ANNUAL REPORT 2007/2008 Dimensions

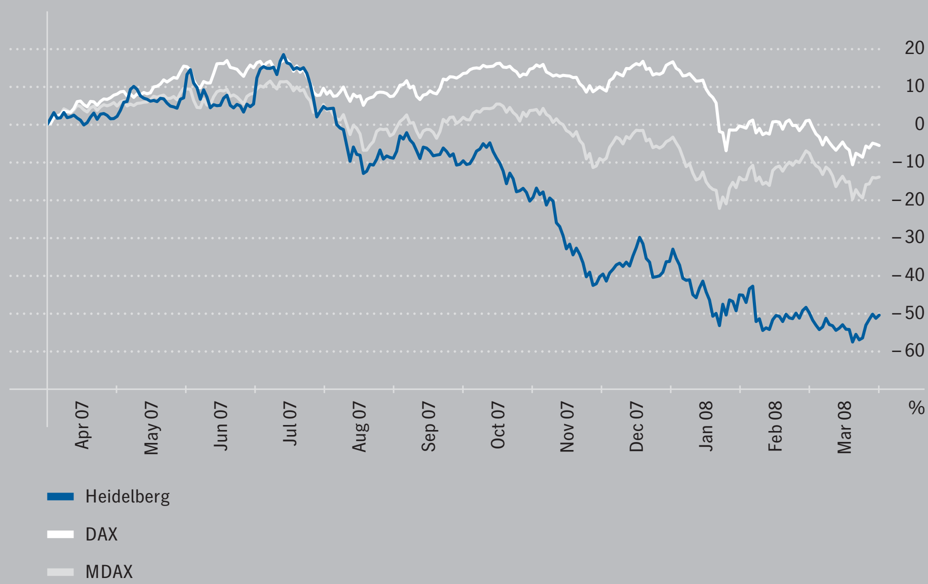
HEIDELBERG

ANNUAL REPORT 2007/2008 The Facts

HEIDELBERG

PERFORMANCE OF THE HEIDELBERG SHARE

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



FINANCIAL CALENDAR 2008/2009

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

Subject to change

HEIDELBERG SERVICES

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

> DIMENSIONS

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

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

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

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

GROUP MANAGEMENT REPORT

MANAGEMENT AND SUPERVISORY BOARD

SHARE, GROUP AND MANAGEMENT

BUSINESS DEVELOPMENT

POTENTIALS, RISKS AND OPPORTUNITIES

THE FUTURE: PROSPECTS

> DIMENSIONS

THE HEIDELBERG FORMAT CATEGORIES

17 35 cm × 50 cm **52** 50 cm × 70 cm **84** 70 cm × 100 cm **108** 106 cm × 145 cm
121 cm × 162 cm

> **Bernhard Schreier**
CHAIRMAN

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

> **Dirk Kaliebe**
FINANCE

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

> **Dr. Jürgen Rautert**
ENGINEERING AND MANUFACTURING,
since July 1, 2008 SALES

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

LETTER FROM THE MANAGEMENT BOARD

Dear Shareholders,

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

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

- We invested in the less cyclical packaging printing business as a counterbalance to the cyclically sensitive ad printing segment.
- We systematically expanded our engagement in the growing emerging markets.
- And we strengthened our service business, thereby engendering financial stability in the sales units' cyclical printing press business.

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

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

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

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

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

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

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

Bernhard Schreier
Chairman of the Management Board

Dirk Kaliebe

Dr. Jürgen Rautert

Report of the Supervisory Board

Dr. Mark Wössner
Chairman of the
Supervisory Board

Dear Shareholders,

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

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

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

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

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

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

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

Focus of Discussion in the Supervisory Board

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

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

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

Corporate Governance

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

Work in the Committees

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

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

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

Audit of the Non-Consolidated and Consolidated Financial Statements

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

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

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

Composition of Management Board and Supervisory Board

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

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

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

Munich, June 5, 2008
For the Supervisory Board

Dr. Mark Wössner
Chairman of the Supervisory Board

Corporate Governance

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

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

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

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

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

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

Formation of the Nomination Committee

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

Compliance: Long a Focus of Attention at Heidelberg

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

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

Communications with Stakeholders

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

Management Board and Supervisory Board in Close Cooperation

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

Information about Shareholdings and Communications Regarding Share Transactions

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

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

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

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

Foresighted Risk Management

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

Audit of the Financial Statements by PricewaterhouseCoopers

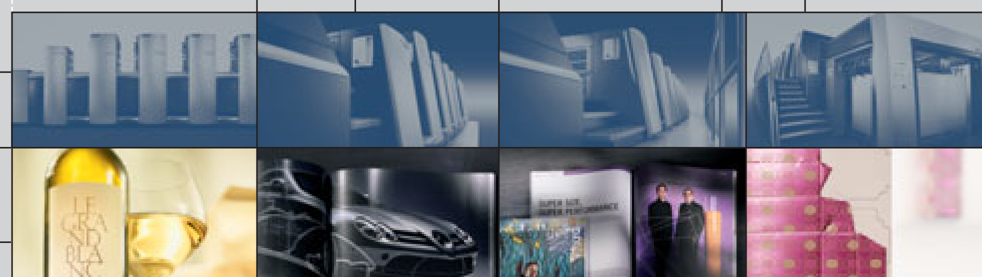
There are no relationships between the auditor, the auditor's management organs, and the chief auditors with either Heidelberger Druckmaschinen Aktiengesellschaft or the Company's management organs that could raise doubts concerning the auditor's independence. The Supervisory Board obtained a statement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

Heidelberg, May 26, 2008

For the Supervisory Board:
Dr. Mark Wössner

For the Management Board:
Bernhard Schreier

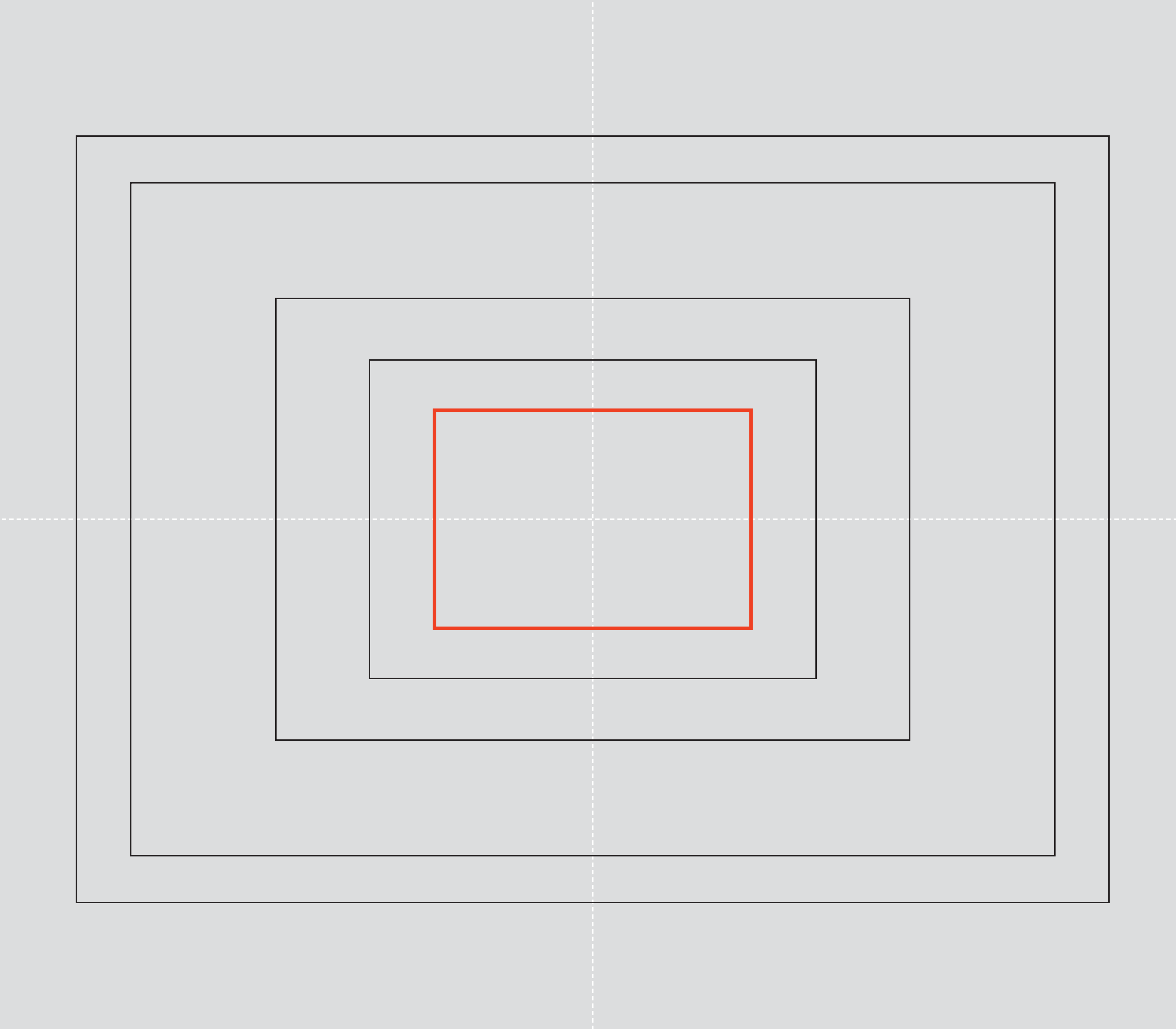
DIMENSIONS



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

UTMOST PRECISION DOWN TO THE SMALLEST DETAIL

The 35 CM × 50 CM format category




LE GRAND BLANC
REVELETTE
Peter Fischer, Vigneron
MILLÉSIME 2006

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

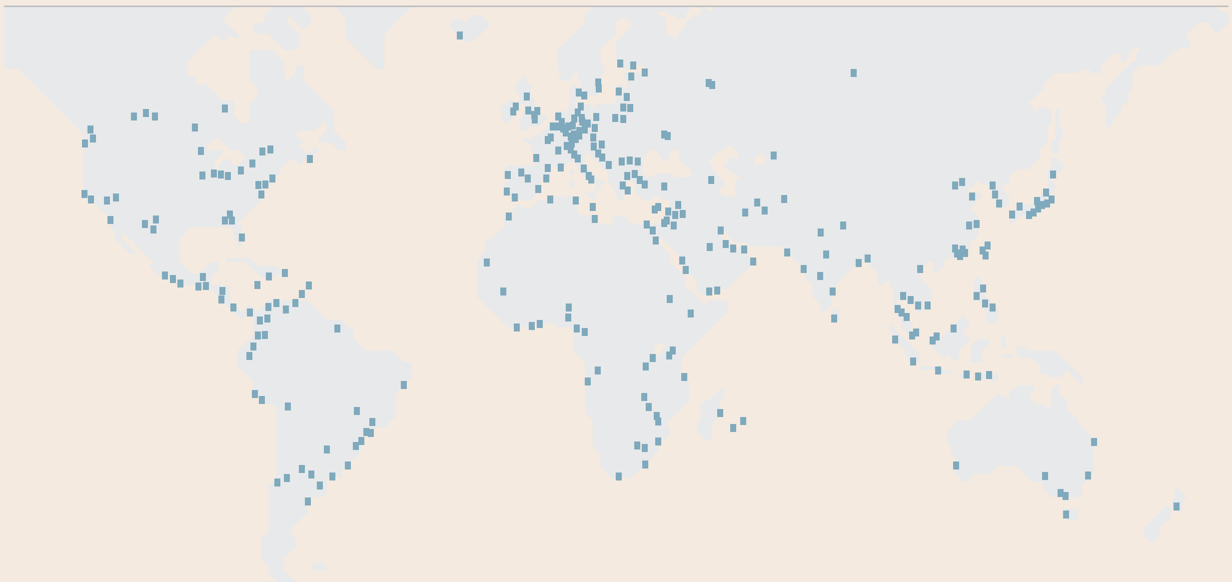

LE
GRA
ND
BLA
NC
REVELETTE
Peter Fischer, Vigneron

> OVERVIEW: SHARE, GROUP AND MANAGEMENT

Heidelberg – Internationally Positioned

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

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



Heidelberg Share – Disappointing Development of Share Price

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

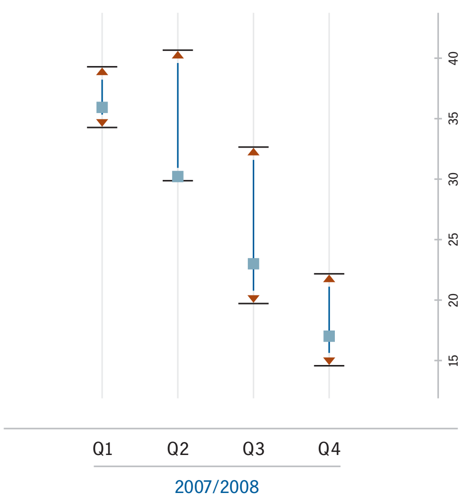
Whereas despite global share price adjustments, the DAX, at 8,067 points, closed out calendar year 2007 only slightly below its all-time high in July 2007, the MDAX midcap index was burdened to a greater extent by increasing raw material prices and the increasing recessionary fears as a result of the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

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

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

QUARTERLY LOW, HIGH, AND CLOSING PRICES

Figures in €



KEY PERFORMANCE DATA OF THE HEIDELBERG SHARE

Figures in €

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

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

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

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

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

Dividend Policy Oriented to Shareholder Interests; Improvement in Capital Structure

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

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

Annual General Meeting Approves Decisions by a Large Majority

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

Increase in the Trading Volume of the Heidelberg Share

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

Exchangeable Bond Expires

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

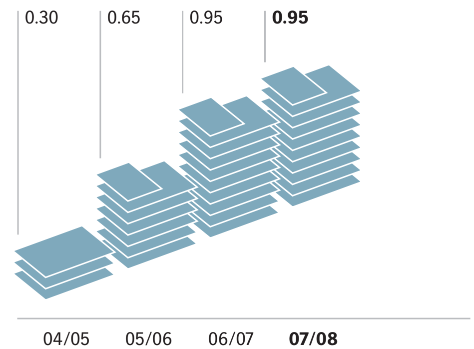
Information in Accordance with Article 315 (4) of the Commercial Code

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

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

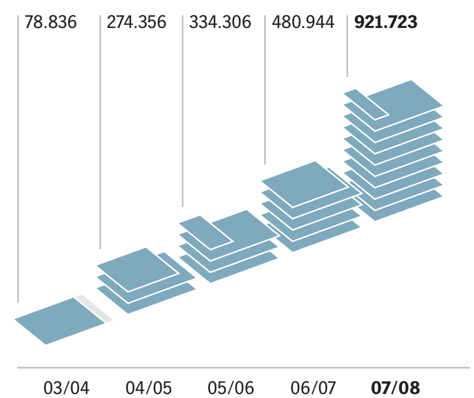
DIVIDEND

Figures in € per no-par share



AVERAGE DAILY SALES VOLUME OF THE HEIDELBERG SHARE

Figures in thousands of shares



SHAREHOLDER STRUCTURE

Figures in percent

31-Mar-2008

Free float	78
Allianz SE	12
RWE AG	10

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Heidelberger Druckmaschinen Aktiengesellschaft
Investor Relations
Kurfuersten-Anlage 52 – 60
69115 Heidelberg
Germany
eMail: investorrelations@heidelberg.com
Phone: +49-62 21-92 60 21
Fax: +49-62 21-92 51 89

The Heidelberg Group – Evolved Strengths

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

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

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

Comprehensive Supplier: Complete Sheetfed Offset Print Portfolio; Innovative Products

