equipment, which is considerably more productive and ensures that we remain highly flexible with regard to new and adapted products.

R&D expenses totaling € 217 million were just under the previous year's high level. We maintained our competitive advantage by relying on integrated solutions.

Product Innovations and Highlights

We brought a unique international innovation to market: the Speedmaster CD 102 Duo. This model opens up new opportunities for high-quality inline processing and unites Flexo Printing with Offset Printing. It provides our customers with the competitive advantage that is crucial today: rapid throughputs with perfect results.

An additional innovation in high-quality job printing, as well as package and label printing, is our Speedmaster CD 74 with fully integrated ultraviolet features. This model makes possible both printing with ultraviolet inks and ultraviolet varnishes, as well as a double-varnishing process that is integrated in the production process – and this at 15,000 sheets per hour.

The number of plants that carry out processing measures in a single process, with printing using the Sheetfed Offset printing press, is continuously increasing. With our inline finishing module for the Speedmaster SM 52, among others, perforations and punch holes are handled directly by the printing press.

We are pleased to have delivered the 100,000th GTO unit. As a result, with over 60,000 customers throughout the world, the GTO 52 is the best-selling Sheetfed Offset printing press. This model has had a decisive impact on its printing press class, with the A3 format also known as the GTO format. We also completed production of the 1,000th Printmaster PM 74 unit.

Additional highlights during the financial year included the following: We were recognized for our Speedmaster CD 74 in connection with the design prize of the Federal Republic of Germany. In the medium format, with over 25,000 installed units, the Speedmaster SM 74 is also the most successful half-sized printing press worldwide in recent years. The five locations of the Solution Center Sheetfed in Wiesloch, Heidelberg, Amstetten, Brandenburg and Kiel were certified during the financial year by audit teams of the German technical inspection service TÜV, following a combined examination for quality and environmental management.

Web Systems – Advertising Crisis Leaves Its Mark

- **Heavy Market Decline in Commercial Web Offset Printing Presses**
- **Countering Losses from Sales Decline with Cost Reductions**
- **Successful Mainstream 80 Model for Newspaper Printing**

The core products of our Web Systems Division are commercial web offset printing presses for long print runs on the one hand – primarily for magazines and other advertising media – and newspaper printing presses on the other hand. There is tremendous competition in both areas. We offer our customers solutions that are tailored for their individual requirements. Good examples for this are our printing presses using so-called Sunday technology. These gapless printing presses eliminate vibrations and make superior print quality possible at greater speeds and using wider web widths. Our Mainstream 80 is the only newspaper printing press worldwide that operates based on this technology.

Financial Year 2002/2003 in Figures

We must rely on dramatic words in order to correctly describe the situation in the market for commercial web printing presses: it was a disaster. The US market contributes a significant share of this market's total volume. Since the economic situation in that country worsened further during the financial year, and especially the advertising agency and ad segment was hit by a substantial crisis, many of our customers operated at lower capacities and refrained from making new investments. In the US, incoming orders were therefore 60 percent below the normal level. Worldwide, they were 50 percent below normal levels. Nevertheless, our market share in commercial web printing presses increased slightly, with our position as the market leader therefore further strengthened.

Although the newspaper printing business was also hampered due to economic conditions, business was nevertheless favorable for us. Even though we only launched our Mainstream 80 in the market in 2000, despite fierce competition, we succeeded in boosting our market share to over 10 percent. The advantages of the Mainstream are apparent. It makes possible later press time as well as the precise tailoring of newspapers to particular target groups. In this manner, the Mainstream 80 fully meets the requirements of future trends in newspaper printing. Incidentally, you can follow the installation of a Mainstream 80 live in the Internet by logging on to www.roanoke.com/roatimes/webcam/.

Web Systems

Figures in € millions

	01/02[1]	02/03
Incoming orders	561	**521**
Net sales	628	**431**
Result of operating activities[2]	– 95	**– 91**
Research and development expenses	47	**33**
Investments	29	**23**
Number of employees	2,613	**2,329**

[1] Restated in accordance with the new management organization. Please refer to page 35
[2] Excluding restructuring costs

Incoming orders of € 521 million declined overall and fell short of the previous year's level of € 561 million. This was largely the result of a sharp falloff in demand for commercial web printing presses in our Sunday product family.

By contrast, we were able to book seven additional orders for the Mainstream 80 during the financial year. This demonstrates that our gapless web press technology also enjoys a high degree of confidence in the newspaper market. Since its market introduction, we have already booked 21 orders for Mainstream newspaper printing installations. What this figure alone fails to show are nearly 700 units that we will be installing in a total of five countries in the future!

We generated **total sales** of € 431 million, compared with € 628 million the previous year. In the newspaper area we matched the previous year's level, whereas demand fell in the commercial printing area. The bleak world economic climate, as well as political uncertainties and unease due to the war in Iraq, had an impact on the area of conventional web printing presses as well. Only demand in Eastern Europe surpassed our expectations – a region that was hardly affected by the world's economic weakness and which enjoyed stable growth rates.

The **order backlog** strengthened considerably, growing from € 192 million the previous year to € 258 million – the result of incoming orders in the newspaper sector.

We reacted immediately to the deterioration in the underlying conditions and adapted our capacities. Beside cutting back on the number of employees, we closed the Dover, New Hampshire manufacturing plant. Nevertheless, we were unable to make up for the massive market downturn during the financial year. The **result of operating activities**, which amounted to € – 91 million, thus fell short of our original forecast. As in the previous year, when we booked a loss of € – 95 million, this figure comprises considerable preparatory work for the newspaper printing business.

The number of the **employees** in Web Systems fell during the financial year from 2,613 to 2,329, or by 11 percent. We also employed fewer freelance employees. We integrated the North American sales and service team in the Solution Center Web, thereby enhancing the synergies and effectiveness of our customer services.

With a volume of € 23 million, the **investment level** was 21 percent below the previous year's level. Within a period of only 18 months, we fully implemented our new SAP ERP System (Enterprise Resource Planning System) at all our plants, making it possible for us to benefit considerably from additional synergies and greater transparency within the division. We completed the expansion of the Durham, New Hampshire plant during the financial year, which we had begun the previous year.

R&D expenses decreased by 30 percent from the previous year to € 33 million. We streamlined the research and development organization during the financial year and structured its operation on a more efficient basis.

Product Innovations and Highlights

Productivity and profitability: these are the criteria by which our Web customers must succeed – and the yardstick against which our offers are measured. In the Web Systems area, an increase in productivity can currently be realized primarily via automation. During the financial year, we optimized the workflow and made additional products autoplate-capable – a system that makes it possible to change plates in just two minutes.

Our customers can maximize systems productivity and transparency with the aid of a general data flow. The new Prinect prepress interface technology enables an uninterrupted digital workflow from Prepress all the way to the printing press. The innovative Omnicon control system also provides for a maximum in user-friendliness, precision, automation and integration. The open systems architecture makes it possible to integrate all components along the flow of information, from Prepress and Press all the way to Postpress.

At IPEX 2002, we presented our new commercial web printing press, the 64-page Sunday 4000 with autoplate, which we specially developed to meet the needs of the European market. This model has been developed for the production of high-quality small- and medium-sized print runs with a large number of pages in commercial and illustration printing. To make clear the printing speed of the printing press: the maximum amount of paper that can be printed in an hour corresponds to 2.5 million DIN A4 pages! The first of these printing presses went into operation during the financial year at a customer in Italy and has fully met expectations.

We developed a new variant of the 16-page M-600 commercial web printing press, the so-called C-24, which is characterized by greater speed and improved functions. We are thereby further strengthening the already strong market position of the M-600 in the 16-page segment. With over 1,500 installed printing units today, this model is now the most-sold printing press in its class worldwide.

Installation of the first large Mainstream newspaper printing press at Trafford Park Printers in Manchester, UK, has been completed. Two additional Mainstream models were installed in France and went into operation – at IPS-Rotopicardie in Fouilloy and IPS-Rotosud in Reyrieux.

Postpress – Success through Differentiation

- **Expanding the Product Portfolio**
- **Increasing the Market Shares**
- **Adapting the Structure of Plant Locations**

Printing establishments gain an enormous competitive advantage if they expand, and as a consequence, optimize their value added to include finishing. This reduces their unit costs, produces their output more rapidly and flexibly and – simultaneously! – offers their customers a higher-quality final product. Since we use the standardized data formats JDF and CIP3/CIP4 throughout, and completely integrate the processing steps within the Prinect workflow, our Postpress products can be smoothly integrated and are easy to operate.

Financial Year 2002/2003 in Figures

We made considerable progress in attaining our strategic goal in the Postpress area during the financial year. Through innovations and acquisitions, we expanded and augmented our product portfolio by adding key products. In a generally difficult environment, we were able to increase our share in the processing market, which accounts for a total volume of approximately € 3 billion worldwide.

Declining advertising expenditures in the industrialized countries and generally poor capacity utilization resulted in restrained investment activity in the processing sector during the financial year. As a consequence, competitive conditions worsened, which, in turn, put profit margins under considerable pressure worldwide and in all product groups.

Incoming orders during the first eight months of the financial year surpassed our expectations. Demand for Postpress products increased not only in Eastern Europe and the UK in particular, but also in Canada, Japan and France. Nevertheless, this favorable development could not compensate for the poor situation in the German market and the unexpectedly strong downturn in the US and in Australia during the last four months of the financial year. Overall, we booked a volume of € 413 million – down by 5 percent from the previous year.

Total sales were 12 percent below the previous year's level. The **order backlog** accounted for approximately two months of production at year-end.

During the first eight months of the financial year, the **result of operating activities** more or less corresponded to our forecast. Following that period, however, it was considerably restrained – in particular due to the sharp falloff in the US market – and amounted to € – 42 million at financial year-end. This figure includes considerable charges by the Web Finishing area as well as advance services for the Probinder, which is coming to market during the current financial year.

As of March 31, 2003, we had a total of 1,958 **employees** in the Postpress area – 1 percent less than the previous year. We boosted our flexibility in the human resources area by increasingly relying on freelance personnel.

The volume of the **investments** doubled to € 14 million. The principal focus in this area was on consolidating and concentrating plants. Planned maintenance and capital investments at the Mühlhausen and Ludwigsburg operations were cancelled, as these operations will soon be merged. As a result of our outsourcing of 40,000 production hours for simple mechanical components in Leipzig, we were also able to avoid replacement investments there. We improved our cost structure in Durham by expanding our painting facilities and closing down other installations. With the goal of considerably increasing our effectiveness in folding machine assembly, we restructured our material preparation at the Ludwigsburg plant. The assembly turnaround times were hereby reduced considerably. Our investment of approximately € 0.5 million will already pay for itself during the current financial year.

R&D expenses totaled € 23 million – 11 percent below the previous year's figure.

Postpress

Figures in € millions

	01/02[1]	02/03
Incoming orders	434	**413**
Net sales	453	**400**
Result of operating activities[2]	– 11	**– 42**
Research and development expenses	26	**23**
Investments	5	**14**
Number of employees	1,975	**1,958**

1) Restated in accordance with the new management organization. Please refer to page 35
2) Excluding restructuring costs

Product Innovations and Highlights

Customer surveys make clear the increasing importance of wire-comb binding in professional finishing – areas of application that include, among others, (hand-)books, annual reports, and training documentation. Our innovative Probinder, a unique innovation worldwide, thus comes to market at precisely the right time. It makes possible variable wire-comb binding and is therefore highly superior to the products of competitors. The main advantage of the Probinder: a simple wire is used to individually produce an exactly fitting wire comb. If another binding color is desired, only the wire coil needs to be changed. Holding an inventory of previously made-to-order wire combs in various implementations is no longer necessary. Short print runs and frequent format changes are no problem. The Probinder can be directly integrated within the digital or offset workflow. Various versions of this product are being launched in the market beginning in August 2003.

Our new Speedbander will be available beginning in the autumn of the current year. This product collects signatures from the saddle-stitcher or the folding machine and straps them together with plastic or paper banderoles. This important element, which among other things increases productivity due to short set-up times, will contribute to additional sales in the folding area primarily in the North American region and consequently to the expansion of our leading position in that market.

The acquisition of IDAB WAMAC was an important positive measure undertaken during the financial year. Since then, under the brand name IDAB WAMAC, we have been offering innovative shipping room solutions that are specially customized to meet the needs of newspaper production in Europe and Asia, thereby ideally augmenting our product range. This includes a mobile, linear storage system for stacking pre-produced newspaper parts (MLS) as well as additional shipping room components for transporting, inserting, stacking, bundling, foil packing, and addressing.

We also rounded out our range of package printing solutions with the acquisition of the operations of two Jagenberg subsidiaries. In addition to printing presses, we now also offer corresponding processing opportunities. Among other things, with the Diana Pro, our range of products now includes the world's quickest folding-box adhesive machine, which folds and splices up to 600 meters per minute, corresponding to approximately 200,000 folding boxes per hour. This model is based on a modular design, is equipped with a modern control system, and is available in various formats and makes. In the premium punch segment, we now offer our customers innovative solutions over a broad range of formats.

Europe, Middle East and Africa – Opposing Trends

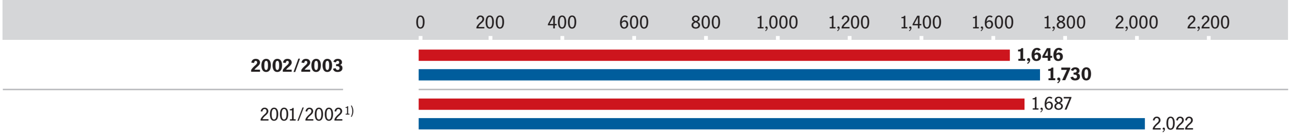
- **Some Countries with Favorable Developments**
- **Germany Disappointing**

Incoming orders in the region amounted to € 1,646 million – 2 percent below the previous year's figures. The economic weakness in Europe – especially in Germany, our second largest market – had a major impact.

Favorable developments were realized in particular in the UK. We acquired incoming orders of approximately € 200 million at IPEX in Birmingham, with about one-fourth coming from British customers. Overall, incoming orders in the UK totaled € 338 million – 16 percent more than the previous year. Despite the strained economic conditions, the propensity to invest by printing establishments was high in France as well. Nevertheless, the equity position of printing establishments is weak at present, so it is difficult to arrange financing. Despite the uncertain political situation, we generated high rates of growth in the Middle East. The same applies to Nigeria and other African countries.

Incoming Orders and Net Sales

Figures in € millions



Incoming orders	**1,646**	– 2 %
Net sales	**1,730**	– 14 %

1) Restated in accordance with the new management organization. Please refer to page 35

Sales totaled € 1,730 million – 14 percent below the previous year's level. During financial year 2001/2002, we still benefited from an exceptionally high level of incoming orders that had been received in financial year 2000/2001 in connection with drupa.

Our sales in Germany were 24 percent below the previous year's figure. By contrast, the UK continued the trend from the previous year with its strong result. As in the past, France also generated a high level of sales. Our sales in Switzerland rose slightly. With a slight sales decline, Scandinavia was able to maintain its strong position despite the general market trend.

In the overall region, we were able to defend, and in part even expand, our position as the undisputed market leader.

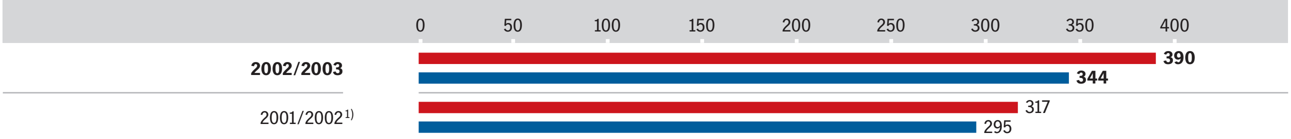
Eastern Europe – Stable Growth

- **Rapid Growth of Incoming Orders and Sales**
- **Strengthening Market Position in this Growth Region**

Incoming orders in the Eastern Europe region rose by a full 23 percent to € 390 million during the financial year. Our leading technological position and our highly developed sales and service network won over the customers and secured our strong position in all markets. Through cooperative marketing agreements, we succeeded in additionally strengthening our position in the important area of package and label printing.

