FINANCIAL STATEMENTS 2007/2008

HEIDELBERG

> HEIDELBERGER DRUCKMASCHINEN AKTIENGESELLSCHAFT

Figures in € millions

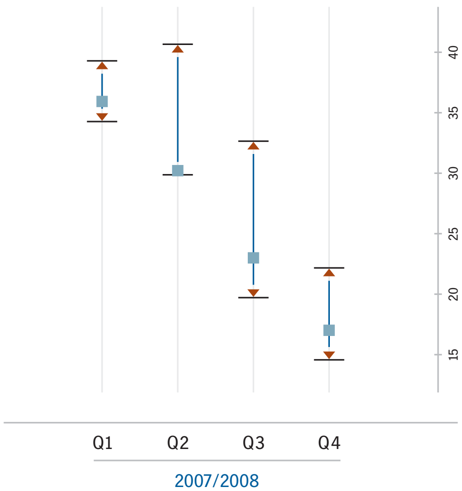
	2003/2004	2004/2005	2005/2006	2006/2007	**2007/2008**
Incoming orders	1,607	1,869	1,938	2,035	**1,909**
Net sales	1,570	1,673	1,777	1,965	**1,914**
Foreign sales share in percent	86	84	86	86	**84**
Result from operating activities	– 82	63	55	117	**67**
– in percent of sales	– 5	4	3	6	**4**
Net profit/loss	– 1,168	52	85	196	**132**
– in percent of sales	– 74	3	5	10	**7**
Investments [1]	67	80	86	102	**126**
Research and development costs	195	166	185	206	**183**
Total assets	2,452	2,397	2,530	2,623	**2,769**
Fixed assets	1,221	1,190	1,581	1,628	**1,684**
Shareholders' equity	514	575	538	564	**564**
Subscribed capital	220	220	213	204	**200**
Equity ratio in percent	21	24	21	22	**20**
Dividend distribution	–	26	54	75	**74** [2]
Dividend per share in €	–	0.30	0.65	0.95	**0.95** [2]
Earnings per share in €	– 13.59	0.60	1.03	2.47	**1.70** [3]
Share price at financial year-end in €	27.99	24.65	36.40	34.30	**17.01**
Market capitalization at financial year-end	2,405	2,118	3,023	2,735	**1,328**
Annual average number of employees	11,041	10,436	10,388	10,706	**11,039**

1) Excluding financial assets
2) According to the proposal on the allocation of the unappropriated profits
3) Excluding treasury stock

The Share

QUARTERLY LOW, HIGH, AND CLOSING PRICES

Figures in €



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

Although the Heidelberg share followed the broadly negative stock market trend during the financial year, it failed to benefit from temporary upward trends. Following publication of our report for the third quarter in February 2008, in which we addressed the worsening underlying conditions and determined to adapt our forecast to external market expectations, the share price fell once again. On March 17, coinciding with a downturn in the DAX and the MDAX, our share closed at € 14.57, its low point. The price recovered only slightly through the end of the financial year, closing at € 17.01 on March 31, 2008. Overall, our share thereby lost half of its value during the financial year.

As of June 22, 2007, the exchangeable bond for Heidelberg shares, which had been issued in May 2004 by RWE Aktiengesellschaft, expired. Just before that date, RWE Aktiengesellschaft had provided the information that as of June 15, its voting share in Heidelberg had fallen below the reporting threshold of 10 percent to 9.62 percent. Allianz SE continues to hold 12 percent of the shares.

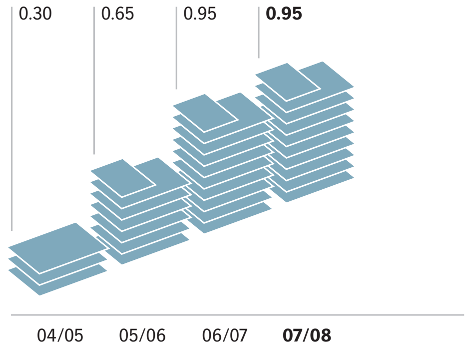
As of the reporting date March 31, 2008, **free float** amounted to approximately 78 percent. Heidelberg's shareholder structure is international, with approximately 30 percent of the identified free float held by German investors and some 24 percent by investors from the US as of the balance sheet date.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

Heidelberg's market capitalization was valued at approximately € 1.3 billion at financial year-end, compared with € 2.7 billion as of March 31, 2007. This in no way reflects either the competitiveness of our products or the Group's healthy capital structure!

For good reason, we are again in a position to propose to the Annual General Meeting on July 18, 2008 the distribution of a dividend of € 0.95 per share.

DIVIDEND

Figures in € per no-par share



> MANAGEMENT REPORT

The Company and Underlying Conditions

Locations of Heidelberger Druckmaschinen Aktiengesellschaft

NUMBER OF EMPLOYEES PER LOCATION

	31-Mar-2007	31-Mar-2008
Heidelberg	2,191	2,213
Wiesloch-Walldorf	5,963	6,156
Amstetten	1,156	1,184
Brandenburg	664	691
Kiel	327	337
Trainees	526	528
Total	10,827	11,109

Heidelberger Druckmaschinen Aktiengesellschaft

Heidelberger Druckmaschinen Aktiengesellschaft is the parent Company of the Heidelberg Group. With a worldwide market share of over 40 percent in sheetfed offset printing, the Group is the leading international equipment supplier to the print media industry.

In addition to manufacturing printing presses and equipment for printing plate imaging, the Company also focuses on the sale of spare parts, remarketed equipment, comprehensive service, and the assumption of Group functions.

Locations

Heidelberger Druckmaschinen Aktiengesellschaft operates five production sites in Germany, shown on the map on the left. Administration, development, a print media demonstration center, and several training centers are located in Heidelberg.

Sheetfed offset printing presses are manufactured within a production network at specialized plants. Precisely processed castings are delivered from Amstetten; turned and profiled parts are supplied by the Brandenburg plant; and model parts, electronic components, and experimental parts are produced at Wiesloch-Walldorf, the world's biggest printing press manufacturing site, where we also assemble nearly all our sheetfed offset printing presses. The fifth German plant is situated in Kiel, which focuses on development activity and services in the prepress area.

Employees

There was a total of 11,109 employees at our five locations at financial year-end. The increase by 282 employees had been necessitated to meet the challenges posed by our demanding production program due to the launch of new products. We dealt with capacity utilization peaks in production and production-related areas primarily through temporary hirings from agencies as well as on a direct basis. Moreover, we supplemented the Agreement on Safeguarding the Future, which we had signed with the works council in 2005, with a successor agreement, **Safeguarding the Future II.** During the financial year, we also made full use of the potential to extend working hours by 7 percent without an increase in wages, as provided for in the Agreement. The flexibility ensured by our time offset account also contributed to greater capacity utilization.

In addition, we launched the new Master Collective Bargaining Agreement (**ERA**) at our German plants on January 1, 2008, thereby replacing obsolete wage and salary structures with a uniform and modern system of compensation. On the other hand, we expanded our employees' pension plan by means of an extended pension plan based on a building-block system.

Demand continues to be strong for trainee positions in our job areas with long-term prospects, as a result of which compared with the previous year, the training quota at Heidelberger Druckmaschinen Aktiengesellschaft at the beginning of the training period remained relatively stable at 6 percent. We are pleased that the drop-out rate at Heidelberg is less than 1 percent, compared with an average of more than 25 percent in Germany as a whole.

Sustainability

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

Each of the Company's five above-mentioned sites has been organized in accordance with the internationally recognized environmental management norm ISO 14001. This norm focuses on an environmentally friendly approach not only to product development, but to the production of printing presses and prepress equipment as well. Despite these high standards, we are continually active in further expanding the already achieved environmental standards.

The salvage quota of Heidelberger Druckmaschinen Aktiengesellschaft, which shows the share of the waste that is reusable, remained at the previous year's high level of 94 percent.

Management and Control

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

Heidelberg's controlling activities continuously generate up-to-date quantitative and monetary-based information from internal sources as well as ongoing comparisons of targets vs. actual performance of all developments of significance for business development. The controlling unit also prepares data sourced from the corporate environment, records best practice and benchmark data, and draws up business plans for investments in new markets, products and areas of business.

Since our goal is to remain the print media industry's preferred partner, we analyze developments that provide feedback concerning customer loyalty and our employees' motivation. Among other things, we appraise service protocols, record processing times, and analyze employee turnover. We also implement brand name studies every four years and customer satisfaction studies every two years.

To be in a position to increase the value of the Company on a long-term basis as comprehensively as possible, risks must be recognized and realistically assessed early on. This makes it possible for us to immediately effect countermeasures. Opportunities should also be recognized and systematically exploited early on. We make this possible by making both our risk management as well as our opportunity management systems integrated components of our value-oriented control system, each with a different focus. On the one hand, concrete risks and opportunities are recorded, quantified, collected, and reported further, directly and locally. On the other hand, however, we believe it is of equal importance for all management bodies and meetings at all management levels to frankly and proactively deal with risks and opportunities.

Economic Development

Business Environment and Industry Development

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

All eyes were directed towards the US economy in 2007, which beginning at mid-year increasingly suffered from the weakness in the real estate market. The major banking crisis that resulted was to spread to many financial markets by the end of the year. Nevertheless, although the US economy began to stumble, the favorable forecasts in the European region and in Asia came close to realization. The rapidly growing markets in the emerging countries offered good export opportunities for European suppliers. Moreover, they are characterized by notably stable, independent economic conditions.

Demand for print products therefore continued to grow in the emerging markets, in some countries at a disproportionately more rapid pace than overall economic growth. During the financial year, the mood could have hardly been more different in the print industries of our two biggest markets – Germany and the US. The German print industry sustained the previous year's favorable trend, with capacity utilization at 85 percent on average for the year. By contrast, the US print industry was noticeably affected by the generally rather weak economy. After a good start, capacity utilization only reached 75 percent at financial year-end.

Over the past five years, exchange rate structures have shifted considerably to the disadvantage of suppliers with value added located primarily in the euro region. Contrary to our forecast, circumstances worsened further to our disadvantage due to the additional marked decline in value of the US dollar during the financial year.