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

Sole Supplier of Wholly Networked and Integrated Solutions

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

Creating the Industry's Most Comprehensive Service Offerings

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

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

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

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

HEIDELBERG LOGISTICS CENTER

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

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

Heidelberg's Own Service and Sales Team – Worldwide Presence

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

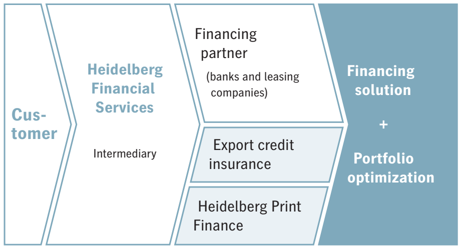
Sales Financing: Strategic Cornerstone for Success

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

Specialized Further Training at the Highest Level Worldwide

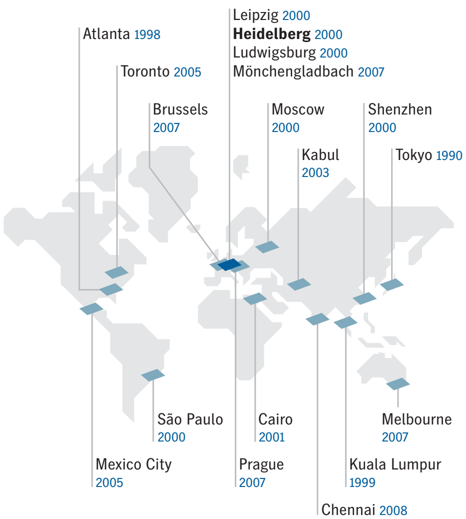
Print shops in all markets are requesting ever more complex solutions. To ensure that they are able to take full advantage of our offerings and implement especially successful business models, we offer them specialized further training through our Print Media Academy network that is unique in our industry.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

HEIDELBERG FINANCIAL SERVICES

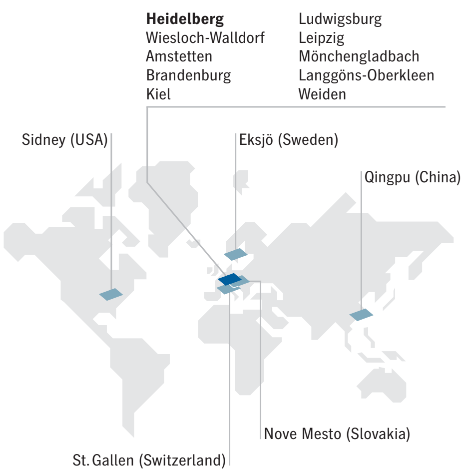


PRINT MEDIA ACADEMIES LOCATIONS

Year of inauguration



R&D AND MANUFACTURING FACILITIES



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

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

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

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

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

Successful Value Added Partnerships with Suppliers

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

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

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

Utilizing Our Employees' Process Know-How

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

HEIDELBERG – ENVIRONMENTALLY FRIENDLY PRODUCTS AND COMPREHENSIVE ADVICE FOR CUSTOMERS

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

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

2003 – Opening of the Environmental Information Center at Heidelberg

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

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

KEY ECOLOGY DATA[1)]

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

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

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

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

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

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

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

Corporate Strategy – Innovative Strength Secures Market Position

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

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

Maximum in Production and Investment Security for Our Customers

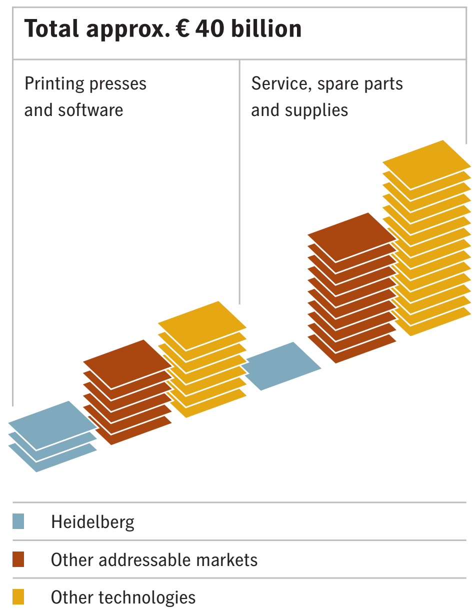
We offer our customers the highest level of both production and investment security, thereby supporting them in their business success – specifically:

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

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

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

MARKET POTENTIAL



Source: Heidelberg

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

Reducing Dependence on Cyclical Fluctuations and Improving the Cost Structures

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

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

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

Enhancing Market Opportunities for Our Customers in Every Respect

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

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

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

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

Value Management, Corporate Management and Control – Designing Processes Purposefully

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

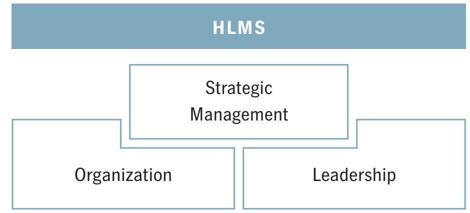
ORGANIZATIONAL STRUCTURE

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

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

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

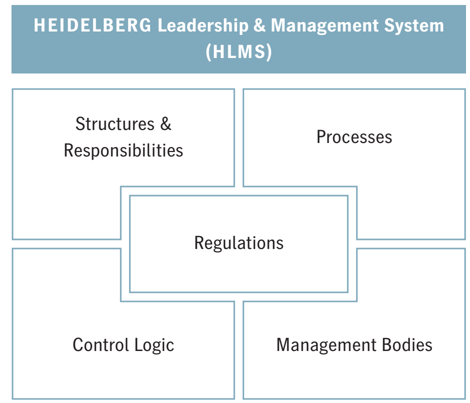
Our financial goals are an integral part of the Group's strategic planning and are thus included as target figures for corporate management, specifically: return on capital employed (ROCE), value contribution, and **free cash flow.** To identify the return on capital employed, we analyze the relationship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



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

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

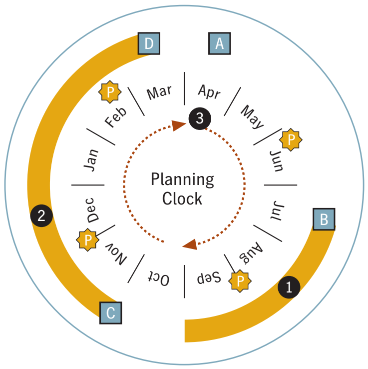
To measure and improve the quality of management, we launched the Heidelberg Leadership & Management System worldwide during the previous year. As the illustration on the right shows, HLMS applies to all levels. It establishes the framework within which Heidelberg's organization, strategy, and management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



Analysis of the Development of Major Factors

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

PLANNING CLOCK



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

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

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

Operating Goals Determined by Overall Strategy; Solidly Established Incentive Systems

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

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

Close Links among Value Management, Risk Management and Opportunity Management

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

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

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

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

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

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

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

Remuneration Report[1] – Management Board and Supervisory Board

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

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

Fixed and Variable Remuneration; Remuneration in Kind

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

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

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

Structure of Variable Remuneration Components with Long-Term Incentive Effects

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

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

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

Remuneration of the Individual Members of the Management Board

BERNHARD SCHREIER

Figures in € thousands

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

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

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

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

[4] Service cost and interest cost

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

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

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

DIRK KALIEBE

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

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

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

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

4) Service cost and interest cost

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

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

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

DR. JÜRGEN RAUTERT

Figures in € thousands

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

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

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

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

Former member of the Management Board Dr. Herbert Meyer

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

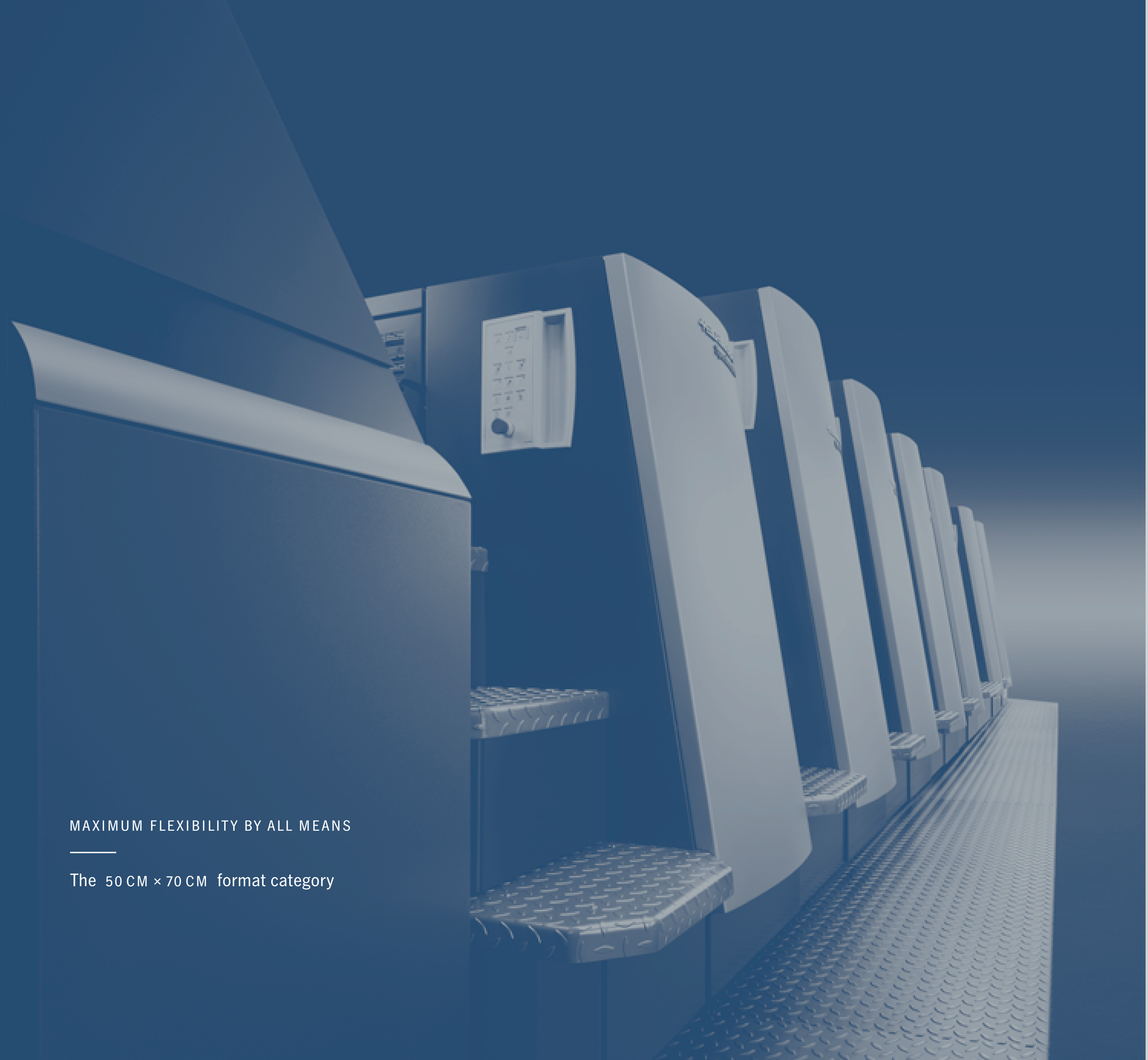
Basic Characteristics of the Supervisory Board's Remuneration

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

The remuneration of the Supervisory Board is as follows:

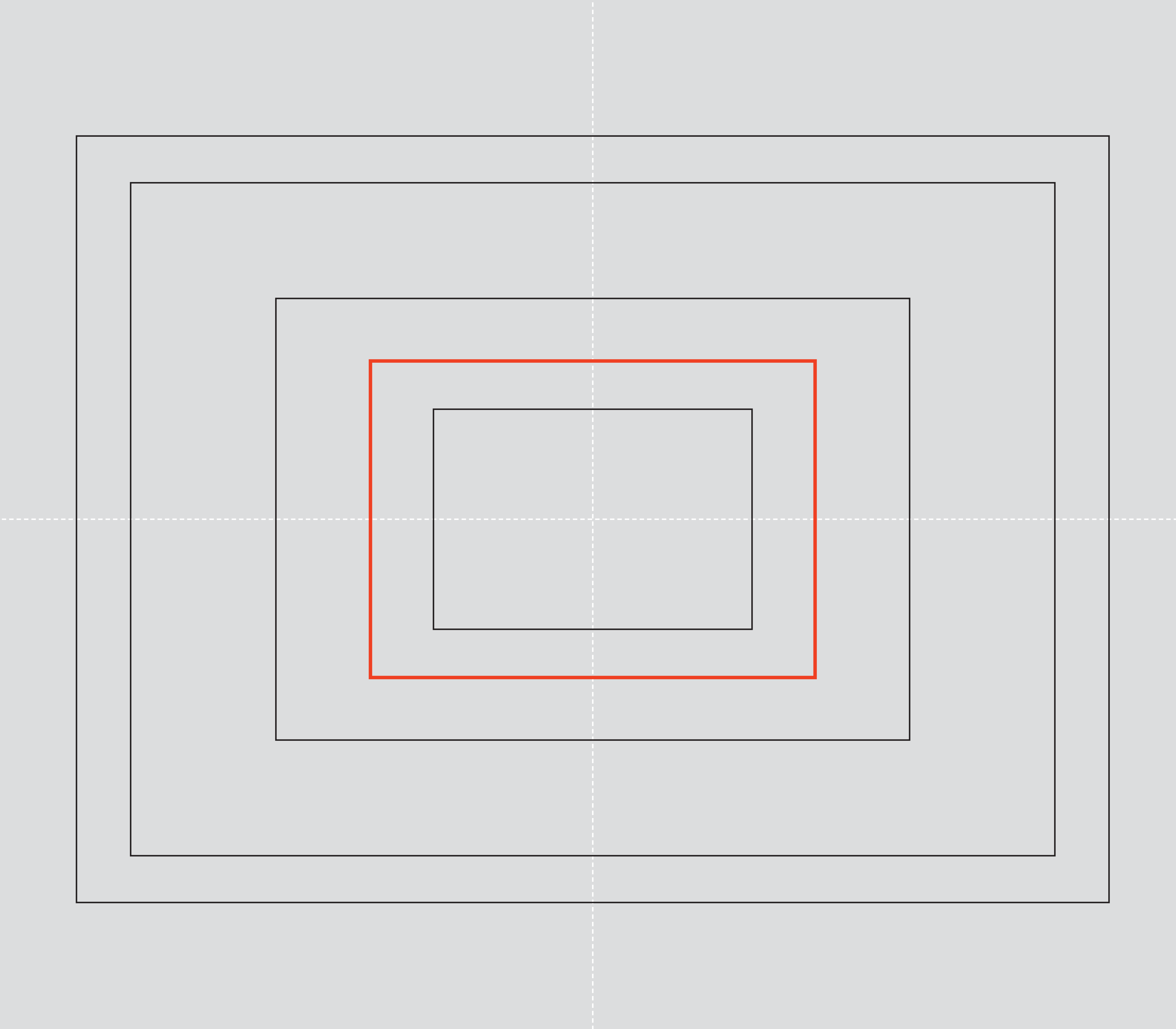
Figures in €	2006/2007			2007/2008		
	Fixed remuneration	Variable remuneration	Total	Fixed remuneration	Variable remuneration	Total
Dr. Mark Wössner [1]	38,468	15,000	53,468	38,000	15,000	53,000
Rainer Wagner [2]	31,000	11,250	42,250	30,500	11,250	41,750
Martin Blessing	24,500	9,375	33,875	23,500	9,375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