Incoming Orders and Net Sales

Figures in € millions



Incoming orders	**390**	+ 23 %
Net sales	**344**	+ 17 %

[1] Restated in accordance with the new management organization. Please refer to page 35

Sales totaled € 344 million, up by 17 percent over the previous year's figure. In particular, sales of our solutions offered by the Web Systems Division, which grew by 16 percent, substantially exceeded our forecast. We were able to place some printing presses in smaller markets such as Romania and Slovakia.

Russia surpassed our expectations considerably. The Czech Republic also realized a significant boost in sales – the result of not only favorable economic developments, but of some special campaigns that we organized for medium-format printing presses.

Austria is one of the few countries in the region that was strongly affected by the recession in Central Europe. Israel and Turkey suffered from major political crises, high inflation rates, and the uncertain global political situation – an environment in which sales growth can hardly be realized.

We are vigorously continuing our strategy of demonstrating our presence, even in currently critical markets, thereby securing an optimal start-up position for future growth. During the financial year, we again opened new branches, for example in Albania. Our success gives us the right to state: Heidelberg Albania was already in the black in its first year of operation!

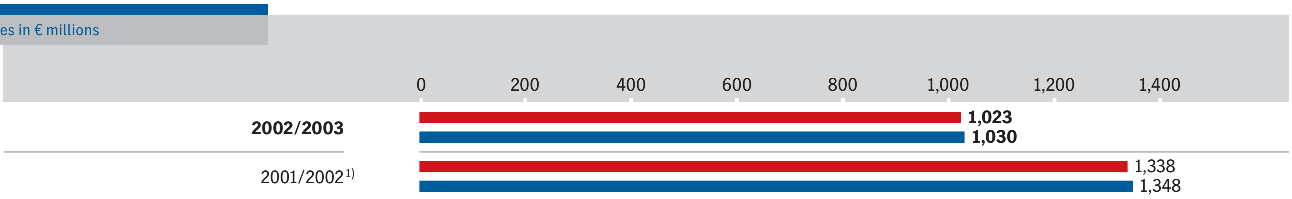
North America – Difficult Situation

- **Market Shares Extended**
- **Printing Establishments Reluctant to Undertake Investments**

In our North America region, **incoming orders** fell from the previous year by a considerable 24 percent to € 1,023 million. The figure fell by 23 percent to € 903 million in our principal market, the US. Our Digital Division and Web Systems Division were particularly affected by the local economic recession. We go into more detail on this subject in the chapter 'Reports of the Business Units' on pages 45 – 56. The cancellation rate for orders rose noticably in both the US and Canada, when it became apparent that contrary to expectations, the region's economies would not grow substantially in 2002. Nevertheless, we were successful in slightly expanding our market shares in nearly all areas.

Incoming Orders and Net Sales

Figures in € millions



Incoming orders	**1,023**	– 24 %
Net sales	**1,030**	– 24 %

1) Restated in accordance with the new management organization. Please refer to page 35

Sales, which totaled € 1,030 million, were also down by 24 percent. Sales totaled € 904 million in the US, compared with € 1,200 million the previous year – a 25 percent decline. In the neighboring country of Canada, sales fell less substantially, declining by 15 percent to € 126 million.

Because of the low capacity utilization, the return on sales of printing establishments in the US fell on average to their lowest level in 30 years. As in the past, companies that succeeded in occupying special niche areas continued to generate strong results, however, the sales of the NexPress 2100 nevertheless fell short of our high expectations.

Many potential customers exercised restraint in making investments, especially in new technologies. They are waiting for a sustained improvement in the economic situation to become visible. The resultant pent-up demand will have a favorable impact when an economic turnaround occurs. Increasing interest and a growing willingness to invest as soon as a larger volume of print orders are received is already apparent.

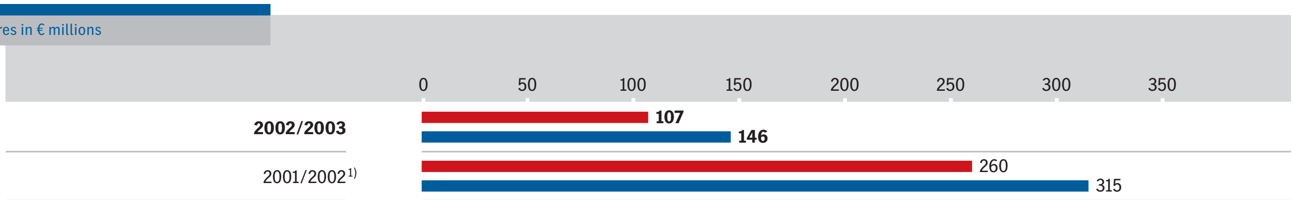
Latin America – Dramatic Situation

- **Difficult Overall Environment for Investments**
- **Expanding Competitive Advantages**

Economic crises were not the only troubling factor in Latin America. Elections and domestic unrest hampered business developments, and inflation rates were also high. Local banks and financial institutions therefore were hardly prepared to grant credits in foreign currencies. All these factors curbed our **incoming orders**, which fell by 59 percent to € 107 million. In our key market in the region, Brazil, the devaluation of the real vis-à-vis the euro reached 45 percent during the reporting period. Products from the Euro Zone thereby became prohibitively expensive, with the market plummeting by 67 percent. The substantial order decline in Mexico resulted primarily from that country's considerable vulnerability to the economic weakness of the US. We were satisfied with the development of the smaller markets in the region.

Incoming Orders and Net Sales

Figures in € millions



Incoming orders	**107**	– 59 %
Net sales	**146**	– 54 %

[1] Restated in accordance with the new management organization. Please refer to page 35

Sales also declined strongly. In Brazil, where we still generated growth of 33 percent the previous year, sales fell by 54 percent. For the fourth time in a row, we received the 'Fernando-Pini-Preis' – the highest possible level of recognition in that country's market. This makes clear that our position did not worsen. We were named the best supplier in the Sheetfed and Web areas! Our sales fell short of the previous year's figure in Mexico as well.

Overall, we were successful in further increasing our market shares in the region. Solutions for the complete process chain are creating growing interest in Latin America. The market trend in this region is moving in the direction of industrialized production with standardized production levels.

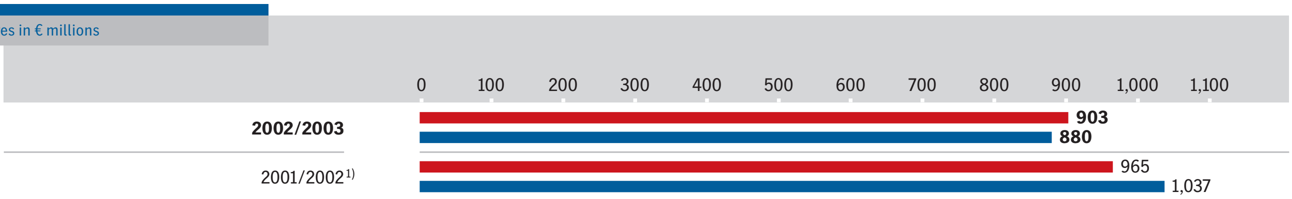
Asia/Pacific – Strong Results

- **Volume Decline the Result of Special Occurrences**
- **New Japan Headquarters in Tokyo**

Incoming orders totaled € 903 million in the Asia/Pacific region – down by 6 percent, and thereby below expectations. The remarkably high previous year's figure was largely the result of special influences in the Chinese market, where customers anticipated a reform of customs provisions affecting the tax treatment of printing presses, thus they advanced their investments to an earlier date. Since the yen was very weak compared with the euro during the financial year, competitive conditions worsened for us in the region, with our Japanese competitors able to offer their products at more favorabe costs. We nevertheless succeeded with holding market shares in almost all countries.

Incoming Orders and Net Sales

Figures in € millions



Incoming orders	**903**	– 6 %
Net sales	**880**	– 15 %

[1] Restated in accordance with the new management organization. Please refer to page 35

Overall, **sales** decreased from € 1,037 million to € 880 million – caused here as well by the one-time effects in China from the previous year. Although the economic situation remained weak in Japan, we nevertheless generated a strong result in that country. Nevertheless, sales declined overall in view of very high previous year's figure in connection with two large orders, as well as the weak yen. Malaysia and Taiwan were unable to escape the negative influence of the world economic recession. On the other hand, we generated gratifying growth rates in other countries. In Australia, sales again rose moderately. We considerably strengthened our position in that country and secured access to additional markets. Sales rose substantially in Indonesia and Singapore.

In February 2003, we moved to our new Tokyo Headquarters, which had been built according to our specifications by the lessor. We are convinced that with our modern customer center and a considerably improved Print Media Academy, we will successfully address even more potential customers and provide them with convincing offers. In this way, we are maintaining our strategy of further expanding our presence in this region.

Corporate Risks – Foresighted Management

- **Effective Global Risk Management**
- **Minimizing Currency Risks and Customer Financing Risks**
- **Introducing Measures Countering Business Cycle Risks**

Corporate activities are associated with risks. In order to minimize these risks, we have established a Group-wide system for recognizing and appropriately assessing risks at an early stage and then undertaking suitable countermeasures.

Uniform Group-Wide Risk Recognition and Assessment

Our risk management is uniformly applicable throughout the Group. We have published an organizational directive and documented procedures in a corporate guideline in order to ensure that our requirements are met. All operating units and divisions are solidly embedded in the risk management process, which is organized as a bottom-up process. Risks are taken note of directly, on-the-spot, and subsequently collated. Decision-making for appropriately assessing and dealing with the risks lies with the upper management of each unit. Risks are systematically recorded and allocated to particular risk groups – for example 'market risks' and 'operating risks'. A number of key parameters are quantified for this assessment – among others, the probability of occurrence, the potential amount of the loss, and the expected course of events over the next five years. All participants in this process can make use of extensive instruction manuals, guidelines, and documentation in their work.

The average profit that is realized each year serves as the basis for ranking risk categories. Reporting thresholds in the Group's risk management are defined uniformly. Because the divisions assess the damage potential on the operating result for which they are responsible, we are able to closely link the recording of risk with the process of operational controlling. On a quarterly basis, an examination is undertaken as to whether risk assessments have changed and what measures need to be taken.

The effectiveness of our risk management process is regularly monitored by our internal auditors. The auditors additionally undertake a systems examination within the framework of the annual audit. When we introduced our risk management system, we coordinated our procedure in detail with the external auditors. Since the system fulfills the requirements of the Corporation Control and Transparency Act (KonTraG), it was favorably assessed by the auditors.

Risk Assessment at the Group Level: No Recognizable Risk Threatens the Company's Existence

The respective Risk Reports of the Market Centers, the Solution Centers and of the individual divisions that are associated with the system, are controlled by our Central Risk Management unit. These reports create a firmly established database that actually makes adequate risk management possible at the group level. Risk Management analyzes the reports and assesses the results in terms of the impact on the Group. Similarly to the operating units, the basis of the evaluation is the average consolidated net profit for the year. Since anticipated developments are quantified over the next five years, longer-term trends can be recognized and both individual and accumulated overall risks can be suitably assessed for the foreseeable future.

On this basis, no risk that could threaten the existence of the Heidelberg Group is evident neither at the present time nor for the foreseeable future.

Our strategic planning is an important component of risk management, and risk management, in turn, is an integral part of the Group's five-year planning. In this manner, we can systematically and purposefully undertake countermeasures against risks. Furthermore, risks that arise as a result of our strategy are also assessed appropriately.

The Heidelberg Group's greatest risk at present results from a possible further deterioration of the world economic situation, because our customers' capacity utilization, and thus their propensity to invest, are closely linked to economic trends. Market and competitive risks would worsen as a result of further deterioration. Dependent on the economic situation are, for example, the degree to which our customers invest in our innovative Digital Color printing presses and how quickly our investments pay off. Our greatest operating risk is the loss of our most important suppliers, and the situation on the supply market is becoming more strained as the economic environment worsens. With the marked improvement in the cost structure during the financial year, however, we considerably reduced the dependence of the Heidelberg Group's business development on overall future economic trends. Moreover, many innovations during the financial year have had a favorable influence on the Group's risk environment. For example, our new organization makes it possible to control processes, such as legal transactions and finance, on a central basis and in a transparent manner. Our research and development has become even more heavily oriented on the market. In various chapters of this Annual Report, we provide information on how we minimize risks in the respective areas of responsibility by means of preventive measures and guidelines, as well as our comprehensive Group controlling operations.

Countering Individual Risks

Currently, the following individual risks are of importance to the Heidelberg Group:

- **Overall economic risks:** In our principal markets in Europe and North America, a further worsening of underlying economic conditions – caused by an economic downturn – could additionally weaken the overall investment activity of the Graphic Arts Industry. Since the presence of the Heidelberg Group is well-balanced in all regions of the world, a business downturn in one region can be made up for by favorable developments in other regions. Our regional risk spread is sound. However, a global business downturn would also affect the Heidelberg Group.

  There are currently no perceptible developments in the capital markets or in the interest rate level, or any change in underlying legal and tax conditions or other legal provisions, that could have a negative impact on the economic situation.
- **Industry risks:** The investment activity of the printing industry is heavily dependent on overall economic developments. The printing press business is dependent on the economic situation in advertising and print media, which, in turn, are closely dependent on general economic conditions. Should investments in the printing industry continue to decline in the future, excess capacities could result, which, in turn, could lead to below-cost prices by printing press manufacturers. Risks from a change in the industry structure or the legal, statutory or tax bases of operations are currently not discernable.
- **Risks from new divisions:** Our entry into the digital printing press business is associated with greater risks than business in the traditional Sheetfed Offset business. Since we are opening up new markets with a completely new technology and we have not yet had extensive direct experience with regard to market potential and product acceptance, we cannot exclude certain market risks in this area. We are increasingly introducing our customers to the broad potential use of digital printing by means of marketing activities, in order to convince them of the additional benefit of such an investment in economically difficult times. To a lesser extent, business with newspaper printing presses is also subject to the greater risks – nevertheless, we benefit from our many years of experience in Web Offset printing. We minimize these risks through intensive project management and consistent market proximity. In our view, the relationship of the residual risk to Heidelberg's opportunities in the digital and newspaper printing press business is acceptable.
- **Operating risks:** These comprise primarily potential production shifts caused by a temporary unavailability of a supplier. For example, only a few manufacturers worldwide are able to supply certain component parts that

we require in manufacturing. In the procurement area, we further expanded our extensive programs for managing this risk. We were successful in this area, having handled a greater number of bankruptcies in the supply market, without impact on our manufacturing during the financial year. A sudden and substantial improvement in the economic situation could represent a certain degree of risk for Heidelberg in the procurement area, as suppliers have reduced their capacities and they will not be able to immediately react to a changed situation. Fundamentally, however, we secured our interests vis-à-vis suppliers by means of contractual agreements and consequently minimized potential legal, contractual, or financial risks.

Employee turnover, as well as problems obtaining highly qualified employees, could cause a risk for the overall operating process. Here as well, we undertake concrete countermeasures which we explain in more detail on pages 68 – 71. Thanks to our strict investment control, we do not perceive any appreciable 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 priorities are set correctly and responded to in a timely fashion.

- **Currency risks:** A high euro exchange rate – especially against the US dollar and yen – represents a certain risk because we have a considerable value added share in the Euro Zone. However, since our most important competitors are also located in Germany, currency risks do not entail any negative change in competitive conditions for us. We do have one advantage: In contrast to our competitors, we manufacture approximately 25 to 30 percent of our products in the US. A weakness in the yen could influence our sales of Sheetfed Offset solutions, as Japanese producers could then manufacture at a relatively lower cost. We counter this risk with suitable foreign currency hedging operations.

Risks from interest rate and exchange rate fluctuations are monitored by our Central Currency Management unit and handled with the help of derivative financial instruments. Detailed information on this subject can be found in the chapter 'Notes to the Financial Statements' on page 125.

- **Risks from customer financing:** Customer financing continues to be an important sales-boosting instrument for us. The risks associated with lending are monitored and controlled globally by our Central Credit Risk Management unit. A single rating system is applied uniformly throughout the Group to evaluate customers' credit standing. This system encompasses not only financial and business risks, but also such traditional aspects of overall risk as documentation, contract, and country risks. We formed appropriate provision for risks in order to cover the residual risk. We provide detailed information on this topic in the chapter 'Notes to the Financial Statements' on pages 99 and 113 – 114.

