Not to be published until the speech begins!

Speech for the Annual General Meeting of
Heidelberger Druckmaschinen AG

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Bernhard Schreier
Chief Executive Officer

The spoken word applies!

Chart: Title

Chart: Welcome

Part 1:

Shareholders,
Shareholders' representatives,
Representatives of the media,
Ladies and Gentlemen,

On behalf of the Management Board of Heidelberger Druckmaschinen AG, I would like to welcome you all to our Annual General Meeting here in Mannheim.

The 2007/2008 financial year is now behind us – and it is with mixed feelings that we look back at these twelve months. It was a year with considerable ups and downs. We have undoubtedly seen a lot of positive developments during this time – including our very large format presses going into series production and setting another milestone in our company's history. From our shareholders' perspective, we have unfortunately been unable to meet our forecasts for the financial year and our share price has seen a significant drop.

As a result, we have suffered a substantial loss of trust, first and foremost from you, our investors, but also from market analysts. And we have also had to suffer some harsh criticism as a consequence. We have listened to this criticism, Ladies and Gentlemen, and have learnt from it. Our goal now is to restore the trust that we have lost. We aim to do this by systematically implementing our strategy and our program of measures to cut costs. During the course of my speech, I will be discussing in detail our long-term strategy and the short- and medium-term measures we will be adopting to reduce costs.

But let us first take a look back at the 2007/2008 financial year.

A look back at financial year 2007/2008

The economic framework

The printing press industry has found itself in a very difficult economic climate over recent months and this has also had an impact on Heidelberg. Developments in the printing press sector have been weighed down by fears of recession in the U.S., rising inflation in Europe, the approaching end of the economic upturn in Germany, a weak dollar and an equally weak Japanese yen, and by increasing prices for energy and raw materials. All this has had an impact on the economic climate in general and on the printing press sector in particular. And, of course, it is also having repercussions for Heidelberg, the clear number one in the industry.

During the second half of the financial year in particular, prospects on numerous key markets weakened considerably. In a number of regions, this led to significant reticence on the part of our customers to press ahead with their investment decisions. This resulted in a drop in incoming orders and sales, increasing price pressures and lower margins. The highly competitive market meant that we were unable to pass on the increased energy and raw material costs or the consequences of the exchange-rate movements to our customers to any appreciable degree.

Chart: Sales/incoming orders

Ladies and Gentlemen, Heidelberg's cutting-edge technologies, products and quality have long made it the world's leading manufacturer of sheetfed offset solutions. This is a sector that is heavily dependent on the general economic situation and in particular on the advertising industry and has experienced many ups and downs in the past.

We had originally forecast "moderate growth" for the 2007/2008 financial year. However, we failed to meet this target, with sales down by around 3.5 percent to EUR 3.67 billion. The first few months of the year were promising. However, the economic climate worsened from quarter to quarter and this in turn increasingly impacted on our business development. In the final three months of the year, traditionally the quarter when we record our strongest sales, revenue was almost ten percent below the equivalent period of the previous year.

One of the key contributory factors was the unexpectedly strong deterioration in the underlying economic conditions on our second largest market, the United States. The fear of an increasingly probable recession had a truly paralyzing effect on our U.S. customers' willingness to invest. The worsening mood at the start of the year was further depressed by the financial and real estate crisis that was gripping the country.

The situation was further aggravated by the worsening exchange rates between the euro and the dollar and yen. This merely added to the significant competitive advantages enjoyed by our Japanese rivals. Japan, of course, like Germany, is home to some of our strongest competitors. Nevertheless we still succeeded in holding our own against them.

The difficult underlying economic conditions affected sales, but had an even greater impact on the level of incoming orders. These fell by more than five percent, or almost exactly EUR 200 million, to around EUR 3.65 billion.

Chart: Developments in the regions

Incoming orders and sales differed considerably from one region to the next. In Germany – where we have a share of 16 percent and which is still our most important market – the boom in demand carried over from the year before last continued virtually unabated. The investment backlog that had built up over the crisis years on our domestic market continued to provide a source of new orders. Developments on the growth markets of Eastern Europe, particularly Russia, were also pleasing. In China, too, business continued to pick up pace following a brief lull triggered primarily by customs tariff policies.

However, all this taken together failed to compensate for the negative developments experienced in North America. Sales here fell by seven percent and incoming orders by as much as 13 percent. The situation was similar in Japan, where exchange-rate movements between the euro and yen put European exporters at a particular disadvantage. We are also less than happy with developments in the United Kingdom, another of our key markets.