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



MAXIMUM FLEXIBILITY BY ALL MEANS

The 50 CM × 70 CM format category



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

> OVERALL VIEW OF BUSINESS DEVELOPMENTS

COMPARISON OF TARGETS VS. ACTUAL PERFORMANCE – HEIDELBERG GROUP

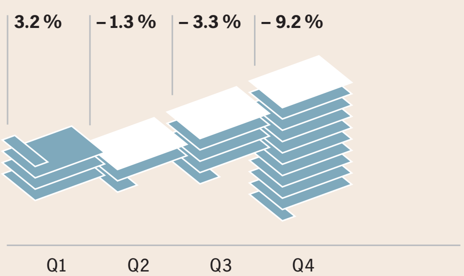
Key figures	2006/2007	Forecast	**Actual 2007/2008**
Sales	€ 3,803 million	moderate growth	€ 3,670 million
Result of operating activities	€ 302 million [1]	increased by 10 to 15 percent	€ 268 million
Net profit (in percent of sales)	3.8 percent [1]	about 5 percent	3.9 percent
Free cash flow (in percent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

[1] Adjusted for positive one-time effects

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

SALES TREND

Compared with the same quarter the previous year



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

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

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

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

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

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

ROCE and Value Contribution – Important Performance Indicators

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

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

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

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

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

ROCE AND VALUE CONTRIBUTION

Figures in € millions

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

[1] Includes the result of operating activities and income from investments

[2] Adjusted for positive one-time effects totaling € 60 million

FIVE-YEAR OVERVIEW – ROCE AND VALUE CONTRIBUTION

Figures in percent of operating assets

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

[1] Adjusted for positive one-time effects

Underlying Conditions – Overall Economy and Our Industry

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

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

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

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

Global Economy Grows Further – Despite Slowdown in the US

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

GROSS DOMESTIC PRODUCT[1)]

Change from previous year in percent

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

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

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

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

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

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

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

Highly Varied Development of the Print Industry in Our Biggest Markets

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

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

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

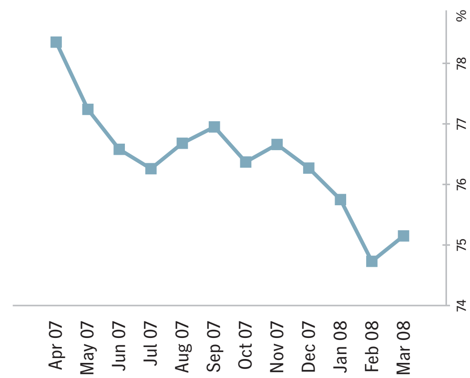
Competitive Structure of Our Industry: Exchange Rate Developments Strongly Favor Non-European Competitors

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

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

CAPACITY UTILIZATION US PRINT INDUSTRY

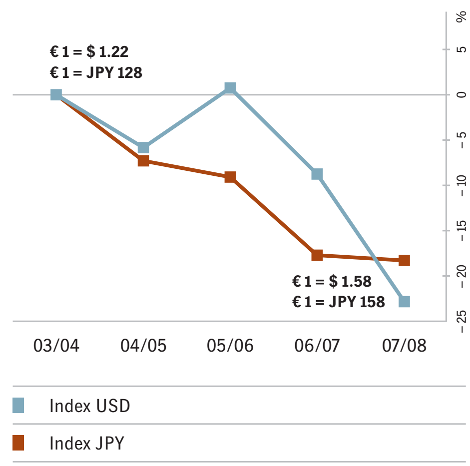
Figures in percent



Source: Federal Reserve

INCREASE IN VALUE OF THE EURO

Closing exchange rates at year-end



Source of exchange rates: Bloomberg

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

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

Business Development –
Targets Not Met in a Difficult Environment

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

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

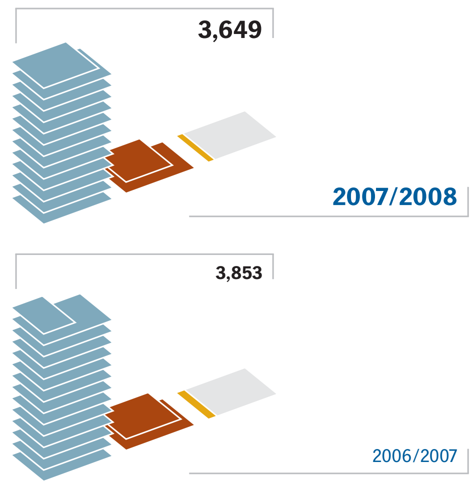
Incoming Orders: Volume of Orders Decline in the Absence of a Trade Show

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

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

INCOMING ORDERS BY DIVISION

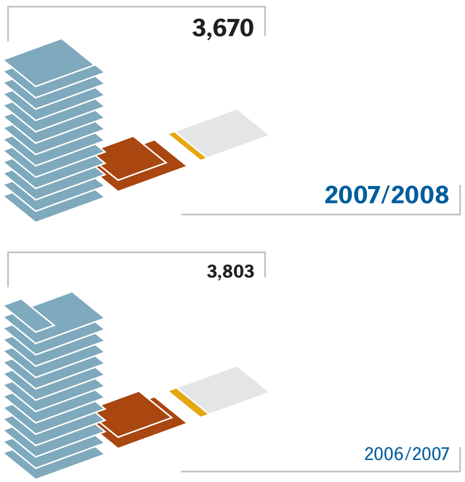
Figures in € millions



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

SALES BY DIVISION

Figures in € millions



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

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

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

Sales: Considerable Weakness in Traditionally Strong Fourth Quarter

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

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

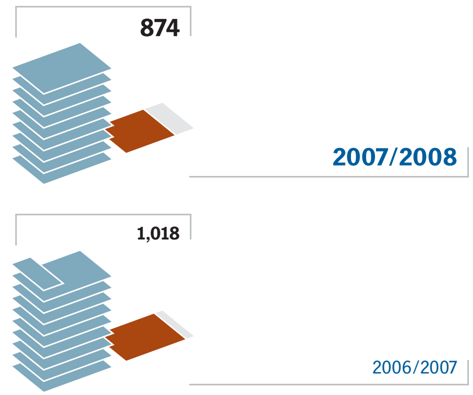
Meanwhile, our focus on emerging markets early on is now paying off. We were able to considerably increase sales primarily in the Eastern Europe region. On the other hand, despite the growth of the Chinese market, the Asia/Pacific region fell short of the previous year's figures and of our forecast –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

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

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

ORDER BACKLOG BY DIVISION

Figures in € millions



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

FIVE-YEAR OVERVIEW – BUSINESS DEVELOPMENT

Figures in € millions

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

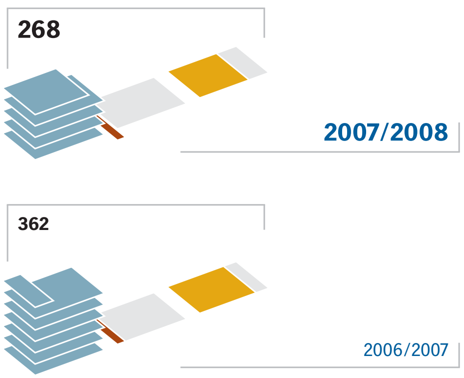
1) Continuing operations
2) Order backlog divided by average monthly sales

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

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

RESULT OF OPERATING ACTIVITIES[1]

Figures in € millions



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

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

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

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

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

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

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

INCOME STATEMENT

Figures in € millions

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

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

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

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

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

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

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

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

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

FIVE-YEAR OVERVIEW OF THE RESULTS OF OPERATIONS

Figures in € millions

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

1) Before restructuring expenses

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

Net Assets – Decline in Commitment of Funds

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

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

Assets: Investments in Packaging Printing Division

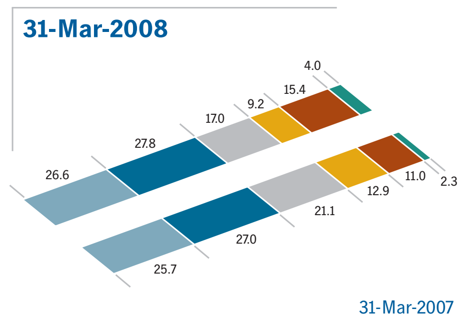
As of March 31, 2008 the total assets of the Heidelberg Group amounted to € 3,507 million, compared with € 3,339 million of the previous financial year-end. This represents growth of € 168 million over the past twelve months.

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

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

ASSETS

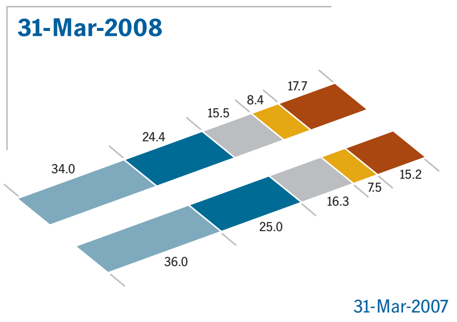
Share in total assets in percent



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

EQUITY AND LIABILITIES

Share of total assets in percent



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

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

Equity and Liabilities: Stable Capital Structure

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

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

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

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

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

WORKING CAPITAL

Figures in € millions

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

FIVE-YEAR OVERVIEW OF NET ASSETS[1)]

Figures in € millions

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

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

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

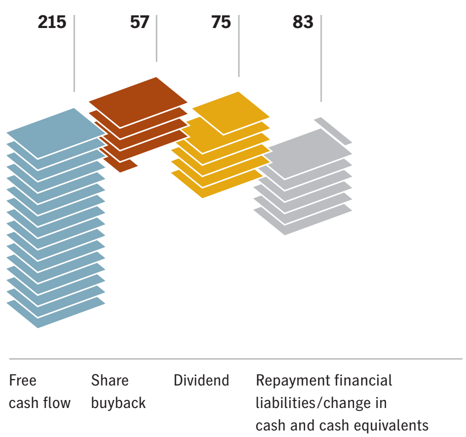
Financial Position – High Level of Free Cash Flow Once Again

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

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

UTILIZATION OF FREE CASH FLOW

Figures in € millions



Cash Flow Statement: Target for Free Cash Flow Surpassed

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

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

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

Central Financial Management: Liquidity Secured, Risks Minimized

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

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

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

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

Financing Structure: Ample Capital Resources

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

CASH FLOW STATEMENT OF THE HEIDELBERG GROUP

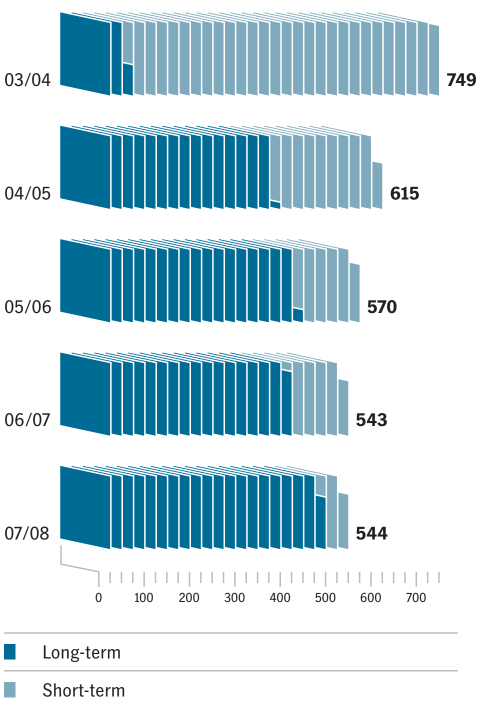
Figures in € millions

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

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

DEVELOPMENT FINANCIAL LIABILITIES

Figures in € millions



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

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

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

FIVE-YEAR OVERVIEW – FINANCIAL POSITION[1)]

Figures in € millions

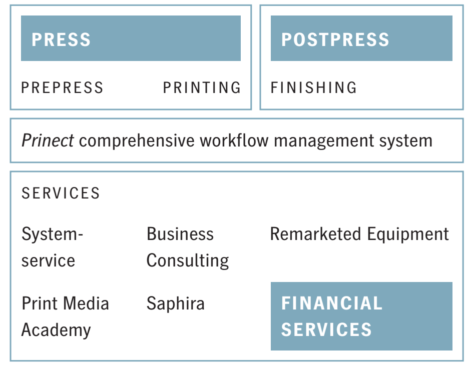
	2003/2004	2004/2005	2005/2006	2006/2007	**2007/2008**
Cash flow	– 121	232	345	325[2)]	290
Free cash flow	114	152	149	229	215
– in percent of sales	3.0	4.5	4.2	6.0	5.9

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

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

Divisions – Press, Postpress, and Financial Services

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



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

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

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

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

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

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

PRESS

Figures in € millions

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

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

HIGHLIGHTS

THE NEW SPEEDMASTER XL 162

New dimensions for big challenges

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

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

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

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

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

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

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

Postpress: Preparatory Work for Packaging Printing Burdens Result

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

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

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

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

POSTPRESS

Figures in € millions

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

HIGHLIGHTS

EUROBIND 1300 PUR LINE

Professional perfect binding for high-quality products

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

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

FINANCIAL SERVICES

Figures in € millions

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

Financial Services: Key Part of Our Services

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

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

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

Regions – Global Presence

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

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

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

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

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

EUROPE, MIDDLE EAST AND AFRICA

Figures in € millions

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

[1] Excluding trainees

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

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

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

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

EASTERN EUROPE

Figures in € millions

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

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

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

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

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

North America: Marked Declines in Incoming Orders and Sales

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

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

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

NORTH AMERICA

Figures in € millions

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

[1] Excluding trainees

LATIN AMERICA

Figures in € millions

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

ASIA/PACIFIC

Figures in € millions

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

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

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

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

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

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

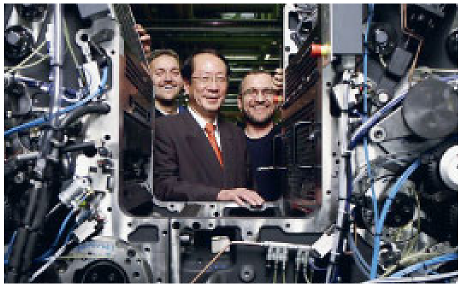
Overall business in this region was so-so for us. The economies continued to post strong growth – in particular China and India – which further boosted the need for printed materials. Demand for our products in China gained momentum following clarification of the customs issue. We successfully introduced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