- **Liquidity risks:** We minimize liquidity risks throughout the Group in advance by means of centrally controlled cash concentration, as well as Group-wide payment and settlement management. In addition, we place liquidity, and thus flexibility with the operating units, on a secure footing by means of a tightly organized receivables management. Furthermore, our Group liquidity planning for the subsequent year operates on a rolling monthly basis, which makes it possible to recognize potential trend discrepancies early on.
- **Legal risks:** We are not aware of any appreciable legal risks. In our industry, such risks could arise at worst with regard to patents and licensing arrangements. We systematically protect our interests in these areas.
- **IT Risks:** The likelihood that serious disturbances may occur is reduced greatly thanks to extensive investments and effective IT management. For example, we would be well-protected in case of an IT systems failure resulting from a catastrophe affecting our largest computer center – the likelihood of such an event occurring is less than one percent. Data copies are removed for storage on a daily basis, so that a restart of IT operations would entail at most a loss of data for one day. The computer center has special fire protection measures at its disposal to reduce the likelihood of such disturbances occurring. We do not perceive any appreciable risks in this area.
- **Other risks:** We already control environmental risks at an early stage through efficient environmental management – both in product design and in manufacturing. Each year we provide an extensive description of our operations and standards in our Sustainability Report. We immediately implement measures for environmental protection or for improving on-the-job safety. Natural catastrophes represent some risk at various operations abroad. For example, there is an increased earthquake risk in Japan, which we hedge to the greatest possible extent through insurance. Due to profound changes in the international insurance market, the underlying conditions for insuring against the risks of terrorism have changed. Like all internationally active industrial concerns, Heidelberg has been affected by this development. The former Group-wide uniform insurance against the risks of terrorism has become more difficult, as a result insurance coverage has been entirely cancelled or cut back considerably in certain regions.

Beside the above-mentioned individual risks, we are presently not aware of any other appreciable risks.

Environmental Protection – Ongoing Progress

- **Procurement Even More Environmentally Sound**
- **The Positive Result of Being Committed**

Beginning in September 2003, you may order our latest Sustainability Report by fax at +49 (62 21) 92 33 29 or by e-mail at environment@heidelberg.com

Heidelberg is fully committed to the principle of sustainability. Every year, in our Sustainability Report we report in detail on our activity in line with this commitment. On some 100 pages, we provide extensive information on how we fulfill our ecological and social responsibilities in the Company year after year. We also describe new operations and our progress in environmental projects in detail. For example, we participated in a pollution trading planning game during the financial year, and the share of our manufacturing plants and R&D facilities that operate based on a certified environmental management system rose to approximately 75 percent. We would be pleased should you wish to learn more and invite you to read our Sustainability Report!

Appreciation Expressed for Action Taken

We have already received numerous prominent awards for our environmental dedication. We make a considerable effort to ensure that our products are frequently far below statutory threshold values. Our Speedmaster SM 102 is a good example of this. Our customers appreciate these qualities.

Controlled Procurement

A company's procurement policy plays an important role in its environmental protection activity. During the financial year, we drew up a list of prohibited materials for our suppliers, which is applicable worldwide and which anyone can retrieve from the Internet.

Far-Reaching Dedication

We are not only committed within the Company. The initiative 'Low-Emission Printing', which was launched by Heidelberg and other organizations and companies, has played a major role in the extensive use of low-pollution detergents in offset printing today.

Our customers acknowledge us as capable partners in environmental issues. In order to create concrete financial incentives for investing in environmentally sound technologies, we also support printing establishments in their applications for low-interest environmental loans.

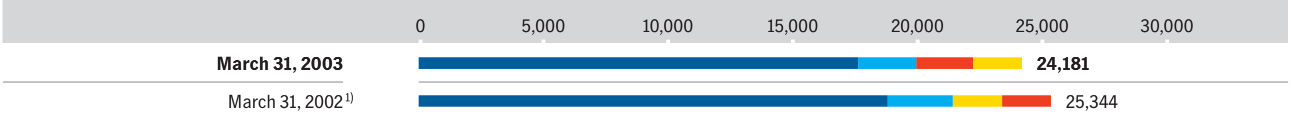
Employees – Crucial for the Future

- **Worldwide 1,163 Fewer Employees Than in Previous Year**
- **High Priority for Specialized Further Training**
- **High Level of Manufacturing Flexibility**

This financial year was also not an easy one for our employees. Developments during the year were influenced by our program to improve the cost structure. Furthermore, a high degree of flexibility was demanded of the staff, because, due to the difficult world economic situation, orders were down or placed at very short notice.

Employees

Number of employees



Digital	**2,279**	+ 16 %
Sheetfed	**17,615**	– 6 %
Web Systems	**2,329**	– 11 %
Postpress	**1,958**	– 1 %
Heidelberg Group	**24,181**	**– 5 %**

1) Restated in accordance with the new management organization. Please refer to page 35

Human Resource Capacities Adapted

Thanks in large part to constructive cooperation with the employee representatives, we were able to implement our package of measures that adapted our personnel capacities as early as the end of the financial year. The package's provisions include, among others, not only additionally supported partial retirement and part-time models, but also the possibility of extending periods of non-employment such as child-care breaks. For the first time in ten years, however, we were also forced to make operations-related terminations.

As of March 31, 2003, the Heidelberg Group had 24,181 employees worldwide – 1,163 fewer than the total of 25,344 the previous year. If developments are viewed without considering the changes in the companies included in the consolidation – for example, Gallus Holding AG was consolidated for the first time during the financial year – the number of our employees fell by 1,686. You will find more detailed information concerning the changes in the numbers of employees of the divisions in the chapter 'Reports of the Business Units' on pages 45 – 56.

Enhancing Flexibility through Various Working Hour Structures

Various work-time models make it possible for us to react quickly to demand fluctuations. Our 'catch-up-in-advance' model makes it possible for us to adjust personnel capacities in the production area by up to approximately 30 percent. We also introduced flextime throughout the assembly lines.

Within the framework of the collective bargaining agreement on job protection, we reduced the working time in some areas of production by up to 10 percent during the financial year, with employees' income correspondingly reduced. Part-time work became necessary in some areas due to the unsatisfactory order volume.

During the financial year, nearly 200 employees decided in favor of a partial retirement contract within the framework of our partial retirement initiative. A total of nearly 700 employees of Heidelberger Druckmaschinen Aktiengesellschaft have now signed contracts. The total part-time quota rose slightly over the previous year's figure to 4.1 percent.

Initial Professional Training Measures: Basis for the Future

Despite the unfavorable industry development, we maintained our initial professional training measures at existing levels at nearly all our German plants. We take seriously not only the securing of our corporate management succession, but also our social responsibilities. We enlarged our training opportunities to include a new area of study leading to the Degree of Media Computer Engineering at the Mannheim Vocational College. The goal is to thereby systematically develop qualified employees for sales and marketing. We also expanded our technical college trainee program last year and added a total of six participants. We were able to assign the mechatronics specialists who had been trained in Brandenburg in the service area for the first time during the financial year.

The Sternberg Foundation, which we established, supports gifted trainees, students and young employees in the printing and paper technology industries. We awarded the Sternberg Prize 16 times during the financial year. The prizewinners receive stipends or allowances to finance their general and specialized further training.

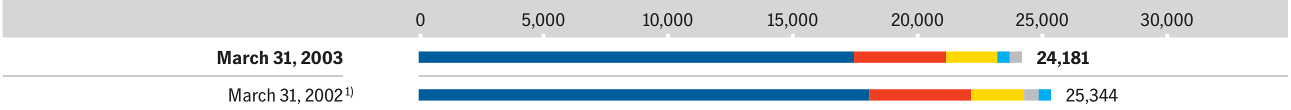
High Priority for Specialized Further Training

Over 7,000 employees took part in the programs of the central human resource development and the training measures of the Heidelberg Print Media Academy. The further education quota was 42 percent in Germany. Benchmark analyses show that our human resource development surpasses the average in its breadth and quality.

We increasingly favored progressive qualification methods in this area. We gained positive experience with e-Learning throughout the Group. The advantages of this learning form are evident. It makes knowledge and information quickly available, independent of geographic location, at low cost, and ensures high quality. The substantive focus of our e-Learning is currently still limited to IT-related and printing technology areas. However, beginning in the reporting year, some pilot projects based on e-Learning have been in operation in the areas of language, technology, management, operating methods, and project management. Also, the personal learning at the workplace is an important component of our human resource development.

Employees by Region

Number of employees



Europe, Middle East and Africa	**17,449**	–3%
Eastern Europe	**497**	–
North America	**3,694**	–9%
Latin America	**488**	–16%
Asia/Pacific	**2,053**	–4%
Heidelberg Group	**24,181**	**–5%**

[1)] Restated in accordance with the new management organization. Please refer to page 35

Promoting Key Strategic Training Projects

We have initiated our worldwide 'educ@te service' and 'educ@te sales' program for sales and service employees. This systematic training offer ensures that employees achieve a professional level in particular areas of expertise. In product management, during the financial year, we primarily provided further training for specialists in research and development. Based on that area of further training, our second international project management program, which prepares employees with future project management responsibilities for new product developments, was successfully completed.

Improving In-House Communications

Prompt information and cross-company communications is an indispensable component of efficient global cooperation. During the financial year, therefore, we invested increasing amounts in internal media and communication structures, such as networks. Currently, nearly 150 employees internationally have been given assignments within the framework of our global employee exchange, which, when appropriate, is supported with intercultural training courses. Moreover, some 250 of our international senior management personnel again exchanged views within the framework of a global management conference held in Wiesloch.

Successful Suggestion Programs Thanks to Committed Employees

A total of 11 percent of the 14,600 employees eligible to take part in the suggestion program participated during the financial year. Approximately 5,000 ideas for improvements were submitted. Our experts focused on examining these suggestions as quickly as possible and implementing them if possible.

The savings generated by the proposals newly submitted during the financial year added up to € 1.2 million, for which employees received premiums totaling € 400,000. The annual total savings arising from all suggestions – a suggestion can be used on average for 3 years – is approximately € 3.4 million!

Success Pays Off

We are making increasing use of variable reimbursement models. We also make use of our Group-wide 'Balanced Scorecard' system, which makes it possible for us to clearly define goals and monitor successes. We restructured our employee share participation program during the financial year, under which employees of the German Heidelberg Group are each able to acquire four shares, at a self-retention amount of € 50. Moreover, our senior management personnel was also able to take part in our stock option plan, whose fourth tranche was issued in September 2002.

From the Management Board: 'Many Thanks!'

We wish to sincerely thank all our employees for their commitment, their dedication, their flexibility, and their service to the Corporation.

Our particular thanks go to those who represent the interests of the employees, who, through their constructive cooperation, contributed to the success of our extensive measures designed to secure Heidelberg's future!

Outlook – Has the Economy Bottomed Out?

- **No Sustained Upswing in Sight**
- **Well-Prepared for Demand Fluctuations**
- **Investment Backlog in Principal Markets**

Differing GDP Forecasts

Total GDP World (calendar year)

The current economic environment makes concrete earnings projections for the coming years impossible. We remain cautious with our predictions since exactly when and how strongly the economy will begin improving is currently uncertain.

The general uncertainty about the future overall economic situation is hampering our business development. Even after the official end of the war in Iraq, many uncertainties remain – not only in connection with the developments in Iraq and the neighboring countries. Will political tensions hamper the process of globalization? Will the stock markets stabilize? The effects on the demand for print products are very difficult to assess, in particular due to global business interrelationships. In the chapter 'Asset, Financial and Income Positions', we extensively discuss our response to this issue: adjusting Heidelberg's cost structure and making our capacities more flexible. Statements concerning corporate developments that go beyond the current financial year are of little help from today's perspective.

No Sustained Global Economic Upswing in Current Year

Depending on the assumptions that apply, the forecasts of economic research institutes and banks for world economic growth over the next few years deviate significantly. The graphic on the left makes this quite clear.

Relative agreement prevails in expectations for the individual economic regions and countries this year. If the US economy recovers – our principal market – that economy will represent the engine for growth for the global economy. Low key interest rates and capital market interest rates will reinforce the propensity to invest. However, at present, no real impetuses for growth are apparent in the US economy.

For Europe, and especially for our second largest market, Germany, the outlook for calendar year 2003 is gloomy. In this region, domestic structural problems and deficit government budgets are causing problems for the economy. Following a renewed downturn of the ifo Business Climate Index short of expectations in April 2003, our forecast for our second largest market was again cut back.

For South America, which slid into a heavy crisis during the financial year, a stable base is anticipated for 2003.

Generally gratifying economic developments are expected for Asia – even if the course of the lung disease SARS dampens developments. No impetus for growth is anticipated from Japan. However, the emerging markets in the region will continue to grow at an above-average rate.

Eastern Europe, which was also hardly affected by the weakness of the global economy during the financial year, will remain a growth market as well. The expansion of the EU to include some of these countries will further support this development.

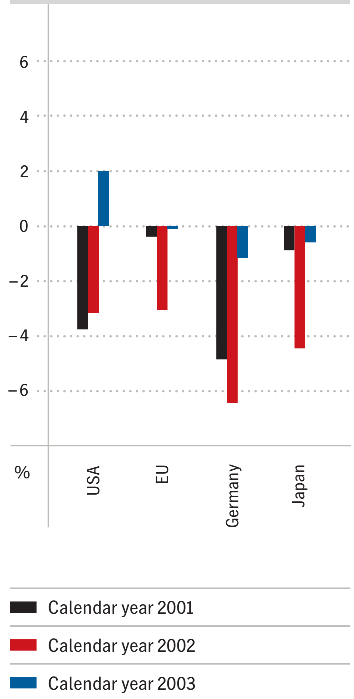
Industry Development: Favorable Outlook for Emerging Markets

The capacity utilization of the printing establishments in our key markets – the US and Germany – are currently at a low point, and we do not yet see any sign of an upswing. We do not anticipate any turnaround in the markets during the current financial year, since demand for printing presses is subject to a time lag in relation to overall economic developments. This applies in particular to the Web Press and to a lesser degree to the Sheetfed Division and the Digital Division. The Federation of the German Engineering Industry (Verband der Deutschen Maschinen und Anlagenbauer – VDMA) projects sales of printing establishment equipment for 2003 will remain unchanged from 2002. In the other, currently low-growth industrialized countries, the uncertainties concerning the economic and order situation will result in a continuation of restrained investment activity this year.

The situation is different in the Asia/Pacific and Eastern Europe regions. We believe that we will benefit more than our competitors from the expected above-average growth in the emerging markets of these regions. For Heidelberg has by far the industry’s best sales and service network, with the most accessible coverage worldwide. Nevertheless, the weakening of some currencies vis-à-vis the euro already had an unfavorable impact on our business development during the financial year. A further strengthening of the euro in relation to the dollar and the yen cannot be excluded. As is discussed on page 62, our Japanese competitors would then have certain competitive advantages in the Asian market.

Fixed Investments in Selected Regions

Compared with previous year in %



Restrained Development for Heidelberg in the Near Future

For the current financial year, we assume that demand in our principal markets will further ease off – primarily in the North America and Europe, Middle East and Africa regions. We anticipate stable developments in the other regions.

We therefore cannot exclude the possibility that sales may decline further during the current financial year. In March, we intensified our efficiency-boosting and cost-reduction measures. Additional information on this topic is provided on pages 23 – 24. The measures that we intend to implement will secure Heidelberg's revenue-generating power even with a lower volume of business, and will ensure that we are able to more flexibly counteract cyclically-caused fluctuations in demand. Even in an uncertain market environment, in the future we will thus be in a position to return to a result in line with our high expectations for return on capital employed.

Our goal is to achieve a break-even operating result with our improved cost structure during the current financial year – even if sales decline further by up to 10 percent. Notwithstanding possibly weaker overall demand, we aim to move the loss-generating areas visibly closer towards a break-even level.