Business Development

The **incoming orders** of Heidelberger Druckmaschinen Aktiengesellschaft totaled € 1,909 million during the financial year, approximately 6 percent short of the previous year's figure despite some successful Open House events.

GROSS DOMESTIC PRODUCT[1]

Change from previous year in percent

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

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

Our **sales** of € 1,914 million fell just short of our target of modest growth and were nearly 3 percent lower than the previous year's figure. In the first two quarters of the financial year, the Company's sales still exceeded the previous year's figures. This changed in the second half of the financial year, especially with sales in our traditionally strongest fourth quarter amounting to € 515 million – 7 percent below the previous year's figure.

Caused by the continuously rugged economic situation, sales in the Eastern Europe and Latin America regions were up over the previous year. The other regions fell behind their previous year's figures, with sales in the Asia/Pacific region posting the biggest decline from the previous year.

Results of Operations, Net Assets and Financial Position

We generated a **result of operating activities** of € 67 million during financial year 2007/2008, compared with € 117 million the previous year. Favorable factors influencing earnings were on the one hand our ongoing policy of reducing structural costs through boosts in efficiency, and on the other, the decline in expenses for research and development from the previous year.

INCOME STATEMENT

Figures in € millions

	2006/2007	2007/2008
Net sales	1,965	1,914
Result of operating activities	117	67
– in percent of sales	6.0	3.5
Financial result	32	60
Result from ordinary activities	149	127
– in percent of sales	7.6	6.6
Taxes on income	47	5
– Tax rate in percent	– 31.5	– 4.1
Net profit	196	132
– in percent of sales	10.0	6.9

By contrast, new hirings to deal with our demanding product mix as well as increases under the collective bargaining agreement boosted personnel expense over the previous year. We were partially successful in avoiding even higher growth in personnel expense through our agreements on safeguarding the future.

During the previous year, the result of operating activities was favored by the positive one-time effects of approximately € 60 million resulting from the sale of Linotype GmbH as well as a sale-and-leaseback transaction. In the current financial year, due to an adjustment in the inventory valuation under commercial law, we again generated non-recurring effects amounting to € 19 million.

The **financial result** of Heidelberger Druckmaschinen Aktiengesellschaft of € 60 million during the financial year was nearly double the previous year's figure. Dividend payments and increased transfers of profits from several subsidiaries were the principal causes for the substantial rise. Furthermore, an in-phase profit recognition from a subsidiary occurred in the amount of € 11 million.

During the current and previous financial year, the item taxes on income was a positive number because in the previous year we were able to capitalize our claim to disbursement of outstanding corporation tax credits in accordance with the new version of Section 37 (5) of the Corporation Tax Law of € 73 million for the first time and to post-recognize € 9 million in the reporting year.

The net profit for the financial year fell by € 64 million from the previous year to € 132 million.

Total assets rose by 6 percent to € 2,769 million during the financial year. The growth in assets resulted primarily from increases in tangible assets, in inventories, and in cash and cash equivalents. Among liabilities and shareholders' equity, most of the growth was accounted for by liabilities.

Due to the higher volume of investments, fixed assets were up, in particular for the construction of the new Assembly Hall 11, which will be used primarily for the assembly of our new generations of printing presses, the Speedmaster XL 145 and XL 162, as well as for a demonstration center for packaging printing.

The increase in current assets is attributable to a reporting-date-related substantial increase in cash and cash equivalents as well as the above-mentioned growth in inventories, which is largely due to the production start-up of our new generations of printing presses, the Speedmaster XL 145 and XL 162, as well as the above-mentioned valuation adjustment under commercial law.

Shareholders' equity at financial year-end was about at the previous year's level. Net profit for the financial year had an increasing effect, whereas the decrease in capital as of March 31, 2008 in association with the second share buyback program that was already implemented in the past financial year of € 56 million and the dividend payment of € 75 million, had the opposite effect. Overall, this resulted in shareholders' equity of € 564 million and reduced the equity ratio with respect to the previous year's figure by 2 percentage points to 20 percent.

The Company's **provisions** of € 1,083 million only changed to a minor extent from the previous year. A reduction in other provisions contrasted with an increase in pension provisions in a similar amount.

Liabilities increased considerably over the previous year, rising by € 137 million to € 1,083 million. This increase was reflected in virtually all areas of liabilities. In addition to other liabilities, liabilities to banks and trade payables, in particular payables to affiliated enterprises, were up. This growth comprises liabilities to our Dutch finance Company Heidelberg International Finance B.V., which holds a € 280 million convertible bond and two borrower's note loans.

BALANCE SHEET STRUCTURE

Figures in € millions

	31-Mar-2007	in percent of total assets	**31-Mar-2008**	in percent of total assets
Fixed assets	1,628	62	1,684	61
Current assets[1]	995	38	1,085	39
Total assets	2,623	100	2,769	100
Shareholders' equity	564	22	564	20
Special items	24	1	35	1
Provisions	1,085	41	1,083	39
Liabilities[1]	950	36	1,087	40
Equity and liabilities	2,623	100	2,769	100

[1] Including accruals and deferred income

Our firmly committed **bank credit lines** ensure us a high level of liquidity, which provides us with solid financing potential on a long-term basis. No liquidity bottlenecks are therefore anticipated. We concluded a contract for a € 550 million syndicated line of credit in financial year 2005/2006. This facility has a period of validity that runs to financial year 2010/2011, with two options to renew for an additional year. We have exercised these options. We therefore have access to a line of credit of € 550 million that we have hardly used up to now and which runs through financial year 2012/2013. In connection with our obtaining a long-term loan amounting to € 75 million, we have made a commitment to grant to the lender usufractory rights in three developed plots of land. Additional information on this topic can be found on page 56 in the notes to the financial statements.

Heidelberger Druckmaschinen Aktiengesellschaft controls the Group's financing and secures its liquidity. Since May 2006, all consolidated subsidiaries have been directly linked with the in-house bank of Heidelberger Druckmaschinen Aktiengesellschaft through an internal account. Furthermore, cross-border payments are executed via our 'Payment Factory'. Our internal and external payments are consequently cost-effective. This is an important prerequisite for optimizing the Group's global **liquidity management** and reducing borrowed external funds.

We systematically minimize **liquidity risks** throughout the Group. We pinpoint early on potential funding needs of companies and the resulting potential liquidity risks with the help of our monthly rolling liquidity planning system. Corporate Treasury identifies risks arising from the change of interest or exchange rates, on the basis of which it introduces appropriate measures and strategies in order to minimize these risks. Some of these measures also include derivative financial instruments – specifically, forward exchange transactions, currency options, and interest-rate swaps. Details concerning these measures and the impact of hedging transactions can be found in the notes to the financial statements on pages 57 to 58.

The Company's **quick ratio** was at about the previous year's level of 1.6 during the reporting year. This key figure reflects the extent to which current borrowed funds are covered by current assets.

Research and Development

During the financial year, we invested € 183 million in research and development for our complex mechatronic systems as well as in the series servicing of our product portfolio – € 23 million less than in the previous year.

We will be introducing new products that we developed in line with our medium- and long-term Development Roadmap at drupa 2008. For example, during the financial year we completely replaced the control platform of all sheetfed offset printing presses with Sheetfed Control, which is in every respect technologically state-of-the-art. Sheetfed Control makes it possible to use the most modern analytical tools. It offers a highly automatic one button function, which we presented for the first time in the autumn of the financial year at the Graph Expo trade show in Chicago.

Furthermore, we are introducing our newly developed printing press generation in an even larger format, the Speedmaster XL 145 and XL 162. When linked up with the large-format Suprasetter, our new, biggest format impresses with maximum productivity.

At financial year-end, an unchanged total of 1,266 employees were active in research and development, accounting for 11 percent of the Company's entire staff.

Events Occurring after the Financial Year-End

New Responsibilities for the Management Board; Fourth Management Board Member: Stephan Plenz

As the Company announced in a press release on May 5, 2008, Heidelberg's Supervisory Board appointed Mr. Stephan Plenz as a member of the Management Board as of July 1, 2008. Simultaneously, assignments and responsibilities have been redistributed on the Management Board, which now has four members. This reorganization by the Company reflects the business expansion programs. Heidelberg intends to expand the service and consumables business; further internationalize production and purchasing; systematically implement the efficiency-boosting programs; and enhance the attractiveness of the Heidelberg share for the capital market.

Heidelberg Acquires Coating Manufacturer 'Hi-Tech Coatings'

The purchase contract providing for the acquisition of the British-Dutch coating manufacturer 'Hi-Tech Coatings' was signed on April 29, 2008. Pending approval by the anti-trust authorities, the transfer of ownership is planned for the end of May. Heidelberg thus expands its consumables offerings with the purchase of this producer of water-based and ultraviolet coatings used in the production of print products and packaging, thereby penetrating a growing market segment. We view this acquisition as part of our strategy to expand our service and consumables business and thereby diminish the cyclical sensitivity of our business.

Heidelberg is already now successfully selling the products of this newly acquired Company, which was established in 1993, in England, China and parts of Eastern Europe. It engages in development and manufactures at plants in Aylesbury, the UK, and Zwaag, the Netherlands. This corporate group generated sales of approximately € 25 million in 2007.

Risks, Opportunities and Potential

Risk and Opportunity Report

In the section Financial Position on page 11, we report on our risk management in connection with financial instruments.

There is no recognizable risk that could threaten the existence of Heidelberger Druckmaschinen Aktiengesellschaft – either currently or for the foreseeable future. This applies to both the results of the business activities that we have completed as well as for operations that we are planning or have already initiated.

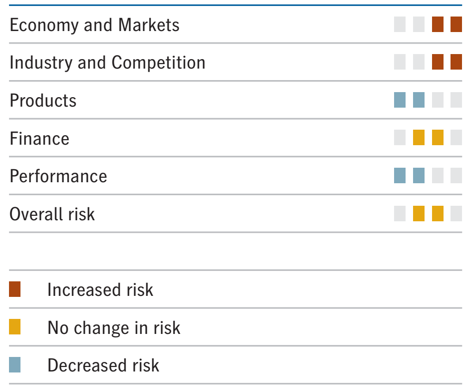
How do we determine this overall risk? Since we believe that it would not be appropriate to simply add up the biggest risks, we focus on individual risks that belong together substantively. We do not offset potential opportunities from risks. We summarize our individual risks in five groups. The illustration on the right shows the development of these risk groups compared with the previous year.