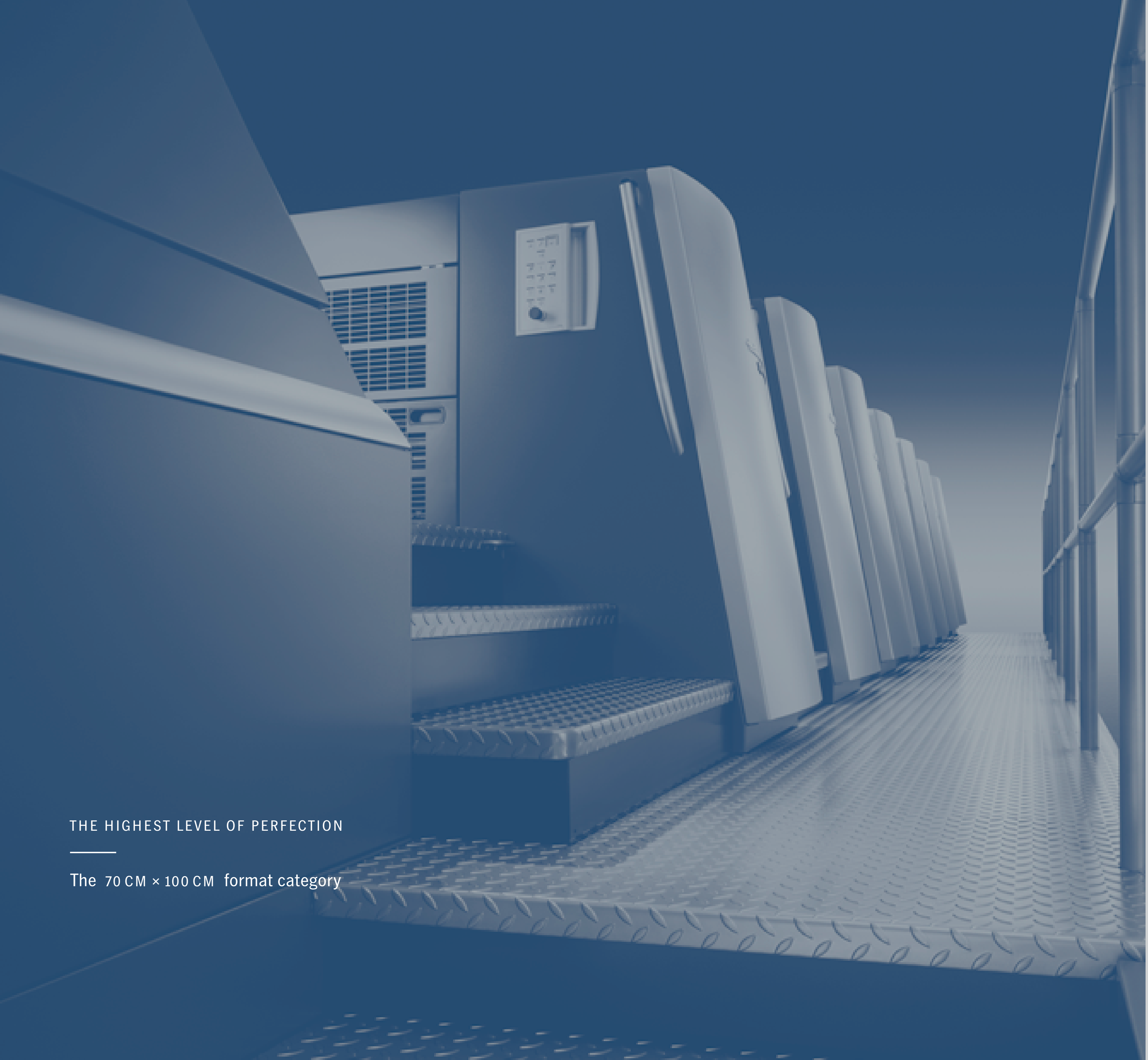
Incoming orders in the region declined by 4 percent overall – after adjusting for foreign currency changes, slightly above the previous year's figure. On the other hand, sales fell by 8 percent to € 845 million, as the considerable growth in China was unable to compensate for the declining sales volume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

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

We are strongly committed in this region. For example, we opened a new office in Chengdu, China. Our newly established Hong Kong Logistics Center, which we officially opened in April 2008, began operations back in November 2007. This facility, together with the Japan Logistics Center, now guarantees an even further improved supply of spare parts for our customers in this region.

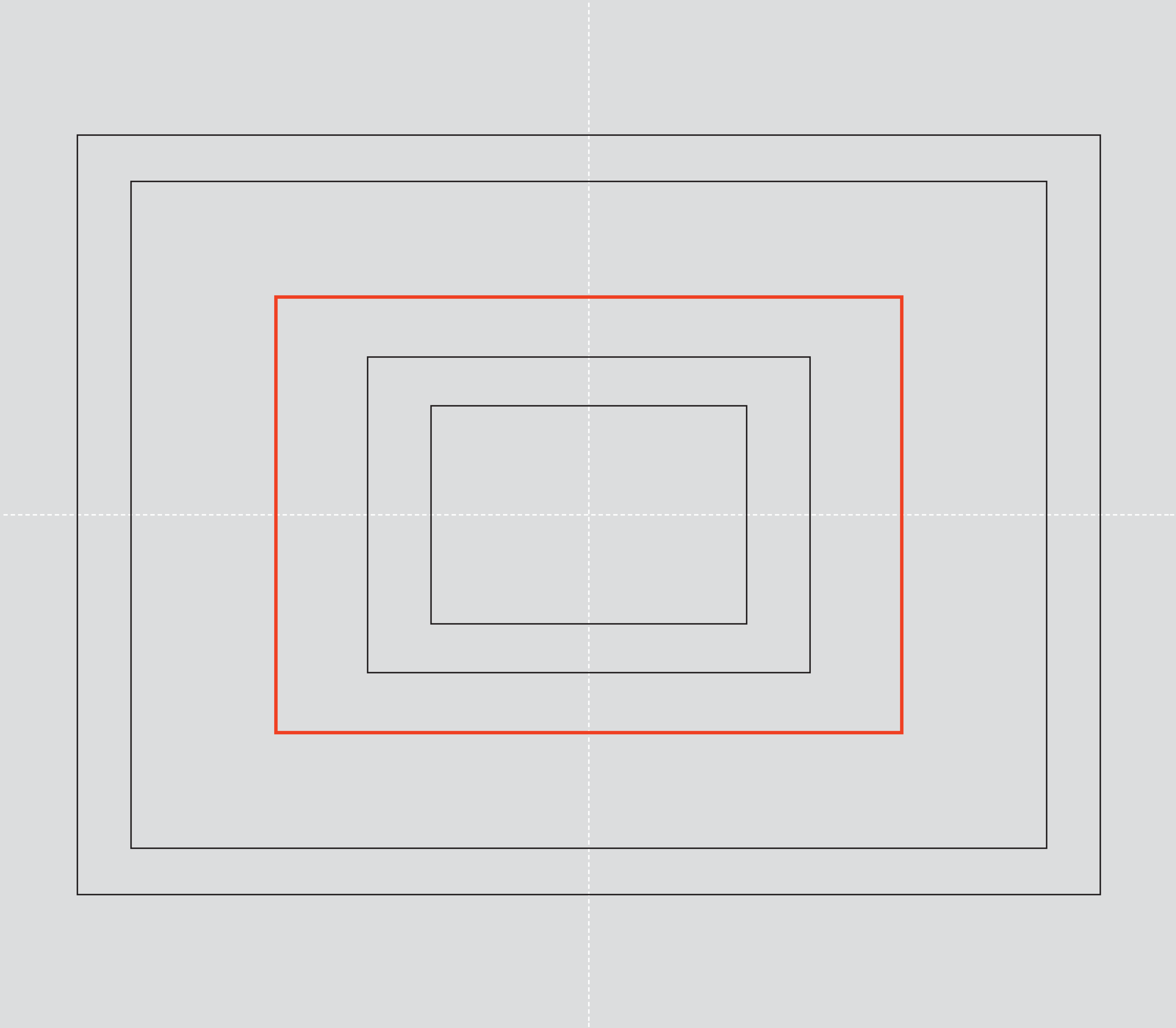
Kohei Yamamoto, the head of Heidelberg Japan, celebrated the 80th anniversary of the Japanese sales and service company at the same time the IGAS trade show was held.





THE HIGHEST LEVEL OF PERFECTION

The 70 CM × 100 CM format category




Heidelberg News
Heidelberg Nachrichten
Ausgabe 263 · 2007
Heidelberg News
Issue 263 · 2007
Heidelberg News
Numéro 263

>> As a printer, I find that Heidelberg's customer magazine has deserved the prizes it has been awarded. It's informative, practice-oriented, helpful – and is a good read to boot! One can really forget the time ... As a professional, I always admire the wonderful printing and finishing quality as well. All the more, once I happened to glance at the imprint and saw how large the circulation is: a full 130,000 copies of each issue. I find this to be the best possible advertising for Heidelberg.<<

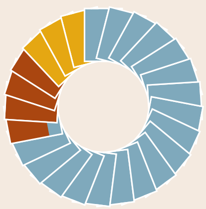

Heidelberg News • Innovations
SPEEDMASTER XL 145 AND XL 162, PART II
SUPER SIZE,
SUPER PERFORMANCE
Innovations
News
HEIDELBERG

> OUR CUSTOMERS' SITUATION: CRUCIAL FOR THE PRODUCT PORTFOLIO

What challenges do our customers face? The response to this question can determine, among other things, whether our strategy, which we describe in detail on pages 35 to 37, is workable; whether we set appropriate priorities in our research and development work; and whether customers get significant advantages from our integrated solutions and comprehensive offerings in services and consumables.

SIZE OF PRINT SHOPS WORLDWIDE

Share in percent



Up to 20 employees	73
From 21 to 50 employees	15
More than 50 employees	12

Market Conditions and Distinctive Features of Various Customer Segments

The market for printed products is subject to **vigorous competition.** Print shops must satisfy the precise needs of their customers if they want to enhance their loyalty. They must ensure consistently high quality for their print products and guarantee absolute on-time delivery while reacting flexibly to customers' requests – and simultaneously producing at low cost. In the industrial countries as well as the emerging markets, personnel can be a critical production factor for print shops. Highly qualified employees are (still) rare in some markets. Skilled workers are in short supply in the industrialized countries, and staff costs are a significant part of the cost structure of print shops.

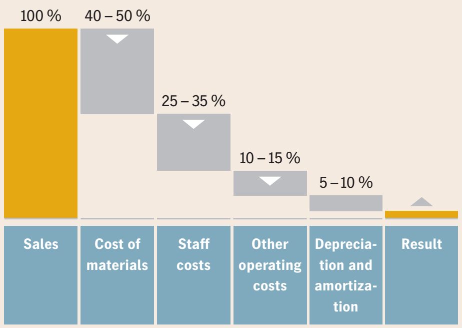
Stated simply, our target group, **sheetfed offset print shops** worldwide, can be subdivided into three groups. Around the globe, the print industry is characterized primarily by smaller companies. Nearly three-quarters of all print shops worldwide have fewer than 20 employees.

Print shops in this order of magnitude, **medium-sized commercial print shops,** also form the largest part of our customer base. Financing is difficult for these firms in many markets – particularly in emerging markets. Overall, the regional differences characterizing smaller print shops are considerable. The final customers in industrialized countries are increasingly placing standard orders for such things as flyers and booklets to nationwide print shops. It is therefore essential for small commercial print shops, who traditionally acquire customers in their local region, to be able to offer a wide range of products and stand out in the market with attractive special effects and niche products. Because they undertake numerous short print runs – and have comparatively high staff costs – set-up times for printing presses is a crucial issue for them. Smaller commercial printing establishments in the emerging markets, where demand for printed products is still growing, request reliable, standard printing presses with which they can offer top quality in order to grow with the market. Automation and personalized constellations for printing units hardly play a role for them.

Larger print shops, or **industrial commercial printers,** also acquire customers nationwide and sometimes have branches in several countries. They also turn out a wide range of printed products, although in general with larger print runs, and can usually provide 'just the right printing press for every application'. Important questions for these firms are: How efficiently and appropriately are the individual printing presses being used for each print run? How much profit is generated by each print run? The better the data and production workflow are organized, the more likely the answers to these questions will be favorable. That is, the more suitably orders are distributed among various printing presses, the shorter the set-up times for the respective printing presses, the higher their productivity, and the fewer the bottlenecks at the prepress, printing, or finishing stage of production.

There are also enormous differences with regard to the size and strategic alignment of pure **packaging print shops.** What they all have in common is cost of materials that hold an even higher share of the overall production cost. It is therefore even more important for them than for the other print shops to limit spoilage to the greatest possible extent. Packaging printers face tough international competition. Mass packaging customers are large international companies with considerable market power. Therefore, each improvement in quality, each optimization of processes, and each reduction in cost pays off for them.

AVERAGE COST STRUCTURE – PRINT INDUSTRY[1)]



1) Information concerning the cost structure according to the Bundesverband Druck und Medien, 2006; Heidelberg's own database

Challenges Faced by Customers Determine our Overall Offerings and R&D Priorities

We develop applications for our customers that enable them to rise above their competitors and thereby improve their sales. The necessity for all our customers to reduce the cost of materials, staff costs and other operating costs in order to improve their profit margins is a considerable challenge. Our customer's cost structure is therefore an important focus for our developments.

One priority of our development activity is thus to reduce spoilage to the greatest possible extent, which also includes quickly getting a printing press to a stage at which it can 'show its true colors' from the first to the last sheet of a print run. A second priority is to considerably reduce set-up times and simplify the operation of the printing presses. By controlling the printing presses with Prinect, we have succeeded in considerably reducing both our customers' material and staff costs. In addition, we differentiate our offerings so as to cover precisely the special requirements of each target group, thereby providing our customers with the highest possible production and investment security. This includes the development of printing presses and software, the entire range of consumables, and customized services.

Organization and Principles of the Development of Products and Services

We work closely together with our customers. Their feedback is incorporated into our projects from the very beginning in order to avoid undesirable developments. More information on this topic is presented in the Risk and Opportunity Report. We shortened the time required to market introduction by structuring our research and development into format categories within a matrix organization. Functions that apply to all lines are included, such as control, design, and product safety. We develop scalable and modular products in all formats. Whenever possible, we immediately transfer innovations developed for one format category to other categories as well. We are currently extending the principle of reapplying identical solutions to all components that are used. In developing the new format category, we were able to fall back on existing solutions for approximately a third of components. We are currently expanding this principle to apply to all components that are used. This process of standardization has wide-ranging positive advantages because it simplifies procedures from purchasing all the way to service.

Research and Development – Creating Value Added for Customers

> **Technological Leadership Asserted**
> **Launch of One-Button Service in Three Format Categories**
> **Prinect's Key Stand-Alone Feature: New Applications**

We secure our leading position as the industry's leader in quality and technology by continually investing in research and development. As the overview in the illustration on the right shows, investments in the development of our complex mechatronic systems, in software development, and in the series maintenance of our product portfolio during the financial year were below the prior year's figures. On the previous pages, we describe how we apply these measures as expediently as possible and what priorities we set for development activity.

New Products Exhibited (Not Only) at drupa 2008: Just the Right Product for Each Target Group

At drupa 2008, we will be introducing new products that we developed in line with our medium- and long-term development roadmap. For example, during the financial year, we completely replaced the control platform of all sheetfed offset printing presses with Sheetfed Control, which is in every respect technologically state-of-the-art. The total costs of Heidelberg's own development of Sheetfed Control were considerably less than the cost of acquisition of a comparable solution. This underscores the considerable expertise of our staff in the development and production areas. Sheetfed Control makes it possible to use the most modern analytical tools. It offers a highly automatic one-button function, which we are simultaneously launching in the market for the Speedmaster models XL 75, XL 105, XL 145, and XL 162. We presented the one-button maintenance eCall, a new component of our remote services, for the first time in the autumn of the financial year at the Graph Expo trade show in Chicago, where it became one of the 'must-see' products at the show. Thanks to this Internet-based service platform, we can largely prevent printing press downtimes and failures. At the same time, service and maintenance becomes considerably less expensive for both the customer and for us.

KEY FIGURES – RESEARCH AND DEVELOPMENT

	06/07	07/08
Research and development costs (in € millions)	237	222
R & D employees	1,577	1,582

We are only able to present a rough outline of the innovations that have been developed and presented within the framework of this report. A complete presentation of all products, with examples of applications and the competitive advantages they offer, is available on the Internet at www.heidelberg.com.