Chart: Developments in the divisions

The drops in incoming orders and sales are affecting our Press and Postpress Divisions to an almost equal degree. Our Press Division, which handles the development and construction of printing presses and is by far our most important area of operation, saw incoming orders fall by five percent, while sales were down by a good three percent. In Postpress, incoming orders declined by around seven percent and sales by four percent. The marked reduction in sales recorded by Financial Services from EUR 37 to 30 million was planned and ties in with our strategy to significantly reduce accounts receivable relating to sales financing and the level of acquired counter-liabilities.

Chart: Order backlog/Earnings

The fall in incoming orders of EUR 200 million inevitably also had a negative impact on the order backlog. At the end of the financial year, March 31, the order backlog was EUR 874 million, that is to say EUR 144 million down on the previous year.

Earnings

The lower sales volume, but also the effects of exchange-rate movements and higher labor and energy costs, reduced the operating result to EUR 268 million. Compared with the result of the previous year, adjusted by positive non-recurring items, this represented a fall of EUR 34 million or 11 percent. We had originally expected to be able to improve on this figure by 10 to 15 percent. However, the impact of the substantial fall in the value of the dollar alone amounted to around EUR 30 million.

The operating result as a share of sales was 7.3 percent. .

The figures for net profit and free cash flow are more pleasing. The net profit fell only slightly to EUR 142 million. This was just EUR 2 million down on the previous year after adjusting the latter for positive non-recurring items and the tax revenue from the corporation tax credit. Despite the drop in business volume, the ratio of net profit to sales increased slightly from 3.8 to 3.9 percent.

We can be satisfied with how the free cash flow fared during the 2007/2008 financial year as a whole. At EUR 215 million, representing 5.9 percent of sales, we exceeded our target mark of 4 percent. Despite the difficult underlying conditions, this is an excellent indicator of the strength of our internal financing.

Dividend/market capitalization

The fact that the free cash flow is at almost the same level as the previous year enables us to propose a dividend that is on a par with the previous year – this in spite of the turbulence we experienced during the year and the somewhat poorer result. Under item 2 of the Agenda we are therefore proposing payment of a dividend amounting to 95 cents per share. In doing so, we remain firm in our commitment that a significant proportion of the company's profits should be returned to our investors. As in the previous year, we are proposing a dividend amounting to around 50 percent of the net result. This is equivalent to a dividend yield of 5.6 percent based on the share value at the end of the financial year.

All in all, the 2007/2008 financial year was a disappointing one for us. The final quarter in particular painted a clear picture of the difficulties that the industry and the economy in general face over the medium term. The cooling down of the global economy is having an impact on us due to our high level of exports. As a successful company with a rich tradition, we are nevertheless well familiar with the ups and downs of the markets and step up to the challenges they bring. Over recent years, Heidelberg has put itself in a position to unlock the potential growth that exists globally on both a regional and product-specific level. Our current product portfolio gives us the means to address these growth segments more actively than ever before.

Chart: Responsibilities on the Management Board

Together with the preliminary results for the past financial year, we also announced at the start of May that we would be expanding the Heidelberg Management Board. The new structure is in response to the challenges facing the industry and the global economy as a whole.

Stephan Plenz was newly appointed to the Management Board with effect from July 1. Mr. Plenz comes from within our own ranks and has occupied various managerial positions during his 14 years with Heidelberg. From April 2006 he had been in charge of the largest of our plants, Wiesloch-Walldorf, and had also been responsible for global production. On the Heidelberg Management Board, Stephan Plenz will be in charge of technology, including research and development, production and purchases. Within this framework, he will also press ahead with expanding our production capacities in China and with increasing procurements from countries outside the euro zone.

The board member previously in charge of this area of operation, Dr. Jürgen Rautert, has been responsible for sales since July 1. His remit includes all customer- and market-related activities, product management and marketing. He will also be responsible for advancing our services and consumables business. I will go into this area of operations in more detail later.

I myself, as Chief Executive Officer, will focus in future on the company's strategic development, as well as on acquisitions, communications, and compliance. I will also continue to exercise my role as Personnel Director.

In addition to his existing duties, our CFO, Dirk Kaliebe, will also be in charge of managing structural costs. Other than this, there will be no structural changes in the finance sector.

We are confident that expanding the Management Board to four members will provide added impetus to the operational and strategic tasks that lie ahead and will also contribute to rebuilding the trust that we have lost over recent months. We will work together to ensure that, even in troubled times, we remain true to our strategy of making Heidelberg's operations less dependent on the global economy. However, we will also not shy away from the resolute action needed to meet the challenges we currently face. The package of measures to this end is already in place and was announced last week.