On this basis, the Company's overall risk situation has remained at the previous year's level. Several of the risks that we had described in the previous year's report have occurred and are therefore being fully taken into account in our planning process. However, other risks have worsened. For example, the exchange rate situation has developed to the disadvantage of European suppliers to a much greater degree than had been feared in general. As we had projected, this has had a considerable impact on competitive conditions in the sheetfed offset area. The risk of an economic downswing in the US, which we had mentioned the previous year, has also taken place.

Overall risk priorities have therefore shifted. We currently view a potential worsening of overall economic conditions as our greatest risk. The risk group 'Economy and Markets' has therefore worsened over the previous year. It is unclear how long the financial crisis will continue and how strong its impact will be on the overall economy and business conditions in our industry. The cumulative risks of the risk group 'Industry and Competition' also deteriorated from the previous year. There continues to be a danger on the one hand that our Japanese competitors could gain additional market shares due to the exchange rate situation, and on the other hand, that market prices could deteriorate further due to the tough competition for market share. Our strategic risks are manageable.

DEVELOPMENT OF RISK GROUPS

Change from previous year, existing opportunities are not offset against expected risks



Risks Arising from the Economy and the Market: Risks that could result due to general economic, political, or social influences.

Industry and Competitive Risks: Risks arising from changes in the competitive structure, in the behavior of competitors, in competitive advantages, or in strategic advantages of other suppliers.

Product Risks: Risks in connection with research and development and the market launch of new products.

Financial Risks: Risks arising from sales financing, from exchange rate developments as well as from tax and legal issues.

Risks Arising from Performance: Risks arising from the areas of human resources and procurement as well as producer's risks, environmental risks, IT risks, and risks from investments.

Better than expected economic developments and a possible change in exchange rate structures in our favor are our principal opportunities.

The development of the economy continues to have an immense impact on the development of our business. Depending on the source, economic forecasts for the coming years differ considerably. Whereas the emerging markets are expected to continue their rapid growth, the future developments in the industrialized countries are shaped by considerable uncertainty. Our business development would be severely burdened should actual economic developments fall considerably short of the already restrained expectations. We are consequently vigorously pursuing our goal of limiting the impact of weak economic periods on our earnings. We reduced our structural costs and continue to focus on a high degree of regional diversification. We are also focusing on our relatively non-cyclical business units services and packaging printing.

We minimize country risks, especially risks arising from economic or political instability, by closely monitoring ongoing local developments. In our last annual report, we explained that there continued to be risks in China for us due to changes in customs regulations – and that the uncertainty could result in restrained investments by customers. The willingness of our Chinese customers to buy considerably increased again only in mid-financial year. In the medium term, we counter the risk that our local business development could be hampered by a renewed worsening of the customs situation with the establishment of our own manufacturing facility in China.

Political and social uncertainties exist in some emerging markets. Government interventions could burden our business development in various markets.

Overall risks in the very important group **'Risks Arising from the Economy and the Market'** increased over the previous year because of considerable economic uncertainties. Of course, the global economy could prove to be more robust than has been widely projected. In addition, various markets could loosen their import and customs regulations, and by means of changes in tax regulations provide increased incentives to invest.

'Industry and Competition Risks' have deteriorated from the previous year. The general price level for print shop equipment could weaken further due to aggressive behavior on the part of our competitors. Moreover, there is a danger that Japanese competitors could expand their market shares, as for many years they have been able to take considerable advantage of the exchange rate structures. In addition, they might use these competitive advantages to acquire market shares in format categories in which they were hardly active in the past. We counter this risk:

> by acquainting potential customers throughout the world with the calculable advantages of our integrated solutions;
> by maintaining our leading technological position over competitors; and
> by reducing our dependence on exchange rates.

Should an economic downswing occur in the industrialized countries, additional consolidations could result in some markets – among others, because the print industry is suffering from high levels of material, personnel, and energy costs. Our products and services help customers operate profitably and implement profitable business models even under difficult underlying conditions.

The market structure for equipment suppliers to the print media industry, at least in the sheetfed offset area, is relatively well established. For example, although Chinese suppliers increasingly strove to force an entry into the European market during the financial year, they had little success. Barriers to market entry in the sheetfed offset printing sector are generally very high. Suppliers must have access to a functioning sales network. Moreover, the quality demanded by customers can only be achieved through decades of experience in precision engineering and very considerable prior R&D work.

Should the competitive structure change – for example, because competitors disappear or merge – in addition to risks, we could also enjoy opportunities due to the potential expansion of our market position. A change of exchange rates in favor of suppliers from the European region would have a favorable impact on our business development.

'Product risks' are down considerably from the previous year. Due to our successful development activity, we succeeded in realizing our timetable in all product development areas. Nevertheless, there continue to be risks in this area. Since new products are about to be launched in the market, it remains to be seen how well they are accepted by our customers and how successful they are in the market. In order to avoid undesirable developments, by necessity all R&D projects spotlight customer benefits. We work closely together with concept customers at every phase of product development. A panel of experts from R&D, Product Management, Controlling, Manufacturing and Services determines the direction of work beforehand for advanced product development. We secure the results of our development activity largely with our own proprietary rights.

Our new generation of printing presses, the Speedmaster XL 145 and the XL 162, which we are introducing at drupa and which address a new customer segment, might be more quickly accepted by the market than we expect.

'Financial environment risks' remained at the previous year's level. There are no longer any tax risks resulting from the tax reform.

We form an appropriate provision to cover recognizable risks under our policy on risk provision, which is generally conservative. We systematically monitor monetary and payment risks on the basis of guidelines that set out the fundamental strategy, the directives concerning the structural organization and workflow management, and the regulations that specify responsibilities.

We are striving to reduce our foreign currency exposure and thereby also our dependency on exchange rate structures. More emphatically than in the past, we have hedged in the medium term – for up to 36 months – against the risk that the exchange rates of our principal foreign currencies, whose volumes will be declining in the future, will continue to fall. Nevertheless, although risks exist in this area, we would also have opportunities should the exchange rate situation improve.

The **'risks arising from the performance'** were below the previous year's level. During the previous year, the risk that we might exceed the planned costs of production arose primarily from risks in the **human resources area.** We reduce other human resource risks by making Heidelberg even more attractive as an employer and engaging in modern human resources work.

There is currently a risk that the start-up costs for the **production** of our new products could be higher than originally planned. The highly regarded quality of our products and the high degree of supply reliability are key prerequisites for our business success.

We minimize **environmental risks** through an efficient environmental management system – both in product design as well as in the manufacturing process.

Since risk management is an integral component of our supply management, we protect ourselves against many risks of **procurement** at the outset. A shortage and thereby an increase in the price of raw materials, especially of metals and crude oil, as well as increasing energy prices could burden our production costs. We respond to the risk of a supplier's failure to deliver and a delay in the delivery of components or the risk of receiving substandard components primarily by means of a supplier monitoring system based on key data parameters.

We reduce the risk of making bad investments by including all planned **investments** as part of our worldwide uniform planning system. This system forms the basis for our focused financial management. We continuously pursue and monitor planned investments – primarily to ensure that they purposefully advance Heidelberg's strategic goals. Before each capital goods investment we implement a make-or-buy analysis, which a team of engineers and financial specialists monitors.

Thanks to our effective global IT management and our investment in the latest technology, we do not envisage any serious risks in the **IT area.**

We have the opportunity of realizing clear cost reductions in the production area through the improvement of processes. Furthermore, the prices for raw materials and energy could decline again, as a result of which the price level in our procurement markets could fall as well.

Future Prospects

Broadly, economic research institutes expect the global economy to be struggling with the consequences of the financial market crisis at least through mid-year, if not up to 2009. Moreover, a recession in the US is becoming ever more likely, with the possible consequences for the world economic situation still uncertain.

Current forecasts for the growth of the global economy fluctuate between 4.1 percent (Source: IMF) and a mere 3.0 percent (Source: Global Insight). Overall, we consider the current developments in our branch of industry in the industrialized countries and particularly in the US to be difficult. Whereas in the US, a decline in the sales of equipment seems to be unavoidable, the emerging markets, in particular in Asia, show potential for growth. Overall, demand will be higher especially for our new products – for example, the Speedmaster XL 105 with perfecting device as well as the new generation of printing presses in the large format category.

GROSS DOMESTIC PRODUCT[1)]

Change from previous year in percent

	2006	2007	**2008**
World	4.0	3.7	3.0
US	2.9	2.2	1.4
EU	3.2	2.9	1.9
Germany	3.1	2.6	1.6
UK	2.9	3.1	1.8
Eastern Europe	6.1	5.2	4.9
Russia	7.4	8.1	7.0
Asia[2)]	7.8	8.0	7.2
China	11.1	11.4	9.9
India	9.7	8.5	8.0
Japan	2.4	2.1	1.5
Latin America	5.5	5.4	4.9
Brazil	3.7	5.3	5.1

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

Our business development weakened considerably in the second half of the financial year, especially during the fourth quarter. Our customers' propensity to invest declined considerably due to the financial crisis in the US and the increasing skepticism regarding the economy. Our sales trend continues to be heavily dependent on the advertising market, and thereby on economic developments. However, we are working on reducing this dependency by expanding our service and consumables business as well as the packaging printing segment. Our customers noticeably held back on their investments in advance of the important drupa trade show, which is being held May 29 to June 11, 2008.

The development of the global economy and the exchange rates will be crucial for the course of the financial year as a whole. drupa will provide us with feedback on our customers' investment behavior. We will introduce solutions that considerably increase the productivity and quality of customers' processes at this trade show, thereby securing our strong market position. We will publish a **sales forecast** for the Group for financial year 2008/2009 early in August together with the first quarter's figures.

This forecast is also regarded as a point of reference for the sales trend of Heidelberger Druckmaschinen Aktiengesellschaft during financial year 2008/2009. The general sales trend of the parent Company, which also accounts for most of the Group's manufacturing activities, generally corresponds to the sales trend of the Heidelberg Group.