Trends show that the average print run will further decrease, especially at **smaller commercial printers,** whereas the number of orders will rise. Our customers must therefore be able to cut costs and offer new opportunities in order to differentiate themselves from the competition, thereby enjoying long-term success and generating adequate earnings. We therefore now offer greater variability, beginning back at the prepress stage. We developed additional throughput and upgrade options for our worldwide successful Suprasetter family, and platesetters can now be applied even more flexibly. Moreover, we increased the maximum plate throughput to 40 plates per hour.

With its enhanced productivity, the Speedmaster XL 105 with perfecting device is extremely attractive for **industrial commercial printers.** Moreover, we further developed our high-performance, medium format class Speedmaster CD 74 model into the Speedmaster XL 75 model, which can print up to 18,000 sheets per hour and has an automatic plate changer to reduce set-up times and further increase productivity. In addition, all XL model printers now support automatic job changes through one-button service, thereby operating without fuss, at low cost, and completely reliably. This is feasible because Prinect makes it possible to utilize the data from the prepress stage and because we integrate measuring instruments within the workflow, which can immediately recognize minimal color deviations as well as changes in color density and thereby make fully automatic corrections.

This sophisticated system, with which print shops can realize absolute color fidelity on a cost-effective basis, is also enormously important for **packaging print shops,** because they must ensure that all the batches produced for their customers look absolutely identical. Therefore, our newly developed printing press generation with the Speedmaster XL 145 and XL 162 models also offers integrated color management in an even larger format. Only Heidelberg is in a position to offer this. Our new, biggest format, utilized for large format printing in conjunction with the Suprasetter, impresses users with its high level of productivity. Of course, by using larger sheets, packaging printers are already able to reduce their cost of materials. Since all components are digitally networked with Prinect, they can also utilize every potential for optimization through the use of CAD software.

Highly Qualified Employees: 158 New Patents Registered

For good reason, our stand-alone feature Prinect has high priority in research and development. Nearly 400 R&D employees were active in the software area during the financial year. A total of 1,582 employees are active in research and development, as in the past accounting for approximately 8 percent of the overall staff. Their work priorities are spread evenly over mechanical and electrical engineering, the software area, and supporting activities.

Over half of the R&D employees have a university degree. To ensure that our employees always remain up to date, we offer them diverse specialized training opportunities. We invite professors to present lecture series, with a preference for universities with which we work together within the framework of research and development partnerships. We organize in-house training programs on special topics, such as the application of CAD systems. Specialized and advanced training programs are offered externally.

As clear evidence of our employees' performance, we registered a total of 153 new patents in the prior year and 158 during the reporting year. Overall, as of March 31, 2008 Heidelberg held over 5,400 registered and granted patents throughout the world.

R&D Partnerships with Institutions and Suppliers

The number of our patents reflects only part of the knowledge and experience to which Heidelberg has access. We work together very closely on a long-term basis with our systems partners, including these suppliers in the development processes at an early stage. Based on economic viability analyses, in some cases we acquire expertise from outside suppliers, make investments in attractive companies, or we conclude other R&D partnerships. For competitive reasons, we protect our partners and generally do not disclose information concerning joint projects. Partnerships with universities and institutes augment our internal basic research, in which we invest approximately 5 percent of our R&D expenses.

Beginning in the reporting year, we have set increasingly greater priority on basic research in electronic printing. We are working intensively in this area, not only with the Darmstadt University of Technology and the Institute for Printing Technology, but with the Heidelberg University and partners in industry as well. Functional layers could play an important role, especially in packaging printing – for example, packages could independently signal the expiration date of a packaged commodity or whether the cold chain was interrupted.

Employees – Highly Qualified and Motivated

> **High Degree of Flexibility Certain Based on the Second Agreement to Safeguard the Future**
> **New Master Collective Bargaining Agreement (ERA) Introduced**
> **Focus on Future Requirements**

EMPLOYEES BY DIVISION

Number of employees

	31-Mar-2007	31-Mar-2008
Press	17,100	17,468
Postpress	1,988	2,050
Financial Services	83	78
Heidelberg Group	19,171	19,596

EMPLOYEES BY REGION

Number of employees

	31-Mar-2007	31-Mar-2008
Europe, Middle East and Africa	14,016	14,324
Eastern Europe	697	779
North America	1,374	1,341
Latin America	402	408
Asia/Pacific	2,031	2,087
Apprentices	651	657
Heidelberg Group	19,171	19,596
of which: in Germany	13,065	13,353

Our committed, highly qualified, and highly motivated employees are the most important prerequisites for the successful implementation of our strategy and our providing customers with the quality they expect from Heidelberg. Since we systematically address the issue of employee development worldwide, we believe we rest on a solid foundation for the future. We have taken strategic measures to deal with both the expected shortage of specialists in Germany as well as the drawbacks that could arise from an average older age of employees. We have limited the danger of an excessive increase in staff costs by means of the Second Agreement to Safeguard the Future.

Rise in the Number of Employees Primarily in Production, Sales and Services

During the financial year, we supplemented the Agreement on Safeguarding the Future, which we had signed with the Works Council in 2005, with a successor agreement, **Safeguarding the Future II.** During the financial year, we also made full use of the potential to extend working hours by 7 percent without an increase in wages, as provided for in the agreement. The flexibility ensured by our time offset account also contributed to greater capacity utilization. In addition, we launched the new Master Collective Bargaining Agreement (ERA) at our German plants on January 1, 2008, thereby replacing obsolete wage and salary structures with a uniform and modern system of compensation. We expanded our employees' pension plan by means of an extended pension plan based on a building-block system. Because we included our sales and service company in Turkey in the scope of the consolidation at the end of the financial year, the number of employees of the Eastern Europe region increased by 77. We also hired production employees in order to cope with our demanding production program for new printing presses. We dealt with capacity utilization peaks in production and production-related areas primarily through temporary hirings from agencies as well as on a direct basis.

Improved Management Quality Worldwide, High Standards for Dealing with Employees

On page 39, we describe the characteristics of the Heidelberg Leadership & Management Systems (HLMS), with which we intend to improve the quality of the management throughout the Group. Together with various guiding principles and regulations that apply to how employees are dealt with worldwide, it contributes to adhering to high levels of security as well as environmental and social standards. For good reason, among other things the number of accidents was reduced over the previous year at our main production plant at Wiesloch-Walldorf. Furthermore, our anti-discrimination guidelines and the Heidelberg Code of Conduct are applicable throughout the Group. We describe on page 33 how we monitor the observance of these standards among our suppliers as well. We provide for binding and systematic employee development at all consolidated plants worldwide. This includes the establishment of goals at an annual job performance review, at which the specialized training requirement for the employee is ascertained in order to attain these goals to the best of the employee's ability.

Attractive Employer for Various Age Groups; High Standards Worldwide

During the financial year, the business journal 'manager magazin' conducted a survey among 2,501 representatively selected German management board members, general managers, and executive staff on the image of major Germany companies. Of the 152 companies in ten sectors of the economy, Heidelberg placed 24th and is thereby one of the three most highly-regarded companies in the industrial goods sector. We have developed a program that hones the Heidelberg employer brand name for our human resource marketing efforts and personnel development activities in order to have an advantage in the competition for capable junior executive employees. We intend to position ourselves to a greater extent among our target groups as an employer who:

> provides interesting prospects for promotion at a corporation that maintains a worldwide presence;
> supports teamwork, a collaborative working environment, and the compatibility of family and profession with flexible working conditions; excluding partially retired employees, the share of our employees working part-time in Germany rose to 3.9 percent during the financial year, with the portion of employees telecommuting on an alternating basis up to 0.5 percent; and
> ensures overall favorable employee morale; the low staff fluctuation rate of 2.3 percent at Heidelberger Druckmaschinen Aktiengesellschaft is a good indicator that our employees are satisfied with Heidelberg as an employer and identify with the Company's goals.

We spotlight the **main points of our actions for employees** in the section 'Financial Year in Review', which is presented on pages 122 to 123. Details on the development of employees at individual sites and projects are presented in the Sustainability Report, which can be ordered or downloaded on the Internet.

As we describe on page 101, we are engaged in various educational projects. In addition to Heidelberg's good image, this also contributes to the undiminished high demand for trainee positions with long-term prospects with our instructors. A total of 3,100 applications were received in Germany for the beginning of the training period in September 2007, from whom we selected 133 apprentices and vocational college students. As in recent years, the training quota at Heidelberger Druckmaschinen Aktiengesellschaft at the beginning of the training period was thereby 6 percent. We are pleased that the dropout rate at Heidelberg is less than 1 percent, compared with an average of more than 25 percent in Germany as a whole.

Maintaining Quality Standards through Specialized Training; Training Junior Executive Employees

The attribute 'quality' is a symbolic advertisement for our products and services. Our task is to guarantee that it is ensured for all our solutions. For example, our bringing Chinese specialists to Wiesloch-Walldorf for several months of intensive training in assembly during the buildup phase of our Qingpu plant is now paying off for us. They are now training our Chinese employees in optimizing assembly procedures and observing all guidelines and quality requirements.

Our service and sales team has access to a comprehensive training program via our Intranet at all times. Our employees also make intensive use of our expert forum in order to exchange ideas with a technical orientation. Right in time for drupa, we have trained our team worldwide to advise and support customers in new solutions according to need and on an individual basis.

Three global and five regional management development programs with a total of over 200 participants are designed to raise individuals with potential to the level of management expertise on a world class level. Our Graduate Development Program for training junior executive employees has received numerous awards.

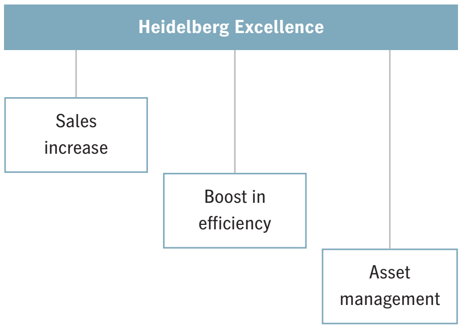
We increased expenses for specialized training by a total of 16 percent during the financial year. We place high priority on in-house training programs, offer varied eLearning modules for each area, and organize various lecture series, but this expense nevertheless only reflects some of the measures we undertook.

Idea Management: Highest Premium Disbursed So Far

The further development of our suggestion program into idea management two years ago has borne fruit. Among other things, we shortened the time required between the presentation of a proposal and the implementation of potential improvements. During the financial year, a total of 5,772 suggestions for improvements were submitted. The savings realized of € 3.5 million considerably surpassed the previous year's figures of € 2.9 million and € 2.7 million. We furthermore disbursed the highest individual premium so far during the financial year. A suggestion from an employee at the Wiesloch-Walldorf assembly unit made it possible for us to considerably streamline the process of precisely adjusting printing presses.

Projects and Investments – Strengthening Market Leadership

> **Focus: 'Heidelberg Excellence' Program**
> **Major Investments in the Run-Up to the drupa Trade Show**
> **Most Important Goal: Improving the Cost Structure**



Our investments and projects during the financial year can be roughly organized into four priorities. We placed by far the biggest priority on further promoting the 'Heidelberg Excellence' program, which comprises various individual projects. The second priority was on preparation for the drupa trade show in such diverse areas as development, marketing, and personnel development. We additionally strengthened the Heidelberg brand and pursued social projects. In the section 'Net Assets' on page 69, we describe our general investment policy and the scope of the investments during the financial year.

'Heidelberg Excellence': Boosting Sales and Efficiency; Asset Management

We launched the Heidelberg Excellence program last year. As the illustration on the left shows, this program is based on three pillars. We intend to generate additional sales by offering new products and expanding our business in services, spare parts, and supplies. We will continue and intensify our measures for boosting efficiency and reducing expenses. Through asset management, for one, we will further reduce tied assets, and for another, reduce working capital – as a percentage of sales – in the medium term down to as low as 30 percent.

In Hall 11, large format printing presses are assembled and packaging printing solutions are presented.

We therefore established the prerequisites during the financial year for promptly satisfying demand for our solutions. After 14 months of construction, **Hall 11** was completed at the Wiesloch-Walldorf site. Its size is 35,000 sq m, which corresponds to the approximate size of five soccer fields. With the total investment volume at approximately € 45 million, this is the most important investment in a manufacturing facility at the site in ten years. This hall, with its state-of-the-art logistics, will house the assembly of the new generation of large format

Speedmaster XL 145 and XL 162 printing presses. Fitting in well with the hall is the new Visitor's Center for packaging printers, which is proving to be quite a popular attraction. Already during the Center's first few months of operation, numerous customers informed themselves in detail about our packaging solutions.

In order to reduce our cost of manufacturing, we focus primarily on increasing efficiency and streamlining the production and assembly processes, to which our **Heidelberg Production System (HPS)** makes a decisive contribution. With this integrated approach, we are continually on the lookout for optimization potential at all levels and in all orders of magnitude – ranging from the ergonomic design of jobs, and reductions in inventories with the aid of optimized parts flows all the way to the reorganization of assembly based on an optimized production alignment. This approach includes the use, among other things, of benchmarks of especially successful companies, and we maintain intensive dialogs with other engineering companies that also make use of a comprehensive manufacturing system. Our investments during the financial year in the Group-wide implementation of HPS amounted to approximately € 4 million. This compares with savings during the same period of some € 11 million. We intend to reduce our costs by approximately 5 percent annually with the help of this system.

We will considerably improve the effectiveness of our Amstetten foundry over the next few years through modernization and optimization measures, and realize cost advantages as a result of the modernization.

We will enjoy the full benefit of the **cost reduction potential** beyond production alone. In the area of procurement, we are increasingly seeking out suppliers outside the euro zone, among other things in order to better secure the Group from the impact of future foreign currency rate fluctuations. For example, we are increasing the local share of our purchases for our Chinese assembly plant, and are investigating which of these suppliers would also be appropriate for the Wiesloch-Walldorf plant. In research and development, during the financial year we undertook a number of analyses with the goal of further improving the quality of our work, shortening the length of time required to bring a product to market, and reducing general costs. We used engineering and electronics companies as well as the automotive industry for benchmarks, as a result of which we determined that we can learn primarily from automotive manufacturers concerning the standardization of the components we use. We have already undertaken some improvement measures and are implementing a number of projects in the current financial year.

FSC = FOREST STEWARDSHIP COUNCIL

Heidelberg is the first printing press manufacturer to receive the FSC certificate, which is awarded in recognition of support for responsible forestry. Most of our demonstration printing jobs are undertaken on FSC-certified paper.

Marketing: Biggest Exhibitor at drupa with Approximately 8,000 sq m of Exhibition Space

At the time this annual report is being published, drupa, the world's largest trade show for printing and paper, will be in high gear. Every four years, this event provides us with the opportunity of highlighting what is special about our solutions. Some 400,000 visitors, 50 percent of which are from abroad and stay on average three days, can compare our offerings with those of our competitors. With space of approximately 8,000 sq m in Halls 1 and 2, we are the biggest individual exhibitor at this trade show. We demonstrate to visitors the advantages of our innovations – their concrete economic benefits – on a practice-oriented and informative basis. To help visitors orient themselves, we are designing the space so that each customer segment can immediately find the solutions appropriate for that segment. Packaging printing will be in the limelight, with approximately 40 percent of Heidelberg's overall exhibition space dedicated to this area. Also new is our clear emphasis on the significance of our services as well as the environmentally friendly nature of our manufacturing processes. To be consistent, we obtained FSC certification for our presence in the exhibition hall; and incidentally, this annual report has been printed on FSC paper.