Business development / Package of measures

Chart: drupa

drupa, the leading industry trade show held every four years, closed its doors five weeks ago and was certainly one of the highlights of recent months. The event was a key milestone for us in implementing our strategy of expanding operations in the fields of packaging printing and services.

Chart: drupa impressions

Visitors to Dusseldorf saw us present a wealth of innovations that was unrivalled in the company's history. The results of our development work take in the entire value added chain in printshops – beginning with prepress and extending to press and postpress. Another area we focused on was the increasing networking of all printshop processes. All in all, the machines we presented at drupa strengthened our competitive position quite significantly – and this is something that we should not forget in the face of the current underlying economic conditions. After all, these innovations are key investments in our future.

Chart: drupa products

The highlights for us included the very large format presses. However, there were also many other exceptional innovations such as the Speedmaster XL 105 with perfecting. This year's drupa saw us round off the XL platform of presses, so that we can now claim to have the most extensive range of products throughout the high-performance sector.

Chart: Positioning the platform strategy

We are satisfied with the outcome of drupa. We recorded an impressive volume of orders in Dusseldorf that exceeded our expectations. We should mention in particular the demand for our new high-tech developments such as Anicolor, Prinect, the XL platform and the VL press format, and for our services and consumables. Most of the orders we received will be posted as sales in the second and third quarters.

The positive results from drupa were nevertheless dampened by the worsening market prospects and by the considerable cost hikes that have already made their presence felt in the first quarter.

Chart: Incoming orders from drupa

This brings me to the results for the first quarter of the current financial year, 2008/2009. As expected, drupa played a very major role in the level of incoming orders for the first three months, namely from April to June. According to our preliminary calculations, these were between EUR 1.1 and 1.15 billion and thus roughly 20 percent up on the same quarter of the previous year. This is a satisfactory figure for a drupa year and on a par with the incoming orders four years ago.

Chart: Preliminary figures for Q1 2008/09

The situation is different for sales. Our preliminary calculations indicate that these were between EUR 640 and 660 million in the first quarter. This would represent a drop of up to 14 percent over the equivalent period of the previous year. This was to be expected given the low order backlog at March 31, 2008. The trend of the first quarter thus bears out our cautious assessment of the market.

The drop in sales coupled with the increase in costs will deliver a negative result for the first quarter. As calculations currently stand, we expect the operating result (EBIT) to be between EUR -35 and -40 million. In addition to the costs associated with drupa, unfavorable exchange rates, increased personnel costs and higher prices for raw materials and energy have all played their part.

The free cash flow will also be well into the negative in the first quarter at EUR -200 to -220 million. This is attributable to the inclusion in this quarter of the purchase price for Hi-Tech Coatings, the costs associated with drupa, the lower sales, and supplier liabilities falling due.

Given the orders we won at drupa, we expect a marked improvement in sales and results for the second and third quarters. In view of the uncertainty of the global economy and the volatility on the market, we will provide you with an informed assessment for the 2008/2009 financial year not on August 5, 2008, as originally planned but, at the latest, with the publication of our six-monthly figures at the start of November 2008.

However, we can already predict that, for the financial year as a whole, both sales and operating result will be below the previous year's figures.

Short-term prospects

In terms of the market, we do not expect any significant changes in the underlying economic conditions. The risk of a recession in the United States has not yet been eliminated. Generally speaking, economic experts agree that the world economy will go through a cooling down period. In addition, the next few months are not expected to bring any significant improvement in exchange rates or any tangible reduction in the prices of energy or raw materials.

In its monthly review of the economy at the end of June, the German Printing and Media Industries Federation reported on very poor sentiment in Germany's printshops. Business confidence, expressed as the mean of the current business climate and business expectations for the next six months, has nosedived from minus 2 to minus 12 within just one month. The Federation recorded business confidence this low in mid July 2005.

Our customers in Germany and beyond are also suffering from spiraling energy and paper costs. These are having an increasing impact on their profitability. Even the sustained positive developments in Eastern Europe and on the large, high-growth emerging markets will be unable to compensate for the difficult situation currently being experienced on our key mature markets. The strong euro will also continue to dampen our exports in the dollar zone.

Chart: Strategy and package of measures

Ladies and Gentlemen, let me be clear – Heidelberg is a world market leader and a driving force behind changes on the press market. We have always lived up to this role and will continue to do so. The parameters that help determine our economic development have increased in scope and become more dynamic, but economic fluctuations are part and parcel of the cyclicity of the company’s business. In addition to long-term growth initiatives, we have already started implementing measures to improve the cost structure in view of the current underlying conditions.