Despite the high degree of restraint, there are some favorable factors. In particular, in recent years an investment backlog for printing presses has arisen in the US, our principal market. The National Association of Printers and Lithographers (NAPL) indicated in the winter issue of the trade publication 'Economic EDGE' that the prospects for growth of our US customers – who are operating in a mature market – are expected to amount to between 3.5 and 5 percent in real terms over the next five years. Moreover, a marked trend towards color is manifest in the US, as well as in our other developed markets. This is a segment in which we offer outstanding products and solutions in both digital and offset printing. We will again benefit from drupa in the next financial year.

Divisions: Favorable Developments through New Products and Greater Efficiency

Our goal is for both the Digital and Web Systems Division as well as Postpress to attain a break-even or favorable result in the next financial year. Significant components of our profit planning have been delayed by two years due to the unexpectedly strong economic downturn – especially in the US. We will achieve our goal primarily by boosting sales, enhancing the flexibility of our capacities, and realizing cost reductions. Among other things, our new products, whose distinctive features and market potential we described more precisely in the chapter 'Reports of the Business Units', will contribute to sales increases. Our measures to boost efficiency in the divisions are discussed on pages 45 – 56.

When the economy picks up, we anticipate an increasing willingness to invest in the new technologies offered by the **Digital** Division. We will offer product variations based on existing platforms in the future – for example a larger variety of applicable paper sizes, and beginning next winter/spring, a fifth color unit for the NexPress 2100. We intend to increasingly open up the Asian economic region in both the Digital Color as well as Digital Black and White printing segments. A continually growing number of installed printing presses also generate sales growth in the areas of service, spare parts, and toners. We increased manufacturing flexibility in the **Sheetfed** Division in connection with efficiency-boosting measures. We are also further expanding less cyclically-sensitive areas such as package printing. As is explained on page 33, our Solution concept is enjoying increasing acceptance. The trend whereby printing establishments are more and more frequently requesting systems rather than individual products will continue and strengthen worldwide. The sales of Prinect will also further strengthen. In association with our imaging and print solutions, Prinect is achieving a value added that is unique among our competitors.

By enhancing the flexibility of capacities, we are better prepared for fluctuations in foreign exchange rates and demand in the **Web Systems** Division as well. The standardization of our model series expands our capacity to produce the same products based on need in North America and Europe. Global procurement and a related additional reduction in vertical integration allow improvements in cost structures. Cooperation agreements with strong partners in the areas of accessories and consumables enhance the attractiveness of our offers. We will increasingly benefit from promising market developments in Eastern Europe.

In the **Postpress** Division, we will make greater use of multi-site synergies than in the past and also merge our German plants. We will further integrate the companies acquired by us. Heidelberg's market organization will replace the existing sales channels, and we are in the process of increasing the profitability of the new locations.

High Level of Research and Development Expenditures Maintained

Research and development expenditures will continue at a high level during the current financial year. With a greater volume of sales, the R&D rate will again amount to between 7 and 8 percent in the medium term. As is described on page 38, we are reacting to the generally increasing development activity with shorter innovation cycles by means of closer cooperation with other companies and improved utilization of synergies. We will not change the focus of attention in our research and development activity in financial year 2003/2004.

Investments: Principal Focus on Product Startups and Consolidation

We structure our investment activity in line with economic trends. The biggest share of planned investments for the current financial year will be allocated to additional consolidation and new product launches. An additional focus of attention of our investment planning for the coming years will be on penetrating new markets and securing cost-leadership in production.

We will continue with the technological developments that we initiated during the financial year and further reduce our manufacturing costs. Furthermore, within the framework of impending replacement cycles, we will utilize machinery that offers greater flexibility with regard to components without higher costs of manufacturing. This policy supports our goal of maintaining a leading role in a market that places increasingly heavy demands on customization.

Our plans also include an expansion of the IT infrastructure in order to considerably shorten the time-to-market process chain. With this in mind, preparations are already under way for a universal, new generation data chain that extends from construction all the way to production.

Procurement: Securing Supplies in a Generally Difficult Environment

The ongoing slack economy will continue to have an impact on the supply market this year and at the beginning of the coming year. Consolidations and bankruptcies will increase, and in some areas we anticipate rising prices. Our preventive action, which we describe in the chapter 'Corporate Risks', proved itself this past year. It will ensure that Heidelberg's supplies are secure in the future.

We alleviate expected price increases, among others for fuel, metal, plastic and in the area of transportation and logistics, by means of extensive cost reduction measures. We will, among other things, consolidate our supplier base and pursue greater global sourcing and outsourcing.

Based on make-or-buy analyses, in particular in the Sheetfed area, we will outsource additional component part families. The share of parts supplied from outside sources will thereby further increase. Outsourced components account for approximately 70 percent of the total in Web Systems at present, and some 80 percent in Digital. Postpress does not operate any significant component production anymore.

Employees: Number of Jobs Cut Back by 3,200

As we explain in the chapter 'Asset, Financial and Income Position', we plan to adjust our capacities within the framework of our measures to improve the cost structure. In this regard, we announced that we will reduce the number of jobs worldwide by a total of 3,200 through March 31, 2004. Since we have primarily focused our measures to reduce the number of jobs on enhancing the flexibility of our capacities, we will be able to respond in a timely fashion to changes in demand.

Environmental Protection: Important Measures for the Future

We promote environmental protection in all divisions – in manufacturing, cooperation with our suppliers, and in the environmental friendliness of our products. This year, additional plants will be certified by the environmental management system.

From 2005 on, pollution trading will be firmly established at Heidelberg. This is a flexible mechanism for the reduction of greenhouse gases. With a view to the future, we participated in a planning game on CO_2 pollution trading during the financial year, thereby gaining important experience with this new environmental policy instrument. We are now able to better forecast future emissions and identify the potential for reductions. We will develop a strategy that is as economical as possible. We provide extensive information in our Sustainability Report concerning our planning activity and projects. Please refer to page 67 for information on how to request a copy of this report.

No Significant Changes Planned

We are currently not planning any changes in our **organization**. Our already implemented cost-reduction measures will be further promoted and largely completed during the current financial year.

No changes in our **corporate legal structure** are currently foreseen. We may possibly acquire smaller companies in the Postpress area that are of strategic interest to us, although we do not presently have any specific plans in this area.

We will propose to the Annual General Meeting in September a change in Article 16 of our **Articles of Incorporation** in order to satisfy in every respect the recommendations of the Corporate Governance Code.

No capital increases are planned.

Consolidated Financial Statements

of Heidelberger Druckmaschinen Aktiengesellschaft for the financial year **April 1, 2002** to **March 31, 2003**

Consolidated income statement of the Heidelberg Group 2002/2003

Income statement

Figures in € thousands

	Note	1-Apr-2001 to 31-Mar-2002	**1-Apr-2002 to 31-Mar-2003**
Net sales	7	5,016,585	4,129,893
Change in inventories		49,427	– 98,172
Other own work capitalized		51,481	73,818
Total operating performance		5,117,493	4,105,539
Other operating income	8	282,227	294,273
Cost of materials	9	2,036,628	1,623,345
Personnel expenses	10	1,597,773	1,455,867
Depreciation and amortization		201,767	191,039
Other operating expenses	11	1,207,254	1,027,976
Result of operating activities excluding restructuring costs		356,298	101,585
Restructuring costs	12	–	210,431
Result of operating activities including restructuring costs		356,298	– 108,846
Result from financial assets and marketable securities[1]	13	– 27,164	– 75,966
Net interest income	14	6,231	20,571
Financial result		– 20,933	– 55,395
Income before taxes		335,365	– 164,241
Taxes on income	15	134,820	– 26,347
Net profit or loss		200,545	– 137,894
Minority interests		1,071	5,877
Net profit or loss – Heidelberg portion		199,474	– 143,771
Earnings per share according to IAS 33 (in € per share)	33	2.32	– 1.67[2]

[1] Of which result from equity valuation € – 81,081 thousand (previous year: € – 38,460 thousand)

[2] The earnings per share excluding restructuring costs are € – 0.16

Footnotes to the balance sheet

[3] Of which financial assets carried in accordance with the equity method of € 159,054 thousand (previous year: € 210,169 thousand)

[4] Reclassified as described in Note 20

[5] Of which liabilities to banks of € 796,477 thousand (previous year: € 921,531 thousand)

Consolidated balance sheet of the Heidelberg Group as of March 31, 2003

Assets

Figures in € thousands

	Note	31-Mar-2002	31-Mar-2003
Fixed assets			
Intangible assets	16	254,535	265,842
Tangible assets	17	816,345	687,042
Financial assets [3)]	18	244,654	204,521
		1,315,534	1,157,405
Current assets			
Inventories	19	1,232,552	1,073,411
Accounts receivable from customer financing [4)]	20	922,926	860,389
Other receivables and other assets [4)]	20	1,248,051	1,068,601
Marketable securities	21	348,845	316,270
Cash and cash equivalents	21	89,814	82,596
		3,842,188	3,401,267
Deferred taxes	22	516,247	542,763
Prepaid expenses	23	61,004	30,030
		5,734,973	5,131,465

Equity and liabilities

Figures in € thousands

	Note	31-Mar-2002	31-Mar-2003
Shareholders' equity and minority interests	24		
Subscribed capital		219,926	219,926
Capital reserve		947,804	947,804
Revenue reserves		1,102,268	897,900
Net profit or loss – Heidelberg portion		199,474	– 143,771
		2,469,472	1,921,859
Minority interests		513	28,374
		2,469,985	1,950,233
Provisions	25		
Provisions for pensions and similar obligations	26	536,814	559,471
Tax provisions	27	248,689	199,471
Other provisions [4)]	28	667,252	695,776
		1,452,755	1,454,718
Liabilities [5)]	29	1,587,677	1,474,062
Deferred taxes	22	186,907	207,334
Deferred income	30	37,649	45,118
		5,734,973	5,131,465

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

Figures in € thousands

			Revenue reserves				
	Subscribed capital[2)]	Capital reserve[2)]	Other revenue reserves	Foreign currency translation	Market valuation per IAS 39	Net profit or loss Heidelberg portion	Shares of the Heidelberg Group
April 1, 2001	219,926	947,804	718,057	221,677	–	342,966	2,450,430
First-time application of IAS 39	–	–	777	–	– 20,753	–	– 19,976
Dividend payment	–	–	–	–	–	– 154,635	– 154,635
Net profit	–	–	188,331	–	–	11,143	199,474
Foreign currency changes	–	–	–	3,587	–	–	3,587
Market valuation per IAS 39	–	–	–	–	606	–	606
Consolidations/other changes	–	–	– 10,014	–	–	–	– 10,014
March 31, 2002	219,926	947,804	897,151	225,264	– 20,147	199,474	2,469,472
April 1, 2002	219,926	947,804	897,151	225,264	– 20,147	199,474	2,469,472
Dividend payment	–	–	–	–	–	– 120,265	– 120,265
Net loss	–	–	79,209	–	–	– 222,980	– 143,771
Foreign currency changes	–	–	–	– 180,383	–	–	– 180,383
Market valuation per IAS 39	–	–	–	–	– 50,534	–	– 50,534
Consolidations/other changes	–	–	– 52,660	–	–	–	– 52,660
March 31, 2003	219,926	947,804	923,700	44,881	– 70,681	– 143,771	1,921,859

1) Please refer to Note 24 for additional explanations

2) Of Heidelberger Druckmaschinen Aktiengesellschaft

Minority interests	Total
– 493	2,449,937
–	– 19,976
–	– 154,635
1,071	200,545
– 65	3,522
–	606
–	– 10,014
513	2,469,985
513	2,469,985
– 1,910	– 122,175
5,877	– 137,894
– 1,056	– 181,439
–	– 50,534
24,950	– 27,710
28,374	1,950,233

Consolidated cash flow statement of the Heidelberg Group 2002/2003[1)]

Figures in € thousands

	2001/2002	**2002/2003**
Net profit or loss	200,545	– 137,894
Depreciation and amortization / write-ups to fixed assets / reversal of negative goodwill	193,983	216,232
Change in pension provisions	34,822	21,488
Change in deferred taxes	– 52,996	– 62,308
Result from the equity valuation	38,837	81,081
Result from the disposal of fixed assets	1,374	– 19,080
Cash flow	416,565	99,519
Change in other provisions[2)]	– 55,876	24,157
Change in customer financing[2)]	– 200,414	27,334
Change in other net current assets	– 126,959	248,377
Change in other balance sheet items[2)]	– 30,006	11,317
Net cash from operating activities	3,310	410,704
Intangible assets / tangible assets		
Investments	– 252,145	– 242,989
Proceeds from disposals	21,097	145,595
Acquisitions, shares in subsidiaries, loans		
Investments / outflow of funds from changes in the scope of the consolidation	– 109,918	– 109,014
Proceeds from disposals	14,208	3,066
Outflow of funds from investment activity	– 326,758	– 203,342
Free cash flow	– 323,448	207,362
Dividend payment	– 154,635	– 122,175
Raising of financial debt	590,712	406,861
Repayment of financial liabilities	– 138,366	– 518,067
Cash inflow or outflow from financing activity	297,711	– 233,381
Net change in cash and cash equivalents	– 25,737	– 26,019
Cash and cash equivalents at the beginning of the year	118,811	89,832
Changes in the scope of the consolidation	–	11,185
Currency adjustments	– 3,242	7,773
Net change in cash and cash equivalents	– 25,737	– 26,019
Cash and cash equivalents at year-end	89,832	82,771

1) See explanations on pages 27 – 28 as well as Note 34
2) Restructuring according to Note 20

Development of fixed assets

Figures in € thousands

	Acquisition and manufacturing cost						
	1-Apr-2002	Change in the scope of the consolidation	Additions	Transfers	Currency adjustments	Disposals	**31-Mar-2003**
Intangible assets							
Goodwill	192,881	34,462	866	–	– 2,983	1,348	223,878
Negative goodwill from capital consolidation	– 1,657	– 303	–	–	–	– 1,960	–
Development costs	114,204	–	44,924	–	– 9,297	9	149,822
Software and other rights	123,705	5,938	16,114	310	– 6,719	6,446	132,902
Payments on account	310	–	159	– 310	–	–	159
	429,443	40,097	62,063	–	– 18,999	5,843	506,761
Tangible assets							
Land and buildings	906,283	35,835	4,530	103,107	– 29,462	125,484	894,809
Technical equipment and machinery	752,704	18,597	34,465	5,208	– 23,423	57,556	729,995
Other equipment, factory and office equipment	902,600	8,301	68,491	7,966	– 35,874	69,021	882,463
Payments on account and assets under construction	69,440	–	73,440	– 116,281	– 9,502	173	16,924
	2,631,027	62,733	180,926	–	– 98,261	252,234	2,524,191
Financial assets							
Shares in affiliated enterprises	10,407	– 438	13,711	–	– 31	4,712	18,937
Loans to affiliated enterprises	9,056	1,054	137	186	– 7	183	10,243
Shares in associated companies / joint ventures	280,004	– 26,956	91,987	–	– 58,043	–	286,992
Other participations	11,592	15	2,272	–	–	–	13,879
Long-term investments	7,937	8	430	–	– 469	481	7,425
Other loans	5,699	17	477	– 186	– 202	1,046	4,759
	324,695	– 26,300	109,014	–	– 58,752	6,422	342,235
Total fixed assets	3,385,165	76,530	352,003	–	– 176,012	264,499	3,373,187

[1] Including impairment loss totaling € 7,988 thousand
[2] Including impairment loss totaling € 18,321 thousand
[3] Impairment loss (previous year: € 40,290 thousand)