Brand Name Study: New Image Campaign and New Corporate Design in Time for drupa

Our latest brand name study shows that nearly 100 percent of our target group worldwide recognizes the Heidelberg brand name and logo, and that Heidelberg is perceived as the leader by far in quality and technology among equipment suppliers to the print media industry. We see potential for improvement in the perception of Heidelberg's service-related qualities. Comprehensive services are becoming increasingly important for our customers. Our new image campaign therefore takes the values associated with Heidelberg's central brand name – quality, performance, and innovation – as its theme and uses the emotionalizing color red in addition to silver. As a result of the study, we launched our new corporate design just in time for drupa. Because the Heidelberg brand name is seen by our target group as an important criterion for a purchase decision, we placed considerable visual emphasis on the Heidelberg logo. We simultaneously reduced the emphasis of Prinect, Systemservice, Saphira and other individual product names, placing them below the Heidelberg umbrella brand name.

Social Projects, Environmental Projects and Sponsoring

The wide variety of social projects we are engaged in range from local and short-term projects all the way to long-term commitments and sponsoring. One of our priorities is on educational facilities. For example, we have equipped universities with comprehensive printing installations and also work with numerous institutions internationally. We are helping the print media industry meet the challenges of the future to the best of its ability by expanding and aiding in the transfer of knowledge.

For quite some time now, we have been systematically cooperating with schools and developing special programs to raise the professional capabilities and proficiency levels of students, thereby ensuring our continued access to capable job applicants in the future. Especially in view of demographic developments and the concern about a shortage of skilled workers in Germany, we have been supporting the KiTec project since the previous year. The pedagogic approach for this project originated at 'Wissensfabrik – Unternehmen für Deutschland e.V.' The goal of this collection of 60 leading German companies is to make Germany more future-oriented as a base for business operations – among others, by playfully using appropriate materials, encouraging children's enthusiasm about the natural sciences and technology already at the elementary school level.

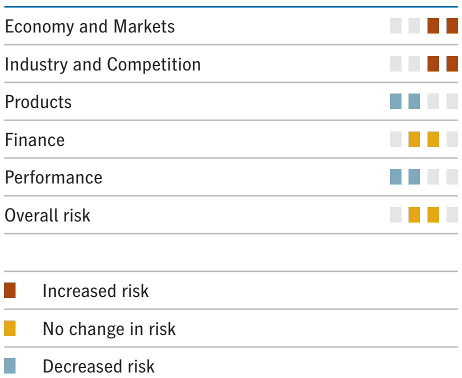
We intend to ensure that ecological aspects are taken even more extensively into account in the process of manufacturing new printing presses. Therefore, in 2007, together with the Darmstadt University of Technology, we developed an Intranet-based environmental portal that was conceived as a tool for developers. It systematically prepares all the appropriate environmental requirements and additionally offers the ability to accumulate individual experiences, thereby providing developers with the ability to call up 'best practice' examples in the medium term.

Risk and Opportunity Report – Keeping an Eye on All Aspects

> **Countering Price and Rate Risks Based on Innovations with Measurable Customer Benefits**
> **Economic Uncertainty and Financial Market Crisis Entail Risks**
> **Long-Term Hedging of Exchange Rate Risks**

DEVELOPMENT OF RISK GROUPS

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



We describe our risk management system in the section 'Value Management, Corporate Management and Control' on pages 41 to 42, describing how we recognize and cope with risks and determine appropriate countermeasures. We also describe how we record and assess opportunities. We report on our risk management in connection with financial instruments in the section 'Financial Position' on page 73, where we also supply details on how we handle interest rate, foreign currency, and liquidity risks.

General Statement on Overall Risk and Opportunities: Change in Priorities

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

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

On this basis, the Heidelberg Group's overall risk situation has remained at the previous year's level. Several of the risks that we had described in the previous year's report have occurred and are therefore being fully taken into account in our planning process. However, other risks have worsened. For example, the exchange rate situation has developed to the disadvantage of European suppliers to a much greater degree than had been feared by Heidelberg and in general. As we had projected, this has had a considerable impact on competitive conditions in the sheetfed offset area. In the finishing area for packaging solutions, our principal competitor, Bobst, could thereby pursue even more aggressively its strategy of defending its market shares. The risk of an economic downswing in the US, which we had mentioned the previous year, has also taken place.

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

At least once a year, we examine the need to make adjustments to our overall strategy as well as to the strategy of the individual divisions. Our strategic risks are manageable. In the Postpress Division, risks are greater, among others because we have a less dominant market position in this segment. Barriers to market entry are lower here as well. We minimize risks arising from sales financing by means of a well-balanced risk management system. We limit the financing arrangements that are taken on by Heidelberg to the greatest possible extent. Moreover, we only assume financing arrangements following a comprehensive examination that includes the customer's business model and credit standing.

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

Risks Arising from the Economy and the Market: Country Risks in Some Emerging Markets

The development of the economy continues to have an immense impact on the development of our business. We discuss this connection in more detail on page 59. Depending on the source, economic forecasts for the coming years differ considerably. Whereas the emerging markets are expected to continue their rapid growth, the future developments in the industrialized countries are shaped by considerable uncertainty. Our business development would be severely burdened should actual economic developments fall considerably behind the already restrained expectations. We are consequently vigorously pursuing our goal of limiting the impact of weak economic periods on the earnings of the Heidelberg Group. We reduced our structural costs and continue to focus on a high degree of regional diversification. We are also focusing on our relatively non-cyclical business units.

We combined the individual items included in **other risks** with other risk groups during the financial year due to their minor overall value.

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

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

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

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

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

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

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

Overall risks in the very important group Risks Arising from the Economy and the Market increased over the previous year because of the considerable economic uncertainties. Of course, the world economic situation might prove to be much stronger than has been widely projected. In addition, various markets could loosen their import and customs regulations and with changes in tax regulations, provide increased incentives to invest.

Industry and Competition Risks: Further Countering the Price Risk

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

We alleviate this risk:

- by acquainting potential customers throughout the world with the calculable advantages of our integrated solutions;
- by maintaining our leading technological position over competitors; and
- by reducing our dependency on exchange rate movements.

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

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

In the postpress area, especially in the packaging segment, our principal competitors' aggressive market defense strategy resulted in a shortfall in the expected sales of individual products. Although this strategy could be fostered by competition, there is a risk that the price situation could worsen.

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

Product Risks Down Considerably from the Previous Year

We will take part in drupa with a new product portfolio, and we will introduce significant new developments for our customers. Nevertheless, there continue to be risks in this area. Since the new products are about to be launched in the market, it remains to be seen how well they are accepted by our customers and how successful they are in the market.

In order to avoid undesirable developments, by necessity all R&D projects spotlight customer benefits. We work closely together with concept customers at every phase of product development. A panel of experts from R&D, Product Management, Controlling, Manufacturing, and Services determines the direction of work beforehand for advanced product development. Among other things, participants make decisions based on market analyses, economic viability considerations, and our Technology Roadmap – the latter outlining our required long-term development goals if we are to meet future customer needs. We strive to secure the results of our development activity largely with our own proprietary rights.

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

Overall Financial Environment Risks Unchanged

Financial environment risks remained at the previous year's level. There are no longer any tax risks arising from the tax reform, which we had included in this risk group the previous year.

We are subject to credit risks resulting from the sales financing business. On the one hand, payment losses may arise under financing contracts with customers, while on the other hand, claims may also arise against Heidelberg under recourse liabilities for financing contracts with finance companies for our customers. Risks from sales financing are declining. Whereas we assess the further progress of this activity more critically, the scope of the financing arrangements that we assumed directly has decreased considerably. The business-related focusing on the print media industry entails a significant concentration of risk. A considerable share of the portfolio comprises receivables from customers from emerging markets, with this portfolio accounting for the largest share.

We regularly monitor our sales financing commitments on the basis of an internal rating process. These include, similarly to the current Basel II standard, components relating to both the liable party and the transaction itself.

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

We reduce legal risks arising from individual contracts by relying on standardized master contracts wherever possible. We systematically protect our interests in the area of patents and licenses.

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

Risks Arising from the Performance below Previous Year's Level

During the previous year, the risk that we exceed the planned costs of production arose primarily from risks in the human resources area. The high collective bargaining agreement prevented us from limiting the increase in staff costs to the extent that we had originally planned. We reduce other human resource risks by making Heidelberg even more attractive as an employer and engaging in modern human resources work. More on this topic can be found on pages 94 to 96.

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

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

Since risk management is an integral component of our supply management, we protect ourselves against many risks of **procurement** at the outset. A shortage and thereby an increase in the price of raw materials, especially of metals and crude oil, as well as increasing energy prices could burden our production costs. We respond to the risk of a supplier's failure to deliver and a delay in the delivery of components or the risk of receiving substandard components by means of a supplier monitoring system based on key data parameters, consistent and systematic observation of all significant markets, and through the utilization of a material planning system with a rolling twelve-month forecast. We also integrate our suppliers within this process.

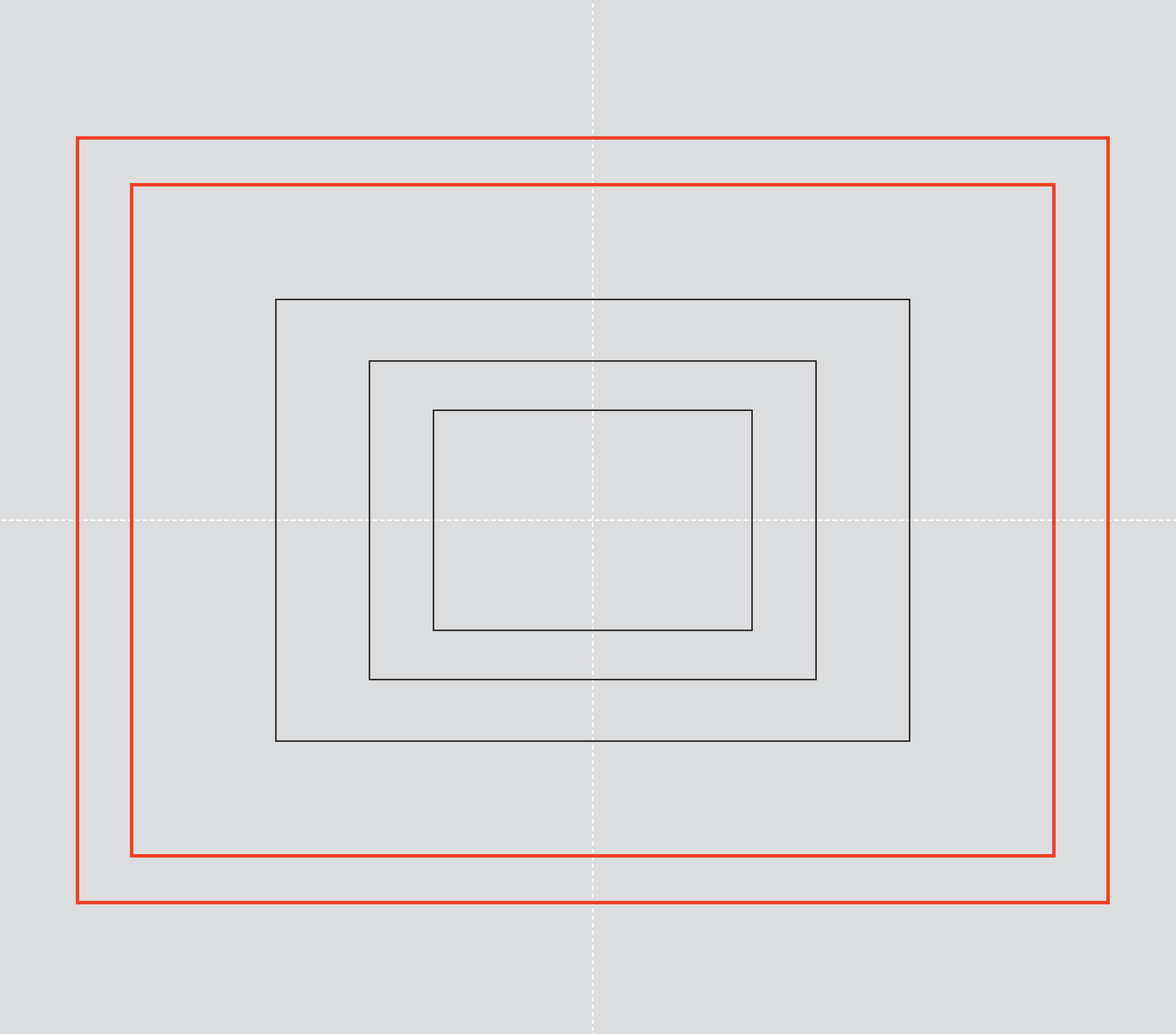
We reduce the risk of making bad investments by including all planned **investments** as part of our worldwide uniform planning system. This system forms the basis for our focused financial management. We continuously pursue and monitor planned investments – primarily to ensure that they purposefully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

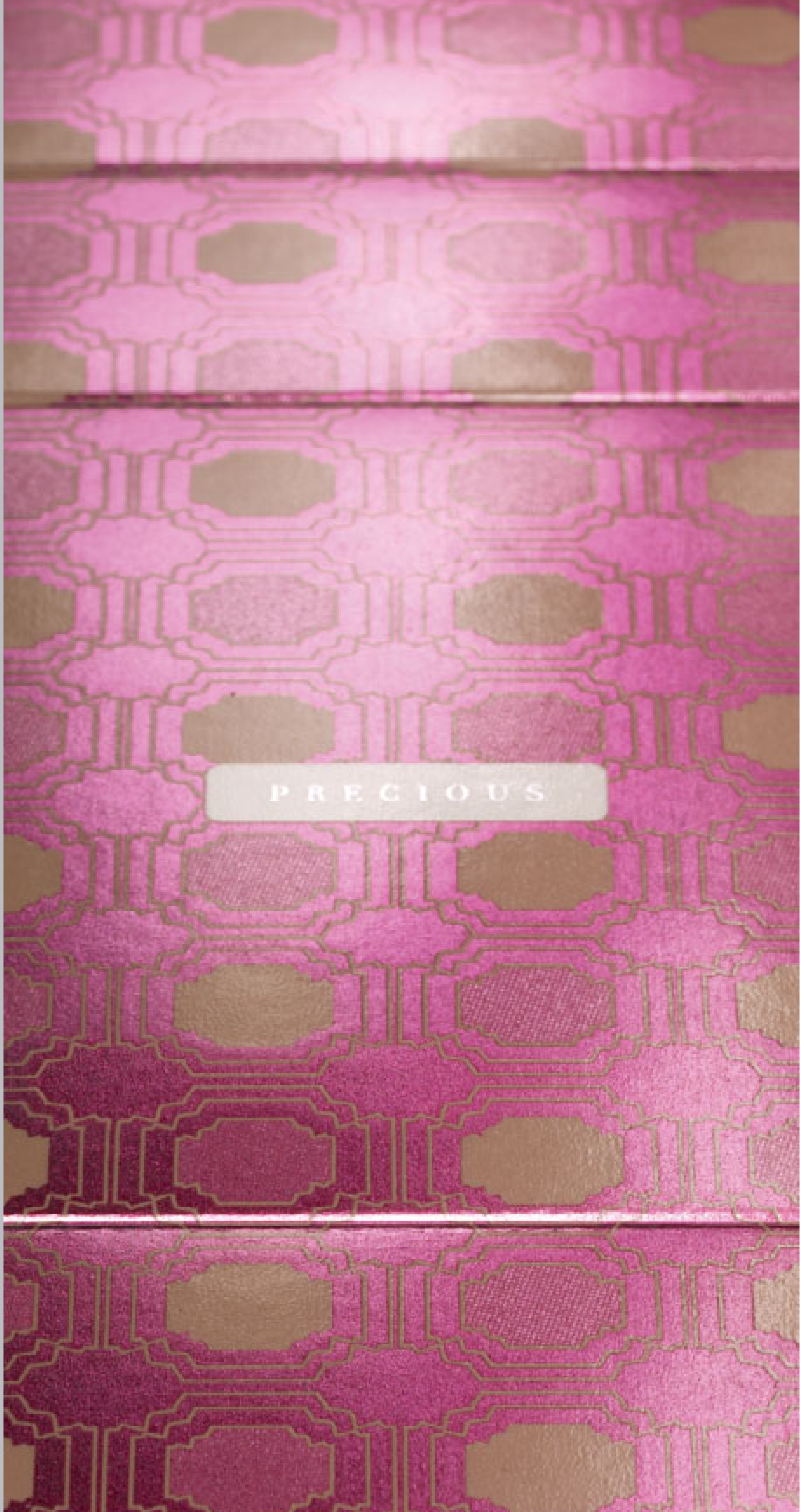
Thanks to our effective global IT management and our investment in the latest technology, we do not envisage any serious risks in the **IT area.** We are prepared for a potential breakdown of our systems by means of suitable security measures. Through comprehensive preventive measures, we have considerably reduced the danger of virus attacks.