The package of measures that we announced last week is based on four key elements:

- Firstly, restructuring postpress packaging activities
- secondly, reducing R&D expenditure

- thirdly, significantly increasing procurements outside the euro zone while also strengthening our international production locations
- and fourthly, significantly cutting structural costs.

We have identified potential savings of around EUR 100 million that can be made by 2010/2011. Much of this – roughly 75 percent – will be achieved over the next 18 months. It will take 2½ years to realize the potential savings in full. Streamlining our cost base is a step in the right direction. If our sales situation at the end of year indicates that the market is really struggling, we will review the measures. The package will cost around EUR 100 million to implement. EUR 70 million has been invested so far in the first year, which means we will only start to see the real benefits next year.

The main challenge we face is to reduce the extent to which we are affected by economic fluctuations and exchange-rate movements, in particular involving the U.S. dollar. We are well aware of this situation and have developed a strategy to reduce the impact of these two factors, at least to a certain extent. I would now like to talk about the four building blocks on which our concept is based.

<u>Chart: The growth market of packaging printing</u>

The very large format presses we unveiled to a broad audience at drupa play a key role in this strategy. The presses are particularly suited to packaging printing, a sector where products are manufactured in very large quantities. Examples include packaging for drugs, cosmetics, and food.

Unlike with advertising materials, the demand for such products is comparatively insensitive to economic fluctuations. This market segment is also faring much better than conventional commercial or advertising printing because an increasing number of food products are being packaged rather than sold loose – even in developing countries and on emerging markets.

In addition to benefiting from this market growth worldwide, we will also win market shares from other manufacturers already established in the very large format segment. Overall, our packaging printing solutions currently account for around 15 percent of total sales. Our medium-term aim is to increase this to 25 percent. With our new generation of presses, we can offer packaging printers an even more attractive product portfolio and thus give our packaging sector a major boost. As a reliable growth driver, the sector will help stabilize our business.

Our very large format presses have enjoyed a very positive response from the market since they were unveiled at drupa. We can already proudly say that we already have reference presses on all the key target markets. In Germany, the first XL 145 was commissioned at a large packaging printshop at the end of June, just a few weeks after drupa had finished.

Last fall, a newly built assembly hall for the new generation of presses was put into service in Wiesloch-Walldorf. At 35,000 m², it is the size of five soccer fields and represents an investment of EUR 45 million.

Chart: Strategy and package of measures

Restructuring postpress packaging

Packaging printing is a key sector for improving our results on a lasting basis. We are the only supplier to offer customers complete solutions – from prepress and press to postpress, that is to say from data processing to producing the finished folding cartons. This strategy met with a positive response from customers at drupa. The restructuring of folding carton production will continue apace over the next three years. By 2010/2011, we aim to improve the result for the postpress sector as a whole by EUR 20 million by employing a strategy that includes pooling production capacities in Germany and transferring some activities to our plant in Slovakia. We also intend to centralize high-tech development activities at Heidelberg and adopt a focused sales strategy to boost our sales potential.

Focusing research and development activities

We aim to save at least EUR 25 million on research and development costs in the short term by improving efficiency, combining development activities, and focusing on new products. This means cutting current costs by a good 10 percent. Consolidating R&D locations will help us achieve this objective. Our medium-term aim is to lower R&D expenditure to less than 5 percent of the total sales figure.

Now that we have finished developing our platform strategy, we can reduce the cost of further developments without having to abandon market-focused innovations. The same components and solutions can now be used in different series wherever this is possible and expedient.

Increasing procurements and production outside the euro zone

Heidelberg is a highly export-oriented company, with around 85 percent of its sales originating outside Germany. Currently, however, the vast majority of our products are made in Germany and this is also where we source most of our materials. That is what makes the exchange-rate movements already referred to such a problem.

In the medium term, we do not expect the U.S. dollar exchange rate to move in our favor on any lasting basis. We intend to face this challenge using currency hedging and by making major changes to our procurement strategy. Overall, we aim to increase procurements outside the euro zone from the current level of around EUR 40 million to almost EUR 200 million over the next two years. Concrete discussions with business partners are already under way and further discussions are planned for the next quarter.

We will also be pushing ahead with production outside Germany and expanding our plants in China and Slovakia with a view to transferring the manufacture of well-established products to these countries. China is, and will remain, the most important emerging market. It currently accounts for around 9 percent of our sales. We can only make further progress on this extremely important growth market through standardized presses manufactured locally and thus benefiting from local costs. Taking a longer-term view, selling more standardized small- and medium-format presses will also virtually ensure increased sales of customized presses in the large and very large formats in China. However, more complex production processes cannot necessarily be transferred at will and cost-effectively.