						Accumulated depreciation		Book values	
1-Apr-2002	Change in the scope of the consolidation	Depreciation	Reversals	Currency adjustments	Disposals	Write-ups	**31-Mar-2003**	31-Mar-2002	**31-Mar-2003**
79,175	6,999	28,704	–	– 1,300	1,347	–	112,231	113,706	111,647
– 497	–	–	– 1,463	–	– 1,960	–	–	– 1,160	–
24,945	–	17,515	–	– 2,468	–	–	39,992	89,259	109,830
71,285	5,444	20,681	–	– 2,981	5,733	–	88,696	52,420	44,206
–	–	–	–	–	–	–	–	310	159
174,908	12,443	66,900[1]	– 1,463	– 6,749	5,120	–	240,919	254,535	265,842
468,128	14,584	40,917	–	– 9,419	7,674	–	506,536	438,155	388,273
630,355	13,286	34,886	–	– 14,301	48,013	–	616,213	122,349	113,782
716,199	6,733	74,645	–	– 26,777	56,400	–	714,400	186,401	168,063
–	–	–	–	–	–	–	–	69,440	16,924
1,814,682	34,603	150,448[2]	–	– 50,497	112,087	–	1,837,149	816,345	687,042
4,261	–	22	–	–	–	– 577	3,706	6,146	15,231
4,319	–	–	–	–	–	–	4,319	4,737	5,924
69,835	– 2,324	82,555	–	– 20,654	–	– 1,474	127,938	210,169	159,054
230	–	–	–	–	–	–	230	11,362	13,649
1,131	–	124	–	– 113	–	–	1,142	6,806	6,283
265	–	201	–	– 1	86	–	379	5,434	4,380
80,041	– 2,324	82,902[3]	–	– 20,768	86	– 2,051	137,714	244,654	204,521
2,069,631	44,722	300,250	– 1,463	– 78,014	117,293	– 2,051	2,215,782	1,315,534	1,157,405

Segment information of the Heidelberg Group 2002/2003

Segment information by division [1]

Figures in € thousands

	Digital		Sheetfed	
	2001/2002	**2002/2003**	2001/2002	**2002/2003**
External sales	261,899	235,463	3,673,763	3,063,939
Depreciation [2]/value adjustments [3]	– 28,357	– 27,696	– 203,935	– 206,710
R&D costs [4]	– 124,782	– 118,362	– 232,874	– 216,847
Result of operating activities excluding restructuring costs	– 35,157	– 47,838	497,102	282,338
Restructuring costs	–	– 78,794	–	– 80,793
Result from the equity valuation	– 39,391	– 82,555	931	1,474
Investments in intangible and tangible assets	71,313	71,484	146,798	134,453
Book value of assets [5]	277,247	194,448	1,537,586	1,412,185
Liabilities [6]	136,825	140,907	1,227,993	1,138,516
Number of employees [7]	1,958	2,279	18,798	17,615

Segment information by region [1]

Figures in € thousands

	Europe, Middle East and Africa		Eastern Europe		North America	
	2001/2002	**2002/2003**	2001/2002	**2002/2003**	2001/2002	**2002/2003**
External net sales by customer location	2,022,092	1,730,191	294,550	343,544	1,347,893	1,030,198
Investments in intangible and tangible assets	143,973	147,172	1,904	2,633	97,665	86,583
Book value of assets [5]	1,403,370	1,373,722	65,503	59,866	639,510	427,031

	Web Systems		Postpress		Heidelberg Group
2001/2002	**2002/2003**	2001/2002	**2002/2003**	2001/2002	**2002/2003**
627,870	430,723	453,053	399,768	5,016,585	4,129,893
– 51,667	– 54,210	– 19,928	– 15,529	– 303,887	– 304,145
– 46,803	– 33,200	– 26,111	– 22,660	– 430,570	– 391,069
– 94,372	– 90,859	– 11,275	– 42,056	356,298	101,585
–	– 32,280	–	– 18,564	–	– 210,431
–	–	–	–	– 38,460	– 81,081
29,400	22,712	4,634	14,340	252,145	242,989
302,209	250,937	186,390	168,725	2,303,432	2,026,295
162,515	121,872	60,344	72,767	1,587,677	1,474,062
2,613	2,329	1,975	1,958	25,344	24,181

	Latin America		Asia/Pacific		Heidelberg Group
2001/2002	**2002/2003**	2001/2002	**2002/2003**	2001/2002	**2002/2003**
315,346	146,388	1,036,704	879,572	5,016,585	4,129,893
2,687	790	5,916	5,811	252,145	242,989
39,448	35,049	155,601	130,627	2,303,432	2,026,295

Segment information is generated on the basis of the management approach. Intersegmental sales are of minor financial importance and can therefore be ignored.

Detailed information concerning the Divisions is provided in the Reports of the Business Units and the Reports from the Regions.

1) Restated in accordance with the new management organization. Please refer to page 35

2) Excluding financial assets and impairment loss in connection with restructuring measures

3) Reclassified as described in Note 20

4) Including capitalized development costs but excluding depreciation during the financial year

5) Including: intangible assets, tangible assets, and inventories

6) Value of liabilities in accordance with the consolidated balance sheet

7) As of financial year-end

Notes to the Financial Statements of the Heidelberg Group for the Financial Year April 1, 2002 to March 31, 2003

1 Basis for the presentation of the consolidated financial statements

We have prepared the annual financial statements of the Heidelberg Group in accordance with the International Accounting Standards (IAS, in future IFRS) of the International Accounting Standards Board (IASB), London. The interpretations of the Standing Interpretations Committee (SIC, in future IFRIC) 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 financial statements, prepared in accordance with IAS, comply with the provisions of Section 292a of the German Commercial Code (HGB). Accounting and valuation principles applied in connection with the drawing up of the financial statements according to the IAS are compatible with the requirements of the Seventh EU Guideline according to Section 292a 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 costs incurred during the financial year are shown separately in the income statement.

To enhance clarity, we reclassified the provisions for risks that were formed in connection with receivables from customer financing and the asset-backed transaction. The provisions for risks previously classified under liabilities are now offset directly from receivables from customer financing and other assets. To enhance comparability, we restated the corresponding previous year's figures in the consolidated financial figures. We also refer the reader to the following additional explanations:

- Balance sheet,
- Cash flow statement,
- Segment information,
- Note 5 (Foreign currency translation),

- Note 8 (Other operating income),
- Note 11 (Other operating expenses),
- Note 20 (Receivables and other assets),
- Note 22 (Deferred taxes),
- Note 25 (Provisions),
- Note 28 (Other provisions).

All amounts are stated fundamentally in € thousands. The translation to euros occurs at the subsidiaries located in countries that are not members of the European Monetary Union in such a way that the annual financial statements generated in the respective local currency are translated into euros.

In accordance with Section 291 of the German Commercial Code, the existence of the disclosed consolidated financial statements of RWE Aktiengesellschaft, Essen, which are available at the Company's Head Office, exempt the Group from the obligation of drawing up a partially consolidated financial statement.

2 Significant differences between the German Commercial Code and the IAS

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),
- Recognition and measurement of financial instruments (IAS 39),
- Consolidation of the specialized investment fund (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).

3 Scope of the consolidation

The consolidated financial figures of Heidelberger Druckmaschinen Aktiengesellschaft include a total of 90 (previous year: 89) domestic and foreign companies in which Heidelberger Druckmaschinen Aktiengesellschaft directly or indirectly holds the majority of the voting rights and is in a position to exercise a controlling influence. To the extent that shares in subsidiaries are of minor importance, they are not included in the consolidation. These companies account for less than 1 percent of total consolidated net sales. A complete listing of the Group's shares is filed with the Register of Companies of the Heidelberg District Court.

Under the provisions of IAS 31, our joint venture with the Kodak Graphics Holding, Inc., NexPress Solutions LLC, Rochester, New York, USA, in which we hold a 50 percent shareholding, is measured in accordance with the equity method due to its significant influence. As of April 1, 2002, for the first time we measured our joint venture Heidelberg Middle East and Freezone Company, Dubai, United Arab Emirates, by the equity method.

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-2003	Abroad 31-Mar-2003	**Total 31-Mar-2003**	Total 31-Mar-2002
Number of wholly consolidated companies	16	75	91	90
Number of non-consolidated companies due to their minor significance	8	26	34	23
Number of companies measured according to the equity method	–	2	2	2
	24	103	127	115

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

- Initial consolidation of the Gallus Group:
  Due to the agreement undertaken with the majority shareholder of the Gallus Group concerning economic management, Gallus was wholly consolidated for the first time as of April 1, 2002. In the past, the Gallus Group, in which we continue to hold a 30 percent shareholding, was measured according to the equity method. In detail, the following companies were consolidated:
  - Gallus Holding AG, St. Gallen, Switzerland,
  - Gallus Inc., Philadelphia, Pennsylvania, USA,
  - Gallus Ferd. Rüesch AG, St. Gallen, Switzerland,
  - Arsoma GmbH, Langgöns, Germany.
- Initial consolidation of the IDAB WAMAC Group, Sweden:
  Heidelberger Druckmaschinen Aktiengesellschaft acquired 80 percent of the shares of IDAB WAMAC International AB, Eksjö, Sweden, as of September 1, 2002, as well as a 100 percent shareholding in NewCo International AB, Sundsvall, Sweden. As of September 1, 2002, this latter subsidiary held the remaining 20 percent of the former. The purchase prices were arranged in confidence.
- Deconsolidation:
  The shares held in
  - Hell Gravure Systems GmbH, Kiel, Germany, and
  - Linopress Publishing Systems GmbH, Eschborn, Germany

  were sold in financial year 2002/2003. The deconsolidation of the two companies occurred as of April 1, 2002.

  Due to the minor significance for the Heidelberg Group of Heidelberg East Africa Ltd., Nairobi, Kenya, this firm was deconsolidated as of March 31, 2003.

  The shareholding in this affiliated enterprise is measured at the historic cost of purchase. The amount booked to the income statement as a result of the deconsolidations totaled € 14,282 thousand.
- Merger/liquidation:
  Heidelberg Middle East and Africa Holding GmbH, Heidelberg, was merged with Heidelberger Druckmaschinen Aktiengesellschaft, Heidelberg, as of April 1, 2002.
  As of March 31, 2003, Heidelberg Consumables International S.A.S., Tremblay-en-France, France, was liquidated.

The significant members of the Group are shown in the Notes to the Financial Statements.

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

	2001/2002	2002/2003
Fixed assets	–	31,808
Current assets	–	44,283
Total assets	–	76,091
Shareholders' equity	–	25,846
Liabilities	–	50,245
Equity and liabilities	–	76,091
Sales	–	77,567
Net profit	–	15,822

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

	2001/2002[1)]	2002/2003
Fixed assets	194,362	156,106
Current assets	50,850	45,371
Total assets	245,212	201,477
Shareholders' equity	195,962	159,054
Liabilities	49,250	42,423
Equity and liabilities	245,212	201,477
Sales	173,859	147,210
Net profit	– 35,828	– 81,081

1) Including the Gallus Group

Fixed assets largely comprise capitalized development costs.

4 Principles of consolidation

The capital consolidation is undertaken by offsetting the book values of the shares in affiliated enterprises against attributable shareholders' equity measured at fair value of the subsidiaries at the time of their acquisition. 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 Group companies are eliminated. Intercompany transactions 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 intercompany commercial transactions 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 financial year-end exchange 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 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 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	
	2001/2002	**2002/2003**	31-Mar-2002	**31-Mar-2003**
	1 € =	1 € =	1 € =	1 € =
USD	0.8806	1.0047	0.8724	1.0895
GBP	0.6148	0.6462	0.6130	0.6896
AUD	1.7199	1.7759	1.6382	1.8076
CAD	1.3809	1.5497	1.3923	1.6037
JPY	110.3917	121.3283	115.5100	129.1800

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

The foreign currency changes had the following effect:

	2001/2002	**2002/2003**
Fixed assets	4,220	– 97,998
Current assets [1]	3,991	– 235,221
Total assets	8,211	– 333,219
Shareholders' equity	3,522	– 181,439
Liabilities [1]	4,689	– 151,780
Equity and liabilities	8,211	– 333,219
Sales	– 2,371	– 260,669

[1] Reclassified in accordance with the explanation in Note 20

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 income statement and the balance sheet of the Heidelberg Group 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 financial figures of the Heidelberg Group 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 impairment losses were taken for restructuring measures. 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 estimated useful life.

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 impairment losses taken for restructuring measures. The cost of manufacture encompasses all costs that are directly or indirectly imputable 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).

Finance leases

Under finance 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 attributable market value or the net present value of the minimum leasing installments. Depreciation is taken using the straight-line method on the basis of the lower of useful economic life or the duration of the lease.

Depreciation

The depreciation of fixed assets is recorded primarily on the basis of the following useful life periods, which are applied uniformly throughout 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

Impairment loss

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. An impairment loss 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. Should the reasons for an impairment loss 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 market value. Long-term investments and marketable securities are fundamentally assessed at their stock market prices. Unrealized profits and losses arising from changes in market 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 under the financial result. In accordance with IAS 39, impairment tests are implemented with reference to a permanent reduction in value.

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 granted by us, 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. Non-scheduled write-downs are taken in case of deterioration of the borrower's credit standing.

Inventories

Inventories are carried at acquisition or manufacturing cost. Valuations are determined on the basis of the weighted average cost method. The 'last in, first out' (Lifo) 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 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 fundamentally carried at nominal value. Account has been taken of all recognizable individual risks through corresponding write-downs.

Long-term production orders

In accordance with IAS 11, long-term production orders are based on the percentage of completion method, with the amounts realized carried as a part of sales and, following deduction of customer payments received on account, as trade receivables. The level of completion is recorded on the basis of expenses accrued (cost-to-cost method). No significant orders were outstanding at financial year-end that would necessitate capitalization in accordance with IAS 11 (job manufacturing).

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 IAS valuations and fiscal valuations. 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.

In accordance with the provisions of IAS 12, neither deferred tax assets nor liabilities have been discounted.

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: 3.5 percent) for salary increases, 2.0 percent (previous year: 2.5 percent) for growth in pensions, and a discounted interest rate of 5.5 percent (previous year: 6.0 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 extent of the obligation 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 or future 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.

In accordance with the provisions of IAS 37, we did not accrue any expense provisions since there is no outside liability.

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.

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 investment.

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 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.

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 probable and 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 for **long-term job manufacturing** arising from the application of the percentage of completion method was also non-existent in business year 2002/2003.

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** are recorded based on the provisions of IAS 17.

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

8 Other operating income

	2001/2002	**2002/2003**
Reversal of other provisions*)	84,964	67,599
Income from job research projects	77,985	57,754
Foreign exchange profits	10,251	28,975
Income from written-off receivables*)	8,191	15,697
Income resulting from deconsolidations of companies	–	14,282
Income from operating facilities	16,490	12,321
Income from disposals of intangible assets and tangible assets	3,358	11,105
Reversal of negative goodwill	8,683	1,463
Commissions	2,465	307
Sundry income	69,840	84,770
	282,227	294,273

Due to the reclassification of the provision for risks for receivables from customer financing and the asset-backed transaction, we accordingly adjusted the previous year's figures of the items marked with an asterisk.

The increase in other operating income results, among other things, from foreign exchange profits, which result mainly from the strengthening of the euro vis-à-vis the major foreign currencies held in the portfolio. Other income comprises a large number of individual items.

9 Cost of materials

	2001/2002	**2002/2003**
Expenses for raw materials, consumables and supplies and for goods purchased	1,878,437	1,483,076
Costs of purchased services	158,191	140,269
	2,036,628	1,623,345

The ratio of the cost of materials to total operating performance decreased insignificantly, from 39.8 percent to 39.5 percent.

10 Personnel expenses and number of employees

	2001/2002	**2002/2003**
Wages and salaries	1,326,394	1,198,001
Social security contributions and other pension costs	271,379	257,866
– of which for pensions	(30,330)	(27,318)
	1,597,773	1,455,867

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

The average number of **employees** totaled:

	2001/2002	**2002/2003**
Wage earners	11,202	10,438
Salaried employees	13,703	13,349
Apprentices	836	862
	25,741	24,649

11 Other operating expenses

	2001/2002	2002/2003
Other deliveries and services not included in the cost of materials	202,881	144,062
Provisions for doubtful accounts and other assets*)	102,120	113,106
Special direct selling costs including freight charges	112,581	104,574
Travel expenses	112,472	91,374
Additions to provisions (relates to several expense accounts)*)	85,979	86,221
Rent and leases (excluding car fleet)	85,167	84,184
IT expenses	40,782	51,871
Legal and consulting fees	48,813	32,148
Costs of mail and payment transactions	26,361	26,002
Other research and development costs	22,815	24,463
Public-sector fees and other taxes	29,332	21,844
Insurance expenses	16,429	20,706
Exchange rate losses	16,330	17,883
License fees	17,660	16,409
Expenses from operating facilities	17,704	14,167
Car fleet costs	11,366	12,209
Commissions	14,525	10,664
Office supplies, newspapers, technical literature	9,002	7,992
Losses from disposals of intangible assets and tangible assets	4,223	6,380
Other overhead costs	230,712	141,717
	1,207,254	1,027,976

Due to the reclassification of the provision for risks for receivables from customer financing and the asset-backed transaction, we accordingly adjusted the previous year's figures of the items marked with an asterisk.