Already today, however, we expect the **result of operating activities** for the year as a whole to fall far short of the result for the reporting year. In addition to the non-recurring expenditures resulting from Heidelberg's presence at the trade show as well as from the start-ups of series production of new products, the strong euro represents a burden as well. Following drupa and still prior to the Annual General Meeting, we will make measures known that are designed to secure our leading market position and financial strength on a long-term basis. These measures are intended to improve the Group's cost structure and reduce the influence of exchange rates in the medium term through the globalization of purchasing and production. In addition, we will expand the service and consumables business in order to further reduce our dependency on economic cycles.

Important Note

This Annual Report contains forward-looking statements based on assumptions and estimations by the Management Board of Heidelberger Druckmaschinen Aktiengesellschaft. Even though the Management Board is of the opinion that these assumptions and estimations are realistic, the actual future development and results may deviate substantially from these forward-looking statements due to various factors, such as changes in the macro-economic situation, in the exchange rates, in the interest rates, and in the print media industry. Heidelberger Druckmaschinen Aktiengesellschaft gives no warranty and does not assume liability for any damages in case the future development and the projected results do not correspond with the forward-looking statements contained in this Annual Report. Heidelberg does not intend, and does not assume any obligation, to update the forward-looking statements contained in this Annual Report to reflect events or developments that have occurred after this Annual Report was published.

Remuneration Report – Management Board and Supervisory Board

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

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

Fixed and Variable Remuneration; Remuneration in Kind

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

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

Structure of Variable Remuneration Components with Long-Term Incentive Effects

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

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

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

Remuneration of the Individual Members of the Management Board

BERNHARD SCHREIER

Figures in € thousands

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

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

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

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

4) Service cost and interest cost

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

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

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

DIRK KALIEBE

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

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

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

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

4) Service cost and interest cost

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

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

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

DR. JÜRGEN RAUTERT

Figures in € thousands

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

1) The figure for financial year 2006/2007 includes disbursed residual financing for bonuses in financial year 2006/2007 totaling € 44 thousand

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

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

4) Service cost and interest cost

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

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

Former member of the Management Board Dr. Herbert Meyer

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

Basic Characteristics of the Supervisory Board's Remuneration

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

The remuneration of the Supervisory Board is as follows:

Figures in €

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

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

Information According to Section 289 (4) of the Commercial Code

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

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

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

SHAREHOLDER STRUCTURE

Figures in percent

31-Mar-2008

Free float	78
Allianz SE	12
RWE AG	10

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

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

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

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

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

> On September 29, 1999, the Annual General Meeting authorized the Management Board to grant subscription rights to the Company's shares ('stock options') to members of the Company's Management Board, to members of the management units of the Company's affiliated enterprises, and to members of senior management of the Company

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

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

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

'Change-of-control' provisions: Contractual agreements with management for a situation should control over the Company change are common both in Germany and abroad. The Chairman of the Management Board, Bernhard Schreier, was granted a special right of employment termination with appropriate compensation, which we describe in detail in the Remuneration Report on page 23. No comparable or other change-of-control provision has been made for the other members of the Company's Management Board or for Heidelberg's employees.

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

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

> FINANCIAL STATEMENTS

OF HEIDELBERGER DRUCKMASCHINEN AKTIENGESELLSCHAFT

> INCOME STATEMENT 2007/2008

Figures in € thousands

	Note	1-Apr-2006 to 31-Mar-2007	**1-Apr-2007 to 31-Mar-2008**
Net sales	4	1,965,349	1,914,399
Change in inventories		23,759	51,845
Other own work capitalized		28,049	32,030
Total operating performance		2,017,157	1,998,274
Other operating income	5	177,291	151,817
Cost of materials	6	850,056	856,320
Personnel expenses	7	735,051	743,746
Depreciation and amortization		79,684	79,734
Other operating expenses	8	412,382	403,501
Result of operating activities		117,275	66,790
Result from financial assets	9	56,090	87,934
Other interest and similar income	10	27,004	31,364
Interest and similar expenses	11	51,878	59,075
Financial result		31,216	60,223
Result from ordinary activities		148,491	127,013
Taxes on income	12	– 47,272	– 4,640
Net profit		195,763	131,653
Profit carry-forward from the previous year		1,253	1,135
Withdrawal from reserve for treasury stock		–	6,456
Withdrawal from other revenue reserves		16,133	–
Income from the reduction in capital		8,506	4,313
Allocation to the share premium in accordance with the provisions of simplified reduction in capital (Section 237 (5) of the Stock Corporation Act)		– 15,822	– 4,313
Expense from the simplified reduction in capital		– 116,639	– 56,106
Allocations to the reserve for treasury stock		– 13,258	–
Distributable profit		75,936	83,138

Balance sheet as of March 31, 2008

> ASSETS

Figures in € thousands

	Note	31-Mar-2007	31-Mar-2008
Fixed assets	13		
Intangible assets		16,826	14,781
Tangible assets		359,325	397,604
Financial assets		1,252,281	1,271,284
		1,628,432	1,683,669
Current assets			
Inventories	14	321,154	410,438
Receivables and other assets	15	649,846	602,582
Securities	16	13,258	6,802
Cash and cash equivalents		694	56,716
		984,952	1,076,538
Prepaid expenses	17	10,001	8,501
		2,623,385	2,768,708

> EQUITY AND LIABILITIES

Figures in € thousands

	Note	31-Mar-2007	31-Mar-2008
Shareholders' equity	18		
Subscribed capital		204,104	199,791
Capital reserve		26,668	30,981
Revenue reserves		257,017	250,561
Distributable profit		75,936	83,138
		563,725	564,471
Special items	19	23,980	35,269
Provisions			
Provisions for pensions and similar obligations		600,617	615,078
Other provisions	20	485,114	467,157
		1,085,731	1,082,235
Liabilities	21	945,509	1,082,429
Deferred income		4,440	4,304
		2,623,385	2,768,708

> DEVELOPMENT OF FIXED ASSETS

	Cost				
	1-Apr-2007	Additions	Disposals	Reclassi-fication	**31-Mar-2008**
Intangible assets					
Software, rights of use and other rights	84,412	4,353	– 6,749	41	82,057
Advance payments	–	104	–	–	104
	84,412	4,457	– 6,749	41	82,161
Tangible assets					
Land and buildings	539,698	22,154	– 10,495	14,814	566,171
Technical equipment and machinery	528,184	20,389	– 15,361	9,316	542,528
Other equipment, factory and office equipment	607,866	60,557	– 52,037	3,112	619,498
Advance payments and assets under construction	26,740	18,821	– 29	– 27,283	18,249
	1,702,488	121,921	– 77,922	– 41	1,746,446
Financial assets					
Shares in affiliated enterprises	1,939,545	22,952	–	–	1,962,497
Participations	6,194	5	– 2,272	–	3,927
Long-term investments	380,584	185	–	–	380,769
Other loans	4,276	901	– 749	–	4,428
	2,330,599	24,043	– 3,021	–	2,351,621
	4,117,499	150,421	– 87,692	–	4,180,228

Figures in € thousands

Cumulative depreciation and amortization						Carrying amounts	
1-Apr-2007	Additions	Disposals	Reclassification	Reversals of depreciation and amortization	**31-Mar-2008**	31-Mar-2007	**31-Mar-2008**
67,586	6,464	– 6,685	15	–	67,380	16,826	14,677
–	–	–	–	–	–	–	104
67,586	6,464	– 6,685	15	–	67,380	16,826	14,781
375,749	12,578	– 6,882	45	– 1,828	379,662	163,949	186,509
465,580	21,285	– 15,232	–	–	471,633	62,604	70,895
501,834	39,407	– 43,634	– 60	–	497,547	106,032	121,951
–	–	–	–	–	–	26,740	18,249
1,343,163	73,270	– 65,748	– 15	– 1,828	1,348,842	359,325	397,604
1,072,019	3,935	–	–	–	1,075,954	867,526	886,543
2,814	–	– 2,272	–	–	542	3,380	3,385
3,061	366	–	–	–	3,427	377,523	377,342
424	128	– 138	–	–	414	3,852	4,014
1,078,318	4,429	– 2,410	–	–	1,080,337	1,252,281	1,271,284
2,489,067	84,163	– 74,843	–	– 1,828	2,496,559	1,628,432	1,683,669

Notes to the Financial Statements 2007/2008

1 Introductory remarks

The presentation of the annual financial statements is based on the provisions of Commercial Law and the Stock Corporation Act.

The classification of the income statement is based on the total cost method. Certain income statement and balance sheet items have been combined to improve the clarity of presentation. In addition to this, we present below a breakdown of individual items with supplemental explanations and notes.

The figures shown in the tables are fundamentally presented in € thousands.

2 Foreign currency translation

Business transactions in foreign currencies are evaluated at the exchange rate in effect at the time of their initial entry, in case of coverage through hedging activities at the hedging rate. With respect to receivables and liabilities, losses from exchange-rate fluctuations are booked directly to the income statement at the year-end exchange rate.

For the presentation of shareholdings the financial statements drawn up in foreign currencies with regard to assets and liabilities are translated at the financial year-end exchange rate and with regard to expenses and income at the average annual exchange rate.

3 Accounting and valuation principles

Acquisition costs also include directly allocable ancillary costs of acquisition. Manufacturing costs take into account pro-rata variable overhead costs as well as the direct costs of materials and salaries and wages.

To the extent that non-scheduled depreciation was taken on fixed and current assets in previous years, it was retained if the cause for the depreciation was still in effect.

Intangible assets, whose capitalization is limited to acquisitions, are capitalized at the cost of acquisition and are depreciated over their expected useful life on a straight-line basis.

Tangible assets are measured at the cost of acquisition or manufacture minus scheduled, respectively unscheduled, depreciation. Scheduled depreciation takes into account wear and tear as well as the loss of economic value, and is based on useful economic lives that are acceptable under tax guidelines, as well as the highest permissible depreciation rate.