In future, we also intend to manufacture one of our small-format presses at our plant in the U.S., which is the largest sales market for this product. This initiative has the added advantage of reducing our currency risks.

Taken together, what we refer to as global footprint measures will cut costs by around EUR 15 million.

Lowering structural costs

The measures referred to relate directly to our business operations. In addition to this, however, we are also planning to implement other structural measures to further reduce our indirect costs. We have already made significant cuts in these, but we aim to achieve further savings amounting to as much as EUR 40 million per year – around EUR 10 million of this in the current financial year.

Chart: Overview of improvement program

Regrettably, this also impacts on our workforce, with whom we have agreed a package of measures – valid until 2012 – to safeguard the company's future. We will be adhering to this agreement but, subject to discussions with employee representatives, will not be able to avoid shedding around 500 jobs of our total 19,600 jobs worldwide – around half of them in Germany – through socially acceptable measures. These measures relate solely to non-production activities, i.e. primarily to administrative functions. Our aim is to achieve the majority of the cuts through natural wastage, by not renewing temporary contracts, by reducing the number of loan workers, and by offering the option of early retirement.

Taken together, the four building blocks result in potential savings of around EUR 100 million per year. These will take full effect in financial year 2010/2011, but we aim to achieve a significant proportion of the savings – EUR 75 million – over the next 18 months, in other words by financial year 2009/2010.

Ladies and Gentlemen, we are absolutely determined to push through these measures. Each member of the Management Board is directly responsible for part of this improvement program. I myself will control operations and will therefore assume overall responsibility. We will inevitably have to make some unpleasant decisions and implement some difficult processes along the way.

The measures we have set out relate primarily to costs. However, we have also introduced a range of strategically important sales-related measures. These include building up our consumables business and placing further emphasis on our activities on the emerging markets where growth is strong.

<u>Chart: Expansion of business through services and consumables</u>

Like packaging printing, services are relatively insensitive to economic fluctuations. In future, Heidelberg will place greater emphasis on business involving consultancy services, spare parts, maintenance, and consumables. We have been involved in the consumables business for around ten years, but cannot achieve any significant further growth acting independently. Consequently, we are making greater use of cooperation arrangements and acquisitions.

At the end of last year we took an initial step in this direction by acquiring Stielund & Taekker, the largest consumables dealer in Scandinavia. And just a few weeks ago we bought Hi-Tech Coatings, a manufacturer of high-performance coatings.

Our services and consumables activities currently generate sales of EUR 700 million, and our target is to break the EUR 1 billion barrier in three years' time. Let me underline that the consumables market as a whole, including specialist applications, achieves excellent margins. Our aim is to increase the proportion of total sales accounted for by services and consumables from the current level of just under 20 percent to around 25 percent in the medium term.

The fact that many of the consumables sold by Heidelberg have been marketed under the “Saphira” brand name for a number of months now will definitely also help to boost business. This uniform brand name tells printers that the products are tested by Heidelberg and optimized for use in Heidelberg solutions. They help users benefit from the full range of functions supported by the equipment and ensure first-class print results. In addition to Saphira products, Heidelberg still also offers consumables from other suppliers under their own brand names.

<u>Chart: Growth on emerging markets</u>

We will continue to intensify our efforts to sell our products on the large emerging markets. The markets of the large industrialized nations are largely saturated and print volumes are static or even falling. The investments made on these markets are normally replacement investments that aim to boost the efficiency and productivity of equipment and thus improve the printshop's competitiveness.

By contrast, the industry is still enjoying double-digit growth in some countries – above all in Eastern Europe, but also in India and China. In order to satisfy the huge increase in the demand for print products on these markets, they primarily require relatively simple presses that are capable of high-volume production. We intend to benefit from this growth and we will. In the medium term, our aim is for the emerging markets' share of sales to rise from the current level of around 36 percent to over 40 percent.

Ladies and Gentlemen, allow me now to sum up. Heidelberg has already proved that it does not shy away from unpleasant decisions and that it is pursuing and implementing a long-term strategy. Within the next 2½ years, we will cut costs by EUR 100 million. We will achieve this through the four key building blocks of research and development, postpress, production and procurement, and structural costs. We will also continue to take advantage of growth opportunities, for example in packaging printing, services and consumables, and on emerging markets.

In the medium term, all these individual measures will help substantially improve our cost and earnings structures and thus our result. Despite underlying conditions that are problematic in many respects, I am confident that we are on the right path with our strategy of expanding packaging printing and our business with services and consumables to make Heidelberg less dependent on economic fluctuations, and the measures we have decided on to cut costs in the short term.

Thank you for your time.