Cost-reduction measures that have been initiated also resulted in recognizable savings among other operating expenses – for example, other deliveries and services, travel expenses, and other overhead costs.

12 Restructuring costs

	2001/2002	2002/2003
Compensation and other personnel-related costs	–	154,733
Impairment loss of intangible assets and tangible assets	–	26,309
Legal and consultancy fees and other material costs	–	29,389
	–	210,431

An explanation of the restructuring is included in the presentation of the asset, financial and income position in the Management Report.

13 Result from financial assets and marketable securities

	2001/2002	2002/2003
Result from the equity valuation	– 38,460	– 81,081
Expenses from financial assets	3,899	4,013
– of which affiliated enterprises	(3,800)	(3,650)
Income from loans or securities included under financial assets	639	509
Income from profit transfer agreements	265	908
Expenses from assumption of losses	101	93
Income from financial assets	– 41,556	– 83,770
Income from the specialized investment funds	14,392	7,754
Income or expenses from marketable securities	–	50
Result from marketable securities	14,392	7,804
	– 27,164	– 75,966

Expenses from financial assets include amortization of financial assets amounting to € 347 thousand (previous year: € 899 thousand).

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

14 Net interest income

The net interest income is apportioned as follows:

	2001/2002	2002/2003
Interest from customer financing	100,181	101,152
Interest from financial investments	2,405	1,759
Other interest income	10,954	10,356
– of which affiliated enterprises	(–)	(156)
Other interest and similar income	113,540	113,267
Bank interest	46,420	52,171
Interest for trade payables	476	30
Other interest expenses	60,413	40,495
– of which interest portion from additions to pension provisions	(30,197)	(27,110)
– of which to affiliated enterprises	(479)	(35)
Interest and similar expenses	107,309	92,696
Net interest income	6,231	20,571

15 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:

	2001/2002	2002/2003
Effective taxes		
Germany	171,343	31,790
Abroad	16,473	4,171
	187,816	35,961
Deferred taxes		
Germany	– 55,915	– 12,348
Abroad	2,919	– 49,960
	– 52,996	– 62,308
	134,820	– 26,347

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

No significant income accrued from the application of loss carry-backs during the financial year (previous year: € 15,522 thousand).

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.

There were no tax expenses during the reporting year in connection with extraordinary expenses or the discontinuation of business units.

Furthermore, neither additional taxes on income nor tax income arose due to the retention of the balance sheet generation methods.

All **still unused tax loss carry-forwards** amounting to € 728,642 thousand (previous year: € 519,339 thousand) are attributable to foreign subsidiaries, with the increase largely related to our US subsidiaries.

Taxes on income were reduced due to the formation of € 47,489 thousand (previous year: € 89,473 thousand) in deferred tax assets from tax-loss carry-forwards. During the financial year, no deferred tax assets (previous year: € 19,221 thousand) 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. During the reporting year, write-downs of deferred tax assets for loss carry-forwards created in previous years amounting to € 1,344 thousand (previous year: € 0 thousand) were formed.

Effective taxes were reduced during the reporting year by € 1,498 thousand (previous year: € 9,881 thousand) as a result of deferred tax assets that had not previously been taken into account.

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

	2001/2002	**2002/2003**
Income before taxes	335,365	– 164,241
Theoretical tax rate in percent[1)]	39.03	39.28
Theoretical tax expense	130,893	– 64,514
Change in theoretical tax expense due to:		
– differing tax rate	4,250	– 1,176
– losses	– 13,539	75,261
– tax decrease due to tax-exempt income	– 9,787	– 9,748
– tax increase due to non-deductible expenses	13,462	12,306
– tax decrease due to dividend payouts of Heidelberger Druckmaschinen Aktiengesellschaft	– 21,148	–
– change in tax provisions	24,704	– 28,086
– other	5,985	– 10,390
Taxes on income	134,820	– 26,347
Tax rate in percent	40.20	16.04

1) Calculated on the basis of domestic income tax rates

Notes to the Balance Sheet

16 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 Contiweb B.V., Boxmeer, Netherlands,
- Heidelberg International Ltd. A/S Group, Copenhagen, Denmark,
- Gallus Group, St. Gallen, Switzerland, and
- IDAB WAMAC Group, Eksjö, Sweden.

Capitalized **development costs** relate for the most part to the development of assets in the Sheetfed Division and the Digital Division. Non-capitalized development costs from all Divisions – including research expenses – amount to € 346,145 thousand in financial year 2002/2003 (previous year: € 400,380 thousand).

Due to restructuring measures, an impairment loss totaling € 7,988 thousand was incurred in intangible assets.

17 Tangible assets

Other equipment, factory and office equipment include the book value of the assets included in fixed assets originating from finance lease contracts, in which we act as lessee, totaling € 6,753 thousand (previous year: € 9,643 thousand).

The book value of the assets arising from operating leasing relationships, which are capitalized in fixed assets and which we have leased to our customers, is of minor financial significance.

The disposals of land and structures result largely from two sale-and-leaseback transactions executed at US subsidiaries. These transactions are booked as operating leasing relationships in accordance with IAS 17.

The restructuring measures resulted in a € 18,321 thousand impairment loss with regard to land and structures, which was based on corresponding market value expert opinions by publicly commissioned and sworn experts. The remaining impairment loss due to restructuring measures totaling € 982 thousand relates to technical equipment as well as factory and office equipment.

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 future lease payments. The leased objects are therefore not included under fixed assets.

18 Financial assets

The increase of shares in associated companies/joint ventures largely results from the capital increase at NexPress Solutions LLC, Rochester, New York, USA.

The impairment loss is largely attributable to the share of results arising from the application of the equity method. A detailed presentation has been included in the Development of Fixed Assets.

Of the shares in affiliated enterprises, of shares in subsidiaries, and of long-term investments, an amount of € 35,163 thousand (previous year: € 24,314 thousand) is classified as 'available for sale'.

There was no significant change in the market value of the assets 'available for sale' during the financial year.

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

19 Inventories

	31-Mar-2002	**31-Mar-2003**
Raw materials, consumables and supplies	229,877	222,523
Work and services in process	363,705	303,054
Manufactured products and merchandise	631,527	540,975
Prepayments	7,443	6,859
	1,232,552	1,073,411

The book value of the inventories carried at the net selling price is € 131,408 thousand (previous year: € 136,999 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.

The difference arising from the valuation of inventory according to the Lifo method in accordance with IAS 2.36 is of secondary importance in financial year 2002/2003, as already in the previous year. During the reporting year, as in the previous year, we did not have any inventories that are pledged as collateral.

20 Receivables and other assets

	31-Mar-2002	of which term to maturity 1 year or less	from 1 to 5 years	over 5 years	31-Mar-2003	of which term to maturity 1 year or less	from 1 to 5 years	over 5 years
Receivables from customer financing	922,926	191,402	448,170	283,354	860,389	184,957	410,160	265,272
Trade receivables	987,812	955,415	32,397	–	813,358	810,581	2,777	–
Receivables against affiliated enterprises	11,577	11,268	309	–	35,496	34,810	686	–
Receivables against associated companies / joint ventures	38,881	38,881	–	–	24,689	24,689	–	–
Other assets	209,781	197,710	1,925	10,146	195,058	150,767	27,010	17,281
– of which tax reimbursement claims	(109,700)	(109,698)	(2)	(–)	(56,871)	(56,865)	(6)	(–)
– of which loans granted	(5,597)	(5,189)	(368)	(40)	(588)	(283)	(279)	(26)
– of which derivative financial instruments	(7,246)	(7,246)	(–)	(–)	(44,574)	(34,237)	(10,337)	(–)
– of which deferred interest payments	(8,044)	(8,040)	(4)	(–)	(9,148)	(6,066)	(3,082)	(–)
	1,248,051	1,203,274	34,631	10,146	1,068,601	1,020,847	30,473	17,281

For reasons of clarity, we reclassified the inventory of provisions formed for risks from receivables from customer financing and the asset-backed transaction. The previous provision for risks, which was carried under liabilities, is now offset directly against receivables from customer financing and other assets. To enhance comparability, we reduced the corresponding previous year's figures of accounts receivable from customer financing by € 63,063 thousand and other assets by € 50,312 thousand.

As already in the previous year, in financial year 2002/2003 receivables arising from customer financing were again transferred to a company specialized in this type of transaction, which finances itself through the issuance of securities on the capital market. This company assumes the irrevocable power of control over these receivables, which is the reason why these receivables were derecognized at Heidelberg. Since neither control nor a decisive influence can be exerted, and this company undertakes such transactions on behalf of a number of other firms, there is no requirement to include it in the scope of consolidation. The transferred receivables volume totaled € 324,338 thousand at financial year-end (previous year: € 427,679 thousand).

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

Contract currency	Book value 31-Mar-2002[1]	Term to maturity in years	Effective interest rate in percent	Book value **31-Mar-2003**	Term to maturity in years	Effective interest rate in percent
USD	396,559	up to 10	up to 12	331,151	up to 10	up to 12
EUR	307,523	up to 8	up to 10	342,252	up to 8	up to 11.5
JPY	39,232	up to 10	up to 4	36,523	up to 10	up to 4
GBP	62,165	up to 7	up to 12	53,179	up to 7	up to 12
Other	117,447	–	–	97,284	–	–
	922,926			860,389		

[1] The previous year's figures have been restated

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-2002	of which 1 year or less	of which from 1 to 5 years	of which over 5 years	**31-Mar-2003**	of which 1 year or less	of which from 1 to 5 years	of which over 5 years
Total lease payments	120,936	–	–	–	167,327	–	–	–
Lease payments received	– 16,125	–	–	–	– 18,708	–	–	–
Interest portion of the outstanding lease payments	– 27,240	–	–	–	– 32,370	–	–	–
Present value of outstanding lease payments (book value)	77,571	14,352	49,031	14,188	116,249	5,255	51,584	59,410

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 development of the positive market values of the derivative financial instruments during the current financial year – including deferred tax liabilities – totaling € 18,571 thousand (previous year: € 1,693 thousand), is shown in shareholders' equity without effect on the income statement (cash flow hedge).

During financial year 2002/2003, write-downs on receivables and other assets totaled € 113,106 thousand (previous year: € 102,120 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.

21 Marketable securities as well as cash and cash equivalents

The entire portfolio of marketable securities of € 316,270 thousand (previous year: € 348,845 thousand) is classified as 'available for sale' in accordance to IAS 39. The fixed-interest securities included under this item total € 201,918 thousand (previous year: € 206,698 thousand). Of the total amount, fixed-interest securities amounting to € 22,545 thousand (previous year: € 26,421 thousand) have a term to maturity of up to one year. The remaining marketable securities are equities.

Unrealized losses from changes in market values, taking into consideration deferred taxes, were included in shareholders' equity to the amount of € 50,099 thousand (previous year: € 11,255 thousand) without effect on the income statement.

During the financial year, profit was realized from the sale of securities amounting to € 5,585 thousand (previous year: € 1,379 thousand), 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.

22 Deferred taxes

The deferred taxes are broken down as follows:

	31-Mar-2002		31-Mar-2003	
	Asset	Liability	Asset	Liability
Tax-loss carry-forward	134,854	–	154,405	–
Fixed assets	28,138	77,840	20,455	78,138
Current assets*)	147,038	94,237	151,501	113,345
Special items with an equity portion	–	6,535	–	5,458
Provisions*)	159,640	–	176,229	–
Liabilities	46,577	8,295	40,173	10,393
	516,247	186,907	542,763	207,334

Due to the reclassification of the provision for risks for receivables from customer financing and the asset-backed transaction, we accordingly adjusted the previous year's figures of the items marked with an asterisk.

The increase in the capitalized deferred tax assets on loss carry-forwards results from our foreign subsidiaries, primarily in the US.

As in the previous year, the corporate income tax decreases arising from future dividend payouts amount to approximately € 100 million.

23 Prepaid expenses

Prepaid expenses are attributable largely to deferred financing costs, insurance premiums, rents and leases, as well as association and trade association contributions. Short-term prepaid expenses as of March 31, 2003 amount to € 27,151 thousand (previous year: € 59,448 thousand).

24 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 capital and authorized capital

According to a resolution of the Annual General Meeting held on October 21, 1998, the Management Board was empowered, in agreement with the Supervisory Board, to increase the share capital by October 22, 2003. This may occur through the issue of new shares to the employees of Heidelberger Druckmaschinen Aktiengesellschaft or to the employees of majority-owned companies against a one-time or multiple cash contributions up to a maximum amount of € 1,789,521.58 (DM 3,500,000.00) through the issue of up to 700,000 shares (authorized capital). A subscription right on the part of shareholders is excluded.

According to a resolution of the Annual General Meeting of September 29, 1999, the share capital may be increased on a contingent basis by up to € 10,996,288 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.

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 losses of primary financial instruments totaling € 50,193 thousand (previous year: € 11,255 thousand), as well as unrealized profits from derivative financial instruments (cash flow hedges) totaling € 341 thousand (previous year: profit of € 11,861 thousand).

Minority interests

Minority interests comprise the minority interests in shareholders' equity. A detailed breakdown of minority interests is shown in the presentation of shareholders' equity. The increase in minority interests results from the initial consolidation of the Gallus companies.

Dividends of Heidelberger Druckmaschinen Aktiengesellschaft

According to a resolution of the Annual General Meeting held on September 11, 2002, the distributable profit for the financial year 2001/2002 is to be utilized as follows: distribution of a dividend of € 1.40 (previous year: € 1.80) per share (total of € 120,271,872.00; previous year: € 154,635,264.00), with the residual amount of € 716,271.00 (previous year: € 681,532,57) to be carried forward. Following March 31, 2002, Heidelberger Druckmaschinen Aktiengesellschaft purchased own shares for the Employee Participation Program. At the time of the dividend payment, own shares remained. As a result, the profit distribution was reduced by the dividend on these shares totaling € 7 thousand and the profit carry-forward increased by the same amount.

In accordance with the proposed appropriation of profits for financial year 2002/2003, distributable profit of € 30,335,199.40 is to be utilized as follows: payment to other revenue reserves of € 30,000,000.00, with € 335,199.40 carried forward.

25 Provisions

	1-Apr-2002	Change in the scope of consolidation, currency adjustments, transfers	Utilization	Release	Addition	**31-Mar-2003**
Provisions for pensions and similar obligations	536,814	1,169	23,044	1,575	46,107	559,471
Tax provisions	248,689	– 1,049	20,083	36,741	8,655	199,471
Other provisions						
arising from sales and service activities	245,615	– 10,320	98,798	50,615	111,688	197,570
arising from human resources	263,535	– 10,672	168,249	5,768	267,835	346,681
arising from research and development	14,379	– 912	4,257	1,985	7,916	15,141
Other	143,723	– 21,898	98,441	9,231	122,231	136,384
	667,252	– 43,802	369,745	67,599	509,670	695,776
	1,452,755	– 43,682	412,872	105,915	564,432	1,454,718

	Note	31-Mar-2002 Maturity			**31-Mar-2003** 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	26	32,610	70,340	433,864	33,002	75,953	450,516
Tax provisions	27	32,944	215,745	–	25,199	174,272	–
Other provisions							
arising from sales and service activities	28	219,692	14,306	11,617	171,311	15,379	10,880
arising from human resources	28	200,628	30,345	32,562	276,777	50,099	19,805
arising from research and development	28	14,379	–	–	15,141	–	–
Other	28	119,081	21,923	2,719	128,257	7,160	967
		553,780	66,574	46,898	591,486	72,638	31,652

To enhance clarity, we reclassified the provisions for risks that were formed in connection with customer financing and the asset-backed transaction. The provisions for risks previously classified under liabilities are now offset directly from receivables from customer financing and other assets. To enhance comparability, we reduced the corresponding previous year's figures of the provisions for liabilities arising from sales and service activities by € 93,975 thousand and the other provisions by € 19,400 thousand.

26 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.