Until December 31, 2007, tangible assets were measured using the geometric diminishing tax base to the extent that this is permitted by tax law and leads to the recognition of higher amounts; otherwise, they were measured using the straight-line method. With effect from January 1, 2008, only the straight-line method is applied. This change in measurement is not expected to have a significant impact on the company's net assets, financial position and results of operation. Assets acquired during the financial year are depreciated pro-rata temporis on the basis of the number of months for which they have been held. Low-value assets with a cost of between € 60 and € 410 that were acquired between April 1, 2007 and December 31, 2007 are depreciated over a period of five years. In accordance with Section 6 (2 a) of the German Income Tax Act, omnibus items are recognized for depreciable movable non-current assets with a cost of between € 150 and € 1,000 that are acquired or manufactured after December 31, 2007. These omnibus items are depreciated on a straight-line basis over a period of five years.

Among financial assets, shares in affiliated enterprises, participations, and securities are capitalized at the cost of acquisition, or at the lower of stock market prices or attributable value. Interest-bearing loans are carried at their nominal value. Interest-free loans are discounted at net present value.

Inventories are carried at acquisition or manufacturing costs. Valuations are determined on the basis of the weighted average cost method except for raw materials, consumables, and supplies as well as spare parts intended for sale, for which the LIFO method is largely applied. If lower replacement prices are applicable at financial year-end, these are taken into account. Sufficient account is taken of the risks of holding inventory that result from prolonged storage and reduced salability through reductions in value.

In accordance with the planned amendment to the governmental draft of the German Accounting Legislation Modernization Act (BilMoG-RefE), the company has, for the first time, opted not to exercise the option to recognize write-downs for expected fluctuations in value in the near future as provided by Section 253 (3) sentence 3 of the German Commercial Code. The non-application of this accounting option will provide a more accurate presentation of the company’s net assets, financial position and results of operation. This significant change in accounting policies served to increase the carrying amount of inventories by € 18.9 million. The corresponding reduction in the cost of materials (€ 13.4 million) and the increase in the level of changes in inventories (€ 5.5 million) were recognized in income.

In the case of receivables and other assets, all recognizable individual risks and general credit risks are taken into account by means of appropriate value adjustments. Non-interest-bearing receivables in the other assets are discounted to their present value.

Securities classified as current assets are carried at the lower of cost or market at the reporting date; this relates exclusively to treasury stock.

Tax-exempt allowances and taxable subsidies for investments are accrued to fixed assets as special items for investment subsidies. The tax-exempt allowances and taxable subsidies are offset in line with depreciation.

The special items with an equity portion include the surpluses arising from the utilization of tax-related special depreciation in excess of scheduled depreciation of tangible assets including transfers in accordance with Section 6b of the Income Tax Law. These special items are released in line with scheduled depreciation.

Provisions for pensions and similar obligations take into account temporary financial assistance in case of death that is insured under labor law, in addition to payments under our pension system. The determination is undertaken on the basis of actuarial calculations according to the partial value method based on an interest rate of 3.5 percent and taking into consideration the new 2005 G Heubeck standard tables. If the prerequisites are met for full pension vesting, for employees who began work before their 30th birthday the date of initial employment is used in the calculations as the basis – at the earliest, however, their 20th birthday.

Obligations similar to vested pensions under social security provisions and collective bargaining agreements are accrued in installments at their partial value under application of an interest rate of 3.5 percent and assessed in accordance with the new 2005 G Heubeck standard tables.

The calculation of other provisions covers all recognizable risks and uncertain liabilities. The valuation is based on reasonable commercial judgment. Provisions are also formed for warranties without legal liability.

Liabilities are accrued at their repayment amount and obligations similar to bonds at their net present value.

Prepaid expense and deferred income items are formed for expenditures and revenues that represent expenses and income for a certain period of time following the closing of the books.

Valuations of contingent liabilities correspond to the extent of liability at financial year-end.

Notes to the Income Statement

4 Sales

	2006/2007	**2007/2008**
Europe, Middle East and Africa	912,391	900,460
Eastern Europe	158,084	170,915
North America	243,744	233,988
Latin America	130,427	136,476
Asia/Pacific	520,703	472,560
	1,965,349	1,914,399

Of total sales € 1,608,111 thousands or 84 percent were achieved abroad.

The sales generated by Heidelberger Druckmaschinen Aktiengesellschaft relate almost exclusively to the Press Division of the Heidelberg Group.

5 Other operating income

	2006/2007	**2007/2008**
Release of provisions	24,074	47,460
Income from affiliated companies	45,514	53,279
Income from operating facilities	9,893	10,485
Income from the release of special items		
for investment subsidies	4,877	2,321
with an equity portion	5,532	1,659
Other income	87,401	36,613
	177,291	151,817

In the previous year other income basically included revenues from the sale of Linotype GmbH and from the sale-and-leaseback transaction for the Heidelberg Research and Development Center.

6 Cost of materials

	2006/2007	**2007/2008**
Expenses for raw materials, consumables, and supplies, and for goods purchased	637,852	665,134
Cost of purchased services	212,204	191,186
	850,056	856,320

The cost of materials for the previous year includes amortization in accordance with Section 253 (3) sentence 3 of the German Commercial Code in the amount of € 1,363 thousand (raw materials, consumables and supplies and goods purchased) and € 480 thousand (change in inventories).

7 Personnel expenses and employees

	2006/2007	**2007/2008**
Wages and salaries	571,653	584,122
Social security contributions and expenses for retirement benefits and support	163,398	159,624
– of which: for retirement benefits	(58,688)	(56,618)
	735,051	743,746

Average number of employees	2006/2007	**2007/2008**
Heidelberg	2,176	2,211
Wiesloch-Walldorf	5,821	6,064
Amstetten	1,142	1,159
Brandenburg	646	681
Kiel	327	332
	10,112	10,447
Apprentices	594	592
	10,706	11,039

Not included in the number of employees are trainees, graduating students, dormant employees and employees in the exemption phase of their partial retirement.

8 Other operating expenses

	2006/2007	**2007/2008**
Expenses for other outside services	64,159	69,941
Special direct sales expenses	58,903	52,762
Planning, organization, consulting	48,793	49,798
Maintenance	43,781	44,121
Rents, leases and leasing	28,657	32,330
Allocation to provisions	33,870	26,571
Advertising costs	9,693	13,993
Allocations to special items with an equity portion	197	12,237
Travel expenses	9,883	10,130
Non-production-related overhead costs	18,467	8,910
Insurance costs	7,964	8,108
Write-downs on receivables and other assets	2,685	7,048
Patent costs and license fees	4,803	5,954
Communication costs	4,912	4,914
Other taxes	1,142	1,127
Other costs	74,473	55,557
	412,382	403,501

9 Result from financial assets

	2006/2007	2007/2008
Income from participations		
Income from profit transfer agreements	33,002	67,858
Income from other participations	19,413	33,114
	52,415	100,972
– of which: from affiliated companies	(52,415)	(100,972)
Income from other securities and loans included under investments	15,367	16,301
Amortization of financial assets	– 1,810	– 10,885
Expenses from assumption of losses	– 9,882	– 18,454
– of which: from affiliated companies	(– 9,882)	(– 18,454)
	56,090	87,934

Income from profit transfer agreements indirectly includes dividends paid by three foreign subsidiaries to members of the consolidated tax group. Income from other participations relates exclusively to Heidelberger Druckmaschinen Austria Vertriebs-GmbH, Vienna, Austria.

Details of the amortization of financial assets can be found under note 13, while details of write-downs of securities can be found under note 16.

10 Other interest and similar income

	2006/2007	2007/2008
Interest income	27,004	31,364
– of which: to affiliated companies	(23,643)	(25,439)
	27,004	31,364

11 Interest and similar expenses

	2006/2007	2007/2008
Interest expenses	51,878	59,075
– of which: to affiliated companies	(31,912)	(37,955)
	51,878	59,075

12 Taxes on income

	2006/2007	**2007/2008**
Taxes on income	– 47,272	– 4,640
	– 47,272	– 4,640

The company recorded significant income tax earnings in the previous year, as the corporation tax credit from previous years was recognized at its present value of € 73,375 thousand due to the amendment to the German Corporation Tax Act. In the year under review, tax income resulted from an amended tax assessment received in March 2008, which led to the recognition in income of an increase in the corporation tax credit reported in the previous year in the amount of € 8,856 thousand.

Notes to the Balance Sheet

13 Fixed assets

Intangible and tangible assets increased by € 36.2 million in the year under review. This was primarily due to the completion of the assembly hall for the new large format and the acquisition of new production equipment, as well as an increase in the number of demonstration machines due to preparations for the drupa trade show.

An area of land was written down in the amount of € 0.5 million. An unscheduled write-down on a building in the amount of € 1.8 million was reversed in accordance with Section 280 of the German Commercial Code, as the reason for the recognition of the unscheduled write-down no longer applied.

In connection with a long-term loan received in the amount of € 75.1 million, there are restrictions on disposal in the form of the obligation to grant usufractory rights on developed plots of land.

Financial assets increased by € 19.0 million. Capital increases at subsidiaries (€ 22.9 million) were offset by the write-down of a participation in the amount of € 3.9 million. Financial assets still include a specialized investment fund in the amount of € 376.8 million. Under the terms of two trust agreements concluded in connection with a contractual trust arrangement (CTA), these assets are used exclusively to finance pension obligations.

14 Inventories

	31-Mar-2007	**31-Mar-2008**
Raw materials, consumables, and supplies	66,182	86,115
Products and services in progress	175,062	205,648
Manufactured products and merchandise	79,910	118,496
Advance payments	–	179
	321,154	410,438

15 Receivables and other assets

	31-Mar-2007	of which term to maturity over 1 year	**31-Mar-2008**	of which term to maturity over 1 year
Trade receivables	64,199	105	57,788	–
Receivables from affiliated enterprises	441,834	–	370,206	–
Other assets	143,813	78,068	174,588	81,302
	649,846	78,173	602,582	81,302

Receivables from affiliated enterprises relate primarily to short-term loans to subsidiaries of the Heidelberg Group.

Other assets primarily contain the capitalized corporation tax credit from previous years and tax refund claims, the capitalized value of reinsurance policies and option premiums paid. The capitalized value of reinsurance policies relates exclusively to retirement benefits for current and former members of the Management Board.