Overall, the risks arising from the performance declined from the previous year – among others because we systematically minimize risks arising from corporate functional areas. We have the opportunity of realizing clear cost reductions in the production area by improving processes. Furthermore, the prices for raw materials and energy could decline again, as a result of which the price level in our procurement markets could fall as well.

NEW DIMENSIONS FOR MAXIMUM CHALLENGES

The 106 CM × 145 CM and 121 CM × 162 CM format categories




PRECIOUS

>> Am I superficial? Appearance means quite a lot to me – I'm always pleased to see beauty, regardless of its form. It influences my purchasing decision. And of course, the gifts I select as well – preferably in a lavishly printed, high-quality package. Yesterday, the eyes of a girlfriend who's actually only interested in intrinsic values became moist because of my little gift. How beautiful! <<


Edelmann Group

> OVERALL VIEW – PROSPECTS

Our business development weakened considerably in the second half of the financial year. We therefore had to correct our original forecast. Our customers' propensity to invest declined considerably due to the financial crisis in the US and the increasing skepticism regarding the economy. Our sales trend continues to heavily depend on the advertising market, and thereby on economic developments. However, we are working on a reduction in this dependency through the expansion of our service and consumables business as well as the packaging printing area. Our customers noticeably held back on their investments in advance of the important drupa trade show. Our order backlog therefore fell to a relatively low level as of the reporting date March 31, 2008. We consequently anticipate a sales decline for the first quarter of the current financial year against the comparable period of the previous year. Moreover, we also anticipate that the result of operating activities and net profit will be negative during the first quarter.

The development of the global economy and the exchange rates will be a crucial factor for the course of the financial year as a whole. At drupa, we will introduce solutions that considerably increase the productivity and quality of the customer processes. This serves to secure our strong market position. In early August, we will publish a **sales forecast** for financial year 2008/2009 together with the first quarter's figures. By then we will be in a better position to foresee what impulses for our business have originated from drupa. Already today, however, we expect the **result of operating activities** for the year as a whole to fall far short of the result of the reporting year. In addition to the non-recurring expenditures resulting from Heidelberg's presence at the trade show, as well as from the startups of series production of new products, the strong euro represents a burden as well.

The Management Board will implement all measures that are required to improve the Group's cost structure and reduce the influence of the exchange rates on business.

Future Prospects – Challenges Posed by Underlying Conditions

> **Global Economy: Modest Economic Slowdown as a Result of the Financial Markets Crisis**
> **Focus on Services, Consumables and Packaging Printing**
> **Exchange Rate Structures Hampering European Suppliers**

We more precisely describe the relationship between the propensity to invest of our customers worldwide to the current and expected economic growth on page 59. We address the factors that could act as a brake or stimulus on our business development in individual markets.

Global Economy: Forecasts Uncertain

Broadly, economic research institutes believe that the global economy will be struggling with the consequences of the financial markets crisis at least through mid-year, if not up to 2009. Moreover, a recession in the US is becoming ever more likely. Such a development should hardly have the impact on the overall economic situation that it would have had a few years ago. In general, however, the possible consequences for the European and world economic situation are uncertain. The extent to which the – due to the exchange rate structures – very tough global competition will affect the European economies is also unclear. Although the upswing, with its export impetus, seems to have remained largely intact, nearly all experts are in agreement that the global economy has passed its peak. Current forecasts for the growth of the global economy fluctuate between 4.1 percent (Source: IMF) and only 3.0 percent (Source: Global Insight).

Near-term Economic Situation and Development of Our Industry in Individual Markets

There are several reasons why leading economic research institutes expect growth of the **US** economy to only amount to 1.0 percent to 1.5 percent for 2008. The crisis of the financial markets, which resulted from the weakness of the US real estate market, intensified and sharply braked economic growth. It is questionable whether various favorable political signals – for example, the government's new tax model or the expansionary fiscal policy – can stimulate

GROSS DOMESTIC PRODUCT[1)]

Change from previous year in percent

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

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

industry's propensity to invest. In particular, the fear of a longer-lasting business downturn is proving to be an obstacle for the propensity to invest by the US **print industry.** An additional factor is the low level to which capacity utilization has fallen. Whether the bleak mood will brighten up depends on many parameters. This is not foreseeable at present either for the current or for the next financial year.

Europe's economies will continue to grow at a modest but solid pace. Stimulus is expected from domestic demand, which is being supported by the favorable trend of the labor market. The extent to which economic growth in Europe's key markets will be negatively influenced by the finance and real estate crisis in the US is still unclear. Initial repercussions, which are still limited to the banking sector, can be seen in the UK and Spain. In **Germany,** the gratifying labor market development over the last year should strengthen the recently somewhat weak consumer spending. Although the economy has slowed, the overall order situation among German companies is robust. There are risks of increased inflation and the possibility that consumer spending could be curbed by higher energy prices and cost of living. An upswing in the retailing sector should provide a favorable impetus for the **print industry** in Europe. The further growth in energy and paper prices is burdening print shops. In Germany, the trade associations in our industry expect the business outlook and the production activity to stagnate compared with 2007. Investment forecasts so far reflect restrained optimism.

The economies of **Latin America** and **Eastern Europe** will continue to benefit from the high raw material prices during the current financial year. As in recent years, the **print industry** of both regions will probably continue to enjoy vigorous growth, with print shops increasingly investing in very modern, innovative products.

As during the reporting year, robust growth in GDP is foreseen primarily for the emerging markets of **Asia.** China and India are again on top by international comparisons. Modest and stable development is anticipated for Japan. During the current financial year, everything points in the direction of the **print industry** in Asia again continuing to grow in view of the emerging markets in that region. Demand for solutions with modern prepress equipment should increase further at a vigorous pace. In China, demand for print products is expected to receive an additional boost from the 2008 Olympic Games in Beijing and the World Expo 2010 in Shanghai.

Competitive Conditions Still Depend on Exchange Rates

The development of the exchange rate structures in recent years secured considerable advantages for our Japanese competitors. Overall, competitive pressures within the industry strengthened to such an extent that European suppliers have seen their scope to take action on prices considerably limited. It is widely assumed that the dollar and yen will remain weak into 2008. However, the precise course of developments cannot be foreseen at present.

Planning Premises: Difficulty Assessing Short-Term Trend of Sales

As we indicated, in the run-up to drupa it is very difficult to appraise the sales trend for the current and next financial year, in particular for European equipment suppliers to the print media industry. At the time this report is being prepared, the level of incoming orders that we will book at drupa is as uncertain as is the further development of the economy and with it the further course of the financial year. We consider the current developments in our branch of industry in the industrialized countries and particularly in the US to be difficult. Whereas in the US a decline in the sales of equipment seems to be unavoidable, the emerging markets, in particular in Asia, show potential for growth. Overall, demand will be higher especially for our new products – for example, the Speedmaster XL 105 with perfecting device as well as the new generation of printing presses in the large format category. We are not in a position to make a reliable **sales forecast** for financial year 2008/2009 at the present time.

With regard to procurement markets, we expect prices to remain stable at a high level. The cost of materials could rise due to a rise in prices in the raw material and energy sectors. Nevertheless, due to our acceleration of global procurement, we expect to be in a position to alleviate this potentially increased burden through savings in other areas.

In our planning, we assumed the dollar/euro exchange rate would be USD 1.47 per euro on average for the year, and that the yen exchange rate would on average be JPY 157 per euro. In order to ensure a degree of reliability in the planning process, we hedged a large part of our foreign exchange volume in these two currencies for the current financial year in the short term and the decreasing volume in the long term. However, we are strategically positioned so that in the case of an improvement in the exchange rates, in some circumstances we would benefit from the new exchange rate levels.

AVERAGE ANNUAL EXCHANGE RATES

Financial year	06/07 €1 =	07/08 €1 =	**08/09[1)] €1 =**
USD	1.29	1.43	1.47
JPY	150.79	162.34	157.00
GBP	0.68	0.71	0.75
HKD	10.04	11.15	11.38
CHF	1.59	1.64	1.63

1) Projected exchange rate

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

Result of the Current Financial Year Heavily Burdened by Several Factors

There are some factors that will considerably burden the result during the current financial year, including non-recurring expenditures for our presence at the **drupa** trade show as well as the **startup of series production** of new products. The more unfavorable **exchange rate situation** will also make itself felt. Due to the 2.4 percent wage increase under the collective bargaining agreement, which was approved in 2007, **staff costs** will rise again. Continuation of our cost reduction measures and increases in efficiency will have a favorable impact on earnings. Overall, we are projecting a considerable shortfall of the current financial year's **result of operating activities** compared with the result of the past financial year.

Following drupa and still prior to the Annual General Meeting, we will make measures known that are designed to secure our leading market position and financial strength on a long-term basis. These measures are intended to improve the cost structure and reduce the influence of exchange rates in the medium term through the globalization of purchasing and production. In addition, we will expand the service and consumables business in order to further reduce our dependency on economic cycles.

We will provide more concrete information on this topic in our first quarterly report concerning the range for the result of operating activities this year. The Press Division will earn the by far biggest profit contribution. Our new printing press generation in the biggest format category will not yet make a profit contribution since it will still be in its startup phase. The operating result of the Financial Services Division will continue to decline according to plan. We are deliberately further reducing the share of the financial arrangements that we assume ourselves. Moreover, in contrast to the previous years, for the current financial year we cannot expect comparable income from the provision for risks.

The **financial result** is expected to be similar to that of the reporting year. The tax rate will also total between 29 percent and 31 percent. We assume that **net profit** will deteriorate due to burdens on the operating result. We will again generate strong **cash flow.** We can thus undertake investments in order to attain strategic goals or generate additional external growth. Burdens to working capital due to the startup of production of the new product lines will be offset by the reduction in the commitment of funds as well as our ongoing asset management.

In view of future capacity requirements, we will need to make personnel and structural adjustments.

Medium- and Longer-Term Development of the Propensity to Invest by the Print Industry

In the next few years, streamlining requirements in the **industrialized countries,** which will intensify due to high prices for paper and energy as well as high staff costs, will result in replacement capital investments by print shops. This is particularly likely if the industry's capacity utilization remains stable at a high level, or if in the US it returns to a higher level.

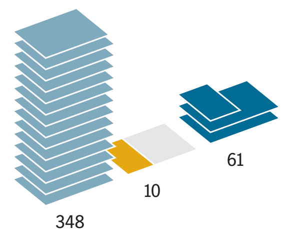
The considerable economic momentum in the **emerging markets** will also continue to favorably impact the business development of our customers in these countries on both a medium- and long-term basis. The volume printed per annum will continue to increase at an above-average pace here, among others because market saturation with printed products is still very low in these rapidly growing economies. This can be clearly seen in the graph on the right. With growth rates of over 8 percent, the Chinese and Indian print industries in particular will noticeably boost their share of global production. Print shops in these markets will have to expand their capacities, as a consequence of which many new print shops will need to be built over the next few years, especially in the Asian region. A shortage of labor – especially highly qualified employees – is already a reality in some countries. The trend towards demand for high-quality solutions in emerging markets will increase further. Packaging printing has enormous growth potential in the emerging markets. Due to increasing urbanization in the future, the assumption is that demand for high-quality packaging will show strong growth. This trend is being reinforced by changed consumer behavior and by enhanced awareness of hygiene by consumers. Moreover, the significance of packaging as a high-quality advertising medium will increase considerably in the emerging markets as well.

Sheetfed Offset Printing Remains the Most Important Printing Process; Environmental Protection Increasingly Important

We assume that sheetfed offset printing will continue to be the prevalent **printing process** in the future, especially since this technology is now also being applied for very small and very large print runs, which were previously reserved for digital printing and web offset printing due to cost factors. With Heidelberg's innovative products, even for print runs of a minimum of 200 sheets, sheetfed offset printing is less expensive than digital printing! And as in the past, the quality of the final products of sheetfed offset printing is much higher than either of the other two processes.

PER CAPITA PRINTING VOLUMES (STATUS 2006)

Figures in €



- Average industrialized nations
- Average emerging countries
- Average world

Sources: Industry statistics, PIRA; Jaakkoo Pöyry, Primir (GAMIS), FAO; Global Insight

Environmental protection aspects of production at print shops will play a more important role in the future – not only in the industrialized countries, where demand is higher for products manufactured in an ecologically responsible manner and where more restrictive statutory provisions will possibly come into effect, but in the emerging markets as well. Especially printed solutions that reduce spoilage are becoming ever more attractive for economic reasons, because the price of paper has increased considerably and will probably continue to rise. Furthermore, the energy consumption of printing presses is also gaining in importance.

Spoilage is becoming an ever more crucial cost factor in production, especially for the **packaging printing area.** The trend to packaging continues unabated. This market segment will therefore continue to grow at an above-average pace and a largely non-cyclical basis worldwide. Overall annual market growth of up to 5 percent is possible. It is currently not apparent what the share of flexible foil packaging will be in this growth.

Heidelberg's Longer-Term Prospects: Focus on Service and Consumables; Strengthening Market Position

We are projecting that the **print industry** will generate only slight annual growth over the next few years. One thing is clear: We have the right **overall offerings** to help print shops successfully meet the challenges of the future – regardless of size, strategic alignment, or geographic location. Our **sales** in the next two years will primarily be carried by our new products and solutions. In subsequent years we will generate additional sales primarily through our expansion of the service and the consumables business. The competitive advantages that customers enjoy who have selected our product and service solutions are measurable and quantifiable. For good reason, against the background of extremely difficult competitive conditions during the financial year, we maintained, and in individual markets even strengthened, our leading **market position.**

Our goal is to further strengthen our competitive position. In the section 'Potential, Risks and Opportunities' we describe in detail how we will make use of our **research and development** and **investments and projects** in the future to ensure that we meet all the prerequisites to accomplish this.

As we describe in the section ‘Financial Position’ on pages 72 to 74, the Heidelberg Group’s **liquidity** is secured on a long-term basis. Our line of credit is far from fully used. Up to now, our shareholders have benefited from payout ratios of 40 to 50 percent, and we intend to retain this dividend policy.

We want to increase our independence from further **exchange rate developments.** We are consequently further expanding our international procurement and producing more printing presses in China for local customers. We protect ourselves conservatively against remaining currency risks.

In order to reduce **cyclical dependence** on the printing press business, we strengthened our position in the rapidly growing packaging printing sector and broadened our regional diversification. Moreover, we are accelerating the non-cyclical service segment, which includes spare parts and supplies. We also see the potential of strengthening our business by means of **acquisitions, participations,** or **cooperative agreements.** If attractive opportunities arise, we will further round out our product offerings through such measures.