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

	31-Mar-2002	**31-Mar-2003**
Present value of funded claims	145,733	163,325
Less attributable market value of fund assets	– 142,653	– 123,347
Shortfall of fund coverage	3,080	39,978
Present value of non-funded pension claims	576,976	553,996
Total present value of pension claims	580,056	593,974
Adjustment amount due to (not offset) actuarial profits or losses	– 59,363	– 39,469
Sub-total	520,693	554,505
Therein capitalized reported assets of foreign employee pension funds	16,121	4,966
Provisions for pensions and similar obligations	536,814	559,471

The decline in the item 'adjustment amount due to (not offset) actuarial profits or losses' results largely from the adjustment of the assumed trends.

Assets separated in funds developed as follows:

	31-Mar-2002	**31-Mar-2003**
Attributable market value of the assets of the funds at the beginning of the financial year	142,487	142,653
Expected fund income	11,310	10,563
Contributions to the funds	2,038	2,927
Pension benefit payments from the funds	– 4,280	– 22,450
Actuarial profits or losses	– 10,237	– 25,833
Changes in the scope of the consolidation, translation adjustments, other changes	1,335	15,487
Attributable market value of the fund assets at financial year-end	142,653	123,347

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

	2001/2002	**2002/2003**
Expenses for pension claims added during the financial year [1)]	22,234	17,422
Interest expense for existing claims	30,197	27,110
Net addition to pension provisions	52,431	44,532
Expenses for other pension plans [1)]	8,096	9,896
	60,527	54,428

1) The expense for the pension plan included in personnel expenses totals € 27,318 thousand (previous year: € 30,330 thousand)

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

27 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.

28 Other provisions

The **provisions from sales and service activities** largely include warranty and guarantee obligations of € 181,313 thousand (previous year – adjusted due to reorganization: € 226,769 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 for restructuring measures** amounting to € 156,174 thousand are included in the provisions from the human resources area and other provisions.

The provisions from the **human resources area** largely include bonuses of € 43,440 thousand (previous year: € 63,619 thousand), vacation, overtime and flextime balances totaling € 51,127 thousand (previous year: € 50,053 thousand), service anniversary expenses in the amount of € 16,408 thousand (previous year: € 20,861 thousand), and provisions for the stock option program totaling € 8,354 thousand (previous year: € 7,698 thousand).

Liabilities in connection with **research and development** activities totaling € 15,141 thousand (previous year: € 14,379 thousand) comprise patent and litigation risks.

Other provisions include provisions for potential losses arising from pending transactions totaling € 19,292 thousand (previous year: € 27,112 thousand), as well as provisions for outstanding supplier invoices totaling € 37,132 thousand (previous year: € 33,591 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.

29 Liabilities

	31-Mar-2002	of which term to maturity 1 year or less	from 1 to 5 years	over 5 years	31-Mar-2003	of which term to maturity 1 year or less	from 1 to 5 years	over 5 years
To banks	921,531	891,995	29,536	–	796,477	786,494	9,919	64
Advance payments received on orders	110,405	110,067	338	–	97,408	97,408	–	–
Trade payables	285,775	278,462	7,313	–	274,952	270,633	4,311	8
Arising from the acceptance of drawn bills and the issue of own bills	14,646	14,646	–	–	5,546	5,546	–	–
To affiliated enterprises	6,501	6,501	–	–	8,382	6,699	1,683	–
To associated companies/ joint ventures	2,893	2,893	–	–	945	945	–	–
Other liabilities	245,926	242,608	2,794	524	290,352	224,527	38,221	27,604
– of which derivative financial instruments	(25,385)	(25,385)	(–)	(–)	(49,864)	(7,100)	(15,160)	(27,604)
– of which taxes	(44,620)	(44,620)	(–)	(–)	(54,999)	(54,999)	(–)	(–)
– of which relating to social security	(33,674)	(33,674)	(–)	(–)	(33,264)	(33,264)	(–)	(–)
	1,587,677	1,547,172	39,981	524	1,474,062	1,392,252	54,134	27,676

Liabilities to banks

Liabilities to banks are shown in the following table:

Type	Contract currency	Book value 31-Mar-2002	Term to maturity in years	Effective interest rate in percent	Book value 31-Mar-2003	Term to maturity in years	Effective interest rate in percent
Loan	EUR	807,578	up to 1	up to 6.2	672,584	up to 7	up to 6.0
Loan	USD	53,929	up to 1	up to 3.5	96,374	up to 1	up to 2.0
Current account	USD	6,639	–	–	5,846	–	–
	Other	53,385	up to 5	up to 18.5	21,673	up to 4	up to 5.7
		921,531			796,477		

The **credit lines** not yet fully used in our Group amount to € 1,019,607 thousand at financial year-end (previous year: € 869,863 thousand).

In February 2002, an underwriting syndicate under the management of Commerzbank AG and Deutsche Bank AG granted Heidelberg 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 € 786,494 thousand (previous year: € 891,995 thousand) include credit totaling € 428,575 thousand (previous year: € 457,205 thousand) under this long-term committed credit line.

Derivative financial instruments

The decline in the negative market value of derivatives (fair value hedge) during the current financial year was booked directly to the income statement, taking into consideration capitalized deferred taxes amounting to € 2,643 thousand (previous year: € 10,148 thousand). The € 13,621 thousand increase in the negative market values (previous year: € 12,790 thousand decline) (cash flow hedge) was included in shareholders' equity without effect on the income statement.

Additional information

Liabilities arising from financial leases in which we act as the lessee totaled € 7,334 thousand (previous year: € 8,962 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.

30 Deferred income

	31-Mar-2002	31-Mar-2003
Investment subsidies:		
Taxable subsidies	4,254	4,436
Tax-exempt allowances	4,299	4,264
Other	29,096	36,418
	37,649	45,118

The share of the deferred income outstanding in the following financial year amounts to € 26,513 thousand at financial year-end (previous year: € 28,613 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 € 4,223 thousand (previous year: € 4,013 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 € 2,787 thousand (previous year: € 3,019 thousand). This item also includes allowances according to the Investment Allowance Act of 1991/1996/1999 amounting to € 1,463 thousand (previous year: € 1,259 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.

31 Derivative financial instruments

Task of Corporate Treasury

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-2002	**31-Mar-2003**	31-Mar-2002	**31-Mar-2003**
Hedging of anticipated payment flows and pending transactions (cash flow hedges)				
Forward exchange transactions	598,677	446,506	3,081	10,231
Currency options transactions	352,800	643,338	4,165	27,630
	951,477	1,089,844	7,246	37,861
Interest rate hedging (cash flow hedges)				
Interest rate swaps	831,905	744,589	– 20,535	– 42,636
Hedging of balance sheet items (fair value hedges)				
Forward exchange transactions	311,780	189,145	– 4,850	– 515

The nominal volumes result from the sum total of all the purchase and sale amounts of the underlying transactions. The market values correspond to the profits and losses arising from a notional settlement of the derivatives at financial year-end. The determination of market values occurs with the aid of standardized valuation methods (discounted cash flow and option pricing models).

The existing derivative financial instruments result in a theoretical **risk of non-payment (credit risk)** of € 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, 57 percent are denominated in US dollars and 17 percent in Japanese yen.

Valuation profits, which totaled € 37,861 thousand (previous year: € 7,246 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 12 months.

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 totaling € 292,083 thousand have a term to maturity of less than five 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 € 40,036 thousand (previous year: € 17,530 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.

Fair value hedges

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.

32 Contingent liabilities and other financial liabilities

	31-Mar-2002	31-Mar-2003
Liability arising from the endorsement of bills of exchange	405	179
Guarantees and warranties	373,704	296,535
	374,109	296,714

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. Prior to the establishment of our finance companies, these guarantees were used especially by US and Japanese subsidiaries as a sales promotion tool. Liabilities under this form of customer financing posted a further substantial decline.

Other financial liabilities are broken down as follows:

	31-Mar-2002	Maturity 1 year or less	Maturity from 1 to 5 years	Maturity over 5 years	31-Mar-2003	Maturity 1 year or less	Maturity from 1 to 5 years	Maturity over 5 years
Operating lease relationships								
Minimum lease payments	256,215	50,014	92,890	113,311	409,243	55,874	94,260	259,109
Other								
Orders for investments	24,994	24,994	–	–	26,930	26,930	–	–
Future lease obligations	137,520	24,881	62,149	50,490	77,360	17,824	50,119	9,417
Additional obligations	1,085	1,066	19	–	14,776	14,746	30	–
	163,599	50,941	62,168	50,490	119,066	59,500	50,149	9,417
	419,814	100,955	155,058	163,801	528,309	115,374	144,409	268,526

The figures shown are nominal values, not net present values. The liabilities under operating leases relate primarily to real estate and motor vehicles.

Additional information

33 Earnings per share in accordance with IAS 33

	2001/2002	2002/2003
Net profit/loss – Heidelberg share in € thousands	199,474	– 143,771
Number of shares in thousands (weighted average)	85,908	85,898
Result in € per share	2.32	– 1.67

Undiluted earnings per share are calculated by dividing the net profit accruing to Heidelberg by the weighted average number of the shares outstanding during the financial year. 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 costs, earnings per share amount to € – 0.16.

34 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 paid on income during financial year 2002/2003 totaled € 87,308 thousand (previous year: € 211,428 thousand). With the exception of the interest portion of the addition to provisions, interest expenditures and revenues in financial year 2002/2003, as well as the previous year, largely correspond to interest expenses and income.

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

Total liquidity is broken down as follows:

	31-Mar-2002	31-Mar-2003
Marketable securities (excluding securities held in the specialized investment funds)	18	175
Cash and cash equivalents	89,814	82,596
Total liquidity	89,832	82,771

35 Corporate Governance – Declaration of Compliance

For calendar year 2002, 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.

36 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 138 – 139 (Supervisory Board) and page 140 (Management Board).

Management Board

The total remuneration of the Management Board for financial year 2002/2003 amounted to € 2,959 thousand (previous year: € 2,846 thousand), broken down into a basic fixed remuneration amounting to € 1,843 thousand, bonuses totaling € 990 thousand, and stock options of € 126 thousand.

Former Members

Former members of the Management Board and their survivors received € 2,024 thousand (previous year: € 2,081 thousand). Of this amount, € 772 thousand (previous year: € 803 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 € 25,181 thousand (previous year: € 26,283 thousand) was made for pension obligations to former members of the Management Board and their survivors. Of this amount, € 10,082 thousand (previous year: € 10,556 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 remuneration of the Supervisory Board during financial year 2002/2003 totaled € 36 thousand (previous year: € 614 thousand).

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.

37 Transactions with Group-related companies and individuals

RWE Aktiengesellschaft, Essen, holds a majority interest in our Company.

No transactions were undertaken with RWE Aktiengesellschaft, Essen, during the current financial year.

Significant relationships with affiliated enterprises are as follows:

Delivering company	Nature of transactions	2001/2002	**2002/2003**
RWE Mechatronics GmbH, Mechernich	Deliveries, inventories	54,130	44,888
RWE Solutions AG, Frankfurt	Services	5,382	10,756
GKM Gesellschaft für Kommunikation und Medienarbeit mbH, Essen	Services	188	26
RWE Plus Aktiengesellschaft, Essen	Services	5,911	1
Rheinelektra Technik GmbH, Mannheim [1]	Services	385	–
	Investments	403	–

[1] An affiliated enterprise up to July 1, 2001

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

No significant transactions were undertaken with closely related individuals.

38 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 or 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. The exercise waiting periods are primarily appropriate 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. Other periods that may be designated as exercise waiting periods include in particular periods during the implementation of capital increases and the period from the last date of deposit until the conclusion of an Annual General Meeting.

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-negotiability and the 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 – 2002

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

As of financial year-end, there was a total of 1,986,410 options for all tranches.

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.

Nevertheless, on the basis of a recognized option pricing model, we have determined the value of the options for the 1999, 2000, 2001, and 2002 tranches, taking into consideration both the intrinsic and market values of the options at the time of issue and establishing an appropriate provision.

39 Information on events after financial year-end

No significant events occurred following the financial year-end.

Heidelberg, May 2, 2003

Heidelberger Druckmaschinen Aktiengesellschaft

Bernhard Schreier

Dr. Herbert Meyer

Wolfgang Pfizenmaier

Holger Reichardt

Dr. Klaus Spiegel

Auditor's Report

We have audited the voluntarily prepared 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, 2002 to March 31, 2003. The preparation and the content of the consolidated financial statements according to the International Accounting Standards of the IASB (IAS) 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 IAS.

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 Institut der Wirtschaftsprüfer (IDW) and 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 IAS.

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, 2002 to March 31, 2003, 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.

Essen, May 14, 2003

PwC Deutsche Revision
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

P. Albrecht	B. J. Buiting
Wirtschaftsprüfer	Wirtschaftsprüfer

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

Name and location	Share in shareholders' equity	Shareholders' equity	Net profit after taxes	Sales	Yearly average number of employees
Heidelberger Druckmaschinen Vertrieb Deutschland GmbH [1] Heidelberg, Germany	100.00 %	37,938	– 26,234	487,816	1,214
Heidelberg Graphic Equipment Ltd. (Heidelberg UK) [2] Brentford, Great Britain	100.00 %	112,106	– 5,430	322,690	533
Heidelberg Web Systems S.A. Montataire, France	99.98 %	32,366	– 20,842	222,011	1,040
Heidelberg France S.A. Tremblay-en-France, France	100.00 %	1,545	– 18,197	185,266	391
Heidelberg Schweiz Aktiengesellschaft Bern, Switzerland	100.00 %	23,375	4,181	91,408	212
Heidelberg Contiweb B.V. [2] Boxmeer, Netherlands	100.00 %	76,013	– 8,851	90,549	213
Brehmer Buchbindereimaschinen GmbH [3] Leipzig, Germany	100.00 %	18,021	1,797	57,549	301
Heidelberg Finishing GmbH [1] Ludwigsburg, Germany	100.00 %	25,244	– 15,245	54,024	487
Heidelberg Sverige AB Stockholm, Sweden	100.00 %	2,972	– 2,190	38,487	78
Print Finance Vermittlung GmbH [1] Heidelberg, Germany	100.00 %	36,066	3,446	36,107	–
Linotype Library GmbH [1] Bad Homburg, Germany	100.00 %	219	3,579	11,882	48
Heidelberger Druckmaschinen Osteuropa Vertriebs-GmbH [2, 4] Vienna, Austria	100.00 %	134,151	10,122	284,026	375
Heidelberger Druckmaschinen Austria Vertriebs-GmbH [5] Vienna, Austria	100.00 %	159,626	6,196	51,242	124
Heidelberg USA, Inc. [2] Kennesaw, USA	100.00 %	157,691	– 39,409	740,440	1,493
Heidelberg Web Systems, Inc. [2] Dover, USA	100.00 %	– 29,168	– 117,282	230,840	1,056
Heidelberg Digital L.L.C. Rochester, USA	100.00 %	– 31,042	– 117,894	204,663	739
Heidelberg Canada Graphic Equipment Ltd. Mississauga, Canada	100.00 %	17,477	– 472	125,234	336

Name and location	Share in shareholders' equity	Shareholders' equity	Net profit after taxes	Sales	Yearly average number of employees
Heidelberg Print Finance Americas, Inc.[2)] Dover, USA	100.00 %	159,524	11,017	–	17
Heidelberg Mexico Services S. de R.L. de C.V.[2, 6)] Mexico City, Mexico	100.00 %	1,906	– 4,628	48,174	167
Heidelberg do Brasil Sistemas Graficos e Servicos Ltda.[7)] São Paulo, Brazil	100.00 %	– 4,477	– 9,864	17,755	273
Heidelberg Japan K.K. Tokyo, Japan	100.00 %	19,934	5,350	254,618	478
Heidelberg China Ltd. Hong Kong, China	100.00 %	31,961	12,371	170,782	160
Heidelberg Hong Kong Ltd. Hong Kong, China	100.00 %	14,878	4,089	103,296	127
Heidelberg Graphic Equipment Ltd. (Heidelberg Australia) Melbourne, Australia	100.00 %	22,551	– 6,362	69,589	211
Europe Graphic Machinery Far East Ltd. Hong Kong, China	100.00 %	5,690	149	45,727	–
Heidelberg Asia Pte Ltd. Singapore, Singapore	100.00 %	6,186	1,519	45,722	142
Modern Printing Equipment Ltd. Hong Kong, China	100.00 %	7,673	5,663	12,471	–