16 Marketable securities

	31-Mar-2007	**31-Mar-2008**
Treasury stock	13,258	6,802
	13,258	6,802

The treasury stock includes unchanged 400,000 shares. The amount attributable to capital stock amounts to € 1,024 thousand, with the mathematical portion in capital stock of 0.51 percent as of March 31, 2008. Kindly refer to note 18 for additional information. The change in treasury stock is due to the write-down to the lower market price at the reporting date.

17 Prepaid expenses

Prepaid expenses include € 5,591 thousand (previous year: € 6,852 thousand) resulting from the discount arising from the issue of a convertible bond via our Dutch financing subsidiary.

18 Shareholders' equity

	1-Apr-2007	Resolution of the Annual General Meeting of July 26, 2007: Distributable profit	Capital reduction	Reserve for treasury stock	Addition from net profit 2007/2008	**31-Mar-2008**
Subscribed capital	204,104	–	– 4,313	–	–	199,791
Capital reserve	26,668	–	4,313	–	–	30,981
Revenue reserves						
Legal reserve	20,451	–	–	–	–	20,451
Reserve for treasury stock	13,258	–	–	– 6,456	–	6,802
Other revenue reserves	223,308	–	– 51,793	–	51,793	223,308
	257,017	–	– 51,793	– 6,456	51,793	250,561
Distributable profit	75,936	– 74,801	– 4,313	6,456	79,860	83,138
Shareholders' equity	563,725	– 74,801	– 56,106	–	131,653	564,471

Capital stock / number of issued shares / treasury stock

The shares are bearer shares and grant the holders a proportionate interest of € 2.56 in the company's fully paid-up share capital. On November 8, 2005, the Management Board of Heidelberger Druckmaschinen Aktiengesellschaft approved the acquisition of the company's own shares in an amount of up to 5 percent of the share capital (up to 4,295,424 shares) during the period November 9, 2005 through January 19, 2007. The Management Board made use of the authorization by the Annual General Meeting on July 20, 2005 to acquire the company's own shares in an amount of up to 10 percent of the share capital (up to 8,590,848 shares) through January 19, 2007. The repurchased shares may thereby only be utilized to reduce the company's capital, for the employee share participation programs, or for other forms of share distribution to the employees of the company or to a subsidiary in accordance with the authorization of the Annual General Meeting of July 20, 2005. This buyback program was concluded on July 26, 2006.

The authorization granted by the Annual General Meeting on July 20, 2005 would have expired on January 19, 2007. To ensure seamless authorization for the company, the expiration was cancelled in accordance with a decision by the Annual General Meeting of July 20, 2006 with effect at the close of the Annual General Meeting on July 20, 2006, and replaced by a new authorization to acquire the company's own shares. According to this new authorization, up to January 19, 2008 the Management Board of Heidelberger Druckmaschinen Aktiengesellschaft is authorized to acquire the company's own shares for any permissible purpose in an amount of up to the lower of 10 percent of either the current share capital or of the share capital at the time of the exercise of the authorization.

On October 31, 2006, the Management Board of Heidelberger Druckmaschinen Aktiengesellschaft approved a further share buyback program. The Board made use of an authorization granted by the Annual General Meeting on July 20, 2006. Within the framework of this share buyback program, the company's own shares may be purchased in an amount of up to 5 percent of the share capital (up to 4,152,535 shares) during the period November 7, 2006 through January 19, 2008 at the latest. The repurchased shares may only be utilized for the reduction of the company's share capital or for employee share participation programs as well as other forms of allocating shares to employees of the company or a subsidiary or to individuals who are or were employed by affiliated enterprises. This buyback program was concluded on September 4, 2007.

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

During financial year 2006/2007, a total of 3,803,846 shares were repurchased, with a mathematical portion in share capital of € 9,738 thousand, or 4.6 percent of the share capital as of March 31, 2006. Of this amount, a total of 81,188 shares with a mathematical portion in share capital of € 208 thousand, or 0.1 percent of the share capital as of March 31, 2006, were utilized for the employee share participation program. These shares were purchased at a cost of € 3,053 thousand and resold to the employees at a price of € 1,384 thousand. The company utilized a total of 3,322,658 shares with a mathematical portion in share capital of € 8,506 thousand, accounting for 4.0 percent of the share capital as of March 31, 2006, within the framework of the decrease in capital that was approved by the Management Board on March 30, 2007. As a result of the retirement, share capital was reduced from € 212,609,799.68 (or 83,050,703 shares) by € 8,506,004.48 (or 3,322,658 shares) to € 204,103,795.20 (or 79,728,045 shares). The acquisition cost for the 3,322,658 shares amounted to € 116,639 thousand. Additional transaction fees amounted to € 127 thousand. The total cost of the acquisition therefore amounted to € 116,766 thousand.

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

As of March 31, 2008, 400,000 shares were still held by the company. The amount allocated to capital stock is € 1,024 thousand, corresponding to a notional share in the capital stock of 0.51 percent as of March 31, 2008 (previous year: 0.50 percent). The cost of the acquisition was € 13,246 thousand. Additional transaction fees amounted to € 12 thousand. Accordingly, the total cost of the acquisition was € 13,258 thousand. As a result of the measurement of these shares at market value, a total of € 6,456 thousand was withdrawn from the reserve for treasury stock.

Income from the capital reduction in financial year 2007/2008 in the amount of € 4,313 thousand (previous year: € 8,506 thousand) was appropriated to capital reserves in accordance with Section 237 (5) of the German Stock Corporation Act. The expense from the withdrawal of shares in the amount of € 56,106 thousand contained in the extended income statement was covered by net profit for the period. The amount of € 116,639 thousand reported in the reconciliation column was covered by net profit and withdrawals from other retained earnings in the previous year.

In accordance with section 58 (2) of the German Stock Corporation Act, the Management Board and the Supervisory Board appropriated a total of € 51,793 thousand of the net profit for the period in the amount of € 131,653 thousand to other retained earnings.

Convertible bond

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

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

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

In accordance with a decision of the Annual General Meeting on July 20, 2006, the Management Board was authorized, in agreement with the Supervisory Board, to issue through July 19, 2011, either at one time or in stages, bearer warrants and/or convertible bonds in a total face value of up to € 500,000,000.00 with a term to maturity of a maximum of 30 years, as well as to grant option rights to the holders of bonds with warrants or conversion rights for the holders of convertible bonds to bearer shares of the company in a pro-rata amount of the share capital in a total amount of up to € 21,260,979.20 subject to the conditions of the option or convertible bond.

Contingent capital

According to a decision of the Annual General Meeting of September 29, 1999, the share capital may be increased on a contingent basis by a maximum of € 10,996,288.00 through the issue of up to 4,295,425 shares (Contingent Capital). According to a decision of the Annual General Meeting of July 21, 2004, the share capital may be increased on a contingent basis by up to € 21,992,570.88 through the issue of up to 8,590,848 new no-par bearer shares in the pro-rata amount of € 2.56 each (Contingent Capital II). The increase in contingent capital is for the purpose of supporting the granting of option rights or option obligations to the bearers of warrants under bonds with warrants in accordance with the option conditions; or for the purpose of granting conversion rights or conversion obligations to the bearers of convertible bonds in accordance with the convertible bond conditions, which are issued by the company or a subsidiary affiliated company up until July 20, 2009 as authorized in the enabling resolution of the Annual General Meeting of July 21, 2004.

In accordance with a decision of the Annual General meeting of July 20, 2006, the share capital may be increased on a contingent basis by up to € 21,260,979.20 through the issue of up to 8,305,070 new no-par bearer shares in the pro-rata amount of € 2.56 each (Contingent Capital 2006). This increase in contingent capital is for the purpose of supporting the granting of option rights or option obligations to the bearers of warrants under bonds with warrants in accordance with the option conditions; or for the purpose of granting conversion rights or conversion obligations to the bearers of convertible bonds in accordance with the convertible bond conditions, which are issued by the company or a subsidiary affiliated company up until July 19, 2011 as authorized in the enabling resolution of the Annual General Meeting of July 20, 2006. The new shares are issued at the option or conversion price to be determined according to the enabling resolution as described under ‘Convertible bond’.

Authorized capital

By resolution of the Annual General Meeting of July 20, 2006, the Management Board, in agreement with the Supervisory Board, is authorized, through July 1, 2009, to increase the share capital of the company by up to € 63,782,937.60 against payment in cash or in kind through the issue of new shares at one time or in stages (Authorized Capital 2006). In the case of the issue of shares against contributions in kind, the Management Board, in agreement with the Supervisory Board, is authorized to exclude the subscription rights of shareholders. The shareholders are to be granted subscription rights if the capital is increased against cash contributions. However, the Management Board, in agreement with the Supervisory Board, is authorized to exclude residual amounts from the subscription rights of shareholders. The Management Board, in agreement with the Supervisory Board, is furthermore authorized to exclude the subscription rights of shareholders in the case of capital increases against cash contributions if the disbursement amount fails to fall substantially below the stock market price. Nevertheless, this authorization only applies under the condition that the shares issued under the exclusion of subscription rights in accordance with Article 186, Paragraph 3, Number 4 of the Stock Corporation Act may not exceed 10 percent of capital either at the time of validity or at the time of the exercise of this authorization. With the approval of the Supervisory Board, the Management Board is authorized to determine the further content of the share rights and the conditions of share issuance.