Our **organization** is sufficiently flexible to adapt quickly to changed underlying conditions.

Supplementary Report

New Responsibilities on the Management Board; Fourth Member of the Board: Stephan Plenz

As the Company made known in a press release on May 5, 2008, the Supervisory Board of Heidelberg appointed Mr. Stephan Plenz as a member of the Management Board as of July 1, 2008. Simultaneously, assignments and responsibilities have been redistributed on the Management Board, which now has four members. This reorganization by the Company reflects the business expansion programs. Heidelberg intends to expand the service and consumables business; further internationalize production and purchasing; systematically implement the efficiency-boosting programs; and enhance the attractiveness of the Heidelberg share for the capital market. We present the new Management Board responsibilities on page 38 of this report.

Heidelberg Acquires Coating Manufacturer 'Hi-Tech Coatings'

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

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

Important Note

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.

Products of the Heidelberg Group

PRESS

PREPRESS

Platesetter

Prosetter
Violet printing plates

Suprasetter
Thermal printing plates

PRINT

Sheetfed Offset

Speedmaster
106 × 145 format
121 × 162 format

Printmaster
Speedmaster
50 × 70 format

Speedmaster
70 × 100 format

Printmaster
Speedmaster
35 × 50 format

Flexo Printing

Label print
Packaging print

Web Offset

Products from Goss

POSTPRESS

Folding

Stahlfolder, Baumfolder

Die-Cutting

Dymatrix, Varimatrix

Stitching

Stitchmaster

Folding Cartons

Diana, Easygluer

Adhesive Binding / Thread Sealing

Eurobind, Thread-Sealer

Mailroom Solutions

by IDAB WAMAC

Cutting

Products from POLAR/Mohr

Prinect

Print shop workflow
Integrates and optimizes the areas of management, prepress, production and postpress in print shops

HEIDELBERG SERVICE

Heidelberg Systemservice

Partner Program
Service Contracts
Remote Services
Heidelberg Service Parts

Print Media Academy

Trainings and Seminars
Further education
Communication

Business Consulting

Consulting
Business optimization
Print shop management

Consumables

Saphira
Printing inks
Printing plates
Blankets
Chemicals

Financial Services

Sales financing

Remarketed Equipment

The Financial Year in Review

Q1 2007

4 07

APRIL

Change in Membership of the Supervisory Board
As of April 3, 2007, Dr. Siegfried Jaschinski, Chairman of the Management Board of Landesbank Baden-Württemberg, was elected to Heidelberg's Supervisory Board, succeeding Prof. Dr. Börsig, who resigned his mandate as of March 31, 2007.

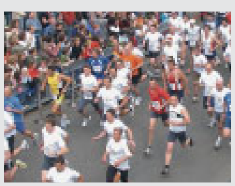
'Print China' Trade Show
The 'Print China' trade show was held during April 10 – 14 in Dongguan. Heidelberg launches the Speedmaster XL 105 and the CD 102 in China and presents visitors with the Prinect Experience Tour.

5 07

MAY

'A3 Inforum' Heavily Frequented
At Heidelberg's third 'A3 Inforum', more than 600 visitors obtain information concerning the complete A3 product portfolio as well as innovative application and processing technologies.

First Company-Sponsored Charity Run
The first Company-sponsored charity run is held at Wiesloch-Walldorf in the framework of Heidelberg's new health program. Numerous employees participate in the run, which was held under the slogan 'Miles for More'.



6 07

JUNE

RWE Remains a Major Shareholder
RWE repays an exchangeable bond dating from 2004, partly in cash. RWE, which holds a 9.62 percent shareholding, thereby remains financially engaged with Heidelberg for a longer period than had been originally assumed.

Agreement to Safeguard the Future
The Management Board and the staff representatives prolong the Agreement to Safeguard the Future, which is applicable for our German operations, to 2012. This agreement includes, among others, extensive measures for maintaining and enhancing competitiveness.

Q2 2007

7 07

JULY

New PMA training center
Heidelberg's new Educ@te Center of the Print Media Academy in Eppelheim (near the city of Heidelberg) has more than 20 state-of-the-art printing presses available for training purposes.

2007 Annual General Meeting
Nearly 1,500 shareholders, who account for approximately 63 percent of the share capital, are represented at the July 26 Annual General Meeting. They agree to all the agenda items.

8 07

AUGUST

Vacation Program for Employees' Children
Heidelberg organizes a vacation program for employees' children for the second time. The diversified, all-day care, provided in cooperation with the 'Circus Peperoni', was very well received.

'Heidelberg Japan' Celebrates Its 80th Birthday
80 years ago, the first Heidelberg printing press, was imported to Japan. The Japanese sales and service company celebrates the service anniversary together with some 1,000 customers and representatives.

9 07

SEPTEMBER

Success for the Annual Report
For the third time in a row and for the sixth time overall, manager magazin gives Heidelberg's annual report the award as the best among MDAX companies. CFO Dirk Kaliebe accepts the prize.

Inauguration of Hall 11
Within the framework of the 50th anniversary ceremonies of the Wiesloch-Walldorf plant, the new assembly hall 11 is officially opened. The new large format printing presses will be assembled and packaging solutions presented in this hall.

Q3 2007

Q4 2008

10 07

OCTOBER

Market Launch of Anicolor in Latin America
Heidelberg presents the Speedmaster SM 52 Anicolor, among others in live demonstrations at São Paulo's Print Media Academy. Customer interest runs high.

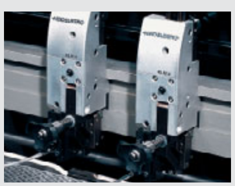
Heidelberg China: Qingpu Plant Expanded
The second, 11,000 square meter assembly hall in Qingpu, China is officially opened. The Printmaster PM 74 medium format printing presses are manufactured here for the Chinese market.

11 07

NOVEMBER

Opening of a Further Adhesive Binding Center
Customers can obtain information concerning the entire range of Heidelberg's adhesive binding products at a further adhesive binding center located in the Leipzig Print Media Academy.

'Good Design Award 2007'
A full three Heidelberg products – the Stitchmaster ST 450, the Stitching Head 45-N 14, and the Suprasetter A 52/A 74 – receive the prominent Japanese 'Good Design Award 2007'.



12 07

DECEMBER

Crush of Visitors at the Fall Open Houses
Over 7,000 customers visit the autumn open houses at five of Heidelberg's German sales units. The total volume of contracts is a reflection of a high propensity to invest in Germany.

Focus on Environmental Commitment
Heidelberg announces that the Group is to strengthen its commitment to environmental protection through product innovations and advanced product development.

1 08

JANUARY

Saphira: High-Quality Consumables
Heidelberg markets a superior quality consumables under the brand name 'Saphira'. Global consumables business is expanded.

Image Profile in 'manager magazine'
In a survey of image profiles by 'manager magazine' of all publicly-quoted enterprises in Germany, Heidelberg attains third place in the criterion 'Ethical Behavior'.

2 08

FEBRUARY

Suprasetter Family with Superior Productivity
Heidelberg announces that the technology of the successful Suprasetter family has been further developed. All models have been equipped with new and additional functions to provide even greater flexibility and productivity.

Good Air Quality through 'CleanStar'
Heidelberg introduces the new CleanStar for process air extraction, which ensures a reduction in dust and ammonia to a level that is considerably below occupational exposure limits.

3 08

MARCH

New Large Format Printing Presses Presented
Management Board Members Schreier and Dr. Rautert present the new large format printing presses, which are being introduced at drupa 2008, to some 70 journalists. The Speedmaster XL 162 demonstrates printing operations for the general public for the first time.

Production of the 100,000th Printing Unit in the 102 Format
Heidelberg celebrates the production of the 100,000th Speedmaster 102 printing unit, which was an order placed by a Swedish customer.

Glossary

>>>

Anicolor
Heidelberg presented its Anicolor inking unit technology for the first time at the 2006 IPEX trade show. With Anicolor, hardly any start-up sheets are required – usually only 10 to 20. This means up to 90 percent less start-up waste. The fact that no ink zone settings are required reduces makeready times by up to 40 percent, and increases press capacity by 25 percent.

Asset management
Serves to improve both free cash flow and value contribution. Operating assets and liabilities are optimized in order to reduce tied capital and distribute it more efficiently.

Commercial printing
Printed products that do not appear regularly. These products include a diversity of font types and sizes as well as printing stocks – for example, brochures or catalogs.

Flexo printing
A relief printing process using inks with very low viscosity. Printing is effected by means of soft, elastic, and raised printing elements. Flexo printing is used especially in the printing of packaging and multicolor labels.

Makeready time
The time required to prepare a machine for a specific work process. During makeready times, machines – printing presses or postpress machines – cannot be used for production purposes, and investments do not yield a return. Makeready times therefore are an important factor in cost accounting and calculation.

Postpress / finishing
All the manufacturing steps after the printing process in order to prepare a product – for example: cutting, folding, stitching, binding, and packaging.

Prepress
All the steps required to prepare the printing plate for the actual printing process, including the provision of text, graphic elements, images, and design.

Prinect
With its Prinect workflow software, Heidelberg provides the most complete software offering in the print media industry. Prinect comprises Management Solutions, Production Solutions, and Color Solutions. Customers thereby attain the greatest possible production security in color management with color measuring devices as well as closely coordinated measurement fields and seamless integration within the workflow.

Remote Services technology
Internet-based service platform which, among other things, makes it possible to analyze and inspect printing presses via a data link – without the need for customers to interrupt their production.

Sheetfed offset printing
Offset printing is based on the principle that oil and water repel each other. The printing and non-printing areas are at nearly the same level. As the name indicates, the sheetfed offset process prints individual sheets as opposed to web offset printing, which prints paper rolls.

Spoilage
Damaged, defective, or not yet rejected printed matter that arises in the printing process. Spoilage results from the makeready process as well as during the production run – for example, due to defective ink feeds and color registers or contamination – as well as during the finishing process.

Star System
With the Heidelberg Star System print shops can employ environmentally friendly printing processes, because Star peripherals cover the entire system solution – from dryers and powder sprayers to the dampening solution supply, as well as from cleaning waste air to recycling cleaning agents.

Technology Roadmap
A tool used to visualize measures necessary in the development of all forms of technological expertise in connection with future products.

Value contribution / ROCE

Value contribution and **ROCE** are the central management control components used in value management at Heidelberg. ROCE is calculated by dividing EBIT by the average operating assets.

The average **operating assets,** which comprise all assets used in the generation of the EBIT, are part of our calculation. They are calculated by subtracting non-interest-bearing liabilities – which include both non-interest-bearing fundamental capital components as well as pro rata financial liabilities used in the refinancing of the Financial Services Division – from operating fixed assets and gross current assets.

In our calculations, **EBIT** comprises the result of operating activities and income from participations. Income from participations amounted to € –14 million during the financial year.

We include the **cost of capital** in the calculation of the value contribution via a weighted average cost of capital. The weighting is based on the share of the respective capital components. We base our calculation of the cost of shareholders' equity after taxes on a risk-free interest rate of 4.25 percent, a market risk premium of 4.75 percent, and a so-called beta factor of 1.06. The after-tax borrowing cost rate is 3.15 percent. We apply a flat tax rate for the transition to pre-tax consideration. In the reporting year we lowered this tax rate from 35 to 30 percent. The calculation itself remained unchanged during the financial year.

EBIT less the cost of capital equals the **value contribution,** which reflects the expected return to the providers of capital on their invested capital.

NET OPERATING ASSETS

Figures in € millions

	2006/2007	2007/2008
Gross assets according to balance sheet	3,339	3,507
– Marketable securities/cash and cash equivalents	79	144
– Financial receivables/loans	69	59
– Tax refund claims	107	122
– Deferred tax assets	72	77
Operating assets (gross)	3,012	3,105
Gross debt according to balance sheet [1]	2,137	2,314
– Provisions for pensions and taxes	403	410
– Tax liabilities	47	58
– Non-operating financial liabilities [2]	469	490
– Deferred tax liabilities	85	145
Operating non-interest bearing liabilities	1,133	1,211
Operating assets (net)	1,879	1,894
Annual average	1,879	1,887

[1] Current and non-current liabilities from the consolidated balance sheet
[2] Financial liabilities not attributable to the Financial Services Division. The refinancing costs of this division are included in the result of operating activities

CAPITAL COMPONENTS

Figures in € millions

	2006/2007	2007/2008
Shareholders' equity	1,202	1,193
– Net deferred taxes	– 13	– 67
Adjusted shareholders' equity	1,215	1,260
Annual average	1,156	1,238
Pension provisions	133	116
+ Tax provisions	270	295
+ Net tax receivables/liabilities	– 59	– 64
+ Non-operating financial liabilities	469	490
Liabilities	813	837
Annual average	854	825
Adjusted total capital	2,028	2,097
Annual average	2,009	2,063

Index

Page numbers printed in blue refer to 'The Figures', all other page numbers to 'The Facts'.

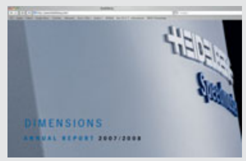
* Cover

Publishing Information

Copyright © 2008
Heidelberger Druckmaschinen
Aktiengesellschaft
Kurfuersten-Anlage 52 – 60
69115 Heidelberg
Germany
www.heidelberg.com
investorrelations@heidelberg.com

Produced on Heidelberg machines using Heidelberg technology.

Please visit www.heidelberg.com for the online version of our annual report and for the English translation of our non-consolidated report.



Design concept	Hilger & Boie GmbH, Wiesbaden
Editorship/text	Sabine Eigenbrod, Mannheim
Proofreading	AdverTEXT, Duesseldorf
Photo credits	Christof Herdt, Frankfurt Lossen Fotografie, Heidelberg Archive Heidelberger Druckmaschinen AG
DTP	NewMedia-AD GmbH & Co. KG, Messel near Darmstadt
Lithography	Koch Lichtsatz und Scan GmbH, Wiesbaden
Printed media	Contents: Printed on Heaven42 FSC by Scheufelen – an exclusive grade by IGEPA Cover: Printed on Invercote creato FSC by Iggesund Paperboard – an exclusive grade by IGEPA ethabind-cover: Thalhofer, Schönaich
Concept, consultancy and production	H.-J. Dietz, Kelkheim

Printed in Germany.

klimaneutral gedruckt
www.natureOffice.com / DE-134-310124

FSC Mixed Sources
Product group from well-managed forests and other controlled sources
www.fsc.org Cert no. SCS-COC-001048
© 1996 Forest Stewardship Council

This annual report is a translation of the official German annual report of Heidelberger Druckmaschinen Aktiengesellschaft. The company disclaims responsibility for any misunderstanding or misinterpretation due to this translation.

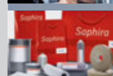
Heidelberg Services

Heidelberg Services – In this report, we frequently emphasize that we intend to considerably expand the share of sales accounted for by this division, whose business is largely independent of the business cycle. What do we offer in this division? And why do many owners of print shops of all sizes

1. Heidelberg systemservice

2. Print Media Academy

3. Business Consulting

4. Consumables

5. Financial Services

6. Remarketed equipment


decide in favor of Heidelberg based solely on our service offerings? To give a general answer: Because at Heidelberg, customers have access to everything they need to achieve even more success. We provide the most comprehensive service in the industry. Please refer to the overview inside this leaflet on the right.

Heidelberger Druckmaschinen AG
Kurfuersten-Anlage 52 – 60
69115 Heidelberg
Germany
www.heidelberg.com