1) Profit and loss transfer agreement with Heidelberger Druckmaschinen Aktiengesellschaft
2) Pre-consolidated financial statements
3) Profit and loss transfer agreement with Heidelberg Finishing GmbH
4) Profit and loss transfer agreement with Heidelberger Druckmaschinen Austria Vertriebs-GmbH
5) 1 percent is held by Heidelberger Druckmaschinen Vertrieb Deutschland GmbH
6) 99.67 percent is held by Heidelberg USA, Inc. and 0.33 percent by Heidelberg Americas, Inc.
7) 99.09 percent is held by Contiweb B.V. and 0.91 percent by Print Finance Vermittlung GmbH

The Supervisory Board

Dr. Dietmar Kuhnt
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

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

Hans-Jürgen Bauer ***
Deputy Chairman of the Works Council, Kiel

Prof. Dr. Clemens Börsig
Member of the Management Board of Deutsche Bank Aktiengesellschaft, Frankfurt am Main
** Foreign & Colonial Eurotrust plc., UK
(Member of the Board of Directors)

Ernst Eikermann ***
– through September 30, 2002 –
Member of the Works Council, Amstetten

Roland Eisenbarth ***
– since October 1, 2002 –
Deputy Chairman of the Works Council, Amstetten

Dr. Michael Endres
Former Member of the Management Board of Deutsche Bank Aktiengesellschaft,
Frankfurt am Main
* ARCOR Verwaltungs-Aktiengesellschaft;
Bankgesellschaft Berlin Aktiengesellschaft;
Deutz Aktiengesellschaft (Chairman);
Lucent Technologies Network Systems GmbH (Chairman);
** Gemeinnützige Hertie-Stiftung
(Chairman of the Management Board);
Landesbank Berlin – Girozentrale –;
Schott Glas
(Member of the Company Council)

Dietrich-Kurt Frowein
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
Managing Director of the Loyalty Partner GmbH, Munich
* telegate Aktiengesellschaft

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

Berthold Huber ***
First Chairman of IG Metall, Stuttgart
* Audi Aktiengesellschaft;
Robert Bosch GmbH;
RWE Aktiengesellschaft;
Saarstahl Aktiengesellschaft

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

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

Dr. Gerhard Rupprecht
Member of the Management Board of Allianz Aktiengesellschaft
Chairman of the Management Board of Allianz Lebensversicherungs-Aktiengesellschaft, Stuttgart

* Advance Holding Aktiengesellschaft;
Allianz Dresdner Asset Management Deutschland GmbH;
ThyssenKrupp Automotive Aktiengesellschaft;
Quelle Aktiengesellschaft;

** Allianz Elementar Versicherungs-Aktiengesellschaft, Austria;
Allianz Elementar Lebensversicherungs-Aktiengesellschaft, Austria (Chairman);
Allianz Life Insurance Company of North America, USA;
Allianz First Life Insurance Co. Ltd., Korea

Dr. Klaus Sturany
Member of the Management Board of RWE Aktiengesellschaft, Essen

* Commerzbank Aktiengesellschaft;
Hannover Rückversicherungs-Aktiengesellschaft;
HOCHTIEF Aktiengesellschaft;
RAG Aktiengesellschaft;
RWE Dea Aktiengesellschaft;
RWE Power Aktiengesellschaft;
RWE Solutions Aktiengesellschaft;

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

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

Helmut Weber***
Member of the Works Council, Heidelberg-Wiesloch

Committees of the Supervisory Board

Management Committee
Dr. Dietmar Kuhnt
Josef Pitz
Dietrich-Kurt Frowein
Pat Klinis
Dr. Gerhard Rupprecht
Rainer Wagner

Mediation Committee under Article 27 Subsection 3 of the Codetermination Act
Dr. Dietmar Kuhnt
Josef Pitz
Dietrich-Kurt Frowein
Martin Gauß

Committee on Arranging Personnel Matters of the Management Board
Dr. Dietmar Kuhnt
Josef Pitz
Dr. Gerhard Rupprecht

Audit Committee
Dr. Klaus Sturany
Dr. Jürgen Heraeus
Berthold Huber
Rainer Wagner

The Management Board

Bernhard Schreier
Bruchsal
Chairman

* ABB Aktiengesellschaft;
Gerling-Konzern Allgemeine Versicherungs-Aktiengesellschaft;
SRH Learnlife Aktiengesellschaft;

** Heidelberg Americas Inc., USA (Chairman of the Board of Directors);
Heidelberg Digital L.L.C., USA (Chairman of the Board of Directors);
Heidelberg Web Systems Inc., USA (Chairman of the Board of Directors);
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 Digital L.L.C., USA;
Heidelberg USA, Inc., USA;
Heidelberg Web Systems, Inc., USA;
Heidelberger Druckmaschinen Austria Vertriebs-GmbH, Austria (Advisory Board);
Heidelberger Druckmaschinen Osteuropa Vertriebs-GmbH, Austria (Advisory Board);
NexPress Solutions L.L.C., USA;
Verlag Europa Lehrmittel GmbH (Advisory Board)

Wolfgang Pfizenmaier
Neckargemünd
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

Holger Reichardt
Heidelberg

* 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

Dr. Klaus Spiegel
Walldorf

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

Glossary

CIP 3/CIP 4
Data formats, such as the print production format, which can be used regardless of the manufacturer. Companies active in the print media are working together within the CIP 3 Consortium to enhance the production of printed products on a computer-integrated basis. The participating firms have agreed to a cross-company interface. The CIP 4 organization is based on CIP 3 and promotes the integration of computer-supported processes in the Graphic Arts Industry – independently and on a worldwide basis.

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).

Computer-to-Film, CtF
Process in which a film of an entire sheet is exposed in a so-called film imagesetter from a digital data set. The data set may comprise individual graphic elements, images, or text, as well as entire magazine pages.

Computer-to-Plate, CtP
Process in which printing plates are produced directly from a digital data file.

Consignment stock concept
Inventories of third-party suppliers that are held in consignment stock by Heidelberg. These inventories continue to be the supplier's legal property until they are required by Heidelberg and are transferred to Heidelberg's inventories. Only then do the suppliers issue an invoice to Heidelberg for the merchandise.

Digital printing
General term that refers to all printing processes used to print pages from a digital data set. Digital printing processes comprise in particular inkjet and electrophotography ('laser printer'), by means of which pages with different content can be sequentially printed. Digital printing also includes conventional printing processes, such as offset, if they are part of a digital workflow – e.g., by using the Computer-to-Plate process.

drupa
World's largest and most important specialized trade fair for the Graphic Arts Industry, which is held every 4 to 5 years.

Dynamic net debt ratio
Ratio of net financial debt to cash flow.

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

Finishing – see Postpress

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 and raised printing elements. In contrast to flexo printing, 'old-style' letterpress printing makes use of hard printing elements and pasty ink.

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.

Joint venture
Usually refers to economic cooperation among companies that is limited in time and application. The joint venture is a cooperative operation of the partner companies.

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

Glossary

Net financial debt
The sum of all bank loans and overdrafts, financial liabilities to affiliated enterprises, and pension provisions less receivables from customer financing, marketable securities, and cash equivalents.

Newspaper printing / rotary printing
Newspapers are printed on both sides using printing couples on special web printing presses. Daily newspapers are produced on large, complex systems in which the individual paper webs are brought together to the folder and subsequently cut and folded. Installations with more than 20 and up to 100 units are common in the production of newspapers in color.

NexPress
Newly developed printing press and digital printing system for short print runs (a Heidelberg-Kodak joint venture).

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.

Prepress interface
The digital interface between Prepress, Press, and Postpress. Prepress digital data are translated and then used in the precise automated settings of the printing presses as well as in the finishing phase (for example, in cutting systems).

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).

Stitcher-gatherers
Manufacturing equipment for collating and inserting folded sheets to form blocks. The resultant blocks are subsequently stitched together and then cut if necessary.

Sunday technology
Patented technology for the construction of units with seamless blanket sleeves. The quiet operation using this unit technology makes it possible to construct web printing presses with high printing speeds, very strong print quality, and larger web width.

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

Web-EDI
A system for electronic data exchange on the Internet (the acronym EDI stands for 'electronic data interchange').

Index

* Cover

Production of the Annual Report

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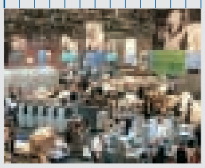
Archive Heidelberger Druckmaschinen AG
DTP
NewMedia-AD GmbH & Co. KG,
Messel near Darmstadt
Fonts
Heidelberg-Antiqua and -Gothic
characters by Linotype Library
Lithography
Koch Lichtsatz und Scan GmbH,
Wiesbaden
Printing
Color-Druck, Leimen
ethabind (patented)
Printed media
Invercote Creato matte by Iggesund
BVS matte by Scheufelen
Concept, consulting and production
H.-J. Dietz, Kelkheim

04 05 06 07 08 09



April

4/2002

IPEX in Birmingham
Heidelberg booked orders totaling approximately € 260 million at the year's largest printing industry trade fair, confirming the Group's position as the leading solutions provider. Orders were received from all over the world.

Largest Single Order from Eastern Europe
Heidelberg installs a complete printing establishment in Moscow in close cooperation with the owners of the firm 'Pushkinskaja Ploshad'. The value of the prepress, printing, and finishing machinery that is delivered totals some € 26 million. This is Heidelberg's largest single contract in Eastern Europe so far.

May

5/2002

Cooperation Contract with AT&T
Heidelberg's Company-wide IT network is consolidated and optimized. AT&T is to administer and operate Heidelberg's Company-wide network in the future, linking up 150 of Heidelberg's operations on every continent.

German Chancellor Visits Manufacturing Facility
Chancellor Schröder informs himself about innovative training at Heidelberg. He praises the social and economic contribution made by the Company at its Brandenburg facility. In this connection, Management Board Chairman Schreier again makes a strong case for an alliance for education and emphasizes the significance of this issue for Germany's future.

June

6/2002

Delivery of 100,000th GTO 52 Unit
The 100,000th Printmaster GTO 52 unit is delivered to a printing establishment in São Paulo. With over 60,000 customers, the GTO 52 is the industry's most often sold sheetfed offset printing press. It has had a decisive impact on its class, with the A3 format known as the GTO format. A total of approximately 1.3 billion sheets have been printed on this printing press model in the past – the equivalent of approximately 390,000,000 km (242,346,000 miles), or 10,000 times around the earth's circumference.

July

7/2002

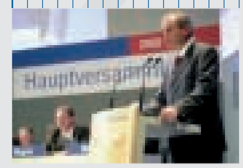
Success in the Newspaper Segment
One of the leading French publishing groups, Hersant, announced it is ordering three Mainstream newspaper rotary printing presses in order to modernize the production facilities of the French regional newspaper 'Le Progrès de Lyon'. Two of the new printing presses comprising 64 units are to be installed in Chassieu and a third with 26 units at Saint-Etienne.

August

8/2002

Customers Affected by Flooding
Heidelberg helps customers promptly and without bureaucratic delays in the areas affected by flooding in Germany, the Czech Republic and Austria. In some printing establishments, it is possible to dismantle printing presses in time and move them to safety. Used printing presses are installed as soon as the water level recedes, so that production can start up again.

Praise for Speedmaster's Design
President Rau grants the highest German award for design – the Federal Prize for Design. This award has been organized by the German Design Council on behalf of the Federal Ministry for Economics and Technology. An award was granted to the Speedmaster CD 74.



September

9/2002

Award for Investor Relations Activities
Heidelberg's investor relations team is proud of receiving the Investor Relations Prize from the magazine 'capital' and the German Association for Financial Analysis and Asset Management (Deutsche Vereinigung für Finanzanalyse und Asset Management). They took first place among M-DAX shares.

Shareholders Queried at Annual General Meeting
The Annual General Meeting, which was held on September 11, enjoys a solid turnout. Heidelberg asks the approximately 1,400 present shareholders: "Are you happy with the organization of the Annual General Meeting?" Also: "Do you feel you are being adequately informed about the business development and the outlook of your Company?" A total of 94 percent replied 'Yes' to the first question and 89 percent responded in the positive to the second one.

October

10/2002

IDAB WAMAC Acquired
Heidelberg acquires the Swedish firm IDAB WAMAC in Eksjö, which specializes in extensive shipping room logistic solutions in newspaper printing. This acquisition serves to expand the Group's position in print finishing.

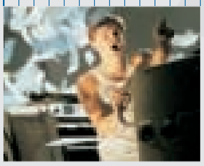
Large Follow-Up Order in the Newspaper Printing Segment
The French regional newspaper 'Le Daupiné Libéré' places an order for two Mainstream newspaper rotary printing presses. With the latest in technology, the newspaper is striving to satisfy the requirements of readers and advertising clients, offering greater flexibility and more colors at low production cost. The presses are manufactured at Heidelberg's French plant at Montataire, some 70 km (43.5 miles) north of Paris.

November

11/2002

Strengthening Cooperation with Gallus
Heidelberg intensifies its successful working relationship with the world market leader in label printing presses. The Group will thereby benefit even more from the growing demand for labels and packages. Because an agreement calling for economic management has been signed with Gallus, this Swiss company will be fully consolidated in the future.

New Digimaster 9110m Printing System
Heidelberg introduces the new Digimaster 9110m printing system, which offers MICR toners and special typefaces and can thus print security-related documents – for example, checks, discount coupons, vouchers and other financial documents.



December

12/2002

Heidelberg goes Hollywood
In the US, the film 'Catch Me if You Can' is launched, in which an FBI agent pursues a check forger. He shows printers one of the counterfeit checks, and they comment on the print quality as follows: "It's a perfect one-sixteenth all the way around. Color separation is flawless – there's no bleeding." In response to the question "Where was it printed?" they provide the FBI officer the crucial tip that leads to the arrest of the swindler: "It was printed on a monster – a Heidelberg … four color … You can smell the weight – two tons without the ink."

January

1/2003

Partial Acquisition of the Jagenberg Group
By acquiring the operations of parts of the Jagenberg Group, Heidelberg augments its product portfolio through the addition of sheet punching and folding box adhesive machines, thereby offering customers additional solutions in the growth market for package printing.

Photo Exhibit 'Release' – Street Children Introduce Themselves
Heidelberg opens a photo exhibit at the Print Media Academy that is part of the project 'Patio 13 – School for Street Children'. The exhibit shows photos of, and with, street children. Heidelberg sponsors this project, whose goal is to teach reading and writing and to socialize street children in Colombia.

February

2/2003

New Tokyo Headquarters
Heidelberg moves into new offices in Tokyo. The region now has access to an outstanding customer center and a considerably improved Print Media Academy.

NAPL Industry Award Conferred
Heidelberg USA is honored with the Industry Award from NAPL (National Association of Printers and Lithographers). Each year, this nonprofit trade association grants the award to a manufacturer or supplier of the Graphic Arts Industry in recognition of especially outstanding contributions to progress in the industry.

March

3/2003

'Digital Inspirations' at CeBIT
Anyone attending CeBIT in Hanover who is interested can see a demonstration of complete and integrated digital printing and workflow applications. Heidelberg shows the advantages of digital printing in combination with consumer media such as television and the Internet. Compared with standard advertising, purposeful marketing campaigns supported by the printing of variable data secure the highest possible quality. Numerous print job demonstrations illustrate the widespread opportunities available for variable data printing. For example, Heidelberg and the Thomas Cook travel group unite interactive television with variable data printing at the trade fair.

Investors and financial analysts visit a printing establishment at the invitation of Heidelberger Druckmaschinen Aktiengesellschaft

The Financial Year in Review Heidelberger Druckmaschinen Aktiengesellschaft

Financial Calendar 2003/2004

Subject to change

July 3, 2003	Press Conference, Annual Analysts' and Investors' Conference
July 24, 2003	Publication of 1st Quarter Figures
September 12, 2003	Annual General Meeting
November 11, 2003	Publication of Half-Year Figures
January 27, 2004	Publication of 3rd Quarter Figures
April 27, 2004	Publication of Preliminary Figures for the Financial Year 2003/2004

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