Heidelberger Druckmaschinen Aktiengesellschaft has received the following notifications from shareholders exceeding or falling below voting right thresholds in accordance with Section 21 (1) of the German Securities Trading Act. The list presented on the next page contains the most recent shareholder notifications in each case:

Shareholders	Change in threshold	Voting share effective as of	Allocation		Share of voting rights
Allianz Aktiengesellschaft, Munich	5 % and 10 %	20-Sept-2002	indirect		**12.03 %** 1)
Jota-Vermögensverwaltungsgesellschaft mbH, Munich	5 %	20-Sept-2002	indirect	6.04 %	
Allianz Lebensversicherungs-Aktiengesellschaft, Stuttgart	5 %	20-Sept-2002	direct/indirect	6.04 %	
			indirect	5.98 %	
AZ-Arges Vermögensverwaltungsgesellschaft mbH, Munich	5 %	17-Aug-2005	direct	5.98 %	
AZ-Argos 19 AG, Munich	5 %	17-Nov-2005	indirect	6.26 %	
RWE Aktiengesellschaft, Essen	10 %	15-June-2007	indirect		**9.620 %** 2)
BGE Beteiligungs-Gesellschaft für Energieunternehmen mbH, Essen	10 %	15-June-2007	indirect	9.620 % 2)	
GBV Vierzehnte Gesellschaft für Beteiligungsverwaltung mbH, Essen	10 %	15-June-2007	direct	9.620 % 2)	
Münchener Rückversicherungs-Gesellschaft Aktiengesellschaft, Munich	5 %	30-Jan-2006	direct/indirect		**4.99 %** 1)
			indirect	0.05 %	
Fidelity International Limited, Hamilton, Bermuda	5 %	24-Feb-2006	indirect		**4.90 %** 1) 4)
Brandes Investment Partners L.P., San Diego, USA	5 %	3-Mar-2006	indirect		**4.3 %** 1) 4)
SEB Invest GmbH, Frankfurt am Main	3 %	21-Nov-2007	direct/indirect		**3.018 %** 2)
			indirect	0.192 %	
cominvest Asset Management GmbH, Frankfurt am Main	3 %	12-May-2008	direct/indirect		**3.01389 %** 3)
			indirect	1.82257 %	
Centaurus Capital L.P., London, UK	3 %	18-Oct-2007	direct/indirect		**2.865 %** 2)
Centaurus Alpha Master Fund Limited, George Town, Cayman Islands			direct	0.127 %	
Artisan Partners L.P., Milwaukee, USA	3 %	1-Apr-2008	indirect		**2.64 %** 3)
UBS AG, Zurch, Switzerland	3 %	9-Aug-2007	direct/indirect		**1.92 %** 2)
			indirect	0.16 % 2)	

1) The share of the voting rights was reported to us before March 31, 2006 and accordingly relates to 85,908,480 shares (number of shares before the share buyback on March 31, 2006)

2) The share of the voting rights was reported to us before March 31, 2007 and accordingly relates to 79,728,045 shares (number of shares before the share buyback on March 31, 2008)

3) The share of the voting rights was reported to us after March 31, 2008, and hence relates to a total of 78,043,434 shares (number of shares after the share buyback on March 31, 2008)

4) No notification was provided in accordance with the German Securities Trading Act. Based on excerpts from the shareholder identification performed in March 2008 on the basis of custodian bank lists from the USA, Brandes Investment Partners L.P. has fallen below the threshold of 3 percent. Based on excerpts from public filings in the United Kingdom in March 2008, Fidelity International Limited has also fallen below the threshold of 3 percent.

19 Special items

	31-Mar-2007	31-Mar-2008
Special items for investment allocations to fixed assets		
Taxable subsidies	4,946	5,518
Tax-exempt allowances	1,980	2,119
	6,926	7,637
Special items with an equity portion		
Tax-related additional depreciation	17,054	27,632
	23,980	35,269

Taxable subsidies are funds under the regional economic promotion program for investing in Brandenburg. Tax-exempt allowances are composed solely of allowances in accordance with the German Investment Allowance Act of 1991/1996/1999/2005/2007, which primarily relate to the Brandenburg site.

The special tax-allowable reserve includes additional tax depreciation in accordance with Section 4 of the German Assisted Areas Act, section 7d of the German Income Tax Act and Section 82a of the German Income Tax Enforcement Ordinance, as well as Section 6b (1) of the German Income Tax Act to a significant extent.

20 Other provisions

	31-Mar-2007	31-Mar-2008
Tax provisions	211,045	211,045
Other provisions		
Liabilities arising from sales and service activities	55,554	51,387
Liabilities arising from the human resources area	170,323	164,444
Liabilities arising from the research and development area	4,720	5,348
Other liabilities	43,472	34,933
	274,069	256,112
	485,114	467,157

As in the previous year, tax provisions primarily take into account liabilities from possible subsequent assessments arising from tax audits. Liabilities arising from sales and service activities largely comprise warranties. The liabilities in the human resources area involve mainly vacation and working hour balances and bonuses.

21 Liabilities

	31-Mar-2007	of which term to maturity 1 year or less	from 1 to 5 years	over 5 years	31-Mar-2008	of which term to maturity 1 year or less	from 1 to 5 years	over 5 years
To banks	78,979	53,479	25,500	–	100,895	13,559	46,079	41,257
Advance payments received on orders	6,289	6,289	–	–	5,723	5,723	–	–
Trade payables	97,285	97,285	–	–	127,754	127,754	–	–
To affiliated enterprises	722,443	442,443	280,000	–	775,769	495,769	280,000	–
Other liabilities								
From taxes	1,795	1,795	–	–	13,960	13,960	–	–
Relating to social security	3,257	1,042	813	1,402	3,950	1,961	813	1,176
Others	35,461	19,809	15,652	–	54,378	32,958	21,420	–
	40,513	22,646	16,465	1,402	72,288	48,879	22,233	1,176
	945,509	622,142	321,965	1,402	1,082,429	691,684	348,312	42,433

In connection with the borrowing of a long-term loan in the amount of € 75.1 million, the lender was granted the obligation of usufractory rights to developed properties of Heidelberger Druckmaschinen Aktiengesellschaft. The loan is carried under liabilities to banks.

Payables to affiliated enterprises comprise the liabilities to our Dutch financing subsidiary resulting from the issue of a convertible bond amounting to € 280 million.

22 Contingent liabilities

	31-Mar-2007	31-Mar-2008
Liabilities arising from the issue and endorsement of bills	101,501	91,988
– of which: to affiliated companies	(101,501)	(91,988)
Guarantees and warranties	281,904	249,743
– of which: to affiliated companies	(–)	(–)
	383,405	341,731

The guarantees and warranties largely comprise bank guarantees covering loans to affiliated enterprises, as well as lease assumption obligations covering subsidiaries' lease contracts.

23 Derivative financial instruments

Heidelberger Druckmaschinen Aktiengesellschaft centrally administers and controls the Heidelberg Group's interest rate and foreign currency risk. Derivative financial instruments are applied to hedge the currency and interest rate risks from business operations as well as from financing transactions. Most of the transactions are currency-related. They are concluded largely on behalf of our foreign subsidiaries in connection with the purchase of German products. Interest rate derivatives mainly serve to hedge the refinancing costs of the customer financing portfolios of the print finance companies. The value-at-risk is recorded regularly in order to quantify the risk potential of all outstanding contracts. Under the value-at-risk method, the maximum loss potential that could result from a change in market prices is calculated based on historic price fluctuations. Risk positions must be reduced immediately if predetermined value-at-risk limits are exceeded.

The valuation of foreign currency-denominated receivables and of the respective forward exchange transactions concluded in order to hedge them occurs on the basis of a restricted market valuation – in other words, the results of the valuation of both items are recorded individually. Other assets totaling € 1,677 thousand were formed for forward exchange transactions with positive market values as of the reporting date (previous year: € 124 thousand). Other liabilities of € 2,314 thousand were recognized for forward exchange transactions with negative market values (previous year: € 3,677 thousand). Foreign currency-denominated receivables are translated at the exchange rate at financial year-end, with forward exchange transactions recognized at the corresponding forward rates.

Currency options are measured on the basis of option price models. Interest rate hedging contracts are measured on the basis of discounted cash flows expected in the future. These valuations are based on the relevant market data at the reporting date. The contracting parties of outstanding external contracts are exclusively top quality banks. Internal contracts were undertaken with our subsidiaries.

The nominal volumes and market values of foreign currency and interest rate derivatives were as follows at financial year-end:

	Nominal volumes		Market values	
	31-Mar-2007	**31-Mar-2008**	31-Mar-2007	**31-Mar-2008**
Forward exchange transactions	1,814,128	1,706,699	– 19,853	– 21,201
Currency options	881,075	1,873,965	16,297	49,691
Interest rate swaps	348,534	276,194	3,080	2,001

Currency options are carried at cost. Other assets totaling € 33,772 thousand (previous year: € 11,680 thousand) were recognized at the reporting date for currency options with positive fair values, while other liabilities totaling € 16,567 thousand (previous year: € 4,606 thousand) were recognized for currency options with negative fair values. The carrying amounts of the interest rate swaps listed in the table above contain income from deferred interest in the amount of € 752 thousand and expenses from deferred interest in the amount of € 707 thousand. Of foreign currency-related transactions, a total of € 1,060,463 thousand (previous year: € 268.375 million) have a term to maturity longer than 12 months. The terms to maturity of interest rate transactions are up to five years.

A provision totaling € 2,322 thousand was formed (previous year: € 10,826 thousand) to take into account the risk of potential losses from derivatives. Of this amount, € 2 thousand was attributable to interest rate derivatives (previous year: € 5 thousand), and € 2,320 thousand to forward exchange transactions and options (previous year: € 10,821 thousand). This provision contrasts largely with opposing effects arising from underlying operating transactions.

24 Other financial liabilities

Total other financial liabilities at financial year-end amounted to € 262.0 million (previous year: € 245.4 million). As of March 31, 2008, liabilities arising from investment orders totaled € 48.3 million (previous year: € 69.3 million), of which € 1.4 million in the previous year were related to affiliated companies. Future rent and lease liabilities amount to € 209.2 million (previous year: € 175.3 million). These items primarily relate directly to the sale-and-leaseback agreements concluded in 2000 for the Print Media Academy and the World Logistics Center, the sale-and-leaseback transaction concluded in 2007 for the Heidelberg Research and Development Center, and the X-House administrative building leased in the year under review. There were no other significant obligations affecting the assessment of the company's financial position.

Additional information

25 Influences resulting from valuation simplifications

The LIFO method is only applied to individual article groups of raw materials, consumables and supplies, and to spare parts. Based on a relatively constant price level, a measurement difference of € 5.8 million between the LIFO method and valuation on the basis of the last available market prices before the reporting date was recognized in income.

26 Effects of tax-related valuation measures

The depreciations due to tax regulations correspond with the allocations to special items with an equity portion. This amount of € 12,237 thousand was reported under other operating expenses, in contrast there is an amount released of € 1,659 thousand, which was recorded under other operating income.

The depreciation charged during the reporting year and in earlier financial years due to tax regulations, including additions to and releases from the special items with an equity portion, resulted in a profit for the year of Heidelberger Druckmaschinen Aktiengesellschaft that was 5.5 percent under the amount that would have been shown otherwise. Overall, the utilization of tax valuation opportunities in the future will lead to improved results, which will be subject to taxation on income at the then applicable tax rates. This refers specifically to the deferred special depreciation of € 27,632 thousand included in the special items with an equity portion, and primarily results from construction projects. The release for accounting purposes therefore extends over a relatively long period of time.

27 Declaration of Compliance in accordance with Section 161 of the Stock Corporation Law

The Management Board and the Supervisory Board of Heidelberger Druckmaschinen Aktiengesellschaft issued the statement stipulated under Section 161 of the Stock Corporation Act, which was made permanently accessible to shareholders. Former declarations of compliance were also made permanently accessible to shareholders.

28 Management Board and Supervisory Board

The information concerning the members of the Supervisory Board and the Management Board in accordance with Section 285 No. 10 of the German Commercial Code is presented in a separate overview on pages 72 – 73 and 75.

The basic characteristics of the systems of remuneration and amounts for the members of the Management Board and the Supervisory Board are presented in the Management Report (see pages 20 – 28).

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

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

Former members of the Management Board and their surviving dependents received € 2,862 thousand (previous year: € 2,614 thousand). Of this amount, € 814 thousand (previous year: € 797 thousand) relate to liabilities to former members of the Management Board of Linotype-Hell Aktiengesellschaft and their surviving dependents, which were assumed in financial year 1997/1998 within the framework of universal succession. Provisions totaling € 36,642 thousand (previous year: € 37,659 thousand) were recognized for pension obligations to former members of the Management Board and their surviving dependents. Of this figure, € 9,421 thousand (previous year: € 9,502 thousand) relate to the pension obligations of the former Linotype-Hell Aktiengesellschaft, which were assumed in financial year 1997/1998 as part of universal succession. Former members of the Management Board held 147,000 stock options (previous year: 189,000 stock options) as of the balance sheet date.

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

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

29 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 (Contingent Capital). The sole purpose of the contingent capital increase is to grant subscription rights to members of the Company's Management Board, to members of the Management Board of subsidiaries in Germany and abroad, and to other senior executives within the Heidelberg Group.

Authorization of the Management Board and Supervisory Board

The Management Board has been authorized to grant subscription rights to eligible persons within a period of five years from the time the contingent capital goes into effect. The subscription rights are to be issued by means of their entry in the Commercial Register in tranches of no more than 30 percent of the overall volume in a single financial year. The Supervisory Board has the sole responsibility for granting subscription rights to members of the Management Board.

Waiting period / period of validity

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

Exercise period and exercise waiting periods

Subscription rights may be exercised at any time after the end of the waiting period during the respective period of validity.

However, the subscription rights may not be exercised during waiting periods that have been established by the Management Board and Supervisory Board in the interests of the company, such as 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 Annual General Meeting may also be designated as exercise waiting periods.

Investment for own account

When granting subscription rights, the condition 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 once more been reached.

Exercise price

The exercise price is defined as the average closing price of our shares on the final ten consecutive trading days at the Frankfurt am Main stock exchange 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.

Non-transferability/dividend rights of the new shares

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

Tranches for 2001 – 2004

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

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

[1] Including stock appreciation rights (SARs)

Servicing the subscription rights

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

Accounting and valuation principles

We have calculated the value of the options for the 2002 – 2004 tranches on the basis of a recognized option pricing model, taking the fair value of the options at the balance sheet date into account, and have recognized appropriate provisions accordingly. The vesting periods for all tranches have now expired. However, the tranches cannot currently be exercised as the respective conditions have yet to be fulfilled.

30 Long-Term Incentive Plan (LTI)

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

Participants

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

Performance Share Units (PSUs)/investment for own account

The plan grants a certain number of so-called Performance Share Units (PSUs) – dependent, however, on employees undertaking an investment for their own account. As a prerequisite, participants must invest in shares of Heidelberger Druckmaschinen Aktiengesellschaft in the form of an investment for their own account. The actual number of PSUs granted depends on certain performance criteria. Final, the PSUs are provided either in the form of cash payments or by delivery of shares in the company.

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

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

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

Term of performance share units

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

Performance criteria

Performance criteria comprise the average arithmetical free cash flow rate (free cash flow divided by net sales) achieved by the company during the option life of the Performance Share Units as well as the arithmetical average EBIT percentage rate (EBIT divided by net sales) achieved by the company during the option life in line with the following table:

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

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

Disbursement

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

Cap

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

Accounting and valuation principles

Measurement of the LTI is based on a recognized option pricing model, which takes into consideration the fair value of the options at financial year end. For the tranches 2006 and 2007 appropriate provisions were established.

31 Auditors' fees

Fee for	2006/2007	**2007/2008**
audits of financial statements	445	456
other assurance or valuation services	75	100
tax advisory services	6	4
other services	1	2
	527	562

32 Shareholdings

In accordance with Article 285 No. 11 of the Commercial Code, the presentation of the shareholdings of Heidelberger Druckmaschinen Aktiengesellschaft is disclosed in the electronic Federal Gazette. The principal holdings are listed on pages 70 – 71.

33 Proposal for the appropriation of distributable profit

For financial year 2007/2008 distributable profit amounts to € 83,138,224.98. We propose allocating this distributable profit as follows:

	€
Payment of a dividend of € 0.95 per no-par share	73,761,262.30
Profit carried forward	9,376,962.68
Distributable profit	83,138,224.98

Heidelberg, May 26, 2008

Heidelberger Druckmaschinen Aktiengesellschaft
The Management Board

Bernhard Schreier | Dirk Kaliebe | Dr. Jürgen Rautert

Responsibility statement

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

Heidelberg, May 26, 2008

Heidelberger Druckmaschinen Aktiengesellschaft
The Management Board

Bernhard Schreier | Dirk Kaliebe | Dr. Jürgen Rautert

Auditor's Report

We have audited the annual financial statements, comprising the balance sheet, the income statement, and the notes to the financial statements, together with the bookkeeping system, and the management report of Heidelberger Druckmaschinen Aktiengesellschaft, Heidelberg, for the business year from April 1, 2006 to March 31, 2007. The maintenance of the books and records and the preparation of the annual financial statements and management report in accordance with German commercial law are the responsibility of the Company's Board of Managing Directors. Our responsibility is to express an opinion on the annual financial statements, together with the bookkeeping system, and the management report based on our audit.

We conducted our audit of the annual financial statements in accordance with § (Article) 317 HGB ('Handelsgesetzbuch': 'German Commercial Code') and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany) (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position, and results of operations in the annual financial statements in accordance with (German) principles of proper accounting and in the management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Company and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the books and records, the annual financial statements are examined primarily on a test basis within the framework of the audit. The audit includes assessing the accounting principles used and significant estimates made by the Company's Board of Managing Directors, as well as evaluating the overall presentation of the annual financial statements and management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion based on the findings of our audit, the annual financial statements comply with the legal requirements and give a true and fair view of the net assets, financial position and results of operations of the Company in accordance with (German) principles of proper accounting. The management report is consistent with the annual financial statements and as a whole provides a suitable view of the Company's position and suitably presents the opportunities and risks of future development.

Frankfurt am Main, May 27, 2008

PricewaterhouseCoopers
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

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

List of major shares in affiliated companies

Figures in € thousands according to IFRS

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

Figures in € thousands according to IFRS

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

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

The Supervisory Board

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Dr. Klaus Sturany
Member in various Supervisory Boards, Dortmund

* Bayer Aktiengesellschaft;
Hannover Rückversicherung Aktiengesellschaft;

** Österreichische Industrieholding Aktiengesellschaft, Austria

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

Committees of the Supervisory Board

Management Committee

Dr. Mark Wössner (Chairman)

Rainer Wagner

Martin Blessing

Martin Gauß

Mirko Geiger

Dr. Gerhard Rupprecht

Mediation Committee under Article 27 Paragraph 3 of the Codetermination Act

Dr. Mark Wössner

Rainer Wagner

Martin Blessing

Wolfgang Flörchinger

Committee on Arranging Personnel Matters of the Management Board

Dr. Mark Wössner (Chairman)

Rainer Wagner

Dr. Gerhard Rupprecht

Audit Committee

Dr. Klaus Sturany (Chairman)

Dr. Jürgen Heraeus
– since April 26, 2007 –

Mirko Geiger

Rainer Wagner

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

The Management Board

Bernhard Schreier
Bruchsal
Chairman
* ABB Aktiengesellschaft;
Bilfinger Berger Aktiengesellschaft
Heidelberger Druckmaschinen
Vertrieb Deutschland GmbH (Chairman);
Universitätsklinikum Heidelberg;
** Heidelberg Graphic Equipment Ltd., UK
(Chairman of the Board of Directors);
Heidelberg Japan K.K., Japan;
Heidelberg Americas, Inc., USA
(Chairman of the Board of Directors);
Heidelberg USA, Inc., USA
(Chairman of the Board of Directors);
Heidelberger Druckmaschinen Austria
Vertriebs-GmbH, Austria (Advisory Board);
Heidelberger Druckmaschinen Osteuropa
Vertriebs-GmbH, Austria (Advisory Board)

Dirk Kaliebe
Sandhausen
* Heidelberger Druckmaschinen
Vertrieb Deutschland GmbH;
** Heidelberg Graphic Equipment Ltd., UK;
Heidelberg Americas, Inc., USA;
Heidelberg USA, Inc., USA;
Heidelberg Postpress Sweden AB, Sweden
(Chairman of the Board of Directors);
IDAB WAMAC International AB, Sweden
(Chairman of the Board of Directors)

Dr. Jürgen Rautert
Heidelberg

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

Financial Calendar 2008/2009

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

Subject to change

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These Financial Statements are a translation of the official German Financial Statements of Heidelberger Druckmaschinen Aktiengesellschaft. The Company disclaims responsibility for any misunderstanding or misinterpretation due to this translation.

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